European Retail Research

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RESEARCH

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Preface

EUROPEAN RETAIL RESEARCH is a bi-annual that is in the tradition of the reputable book series “Handelsforschung” (Retail Research) which has been published by Prof. Dr. Volker Trommsdorff in Germany for more than two decades. Since 2008, this publication is edited by a team of retail researchers from Austria, Germany, and Switzerland.

The aim of this book series is to publish interesting and innovative manuscripts of high quality. The target audience consists of retail researchers, retail lecturers, retail students and retail executives. Retail executives are an important part of the target group and the knowledge transfer between retail research and retail management remains a crucial part of the publication’s concept.

EUROPEAN RETAIL RESEARCH is published in two books per year, Issue I in spring and Issue II in fall. The publication is in English. All manuscripts are double-blind reviewed and the book invites manuscripts from a wide regional context but with a focus on Europe. We respect the fact that for many topics, non-English literature may be useful to be referred to and that retail phenomena from areas different from the US may be highly interesting. The review process supports the authors in enhancing the quality of their work and offers the authors a refereed book as a publication outlet. Part of the concept of EUROPEAN RETAIL RESEARCH is an only short delay between manuscript submission and final publication, so the book is—in the case of acceptance—a quick publication platform.

EUROPEAN RETAIL RESEARCH welcomes manuscripts on original theoretical or conceptual contributions as well as empirical research—based either on large-scale empirical data or on case study analysis. Following the state of the art in retail research, articles on any major issue that concerns the general field of retailing and distribution are welcome, e.g.

- *different institutions in the value chain*, like customers, retailers, wholesalers, service companies (e.g. logistics service providers), but also manufacturers’ distribution networks;
- *different value chain processes*, esp. marketing-orientated retail processes, supply chain processes (e.g. purchasing, logistics), organisational processes, informational, or financial management processes;
- *different aspects of retail management and retail marketing*, e.g. retail corporate and competitive strategies, incl. internationalisation, 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. strategies, sales management, key account management, vertical integration, channel conflicts, power, and multichannel strategies.

Basically, we seek two types of papers for publication in the book:

- *Research articles* should provide a relevant and significant contribution to theory and practice; they are theoretically well grounded and methodologically on a high level. Purely theoretical papers are invited as well as studies based on large-scale empirical data or on case-study research.
- Manuscripts submitted as more *practice-oriented* articles show new concepts, questions, issues, solutions and contributions out of the retail practice. These papers are selected based on relevance and continuing importance to the future retail research community as well as originality.

In addition, the editors will invite articles from specific authors, which will also be double blind reviewed, but address the retailing situation in a specific country. 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. An exception are papers in conference proceedings that we treat as work-in-progress.

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 anyone 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 “Springer Gabler” (www.springer-gabler.de) or a bookstore.

We are very grateful for editorial assistance provided by Manfred Hammerl.

Graz, St.Gallen, Fribourg, Vienna, Trier and Siegen, Spring 2014

Dirk Morschett, Thomas Rudolph, Peter Schnedlitz, Hanna Schramm-Klein, Bernhard Swoboda
Thomas Foscht (managing editor for Volume 27 Issue II)

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Antecedents of Customer Behavioral Intentions for Online Grocery Shopping in Western Europe

Quan Zhu and Janjaap Semeijn

Abstract

Online grocery shopping is becoming increasingly integrated into our daily lives. This study aims to identify factors of Customer Behavioral Intentions for shopping in an online grocery store and evaluate their influence. An online survey was conducted among English-speaking consumers in Western Europe, mostly U.K. and the Netherlands. Results show that Time Savings is the most critical construct, while Product Quality ranks second and Service Quality ranks third. No influence was found for eBusiness Quality, which shows there are differences between Western Europe and U.S. online grocery markets. Implications are provided.

Keywords

Customer Behavioral Intentions, online grocery shopping, Western Europe

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1 Introduction

Net profit margins in the grocery industry ordinarily amount to about 1.50% of sales (Yahoo Finance 2012). In the meantime, the supply chain challenges faced by grocers are considerable: approximately 10% of the total industrial and commercial waste is caused by perishable grocery products (DEFRA 2007). Grocers are highly motivated to develop new technologies and methods of streamlining both their supply chains and their marketing efforts.

The Internet can be used to link customers with groceries and grocers from their homes and will help integrate the supply chain by linking marketing, sales, operations, and logistics (Boyer/Hult 2005). Since the early 1990s, many grocers have already incorporated the Internet into their marketing channels and devoted substantial resources to building their online channels (Chu et al. 2010). For four top online grocery markets in Western Europe (U.K., France, Germany, and the Netherlands), sales are expected to double in five years, going from €13.8 billion in 2012 to €28.4 billion in 2016 (IGD 2013).

To date, few companies have achieved success in this field. SimonDelivers, an online grocer promising cheaper, more convenient methods of shopping, announced suspending operation in July, 2008 (Weyer 2008). Other companies have survived, but did not become as successful as expected (Lim/Widdows/Hooker 2009). The challenges include both extending the supply chain from existing stores to customer homes and changing customer behavior to embrace a new form of shopping. Less than successful grocers seem to have overemphasized a strategy of offering low prices, which must be matched with an operations strategy that actually achieves low costs (Boyer/Hult 2005). Tesco (U.K.) achieves a better than average net profit margin of 4.33% (Yahoo Finance 2012), but has a different approach: it is marketing online groceries as a convenience, not as a low-price option—charging customers an extra delivery charge depending on delivery slot (Agatz et al. 2013). Tesco further employs a semi-automated in-store picking service, supported by local refrigerated delivery vans with existing facilities (Quader/Quader 2008). Just as Porter (2001) anticipated, the established companies that will be most successful will be those that use Internet technology to make traditional activities better and those that find and implement new combinations of virtual and physical activities that were not previously possible.

The purpose of our study is to gain new insights into how online grocery business can be successful. eBusiness Quality, Product Quality, Service Quality, and Time Savings are identified as potential factors of Customer Behavioral Intentions for shopping in an online grocery store. Their influence will be evaluated by our data. Our study also adds to the existing knowledge base by focusing on consumers in Western Europe, as many studies (e.g.

Boyer/Hult 2005, 2006; Lim/Widdows/Hooker 2009) were based on online grocery in U.S.. Thanks to the considerable growth rate of online grocery sales in Western Europe, consumer behavior in this region needs to be examined more closely.

In this study, we first present a literature review, identifying factors of Customer Behavioral Intentions for online grocery, forming our research model and formulating the hypothesized relationships. Next, we test our research model through an online survey among consumers in Western Europe. This is followed by the statistical analysis of the results. The article concludes with a discussion and managerial implications for online grocery business in Western Europe, together with suggestions for future studies.

2 Literature Review and Conceptual Model

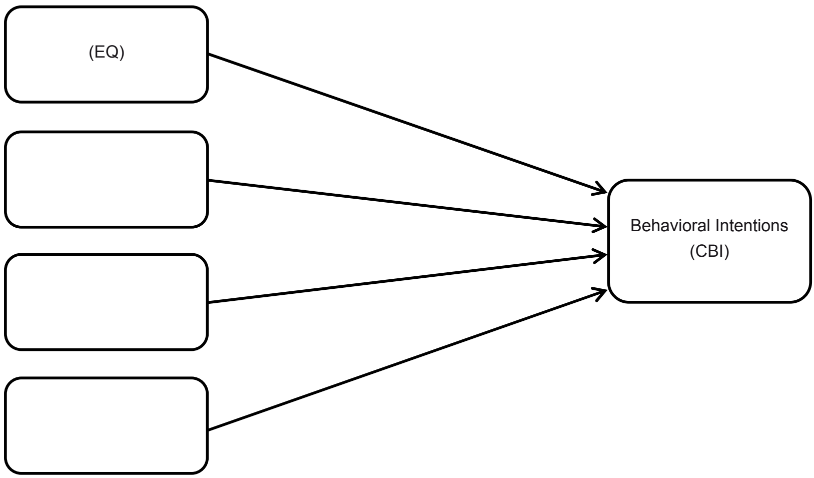
2.1 Literature Review

Grocers' attempts to extend their supply chains online demonstrate how a traditional, frequently performed action by customers can be transformed through the use of an e-commerce platform (Kull/Boyer/Calantone 2007). From a customer's perspective, online grocery shopping refers to a number of experiences including information search, web site browsing/navigation, ordering, payment, customer service interactions, delivery, post-purchase problem resolution, and satisfaction with every purchase (Ha/Stoel 2009). Online grocers have tried to enhance a customer's e-purchase experience, for instance, by saving previous shopping lists, creating usable and aesthetic layouts and allowing flexible delivery (Van Riel et al. 2004; Boyer/Frohlich/Hult 2005; Sanchez-Franco/Rondan-Cataluna 2010). The multidimensional nature of information problems related to food safety and food quality also requires intensive information sharing and learning, both within the company and along supply chains (Bevilacqua/Ciarapica/Giacchetta 2009). When extending supply chains through online grocery, companies need to take a comprehensive attitude. Caruana/Ewing (2006) have summarized four dimensions of e-tail quality: website design (all elements that a consumer experiences at the web site such as information search, order processing, personalization, and product selection), security/privacy (security of payments and privacy of given information), fulfillment/reliability (the precise presentation of a product and delivery of the right product at the right time promised), and customer service (ready and supportive service that is quick to respond customer inquiries). As online grocery belongs to e-retailing and has its own characteristics (e.g. more perishable), we combine dimensions from e-tail quality with dimensions especially for grocery industry to develop our conceptual model.

2.2 Development of Conceptual Model

In the following paragraphs, we will examine the dependent variable of Customer Behavioral Intentions and four primary constructs that are linked to eBusiness Quality, Product Quality, Service Quality, and Time Savings, respectively. Figure 1 provides the conceptual model of our study.

Figure 1: Conceptual model



2.2.1 Customer Behavioral Intentions

Customer Behavioral Intentions cover a wide range of responses, including purchase, repeat purchase, loyalty, word-of-mouth, etc. (Dholakia/Zhao 2009). According to Zeithaml/Berry/Parasuraman (1996), behavioral intentions signal whether customers will remain with or defect from the company. Increasing customer retention, or lowering the rate of customer defection, is a major key to the ability of a company to generate profits. Therefore, we choose Customer Behavioral Intentions as the dependent variable in our study.

2.2.2 eBusiness Quality

Since we are studying online grocery, we first pay attention to the online character of this business: eBusiness Quality. Our examination of eBusiness Quality focuses on two convenience-related constructs. First, existing research has employed a construct labeled ‘perceived ease of use’ that has shown to be an important indicator of both acceptance and satisfaction in Information Technology (Davis 1989; Calisir/Calisir 2004; Stern et al. 2008; Shen/Chiou 2010). Perceived ease of use includes elements of customer perceptions and the company's ability to meet those expectations (Boyer/Hult 2005). Second, Boyer/Olson (2002) provide a construct labeled 'site ease'. This construct assesses specific aspects of ordering online, including navigation, sequence of steps, and ease of search (Coyle/Mendelson/Kim 2008). Findings from previous studies show that uncluttered and easy-to-search web sites enhance attitudes toward online shopping, online purchase intention and the level of satisfaction with customers' shopping experience (Lim/Widdows/Hooker 2009). To sum up, perceived ease of use and site ease are two specific elements of eBusiness Quality. Thus,

H1. Higher eBusiness Quality offered by Grocer X is associated with increased Customer Behavioral Intentions to use its online grocery service in the future.

2.2.3 Product Quality

In many ways, one of the principle challenges for online grocers is to convince customers that the products they get are of comparable quality to what they can find in physical stores, especially for perishable goods (Cho 2010). Although these are the same products as in stores, they have been handled an additional time by service employees. Customers have forfeited the ability to self-select their items (Boyer/Frohlich/Hult 2005). Thus, the physical quality of the goods perceived by customers should be one of the elements of Product Quality. Furthermore, Product Quality also combines elements, such as sufficient range and the number of substitutions or out of stocks, to represent direct trade-offs (Boyer/Hult 2005; Lim/Widdows/Hooker 2009). Yu/Wu (2007) discover that variety of merchandise is a key factor influencing whether customers shop online or not. Meanwhile, they also mention that the increase in customers' demand for a greater variety of merchandise forces grocers to integrate their operations and seek balance between product variety and stock cost. Hence, the physical quality of the goods in the eyes of the customer, the degree of choice or assortment, and the ability of the grocer to keep these in stock and/or provide appropriate substitutions are three specific elements of Product Quality. Thus,

H2. Higher Product Quality offered by Grocer X is associated with increased Customer Behavioral Intentions to use its online grocery service in the future.

2.2.4 Service Quality

It is intuitive for customers to seek greater Service Quality, particularly if price and other cost elements are held constant. Customer service for online grocery is reflected by the company's readiness and willingness to respond to customer needs, such as product information, delivery details, complaints, etc. (Ha/Stoel 2009). In this case, service employees play a pivotal role.

Babakus/Beinstock/Scotter (2004), Rucci/Kirn/Quinn (1998), Stock (2005), and Weitz/Bradford (1999) suggest that employing highly skilled and motivated service personnel is one of the success factors in retailing. In addition, equity theory suggests that a firm must meet customers' expectations from every aspect (appearance of delivery vans, staff, products, etc.), which can be considered as an objective assessment of the utility of the firm's services (Vogel/Evanschitzky/Ramaseshan 2008). Therefore, the performance of employees and the utility of the company's services are two specific elements of Service Quality. Thus,

H3. Higher Service Quality offered by Grocer X is associated with increased Customer Behavioral Intentions to use its online grocery service in the future.

2.2.5 Time Savings

In a recent survey, nearly 60 percent of the respondents report that saving time is an important reason for buying groceries online (Ramachandran/Karthick/Kumar 2011). Here, 'time' means the total time to place an order and pick up/receive groceries, which is an influencing factor of online customers' satisfaction (Kau/Tang/Ghose 2003). However, emerging technology like the Internet commonly take time to learn, which potentially discourages some groups of customers from fully exploiting its potential (Kull/Boyer/Calantone 2007). Experienced online grocery shoppers spend significantly less time shopping and were more likely to buy many or all of their groceries online in comparison to less-experienced customers (Boyer/Frohlich 2006). These perceptions of time-saving efficiencies in turn can influence shopping behaviors including the willingness to buy even more items online. Time Savings arise with repeat experience. Thus, the total time to place an order and pick up/receive groceries and the time to place an order shortening with repeat experience are two specific elements of Time Savings. Thus,

H4. More Time Savings offered by Grocer X is associated with increased Customer Behavioral Intentions to use its online grocery service in the future.

3 Methodology

3.1 Measures

The questionnaire was first pretested and consisted of items that were adapted from previous studies (Boyer/Hult 2005; Boyer/Frohlich 2006). These items are presented in Table 1, combined with descriptive scores. Respondents were asked to indicate their level of agreement/disagreement with these items, which were scored on a seven-point Likert-type scale ranging from 1 = strongly disagree to 7 = strongly agree.

Table 1: Measurement items and item descriptives

	Items [1]	Mean	Std. Dev.
1. eBusiness Quality (EQ)		5.64	0.98
EQ1	It is easy for me to remember how to perform tasks using Grocer X's website.	5.78	1.11
EQ2	It is easy to get Grocer X's website to do what I want it to do.	5.57	1.25
EQ3	Our interaction with Grocer X's website is clear and understandable.	5.72	1.15
EQ4	Overall, I believe that Grocer X's website is easy to use.	5.68	1.10
EQ5	Grocer X's website is easy to navigate.	5.63	1.18
EQ6	Grocer X's website has a logical sequence of steps for completing an order.	5.77	1.01
EQ7	Grocer X's website is easy to search.	5.35	1.19
2. Product Quality (PQ)		5.46	0.83
PQ1	Grocer X has prestigious (high-quality) products.	5.45	1.21
PQ2	Grocer X has an excellent assortment of products.	5.53	1.19
PQ3	Grocer X's products are among the best.	5.30	1.17
PQ4	Grocer X has a sufficient range of product choices (I can get what I want).	5.43	1.01
PQ5	The products are the same quality as I can get in the store.	5.70	1.25
PQ6	The number of substitutions or out of stock items is reasonable.	5.37	1.10
3. Service Quality (SQ)		5.21	1.30
SQ1	Grocer X's employees are reliable in providing the service I expect.	5.42	1.48
SQ2	Grocer X's employees understand my service needs.	5.15	1.44
SQ3	Grocer X's employees are responsive to my service requests.	5.22	1.44
SQ4	Grocer X's employees are competent in providing expected service.	5.23	1.42
SQ5	I feel secure in my service encounters with Grocer X's employees.	5.20	1.53
SQ6	Grocer X's employees are courteous in providing me service.	5.38	1.46
SQ7	Grocer X's employees are accessible to answer my questions.	4.88	1.53
SQ8	The tangible aspects of Grocer X's service (appearance of delivery vans, staff, products, etc.) are excellent.	5.35	1.33
SQ9	Grocer X has good credibility in providing the service I need.	5.50	1.35
SQ10	I can easily communicate with Grocer X regarding my service needs.	4.78	1.52
4. Time Savings (TS)		5.16	1.25
TS1	The time to place an order becomes much shorter as I use the system more.	5.53	1.36
TS2	Please rate the degree of change when using the Internet for ordering groceries through Grocer X in comparison to shopping in a neighborhood grocery store. (1 = much worse than in-store shopping, 2 = worse than in-store shopping, 3 = somewhat worse than in-store shopping, 4 = about the same, 5 = somewhat better than in-store shopping, 6 = better than in-store shopping, 7 = much better than in-store shopping)	4.78	1.57

to be continued

Continuation

5. Customer Behavioral Intentions (CBI)		4.45	1.34
CBI1	I would classify myself as a loyal customer of Grocer X.	4.72	1.81
CBI2	I do not expect to switch to another online grocer to get better service in the future.	4.60	1.87
CBI3	I would continue to shop with Grocer X even if I had to pay more.	3.05	1.76
CBI4	I would complain to other customers if I experienced a problem with Grocer X's service.[2]		
CBI5	I would complain to Grocer X's employees if I experienced a problem with their service.	5.45	1.57

Notes: [1] All items used a seven-point Likert-type scale ranging from "strongly disagree" to "strongly agree", except where noted.
[2] Item omitted due to factor loading < 0.5.

3.1.1 Quality Measures

Four quality measures were used to center specific attention to eBusiness Quality, Product Quality, Service Quality, and Time Savings. The items for the first three measures were based on Boyer/Hult (2005). The items for the last measure were adapted from work by Boyer/Frohlich (2006).

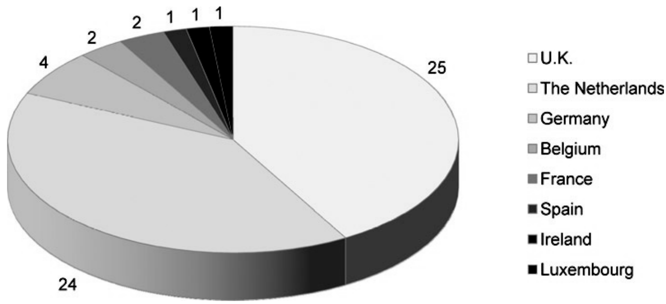
3.1.2 Performance

Given the customer focus of our study, Customer Behavioral Intentions was chosen as the performance variable. According to Zeithaml/Berry/Parasuraman (1996), positive behavioral intentions are reflected in a firm's ability to get its customers to: (1) say positive things about them, (2) recommend them to other consumers, (3) remain loyal to them, (4) spend more with the company, and (5) pay price premiums. The items for the performance variable were adapted from Boyer/Hult (2005).

3.2 Data Collection

Data were gathered through an online survey, using the KwikSurveys website. Invitations to participate were sent out by email, containing a link to the questionnaire. First, the email was addressed to friends, who were requested to forward the invitation to as many individuals as possible; basically a 'snowball-sampling' (Schmidt/Hollensen 2006). Second, the invitations were published on social media websites (Facebook and LinkedIn) to attract more respondents (Skeels/Grudin 2009). To limit the social desirability bias, anonymous participation was guaranteed. After two months (May and June, 2011) collection, 320 responses were received. Of these, 60 questionnaires were fully completed. The sample consisted of respondents residing in the Netherlands (24), U.K. (25) and other Western European countries (11) (Figure 2).

Figure 2: Respondents geographical distribution



4 Results

The data were analyzed using structured equation modeling involving partial least squares (PLS) estimations and making use of SmartPLS (Ringle/Wende/Will 2005). PLS is an analysis technique that enables the simultaneous estimation of both the measurement and the structural models (Haenlein/Kaplan 2004; Tenenhaus et al. 2005), providing estimations that are robust against skewed data distributions and multicollinearity (Cassel/Hackl/Westlund 2000). Also, PLS requires smaller sample size than LISREL (Chin/Newsted 1999).

To estimate the significance of path coefficients and item loadings, we used a bootstrapping approach, where 500 random samples of observations with replacements are generated from original dataset (Chin 1998). T-statistics are calculated for each parameter.

4.1 Measurement Model

To ensure the appropriateness of the measurement model, the unidimensionality, reliability and validity of the scale are assessed. Both Cronbach's Alpha and factor loadings are used to test the unidimensionality of the model. For Cronbach's Alpha, typically a threshold of 0.6-0.7 is required (Nunnally 1978), which is met by all factors (Table 2). In Table 3, except for BI4, all the factor loadings resulting from confirmatory factor analysis exceed the threshold value of 0.50 proposed by Dunn/Seaker/Waller (1994), further supporting the unidimensionality of the scales. Moreover, the scales are reliable: all composite reliability values in Table 2 exceed the threshold value of 0.70 (Nunnally 1978). Construct correlations, which is displayed in Table 4, provide evidence for construct validity: the average variance extracted (AVE) exceeds 0.50 (Bagozzi/Youjae 1988) and the square root of the average variance of an individual construct exceeds the correlation of that construct with the remaining constructs (Fornell/Larcker 1981).

Table 2: Cronbach's Alpha and composite reliability

	Cronbach's Alpha	Composite Reliability
CBI	0.71	0.81
EQ	0.94	0.95
PQ	0.81	0.86
SQ	0.97	0.98
TS	0.62	0.84

Table 3: Factor loadings

	CBI	EQ	PQ	SQ	TS
CBI1	0.82				
CBI2	0.80				
CBI3	0.74				
CBI4	0.33				
CBI5	0.65				
EQ1		0.88			
EQ2		0.83			
EQ3		0.88			
EQ4		0.93			
EQ5		0.92			
EQ6		0.87			
EQ7		0.69			
PQ1			0.54		
PQ2			0.82		
PQ3			0.66		
PQ4			0.74		
PQ5			0.70		
PQ6			0.83		
SQ1				0.94	
SQ2				0.89	
SQ3				0.90	
SQ4				0.94	
SQ5				0.93	
SQ6				0.91	
SQ7				0.86	
SQ8				0.86	
SQ9				0.91	
SQ10				0.81	
TS1					0.86
TS2					0.85

Table 4: Construct correlations

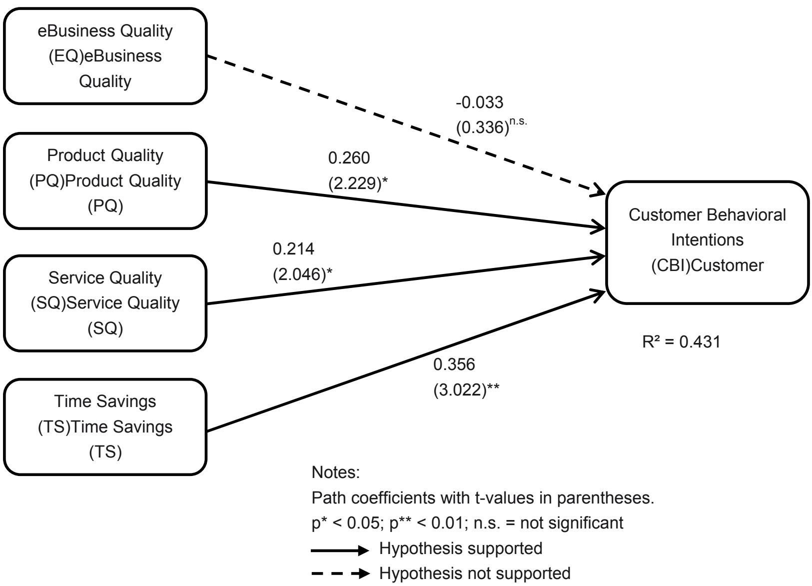
	CBI	EQ	PQ	SQ	TS
CBI	0.76*				
EQ	0.40	0.86*			
PQ	0.54	0.46	0.72*		
SQ	0.48	0.68	0.51	0.89*	
TS	0.57	0.46	0.51	0.45	0.85*
Average Variance Extracted (AVE)	0.58	0.74	0.52	0.80	0.73

Note: *Square root of AVE presented on the diagonal.

4.2 Structural Model

Figure 3 shows the results of the PLS analysis. With an R^2 of 0.431, our model explains 43.1% of the variance of Customer Behavioral Intentions. Somewhat counter-intuitively, eBusiness Quality shows a non-significant negative impact, which does not support our first hypothesis. All the other hypotheses are supported: Time Savings appears to be the most critical construct, while Product Quality ranks second and Service Quality ranks third (based on both path coefficients and t-values).

Figure 3: Analytical framework



5 Discussion and Conclusion

5.1 Discussion

Our findings indicate that Product Quality, Service Quality and Time Savings are predictors of Customer Behavioral Intentions. These findings are in accordance with Collier/Bienstock (2006)'s argument that customers are concerned with the order's accuracy, condition, and timeliness in the outcome evaluation. It is worth noticing that the construct with the largest path coefficient and t-value is Time Savings, suggesting that consumer order time and fast delivery are of utmost importance in an e-commerce environment for grocers (Ramachandran/Karthick/Kumar 2011). Interestingly, Product Quality ranks second in the model. This finding suggests that all aspects of assortment, availability and appearance must be carefully managed (Boyer/Hult 2005). Service Quality appears to play a less important role on Customer Behavioral Intentions. This finding is consistent with Maditinos/Theodoridis (2010)'s result that Service Quality is positively, but not highly, related to customer satisfaction and customers' revisit and repurchase intention. This means that only when the company has extra resources, it should invest in hiring highly qualified employees and the utility of the company's services to build trust (Ozdemir/Hewett 2010).

In contrast, we found no support for eBusiness Quality having a positive relationship with Customer Behavioral Intentions, which is different from similar studies in U.S. (e.g. Boyer/Hult 2005). A possible explanation is that consumers from different countries not only use the websites for different purposes, but these different purposes may lead them to have different impressions of the same websites (Chau et al. 2002). According to Cyr (2008)'s study, website design leading to trust, which has a positive impact on behavioral intentions, vary by culture (positive in Canada, while no impact in Germany).

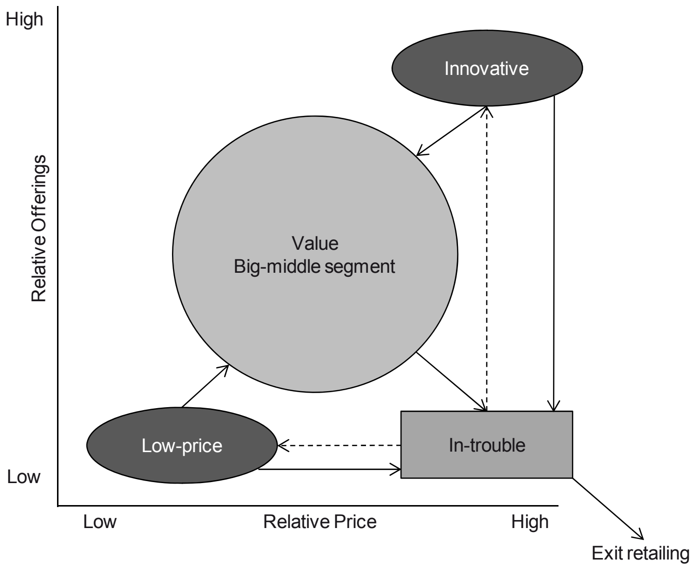
5.2 Managerial Implications

The findings from our study offer many useful insights for managers and can be used to make operational and marketing changes. First, the moderate interest expressed by Western European consumers for online grocery (Customer Behavioral Intentions: $\overline{BI} = 4.45$ out of 7, versus 5.06 for customers in the U.S. (Boyer/Hult 2005)) suggest that companies with physical stores in Western Europe should first consider online grocery as an additional channel at this stage. Second, eBusiness Quality shows no influence on Customer Behavioral Intentions, while a positive correlation was found in Boyer/Hult (2005)'s research of U.S. consumers. This finding may provide valuable information for companies entering the

Western European online grocery market (for example, amazon.co.uk and amazon.de) to relocate valuable resources to other aspects below.

Time Savings can be achieved via order time reduction and fast delivery. To help customers quickly reduce their order time, companies should offer incentives to get customers pass the threshold of the initial orders (Kull/Boyer/Calantone 2007). Establishing well-designed distribution infrastructure can facilitate fast delivery for online shopping (Huang/Kuo/Xu 2009). For Product Quality, the Big Middle theory (Figure 4) suggests that companies should provide customers with broad and deep product mixes with consistently low prices if they want to survive in the long run, because that is where the largest number of potential customers reside (Ganesh et al. 2010). In addition, firms need to tailor their services so as to better cater to consumer's online behavior (Chu et al. 2010).

Figure 4: The Big Middle theory (Levy et al. 2005)



5.3 Limitations and Future Research

Firstly, our results may be subject to an omitted-variable bias, as adding more variables would limit our ability to test all potential hypotheses (Cellini 2008). One example of an additional variable to consider is Product Freshness. A study by Drake (2001) found that providing fresh and appealing fruits and vegetables was an important factor influencing consumer behavior for supermarkets. Future research may add more constructs, like Product Freshness, to increase the percentage that the regression model can explain. Secondly, the geographical distribution of responses is focused on the Netherlands and U.K. (81.7%), where there are more experienced users. Future research should cover more Western European countries, especially the other two top online grocery markets—French and Germany markets, with a balanced distribution in coming years. Thirdly, having a sample from several countries would usually require testing for measurement equivalence. However, due to our limited sample size, we cannot apply such a test. Future research should collect more valid responses and take measurement equivalence into consideration. Lastly, like similar research conducted in U.S. (Boyer/Hult 2005), our study only utilized cross-sectional data. It would be interesting for future researchers to examine longitudinal data, including tie-ins to specific operational, marketing, or logistics changes that companies make.

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Reciprocity of a Retailer's Corporate Image and Store Image: Moderating Roles of Evaluation Approaches and Corporate Brand Dominance

Bernhard Swoboda and Karin Pennemann

Abstract

The aggressive internationalization and diversification of service organizations, especially retailers, has been accompanied by a dearth of research on the advantages of establishing relations among corporate, store and product brands across countries. To address this lack of information, this study examines the reciprocity of retailer's corporate image and store image as well as the moderating roles of culture-specific and firm-specific factors. Based on the accessibility-diagnosticity theory, we hypothesize that the two images are connected through feedback loops, where the store image has a greater degree of influence on the corporate image than vice versa. Furthermore, we hypothesize that the variation in the reciprocal effects of the corporate and store images is explained by consumers' culture-specific evaluation approaches and corporate brand dominance. Based on experiments conducted in a country with an analytical style of thinking and a country with a holistic style of thinking as well as an experiment considering a fictitious retailer, the results from the non-recursive models indicate that the two images interact throughout several cycles of the feedback loop. Moreover, the degree of reciprocity is enhanced by the consumers' holistic thinking and perceptions of a firm's branding strategy. Managers should take note of these important reciprocal relations because although they manage retail brands across different organizational levels, for consumers, the store image is more important than the corporate image. Moreover, the reciprocity of the corporate and store images provides greater benefits in predominantly holistic Asian countries than in analytic western countries.

Keywords

International retailing, image, reciprocity, evaluation approach, culture

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1 Introduction

A retailer's corporate image and store image, i.e., the perceptions a customer holds about the retail firm or retail store (Keller 1993), are known to be drivers of a consumer's choice of store and a retailer's performance (Ailawadi/Keller 2004; Corstjens/Lal 2000; Grewal/Levy/ Lehmann 2004; Martenson 2007). However, a retailer's corporate image may be a function of the retailer's store image and vice versa. Therefore, the interrelations between the two are important. This study addresses the lack of empirical findings on this reciprocity that is the effect of corporate image on store image and the resulting feedback effect of store image on corporate image (this cycle continues until the feedback loop is closed) (Martens/Haase 2006). This relationship is crucial because the two images are managed at different organizational levels (i.e., the corporate and store levels), although both levels aim to attract customers. More importantly, because of their diversification and internationalization, leading retailers have grown to become complex organizations that manage multiple retail brands and are forced "to carefully design and implement a brand architecture strategy to maximize retailer brand equity and sales" (Ailawadi/Keller 2004). For example, the retail giant Carrefour has become a multi-format retailer that includes different brands, chains and formats (e.g., Carrefour hypermarkets, Ed supermarkets and Shopi convenience stores). Carrefour has recently endorsed select retail brands (e.g., Carrefour City, Carrefour Express and Carrefour Contact) under its corporate banner and has implemented this strategy consecutively in over 40 countries. Thus, it is of particular importance for global retailers to know whether the reciprocity between their corporate and store images benefits them internationally. While considering this type of global-retailer perspective, this study addresses the reciprocal relationship between corporate and store images by focusing on consumers' analytic and holistic styles of thinking (i.e., their evaluation approaches) to determine the differences in consumers' culturally inherent perceptions across countries.

Neither the reciprocal relations between a retailer's corporate and store images nor the international retail brand management of retailers has been intensively analyzed in previous studies. Thus, two research gaps exist.

'Reciprocal relations' are explored by Kwon and Lennon (2009) for multi-channel retailing, but their analysis does not adhere to our understanding of a feedback loop. Moreover, many studies explore so-called top-down or bottom-up effects separately rather than as feedback loops. Prior research on top-down effects mostly considers the corporate level first and analyzes its spillover effects to the lower levels of the brand hierarchy, such as stores (Chebat/Sirgy/St-James 2006; Helgesen/Havold/Nesset 2010), service brands or national brands (private labels) (Berens, van Riel/van Bruggen 2005; Martenson 2007). Few studies discuss the bottom-up direction (for calls on this research direction, see, e.g., Keller/Lehmann 2006). More significant is the lack of empirical research considering how the images at the corporate and store levels interact reciprocally. However, the relationship between corporate image and store image might be dominated by multi-sensual store experiences or by the perception of the corporate communication. Both scenarios are relevant for retailers and should be analyzed in detail in terms of the accessibility-diagnosticity theory (Feldman/Lynch 1988).

There is a dearth of research focused on international retail brand management (two studies that consider expectations from a consumer's perspective are Chaney/Gamble 2008 and de Mooij/Hofstede 2002). However, increasing retailer diversification and internationalization in particular have caused the management strategies of brand architectures to become more ambiguous and have thus increased the difficulty of benefiting from the implementation of different strategies across countries. First, the differences in consumer behavior across countries are crucial because, for example, culture-specific styles of thinking affect consumers' evaluation of brand extension (Monga/Roedder John 2007). Thus, typical holistic thinkers, who constitute the majority in Asian countries and evaluate an object based on the context and relationships, perceive top-down and bottom-up effects differently from analytic thinkers, who constitute the majority of the population in Western countries (Nisbett/Peng/Choi/Norenzayan 2001). The differences in culturally inherent perspectives are relevant because retail internationalization has recently involved expansion into developing, culturally distant countries (Goldman 2001). Second, firm-specific factors, such as the branding strategy or the corporate brand dominance, can strengthen the top-down effect via their interactions with the corporate image (Berens et al. 2005).

In summary, the aim of this study is to analyze the following research question: How are corporate image and retail store image reciprocally related i.e., are the effects of corporate image or store image more significant? Expecting strong moderating effects to exist with regard to the contexts of global and diversified retailers, we explore the following questions: Does the evaluation approach moderate the reciprocity between these two images? Does corporate brand dominance or the perceived corporate branding strategy moderate the reciprocal relationship between corporate and store images?

In response to these questions, this study contributes to the field of marketing research, especially to our understanding of the effects of reciprocal images within an international context. We chose retailing as the context, but the results may also apply to international multi-channel service corporations in general. From a theoretical perspective, we contribute to the knowledge of the reciprocity between international retailers' corporate and store images by elucidating how customers draw inferences from these two image levels. Using the accessibility-diagnosticity theory (Feldman/Lynch 1988), we demonstrate how reciprocal effects vary according to a consumer-specific criterion (i.e., the evaluation approach) and according to a firm-specific criterion (i.e., corporate brand dominance). From a methodological perspective, we contribute to the literature by employing a non-recursive structural equation model based on an experimental design that accounts for feedback loops to test simultaneously reciprocal effects (Martens/Haase 2006). This methodological approach correctly disentangles the reciprocity in terms of the initial effects and the feedback effects. Finally, this study is of interest to managers because they attempt to influence consumer behavior through actions undertaken at both the corporate and store levels. Thus, managers should understand how these levels interact. Specifically, we contribute to a globally relevant understanding of how culture-specific styles of thinking affect perceptions of reciprocal images, which enhance a retailer's capability to manage both levels efficiently in accordance with the increasing internationalization into culturally distant countries.

The remainder of the article is structured as follows. We apply the accessibility-diagnosticity theory to deduce a set of hypotheses that are tested experimentally. In a first experiment, we apply a 3 (message) x 2 (evaluation approach) x 2 (branding strategy) design by using the answers from 600 respondents from two countries (a Western country with an analytical style of thinking and an Asian country with a holistic style of thinking) to evaluate a retailer that operates with two retail brands in both countries. In a second experiment, we validate and extend our results by using a 2 (message) x 2 (evaluation approach) x 3 (branding strategy) design while considering a fictitious corporate brand. We then present the results, which are followed by a discussion and suggestions for further research.

2 Theory and conceptual framework

2.1 Accessibility-diagnosticity theory

To explore consumers' perceptions (e.g., images), we need to understand their preceding cognitive processes. The accessibility-diagnosticity theory introduced by Feldman and Lynch (1988) explains which information consumers rely on while making evaluations and under what conditions they do so. Therefore, this theory serves as the theoretical foundation of our study. The theory consists of two mechanisms: accessibility represents the ease of retrieving an input from memory (Menon/Raghubir 2003), and diagnosticity refers to the usefulness of the retrieved information in making a certain evaluation about a target (Schwarz et al. 1991). The likelihood of using information for an actual evaluation is described as a function of the accessibility and diagnosticity of the information in the memory (Lynch/Marmorstein/Weigold 1988).

The first premise to making memory-based evaluations states that certain memories are accessible (Feldman/Lynch 1988). This assumption is true if the consumer can retrieve this information from his or her memory. In addition, Feldman and Lynch (1988) argue that cognitive processes can differ greatly depending on a previous response or action that causes certain information to be more accessible and more diagnostic than other available information.

The second premise for making memory-based evaluations states that diagnostic memory is used for a task at hand. Diagnosticity refers to the "degree to which the use of each type of information allows consumers to accomplish their objectives in the particular decision task at hand" (Lynch et al. 1988). A high similarity or a greater degree of shared associations between two objects enhances the diagnosticity of information about one object to the evaluation of the other object (Skowronski/Carlston 1987; Ahluwalia/Gürhan-Canli 2000). If information is highly accessible, this high degree of accessibility serves as a proxy for diagnosticity (Schwarz et al. 1991; Menon/ Raghubir 2003). That is, the consumer is a "cognitive miser" (Lynch et al. 1988) who will attempt to reduce search costs if accessibility on its own provides a sufficient amount of input for a decision.

2.2 Conceptual framework

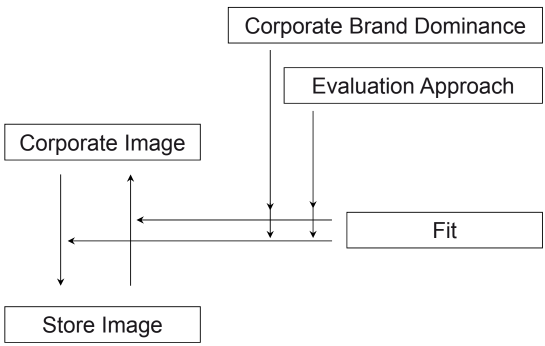
Our conceptual framework (see Figure 1) relies on both theoretical mechanisms (i.e., accessibility and diagnosticity). We assume that there is reciprocity between a retailer's corporate and store images that is determined by the perceptions that customers hold of the retail firm and the retail store based on their memory-based associations (Keller 1993), which are distinct from the reputation of the corporation and/or store (Walsh/Beatty 2007). Reciprocity (i.e., the effect of store image on corporate image and the resulting feedback effect of corporate image on store image) follows the accessibility mechanism through which customers easily retrieve related associations. The corporate image and store image are related across nodes in a consumer's memory, and image information (e.g., the image of a store) becomes accessible and salient for evaluating the target image (e.g., the corporate image).

To anticipate the boundary conditions of the reciprocity of images, we consider culture-specific and firm-specific variables because both influence accessibility and therefore the ease of retrieving information.

The evaluation approach is a culturally inherent style of thinking (Nisbett et al. 2001). Holistic thinkers evaluate an object (e.g., a corporation) based on the relationships that exist between the object and the context, whereas analytic thinkers decontextualize the object and focus on the object itself. Therefore, an individual's evaluation approach affects the accessibility of his or her contextual information. If a holistic consumer evaluates, for example, a corporate image, he or she may consider the store as contextual information and rely on this information to evaluate the target image (e.g., the corporate image) based on his or her primed thinking even more than an analytic consumer.

In addition, the corporate branding strategy determines the accessibility of information. The perceived linguistic and visual dominance of the corporate brand in customer communication is defined as corporate brand dominance and depends on the corporate branding strategy (Berens et al. 2005). A monolithic branding strategy implies high corporate brand dominance, whereas standalone branding (e.g., mono-brands) indicates low corporate brand dominance (Olins 1989; Berens et al. 2005). In the monolithic case, the communication of the corporate brand dominates the communication concerning of the store. Thus, customers may perceive a high level of corporate brand dominance and easily recall corporate information when evaluating the store image.

Figure 1: Conceptual Framework



However, the culture-specific and firm-specific determinants of accessibility may not provide sufficient criteria for explaining information retrieval. Thus, as an additional criterion, diagnosticity, which stimulates the retrieval of information from a certain image level, is determined by the fit between the corporate image and the store image. The fit is defined as the number of shared associations between images (i.e., the fit characterizes the similarity between objects Park, Milberg & Lawson 1991). If a high level of similarity between images is assumed, a related image is a diagnostic piece of contextual information used to evaluate the target image (Ahluwalia/Gürhan-Canli 2000; Morrin 1999). Consequently, as Feldman and Lynch (1988) suggest, accessibility (in terms of the evaluation approach and corporate brand dominance) and diagnosticity (i.e., the fit) interact and may affect both the top-down and bottom-up effects on image perceptions.

In sum, the conceptual framework is explained by two underlying mechanisms: accessibility and diagnosticity. Accessibility varies depending on the following: the affective character of the image level from which information is retrieved, the moderating role of the consumer's evaluation approach, and the moderating role of corporate brand dominance. Diagnosticity varies depending on the level of fit between the cause and objective of the information transfer. Additionally, diagnosticity can be overridden by a high level of accessibility.

In the following sections, each relationship is discussed from a theoretical perspective and supporting literature for the assumptions is provided.

3 Development of hypotheses

3.1 Main effects

3.1.1 Reciprocity of corporate image and store image

The accessibility-diagnosticity theory explains how customers easily retrieve related associations. Because memory is related across nodes and structured into categories (e.g., store and corporate), customers may draw inferences from one category to evaluate a related category. This process is especially likely to occur if the information regarding the first category is highly accessible and more diagnostic than the other contextual information from which a consumer draws inferences about the target category. Because the corporate image and store image are related within the retailer's brand hierarchy, we assume that reciprocal effects exist between the corporate and store images.

The study of Kwon and Lennon (2009) is the only empirical study that provides support for 'reciprocal effects' in the context of multi-channel retailing by illustrating that consumers' online beliefs are influenced by an online channel and an offline channel. However, the understanding of reciprocity is conceptualized stepwise along the attitude chain instead of as a simultaneous reciprocal model. Thus, further empirical support for reciprocity may be provided by research on one-directional approaches. As mentioned previously, the top-down perspective (e.g., the influence of corporate image on store image) considers how customers draw inferences from a brand image anchored on the top of the brand hierarchy with regard to a brand image anchored on the bottom of the brand hierarchy and has been evaluated from various starting points, such as the influences of mall image on store image (Chebat et al. 2006), network image on store image (Helgesen et al. 2010), and corporate image on service products (Berens et al. 2005). In contrast, the bottom-up perspective (i.e., the influence of store image on corporate image) has been explored by previous research examining the influence of private labels on store image (Steenkamp/Dekimpe 1997; Sayman/Hoch/Raju 2002; Grewal et al. 1998). Both perspectives indicate that corporate image affects subordinate images and vice versa. With regard to the brand extension literature on service lines, Lei, Ruyter, and Wetzels (2008) demonstrate that reciprocal effects exist between the parent and the extension while testing this relationship in two separate experiments.

In sum, despite the lack of empirical research on reciprocal relations, customers may derive inferences about a retailer's corporate image from their original perceptions of its store image. In turn, these inferences affect the customers' perceptions of the store image. Our assumption is supported by the accessibility-diagnosticity theory, which states that images are related and therefore easy to access for the evaluation of the target image. Therefore, we conclude the following:

H1a: There is a reciprocal interaction between a retailer's corporate image and store image if the corporate image is the primary image accessed by the consumer.
H1b: There is a reciprocal interaction between a retailer's corporate image and store image if the store image is the primary image accessed by the consumer.

3.1.2 Higher valence of store image

The accessibility-diagnosticity theory proposes that highly accessible information will be considered first. Accordingly, Verplanken, Hofstee, and Janssen (1998) find that individuals respond more rapidly to their feelings than to their thoughts. In our context, we attach higher accessibility to store images based on emotional immediacy (Zimmer/Golden 1988) and multi-sensual experiences (Ailawadi/Keller 2004). The high accessibility of a store image based on emotion can serve as a sufficient criterion for retrieving the information for a task at hand because the diagnosticity threshold is overridden (Schwarz et al. 1991).

From a retailer's perspective, stores are an important point of customer contact through which customers experience the store. A customer who visits a Starbucks not only purchases coffee but is also immersed within the Starbucks experience, which might successfully provide an emotional picture of Starbucks's corporate image. The store's layout, atmosphere and employee interactions provide affective and multi-sensual cues through which customers experience the store's image (Martineau 1958; Ailawadi/Keller 2004). When recalled from a customer's memory, this personal experience provides an emotionally constituted image. Moreover, Friestad, and Thorson (1993) show that emotional information and events are more memorable than neutral ones.

In sum, we propose that store image is more accessible than corporate image. A person can easily retrieve an emotionally constituted store image from his or her memory if the diagnosticity threshold is overridden. Therefore, we assume the following:

H1c: Store image affects corporate image more strongly than corporate image affects store image.

3.2 Interaction effects

To understand the reciprocity of corporate image and store image, we explore the boundary conditions framed by the accessibility-diagnosticity theory (i.e., accessibility and diagnosticity interact and affect the top-down and bottom-up effects of images). The evaluation approach and corporate brand dominance are accessibility transmitters, whereas the fit of images represents a diagnosticity transmitter.

3.2.1 Interaction of evaluation approach and fit

Information retrieval is a function of the accessibility and diagnosticity of information. The latter is determined by the fit of information (i.e., images). To evaluate the target object, holistic thinkers access more contextual information and perceive this information to be more related to the target image than analytic thinkers (Nisbett et al. 2001). Consequently, holistic-thinking consumers from Asian countries perceive a higher magnitude of fit, which affects the top-down and bottom-up effects of images on their perceptions.

Holistic thinkers easily access contextual information (e.g., if a store image is the subject of evaluation, the corporate image is a contextual piece of information) and perceive similar information (i.e., information characterized by a high fit) as more diagnostic in the evaluation process. Referring to the influence of the evaluation approach, Aaker (2000) concludes that the ease of information retrieval varies across cultures, and Monga and Roedder John (2007) find a relationship between holistic thinking and the perception of a higher degree of fit. With respect to the fit, Morrin (1999), Ahluwalia and Gürhan-Canli (2000) and Berens et al. (2005) find empirical support for the argument that the fit of brand images serves as a diagnostic criterion that strengthens the spillover effects between two images. Lei et al. (2008) and Thamaraiselvan and Raja (2008) present similar findings in the context of brand extensions in the service sector and Gierl and Huettl (2011) and Kapoor and Heslop (2009) for different product categories. In our context, a high fit between a retailer's corporate and store images may also lead to top-down or bottom-up effects within the brand hierarchy.

In sum, in accordance with our theory, holistic thinkers easily access contextual information. Additionally, they perceive contextual and target information to be similar, which renders the contextual information salient to the evaluation of the target image. For this reason, we assume the following:

H2a: The moderating impact of fit on the effect of corporate image on store image is strengthened more by holistic thinking than by analytic thinking.
H2b: The moderation impact of fit on the effect of store image on corporate image is strengthened more by holistic thinking than by analytic thinking.

3.2.2 Interaction of corporate brand dominance and fit

Theoretically, corporate brand dominance determines the accessibility of corporate related information. If the communication of the corporate brand dominates the communication of the store, consumers can easily retrieve corporate information. Nevertheless, this contextual information (e.g., corporate image) becomes diagnostic for the evaluation of the target image (e.g., store image) if there is a high level of fit between the corporate and store images.

Consumers perceived degree of corporate brand dominance depends on the implemented branding strategy (Rao, Agarwal/Dahlhoff 2004; Berens et al. 2005). For the present study, these findings may apply to the retail industry in that retailers may modify their strategies to embrace monolithic branding and brand their stores with the corporate name in response to increased internationalization (Perkins, 2001). Devlin (2003) applies corporate branding strategies to the service industry. Berens et al. (2005) find that in the service sector, there are positive interactions among corporate ability, fit, and corporate brand dominance. These interactions cause the corporate image to be more salient if consumers evaluate lower brand levels.
In sum, if the corporate brand is dominant and easy to access, consumers perceive a higher level of similarity between the corporate and store images and evaluate corporate information as being highly diagnostic when evaluating the store and vice versa. Therefore, we assume the following:

H3a: Corporate brand dominance strengthens the moderating impact of fit on the effect of corporate image on store image.
H3b: Corporate brand dominance strengthens the moderating impact of fit on the effect of store image on corporate image.

4 Study 1: Real brands

4.1 Method

4.1.1 Study design and sample

We conducted a field experiment in China (holistic country) and Germany (analytic country) and collected data by distributing a questionnaire after the respondents had received the stimulus material. To test our hypotheses, we used a 3 (activation stimuli: corporate, store, and control messages) x 2 (evaluation approach: analytic and holistic) x 2 (branding strategy: high and low corporate brand dominance) between-subjects design. A total of 600 respondents (300 per country) participated in the study. We established 50 respondents per cell to achieve a reasonable power for testing our hypotheses. In total, 42 respondents could not correctly recall the name of the retailer mentioned in the stimulus material, and 25 respondents noticed the purpose of our study. We excluded these respondents to ensure that the included respondents read the cover story and were unaware of the study's objective. The resulting sample consisted of 533 valid questionnaires, as indicated in Table 1. The respondents were randomly assigned to the stimuli.

We applied a quotient based on the distributions of the age and sex of the national population but only included the respondents between 18 and 45 years old to cover the members of the population who were conscious of retail brands. In China, the sample was randomly selected from the data provided by the Chinese registration office. Because the study was conducted in a first-tier city, the sample represents the urban population. We provided the list of selected households to trained interviewers, who visited these households to execute the experimental study. The respondents listened to the cover story and then answered the questions in the questionnaire. In Germany, the trained interviewers surveyed the respondents in the city-center of a major German city. The interviewers approached every fifth person who passed by and asked him or her to participate in the study to avoid any socially motivated selection biases.

Table 1: Sample and Experimental Design of Study 1

	Gender (N,%)	
Age	**Male**	**Female**
18-25	88 (16.5%)	81 (15.2%)
26-35	83 (15.6%)	102 (19.1%)
36-45	79 (14.8%)	100 (18.8%)
Total	250 (46.9%)	283 (53.1%)

	Message (N,%)					
Country	**Corporate**		**Store**		**Control**	
CBD	**High**	**Low**	**High**	**Low**	**High**	**Low**
China	46 (8.6%)	46 (8.6%)	50 (9.4%)	47 (8.8%)	46 (8.6%)	48 (9.0%)
Germany	38 (7.1%)	28 (5.3%)	50 (9.4%)	49 (9.2%)	44 (8.3%)	41 (7.7%)

CBD = Corporate brand dominance

4.1.2 Procedure and development of stimulus material

The questionnaire begins with a cover story that differs in terms of the activation stimuli and branding strategy. This story is followed by scale-based questions. We pre-tested the cover story using five respondents per cell and made minor adjustments regarding the wording of the cover story and questions. The interviewers first read the cover story before the respondents answered the questionnaire in a face-to-face interview. The cover stories were equally structured and included information about the corporate brand and the retail brand. For comparability reasons, the activation stimuli on the corporate level were theoretically developed according to the corporate quality orientation of Walsh, Beatty, and Shiu (2009), whereas those on the store level were developed according to Sweeney and Sourtar’s (2001) quality value. The underlying purpose of the activation stimuli was to set the starting point of the image evaluation process and thereby determines causality by accentuating the positive information on one brand level (i.e., either on the corporate or retail store level). The positive activation provides the respondents with accessible input into their memories that can be retrieved to answer the subsequent questions. In addition to the stimuli anchored on the corporate level and on the retail store level, one group of respondents received a neutral message and was treated as a control group.

We examined the holistic and analytic thinking styles of consumers by conducting the study in an analytic thinking culture and in a rather holistic thinking culture (Nisbett et al. 2001). For the stimuli, we chose the corporate brand of one of the largest worldwide retailers. This company earns 65 % of its sales in 40 countries. To introduce variation in corporate brand dominance, we had to select a retailer that applies a mixed branding strategy to manage its retail brands. One retail brand is managed according to a monolithic branding strategy, which applies the corporate name at the store level as well. Another retail brand is managed as a standalone brand, which indicates that the names of the corporate brand and the individual stores differ.

4.1.3 Measurement

With regard to the survey design, we first considered the general aspects of the questionnaire by using seven-point Likert-type scales ranging from strongly disagree to strongly agree. We also considered the hierarchy of effects and the visual design of the questionnaire. As Table 2 indicates, we measured the image concept in accordance with Verhoef, Langerak, and Donkers (2007). We measured the evaluation approach in accordance with Choi, Koo, and Choi (2007); a high score on the scale indicates a holistic thinking style. All of the moderating factors are manipulated, measured and modeled. The measurement of corporate brand dominance was drawn from Berens et al. (2005), and the measurement of the fit was drawn from Bhat and Reddy (2001). In addition, to examine whether our activation stimuli were successful and determined causality, we measured the antecedents of corporate image by following Walsh et al. (2009) and the antecedents of store image by following Sweeney and Soutar (2001). These variables also provided information for the estimation of the non-recursive model because of the complexity associated with the estimation of reciprocal relationships (Berry 1984). Involvement and familiarity served as control variables because involvement and familiarity may affect the information transfer between images (Berens et al. 2005).

The constructs and items provide psychometric tests for reliability (Churchill Jr 1979) and validity (Fornell/Larcker 1981) (see Table 2 and Table 3). Convergent validity is demonstrated by significant t-values of the factor loadings, which ranged from .632 to .946 for all of the constructs (Anderson/Gerbing, 1988). Cronbach's alpha ranged from .792 to .903. The correlation matrix and the average variance extracted indicate the degrees of discriminant validity and nomological validity of the measurement (Fornell/Larcker 1981). Inspecting the correlation matrix, we found support for nomological validity, whereas face validity was checked for in the pre-test. To ensure semantic equivalence, we applied the translation/back-translation technique (Hult et al. 2008). Bilingual market researchers translated the scales into Chinese/German, and bilingual graduates back-translated the translated scales. Based on these results, the versions were corrected until the back-translation matched the original version. In addition, we fixed the factor loadings among the three groups that received different activation stimuli to establish metric invariance (Hult et al. 2008), as indicated in Table 4. Scalar invariance could be achieved by fixing the intercepts of the groups (Steenkamp/Baumgartner 1998). We performed a confirmatory factor analysis using the maximum likelihood estimator to assess the fit indices, which were satisfactory ($\chi^2(188)$ = 599.02; RMSEA = .063; CFI = .945) (Bentler 1990).

Table 2: Measurement of Study 1

Construct and item wording	Item	ItTC	λ	CA	CR	AVE
Corporate Image (Verhoef et al., 2007)						
[Corporate Brand] is a strong brand.	CI_1	.752	.826	.880	.839	.652
[Corporate Brand] is favorable to me.	CI_2	.686	.741			
[Corporate Brand] is a unique brand.	CI_3	.750	.815			
[Corporate Brand] has a positive image.	CI_4	.780	.845			
Retail Store Image (Verhoef et al., 2007)						
[Retail Brand] is a strong brand.	SI_1	.683	.804	.857	.782	.602
[Retail Brand] is favorable to me.	SI_2	.731	.715			
[Retail Brand] is a unique brand.	SI_3	.660	.793			
[Retail Brand] has a positive image.	SI_4	.731	788			

to be continued

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Antecedent Corporate Image (Walsh et al., 2009)						
[Corporate Brand] offers high-quality products and services.	ACI_1	.687	.796	.837	.777	.636
[Corporate Brand] is a strong, reliable company	ACI_2	.737	.833			
[Corporate Brand] offers innovative services.	ACI_3	.665	.761			
Antecedent Retail Store Image (Sweeney & Soutar, 2001)						
[Retail Brand] offers consistent quality.	ASI_1	.786	.831	.903	.804	
[Retail Brand] offers an acceptable standard of quality.	ASI_2	.820	.887			.756
[Retail Brand] offers well-made goods.	ASI_3	.816	.889			
Fit (Bhat & Reddy, 2001)						
Do you think that [Retail Brand] fits the image of [Corporate Brand]?	FIT_1	-	.859	.772*	.827	.773
Do you think that [Retail Brand] is a suitable store for [Corporate Brand] to operate?	FIT_2	-	.899			
Corporate brand dominance (Berens et al., 2005)						
[Corporate Brand] is clearly visible.	CBD_1	.773	.832	.898	.880	.758
[Corporate Brand] stands significantly in the foreground of the retail brand [Retail Brand].	CBD_2	.863	.946			
[Corporate Brand] is significantly dominant compared to the retail brand [Retail Brand].	CBD_3	.768	.829			
Evaluation approach (Choi et al., 2007)						
Everything is somehow related to each other.	EVA_1	.642	.763	.792	.756	.593
Everything in the world is intertwined in a causal relationship.	EVA_2	.720	.893			
Nothing is unrelated.	EVA_3	.563	.632			
Involvement (Beatty & Talpade, 1994)						
Shopping/visiting [Retail Store Brand] is of great interest to me.	INV_1	-	-	-	-	-
Familiarity with Corporate Brand (Berens et al., 2005)						
I am very familiar with [Corporate/Retail Store Brand]	FAM_1	-	-	-	-	-

Goodness of fit statistics for CFA: CFI = .945; TLI = .946; RMSEA = .063; $\chi^2(188)$ = 599.022.

ItTC = Item-to-total correlation; λ = standardized factor loadings; CA = Cronbach's alpha; CR = Composite reliability; AVE = Average variance extracted; *Pearson correlation.

Table 3: Correlation Matrix, Descriptive Results and Discriminant Validity of Study 1

		1	2	3	4	5	6	7	8	9	10
1	CI	**.652**	*.426*	*.504*	*.289*	*.160*	*.009*	*.037*	*.193*	*.101*	*.072*
2	SI	.653***	**.602**	*.259*	*.483*	*.171*	*.004*	*.015*	*.297*	*.077*	*.145*
3	ACI	.710***	.509***	**.636**	*.252*	*.166*	*.105*	*.043*	*.230*	*.055*	*.021*
4	ASI	.538***	.695***	.502***	**.756**	*.169*	*.000*	*.005*	*.230*	*.045*	*.123*
5	FIT	.400***	.413***	.407***	.411***	**.773**	*.150*	*.017*	*.158*	*.048*	*.022*
6	CBD	.291***	.068 n.s	.324***	-.007 n.s.	.387***	**.758**	*.048*	*.042*	*.002*	*.024*
7	EVA	.163***	.121**	.207***	.071†	.131**	.218***	**.593**	**.035**	.023	.042
8	INV	.439***	.545***	.446***	.480***	.398***	.206***	.186***	**-**	.055	.070
9	FA CI	.317***	.277***	.234***	.211***	.218***	.046 n.s	.-153**	.235***	**-**	.057
10	FA SI	.262***	.381***	.145**	.350***	.147**	-.156**	-.204***	.264***	.712***	**-**
	Mean	4.52	4.64	4.62	4.74	4.61	4.24	5.07	4.15	3.89	3.96
	SD	.884	.882	.835	.910	.944	1.361	.961	1.23	1.44	1.55

CI = Corporate image; SI = Store image; ACI = Antecedent of corporate image; ASI = Antecedent of store image; FIT = Fit; CBD = Corporate brand dominance; EVA = Evaluation approach; INV = Involvement; FA CI = Familiarity with corporate image; FA SI = Familiarity with store image.

AVEs are on the diagonal; squared correlations are above the diagonal; correlations are below the diagonal.

† p<.10; * p<.05; ** p<.01; *** p<.001; n.s. = not significant.

Table 4: Measurement Invariance between the Activation Stimuli Groups of Study 1

Model	χ^2 (p-value)	χ^2-Difference (p-value)	CFI (ΔCFI)	TLI (ΔTLI)	RMSEA (ΔRMSEA)
Model 1: Configural invariance	1099.053 (.000)	-	.928 (-)	.904 (-)	.042 (-)
Model 2: Metric Invariance	1124.719 (.000)	25.666 (.219)	.928 (.000)	.906 (-.002)	.041 (-.001)
Model 3: Scalar Invariance	1169.399 (.000)	44.680 (.104)	.926 (.002)	.910 (-.004)	.040 (-.001)

4.1.4 Manipulation checks

We first compared the mean values of the antecedent of corporate image between the group that received the positive corporate activation and the control group ($M_{\text{activation}} = 4.75$, $M_{\text{control}} = 4.44$, $p < .001$). In addition, the difference between the values of the antecedent of store between the group that received the positive store activation and the control group was also significant ($M_{\text{activation}} = 4.83$, $M_{\text{control}} = 4.58$, $p < .001$), which indicates that the respondents used the manipulated brand image as the starting point for the evaluation process. With respect to the moderating effects, the respondents differ in their evaluation approaches ($M_{\text{Germans}} = 4.74$, $M_{\text{Chinese}} = 5.38$, $p < .01$), and the retail brands differ in their perceived degrees of corporate brand dominance ($M_{\text{monolithic}}= 4.74$, $M_{standalone} = 3.77$, $p < .01$).

4.1.5 Methodology

We estimated a multi-group non-recursive structural equation model to explicitly examine the feedback loops. We analyzed the group that received the activation stimuli on the corporate level to model the feedback loops starting at the corporate image. The same approach was applied to the group that received the activation stimuli on the store level. To estimate the model, we modeled the theoretically derived instrumental antecedents on the corporate and store levels to help identify the appropriate model (Berry 1984). These instrumental variables provide additional data points to help solve problems of under-identification. Finally, we inspected the significance of the feedback path in each group and then employed hierarchical regression analysis to account for the moderating effects. Here, the variables were built as summated and mean-centered indices (Marquardt 1980).

4.2 Results and discussion

4.2.1 Main effects

The results of the non-recursive model (see Table 5) provide support for H1a and H1b by demonstrating the reciprocity of the corporate and store images. The reciprocal relationship between these two images is significant and stable. The stability indices of both groups are less than one, which indicates that the system of linear equations associated with the model is stable and that the estimation process is successful (Bentler/Freeman 1983). In a chi-square difference test, we fixed the feedback paths of both groups (activation stimuli: corporate and store) to zero ($\Delta\chi^2(2) = 13.15$, $p < .01$) and found that the feedback effects were sustainable, whereas the model fit became significantly worse.

H1c predicts that the bottom-up effect of store image on corporate image will be stronger than vice versa. In a chi-square difference test ($\Delta\chi^2(3) = 284.40$, $p<.001$), we introduced a constraint that caused the estimates of the top-down and bottom-up paths of both groups to be equal. Consequently, the model fit was significantly worse and H1c was supported. Consumers are highly receptive to the store image, and retailers can use the store as a consumer contact point to leverage bottom-up effects, which transfer multi-sensual stimuli to the corporate level. Furthermore, our results demonstrate that the activation of a corporate image impacts the store image ($\beta = .205$, $p < .05$), which, in turn, affects the corporate image ($\beta = .247$, $p < .01$). Multiplying the top-down and bottom-up effects, the total effect, according to the method of Sobel (1982), is $b = .051$, $p < .10$. Similarly, the activation of a subordinate store image affects the corporate image ($\beta = .307$, $p < .01$), which, in turn, affects the store image ($\beta = .209$, $p < .01$). Thus, the total effect is $b = .064$, $p < .01$.

Table 5: Results of the Non-recursive Structural Equation Model of Study 1

		Activation stimuli: Corporate (N=158)		Activation stimuli: Store (N =196)		χ2–Difference test
	CI ➔ SI	.205	*	.209	**	
	(Supported)	(.184)		(.277)		
	SI ➔CI	.247	**	.307	***	
	(Supported)	(.276)		(.231)		
H1a/b	(Supported)					Δ2df, $\Delta 13.149\chi^2$, p<.01
H1c	(Supported)					Δ3df, $\Delta 284.402\chi^2$, p<.001
	Stability Index	.051		.064		

Metric invariance model: TLI = .893; CFI = .923; RMSEA = .050; $\chi 2$ = 396.922 (df=151); χ^2/d.f.=2.629.
† p < .10; * p < .05; ** p < .01; *** p < .001; n.s. = not significant.
CI = Corporate image; SI = Retail store image; unstandardized coefficient in brackets.

4.2.2 Interaction effects

The results of the hierarchically moderated regression are displayed in Table 6. A reciprocal relationship exists between corporate and store images, and this relationship is affected by the consumers' evaluation approach. As stated in H2a, holistic thinkers perceive fit to have a stronger effect than analytic thinkers do. In turn, this difference in perception strengthens the top-down effect (b = .162*,* p < .01). In addition, the bottom-up effect described in H2b was found to be significant (b = .243*,* p < .001). Our results indicate the importance of customers' analytic and holistic thinking styles and imply that the top-down and bottom-up effects within the brand hierarchy depend on the culturally inherent style of thinking. Executives should acknowledge that the spillover effects within the brand hierarchy may require less investment in the corporate brand or retail brand in Asian countries than in Western countries because of the holistic imprinting in Asian populations.

H3a and H3b assume that corporate brand dominance plays a moderating role. H3a was supported by the results, which indicate that high corporate brand dominance strengthens the positive moderating impact of the relationship fit on the top-down effect of corporate image on store image (b = .083*,* p < .10). Contrary to H3b, the effect of corporate brand dominance on the moderating impact of the relationship fit on the bottom-up effect of store image on corporate image was not significant (b = -.041, p > .10). To understand the rejection of H3b, we explore the two-way interaction of store image and fit. This interaction shows that the bottom-up effect is strengthened by a lower fit (b = -.094*,* p < .05). Moreover, we observe a negative interaction of corporate brand dominance and fit (b = - .090, p < .10). We conclude that customers derive inferences about a corporate image from the store image if the level of fit is low. If images do not fit together, they are not congruent and may capture a higher level of attention from an individual than consistent information would (Hastie/Kumar, 1979). According to the theory of cognitive dissonance (Festinger 1957), highly incongruent information stimulates the rearrangement of our perceptions in accordance with this new incongruent information. Individuals might be affected by a greater awareness of an incongruent store image (low fit), which enhances the accessibility of information.

One limitation of this study is the choice of one global retailer and its two retail brands. Although we show that our findings can be generalized to the 'real-world condition,' our results question the internal validity of the study because we employed actual research objects and thus introduced respondents to divergent levels of pre-existing knowledge. Further research should establish internal validity by controlling for extraneous variables.

Table 6: Results of Hierarchical Regression Models of Study 1

Top-down effect: corporate image on store image		**Main effects**		**Main effects and two-way interaction**		**Full model**	
		B	**t-value**	**B**	**t-value**	**B**	**t-value**
	Constant	.074†	1.674	.015^{ns}	.356	.049	1.112
	Corporate Image	.353***	6.102	.388***	7.026	.387***	7.222
	Fit	.144**	3.098	.139**	3.100	.153**	3.533
	EVA	.035$^{ns.}$	.786	.064^{ns}	1.512	.015^{ns}	-.351
	CBD	-.051$^{ns.}$	-.965	-.123*	-2.314	-.170**	-3.202
	Involvement (control)	*.085†*	*1.802*	.065^{ns}	*1.462*	.083†	*1.925*
	Familiarity (control)	*.038$^{ns.}$*	*.833*	.050^{ns}	*1.197*	.043^{ns}	*1.091*
	CIxInvolvement			.072^{ns}	*1.478*	.030^{ns}	*.589*
	CIxFit			.019^{ns}	.352	-.035^{ns}	-634
	CIxEVA			-.197***	-4.013	-.133**	-2.642
	CIxCBD			.037^{ns}	.656	.009^{ns}	.167
	FitxEVA			.083*	2.066	.040^{ns}	.976
	FitxCBD			.143***	3.881	.104*	2.535
H2a	CIxFitxEVA					.162**	3.152
H3a	CIxFitxCBD					.083†	1.676
	Adj. R-Square		.378		.510		.547
	Sig. F Change	16.898	.000	7.784	.000	6.911	.001

Activation stimuli: Corporate message; dependent variable: store image

Bottom-up effect: store image on corporate image							
	Constant	-.051^{ns}	-1.249	.007^{ns}	.149	-.014	.295
	SI	.585***	10.688	.618***	9.652	.584***	9.264
	Fit	-.034^{ns}	-.646	-.007^{ns}	-.128	-.012^{ns}	-.222
	EVA	-.074†	1.688	.081†	1.788	-.007^{ns}	-.146
	CBD	.287***	6.129	.211***	3.849	.227***	4.084
	Involvement (control)	-.104†	-1.956	-.106*	-2.010	-.079^{ns}	-1.550
	Familiarity (control)	.150**	3.373	.134**	2.972	.134**	3.041

to be continued

Continuation

	SIxInvolvement			.000	*ns*	.012	-.016	ns	-.413
	SIxFit			-.094	*	-1.947	-.066	ns	-1.071
	SIxEVA			.000	*ns*	.004	.105	†	1.811
	SIxCBD			.142	**	2.667	.109	*	2.124
	FitxEVA			.017	*ns*	.272	-.005	ns	-.077
	FitxCBD			-.066	*ns*	-1.253	-.090	†	-1.655
H2b	SIxFitxEVA						.243	***	4.566
H3b	SIxFitxCBD						-.041	ns	-.664
	Adj. R-Square		.548			.559			.600
	Sig. F Change	40.270	.000		1.753	.111		10.437	.000

Activation stimulus: Store message; dependent variable: corporate image.
CI = Corporate image, SI = Store image, CBD = corporate brand dominance, EVA = evaluation approach.
† p<.10; * p<.05; ** p<.01; *** p<.001; n.s. = not significant.

5 Study 2: Fictitious brands

To address the shortcomings of the first study, we conduct a second study to establish the internal and external validity of the interaction effects and to better understand the rejection of H3b, which states that there is a three-way interaction of store image, fit and corporate brand dominance. This attempt is guided by our finding that the processing of incongruent information (i.e., a low fit) may lead to increased attention and strengthen the bottom-up effect of store image on corporate image. To increase our understanding of bottom-up interactions, we provide further analysis in the following.

As mentioned previously, a standalone brand has a low level of corporate brand dominance and may have a high level of retail brand dominance (Rao et al. 2004). The consideration of retail brand dominance (i.e., the visual and linguistic dominance of the retail brand or store according to Berens et al. 2005) provides additional insight into the bottom-up effect. According to the accessibility-diagnosticity theory, high retail brand dominance enhances the accessibility of store information, which may then enhance the bottom-up effect of store image on corporate image. Furthermore, high retail brand dominance suggests that the store information is not only more accessible but is also highly diagnostic because of the affective nature of the store image. Consequently, store information becomes diagnostic and can override corporate brand dominance, although the degree of fit is not high in this case. For example, the Inditex Corporation manages Zara stores not under the corporate banner, moreover there is a low degree of corporate brand dominance and a low fit between the corporate and store images. Thus, consumers can easily access store information (e.g., the availability of the latest fashion) to evaluate the Inditex Corporation. Through the consumers' multi-sensual experiences, store information becomes salient and diagnostic and might override the effects of the corporate brand's dominance. The affective nature (Ailawadi/Keller 2004) and the dominance of the retail stores (e.g., Zara) increase the level of accessibility to such an extent that the diagnosticity threshold is overridden (Schwarz et al. 1991), regardless of the level of fit. Therefore, we assume the following:

H3c: Retail brand dominance strengthens the effect of store image on corporate image.

5.1 Method

5.1.1 Design and sample

We employed a 2 (activation stimuli: corporate and store messages) x 2 (evaluation approach: analytic and holistic) x 3 (branding strategy: high, medium, and low corporate brand dominance) between-subjects design. We avoided a cross-cultural design and collected data in one country to control for any extraneous variables. A total of 323 undergraduate students participated in the study. The students received course credit for their participation and were randomly assigned to the stimuli (see Table 7). We excluded the respondents who recognized the purpose of the study (n = 32) or who did not correctly recall the brand that was mentioned in the stimulus material (n = 9).

Table 7: Sample and Experimental Design of Study 2

	Gender (N, %)		Messages (N,%)						
Age	**Male**	**Female**	**EVA**	**Corporate**			**Store**		
18-25	150 (53.8%)	117 (43.8%)							
26-35	6 (2.2%)	6 (2.2%)	**CBD**	**high**	**middle**	**low**	**high**	**middle**	**low**
36-45	0 (0%)	0 (0%)	**High**	28 (9.9%)	23 (9.2%)	22 (7.4)	22 (7.8%)	22 (7.8%)	19 (8.1%)
Total	156 (55.9%)	123 (44.1%)	**Low**	31 (11%)	26 (8.2%)	21 (7.8)	23 (9.2%)	25 (8.9%)	20 (7.1%)

CBD = Corporate brand dominance; EVA = Evaluation approach.

5.1.2 Procedure and development of stimuli

The material provided to the respondents includes a cover story and a questionnaire, which was completed after the cover story was read. In contrast to study 1, we created a fictitious retailer to control for the respondents' pre-existing knowledge. The activation stimuli, which emphasize either the retailer's corporate level or store level as the starting point of the evaluation process, were developed according to the same procedure used in study 1. A pretest with five respondents per cell identified the problems in the stimulus material, which we corrected by changing the wording.

The cover story includes a holistic or analytic priming to manipulate the respondents' evaluation approach. The analytic priming includes a story written from an 'I-perspective,' whereas the holistic priming includes a story written from a ‘we-perspective’. The respondents had to mark all of the pronouns in the text. The stimulus was drawn from Kühnen, Hannover, and Schubert (2001) to prime the respondents towards an independent (i.e., analytic) or an interdependent (i.e., holistic) style of thinking.

In addition, a second stimulus was included to prime the respondents’ evaluation approaches. The respondents were asked for the differences or similarities between the city of New York and the United States. Recalling the similarities (differences) of the two objects primes the respondents to think holistically (analytically) and in a context-dependent (context-independent) manner (Trafimow/Triandis/Goto 1991; Nisbett et al. 2001).

The branding strategy follows a monolithic (i.e., high corporate brand dominance), an endorsed (i.e., medium corporate brand dominance), or a standalone (i.e., low corporate brand dominance) approach. We designed the stimuli of corporate brand dominance as dominance between the corporate and store logos that were perceived by the respondents while they read the cover story. A high level of corporate brand dominance is associated with the visual and linguistic dominance of the corporate name. In the medium and low corporate brand dominance structures, the dominance of the corporate name was gradually extenuated. For the low corporate brand dominance condition, the store name is visually salient and differs linguistically from the corporate name. The chosen business of our fictitious retailer is toy and baby equipment, which is less familiar to the respondents and therefore enhances their receptiveness to information.

5.1.3 Measurement

With regard to the survey design, we apply the same procedures as in study 1. While using seven-point Likert-type scales, we consider the hierarchy of effects and the visual design. We adopted the measurement system of study 1 and additionally measured the retail brand dominance by asking for the dominance of the retail brand over the corporate brand with a scale that was adapted from Berens et al. (2005).

The constructs and items provide psychometric tests for reliability (Churchill Jr 1979) and validity (Fornell/Larcker 1981). Convergent validity is demonstrated by significant t-values and factor loadings (Anderson/Gerbing 1988), which ranged from .466 to .854 for all of the constructs. However, we excluded the item “*This brand* is favorable to me” from the corporate image and store image factor loadings because these loadings were critically low. The low factor loading was probably caused by the short priming period for the fictitious brands. Cronbach’s alpha ranged from .691 to .856. As shown in Table 8, the correlation matrix and the average variance extracted indicate the degree of discriminant validity and nomological validity (Fornell/Larcker 1981). Furthermore, we performed a confirmatory factor analysis and found that the comparative fit index was just below the threshold ($\chi^2(136) = 376.808$; RMSEA = .079; CFI = .888). Because we have a small sample size and a satisfactory chi-square for the given degrees of freedom and RMSEA, we do not treat this finding as a significant concern.

Table 8: Correlation Matrix Discriminant Validity and Descriptive Results of Study 2

		1	2	3	4	5	6
1	Corporate Image	**.493**	*.492*	*.198*	*.110*	*.123*	*.072*
2	Store Image	.702***	**.432**	*.196*	*.044*	*.112*	*.055*
3	FIT	.445***	.443***	**.565**	*.121*	*.112*	*.054*
4	CBD	.332***	.210***	.348***	**.576**	*.035*	*.004*
5	EVA	.352***	.335***	.334***	.186**	**.377**	*.021*
6	Retail Brand Dominance	.268***	.235***	.252***	.064 ns.	.144 ns.	**617**
	Mean	4.32	4.20	4.46	3.79	4.57	4.37
	SD	1.16	1.16	1.34	1.33	1.09	1.35

FIT = Fit; CBD = Corporate brand dominance; EVA = Evaluation approach.
Note: AVEs are on the diagonal; squared correlations are above the diagonal; correlations are below the diagonal.
† p < .10; * p < .05; ** p < .01; *** p < .001; n.s. = not significant.

5.1.4 Manipulation checks

Because our research objects were fictitious and the respondents did not have any pre-existing knowledge concerning the fictitious brands, we do not have a control group that did not receive positive accentuating information. Furthermore, the manipulation of corporate brand dominance was successful ($M_{\text{high}} = 4.23$, $M_{\text{medium}} = 3.79$, $M_{\text{low}} = 3.32$; $F\ (2, 277) = 15.49$, $p < .001$). The ratings of corporate brand dominance were significantly higher when a monolithic strategy was provided to the respondents instead of a standalone strategy. With respect to their analytic and holistic priming, the respondents differ significantly in their evaluation approaches ($M_{\text{analytic}} = 3.93$, $M_{\text{holistic}} = 5.19$, $p < .01$).

5.2 Results and discussion

The results of the hierarchically moderated regression for the top-down and bottom-up effects are displayed in Table 9 and validate the results of study 1. H2a postulates that holistic thinkers perceive fit to play a higher moderating role that strengthens the top-down effect of corporate image on store image ($b = .085$, $p < .05$). In addition, we confirm H2b by demonstrating that holistic thinkers perceive fit to have a stronger moderating effect on the bottom-up effect ($b = .171$, $p < .01$). If the degree of corporate brand dominance is high, a higher fit strengthens the top-down effect even more ($b = .129$, $p < .001$), as stated in H3a. As we found in study 1, H3b is rejected because of the insignificant three-way interaction among the store image, fit and corporate brand dominance ($b = .027$, $p > .10$).

Table 9: Results of Hierarchical Regression Models of Study 2

Top-down effect: corporate image on store image		**Main effects**		**Main effects and two-way interaction**		**Full model**	
		B	**t-value**	**B**	**t-value**	**B**	**t-value**
	Constant	.004^{ns}	.079	-.006^{ns}	-.128	.014^{ns}	.310
	CI	.660***	11.269	.721***	12.273	.614***	9.945
	Fit	.196***	3.858	.172**	3.431	.084^{ns}	1.622
	CBD	-.049^{ns}	-991	-.027^{ns}	-.563	-027^{ns}	-.580
	EVA	.004^{ns}	.093	-.014^{ns}	-.296	-.037^{ns}	-.764
	CIxFit			.110†	1.948	.136*	2.521
	CIxEVA			-.102†	-1.805	-.109*	-2.045
	CIxCBD			-.138**	-2.779	-.096†	-1.946
	FitxEVA			.067^{ns}	1.330	.053^{ns}	1.098
	FitxCBD			.083†	1.929	.053^{ns}	1.272
H2a	CIxFitxEVA					.085*	2.348
H3a	CIxFitxCBD					.129***	3.662
	Adj. R-Square		.616		.636		.672
	Sig. F Change	58.588(4)	.000	3.435(5)	.006	8.753(2)	.000

Activation stimulus: corporate message; dependent variable: store image.

Bottom-up effect: store image on corporate image							
	Constant	.074^{ns}	1.420	.083^{ns}	1.403	.087^{ns}	
	SI	.471***	7.467	.437***	6.651	.369***	5.435
	Fit	.201**	3.012	.176*	2.407	.141†	1.946
	CBD	.080^{ns}	1.351	.103^{ns}	1.644	.086^{ns}	1.257
	EVA	.029^{ns}	.468	.037^{ns}	.582	-.045^{ns}	-.661
	SIxFit			.043^{ns}	.612	.075^{ns}	1.015
	SIxEVA			-.044^{ns}	-.745	.001^{ns}	.008
	SIxCBD			-.101^{ns}	-1.556	-.142*	-2.164
	FitxEVA			.032^{ns}	.461	-.047^{ns}	-.610
	FitxCBD			-.019^{ns}	-.323	.013^{ns}	.186
H2b	SIxFitxEVA					.171**	2.778
H3b	SIxFitxCBD					.027^{ns}	.398
	Adj. R-Square		.499		.482		.515
	Sig. F Change	30.863(4)	.000	.974(5)	.437	4.967(2)	.009

Activation stimuli: Store message, dependent variable: corporate image.

to be continued

Continuation

Bottom-up effect: store image on corporate image (retail brand dominance)							
	Constant	.067^{ns}	1.306	.062^{ns}	1.087	.073^{ns}	1.313
	SI	.455***	7.245	.419***	6.320	.365***	5.462
	Fit	.210**	3.274	.211**	3.192	.162*	2.445
	EVA	.048^{ns}	.794	.068^{ns}	1.106	.001^{ns}	.020
	RBD	.065^{ns}	1.170	.066^{ns}	1.160	.072^{ns}	1.310
	SIxFit			-.012^{ns}	-.169	-.013^{ns}	-.185
	SIxEVA			-.058^{ns}	-1.009	-.009^{ns}	-.150
	FITxEVA			.034^{ns}	.518	-.038^{ns}	-.565
H3c	SIxRBD			.084^{ns}	1.474	.094†	1.703
	SIxFITxEVA					.164**	2.981
	Adj. R-Square		.488		.485		.516
	Sig. F Change	31.987	.000	1.753	.111	10.437	.003

Activation stimulus: Store message; dependent variable: Corporate image.

CI = Corporate Image, SI = Store Image, EVA = Evaluation approach, CBD = corporate brand dominance, RBD=Retail brand dominance.

† p < .10; * p < .05; ** p < .01; *** p < .001; n.s. = not significant.

To understand this finding, we extend the model based on our assumption (H3c) that the customers who perceive a high degree of retail brand dominance perceive a stronger bottom-up effect than those who perceive a low degree of retail brand dominance. The results presented in Table 9 also demonstrate the moderating effects of the bottom-up path when the degree of retail brand dominance is considered. The results indicate a significant two-way-interaction between store image and retail brand dominance (b = .094, p < .10), as postulated in H3c.

In sum, the results of study 1 are validated when a fictitious retailer is employed as a research object to control for several extraneous variables. In addition, we explored the reasons underlying the rejection of H3b and found a significant two-way interaction of store image and retail brand dominance. Under the condition of high retail brand dominance, the retail store image becomes highly accessible and thus serves as a diagnostic criterion for the evaluation of the corporate image. As our results show, a high fit between images is not imperative for a stronger bottom-up effect. This finding complements those of previous studies, which have only focused on top-down effects, and indicates the essential impact of fit on these effects (Berens et al. 2005). Our results show that regardless of the starting point of the evaluation process within the brand hierarchy (e.g., at the corporate image or store image), the customer's evaluation approach is an important culture-specific characteristic that has important implications for international retail brand management.

6 General discussion

This article examines the reciprocity between a retailer's corporate image and store image as well as the moderating effects of the evaluation approach of consumers and the degree of corporate brand dominance on the reciprocal relations between these two images. This under-researched area is important because retailers are increasingly understanding themselves as brands that need to be differentiated from their competitors and have their images managed at different organizational levels (i.e., the corporate and store levels), with the management of both levels aiming to attract consumers. Moreover, these findings are important because leading retailers' growth objectives have caused these companies to diversify and internationalize. These retailers should know whether the reciprocity between their corporate and store images is more beneficial in certain countries or cultures. Study 1 finds strong evidence for a reciprocal relationship between the two image levels and highlights the stronger valence of store image in a customer's evaluation process. Furthermore, we find that the level of reciprocity is more strongly determined by the corporate image in holistic cultures and varies depending on the perceived branding strategy. Study 2 validates and complements study 1 by exploring the bottom-up effect of store image on corporate image. This effect varies depending on the dominance of the retail brand. These observations have both theoretical and managerial implications.

6.1 Theoretical implications

This study contributes to the literature by considering the reciprocity of corporate image and store image. Although the accessibility-diagnosticity theory (Feldman/Lynch 1988) provides a detailed understanding of the reciprocal effects between images, past research has scarcely examined the reciprocity of cognitions (here, images on different organizational levels). Given that corporate image is an accessible piece of information in an individual's memory, consumers use this information as the starting point to draw inferences about store image if the accessibility exceeds a specified threshold (Schwarz et al. 1991). In turn, these spillover effects will affect the corporate image. This process will continue through several cycles of a feedback loop before the effect attenuates. With respect to our first research question on the reciprocity and valence of corporate and store images, the results not only demonstrate reciprocity but also show that store image appears to have a greater effect on corporate image than vice versa. The store image is a multi-sensual and highly accessible tool because of the store's function as the contact point with customers (Ailawadi/Keller 2004) through which corporate values are communicated. This finding shows how the branded anchor points of a complex retail firm's structure are interrelated in the customers' perceptions and therefore accentuates the need for a coordinated retail brand management process in which the store image or respectively the retail brand constitutes a powerful tool for branding a corporation.

To better understand the variation in the interaction between the two images, we explored the boundary conditions for this interaction by accounting for culture-specific factors (i.e., evaluation approaches) and firm-specific factors (i.e., branding strategies). From a theoretical point of view, these two contextual factors drive the accessibility of a given image level. With respect to our second research question concerning the role of cultural factors in this reciprocal relationship, the results show that the culturally inherent style of thinking (Nisbett et al. 2001) determines the accessibility of information. Holistic thinkers perceive the fit between two image levels to have a higher impact on the top-down and bottom-up interactions of the images. Thus, we extend the literature to an international and cross-cultural context by interpreting holistic thinking (Nisbett et al. 2001) in accordance with the theory of Feldman and Lynch (1988) as a multiplier of the salience of one image to the perception of the other. Concerning our third research question, we found support for the hypothesis that a high degree of corporate brand dominance strengthens the positive moderating impact of the fit between the two images on the top-down effect. If customers evaluate a store, they rely on salient corporate information. The degree of salience is affected by the firm's monolithic branding strategy or the corporate brand dominance. The salience decreases for a lower degree of corporate brand dominance or an applied standalone strategy. Consequently, the top-down effect decreases. In contrast, the bottom-up effect is not affected by the interaction between corporate brand dominance and the fit between images. This finding implies that the bottom-up effect does not depend on congruence (i.e., a high fit of images) or incongruence (i.e., a low fit of images). In addition, we found that retail brand dominance enhances information accessibility and overcomes the diagnosticity threshold.

This study also contributes to the methodology for considering the reciprocity between hierarchical levels. To determine the causality between image levels, we chose an experimental design (Russell et al. 1998) and applied a non-recursive (bidirectional) model to show the reciprocity of images. This methodological approach enhances the research on reciprocal effects, especially in marketing, where prior studies have explored reciprocal effects across separate consecutive experiments without simultaneously estimating effects (Lane/Jacobson 1997) or have ignored the effects of causality and a well-defined starting point for the evaluation process (Balachander/Ghose 2003). Using our experimental design and non-recursive modeling, which have rarely been applied (Martens/Haase 2006) to this field, we show how image associations cycle through several loops across different image levels and explicitly calculate the feedback paths (Martens/Haase 2006; Wong/Law 1999).

6.2 Managerial implications

The results of our study offer practical implications for firms seeking the internationalization and diversification of their brands by changing their branding structures such that new retail brands might be managed under the corporate name. This structure needs to be managed in terms of its level of efficiency, which can be increased by acknowledging how customers draw inferences from corporate and store images under different cultural conditions (Western vs. Eastern) and different branding strategies (monolithic vs. standalone).

Managers should be aware that an investment in the corporate brand affects the retail brand, which, in turn, affects the corporate brand. According to our results, the bottom-up effect is greater than the top-down effect. Thus, an investment in the store level is highly attractive. However, because growth objectives motivate firms to manage different retail brands, an investment for each retail brand becomes efficient if the budget is shifted to the corporate banner. Doing so leads to the endorsement of a corporate branding strategy in which the corporate banner endorses the retail brands.

Because retailers have aggressively internationalized in the last two decades into Western markets first and culturally distant growth markets later (Goldman 2001), retail mangers should note and benefit from customers' culturally inherent thinking styles. In countries such as China, Thailand and Malaysia, retailers can benefit from the higher spillover effects between images, irrespective of where (i.e., the corporate or store level) they invest and which branding strategy is applied. The same image objectives may be realized for a lower budget in Asia. However, managers should be aware that higher levels of transfer effects might also lead to negative consequences if bad news is communicated.

Carrefour manages its retail brand Carrefour hypermarket based on a monolithic or endorsed strategy and benefits from higher top-down effects within the brand hierarchy. However, Carrefour also manages its retail brands as standalone brands (e.g., Champion and Shopi). Internationally, Carrefour's portfolio has grown unclear, and the group has recently decided to restructure its portfolio. Our results show that if companies manage based on a standalone approach rather than a monolithic approach, the top-down effects decrease. We conclude that if Carrefour switches to a monolithic strategy, an investment in the corporate brand will help the company to leverage its retail brands under the Carrefour umbrella. Therefore, the branding strategy should rely on common values and proposals, which are expressed in the corporate banner. However, if the retail brand's positioning differs significantly from the corporate banner, this retail brand would be better managed as a standalone brand. This benefit may be realized by Carrefour's decision to spin off its retail brand Dia, which uses a hard-discount format.

6.3 Limitations and directions for further research

Our study suffers from several limitations that may be addressed by further research. The results of study 1 are limited by the focus on only one diversified retailer and its two retail brands. In study 2, the results are limited by the convenience of the sample population and the short learning period. Future researchers can overcome these limitations by applying a modified experimental design (e.g., a laboratory design) instead of a field experiment. We did not control for the county-specific differences of the retailer in study 1. Even if the retailer has been in business for 15 years in China, the retailer's position might differ from its position in Germany. Thus, these findings should be replicated with other brands and countries. Furthermore, the moderating effects (e.g., the different aspects of fit between hierarchical image levels and psychographic variables) should be identified in the experimental design, and differentiating among several aspects of images (e.g., the perceptions of corporate social responsibility on the corporate image level) might be fruitful. Finally, some studies criticize the examination of feedback loops within a cross-sectional design (Hunter/Gerbing 1982; Wong/Law 1999) and suggest conducting longitudinal studies in which the interaction effects can be modeled using different time points. Hence, further research might investigate reciprocal effects by combining longitudinal and experimental cross-sectional surveys.

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Retailing in Romania: From Statist to Nearly Capitalist

Dan-Cristian Dabija and Ioana N. Abrudan

Abstract

The Romanian retail sector has undergone an extremely interesting evolution within the past years. Prior to 1990 the typical image of virtually every Romanian store, especially of food stores, was one of shelves almost empty, of employees telling shoppers that merchandise stocks would arrive within several days, of cold and somber colors, or of endless queues in front of food stores. Nowadays, however, we witness a profound “rearrangement” of these clichés. Shops abound in foreign and Romanian goods, the atmosphere is very warm and inviting, attracting customers, the staff is helpful and friendly and the queues moved to the cash register where customers wait patiently with baskets and shopping carts full of products. There has also been a significant increase in the number of stores over the last twenty-odd years. Food retail chains such as Metro, Lidl, Kaufland, Profi, etc. and non-food retailers such as H&M, C&A, Zara, etc. have gradually made their presence felt in Romania. Romanians seem to have adapted well to the new market conditions. Not only do they prefer various new food and non-food store formats, but they also visit frequently the new temples of consumerism—shopping centers.

In providing a review of the Romanian retailing, the paper traces its evolution from statist economy typical of the 1970s and 1980s to the capitalist economy. It also points out the changes undergone by this sector (changes of peoples’ consumption habits, diversification of forms and ways of meeting needs, increase of territorial dispersion of shops etc.)

Keywords

Romania, retailing

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1 Introduction

Despite its relatively low standard of living in comparison to that of Western European and other neighboring countries (Figure 1), Romania, located on the outskirts of the EU, represents a thriving market where European retail networks can expand and strengthen their businesses. The penetration of the Romanian market by western retail chains began in the early 90s of the last century (Swoboda et al. 2014). Currently, almost all major European retail chains activate on the Romanian market, with the exception of Tesco, Aldi and Edeka.

Figure 1: Socio-demographic and economic indicators in Romania

Capital city:	Bucharest
Area:	238,391 km^2
Inhabitants (2012):	21.79 milion
Official language:	Romanian
National minorities:	Hungarian (6.5%)
Currency:	RON (1 RON = 0.22 €)
EU accession:	January, 1st 2007
Inflation rate (2013):	5.4%
Inflation rate (2012):	7.00%
GDP/ capita:	6,479 EUR
Economic growth (2012):	0.7%
EU funds absorption rate (2012):	11.5%

Sources: Wikipedia, 2013; ANOFM, 2013; BNR, 2013; INSSE, 2014.

Recent years have brought about an increase in competition, a phenomenon typical of a growing market. No entries of new players on the market took place, but rather a consolidation of the presence of those already there. Thus, in order to draw new customers, they have resorted to opening stores in new locations, in smaller towns, but also in already penetrated cities. Shops can be brand new and rebranded or integrated through acquisitions, mergers or franchise. New market conditions have led to a professionalization of retailing. Thus, the tendency of stores to reorient towards more profitable cities, mainly high traffic areas of shopping centers or in the center of towns, cities or residential neighborhoods became obvious (Dabija and Alt 2012). Finally, one may notice other trends as well, such as the opening of small units (usually discount or proximity) in towns under 50,000 inhabitants; better targeting of consumers through retailers' own brands, most of which being manufactured in Romania and redesigning the interior layout of stores to facilitate customer access to shelves and products (Dabija 2010).

Another strategy adopted by the retail chains is the opening of new retail formats, with special focus on online retailing, and of brick-and-mortar stores. For example, the Metro Cash &

Carry chain launched Metro Punct stores in towns with less than 100,000 inhabitants. These stores are destined for both resellers and orgainzational consumers (Metro Punct 2013). It has also launched the chain of proximity units LaDoiPaşi using the franchise system. In time, Carrefour has acquired various chains of retail units which were integrated in its Carrefour Market chain. In 2011 it also began the rebranding process of Angst, a local chain of proximity shops, in Carrefour Express Angst. In this case, the franchise system was used to combine the strengths of the two networks (Angst 2013). Mega Image decided to bring under the homonym umbrella one of its retail brands, Red Market, together with units absorbed from its competitors and, since 2010, it has developed a new retail concept, the proximity store, Shop & Go (Mega Image 2013). Profi has also developed since 2013 on its own and in franchise the proximity chain Profi City (Profi 2013).

2 Dynamic retrospective of retailing in Romania

In Romania, retail has undergone a sinuous evolution, completely different from the one in the western states. In statist economy, the retail network was mainly classified according to the characteristics of merchandise. Meanwhile, decisions were centrally taken by the Ministry of Interior Trade (Drăguşin 1999, pp. 71-73). In fact, trade enterprises used to be specialized according to very strict rules, divided into retail and wholesale distribution of food products, textiles and footwear, furniture, construction materials, metals and chemicals (Dabija 2010). Such enterprises used to serve the capital city Bucharest, major cities and other administrative-territorial areas. The goals of these enterprises were centrally established as well, mainly by ideological precepts and not by economic ones (Dabija/Alt 2012). Although the prices of all goods were strictly controlled, they did not reflect accurately production costs, labor productivity or economic efficiency.

As an exception, the first department store, Unirea, appeared in the capital city of Romania, Bucharest in 1977. It was designed according to an existing model from countries in the sphere of Soviet influence. Its realization was guided by "Zentrum Berlin" from the German Democratic Republic and "Corvin Áruház" in Budapest, Hungary. This store was originally opened by a German retailer on May 1st, 1926 and reopened in 1945 as a cooperative society. Other department stores that served as models were "Bilalabut" Prague, Czechoslovakia or "Gum" in Moscow, founded in the late nineteenth century, closed by the Bolsheviks and reopened after Stalin's death, on December 24th, 1953. The opening of Unirea department store was followed by further launches of department stores in capital cities of all counties in the country. The intention was that residents of each county in the country may have access to at least one modern temple of retail, at least in form, and serving a propagandist purpose rather than retail. The department store format was meant to define the standard for retail units in the Romanian state economy. The merchandise stock of this type of store was managed according to the criterion of the minimization of circulation costs. The subsistence economy typical of Eastern Europe disregarded concepts such as harmonious decoration of store interior, use of lights and shadows, building a positive image of the store, generating trust, contentment, satisfaction or highlighting the utility of the goods exhibited and sold (Dabija 2010). All these concepts were considered "capitalists" at that time.

Also, at that time the focus was not on assortment diversity and on meeting complex needs, but on providing products that would satisfy as best as possible the needs of the citizens of the socialist economy. The opening of a large department store in any socialist economy was the embodiment of political rather than economic ideals; it may be viewed as the political leaders' desire to show the few western visitors that the gap between the two economic models—statist and capitalist—is not that significant. Moreover, in certain cases, these department stores even carried goods imported from the western countries, but access to them was restricted to foreign diplomats and senior government officials. Based on these facts, it may be stated that in the socialist economy department stores basically represented an exception in retail (Dabija 2010).

The economic "Perestroika" launched in the early 90s of the last century in Romania led to the penetration of the domestic market by new concepts or retail formats. These, unlike their predecessors, mainly put emphasis on the client and the satisfaction of his/her needs. Shifting the focus from "selling products" or "finding customers for the marketed goods" to the proper satisfaction of consumers' needs involved additional costs incurred by the communication with them, raising profound issues of economic efficiency of the retail activity in general. Some of the new retail formats which penetrated the Romanian market rediscovered existing structures. Others, instead, came in a "tell quell" manner, implementing in Romania a retail format which had previously been unknown to ordinary consumers and failing to take into account the specificities of the emerging local market (Dabija 2010). The best example of retail format that does not fit into the mould of the national economy is the cash & carry format, such as Metro or Selgros which, unlike their fellow western counterparts, provide relatively easy access to individual consumers as well (Swoboda et al. 2009, pp. 101-124).

Undoubtedly, the proliferation of European retail formats caused the gradual elimination from the market of classical grocery stores, kiosks and various proximity stores, most of which being family businesses. As Table 1 indicates, the percentage of active retail units of the total number of active units gradually decreased from 69% in 1998 to 38% in 2011. These data support the hypothesis that the retail sector developed quantitatively in the 1990s, and qualitatively after the outbreak of the crisis. As a result of the economic crisis, the number of active units in the country has fallen by 2.8% since 2009 while that of active trade units by 7.7%. Of all units in the country, retail units were the most affected by the crisis. Later on, the situation was balanced out. Thus, the total number of active companies in the country decreased by 9.5% in 2010, then by 8.4% in 2011, while trade ones fell by 8% in 2010 and by 9.2% in 2011.

Table 1: Total number of active enterprises vs. trade enterprises

	1998	2000	2002	2004	2006	2008	2009	2010	2011
Romania	323,790	313,508	322,188	404,339	471,952	534,525	519,441	470,080	430,608
Modification %	-	- 3.2%	-2.8%	+25.5%	+16.7%	+13.3%	-2.8%	-9.5%	-8.4%
Trade	224,287	205,185	181,388	196,222	211,628	214,137	197,611	181,903	165,100
Modification %	-	-8.5%	-11.6%	+8.2%	+7.9%	+1.2%	-7.7%	-8%	-9.2
%	69%	65%	56%	49%	45%	40%	38%	39%	38%

Statistical data refer to: Wholesale and retail; repair of motorcycles and vehicles; transport and storage; hotels and restaurants.
Sources: Romanian Statistical Yearbooks 2006, 2007, 2011, 2012.

Between 2003 and 2006, the number of proximity stores (up to 120 square meters) increased by about 10%. By contrast, their number decreased drastically during the crisis. These units were the most affected by the decline in the purchasing power of consumers and by the increased competition on the part of international retail chains. Consequently, they faced a great decrease in sales. Due to the relatively high prices they charged, many individuals chose to avoid them, probably making their purchases at discounters. Thus, declining sales, combined with high rents and overhead costs generated by central locations, led to reduced profitability. This, in turn, forced retailers to close their doors or merge, join franchised chains or form independent alliances.

This assumption seems to be confirmed by the statistical data presented in Table 2. As highlighted in Table 4, the typical size/area of discounters ranges between 1,000 square meters (Lidl, Penny) and 2,500 square meters (Penny XXL). Their number has steadily increased since 2008. A significant increase (54%) in the number of stores between 400 and 999 square meters may be noticed for the period 2003-2006, but at the outbreak of the crisis (2007-2008) their number diminished considerably, only to increase slightly again after 2009. All segments of stores with an area exceeding 1,000 m^2 (supermarkets, discounters, hypermarkets etc.) have experienced a growth trend starting with 2008. The reason is Romania's accession to the European Union, which led to the removal of barriers against the movement of goods from the other member states. For international retailers, this new market situation was the spark for progressive expansion (Dabija/Alt 2012). After the development and consolidation of a consistent network of shops around the capital, retailers have turned their attention to the major cities of Romania, opening branches in all localities with high potential for attracting customers. As the trade area around some of these cities was large enough, retailers like Metro, Real or Carrefour even opened two homonym units. Previous to the onset of the economic crisis, almost all retail chains promised strong growth in the number of branches. Lately, however, a slowdown in this trend may be noted, largely due to retailers' business development both in the domestic market and in other markets served. The disappearance of local retail chains, the refocus of activity on some national markets, the changes in consumer expectations, etc. brought about a redesign of strategy of the players on the Romanian market, a relative confinement of their activity, an impressive number of acquisitions and/or mergers and a stronger "war" on attracting customers (Dabija et al. 2014).

Table 2: Evolution in the number of stores by area categories

Area category	Number of shops (CAEN Rev. 1)				Number of shops (CAEN Rev.2)			
	2003	2004	2006	2007	2008	2009	2010	2011
Total	135,072	135,003	148,902	144,685	134,878	132,856	133,521	124,407
Up to 120 m^2	127,486	124,727	140,909	137,654	128,290	125,128	125,471	116,526
121-399 m^2	5,942	8,795	5,799	5,328	5,020	5,868	6,070	5,778
400-999 m^2	1,177	1,119	1,817	1,005	976	1,189	1,203	1,277
1,000-2,499 m^2	387	252	242	342	373	406	453	501
2,500-4,999 m^2	38	70	67	116	94	110	158	142
5,000-9,999 m^2	33	25	52	218	92	114	120	129
10,000 m^2 and over	9	15	16	22	33	41	46	54

Sources: Romanian Statistical Yearbooks 2009, 2012.

Changes in retailing are also reflected in the statistics of the past 20 years. Interpretation of statistical data prior to 2000 should be made with caution because they also cover the activity of hotels and restaurants. However, in some cases, the term retail covers not only retail, but also wholesale, repair and maintenance of motor vehicles and of household goods. Trade market is highly fragmented, with multiple players. Fragmentation is more pronounced in wholesale. Aggregate turnover of the top five companies in wholesale represented 5% of the total market in 2011 while that of the top twenty was 10.9% of the market. In retail, the concentration phenomenon is more pronounced: the turnover of the top five players represented 12.1% and that of the top twenty was 31.8% of the total in 2011 (Table 3), but below the levels of 2010.

Table 3: Concentration of retail market

Turnover	2009		2010		2011	
	Top 5	Top 20	Top 5	Top 20	Top 5	Top 20
Retail	5%	10.3%	5.6%	10.9%	5%	10.9%
Wholesale	14.7%	30.9%	15.7%	32.7%	12.1%	31.8%

Sources: Romanian Statistical Yearbooks 2011, 2012.

The initial momentum of opening new retail units began to show the first signs of difficulty in 2011 due to the conflicts between producers and distributors and to those with some Romanian state institutions (Competition Council, Consumer Protection Office, etc.). “Shelf fee”, “top shelf fee”, “promotional fee” (Enache 2005), the insolvency of an international retail chain at the request of a local supplier dissatisfied with its practices; the conflict that broke out in 2012 between the manufacturer of traditional plum jam (“magiun”) Topoloveni and a retail chain (Ilie 2014; Capital 2014) are just some of the situations that have flared up in the press, thus highlighting the tensions in this sector. All hidden fees charged by retail chains are included in the final price of products, being borne by the one who should be the centerpiece of retail—the consumer.

3 Retail formats in Romania

The change of the political regime in the beginning of 1990 brought about the opening of the domestic market for foreign products and international retail chains. Due to the “hunger” for new and the population’s willingness to make purchases, products started to invade stores, but many of these were of very poor quality. In fact, the early years of transition towards the functional market economy have brought a flourishing of itinerant sales, the traders of those times often “selling” merchandise directly from the trunk of the car which had recently returned from abroad. Galloping inflation, strong variation of exchange rates, unstable economic environment and lack of strategic direction represent just some of the features of that period. Gradually, itinerant vendors have begun to open kiosks, boutiques and small shops on the ground floor of the communist blocks of flats, where they tried to group daily use products or those for immediate consumption. Some of these shops were located in high traffic areas and recorded significant turnovers. Therefore, some owners of kiosks and proximity stores began to accumulate investment capital. Thus, they were able to expand the sales areas of their stores, the product assortment, their businesses and to launch several units under the same brand name or under different ones (Dabija/Pop 2013).

The situation of retailing in Romania is still very different from that in Western or Central European countries. Traditional retailing still dominates many of the localities and in some small towns and rural areas it is the only available format. International chains of supermarkets, hypermarkets and cash & carry stores have appeared especially in large cities, as the standard of living has increased. From an absolute exclusivity of state capital in the early 1990s, the situation was exactly the opposite ten years later as state capital was almost nonexistent for 485 stores out of a total of over 36,000. Twenty years after the fall of the

Communist regime, the number of shops where Romanian state still owned shares was less than 200 (Statistical Yearbook of Romania 2012).

The supermarket was the first western retail format introduced on the Romanian retail market by the LaFourmi group in 1991. Three years later, Mega Image supermarkets were introduced in Bucharest and in 1996 Metro Cash & Carry launched its first homonyms stores. The chain expanded rapidly throughout the country due to immediate success generated by high potential for attraction among consumers and by the lack of competition from other modern forms of retail. Consumers were attracted by both the novelty and variety of the format and by the variety of product assortment. The first hypermarket in Romania, Carrefour, was also launched in Bucharest in 2001. It was only in 2003 that Cora, the second chain of hypermarkets, also entered the market in Bucharest, followed by Auchan and Real in 2006. The first discount supermarket—Kaufland—opened in 2001 (Dabija 2010).

3.1 International food retail formats

The domestic market began to be penetrated by the European retail chains in the mid 1990s. This was the spark of change. Many of the small local players were unable to adapt to the market and were forced to exit from it. After the "ice" was broken by Metro (1996), other modern retail formats have appeared one after another: the mall in 1999, the discount stores in 2000, hypermarkets in 2001 and non-food specialized stores in 2002 (Dabija and Alt 2012). Romanians's preference for these formats is clearly demonstrated by several studies and official statistics. Thus, at the beginning of the 21st century only 9% of Romanians made their purchases in hypermarkets, supermarkets and cash & carry stores. However, at the end of the first decade of the 21st century the percentage rose to 30 (Top 100 Companies 2006, p. 130). Nowadays more than half of Romanians (53%) prefer these retail formats for the purchase of food, tobacco, beverages, etc. (Piaţa 2013).

Once Romania's accession to the European Union became imminent, competition intensified sharply. The beginning of the first decade of the 21st century represented the start of the full expansion for modern retail formats. The consolidation phase and inter- and intra-organizational training in the capital city and several other major cities were followed by the opening of new branches in most county capitals. Smaller towns have not been overlooked, but the expansion strategy was characterized by the focus of the retail networks on the size of localities. Both hypermarkets and cash & carry chains (Metro and Selgros) focused on localities with over 100,000 inhabitants while the chains of supermarkets and discount units (Dabija 2010) went for the smaller localities. The first to be approached were the markets of major cities with over 250,000 inhabitants–Braşov, Cluj-Napoca, Iaşi, Constanţa, Timişoara and Craiova. In 2014 there is virtually no Romanian town without at least one food chain store.

Retail chains have used different territorial expansion strategies, depending on the operated retail format, the necessary selling space, the attractiveness of location or the number of visitors (trade area). Since 2006, discount networks Plus (now Lidl) and Profi have been among the stores that have expanded into smaller cities with less than 100,000 inhabitants. In this respect Haţeg, with about 12,000 inhabitants, must be mentioned as the smallest town in Romania penetrated by a retail network. Retail chains that opt for expansion in small localities rely on the price leadership of their own stores versus independent stores, on the relatively wide assortment, on the image and reputation they enjoy and on special offers designed to attract and retain buyers (Piaţa 2013).

From the perspective of the "bridgehead" city for market expansion, we note some important differences between networks. Until recently, companies showed a tendency to make their entry on the market using Bucharest as the gate. Later on, they started their expansion from other cities as well. Baumax and Selgros opened their first stores in Braşov, Profi and Real selected Timişoara and Spar also went for the West of Romania, namely, Arad. Many foreign companies preferred to establish their headquarters in the West of the country, relying on close proximity to the western border and to supply chains and on rising living standards. Some discount stores, such as Minimax Discount also preferred smaller towns such as Slatina, Târgovişte and Urziceni (2004), and in 2008 they opened stores in another small locality, Câmpia Turzii (Dabija/ Pop 2013).

One of the pioneers of market expansion in Romania and one of the largest players in the European retail is the Metro Group. Metro entered the Romanian market in 1996, forming a "bridgehead" in the capital and succeeding throughout its thirteen years of development to launch 23 own subsidiaries and 24 Real hypermarkets (since 2006)—which were sold in 2012 to Auchan Group. Metro has also been noted for the variety of products offered, friendly service and availability of parking lots or for the ambiance of the stores. For many years, Metro provided for the Romanian consumers a true "alternative" to proximity stores (neighborhood or "ABC" shops) whose products were not always of the highest quality. These units often carried only a limited assortment and their price policy was not quite suitable for the pocket of the Romanians. Unlike Western countries, where individual customers do not have access to these stores, in emerging markets—such as Romania—the company's policy allows domestic consumers to make purchases (Swoboda et al. 2009). In fact, recent studies indicate a clear positioning of this retail format in the mind of Romanian consumers (Swoboda et al. 2014).

Willing to adapt to local consumer demands, but mostly due to careful expansionary policies, Metro Cash & Carry network decided in 2010 to open a new retail format for all entrepreneurs—Metro Punct. These units are located in smaller cities or regions with a population of approximately 100,000 inhabitants, offering the same wide assortment and the same services as does Metro Cash & Carry. Currently, Metro Punct chain includes six stores (see Table 4).

Becoming aware of these facts, other European retailers began to turn their attention to Romania. The German group Rewe penetrated the Romanian market with the segments Selgros Cash & Carry (in 2001), Billa supermarkets (1999) and the discount stores Penny and Penny XXL (in 2005). In order to increase its expansion rate and presence in as many cities as possible, Rewe also resorted to some purchases. In January 2007, five XXL Megadiscount stores became Penny Market XXL (Revista Piaţa, 2009).

Carrefour penetrated the Romanian market with the hypermarket format in 2000, but preferred to capture only the capital city. It was only in November 2007, with the acquisition of Artima chain, that Carrefour Romania started to make its presence felt on the entire geographical market, first with Carrefour Market supermarkets and then with Carrefour Express chain of proximity units, made up of both own units and franchised units. The Belgian Group Delhaize, represented in Romania as early as 2000 by Mega Image supermarkets, also resorted to acquisitions, buying LaFourmi chain in March 2008, followed by the acquisition of other local networks. The Belgian network Louis Delhaize also decided to take over local network Albinuța (Bucharest) and to rebrand it Profi, a discount chain. After the Profi network was acquired by Enterprise Investors, Poland, Profi's profile was modified to supermarket and a network of proximity units was also launched—Profi City and Profi Mall (large supermarket integrated in shopping centers of less than 100,000 m^2). Profi is also the retail chain that opened a concept store in 2013, "Ice Store", dedicated to winter holidays, which operated in Bucharest between St. Nicholas (December 6th) and Christmas (Profi 2014; Abrudan 2012).

Cora hypermarkets (Louis Delhaize) and Auchan initially focused only on Bucharest. It was only later when they became aware of the potential of the province. Auchan group eventually acquired Real units. An expansionary strategy was pursued by the German group Lidl/Schwarz as well. It penetrated the Romanian market with both Kaufland network of supermarkets/ hypermarkets and with Lidl discount units. The smaller area of Kaufland stores, compared to that of other hypermarkets, the expansionary strategy and their location in the center of urban areas or neighborhoods are grounds for placing the Kaufland stores in the category of supermarkets rather than hypermarkets (Dabija/Alt 2012; Dabija 2013).

The economic crisis led to increased development of smaller retail formats (supermarkets, proximity stores, specialized stores, discount stores) to the detriment of hypermarkets and large specialty shops. In fact, the number of new openings of supermarkets and proximity stores is much higher than that of hypermarkets (Romanian Hypermarkets 2014). Thus, the market share of the international food and near-food retail chains rose from merely 10% in 2000 to 49% in 2012 and 53% in 2013 (Roşca 2013), but still below the average of the countries in the region (Poland, Hungary and Czech Republic), where the market share is around 60%. According to experts, our country's situation is similar to that of other European countries, but only that it is ten years behind them. Broken down into formats of modern retail, the situation is as follows: 3% is covered by hypermarkets, 9% by supermarkets, 1% by cash & carry and 35% by proximity stores (Romanian Consumer 2014).

Table 4 provides an overview of the most important European retailers operating in Romania in 2014. It comprises formats of retail units, country of origin, the year of entry on the Romanian market, turnover in 2012, number of employees in 2012 and the number of stores in 2014. It also presents some characteristics of the chains, such as location, number of SKUs, assortment structure or price level.

Table 4: Foreign retail formats in food retailing in 2014

Retail network	Format	Company, country of origin, year of entry	Turnover 2012 (mil €)	No. of stores (2014)	No. of employees	Characteristics (location, sales area, number of SKUs, structure of assortment, price level)
Mega Image	Supermarket			168		Proximity, 500-1,500 m², 3,500-6,000 SKUs, dominant food, high level of prices
Shop&Go	Proximity			134		Proximity, 100 – 300 m², 2,000 SKUs, mainly food, high prices
AB Cool Foods	Proximity	Delhaize Group Belgium, 1995, 2010, 2013, 2014	394	1	5,700	Proximity, 50 – 150 m², 500 SKUs, mainly food, high level of prices
Concept Store Mega Image	Supermarket			2		Proximity, 1,500 – 2,500 m², 2,000 – 4,000 SKUs, high level of prices
Home Delivery				1		Starting with 2014
Metro Cash & Carry	Cash & carry			26		Access by car/ out of towns, 7,500 m², 37,500 SKUs, average prices
Metro Punct	Cash & carry small format	Metro Group, Germany, 1996, 2010, 2012	977	6	5,325	Out of smaller towns or of areas with 100,000 inhabitants, 2,000 – 2,500 m², 4,000 – 5,000 SKUs, average prices
Metro Office Direct	Online			1		Beggining with 2012, 24 h delivery online payment and cash on delivery
LaDoiPași	Proximity			698	-	Proximiy, 200 m², more than 1,500 SKUs, high price level

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Billa (Eurobilla)	Supermarket	Rewe Group, Austria, 1999, Germany 2001, 2005	284	80	3,500 (2014)	Proximity, 1,500-3,500 m^2, 4,000-7,500 SKUs, dominant food, high price level
XXL Mega Discount	Discounter		432	7	2,700	Proximity, 2,500 m^2, 8,000-10,000 SKUs, mainly food, average prices
Penny				148		Proximity, 750-1,000 m^2, 2,000 SKUs, food, average prices
Profi	Supermarket	Enterprise Investors, Poland 1999, 2012, 2013	259	191	Approx. 5,500 (2014)	Proximity, 500 m^2, 5,000 SKUs, mainly food, low prices
Profi City	Proximity			16		Proximity, 180 – 300 m^2
Profi Mall	Supermarket			1		Accessible by car, 600 – 700 m^2, 5,000 SKUs
Carrefour	Hypermarket	Carrefour, France, 2000, 2007, 2010	962	25	Approx. 10,000	Accessible by car, 8,500-13,000 m^2, 33,000-50,000 SKUs, average prices
Carrefour Market	Supermarket		157	79		Proximity, 600-1,500 m^2, 7,000 SKUs, 1,000 own brand, high prices
Carrefour Express	Proximity		33	64		Proximity, 100-500 m^2, 1,000 – 4,000 SKUs, high prices
Carrefour Online	Online		-	1	-	Beggining with 2013, 24h delivery, online payment and cash on delivery, 7,000 SKUs
Selgros	Cash & carry	Trans Gourmet, Germany, 2001	773	19	Over 4,200	Out of town, 10,000 m^2, 42,000 SKUs, food/ non-food, average prices
Cora	Hypermarket	Louis Delhaize, Belgium, 2003, 2013	359	12	4,000	Accessible by car, 9,000-11,000 m^2, 50,000-65,000 SKUs, low prices
Cora Drive	Drive in			1	7	Available only for Cora Lujerului, Bucharest, since December 2013, 10,000 SKUs, processes up to 150 orders/ day
Cora Online	Online			1	-	Beggining with 2013, 24 h delivery, online payment and cash on delivery, 10,000 SKUs
Kaufland	Category Killer	Lidl/Schwarz, Germany, 2005	1,350	92	Over 12,000	Proximity, 4,500-8,000 m^2, 15,000-20,000 SKUs, low prices
Lidl	Discounter	2007	471	174	Over 3,500	Proximity, 900-1,000 m^2, 1,500 SKUs, low prices
Auchan	Hypermarket	Auchan, France, 2006, Ex- Real, 2006	1030 (2013)	31	8,460 (July 2013)	Accessible by car, 7,500-12,500 m^2, over 50,000 SKUs, average prices

Sources: IGD, M&M EURO Data; Collection of Piaţa Magazines; Website of companies; own research; Swoboda et al. 2009; Dabija 2013; Dabija/Alt 2012; Economica Net 2014; Romanian Finance Ministry 2014; Risco 2014.

3.2 Local food retail formats

Undoubtedly, retail networks from Western Europe have not been the only retail enterprises which influenced the Romanian food market and its buyers. A number of local initiatives have also been observed since the opening of the market during the 1990s. Although local retail networks were quickly accepted by the public, due to the lack of experience of their investors, the decision to diversify their activities, often focusing not only on retail but also on other strategic directions, the lack of adaptation to consumers' preferences, the sometimes incomplete offer, the overvaluation of the expansion capacity, some of them enjoyed a period of “glory” of just a few years. Retail networks which seemed promising, real “stars” of the local trade—such as Trident, Ethis or Pic—and inaugurated unit after unit are history today (Dabija 2013; Dabija/Alt 2012).

Moreover, these networks had initially opened only supermarkets. Instead of strengthening their growth while in full economic boom, they announced the opening of new retail formats—hypermarkets and even shopping centers (Trident). In other cases, the lack of a clear strategic vision and of financial resources or the desire of the owner to attain more profit determined the sale of other retail networks (Artima to Carrefour, Albinuţa to Profi). Table 5 provides an overview of the main retail networks of unspecialized stores that have “survived” the economic crisis. Due to the large number of such networks, only those which recorded a turnover of at least 10 million lei (about 2.5 million euros) in 2012 or had at least 10 branches were taken into consideration.

Table 5: Local food retail chains

Retail brand of network (Company)	**Reatail format**	**Year of entry**	**Turnover (mil. € 2012)**	**No. of stores (2014)**	**No. of employees (2014)**	**Main characteristics**
Angst	Supermarket	Ilfov, 1993	41.91	24	645 (2012)	Proximity, under 500 m^2, 1,000 SKUs, rebranded Carrefour Express Angst
Annabella	Supermarket, proximity	Vâlcea, 1994,	0.45	46		Proximity, 1,000 SKUs, 100-800 m^2
Fresh	Specialised, proximity	2012, 2014		6	Over 1000	Fruits and vegetables
Annabella A-Z	Supermarket			1		2,000 m^2
Carmolimp	Between discounter and supermarket	Braşov, 1991	n.a.	110	1000 (group)	n.a.
CBA (CBA Nord-Vest)	Proximity	Satu Mare, 2002	11	113	82	Proximity, common acquisitions, various brands, mostly 100-300 m^2, 500-1,000 SKUs, mainly food, high prices
CE Market		Galaţi, 2009	23 (group)	21 (2013)	124 (2012)	50-700 m^2, 4,000 SKUs, food and non-food
CrisTim	Proximity	Bucureşti	n.a.	17	n.a.	n.a.
Dia Market (Chais)	Supermarket	Cluj, 2002	3.4	1	65 (2011)	Proximity
Diana	Supermarket	Vâlcea, 1991	79	27 (July 2013)	532 (2012) (group)	Proximity, small localities
Dobrogea Fresh	Proximity	Constanţa, 1998	0.114	19	1	Proximity
Jam	Supermarket	Argeş, 2002,	5	2	n.a.	Urban areas,7,000-8,000 articles, 600-650 m^2
Market Jam	Proximity	2003	1.1	4	n.a.	Rural areas, 4,000-5,000 SKUs
Luca	Supermarket,	Braşov	28.41	3	n.a.	n.a.
	Proximity			12	n.a.	Proximity, 100-500 m^2, 1,000 SKUs
Nova Tim	Supermarket	Timiş, 1991	8.16	5	130	n.a.
	Online	2013				n.a.

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Succes (Succes Nic Com)	Proximity, supermarket	Gorj,1994	65 (2011)	200 (2013)	Over 1,000	80-900 m^2, 2,500-7,000 SKUs
Succes (Succes Nic Com)	Hypermarket	Gorj, 2013		1	n.a.	7,500 m^2
Trei G (Trei G Retail)	Supermarket	Bihor, 1991	114.9	7	Over 350	Proximity, 500-3,000 m^2, 8,000 SKUs, food and non-food
Unicarm	Supermarket	Satu Mare, 2005	143.8 (group)	78	2573 (group)	500-1,300 m^2, 1,500 SKUs, food and near food, high prices
Vel Pitar (VP Magassin)	Proximity	Bucharest, 2000	7.05	157	404	Under 500 m^2, 1,000 SKUs

n.a. = not available data;

Sources: Collection of Piaţa Magazines; Website of companiesWall Street Journal; Economica Net, 2014; Romanian Finance Ministry, 2014; Risco, 2014; Dabija/Alt, 2012; Dabija, 2013.

As shown in Table 5 above, all these retail networks mainly operate two retail formats—proximity stores and supermarkets—hypermarkets and online shops representing an exception to the rule. Most shops are small, providing a narrow range of products. Their main advantage, by comparison to hypermarkets, is the assisted selling and professional counseling.

3.3 Non-food retail formats

In addition to food retail formats, the Romanian market is also characterized by retail formats that market non-food goods. The most important networks of DIY stores, electronics & IT, furniture and drugstores are presented in Table 6. Certainly, an important element in the expansion of specialized retail chains (non-food) is the opening of shopping centers of various sizes that "host" such units in particular and a large number of big food stores that act as "anchors" for shopping centers (attracting customers) (Abrudan 2011). Retail formats that sell food items are supplemented by (Swoboda/Giersch 2003, pp.6-10):

- Convenience stores, represented by gas stations which include food and non-food products and serve cooked meals (Petrom, OMV);
- Specialized stores:
  - Fashion: Bigotti, Calvin Klein, Debenhams, Jolidon, Lee Cooper, Levi's, Marks & Spencer, New Yorker, Steilmann, United Colors of Benetton;
  - Furniture: Ikea, MOBEXPERT;
  - DIY: Ambient, Arabesque, Baumaxx, Bricostore, Praktiker, Romstal;
  - Stationery and bookstores: Cărtureşti, Diverta, Humanitas, Libri, Gaudeamus;
  - Electronics and IT: Altex, Depozitul de calculatoare, Domo, Flanco, Intend, Media Galaxy, Emag;
  - Drugstores: dm;
  - Pharmacies: Pharma Life, Sensiblu, New Life, Help Net, Catena.

Table 6: Retail chains in non-food retailing

Retail brand (Company)	**Format**	**Country of origin, year of entry**	**Turnover 2012 (mil €)**	**No. of stores (2014)**	**No. of employees (2012)**	**Main characteristics**
Ambient	DIY	Romania, 1993	150.4	16	1505	n.a.
Arabesque + online	DIY	Romania, 1994	353.16	18	2468	30000 SKUs, 10,000 m^2
Baumax	DIY	Austria, 2006	123.26	15	1165	15,000 m^2
Bricostore	DIY	France, 2002 (Kingfisher, Great Britain, 2013)	86.3 (2013)	13	1037 (2013)	7,500-10,000 m^2
Brico Depot		Great Britain, 2013		2		7,500-10,000 m^2, 12000 SKUs
Dedeman	DIY	Romania, 1992	544.30	37	Over 6770 (2014)	11,000-15,000 m^2, 45,000 SKUs
Hornbach	DIY	Germany, 2010	90.82	5	598	24,000 m^2, low prices
Leroy Merlin	DIY	France, 2011	21.17	1	192	16,500 m^2, 40,000 SKUs
Mr. Bricolage	DIY	France, 2006	14.32	3	242	6,000-10,000 m^2, 40,000 SKUs
Obi	DIY	Germany, 2008	41.16	7	636	8,000-10,000 m^2
Praktiker	DIY	Germany, 2002 Turkey, 2014 (Search Chemicals)	146.66	27	1744	4,300-8,500 m^2, 40,000 SKUs
Ikea	Furniture	Sweden, 2007	n.a.	1	n.a.	26,000 m^2
Mobexpert + online	Furniture	Romania, 1993	16.68	28	155	6,000-16,000 m^2
Elvila	Furniture	Romania, 1990	60.15 (group)	20	1141 (group)	3,000-4,000 m^2
Kika	Furniture	Austria, 2008	11.35 (2010)	1	128 (2010)	27,000 m^2, 50,000 articles
Neoset	Furniture	Greece, 1991	0.184	5	6	n.a.
Lem’s	Furniture	Romania, 1991	51.3 (2013)	89 (franchise) +15 (partners)	1350 (group)	500-600 m^2
Casa Rusu	Furniture	Romania, 2009	10.44	26	157	1,000-4,500 m^2
Altex+online	Electronics	Romania, 1992	255.66	78	1659	1,500-2,000 m^2, 12,000 SKUs
Media Galaxy +online	Electronics	Romania, 2004		16	1.000	2,500-3,000 m^2, 10,000 SKUs
Domo +online Domo outlet	Electronics	Romania, 1994	124.73	126 1	1253	2,000-3,000 m^2 n.a.
Elanko +online	Electronics	Romania, 2001	3.63	10	47	n.a.
Emag	Electronics	Romania, 2001	154.7	Online + 10	350	

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PC Garage PCfun ShopIT ElectroFun Garagemall	Electronics	Romania, 2005 (PC Garage)	16.92	Online	48	30,000 SKUs 12,000 SKUs n.a. n.a. n.a.
(DC-shop.ro) (Corsar online) Cel.ro	Electronics	Romania, Corsar Online	19.68	Online Online	50	n.a. n.a.
Flanco/Flanco World+online	Electronice	Romania, 1992	137.56	80	900 (2013)	500-1,000 m^2 , 30,000 SKUs
Practic Electrocasnice	Electronice	Romania, 1995	5.83	8	37	n.a.
DM	Drugstore	Germany, 2007	30	65	Approx. 500	Proximity, 250-500 m^2, 12,000 SKUs
Diverta+online	Stationery	Romania, 1995	0.134	23	1108	n.a.
Benvenuti+online Enzo Bertini	Footwear	Romania, 2004, 2013	15.2 (2013)	42 2	Over 250	n.a. n.a.
Leonardo+online	Footwear	Romania, 1994	49.62	90	n.a.	n.a.
Deichmann	Footwear	Germany	55 (2013)	65	517 (2013)	450-500 m^2
C&A	Textiles	Holland, 2009	42.33	28	185	800-2,000 m^2
H & M	Textiles & Footwear	Sweden, 2011	85.07 (2013)	30	526 (2013)	1,800-2,500 m^2
Takko	Textiles	Germany, 2007	26.31	60	n.a.	500 m^2
Inditex (Zara, Zara Home, Bershka, Pull&Bear, Stradivarius, Oysho, Massimo Dutti) +Zara online	Textiles & Footwear	Spain, 2007, 2014	150.6	88 (20, 3, 17, 18, 17, 6, 7) (2012)	1566	n.a.
Jolidon + online	Textiles	Romania, 1998, 2012	21.73 (group)	87	Over 2500 (group) (2013)	n.a.

n.a. = not available data

Sources: Collection of Piaţa Magazines; Website of companiesWall Street Journal; Economica Net 2014; Romanian Finance Ministery 2014; Risco 2014; Dabija/Alt 2012; Dabija 2013.

3.4 Innovation in Romanian retail

Given the intense competition on the market of the main towns and cities, investors are forced to think more thoroughly about increasing their comparative competitiveness. Such a perspective can only be implemented through careful research of motivational behavior of Romanian customers and by establishing a hierarchy of influence factors that shape the purchase decision making. The illusion that this decision is mainly impulsive, generated by promotional factors, has been clearly invalidated by practice on several occasions. Factors underlying the purchase decision are more numerous and complex. To differentiate more clearly in the eyes of buyers, international networks have attempted to both systematize and simplify the retail landscape by reducing the number of existing retail brands, with the aid of franchising, acquisitions, mergers, etc.They have also tried to communicate more consistently, continuously and coherently the attributes of the chains owned and clearly deliniate the formats within the same company. Gradually, all retail enterprises, whether foreign or domestic, have tried to innovate in various forms the formats operated, in order to provide buyers with a consistent shopping experience. Innovation in retail is not just about technique or technology; it refers to any aspect of a company: administration, marketing, organization etc. (Dabija 2013).

Likewise, in order to have access to more customers, retailers' strategies take various directions. In addition to territorial expansion of chains, testing new retail concepts and inclusion of new retail services may be noticed. Moreover, the strong focus of the existing brick-and-mortar chains on penetrating the online channel has been manifest since 2012. In 2013 the first two major projects in the segment of online food retail have been launched by Carrefour and Cora (Cora Drive In 2014), and the shopping basket may be delivered to customer's home or can be picked up in the store. Metro Cash & Carry chain has an online store that caters to businesses. Auchan also intends to launch in Romania a division of e-retail and so does Mega Image (Online Shopping 2014).

For non-food retail chains, especially for electronics stores, online stores and descriptive websites that provide detailed information of products and services represent the rule and not the exception, as can be seen in Table 6.

4 Shopping centres, the center of social life in today's Romania

The first generation of shopping centers in Romania was developed on the skeleton of communist department stores, found in every county capital after their privatization in the early 1990s. The first modern shopping center was opened in Bucharest in 1999—București Mall. After this first shopping center format, hypermarket-anchored shopping centers and later on hybrid ones (combination between shopping malls and large specialized stores) began to appear (JonesLangLaSalle 2008, p. 7; Abrudan 2012).

Accurate assessment of the number of shopping centers in Romania, of their total area or of their leasable space is very difficult to carry out, since many of the shopping centers do not own a website or are unwilling to provide this information. Also, retail market research companies only refer either to malls, thus excluding other shopping center formats or shopping centers, or to the entire class of modern retail units, which include retailers that are not shopping centers. For this reason, official statistics leave out a large proportion of shopping centers. Table 7 presents an almost exhaustive list of Romanian shopping centers, being the result of autors' own research and field documentation.

Table 7: Shopping centers in Romania

County	Brand/ Format (locality)					
ALBA	**Alba Mall**	**Kaufland**	**Retail Park Alba**	**Unirea City Center**	**Galeriile Leul de Aur (Sebeș)**	
	Mall	Proximity	Retail park	Communiy	Community	
ARAD	**AFI Arad Palace**	**Armonia Center**	**Atrium Center**	**Galleria Mall Arad**	**Gemi Center**	**Grand Center**	**Jackson Arad**
	Mall	Retail park	Mall	Mall	Proximity	Proximity	Community
	Kaufland	**Mercury**	**Real**	**Ziridava Sh. C.**	**Universal Criș (Chișineu Criș)**		
	Proximity	Proximity	Community	Community	Community		
ARGEȘ	**Allegria Mall**	**Euromall Piteşti**	**Iris Sh. C.**	**Jupiter City**	**Kaufland Craiova**	**Kaufland Nord**	**Pitești Retail Park**
	Mall	Mall	Community	Retail park	Proximity	Proximity	Retail park
	Arcade	**Trivale Mall**	**Kaufland (Câmpulung Muscel)**	**Kaufland (Curtea de Argeș)**	**Kaufland (Mioveni)**		
	Community	Mall	Communiy	Community	Community		
BACĂU	**Arena Mall**	**Central Plaza Bacău**	**Centrul comercial Romalion**	**Galeriile Adal**	**Hello Shopping Park Bacău**	**Kaufland**	**Luceafărul Sh. C.**
	Mall	Community	Proximity	Community	Retail park	Proximity	Community
	Auchan	**Kaufland (Comănești)**	**Kaufland (Onești)**	**Victoria Sh. C. (Onești)**			
	Community	Community	Community	Community			
BIHOR	**Crișul Sh.C.**	**Era Shopping Park**	**Kaufland**	**Lotus Center**	**Oradea Plaza**	**Oradea Shopping City**	**Arcade Oradea Sud**
	Community	Retail park	Proximity	Mall	Community	Mall	Community
	Real Episcopia						
	Community						
BISTRIȚA NĂSĂUD	**Complexul Cibela**	**Galleria Bistriţa**	**Kaufland Calea Moldovei**	**Kaufland Independenței**	**Shopping Center**	**Winmarkt Măgura**	
	Community	Community	Proximity	Proximity	Community	Proximity	
BOTOȘANI	**Botoșani Sh. C.**	**Carisma Center**	**European Retail Park**	**Kaufland**	**Complex Comercial TATI**	**Tratoria Center**	**Uvertura Mall**
	Community	Proximity	Retail park	Proximity	Community	Proximity	Mall
BRAȘOV	**Brașov Retail Park**	**Centrul comercial Brintex**	**Centrul comercial Carrefour**	**Eliana Mall**	**Galeriile Corona**	**Galeriile Kronstadt**	**Kaufland**
	Retail park	Community	Community	Mall	Community	Community	Proximity
	Macro Mall	**Magnolia Sh. C.**	**My Space**	**Orizont 3000**	**Retail Park Brașov**	**Star**	**Unirea Sh. C.**
	Mall	Community	Community	Community	Retail park	Community	Mall
	Kaufland (Făgăraș)						
	Community						

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BRĂILA	**Doraly Mall**	**European Retail Park**	**Kaufland**	**Promenada Mall**	**Winmarkt Dunărea**		
	Mall	Retail park	Proximity	Mall	Proximity		
BUCUREȘTI-ILFOV	**AFI Palace Cotroceni**	**Băneasa Shopping City**	**București Mall**	**Carrefour Colentina**	**Carrefour Orhideea**	**Cocor**	**Complex Comercial Flipper**
	Mall	Mall	Mall	Mall	Community	Community	Community
	Complex Comercial Sir	**Complex Comercial Sam Expo**	**Cora Pantelimon**	**Galeria comercială Esplanada**	**Grand Arena**	**Grant Sh. C.**	**Kaufland Obor**
	Community	Community	Community	Community	Mall	Community	Proximity
	Kaufland Colentina	**Kaufland Floreasca**	**Plaza România**	**Mario Plaza**	**Militari Sh. C.**	**Arcade Berceni**	**Arcade Vitan**
	Proximity	Proximity	Mall	Mall	Community	Community	Community
	Sun Plaza	**Unirea Sh. C.**	**Victoria Sh. C.**				
	Mall	Community	Community				
	Dragonul Roșu	**Fashion House**	**Galeria Jolie Ville**	Arcade Pallady	**Kaufland Barbu Văcărescu**	**Kaufland Sebastian**	
	Outlet	Outlet	Specialised	Community	Proximity	Proximity	
BUZĂU	**Aurora Shopping Mall**	**Galleria Buzău**	**Kaufland**	**Winmarkt Dacia**			
	Mall	Mall	Proximity	Proximity			
CARAȘ-SEVERIN	**Carrefour**	**Kaufland**	**Nera Sh. C.**				
	Community	Proximity	Community				
CĂLĂRAȘI	**Călărași Retail Park**	**Kaufland**	**Orizont**				
	Retail park	Proximity	Community				
CLUJ	**Central**	**Cora**	**Multiplex Leul**	**Iulius Mall**	**Kaufland Mănăștur**	**Kaufland Mărăști**	**Piața Mărăști**
	Community	Community	Community	Mall	Proximity	Proximity	Community
	Polus Center	**Arcade Cluj**	**Sigma Sh. C.**	**Sora Sh. C.**	**Winmarkt Someș**	**Solaris Sh. C. (Câmpia Turzii)**	**Big (Dej)**
	Mall	Community	Proximity	Proximity	Proximity	Outlet	Community
	Kaufland (Turda)	**Winmarkt (Turda)**					
	Community	Community					
CONSTANȚA	**Centrul comercial Tom**	**City Park**	**Corall**	**Doraly Mall**	**Kaufland**	**Maritimo Shopping Center**	**Marvimex Shopping Center**
	Community	Mall	Community	Community	Proximity	Mall	Community
	Real Nord	**Arcade Sud**	**Tomis Mall**				
	Community	Community	Mall				
COVASNA	**Kaufland**	**Sugas**	**Kaufland (Târgu Secuiesc)**	Centrul Comercial Orion			
	Proximity	Community	Community	Community			

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Continuation

DÂMBOVIȚA	**Kaufland**						
	Proximitate						
DOLJ	**Centrul Comercial Bănie**	**Electroputere Parc**	**Kaufland Cernele**	**Kaufland Rovine**	**Centrul comercial Mercur**		
	Community	Mall	Proximity	Proximity	Community		
GALAȚI	**Home Center**	**Kaufland Micro 21**	**Kaufland Micro 39**	**Winmarkt Modern Grand Center**	**Arcade**	**Kaufland (Tecuci)**	
	Proximity	Proximity	Proximity	Community	Community	Community	
GIURGIU	**Carrefour**	**Family Center**	**Kaufland**	**Mall Rousse**	**7 Stars Mall**		
	Community	Community	Proximity	Mall	Mall		
GORJ	**Complex Parâng**	**Complex Rodna**	**Complex Romarta**	**Kaufland**			
	Community	Community	Community	Community			
HARGHITA	**Kaufland**	**Tulipan**	**Kaufland (Odorheiu Secuiesc)**	**Merkur (Odorheiu Secuiesc)**	**Kaufland (Gheorgheni)**	**Slager Center (Gheorgheni)**	
	Community	Community	Community	Proximity	Community	Community	
HUNEDOARA	**Kaufland**	**Galleria Deva**	**Ulpia Sh. C.**	**Kaufland (Hunedoara)**	**Kaufland (Orăștie)**	**Jiul Sh. C. (Petroșani)**	
	Community	Community	Community	Community	Community	Community	
IALOMIȚA	**Ialomița Comind**	**Kaufland**					
	Community	Proximity					
IAȘI	**Axa Niciman Sh. C.**	**Centrul Comercial Felicia**	**Centrul Comercial Phoenix**	**Era Shopping Park**	**Kaufland Pavlov**	**Kaufland Păcurari**	**Kaufland Varlaam**
	Proximity	Community	Proximity	Retail park	Proximity	Proximity	Proximity
	Hala Centrală	**Iulius Mall**	**Moldova Mall**	**Palas Mall**			
	Community	Mall	Mall	Mall			
MARAMUREȘ	**Center**	**Gold Plaza**	**Kaufland George Coșbuc**	**Kaufland Unirii**	**Maramureșul Sh. C.**	**Arcade**	**Kaufland (Sighetu Marmației)**
	Community	Mall	Proximity	Proximity	Community	Community	Community
MEHEDINȚI	**Centrul comercial Fortuna**	**Cora**	**Decebal Sh. C.**	**Kaufland**	**Severin Sh. C.**		
	Proximity	Community	Community	Proximity	Mall		
MUREȘ	**Kaufland**	**Mureș Mall**	**Promenada Mall**	**Arcade**	**Regin Sh. C. (Reghin)**	**Sighișoara Mall (Sighișoara)**	
	Proximity	Mall	Mall	Community	Community	Community	
NEAMȚ	**Galleria Mall**	**Kaufland**	**Mall Forum Center**	**Winmarkt Pedrodava**	**Centrul Comercial Unic**	**Big Pietricica**	**Orion**
	Mall	Proximity	Mall	Community	Proximity	Community	Proximity
	Kaufland (Roman)	**Mall Terra Center (Roman)**	**Kaufland (Târgu Neamț)**				
	Community	Community	Community				

to be continued

Continuation

OLT	**Kaufland** Proximity	**Winmarkt Oltul** Community					
PRAHOVA	**Kaufland Nord** Proximity	**Kaufland Vest** Proximity	**Mall Sh. C.** Community	**Arcade** Community	**Winmarkt Big** Proximity	**Winmarkt Grand Center** Mall	**Winmarkt Junior** Proximity
	Winmarkt Omnia Community	**Centrul Comercial Coștila (Bușteni)** Community	**Kaufland (Câmpina)** Community				
SATU-MARE	**Grand Mall** Community	**Kaufland** Proximity	**Plaza Europa** Community	**Arcade** Community	**Someșul Mall** Community	**Kaufland (Carei)** Community	
SĂLAJ	**Activ Plazza** Community	**Complex Comercial Silvania** Community	**Kaufland** Community				
SIBIU	**Carrefour** Community	**Complex comercial Dumbrava** Community	**Galeriile comerciale Pacea** Community	**Kaufland** Proximity	**Luxury Gallery Sibiu** Community	**Promenada Mall** Mall	**Arcade** Community
	Shopping City Retail park	**Kaufland (Mediaș)** Community					
SUCEAVA	**Akrom Akal** Community	**Bucovina** Proximity	**Centrul Comercial Zimbru** Proximity	**Galleria Suceava** Community	**Iulius Mall** Mall	**Kaufland** Proximity	**Real** Community
	Suceava Shopping City Mall	**Kaufland (Vatra Dornei)** Community					
TELEORMAN	**Kaufland** Community	**Winmarkt Crinul Nou** Community					
TIMIȘ	**Bega** Community	**Euro** Community	**Galleria 1** Community	**Iulius Mall** Mall	**Kapa Center** Community	**Kaufland Damaschin Bojinca** Proximity	**Kaufland Gheorghe Lazăr** Proximity
	Arcade Sud Community	**Terra** Community					
TULCEA	**Coral Plaza Mall** Mall	**Winmarkt Diana** Community					
VASLUI	**Kaufland** Proximity	**Proxima Sh. C.** Mall	**Silver Mall** Mall	**Winmarkt Central Mall** Community			
VÂLCEA	**Kaufland** Proximity	**River Plaza Mall** Mall	**Winmarkt Cozia Sh. C.** Proximity				
VRANCEA	**Complex Comercial Onasis** Community	**European Retail Park Focșani** Retail park	**Promenada Mall** Mall				

Sources: Abrudan 2012; Abrudan 2011; Abrudan/Dabija 2009; Abrudan/Plăiaș 2013.

The pace of development of shopping centers outside the capital city has been much faster than in Central Europe because, on the one hand, developers had already accumulated considerable experience, foreseeing the consumption potential of secondary and tertiary towns, and, on the other hand, because short-term development opportunities became increasingly scarce and had to be taken into account the ones with long term potential (JonesLangLaSalle 2008, p. 9). As regards the formats of shopping centers inaugurated, malls are predominant, followed by community, proximity and retail parks, while outlet centers are almost nonexistent. The first outlet center opened in Bucharest in December 2008. Because large cities are close to saturation, it is advisable for investors to target smaller towns of less than 100,000 inhabitants with smaller shopping centers, such as Kaufland shopping galleries (Abrudan/Plăiaș 2013).

5 Retailing from a statistical data perspective

Changes in retailing are also reflected in the statistics of the last 20 years. Interpretation of statistical data prior to 2000 should be done with caution because they cover hotels and restaurants as well. However, in some cases, the term commerce covers not only retail, but also wholesale, repair and maintenance of motor vehicles and household goods.

5.1 Gross domestic product in retail

Literature considers that the share of retail in GDP increases as a result of deepening specialization when the country's level of development is low. The share of trade decreases at high development levels when there is no longer any profitability growth, as a result of economies of scale and of fewer possibilities to replace in consumption other products and services. The relationship between economic development and retail can be described by a function with a reversed "U" shape. Based on this assumption and on the fact that the retail sector in Romania is developing, we can predict that the medium-term contribution of the retail sector to GDP will increase in Romania (Tachiciu 2003, p. 128).

Table 8: Evolution of retail sector in gross domestic product (GDP)

	2008	2009	2010	2011
GDP	114,377	111,364.31	116,376,29	123,712.98
Wholesale and retail; repair of motorcycles and vehicles; transport and storage; hotels and restaurants	22,131.96	20,968.78	15,497,87	13,947.6
%	19.35%	18.83%	13.31%	11.27%

Note: Figures in million euro, current prices
Source: Statistical Yearbook of Romania 2012, p. 325.

Bucharest's contribution to the overall development of retail sector has been and still is significant for the analysed period, reaching a high peak of 28.81% in 2008. This is followed by the North-West Development Region, with a maximum contribution of 12.31% in the same year and by the South region, with a maximum of 12.93% in 2010, thus surpassing the North-West region. South-West Development Region has the least contribution of retail sector to gross domestic product, of only 7.1% in 2010.

Table 9: Evolution of the share of trade in GDP by development regions

Development regions and their counties	2008	%	2009	%	2010	%
North-West (Bihor, Bistrița-Năsăud, Cluj, Maramureș, Satu Mare, Sălaj)	12260.6	12.31	11589.7	12.28	8205.6	11.77
Center (Alba, Brașov, Covasna, Harghita, Mureș, Sibiu)	10796.1	10.84	10469.8	11.1	7125.2	10.22
North-East (Bacău, Botoșani, Iași, Neamț, Suceava, Vaslui)	10366.6	10.41	10182.1	10.79	7337,4	10.52
South-East (Brăila, Buzău, Constanța, Galași, Tulcea, Vrancea)	9973.7	10.01	9749.3	10.33	6885.6	9.87
South-Muntenia (Argeș, Călărași, Dâmbovița, Giurgiu, Ialomița, Prahova, Teleorman)	10743.3	10.79	11102.6	11.77	9016.4	12.93
Bucharest-Ilfov	28687.1	28.81	25218.0	26.73	19023.1	27.28
South-West Oltenia (Dolj, Gorj, Mehedinți, Olt, Vâlcea)	7089.7	7.12	6765.8	7.17	4951.2	7.1
West (Arad, Caraș-Severin, Huneadoara, Timiș)	9676.7	9.72	9282.2	9.84	7195.9	10.32

Source: Territorial Statistics, 2013.

5.2 Investments in the sector

As shown in Table 10, in 2003 the investments index in retail outpaced overall investments index in the economy. For this reason there was an increase in the share of investment in retail (14%) from the previous period (11% in 2000 and 2002). The values 14-15% were maintained between 2004 and 2008 mainly due to the rapid expansion of new retail formats. The main investors in the Romanian retail market are the German companies Metro, Rewe, Tengelmann and Lidl/ Kaufland, followed by France's Carrefour, Auchan, Intermarche or Bricostore and the Belgian groups Delhaize and Louis Delhaize, together with various foreign and domestic shopping centers developers. After the effects of the crisis were felt in the economy, retail was also strongly affected, investors showing more caution in expansion. Consequently, the share of investments in this sector has declined to 9.5% in 2010 and 2011.

Table 10: Net investments by activitities of national economy

	2000	2002	2003	2004	2006	2008	2009	2010	2011
Total	2,777.56	6,038.6	7,922.4	9,358.00	15,295.11	22,116.89	16,653.11	16,065.33	19,514.67
Retail	308.22	671.78	1,089.33	1,373.56	2,222.67	3,200.67	1,994.22	1,520.22	1,864.22
Percentage	11%	11%	14%	15%	15%	14%	12%	9.5%	9.5%

Note: Figures in million euro, current prices

Sources: Statistical Yearbook of Romania 2008, 2009, 2011, 2012; Tempo Online, 2011.

5.3 Personnel in retail

Investments in retail helped create an important number of jobs. Between 2002 and 2006, the number of personnel in retail increased by 31%. However, during recession the share of employed persons relative to overall national economy remained somewhat constant. According to statistics, the economic crisis did not cause massive layoffs. Paradoxically, especially if we take into account resounding bankruptcies and the number of units closed, we believe these data are real for the retail sector, as major networks have followed their expansionary strategy, some of them even recording significant profits. Therefore, it can be concluded that the evolution of employment in retail has followed the trend of the overall economy. Large retail chains have held the first positions in terms of employment in the past years, particularly as a result of expansion in the territory. Thus, in 2006, 6,000 people were employed by all retail networks active at the time, while in 2007 the number of new employees exceeded 15,000. In 2012 alone, as large retail networks opened new locations, they created almost 6,500 new jobs. Among them, Kaufland and Mega Image stand out with approximatively 1,400 new jobs each, Profi generating 837 new jobs, Auchan 780, Carrefour 500, Lidl 400, Cora 300, Billa 275, Penny 240 and Selgros almost 100 (Big Retailers 2014). Therefore, in 2012, the combined employment for the nine largest retailers in Romania exceeded 49,000 people (Big Retailers 2013).

Table 11: Evolution in the number of personnel in retail between 2008 and 2011

Population occupied	2008	2009	2010	2011
Total	9,369,000	9,243,000	9,240,000	9,138,000
Retail	1,166,000	1,157,000	1,134,000	1,165,000
%	12.5%	12.5%	12.3%	12.7%

Source: Statistical Yearbook of Romania 2012, Statistical Breviary, p. 27.

Analyzing the structure by age group and gender of people employed in retail, compared to that of people employed in the economy in 2011, it is noticeable that the share of women is ten percentage points higher. At the same time, the large share of young people employed in retail is obvious (Table 12). Thus it may be concluded that retail plays a significant role in absorbing vulnerable social groups such as youth and women, this sector enabling part-time hiring.

Table 12: Structure of population employed in retail by age groups in 2011

		Age groups (%)						
	Total	**15-24**	**25-34**	**35-44**	**45-54**	**55-64**	**65**	**% female**
Total	9,138,000	7.4	26.7	30.0	20.1	11.6	4.2	45.0
Retail	1,165,000	9.6	35.4	31.5	17.7	5.7	0.1	54.9

Source: Statistical Yearbook of Romania 2012, p.97

5.4 Remuneration in the retail sector

In 2008 and 2009 the average nominal monthly net salary at the country level increased by 4%, reaching in 2009 to 1,361 lei/ person (302.44 Euro), in the context of cuts in public wages by 25%. In retail, there has been a slight increase of 0.67% from 1,040 lei (231.11 euro) to 1,047 lei (232.66 euro). Retail sector employees are among the worst paid in the economy. Except for employees in agriculture (hunting), hotels and restaurants, fishing and pisciculture, remuneration of employees in other sectors has been higher than that of the personnel in retail. Compared to the average salary, men earned 10% more, and women 10% less. Over time, a slight narrowing in the wage gap between women and men may be noticed. Income disparities between the capital Bucharest and the rest of the country continued to deepen (Statistical Yearbook of Romania 2012).

Table 13: Nominal monthly net salary lei (euro)

	2007	2008	2009	2010	2011
Total	1,042 (231.55)	1,309 (290.88)	1,361 (302.44)	1,397 (310.44)	1,444 (320.88)
Retail	822 (182.66)	1,042 (231.55)	1,047 (232.66)	1,166 (259.11)	1,227 (272.66)

Source: Statistical Yearbook of Romania 2012, p. 152

6 Strategic moves in retailing

The economic crisis prompted all retail networks present on the Romanian market to reorient their expansion strategies and adopt a more careful approach to the market. In fact, the period preceding the economic crisis can be characterized by an aggressive expansionist policy by opening new units and by resorting to acquisitions. Regardless of funding opportunities and costs, retail networks had inaugurated a large number of stores and "swallowed" small local networks in the period before the crisis. After the onset of the economic crisis, retail networks active on the Romanian market changed their strategy to a more cautious one, characterized by the "small steps" approach. In fact, the crisis generated a "drain" of the retail stores market. Only the networks that had previously had a solid development succeeded to face decreasing turnovers and sales, and, respectively, reorientation of consumers to basic items. The first years of economic crisis, 2008 and 2009 brought a pause to the purchases of local retail networks. After 2010, acquisitions were resumed to a certain extent.

6.1 Acquisitions

Acquisitions and mergers represent one of the growth opportunities for retail networks, utilised for accessing resources, increasing market share or profits, diversifying activities, expanding distribution network (taking over competitors) or for convenient integration of a retail competitor in its network. Filialisation is considered in retail perhaps the most important strategy for horizontal, integrative and dynamic expansion because it leads to the opening of new own locations. Based on retailers' own resources and expertise, it multiplies a predetermined concept; it unifies the management of goods and achieves a more efficient audit of the activities alleged. Literature considers that a trader will increase by filialisation, when holding at least five different branches (Zentes et al. 2012).

As shown in Table 14, 2006 and 2007 were characterized by an avalanche of acquisitions undertaken by local retail networks (Angst, Artima, Gima, Oncos etc.) and especially by foreign ones (Billa, Carrefour, Profi or Spar) to strengthen their market position. By far, the most important "moves" were represented by the selling of the nine Albinuța stores to Profi, respectively by the acquisition of Artima network (21 stores) by Carrefour and conversion of the units into Carrefour Market stores.

Table 14: Acquisitions, mergers and franchises Romanian retailing between 2006 and 2007

Year of acquisition	Network purchased	Location	No. of stores	Buyer (Chain)	Estimated value (€)	Surface of stores (m^2)
2006	Diskont	Alba-Iulia	3	Spar (Olanda)	n.a.	1,200
2006	Hofer	Baia-Mare	2	Billa	n.a.	1,000-2,500
2006	Avantaj	Râmnicu Vâlcea	2	Artima	2.5 mil.	1,000
2006	Artima	Various localities	21	Carrefour (Market)	55 mil.	n.a.
2006	Lotus	Oradea	1	n.a.	n.a.	1,800
2006	The Best	Bucureşti	3	La Fourmi	n.a.	250-600
2006	Univers'all	Târnăveni	1	Profi	0.7 mil.	673
2007		Constanţa	4		n.a.	250
2007	Mara	Focşani	1	Penny	n.a.	Under 500
2007	Mara	Focşani	1	G'Market	n.a.	Under 500
2007	Albinuţa	Bucureşti	9	Profi	8 mil.	400
2007	Etti	Timişoara	1	Nova Tim	n.a.	900
2007	Flora	Cluj-Napoca	3	Oncos	n.a.	230
2007	Proban	Bucureşti	1	Ethos	n.a.	150
2007	Discovery	Cluj-Napoca	8	Angst	n.a.	150
2007	--		1		n.a.	500
2007	Florelia	Oradea	3		n.a.	Under 500
2007	Univers'all	Sibiu	1	Interex	4 mil.	1,865
2007		Iaşi	1	Gima	0.15 mil.	1,200
2007		Bucureşti	1	Carrefour	n.a.	3,600
2007	New Planet	Curtea de Argeş	2	Isdum	n.a.	550-660
2007	Artima	Various localities	21	Carrefour	55 mil.	1,000

n.a. – not available data.

Sources: Roşca 2011; Romanian Acquisitions 2007; miniMAX Discount 2010; Popescu 2009; Collection of Piaţa Magazine; Collection of Wall-Street Journal; Website of companies; Own Research.

Since 2008, not only a reduction in the phenomenon of stores acquisitions may be observed, but also some rearrangement in the competition. Therefore, only those retail networks with a good financial standing have been able to cope with the economic crisis and overcome relatively safely this period of uncertainty in consumption. Although the number of transactions in 2008 and 2009 was small, they were significant in size—Mega Image took over 14 LaFourmi stores in Bucharest, paying 12 million for them, and investing another 3.5 million in their redevelopment and adaptation to their own retail format (Table 15).

Table 15: Acquisitions in Romanian retailing between 2008 and 2009

Year of acquisition	Network purchased	Location	No. of stores	Buyer (Chain)	Estimated value (€)	Surface of stores (m^2)
2008	La Fourmi	Bucharest	14	Mega Image (Delhaize B.)	12 mil.	250-600
2009	Prodas (Mielan Comimpex)	Bucharest	4	Mega Image (Delhaize B.)	5 mil.	400-750
2009	Profi (Delhaize)	Various localities	65	Profi (Enterprise Investors Poland)	66 mil.	500-1,000

Sources: Roşca, 2011; Romanian Acquisitions, 2007; miniMAX Discount, 2010; Popescu 2009; Collection of Piaţa Magazine; Collection of Wall-Street Journal; Website of companies; Own Research.

As a sign that the crisis was felt in other countries as well, the Profi network owned at that time by the Belgian group Delhaize was sold in 2009 to a Polish investment fund (Enterprise Investor Poland), the new owner keeping the retail brand unchanged, but modifying its retail format. Thus, the former Profi discount stores turned into small supermarkets.

Adverse effects of the economic crisis, especially in the form of reduction in credit lines and a drop in customer purchases, meant for a number of local food networks payment incapacity and their management was forced to declare insolvency. For example, Pic network of hypermarkets, although had recorded a turnover of over 150 million in 2008 and had nearly 3,000 employees, accumulated significant debts to suppliers, entering into insolvency a year later. The locations of former Pic hypermarkets have been rented since 2010 by Success chain for supermarkets—Succes Nic COM (Dabija/Alt 2012; Dabija 2013).

A similar fate had Ethos network of supermarkets, which had to close all its 20 stores. While some locations were permanently closed, the profile of others was modified into textile units by Vismontho Trading. During this period, besides several small shops, Univers'all, Trident and G'Market were also closed. As shown in Table 15, the stores operated by these companies were in fact the main source of acquisition transactions conducted by the remaining competitors.

Table 16: Acquisitions in Romanian retailing between 2010 and 2012

Year of acquisition	Network purchased	Location	No. of stores	Buyer (Chain)	Estimated value (€)	Surface of stores (m^2)
2010	Plus (Tengel-mann)	Various localities	96	Lidl	200 mil.	900-1,000
2010	Minimax Discount	Various localities	31	Mic.ro	0.5 mil./ store	750
2010	Ethos	Târgovişte	1	Profi	0.3 mil.	500-1,000
2010	Ethos	Various localities	6	Vismontho Trading	n.a.	cca. 500
2010	La Fourmi	Bucharest		Mega Image	n.a.	n.a.
2010	Primăvara (Can Serv)	Bucharest	2	Mega Image	n.a.	400-700
2010			1	Carrefour market	n.a.	Approx. 900
2010	Hard Discount	Braşov	2	Spar	n.a.	Approx. 1,000
2010/11	Pic	Craiova	4	Succes	Rental	5,500
2011	Angst	Various localities	21	Carrefour Express	Franchise	Under 500
2011	Ethos (Ivet ComProd)	Bucharest	1	Mega Image	n.a.	400-700
2011	G'Market	Bucharest	3	Mega Image	n.a.	400-700
2011	G'Market	Iaşi	2	Carrefour Market	n.a.	850
2011	Fidelio (Danilux)	Roman, Paşcani	2	Profi	n.a.	500-1,000
2011	Red Market (Delhaize)	Various localities	11	Mega Image (Delhaize)	Rebranding	400-700
2012	Alimrom Trading SRL	Cluj Napoca	6	Profi	n.a.	n.a.
2012	Cedonia (Alcomsib SA)	Sibiu	6	Profi	n.a.	n.a.
2012	Interex (Green Tree Invest Srl)	Various localities	10	Bomax Grup	n.a.	n.a.
2012	Real (Metro Group)	Various localities	20	Auchan	n.a.	n.a.
2013	Luca	Braşov	5	Mega Image	n.a.	100-500 m^2

n.a. – not available data.

Sources: Roşca 2011; Romanian Acquisitions 2007; miniMAX Discount 2010; Popescu 2009; Collection of Piaţa Magazine; Collection of Wall-Street Journal; Website of companies; Own Research; Financial Magazine 2014; Luca 2014.

This wave of acquisitions is not necessarily the exclusive result of bankruptcies or of payment incapacity of different retail networks. The difficulty to adapt to the new realities of the market, the prediction of a bleak development of sales or the fear that their situation could worsen determined networks management to reduce their selling spaces or even sell retail businesses. Finally, some local investors may have chosen to liquidate their retail business in order to strengthen their other strategic business units, namely trying to obtain adequate returns for the investments already made. In the case of international networks (Plus, Lidl, Delhaize), the decisions adopted in Romania were part of comprehensive global strategies aimed at sustaining expansion in Central Europe (Lidl), strengthening the already penetrated markets (Delhaize) or market withdrawal (Plus) to focus on those markets that enable sustained investment recovery (Dabija 2013).

6.2 Reduction in activity and bankruptcies

For all retail networks on the market, the economic crisis brought a slowdown in expansion activities, namely, the opening of new stores. In 2006, 2007 and even in the early part of 2008, managers believed the percentage of new stores they could open each year was by 20-30% higher by comparison to the number of existing ones. However, the new market reality brought about a sharp slowdown in this trend. Moreover, some retail networks have disappeared altogether, sliding into payment incapacity. In certain cases, they registered strong fluctuations in the number of shops, being forced to close the units in the less profitable areas, but strived to inaugurate new branches in localities with good potential. Reduced activity did not necessarily entail closure of shops or sale of certain units, but also selling space optimization (usually by reducing it), rethinking assortment structure, relocation of units in high traffic areas or sustained care for interior decoration (Dabija/Alt 2012; Dabija 2013).

The discount store chain Spar closed in June 2010 two of its units in Alba Iulia and, a month later, inaugurated a store in Braşov (Spar 2010). In 2013 it exited the market for the second time. Besides Spar, Ethos G'Market, Pic, Univers'all and Trident networks, other local companies were also forced to temporarily or permanently close the operated stores. The first sign that the decisions taken by domestic retail enterprises were not the best was the closure of Univers'all supermarket network in 2007. All its 14 units were closed and quickly sold to other competitors. The year 2009 brought the insolvency of Pic hypermarkets that had accumulated debts of about 60 million euros, but also that of the Trident network, with debts of 25 million euros. These resounding bankruptcies were followed by that of Ethos supermarket network which closed all its 20 units (Roşca 2011a). The latest famous insolvency has occurred this year. Oncos, the chain of supermarkets, proximity stores and specialised stores, one of the oldest in the country, dating as far back as 1991, with a total of 44 units, filed for insolvency (Oncos 2014; Dabija 2013).

Another effect of the economic crisis was represented by the rethinking of selling space of existing retail networks. Thus, electronics, home appliances and IT stores (Altex, Media Galaxy, Domo, etc.) have reduced their sales areas from 3,500-4,000 m^2 before 2008 and 2009 to about 1,500 to 2,000 m^2 now. Their assortment has remained somewhat identical, only stocks of products have been greatly reduced. Before being sold to Auchan, Real attempted a “remodeling” of each of the 25 hypermarkets, amounting to 0.5 million euros each. The assortment of these hypermarkets was “adapted” to new customer requirements and the structure of departments was redesigned. At the same time, the management decided to include a significant number of local items (90% of total SKUs) (Popa 2011).

Table 17: Main bankruptcies in Romanian retailing

Retail chain	Format	Year of entry	Year of exit	No. of stores (at exit)	Selling area (m^2)
Univers'all	Supermarket	2002	2006	14	500-2,000
Ethos (Ivet ComProd)	Proximity	1996	2009	n.a.	n.a.
Pic	Hypermarket	1992	2009	5	15,000-24,500
Trident (Trident Trans Tex)	Hipermarket	2001	2009	4	800-2,500
Interhome Decor (Interior Home Retail)	Furniture	2005	2010	5	3,000-10,000
MIC.Ro (Mic. Ro Retail)	Proximity	2010	2012	830	Under 500 m^2, (720 fixed stores and 110 mobile), supermarkets with vegetables market (500-1,000 m^2)
MiniMax Discount/ Macro	Discounter	2005	2012	54	750-1,000
Alba Market (Retail Alba Com)	Supermarket, proximity	2010	2012	13	200-500
Spar (Retail D&I 2011)	Supermarket, proximity	2005	2013	3 (2012)	1,000
Oncos	Supermarket	1991	2014	44	500-1,300

n.a. = not available data

Sources: Financial Magazine 2013; Collection of Piata Magazines; retail-fmcg.ro; businessmagazin.ro; Interex 2013 auchan.ro.

7 Romanian buyers

Regardless of the retail format inaugurated, all European retail networks operating in Romania began ti thrive due to the impulsive mentality of the Romanian consumers, driven by sentiment rather than by reason. Exhibiting emotional thinking, they buy image rather than utility. Thus, they are willing to apply for a bank loan to purchase the third next-generation mobile phone even if they only need one. The Romanian consumers want to be fashionable, keep pace with the times, be on a par with their friends or colleagues or just simply show that they are "somebody" and not "anybody". The reasons are various, from the shortage of merchandise during the final decade of the Communist era to issues related to the culture and DNA of the Romanian people. Thus, regarding consumption habits, they resemble more other Latin (Italy, Spain, Portugal) and Balkan (Turkey) peoples than neighboring countries Hungary, Bulgaria, Serbia or Ukraine, or from the same central area of Europe, Poland, Serbia, Czech Republic etc. (Dabija 2013).

The life of Romanians has changed significantly during the past 25 years, and so have their consumption habits, and the process is far from complete. Romanians had to first reach a certain level of saturation in order to start wondering what and why they buy, to become selective and eventually critics. "Made in Romania" products, especially traditional food items sell better amid various pandemics and various food alarms and scandals (additives, bird flu, mad cow disease, antibiotics, etc.). On the other hand, Turkish food products, for example, have acquired a slightly negative aura after several scandals that have affected agricultural products from this country. Romanian traditional products also have a major affective component, as an alternative to the monotony of industrial tastes, but also as a sign of distinction for their consumers or of pride of being Romanian (Romanian Buyers 2013; Romanian Buyers 2014). Retail chains have adapted to this preference, stressing the share of local products in the total assortment of their chains and creating areas for Romanian products and/ or traditional ones, such as Carrefour.

However, most consumers continue to buy without reading the labels and without being concerned about the nutritional content of foods but, at most, about the taste, and almost always, about the price. It is true that the low incomes, way below the European average, are responsible for this. There is a fairly significant proportion of the Romanian population living below the level of subsistence. In fact, due to the economic crisis and to the state of the overall economy, the vast majority of buyers have had to tighten the control over their budgets. The price-conscious shoppers make purchases from different places, famous for the best deals for a particular category of products, and seek Romanian products and the stores' own brands not only for their taste, but also because they are usually cheaper (Private Brands 2013). According to a survey conducted by AC Nielsen, quoted by the website of Radio România Actualități (Romanian Consumer 2014), 60% of Romanians prefer hypermarkets, 20% prefer supermarkets, the interest in traditional neighborhood stores remaining still very low. Price is highly important for both the rich and the poor, but it has different meanings for the two categories. The rich search for highly priced products which may help them convey their social status and achievement in life.

Another striking feature of the Romanian buyers is the place that the Internet occupies in their everyday lives. The penetration rate of the Internet in the population over 15 years is 53%, rising to 63% in urban areas (Romanian Buyer Behaviour 2014). The share of smartphones represents over 25% of all mobile phones in Romania. All these increase the importance and potential of electronic retail on the Romanian market. For the past year, consumer to consumer retailing has also developed significantly, as demonstrated by the success of profile sites okazii.ro, tocmai.ro and mercador.ro (rebranded as olx.ro).

8 Conclusions – Effects of the economic crisis on Romanian retail

We can conclude that for the last 25 years the retail sector has played an important role in the economic development, with a high share in GDP and a decisive role in creating new jobs, mainly for women and the youth. In the period under review radical changes in the retail sector have occured. The first period of the 1990s was characterized by a quantitative increase, while in the second half of that decade the focus has moved to qualitative changes, to upgrading of the sector through the entry of modern retail formats. Regional analysis shows a strong concentration of retail in Bucharest and a decrease in the differences between the levels of development of the regions.

As outlined above, among the main effects of the economic crisis on networks of retail stores, there are both some positive and some negative (Dabija/Alt 2012; Dabija 2013):

- Professionalization of retail market by closing stores (Hard Discount, Fidelio), purchases, leases, acquisitions or partnerships (Angst cooperation with Carrefour and the opening of proximity stores Carrefour Express Angst);
- Consolidation of the number of stores operated by foreign retail networks in Romania; Concentration of retailers by acquisitions of networks that failed to meet the challenges of the economic crisis;
- Opening of new retail formats—Metro Cash & Carry chain has decided to inaugurate a chain of Metro Punct units in towns or areas with less than 100,000 inhabitants, destined for organizational consumers and resellers;
- Reorienting retail networks in profitable locations, in high traffic areas, in cities below (supermarkets and discount units) or above (hypermarkets) 100,000 inhabitants;
- Extension of the proximity stores chains (Profi City, LaDoiPași) with narrow assortments, but in the immediate vicinity of the customers;
- More focus of retail networks on measures that attract and retain customers by developing and providing a wide range of own brands;
- Inclusion of a large number of local items (up to 90%) in the assortments;
- Change of interior design to facilitate better customer access to shelves and products;
- Adaptation of the store area and of the assortment to the actual needs of individuals and to their purchasing power.

One of the major issues currently faced by retailers in Romania is given by the selection of the same marketing tools for operating on the target segments-price and communication. While communication efforts are not even perceived anymore by Romanian customers (Dabija 2013), the impact of price on shaping the retail brand value is representative for supermarkets and hypermarkets, but not for discounters (Swoboda et al. 2009). This distorted perception comes from the fact that supermarkets and hypermarkets pursue higher turnovers and focus on an assortment of items of medium quality, offered at a low price. Instead of giving discounters the chance to offer such items, while hypermarkets would focus on premium products, they use the same competitive strategy of discounters. Thus, their slogans, accompanied by various complementary instruments induce more confusion in the minds of consumers regarding the differences among the various retail formats. A better solution for hypermarkets would be to develop more complementary services - shoe repair, adjustments to garments etc. than to merely focus on selling low priced items, although currently this strategy generates significant sales and profits. On long term, there is the danger that this strategy would lead to a tarnishing of their brand image, which could become irreversible. Another possibility would be to introduce non-specific types of food, such as premium pet food. Obviously, the major disadvantage of this strategy would be the small turnovers generated, especially in the province, but it could contribute to a clearer differentiation between stores and especially between retail formats.

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Retailing in Slovenia: Current Landscape and Trends

Tanja Dmitrović and Mateja Bodlaj

Abstract
The Slovenian retail market is one of the most concentrated retail markets in Europe. However, the large market power that large retailers exercised in the past has recently dissipated. Deteriorating macroeconomic conditions and changes in consumer behaviour have profoundly affected retail landscape and forced leading retailers to adjust their business strategies.

We begin this country report with a brief sketch of the current economic conditions and the structure of retail industry. The industry is presented through the description of major retailers, distinguishing among food, non-food, and non-store retailing. Next, we turn to recent changes in the retail market brought about by two major forces: economic recession and technological advances, both of which have led to substantial shifts in final consumers' behaviour. Finally, we provide an overview of strategy responses designed by retailers to counteract these challenges.

Keywords
Slovenia, food retail, non-food retail, consumer behaviour, economic recession, multichannel retailing

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1 Introduction

Distributive trade is an important sector in Slovenia, contributing 10.5% to the GDP and 12% to total employment in 2012 (Slovenia in Figures 2013). Within the distributive trade industry, retail trade generates approximately 42% of turnover and 50% of employment (Slovenian Chamber of Commerce 2013).

After the initial expansion in the early transitional phase, the Slovenian retail industry underwent a major consolidation in the late 1990s and early 2000s, leading to high market concentration that resulted high market power of retailers. The recession which started in 2009 hit the entire sector heavily. By 2013, this decline was still not subsiding; indeed, in September 2013, retail turnover fell by a further 6% in real terms, compared to September 2012 (Slovenian Chamber of Commerce 2013a). The first signs of economic recovery appeared at the beginning of 2014, when most short-term indicators of economic activity, including turnover in wholesale trade, exhibited growth. Turnover in retail trade stabilised at the 2013 level (Slovenian Economic Mirror 2014) offering some hope that the negative trends may be reversed in 2014.

Many challenges undoubtedly lie ahead for the Slovenian retail industry. We will address some of these challenges and analyse strategic responses offered by retailers. We begin with a short outline of the macro environment and sketch the evolution of the Slovenian retail industry since 1991. Next, we describe the current retail landscape and major retailers. Finally, we turn to changes in consumer behaviour brought about by economic recession and technological development and explain how retailers fight downward trends in performance by revising their business models and marketing tactics.

2 Overview of Slovenia's economy

Slovenia is a small country with 2 million inhabitants and 20,273 sq km, situated at the crossroads of Central Europe, between the Alps and the Adriatic Sea. With its strategic location among Austria, Italy, Hungary and Croatia, Slovenia serves as a bridge among Balkan, Central European and Western European countries, all of which are connected by historical and cultural ties (Doing Business in Slovenia 2013). Slovenia has experienced one of the most stable political and economic transitions in Central and South-east Europe (The World Factbook 2013). According to Inglehart's cultural map, among all countries formerly under a communist or socialist regime, Slovenia is most similar to Western countries in terms of predominant values and lifestyle habits (Mihelič/Lipičnik 2010). In 2004, it became a member of the European Union and was the first transitional country to graduate from a borrower status to a donor partner at the World Bank. In addition, it was the first new EU member state to adopt the euro on 1 January 2007, and it held the EU's rotating presidency in the first half of 2008. In 2010, it became a member of the OECD (Doing Business in Slovenia 2013).

Since its independence in 1991, after the break-up of the former Yugoslavia, Slovenia has been regarded as one of the most successful transitional countries, with the highest GDP per capita in the region and a steady annual growth (Doing Business in Slovenia 2013). Throughout the 1991–2010 period, the GDP increased by 73% in real terms. The highest annual growth was achieved in 2007, when the GDP increased by 6.9% in real terms (Hren et al. 2011). The high economic growth was driven by exports and investment policy, easy access to financing in international markets and relatively high levels of household and government consumption (Doing Business in Slovenia 2013). Consequently, Slovenia had been gradually reducing the gap in its economic development as compared to the EU average until the beginning of economic crisis at the end of 2008 (Hren et al. 2011). In 2009, GDP decreased by 7.9% in real terms. After a moderate economic recovery in 2010 and 2011, spurred mostly by export activity, GDP fell again by 2.5% in 2012. Internal factors continued to impede the economic recovery in 2013 as household and government consumption further declined due to the high pressure to consolidate public finance and stabilize the banking system (Slovenia in Figures 2013; UMAR 2013). However, GDP decline in 2013 somewhat subsided (-1.1%) mainly due to growth in exports in the final quarter of 2013. With reduced uncertainty in the international environment, Slovenia is expected to achieve a moderate 0.5% GDP growth in 2014, owing to a further growth in exports and slower decline in household consumption (UMAR 2014).

In 2013, Slovenia's GDP per capita amounted to 17,128 EUR (UMAR 2014). Despite the economic slowdown, GDP per capita in purchasing power was at 84% of the EU average—higher than any other new EU member state, except Cyprus (Doing Business in Slovenia 2013). Although the unemployment rate remains below the EU average, it increased from 4.4% in 2008 to 10.1% in 2013; it is estimated to stabilise at this level in 2014, and slightly decline in 2015 and 2016 (UMAR 2014). Furthermore, taxes remain relatively high, and the labour market is often seen as inflexible (The World Factbook 2013). Privatisation has lagged since 2002, and the economy has one of the highest levels of state control in the EU. Foreign direct investment has lagged behind the regional average (The World Factbook 2013). The biggest foreign investors in Slovenia's retail are Aldi Süd, E. Leclerc, Eurospin Italia, Lidl International, ÖMV, Rutar and Spar (Doing Business in Slovenia 2013).

In 2012 and 2013, several measures were adopted to stimulate economic activity (e.g., the reduction of enterprises' tax burdens, the introduction of unlimited relief on investments amounting to 40% and the increase of tax relief for R&D) as well as create a more entrepreneurship-friendly environment and reduce administrative barriers. The Slovenian government also adopted several legislative measures regarding the labour market, pension system and banking system (Doing Business in Slovenia 2013). Yet one of the most important measures aimed at consolidating public finance was an increase of the value added tax (VAT) in July 2013. The standard VAT rate increased by two percentage points to 22% and the reduced VAT rate by one percentage point to 9.5%. Retailers were strongly against the VAT increase, arguing that consumer activity would further decline. Retailers subsequently explained that the majority of the VAT increase had not reflected in higher prices, but had been absorbed by lowering retail margins (Pavlovčič 2013).

3 Evolution of the retail sector

Economic transition in Slovenia effectively began in the late 1980s, when changes in legislation allowed for greater private initiative. In the early 1990s, the procedures to establish a privately owned firm were simplified, and the number of entrepreneurs in the trade industry soared. The number of operational wholesale and retail private companies grew from 343 in 1989 to 2,871 in 1991 and 6,404 in 1994 (Potočnik et al. 1995). About half of them were retail companies. Small convenience stores popped up everywhere. Product variety and assortments available to consumers significantly increased, and prices at small independent grocers were often lower than in the large state-owned firms. Large retail companies gradually adopted consumer-oriented strategies, and in the early years of the transition the entire retail industry underwent substantial changes, including privatisation.

The growth trends in the number of retail companies reversed in the second half of the 1990s, when the consolidation of the retail sector was initiated. The most prominent changes happened in grocery retail. Mercator, the largest Slovenian retailer, acquired several medium-sized (mostly regional) retailers between 1998 and 2003, Engrotuš (a Slovenian start-up firm) experienced rapid growth, and a Slovenian subsidiary of Spar opened several new stores. Their sales growth was fuelled by increases in number of outlets as well as by higher sales per outlet.

Consequently, the concentration ratio of the top three firms in grocery retail rose to 64%, the second highest ration in Europe (IGD 2007). Large retail chains quickly modernised their operations, catering to the growing demand from increases in consumers' purchasing power.

Mercator developed innovative operational strategies that put the group on par with the most advanced Western European retailers while giving it a competitive advantage among leading grocery retailers in the Balkans (Research Monitor 2008). Spar Slovenija remained focused on grocery retail, but Mercator and Engrotuš diversified into other retail sectors. Mercator subsidiary firms M-Tehnika (technical retail), M-Pohištvo (furniture), Modiana (textiles) and Intersport ISI (Intersport franchise) became important players in their respective retail markets. Engrotuš added to its core business drugstore chain (Tuš drogerije) and entertainment centres (bowling alleys, restaurants and movie theatres).

On the other end of the spectrum, micro firms could not keep up with the increasingly efficient and powerful chains, and by the new millennium most of them were forced to exit the market. Their decline continued during the next decade, and the number of small stores (with area less than 100 m^2) fell from 1,505 in 2002 to 517 in 2009. By 2010, the total number of stores in grocery retail stabilized at about 1,600 stores. About one third were small convenience stores (< 100 m^2). Large supermarkets and hypermarkets (> 1,000 m^2) accounted for about 10% of the total number of stores (AC Nielsen Retail Census 2010).

Large retailers' growing market power initially improved supply chain efficiency to the benefit of consumers, but it soon led to strained relationships with suppliers, especially with smaller firms without the countervailing market power. More and more anticompetitive behaviour complaints were voiced, and finally, in 2007 and 2008, the Slovenian Competition Protection Office initiated several lines of inquiry focusing on the top three grocery retailers (Competition Protection Office 2007; 2008). Alleged anticompetitive business practices included the abuse of a dominant position (by Mercator), collusive behaviour, and foreclosure (by Mercator, Spar Slovenija and Engrotuš). All investigations were closed in 2009, when large retailers—forced into a corner—proposed a new code of conduct within supply chains and made commitments that would preclude future anticompetitive behaviour (Competition Protection Office 2009).

In the second half of the 2000s, two foreign discount retail chains—Hofer (a subsidiary of Aldi-Süd) and Lidl—entered the market, but at first, their market shares remained low as many Slovenians were prejudiced against making their purchases at discounters. Thus, both Hofer and Lidl adjusted their business models to cater to the tastes of Slovenian consumers. Both firms augmented their assortments with a range of technical products, textiles, as well as some Slovenian and multinational brands. This strategy was successful, enabling discount chains to increase their market shares over the next few years to become important players in the market. At the time of Lidl's entry in 2007, 30% of consumers reported that they visit a discount store at least once a month; by 2010 this share grew to 62%, and for 8% of consumers a discount chain represented their main shop (Nielsen Shopper Trends 2010). In 2013, Lidl and Hofer ranked as the fourth and fifth favourite stores, with 12% and 11% of votes respectively, after Spar with 30%, Mercator with 18%, and Engrotuš with 14% of votes (Južnič 2014).

The economic recession severely affected the trade sector. Retail turnover in the first nine months of 2013 was 15.6% below its 2008 level (Križnik 2013). The recession profoundly changed the main retailers' market positions as consumers have become much more prudent with their purchases, resulting in overall lower expenditures on grocery and non-grocery goods as well as changed structures in purchases. In grocery retail, both Lidl and Hofer experienced fast growth, and in early 2013 the estimated combined market share of hard discounters (e.g., Hofer, Lidl and Eurospin) amounted to as much as 18–20%, showing a 4 to 5 percentage point increase over the previous year. Among the "Big Three" retailers, Mercator suffered the most: its self-reported grocery market share declined from 34% in 2010 to about 31% at the beginning of 2013 (Mercator Annual Reports 2010–2012).

Non-grocery retail was hit even harder, as expenditures on non-essential goods, such as electronics and home and garden appliances, were severely reduced when the amount of disposable income declined (Retailing in Slovenia, 2013). The largest retailer, Merkur, undertook severe business restructuring due to financial problems caused by an unsuccessful MBO attempt. Several firms in furniture and technical retail exited the market while others were acquired by foreign firms (e.g., furniture retailer Lesnina was bought by Austrian XXXLutz, and internet retailer Mimovrste was acquired by Dutch Netretail Holding).

The outlook for 2014 is mixed. The Slovenian Chamber of Commerce warns that the situation might further deteriorate (Križnik 2013). Euromonitor International predicts that, once the economy starts improving, retailing in Slovenia is also set to recover. The highest growth rates are anticipated in non-store retailing, as this is the most underdeveloped channel, while non-food retailing, which suffered the most during the economic crisis, should also show improvement (Retailing in Slovenia 2013).

4 Current retail landscape

In 2012, companies in Slovenia generated approximately 12.2 billion EUR of turnover from the sale of goods in retail trade, which accounted for almost 50% of total turnover from trade activity in Slovenia (Slovenia in Figures 2013). Total trade activity (NACE section G: Retail trade, wholesale trade, and repair of motor vehicles) generated approximately 35% of total turnover and around 12% of total value added in the Slovenian economy. With the second largest share in total value added, trade activity significantly impacts the development of the Slovenian economy. The largest annual declines of value added in the trade industry were observed in 2009 (-8.7%) and 2012 (-4.2%). The share of value added generated by trade activities in GDP in 2012 was 10.5% compared to 11.3% in 2008 (Slovenia in Figures 2013). Companies operating in section G 47 (Retail trade, except with motor vehicles) employed 49.4% of all employees in trade activity, generated 41.7% of total net sales in trade industry and created 29,964 EUR of net value added per employee (Slovenian Chamber of Commerce 2013).

As Table 1 indicates, turnover in retail trade in 2012 lagged behind the pre-crisis level of turnover generated in 2008. The largest annual decline of turnover occurred in 2009 (-8.6%), when the confidence indicator in retail trade was the lowest (Business Tendency 2013), followed by a significant increase of turnover in 2011 (7.4%). However, another decrease of turnover was observed in 2012 (-1.3%). In terms of commodity groups, the largest share of turnover in 2012 occurred in the sale of non-food products (42.3%), followed by the commodity group food, beverages and tobacco (28.2 %). In comparison to 2008, the relative share of turnover of food, beverages and tobacco increased, while the relative share of non-food products fell (Slovenia in Figures 2010–2013).

Table 1: Turnover in retail trade and commodity groups during the 2008–2012 period

	2008	2009	2010	2011	2012
Turnover (1,000 EUR)	12,585,485	11,500,147	11,492,161	12,343,174	12,186,329
Commodity groups (%)					
Total	100.0	100.0	100.0	100.0	100.0
Food, beverages and tobacco	25.5	29.4	28.9	26.8	28.2
Non-food products	45.8	45.8	44.0	42.5	42.3
Fuels	15.1	12.1	14.2	16.9	18.2
Motor vehicles	13.6	12.7	12.9	13.8	11.3

Sources: Slovenia in Figures (2010–2013)

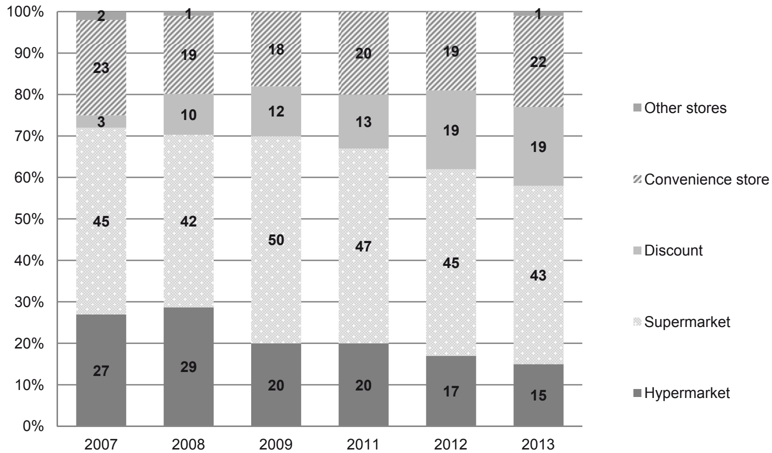
In the last quarter of 2013 and the first months of 2014, the data are somewhat more encouraging: in the last quarter of 2013, the wholesale trade turnover increased (+3.7%) compared to the same period of the previous year, while decline in total retail trade has slowed down (-0.2% in January 2014 compared to January 2013) (Eurostat 2014).

According to the available data, 11,502 retail stores were operating in Slovenia in 2007, of which the majority offered non-food items (63.3%), followed by retail stores with food, beverages and tobacco (24.8%) and motor vehicles and fuels (11.9%) (Rapid Reports 2008). In 2010, Slovenia—with its 1.05 m^2 of sales area per capita and 3,800 EUR of turnover per m^2

of sales area—lagged behind the European countries with the highest level of market development and sales productivity (i.e., Luxembourg, Norway and Switzerland). In particular, sales productivity in Slovenia in 2010 represented only 55% of sales productivity reported for Luxembourg and Norway (6,900 EUR/m^2). Still, it was considerably higher than in the East European member states and even higher than in Germany (3,400 EUR/m^2) and Austria (3,600 EUR/m^2) (Key European Retail Data 2010). The average gross margin on goods in Slovenia's retail trade is among the lowest in Europe. Although the share of gross margin on goods in the turnover ranged from 14% to 38% in other European countries in 2009, in Slovenia it was just 17.5%. Similarly, the share of gross margin on goods in purchases ranged from 17% to 60% in other European countries, whereas in Slovenia it was 24.5% (Gross margin on goods in retail trade 2012).

On the other hand, recent Nielsen's Shopper Trends reveal that Slovenia, with its more than 300 retail stores with a modern format (i.e., hypermarkets, supermarkets and discount stores) per million inhabitants, ranks 5th in Europe (behind Norway, Austria, Denmark and Germany) with regard to modern store density (Rebernik 2012). As early as 2004, modern store formats in Slovenia accounted for more than 60% of sales and, along with the Czech Republic, represented a significantly higher share than in the other Central and Eastern European (CEE) emerging markets (Emerging Markets Retail and Shopper Trends 2005). In recent years, retailers in Slovenia are investing heavily also in building modern shopping centres.

Figure 1: Retail formats: Main store of purchase, Slovenia



Source: Južnič, J., Nakupovalne navade Slovencev, GfK Orange (2014).

The recent GfK Shopping monitor indicates that a supermarket (i.e., a self-service store with at least four but less than 15 cashiers) remains the main retail format for Slovenian consumers when shopping for convenience goods (see Figure 1 above). In addition, the percentage of Slovenian consumers who spend the most monthly money on purchases of convenience goods in discounts stores has substantially increased over the last seven years. In contrast, a negative trend exists for hypermarkets as the main retail format. After a decline in the past years, convenience stores are once again gaining in importance (Južnič 2014).

In general, the key factors that determine Slovenian consumers' store choice are location (i.e. proximity), price, good ratio between quality and price, and product variety (Bajde 2011). In terms of purchase location, Slovenian consumers have the highest level of confidence in the quality of food purchased in market halls (3.7) followed by major traditional food retailers (Trženjski monitor 2013).

4.1 Food retailers

In contrast to most CEE emerging markets with still fragmented retail ownership relative to the Western European levels, Slovenia had the highest level of retail trade concentration in 2004, when the top five chains held 79% of the market share (Emerging Markets Retail and Shopper Trends 2005). In 2012, the top three food retailers—Mercator, Spar and Engrotuš—accounted for approximately 62% of the market share (Ugovšek/Sovdat 2013) and retained their positions despite share stagnation (Retailing in Slovenia 2013). The entry of two international discounters—Hofer in 2005 and Lidl in 2007—significantly affected the retail landscape and sharpened competitive intensity in retail in Slovenia. The percentage of consumers who perceive discount chains as the cheapest increased from 40% in 2009 to 60% in 2012 (Rebernik 2012). At the same time, 55% of consumers view shopping in discount stores as comparable to other stores (Nielsen Shopper Trends 2010). The consumers continue to make purchases in traditional retail stores, yet they have started to split their purchases among different retailers (on average among 4.5 retailers in 2013 relative to 2.6 in 2006) (Nielsen Shopper Trends 2013). The percentage of consumers who increased purchases in discount stores during the previous six months increased from 28% in 2009 to 44% in 2014 (Trženjski monitor 2014).

In 2012, Mercator and Engrotuš reported lower sales, and Spar marginally increased its sales (1.25%); meanwhile, Hofer and Lidl both increased their sales by 20% as well as EBITDA by 25% and 72%, respectively. Both discount chains ended 2012 with a net profit and reached a significantly higher value added per employee compared to major traditional food retailers. In 2012, Lidl was the best performing retailer in Slovenia, with the highest sales growth, EBITDA growth and EBIT as well as the second highest ROE in ROA in the retail sector. Moreover, Lidl was ranked the 15th most successful company in Slovenia overall. The second best performing retailer in 2012 was Spar, with the highest net profit, ROE (18.52%) and ROA (5.16%) in the retail sector (TOP 101 2013). On the other hand, Mercator ended 2012 with a substantial loss, whereas Engrotuš reported considerably lower net profits.

Table 2 shows the selected data on major retailers in the G 47.110 sector (i.e., retail trade in non-specialised stores, mostly groceries). Due to the growing importance of discount retailers, the data on Hofer and Lidl are also added.

Table 2: Major food retailers
(G 47.110: retail trade in non-specialised stores, mostly groceries)

	Year of establish ment/ entry	Number of employees (2012)	Number of stores	Retail formats	Sales area (m^2)	Market share in Slovenia (2012)[2]
Mercator	1949	8,922 (Mercator Group in Slovenia: 11,794; Mercator Group Total: 23,920)	952 (in Slovenia); of which 529 FMCG stores; Group Mercator Total: 1,600	Shopping centres Hypermarkets Supermarkets Convenience stores Discount stores Online store	602,465 (gross sales area) in Slovenia; Group Mercator Total: 1.22 million	32.8%
Spar Slovenija	1991	4,302	88	Shopping centres Hypermarkets Supermarkets Spar City stores	142,197	15.9%
Engrotuš	1989	3,009	291 (including franchise units)[1] out of these only 20 retail units in foreign markets	Supermarkets Markets Drugstores Cash & Carry Shopping centres Cash & Carry online store	N/A	13.0%
Hofer	2005	645	72	Discount stores	N/A	6.5%
Lidl	2007	1,064	43	Discount stores	N/A (the average sales area 1,000 m^2)	5.3%

Note: [1] Various types of stores, including coffeehouses and sweetshops, bowling facilities and bars
Sources: Company annual reports, websites, 2 Ugovšek/Sovdat (2013)

Mercator

Mercator (full name "Poslovni sistem Mercator d.d.") is the largest Slovenian retailer and the main company operating within the Mercator Group, one of the largest business groups in

South-east Europe. In 2012, the Mercator Group employed almost 24,000 employees, achieved 2.87 billion EUR in sales and operated 1,600 retail units of various store formats with 1.22 million m^2 of gross sales areas in seven markets (Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Bulgaria, and Albania). 87% of total net sales were derived in retailing. The primary and main business activity is retail trade with fast-moving consumer goods (FMCG), which in 2012 generated 86% of the total net sales from trade activity. Other business activities of the Mercator Group include tourist services, self-service gas stations, manufacturing and real estate (Mercator Annual Report 2012).

Mercator ranked 228th among the top 250 global retailers in 2011 (Global Powers of Retailing 2013). The growth of the retailer's market share in Slovenia from 1997 to 2006 was impressive, particularly from 1997 to 1999, when the company increased its market share from 15.4% to 29.9%. It began with its internationalization process in 2000 by recognizing opportunities for growth in the less mature retail markets in South-east Europe and capitalised on historical ties with the region, pre-1991 Yugoslavia (Vodlan/Vida 2008). In 2012, Mercator was present in six foreign markets: Serbia (8–9% market share), Croatia (4–5% market share), Bosnia and Herzegovina (6–7% market share), Montenegro (18–19% market share), Bulgaria (less than 0.5% market share) and Albania (1% market share) (Mercator Annual Report 2012).

Mercator's vision is to become the largest, most effective and most efficient retailer in South-east Europe. However, the company currently faces difficult times, particularly in the domestic market, which represents its major market, accounting for 56% of total net sales in 2012 (Mercator Annual Report 2012). In 2012, Mercator's net sales in Slovenia decreased by 11%; the company reported a negative net profit, ROE and ROA and reduced employment by 1,000 employees (Gvin.com 2013). Deteriorating business performance can be largely attributed to past over-investments and unfocused strategy, along with a worsened economic situation (Mercator Annual Report 2012) and the entry of discount retailers into the Slovenian market.

At present, the company is in the process of restructuring. In 2012, the new management redefined the strategy and based it on four key pillars: cost optimisation, focus, profitability and growth. The efforts are directed towards reducing liabilities, sharpening investment policy and improving cost-efficiency in all fields of operations. In 2013, Mercator withdrew from Albania and Bulgaria, which the retailer had only entered in 2009, as the new management found no opportunities for growth in these two markets. Moving forward, greater focus will be placed on its core business (i.e., grocery retail), while the company plans to withdraw from non-strategic business operations and close unprofitable retail units (Mercator Annual Report 2012).

As consumers increasingly make their purchases in smaller stores, Mercator plans to focus strongly on smaller formats (i.e., supermarkets and convenience stores). The retailer believes that its competitive advantage lies in good locations and wide market coverage, particularly with smaller convenience stores. In 2012, it intensively renovated and modernised its stores, particularly smaller ones, in order to offer an easier and quicker purchase, but above all to offer more fresh, local and new products. Although Mercator traditionally positions itself as "*the best neighbour*", offering good quality, service and variety, the recent efforts are strongly directed at changing consumers' price perception and the chain strives to be perceived as "the best retailer which offers everything that a discounter offers and so much more". In 2012, Mercator offered more than 2,700 private label products, continuously increasing their share in total sales. It is the only traditional food retailer with an online store, which was launched already in 1999 (Mercator Annual Report 2012).

Since 2008, there have been nine attempts by Mercator's owners to sell the company. In 2013, Croatian retail chain Agrokor intensified its efforts to takeover Mercator and filed a merger proposal to competition protection authorities in Slovenia, Croatia and Serbia (in both later countries, Agrokor already holds important market shares).

Spar Slovenija

Spar Slovenija, part of the Spar International retail chain, opened its first store in Slovenia in 1991. Over the past 20 years, it has significantly influenced the standards in Slovenian retailing, development of its competition and consequently markedly contributed to increasing quality of retail market in Slovenia. The retailer emphasises its innovativeness and contemporaneousness (Spar Slovenija 2013). Spar was the first retailer in Slovenia to build a shopping centre (in 1993), introduce private label, and to build state of the art distribution centre in Slovenia. It can also be considered an innovator within the holding company Spar International: in 2002, Spar Slovenija opened the largest megamarket at that time (i.e., hypermarket with over 4,000 m^2 and more than 32,000 products) in the entire Spar International chain and was the first Spar subsidiary to develop a new type of store, "Spar 2000" (i.e., a small store in the urban city centre with a "to go" department). In 2012, Spar Slovenija operated 88 stores of various retail formats: supermarkets, hypermarkets, megamarkets, Spar City stores and shopping centres (Spar Slovenija 2013). The average size of the Spar retail unit in Slovenia is the largest within the Spar network in Western and Central Europe (Spar International 2013).

Spar is the second major food retailer and one of the largest employers in Slovenia. Its positioning strategy is based on quality, freshness of produce and friendly staff. Under the slogan *"Good for me"*, it offers over 1,700 products under various private labels in almost all product categories in order to offer an excellent quality–price ratio. The retailer strives to include into its assortment a variety of goods from Slovenian suppliers, including fresh produce, and thereby support the domestic economy (Spar Slovenija 2013).

Several independent studies indicate that implementation of Spar's positioning was successful. In 2013, 30% of Slovenian consumers perceived Spar as being the most desirable of all available retailers. Although this share declined for 3 percentage points as compared to 2012, Spar was still 12 percentage points ahead of the next competitor, Mercator (Južnič 2014). Similarly, AC Nielsen reported in its Shopper Trends 2013 that Spar stores in Slovenia obtained the highest consumers' scores with respect to numerous criteria, such as simplicity of finding products in the store, service quality, high quality of fresh food, a pleasant shopping experience, and the introduction of novelties. In addition, Slovenian consumers perceive Spar to be the leading retailer in freshness, quality and variety. Spar obtained the highest consumer trust rating, and consumers perceived it as offering the best quality–price ratio (Spar Annual Report 2012). In 2012, Spar was perceived as being the most respected retailer in Slovenia. At the end of 2012, 85% of Slovenian households had a Spar loyalty card, with more than 90% of all Spar loyalty cards being actively used (Spar Annual Report 2012).

Engrotuš

Engrotuš is the third largest food retailer in Slovenia and operates as part of Tuš Holding. The company's business operations cover food and non-food trade activity, entertainment and the catering industry. In 2001 and 2005, the company earned an award for best performing and fastest growing company in Slovenia. At the end of 2012, Engrotuš operated almost 300 stores under the name Tuš in various retail formats: supermarkets, markets, drugstores, Cash & Carry (including C&C online stores for B2B customers), and shopping centres. 20 stores operated in foreign markets (i.e., Bosnia and Herzegovina and Macedonia). Its vision is to become a local retailer with the most satisfied and loyal customers. The company's slogan promotes continuous improvement and the best quality–price ratio (*"Tuš–Getting Better and Better"*). The retailer recently started to emphasise freshness and local product selection. In 2011, it launched an extensive promotional campaign "Respecting Slovenian products" in order to support local producers while responding to consumers' wants. Similar to other major retailers in Slovenia, in 2012 the company opened a new convenience retail format promoting efficient purchases (Engrotuš 2013; Engrotuš Revised Annual Report 2012).

Hofer and Lidl

Hofer is a subsidiary of Aldi-Süd and owned by Hofer AG Austria. It entered the Slovenian market at the end of 2005 by opening its first 11 stores. It currently operates 72 discount stores, in which it offers 700 products along with 15 to 20 limited time offer products presented twice a week. Hofer strives to offer “a selection of products of the highest quality at the lowest prices” based on cost optimisation (Hofer 2013). The company received the “Best Buy Award 2013” for being the leading international chain retailer in Slovenia and offering products with the best quality-price ratio. Instead of selling well-established national brands, the retailer constantly develops and improves private labels, thereby controlling the quality it provides to consumers at attractive prices. Its offer increasingly includes products from Slovenian producers. It offers an extensive guarantee for its products (Hofer 2013; Hofer Revised Annual Report 2012). Hofer ended 2012 with 6.2 million EUR in net profits (TOP 101 2013).

Lidl entered the Slovenian market in 2007 by opening 15 stores. By the end of 2012, it had 43 stores throughout the country, generating 8.2 million EUR in net profits, which covered losses from previous years. Lidl has positioned itself as a retailer offering the highest quality at attractive prices (*“Simply more for you”*). In addition to quality and prices, its marketing communications emphasise freshness and employee helpfulness. Lidl’s assortment is considerably larger than Hofer’s, and in order to meet the everyday needs of the average Slovenian family, its assortment includes more than 2,000 products. Lidl is the only retailer in Slovenia to offer a timeless guarantee for all food and non-food private labels. The company follows its strategy of rapid and successful new store openings (Lidl 2013; Lidl Annual Report 2012).

4.2 Non-food retailers

Retail in the non-food sector remains highly fragmented and extremely competitive in Slovenia. Top three retailers held 22.1% of the market in 2012 (see Table 3). Specialty retailers in categories electronics, appliances, home, and garden reported significant decreases in retail sales in 2012. It is predicted that economic situation in 2014 will impact non-food sales the hardest and a sales recovery can be expected only in 2015 (Non-Grocery Retailers in Slovenia 2013).

Table 3: Larger non-food retailers

	Sector	Number of employees	Number of stores	Retail formats	Sales area (m^2)	Market share in Slovenia (2012)[1]
Merkur d.d. (since 1896)	Technical	2,276 (78% in Slovenia; 11% in Croatia; 9% in Serbia; 2% in BiH	33 (24 in Slovenia)	Superstores Smaller specialised stores Online store	130,000 m^2	13.4%
Mercator d.d.: Intersport, Modiana	Intersport: Sports equipment	Intersport ISI: 774 (Slovenia: 326; foreign markets: 448	Intersport ISI: 83 (Slovenia: 31)	Specialised stores within shopping centres Single stores in city/tourist centres	18,380 m^2 (gross area); 13,971 m^2 (net sales area)	5.1%
	Modiana: textile, cosmetics	Modiana d.o.o.: 526; Group Modiana: 926	Modiana: 88 (Group Modiana: 149)	Cosmetics stores Drugstores	33,000 m^2 (net sales area)	
Müller Drogerija	Cosmetics, toys, paper products		14	Superstores	400–4,500 m^2 (size of retail unit)	3.6%
DM Drogerie markt	Cosmetics	406	66	Drugstores	N/A	3.6%

Note: [1] Non-Grocery Retailers in Slovenia (2013)
Sources: Company websites, company annual reports

Merkur

Merkur is the leading Slovenian technical reseller, providing home & garden products to final customers, companies and craftsmen. It held 13.4% market share in 2012. The parent company, along with its affiliates in three foreign markets (i.e., Croatia, Serbia and Bosnia and Herzegovina), represents the core business division of Merkur Group. Merkur operates 33 medium (3,500–4,000 m^2) and large (6,000–8,000 m^2) superstores; 24 in Slovenia. Despite the market contraction, the Slovenian parent company increased its sales by 7% in 2012 and reported a positive EBIT (the Merkur Group reported a negative EBIT and net loss). The financial situation remains difficult as the company is in the process of a compulsory settlement prompted by faulty management decisions in the past. In 2012, Merkur reorganized its business processes, lowered costs, initiated the sale process for two non-core business divisions and started a search for a strategic partner (Merkur Annual Report 2012).

The company's vision is to become a leading company in the do-it-yourself (DIY) category, appliances and seasonal products in South-east Europe. The retailer's goal is to retain the leading market share in Slovenia, consolidate business in Croatia, moderately grow in Serbia, and minimise risk in Bosnia and Herzegovina. Merkur is attempting to position itself as offering the best value for the money. It follows a multichannel strategy—an integration of real and virtual communication channels in order to create a unique consumer experience. The company plans to optimise its regional coverage by decreasing the number of shopping centres in a particular area. At the same time, the objective is to increase the sales per square metre. Beside several producer brands, Merkur offers 5,700 products under three private labels targeting rational and price-sensitive consumers (Merkur Annual Report 2012).

Intersport ISI and Modiana

Intersport ISI is a leading sports retailer in Slovenia and part of the world's largest international sports retail chain, Intersport. In 1999, Mercator signed a licence contract for the development of Intersport retail units in Slovenia and opened the first store with this banner. In 2009, the company Intersport ISI, 100% under the ownership of Mercator, was established. At the end of 2012, the company operated 81 owned and two franchise retail units in Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Montenegro. Its stores are located in Mercator's and other shopping centres, but also as independent stores in larger city centres and tourist centres. Marketing activities for sales growth along with rationalisation and slower investment activities enabled the company to stabilise its operations in 2012, when its sales were 0.3% lower than in 2011 (Intersport Annual Report 2012).

Modiana, another Mercator's subsidiary, is one of the largest retailers of fashion textile products in Slovenia, operating in Slovenia, Croatia, Bosnia and Herzegovina and Serbia. Its vision is to become the largest textile retailer in South-east Europe offering quality products at acceptable prices. In addition to specialised stores with textile products in shopping centres, Modiana includes also perfumeries under the brand name Beautique (Modiana Annual Report 2012).

4.3 Non-store retailers

Non-store retailing includes vending, direct selling, home shopping and internet retailing. Despite the unstable economic situation and fall in consumer disposable incomes, non-store retail value sales in Slovenia increased by 4% and reached 217 million EUR (excluding sales tax) in 2012. Growth was driven primarily by the increasing popularity of internet retailing, showing a 59% increase in value sales in 2012, as well as the increase of direct selling in 2011 and 2012. On the other hand, home shopping recorded a 15% decline in value sales in 2012, mainly due to the exit of the largest catalogue retailer, Neckermann. As non-store retailing is still poorly developed in Slovenia, accelerated development and improvement of the overall sales performance are expected in the future. Non-store retailing is expected to grow by a 6% constant-value compound annual growth rate (CAGR) over the 2012–2017 period (Non-Store Retailing in Slovenia 2013).

The leading companies in non-store retailing in Slovenia are the multichannel retailer Studio Moderna and internet retailers Mimovrste and Gambit Trade. Mimovrste is the largest internet retailer, with a 14.4% share of total non-store retail value sales, followed by Gambit Trade (10.2%) and Merkur (6.1 %) (Non-Store Retailing in Slovenia 2013).

Studio Moderna

Studio Moderna was established as a Slovenian direct sales company in 1992, but it quickly grew into a leading multichannel e-commerce and direct-to-consumer platform in Central and Eastern Europe. With local offices in 21 countries, the company in total employs approximately 6,000 employees and has 130 transactional websites, more than 200 retail stores, 22 call centre locations, more than 300 hours of daily TV advertising, 6 wholly owned TV channels and a vast network of retail and wholesale partners, including Baumax, Interspar, Mercator and Metro. In addition to sales and promotional activities for many third-party products, the company develops its own brands, such as Kosmodisk (the company's oldest brand for a back-pain relief device), Dormeo (the leading bed brand in CEE, launched in 2002), Top Shop (one of the largest multichannel retail brands in CEE, established in 1996, covering direct response TV advertising, online stores and retail outlets), Bigfish (a folding bike, launched in 2008), Delimano (eco-friendly cookware products), LiveActive (sports and outdoor leisure products) and Wellneo (food supplements, fitness products, and ecological products). The company also owns a fashion retail subsidiary, Studio Moderna Fashion Group, which operates the Stilago online fashion club, the fastest growing fashion online store in CEE, and Stil2Go, the largest online fashion outlet in Eastern Europe (Stilago 2013; Stil2Go 2013; Studio Moderna 2013).

Studio Moderna in Slovenia—part of the international group Studio Moderna—had 43 million EUR of net sales and 431 employees in 2012, making it the leading company for direct marketing in Slovenia. Nevertheless, the company's net sales were 7% lower than in 2011; 52% of the net sales were generated in Slovenia, whereas the rest were achieved in foreign markets. The decrease in net sales was larger in the Slovenian market than in foreign markets (-9% versus -4%, respectively). The most notable activities in 2012 involved the relocation of warehouse facilities to Poland and the optimisation of logistics chain and processes. The company plans to further expand its network of partners and include more products from local producers, develop new communication and distribution channels as well as develop innovative concepts for customer relationship management in order to build long-term customer loyalty (Studio Moderna Revised Annual Report 2012).

Mimovrste

Mimovrste established its online store with computer equipment in 2002, and two years later renewed and upgraded it by launching the online shopping centre Mimovrste, with extended product assortment. Today, the company offers more than 80,000 products in 15 product categories. The number of monthly orders exceeds 17,000. Since its beginning, the online retailer recorded rapid growth, particularly in 2006 and 2008, when the sales doubled. Despite the unfavourable economic conditions, the retailer increased its sales by more than 25% in 2009 and 20% in 2011 (Mimovrste 2013; Mimovrste Annual Report 2012). In 2011, Mimovrste received fresh capital totalling 3 million EUR from the Dutch company Netretail Holding, which operates internet store malls in the Czech Republic, Slovakia, Poland and Hungary. Netretail Holding became a full owner of Mimovrste at the end of 2012 (Cvelbar 2012). Mimovrste strives to offer a pleasant shopping experience through product variety, quality of service and attractive prices. The retailer also plans to expand its assortment of product categories with growth potential and expand into foreign markets (Mimovrste Annual Report 2012).

5 Trends in consumer behaviour

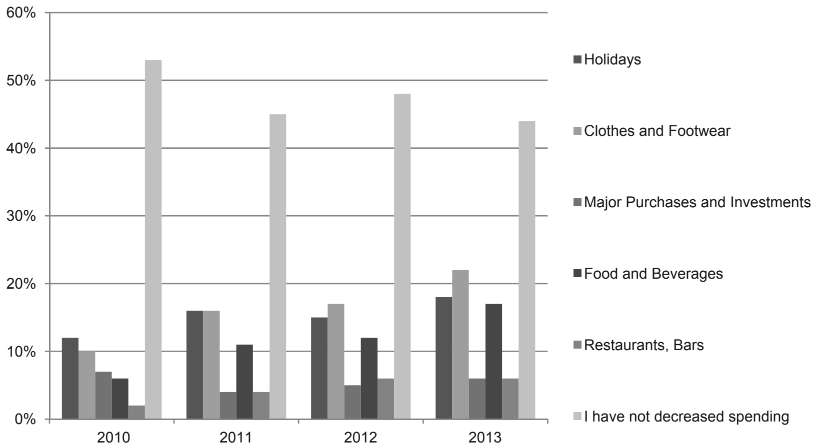
The most prominent force impacting Slovenian consumers' purchase behaviour in 2013 was the continuing economic recession. In 2012, the region's unstable economic situation and the negative prospects for the Slovenian economy caused the consumer confidence index to fall to its lowest point since the end of 2009. Consumers have become much more prudent with their purchases, increasingly differentiating between their wishes and needs (Retailing in Slovenia 2013). At the same time, Slovenian consumers are tech-savvy and are increasingly using internet and mobile phones for product and price comparisons, putting additional pressures on classic brick-and-mortar retailers. However, multichannel retailing should not be seen as a threat but as an opportunity to reverse the negative sales trends.

5.1 Impact of economic recession on consumer spending

Slovenian consumers have had to suffer through periods of economic sluggishness, stagnant wages and rising unemployment in recent years. Not surprisingly, years of steady decline in disposable income have affected their attitudes on spending. Many consumers are tightening their belts and cutting back on discretionary spending for both grocery and non-grocery items (Consumer Lifestyles in Slovenia 2012). A survey by the Slovenian Marketing Association found that, in 2013, 82% of Slovenian consumers believed that the economic recession had impacted their personal lives through higher prices and lower purchasing power (42%), decreased income (38%), loss of employment (17%), and psychological pressure via the media and their social environments (18%). A steady increase in the proportion of affected consumers since 2009 clearly indicates that standards of living were deteriorating throughout the recession period (Trženjski monitor 2013). However, the measurements in April 2014 reveal that some optimism is returning. All indicators showed some improvement. Declines in income and consumption were less pronounced. A share of consumers that felt recessionary effects in their daily lives declined for two percentage points, to 80% (Trženjski monitor 2014).

In 2010, after the first recessionary year, consumer spending was most severely cut in the non-essential goods categories (e.g., holidays) and in those categories where purchase could be postponed (e.g., clothes and footwear, larger investments). Approximately 6% of consumers reported that they had to cut down on spending for food and beverages, while the majority of consumers (53%) did not lower their expenditures (Trženjski monitor 2009).

Figure 2: Expenditure cuts by product categories compared to the previous year (% of respondents)

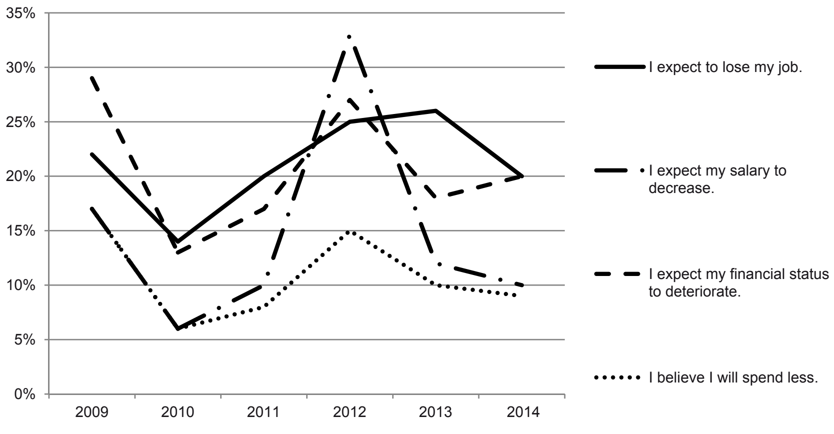


Source: Trženjski monitor (2013)

By 2013, a much different picture had emerged (Figure 2). The number of consumers who carefully plan their purchases and are more prudent in consumption has steadily increased over the years (73% in the spring of 2013 compared to 60% in the spring of 2009). The share of consumers who did not report spending cuts in 2013 compared to the year before shrunk to 44%. Overall, expenditures declined during the entire period and across all categories. The share of consumers who spent less on food and beverages increased to 17%, a five percentage point increase over the previous year. Major purchases were still being deferred, as were expenditures in tourism and restaurant services (Trženjski monitor 2013).

However, it seems that by 2013 consumers had learnt to live with the recession, and a new equilibrium had been established. Negative expectations have somewhat abated, and in 2014 they returned to 2011 levels (see Figure 3). It appears that past expectations regarding the outcomes of the recession have been met, and some of the optimism has returned. Consumer confidence slightly improved in 2013 and was two percentage points above the 2012 level (Consumer Opinion Survey 2013).

Figure 3: Expectations for the near future/next few months
(% of respondents who agree with each statement)



Source: Trženjski monitor (2014)

Slovenian consumers' reactions to the economic downturn are similar to those of consumers in other countries. According to the Nielsen data, 62% of Europeans have changed their shopping habits due to the economic downturn (Nielsen Global Omnibus Consumer Confidence Survey 2013). In the second quarter of 2013, more than 50% of consumers spent less on new clothes, cut down out-of-home entertainment, and switched to cheaper grocery brands. Other belt-tightening actions include saving on gas and electricity and cutting down on holidays and take-away meals.

Price has become the most important determinant of purchases for many Slovenian consumers. The location of the store is still important in grocery purchases (GfK Shopper Monitor 2012); however, due to high market coverage by all major retailers and discounters, location *per se* is not a differentiating source of competitive advantage. Extensive store networks make it easier for consumers to distribute their purchases across several retailers while they are hunting for price bargains and special deals. According to the Nielsen Shopper Trends (2013), 55% of Slovenian consumers buy only the products they need, 50% buy in bulk to get lower prices, 47% actively look for and buy products at discounted prices, 38% buy less overall and 6% switch to cheaper brands. Prior to making a purchase, 66% of consumers visit retailers' websites to check out special offers and weekly deals. In the current economic climate, consumers are reappraising their store, brand and format choices.

Sales of private label products have increased, while mid-priced and universal products have experienced a large drop in demand (Retailing in Slovenia 2013). A switch to private labels already happened in 2009, when almost half of Slovenian consumers reported that they bought more private label products than in the previous year (Trženjski monitor 2013). The number of private label buyers is still increasing, although the growth is slowing down as it approaches the saturation level: 17% of consumers bought more private label brands in 2013 than in 2012 (Nielsen Shopper Trends 2013). The main reasons for buying private label products include the perception that these products are cheaper than manufacturer brands (77% of consumers) and offer good value for money (43%). Furthermore, consumers believe that the quality of private label products is comparable to other brands (37%) and is constantly improving (26%).

Another way for consumers to maximise the received value is to use various benefits offered within loyalty programmes. Loyalty programmes are an important marketing tool with which traditional retailers are trying to fight off discounters. According to the Trženjski monitor (2013), Slovenian consumers typically own several loyalty cards (52% of consumers have three or more loyalty cards), and more than 50% of consumers participate in loyalty programmes with three major retailers. Spar's loyalty card was used for approximately 70% of all sales at Spar in 2012 (Spar Annual Report 2012), while 60% of purchases were made using the Mercator loyalty card in 2011 (Mercator Annual Report 2011).

Online couponing provides additional opportunity to save money. In 2012, approximately one-quarter of Slovenian online shoppers bought coupons, averaging five coupons each. The most popular categories included various services, like holidays (42%), restaurant services (27%), beauty parlours (21%). 30% of online shoppers bought coupons for various products (Trženjski monitor 2013).

Despite high prices and income elasticity, Slovenian consumers increasingly focused attention on country of origin in all product categories. A recent survey by the Slovenian Marketing Association identified a particular consumer segment "Buyers of high quality" exhibiting high loyalty to the brands, particularly to the ones of Slovenian origin. This segment included 13% of respondents in the sample, with the highest purchasing power (Trženjski monitor 2014).

The country of origin has the largest impact when shopping for meat and meat products, but it is becoming increasingly important when buying fresh fruits and vegetables and personal cosmetics as well. In 2013, the average level of confidence in purchased food among Slovenian consumers was 3.2 on a 5-point scale. Food from Slovenian producers obtained the highest level of consumer confidence (4.0), whereas products from foreign producers outside the EU (2.1) or within the EU (2.7) obtained the lowest levels of consumer confidence. Consumers most trusted the quality of food bought at market stalls (3.7), Mercator (3.6) and Spar (3.5). Engrotuš, Hofer and Lidl lagged behind with scores of 3.3, 3.2 and 2.9, respectively (Trženjski monitor 2013).

5.2 Multichannel retailing

The recent developments in digital connectivity are forcing retailers to change their perspectives. Consumers own multiple personal technology devices that enable easy access to information through numerous communication channels. In theory, digital technology can connect any retailer or manufacturer to any customer in the world who has access to the internet (PwC, 2012). Most of the steps in the purchasing process can be conducted using a computer, tablet or mobile phone. Internet and mobile applications have become important media for connecting to consumers.

Slovenia has an 83% internet, 42% smartphone and 14% tablet penetration rate, placing it somewhere in the middle of the spectrum of European countries (Consumer Barometer 2013). Like elsewhere in Europe, online shopping is gaining momentum. Among Slovenian internet users, 45% made an online purchase in 2011, whereas the EU average was 58% (RIS 2013). In 2014, already 68% of consumers purchased at least one item online within the past year, an 8 percentage point increase from 2012 (Trženjski monitor 2014). Slovenian e-consumers made significantly more purchases in Slovenian e-stores (RIS 2013), a trend observed also in other countries (PwC 2012). They buy most often technical products, apparel, footwear and electronics. The main reasons for shopping online include lower prices, practicality, larger variety and time savings. On the other hand, the main obstacles for those who do not shop online relate to the consumers' inability to try the product and a lack of trust (Trženjski monitor 2012; 2013; 2014).

Data show that 45% of consumers start their purchasing journey with online research, using search engines, company websites, comparison sites and social networks (Gorenjc 2013). Online channels are also important for post-purchase evaluations and sharing experiences. Yet, online channels are not a threat to offline channels—just the opposite, in fact: when given multichannel access, consumers actually spend more with their favourite retailers instead of shifting some purchases to a different channel. In most countries, a substantial portion of pre-purchase research is still conducted offline, mostly when making larger purchases or when it is important for consumers to actually see the product before buying it. Slovenian 2014 data show that 27% of respondents searched for items online, but then made a purchase offline. 18% bought products online, but collected them in stores (Trženjski monitor 2014). The ability to see, touch and try products still ranks as shoppers' number one reason for visiting a store in person, followed closely by immediate delivery of the product (PwC 2012).
Therefore, retailers' capability to offer multichannel contact points is crucial in certain categories. Conventional brick-and-mortar stores will remain the most important component of a multichannel strategy, and pure online retailers will have to find ways to overcome their deficits (Jahn 2013). The PwC (2012) study indicated that web product research drives far more shoppers to make a physical store purchase than vice versa. For example, when buying consumer electronics, 23% of respondents conducted research online before going to a store to buy the product, compared to only 2% who did it the other way around. A similar ratio holds true across several shopping categories.

Online behaviour in Slovenia varies across product categories as well as by stages in the purchase process. In general, a large percentage of purchasers conduct research online, but a much smaller percentage actually buys online. Online and offline pre-purchase research is relatively balanced, although the ratio depends on a product category (Consumer Barometer 2013). Among Slovenians who purchased products in 2013 and are part of the online population, an average of 77% conducted online research prior to purchasing products (97% in the case of package holidays and 40% when buying groceries). Of these, 25% actually bought products online, while 53% researched online and purchased offline (the so-called ROPO effect). The largest share of online purchases was in category of leisure flights (59%) while the smallest was in groceries (1%). The largest ROPO effect was in car sales (76%), and the smallest in leisure flights (34%).

The fact is that conventional brick-and-mortar retailers cannot afford to neglect multichannel access, regardless of what they are selling. E-commerce is rapidly gaining ground in categories that were previously little affected, such as groceries. For example, although online sales in Slovenia in 2013 accounted only for 1% of grocery sales, the internet represents an important communication channel. 40% of grocery buyers conducted prior research online, with 21% using search engines, 3% using mobile phones, and 1% using tablets (Consumer Barometer 2013). The Nielsen data show that Slovenian consumers visit grocery retailers' websites primarily to check out special offers and promotions (66%), acquire other information (e.g., store location, opening hours) (43%), and look up recipes (18%) (Nielsen Shopper Trends 2013).

5.3 Retailer's responses: changes in business models?

The year 2013 was in many ways the worst year for the Slovenian retail sector since 2008 (Križnik 2013). Mercator and Merkur, the largest retailers in food and non-food sectors were still undergoing severe business restructuring, which included selling off non-core and unprofitable businesses, withdrawal from unprofitable markets, and cost optimisation (Mercator Annual Report 2012; Merkur Annual Report 2012). Many other traditional retailers were also struggling to maintain their market shares and improve profitability.

On the other side of the performance spectrum were non-store retailers and discount chains with healthy growth rates. Non-store retail in Slovenia is expected to grow further, mostly due to its relative underdevelopment in comparison to other countries (Retailing in Slovenia 2013). The leading online retailer, Mimovrste, is in the process of revamping its logistics system. It will set up a new warehouse to cut down on delivery time, optimise logistical processes and introduce a new IT platform (integrated with Netretail Holding systems) to enable the introduction of new services, enlarge product assortment and facilitate consumer analytics (Mimovrste 2013a). However, the growth of pure online retailers might flatten out in the near future. GfK estimates that, in international terms, pure internet players have already reached a maturity phase of the retail format lifecycle and predicts that the future lies in an omnichannel approach, mobilizing social networks and mobile marketing platforms (Retail Trade Monitor 2013).

Discount chains in Slovenia will continue their strategy of offering a "selection of high quality products at lowest prices" (Hofer 2013). Hofer defines quality through the safety of the products, concern for consumers' health and sustainability (Hofer Revised Annual Report 2012). Lidl claims that the quality of its private label products in most cases exceeds the quality of established national brands, as proven by independent quality tests (Lidl Annual

Report 2012). As long as consumers perceive that they receive adequate quality at affordable prices, it will be very difficult to draw them back to retail chains with less favourable price–quality ratios. Thus, traditional retailers will have to work hard to justify premium pricing. One of the levers for the sustained growth of discount retailers will be the further expansion of store networks, as all foreign discounters are searching for new locations (Eurospin 2013; Hofer 2013; Lidl 2013).

Traditional retailers realize that fighting discount chains and non-store retailers with low prices would be futile. Hence, they look in the other direction; besides improving price-quality perceptions of consumers, they build upon providing a unique product assortment and consumer experience. Mercator plans to restructure its store network (focusing on smaller formats and providing convenience), increase the share of private label products, dissolve its image of a high-price retailer (by offering various discount schemes), and expand the assortment of local products. Initiatives such as "Farmer's Market" and "From my Hometown" which build on offering local, seasonal, and fresh products purport to evoke a perception of close ties with local communities. The retailer redesigned its loyalty programme in 2013 to include instant discounts and customised price promotions. It is also trying to promote multichannel shopping by widening click-and-collect service (Mercator Annual Report 2012). In the past, Mercator was one of the few Slovenian firms that started using analytical CRM tools, such as data-mining, to identify consumer segments and predict purchasing patterns based on scanner data. Most recent projects include the integration of existing applications into a computer-assisted system for efficient shelf management and the introduction of a personal shopping assistant system. Once effected, in-store logistics system will facilitate the use of e-shopping lists and assist consumers in locating individual products. However, given Mercator's current financial situation, the implementation of these projects and initiatives is contingent on the availability of financial resources to support necessary investments.

Spar has followed in Mercator's footsteps by developing its CRM system and loyalty programme. Both were introduced only recently, with much delay compared to its main competitors. Spar expects that the system and programme integration will enable the optimisation of distribution costs as well as the customisation of assortment and promotion offers according to purchase behaviours of their target segments (Spar Annual Report 2012).

Compared to other conventional retailers, Engrotuš is perceived as a low-price chain. In response to falling consumer expenditures, it added a new convenience format (Ekstra Tuš) and upgraded its loyalty programme which now enables designing more effective product/service bundles and greater personalisation of loyalty benefits. Heightened consumer awareness regarding product origin is being addressed by adding more local products to the assortment. Special focus is placed on the freshness of products as a cornerstone for enhanced value perception. On the supply side, its efforts are directed towards achieving efficiencies in logistics and IT systems (Engrotuš Revised Annual Report 2012).

Merkur also strives to keep its leading position in the DIY sector by taking into account increased price sensitivity of consumers. Its strategy includes promoting private labels, while maintaining a large assortment and favourable price–quality ratio. The pricing strategy will rest upon a simplified pricing scheme. Instead of offering a multitude of price promotions, Merkur devised some new price labels, signifying low/favourable prices across several product categories. The company plans to capitalise on its past investments in multiple channels by integrating online and offline shopping experience. To this end, the company is redesigning store layouts, upgrading the online store and supplementing its loyalty programme (Merkur Annual Report 2012).

When it comes to introducing new technologies in stores, Slovenian retailers are lagging behind their international counterparts. A few years ago, Mercator and Spar introduced self-check-out points, and several retailers use information kiosks. Augmented reality, such as QR codes, is rarely utilised.

In addition, in terms of multichannel retailing, retailers in Slovenia seem to be sluggish. Many retailers have introduced mobile apps which can be used to locate stores, browse for products currently on promotion, create shopping lists, and access loyalty programme accounts. Mercator is the only grocery retailer with an online store. Although its web store has been in operation for several years, online sales remain very low. Products can be either delivered or collected at the store, with a drive-in option at Ljubljana click-and-collect locations. More numerous are multichannel retailers in technical retail (e.g., Merkur, Big Bang, M-Tehnika, Comshop); however, online sales represent only a fraction of their total turnover. This indicates that retailers have troubles in adapting their business models to fully exploit multichannel potential. Even companies like Mercator and Merkur, who have had multiple channels in place for some years, still have a long way to go before they can offer a true omnichannel experience to their consumers.

A notable exception in its approach to omnichannel retailing is Big Bang (a specialised technical products retailer within the Merkur Group). The “Big Bang World” omnichannel model supports the fusion of online and in-store shopping. The website includes an information portal with articles and in-house produced videos that explain and demonstrate the features of new technologies as well as a “wizard” which can assist consumers to choose the product that fits their needs (Big Bang 2013). On the brick-and-mortar end, interactive kiosks serve as info points which can be used by consumers or by sales personnel to narrow down product selection (by using product wizard), locate a particular product on the shelves or order products that are not on display from the warehouse. The main business purpose for introducing tools like the wizard and kiosks is to support up-sale and cross-sale (via product recommendations) as well as the support of sales of long-tail assortment.

6 Conclusions

The Slovenian retail industry is highly consolidated. Given the small country size, this is not surprising. High market concentration poses some threats for market efficiency, especially through supply-side squeezes. However, with the onset of the recent recession, these concerns have become secondary as retailers are no longer in a position to exercise excessive market power. The recession has substantially changed consumption patterns, thereby impacting the retail landscape. Price considerations are currently a primary concern for both retailers and manufacturers, as consumers are extremely price sensitive.

In order to improve business performance, retailers have to identify strategies that would facilitate downsizing and restructuring while at the same time allow for creating value for consumers. Extreme cost minimisation might prove self-defeating as the new, empowered customer is highly demanding. The key to success within the new retailing environment is the development of an omnichannel set-up, where online and offline worlds seamlessly overlap and where a unified and coherent brand image is conveyed across various touch points. As financial resources for funding investments in new technologies are scarce, Slovenian retailers will have to apply significant inventiveness and out-of-the-box-thinking to create unique shopping experiences tailored to a specific sales channel's assets.

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Retail in South Africa: profile and future prospects

Andrew Montandon

Abstract

The retail space in South Africa has more than tripled its size in the last 8 years, most of which has been due to massive expansion by the large FMCG retail players. Informal retailers have similarly seen massive growth in patronage by middle-class consumer demographic, but have continued to face problems with outshopping. National grocery retailers in South Africa focus on Private Label brand usage, which sits around the global average of 17% in South Africa but shows potential to grow to a similar proportion of the European market, within the next decade. The development of multi-tiered Private Label brands in South Africa is in line with the activity in more-developed FMCG retail markets, and this approach is paying-off in both instances, as recession-burdened consumers are responding more favorably to the wide range of Private Label products, experiencing value at every price-level, year-on-year. Legislation requirements in South Africa's retail environment and the upsurge of demand for environmentally-friendly retail products by South African consumers means that additional challenges and opportunities await South African retailers of the future.

Key words
Retail, South Africa, shopping, market overview, private label brands

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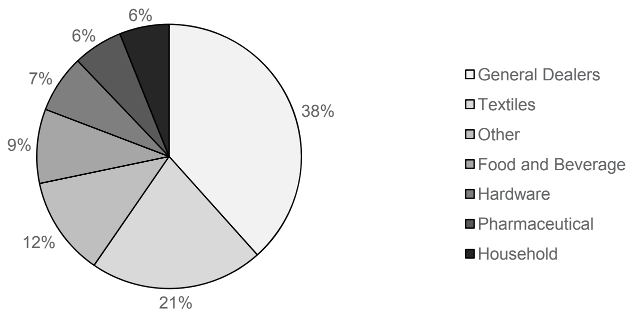
1 Introduction to South African Retail

Within the retail landscape of South Africa, retail space has grown substantially to occupy 18.5 million m^2 of land (as of 2010), which comprises predominantly of 1,443 shopping centres (up from 6 million m^2 and 239 shopping centres in 2002) (Prinsloo 2009; 2010). The Gauteng province represents the bulk of the mass, with its retail area increasing from 3 million m^2 and 111 shopping centres in 2002 to 8.5 million m^2 and 634 shopping centres in 2010, an increase that is greater than the retail area of the entire country in 2002. Currently Gauteng provides 45% of the country's shopping centres, yet only contribute 26.5% to the country's retail industry, highlighting the diversity of spending patterns across South Africa's 9 provinces and the scope of retail across formal and informal sectors (Gauteng Province Provincial Treasury 2012).

When viewing the contribution of retail stores within South Africa's economy, it can be seen that retail trade sector is comprised of various components, where food and beverage retailers only contribute 9% of national sales within this sector. Despite this small percentage of retail trade sales, compared to areas like textiles (38%) as shown in figure 1, food and beverage sales still contribute a substantial proportion to South Africa's GDP (Gross Domestic Product). The tertiary sector as a whole contributes approximately 69% towards the national GDP, year-on-year, meaning that food and beverage sales contribute approximately 6% to GDP and general dealers contributing approximately 26% (Statistics South Africa 2013).

Figure 1: Composition of retail trade in 2012



Based on Statistics South Africa 2013

Supported by reduced interest rate and improved consumer confidence, retail trade sales have been increasing over the years. From 2004, retail trade sales have been increasing by an average of 1.32% month-on-month (Gauteng Province Provincial Treasury 2012). Due to the 2008 and 2009 recession, retail trade sales decreased by 3.67%. The industry managed to rebound in 2010 and recorded trade sales growth of 5.1%. However, the future of the retail industry appears to be encouraging, with the wholesale and retail component of the secondary sector continuing to contribute approximately 13.5% to GDP in South Africa, as shown in table 1. The industry's GDP contribution is forecast to increase from 2011's R 106 bn to R 122 bn by 2015 (Gauteng Province Provincial Treasury 2012).

Table 1: Sectorial Contribution to GDP in South Africa 2009 – 2011

Sector	2009 (%)	2010 (%)	2011 (%)
Agriculture	2.6	2.5	2.6
Mining	5.9	6.0	6.0
Primary Sector	8.5	8.6	8.6
Manufacturing	16.8	17.2	16.9
Electricity, Gas & Water	2.1	2.1	2.1
Construction	3.6	3.5	3.1
Secondary Sector	22.4	22.8	22.4
Wholesale & Retail	13.6	13.7	13.8
Transport & Communication	10.3	10.2	10.3
Finance & Business Services	23.7	23.5	23.6
Community Services	21.5	21.3	21.3
Tertiary Sector	69.1	68.7	69.0

Source: IHS Global Insight 2012

Within the food and beverage component of the retail component of the tertiary sector–several key players are identified as representing much of the formal FMCG retail space. South Africa's consistent output in the retail area is mostly attributable to these large national retailers. South Africa's top 5 retailers are all listed among the top 250 retailers globally, according to Deloitte's 2014 Global Powers of Retailing report. Shoprite (supermarket) was ranked 94th, Steinhoff International (specialty retailer) 125th, Pick n Pay (supermarket) 137th, Spar (supermarket) 172nd and Woolworths (department store) 234th. However, despite South Africa's seemingly massive growth in retail development, South Africa's Global Retail Development Index (GRDI) has seen a deterioration from 24th (41.7) in 2010 to 26th (42.2) in 2011, out of 30 developing countries (A.T. Kearney 2011). As of 2013, South Africa has dropped off of this list of the 30 most promising developing countries (A.T. Kearney 2013). Additionally, South Africa is currently only the 7th most developed retail environment on the African continent (A.T. Kearney 2014).

Assessing the major players within South Africa's retail space, prominent formal retailers include Pick n Pay Holdings Ltd, Shoprite Holdings Ltd, Spar Group Ltd and Woolworths Holdings Ltd, as well as a collective body of independent retailers (Gauteng Province Provincial Treasury 2012; Goger/Hull/Barrienos/Gereffi/Godfrey 2014). The specific scope of these retailers and their representativeness is discussed in the following section.

2 South African FMCG retail company profiles

South Africa's retailing area is not governed by a formal regulatory body, although South Africa's large retailers all hold membership within several councils within South Africa (Gauteng Province Provincial Treasury 2012). Associations with all of the regulatory associations highlight the major players within the South African retail environment. These associations include the Consumer Goods Council of South Africa, the South African Retail Council, the Franchise Association of South Africa and the Council of Shopping Centres South Africa. The specific members of these councils include Pick n Pay Holdings Ltd, Shoprite Holdings Ltd, Spar Group Ltd and Woolworths Holdings Ltd and independent retailers - the most prominent of these retail chains in Africa, is Pick n Pay Holdings Ltd, which is discussed next.

2.1 Pick n Pay Holdings Ltd.

Pick n Pay is one of Africa's largest FMCG retailers, which occupies a 30% market share in Africa. As of 2013, Pick n Pay was operating 992 stores (937 in South Africa) which were made up of hypermarkets, supermarkets and family stores (Pick n Pay 2013). The group also employed approximately 49,000 people during 2010, but has reduced somewhat since then (Pick n Pay 2010; 2013). Pick n Pay additionally operates within seven African countries and offers a variety of Private Label brands. A low-cost "No name" brand, "PnP" brand, as well as a super-premium brand "Finest". Within South Africa and the rest of the continent, Pick n Pay faces primary competition through Shoprite Holdings Ltd.

2.2 Shoprite Holdings Ltd.

The Shoprite group similarly occupies 30% of the market in Africa. The company operates 1,303 corporate and 427 franchise outlets throughout 16 countries in Africa and as of 2012 employs more than 95,000 people (11,000 of which are outside South Africa) (Shoprite Holdings 2012). Shoprite caters primarily to the middle to lower-end of the FMCG retail food market and does so through Shoprite supermarkets, Checkers supermarkets, low-cost Usave stores, MediRite pharmacy stores, House & Home as well as the OK Franchise division.

2.3 Spar Group Ltd.

The Spar Group represents the third largest FMCG retail group in Africa with a market share of approximately 26% within its three African countries (FMCG Exchange 2014 and Spar 2012). It operates six distribution centres which supply goods to approximately 800 stores within South Africa. These stores include Build It, Pharmacy at Spar, Tops, Kwikspar and Supers Spar.

2.4 Woolworths Holdings Ltd.

Woolworths is the fourth largest by market share with 11% of the FMCG retail market across Africa (Gauteng Province Provincial Treasury 2012). The company employs approximately 26,908 employees, operates 940 stores and 145 franchises, with 365 grocery stores in South Africa (Gauteng Province Provincial Treasury 2012; Woolworths 2013). It offers its own brand of clothing, food, as well as home and beauty products. It operates within 18 countries and offers a complete range of Woolworths Private Label branded products. The Woolworths food stores specifically only offer Woolworths Private Label branded foods.

2.5 Massmart Holdings Ltd. (Walmart)

Massmart has operated nine wholesale and retail chains with 265 stores throughout South Africa and 13 additional chains in other African countries since 2011 (Massmart 2013). Massmart controls 10 brands under its umbrella which include Game, Dion, Makro, Builders Warehouse, Dion Wired, Builders Express, Builders Trade Depot, Jumbo Cash and Carry and Cambridge Food. While the Massmart group only contributes 1% of market share within Africa's FMCG retail, this is expected to grow drastically due to Walmart's recent acquisition (W&RSETA ILDP Programme 2011).

As of 2011, Massmart is partially controlled by Walmart, after acquiring a 51% stake in Massmart for R19.2 billion (Gauteng Province Provincial Treasury 2012). Retail development within South Africa has been expected to increase as a result, with expectations of Walmart's involvement to be in the form of developments into central distribution centres, additional offerings (such as food and drugs, within the Massmart stores) as well as growth into the rest of Africa (W&RSETA ILDP Programme 2011). This entry of Walmart into South Africa has, however, induced much pressure on the local retail industry, due to Walmart's reputation for efficiency and competitiveness. This fear has sparked wide development of supply chains and consumer experiences among many of the larger FMCG retailers in South Africa and is claimed to have forced independent stores to lay-off staff in order to remain competitive, against Walmart's EDLP (everyday low prices) strategy (W&RSETA ILDP Programme 2011).

2.6 Independent Retailers

Despite the threat of larger retailers, independent enterprises contribute 73% to employed labour within South Africa and are recognized for their innovation, flexibility and agility, owner-managed stores, lover overheads and lower-skilled employees than larger national retailers (W&RSETA ILDP Programme 2011). Currently independent retailers contribute a staggering 35.2% of consumers' food and grocery spend, as shown in table 2, and these retailers additionally service 81% of households in South Africa (W&RSETA ILDP Programme 2011).

Table 2: Retail sales among large retailers and independent firms

	2010	2013	%Change
Large Retailers	R 153 b	R 212.7 b	39%
Informal & Independent Retailers	R 79.5 b	R 115.6 b	45%
Total Food and Grocery Spend in South Africa	R 232.5 b	R 328.3 b	45%
Informal & Independent Market Share	32.4%	35.2%	1%

Source: W&RSETA ILDP Programme 2011

Additionally, independent (and especially informal) retailers face specific challenges and opportunities in South Africa's retail environment. With regards to national policy-independent retailers suffer as a result of the Consumer Protection Act (further described in following sections), while the act benefits consumers and is somewhat containable by large retailers - Independent food retailers are badly affected, due to a lack of expertise in supply chain management and conforming with requirements of the act (W&RSETA ILDP Programme 2011). This, coupled with increasing energy costs for retailers who rely heavily on air-conditioning, refrigeration and IT systems as well as increasing fuel costs, is expected to ensure independent retailers have bad future prospects (W&RSETA ILDP Programme 2011).

Independent retailers are advantaged, however, in their enhanced ability to attract consumers through the empathy of staff, which contributes an overwhelming part of ensuring future patronage, whereas national retailers rely on responsiveness and assurance to influence purchase intention in South Africa, with empathy performing a minor part (Klemz/Boshoff/Mazibuko 2006: du Plooy/de Jagger/van Zyl 2012). A considerable proportion of independent retailers within South Africa also spill over into the informal sector, who have unique opportunities. Informal retailers are specifically better suited to offer higher quality of service as they are more flexible and responsive to unique customer requirements but often lack in their development of strong CRM (customer relationship management) processes (Maclaran/McGowan 1999), so the actual delivery of service is often problematic in the informal sector (Rogerson/Bendixen/Abratt 2007). These retailers face additional challenges in their little access to formal financial assistance from loans or even micro-lenders (Schraader/Whittaker/McKay 2010), high competition (Woodward/Rolfe/ Ligthelm/Guimarães 2011) and increasing threat by national retailers (Chiliya/Herbst/ Roberts-Lombard 2009; Ligthelm 2008), their unique situation is discussed next.

3 Informal retailing in South Africa

Within South Africa, informal settlements (densely populated urban townships) contain various self-constructed shelters under informal land ownership and house informal retailing within the country (Rogerson et al. 2007). This informal sector focuses mainly on retail trade (Ligthelm 2003) and has employed approximately 13 million people between 2001 and 2009 (Bhorat/Kanbur/Mayet 2010). This is driven primarily by demand for grocery products, followed by clothing and furniture within urban townships, (Tustin 2004), contributing more than 12 percent of retail sales (Tustin/Strydom 2006). One of the major components of the informal retail is that of the "spaza shop". The term 'spaza' means 'hidden' and came about to describe the black owners of retail stores who were faced with many restrictions in starting and maintaining businesses during Apartheid (Thladi and Miehlbradt 2003 cited in du Plooy 2013). The bulk of monthly turnover through these stores is made through the sales of soft drinks, sugar, bread, alcoholic beverages, maize meal, cigarettes and paraffin (Ligthelm 2003). These retailers predominantly restrict their breadth of products, while instead offering depth in product categories (Klemz et al. 2006). Additionally as consumers have limited access to personal transport (car ownership), grocery purchases are typically limited to small quantities throughout a month (Tustin/Strydom 2006). Township retailers typically respond by offering well-known national brands and are highly responsive to changes in demand (du Plooy/de Jagger/van Zyl 2012). The typical South African rural retail environment is therefore characterised by Spaza shops (convenience retails operating from rural residential homes and structures); hawkers (selling perishable goods) and shebeens (unlicensed drinking establishments) (Strydom 2013).

Despite the informal sector being large and substantial in employment, staff employment is not full-time and stable (Ligthelm 2003; Rogerson 2007; McKeever 2006). This has brought about efforts to incorporate the informal retail environment into the fold of the formal sectors, which has continued since the mid-1990s (Reardon/Timmer/Barrett/Berdegué 2003). Also, given that supermarket developments reached a saturation point in high-income (urban) areas following the rapid expansion of supermarkets during the 1990s 'supermarket revolution', developmental focus has shifted to that of the urban township and rural areas (Reardon/Timmer/Barrett/Berdegué 2003; Weatherspoon/Reardon 2003). This shifted focus towards middle-class markets, so as to reach lower-income individuals (Tustin/Strydom 2006) and has resulted in more than 60% of South Africa's population being urbanized, with expectations reaching 80% by 2050 (Todes/Kok/Wentzel/Zyl/Cross 2010). This rollout of supermarkets into previously informal and urban environments has generated expectations that supermarkets will eventually replace the low-income informal markets of South Africa's urban townships (Reardon/Hopkins 2006; Reardon/Henson/Berdegue 2007). Developments within the Soweto Township (for example) in the last 10 years have allowed for formal retail space to more than double (Zondi 2011; Kohler 2010). These developments have been motivated by the massive spending power of middle-income township residents (black middle class) who represent a substantial consumer in current and future South African retail development (Tustin/Strydom 2006).

3.1 Black middle class

An adequate overview of common segmentation methods in South African consumer markets is given by Martins (2012). However, within the retail market specifically, a recent and substantial addition has been that of the "black middle class" which describes an under-served South African segment which represents the greatest opportunity within retail and service markets (Simpson 2008; Olivier 2007). These consumers are described according to their relatively high income (R 15.000) which places them above the need for state-housing assistance and enables them to not only participate in the housing market, but also enables them to purchase certain goods and afford special services (Donaldson et al. 2013). This segment is characterised as comprising of white-collar professionals, with tertiary education and in the process of relocating into the metropolitan suburbs of major cities (Simpson 2008; Van Eyk 2008). Their population size has grown substantially from approximately 1.7 million in 2004; 2.6 million in 2007 (UCT Unilever Institute of Strategic Marketing 2007 cited in Donaldson/Mehlomakhulu/Darkey/Dyssel/Siyongwana 2013; Udjo 2008); to a figure of above 4.2 million (approximately 10% of South Africa's population) in 2013 (Donaldson/ Mehlomakhulu/Darkey/Dyssel/Siyongwana 2013). Between 2007 and 2013, the spending power of this segment also doubled from R 200 billion to R 400 billion annually (UCT Unilever Institute of Strategic Marketing 2013 cited in Steyn 2013; Olivier 2007).

Certain retail environments, such as informal liquor retailers, continue to attract patronage by both low-income and the black middle class consumers, due to their accessibility and ability to support community gatherings, which is unavailable in urban retail settings. This separation is primarily race-driven and is attributed to a concentration of infrastructure development in previously white/urban environments, prior 1994 Apartheid, allowing for informal establishments to support the local community in unsupported areas.

3.2 Informal liquor retailers

Within South Africa, local shebeens fulfil a role as a drinking establishment as well as a means for the community to gather and interact socially (Rogerson/Hart 1986; Charman/Peterson/Piper 2013). There are estimated to be between 190,000 and 265,000 unregulated liquor retailers (shebeens) in South Africa (Devey/Skinner/Valodia 2003; Charman 2006; Petersen/Charman 2010). The bulk of liquor sold in these outlets are legally manufactured, however the shebeens themselves either lack licences to sell liquor or are unable to acquire licences due to municipal zoning regulations (Naumann 2005; Charman/Peterson/Piper 2013). Despite this, shebeens handle approximately 90% of beer and 50% of wine sales volumes in South Africa (Charman/Petersen/Piper 2013). This demand developed due to circumstances prior to 1994, when the bulk of black South Africans were granted limited access to enter formal drinking establishments (Rogerson/Hart 1986). Shebeens arose to fulfil the unmet demand by black South Africans, within their sites of residence (townships) and allowed the supplier (South African Breweries) to develop into a corporate superpower (Rogerson/Hart 1986). With more than 60% of middle-income residences choosing to stay in townships, despite their increased mobility (Ligthelm 2008), infrastructure developments have allowed further combat the effects of outshopping (Kohler 2010).

3.3 Outshopping

Outshopping (or market leakage) is illustrated by individuals shopping out of their residential area, most often due to a lacking in product or service offerings (Mullis/Kim 2011; Kim/Stoel 2010; Cole/Clowe 2011). Independent retailers within the informal sectors of South Africa are acutely aware of out-shopping (Strydom 2013) as consumer patronage has been subsequently focused towards concentrations of large retailers, within dense urban areas, who offer international retail products (Powe/Hart 2009). Soweto, one of South Africa's largest townships, experiences substantial quantities of outshopping—where only 20% (R 1 billion) of retail spending by the community is actually within Soweto (Kloppers 2009; Strydom 2013).

This has dire consequences in a rural setting, where these informal retailers offer primary work within the community (Bhat/Fox 1996; Vias 2004; Strydom 2011) and is a common experience in South Africa (Ravhugoni/Ngobese 2010; Ruhigga 2011). Informal retailers, however, receive consistent support by older members of the community with less disposable income (Mullis/Kim 2011; Jarratt 2000), and limited access to personal transport than the widening middle-class consumer group (Qiu/Maksymiuk/Brunning 2008). Apart from limited product availabilities causing outshopping, the rise in spending power of the black middle class has reinforced motivations to shop in urban environments for speciality goods

(Strydom 2013). This has cumulatively led to a massive growth in movement towards urban shopping areas and a decline in rural retailing activities (Ruhigga 2011). The situation within urban shopping areas additionally offers unique policy challenges for current and future retailers in South Africa.

4 Legal landscape in formal retailing environment of South Africa

Substantial changes across the retail landscape of South Africa have been promised, since the acceptance of the Consumer Protection Act (CPA) on 24 April 2009 and its actual implementation on 31 March 2011, when the Consumer Protection Act came into operation (CPA 2008). The purpose of the bill has been to "protect the vulnerable [consumers]", promoting broad-based public good and protecting the public from transactional exploitation and harm (Howarth/ Davidow 2010). However, the act is expected to generate far-reaching consequences in the retail market (Pepper/Slabbert 2011; Dinnie 2009; Dhai 2009). Section 61 of the act stipulates that either the producer, importer, distributer or retailer of any goods is liable for any physical harm (including death, injury or illness) caused at least partly as a consequence of product failure, defect or inadequate product information, irrespective of negligence. This has caused uneasiness within the retail environment, as either one of the many actors within the supply-chain could be held liable for product defects and failure (Slabbert 2011; Davis 2009). This has led authors to expect wide-spread litigation to occur within the medical sector (Pepper/Slabbert 2011; Howarth/Davidow 2010). Some expect the strict liability clause, imposed by the CPA, to force those interacting with the consumer market to increase product liability insurance, increase the cost of goods and services to cover these costs (Reddy 2012). Generally, managing product liabilities in this strictest form has the effect of discouraging product innovation and creativity (Shavell 2009; Andre/Velasquezm 1991).

South Africa's rapidly growing health supplement sector is one such industry which is expected to face sobering challenges resulting from the CPA (Lambert 2006: Gabriels/Lambert/Smith/Hiss 2011). This follows from a lack of strict labelling laws which have allegedly allowed for the accuracy of product labelling to go unchallenged (van der Merwe/Grobbelaar 2005; O'Connor/Kugler/Oriscello 1992; Prins 2008). Contaminants and adulterations are often not adequately reflected on supplement products labelling in South Africa (van der Merwe/Kruger 1992; Geyer/Parr/Mareck/Reinhart/Schrader/Schanzer 2004; Abbott 2004; Lambert 2007). These have had a precarious effect within competitive athletics, where banned substances have reported to be unknowingly consumed within such health supplements (van der Merwe/Grobbelaar 2005: Gabriels/Lambert/Smith/Hiss 2011).

However, the CPA in South Africa offers means to move towards a similarly accountable environment, as is in more developed countries globally (Morgenstern/Viscoli/Kernan 2003; Hart 2005; Gabriels/Lambert/Smith 2011). Despite its importance, the changes introduced by the CPA have received less speculation than that of the future of Private Label branded products have in South Africa's retail environment.

5 Formal Retailing, Private Label Brands and Retail Development in South Africa

The rising unemployment levels and general economic problems are fostering an ever more cautious shopper, who continually looks for ways to maintain (or even reduce) the cost of weekly grocery shopping. This behaviour has assisted retailers' Private Label brands in strengthening their position against national brands. European countries set the benchmark in this regard, where consumers purchase nearly equal quantities of Private Label brands and national brands (The NPD Group 2012; Rabobank 2011; Mintel 2012; 2012b; Deloitte 2012c).

Multi-tiered Private Label offerings allow consumers to choose between premium, standard and value product offerings, appealing to the entire spectrum of consumers. South African retailers offer a multi-tiered approach to Private Label retailing, such as Pick n Pay, who offer very cheap and basic as well as expensive and specialized product ranges, similarly to European counterparts (Sympthony IRI 2011). However, the success of Private Label offerings depend more on other retail developments and macroeconomic landscapes, as can be seen in countries like the Netherlands and Italy which exhibit far reduced Private Label usage, when compared to other countries with similarly developed Private Label offerings (Institute of European and Comparative Law 2012).

As can be seen in South African stores like Spar, and in Pick n Pay, where Private Label brands compete alongside national brands in the same category, retailers often copy the shape and colour of brand leaders and frequently position Private Label products in more prominent positions than branded products, allocating more shelving space than the market share that the specific Private Label product warrants. Cases where products are moved from the worst shelf position to the best can increase sales by as much as 59% as a result (Institute of European and Comparative Law 2012).

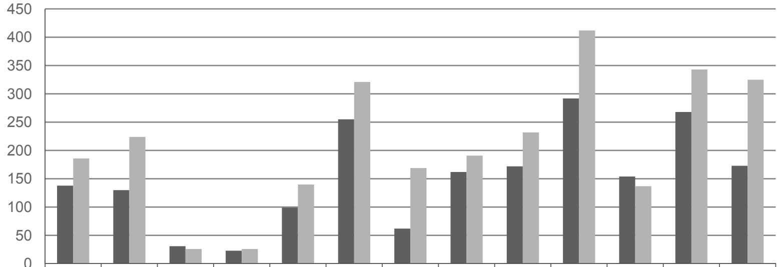
In developed countries, like Europe and the US, Private Labels are further perceived as brands in their own right and not merely an extension of their retail owner. Within a South African example of Woolworths, consumers exhibit a far higher loyalty towards the retailer and little to none for the actual Woolworths branded products. This is advantageous for stores which strictly offer premium brands, like Woolworths (over that of low-priced Private Label offerings) in that a gain in market share and the development of these Private Label brands focus solely on high-income consumers and are immune to economising consumer strategies (Symphony IRI 2011). This presents a challenge for low-priced Private Label offerings, which are susceptible to the economising efforts of their target market. Ensuring the continued growth of large and independent retailers alike is the increased reliance on Private Label products, within a retailers' catalogue in South Africa, as there is the ability to profit from all levels, using a multi-tiered approach to Private Label product retailing.

Apart from even economising, consumers are changing other buying habits within South Africa's developing retail market. Consumers, for example, are becoming more health-conscious and (product) brand-conscious than before (Gauteng Province Provincial Treasury 2012). Many of the large retailers have recently undertaken vast marketing campaigns aimed at gaining a stronger foothold in South Africa, so as to build a following for both their store brand and Private Label product offerings (Nielsen 2010). Shoprite, in particular has embarked on an intensive marketing and advertising campaign, spending more than any other retailer servicing the FMCG industry (R 175 million) (Durham 2011). Shoprite has additionally spent much money on revamping old stores and is pushing further into townships; such activities form part of the growth strategy for many of South Africa's FMCG retailers (Durham 2011). South Africa is also beginning to contribute large proportions of money towards paid promotional activities. Between 2011 and 2012, South Africa reported the third highest increase in paid advertising spending (23.6%), compared to the rest of the world, where the FMCG market represents a substantial 25% of the advertising expenditure (Neilsen 2012b).

5.1 FMCG Retailer development

Regarding actual store growth, there has been a massive increase in the number of Pick n Pay Family stores (130 to 224) and Shoprite's low-cost U-Save stores, increasing from a mere 62 stores (in 2005) to 169 (by 2010) throughout South Africa (Nielsen 2010). On-the-whole, FMCG retail stores are increasing across the board, as illustrated in figure 2.

Figure 2: South African FMCG Retailer Store Growth 2005 – 2011



	PPS	PPF	PPH	CHP	CHK	SHR	US	OKF	SSP	SPR	KSP	CLK	WW
Jul-05	138	130	31	23	99	255	62	162	172	292	154	268	173
Jul-10	186	224	26	26	140	321	169	191	232	412	137	343	325

Pick n Pay Supermarket "PPS"; Pick n Pay Family "PPF"; Pick n Pay Hypermarket "PPH"; Checkers Hyper "CHP"; Shoprite "SHR"; USave "US"; OK Furniture "OKF"; SuperSpar "SSP"; Spar "SPR"; Kwik Spar "KSP"; Clicks "CLK"; Woolworths "WW"
Based on Nielsen 2010

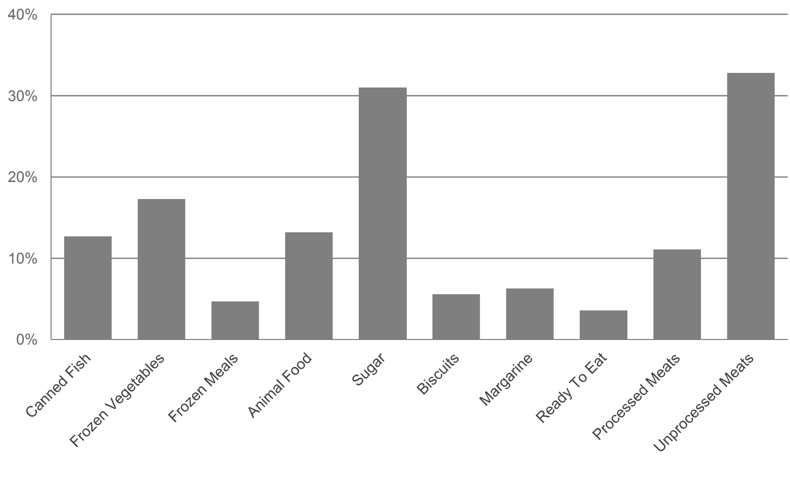
Development within the formal retail sector has also taken place through the diversification from FMCG retailers into liquor, pharmacy and hardware areas, which has been led by a similarly tremendous uptake/demand by consumers (Durham 2010). Spar being one such example which (as of 2010) offered over 400 Tops liquor stores, contributing much of South Africa's formal liquor trade. Additionally, petrol station forecourt collaborations have seen development and firm ties between major supermarkets and petrol stations such as: Woolworths & Engen; Freshstop & Caltex; and Pick n Pay & BP have been established (Durham 2010). There has also been an increased demand for ready-to-eat offerings from most FMCG retailers, encouraging increased patronage within convenience and supermarket store delis, fresh food departments, and bakery departments for such items (Gauteng Province Provincial Treasury 2012). This has been supplemented by the expansive introduction of stores with longer store hours, some with 24-hour service, as well as well-developed bakeries and delis. The actual method of purchasing food products for consumers also appears to be changing, as there has been a global increase from 18% to 26% (from 2011 to 2012) in the usage of online platforms for purchasing food and beverage (Nielsen 2012) with over 60% of consumers having used the internet for grocery shopping before.

Despite South Africa's 6 million PC users, the nearly 50 million mobile phones in South Africa mean that mobile retailing offers exciting prospects for FMCG food retailers in the future. Currently, 80% of South Africans prefer to buy food and drinks in store and 19% of those surveyed by Deloitte (2011) indicated that they use a combination of online and offline shopping. Of the 6 million PC users in South Africa 71% are internet shoppers and 50% have shopped online at least over a festive period. Despite this, South Africa's online grocery shopping experience is largely category driven, which is not how consumers typically shop in a physical store. This poses an opportunity for FMCG retailers to successfully implement an online shopping experience which mimics real-life purchasing behaviour (from fresh vegetables, through to toiletries) which would encourage uptake of the online platform (Durham 2010).

5.2 Private Label category trends

South Africa's uptake of Private Label brands has been increasing in size from year-to-year within grocery retailing. The current Private Label market share in South Africa is around 18%, similar to global average. Planet Retail estimates the Private Label market share is composed of 9.3% of domestic consumer spending on groceries, as well as 24.7% of spending in modern grocery retail channels (Stafford 2012). This highlights potential for South Africa's Private Label usage to increase to upwards of 30% (as it is currently in Europe) but will require the pricing of Private Label brands to weaken, so as to encourage consumers to shift towards Private Label offerings (Stafford 2012). Current pricing, which can sometimes be more expensive than national brands, goes against the expected 20% to 30% savings which consumers often expect (Stafford 2012).

Figure 3: Percentage composition
of Private Label Brands in consumer Share of Basket vs. National Brands 2010

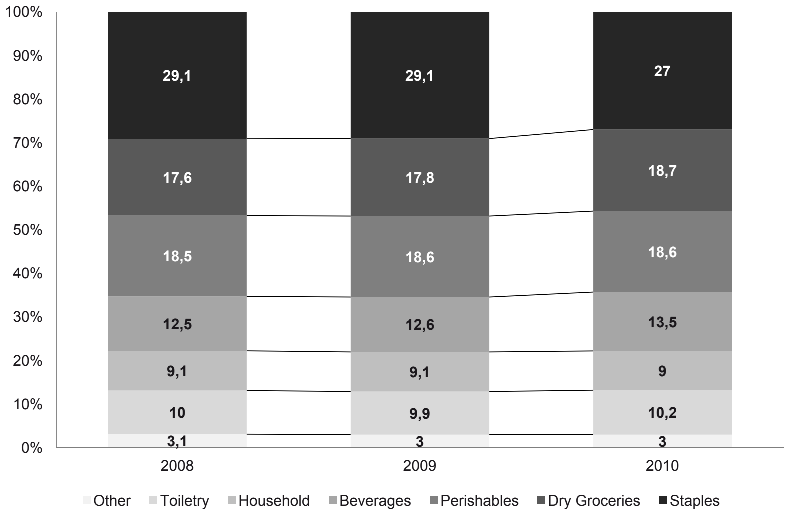


Based on Durham 2011

For the most part, however, South African shoppers appear increasingly interested in Private Label goods, as an end-of-year (2012) survey by Deloitte indicated that consumers planned to increase their purchasing of Private Label products buy 17% in 2013. With regards to actual market share of Private Label brands, figure 3 shows their representation within consumer baskets - as of 2010, where the as raw (unprocessed) meats category represents the largest quantity of Private Label products sold (38.2%). This is most likely due to the various delis and in-house prepared chicken offerings by most FMCG retailers. Sugar (31%) frozen vegetables (17.3%) and canned fish (12.7%) represent other large Private Label categories (Nielsen 2010).

As retailers begin to sophisticate their communication about budget, normal, premium and elite Private Label product offerings, this means that certain categories might soon be entirely dominated by Private Label product offerings. Some retailers are even developing their own free-standing brands (such as Woolworths) due to strong communications and aesthetic appeal, which resonate more strongly than even premium national brands (Deloitte 2012b). With respect to the arrangement of Private Label brands within consumers' baskets over the last three years only subtle changes have occurred. The reduction in the number of staple Private Label brand products bought from 29.1% (in 2009) to 27% (in 2010) represents the small (yet entire) reduction in Private Label products purchased between these periods, as can be seen in the figure below (Nielsen 2010).

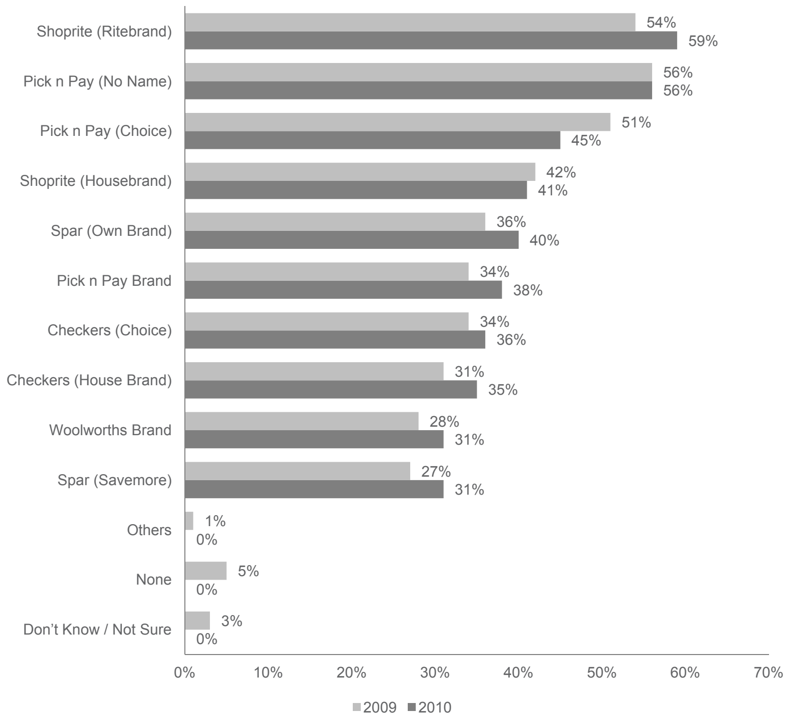
Figure 4: Composition of Shopping Basket 2008 – 2010



Based on Durham 2011

While specific category amounts of Private Label consumption have subtly changed, overall private brand consumption is increasing (Stafford 2012; Deloitte 2012b). Specific retailers appear to be commanding this increase in Private Label consumption, while others continue to merely offer national brands and lose out on these assured Private Label sales. This is highlighted by consumers being highly aware of the Shoprite and Pick n Pay house brands (No Name and Pick n Pay) which are highly popular brands (Nielsen 2010). Towards the end of the scale (as shown in figure 5) despite Woolworths and Spar operating 412 and 315 stores respectively throughout South Africa by 2011, there seems to be little national awareness of their products and resonance with consumers. The low awareness of Spar and Woolworths might be due to these stores offering Private Label products which are consistently more expensive than leading national brands, and as a result, due to South Africa's population having typically low levels of income - they cannot afford such products, do not frequent Woolworths and Spar stores and are thus not aware of each Retailer's Private Label offering.

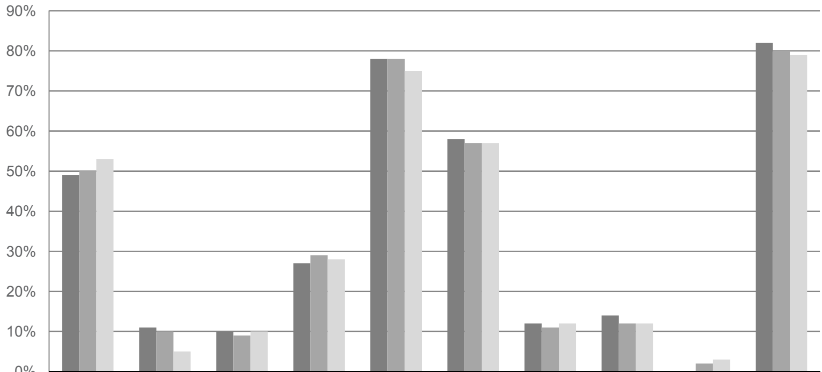
Figure 5: Awareness of Private Labels in South Africa 2009–2010



Based on Nielsen 2010

This raises a point regarding the actual usefulness of the awareness measure, as depicted in figure 5. One might comment that this awareness measure could potentially be used as an accurate market-share measure, which clearly identifies what percent of the population has not visited certain stores before. In the case of Woolworths, a 69% lack-of awareness of Woolworths branded products is something to take note of, when understanding target populations. Similarly by looking at the actual penetration of Private Label branded products within consumer households (as shown in figure 6) it can be seen that Shoprite, Pick n Pay, Independent and Spar brands dominate consumers' pantries (Nielsen 2010). It is interesting to note that despite Spar's Private Label products constituting a similar proportion of consumers' baskets compared with Pick n Pay Private Label products, Spar's Savemore brand is not a brand which consumers are aware of.

Figure 6: Private Label penetration by Retailer 2008 to 2010



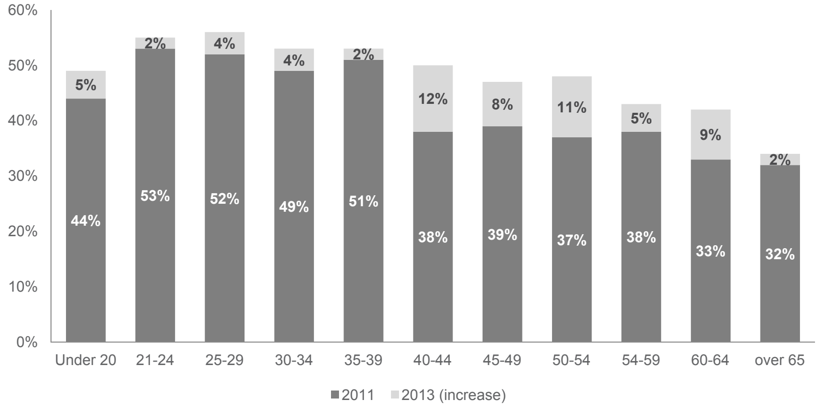
	PPS/F	PPH	CHP	CHK	SHR	SPR	CLK	WW	DCH	IND
2008	49	11	10	27	78	58	12	14	0	82
2009	50	10	9	29	78	57	11	12	2	80
2010	53	5	10	28	75	57	12	12	3	79

Pick n Pay Supermarket "PPS"; Pick n Pay Family "PPF"; Checkers Hyper "CHP"; Checkers "CHK"; Shoprite "SHR"; Spar "SPR"; Clicks "CLK"; Woolworths "WW"; Dischem "DCH"; Independent Retailers "IND"
Based on Nielsen 2010

6 Social Impact in Retail in South Africa

Apart from consumer saving, which is bolstering Private Label growth within the FMCG market, consumers have strong preferences regarding their preferred retailers of the future. In a recent Nielsen (2013) study, which surveyed more than 29,000 online respondents between 2011 and 2013 in 58 countries, insights were gained regarding consumers attitudes towards socially desirable retail. 50% of the respondents stated that they would reward companies which gave back to society, through paying more for the company's goods and services (up from 45% in 2011). This increase in willingness-to-spend-more was experienced among all demographic categories and while respondents below 30 years of age were the most likely to spend more the attitudes among older respondents experienced the largest change. The complete distribution is shown in the figure below.

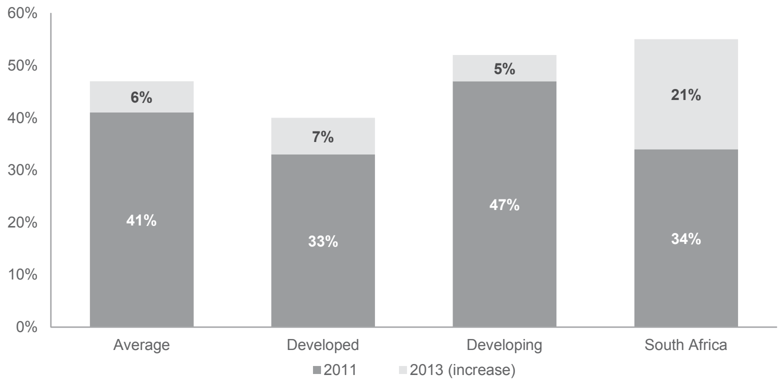
Figure 7: Willingness-to-Pay for Socially Responsibility by Age



Based on Nielsen 2013

Within the survey, South Africa showed the highest increase in willingness-to-spend-more on products from socially-responsible companies (34% in 2011 to 55% in 2013). This represents a strong opportunity for FMCG retailers who wish to create additional value for consumers. Programs such as Woolworth's donation initiative (My School card) and Pick n Pay's donation feature (within the Smart Shopper program) appear to be initial introductions of such desirable programs for consumers, with substantial scope for improvement throughout the retail environment.

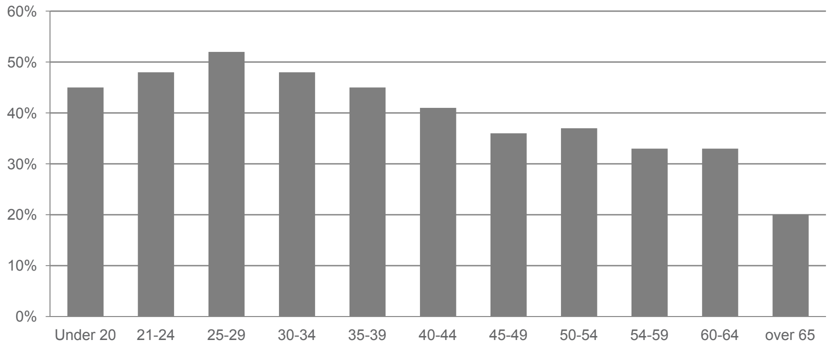
Figure 8: Willingness-topPay for Socially Responsibility by Country 2011 to 2013 (increase)



Based on Nielsen 2013

When comparing South Africa to the rest of the participants in the Nielsen (2013) survey European respondents exhibited not only an average amount of growth in willingness-to-spend-more, but additionally represented the lowest absolute amount of willingness-to-spend-more, as shown in figure 8. Conversely, respondents in developing countries appeared to be more eager to spend on socially responsible retailers, with this trend intensifying in South Africa.

Figure 9: Percentage of purchase activity from Socially Responsible Companies by Age 2013



Based on Nielsen 2013

When viewing actual purchasing activity data (between consumers and socially responsible companies) in 2013, shown in figure 9, it seems that socially responsible spending is predominantly driven by younger consumers with disposable income. This trend could be viewed as a warning for the retail industry of the future, as these consumers are gaining spending power and their purchases are beginning to shape the industry. Similarly, this represents opportunity for those firms which wish to differentiate on this factor.

7 Conclusion

The South African retail environment is primarily characterised by a dual retailing system split between First World shopping infrastructure and disadvantaged (rural and urban) township areas, with poor retail infrastructure, operated by primarily independent retailers (Strydom 2013). Informal retailers have seen massive growth in patronage by middle-class consumer demographic, thanks to community-fostering establishments (such as informal liquor stores) but have continued to face problems with outshopping, driven by heightened disposable income and increased mobility.

Within the formal retail environment, retail space has more than tripled its size in the last 8 years, most of which has been due to massive expansion by the large FMCG retail players. National grocery retailers in South Africa focus on Private Label brand usage, which sits around the global average of 17% in South Africa but shows potential to grow to a similar proportion of the European market, within the next decade. Consumer saving is being welcomed by the development of multi-tiered Private Label brands which attempt to create better value for consumers and to extract greater profits for retailers. The development of multi-tiered Private Label brands in South Africa is in-line with the activity in more-developed FMCG retail markets, and this approach is paying-off in both instances, as recession-burdened consumers are responding more favorably to the wide range of Private Label products, experiencing value at every price-level, year-on-year.

Legislation requirements in South Africa’s retail environment and the upsurge of demand for environmentally-friendly retail products by South African consumers means that additional challenges and opportunities await South African retailers of the future. Additional focus on socially responsible behaviour by retailers is similarly expected which can be used as a differentiation tool between retailers who are beginning to stock larger amounts of Private Label products. Programs like the Smart Shopper program at Pick n Pay and the My School initiative at Woolworths are seen as the beginning of a trend in the FMCG environment, for fostering social responsibility and (in the process) ensuring future customer support.

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