

European Retail 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 and Judith Schloffer.

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 28 Issue I)*

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Making Consumers Switch from Counterfeit to Genuine Luxury—A Retail Perspective

Anne-Flore Maman Larrauffie

Abstract

This paper provides a new view on consumers of luxury counterfeits and identifies what could make them switch from the consumption of fakes to genuine goods. The study is interpretative in its epistemological stance. It thus relies upon qualitative methodologies and methods both for data collection (21 in-depth interviews, projective drawing) and data analysis (content analysis). Three necessary conditions are identified, which would allow consumers of non-deceptive counterfeits to switch to real goods: an exigency of quality, both in terms of product and of sales force's competencies; a retail environment "smelling luxury"; and a service experience without any flaw. Marketers and retailers are offered with some practical recommendations, based on the study findings, and crafted under the 4Ps framework.

Originality/value: This is the first research which tries to understand (1) how consumers of fake relate to the luxury concept (2) whether and how they could be turned into consumers of genuine goods. The study also enfold the vision held by knowledgeable consumers of counterfeit luxuries regarding the luxury industry in general. It's no more about dreams and symbols, but about very pragmatic and functional details.

Keywords

Non-deceptive counterfeiting, luxury industry, consumer behaviour, interpretative research, purchase intent

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1 Introduction

Counterfeiting of luxury goods is a key issue for all major luxury industries as it amounts for billions of dollars globally each year (International Anti Counterfeiting Coalition 2009). A large panel of luxury products is being counterfeited: perfumes, jewellery, haute-couture, leather goods, accessories, gastronomy, wines and liquors etc.. Counterfeits range from strict copies to sole use of a feature of the brand (usually the logo). The luxury industry is characterized by a constant sought of perfection embedded at the same time in tradition and technological innovation (Bastien & Kapferer, 2008): brand name and value are keys. Therefore, the spread of luxury counterfeiting would threaten industrial and craft employment in the sector. On top of the stated financial loss inherent to counterfeiting, counterfeiters are using the notoriety of the counterfeited brand and can therefore severely damage its equity (INPI 2008). Large luxury brands or conglomerates such as LVMH have set up special entities to tackle this issue. Still, a lot has to be done not only to better understand the process and fight against it with legal tools, but also to capture the consumers' perspective, in order to develop more efficient discourses and marketing strategies towards them. Academic research can help achieving this.

Some attention has been paid to those who occasionally or on a regular basis turn to the non-deceptive consumption of luxury counterfeits. There is strong evidence that some of them do mix on a regular basis legal and illegal purchases of luxury goods (Ha & Lennon, 2006). Various reasons have been advanced as triggers, from demographic characteristics (Safa & Jessica, 2005) to postmodern ethics (Maman, 2009), including rational price-saving strategies. This paper aims at providing a different view to the issue: its objective is to explore why consumers of fashion and luxury counterfeits would consider switching to the purchase of the genuine versions of the products.

To our knowledge, no past research has been conducted to investigate how consumers of non-deceptive luxury counterfeits (who perfectly know that they are buying a fake product) perceive the world of luxury and hence which kind of arguments could be used by luxury companies to convince those people to switch from the fake to the genuine item. The present study aims at filling this gap in the literature. It will be exploratory by nature, in a discovery-oriented perspective. This is to pave the way for future more confirmatory research, by reducing the chance of beginning with an inadequate, incorrect or misleading set of research objectives.

Hence, the research questions are broad, on purpose:

(RQ1) How do consumers of non-deceptive luxury counterfeits perceive the worlds of luxury and of counterfeiting?

(RQ2) What makes them stay away from luxury houses?

(RQ3) How could marketers use such knowledge to capture these consumers?

The present study is a three-step exploration of these questions. The two first parts present results gained from in-depth interviews, conducted among theoretically sampled respondents (Strauss & Corbin, 2008). Two particular topics were addressed during the interview process: the general attitude of the interviewee towards luxury, and his/her attitude towards counterfeiting in general. The aim was to unfold potential connections between the two attitudes. In the last part, the two perspectives are confronted, with a focus on determining cues for avoiding buying luxury goods and rationale/emotional triggers to switch consumption. From this analysis practical insights for marketers are proposed, as elements to be included in the very marketing and retailing plan of a luxury product.

The article is organised as follows: the theoretical background to the study is first presented, followed by an introduction to research context and interest, as well as chosen research method. Results gained from the analyses of the interviews are explained and then discussed through the confrontation of the discourses. At last, practical managerial implications which derive from the discussion are offered. The article concludes with theoretical insights gained from the study, along with future research directions.

2 Theoretical Background

The theoretical background of the present research includes several aspects of luxury and counterfeit consumptions. After reviewing the various identified typologies of counterfeit consumers, their specific buying behaviour will be described. Then, retail specificities of the luxury industry will be confronted with those existing in the 'retailing' of their counterfeit equivalents.

2.1 Towards a typology of non-deceptive counterfeiters

Psychographic and demographic segmentations have been traditionally used to describe consumers of counterfeits (Phau, Prendergast, & Chuen, 2001; Teah & Phau, 2007). For instance, attitude towards ethically debatable consumption behaviour has been proved as a primary

factor explaining the act of engaging in such behaviour (Penz & Stoettinger, 2005). Besides, ethical concern can be a factor refraining a consumer from engaging in illicit consumption of counterfeits, especially owing to the culpability feeling which might result (Viot, Le Roux, & Kremer, 2006). Similarly to past research findings (Eisend & Schuchert-Guler, 2006), Teah and Phau demonstrated that attitudes towards counterfeiting is the driving force that influences purchase intention.

Clustering the consumers in a dual typology, Phau et al. (2001) identified low-spenders and high-spenders differing on a number of socio-demographic factors. For both clusters, consumers pay less attention to ethical and legal issues when buying pirated products, with normative influence having positive effects on consumers (Teah & Phau, 2007). On the opposite, information susceptibility has negative effects on them: if peers or the reference group have some knowledge on the differences between originals and counterfeits (such as product quality), and the negative consequences of counterfeiting, consumer attitudes will be unfavourable towards counterfeiting of luxury brands.

2.2 Counterfeit Consumer Behaviour Specificities

Gentry et al. (2001) investigated the search process within the field of counterfeited luxury goods, and found that in a counterfeit culture, brands and products are considered as different entities serving different purposes: consumers do often purchase counterfeits out of conscious choice. They are reaching for a specific brand while looking for a price compromise and that's it. Counterfeits are only good as long as they are counterfeiting a specific brand and this is not product-dependant: people buy fakes because they stand for a given genuine brand. What remains is the choice of the product within the brand offering, taking into consideration the various offered prices. Therefore, compared to the classical view of search in consumer behaviour, the processed appears reversed in the case of counterfeits.

Kocher et al. (2007) found that, in general, consumers do not have a more positive attitude toward original products than counterfeits. This is a particularly threatening feature of the consumption of counterfeited luxury goods for the luxury industry, for it could imply that the emotional explanation for the purchase of counterfeits (the desire to be part of a group due to a logo) could be enhanced by the rationale explanation (good value for the money). Therefore, social pressure to engage in misbehaviour would be rationalised by economic reasons. Buyers of counterfeits try to legitimate their behaviours and advance reasons for justification, as a proof of applicability of the theory of cognitive dissonance (Eisend & Schuchert-Guler, 2006).

Chapa et al. (2006) found that depending on the type of usage (private vs. public) of the good, consumers' responses toward counterfeits changed and were more favourable for products used in public compared to those consumed in private. Quite consistent with this finding, Wilcox et al. (2009) advanced "the extent to which brands fulfil the social goals guiding the luxury preference" as a reason for desiring the corresponding counterfeit brands. Social goals can of course only be met via public display of the products.

A macro marketing perspective proposed by Rutter/Bryce (2008) showed that the consumption of illegal goods (including counterfeits) is linked to behaviours in legitimate markets. Hence, the state and features of the luxury market has some influence on the counterfeit business.

2.3 Retailing of genuine and fake luxury products

The purchase environment and experience are highly important in the luxury industry, and match simultaneously rationale and emotional requirements. For instance, luxury retail draws on the principles of art and magic (Dion & Arnould, 2011), with the setting of aesthetic principles within and without the store to diffuse the ideology of the brand designer. But at the same time, a luxury store has to meet very specific format features: its scale and size should exceed functional needs, conveying the feelings of exclusivity and uniqueness (Nobbs, Moore, & Sheridan, 2012).

As far as counterfeit settings are concerned, they have been found as conveying exotic features (Meissonnier, 2003), combined with very rationally organized spots. The sellers (often street peddlers) do behave in a ritualistic way, with a lot of close-to-magic aspects (Maman, 2011). Besides, bargaining has been identified as a strong motivation to experience counterfeit purchases (Maman, 2012), which can be found in the specific case of second-hand luxury purchases (Cervellon, Carey, & Harms, 2012).

This review of the literature points out a gap in research, as far as the knowledge of consumers of counterfeits is concerned. If, thanks to past studies, researchers are better able to know who is this consumer and what kind of motives could lead him to buy counterfeits, his perception of the luxury world remains unexplored and a real mystery. The present study aims at raising the veil...

3 Material and methods

Based on the literature review, the study aims at better understanding how people understand and relate the two worlds of luxury and counterfeiting, something not really captured by previous research. It focuses on non-deceptive counterfeiting; with consumers knowing that they are buying a fake product, and on a Western environment (at least from the respondents' nationalities point of view), for research has proven differences in-between Asian and Western consumptions of both luxury products and counterfeits (Lu & Pras, 2006).

More specifically, the study aims at answering the following questions: Would present consumers of non-deceptive luxury counterfeits be willing to buy real luxury goods in the future? What would then be the triggers to switch?

To answer these questions, qualitative methodology has been chosen, as it looked like the most appropriate way to really get insights and understandings from the consumers. The selected research method was in-depth interviews, for they "are much the same as psychological, clinical interview" (Zikmund & Babin, 2007). This method enables to understand the various values associated with the luxury/counterfeiting world or the consumption of luxury goods. Attitudes are mentally-driven, and since this study is interested in getting the 'why' of their existence, and not only identifying them, in-depth interviews would really help uncover underlying motivations, beliefs, attitudes and feelings.

21 in-depth interviews were conducted in Europe with MBA students (13), high-school pupils (3) and grown-ups with job activity (5). Respondents were selected on the basis that they acknowledged being regular buyers of fake luxury goods (at least three times per year), including bags, shoes, and fashion accessories. The objective being to understand a potential shift towards real product, whatever the purchasing power that they currently display, but also their future hypothetical one, being a current luxury buyer was not a prerequisite. This is aligned with statistics (see Deloitte 2014 report) showing that luxury consumers may become such whatever their current income, especially through accessible luxury products such as make-up. Students from Western business schools usually have more purchasing power and are more sensitive to the consumption of conspicuous goods, such as luxury or luxury-looking goods, than other types of students (Fan & Burton, 2002), and are regular consumers of non-deceptive luxury counterfeits (Ha & Lennon, 2006). High-school pupils are usually considered as having no or low purchasing power, as they only get a limited amount of pocket money but might in the future be able to buy luxury goods. Working adults dispose of a regular income they can spend the way they want, including in luxury products.

Besides, as the social context impacts attitude towards counterfeits (Teah & Phau, 2007), we asked respondents their family-type and parents' family type. However some respondents felt reluctant to answer the question (marked as in table 1). Table 1 is presenting sample's data. Age range was 16-40. The sample was quite balanced in terms of gender, with 9 men and 11 women. As the place of living could impact the perception of counterfeit or luxury, we collected the data as well. People living in the Parisian Area are marked with.

Table 1: Nature of the Sample of Respondents

Participant Number	Gender	Age	Position / Job	Nationality	Place of Living	Family types (parents / self)
FR01	Male	20	MBA Student	French	Paris (75)*	Married / Single
FR02	Female	23	MBA Student	French	Paris (75)*	Married / Single
FR03	Male	20	MBA Student	French	La Rochelle (17)	Married / Single
FR04	Female	23	MBA Student	French & Lebanese	Paris (75)*	Married / Single
FR05	Male	21	MBA Student	French	Cergy (95)*	Married / Single
FR06	Female	21	MBA Student	French	Paris (75)*	Married / Single
FR07	Male	21	MBA Student	French	Versailles (78)*	Married / Single
FR08	Male	22	MBA Student & Apprentice	French	Cergy (95)*	Married / Single
FR09	Female	25	Manager of a Limited Liability Company	French & Italian	Paris (75)*	Married / Engaged
FR10	Female	53	Medical-Psychological Assistant	French	Nyons (26)	• / Married
FR11	Female	28	Special Needs Teacher	French	Roaix (84)	• / Engaged
FR12	Female	40	Educator-Monitor	French	Saint Pantaléon les Vignes (26)	• / Single
FR13	Female	30	Service Agent	French	Grillon (26)	• / Married
FR14	Male	17	High-school student	French	Carpentras (84)	Divorced / Single
FR15	Female	16	High-school student	French	Nemours (77)	Widow / Single
FR16	Male	16	High-school student	French	Avignon (84)	Married / Single
GB01	Female	22	MBA Student	French & Portuguese	Cergy (95)*	Married / Single
GB02	Male	22	MBA Student	French	Paris (75)*	Divorced / Single
GB03	Female	22	MBA Student	German	Cergy (95)*	Divorced / Engaged
GB04	Male	28	Executive MBA	Indian	Cergy (95)*	Married / Single
GB05	Female	30	Executive MBA	Singaporean	Cergy (95)*	Married / Married

The interviews lasted between 40 minutes to one hour and a half and were semi-structured (See Appendix A for the interview guide). The first part of the interview dealt with the topic of luxury. Respondents were asked to describe past experience and express feelings about luxury consumption. Their ultimate luxury was also touched upon. The second part of the interview dealt with counterfeiting. Past experience about its consumption and various thoughts were under investigation in this part. It also included a projective drawing to elicit deeper feelings of the respondents (See Appendix B). The drawing was used as a way to let respondents project themselves in the displayed situation. They were asked to describe the

story represented and then encouraged to take the place of the main being accused and to explain what they would do and say if they were him. For the analysis, the interviews were transcribed and coded, with a goal to identify the key dimensions emerging from the discourse. Hence open coding (to generate initial concepts from data) followed by axial coding (development and linking of concepts into conceptual families) and selective coding (formalizing the relationships into conceptual frameworks) were done (see Spiggle 1994 and Strauss/Corbin 2008 for a discussion of the procedures used in this stage). Coding schemes were modified as analysis progressed and new concepts were uncovered, following the general procedures recommended by Strauss/Corbin (2008).

Then, concepts emerging from the analysis of the luxury world were confronted to those emerging from the analysis of the counterfeiting world. Connections and incompatibilities were identified as a basis for marketing strategic development.

4 Results

As previously mentioned, the objective of the analysis was to be able to identify potential connections in-between how people view the world of luxury, and how they view the world of counterfeiting. This was achieved following three steps.

4.1 What's in the World of Luxury?

Coding of what the interviewees mentioned about luxury goods pointed out two main dimensions in respondents' perception of the world of luxury: the nature of this perception (material oriented vs. immaterial oriented) and the orientation of this perception (self vs. external vs. social). The perception of the luxury world could be material or immaterial. When it is material, it is related to actual physical characteristics, as described by respondents. Such characteristics refer to actual components of the real environment, which can be apprehended by respondents' five senses. When it is immaterial, respondents refer to luxury with feelings, attitudes or dreamy features. They do not conceive it in its physicality but in its dreamy and emotion-triggering facet.

Similarly, respondents would organize their speech giving luxury several orientations depending on their point of reference: external (point of reference = the industry), social (point of reference = their peers) and self (point of reference = themselves). The various combinations of the two dimensions ended up in the identification of six specificities related to Luxury, potentially leading to purchase intents.

Table 2 sums up the characteristics and identification ‘labels’ of these faces. A description of each face follows, illustrated with quotes from the respondents.

Table 2: The Six Faces of the Luxury World

	External	Social	Self
	Product Characteristics	Product Usage	Define Oneself
Material	➤ Industry		➤ Investment
	➤ Environment	➤ Impressiveness	➤ Self-gift / reward
	➤ Impressiveness	➤ Gift	➤ Self-fulfilment
	➤ Quality/perfection	➤ Special usage occasion	➤ Usage
	➤ High price		➤ Education
	➤ Difference		➤ Purchase experience
	Another World	Identification	Express Oneself
Immaterial	➤ Sensory evidence	➤ Impressiveness	➤ Re-assurance
	➤ Not needed product	➤ Style	➤ Style
	➤ Weirdness	➤ Class status / belonging	➤ Comfort / easiness
	➤ Brand	➤ Culture	➤ Self-fulfilment
	➤ Art / creation	➤ Symbol	➤ Freedom
	➤ Uniqueness	➤ Proof to others	
	➤ Sophistication	➤ Sophistication	

4.1.1 Product Characteristics

The product per se holds some specificity turning it into a luxury item. First of all, it belongs to a very specific industry, with specific selling and attitudinal codes, enabling the shopping experience to be positive and part of the added-value of the products. This is strengthened by the store atmosphere and arrangement, described as different from usual shops by the respondents:

“From the outside, when you walk on the Champs Elysées, you see the outside of the shop. [...] it’s very very clean, without many people like there is in normal shops” “I think the shop in itself makes the difference”

However, the shopping environment can be experienced negatively, especially when the sales team behaves in an unfriendly way:

“You have the impression people are not speaking truly to you, they’re artificial, they cheat you”

This does not hide the products’ specificities, qualifying it as a candidate for being a luxury good. A luxury product should be high-quality, highly-priced, different from other products, but still somewhat normal while above normality...

“something that would be special but not too special. [...] So a bit special, but still a bit normal.”

Be it the product or the shopping experience, respondents define luxury by opposition to other types of consumption: the lexicography related to the concept of difference was recurrent in respondents' answers, with words such as 'unique', 'different', 'not like usual'.

Clearly, as far as the product characteristics are concerned, respondents hold high expectations. This is quite different from previous findings on luxury consumption: consumers were looking for the so-called 'Dream Formula' (Dubois & Paternault, 1995) mainly composed of non-rational features. Hence, while a lot of luxury marketers do consider that consumers of luxury goods cannot express their expectations, it might be untrue for consumers of fakes.

4.1.2 Product usage

Luxury goods are often associated with gifts (self-reward or a gift to somebody else). Even respondents reluctant to buy luxuries may be willing to buy a luxury product for friends:

“If I know someone who loves luxury product, yeah maybe. I don't know but this can be an idea. But rather not for me.”

Luxury products are devoted to be used in specific occasions, not on a daily basis:

“There are ways or situations. When you go out, certain special party living”

This can even lead the luxury product to be perceived as a burden:

“I would resell it to buy a normal wallet. [...] You tend to be afraid of making scratch, of loosing it... Always in your mind: my wallet, my wallet...”

This last negative aspect of luxury products provides readily available arguments for buying a fake. One respondent even mentioned the fact that she would not buy a counterfeit product to be displayed (such as a bag), as she would be afraid that thieves think it's a real one and try to steal it from her. This 'burden' aspect of the luxury good can thus impact the willingness to buy counterfeits. Hence, whatever the marketing and retailing strategies chosen to address this negative view of luxury goods, careful attention should be paid at shaping them differently according to the product usage (private vs. public, displayed vs. hidden).

4.1.3 Define Oneself, i.e. building one's identity

Consuming luxury products is a way to help define one's personality. It is the reflection of a given familial/parental education. As such, if one has not been raised in the sense of luxury, he would probably not even think about buying/being attracted by luxury products:

“It's not in my habitudes. I am accustomed to wearing such clothes. From my family no one buys Chanel or Louis Vuitton.”

The direct implication of this socialized background is that experience with luxury goods develops new skills/feelings which lead consumers to consider re-purchase of similar goods.

To help define a self, luxury goods have to match specific purchase occasions, such as self-gift or reward for accomplishing something (most of the time, social and professional achievement, along with increased purchasing power). Then, it helps the individual to get a feeling of self-fulfilment.

“If I got promoted or something and I would like to reward me, it would be something like that...”

It is also a good way to define one's uniqueness to oneself, for instance via the shopping experience:

“The atmosphere in the shop that makes you feel let's say special.”

This feature is consistent with personality theory. Individuals build their identities via two processes: either by defining themselves by opposition to others (uniqueness component) or by mimetism. Hence, if the consumption of luxury products might belong to the mimetic process of identity building, the purchase experience should rather meet standards of uniqueness. Here again the lexicography related to difference was massively present in the data.

The purchase of luxury goods becomes some kind of investment: the present-oriented self-reward becomes a future-oriented proof of success. Consumers of counterfeits thus consider purchase of luxury products as long-term oriented. It is highly probable that they would enter in a purchasing behaviour quite rationale-based with long processes of evaluation of various alternatives, in order to make the best decision. They would obey to the extended problem solving model. This future-oriented characteristic of luxury goods is ought to be compared with the pace of consumption of fake products.

4.1.4 Another World

For most of the respondents, the luxury world is outside their scope and beyond their reach. This might come from the lack of education related to luxury consumption they had been exposed to at this point in their life. As previously mentioned, this family-based educational background would pave the way to a long-lasting relationship between luxury consumption/attitude and consumers of such products. Since the respondents had either never or only negatively been exposed to genuine they might simply consider the world of luxury as a 'weird' one. They describe themselves "very far from this stuff."

A luxury product is superficial, unneeded:

"We think it is superficial."

Accordingly, the luxury environment and people evolving in it are perceived as 'weird'. Luxury (the store or the products) is connected to art and creation (an unknown and mysterious concept for the usual consumer):

"I found some things really strange." "It was some kind of artwork this luxury shop."

This immaterial dimension of luxury cannot be detected by traditional means: respondents rely upon various sensory evidences, often connected with the atmosphere. They can tell that this is luxury because they "smell" it.

A direct consequence of all these is that luxury has to be unique (once again!) and sophisticated. It is:

"Something you cannot find in other place, very specific."

4.1.5 Identification

Buying and holding or not luxury products is seen as a way to show one's belonging to a particular group or to send signals to the rest of the world: one's proof of success ("Maybe it is a signal towards the rest of the world that I made it."), one's testimony of a shared style ("It's because of the ambiance in which I evolve."), one's social attachment to a specific group ("I think luxury products are symbols. They mean they belong to certain kind of social class."), or one's expression of a cultural background ("In my surroundings, young people don't like luxury products.").

Luxury goods are very much considered as symbols, an added-value to the product often materialized via conspicuous display of logos and brands:

“The brand is visible. [...] You can see that it is a luxury product avec la griffe de la marque.”

4.1.6 Express Oneself, i.e. showing one’s identity

This sixth face of luxury deals with the self-expression of one’s identity, as being defined potentially in the third face of luxury. Respondents were eager/reluctant to purchase/hold/display luxury products depending on some personal characteristics they wanted to display or hide.

For instance, having luxury goods is a good way to re-assure oneself, expressing the wish of self-fulfilment:

“I guess people could feel self-confident because they have some luxury goods.”

It is also a good way to state one’s style, which is particularly self-rewarding in case of a gift: it is a proof that people see you in a certain way, one that you favour/admire.

The most important feature of luxury, though, is its association with freedom, space and opportunity to do whatever one’s want without constraints. This was especially clear in respondents’ definitions of the ultimate luxury:

“That would be a huge villa in the French countryside.[...] I prefer the countryside. [...] I like being on my own. When I live in the countryside, I can decide whether or not to see anybody.”

“I could say I can spend that, do whatever I want with it.”

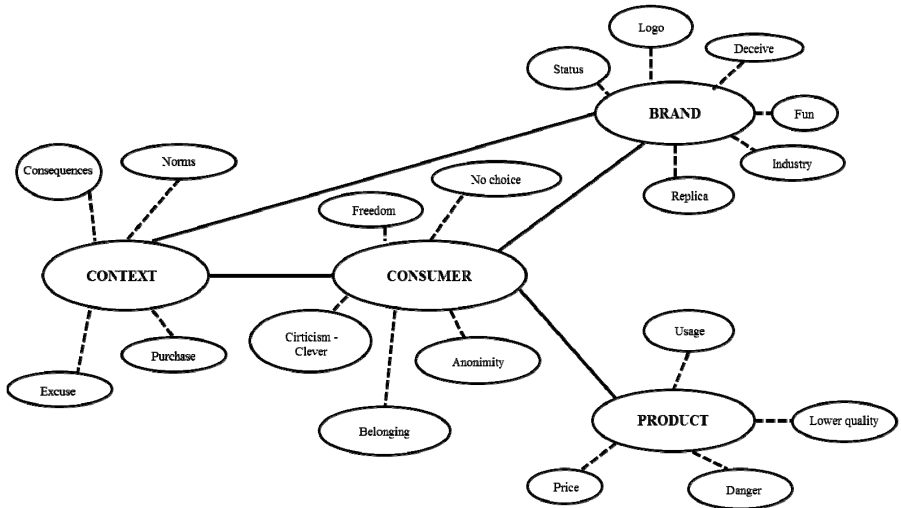
Data analysis thus led to the identification of six original faces for the luxury world. Some of them would lead to consume luxury products, while others are more turning respondents away from a world which appears as out of their own dimension.

It could be interesting for retailers to take this into consideration, for it would enable them to better understand how people could decide to step in a luxury store or not, depending on several proxies identified in table 2.

4.2 What's in the World of Counterfeiting?

Content analysis of discourses related to counterfeiting isolated four actors in the consumption process of counterfeits: the brand, the context, the consumer and the product per se. These four actors are no surprise but what is more interesting are the various characteristics associated with them and how they interact. Figure 1 sums up the overall findings.

Figure 1: The Main Actors in the Counterfeiting World



A brief description of each actor, illustrated with chosen respondents' quotes is presented below.

4.2.1 Context

The contextual environment does matter a lot in the choice of consuming fakes. It has a bi-directional impact: it can either turn down the respondents' wishes to consume counterfeits, or provide them with excuses to do it.

For instance, the legal environment can be an incentive to buy fakes, for the respondents have the feeling that it is usual in the setting where they are.

“In China, for example, you have always fake products, so it gives this feeling of a more normal reaction.”

Actually, all respondents mentioned they had bought or would consider buying a fake in a foreign country, on a vacation occasion (for instance in China).

Various consequences of the act of purchase are taken into consideration, including legal (“Because in Germany you have the feeling of doing something criminal.”), financial (“If you are caught with counterfeited product you have to pay twice its price in terms of fine.”), and social ones (“There can be people discover you buy counterfeits and then they do not want to contact you anymore because of that.”).

When it comes to ethics, counterfeiting is perceived as negative, which is incentive to fight against it.

“There is an ethical standpoint.[...] They might be ethical objections to buy these products.”

4.2.2 Consumer

Freedom is involved in the process of consuming fakes, in two different occasions:

- (1) Some people cannot afford buying the real product, and have no other choice than buying its counterfeited version (“Or the person is really rich, has the means to buy a Chanel or Louis Vuitton. [...] Or second case the person does not have the mean to buy Chanel, so ...”).
- (2) Consuming counterfeits is part of one’s private life and free will. One should not condemn it or try to convince someone not to buy fakes: it would be an invasion of privacy. For instance, when exposed to the projective cartoon: “It reminds me [...] the Gestapo. [...] Denunciation, it reminds me really totalitarian regime with lack of liberty.” This quote needs however to be nuanced and understood within the French cultural context. Because of France’s dark past regarding denunciations during World War 2, it is actually very socially incorrect and condemned to denounce somebody. That might explain the strength of the quote...

Consuming fakes can be done for several reasons: a wish to try to show some group-belonging; making fun out of people consuming real products (“Maybe it’s making fun of people who are wearing Adidas because they consider it necessary for their personal environment?”); or being ‘smart’, for there is no reason to pay more for a real item (“I do not see the sense in paying so much money for something which is not worth it.”).

However, even if positively oriented towards counterfeiting, respondents are aware of its illegal nature, and wish to remain anonymous when purchasing the product:

“On the Internet, there is the problem that it can be traced back.”

4.2.3 Brand

Counterfeiting luxury is associated with brand mocking. Therefore, emphasis is put on the logo and quality of the counterfeit, which can even happen to be an exact replica. Some respondents completely identify the counterfeited product with the original one, discounting its ‘copying’ nature:

“It was a wallet by Louis Vuitton. [...] It was a Lacoste bag, with the same logo.”

Mention of the luxury industry is also made, to show how it is right not to pay for such price and marketed items.

4.2.4 Product

The last actor is the counterfeited product per se. It is characterised through four different features.

- (1) It is cheaper than its original version (“You do not want to afford it. [...] It costs like 70% off the price, then I would consider price to be ok.”). However, respondents would be less willing to buy a counterfeited version of a super-expensive luxury product than of ‘cheaper’ luxury goods (“I could buy a real luxury, like a Rolex. But you don’t want to do it regularly. For exceptional products, like the Rolex, I prefer waiting and buy the real. But for other stuff, no.”)
- (2) It has a lower quality than the original product, although with varying degrees (“It means to imitate another brand and to do the same product with a lower quality.”).
- (3) It might be harmful (because of this lower quality): “In this kind of case, it is really important to check if things are real or fake because it can be really dangerous.”
- (4) It has some dedicated usage, for instance as a substitute to be used in cases where the real product would not be appropriate or affordable: “When I do another activity where I don’t want to damage my stuff, I prefer to abimate the other.”

4.2.5 Interaction Between the Actors

The context can have an impact on the consumer, defining his cultural ethical background and providing him with excuses. It also impacts the brand: the complicity of the products is very much connected with the social environment. Brand and product are directly connected to the interest of the consumer towards counterfeiting but do not have an impact on one another, at least from the analysis of the interviews. Such results remain broad and additional research could be conducted to focus on the potential causal links in between the actors. The Actantial Model (Greimas, 1966) could be useful in this sense, as part of a semiotic approach toward the issue. This model allows us to break an action down into six facets, or actants. The subject is what wants or does not want to be joined to an object. The sender is what instigates the action, while the receiver is what benefits from it. Lastly, a helper helps to accomplish the action, while an opponent hinders it. Identifying the various actants would lead to a holistic understanding of who/what triggers the action of consuming fakes. Such triggers is valuable to be identified, as a potential focal point in anti-counterfeiting strategies. That could lead to direct implications for operational marketers, including on the retail spot. We leave it as an inspiration for future developments.

5 Discussion

5.1 What Incentives to Switch Consumption from Fake to Real?

A comparison of table 2 and figure 1 helps identify three necessary conditions that must be met to allow consumers of non-deceptive counterfeits to switch to the purchase of real goods. These are: an exigency of quality, both in terms of product and of sales force's competencies; a retail environment "smelling luxury"; and a flawless service experience.

Working on these dimensions could provide luxury managers and retailers with new tools to target and capture such consumers.

Table 3 represents the confrontation of findings from the two previous analyses. It actually presents a new reading of the data, based on elements which can be grouped together, whatever the topic (luxury or counterfeiting). In this part, instead of focusing on one concept, we cross-read the data to identify common ideas and concepts, still in an iterative coding scheme, following the grounded theory principle. Table 3 presents the results of the new reading of the data, through four broad categories, namely Temporality, Sociality, Context and People. The sub dimensions in the table emanate from the data already presented in the previous quotes.

Besides, in the ‘World of Counterfeiting’ column, the incentives to switch from fake to real have been categorized under three dimensions: Quality (Q), Experience (E), Retail (R) (i.e. the three necessary conditions pre-mentioned). The classification has been presented to an expert in luxury (academic researcher), who agreed on all Q, E and R coding.

Table 3: When the Luxury World meets the Counterfeiting World

	World of Luxury	World of Counterfeiting	
Temporality	Future-oriented	Q + E	Present-oriented
	Expectations	Q	No expectations (proxy for real)
	Long-lasting relationships	E	Punctual event
Sociality	Culture/Education based	R	Occasion-based
	Values	R + E	Logo ~ Symbols
	Coded	Q	Not coded
Context	Purchase experience	R + E	Another purchase experience
	Burden/Occasional usage	Q	Test
	Freedom (legal)		Freedom of doing whatever one's want
	No social/legal negative consequences		Social & legal negative consequences
People	Coded behaviour	R + E	Non-coded behaviour
	Status	E	Belonging
	Uniqueness		Anonymity
	Freedom		Dependence
	Uniqueness	Q	Standard
	No flaw		Poor quality
Expensive		Cheap	

Q: Quality

E: Experience

R: Retail environment

To be as practical as possible, managerial recommendations follow, based on it are presented using the marketing mix framework, with a specific focus on retailing issues. They are all targeted at luxury retailers. However, the business model of luxury companies being more and more of an integrated value chain, some recommendations deal with side-topics than retailing. Such ones still need to be taken into consideration by retailers, as part of a holistic approach towards a luxury consumption experience.

5.2 Impact on product policy

It has been shown in the previous part how quality is playing a key role in the consumption of luxury products or of their fake versions: luxury products are supposed to be perfect and per-

fectly marketed. This means that the packaging plays as much importance for consumers as the product itself; and the retail environment should stress-out it. No flaw should be detected in any luxury products, which should be simultaneously original and recognizable. This is to enable consumers to express themselves, after defining themselves, which is the best way to oppose the 'freedom seeking' perspective described in the counterfeit consumption. This freedom of expression could be easily addressed via customization of luxury products. This is already offered on a small scale by some luxury companies, and made available in specific retail strategies (e.g. online): on the Louis Vuitton website clients can choose to engrave their initials on a bag, for instance. Extending such strategies in real-settings as well could be an additional way of going for luxury companies, and re-capture these consumers of fakes.

5.3 Impact on price policy

Surprisingly, price did not play the role initially thought of in this study: instead of being a cheap alternative to an expensive product, price is perceived as a side component, only enabling the recognition of a counterfeit good. Besides, respondents were more sensitive to buy real very expensive products than cheaper ones.

Hence, a recommendation would be not to decrease prices of luxury products, as it is currently done via low-grade versions of designer brands (e.g. Armani Exchange). This may result in more people heading for fake goods: what would be the point in not being clever enough to get the same quality-level with a more adjusted price (i.e. buying a counterfeit)? Higher prices of luxury goods would enable the luxury world to remain another world and fit its perceived artistic nature. With low prices, it loses status and consumers end-up buying a logo or a design, something easily replicable, hence providing a rationale for engaging in the consumption of counterfeits. Like any piece of art, the price should not be too visible, but may be listed on a piece of paper (as in an art fair).

5.4 Impact on Promotion policy

This phase is of great importance as it is the direct attempt to capture consumers of counterfeits. It comes out from the present study that marketers should avoid focus communication on the dreamy aspect of luxury products (Dubois & Paternault, 1995), which reinforces the impossibility for these consumers viewing luxury as another world and as a strong marker of identification, to get out of their 'boxes' and consider luxury purchase. Hence, communication should as well be made on more rational arguments, directly opposing the reasons advanced for buying fakes: freedom of consumption, a socially accepted way of consuming (to oppose the argument of socially accepted counterfeits vs. weird and non-reasonable genuine

products), a status marker and a safe one (aimed at deceiving others when consuming fakes) and an easy usage of the genuine luxury products (to convince people that there is no risk at buying them, an argument advanced as a reason for buying low-grade versions of luxury goods, to avoid damaging them). This last point could be done strengthening the communication on life-guarantee for example, which is a policy implemented by most luxury companies, from jewellers (Frey Wille, Mauboussin) to leather manufacturers (Hermes, Goyard), including shoe-makers (Louboutin). For example, Frey Wille's jewellerys are life-guaranteed. This means that not only broken items can be sent back for repair, but also items used by regular usage along time. Similarly, luxury car brands such as Rolls Royce do also ensure an infinite-time warranty (even transmitted from one generation to the other one). To the author's knowledge, no such communication has ever been made, be it in the general press or the selective one. This is only known from clients and from personal experience. Word of mouth may be a necessary communication tool in the luxury industry, but may be backed up by more explicit communication when targeting consumers of counterfeits, who are usually less in contact with luxury products and consumers (and thus less receivers of word-of-mouth messages). It could easily be implemented in the retail environment, for example using QR codes next to the product tags etc.

5.5 Impact on Place Policy (including store localisation, store atmosphere and sales force)

While lots of efforts have been put on the two first points by luxury houses, less attention has been devoted at the last one, which appeared in the present study as a deterrent for some consumers to get into luxury shops. For instance, store design is now a key asset for some brands, as they rely upon famous architects to conceive their new stores (e.g. Jun Aoky for Vuitton in Tokyo, or Reem Koohlaas for Prada in New York). Visual cues play a great role in most luxury stores: the antique Louis Vuitton trunk or the portrait of Coco Chanel in each of their respective boutiques. However, while sensory marketing has been acknowledged as a strong influential marketing component of the purchase experience in department stores or fashion stores (for example perfumes and half-naked male models in Abercrombie & Fitch stores), it is less developed in the luxury retail environment. Developing brand images in stores via sensory devices could entice consumers of counterfeits to step in the real stores. Coco Chanel had once well-understood this: rue Cambon (the flagship store in Paris), employees were required to perfume themselves using Chanel n°5... To capture consumers of counterfeits, one efficient strategy is to make them come in brand-owned stores (stores from the selective distribution network and not from resellers). This should be done not only for accessories, leather goods or shoes, but also for watches, jewellerys and perfumes/cosmetics. The atmosphere and standard of the store would raise price-value of the goods in consumers' minds, a feature

already described as an incentive to resist to purchasing counterfeited goods. This is related to the perceived price associated to the product and service going along with it, not the real price.

Salespeople' attitudes and behaviours have been pointed out by respondents as strong deterrents from stepping-in luxury stores. Employees could be trained to help people reach their objectives when buying real luxury products, be it defining their own identity or expressing their sense of uniqueness/belonging to a social group. This should be achieved while simultaneously avoiding the 'another world' syndrome: that the concept of consumer's exclusivity and uniqueness should be preserved, devoting special attention and care to visitors in the shop. The consumer should feel different but not apart from the pool of regular consumers. Hence employees should pay special attention at acting like 'normal', as if the visitor was a regular consumer in the store, but letting him think that he deserves extra and special care.

6 Conclusions

The two content analyses give a better understanding of how people develop an a priori attitude towards luxury, towards counterfeiting and potentially how one attitude may impact another one. For instance, seeing the luxury world as a superficial/artificial world is very much connected with the idea that some people engage in the consumption of counterfeits to display artificial symbolic codes of belonging to a given social class. This study identified six faces of the luxury world, based on two dimensions of perception, while the counterfeiting world is composed of four actors interacting one with the other. Practical insights to marketers have been offered regarding how to capture the consumers of non-deceptive counterfeited luxury goods.

As far as future research is concerned, discourse and semiotic of respondents' discourses would end-up in a mapping of such discourse, in order to identify potential points of similarity/discrepancy. This would be achieved by the use of semiotic squares.

Besides, additional research should be conducted to confirm the recommendations to marketers provided in this article. This could be done using a questionnaire or conducting a field experiment in luxury shops, using carefully selected samples of consumers of non-deceptive luxury counterfeits. Such consumers have appeared as bold-enough to admit (sometimes proudly) being consumers of fakes (Maman 2012), so they might be willing to take part to the experiment. Of course such research would have to go with theoretical sampling, which would downsize the generalizability of the findings.

Lastly, the identification of the six faces of the luxury world, as perceived by consumers of fake luxury goods, could be replicated in quantitative studies with identified characteristics used to build measurement scales, hence providing a new framework in the understanding of the luxury concept.

Appendixes

Appendix A: Interview Guide

Thanks for showing-up and presentation of objective of the study. Ask for interviewee's consent. Let the interviewee know that all conversation will be tape-recorded but that it will be kept anonymous and confidential.

Before all, I would like to know more about you: who are you as a person? And how would you describe yourself as a consumer?

First of all, I would like to discuss with you some points regarding the world of luxury

- How would you define a luxury good?
 - Type of product
 - Quality vs. symbol
 - Examples...

- Have you ever been exposed to it?
 - Circumstances
 - Media?
 - Purchase?
 - Friend? Family?

- According to you, what makes people buy luxury goods?
 - Type of goods
 - Gift vs. self-purchase
 - Brand vs. product
 - Symbolic representation vs. product characteristics

- Have you ever considered buying a luxury good?
 - If no: reason why

- If yes: type of product, circumstances, place of purchase, time of purchase, alone or with somebody else. Description of consumption experience.
- How would you describe somebody who buys luxury goods?
 - Nationality, gender, behaviour, social context
 - Positive vs. negative person
 - Feelings
- Would you describe yourself as such a person?
- What is for you the ultimate luxury?

Let us now consider the topic of counterfeiting.

- What does the word “counterfeiting” mean to you?
- Have you ever been exposed to it?
 - When, where, how (media?)
 - Feelings
- Could you describe the first good you think about when considering counterfeits?
 - As precise as possible
 - Differences between the real item and the fake
- Why do you think people buy counterfeits?
 - Type of purchased goods
- Would you consider buying a counterfeited good?
- If you had to do so, how would you proceed?
 - Where?
 - What type of product?
 - Price ready to pay
- Do you think that it is risky to buy counterfeits?
 - Type of risk: psycho-social, legal, physical?
 - If no, explanation for the rationale behind this justification
- Do you think that it is good to communicate on the topic?

If the interviewee is a luxury consumer and not a counterfeit consumer: How do you feel when you see a luxury brand you happen to buy counterfeited?

+ Projective Cartoon “The fake Rolex”

- Could you describe the setting?
- Any reactions on it?
- If you were the guy, what would you say?

Is there any additional thoughts or feelings you would like to share with me, either concerning luxury or counterfeiting?

Thanks for participation & debriefing. Fill-in of a demographics questionnaire. Offer the opportunity to contact back (business card).

Appendix B: The Fake Rolex

Figure 2: The ‘fake Rolex’ projective drawing



*"We're from the Neighborhood Watch committee.
We've heard you're wearing a fake Rolex."*

Source: Leo Cullum

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Successful GAM Organisation for Companies that Supply International Retailers and the Role of international Marketing Strategy

Bernhard Swoboda, Christoph Seibel and Andrea Schlüter

Abstract

This study examines the effect of strategic and structural design elements of global account management (GAM) on GAM performance in the consumer goods sector. These effects are considered within the context of different international marketing strategies (IMS). Hypotheses based on resource dependence theory and transaction cost theory address the effectiveness and efficiency of GAM organisation. Concerning the GAM strategy, the impact of intensity, proactivity and standardization on GAM performance are studied. Regarding the GAM structure, the influence of centralization, specialization and formalization are analysed. Additionally, the varying importance of the structural and strategic aspects in the light of different IMSs is hypothesised. The hypotheses are tested with a survey of 172 manufacturers and with structural equation models. The results demonstrate that GAM structural design elements determine GAM performance more strongly than strategic design elements. GAM centralization is identified as a primary determinant of GAM performance. However, GAM structure and strategy determine GAM performance differently for manufacturers with more standardised vs. adapted IMSs. With a more adapted IMS the strategic aspects gain in importance.

Keywords

marketing strategy, global account management, structural equation modelling (SEM)

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1 Introduction

For two decades, retailers have undergone a process of extensive internationalisation (Swoboda et al., 2009). This process has increased the power and complexity of retailers as customers who demand multiple points of contact for suppliers among other exacting requirements (e.g., Draganska and Klapper, 2007; Geylani et al., 2007). The latter are forced to re-organise their primarily nationally oriented key account management (KAM) toward internationalising retailers. KAM is a well-known approach to customer prioritisation, “which leads to higher average customer profitability and a higher return on sales” (Homburg et al., 2008, 110). GAM is more involved than KAM because of the specific coordination efforts required of a supply company that serves a multinational customer (Montgomery and Yip, 2000; Shi et al., 2010). Therefore, manufacturers must evaluate to what extent GAM structure and strategy determine GAM performance. Both elements toward retail customers are designed by consumer goods manufacturers besides the end-consumer oriented IMS, i.e., the extent to which the marketing mix is standardised across nations (e.g., Katsikeas et al., 2006; Schmid and Kotula, 2011).

Many scholars have analysed national KAM. However, GAM has rarely been examined (see Richards and Jones 2009 for an overview). Eight empirical studies investigate GAM organisation (Arnold et al., 2001; Birkinshaw et al., 2001; Gao and Shi, 2011; Montgomery and Yip, 2000; Shi et al., 2005, 2010; Swoboda et al., 2012; Toulan et al., 2007). However, knowledge is lacking on the design of GAM strategy and structure, particularly in the consumer goods sector. Only the studies by Toulan et al. (2007) and Shi et al. (2010) contrast structural and strategic design elements (on a cross-sectoral basis), whereas Swoboda et al. (2012) underline the advantages of centralised GAM. This gap in the research limits our understanding of how strategic and structural design elements determine GAM performance.

This study aims to analyse the organisational designs through which manufacturers react to the increasing internationalisation of their retail customers. Manufacturers are challenged to grow with their international retailer customers (increasing effectiveness) and to realise synergies in customer relations (improving efficiency). These challenges are fundamental to GAM (Wilson and Weilbaker, 2004), and manufacturers adopt various approaches to meet them. This paper answers three research questions: How strong are the influence of structural and strategic design elements on the performance of GAM in terms of effectiveness and efficiency? Are GAM strategy and structure of equal importance for GAM performance? Finally, do different IMSs determine the importance of GAM strategy and structure for performance?

By answering these questions, we contribute to international business research broadly and to research on retailer-manufacturer relationships in particular. Responding to the calls of Tou-

lan et al. (2007) and Wilson and Weilbaker (2004), we analyse GAM strategy and structure in an industry-specific context. Based on Workman et al. (2003), we analyse the effectiveness and efficiency of GAM. Enhancing Shi et al. (2010), we understand manufacturer IMS as a GAM context factor. Most international consumer goods manufacturers design their IMS prior to retailer internationalisation to address their end-consumers. Therefore, IMS determines the GAM design. Our results are of specific interest for those manufacturers who are sceptical about GAM because of its complex organisation or because of pricing pressures from the accumulated orders of international retailers (Hofer et al., 2012; Geylani et al., 2007; Corsten and Kumar, 2005).

Applying resource dependence and transaction cost theory, we derive hypotheses that form the basis for the empirical study that follows. The study's design, results and limitations are discussed, and directions for future research are proposed.

2 Hypotheses Development

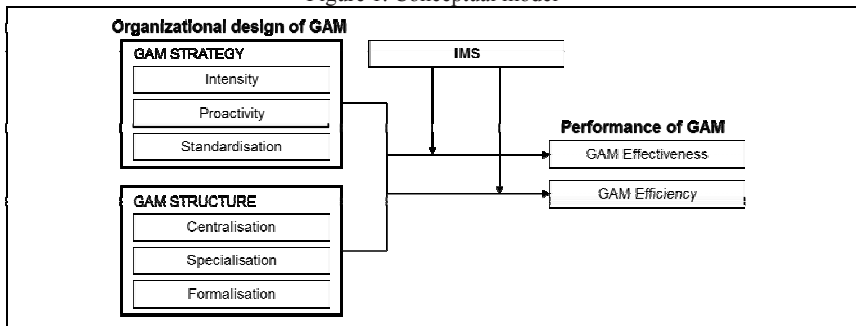
2.1 Theory and conceptualization

Our conceptual framework is based on resource dependence and transaction cost theories because both theories help explain how suppliers react to changes in their organisational environment. Whereas the resource dependence theory focuses on effectiveness, the transaction cost approach focuses on the efficiency of GAM. Using both approaches fosters a deeper understanding of customer relations (Fink et al., 2006), which tend to become more uncertain for suppliers as a result of retailer internationalisation.

The resource dependence theory suggests that organisational behaviour is affected by external resources, which leads companies to develop inter-organisational strategies to cope with the resulting dependencies and uncertainties (Pfeffer and Salancik, 1978). GAM is understood as an organisational response to those dependencies (Birkinshaw et al., 2001; Hofer et al., 2012). Implementing customer-specific activities can address retailer needs in a superior manner. A specific design of strategic and structural elements of GAM should improve the relationship by decreasing uncertainty while strengthening the manufacturer's negotiating position so the manufacturer can reach superior relationship outcomes and increase GAM effectiveness (Swoboda et al., 2012). This approach is also applicable when working with international retailers whose expansion abroad leads manufacturers to review their organisation to address the market dominance of such retailers. (Draganska and Klapper, 2007). The transaction cost theory provides an understanding of the range of organisational mechanisms that can decrease

transaction costs, uncertainties and opportunistic behaviour and to minimise costs of cooperation (Williamson, 1981). International retailers represent complex purchasing organisations. Therefore, manufacturers must understand how to decrease the cooperation costs and how to organise their GAM efficiently. Thus, GAM can be understood as a transaction-specific investment in a coordination mechanism to decrease transaction costs in international retailer-manufacturer relations and minimise opportunistic behaviour by key accounts (Jap, 2001; Swoboda et al., 2012). Below, we address the relationship between strategic and structural elements of GAM and GAM performance within the context of manufacturer IMS (figure 1).

Figure 1. Conceptual model



“GAM strategy” is defined as the target-oriented design of GAM elements, whereas “GAM structure” represents the organisational implementation of such elements (Wilson and Weibaker, 2004). Moreover, GAM structure can be viewed as a content variable rather than a process variable, while assuming that processes and strategies are easier to adapt than contents and structures. Both strategy and structure are differentiated into GAM design elements. According to Homburg et al. (2002) and Richards and Jones (2009), intensity and proactivity are important strategic elements of GAM. GAM intensity represents the extent to which a manufacturer aims to actively construct a closer relationship with a key customer. Accordingly, it is defined as the degree of activities initiated exclusively for the key account. GAM proactivity is defined as the degree of a manufacturer’s initiative (Brehmer and Rehme, 2009). It indicates the extent to which activities are initiated by the manufacturer to develop the relationship instead of in response to customer demands. GAM standardisation, another strategic element (Toulan et al., 2007), is defined as the degree to which customer-specific GAM activities are internationally standardised or adapted. Centralisation, specialisation and formalisation are important structural coordination elements of GAM. GAM centralisation is defined as the degree of coordination, i.e., whether activities are coordinated globally by headquarters or on a local level (Swoboda et al., 2012). GAM specialisation represents the degree to which

tasks and activities are divided within the organisation (Olson et al., 2005, 52). It describes to what extent specialists are involved in GAM (e.g., logistics, controlling units). GAM formalisation represents the implementation of standardised rules and procedures in dealings with core customers (Homburg et al., 2002).

Most studies analyse GAM with respect to effectiveness or efficiency. However, Homburg et al. (2002) note that suppliers can have different goals with customers, e.g., effectiveness, if the goal is to grow with the customer, or efficiency, if the goal is to decrease relationship costs. Therefore, we define GAM performance as effectiveness and efficiency. GAM effectiveness represents superior relationship outcomes, particularly growth with the key account in sales and market share. GAM efficiency represents cost minimisation and the effort required to deal with the key account.

When analysing indirect distribution channels, it is particularly useful to differentiate between GAM and IMS. In contrast to industry goods manufacturers, where IMS and GAM address the same customer (Shi et al., 2010), consumer goods manufacturers address retail customers with GAM and end-consumers with IMS (Shoham et al., 2008). A manufacturer has full control over its IMS activities. It can determine which foreign markets to enter, the mode of entry and the marketing strategy that it will implement (Shi et al., 2010). However, in GAM, the retail customer initiates changes in the organisation, and the supplier must react within his existing IMS. The latter is the typical scenario for most international consumer goods manufacturers because they internationalised earlier than their retail customers (Swoboda et al., 2012) and hence an existing IMS formed the framework for the GAM design. Therefore, we analyse IMS as a moderator of the relationship between GAM organisation and GAM performance to better understand the relationship in the light of different IMSs. An adapted IMS may correspond with differing roles of GAM strategy and GAM structure than a standardised IMS.

2.2 Hypotheses on GAM strategy and performance

High GAM intensity decreases the uncertainty of the relationship with the manufacturer's key customer. Based on resource dependence theory, we argue that manufacturers can respond to their dependence on the retailer with high GAM intensity. High GAM intensity can strengthen a manufacturer's position toward the retailer, generate additional sales options abroad and thus drive GAM effectiveness. Within a national context, this relationship is supported by Ivens and Pardo (2008) and Workman et al. (2003). Based on transaction cost theory, we argue that high GAM intensity helps manufacturers minimise opportunistic behaviour by cus-

tomers, gain synergies and thus decrease transaction costs (Jap, 2001). In an international context, Yip and Bink (2007) argue that higher GAM intensity might be accompanied by higher resource efforts. However, Gosselin and Bauwen (2006) assume that high GAM intensity results in increased GAM efficiency. International retailers that frequently establish new relationships with manufacturers in foreign markets should be open to intensive GAM activities because such activities help them reduce transaction costs when dealing with suppliers. Therefore, we assume the following:

H1. Within GAM strategic design, GAM intensity has (1) a positive impact on GAM effectiveness and (2) a positive impact on GAM efficiency.

As a result of GAM proactivity, manufacturers can adjust programmes to the anticipated needs of their key customer (Homburg et al., 2002). Internationalising retail customers may react particularly positively to proactive GAM activities because those activities anticipate customer needs when they search for new suppliers in new markets. Accordingly, proactive GAM would result in superior relational outcomes (Brehmer and Rehme, 2009). Based on transaction cost theory, proactive GAM is understood as an opportunity to realise manufacturer objectives and simultaneously satisfy specific customer needs. Because international retailers face many other challenges in addition to dealing with suppliers, manufacturers should offer proactive GAM activities and develop efficient relationships. This argument is supported by Workman et al. (2003), and Corsten and Kumar (2005) demonstrate that proactive logistic or category management increase the efficiency of retailer-manufacturer relationships. Thus, we hypothesise as follows:

H2. Within GAM strategic design, GAM proactivity has (1) a positive impact on GAM effectiveness and (2) a positive impact on GAM efficiency.

With GAM standardisation, manufacturers may enhance their control over an international relationship. The risk of retailers playing off regional subsidiaries of manufacturers, e.g., in pricing negotiations, is decreased. We assume that GAM standardisation for a particular retail customer across countries will support GAM effectiveness because it signals constant capabilities on the part of the supplier (Arnold et al., 2001). According to transaction cost theory, manufacturers benefit from GAM standardisation with relation to a particular customer because synergies and scale effects can be generated, which is important in consumer goods markets given the immense pricing pressure on manufacturers. Thus, GAM standardisation should result in more efficient GAM. This conclusion is supported by Shi et al. (2010), who view standardisation not only as a key means to offer consistent services to the global customer but also as a way to maximise economies of scale. Thus, we hypothesise as follows:

H3. Within GAM strategic design, GAM standardisation has (1) a positive impact on GAM effectiveness and (2) a positive impact on GAM efficiency.

2.3 Hypotheses on GAM structure and performance

GAM centralisation strengthens a manufacturer's negotiating position with international retail customers. A centrally coordinated approach enables manufacturers to construct consistent international relationships to achieve superior relational outcomes. Consequently, GAM centralisation should result in higher effectiveness. The benefits of centralisation are demonstrated by Birkinshaw et al. (2001) and Shi et al. (2010). Based on transaction cost theory, a centralised GAM can generate synergies and minimise opportunistic behaviour by international retailers. The exchange of information and international customer activities are both easier to manage, and the likelihood of potential conflicts between key local and international account managers is decreased. The decrease in the opportunistic behaviour of customers as a result of GAM centralisation is in particular supported by Jap (2001). Furthermore, Swoboda et al. (2012) underline the importance of centralisation for GAM performance. Thus, we hypothesise as follows:

H4. Within GAM structural design, GAM centralisation has (1) a positive impact on GAM effectiveness and (2) a positive impact on GAM efficiency.

GAM specialisation is linked to the importance of arranging sufficient resources to be able to cope with customer demands. High specialisation can be understood to promote GAM effectiveness because it enables the manufacturer to isolate individual customer problems and exploit alternatives for customers. Pardo (1999) indicates that manufacturer capabilities are limited when no specialists are involved in international customer relations. Based on transaction cost theory, an integration of specialists is primarily viewed as a basis for a smoother handling of negotiations and an option to decrease uncertainty and transaction costs. The positive impact of the integration of specialists is supported by Ivens and Pardo (2008). In the consumer goods sector, the integration of specialists is discussed as an important advantage of collaborative approaches because units and functional specialists can contact one another. That is, e.g., the logistic specialists of the manufacturers and the retailers can negotiate with one another (Swoboda et al., 2012). Thus, we assume as follows:

H5. Within GAM structural design, GAM specialisation has (1) a positive impact on GAM effectiveness and (2) a positive impact on GAM efficiency.

GAM formalisation refers to standards or implemented rules that offer greater transparency in the handling and control of resources. Formalisation might promote GAM effectiveness by reducing internal and external uncertainties (Homburg et al., 2002; Yip and Madsen, 1996). Formalisation might be specifically relevant to the consumer goods sector as international retailers become complex buying organisations with various contact points. Accordingly, GAM formalisation can support the manufacturer's negotiating position and therefore GAM effectiveness (Swoboda et al., 2012). GAM formalisation may minimise internal uncertainties and therefore decrease potential transaction costs because it serves as a guideline for problem solving, the allocation of responsibilities and the elimination of duplicate efforts. Auh and Menguc (2007) demonstrate that standardised routines and formal communication channels support an efficient GAM organisation. Thus, we conclude as follows:

H6. Within GAM structural design, GAM formalisation has (1) a positive impact on GAM effectiveness and (2) a positive impact on the GAM efficiency.

2.4 GAM strategy, structure and performance

We turn to the question of whether GAM strategy or GAM structure has a stronger influence on GAM performance.

On the one hand, manufacturers must find strategies to cope with the power of internationalising retailers. On the other hand, they must ensure that they possess the appropriate organisation. It is critical to guarantee that the manufacturer's power is not diluted by splitting responsibilities and that GAM has the appropriate resources to address all requirements. If a manufacturer has a superior strategic GAM design but lacks the structure to implement it, it would be difficult to perform well. Accordingly, we assume that an appropriate GAM structure would affect GAM effectiveness and efficiency more than GAM strategy would. The following reasoning supports this assumption. Understanding strategy as a process variable and structure as a content variable (Yip and Bink, 2007), we surmise that structures are more robust and difficult to change than strategies. In the context of dynamic retailer internationalisation and the scepticism of manufacturers toward GAM, the structural design of GAM may present the largest challenge. Additionally, for internationally expanding retailers, a centralised, specialised and formalised approach by the suppliers should be preferable. Expanding into new countries, retailers will find known supplier structures, which facilitate cooperation. Thus, structural design elements should be of greater importance for GAM performance compared with strategic design elements. This reasoning is supported by Yip and Bink (2007), who analyse the division of work between local and global organisations, and by Shi et al.

(2005), who focus on GAM capabilities while also addressing coordination. In sum, we conclude as follows:

H7. GAM structural design has a stronger positive impact on (1) GAM effectiveness and (2) GAM efficiency than GAM strategic design does.

2.5 Moderating role of IMS

In analysing the relevance of more standardised vs. adapted IMS for successful GAM organisation, we base our rationale on the differences between IMS and GAM as well as the prior internationalisation of manufacturers in the consumer goods sector (Shoham et al., 2008). Internationalising retailers may confront manufacturers with more standardised vs. adapted IMS with different challenges concerning the successful design of GAM strategy and structure.

Manufacturers with a more standardised primary IMS must develop a specific GAM structure to ensure that their power increases from the centralisation of responsibilities within the organisation (Swoboda et al., 2012). Previously, manufacturers may have applied a standardised IMS but a country-by-country KAM organisation to address the needs of national retail customers. The market power of internationalising retailers increases, but the need for country-specific supplier relations might decrease. Therefore, a centralised, specialised and formalised GAM decreases uncertainty and complexity for retailers and manufacturers and can be expected to significantly influence GAM performance. A GAM strategy also faces challenges. However, its design may be less problematic for two reasons. First, a manufacturer with a standardised IMS tends to have standardised processes and strategies, even for national retailers. Therefore, a transfer of such a strategy to a retailer across countries might require the development of new and challenging solutions only to a limited extent. Second, the previous argument that a change of strategies is easier than a change of structures remains valid here (Yip and Bink, 2007).

Manufacturers with a more adapted IMS face challenges concerning strategic and structural GAM design. Their IMS and national KAM were designed country-by-country to address end-consumer and retail customer needs. These firms must develop a GAM strategy and implement an appropriate GAM structure, which ensure that GAM becomes an adequate resource in responding to the requirements of the international retailers. However, only restructuring KAM may not result in a significant decrease in the relationship's uncertainty. Even if manufacturers provide retailers with centrally located specialists for different countries, the

manufacturers might still want to maintain the adaptation for consumers. This might require them to act proactively and intensively with a retailer in order to identify solutions that are standardised for the retailer without relinquishing the adapted IMS. Therefore, we conclude that for manufacturers with a more adapted IMS, the strategic design will be more important for GAM success than for manufacturers with a more standardised IMS. These arguments lead us to develop the following hypotheses:

H8. Within a more standardised IMS, GAM structural design has a stronger positive impact on (1) GAM effectiveness and (2) GAM efficiency than GAM strategic design does.

H9. Within a more adapted IMS, GAM strategic design has a stronger positive impact on (1) GAM effectiveness and (2) GAM efficiency than GAM structural design does.

3 Empirical Study

3.1 Sample

We conducted a survey among consumer goods manufacturers (similar to Homburg et al., 2002). To develop the sample, we selected every food or near-food manufacturer in Germany using the Who-is-Who commercial online database (which includes profiles of over 10,000 companies). This procedure resulted in a list of 1,250 companies. Those companies without international sales and those not delivering to international grocery retailers were excluded. Furthermore, we contacted the Association of Brand Manufacturers to ensure that our list contained all relevant manufacturers. This procedure resulted in a sample of 670 companies. After a pre-test, we distributed 670 questionnaires to CEOs by mail, asking them to complete or to pass on the questionnaires to international account managers or sales heads who are responsible for the most important (in terms of sales volume) international retail customers (similar to Ivens and Pardo, 2008).

The questionnaire could be completed in writing or electronically. Two weeks after it was mailed, a follow-up postcard was sent. Two weeks after the postcard mailing, e-mails were sent, and telephone calls were made. Approximately 250 companies declined to participate in the study. Thus, we identified international account managers and sales heads using the previously described data sources and social networks and contacted them directly if the CEOs of the targeted companies had not answered. After excluding 14 questionnaires because of a

considerable amount of missing data, 172 usable questionnaires were obtained. The response rate of 25% can be ascribed to the topicality of the study. A total of 81.5% of the respondents represent grocery manufacturers (table 1).

Table 1. Sample characteristics

Industry	Total sales in Mill. €		Foreign share of sales		
Food	41.9	> 1000	35.5	> 50%	47.7
Near-Food	39.6	100-1,000	41.3	25-50%	20.4
Non-Food	18.5	< 100	22.0	< 25%	31.3
Missing	0	Missing	1.2	Missing	0.6
Total	100.0	Total	100.0	Total	100.0

Note: N=172.

3.2 Measurements and method

In the survey design, we first considered general aspects, e.g., using five-point Likert-type scale items (strongly agree (5) to strongly disagree (1)) regarding the hierarchy of effects and the visual design. The scales used in the survey were based on previous studies, whereby a context-specific adaptation of items to measure GAM activities was necessary.

Based on studies on retailer-manufacturer collaborations (e.g., Corsten and Kumar, 2005) and pre-tests with six key account managers and two retail CEOs, we included as items price/condition systems and activities discussed in such collaborations as logistics, category management and marketing (see Appendix A). The measurements of GAM intensity and GAM proactivity were based on the questions of Homburg et al. (2002) with slightly adapted items, which include an overall item and the four previously mentioned aspects. The same approach was used to measure GAM standardisation and GAM centralisation (Toulan et al., 2007; Swoboda et al., 2012). For GAM specialisation, the measurement by Miller and Dröge (1986) was adapted to differentiate three respective units. GAM formalisation was measured with three questions (Homburg et al., 2002). GAM performance was measured at the GAM level (Toulan et al., 2007). GAM effectiveness addresses superior growth in sales or market share and category growth with the key account. GAM efficiency addresses decreases in cost of sales to the customer, efforts needed in coordinating the relationship and cross-selling as an opportunity to minimise costs in handling the relationship. The IMS was measured with four items addressing the standardisation degree of the marketing mix (Katsikeas et al., 2006). Further variables that could influence the success of the GAM were controlled for. Size of manufacturer (measured by five sales volume groups) might influence performance because it is known as a proxy for varying firm capabilities (Wilson and Weilbaker, 2004). Because we observed German manufacturers, we employed a dummy variable to control for whether the company was an international or a regional headquarters of a domestic company or a MNC.

Possible effects of retail customers who were evaluated at least three times by the manufacturers were controlled for by dummy variables. Because no significant effects occurred and because of the model's complexity, we will not comment further on these results.

Our methodical approach was threefold: First, the measurements were tested for their reliability and validity; second, possible biases were checked; third, the hypotheses were tested. Regarding reliability, the value of the corrected item-to-total-correlation is mostly higher than 0.5. To assess construct reliability, coefficient alpha and composite reliability were computed. Both exceed the recommended range of 0.7 and 0.6 in all cases. The average variance extracted (AVE) is above 0.5 for each of the latent variables (Table 2). Regarding validity, face validity was assessed using expert interviews. Construct validity was assessed by checking convergent and discriminant validity. The AVE values additionally provide support for convergent validity. All latent variables satisfy the requirement for discriminant validity. The probability of a Non-Response Bias is assumed to be reduced, as shown by the comparison between early and late respondents. Common method bias was addressed a priori through an appropriate questionnaire design (e.g., a hierarchy of effects) and ex-post tests using Harman's single factor test. Because the first factor accounts for only 16.5% of the total variance explained, common method bias can be assumed to be reduced within our possibilities given that we had to rely on the self-reports of executives (Spector 2006). Because of the focus on senior executives (61% of the respondents were CEOs or heads of sales or of GAM, and 39% were key account or marketing managers), single response bias is assumed to be limited. Further efforts to control for single response bias with a second respondent failed because we could obtain only 12 respondents. However, the comparison resulted in insignificant mean differences.

Table 2. Correlations and descriptives

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
GAM intensity	<i>0.60</i>									
GAM proactivity	0.19	<i>0.56</i>								
GAM standardisation	0.20	0.19	<i>0.69</i>							
GAM centralisation	0.10	0.01	0.24	<i>0.72</i>						
GAM specialisation	0.18	0.13	0.25	0.15	<i>0.74</i>					
GAM formalisation	0.15	0.05	0.15	0.09	0.13	<i>0.63</i>				
GAM effectiveness	0.15	0.08	0.16	0.14	0.11	0.13	<i>0.62</i>			
GAM efficiency	0.07	0.08	0.19	0.26	0.10	0.08	0.40	<i>0.59</i>		
IMS	0.02	0.07	0.19	0.05	0.01	0.09	0.03	0.07	<i>0.60</i>	
Size of manufacturer	0.00	0.01	0.03	0.06	0.00	0.00	0.00	0.01	0.01	–
Regional headquarter	0.01	0.02	0.02	0.01	0.00	0.00	0.09	0.08	0.01	0.00
MW	3.18	2.97	2.92	2.90	3.10	2.92	3.49	2.96	3.07	–
STD	1.13	1.10	1.24	1.34	1.20	1.13	1.06	1.10	1.04	–

Note: Squared values are shown, AVE-values in the diagonal.

To test the hypotheses, we applied a partial least squares approach and acknowledged the advantages and shortcomings of this method (e.g., Hulland, 1999). To analyse the differences in IMS, we use the median split technique to create two groups (e.g., as in Gauri et al., 2008) (a

more standardised vs. a more adapted IMS) and perform a t-test using unstandardised path coefficients.

4 Results

GAM effectiveness and GAM efficiency are explained moderately by the strategic and structural design elements of GAM (Table 3). Regarding GAM strategic design, the impact of GAM intensity on GAM effectiveness is positive (H1.1) but the impact on GAM efficiency is not (H1.2). GAM proactivity has a positive impact on GAM effectiveness and efficiency (H2.1 and H2.2), whereas GAM standardisation has a positive impact only on GAM efficiency (H3.2). H1.1, H2.1, H2.2 and H3.2 are supported. Regarding GAM structural design, GAM centralisation has a positive influence on GAM effectiveness and efficiency (H4.1/H4.2). The impact of GAM specialisation on both performance dimensions is insignificant (H5.1 and H5.2), whereas GAM formalisation has a positive impact only on GAM effectiveness (H6.1). H4.1, H4.2, and H6.1 can be supported. Regarding the control variables, larger manufacturers have advantages with respect to effective GAM. Furthermore, MNC regional headquarters have advantages in developing effective and efficient GAM. The results for the controls vary in subsequent hypotheses tests.

Table 3. Performance effects of strategic/structural elements

	β	t-value
Strategic design of GAM		
GAM intensity → GAM effectiveness	0.106	1.422 [†]
GAM intensity → GAM efficiency	-0.064	0.965
GAM proactivity → GAM effectiveness	0.148	2.212*
GAM proactivity → GAM efficiency	0.227	3.198***
GAM standardisation → GAM effectiveness	0.075	0.905
GAM standardisation → GAM efficiency	0.101	1.320 [†]
Structural design of GAM		
GAM centralisation → GAM effectiveness	0.210	2.903**
GAM centralisation → GAM efficiency	0.407	6.039***
GAM specialisation → GAM effectiveness	0.054	0.664
GAM specialisation → GAM efficiency	0.021	0.108
GAM formalisation → GAM effectiveness	0.171	2.304*
GAM formalisation → GAM efficiency	0.078	1.165
Controls		
Size of manufacturer → GAM effectiveness	0.095	1.700*
Size of manufacturer → GAM efficiency	0.021	0.590
Regional headquarter → GAM effectiveness	-0.271	4.347***
Regional headquarter → GAM efficiency	-0.251	3.981***
R ² GAM effectiveness	0.356	
R ² GAM efficiency	0.390	

[†]p ≤ 0.10; * p ≤ 0.05; ** p ≤ 0.01; *** p ≤ 0.001; n = 172.

The results from the analysis of H7 are presented in Table 4 (total model). For the analysis, we compute the impact of strategic and structural GAM elements as a covariation model. Strategic and structural GAM elements are measured with three factors each and combined into two second-order constructs, which represent GAM strategy and GAM structure, respec-

tively. Factor scores of the latent constructs were used as indicators for the second-order construct. The GAM structure displays a significantly stronger impact on GAM efficiency than the strategic GAM design and, by trend, a stronger impact on GAM effectiveness. Accordingly, H7.2 is supported, whereas H7.1 is not.

We use the covariation model to evaluate the hypothesised relevance of GAM strategy and structure within both IMS groups and in a comparison between groups (Table 4). Within a more standardised IMS, the GAM structure more strongly determines GAM effectiveness (H8.1) and efficiency (H8.2) than the GAM strategy does. Within a more adapted IMS, no significant differences between GAM strategy and structure occur. H9 is not supported. However, when both IMS groups are compared, a significantly stronger influence of the strategic GAM designs on GAM effectiveness and efficiency occur for more adapted IMS. A minor significant stronger influence of the structural GAM design on GAM performance occurs for more standardised IMS.

Table 4. Performance effects of strategy vs. structure

	Total model (n = 172)		More standardised IMS (n = 86)		More adapted IMS (n = 86)		Group difference	
	β	t-value	β	t-value	β	t-value	$\Delta\beta$	t-value
Path								
Strategic covariation → GAM effectiveness	0.246	3.274***	0.131	1.079	0.347	3.693***	-0.216	1.649*
Strategic covariation → GAM efficiency	0.182	2.533**	-0.075	0.254	0.353	3.335***	-0.428	2.754**
Structural covariation → GAM effectiveness	0.321	3.711***	0.436	3.385***	0.232	1.968*	0.204	1.416 [†]
Structural covariation → GAM efficiency	0.382	5.157***	0.571	4.154***	0.281	3.170***	0.290	1.438 [†]
Controls								
Size of manufacturer → GAM effectiveness	0.103	1.938*	0.125	1.787*	0.110	1.480 [†]	0.015	0.404
and	-0.014	0.021	0.034	0.754	-0.053	0.724	0.087	1.051
Regional headquarter → GAM effectiveness	-0.260	4.043***	-0.281	2.839**	-0.216	2.363**	-0.065	0.208
Regional headquarter → GAM efficiency	-0.233	3.330***	-0.375	4.320***	-0.094	1.174	-0.281	2.488**
	$\Delta\beta$	t-value	$\Delta\beta$	t-value	$\Delta\beta$	t-value		
Structural stronger than strategic covariation → GAM effectiveness	0.075	0.387	0.305	1.916*	-0.115	1.063		
Structural stronger than strategic covariation → GAM efficiency	0.200	1.869*	0.646	3.624***	-0.072	0.293		
R ² GAM effectiveness	0.342		0.325		0.373			
R ² GAM efficiency	0.345		0.373		0.387			

[†]p ≤ 0.10; * p ≤ 0.05; ** p ≤ 0.01; *** p ≤ 0.001.

Note: Standardised values for second order constructs: strategic covariation (intensity 0.78, proactivity 0.73, standardisation 0.85), structural covariation (centralisation 0.81, specialisation 0.74, formalisation 0.68).

5 Discussion

This study examines successful GAM organisation in the context of different IMSs in the consumer goods sector. The topic's relevance results from the dynamic internationalisation of retailers, manufacturer scepticism about complex GAM organisations and the research deficit in this area. GAM performance depends on the strategic and structural design elements of GAM. However, the relevance of strategy and structure varies for more standardised and

more adapted IMSs. Three theoretical implications and conclusions for managers could be drawn.

The theoretical implications relate to (1) the six design elements of GAM performance, (2) the relative importance of GAM strategy and structure and (3) the role of IMS.

(1) Regarding our first research question, two important conclusions emerge. First, GAM centralisation strongly determines the explanation of GAM effectiveness and efficiency. GAM performance strongly depends on the centralisation of price/condition systems as well as on logistics, category management and marketing. This outcome supports and extends studies such as Toulan et al.(2007) and Swoboda et al. (2012). This observation is remarkable because centralisation is not covered by studies on national KAM. Second, in addition to centralisation, GAM effectiveness is determined by intensity, proactivity and formalisation, whereas GAM efficiency is determined by productivity and standardisation. The relevance of the design elements can be summarised as follows:

- The GAM intensity results support the findings of Workman et al. (2003). Suppliers striving to build stronger relationships can grow with their customers. However, this behaviour does not contribute to greater efficiency, contradicting the assumptions of Birkinshaw et al.(2001). One explanation could be that a decrease in opportunistic behaviour by retailers is accompanied by unnecessarily high resources being spent on the relationship (Yip and Bink, 2007).
- The connection between GAM proactivity and performance was confirmed. A proactive GAM enables stronger control over the relationships and helps reduce conflicts in the relationship, among other effects.
- GAM standardisation affects GAM efficiency by offering manufacturers options to maximise synergies and scale effects in response to internationalising retailers. Standardisation has no significant effect on GAM effectiveness. The need for further studies is clear.
- GAM specialisation does not contribute to an explanation of performance. This result is not in line with national studies which highlight the benefits of multifunctional teams (e.g., Pardo, 1999). The missing connection might result from the relatively recent internationalisation of retailers who focus on store network development abroad rather than supplier management.
- The positive effect of GAM formalisation on GAM effectiveness supports Swoboda et al. (2012). However, the missing effects on GAM efficiency may once more be explained by the relatively recent internationalisation of retailers.

(2) The GAM structure is a stronger driver of performance than GAM strategy, particularly GAM efficiency, supporting the studies that focus on GAM structure. As content variables, structures are more difficult to adapt than process-oriented strategies. However, they determine GAM performance more strongly in the consumer goods sector. Thus, further studies on the interdependencies of GAM strategy and structure as performance drivers are required. Nevertheless, there is no consensus on which design elements comprise GAM strategy and structure. For instance, Olson et al. (2005) view centralisation as a structural decision, whereas Shi et al. (2010) view centralisation as a strategic decision.

(3) Regarding our third research question, in a more standardised IMS, the GAM structure is significantly more important for performance than GAM strategy. Within a more adapted IMS, the GAM strategy is by trend more important than the GAM structure. For the first time, it is evident how manufacturers with different IMSs successfully design their GAM organisation: The performance relevance of GAM strategy and structure differ between the groups. Therefore, IMS should be included as an important contextual factor of GAM organisation in further research, particularly when indirect distribution channels are investigated.

The implications for managers confronted with the challenge of developing an effective and efficient GAM relate to the priorities that can be set in its organisation. First, a corresponding design or reorganisation is the best advice because GAM centralisation is a primary determinant of GAM performance. For many consumer goods manufacturers, this process is associated with breaking up traditionally decentralised, country-specific structures, which could result in exciting developments if retailing continues to internationalise. Second, effectiveness and efficiency represent complementary performance objectives. However, they can be weighted differently, e.g., on the customer- or country-specific level. For manufacturers who prioritise, this study offers clues regarding the primary determinants of efficiency and effectiveness. Third, a different IMS implies different requirements toward a successful GAM organisation. Particularly among adapted consumer goods manufacturers, the change in traditional country-by-country strategies and structures is compelling.

6 Limitations and research directions

Seeking to understand what drives GAM performance, further analyses are required, also because our study is not without limitations. Concerning data collection, we tried to address all consumer goods manufacturers present in Germany. However, generalisation cannot be guaranteed. Further, surveying only one informant in the company and only one partner of a partnership limits this study's applicability. A broader data basis could avoid this problem and

enable further considerations, for instance, the retailing perspective. We attempted to conceptualise the GAM elements and performance as precisely as possible. We adapted the measurements to the context of the consumer goods sector on the basis of the retailer-manufacturer collaboration literature and pre-tests. However, this approach remains exploratory. Moreover, GAM is complex. Other GAM elements are analysed, for instance, based on the contingency theory by Homburg et al.(2002). Changing contexts can influence the relationships modelled in our framework, e.g., the level of the dependency of manufacturers on the customer (Swoboda et al., 2012) or the comparison of IMS with a global marketing strategy (Shi et al., 2010). Such context and other factors, such as the capabilities of a manufacturer and a retailer in a particular country, can enlarge the scope of implications that can be drawn from such a study.

Appendix A

Scale items to construct measures.

Strategic/structural elements.

GAM intensity (α 0.83): For this customer we do more than for normal accounts concerning: price/condition systems, logistic, category management, marketing, intensity in general.

GAM proactivity (α 0.80): Following activities derive more from our initiative instead from customer initiative: price/condition systems, logistic, category management, marketing, proactivity of GAM.

GAM standardisation (α 0.89): We standardise, i.e. we utilize the same activities across nations, for this customer: price/condition systems, logistic, CM, marketing, standardisation in general.

GAM centralisation (α 0.92): Following activities for this customer are coordinated only centrally and not on a country-by-country basis: price/condition systems, logistic, category management, marketing, supply contracts, centralisation in general.

GAM specialisation (α 0.88): Different units/specialists are integrated in the GAM activities for this key account: Finance/controlling, logistic/SCM, marketing/market research, specialisation in general.

GAM formalization (α 0.71): Within our organization formal communication channels are followed when working with the key accounts. To coordinate the parts of our organisation

working with key account standard operating procedures have been established. We have put a lot of thought into developing guidelines for working with this key account.

Performance. Are you more successful (compared to your average accounts) in the relation with this key account in terms of:

GAM Effectiveness (α 0.80): Growth in sales to customer, growth of market shares, growth of category profitability, category grow that customer.

GAM Efficiency (α 0.76): Coordination of sales to customer, reduced cost of sales to customer, more efficient use of salespeople's time in serving the customer, cross-selling into customers' operations.

IMS (α 0.79): We standardise our international activities, i.e. we use the same instruments across nations: Products, communications/merchandising, pricing, and marketing-mix in general.

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The World's Leading E-Retailers and Environmental Sustainability

Peter Jones, Robin Bown, Daphne Comfort and David Hillier

Abstract

The aims of this paper are twofold, namely to offer an exploratory review of the environmental sustainability commitments and achievements being publicly reported by the world's leading e-retailers and to offer some wider reflections on the way these e-retailers are addressing and pursuing sustainability agendas. The paper begins with brief outlines of how the internet is transforming consumer behaviour and retail operations and of the possible environmental impacts of e-retailing and a short discussion of environmental sustainability. The paper draws its empirical material from the most recent information on environmental sustainability posted on the world's leading e-retailers' corporate web sites. The findings reveal that the majority of the world's leading e-retailers publicly report or provide some information on their commitment to environmental sustainability which embraces climate change and greenhouse gas emissions, energy efficiency, waste management, water management, bio-diversity and nature conservation. However the authors argue that these commitments can be interpreted as being constructed around the search for operational efficiencies and cost reductions and being driven by business imperatives more than any genuine commitment to environmental sustainability. More critically the authors argue that these commitments are driven more by the search for efficiency gains, that they are couched within existing business models centred on continuing growth and that as such the world's leading e-retailers are, at best, currently pursuing a 'weak' rather than a 'strong' model of sustainability.

Keywords

Sustainability, e-retailers, sustainable consumption, economic growth, external assurance

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1 Introduction

There is a general consensus that the internet is revolutionising the ways companies do business in nearly all sectors of the economy and nowhere is this more apparent than in the retail sector. Vize et. al. (2013, p.909) for example have argued that ‘the Internet’s commercial influence is highly visible in the retail industry’ while Ernst and Young (2012, p.2) has suggested that the Internet, and increasingly widespread mobile access to it, are ‘reshaping the retail environment faster than ever, causing retailers and brands to rethink how they currently do business.’ More specifically Doherty and Ellis-Chadwick (2012, p.945) suggest that ‘the Internet’s capacity to provide information; facilitate two-way communication with customers; collect market research data; promote goods and services and ultimately to support the online ordering of merchandise provides retailers with an extremely rich and flexible new channel.’ Doherty and Ellis-Chadwick (2012, p.944) further argue that ‘in so doing the Internet gives retailers a mechanism for; broadening target markets; improving customer communication; extending product lines , improving cost efficiency, enhancing customer relationships’ and delivering customised offers.’ The academic and commercial business literature abounds with reviews and forecasts of how the internet is and will continue to transform consumer behaviour and retail operations, suggesting that shopping will become more efficient and more informed and that it could effectively be ‘dematerialised’ with fewer journeys to shops and stores as ever more people buy online. At the same time while people are certainly being presented with seemingly ever more opportunities to consume, less research has been undertaken on the environmental consequences of e-retailing.

More generally, writing over a decade ago Fichter (2003, p.37) reported that ‘research on the environmental effects of e-commerce is still in its infancy’ but suggested that there are ‘three developing approaches to the development of sustainable e-commerce solutions’ namely ‘the extension of environmental performance measurement and management to e-commerce activities, the use of new cooperative forms of innovation management, and the provision of customer choice’ (Fichter 2003, p.33) At the same time Sui and Rejeski (2002, p.156) in reviewing the ‘environmental impacts of the emerging digital economy’ enquired ‘do the demands for the development of a sustainable economy compete or coincide with the new reality of the digital economy?’ More specifically Sui and Rejeski (2012, p.156) posed the questions ‘Is e-commerce a truly clean, environmentally benign economy which will simply lead to the substitution of information for physical resource flows along energy and transportation networks?’ or ‘alternatively does e-commerce encourage new movements by generating new demands for material and energy that will further deteriorate the fragile environment?’ Since then research into the environmental impacts of e-commerce (and Internet retailing) has gathered momentum (e.g. Yi and Thomas 2007; Edwards, McKinnon and Cullinane 2011; Tiwari

and Singh 2011; and Bull and Kozak 2014) but the ways in which individual e-retailers are addressing the environmental impact of their business operations has, to date, received little or no attention in the literature. With this in mind the aims of this paper are twofold, namely to offer an exploratory review of the environmental sustainability commitments and achievements being publicly reported by the world's leading e-retailers and to offer some wider reflections on the way these e-retailers are addressing and pursuing sustainability agendas. As such the paper contributes to the more general growing body of research on how retailers, who hold pivotal positions in the supply chain between primary producers and manufacturers on the one hand and consumers on the other, are responding to the increasingly importance challenges of environmental sustainability.

2 Corporate Social Responsibility and Environmental Sustainability

The growing interest in environmental sustainability within the business world is a part of a wider commitment to Corporate Social Responsibility (CSR). Cheng et. al. (2014), for example, suggest that 'in recent decades, a growing number of academics as well as top executives have been allocating a considerable amount of time and resources to corporate social responsibility strategies- i.e. the voluntary integration of social and environmental concerns in their companies' operations and in their interactions with stakeholders.' A variety of factors are cited as being important in building the current corporate momentum behind CSR. Porter and Kramer (2006), for example, argue that there are 'four prevailing justifications for CSR' namely 'moral obligation, sustainability, license to operate and reputation.' The moral argument is that companies have a duty to be good citizens while the notion of license to operate recognizes the fact that companies require explicit or at least tacit approval from various stakeholders in order to operate. A focus on reputation is rooted in the conviction that CSR commitments and achievements will help to improve a company's image and strengthen its brand (s) while sustainability looks to emphasise its environmental and community stewardship. Marketing is also providing a major impetus for the increasing interest in CSR. Girod and Michael (2003), for example, have argued that CSR is 'a key tool to create, develop and sustain differential brand names', Middlemiss (2003) has suggested that 'CSR is taking centre stage to provide more sustainable, long term brand value' and Piercy and Lane (2009) have argued that 'CSR is increasingly recognised as a source of competitive advantage.'

The business case for CSR is seen to focus on a wide range of potential benefits. These include improved financial performance and profitability; reduced operating costs; long-term sustainability for companies and their employees; increased staff commitment and involvement; enhanced capacity to innovate; good relations with governments and communities; bet-

ter risk and crisis management; enhanced reputation and brand value; and the development of closer links with customers and; greater public and shareholder awareness of the importance of socially conscious financial investments; the need to comply with a growing volume of environmental legislation and regulation; concerns about the cost and scarcity of natural resources; more general changes in social attitudes and values within modern capitalist societies: the growing media coverage of the activities of a wide range of anti-corporate pressure groups; the growing media coverage of the activities of a wide range of anti-corporate pressure groups.

At the same time there are those who would champion the case against companies integrating CSR into their core business. Such arguments might follow Friedmann (1982) in affirming that 'there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say engages in open and free competition without deception or fraud.' Henderson (2001) has argued that growing business commitment to CSR is 'deeply flawed' in that 'it rests on a mistaken view of issues and events and its general adoption by business would reduce welfare and undermine the market economy.' More generally Kitchin (2003) argues that CSR is 'too narrow to engage management attention, too broad and unquantifiable to be taken seriously by the financial community and just woolly enough to be exploited by charlatans and opportunists.'

More specifically the concept of sustainability can be traced back as far as the thirteenth century but in more recent times it re-appeared in the environmental literature in the 1970's (Kamara et. al. 2006) and since then it has attracted increasingly widespread attention. However there is little consensus in providing a definition of sustainability. On the one hand there are definitions that look to include ambitious social and economic, as well as environmental goals and to meet human needs in an equitable manner. For the United States Environment Protection Agency (2014, webpage), for example, 'sustainability creates and maintains the conditions under which humans and nature can exist in productive harmony, that permits fulfilling the social, economic and other requirements of present and future generations.' On the other hand there are sets of definitions that acknowledge that all human beings live on one planet with finite quantities of natural resources and fragile ecosystems on which all human life ultimately depends. Goodland (1995, p.10), for example, defined environmental sustainability as 'the maintenance of natural capital' arguing that it 'seeks to improve human welfare by preserving the sources of raw materials used for human needs and ensuring that the sinks for human waste are not exceeded in order to prevent harm to humans.'

More critically Hudson (2005, p. 241) argued that definitions of sustainability range from 'pallid blue green to dark deep green.' The former definition, Hudson (2005, p.241) suggests, centre on 'technological fixes within current relations of production, essentially trading off economic against environmental objectives, with the market as the prime resource allocation mechanism' while for the latter 'prioritizing the preservation of nature is pre-eminent' (Hudson 2005, p.241). Hudson (2005, p.241) also suggests that the dominant view of sustainability 'is grounded in a blue-green discourse of ecological modernization' and 'claims that capital accumulation, profitable production and ecological sustainability are compatible goals.' Further he contrasts this view with the 'deep green' perspective which 'would require significant reductions in living standards and radical changes in the dominant social relations of production' (Hudson 2005, p.241). In a similar vein a distinction is often made, for example, between 'weak' and 'strong' sustainability and Roper (2012,p.72) suggests that 'weak sustainability prioritizes economic development, while strong sustainability subordinates economies to the natural environment and society, acknowledging ecological limits to growth.'

As interest in sustainability has grown so a number of attempts have been made to conceptualise sustainability and to theorize about the connections between the natural world and society. At simple level Todorov and Marinova (2009) argued that a simple model centred on environmental, social and economic dimensions and represented as either three pillars or in a simple Venn diagram as three overlapping circles, provides an accessible picture of the concept. A number of authors (e. G. Barter2011; Garvare and Johansson 2010) have employed stakeholder theory to conceptualise sustainability arguing that companies should be sensitive to the interests not just of their shareholders but also those of a wider variety of stakeholders including suppliers, customers, governments and society at large.

More critically Amsler (2009, p.123-125) has argued that 'the contested politics and ambiguities of sustainability discourses' can be embraced to develop a 'critical theory of sustainability.' She further argues that current debates should be located 'within a broader tradition of social criticism' and that 'competing interpretations of sustainability' should be viewed as 'invitations to explore the complex processes through which competing visions of just futures are produced, resisted and realized.' Castro (2004) has sought to lay the foundations for a more radical theory of sustainability by questioning the very possibility of sustainable development under capitalism and arguing that economic growth relies upon the continuing and inevitable exploitation of both natural and social capital.

3 Methodology

In an attempt to obtain a preliminary picture of the extent to which the world's leading e-retailers are reporting on their environmental sustainability commitments and agendas within the public realm, the world's top ten e-retailers (Table 1), ranked by e-commerce sales, in the report 'Global Powers of Retailing 2014' (Deloitte) were selected for the study. As the leading players in this rapidly growing element within the retail sector of the economy the selected e-retailers might be seen to reflect contemporary approaches to environmental sustainability and to be keen to publicise their environmental commitments and achievements to a wider audience. The country of origin of these e-retailers varies, though 5 of them are based in the US, but their trading activities are potentially global and the percentage of revenue derived from e-commerce as a percentage of total revenue varies from 1.6% to 100%. Wal-Mart, the world's largest retailer, is ranked as the world's third largest e-retailer though its online turnover accounts for less than 2% of the company's total turnover, and while Tesco and the Casino Group (ranked 2nd and 20th) respectively generate the vast majority of their turnover from conventional store operations they are major e-retailers. Four companies, Amazon, Beijing Jingdong, Dell and Jia, trade exclusively online. The Otto Group, a German company founded in 1949, trades via conventional stores, catalogues and online and its e-retailing, which is run via 60 individual companies including bonprix, SportScheck and Witt, is now the Group's most important sales channel accounting for some 57% of total revenue.

Table1: The World's Top Ten E-Retailers 2012

Name of Company	Country of Origin	E-Commerce Sales US \$ millions
Amazon	U.S.	51,733
Apple	U.S.	8,600
Walmart	U.S.	7,500
Otto	Germany	7,410
Beijing Jingdong	China	6,663
Tesco	U.K.	4,761
Liberty Interactive	U.S.	4,397
Dell	U.S.	4,370
Casino	France	3,422
Jia	China	3,204

Source: Adapted from Deloitte (2014) 'Global Powers of Retailing 2014'

Companies use a wide variety of platforms to communicate and report on their environmental commitments and programmes and the European Commission Directorate-General for Enterprise lists a number of methods that businesses currently utilise including 'product labels, packaging, press/media relations, newsletters, issue related events, reports, posters, flyers, leaflets, brochures, websites, advertisements, information packs and word-of-mouth' (European Commission Directorate-General for Enterprise undated). That said the vast majority of large companies increasingly use online communications to report on their environmental sustainability strategies, commitments and achievements. With this in mind the authors adopted a simple two stage approach using Google as the search engine in February 2014.

Firstly an internet search was undertaken with the key words being e-retailers' names (e. g. Amazon) and 'sustainability' and the aim here was to discover if the selected e-retailers publicly communicated their commitments to sustainability on their corporate websites. Secondly each of the e-retailers' homepages was reviewed with the aim of discovering if, and how, the selected e-retailers communicated environmental sustainability messages to online customers at the point of sale.

The information revealed by these two basic procedures provided the empirical material for this paper. However the selected e-retailers' websites all have their own house style and they vary in style, content and layout and thus it was not possible to follow a consistent systematic search procedures and the precise details of website navigation varied from one e-retailer to another. The initial search for Amazon, for example, provided access to a corporate webpage entitled 'Amazon and Our Planet' which provided details of how the company was 'looking to further review our environmental impact.' The corresponding search of the Tesco corporate website retrieved the 'Tesco and Society Report 2013' which included a sub-section entitled 'Reducing Our Impact on the Environment.' While content analysis has sometimes been employed to interrogate websites (e.g. Holcomb et. al. 2007) in this essentially exploratory paper the authors grounded their exploratory analysis on the environmental commitments and achievements the selected e-retailers wished to publicly communicate. The specific examples and selected quotations from the selected e-retailers' websites within this paper are used primarily for illustrative rather than comparative purposes, with the focus being on conducting an exploratory examination of the sustainability commitments and programmes being pursued by the leading e-retailers rather than on attempting to provide a systematic analysis and comparative evaluation of these programmes.

The authors recognise that this approach has its limitations in that there are issues in the extent to which a company's public statements realistically, and in detail, reflect strategic corporate thinking and whether or not such pronouncements are little more than thoughtfully constructed public relations exercises. However given the need to drive forward exploratory research such as this and to begin to understand the extent to which leading e-retailers are addressing environmental sustainability the authors believe that the Internet based analysis adopted in this paper offers an appropriate entry point for analysis and a readily accessible pool of data to underpin the current study. As such the authors believe that their approach is not only fit for purpose but that it also provides a platform from which future research agendas might be constructed.

4 Findings

The first stage search revealed considerable variations in the volume and detail the selected e-retailers provided on their environmental sustainability commitments and achievements. Five of the selected e-retailers, namely Wal-Mart, Otto, Tesco, Dell and Casino, provided sustainability/corporate social responsibility reports, a further two, namely Amazon and Apple, provided some limited information on their approach to environmental sustainability while the authors found no information on sustainability on the remaining three e-retailers' corporate web sites. The majority of the leading e-retailers explicitly recognise that their businesses activities have an impact on the environment but there are variations in their corporate commitment to sustainability strategies designed to address these impacts. In Wal-Mart's 2013 'Global Responsibility Report', for example, Mike Duke, the company's President and Chief Executive Officer claimed 'going forward you can expect even deeper integration of our responsibility initiatives into our business' and that the company looks 'to put sustainability right at the heart of what we do as a retailer' (Walmart 2013). Apple claims to take 'a comprehensive approach to environmental responsibility' and Otto recognises that the consumption of resources associated with its business activities 'causes considerable stresses on the environment' and reports that 'pursuing sustainable business practices is a fundamental principle.' Amazon offered arguably more limited commitment arguing that while 'online shopping is inherently more environmentally friendly than traditional retailing' the company claims to be 'constantly looking for ways to further reduce our environmental impact.' In a similar vein, Dell claims to be 'building a strong foundation for sustainability' namely 'one that allows us to succeed as a business while encouraging positive change and reducing our own environmental impact.'

The e-retailers look to evidence their general environmental commitments across a range of issues including climate change and greenhouse gas emissions; energy efficiency and conservation; waste management and recycling; water management; environmentally friendly packaging; eco-friendly building design; bio-diversity and nature conservation; and helping customers to adopt more sustainable patterns of consumption as summarised in Table 2. In identifying 'climate protection' as one of its 'Fields of Action' Otto, for example, reports aiming to reduce carbon dioxide emissions from transport, facilities and business trips by 50% (against the 2006/2007 base level) by 2020 and in achieving this target the company's focus in on an increase in energy efficiency.

In recognising that 'climate change is the biggest environmental threat the world faces.' Tesco reports a number of commitments designed to enable the company to become a 'zero carbon business by 2050.' More specifically Tesco outlines its approach to reducing emissions from

its property portfolio, which focuses on energy efficiency, reducing hydro-fluorocarbon leakage from refrigeration systems and using renewable energy wherever possible and from distribution and reports on its ‘energy management system’ which monitors energy usage across all the company’s UK stores.

Table 2: Summary of Environmental Issues

Issues	E-Retailers						
	Amazon	Apple	Walmart	Otto	Tesco	Dell	Casino
Climate Change and Carbon Emissions		✓	✓	✓	✓	✓	✓
Energy Efficiency	✓	✓	✓	✓	✓	✓	✓
Waste Management	✓	✓	✓	✓	✓	✓	✓
Water Management	✓	✓	✓	✓	✓	✓	✓
Environmentally Friendly Packaging	✓	✓	✓	✓	✓	✓	✓
Eco-Friendly Building Design	✓	✓			✓		
Biodiversity and Nature Conservancy			✓	✓		✓	✓
Helping Consumers Reduce Environmental Impact			✓		✓	✓	✓

Dell claims to ‘use resources responsibly avoiding waste in all its forms, and to work with our supply chain to do the same’ and that the company’s ‘easy localized recycling programs help keep more electronics out of landfills and personal stockpiles.’ The company emphasises its goal is ‘to offer safe, responsible recycling solutions to all our customers globally’ and reports, for example, on the provision of free mail-back recycling of Dell branded electronic equipment in 79 countries and on printer supplies recycling in 51 countries. Dell also reports on its use of recycled plastics to create the plastic housing of desktops and backing for monitors and progress in improving packaging recyclability. Apple reports on its initiatives to reduce packaging waste including software programmes developed to determine the ‘right sized box’, based on an item’s weight and dimensions, for any given item being shipped to a customer. Tesco recognises that ‘whilst we need water to run our own business, nearly 30 times as much water is used to grow, process and manufacture the products we sell.’ With this in mind Tesco reports both on the measures it is taking to measure its direct water footprint and to increase the efficiency of its water usage and on its efforts to address water usage throughout its supply chain including to ‘support water management and efficiency projects in areas where we have high sourcing demands and where water is scarce.’

‘Environmental protection and conservation’ is one of the ‘priorities’ within Otto’s ‘corporate responsibility strategy’ and this is evidenced in the company’s ‘durable goods strategy.’ Here Otto reports that only Forestry Stewardship Council certified timber is used in furniture and in pursuing this strategy the company is demonstrating its commitment to ‘protecting forests through responsible felling and the associated conservation of biodiversity.’ More generally Otto’s guidelines on ‘sustainability in procurement’ include provisions on wildlife and species conservation and a ban on the sale of goods that contain real fur. Casino reports on the development of ‘ecofriendly stores’ which meet ‘Leadership in Energy and Environmental Design’

standards in the use of natural materials, energy and water efficiency, air quality and recycling. Dell reports on its initiatives in 'helping customers reduce environmental impact' particularly in terms of greater energy efficiency and reduced energy use. Such initiatives include the delivery of a new data centre for Amerijet, a Florida based cargo shipping company, which dramatically reduced operating costs and produced major improvements in their computer network management capacities.

The second stage search revealed that none of the selected e-retailers online shopping websites contained any headline information on environmental sustainability for potential customers. The focus was almost exclusively on sales promotion and enticements to consume rather than on any attempt to encourage shoppers to consider the environmental impact of their buying behaviour or the adoption of more sustainable patterns of consumption. This was reflected in messages on both product range and product information; price comparisons and price reductions; sales; seasonal events; and promotions targeting items proving to be popular with other customers. Tesco, for example, advertises its Dyson vacuum cleaners with a 'Save £50' banner with the price being reduced from £249 to £199 while a number of televisions are advertised for sale with 'triple clubcard points.' bonprix (one of the companies within the Otto Group), for example, describes its fashion range as offering 'remarkable clothing that you can't find anywhere else on the high street, at prices that are simply irresistible' and the company's website offers a wide range of men's and women's fashion and flexible payment options. The online home page of Backcountry.com, one of the companies within the Liberty Interactive Corporation, carries the banner 'up to 50% off' in its 'semi-annual sale' to advertise its range of 'clothing and outdoor gear.' discount, one of the trading companies within the Casino Group, prominently advertises a range of household and electrical goods, home furnishings and wines and spirits with discounts of between 11% and 73% on its online homepage. At the time the website search was conducted, seasonal events included Valentine's Day, the Chinese New Year and Presidents Day. Dell, for example, advertised the 'Presidents Day Presale: Members save up to 42% on select PCs and electronics' while Amazon was offering 'free one day shipping on jewellery, watches and more' as part of its 'Amazon Fashion Last minute Valentine's promotion.

Four of the selected e-retailers, namely Amazon, Wal-Mart, Tesco and Dell provided either direct or indirect links to their corporate reports or information on environmental sustainability. Amazon, for example, provides a direct link to the 'Amazon and Our Planet' site under the 'Get to Know Us' banner at the bottom of the company's online home page but it is just one of twenty such links, the majority of which are sales promotion related. Wal-Mart also provided a direct link to its 2013 'Global Responsibility Report' mentioned earlier while Dell's online homepage included a link to the company's 2013 'Corporate Responsibility'

report. The Tesco link to its most recent 'Tesco and Society' report, which includes material on how the company is 'reducing our impact on the environment, is indirect in that shoppers first have to access the 'Tesco PLC' link at the bottom of the company's online home page and this link then offers access to the report mentioned above. Apple also provides a direct link to its 'Reuse and Recycling' service which gives details of 'The Apple Recycling Program' which 'offers free and environmentally friendly disposal of your iPod and any manufacturer's mobile phone.' A further link outlines how items sent for recycling are disassembled, so that key components, such as glass and metal, that can be recycled are removed and reprocessed for use in new products, and the company claims to be able to achieve up to a 90% recovery rate, by weight, of the original product.

5 Discussion

In the light of these exploratory findings a number of issues merit discussion and reflection. Firstly the findings reveal considerable variation in the extent to which the leading e-retailers look to address issues of environmental sustainability. Seven of the selected e-retailers explicitly recognised that their business activities have an impact on the natural environment and provided reports and/or some information on their environmental commitments and achievements on their corporate websites. The other three selected e-retailers publicly provided no information on environmental sustainability. Two of these e-retailers are based in China, where many companies currently might feel less pressure to address the environmental impact within the public arena. While the seven e-retailers who do provide information on environmental sustainability have a varying product range there is no evidence, albeit across a small number of e-retailers, of varying approaches to environmental sustainability in different sectors. That said there was some variation in the extent to which the seven e-retailers claimed to be committed to integrating environmental initiatives and programmes into their corporate strategies and business models. At the same time such environmental commitments and initiatives can be interpreted as being constructed around business efficiency and the search for competitive advantage and as such they can be interpreted as being driven as much by business imperatives as by any concern for environmental sustainability. Thus many of the environmental initiatives to increase energy efficiency and to reduce water consumption, packaging and waste generation also reduces the e-retailers' costs. More generally Banerjee (2008) argued that 'despite their emancipatory rhetoric, discourses of corporate citizenship, social responsibility and sustainability are defined by narrow business interests and serve to curtail the interests of external stakeholders.'

In reporting, and posting information, on their environmental agendas and sustainability these seven e-retailers have predominantly provided a narrative of their commitments and achieve-

ments often illustrated with simple statistics and micro case studies with associated pictures and simple diagrams being used to illustrate general themes. While some of the retailers, which publicly provided sustainability/corporate social responsibility reports, sought to comply with the Global Reporting Initiative (GRI) others adopted their own idiosyncratic house style. Overall the lack of common and agreed frameworks and standards and the use of simple case studies make it difficult to make any meaningful comparisons between one e-retailer and another or to chart collective progress on environmental programmes over time.

At the same time there is only limited evidence of the independent external assurance of the information provided on environmental achievements. While Otto and Tesco, for example, undertake an element of independent external assurance, others do not. Tesco claims that it is 'committed to ensuring that each piece of information and data contained in this report is supported by robust evidence' its focus on assurance in the 2013 report was restricted to measuring and reporting its greenhouse gas emissions at a group level and in a representative sample of markets namely in China, Poland, Thailand and the UK. In a similar vein Otto commissioned PricewaterhouseCoopers to undertake external assurance to the quantity of sustainable cotton, the number of products including sustainable cotton and carbon dioxide emissions and energy consumption at the group's head office and within three of the group's trading companies. This exercise concluded that nothing came to the auditor's attention that led them to believe that the selected environmental information had not been prepared within the GRI guidelines. However PricewaterhouseCoopers recommended 'systematically expanding corporate responsibility management and reporting to include further German and international group companies' and 'formalising and documenting the internal controls to ensure data quality at group-company level.'

The general absence of more comprehensive independent external assurance can be seen to undermine the transparency, reliability and integrity of the information on environmental impacts and commitments posted by the leading e-retailers. That said it is important to remember that the leading e-retailers are large, complex and dynamic organisations. Otto, for example, reports that 'many of the factories of suppliers and licensed brands are located in countries where only weak legal and control systems exist to ensure compliance' but claims to be 'committed to improving social, and increasingly, environmental standards in the production process.' Capturing and storing comprehensive information and data across a diverse range of business activities throughout the supply chain in a variety of geographical locations and then providing access to allow external assurance is a challenging and a potentially costly venture and one which the majority of selected e-retailers currently demonstrably choose not to publicly pursue. Thus while data on carbon emissions from a e-retailer's head office and its own distribution fleet may be systematically collected, collated and audited as part of the compa-

ny's environmental commitments similar information throughout both the supply chain and the product life cycle is much more difficult to access, measure, collate, interpret and assure.

The majority of the leading e-retailers publicly provide reports and information on their corporate websites but there is no attempt to provide customers with any information on environmental sustainability at the point of sale on their online homepage. The dominant thrust of messages on the e-retailers' homepages is product range and price reductions and thus on actively encouraging customers to consume rather than on fostering consumer awareness of the impact of consumption on the natural environment or on promoting more sustainable patterns of consumption. While a wide and complex set of factors influence buying behaviour, price is always likely to be an important factor especially so for e-retailers in that there is a widespread perception that prices are generally lower online than in stores. However if e-retailers are strategically committed to environmental sustainability, they can enhance such commitments by providing information on products produced in a sustainable manner and on life cycle impacts at the point of sale. In reality the messages on their online homepage can be seen to undermine, rather than to enhance, such commitments. As such e-retailers would currently seem to mirror operational practice in traditional retail outlets where evidence from the UK's major food retailers, for example, revealed that the dominant thrust of marketing messages within stores was designed to promote consumption rather than to foster more sustainable patterns of consumption (Jones et. al. 2011).

Finally and more fundamentally there are implications arising from the tensions between commitments to promoting environmental sustainability, and ultimately, more sustainable patterns of consumption. There are issues about the tension between the efficacy of promoting more sustainable consumption, on the one hand and continuing economic and business growth and resource consumption on the other. In some ways the general position throughout the retail sector was epitomized by Sir Terry Leahy, the then Chief Executive Officer of Tesco, one of the world's leading retailers, in his 'Foresight' contribution at the start of The Global Coca Cola Retailing Research Council Forum's report (2009 p.16). He argued that, at that time, Tesco was 'seeking to create a movement which shows that it is possible to consume, to be green and to grow'. By way of a challenge to this position Forum for the Future (2010, p.62) a UK charity committed to sustainable development, suggested that 'Tesco's next big challenge is to address how it can continue to grow whilst respecting environmental limits' and argued 'in the long term new retail business models are essential to meet the needs of customers and communities while respecting environmental limits.' This reflects Jackson's (2006, p.1) belief that 'the consumption patterns that characterize modern Western Society are unsustainable. They rely too heavily on finite resources and they generate unacceptable environmental impacts.' Jackson (2009, p.57) has also argued that 'it is entirely fanciful to sup-

pose that deep emission and resource cuts can be achieved without confronting the structure of market economies.' More radically Castro (2004) has questioned the very possibility of sustainable development under capitalism arguing that economic growth fundamentally relies upon the continuing and inevitable exploitation of both natural and social capital.

Earlier in the paper the authors outlined a number of definitions of sustainability but as this is an exploratory paper they choose not to commit to any particular one, rather they offer the distinction between 'weak and 'strong' as a yardstick against which the leading e-retailers' current approach to environmental sustainability might collectively be assessed. Looking to the future a number of academic research agendas can be identified. Research is required, for example, to improve understanding of consumers' awareness of the environmental impacts generated by e-retailers and of how this affects consumers' attitudes and purchasing intentions. At the corporate level the environmental sustainability commitments of a much wider range of e-retailers merits attention as does some detailed case study research of how environmental sustainability strategies and programmes are being pursued within individual companies. Such research could be profitably complemented by investigations into the factors influencing, and the challenges facing, those e-retailers which have, to date, made limited or no public commitments to environmental sustainability. Research might also focus on how environmental sustainability issues are perceived and managed within the e-retailers' supply chain and on the locus of power within supply chain relationships. Research into the development of information systems designed to facilitate improvements in data monitoring and collection processes could play a valuable role in enhancing environmental sustainability e-retailers' public reporting on environmental sustainability such improvements would, in turn, help to improve the reliability, integrity and credibility of such reporting. Finally there is a need to investigate if more open and transparent commitment to environmental sustainability is reflected in profit margins and share value. In pursuing such agendas researchers may also look to employ.

6 Conclusion

While the dynamic world of e-retailing is transforming retail operations and consumer behaviour it is also presenting ever more opportunities to consume and this potentially has implications for the consumption of environmental resources and for environmental sustainability. This exploratory paper reveals that the majority of the world's leading e-retailers publicly report or provide some information on their commitment to environmental sustainability which embraces climate change and greenhouse gas emissions, energy efficiency, waste management, water management, bio-diversity and nature conservation. However these commit-

ments can be interpreted as being constructed around the search for operational efficiencies and cost reductions and being driven by business imperatives as by any genuine commitment to environmental sustainability. Further there is only limited evidence of any independent external assurance of the reports and information the e-retailers provided on their environmental achievements. At the same time the e-retailers' public commitment to environmental sustainability is consistently being undermined at the online point of sale by the dominant thrust of their marketing messages where the accent is on price reductions and product ranges and which are unambiguously designed to encourage consumption rather than to promote more environmentally sustainable shopping behaviour. As such the major findings of this paper suggest that the leading e-retailers are, at best, pursuing a 'weak' model of environmental sustainability which reflects the dominant business model currently being pursued by traditional retailers and arguably more critically by ever more price sensitive consumers.

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Willingness to Pay in Food Retailing—An Empirical Study of Consumer Behaviour in the Context of the Proliferation of Organic Products

Rainer Olbrich, Michael Hundt and Gundula Grewe

Abstract

The ongoing price competition in food retailing has intensified consumer price sensitivity. Nonetheless, in recent years the demand for generally higher-priced organic food has increased. But in relation to the prevailing habitual purchasing behaviour, a deeper understanding of consumer behaviour is necessary. Accordingly, we propose and test a comprehensive structural equation model that primarily addresses consumer willingness to pay (WTP) in food retailing. Extending on previous studies, multifaceted household panel data are used to simultaneously estimate relationships between socio-demographics, psychographics and actual purchasing behaviour. The results of this study show that consumers of organic food have a comparatively high WTP, and that their purchases can be attributed to the perceived importance of food naturalness and to environmental consciousness. However, consumer price consciousness remains a barrier to the purchase of organic food. In contrast, this barrier supports the success of conventional private labels, and thereby reduces the general WTP.

Keywords

food retailing, willingness to pay, organic food, private labels, structural equation modelling (SEM)

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1 Willingness to Pay in the Context of Food Distribution

1.1 Introduction

For many years, strong price competition has been evident in the European food retailing sector. Especially from the perspective of small and medium-sized competitors, this price competition may be ruinous. The proliferation of private labels, which has been supported by the European regulatory framework for price setting, plays an important role in this context. The prohibition of resale price maintenance (Article 101 Treaty on the Functioning of the European Union (TFEU)) leads to an unequal treatment of competitors, in that retailers are allowed to set the prices for their own private labels, as well as for the national brands they offer, while manufacturers of national brands are only allowed to set the sales prices to retailers, but not the final sales prices to consumers of their products. Due to these regulations, retailers especially adopt the following two price-policy behaviours. The first refers to the so-called ‘systematic price slashing’ of national brands to signal attractive prices at the point of sale, and the second refers to ‘umbrella pricing’, which signals particular value for money from private labels in comparison to national brands. As a result, retailers are able to stimulate the sales of private labels by these special price settings (see for details Olbrich/Grewe 2013; Olbrich/Grewe 2009; Olbrich/Grewe/Orenstrat 2009). Overall, the pricing power of retailers has evidently intensified price competition in the food retailing sector and led to a certain price sensitivity of consumers, which has probably reduced their general willingness to pay (WTP). This, amongst other factors, explains the increasing proliferation and success of price-aggressive outlet formats (e.g., discount stores) over the past decades.

However, parallel to the cutthroat price competition in the retail landscape, in recent years the demand has increased for higher-priced organic food. This development can be interpreted as a counter-movement to the prevailing competitive conditions. The sales of organic food products, which are defined in Europe according to Council Regulation (EC) No 834/2007 (Council of the European Union 2007), have increased in Germany, in 2012, to approximately seven billion euros. Currently, Germany is the largest market for organic food in Europe (Willer/Lernoud/Schlatter 2014). However, the conversion of agriculture to organic production requires high investments, and often leads to lower productivity (e.g., Regouin 2003). Such higher costs, in comparison to the production of conventional products, usually require comparatively higher prices and thus a higher consumer WTP. In addition, grocery chains have also penetrated the organic market segment in the form of premium private labels (Jonas/Roosen 2005; for some empirical generalisations on category drivers of premium private label introductions, see Ter Braak/Geyskens/Dekimpe 2014), whose turnover is actively stimulated (e.g., through wide-scale promotional activities). Thus, organic food products no

longer have the character of niche products that are sold exclusively in speciality stores. In fact, they have been integrated into the discount concept. From the retailer's perspective, the supply of organic food (especially in the form of private labels) can be seen as a means of partially escaping the prevailing price competition in the conventional market segment.

1.2 Research Framework

Various different models have been proposed to categorize and explain consumer behaviour (regarding the context of food choice behaviour, see, e.g., Furst et al. 1996). In a broader context, the present study takes a positivist view of consumer behaviour research. Our objective is to analyse consumer behaviour, to give generalised explanations and to highlight corresponding recommendations for food marketing. For this purpose, we make statements in the form of theory-building hypotheses and test these hypotheses empirically by using a broad and representative data base. To account for the complexity of consumer behaviour, we follow the neo-behaviourist SOR approach (stimulus-organism-response). According to this approach, directly observable factors (e.g., socio-demographics or marketing stimuli) generally affect the organism (e.g., the consumers' psyche). With the help of latent constructs (based on psychographics), processes in the organism that are not directly observable can be captured. In other words, the organism is represented by the processes that mediate the relationships between stimuli and behaviour. Purchasing behaviour is thus a result of an interaction of directly observable factors and non-directly-observable processes in the consumers' psyche (for an introduction to the SOR approach, see Foscht/Swoboda 2011, pp. 28-31).

Given the conditions stated in Section 1.1., the present study focuses on the determinants of consumer behaviour in the food retailing sector. As a key variable, the WTP is the main focus of attention. Consumer WTP, which is found both in the economic as well as in the psychological literature, usually eludes an exact measurement. Thus, the WTP is a construct that is dynamic, depending on the situation and is not easy to grasp. Consequently, a comparison of methods for measuring WTP has been established by researchers. However, a superior method cannot be identified. Regarding the methods discussed in the literature, we feel it necessary to criticise their being based mostly on survey data and not on actual purchasing behaviour. This is due to the fact that the original focus was on the evaluation of public goods (for the so-called contingent valuation approach, see, e.g., Schulze/d'Arge/Brookshire 1981). Contrary to this former emphasis on public goods, more recently, research has increasingly included private goods (with respect to the related context of the WTP for organic food, see, e.g., Akgüngör/Miran/Abay 2010; Krystallis/Fotopoulos/Zotos 2006). Given the lack of studies using actual purchasing behaviour, we measure the WTP by means of real purchasing

data, with the aim of providing a comprehensive understanding of consumer behaviour in the food retailing sector.

However, explaining the WTP in food retailing requires additional purchasing-behaviour-related variables. The current developments in food retailing clearly indicate a relationship between the WTP and consumer choices in favour of organic food, conventional private labels, articles on special offer, and specific outlet formats. Especially given the current proliferation of organic foods, in addition to the continuously growing market share of private labels in the conventional market segment, certain determinants of consumer WTP should be identified within the German food retailing sector. For this purpose, the present study examines, besides potential relationships between purchasing-behaviour-related variables, whether psychographic and socio-demographic determinants have a relevant influence on purchasing behaviour. To represent these complex relationships, we use a structural equation model that facilitates a link between individual research topics in the context of the purchasing behaviour, psychographics and socio-demographics (Hundt 2014, pp. 297-330). To explain purchasing behaviour in the organic market segment, we jointly consider organic private labels and organic national brands, in order to generally identify the determinants of organic food purchasing and to refer to the existing literature in this field. Due to the growth of the organic market segment, both brand types participate in the increased demand. By contrast, saturation tendencies in the conventional market segment have contributed stepwise to a substitution of national brands by private labels. The past few years have clearly demonstrated that conventional private labels have been adopted by many consumers (Hundt 2014, pp. 271-276). For this reason, we include the purchase of conventional private labels separately.

The gradual development of such purchasing decisions ultimately leads to a differentiated explanation of the WTP. This reveals why consumers have a comparatively high or low WTP. We use the results to generate marketing policy recommendations for manufacturers and retailers, particularly with the aim of identifying potential approaches to raising consumer WTP.

The remainder of the paper is organised as follows. The next section relates this study to the existing literature. Furthermore, we outline the hypotheses, and structure them according to individual research topics, which together form the model conception. In a first step, we derive hypotheses to explain the purchase of organic food. In a second step, we form hypotheses in the context of purchasing conventional private labels. In a third step, we link the above-mentioned purchasing decisions of consumers to their general WTP. After that, the influence of socio-demographics is discussed separately. We then present and analyse the data, after which we present the empirical results and discuss the implications of our study. Finally, we draw some overarching conclusions and outline approaches for further research.

2 State of Research and Hypotheses Development

2.1 Determinants of the Purchase of Organic Food

The number of studies that address the motives for and barriers to the purchase of organic food is increasing steadily. A central motive for consumers to purchase organic food is to maintain and improve their own health (e.g., Ahmad/Juhdi 2010; Chrysochoidis 2000; Cicia/Del Giudice/Ramunno 2009; Goetzke/Nitzko/Spiller 2014; Magistris/Gracia 2008; Michaelidou/Hassan 2008; Shaharudin et al. 2010; Tarkiainen/Sundqvist 2009). Thus, because of their natural production, consumers often perceive organic food as healthier (Vega-Zamora et al. 2014). Consumers of organic food often express, for instance, concerns about the use of pesticides (Zepeda/Deal 2009). For those consumers who pay attention to the naturalness of food (e.g., with respect to the abandonment of artificial flavours or dyes), a significant increase in the stated purchasing frequency of organic food is evident (Onyango/Hallman/Bellows 2007).

In addition, supporting the local region and regional operations are often given as reasons for purchasing organic food (Federal Ministry of Food, Agriculture and Consumer Protection 2013). However, regional support is independent of whether the food is organic or conventional. Thus, preferences for organic food products also seem to be influenced partly by the consumers' assumption that they are generated locally or regionally. Indeed, a cognitive engagement of consumers with the origin of products can also indicate a critical reflection of their diet. This can also positively affect the receptiveness to organic food. Accordingly, it has been shown that for those consumers who attach importance to the origin of products, the probability of purchasing organic food increases (see the survey results of Onyango/Hallman/Bellows 2007). The fact that the supply of products from the region is *inter alia*, associated with shorter transport routes, conforms to environmental protection objectives. Thus, the origin of food also includes ethical components. Nonetheless, the basic ethical motives which determine the purchase of organic food are, in particular, environmental protection and animal welfare. As has been shown in several studies, consumer preferences for organic food are positively influenced by a critical examination of ethical and moral aspects (e.g., Honkanen/Verplanken/Olsen 2006; Lockie et al. 2004; Magistris/Gracia 2008; Magnusson et al. 2003; Michaelidou/Hassan 2008, 2010; Pino/Peluso/Guido 2012; Torjusen et al. 2001; Verhoef 2005). Accordingly, it seems likely that some consumers perceive a personal benefit in considering ethical aspects.

In addition to potential motives, there are also specific barriers to the purchase of organic food. One frequently quoted barrier in the literature is the comparatively higher price which

retailers often charge for organic food. Therefore, it is likely that some price-conscious consumers are not willing to pay a price premium for organic food (e.g., Gracia/Magistris 2008; Hjelmar 2011; Kihlberg/Risvik 2007; Krystallis/Arvanitoyannis/Chryssohoidis 2006; Michalidou/Hassan 2010; Verhoef 2005; Zakowska-Biemans 2011). The purchase price therefore enters the barrier rankings of French consumers at first place and second for English consumers (Brown/Dury/Holdsworth 2009). Furthermore, a high brand awareness can act as a barrier to the purchase of organic food. Conventional foods seem to have a pioneering advantage in branding, so that selective information about organic food and its benefits may often be insufficient (Chryssohoidis 2000). This can be attributed to the fact that consumers often judge subsequent entrants against existing brands. The latter brands are familiar known standard, so that subsequent entrants firstly need to convince consumers to learn about the quality characteristics offered (for a discussion of advantages of pioneering brands, see Schmalensee 1982). Consequently, we assume that over the years, established national brands and private labels in the conventional market segment are at an advantage.

In the light of scientific debate, the following hypotheses are consistent with the majority of stated results. However, in contrast to previous studies, we test these hypotheses using a broad and representative database. Our focus in this case—as in the international literature—is on the determinants of attitude towards organic food (in the broadest sense ‘organic proneness’), which precedes the actual purchase in the context of this investigation:

- H A-1: The perceived importance of the naturalness of food has a positive effect on attitude towards organic food.*
- H A-2: The perceived importance of regional/national origin of food has a positive effect on attitude towards organic food.*
- H A-3: Environmental consciousness has a positive effect on attitude towards organic food.*
- H A-4: Price consciousness has a negative effect on attitude towards organic food.*
- H A-5: Brand consciousness has a negative effect on attitude towards organic food.*

Explaining human behaviour in all its complexity is a difficult task. To take account of the underlying psychological processes, various theoretical frameworks have been proposed. In the social psychological and marketing research, studies are often based on the theory of reasoned action (TRA) and the theory of planned behaviour (TPB). The latter is an extension of the theory of reasoned action (Ajzen 1991). The main factor in these theories is behavioural intention (e.g., purchasing intention), which is determined by three factors. These are attitude towards the behaviour (e.g., purchasing attitude), subjective norm (e.g., social pressure with regard to the behaviour), and perceived behavioural control (e.g., perceived difficulty associ-

ated with a specific purchasing behaviour). In extending previous studies revealing a positive relationship between attitude towards organic food and purchasing intention (e.g., Chen 2007; Lodorfos/Dennis 2008; Michaelidou/Hassan 2008), we examine the influence of attitude towards organic food on actual purchasing behaviour (for a general discussion on the attitude-behaviour relation, see Fishbein/Ajzen 1975, pp. 335-383). We assume that a more positive attitude towards organic food also finds expression in the purchase of such food, so that the household-related share of organic purchases increases (e.g., the household-related aggregate quantity of organic food in relation to household-related aggregate total quantity of food).

Furthermore, it is likely that consumers, who have a higher involvement with regard to organic food (Thøgersen/Jørgensen/Sandager 2012), are more willing to visit speciality stores (including, for example, natural food and health food stores and organic supermarkets). In particular, speciality stores can be considered as pioneers in the organic food segment in Germany, so that households which increasingly frequent speciality stores probably have a higher share of organic purchases. However, the success of other outlet formats (notably discount stores as a cheaper counterpart to the higher-priced speciality stores) can be based, inter alia, on the fact that a large number of impulsive shopper households only makes spontaneous or inconsistent purchases in terms of organic food (Marian et al. 2014). However, these households inevitably do not have a relatively higher share of organic purchases. Thus, we assume that price-conscious and brand-conscious households visit speciality stores to a lesser extent to satisfy their demand, because the latter households are more likely to orient towards widely distributed and established brands in the conventional market segment, which are usually offered in other outlet formats. Therefore, we conclude the following hypotheses:

- H A-6: Attitude towards organic food has a positive effect on the share of organic purchases.*
- H A-7: Attitude towards organic food has a positive effect on the share of purchases at speciality stores.*
- H A-8: The higher both the share of purchases at speciality stores and the share of purchases at discount stores, the higher the share of organic purchases, but the effect of the share of purchases at speciality stores is comparatively higher.*
- H A-9: Price consciousness has a negative effect on the share of purchases at speciality stores.*
- H A-10: Brand consciousness has a negative effect on the share of purchases at speciality stores.*

In addition, Govindasamy et al. (2007) show that organic food consumers read food advertisements in grocery brochures to a lesser extent than other consumers and therefore have less

information about special offers. Doing so may be related to the fact that consumers of higher-priced foods usually have a greater WTP, which consequently decreases the importance of the price level in the purchase decision. Thus, we assume that households that satisfy their demand largely through the purchase of products on special offer are less inclined to purchase organic food:

H.A-11: The higher the share of purchases on special offer, the lower the share of organic purchases.

2.2 Determinants of the Purchase of Conventional Private Labels

Besides specific attitudes towards certain private labels, researchers have frequently examined the effect of global attitude samples on the purchase of private labels (see for an overview e.g., Manikandan 2012). In this connection, both price consciousness and brand consciousness are important. While price consciousness corresponds rather simplistically to a higher importance of price (Lichtenstein/Ridgway/Netemeyer 1993), brand consciousness stands out, because consumers display more confidence in familiar brands and associate them with higher quality (Goldsmith et al. 2010; Omar 1996). What several studies have in common is that price consciousness has a positive effect on private label preferences (e.g., Ailawadi/Neslin/Gedenk 2001; Anselmsson/Johansson 2009; Baltas 1997; Burger/Schott 1972; Hsu/Lai 2008; Lin/Marshall/Dawson 2009). Since the prices of private labels are generally set below those of national brands (see, e.g., Baltas 1997, and the empirical results of Méndez/Oubiña/Rubio 2008; Olbrich/Grewe 2009), this result is certainly plausible. Thus, price consciousness very significantly explains the stated purchase of private labels (Sinha/Batra 1999). Although there is a lack of representative studies on the basis of actual purchasing behaviour, we suppose that with increasing price consciousness the household-related share of private label purchases increases (e.g., the household-related aggregate quantity of private labels in relation to household-related aggregate total quantity within a product segment).

Moreover, some empirical results reveal that consumers of private labels have a lower brand and quality consciousness than consumers of national brands (Ailawadi/Neslin/Gedenk 2001; Omar 1996), but both types perceive the importance of brand choice, or rather the relevance of brands to their lifestyles and needs, in a similar manner (Goldsmith et al. 2010). Since retailers often signal comparable quality to national brands for their own private labels (e.g., through similar packaging) and continuously improve the image of their brands (e.g., through broad-based advertising), we assume that national brands and private labels increasingly converge in the minds of consumers. However, this would mean that many consumers are no longer willing to pay a price premium for national brands (Steenkamp/Van Heerde/Geyskens

2010). Accordingly, contrary to earlier studies, Walsh/Mitchell (2010) emphasise that the brand consciousness of consumers no longer acts as a barrier to the purchase of private labels. This lack of correlation can prevail, because consumers no longer perceive the purchase of private labels as stigmatising and have a positive attitude towards private labels. Based on survey data, the authors confirm no relationship between brand consciousness and the related private label purchasing intention. This could also be reflected in the actual purchasing behaviour.

With reference to the results presented in the literature, we test the following hypotheses with the inclusion of actual purchasing behaviour:

H B-1: Price consciousness has a positive effect on the share of conventional private label purchases.

H B-2: Brand consciousness has no significant effect on the share of conventional private label purchases.

Furthermore, we assume that consumer choices in favour of conventional private labels are significantly influenced by their choice of outlet formats. Since private labels have their roots in discount stores, the strong growth of discounters corresponds to the proliferation of private labels. Specifically, discounters are characterised—despite offering certain national brands—by a comparatively high share of private labels in their assortment (Olbrich/Grewe 2009). Thus, the success of private labels is also probably influenced indirectly through the consumers' choice of outlet formats. Especially consumer price orientation can be viewed in this context as a main driver of discounter growth. The importance of price has probably risen significantly, due to the positive quality images of products available in the market over time. So, many consumers already pay more attention to price than to quality when making routine daily purchases (Twardawa 2006). This means that the price consciousness of consumers should then be reflected in a higher share of purchases at discount stores. Contrary to the intuitive assumption of a negative influence, brand consciousness is likely to have no significant effect on the share of purchases at discount stores, due to the increasing proliferation of private labels and their increased acceptance by consumers. Hence, we propose the following hypotheses:

H B-3: Price consciousness has a positive effect on the share of purchases at discount stores.

H B-4: Brand consciousness has no significant effect on the share of purchases at discount stores.

H B-5: The higher the share of purchases at discount stores, the higher the share of conventional private label purchases.

If attitudes and behaviour are consistent, price-conscious households pursue mainly savings in their daily shopping. Retailers signal these savings both by price campaigns and by the range of private labels. Consequently, positive relationships can be assumed not only between price consciousness and the purchase of private labels, but also between price consciousness and the purchase of articles on special offer (Ailawadi/Neslin/Gedenk 2001; Martínez/Montaner 2006). It is also likely that households, which orient themselves strongly towards special offers, especially purchase national brands that are normally high-priced products, thus optimising the price-performance ratio. In this context, Ailawadi/Neslin/Gedenk (2001), for example, demonstrate a positive relationship between stated brand loyalty and national brand promotion usage.

Accordingly, two groups can arise, which can be characterised as ‘smart shoppers’. The first group is geared to recurring price campaigns and thus increasingly purchases national brands. However, the other group is geared to everyday low prices and accordingly purchases private labels. The latter group might associate retailer promises of ‘good value for money’ with astute purchasing behaviour (for further remarks, see Baltas 1997; Binkley 2013; Manzur et al. 2011). Thus, a greater number of purchases on special offer is likely to be manifest in a smaller number of private label purchases, if the purchases on special offer include national brands (Burton et al. 1998). Given this clear relationship, we furthermore expect that an increase in the household-related share of purchases on special offer decreases the household-related share of purchases at discount stores, because the latter distinguish themselves through a high proportion of private labels that are normally offered in the form of a permanent low-price strategy (Olbrich/Grewe 2009). Nevertheless, we have to remember that even discount stores often sell famous national brands through price campaigns. Given the above relationships, we propose the following hypotheses:

H B-6: Price consciousness has a positive effect on the share of purchases on special offer.

H B-7: Brand consciousness has a positive effect on the share of purchases on special offer.

H B-8: The higher the share of purchases on special offer, the lower the share of conventional private label purchases.

H B-9: The higher the share of purchases on special offer, the lower the share of purchases at discount stores.

2.3 Direct Determinants of WTP in Food Retailing

Besides the relationships explained above in the contexts of organic food purchases and of conventional private labels, the effect of these choice decisions by consumers on WTP is important. Since we measure the WTP on the basis of actual purchasing behaviour (on the prices actually paid, see Section 3.2.1.), this is interpreted as a reflection of upstream purchasing behaviour. The measured WTP is thus dependent on consumer choice decisions, and not the converse. Therefore, the purchasing-behaviour-based WTP is not equivalent to a stated WTP (Hundt 2014, pp. 325-326). In this context, we examine the following hypotheses:

H C-1: The higher the share of organic purchases, the higher the WTP.

H C-2: The higher the share of conventional private label purchases, the lower the WTP.

H C-3: The higher the share of purchases at speciality stores, the higher the WTP.

H C-4: The higher the share of purchases at discount stores, the lower the WTP.

H C-5: The higher the share of purchases on special offer, the lower the WTP.

2.4 Influence of Socio-Demographics on Psychographics and Purchasing Behaviour

In addition to the influence of psychographics discussed in the previous sections (e.g., price consciousness), in the scientific literature, the characteristics of socio-demographics are often used to explain the purchases of organic food (for an overview, see, e.g., Thompson 1998). Nevertheless, inconsistent and often insignificant results can be found (e.g., Gifford/Bernard 2006; Li/Zepeda/Gould 2007; Michaelidou/Hassan 2010; Thompson/Kidwell 1998; Tsakiridou/Mattas/Tzimitra-Kalogianni 2006). Researchers also increasingly claim that socio-demographic characteristics are no longer relevant to purchasing behaviour. For example, they assume that the phenomenon of the 'green' consumer has already passed through different ages and social classes (in the sense of environment-oriented thinking and behaviour) and consequently, the significance of socio-demographic characteristics declines (Chryssochoidis 2000). Therefore, the creation of distinct ideal or typical profiles and the segmentation of consumers is stretched to the limit (for a cluster analysis, see Janssen/Heid/Hamm 2009). Thus, some authors argue that consumer attitudes are better suited to explaining the purchase of organic food (e.g., Gil/Gracia/Sánchez 2000).

A similar picture emerges with regard to the influence of socio-demographics on the purchase of private labels. For example, Burt/Davies (2010) emphasise that, although numerous studies have been dedicated to the socio-demographic characteristics of private label consumers, they were unable to create unique consumer profiles (for earlier studies, see Frank/Boyd 1965;

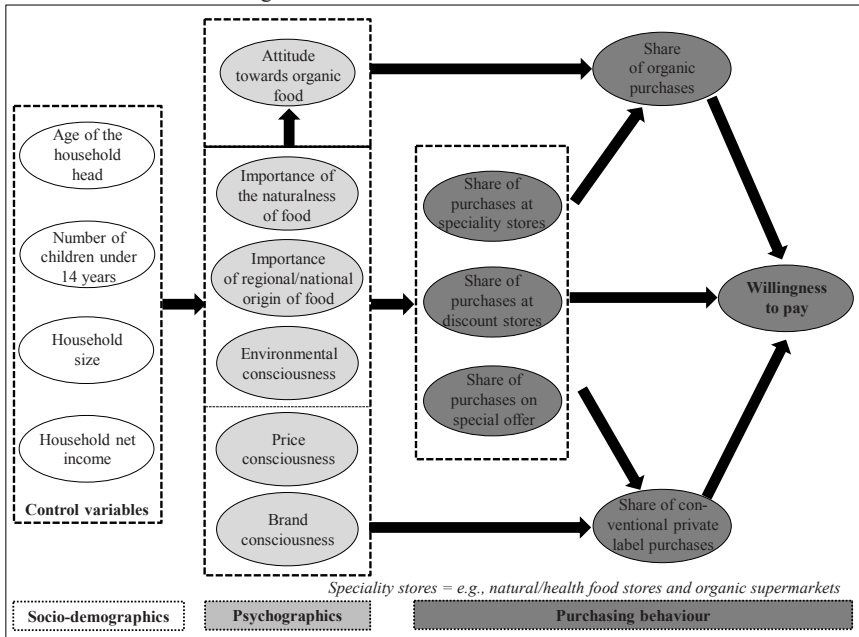
Munn 1960). Even studies based on scanning data have confirmed a negligible influence of socio-demographics on purchasing behaviour. Socio-demographic characteristics are evidently not suitable for explaining the choice between national brands and private labels (e.g., Bergès et al. 2009). The somewhat blurred character of socio-demographic characteristics for differentiating between private label and national brand consumers is presently rooted especially in the fact that private labels are now represented in various product categories in different variants, and are actively marketed by retailers. Generalised statements on socio-demographic characteristics thus seem entirely inappropriate (see also Goldsmith et al. 2010).

Furthermore, due to the obviously declining importance of socio-demographic characteristics, they should be included only as control variables within the model. To illustrate the influence of socio-demographic characteristics, we take into account the age of the household head (this term is used to refer to the person who generally does the shopping and makes the associated decisions), the number of children under 14 years, household size, and household net income. However, we omit a postulation of specific directions of impact, due to the lack of theoretical and conceptual foundations. We include the socio-demographic characteristics not only as predictors of purchasing behaviour, but also as predictors of psychographics. The additional consideration of socio-demographic influences on the psychographics can reveal potential—though not anticipated—effects and thus enrich the model (e.g., Ailawadi/Neslin/Gedenk 2001). This is important, because in many cases, research could not confirm a direct effect of socio-demographics on consumer purchasing behaviour.

2.5 The Research Model at a Glance

Based on the research to date and the above hypotheses, the research model is represented graphically in Figure 1, which contains all constructs that underlie the analysis. Contrary to attempts found in the literature, which often consider only partial models and support them with a restricted database (e.g., interview data), the model in this study strives towards a combination of socio-demographic and psychographic dimensions, as well as actual purchasing behaviour, within a complex theoretical framework.

Figure 1: The Research Model at a Glance



Source: adapted from Hundt 2014.

3 Data Base, Methodology, Empirical Results and Implications

3.1 Household Panel Data

The empirical database consists of household panel data collected in Germany by GfK Panel Services (GfK ConsumerScan). The data include information on the purchases of about 20,000 households between 2007 and 2009. Consideration is given to all purchase records of the article groups carrots, plain yogurt, cereal, fruit spread, classic roast coffee and carbonated lemonade (about 1.8 million). The purchase data collected give, amongst other issues, information on products purchased, the purchase date, place of purchase, the quantity (in kilograms/litres) and expenditure (in euros). Additionally, a key variable permits access to relevant socio-demographic characteristics and attitudes of households that are collected through annual surveys. Only continuously reporting households which have made at least six purchases from an article group in a given year are included in the analysis. A final total of

10,028 different households remained in the sample. The sample demographics are shown in table 1.

Table 1: Sample Demographics

N = 10,028	Frequency	Percentage
Age of the household head		
20 – 24	36	0.36
25 – 29	343	3.42
30 – 34	710	7.08
35 – 39	989	9.86
40 – 44	1,221	12.18
45 – 49	1,138	11.35
50 – 54	1,064	10.61
55 – 59	1,089	10.86
60 – 64	892	8.90
65 – 69	1,041	10.38
≥ 70	1,505	15.01
Number of children under 14 years		
0	7,577	75.56
1	1,247	12.44
2	952	9.49
3	204	2.03
4	35	0.35
5	10	0.10
6	3	0.03
Household size		
1	1,917	19.12
2	4,110	40.99
3	1,879	18.74
4	1,545	15.41
5	445	4.44
6	102	1.02
7	20	0.20
8	10	0.10
Household net income (in euros)		
≤ 499	41	0.41
500 – 749	193	1.92
750 – 999	337	3.36
1,000 – 1,249	597	5.95
1,250 – 1,499	821	8.19
1,500 – 1,749	919	9.16
1,750 – 1,999	901	8.98
2,000 – 2,249	1,226	12.23
2,250 – 2,499	953	9.50
2,500 – 2,749	874	8.72
Household net income (in euros)		
2,750 – 2,999	649	6.47
3,000 – 3,249	766	7.64
3,250 – 3,499	380	3.79
3,500 – 3,749	369	3.68
3,750 – 3,999	225	2.24
≥ 4,000	777	7.75

For the purposes of making generalised statements, the model estimation follows an overarching perspective that does not differentiate between years and article groups, and thus meets the requirements of high external validity.

3.2 Measurement of Constructs

3.2.1 Level of Purchasing Behaviour

As a key variable, the WTP is the main focus of attention. As an alternative approach, we measure the WTP by the actual purchasing behaviour. To operationalise this construct, we calculate the average prices paid per kilogram/litre at the household level (considering all purchase data for a given year). Since purchasing behaviour is inherently dynamic and dependent on the situation, the present aggregation over a year ensures the differentiation of individual households. For example, while a single survey in the form of a direct price question measures only a hypothetical and very arbitrary WTP at a certain point in time (namely, the time of the survey), purchase data yield with regard to this phenomenon of hypothetical bias conclusions on real price-related behaviour within a given period (for a comparison of methods for measuring consumers' WTP, see Lee/Hatcher 2001; Völckner 2006). Formally, the indicator corresponds to the quotient of the sum of expenditures in euros and quantities in kilograms/litres per household, year and article group.

The direct purchasing-behaviour-based determinants of WTP can be captured on the basis of household panel data via the quantity (purchase quantities in kilograms/litres), value (expenditures in euros) and in the form of purchasing frequencies (in this case, the number of acts of purchase). We use these three indicators of purchasing behaviour exclusively in relative terms in order to operationalise the constructs that are relevant to purchasing behaviour. Contrary to the use of single-item constructs, we use all three indicators to completely capture the different dimensions of purchasing behaviour. The resulting quantitative, value-based and act-of-purchase-related shares can be interpreted as individual household market shares and formally represented as a ratio. For example, this reveals, with regard to the criterion 'value', what percentage of the total expenditure of a household can be allocated to a certain reference object in an article group, for a pre-defined period. All the purchasing-behaviour-based constructs that precede the WTP are measured on the above three indicators for each household per year and article group. This aggregation of purchase data enables an interpretation of the decision behaviour of consumers in the sense of loyalty (for an aggregation of household panel data at the annual level, see Jonas/Roosen 2008). We provide a differentiated definition of constructs and their respective indicators in Appendix A.

3.2.2 Level of Psychographics

We operationalise the psychographic constructs using individual attitudes of the surveyed households that have been collected by GfK, mainly in the form of five-point rating scales. Only the construct 'price consciousness' contains two indicators, each with a four-point rating scale. The five-point rating scales measure the degree of agreement with various statements

(‘I do not agree’ to ‘I agree completely’). In contrast, the two four-point rating scales were based on self-positioning by the respondents (see the specific operationalisation of the respective constructs in Appendix A).

3.2.3 Level of Socio-demographics

We operationalise the socio-demographic characteristics as single-item constructs, as each of the underlying identical indicators comprises the respective construct completely and unambiguously (see the operationalisation of the respective constructs in Appendix A). The parallel integration of socio-demographic characteristics in the current research model leads to a more differentiated picture of the socio-demographic status of the affected households.

3.3 Quality Analysis of the Reflective Specified Multiple-Item Constructs

The quality analysis of reflective measurement models allows statements to be made about their reliability and validity. The aim of the reliability and validity checks is to detect whether the indicators associated with the multiple-item constructs are suitable for their constitution. In the literature, Cronbach’s alpha values ≥ 0.7 are considered as acceptable (Nunnally 1978).

For good quality construct measurement, values for average inter-item correlation ≥ 0.3 (Robinson/Shaver/Wrightsmann 1991) and for corrected item-to-total correlation values ≥ 0.5 (Bearden/Netemeyer/Teel 1989; Zaichkowsky 1985) are recommended. With respect to the present investigation, these quality criteria for all constructs are within the range ‘good’ to ‘very good’. Also the quality criteria based on the confirmatory factor analysis indicate an acceptable to very good quality of the individual construct measures.

Thus the indicator reliabilities are predominantly above the required threshold of 0.4 (Bagozzi/Baumgartner 1994). Only the psychographic constructs ‘importance of the naturalness of food’ and ‘price-consciousness’ each have one indicator with a reliability slightly below the desired threshold value of 0.4. In particular, the tangible constructs which measure the share of purchases related to different reference objects, have indicator reliabilities that exceed this threshold to a greater extent (> 0.9), so in this respect, a very good measurement quality is observed. At the construct level, the composite reliability values for all constructs exceed the threshold of 0.6 required in the literature (Bagozzi/Yi 1988). Even the average variance extracted (AVE) by a factor is well above the recommended threshold of 0.5 (Fornell/Larcker 1981). Only the construct ‘price consciousness’ does not reach this threshold, with a value of 0.425. However, on substantive grounds, the construct is retained unchanged. Taken as a whole, this is generally close to a high construct reliability, as well as of convergent validity. Moreover, all the factors’ average variance extracted exceeds the squared corre-

lations with other factors. Above all, this indicates the presence of discriminant validity (Fornell/Larcker 1981). We provide a detailed overview of the above mentioned quality criteria in Appendix B.

3.4 Estimating the Structural Equation Model

The estimation of the model is conducted using a covariance-based structural equation analysis. For this purpose, we use the statistical program Mplus (version 6.1) (Muthén/Muthén 1998-2010). As an estimation method, we apply the maximum likelihood estimator with robust standard errors (MLR). With regard to the criteria proposed in the literature for evaluating a structural equation model, the model postulated here achieved a very good overall goodness of fit: CFI = 0.934, TLI = 0.925, RMSEA = 0.033, and SRMR = 0.043. For example, Bagozzi/Yi (2012) recommend observing the following thresholds: CFI \geq 0.93, TLI \geq 0.92, RMSEA \leq 0.07 and SRMR \leq 0.07. Thus, the global quality measures identified here clearly indicate that the present model describes the structure of the data very well.

3.5 Results and Implications

The following sections differentiate the results. Beginning with the research topic of the purchase of organic food, we deal with the purchase of conventional private labels. Furthermore, we show the relationships between these purchase decisions and consumer WTP. Parallel to the presentation of results, we point out practical implications for the various market actors. Finally, we consider the effects of socio-demographics on psychographics and purchasing behaviour.

3.5.1 Results and Implications in the Context of Organic Food Purchases

All of the hypotheses in this context are highly significant at a level of 0.1% ($p < 0.001$). The respective results are shown in Table 2. What is remarkable is that as much as 49% of the variance in attitude towards organic food can be explained by the upstream psychographic factors.

The results shown in Table 2 are consistent with the (international) literature and reveal the fundamental importance of food naturalness and environmental consciousness as determinants of attitude towards organic food (H A-1 and H A-3). Accordingly, the abandonment of certain substances (e.g., additives and pesticides) and aspects of sustainability should be emphasised more explicitly by manufacturers and retailers. Linking consumers' preferred product features of 'naturalness' and 'sustainability' with organic production is a sound basis for a

more positive attitude towards organic food. In this way, both selfish and altruistic motives of consumers could be taken into account.

In this context, the literature has indeed demonstrated that selfish motives (such as concerns about one's own health) positively influence preferences for organic food to a greater extent than altruistic motives (such as concerns about damage to the environment) (e.g., Chrysoschoidis 2000; Gracia/Magistris 2008; Magnusson et al. 2003). However, the height of the path coefficients determined in this study reveals that environmental consciousness (0.27; $p < 0.001$) has a slightly stronger positive correlation with attitude towards organic food than the perceived importance of food naturalness (0.23; $p < 0.001$). This result shows that altruistic motives apparently also donate a personal benefit. This result is, for example, in accordance with those of Tarkiainen/Sundqvist (2009).

Table 2: Results of Hypotheses Testing (I)

Hypothesis	Postulated relationship in the context of organic food purchases	Standardised path coefficient	Confirmed?
H A-1	The perceived importance of the naturalness of food has a positive effect on attitude towards organic food.	0.23***	yes
H A-2	The perceived importance of regional/national origin of food has a positive effect on attitude towards organic food.	0.10***	yes
H A-3	Environmental consciousness has a positive effect on attitude towards organic food.	0.27***	yes
H A-4	Price consciousness has a negative effect on attitude towards organic food.	-0.34***	yes
H A-5	Brand consciousness has a negative effect on attitude towards organic food.	-0.12***	yes
H A-6	Attitude towards organic food has a positive effect on the share of organic purchases.	0.25***	yes
H A-7	Attitude towards organic food has a positive effect on the share of purchases at speciality stores.	0.11***	yes
H A-8	The higher both the share of purchases at speciality stores and the share of purchases at discount stores, the higher the share of organic purchases, but the effect of the share of purchases at speciality stores is comparatively higher.	0.29*** vs. 0.04***	yes
H A-9	Price consciousness has a negative effect on the share of purchases at speciality stores.	-0.14***	yes
H A-10	Brand consciousness has a negative effect on the share of purchases at speciality stores.	-0.06***	yes
H A-11	The higher the share of purchases on special offer, the lower the share of organic purchases.	-0.11***	yes

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; (n.s.) non-significant

Unexpectedly, the importance of the origin of food has a very weak positive effect (H A-2). Products from the region or country are probably also preferred, even if they do not come from organic production. Consequently, an examination of the product origin by consumers does not inevitably manifest itself in a greater openness towards organic food. However, the significant positive correlation suggests that linking ecology with additional properties (e.g.,

the product coming from the region) could be promising for marketing activities intended to make a profile-building distinction with respect to the competition.

It is noteworthy that there is a substantial negative impact of price consciousness on attitude towards organic food (H A-4). As often stated, price consciousness seems to be a significant barrier to the purchase of organic food, because, with an increase in price consciousness, or the importance of price, the attitude towards organic food deteriorates. Therefore, consumers seem to be less receptive to organic food when they pay substantial attention to price. Since organic foods are probably regarded by a large number of potential consumers as not worth the money, due to their rather intangible benefits, manufacturers and retailers should therefore not only eliminate information problems (e.g., lack of confidence in the product characteristics caused by the fact that before and after the purchase, the quality often cannot be judged fully by consumers), but also create distinct incentives to purchase of organic food (for the category ‘credence goods’, see Darby/Karni 1973). The ecological value-added should be highly transparent in order to justify a comparatively higher price and raise WTP (Royne/Levy/Martinez 2011). In this way, the significance of the sales price could decline in favor of qualitative considerations.

As expected, the negative effect of brand consciousness on attitude towards organic food (H A-5) also suggests that, because conventional national brands and private labels have been established for years, they have a formidable pioneer advantage. This indicates that freely accessible and frequently used eco-labels (e.g., the national organic label in Germany) do not replace a standalone brand policy of a manufacturer or retailer. However, these nationwide eco-labels help consumers to transfer associations learned in one product segment to other segments (Shapiro/Spence/Gregan-Paxton 2009). Product policy should therefore be a promising means for manufacturers and retailers to build strong brands in the organic market segment. For example, the presence in social media, which manifests itself in an interaction between (potential) consumers and companies, could increase brand awareness and brand loyalty. Of particular importance in this connection is the exchange between consumers, who can evaluate and recommend products (Olbrich/Holsing 2011).

Parallel to this, the attitude towards organic food has a positive effect on the corresponding share of organic purchases, so that the attitude-behaviour hypothesis has been confirmed (H A-6) as expected. In addition, a more positive attitude towards organic food leads to an increase in the share of purchases at speciality stores and also (on this path) to a higher share of organic purchases (H A-7 and H A-8). However, both price consciousness and brand consciousness inhibit consumer decisions in favour of speciality stores (H A-9 and H A-10). Irrespective of the statistical significance, the effect of brand consciousness is quite low, if not

negligible. Although the explained variance in the share of purchases at speciality stores is very low (about 4%), price consciousness also exerts, in addition to the already mentioned negative effect on attitude towards organic food, a highly significant negative effect on the share of purchases at speciality stores. Overall, a rising price consciousness leads to a reduction in the share of organic purchases. Moreover, this share also decreases with an increase in the share of purchases on special offer (H A-11), which can also include a price-oriented purchase-behaviour tendency. However, the latter effect is extremely weak, which shows that the pursuit of savings on purchases through articles on special offer only marginally impacts on consumer choices between organic and conventional foods.

The variance in the share of organic purchases can indeed be explained by a total of 20%, but the influence of attitude towards organic food on behaviour is surprisingly low (0.25; $p < 0.001$). Therefore, there is evidently a discrepancy between stated attitudes and actual purchasing behaviour. To some extent, this may be due, for instance, to the hypothetical nature of the attitudes in question. To increase the sales of organic food—with a corresponding increase in individual shares of organic purchases—manufacturers and retailers must thus reduce the gap between awareness and actual purchasing behaviour. To increase the consumption of organic food, first breaking the usual choice patterns and encouraging consumer involvement should therefore be useful (Tarkiainen/Sundqvist 2009). For some consumers, past food crises already seem to have contributed to an increase in involvement. Creating incentives for the consumption of organic food—particularly through targeted consumer education about the importance and identifiability of organic production—should therefore work towards a change in consumer involvement, in order to break routine purchasing behaviour patterns (see, e.g., Tanner/Wölfling Kast 2003 on action-related knowledge as a predictor of green purchases).

3.5.2 Results and Implications in the Context of Conventional Private Label Purchases

All hypotheses in this context are highly significant at a level of 0.1% ($p < 0.001$). In two cases, the postulated non-significant influence was confirmed (see Table 3).

Price consciousness emerges as a highly significant central determinant of the purchase of conventional private labels. Thus, price consciousness acts both directly and indirectly through the influence of consumer choices of outlet formats on the share of conventional private label purchases (H B-1 and H B-3). The finding that, with an increasing price consciousness, the share of purchases at discount stores increases, and thus also the purchase of private labels (H B-5), conforms to expectations with regard to the price-oriented direction of this outlet format. Nevertheless, the results indicate that brand consciousness did not significantly affect the share of conventional private label purchases (H B-2). The same applies to the share

of purchases at discount stores (H B-4). The results in this respect, based on actual purchasing behaviour, are consistent with the results based on survey data from Walsh/Mitchell (2010). Consequently, it can be assumed that the assumption of many consumers, that well-known brands are higher quality, eroded in the course of the perceived equalisation of national brand and private label quality characteristics in the conventional market segment.

Table 3: Results of Hypotheses Testing (II)

Hypothesis	Postulated relationship in the context of conventional private label purchases	Standardised path coefficient	Confirmed?
H B-1	Price consciousness has a positive effect on the share of conventional private label purchases.	0.14***	yes
H B-2	Brand consciousness has no significant effect on the share of conventional private label purchases.	0.00 (n.s.)	yes
H B-3	Price consciousness has a positive effect on the share of purchases at discount stores.	0.25***	yes
H B-4	Brand consciousness has no significant effect on the share of purchases at discount stores.	-0.01 (n.s.)	yes
H B-5	The higher the share of purchases at discount stores, the higher the share of conventional private label purchases.	0.43***	yes
H B-6	Price consciousness has a positive effect on the share of purchases on special offer.	0.12***	yes
H B-7	Brand consciousness has a positive effect on the share of purchases on special offer.	0.08***	yes
H B-8	The higher the share of purchases on special offer, the lower the share of conventional private label purchases.	-0.33***	yes
H B-9	The higher the share of purchases on special offer, the lower the share of purchases at discount stores.	-0.22***	yes

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; (n.s.) non-significant

Since consumers also often expect that the producer of a national brand and a private label are identical and this assumption is sometimes accelerated by private label imitations of national brands related to stimulus generalisation (Kapferer 1995; Till/Priluck 2000), manufacturers of national brands should, for example, undertake promotional activities to clearly distance themselves from the production of private labels and underline their own high demands on production. The price-quality associations of consumers and the WTP a price premium for national brands could probably be generated by these means (Steenkamp/Van Heerde/Geyskens 2010). Manufacturers of branded goods should therefore attempt to enhance the brand consciousness of consumers in the conventional market segment.

While price consciousness and brand consciousness only have a weak positive, if not negligible effect on the share of purchases on special offer (H B-6 and H B-7) and the explained variance of this construct only amounts to around 2%, the results clearly show that an increase in the share of purchases on special offer decreases the shares of purchases at discount stores and of conventional private label purchases (H B-8 and H B-9). Thus, some consumers evidently turn to price-promoted conventional national brands to achieve savings. Overall, 39%

of the variance in the share of conventional private label purchases and 11% of the variance in the share of purchases at discount stores are explained.

The results suggest that it might be useful for manufacturers of branded goods, and also for retailers who are competing with discounters, to use price promotions for conventional national brands, in order to profile themselves against the competition. At this point, however, it is vital to note that consumers are then encouraged to look for price-promoted brands in the medium to long run. In addition to the risk of a further erosion of the WTP for national brands in the conventional market segment, the loyalty of these consumers to retailers and their outlets is likely to decline sharply. The objective of price promotions would not then be achieved, neither from the perspective of manufacturers wishing to prevent a proliferation of private labels, nor from the perspective of retailers competing with discounters, with the former wishing to prevent a proliferation of the latter and their private labels. In order not to destroy the future potential for both manufacturers and retailers, market actors should focus consumer attention less on price and more on quality.

3.5.3 Results and Implications in the Context of the Direct Determinants of WTP

Firstly, it can be stated that the main underlying assumptions are highly significant at a significance level of 0.1% ($p < 0.001$) (see Table 4). As much as 44% of the variance in WTP can be explained by the detected predictors.

Table 4: Results of Hypotheses Testing (III)

Hypothesis	Postulated relationship in the context of the direct determinants of WTP	Standardised path coefficient	Confirmed?
H C-1	The higher the share of organic purchases, the higher the WTP.	0.23***	yes
H C-2	The higher the share of conventional private label purchases, the lower the WTP.	-0.36***	yes
H C-3	The higher the share of purchases at speciality stores, the higher the WTP.	0.09***	yes
H C-4	The higher the share of purchases at discount stores, the lower the WTP.	-0.27***	yes
H C-5	The higher the share of purchases on special offer, the lower the WTP.	-0.18***	yes

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; (n.s.) non-significant

The results presented in Table 4 show that consumers of organic food—also in connection with their choice of outlet format in favour of speciality stores—have a higher WTP (H C-1 and H C-3). However, the WTP is lower for those consumers who purchase conventional private labels (H C-2), frequent retail outlets of discounters (H C-4) or purchase articles on special offer (H C-5) to a greater extent.

The WTP of consumers is hence subject to a food retail market that is dominated by aggressive price competition. Particularly in the conventional market segment, retailers have been

shifting consumer demand to private labels for several years (Olbrich/Grewe/Orenstrat 2009). This development, and the growth of discounters, have increased the perceived interchangeability of products and induced a reduction in WTP. Thus, in a purchase decision, the attention of consumers is based more on the sales price of a product than on quality. Consumer WTP that is exposed to this trade-off could therefore still be subject to further erosion. From the perspective of individual retailers, this framework usually excludes independent profiling against the competition. Consequently, retailers should increase the involvement of consumers and use quality-oriented instruments to create specific preferences. This could lead to a lower perceived importance of the sales price and thus to a decrease in price consciousness (O'Neill/Lambert 2001). With a higher level of involvement, a comparatively higher WTP could be expected.

Seen from an overall perspective, the recognisable efforts of manufacturers and retailers to enter the organic market segment, is a step in the right direction. The current supply of organic food (both in the form of national brands, as well as in the form of private labels) enables firms to 'skim off' (fully exploit) the green consumers' WTP. Nevertheless, this consumer WTP an additional charge is not permanently protected against erosion, if competition in the organic market segment adopts similar forms in future, to the present price competition in the conventional market segment.

3.5.4 Results and Implications in the Context of Socio-Demographics

In this study, the socio-demographic characteristics of households have been included in the underlying model, both as predictors of psychographics and of purchasing behaviour. Table 5 shows the coefficients of paths from the socio-demographics to the psychographics.

Table 5: Effects of Socio-Demographics on Psychographics

	Age	Children	Household Size	Net Income	
	Importance of the naturalness of food (SMC = 0.09)				
Standardised path coefficient	0.31***	0.02**	0.01 (n.s.)	0.01*	
		Importance of regional/national origin of food (SMC = 0.08)			
	0.30***	0.02**	0.01 (n.s.)	0.03***	
		Environmental consciousness (SMC = 0.07)			
	0.25***	0.04***	-0.08***	0.10***	
		Price consciousness (SMC = 0.15)			
-0.14***	-0.10***	0.32***	-0.36***		
	Brand consciousness (SMC = 0.06)				
0.22***	0.02**	-0.07***	0.09***		
*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; (n.s.) non-significant; SMC = squared multiple correlation					

The results presented in Table 5 show that with increasing age of the household head, for example, the importance of natural food and product origin (e.g., from the region or nation), as

well as environmental consciousness increase, while price consciousness decreases. The price consciousness also will be lower with increasing household income and higher with increasing household size. This suggests that disposable income is split between several members of the household, and this acts as a budget constraint. Regardless of the identified plausible influences of socio-demographics on psychographics, only a small proportion of the variance in the psychographic constructs is explained. This proportion ranges between 6% and 15% (see the corresponding squared multiple correlations (SMC) in Table 5).

Even if individual socio-demographic characteristics may provide viable approaches to market segmentation, their direct impact on purchasing behaviour is minimal. Despite partly significant effects of individual socio-demographic characteristics on the constructs of purchasing behaviour, the standardised path coefficients generally have values close to zero. Due to the large data base, even low path coefficients close to zero may be significant. Therefore, the relevance of these paths for the interpretation of consumer behaviour and real life is questionable. Nonetheless, even if the socio-demographic characteristics of households seem obviously unsuitable for explaining purchasing behaviour directly, they can at least act indirectly on purchasing behaviour via the psychographics (for a similar finding, see Ailawadi/Neslin/Gedenk 2001). Table 6 exemplarily shows the direct, indirect and total effects of socio-demographics on WTP. Only the total effects of household size (-0.20, $p < 0.001$) and household net income (0.19, $p < 0.001$) are still comparatively high and plausible. But in relation to the explanatory power of these variables, the present study also illustrates the subordinate importance of socio-demographic predictors.

Table 6: Effects of Socio-Demographics on WTP

Dependent construct: WTP			
Socio-demographics	Direct effect (standardised)	Indirect effect (standardised)	Total effect (standardised)
Age	0.02***	0.01 (n.s.)	0.03***
Children	0.05***	0.02***	0.07***
Household Size	-0.12***	-0.08***	-0.20***
Net Income	0.09***	0.10***	0.19***

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; (n.s.) non-significant

4 Conclusions and Prospects for Future Research

The present study provides a deeper understanding of consumer behaviour in the food retailing sector and is based on an extensive data base from a household panel. The results of this study shed light on the relationships between socio-demographics, psychographics and purchasing behaviour. A considerable cross-section of consumer behaviour was considered in the

context of a complex model-theoretical framework. Also, the WTP of consumers, as an alternative approach operationalised through actual purchasing behaviour, was explained substantially. The results are of significance both theoretically and for practice.

For example, it was shown that consumers of organic food—also in connection with their choice of outlet format in favour of speciality stores—have a relatively high WTP. However, the WTP decreases significantly with an increase in the purchase of conventional private labels and products on special offer, as well as arising consumer choice of outlet format in favour of discount stores. While the purchase of organic food can be attributed to both selfish as well as altruistic motives and the price consciousness of consumers acts as a major barrier, the purchase of conventional private labels and the success of discount stores are driven by an increase in consumer price consciousness. The orientation of consumers at discount stores leads, not only directly but also indirectly, through a higher share of conventional private label purchases, to a lowering of WTP. Although an increased purchase of products on special offer is accompanied by a direct reduction in consumer WTP, this reduction is partly balanced indirectly through a reduction in the share of purchases at discount stores and of conventional private label purchases. As a result, however, the attention of consumers is in many cases directed to the price. Yet, guiding consumers to the price is clearly associated with the long-term risk of further lowering the WTP. Instead of pursuing quality competition, price competition would then continue to dominate. Hence, the product range extension in terms of organic food can be regarded as a step in the right direction, if, in this segment, price competition is subsequently rejected in favour of quality competition.

The present study also provides some starting points for future research. For example, further influences of psychographic characteristics that affect the purchase of organic food could be investigated, taking into account actual purchasing behaviour. Since the present study focused exclusively on the purchase of conventional private labels regarding brand choice, future studies could usefully differentiate between different types of private labels. Such a distinction is likely to be beneficial for a deeper explanation of consumer WTP. Due to the fact that any empirical investigation in the field of social systems is subject to the risk of measuring time- and object-dependent phenomena, it is also advisable to verify the model postulated here with household panel data from other years and article groups in food retailing or to transfer it to other sectors (e.g., the clothes market). The extent to which organic products will prevail in other areas of the consumer goods sector will continue to be of interest.

In the general context of consumer WTP, we additionally need to mention that purchase data only provide information on purchases and prices paid. The actual WTP at the household level could exceed the prices paid by a considerable margin. However, it can be assumed that the heterogeneity in prices paid across households reflects the WTP in food retailing. For ex-

ample, our results reveal why consumers have a comparatively high or low WTP. With regard to the variety of arguments against the use of dominant approaches to measuring WTP (e.g., direct surveys), it is doubtful whether such methods are ever able to perform the WTP measurement adequately. Hence, external validity may be severely restricted. In considering this problem, purchase data have the advantage of high external validity. We also wish to emphasise that household panel data include a variety of observations based on a large number of households. Moreover, the data allow for a combination of socio-demographics, psychographics and purchasing behaviour. As a result, our study may provide useful insights for future research and incentives to explain consumer WTP.

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Appendix A: Operationalisation of Constructs

Construct	Indicator(s)
Age of the household head	Age of the household head
Number of children under 14 years	Number of children under 14 years
Household size	Household size (number of persons living in the household)
Household net income	Household net income
Importance of the naturalness of food	I reject products with preservatives When shopping, I am careful to choose foods without any additives I find out what foods are environmentally stressed and do not buy them I reject products with flavour enhancers (e.g., glutamate)
Importance of regional/national origin of food	I believe foods from Germany are qualitatively best If I have the choice, I definitely buy food from Germany When shopping for food, I pay attention to regional origin For food, I would like to see an identification of the region of origin within Germany I am willing to spend more money for food from my region
Environmental consciousness	I am willing to spend more money for environmentally friendly packaging When purchasing personal care products and household products, I pay attention to their environmental safety I buy frequently products that pollute the environment less I am willing to spend more money on eco-friendly detergents and cleaning products
Brand consciousness	Brand-name products are better than those with unknown names I have no real confidence in unbranded food items Foods of well-known brands are better than those of no-name brands
Price consciousness	When buying food, I notice the price more than the brand When purchasing food, I am more interested in the quality, even if it is significantly more expensive (recoded) When shopping, I pay attention mainly to the price/the quality (recoded) Global price orientation (index based on response patterns)
Attitude towards organic food	When buying food, I prefer organic products With organic products, I trust special food stores or organic supermarkets more than normal grocery stores By purchasing organic products, I can make a small contribution to climate change If I have a choice of organic products, I prefer to buy products from Germany than from other countries Organic products taste better than non-organic products Organic products are healthier than non-organic products I would like to see a larger selection of organic products in stores I am willing to spend even more money on organic products I would like more information about organic products
Share of organic purchases	Quantitative share of organic purchases Value-based share of organic purchases Act-of-purchase-related share of organic purchases
Share of conventional private label purchases	Quantitative share of conventional private label purchases Value-based share of conventional private label purchases Act-of-purchase-related share of conventional private label purchases
Share of purchases at speciality stores	Quantitative share of purchases at speciality stores Value-based share of purchases at speciality stores Act-of-purchase-related share of purchases at speciality stores
Share of purchases at discount stores	Quantitative share of purchases at discount stores Value-based share of purchases at discount stores Act-of-purchase-related share of purchases at discount stores
Share of purchases on special offer	Quantitative share of purchases on special offer Value-based share of purchases on special offer Act-of-purchase-related share of purchases on special offer
Willingness to pay	Average price paid per kilogram/litre

Note: All multiple-item constructs show reflective specifications, since changes in an overarching construct are always reflected in a change of the assigned indicators.

Appendix B: Quality Analysis of the Reflective Specified Multiple-Item Constructs

Construct	Indicator	Cronbach's alpha (≥ 0.7)	Inter-item-correlation (≥ 0.3)	Corrected item-to-total correlation (≥ 0.5)	Indicator reliability (≥ 0.4)	Composite reliability (≥ 0.6)	Average variance extracted (≥ 0.5)
Importance of the naturalness of food	1	0.791	0.490	0.662	0.579	0.811	0.521
	2			0.694	0.666		
	3			0.538	0.441		
	4			0.519	0.397		
Importance of regional/national origin of food	1	0.881	0.600	0.627	0.489	0.882	0.601
	2			0.755	0.656		
	3			0.778	0.612		
	4			0.795	0.748		
	5			0.636	0.501		
Environmental consciousness	1	0.814	0.522	0.593	0.419	0.814	0.523
	2			0.598	0.504		
	3			0.631	0.546		
	4			0.711	0.624		
Brand consciousness	1	0.785	0.549	0.606	0.539	0.791	0.560
	2			0.574	0.465		
	3			0.694	0.676		
Price consciousness	1	0.746	0.425	0.536	0.360	0.747	0.425
	2			0.587	0.460		
	3			0.519	0.462		
	4			0.522	0.419		
Attitude towards organic food	1	0.927	0.587	0.798	0.762	0.927	0.588
	2			0.673	0.469		
	3			0.700	0.494		
	4			0.654	0.437		
	5			0.712	0.504		
	6			0.735	0.531		
	7			0.830	0.794		
	8			0.813	0.774		
	9			0.704	0.527		
Share of organic purchases	1	0.994	0.985	0.989	0.986	0.995	0.984
	2			0.989	0.986		
	3			0.987	0.980		
Share of conventional private label purchases	1	0.995	0.986	0.992	0.992	0.995	0.986
	2			0.989	0.984		
	3			0.989	0.982		
Share of purchases at speciality stores	1	0.995	0.987	0.992	0.992	0.996	0.987
	2			0.990	0.988		
	3			0.989	0.982		
Share of purchases at discount stores	1	0.995	0.985	0.992	0.994	0.995	0.985
	2			0.990	0.988		
	3			0.985	0.974		
Share of purchases on special offer	1	0.994	0.982	0.992	0.996	0.995	0.986
	2			0.990	0.992		
	3			0.979	0.970		

Co-operation Activities of Middle-Sized Retailers and Manufacturers in the Fashion Industry—A Look at Competences, Potentials, Realization and Success Factors in Value Chain Activities

Bernhard Swoboda and Thomas Foscht

Abstract

This paper analyses co-operation from the perspective of 98 traditional fashion retailers and 104 manufacturers. Based on specific approaches, one purpose was to evaluate how market and supply chain oriented value chain activities are viewed in the context of co-operation, particularly in terms of own competence, perceived potential for co-operation, and the level of co-operation achieved. We postulated that retailers and manufacturers see co-operation potentials in value chain activities with both low and high levels of own competence, and that the co-operation potentials identified and the co-operation levels achieved also may differ. A second purpose addresses the relation between the co-operation levels achieved in the value chain activities and the degree of success in turnover, costs, and time-to-market.

Keywords

Vertical co-operation and collaboration, fashion retailer and manufacturer, SME, competences

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1. Introduction

There is hardly a retailing industry that has been examined in recent years quite as often as the fashion sector in connection with the success of vertically integrated firms. Vertically integrated firms and young fashion manufacturers operate with programs that change on a monthly basis, i.e. a partly new assortment has to be developed frequently, which is more complex than in those retailing industries where articles are listed for a longer period. Clearance selling of trendy, lifestyle-oriented articles is subject to short-term fluctuation, and manufacturers are increasingly running their own mono-brand stores or concession areas within the retailing outlets. As a result, vertical manufacturers grow in the course of the forward integration process in the value chain, and at the same time, vertical retailers also grow in the process of reverse integration, particularly with private labels (see the Special Issue by Doherty 2004 on further development tendencies in fashion industry).

Meanwhile, if we look at the number of firms present in the fashion industry, it is still the middle-sized companies which dominate, retailers sometimes with a leading position in their specific location, and also middle-sized manufacturers. The fashion industry is still largely characterized by middle-sized companies, i.e. by independent firms that often do not even belong to a buying group in the retailing sector. This is the case in the German-speaking countries, on which this paper focuses. Here, fashion firms were affected by the drop in market volume in recent years. These middle-sized firms are often disregarded in the debate over vertical systems or inter-firm partnerships.

This paper looks into the question of how far these firms can participate by vertical collaboration or co-operation activities, i.e. whether they consider vertical co-operation to be a promising option in an increasingly vertically integrated fashion industry. The paper focuses on the co-operation levels achieved, but also on the perceived own competences, the co-operation potentials envisaged in 14 fashion-related value chain activities, and on success. This is illustrated in a comparison of evaluations by retailers and manufacturers, and the value chain is differentiated according to market-oriented and supply chain-oriented activities. The analysis is divided into three parts. Based on a literature review—and particularly on selected approaches to the value chain—, own resources, and co-operation attractiveness, research theses are formulated and examined in an empirical study. A discussion concludes this fundamental paper.

2. Literature, Selected Approaches and Research Theses

The literature on inter-firm relationships has been growing over the past years and particularly since the ECR debate in the nineties (Schramm-Klein and Morschett 2006). Whereas, also in relationships between retailer and manufacturer context, most research concentrates on issues of supply chain management (e.g. empirically Golicic and Mentzer 2005; Stank, Davis, and Fugate 2005), studies that focus on vertical co-operation in marketing are quite rare (e.g. empirically Corsten and Kumar 2005; Dhar, Hoch, and Kumar 2001; Gruen and Shah 2000). Furthermore the research on vertical coordination in marketing channels has focused on long-term relationships (such aspects as enhanced communication, coordination process, establishment of commitment, trust, and shared values), inefficiencies in channel relationships or the inter-firm data exchange systems (e.g. Angeles and Nath 2001; Gundlach, Archol, and Mentzer 1995; Vinahs and Anderson 2005). As mentioned, there are fewer papers dealing with inter-firm relationships in the fashion industry (e.g. Abecassis-Moedas 2006; Christopher, Lowson, and Peck 2004; Moore, Birtwistle, and Burt 2004; Teng and Jaramillo 2005). The focus is mostly on vertical firms or global textile chains (for middle-sized grocery firms, see Wagner, Fillis, and Johansson 2005). Our focus on middle-sized firms appears to be a fundamental one, i.e. we will use a more fundamental approach. For this purpose, we must go back to basic approaches that promise a contribution towards the structuring of the value chain and towards explaining the decision in favor of collaboration or co-operation.

2.1. Value Chain Frame of Reference

As is well known, a value chain concept was published by Porter (1980), where value chain activities can be defined as a sequence of productive (i.e. value-added) activities leading to and enhancing firms' success. The concept was further developed in various ways in economics and management (e.g. Abecassis-Moedas 2006; Gereffi 1999; Mills, Schmitz, and Frizelle 2004), however its basic idea could be related to the earlier theory of retailing function, the retailing value chain, or early theories of distribution channel systems (e.g. the retailing value chain of Seyffert 1931; Gill and Stern 1969 and, for an overview, Moore, Birtwistle, and Burt 2004). Specific publications deal with the clothing value chain.

Gereffi (1999) focused on the conditions, e.g. the high level of internationalization in supply and sales markets, and the key players in a clothing value chain, e.g. the consumer with bargaining power, the powerful retailer, and the brand-name merchandiser. Regarding the relationship between retailers and manufacturers, Richardson (1996) has already highlighted that competition in the fashion industry has shifted to the arena of timing and know-how, where vertically integrated firms have gained the lead, with full vertical integration including design, retailing and manufacturing. Christopher, Lowson and Peck (2004) focus on an agile supply

chain in the fashion industry.

In the following, market-oriented and supply chain-oriented value chain activities are distinguished and summarized on three levels (see Srivastava, Shervani, and Fahey 1999 for a different three-level distinction):

1. The starting point is provided by *innovation and market-oriented processes* that begin with market analyses and trend recognition, all with the objective of transferring the trends to the retailing sales floor. This is followed by development/design of the collection (at the manufacturer's site) and assortment planning/design (at the retailer's site).
2. Classic *supply chain-oriented processes* are purchasing, production planning/control, or order management (selling or buying from the viewpoint of the manufacturer or retailer). Modern processes also include distribution management/logistics, stock/distribution management, as well as sales floor management (, e.g. management of flash and never-out-of-shelf programs).
3. Direct *customer and market-oriented processes* are shop design, sale to consumers, sales support/promotion, as well as sales personnel planning, which come at the end of the value chain.

This basis does not indicate which processes are considered suitable for co-operation or collaboration and which are not. In the literature mentioned above, processes are often assigned sweepingly to retailers and manufacturers (e.g. third and second level), or only selected interfaces are considered, in particular supply chain processes (such as order management, logistics, but rarely sales floor management) or market-oriented processes (such as sales promotion, product development, but rarely market analyses).

2.2 Selected Theories of Co-operation, Collaboration and Inter-firm Coordination Research

The question of when co-operation activities have potential or what impact inter-firm coordination has on market performance can be pursued using a multitude of theories. Co-operation, for example, is advantageous from the point of view of transaction cost theory when the factor specificity of the investment is high, the frequency of transaction is low, the uncertainty factor is average, and the behavior risk is controllable, *ceteris paribus* (Williamson 1985; Wuyts and Geyskens 2005). From the viewpoint of industrial economics based strategic management, co-operation benefits are e.g. economies of scale and scope, time savings in developing new markets, fending off competitors, lowering capital costs and risk, *ceteris paribus*. Disadvantages arise relating to integration and control. Although we do not go into the details of such general conditions in this paper, it is well-known that advantageous conditions of this kind either gain or lose significance in the presence of certain context factors. The industry

(e.g. concentration rate) and the partner (e.g. size, market power) or the firm (e.g. size, resources) and the decision-makers (e.g. risk affinity) determine the choice. A wealth of other theories were consulted in connection with selected aspects of co-operation activities, such as the game and the agency theories, interaction approaches or the theory of social exchanges, equity and network or contingency theories (considering negotiations, trust or power aspects, the partner fits, etc., e.g. Collins and Burt 2003; Douma et al. 2000; Mattsson 2003; Niederkofler 1991).

A bridge between own competences and preferences is assured by resource-focused approaches, the roots of which (e.g. Penrose 1959 and also Barney 1991; Grant 1991; Peteraf 1993 in the early nineties) continued to develop until today (see Barney, Wright, and Ketchen 2001; Hoopes, Madsen, and Walker 2003 for an overview, or Sanchez 2004 for the competence-based view). As is known, particularly the resource-based view assumes that a firm's success is drawn from the resources the firm has at its disposal (e.g. tangible, intangible) and investigates the conditions under which certain resource configurations can lead to competitive advantages and to profits. The relevance of resource-focused approaches in connection with our research question can only be hinted at here, based on three aspects (in the context of co-operation activities, see e.g. Das and Teng 2000; Harrison et al. 2001; Ireland, Hitt, and Vaidyanath 2002; McEvily and Marcus 2005; Park, Mezias, and Song 2004):

- On the one hand, they can help answer the question of what retailers and manufacturers consider to be firm-specific competences, referring here to value chain activities. It is true that boundaries do become blurred between single value chain activities as competences, all the more so because the whole vertical process is considered a strong competence in the fashion industry, and one that is difficult to copy. In traditional, non-vertical fashion retailing and manufacturing firms, it is still possible to examine basically single value chain activities, possibly as suggested in the value chain frame of reference.
- Secondly, availability of resources (competences in the broadest sense) can be a starting point, particularly in assessing the benefits of institutional arrangements from the viewpoint of middle-sized firms.
 - If we assume that there is a lack of certain resources, the benefits of co-operation are generally connected with access to resources that are scarce, costly, difficult to imitate, or difficult to substitute (Dyer and Shingh 1998). Since such access can be gained through co-operation, collaborative channel partnership may thus result in greater competitive advantage. Similarly, in the resource dependency perspective, the starting point is the issue of how firms can best ensure their survival in the context of the resources on which they depend (Pfeffer and Salancik 1978).
 - The conditions of initiating co-operation activities can be formulated more precisely: If a firm has a surplus of physical, but not of intangible resources, the firm will seek to

compensate this lack by co-operation, *ceteris paribus*. If there are limited tangible or financial resources, co-operation may also be a strategy that takes care of resources. In case of a surplus of resources or competences in a value chain activity, this approach together with others provides an explanation for choosing co-operation. In this case, too, co-operation can be an attractive option, for example under the conditions mentioned in connection with the transactions cost theory.

- Thirdly, from a dynamic perspective, the approach recognizes organizational learning progress as an accumulation of (intangible) resources and thus establishes a connection to co-operation experience. Experience leads to an accumulation of knowledge, and the exchange and combination of knowledge promotes adaptability and the facility for organizational learning, respectively, resulting in the ability to realize or prevent co-operation (see e.g. Borchert 2002 on further barriers in middle-sized firms).

2.3 Conclusions and Research Questions

Based on the literature, the value chain frame of reference, and also the theories suggested, the following thesis can be formulated:

Traditional fashion retailers and manufacturers see different own competences in value chain activities. They see potentials and/or attractiveness for the realization of vertical co-operation activities however also in those activities where resources or competences are low, as well as in those where they are high.

In terms of realization of co-operation in the value chain activities, approaches can be found in the resource-based view, e.g. with experience gained in partnerships. Additionally, there are other barriers to the realization of potentially attractive co-operation activities, for example the search for a partner (identification, build-up of trust), the negotiations (on the form of contract, assignment of responsibilities), assessing structural, strategic or cultural fits in the partnership, general set-up of the middle-sized firm, or the attitudes of the decision-makers. In this respect, we can reason as follows:

Traditional fashion retailers and manufacturers diverge in their assessment of the potentials of co-operation activities and of the level of co-operation achieved in the different value chain activities.

Finally, the success factors can be identified in various approaches or theories. In a very broad approach, the initiation, realization, and management factors of co-operation are relevant to success (see, for example, Bigne and Blesa 2003 on the relation between market orientation, trust and satisfaction on the basis of a literature review, Borchert 2002 on satisfaction, or

Bruce and Moger 1999 on the better scope for innovation). We focus on the direct effect of the value chain activities on success:

The co-operation level achieved in different value chain activities influences the success or the improvement achieved in turnover, costs and time-to-market.

What this means is that supply chain-oriented co-operation activities, for example, are related more to cost advantages (e.g. Kotzab/Teller 2003; Golicic/Mentzer 2005), while market-oriented co-operation activities are related more to turnover. Consequently, for time-to-market strategies, both fields of value chain process co-operation should be relevant.

3. Sample and Measurement

The empirical study focuses, as part of a broader project, on managerial perceptions. The whole project consists of 25 intensive case studies and on mailed questionnaires. For the present ex-post study we mailed questionnaires to approximately 1,500 German, Austrian and Swiss fashion firms (mostly at CEO or owner level). Addresses were collected from two different data bases, particularly from the main German-speaking fashion magazine publisher and from a management consultancy. Of the questionnaires returned, 98 retailer and 104 manufacturer questionnaires were usable. With regard to firm's size, the sample can be considered as approximately representative for the fashion industry in the countries; successful firms are somewhat over-represented. The firms operate primarily in the ladies' wear and menswear assortments, where the manager was to choose the assortment from the core business to answer the questions (see the legend in Table 1). Fully vertically integrated firms were not considered. The sample did, however, cover partially vertically integrated firms whose distribution channels or sales floor concepts are important in interpreting the assessments of the value chain activities. For the retailers, multi-label areas predominate with 67%, followed by depots/corners, shop-in-shop areas, and mono-brand stores (14, 13, 5%). For 70% of the manufacturers, multi-label areas are important, for 11% depots/corners, for 10% shop-in-the-shop, for 7% own or franchising stores, and for 2% concessions. The share of collection content is comparable for retailers and manufacturers: some 60% accounts for the main collection and 20% each for flash and never-out-of-shelf programs. The share of private labels in the retailers' sales mixes averages around 20%.

The measurement process concentrates on 14 market-oriented and supply chain-orientated value chain activities that are well-known in the industry, and their understanding was pre-tested in the personal interviews mentioned. One half are market-oriented (M) and the other half supply chain-oriented activities (S), depending on classification (see Table 2, listed ac-

ording to a modern fashion value chain). Top managers or the owners of retailing and manufacturer firms were asked to provide ratings on three aspects relating to their core assortment area (each on 5-point Likert scales, anchors: 1 = very low; 5 = very high):

- What is the extent of the firm's own competence in the areas of its own value chain?
- How high is the potential or the attractiveness of co-operation activity rated?
- To what extent has co-operation already been realized in the area concerned?

This three-stage procedure was selected because the status of co-operation activities in the fashion industry—e.g. compared to such retailing industries as groceries—is rather low, also due to the middle-sized structure of many of its players. So far it has not been possible to register dyadic partnerships. The resulting questions relating to success referred nevertheless to a partnership in the respective assortment area. The firms were asked to rate the improvements made since the co-operation began, using a 5-point Likert scale (anchors: 1 = very low; 5 = very high), in terms of turnover, costs, and time-to-market or process acceleration. Thus, also the dependent variables contain qualitative and subjective judgments.

Table 1: Selected Data on the Sample

Turnover in mill. EURO	Retailer	Manufac-	Dominant assortment ¹⁾	Retailer	Manufac-	Firms objectives achieved in the past 3 years ²⁾	Retailer		Manufac-	
	(N = 98)	turer (N = 104)		(N = 98)	turer (N = 104)		MV	SD	MV	SD
< 15	39.8%	26.0%	Ladies' wear	83.8%	43.3%	Turnover	2.7	1.2	3.2	1.2
15 – 74	25.5%	32.7%	Menswear	64.3%	44.2%	Profitability	3.4	1.0	3.6	0.9
75 – 249	18.4%	22.1%	Household linens	31.6%	15.4%	Cost reduction	3.6	1.0	3.5	0.9
250 – 500	9.3%	10.6%	Sport	28.6%	15.4%	Time-to-market	3.3	1.1	3.3	1.0
> 500	7.3%	8.6%	Children's wear	26.5%	9.6%	Assortment quality	3.5	0.8	3.7	0.9
Sum	100.0%	100.0%	Others	20.9%	14.4%	Others	3.1	1.1	3.2	1.0

- Legend: ¹⁾Multiple entries (chosen for further evaluation: retailer 46.9% ladies' wear, 40.8% menswear, 8.2% household linens, 4% others (sport, shoes, accessories, children's wear) and manufacturer 26.9% ladies' wear, 28.8% menswear, 12.5% household linens, 9.6% sport, 8% others (shoes, accessories etc.) 14% missing ²⁾1 = highly unsatisfactory; 5 = very satisfactory.

4. Results

4.1. Basic Results on Core Competences, Potentials and Co-operation achieved

The first findings to be considered in Table 2 are the assessments provided by the retailers and manufacturers when asked about their own competences and the co-operation potentials in the value-added functions. Throughout all value chain activities, the manufacturers see a large number of own competences and, at the same time, higher co-operation potentials. The retailers' assessment is more reserved. The following aspects are worth pointing out briefly.

- It is not surprising that retailers see their own competences in the typical *market-oriented activities*, such as assortment planning, shop design, sales, and sales personnel planning. Here, the co-operation potentials largely have a low rating from the point of view of both groups.
- The manufacturers see own competences more in *supply chain-oriented activities*, such as purchasing, production, logistics, stock and distribution management. Co-operation activity is assessed here as being less attractive.
- In other activities, retailers and manufacturers see above-average competences, coupled with above-average co-operation potentials, e.g. market analyses, order management, sales floor management, and sales promotion. Relatively frequently, the competences are rated as below average by one or both sides, however at the same time the co-operation potential is rated higher, e.g. selling trends, development of collections, distribution/logistics, and sales.

Table 2: Assessment of Perceived Own Competences, of Potentials in Co-operation Activities and Level of Co-operation Achieved-t-tests

	Retailer (N = 98)			Manufacturer (N = 104)		
	Own competences	Potential of co-operation ¹⁾	Co-operation level achieved ²⁾	Own competences	Potential of co-operation ³⁾	Co-operation level achieved ²⁾
Market analyses / trend recognition (M)	3.66	3.92	2.19 ⁺	3.88	3.81	2.67 ⁺
Selling of trends on the sales floor (M/S)	2.99	3.97 ⁺	2.17 ⁺	2.98	3.46 ⁺	2.45 ⁺
Collection design (M)	1.94	3.24 ⁺	2.07 ⁺	4.04	3.27 ⁺	2.59 ⁺
Assortment planning / design (M)	3.95	2.70 ⁺	2.36 [*]	2.26	2.45	1.89 ⁺
Order management (selling / buying) (S)	3.82	3.69	2.44 ⁺	3.53	3.50	2.46 ⁺
Purchasing / purchase planning (materials, etc.) (S)	1.37	1.71	1.38 ⁺	3.84	2.81 ⁺	2.09 ⁺
Production planning / control (S)	1.22	1.71 ⁺	1.42 [*]	4.06	2.55 ⁺	1.96 ⁺
Distribution management / logistics (S)	2.99	3.65 ⁺	2.13 ⁺	3.67	2.78 ⁺	2.40 [*]
Stock / distribution management (S)	1.82	2.85 ⁺	2.04 ⁺	3.77	3.05 ⁺	2.56 ⁺
Sales floor management (S)	3.42	3.77 [*]	2.61 ⁺	3.39	3.40	2.44 ⁺
Shop design (M)	4.19	2.61 ⁺	2.20 ⁺	2.26	2.41	2.10 [*]
Sales (to final consumers) (M)	4.42	2.45 ⁺	2.12 [*]	1.97	3.27 ⁺	2.75 ⁺
Sales support / promotion (M)	4.04	3.79 [*]	3.32 ⁺	3.28	3.54 [*]	2.95 ⁺
Sales personnel planning (M)	3.88	1.87 ⁺	1.49 ⁺	1.96	1.96	1.62 [*]

– Legend: 1 = very low; 5 = very high. Significance levels * 0.05 and ⁺ 0.001 in t-test for sample pairs between

– ¹⁾competences versus potentials, ²⁾potentials versus level of co-operation achieved (retailer),

– ³⁾competences versus potentials, ⁴⁾potentials versus level of co-operation achieved (manufacturer)

Thesis 1, stating that traditional fashion retailers and manufacturers specify different competences and see potentials for realization of vertical co-operation both in such activities where they have lower competence and in those where they have greater competence, cannot be refuted.

Likewise, Table 2 illustrates the results relating to the second thesis and thus, on the scope of co-operation level achieved. All of these values are below the potential and attractiveness

assessments. This can be interpreted as an indication of the hitherto reserved realization of co-operation activities in the value added functions observed, possibly also for the potentials to be uncovered by the firms in the course of their co-operation activities. Of course, it is also an indication of the barriers to co-operation that the firms envisage. As a matter of fact, in the present study the highest barriers alternated between unwillingness (thus relinquishment of some sovereignty over the assortment and also sharing of sale risks) and lack of know-how. These were followed further down the scale by such aspects as different positions of market power, lack of ability by the manufacturers' assortment to fill a sales floor, too little exchange of information, lack of mutual trust, etc.

4.2 Results on Value Chain co-operation achieved and Co-operation Success

Based on the data available, it is possible to show that successful companies have a greater degree of co-operation, particularly in recent years. Here, the retailing and manufacturing data can be combined and the values (co-operation level achieved) fed into a quick cluster, which results in two groups of firms. These two clusters show mean value differences in terms of objectives achieved in the past three years, as shown in Table 1 (significant especially in terms of turnover and profitability and tendential in terms of costs and time-to-market). Of course, this is too undifferentiated to make statements on the success of co-operation activity because it is unclear here whether co-operation in one area of the assortment actually influences the success of the entire firm or whether the effect relationships are reversed, i.e. successful firms have more leeway anyway in realizing co-operation activities.

For our purposes, the firms were requested, as described, to state what improvements were achieved in co-operation in the core assortment area. Table 3 shows three models, with successes in turnover, costs and process acceleration or time-to-market as dependent variables. Independent variables reflect the co-operation level achieved, namely in those activities that were accorded above-average co-operation potential (at least mean values over 3 in Table 2).

Reviewing the correlations, the results are as expected. The improvement achieved in turnover indicates a positive correlation to co-operation activities in market analyses, sales support, collection development, and sales floor management, to name but—the four highest coefficients. The cost improvement correlates positively, among other things with order and distribution management, sales floor management, as well as stock and distribution management. The time-to-market and process acceleration point to a whole series of correlations, but none are dominant. Both market-oriented and supply-oriented aspects are relevant to improvement, which is an indication of substantial complexity in co-operation activities. The linear multiple

regression analyses lead in all three models to significant solutions in terms of the improvements achieved. On the other hand, the quality of the regression models is not particularly good and only the dominant variables have any weight of explanation. The most complex aspect appears once again to be the relation to the time-to-market improvement, although only one variable displays significant t-values.

Table 3: Effect Models of the Levels of Co-operation Achieved—Pearson Correlations and Multiple Regression from the Joint Viewpoint of Retailer and Manufacturer

	Improvement achieved through co-operation in terms of ...					
	Turnover		Costs		Time-to-market	
Constant B	1.788 ⁺	--	1.387 ⁺	--	1.489 ⁺	--
Market analyses / trend recognition	0.164*	(0.300 [†])	-0.087	(0.068)	-0.033	(0.190*)
Selling of trends on the sales floor	0.002	(0.170*)	-0.017	(0.123 [#])	0.075	(0.226*)
Collection design	0.144 [#]	(0.248 ⁺)	-0.022	(0.058)	0.135	(0.214*)
Order management (selling / buying)	0.103	(0.175*)	0.236 ⁺	(0.385 [†])	0.195*	(0.261 [†])
Distribution management / logistics	-0.059	(0.096)	-0.019	(0.300 [†])	-0.078	(0.140 [#])
Stock / distribution management	0.060	(0.076)	0.121	(0.266 ⁺)	0.037	(0.186*)
Sales floor management	0.020	(0.220*)	0.180*	(0.292 [†])	0.103	(0.285 [†])
Sales (to final consumers)	0.063	(0.151*)	0.092	(0.138 [#])	0.098	(0.194*)
Sales support / promotion	0.275 ⁺	(0.288 ⁺)	-0.024	(0.085)	0.018	(0.093)

Legend: Significance levels [#] 0.10, * 0.05 and ⁺ 0.001. Standardized Beta and (in brackets) correlation coefficients.

Quality dimensions of the multiple regressions	R ² : .184 (n = 182) F: 4.33; sign. .000	R ² : .182 (n = 179) F: 4.20; sign. .003	R ² : .136 (n = 179) F: 2.98; sign. .003
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5. Discussion and Implications

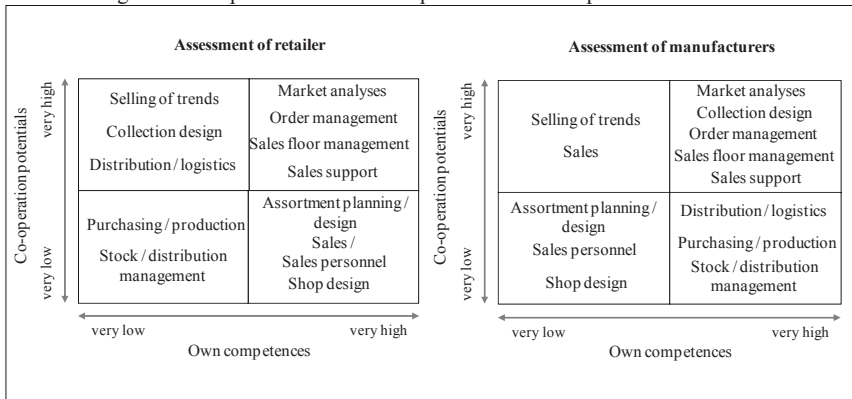
The present paper dealt with the analysis of co-operation options in the value chain from the viewpoint of autonomous middle-sized fashion retailers and manufacturers, and thus corrected the balance slightly against the growing dominance and discussion on the subject of vertically integrated firms. The value chain frame of reference and, in particular, the resource-focused approaches were used to structure the research questions and proved to be productive here. The implications of the empirical study results can be interpreted in three directions.

A comparison of the own competences identified and co-operation potentials, as estimated from the viewpoint of the retailers and manufacturers, permits a first generalization. Figure 1 shows a simple view (based on the 5-point scale results), which can be considered as having practical relevance for firms that may not have contemplated co-operation so far. Here, for example, we can identify the activities associated with low co-operation potential, which the retailers and manufacturers believe they can either conduct themselves or can be left entirely to their partner. Activities in the field with high competence and high co-operation potential by both partners could be used to multiply mutual strengths in co-operation. Where there is

little competence and high co-operation potential, co-operation activity could be used to compensate weaknesses. In addition, more supply chain-oriented activities are stated by the manufacturers as being core competences, similar to the above-mentioned ECR-related literature. Retailers, on the other hand, stated more market-oriented competences.

All in all, this generalization cannot be more than a basis on which to examine individual activities, not least because a factor-analytical examination of the structure is required. At the same time, the context was not taken into account, e.g. determinants of the variables mentioned in the sample description, such as distribution channels, share of retail brands, etc. For example, the manufacturers' own competence should increase if they move towards franchise stores or concession areas, in terms of sales floor disposition, shop design, or sales personnel planning. If activities expand in the never-out-of-shelf programs, the relevance of supply chain-oriented activities will probably increase. On the other hand the relevance of short term market analyses or trend recognition will probably decrease because—as in the ECR-management—dispositions tend to be re-adjusted.

Figure 1: Comparison of Own Competences and Co-operation Potentials



Many of the firms interviewed have so far realized a relatively low level of co-operation activities in their core assortment areas, contrary to their own assessments of the co-operation potentials. This draws attention to the constitution conditions for vertical co-operation activities or collaboration compared to other institutional arrangements, as only hinted at in this paper in connection with the selected theories. There are still many questions to be answered here because the findings show that vertical co-operation or collaboration for traditional, middle-sized fashion firms (can) only be viewed to a limited extent as a counter-development to vertical integration in the fashion industry today.

Finally, the connections between the co-operation levels achieved in the value chain activities and the improvements achieved in turnover, costs, and time-to-market were analyzed. On this basis it was possible to deduce some results relating to the success factors in co-operation activities. Accordingly, the findings should be interpreted as initial results in view of the fact that we did not focus only on companies involved in successful co-operation activities. A well-founded examination of success factors requires an investigation of the factors involved in initiation and realization of co-operation activities, such as the search for a partner, negotiations, as well as the structure, strategy, and cultural factors relevant in the management of co-operation activity. A review of the competence of the entire value chain embodiment would be an interesting topic. All in all, this study has its limitations and is explorative in nature. Limitations are not linked to the representativeness of the sample, but more to some methodology issues. Besides the basic evaluations and the lack of reliability and validity tests, the fact that it was not possible to interview dyads in all cases limits the research. As explained, no determining or moderating variables, such as firms' size, co-operation experience, degree of vertical integration, etc., were taken into account, however the authors hope that the results will provide some insights into the views and problems of mainly middle-sized fashion retailers and manufacturers.

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Food Retailing in Brazil: A General View

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Abstract

The aim of this report is to give an overview and present the main trends of the four largest and most important food retail chains in Brazil, an emerging country from Latin America. We took this specific approach motivated by the fact that Brazil is a major world food producer and consumer. Food retailing represents 70% of the total gross revenue of the top 500 supermarket firms and the sector is rapidly expanding in the country. In this study, we present the four largest groups and their strategies for the Brazilian market. Next, through a SWOT analysis, we discuss the main challenges for the food retailers.

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1 Introduction

Emerging countries are rapidly changing in terms of market development. The reason for this is the combination of large, young, increasingly educated and urban populations with greater levels of disposable income and natural resources, who are propelling newly emerging markets forward (De Barcellos et. al. 2014).

With a population of 200 million people Brazil is a major consumer of food; especially cereals, pulses, oil crops and meats. In Brazil, an estimated 40 million people have joined the ranks of Brazil's middle class between 2003 and 2011 (EXAME 2013) and the consumption of better food products, with higher added value, is a new reality in the country. Moreover, food retailing represents 70% of the total gross revenue of the top 500 supermarket firms and the remaining 30% are obtained from the selling of electronics, cleaning products and hygiene personal products, amongst others (FSRG 2009).

Therefore, not only the analysis of food retailing from a strategic perspective is important, but also that the organization of the supermarket sector affects mostly the marketing of food products.

2 Retailing in Brazil: A General View

The sharp increase in the Brazilian supermarket sector coincides with a phenomenon called "Brazilian economic miracle". This refers to a period of rapid economic growth, which occurred during the military regime between 1968 and 1972, with GDP growth rates varying between 10% and 15% per annum. This situation, despite the creation of jobs, accentuated social disparity, with increasing concentration of income.

History shows that until the decade of 1970, most of the food retailing in Brazil was done by family-managed, small-scale, specialized stores. In the earlier 1970s, the trend towards supermarkets intensified in large cities, while small-scale stores prevailed in small towns. During the 1980s, however, supermarkets increased their importance in food retailing in both, large cities and small towns, but—in case of small towns—most of the investment was still carried out by Brazilian national companies and local entrepreneurs.

After the entry of Makro, the first self-service wholesaler to be established in Brazil in 1973, the French company Carrefour was the first large international retail chain to invest in the country. Its arrival in 1975 represented a landmark in Brazilian retail industry. According to

FSRG (2009), beyond changing the relationship between retailers and consumers, Carrefour introduced a new pattern of competition that has changed the relationship between retailers and also between retailers and suppliers. With this new retail pattern, consumers had access to new and improved quality products as well as lower prices. Declining prices were possible due to scale economies obtained by large supermarket chains and their increased bargaining power vis-à-vis suppliers.

The 1980s and 1990s represented a process of concentration of the industry, with the incorporation of traditional businesses, as Paes Mendonça and Eldorado. During this period, there was great automation of retail outlets, with the application of new management tools such as EDI (Electronic Data Interchange) and ECR (Efficient Consumer Response), and the emergence of the Internet as a sales channel (Varotto 2006).

After Carrefour other foreign retailers started investing in Brazil, such as American Walmart and Portuguese Sonae in 1995 and Netherlander Royal Ahold in 1997 (Aguiar/Silva 2002). In addition, the largest national retail chain, Companhia Brasileira de Distribuição (CBD), merged with the French group Casino Guichard Perrachon & Cie. in 1999 to keep up with its transnational competitors. This market concentration and internationalization brought about changes not only in the market configuration but also in the way the Brazilian food marketing system operates. Rivalry among retailers has apparently brought benefits to consumers, but market power (especially monopsony power) continues to be a major concern (FSRG 2009).

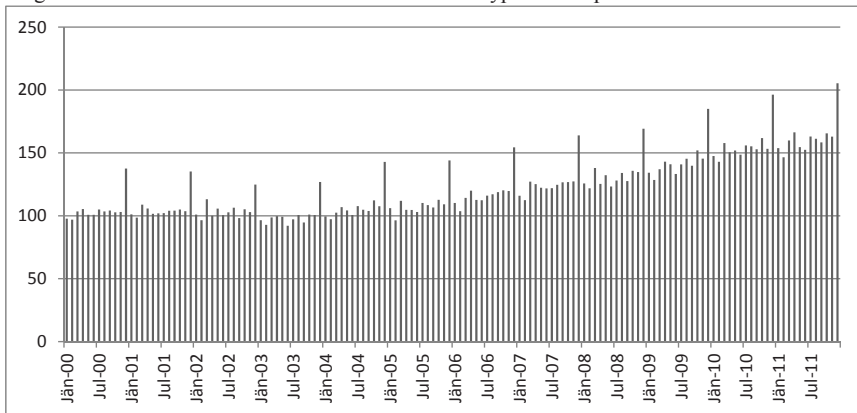
Later on, in 2000, there was a new trend of concentration in the Brazilian supermarket sector, especially due to the acquisition of the chains Sonae and Bompreço by Walmart in 2004 and 2005, respectively. Both chains were established in different regions of the country, highlighting the strategy of Walmart to have a strong presence throughout Brazil (Wilner 2006).

Therefore, in the second half of the 1990s and the 2000s, the retailers needed to go further. Great access to information, in particular via the Internet, made consumers more selective and discriminating, which made it necessary for the retailers to exceed the consumers' expectations in quality, price and service. Further, the e-commerce allied concepts of convenience and price, thereby creating new competitive pressures. On the other hand, the rush and pressures of the day-by-day routine stimulated consumers' self-indulgency. People started caring more about their personal lives and valued the experience instead of pure consumption. This led to an increase in demand for differentiated services in retail. In this sense, another perceived movement is the appreciation of time: people have less time for shopping, which increases the demand for convenience stores (easy access to products and services in residential and commercial areas), for shops with extended opening hours or shops open 24 hours and

also for stores with greater variety of products. Despite this, meeting customers' and shareholders' demands is increasingly difficult. This is because of strong competition, the growth of retail discounts on large scales and the high investments in bundled services, which make retail operating margins significantly lower.

As figure 1 shows the growth in sales volume of the Brazilian hyper and supermarkets has been crescent since 2003, which was the base year (2003=100) (IBGE, 2014).

Figure 1: Growth in sales volumes of the Brazilian hyper and supermarkets from 2000-2011



(Base year 2003=100). Source: IBGE.

According to the consultancy firm Thomas White International (2012), the Brazilian retail market is estimated to be worth about \$230 billion, driven mostly by domestic demand. Besides the 40% growth in GDP per capita during the last eight years or so, population distribution also plays a vital role in encouraging the growth of sectors such as retail. About 30% of the country's population lives in the 10 principal metropolitan cities. Sao Paulo brims over with a population of 18 million, while Rio de Janeiro has 10 million inhabitants.

Still, the consumption habits of this predominantly urban population are diverse: the lower income sections tend to spend more on essentials such as food and beverages, while those in the upper income bracket splurge on leisure, durable goods, as well as luxury items. The Brazilian market is probably the most internationalized among the BRICs, as the top 10 retailers corner almost 60% market share among themselves. Food retailers, apparel retailers, consumer goods makers, appliance retailers, and consumer staples companies form the backbone of the sector.

Thus, to survive in a highly competitive market is a big challenge for the Brazilian retailers. The sector is new, concentrated and its main actors are large chains with increasing power.

3 Characterization of the main Food Retail Groups

Although retail in Brazil presents various sub segments (e.g., food, clothing and footwear, vehicles), in this study we chose to focus on food retail. While Brazil's GDP grew by 0.9% in 2012 compared to 2011, Brazil's food retail grew by 8.3% in the same period, reaching revenues of \$81 billion¹. This sector represents 5.5% of the Brazilian GDP (ABRAS 2013). However, data from Brazilian Supermarkets Association (ABRAS 2013) reveal that the number of stores operated by the 500 largest companies in the sector grew by 8.8% in 2012 compared to the previous year, totaling 7,082 stores. These stores employed 606,149 people in 9 million square meters of sales areas (ABRAS 2013).

Given the evident growth and importance of the sector in Brazil, we will focus on the following three main groups operating in this sector, namely Companhia Brasileira de Distribuição, with revenues of \$19 billion in 2012, the French group Carrefour which earned \$10.5 billion, and Walmart Brazil with \$8.5 billion of revenues in the same year (IBEVAR 2013). In addition to these three groups, the Companhia Zaffari, which in 2012 had revenues of \$1.1 billion and ranks eighteenth in the ranking of the largest retailers with revenues in 2012 (IBEVAR 2013) will be analyzed. The inclusion of Companhia Zaffari was due to the innovative strategies and actions in the Brazilian retail industry and its ability to segment and differentiated market positioning of the other competitors in this market. According to Fonseca (2011) the four companies represent about 44.5% of the food retail market share in Brazil.

3.1 Companhia Brasileira de Distribuição

The Companhia Brasileira de Distribuição (CBD) or Pão de Açúcar Group started in the 1940s with the founding of the Pão de Açúcar pastry shop. In the 1960s, however, with the first units of supermarkets, the creation of the international division made the Pão de Açúcar Group expand their shares to Portugal, Angola and Spain. As a publicly traded company, the group was the first Brazilian retailer to issue American Depositary Receipts (ADRs) on the New York Stock Exchange (NYSE) in 1997, raising \$57.5 million (CBD 2013). Currently, the control of the company is held by the French Casino Group.

¹ All values are in euros, and were converted with R\$3,00 quotation.

The Companhia Brasileira de Distribuição, which ranks first in the retail sector revenues in Brazil, increased its revenues by 8.7%, which is more than \$1.3 billion, going from \$17.5 billion in 2011 to \$19 billion in 2012 (ABRAS 2013). In Brazil, the group operates in 20 of the 26 Brazilian states. Their strategy included the plan to open 646 stores until 2016, despite the plan of reducing the operating expenses to 17% of net sales till 2016, compared to the current 19.6 percent (EXAME 2013). Another strategic focus of the group is to invest in different mall formats, dedicated to customers with different lifestyles, which consequently is aligned to the perspectives to increase customer loyalty (CBD 2013).

In a ranking published by Deloitte (2013) CBD is ranked 34th globally in terms of revenues in the retail sector. In South America, the Companhia Brasileira de Distribuição is ranked first among retail companies with higher revenue, after the Chilean Cencosud and Falabella in second and third place, respectively (Deloitte 2013). Between 2006 and 2011, the Companhia Brasileira de Distribuição was the fourteenth retailer with the highest growth rate in a global ranking in which Australian Wesfarmers is ranked first (Deloitte 2013).

With about 151,000 employees, the Companhia Brasileira de Distribuição currently has 1,882 stores (IBEVAR 2013). Dividing the Group's revenues by the number of stores, each store generates \$10.1 million of revenues. Similarly, the average productivity per employee is \$126,332.

3.2 Carrefour

The first store of Carrefour in Brazil was established in 1975 in the city of São Paulo. In the course of its history in the Brazilian market, the Carrefour Group has adopted strategies of expansion through large metropolitan areas such as São Paulo and Rio de Janeiro, with brands like Carrefour Bairro and Atacadão. The Atacadão is a distinctive retail format that mixes characteristics of wholesale distribution with characteristics of self-service stores. Currently, Atacadão boosts the performance of the group with 92 stores throughout the Brazilian territory. According to Exame (2013) the group is about to open approximately 10 stores of Atacadão in 2014.

Being second place in the national ranking of revenues, Carrefour achieved sales of \$12.4 billion in 2011 and \$10.5 billion in 2012 (ABRAS 2013), which shows a variation of 10.4%. Globally, the Carrefour Group with \$86.7 billion is the retail group with the second highest revenues, (Deloitte 2013). According to Deloitte (2013) worldwide, the Carefour Group was confronted with a 9.8% decrease in revenues between 2012 and 2013.

According to IBEVAR (2013) the Carrefour Group has 236 stores in 21 Brazilian states, with approximately 70,000 employees. The group's revenues are second place in the country, with \$13.74 billion. The group's productivity per store is \$44.4 million, which guarantees the second place in the productivity per store in the Brazilian retail. When considering the productivity per employee, the group is ranked third in Brazilian retail, with \$149,866 per employee. Brazil is Carrefour's second largest market after France and keeps growing, so the group is moving towards further expansion.

The Carrefour group does not have shares listed on the Brazilian stock market, the BOVESPA (Bolsa de Valores de São Paulo), but Exame (2013) pointed out that the group contracted the banks Itaú BBA and Credit Suisse to prepare their Initial Public Offer (IPO). Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises. There are estimates that the company could be evaluated at \$5 billion in the BOVESPA (EXAME 2013).

3.3 Walmart

The Walmart group arrived in Brazil in 1995, and established the first Sam's Club store in São Caetano do Sul, São Paulo. In the same year, other four stores were opened up in São Paulo. With the acquisition of the Bompreço stores in the Brazilian northeast in 2004 and the acquisition of the Sonae Distribution in 2005, Walmart Brasil rapidly increased its expansion through the Brazilian territory. Because of a lower price positioning Walmart Brasil is present in 19 Brazilian states.

Walmart Brazil, which is placed third in the revenue rank, presented an increase in its revenues from \$7.8 billion in 2011 to \$8.6 billion in 2012, with a positive variation of 10.7% (ABRAS 2013). In the overall analysis of efficiency, the group showed an evolution of 6.4%. The increase in revenue per store was 5.25%. From 2011 to 2012 there was not only an increase in terms of billing checkout by 7.4%, but also in the sales area by 6.6% (ABRAS 2013). According to Deloitte (2013), the Walmart group has the highest revenue (\$342.6 billion) among retail groups in the world, which corresponds to 10% of the revenues of the 250 biggest retail companies.

Walmart has 547 stores, and 82,341 employees in Brazil (IBEVAR 2013). Further, in Brazilian retail Walmart occupies the twenty-fifth position of store productivity, with \$15.8 million of revenues per store (IBEVAR 2013). According to IBEVAR (2013) Walmart's productivity per employee is \$104,966.

In 2013, Walmart Brazil is passing through a reformulation process. After a reformulation in the administrative area, the group fired six directors and around 300 employees of the same area (EXAME 2013). This reformulation indicates a new step in search of efficacy to keep the investments done in Brazil operations competitive.

3.4 Companhia Zaffari

The history of the Companhia Zaffari starts in 1935 with the installation of a small store in the interior of Rio Grande do Sul, Brazil. The first self-service store was opened in 1965. In 1974, Zaffari brought an organizational innovation to the market: they opened a large store with dedicated sections to imported products, books and bazar (linen, towels, houseware etc.). The first hypermarket (under the brand Bourbon Hypermarket) was installed in Porto Alegre in 1991, and represented an important change in strategy and trend that reflected on the actual positioning of the group. In 2008 the group dedicated attention to São Paulo, with the opening of the first Bourbon Hypermarket in this large city, with currently more than 20 million inhabitants. The group operates in only two Brazilian states, Rio Grande do Sul and São Paulo.

The Group Zaffari has 30 stores and 9,551 employees (IBEVAR 2013) in Brazil and generated revenue of \$1.1 billion in 2013 (ABRAS 2013). Their store productivity is with \$37.8 million per store (forth in the productivity per store rank) (IBEVAR 2013) among the highest of the groups that operate in Brazil. In the ranking of productivity per employee, the group occupies the eighth position, with revenues of \$121,982 per employee.

According to Exame (2013), since the Companhia Brasileira de Distribuição was taken over by the French group Casino, the Companhia Zaffari became the bigger retail group with 100% national control. In 2012, the group Zaffari included a part of an investment fund in its list of investments, which owns property developments. This action diversified the business of the group.

After describing the four main food retail groups in the Brazilian market, a SWOT analysis aims to figure out the challenges the sector faces in such a dynamic, concentrated and competitive environment.

4 SWOT Analysis for the Brazilian Food Retail Sector

A SWOT analysis helps a company being better prepared for whatever it will encounter in the external environment and to better explore its internal capacities. For the Brazilian Food Retail Sector, in specific, we have identified the following aspects.

4.1 Strengths

It is widely accepted that worldwide consumers are becoming more conscious and informed. Retailers that have the strength to support new market demands, for instance, in terms of sustainability or desires of the emerging middle class, are therefore ahead of their competitors. This “new customer” likes to have a differentiated treatment, a unique service, as well as tailor made solutions for his/her demands. Further, in case of a company failing this client will not be quiet. Technology and social networks allows him/her to manifest his/her satisfaction (or dissatisfaction) immediately. In that sense, new retail formats are required. Retailers that can offer multichannel formats (such as physical and online stores, social media, television, mobile solutions etc.) have an advantage. As an example, the Pão de Açúcar Group (described earlier) has a multiformat structure that allows them to meet the needs of consumers from different regions and social classes. The group has supermarkets (Pão de Açúcar and Extra Supermercado), hypermarkets (Extra Hiper), electronic/home appliance stores (Ponto Frio and Casas Bahia), neighborhood stores (Minimercado Extra), auto-service wholesalers (Assaí), gas stations, drugstores and e-commerce stores (Extra.com.br, PontoFrio.com, CasasBahia.com.br). In terms of sustainability, the retailer was the first in Brazil to launch a new concept called “Green Pão de Açúcar”, a differentiated supermarket store format.

The 10 key initiatives of Green Pão de Açúcar stores comprise (Accenture 2008): the reduction of plastic bags usage, getting LEED certification to ensure efficient operations and the use of sustainable building techniques and materials, the increase of the number of sustainable, organic and natural products in the shelves, the development of a store/customer recycling programme, the strengthening of the sustainability culture among collaborators and suppliers, the reduction of paper use in marketing, the incorporation of sustainability in the shopping experience, the increase of selection of locally traded products, the intensification of the PA Kids Project (a program that fosters children’s conscious consumption and builds ties with these future customers), and the reduction of packaging material. Another strength of some Brazilian retailers is related to their supplier relationship management. The relationship of manufacturers with the distribution channel is an essential activity that is becoming more critical as retailing tends to concentrate in large specialized companies. Relationship marketing with wholesalers and retailers can be a valuable tool if used appropriately.

For instance, Zaffari was the first supermarket chain in Brazil to establish a contractual relationship with beef producers, aiming to supply their consumers with top quality beef. The partnership with the Brazilian Angus Association started in 2004 and until today the brand “Zaffari Angus” is on the market. The brand is a successful case study in the Brazilian retail market, because during these 10 years a quality assurance scheme guarantees eating quality to local consumers. From three stores being supplied in the first year (2002), the brand is currently offered in all 30 stores, including the one located in São Paulo (Ferreira/De Barcellos 2006).

4.2 Weaknesses

A possible weakness of the sector may be the difficulty of adapting to new consumer demands, especially the multi-connected ones. Consumers increasingly value experiences rather than ordinary shopping. Mobile and GPS technologies allow consumers to preview their purchases. This, however, requires retailers to adapt to this demand of the market and to invest in technologies that support this interaction with real-time information.

Understanding the retail business as a shopping experience goes beyond the virtual environment. Many businesses invest in settings and interactivity in physical stores. On the one hand, investments in technology and ambience at the point of sale can provide immersion experiences with the store; on the other hand, there is the need for constant renewal and update. Since technological advances occur ever more rapidly, the retail investments tend to happen in increasingly shorter periods of time. This also requires that the stores have more mobility and flexibility for quick changes. In Brazil, most of the stores are traditional and may be lacking the opportunity to innovate in ambience.

Already a reality in the retail world, especially in the U.S., the self-checkout brings a number of advantages to businesses, particularly in relation to cost. While in other markets the self-catering is found in many industries, such as gas stations, dry cleaners and hotels. In Brazil, for instance, this culture is almost inexistent.

4.3 Opportunities

As the fifth largest country of the world, and the largest Latin American economy, Brazil presents a lot of opportunities in several sectors. Specifically in the food retail sector, there are many opportunities for new entrants. We draw attention to two main opportunities: (1) increase of the consumption power for citizens and consumers of lower social classes and (2) acceptance of private label products.

In the last decade, the impressive growth of the base of the pyramid market segment stands out. According to Neri (2010), in the period from 2003-2008, more than half of the UK population was incorporated into ABC classes in Brazil, which leads to 94.9 million Brazilians who are the new middle class, which equates 50.5% of the population.

In this scenario, the ABC classes stand out in the consumer market, with a consequent reduction of D and E classes, i.e. a reduction of poverty and income inequality, according to the publication *Brazilian Economy in Perspective* (Ministry of Finance 2012). In 2011 the C class represented 100.3 million people and according to IPEA's projections in 2014 class C will represent about 59% of the population (115.2 million people), and classes D and E 53.8 million people. This scenario projects an increase in income of 6.5% per year, with the consolidation of these forecasts point to increasing power of consumption of the base of the pyramid in the Brazilian market. Ferreira et al. (2013) found that in Brazil, people from high and low fields of income differ in terms of savings behavior. Specifically, the authors found that people with high income have more concerns for saving money than people with low income.

According to Prahalad (2005), the low-income consumers have a large consumption potential, due to the large number of the world population that has a possibility of gradual economic and social inclusion. This phenomenon intensifies in emerging countries such as Brazil.

The consumer oriented towards the base of the pyramid should be approached differently from the wealthy classes. Prahalad (2005) mentions that an effective approach to these consumers goes through an innovative vision without the repetition of old and worn solutions used in traditional markets. Still, universal or homogeneous solutions are not the best way to address these markets, as each country in which this phenomenon occurs has its own characteristics, which requires solutions to be specific in terms of various segments of the base of the pyramid (Pralhad 2005). Brandão and Parente (2012) mention that Brazilians' low income class has different behaviors and attitudes compared to the high income class (e.g. these people are more familiar with high levels of crowding in stores than subjects with high income). Nogami et al. (2013) mention that there is a need for innovation in retailing to the low income classes. The authors suggest that incremental innovations on services and products may be the way to (enter?) this large market.

According to the publication of the Ministry of Finance of Brazil, *Brazilian Economy in Perspective* (2012), by 2020 Brazil will be the 5th largest consumer market in the world, with an estimated household consumption of \$1.2 trillion. This is the result of the improvement at the level of income in Brazil over the years and a big factor as a stimulus for new investments.

To Nogami and Pacagnan (2011) the consumers at the base of the pyramid are reality in Brazil and present many challenges to overcome, but also offer an opportunity for companies and new businesses, including those related to food retailing.

Another opportunity that new entrants in the Brazilian Retail sector may explore is the use and communication of the private label products. In a study from ABRAS (2013) the private label products are present in 22.4 million of Brazilian households. Consumers indicate that beyond the perception of better quality, products that are new for most of the Brazilians. This is especially true for those who have gained purchasing power in recent times, and who, of course, do not want to lose it (ABRAS 2013). According to Associação Brasileira de Marcas Próprias e Terceirização (ABMAPRO 2014) in Brazil there are 64.242 products with private labels. The segment with higher growth is the segment of organic foods, with 62% growth between 2010 and 2013. The own brands represent 4.9% in the value trade in the Brazilian market.

Silva et al. (2012) found that in Brazil the store image, their cleanliness and organization as well as greater knowledge and familiarity with the store provided through the use of communication tools and the level of product quality are the factors that influence the willingness of consumers to buy as well as the trust in the store's own brand the most. Serralvo and Stender (2010) mention that the companies adopt the own brand strategies to achieve customer loyalty, increase incomes and sales, increase the negotiation power with supplies, broaden the choice set in the store, and establish long standing relationships with suppliers of the products that are labeled with the store brand. According to ABMAPRO (2014) confidence and quality are more important for Brazilian customers than the product price.

It is important to mention that even among consumers who buy private label products in a retail chain and don't like them, 66% continue to buy other products of the same chain, 21% continue to buy products of another chain, and only 13% stop buying (LatinPanel / ACNIELSEN 2005).

All of the top 10 Brazilian food retailers use their own label strategy in the Brazilian retail sector. Besides adopting the strategy of own brands, companies are increasingly trying to target their products. The Grupo Pão de Açúcar created the Tael, a brand focused on the segment of people concerned with their own well-being. In the same segment, Carrefour has the brand Viver that includes light, diet, organics and functional products.

Adopting the strategy of own brands in this market can be an opportunity to reach customers unreached till then by traditional products and also to align the company's position with the

positioning of the brand itself, influencing the perceptions of customers and their buying and repurchase intentions.

4.4 Threats

Although the Brazilian market presents some opportunities for the food retail sector, there are also threats that may hinder the installation of new companies and even the operation of existing companies. Facing this opportunity, we selected two main threats to this sector in Brazil: the influence of the government on economy and the presence of small retail stores.

The governmental control permeates many aspects that have strong direct relationships with revenues and operations of retail organizations in Brazil. Specifically, Brazil's policies such as controls for currency fluctuations, inflation, price instability, energy policies, the rise in interest rates, and changes in tax legislation may pose threats to a healthy progress of companies.

Alencar et al. (2013) studied the projections for the Brazilian exchange rate. They found out that a possible alternative to further internationalize the economy involves the devaluation of the national currency, the Real, against the Dollar, thereby increasing exports and the subsequent insertion of country on the global stage. However, this practice can boost the country's revenues. It can also force particular attention to the international market, leaving aside policies to stimulate domestic consumption, which can harm the retail activity. Moreover, Munhoz (2013) mentions that the capital control in the country, and consequently changes in exchange rates, are characteristics of developing countries, which use these policies to reduce the external vulnerability of the economy in times of crisis, as occurred between 2007 and 2008.

Although the control of exchange rate changes may represent a search for the economic stability of the country, Santos et al. (2013) mentioned that political aspects and interests of certain groups can exert significant influence on definitions of goals and policies adopted by this control. Given this factor, the entrance and also the continuity of international retail companies may suffer with the instability of the Brazilian political definitions.

Regarding inflation, the government targets (BCB 2014) refer to an inflation rate of 4.5% per year until 2015. However, in the last three years the Brazilian inflation has exceeded the target by 6.5% in 2011, by 5.84% in 2012 and by 5.91% in 2013. Since the beginning of this century, the Brazilian average inflation rate was 6.48% per year, and the regression line has a negative slope of -0.25%, suggesting a stable index.

According to the General Market Price Index (in Portuguese, Índice Geral de Preços de Mercado - IGP-M), measured by the Getulio Vargas Foundation, which identifies the evolution of price levels, there is a large variation in the increase or decrease of the product prices in Brazil. This index presented ranged from -1.71% (2009) to 25.30% (2002) in the last decade. Since the beginning of the century, the IGP-M had a cumulative average of 8.38% per year and no regression slope (-0.006). This index is also accompanied by the consumer price index that in the same period presents an average variation of 5.62% per year, evidencing the average growth of prices charged to the final consumer in Brazil.

Although the government signals that interest rates should be reduced in Brazil, in the last four years (between 2010 and 2013) the interest rate ranged from 7-12% with an average of 9.55% (BCB 2014). This reveals that although the development of the country is evident, the high interest rates charged do not encourage the generation of new businesses and the consolidation of investments in business, but encourage a large resource demand for more solid investment with lower risks.

Apart from the government influence, the Food Retail in Brazil is also threatened by the presence of many small retailers, located near the consumers' homes. According to research by ABRAS (2014) in Brazil, 47% of the active establishments in the Brazilian food retail market are micro businesses with annual revenues between \$20.000 and \$120.000, and 38% are small businesses with annual revenues between \$120.000 and \$1.2 million. While a large retailer has bargaining power vis-à-vis suppliers, buying large volumes directly from the industry, small retailers without this purchase condition operate through wholesale distributors.

However, according to Filho et al. (2006) a phenomenon that has empowered small food retailers is the organization in collaborative networks that increases the bargaining power of the retailer vis-à-vis suppliers and creates a chance to compete with large retailers in price and variety of products available to customers. According to the authors, in 2000, there were 60 food retail chains in Brazil, with revenues of approximately \$700 million. In 2006, this number grew to 150 networks, with annual revenue of \$3.5 billion. Therefore, according to this data, in six years there was an increase of 150% in the number of networks, and of 407.5% in sales.

The strength of the neighborhood supermarket seems to be the fact that they are close to customers, enabling them to better understand the structure of values and culture of the customers. Furthermore, they can develop a closer and relational approach, offer sales personalization, due to the low flow, and satisfy the consumers' desire of convenience.

According to Souza (2009) an explanation for the maintenance and expansion of small retail is also, like in the United States, in the large territory and population dispersal in the country, which means that small businesses do not have direct confrontations with large retailers.

Finally, both government interventions and the share of small retailers can become threats to the operation of large companies in the food retail market in Brazil, and may deserve attention from retailers that operate in Brazil's Food retail sector as well as from new entrants to the Brazilian market.

5 Perspectives

The analysis presented here does not reveal very promising scenarios for the Brazilian retail, since we have identified threats to the operation of both large and small companies. Yet, we believe that there is still a large market space to be discovered. To fill this space, some aspects can be important for companies to differentiate them from their competitors: to offer a differentiated service for low income consumers at the base of the pyramid, to strengthen the relationship with customers (loyalty strategies), and to provide integration between the physical and online environment.

The low-income consumers, according to Prahalad (2005), provide a huge consumption potential. There is a large number of the world population that has a possibility of gradual economic and social inclusion. This phenomenon is more intense in emerging countries such as Brazil. Christopoulos and Ferreira (2012) highlight the need to understand low-income subjects, because their self-perception has an impact on their purchasing behavior process.

This vast market presents an opportunity for companies operating in consumer markets, among them those related to retail services. However, it is also a challenge, because according to Aguiar, Torres and Meirelles (2008) low-income consumers present behaviors, habits, values and aspirations different from consumers with higher income.

Loyalty has been the subject of several studies and on several occasions been considered as antecedent of organizational performance (Rust et al. 2001; Woodruff 1997). This performance may be due not only to an increase in revenue, but also caused by the reduction of maintenance and attracting customers costs, thus promoting an increase in profitability (Reichheld/Sasser 1990). Changes in customer loyalty can affect the profitability of a company in different ways, and therefore cannot be neglected.

Since the Brazilian retail market is quite large, there is a lot of space for new entrants. However, loyalty programs could impose barriers on new entrants. There is a gap in terms of the service of the actual companies that operate in the Brazilian market. These companies focus on mass actions and not on segmented or niche strategies. The actual focus of established companies on the mass market reveals a gap for new companies that propose different services and communications. Developing strategies to increase the proximity between a company and the consumers, and establishing efficient relationship marketing policies could provide an opportunity for new entrants in this market.

In the Brazilian retail market it is increasingly difficult to separate the physical store and the virtual environment. Consumers want an experience with the brand of integrated retailer, or else, want to view the information on the internet and experience or buy the products in the physical store. The customer does not differentiate between online, mobile or physical purchases in the store. Because the internet use of low income subjects has increased, online activities of retail companies such as websites, blogs and social networks become more and more important. The companies strive for a close relationship with their customers, and the internet is a good way to establish close relationships with instantaneous communication.

In that sense, according to Sorrentino (2012) a successful retailer is defined by three elements: clear positioning and value proposition, relevance and consistency of implementation. Stores can create value and attract consumers based on rational, emotional or hybrid attributes and we see successful retail chains positioned in different ways. In addition, the inevitable integration in the digital world increases the degree of complexity and challenges retailers to rethink their ways to communicate, relate and sell.

For the authors, in specific, food retail is the most mature and competitive sector and the sector goes through globalization and consolidation worldwide. We see an increase in the penetration and strategic use of own brands, a move towards diversified formats, increases in the appeal of convenience, proximity and solutions for consumers, increases in the penetration of discount formats and the use of technology to improve relationships with consumers and suppliers. In this context of extreme competitiveness, new formats—and developments in traditional formats—bring new opportunities for business. Sorrentino (2012) gives some examples that apply to Brazil as well:

Digital channels and omni channel

Increasing penetration of digital channels is inevitable. However, the biggest challenge for retailers is the synergistic integration between physical and digital channels, looking for ways to better serve the customer and enhance the relationship with this brand.

In Brazil, Santa Catarina Angeloni network offers online shopping and pickup at the store, also available on a mobile platform via cell phone. In European and North American supermarkets the use of self check-outs, personal shoppers and self-scanners is growing, but this format is still incipient in Brazil, although there are opportunities for further development. In effect, instead of multiple channels, omni channel seems to be the future, since a single channel can have multiple touch points, delivering a completely seamless and consistent experience for customers.

Own brands

In mature markets, penetration of private labels ranges from 30 to 50% of total sales. In the UK, Marks & Spencer was a pioneer in food operations with 100% of their food supply using own brands. The chain's greatest merit was to position the store as innovative, differentiated and sophisticated, which contradicts the origin and some stereotyped models of own brands of the past. In Brazil, Pão de Açúcar operates with the same philosophy of quality through their own brands Taeq and PA Club.

New focus on convenience and neighborhood stores

In several markets population growth is slowing down, families are "shrinking", consumers are aging and we see urbanization and increasing cities, women working and a continuous pressure on time. The result is an increased frequency of visits to the supermarket, reduced average spendings, valuation of neighborhood stores and search for food solutions. For instance, in the United States, the drugstore chain Walgreen's is expanding an urban format derived from its New York flag Duane Reade that integrates pharmacy, supermarket, deli, convenience, boutique cosmetic and beauty, cafeteria, snack bar, and salon, manicure and medical clinic. In Brazil, the supermarket chain Zona Sul from Rio de Janeiro operates small neighborhood stores with ample assortment of exclusive products and pizzerias for consumption in the store.

Gourmet

The appreciation of the cultural, sensory and valuation aspects of wine and gastronomy innovative positioning allows operation even in highly competitive markets. This is the case of the Eataly concept born in Italy and replicated in Japan and New York. It is an integration of product, consumption, experimentation, discovery and culture of the local cuisine and regional specialties from Italy. Another example is the American chain Whole Foods that combines gourmet and ample supply of ready to eat natural, organic and healthy food model. Small Brazilian chains like Perini, Verdemar or Hortifruti established with success in markets saturated with conventional formats of super and hypermarkets by their differentiation and innovation. In Brazil, consumer spending on food away from home accounts for over 30% of the

total. Spendings on food away from home is higher, however, than in France, Germany and Italy.

6 A final remark

Finally, we need to acknowledge that despite increasing globalization, concentration and competition, food retailing is still a local game. And it must be played store by store. Scale, technology, logistics and access to capital (both financial and social) generate competitive advantages. However, sustainable and profitable success is only achieved when there is consumer understanding, and a relevant proposal for value and quality in the execution of the operation. There are clear opportunities in the Brazilian food retail for innovations in formats and channels, aiming to create more value for the customers.

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Retailing in New Zealand: Where Are We and Where To Next?

Andrew Parsons and Helene Wilkinson

Abstract

This report provides a description and commentary on the current state of retail in New Zealand. Following the introduction of New Zealand as the retail space, we present a dichotomous perspective of retail themes apparent in the New Zealand market. We then turn our attention to key categories that help form the New Zealand retail landscape, including supermarkets, department stores, fashion stores, online retail, and hardware. We also present a brief commentary on the burgeoning café culture in urban New Zealand. We conclude the discussion with an analysis of where we think New Zealand retail is headed, based on where it is now, and what is changing about New Zealand.

Keywords

New Zealand; current retail market; retail categories; future retail

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1 Introduction

In this paper we take the approach of describing the current situation in the New Zealand retail space, and then providing some thoughts on where New Zealand retail may be heading. In doing so we draw upon some of the inherently unique aspects of the New Zealand retail context, such as location, geography, population characteristics, and regulation, and suggest a future that has parallels with many western countries, but has its own New Zealand flavour.

Located in the Southern hemisphere, New Zealand is a geographically isolated nation with a population of approximately 4.5 million people. Comprised of two main islands covering 270,000 sq km (slightly larger than the United Kingdom), it is located diametrically opposite Spain on the globe, with a climate similar to the UK. The largest city, Auckland, is located in the top half of the northern island and contains just over one third of the population; it also has the largest Polynesian population in the world. A long, thin country, the population is largest in the north and becomes sparse in the south. There were 32,972 retail outlets in New Zealand as of October 2012 (Statistics New Zealand, 2014) with 36.4% of those stores located in Auckland. As at 2012, the total number of people employed in retail was 194,150 (Albertson, 2013). Retail sales for the year 2013 totalled \$72.7 billion (Statistics New Zealand, 2014) or just over \$16,000 per head of population, and retail sales have been steadily growing over the past decade—see table 1.

Table 1: Retail Sales Growth

12 Months Ending	Total Retail Sales \$ m	% Change on Prior Year	Index (year 2005 = 1,000)
Dec 2012	70,300	+3.7	1,255
2011	67,800	+4.1	1,211
2010	65,100	+3.7	1,162
2009	62,800	-0.8	1,121
2008	63,300	+0.3	1,130
2007	63,100	+6.2	1,127
2006	59,400	+6.1	1,061
2005	56,000	+6.5	1,000

Note: The above includes all retail categories, including the motor vehicle sector, cafes and restaurants, hotels, accommodation etc.

Source: Retailers Association—2013 Retail Market Analysis

Whilst still a relatively young nation (less than 200 years old), New Zealand was founded on trade; as a result retailing has formed an integral part of New Zealand's development since it was first colonised. It is an agriculturally based export nation, but has a low manufacturing base and relies heavily on imported goods for much of its non-food retail.

Table 2 shows the degree of spread and concentration of selected categories in New Zealand retail, as well as total outlets (for those unfamiliar with New Zealand geography, the list of provincial areas in the first column essentially goes from the northernmost area of New Zealand to the southernmost area). The pattern that emerges from table 2 forms an integral part of the theme discussed in the next section—that of a New Zealand which has two sides to its retail.

Table 2: Geographic Spread of Selected Categories and Total Retail Outlets

	Supermarkets/ Grocery	Department stores	Clothing	Furniture	Appliances + electrical	Chemists	Footwear	Stationery, Newspapers	Books	Total Outlets (incl categories not shown)	% of total
Northland	122	9	94	56	57	37	9	35		1,115	3.4
Auckland	1,232	68	1,501	775	722	462	219	339		12,018	36.4
Waikato	298	25	349	166	144	100	55	92		2,989	9.1
B.O.P.	186	19	237	132	107	80	35	63		2,111	6.4
Gisborne	33	5	30	17	11	9	4	10		270	0.8
Hawkes Bay	105	9	120	77	47	51	16	30		1,076	3.3
Taranaki	88	6	89	50	37	33	17	33		795	2.4
Manawatu, Wanganui	169	15	149	96	81	58	17	63		1,555	4.7
Wellington	379	35	430	213	174	144	80	121		3,349	10.2
<i>Total North Island</i>	<i>2,612</i>	<i>191</i>	<i>2,999</i>	<i>1,582</i>	<i>1,380</i>	<i>974</i>	<i>452</i>	<i>786</i>		<i>25,278</i>	<i>76.7</i>
West Coast	35	2	19	12	14	6	5	8		263	0.8
Nelson	28	6	60	24	32	14	11	10		444	1.3
Tasman	28	3	30	16	13	17	4	8		3324	1
Marlborough	31	5	23	15	17	13	6	11		303	0.9
Canterbury	367	44	470	232	215	157	80	110		4,014	12.2
Otago	141	22	242	83	73	66	32	53		1,674	5.1
Southland	76	11	67	39	28	24	11	21		672	2
<i>Total South Island</i>	<i>706</i>	<i>93</i>	<i>911</i>	<i>421</i>	<i>392</i>	<i>297</i>	<i>149</i>	<i>221</i>		<i>7,694</i>	<i>23.3</i>
Total New Zealand	3,318	284	3,910	2,003	1,772	1,271	601	1,007		32,972	

Source: Retailers Association—2013 Retail Market Analysis

Regulation in New Zealand retail is also worth a quick mention. New Zealand deregulated back in the 1980's which for retail meant that the marketplace became a genuine market where there was no protection and no restrictions on imports. However, with that came the Commerce Commission to ensure that competition was maintained (so collusion is illegal at any level—price, supply, advertising, etc.). The Consumer Guarantees Act legally enforces basic consumer rights regarding the quality of products sold; and the Fair Trading Act requires the likes of product labelling, descriptions and advertising to be accurate. Currently stores are able to operate 24 hours a day, seven days a week (though few take advantage of the 24 hour option—in fact the vast majority of stores in New Zealand only opens 9.00 am to 5.00 pm). Depending on the licence under which the retailer has applied to the local government to operate, this may restrict the opening hours also; as the retailer is required to state their normal hours.

There is a minimum wage that applies across all industries including retail—currently it is NZ\$14.75 per hour. Recent employment law reforms have introduced a 90 day trial period during which a new employee can be dismissed without any reason. After that period it is very difficult to dismiss an employee; other than for misconduct, breaking the law, or other serious offences. Thus, technically, if an employee stayed in exactly the same job with the same firm they could retain that job for life. New Zealand also has no compulsory retirement age despite all New Zealanders receiving universal superannuation (old age pension) from 65; this meaning you can continue working AND receive the Government pension.

Another major regulatory impact in retail is the Goods and Services Tax, which mandates that every good sold attracts a 15% tax. This is collected directly by the retailer who, after deducting the tax paid on the goods to the manufacturer, pays this revenue to the Government. Local government (usually urban councils or rural district authorities) zone all land, which means that government in New Zealand determines where and what type of retail can be located throughout the country.

Note that many of the statistics quoted in this paper are sourced from Statistics NZ, which is the official New Zealand Government provider of such information, or the Retailers Association who have used Statistics NZ information. Statistics NZ uses the Australian New Zealand Standard Industrial Classifications (ANZSIC 2006) to determine inclusion of firms in a class (such as retail or sub-categories). Details on how this classification system works and is applied to retail can be found at http://www.stats.govt.nz/browse_for_stats/industry_sectors/anzsic06-industry-classification.aspx along with what types of firms are considered retail or not.

2 Retailing in New Zealand: A Dichotomous View

Due to New Zealand's size in both population (small) and geography (relatively large), there tends to be a polarisation across many aspects; from the way business is conducted through to social identity. The result of this provides the following descriptions of New Zealand's retail profile, which highlight this dichotomy.

2.1 Isolated and Regionally Split

New Zealand is a geographically isolated country. The nearest large market (Australia) is approximately 1,400 miles (2,250 km) away, meaning supply lines for imported retail goods are long. This is reflected in the limited choices available in retail, in comparison to many Euro-

pean countries. Coupled with a relatively small population for a relatively large country, New Zealand's retail sector has developed primarily in a few main cities with very limited options outside of these centres.

Geographically, supply lines are also difficult within New Zealand. While the vast majority of the population resides on either of the two main islands, rather than the over 700 islands that lie within 50 km of the main islands (Walrond, 2013). Both main islands are mountainous and hilly, meaning winding roads connect most urban centres.

In 2010/11 the largest city in the South Island, Christchurch, suffered two major earthquakes destroying much of the city infrastructure as well as killing 185 people and injuring many thousands. The retail sector in the region is still struggling to cope and is far from full recovery (Ballantine, Zafar, & Parsons, 2013). The difficulties with internal supply lines became very evident in the immediate aftermath of the earthquakes when the sole rail line and main road link to Christchurch were severed. Supplies of food and water initially needed to be shipped to the nearest port and then trucked by the army because the roads between the port and the city were unfit for regular transport supply.

Further to this, the top five countries goods are imported from are Australia, China, United States, Japan and Germany (Statistics New Zealand, 2014); all of which are a significant distance away from New Zealand. This has resulted in lengthy transport times and high delivery costs. Although New Zealand is an agricultural country, there is still a need to import off-season fresh fruit and vegetables which requires air freight; again resulting in high costs to market. Cars, appliances and other bulky retail items imported into New Zealand require ocean-shipping, also adding to time and cost for shoppers.

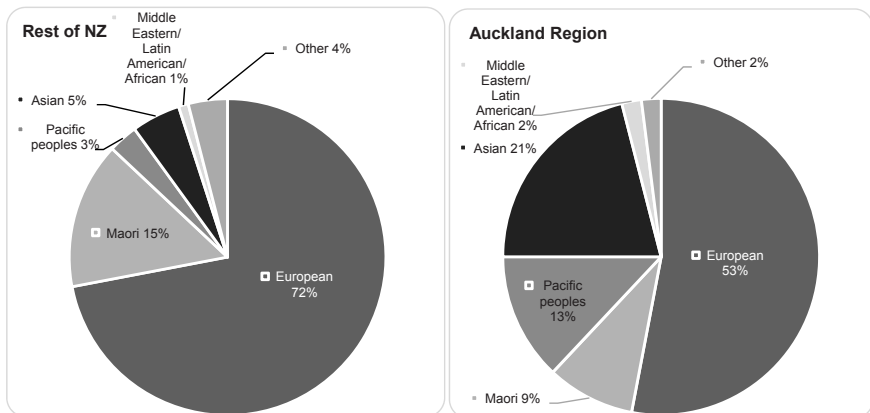
Fashion retailing is a category particularly affected by New Zealand's location. For local designers and production houses who source production of their designs overseas, this is not relevant. However, for fashion brands located internationally and for local stores importing fashion, the Southern hemisphere location means that the buying is done out of season. As such, it can take up to 30 months before the garments are in the stores in New Zealand; for the Northern hemisphere retailer buying 12 months in advance of a season, this translates locally as up to 30 months because the New Zealand buyer has to buy at the same time as the Northern Hemisphere buyer, but won't actually need the product until the following relevant season which is opposite to the Northern season. With environmental changes and instability of weather patterns worldwide, this buying cycle has further significant impact on the investment being made in fashion.

Within New Zealand, there is also a strong urban/rural divide and north/south divide. Just over a third of the population is located in Auckland, a city in the northern part of the North Island, concentrating a lot of the retail focus at one end of the country. In fact, the population of the entire South Island is less than that in Auckland. The implications of this for retail are fairly evident: in the south the retail is spread out, costs of supply are even higher, choice is somewhat limited. Whereas in Auckland there is a high concentration of core retail that is easily accessible to the majority of this population.

Outside of the city centres, retail is fairly standardised in serving basic needs; beyond those needs people generally have to travel to the city centres for non-essential, and particularly hedonic retail. Unlike Europe which developed retail through village markets, town squares and main streets, rural New Zealand retail developed a cut-down model of the city centre; a bare bones version, in towns created as farming centres with an emphasis on catering to the farming needs rather than semi-urban populations. One of the clear implications of this is the limited retail competition within these rural centres.

In contrast to the rest of New Zealand, the Auckland region is very multicultural with significant Maori, Polynesian, and Asian populations, which lends an international flavour to local retail pockets. Local markets reflecting the neighbourhood characteristics are common in many areas of Auckland. For example, the suburb of Mt Roskill is known for Indian retail; Howick has a strong Chinese retail presence; Northcote is fast becoming 'Little Korea'; and Browns Bay is an enclave of South African goods and stores. The Otara markets, which reflect the Polynesian proprietors' origins, are a popular weekend destination for locals and tourists.

Figure 2: Population Characteristics



Source: Statistics NZ (2014)

Figure 2 shows the quite distinctive Auckland profile compared with the rest of New Zealand, leading to a more cosmopolitan retail market servicing the multicultural population. Auckland has a population of approximately 1.4 million, compared, for example to Wellington (the capital city) with 201,000, and Christchurch (the main city in the South Island) with 340,000 (see figure 1 map for location).

2.2 Internationalisation

Few New Zealand retailers have internationalised; those that have are largely restricted to forays into familiar markets like Australia, the UK, and the US. Pumpkin Patch, a children's clothing designer and retailer, has successfully entered all three markets, with either their own stores or concessions with major department store chains. Michael Hill Jeweller has a successful operation in Australia and North America (notably Canada). Others, such as The Warehouse, have succumbed to their inability to manage operations far from home without the experience of having internationalised already. They struggle with transferring the culture and model of the firm, the operational techniques, and the consumer values and expectations (Dawson, 2007); the latter most probably because of the unique laid-back 'Kiwi' culture in which they have developed.

The majority of internationalisation has been one way—into New Zealand. Many of the Australian chains have found their way to New Zealand markets. Much like their counterparts in manufacturing, a branch office will be established in New Zealand but the head office is commonly in Sydney, Melbourne, or further afield. It has proven difficult at times for international retailers to manage New Zealand operations, as many fell into the misperception that New Zealand would be just like another state of Australia.

This approach has applied to shopping centres in New Zealand as well, with the St. Lukes Group of shopping centres (a subsidiary of the Fletcher group of building companies) having been bought out by Westfield—the international shopping centre conglomerate headquartered in Sydney, Australia—in the 1990s. In the past few years Westfield has been looking to divest local centres, having built a substantial portfolio in New Zealand, and it has renamed its local presence as Scentre NZ.

Many of the store brands commonly found in New Zealand main streets are Australian or international (e.g. a small selection of retailers found in most main shopping districts, all of which are non-New Zealand: Countdown Supermarkets; Cotton-on; Just Jeans, Typo, Lush, Billabong, Bras 'n Things; Esprit, Dotti, Kookai; Louis Vuitton; Peter Alexander; RipCurl; Supre; Suzane Grae; Temt; Valley Girl; Witchery; Kmart; Andrea Biani; Footlocker; Hush

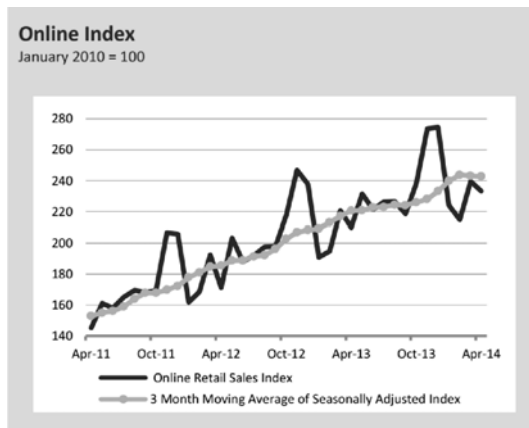
Puppies; Novo Shoes; Rubi Shoes; Strand Bags; Freedom Furniture; Harvey Norman; JB HiFi; Dick Smith Electronics; Smiggle; Kikki K; Body Shop; L'Occitane; OPSM; Specsavers). In recent years there has been an influx of Asian retail, though at present there is little concerted structure to the development of Asian-sourced retail.

Turning to the shopper, it is clear that while many New Zealanders are very international in their outlook, there are a substantial number who are very insular and ethnocentric. When considering food products, for example, it has been shown that New Zealand shoppers prefer local; if that is not available they would prefer goods from the culturally closest country (which conveniently happens to be Australia), and are still very wary of products from culturally distant countries, like China (Parsons, Ballantine, & Wilkinson, 2012).

2.3 The Rise of Online

Perhaps because of the isolation, the international outlook of many New Zealander's, the lack of variety apparent in main street shopping and the willingness to adopt new technologies and approaches to life, New Zealand shoppers have embraced online shopping. While still relatively small (various estimates put the online spend in 2013 between \$3.19 billion and \$4.0 billion (New Zealand Retailers Association, 2013)) at around 4 to 5%, it is both growing (see Figure 3), and increasingly shifting offshore (see Figure 4).

Figure 3. Indexed Online Sales



Source: NZ Retailers Association (2013)

Much of the online shopping in New Zealand is fast becoming mobile. 54% of New Zealanders own a smartphone, with 63% accessing the Internet on it everyday. More importantly, 33% have used their smartphone to make a purchase (New Zealand Retailers Association, 2013).

Figure 4. Domestic vs International Online Shopping



Source: NZ Retailers Association (2013)

According to Statistics NZ, 90% of New Zealanders have access to the Internet, and on average spend 12 hours online per week (2013). The New Zealand online shopper is likely to be tertiary qualified, employed, European, earning in excess of \$50,000 p.a., and likely to be aged between 25 and 44.

New Zealand retailers have been slow to adopt omni-channel retailing, and few have a genuine online presence, opting often to simply advertise or have a digital version of their mail-out catalogue / promotional flyer.

One of the difficulties that have faced New Zealand shoppers, particularly when buying from US-based stores, has been restrictions on or even the complete lack of international shipping by foreign retailers. Third-party providers have offered solutions, including New Zealand's own postal service, by providing shipping addresses in the US from which items can then be forwarded to New Zealand addresses.

In recent years there have been calls by New Zealand retailers for the Government to remove the current Goods and Services Tax (GST) exemption for the first \$400 of any items imported through online shopping, but this has been resisted by the current Government as too costly to

enforce. Local retailers see this as an unfair advantage to offshore retailers, but it is a commonly shared view amongst New Zealand shoppers that even the imposition of an additional 15% tax on most goods bought online overseas wouldn't make the goods anywhere near as expensive as those sold locally. More salient is the variety available online which is lacking in New Zealand stores, making the delivery costs acceptable to most.

2.4 A Note on The Way NZ Pays

New Zealanders are more likely to pay for shopping with a debit card (through Eftpos) or a credit card, than with cash. New Zealand leads the world in the use of Eftpos (Khan, 2011) and the adoption of chip-enabled credit-card, pay-wave, and smartphone transactions is fast. One of the implications for this is that traditional pricing techniques involving getting 'change' don't work nearly as well in New Zealand.

Also, retailers are adopting a long-term, interest free payment system to further facilitate purchasing, so of course this does not involve the need for cash. This in turn means a faster adoption of high spec technology because New Zealanders are shopping beyond their purchasing power, as this is made possible because of the way financial systems are set up. But, even at the daily purchasing level—a cup of coffee, a meal, a newspaper—these are all purchased using cards, and this means that shoppers are much less aware of how much they are spending.

3 The Focus and Main Players on the Retail Field

New Zealand has a full spread of retail categories, even though within each there may be limited options. Table 3 shows the number of outlets in each category and it can be seen that there are some categories more dominant than others.

Unsurprisingly, food is a major category and we discuss this in some more depth next. Department stores—particularly discount and national chains—are a feature of the New Zealand retail space; these too are discussed in more depth. Do-it-yourself (D.I.Y.) home improvement has long been an integral part of the New Zealand culture; accordingly this category is also briefly examined. Also, as fashion is ubiquitous in global retail, the state of New Zealand fashion retail is explored.

Finally, a recent phenomenon in New Zealand retail has been the growth of the café culture in New Zealand society, so this category wraps up the discussion in this section.

Table 3. Retail Outlets in New Zealand by Store Type

Store type	Number of Outlets	% Share	% Change on Feb 2011
Supermarket and Grocery Stores	3,317	10.1	+0.8
Fresh Meat/Fish/Poultry Retailing	660	2.0	-0.5
Fruit and Vegetable Retailing	484	1.5	+1.3
Liquor Retailing	941	2.9	+3.1
Other Specialised Food Retailing	964	2.9	+3.3
Department Stores	284	0.9	-1.4
Clothing Retailing	3,910	11.9	n/c
Footwear Retailing	601	1.8	-0.5
Other Personal Accessory Retailing	186	0.6	-5.6
Manchester & Other Textile Goods Retailing	504	1.5	-2.5
Furniture Retailing	737	2.2	-1.1
Floor Covering Retailing	482	1.4	-1.2
Houseware Retailing	280	0.8	-5.1
Electrical, Electronic & Gas Appliance Retailing	1,149	3.5	-3.0
Computer & Computer Peripheral Retailing	405	1.2	+1.5
Other Electrical Equipment Retailing	218	0.6	+10.7
Sports/Camping Equipment Retailing	1,177	3.6	+2.0
Toy & Game Retailing	223	0.7	n/c
Newspaper & Books Retailing	642	1.9	-6.0
Stationery Goods retailing	365	1.1	+1.4
Entertainment Media Retailing	118	0.4	-13.9
Marine Equipment Retailing	292	0.9	-1.4
Pharmaceutical, Cosmetic, Toiletries Retailing	1,271	3.9	+2.2
Antique and Used Goods Retailing	910	2.7	-5.3
Hardware & Building Supplies	1,447	4.4	-2.6
Garden Centre Retailing	437	1.3	-4.3
Flower Retailing	452	1.4	-3.8
Watch & Jewellery Retailing	584	1.8	-4.7
Car Retailing	1,638	5.0	-1.3
Motor Cycle Retailing	260	0.8	-8.8
Trailer & Caravan Retailing	101	0.3	-5.6
Motor Vehicle Parts Retailing	344	1.0	+2.1
Fuel Retailing	1,182	3.6	-1.1
Tyre Retailing	654	2.0	-0.6
Non Store Retailing	1,497	4.5	+3.1
Commission-Based Buying and/or selling	277	0.8	+1.1
Other Store-Based Retailing n.e.c.*	3,985	12.1	-3.8
Total All Retail	32,978	100.00	-1.0%

(*n.e.c. not elsewhere classified)

3.1 Supermarkets and Other Food

The New Zealand supermarket/grocery sector is dominated by two groups, who between them account for approximately 85% of the total supermarket and grocery store sales; \$16.7 billion in 2012 (Albertson, 2013). While reasonably sophisticated in their operations, especially in the back-end integration and supply management side, the main supermarket chains have changed little in basic format in the past 40 years.

While categories have matured or moved through cycles (e.g. home baking goods; prepared meals) and new categories have been introduced (e.g. beer and wine in the 1990s) the standard 1960's aisle-based grid layout has persevered, catering to the weekly grocery shopper rather than the single-meal shopper. While some of this can be attributed to the American-style suburban-shopper-with-a-car approach to grocery shopping in New Zealand and a lack of significant inner-city apartment residential populations, some of it can also be linked to the lack of genuine competition offering alternative styles of grocery shopping in New Zealand.

There are two main supermarket groups in New Zealand. Progressive Enterprises operates as Countdown, and is owned by Woolworths Limited (Australia). They have 165+ supermarkets employing 18,500 people. Countdown has four dry grocery distribution centres around the country, three fresh produce distribution centres, two meat-processing plants, and one seafood processing plant (Countdown, 2014; Progressive, 2014). Countdown also operates an online supermarket option and has a loyalty card scheme (Onecard) offering discounts and rewards for customers. Progressive Enterprises is the franchise co-ordinator for the Fresh Choice and SuperValue banner groups which add a further 56 stores to the business.

In various forms and under various monikers Progressive Enterprises has been in New Zealand for 85 years, and has had a history full of mergers, acquisitions, takeovers, and ultimately consolidation of most of the competing supermarkets in New Zealand; with the notable exception of its main rival, Foodstuffs. Progressive Enterprises (as Countdown) is a wholly owned subsidiary of Woolworths Limited—a company listed on the Australian stock exchange (ASX, 2014).

Foodstuffs, on the other hand, is 100% New Zealand owned and operated and is made up of two regional cooperatives operating three supermarket brands: Four Square, New World, and PAK'nSAVE. Foodstuffs has 680 retail and wholesale outlets throughout New Zealand, employing approximately 30,000 people. Foodstuffs North Island Limited supplies 98 New World, 40 PAK'nSAVE, and 205 Four Square owner-operated retail supermarkets. They also supply 55 Liquorland liquor stores, and wholesale food outlets Gilmours and Toops. Foodstuffs South Island Limited supplies 41 New World stores, 10 PAK'nSAVE, 77 Four Square, and 147 On the Spot convenience stores, plus 23 Liquorland and 18 Henry's Beer Wines & Spirits liquor stores (Foodstuffs, 2014).

Progressive Enterprises' Countdown brand is largely aimed at the suburban middle-class shopper, and Foodstuffs' New World brand would be the closest competitor in this market space. PAK'nSAVE is aimed at the price-conscious shopper, with bulk buys, no frills stores,

and their signature ‘pack it yourself’ approach—customers are encouraged to bring their own bags or boxes, or use discarded ones from the supermarket, for packing up their groceries.

The Four Square stores are a ubiquitous part of rural and small town New Zealand, with the stylised grocer (Cheeky Charlie) used as a logo becoming an iconic symbol in New Zealand folklore. While there are Four Square stores as local neighbourhood grocers in big cities, they are seen as the quintessential small-town retailer. Four Square was the first of the Foodstuffs brands, starting in 1925.

Foodstuffs are 50% owners of Flybuys, a loyalty card scheme connecting a number of retailers and services, including the national carrier—Air New Zealand. Rather than offering in-store discounts like the Progressive Enterprises’ Onecard, Flybuys accumulates points that can then be exchanged for rewards from a catalogue or converted to air-miles for Air New Zealand’s airpoints loyalty scheme.

Both Progressive Enterprises and Foodstuffs make extensive use of the shopping data captured at the checkout through the use of their respective cards; targeting special offers to shoppers, tailoring advertising, and working with suppliers to gain insights into shopper behaviour.

While these two groups have over 800 stores between them, there are 3,317 supermarket and grocery stores in New Zealand (Statistics New Zealand, 2014) with a further 3000+ food retailers (fresh meat, fish, poultry; fruit and vegetable; liquor; and other specialised food retail). A recent issue of note concerning food retailing in New Zealand is the perceived ‘obesity epidemic’. Food labelling laws in New Zealand are patchy; packaged goods require an ingredients list and most manufacturers also provide a nutrition guide (levels of things like sodium, sugar and fats per serving against a recommended daily intake), and a modified ‘traffic-light’ system like that promoted in a number of countries around the world is being considered. Nonetheless, outside of supermarket environments there is little guidance on the nutritional value (or otherwise) of food items. With the American fast food giants (e.g. McDonalds, Burger King, Dominos, Carl Jr, Wendys) present throughout New Zealand, along with fish and chips, Chinese takeaways, and a myriad of other ethnic fast food operations available in most towns and suburban areas, healthy choices have a lot of advertising clutter to break through in the minds of shoppers.

Progressive Enterprises and Foodstuffs are keen competitors. Comparative advertising, rarely seen in New Zealand, has become commonplace for both operators. Each has their own store brands; Pams (Foodstuffs) pitching at the mid-level shopper; Homebrand (Countdown) pitching at the budget shopper and Select (Countdown) being the competitor to Pams.

Woolworths Limited reported that the New Zealand division of supermarkets recorded \$5.7 billion in sales for 2013, with EBIT of \$236 million, on a gross margin of 23.3% (Woolworths Limited, 2013). Online sales grew by 32%, with ‘click and collect’ now offered at 43 stores. Onecard has 1.8 million members. Foodstuffs North Island reported \$6.1 billion revenue, with an operating profit of \$189 million (FSNI Annual Report 2014, p5). Foodstuffs South Island reported \$2.6 billion revenue, with an operating profit of \$256 million (FSSI Annual Report 2014). Operating profits are more prudent to consider because, as a cooperative, most ‘profit’ is then rebated to owner-operators leaving minimal group profit.

3.2 Department Stores

Department stores in New Zealand accounted for \$3.97 billion of retail sales in 2013 (Statistics New Zealand, 2014). There is an independent department store in each of the four main cities of New Zealand which position themselves as higher-end retail—Smith & Caughey (Auckland City); Kirkcaldie & Stains (Wellington City); Ballantynes (Christchurch); Arthur Barnett (Dunedin), though each has a small footprint compared to similarly positioned stores internationally.

Farmers is positioned as New Zealand’s leading fashion and home retailer, with 55 department stores in rural and city locations around the country. Owned by the Norman family, who also owns Whitcoulls (a 62-store book and stationery chain) and the Pascoes, Stewart Dawsons, and Prouds jewellery-store chains, Farmers has been in the New Zealand retail landscape for over 100 years. A key component of their success is the Farmers Finance Card which offers a credit payment option not just for Farmers, but many other stores including petrol stations and supermarkets.

During the 1980’s a new discount department store chain challenged the existing firms in that space. Called The Warehouse, it was modelled on the Walmart concept and quickly saturated and dominated the market. This caused its own version of the Walmart effect (Miller, Reardon, and McCorkle, 1999) in many small New Zealand centres, driving many independents out of business as they were unable to compete on price and variety.

The timing for The Warehouse was an almost perfect conflagration of events; with New Zealand deregulating the market, including opening up to imports from China and South East Asia; entering a difficult economic period following the 1987 stock market crash; and seeing an influx of immigration from the Pacific Islands and Asia. This combination, coupled with the high operating costs of existing New Zealand retail and the uncompetitive pricing of lo-

cally made goods, meant that New Zealanders were looking for cheap alternative products; something The Warehouse willingly provided.

The Warehouse went through some difficulties more recently, with ill-fated forays into the Australian market, inventory and supply chain management failures, and changes in senior management. Most recently they have bought the Noel Leeming Group (a chain of appliance and technology stores) which, along with the Warehouse Stationery arm of the business, has meant The Warehouse Group has 92 stores throughout New Zealand, and posted a net profit of \$72 million on sales of \$2.2 billion for the year ending July 2013 (The Warehouse, 2014).

A strengthening competitor to the general merchandise dominance of The Warehouse is Briscoes. Briscoes Group, which has 90 stores trading as Briscoes (homeware), Rebel Sport (sports and leisure equipment and clothing) and Living & Giving (upmarket homeware), had sales revenue of \$483.5 million for the year to January 2014, with a net profit after tax of \$33.5 million (Briscoe Group Limited, 2014). While The Warehouse has largely followed a traditional every-day-low-price strategy, Briscoes has taken a rolling sale strategy where different categories are on sale each week. This has proven popular with shoppers who now take advantage of the sales, especially with seasonal items.

The department (and discount department) store model has been popular with traditional, middle New Zealand but is increasingly under pressure from international niche market entrants. Farmers reinvented itself a decade ago with a modern, fresh look and approach to inventory, and have so far proven successful in the battle for middle-New Zealand shoppers. The Warehouse, who lost some direction in the early part of this century, is also looking to reinvigorate their presence in the market. The biggest threat to the one-stop shop approach of the department store, however, is likely to be international online sales (see 2.3. The Rise of Online). A new entrant to this retail space has been the chain store \$2 shops (and variants on this theme) which have targeted the very low-end merchandise sector.

3.3 D.I.Y. (Home Improvement)

New Zealanders have a reputation for do-it-yourself (D.I.Y.) when it comes to home improvement, though recent legislation around building codes has begun to erode the Kiwi ‘number-eight wire’ approach to doing things. While there are many building and home improvement supply stores around, the retail landscape is dominated in New Zealand by Mitre10 (who operate Mitre10, Mega Mitre10, and Hammer Hardware stores throughout New Zealand), and their smaller rivals Bunnings (owned by Bunnings Australia) and Placemakers (Fletcher Building Limited).

Mitre10 is a retail cooperative, Bunnings is a listed company and Placemakers is a joint venture franchise operation with each store operating as a partnership between a joint venture partner and Fletcher Distribution Limited; the retail arm of Fletcher Building Limited, one of New Zealand's largest building firms. Hardware, building, and garden supplies accounted for \$5.4 billion in retail sales in 2013. The introduction of the Bunnings chain earlier this century from Australia has shaken up the D.I.Y. market with aggressive marketing campaigns largely based on price competitiveness.

3.4 Fashion

The overall profile of fashion retail in New Zealand is comprised largely of mainstay chains predominantly out of Australia (see 2.2 Internationalisation) although there are some strong local performers such as Farmers, Hallenstein Glassons Holdings, and Barkers. In recent years, a strong performer has been a catalogue retailer who moved online and has now moved into bricks and mortar—Ezibuy. They have also started to expand into fashion homewares. There is also a tiny but burgeoning designer culture (e.g. Trelise Cooper, Karen Walker, Denise L'estrang Corbet (World)) taking shape in the New Zealand fashion sector.

There is an overabundance of low-end fashion retail targeting younger consumers and, at the other end of the scale, specialist independent boutique fashion stores targeting the more affluent. What appears to be lacking is the mid/high-end brands targeting middle New Zealand which are very available internationally (e.g. Gap, Forever 21, Desigual, Zara). If these brands are present, they tend to be within a department store or alternatively a single store offering within New Zealand.

At the time of writing, Topshop is in the process of opening a flagship (and sole) store in Auckland's main shopping precinct. This has caused a considerable degree of excitement amongst its target market; illustrating the lack of choice of international brands within New Zealand.

There is little assortment or variety in the styles of clothing. New Zealanders, and Aucklanders in particular, are renowned for favouring black/dark clothing or jeans and t-shirts which the local retailers support through their offerings. Whilst a casual look is their preference, to most overseas visitors, New Zealanders do not appear to be very fashionable or fashion conscious. That said, many young New Zealanders are aspirational in their fashion choices but cannot afford the international labels (Shergill, Rosmala, & Parsons, 2010).

In recent years there has been a surge of online fashion purchasing from overseas websites, such as Boohoo and Asos, or direct from overseas stores. In New Zealand, there is quite a degree of uniformity, not only in the competition offered in different centres, but also in the style of store and the fashion offer (Parsons, 2011). This, coupled with the similarity of many centres themselves (including shopping centres), leads many shoppers to complain that ‘everything is the same’. The majority of clothing retailed in New Zealand is manufactured in South East Asia and China with some new entrants from Mexico, India and Bangladesh.

New Zealand does not have a significant presence of luxury brands—fashion or fashion accessories—in the marketplace. There are not the icons of other international cities—Burberry, Prada, YSL, Chanel, Pierre Cardin, Dunhill, Rolex, etc.; if they are present it is just the branded product in selected stores, not the store brands themselves.

3.5 Café Culture

The café culture within New Zealand has taken some time to establish itself, but has gathered momentum quickly. Very much an urban phenomena it is now fully integrated into the local culture in cities throughout New Zealand. Unlike many countries, New Zealanders tend to shy away from international franchises and frequent their local independent café. There are certainly the international chains such as Starbucks, McCafé, Gloria Jeans and the Coffee Club, but the boutique blends/roasting companies—locally owned and operated—selling to the independent local cafes is the more typical approach. The way in which New Zealanders consume coffee is similarly a little different wherein preference for a ‘flat white’ as a smaller, stronger version of the better known ‘latte’ is the most common drink of choice.

To some extent what has happened is that New Zealand, long a “English-heritage tea-drinking nation’ has embraced but adapted the coffee culture to a locally supported creation that suits New Zealand tastes and social approaches. New Zealand is now 34th in the world for consumption of coffee per capita (ChartsBin, 2011).

4 The Next Generation

Given the nature of New Zealand retail as described in the previous sections, what might the future hold? Through the development of New Zealand retail to the current stage, there have been some clear themes. First, retail has served a social purpose, from creating social gathering spaces to providing an identity connectedness. However, the retail spaces of today are based on replicating the old methods of gathering; the shopping centre or mall was construct-

ed around the notion of a nominal ‘town square’. Over the past two decades malls like those of Westfield (Scentre) have also introduced entertainment precincts (cinemas, food courts, restaurants, etc.) but these no longer capture the social needs of modern society. The digital overload of living in an omni-channel world 24/7 is likely to mean the New Zealand shopper of the future seeks escapism through service-based recreational retail.

There is also a saturation of ‘middle’ retail in New Zealand, and as very little of this is experiential there is likely to be a rationalisation of the retail footprint and potentially the long term death of middle retail. The escapist shopper will seek the experiential variety and choice that is currently lacking in the New Zealand space. As prolific international travellers, New Zealanders will continue to increasingly demand greater variety and opportunity for unique retail experiences. At the same time, the multiculturalism of Auckland will continue to expand to the rest of New Zealand, demanding a cultural connectedness in local retail offers.

The socially and environmentally aware New Zealander is also likely to increasingly demand retail that is sustainable and environmentally friendly. Locally made and locally sourced, particularly for food and commodities, coupled with the café culture mentality, foretells a ‘village’ style suburbanisation with boutique retail, especially at the high-end specialist store space. This would be combined with a predicted active targeting by global retailers operating online and ‘show-rooming’ in New Zealand with international brands. Department stores in New Zealand are already under such threat, with the key independents surviving more as collections of branded concessions rather than the true department store of the past.

These developments suggest a ‘glocal’ approach to retail in New Zealand, most likely accentuated by the increasing rich-poor divide prevalent not just in New Zealand, but most western societies. Shoppers may source specialty goods internationally, but shop luxury necessities (high quality food, for example) domestically. Many of these decisions will be driven by the growing health consciousness of consumers, who are also less price conscious and more quality conscious.

The isolation of New Zealand actually helps in this regard—shoppers embracing the green approach to retail, consumerism, and lifestyle are shielded somewhat from the economic necessities driving the maintenance of the status quo in much of the rest of the world. The infrastructure required, for example, to move to an electric transportation model is largely in place and, as the reliance on oil is fed almost entirely by overseas imports, the cost benefits to the New Zealand consumer are enormous; this would lead to increased buying power for an economy that is looking to break the cyclical economic models of the past two centuries.

Similarly a shopping environment that allows the typical New Zealander to focus on activities they prefer rather than squander resources on items and activities increasingly deemed unnecessary would be seen as beneficial to New Zealand society, rather than economically costly. On top of this, New Zealand has put in place a compulsory retirement savings scheme (KiwiSaver) which means that New Zealanders will have an additional lump sum payment available to them at the age of 65.

The retail face of New Zealand in the next few years is likely to undergo dramatic change—not because of a catastrophic economic downturn but because of a renaissance in shopper and societal thinking and desires. New Zealand has a growing population, a healthy and resilient economy, and a progressive governance regime. In Auckland, the engine-room of the New Zealand retail scene, developments are being encouraged that will help transform the retail and societal landscape from transport through to housing density through to regulatory changes—all of which will mean a retail space that is concentrated, innovative, sustainable, and very Kiwi.

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