2 Retail Formats – Food

Retailers have various ways of meeting customer needs through organising and designing their retail outlets. The objective of this Chapter is to describe the different types of food-oriented retail institutions that represent different types of retailer strategies in selling their goods and services.

2.1 Types of Retail Institutions

From a managerial point of view, understanding the different types of **retail institutions** is important because they have a competitive impact on the retail business. Several types of retail institutions mirror retailer business operations. Thus, each type represents a specific retailing strategy.

Several systems of retail classification have been developed by governmental institutions in order to collect and analyse business data more effectively. One of the first classification systems was the **Standard Industrial Classification** (SIC) code, which was developed for the *US Census Bureau* in 1930 and uses special codes (special sets of numbers) to identify types of retailers (Ogden/Ogden 2005, pp. 88-89). This served as the basis for the further development of classification systems that are also applied on an international basis such as the **International Standard Industrial Classification of all Economic Activities** (ISIC) of the *United Nations*, the NAICS (**North American Industrial Classification System**) or the NACE (**Nomenclature statistique des Activités économiques dans la Communauté Européenne**) of the *European Union* (see **Figure 2.1**).

In these classification schemes, retailers are assigned hierarchical codes based on the types of products and services they sell. However, it has to be noted that retailers that sell the same category of merchandise do not necessarily compete directly. These classification schemes, therefore, are mainly used for data collection and statistical analysis to provide insight into the development of the various retail institutions at a national or international level. For retail managers, though, the more strategic aspects of the different types of retail institutions are of primary importance. Therefore, for **strategy development** and competitive analysis, the classification of retail institutions in terms of the characteristics of the strategies that retailers employ in selling goods and services is important. Such types of retail institutions are referred to as **retail formats**. Retail formats are specific configurations of the retail marketing mix that are maintained consistently over time (e.g. type of store design and atmosphere, merchandise offered, services provided, pricing policy, type of location, approach to advertising and promotion, etc.).

J. Zentes et al., *Strategic Retail Management,* DOI 10.1007/978-3-8349-6740-4_3,

Figure 2.1 NACE Codes - Examples

G - Wholesale and retail trade; repair of motor vehicles and motorcycles G47 - Retail trade, except of motor vehicles and motorcycles	
G47.1 -	**Retail sale in non-specialised stores**
G47.1.1 -	Retail sale in non-specialised stores with food, beverages or tobacco predominating
G47.1.9 -	Other retail sale in non-specialised stores
G47.2 -	**Retail sale of food, beverages and tobacco in specialised stores**
G47.2.1 -	Retail sale of fruit and vegetables in specialised stores
G47.2.2 -	Retail sale of meat and meat products in specialised stores
G47.2.3 -	Retail sale of fish, crustaceans and molluscs in specialised stores
G47.2.4 -	Retail sale of bread, cakes, flour confectionery and sugar confectionery in specialised stores
G47.2.5 -	Retail sale of beverages in specialised stores
G47.2.6 -	Retail sale of tobacco products in specialised stores
G47.2.9 -	Other retail sale of food in specialised stores
G47.3 -	**Retail sale of automotive fuel in specialised stores**
G47.3.0 -	Retail sale of automotive fuel in specialised stores
G47.4 -	**Retail sale of information and communication equipment in specialised stores**
G47.4.1 -	Retail sale of computers, peripheral units and software in specialised stores
G47.4.2 -	Retail sale of telecommunications equipment in specialised stores
G47.4.3 -	Retail sale of audio and video equipment in specialised stores
G47.5 -	**Retail sale of other household equipment in specialised stores**
G47.5.1 -	Retail sale of textiles in specialised stores
G47.5.2 -	Retail sale of hardware, paints and glass in specialised stores
G47.5.3 -	Retail sale of carpets, rugs, wall and floor coverings in specialised stores
G47.5.4 -	Retail sale of electrical household appliances in specialised stores
G47.5.9 -	Retail sale of furniture, lighting equipment and other household articles in specialised stores
G47.6 -	**Retail sale of cultural and recreation goods in specialised stores**
G47.6.1 -	Retail sale of books in specialised stores
G47.6.2 -	Retail sale of newspapers and stationery in specialised stores
	G47.6.3 - Retail sale of music and video recordings in specialised stores
G47.6.4 -	Retail sale of sporting equipment in specialised stores
G47.6.5 -	Retail sale of games and toys in specialised stores
G47.7 -	**Retail sale of other goods in specialised stores**
G47.7.1 -	Retail sale of clothing in specialised stores
G47.7.2 -	Retail sale of footwear and leather goods in specialised stores
G47.7.3 -	Dispensing chemist in specialised stores
G47.7.4 -	Retail sale of medical and orthopaedic goods in specialised stores
G47.7.5 -	Retail sale of cosmetic and toilet articles in specialised stores
G47.7.6 -	Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores
G47.7.7 -	Retail sale of watches and jewellery in specialised stores
G47.7.8 -	Other retail sale of new goods in specialised stores
G47.7.9 -	Retail sale of second-hand goods in stores
G47.8 -	**Retail sale via stalls and markets**
G47.8.1 -	Retail sale via stalls and markets of food, beverages and tobacco products
G47.8.2 -	Retail sale via stalls and markets of textiles, clothing and footwear
G47.8.9 -	Retail sale via stalls and markets of other goods
G47.9 -	**Retail trade not in stores, stalls or markets**
G47.9.1 -	Retail sale via mail order houses or via Internet
G47.9.9 -	Other retail sale not in stores, stalls or markets

Source: European Union 2011.

2.2 Theories of Retail Evolution

2.2.1 Overview

A number of theories explain the present structure of the retail industry and predict the future development of current and new retail formats. The **wheel of retailing** and the **retail life cycle** are two particularly important theories.

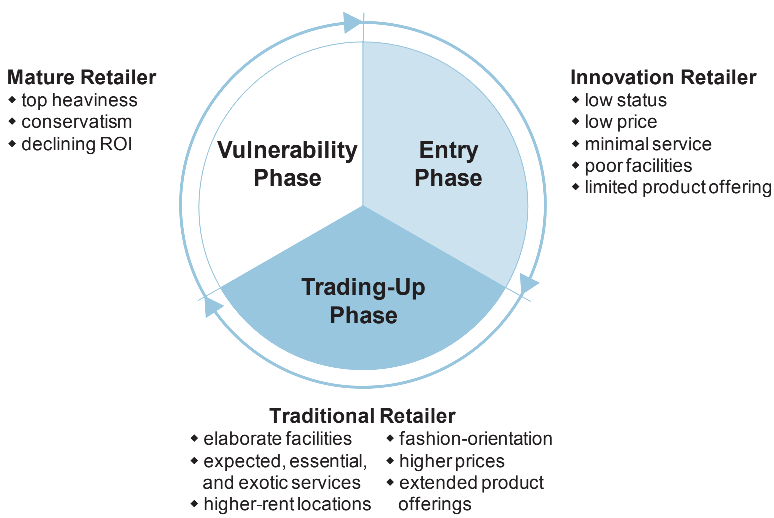
2.2.2 The Wheel of Retailing

The **wheel of retailing** (McNair 1931) is a well-established framework for explaining developments in retail institutions. The theory suggests that retail institutions go through cycles (see **Figure 2.2**). The rationale is that as low-end retailers upgrade their strategies to increase sales and profit margins, new forms of low-price (discount) retailers take their place in the market.

The **wheel of retailing** consists of three stages (McNair/May 1978; Berman/Evans 2010, pp. 124-126):

- According to the wheel theory, retail innovators often appear as low-price operators. Thus, the cycle begins with retail institutions starting off with **low prices** and **low service levels**.
- The second phase is called **"trading up"**. Retailers wishing to expand their businesses and attract more customers, enhance the quantity and quality of merchandise handled, provide more services and open outlets in more convenient locations. This leads to an increase in operating costs and prices and thus offers opportunities for new competitors to enter the market with low-price strategies.
- The third phase is characterised by an **increase in competition** in services of all kinds and by a convergence in terms of the marketing mix of retailers as they mature. They become vulnerable to new competitors that enter the market with low prices.

Figure 2.2 The Wheel of Retailing



Source: adapted from Brown 1988.

2.2.3 The Retail Life Cycle

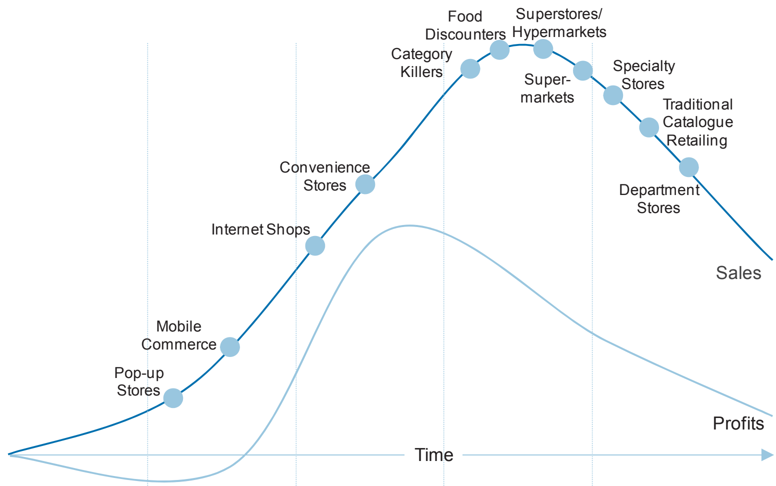
The concept of the retail life cycle refers to the succession of identifiable stages a retail format goes through over time (Berman/Evans 2010, pp. 127-129; McGoldrick 2002, pp. 21-23):

- In the **development stage**, the new format is introduced to the market. There is a departure from the strategy mix of existing retail institutions, as at least one element of the marketing mix is altered in the new format.
- In the **introduction phase**, sales and profits are low, but growing. Costs and risks are high because long-run success is not assured at this stage.
- The **growth phase** is characterised by the rapid growth of both sales and profits. Existing companies expand their markets and new competitors with the same retail format enter the market. Towards the end of this stage, growth acceleration begins to decline and cost pressure may emerge.
- The next stage is characterised by the **maturity** of the retail format, which is brought on by market saturation, in turn caused by a high number of firms in this retail format and competition from new formats. Sales growth declines and profit margins may have to be reduced in order to stimulate purchases. Once maturity is reached, the main goal is to prevent the business from declining and to sustain profit as long as possible.
- In the final stage **(decline)**, sales volume declines and prices and profitability diminish. Companies can try to avoid decline, for example, by **repositioning** the retail format, but many companies abandon the format altogether and start introducing new formats to keep their customers or attract new ones.

Figure 2.3 illustrates the characteristics of these five stages and indicates the stages in which present retail formats operate.

In the context of the retail life cycle, the phenomenon of **store erosion** (Berger 1977) is defined as a diminution in the appeal and ability of a retailing company to attract customers over time because of changes in the company’s internal and external conditions. As a selection process in a **dynamic environment**, new retailing formats that meet new customer needs render existing retail formats obsolete. In order to avoid decline and survive, retail companies must adapt to the changing conditions in the marketplace and **reposition** their retailing concepts.

Figure 2.3 The Retail Life Cycle



	Development Introduction	Growth	Maturity	Decline
Sales	low/growing	rapid acceleration	high, levelling off	dropping
Profitability	negative to break even	high yield	high/declining	low to break even
Positioning	concept innovation	special needs	broad market	niche
Competition	none	limited	extensive/ saturation	intensive/ consolidated

Source: adapted from Berman/Evans 2010, p. 128; Zentes/Schramm-Klein/Neidhart 2005, p. 34.

2.3 Formats in Food Retailing

2.3.1 Overview

Over the past few decades, food retailing has undergone substantial changes. **New competitors from general merchandise retailing** have entered the market by expanding their assortments and selling food. But traditional food retailers (in most cases) also carry merchandise outside their traditional lines, i.e. general merchandise, and offer other kinds of services. These developments indicate that it is difficult to precisely allocate retail institutions to either food or general merchandise retail formats. In this part of the book, superettes, conventional supermarkets, superstores, combination stores, hypermarkets and supercentres, convenience stores, food discounters, warehouse clubs and several non-store formats are presented. **Table 2.1** provides an overview of the characteristics of the most important retail formats.

Table 2.1 Selected Characteristics of Store-Based Formats in Food Retailing

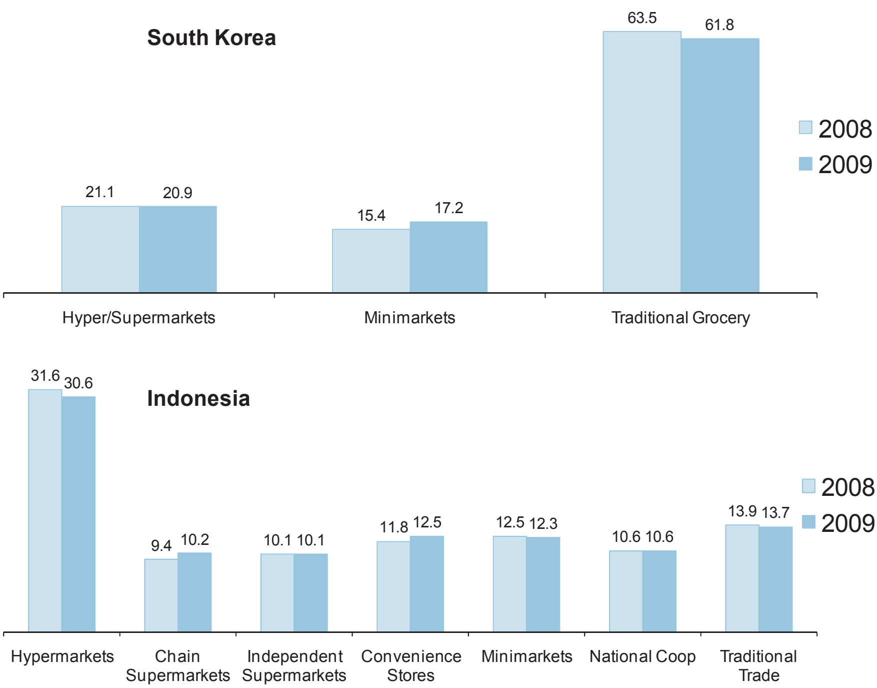
	Superettes	Conventional Supermarket	Superstore	Hypermarket	Convenience Store	Hard Discounter
Size (m²)	100-399	400-1,000	1,000-5,000	5,000-30,000	200-400	500-1,500
SKUs	20,000	20,000-30,000	30,000-40,000	40,000-150,000	1,000-3,000	700-1,500
Merchandise	small to medium width and depth of assortment; average quality; manufacturer and store brands	extensive width and depth of assortment; average quality; manufacturer and store brands	full assortment of supermarket items, plus health and beauty aids and general merchandise	full selection of supermarket and drugstore items, and general merchandise; extensive width and depth	medium width and low depth of assortment, average quality	medium width and low depth, heavy use of store brands (up to 90 %)
Percentage Food	90 %	75-90 %	60-80 %	60-70 %	90 %	80-90 %
Prices	average/ competitive	average/ competitive	competitive	competitive	average to above aveage/high	very low
Atmosphere and Services	average	aveage/ good	average	average	average	low
Location	city or neighbourhood	city or neighbourhood	community shopping centre or isolated sites	community shopping centre or isolated sites	neighbourhood, city or highly frequented sites	neighbourhood, traffic-oriented
Promotion	little to moderate	use of newspapers, flyers, coupons	heavy use of newspapers, flyers, coupons	heavy use of newspapers, flyers, coupons	little to moderate	heavy use of newspapers and flyers

Source: adapted from Berman/Evans 2010, p. 137; Levy/Weitz 2009, p. 41; Nielsen 2010.

2.3.2 Superettes

As a retail format, superettes, **minimarkets** or **minimarts** have been under pressure for a while, even though they once were the traditional neighbourhood store format in food retailing. However, this very small store format of less than 400 m² that offers a limited assortment of food and related items of daily and short-term requirements remains important in some markets such as in the Asia-Pacific region. To give an example, in **Figure 2.4** the market share of the main retail formats is presented for South Korea and Indonesia.

Figure 2.4 Market Share (in %) of Retail Formats in South Korea and Indonesia



Source: adapted from Nielsen 2010.

Because of its long tradition of losing market share, many retailers in Western markets have written off **superettes** and streamlined their store chains. However, with the efforts of other retail chains such as *EDEKA* or *REWE,* which have supermarkets but also operate superettes, this retail format is undergoing a revitalisation. These retailers have changed the positioning of their small store formats by using trading-up strategies with regard to the retail marketing mix applied in these stores. This strategy of positioning superettes as a form of neighbourhood-oriented proximity retailing – not be mistaken with convenience stores – in **neighbourhood locations** or in the city, with modern instore designs, a revamp of the assortment strategies and usually lower prices, has led to a new relevance for this store format.

Because one of the main problems of superettes in the past was store productivity, many retailers have also changed the **ownership structure**. In most cases, they operate their superettes now as franchise systems or voluntary chains to guarantee their profitability (see Chapter 5).

2.3.3 Conventional Supermarkets

Conventional supermarkets are self-service stores that carry a wide range of **food items** (mainly groceries, meat and produce), including fresh food (e.g. fruits and vegetables) and related items. The share of general merchandise offered in this retail format is limited to between 10 % and 25 %. The format covers, for example, health and beauty aids and products (Berman/Evans 2010, p. 133; Ogden/Ogden 2005, p. 102).

Supermarkets are usually located in city or neighbourhood locations with sizes between approximately 400 m^2 and 1,000 m^2. Important players that utilise supermarkets in Europe are, for example, *Sainsbury's*, *EDEKA*, *REWE*, *Ahold's* supermarket "*ah*" or *Intermarché* as well as *Kroger* and *Albertson's* in the USA.

This retail format has been the main format for grocery shopping and has accounted for the majority of sales in food retailing for several decades. Yet, it faces **intense competition** from new formats that offer, for example, more convenient shopping facilities, more product lines and more varied assortments or lower prices as a result of lower operating costs (Weitz/Whitfield 2010).

Companies such as *REWE* or *EDEKA*, for example, have tried to **reposition** their supermarkets and thus improve their competitive positions by emphasising freshness and high quality assortments, introducing medium to higher level store brands and improving store atmosphere in order to provide a better **instore shopping experience**.

2.3.4 Superstores

Food-based **superstores** are larger and more diversified than are conventional supermarkets. Their size varies between 1,000 m^2 or 1,500 m^2 and 5,000 m^2 with expanded services such as a deli, bakery, seafood counter and general merchandise sections (Berman/Evans 2010, pp. 134-135). They are **"true" food stores** with a share of general merchandise ranging from approximately 20 % to 40 %, but offer expanded **one-stop-shopping** possibilities to consumers.

A similar store concept that tends to be larger than superstores (up to 9,500 m^2) and offers a higher share of general merchandise (from 25 % to 50 % of sales) is sometimes referred to as **combination store**. These stores combine food and general merchandise, thus offering a higher level of one-stop-shopping for consumers than superstores (Berman/Evans 2010, p. 135).

This combination of food and general merchandise in superstores and combination stores yields operating efficiencies and cost savings. The main reason for this is that non-food items tend to have higher margins. Superstores and combination stores usually follow either a **high-low pricing strategy** (HiLo), which means that they are very promotion-oriented (e.g. intensive advertising or distribution of flyers), or an **everyday-low-price strategy** (EDLP) using few promotions and selling their merchandise permanently at the same – low – price (see Chapter 12). Superstores and combination stores can be located in city or neighbourhood locations as well as in isolated sites or in shopping centres oriented towards customers who drive to the store by car. Important players that operate superstores or combination stores are, for example, *Intermarché*, *REWE*, *Tesco* or *Albertson's*.

2.3.5 Large Retail Formats

Over the past few decades, large retail formats have gained market share in grocery retailing. These large-scale retail formats are also referred to as "big-box retailers" (Levy/Weitz 2010, p. 45).

Whereas the trend towards such large retail formats has developed more or less similarly in the international context, specific types of formats have nonetheless been developed in different countries. Of these, **hypermarkets**, which originated in France, are the largest. Their size ranges from 9,000 m² to 30,000 m² (e.g. *Carrefour* and *Auchan*). The German **"SB-Warenhäuser"** (e.g. *Metro's* format *Real* or *Kaufland*) tend to be smaller with sizes from 5,000 m². Whereas these European formats have a larger share of food items ranging from 60 % to 70 %, in the USA the **"supercenters"** format (e.g. *Walmart*, *Kmart*, *Target*) ranges from 14,000 m² to 21,000 m² and carry a broader assortment of general merchandise. Thus, the share of general merchandise is higher, ranging between 60 % and 70 % (Levy/Weitz 2010, p. 45).

These large retail formats usually follow an aggressive, promotion-oriented **low-price strategy**. The stores are generally located in isolated sites or integrated in or close to shopping centres. The architecture is usually cost-oriented with a simple store design and a **functional-oriented** store atmosphere. As these large retail formats offer a broad assortment of food and general merchandise and thus provide **one-stop-shopping** opportunities, customers usually shop bigger shopping baskets. These store formats have a greater market area than do the smaller store formats (e.g. supermarkets), i.e. customers are willing to drive longer distances to visit these types of retail outlets. These stores, therefore, offer substantial parking facilities. Because of their low operating costs and the combination of food with higher margin general merchandise, which allow for an often **aggressive pricing strategy** and shopping convenience (e.g. in terms of a broad and deep assortment), during the past few decades, large retail formats have gained market share mainly at the expense of conventional supermarkets. In some countries, for example in France, though, saturation point seems to have been reached and hypermarket operators are searching for modifications of the concept to maintain their market shares.

2.3.6 Convenience Stores

Convenience stores ("c-stores") are usually situated in locations that are easy to access, such as in heavily frequented areas or urban neighbourhood locations. They open long hours (up to 24 hours, depending on local or national legislation). The stores are small and facilities are limited, with an average atmosphere and average service level. Convenience stores can be operated as stand-alone units (e.g. *Tesco Express*, *7-Eleven*, *Auchan*, *Coop Pronto*), but are often associated with petrol stations (e.g. *Shell Shop*s, *BP* or *Aral Stores*, *Esso Shops*).

The **very limited assortment** of these stores is food-oriented. A high proportion of sales consist of impulse purchases, with most in areas such as snack foods, soft drinks, beer and wine, tobacco products or newspapers and magazines. The average transaction in convenience stores is small and prices are usually above average.

Convenience stores focus on **ease of shopping**. They offer fast shopping, thus enabling customers to purchase quickly, picking merchandise in a short time without having to search through a large store or wait in long checkout lines. They also offer "mental convenience", as the assortment is limited, which enables customers to make their choices quickly (Berry/Seiders/Grewal 2002).

2.3.7 Hard Discounters

Hard discounters in food retailing usually follow a very aggressive **every-day-low-price strategy** with prices up to 20 % to 30 % below those of conventional supermarkets. They offer a small selection of items and, therefore, are also referred to as **"limited-line stores"** or **"limited-assortment stores"** (e.g. Ogden/Ogden 2005, p. 106). At *Aldi*, as the best-known example, the typical store carries about 1,000 stock-keeping units (SKUs). The basic assortment consists of food items with a high rate of turnover and few sizes and brands are offered per product category. Other prominent examples of internationally successful hard discounters are the German *Aldi* or *Lidl* and *Carrefour's Dia*.

The stores are characterised by a "no-frills" setting, which means that, for example, there are almost no services available (no helpdesk, no sales staff in attendance, etc.) and store design and atmosphere are very simple and cost-oriented. Often, products are sold out of boxes ("**box stores**") or cut cases and are presented on pallets. Food-based hard discounters often carry only a limited range of manufacturer brands and rely heavily on **low-price store brands**. Thus, prices are less comparable between different retailers.

They often complement their assortments with a weekly or semi-weekly changing selection of **general merchandise,** which is sold at very low prices and heavily promoted by newspaper advertising or the distribution of flyers to households. These items come from a variety of product categories (ranging from personal computers and furniture to home accessories) and often have no association with the regular merchandise carried by the retailer. Such items are offered in order to increase store traffic, and non-food items that, in some cases, are produced exclusively for this purpose usually have a higher margin than do food items.

Hard discounters are usually located in easily accessible **traffic-oriented and cost-oriented locations** with a focus on low occupancy costs, e.g. neighbourhood locations or periphery sites with adequate parking facilities. Because of their aggressive pricing strategies, the convenience dimensions (e.g. “mental convenience” because of the limited assortment and quick shopping because of the small store size) and location strategies, hard discounters have grown consistently over recent decades. They often play an important role in **proximity retailing**.

2.3.8 Warehouse Clubs

Warehouse clubs are a food retail format that is specific to the USA and not prevalent worldwide. Warehouse clubs sell their products both to end users and to small to medium-sized companies. Business members typically represent less than 30 % of the customer base, but account for approximately 70 % of sales (Weitz/Whitfield 2010, p. 90). **Membership** is required and customers are charged an annual fee. The largest warehouse clubs in the USA are *Costco* and *SAM’S CLUB* (*Walmart*).

This type of store is characterised by **low prices** for a limited assortment comprising half food and half general merchandise. The stores are very large (9,000 m² or larger) and are located in secondary sites, i.e. in low rent districts. Store architecture and design are very simple and cost-oriented, characterised by a simple interior, concrete floors and wide aisles (Ogden/Ogden 2005, p. 104).

Items are usually presented on pallets. In this type of store, fast moving, high turnover merchandise is offered, thus minimising holding costs. Warehouse clubs concentrate on special purchases from popular brands. Often, products are sold that are sourced on special occasions from manufacturers (e.g. overruns, returns, etc.) (Berman/Evans 2010, p. 142).

The concept of warehouse clubs resembles **cash and carry wholesalers** (e.g. *Metro Cash & Carry*) that also require membership. Even though membership is restricted to companies and these outlets focus on **business-to-business trade**, end users also frequently purchase at these stores.

2.3.9 Non-Store Formats in Food Retailing

The dominant share of food retailing is generated by store formats. Nonetheless, there are several **non-store formats** in which groceries and related products can be purchased by consumers. For example, **remote ordering** channels, such as traditional catalogues or Internet shops, can be used to distribute merchandise. While these formats are generally gaining importance, the share of groceries offered through mail order channels remains rather limited (see Chapter 4).

For fresh merchandise (e.g. farm produce, bakery products, meat or fish), the use of **market stands** or **truck and van sales** is a traditional mode of distribution that, for example, small producers use to reach their customers as a specific form of direct selling. Because of the close and personal contact with their customers, these vendors often have high retention rates among their customer base, but the costs associated with direct selling are very high and, therefore, so are the prices.

Vending machine retailing constitutes yet another alternative. Merchandise such as snacks and soft drinks are stored in a machine and dispensed to customers when they deposit cash or use a credit card. Vending machines are usually placed at convenient locations with high traffic (Levy/Weitz 2009, pp. 58-59). Developments in the field of vending machines are innovative. For example, new types of **kiosk vending machines** provide customers with product displays and information on the merchandise or electronic systems track inventory and cash, thus reducing out-of-stocks or malfunctions.

2.4 Conclusion and Outlook

The food retailing landscape has changed dramatically over the past few decades. **Competition** has increased because of various factors including mergers & acquisitions and the internationalisation of retail companies (Fox/Sethuraman 2010; Dawson 2006). In addition, the main retail formats in this sector have also changed as a result of these developments, **technological progress** and responses to changes in customer behaviour (Weitz/Whitfield 2010).

Even though new non-store retail channels have been developed, because, for example, of new developments in information and communication technology, **bricks-and-mortar store formats** remain the most important channels for selling groceries. Important developments result from new store formats that have been developed and have gained market share. Most important in this context is the increase of discount-oriented retail formats such as large retail formats (e.g. hypermarkets) and small food-based hard discounters. *Convenience stores* are also becoming progressively more important.

In order to remain competitive in the mature business of food retailing, more and more retailers carry merchandise outside their traditional businesses. This phenomenon is referred to as **"category migration"** (Zentes/Schramm-Klein/Neidhart 2005, pp. 52-55) or as the "blurring" of retail formats (Fox/Sethuraman 2010, p. 246; see Chapter 11). For example, food discounters offer general merchandise as special offers in weekly or semi-weekly promotions to generate store traffic and improve profit margins. Another important trend is that food retailers are extending their regular assortment to increase sales and margins.

For instance, hard discounters have extended their basic assortments in recent years by adding fresh meat or frozen food (Zentes/Schramm-Klein/Neidhart 2005, pp. 54-55).

Further Reading

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2.5 Case Study: Ahold[1]

2.5.1 Profile, History and Status Quo

Ahold is a major international retailer based in the Netherlands (*Ahold* Europe) and in the United States (*Ahold* USA) with different retail formats (e.g. supermarkets and hypermarkets) and retail brands (e.g. *albert heijn, albert, hypernova, Peapod, MARTIN'S*) in Europe, North America, Latin America and Asia. Today, the group's activities are concentrated mainly on the European and North American market.

Founded in 1887 by Albert Heijn, *Ahold* (*Albert Heijn Hold*ing) became the largest grocery chain in the Netherlands in the 1970s. It remains the largest Dutch retailer with a market share of about 30 %. Its overall mission is "to make the ordinary affordable and the extraordinary attainable" for customers. In 1973, *Ahold* entered the US market by acquiring the *BI-LO* supermarket chain in North and South Carolina, Georgia and Tennessee, and expanded its activities in the Eastern US by the acquisition of *Giant Food Store* with operations in Pennsylvania, New Jersey and New York. Today, *Ahold* is one of the top retailers in the US, evidenced by the no. 8 position in the 2010 "**Top 75 North American Food Retailers**" based on estimated sales of 29.5 billion USD in 2010. In 2010, the company operated more than 2,900 stores with more than 118,000 employees (in full time equivalents) worldwide. Furthermore, *Ahold* is listed on *Euronext Amsterdam*, on the *New York Stock Exchange* as well as on the *Frankfurt Stock Exchange*. **Table 2.2** provides a brief overview of *Ahold's* history.

[1] Sources used for this case study include the company's website www.ahold.com, as well as various annual and interim reports, investor relations presentations as well as explicitly cited sources.

Table 2.2 Ahold's History

Year	Activities
1887	Albert Heijn took over his father's small grocery store on his wedding day in 1887. Within ten years, stores had opened in Alkmaar, den Haag and Amsterdam taking the total number to 23.
1911	The first Albert Heijn brand name products – cookies baked by Albert Heijn himself – started to appear on the shelves in 1911.
1948	In 1948 Albert Heijn's company was first listed on the Amsterdam Stock Exchange.
1955	Albert Heijn opens the first self-service supermarket in Rotterdam.
1973	Ahold enters the US market, acquiring the BI-LO supermarket chain.
1981	Ahold acquires its second US supermarket company, Carlisle-based Giant Food Stores.
1987	Queen Beatrix of the Netherlands awarded Ahold the designation 'Royal' on the 100th anniversary of the very first store opening.
1990	The fall of communism enables Ahold to establish a foothold in Central Europe.
1992	Ahold and its Portuguese partner form Jerónimo Martins Retail (JMR). The joint venture operates a supermarket as well as a hypermarket banner under the name Pingo Doce.
1993	Ahold stock trades for the first time on the New York Stock Exchange.
1994	Ahold acquires Red Food Stores' 55 US supermarkets in Tennessee and Georgia. The chain is later merged into BI-LO.
1996	The company acquires Stop & Shop in the US In the summer Albert Heijn introduces a new distribution system, guaranteeing store delivery within 18 hours.
1998	Ahold acquires Landover-based Giant Food Inc. in the US.
1999	The company announces a partnership with ICA Group, Scandinavia's leading food retailer.
2001	Ahold forms a strategic alliance with Amicus Financial, the US division of the Canadian Imperial Bank of Commerce (CIBC), to offer a range of financial services in selected Ahold stores in the USA through telephone call centres, ATM's and the Internet.
2002	In February, Ahold introduces Albert Heijn XL and Albert Heijn to go in the Netherlands.
2003	With the Road to Recovery strategy, Ahold introduces plans to divest non-core businesses and significantly underperforming core business. These included operations in Indonesia and South America, Golden Gallon in the US and two Polish hypermarkets.
2004	Ahold continues consolidation with the divestment of Ahold's remaining 204 convenience stores in the US, the final Asian operations in Thailand and the sale of operations in South America, Poland and Spain. Ahold also announced its intention to divest its Benelux foodservice unit, Deli XL.

2005	In central Europe, Ahold sells three shopping centres and its larger Polish hypermarkets in order to concentrate on supermarkets and the smaller hypermarket format. It completes the sale of Tops convenience stores, BI-LO and Bruno's in the United States, Deli XL in Benelux and further South American interests.
2006	Ahold further restructures its retail portfolio by the divestment of its retail operation in Poland to Carrefour, and acquisitions of the Konmar stores in the Netherlands. With its retail brand Giant Food Stores, Ahold acquires 14 stores from Clemens Markets Inc. of Lansdale, Pennsylvania.
2007	Ahold completes the sale of Tops Markets and announces the sale of US Foodservice.
2008	Ahold's US division Giant Carlisle acquires Ukrop's Super Markets.

Source: Ahold 2011a.

2.5.2 Business Strategy

In general, the company's strategy is designed to accelerate identical sales growth, to improve returns, as well as to strengthen foundations for future expansions and to create shareholder value. To achieve these goals the company continuously innovates products, services and store formats to build **customer loyalty,** especially to achieve **sustainable profitable growth** with prices that are competitive in all channels. *Ahold* operates food retail businesses in the European and North American markets. The company tries to operate its different retail formats in markets where it can identify clear prospects and reach one of the top positions with regard to market share as a basis for sustainable profitable growth. Operating two continental platforms – *Ahold* Europe and *Ahold* USA – with different retail brands in different regions enables the company to balance its local, continental and global decision-making. To achieve the company's growth objective, it has established powerful local **retail brands** through a better understanding of customer behaviour, continuously improving the products and services offered and competitive price levels and cost savings (Ahold 2011b).

2.5.3 International Growth and Retail Brands

Ahold started its worldwide expansion nearly 40 years ago. After acquiring the *BI-LO* supermarket chain in 1973, the company bought the *Red Food Stores'* 55 US supermarkets and merged them into *BI-LO* in 1994. *BI-LO* became *Ahold's* oldest non-Dutch subsidiary until the company announced its plan for restructuring including the intention to divest *BI-LO* in 2004. In the course of this restructuring *BI-LO* was sold to an affiliate of *Lone Star Foods*. In 1981, *Ahold* acquired its second US supermarket company, Carlisle-based *Giant Food Stores* with operations in the Eastern US market. *Stop & Shop* was acquired by *Ahold* in 1996. In 2001, *Stop & Shop* opened its first "low energy" superstore. In the same year, the company entered into a strategic alliance with *Amicus Financial*, the US division of the *Canadian Bank of Commerce* (CIBC), increasing customer service by offering different financial services in selected *Ahold* stores in the US through telephone call centres, ATMs and the Internet. From

2002, however, the *Ahold* group suffered major problems with regard to earnings, sales and debt and had to start a programme of portfolio rationalisation and debt reduction.

Table 2.3 summarises the most important retail brands and retail formats of the *Ahold* group in the North American and European markets.

Table 2.3 Ahold's most important Retail Brands

Brand	Retail formats	Region	Established in	Acquired by Ahold
		Ahold Europe		
Albert Heijn	Hypermarkets, supermarkets, convenience stores and online shop	Europe, the Netherlands	1887	
etos	Drugstores	Europe, the Netherlands	1918	1974
Gall & Gall	Wine and liquor stores	Europe, the Netherlands	1884	1989
hypernova	Hypermarkets and supermarkets	Czech Republic and Slovakia	1991	1991
ICA	hypermarkets, supermarkets, discount stores	Sweden, Norway and the Baltic States	1917	2000 (joint venture)
pingo doce	Hypermarkets and supermarkets	Portugal	1992	1992
		Ahold USA		
Stop&Shop	Supermarkets and superstores	United States (New England)	1914	1996
Giant	Supermarkets and superstores	United States (Washington D.C. area)	1936	1998
GIANT Food Stores	Supermarkets and superstores	United States (East Coast)	1923	1981
Peapod	Online Shop	United States (East Coast)	1989	2000

Source: Ahold 2011b.

Today, after huge efforts regarding the restructuring of the *Ahold* group in the North American market, the company consists of the operating company *Ahold USA Retail* with the retail divisions: *Stop & Shop New England* and *Stop & Shop Metro New York* (conventional supermarkets and superstores), *Giant Landover* and *Giant Carlisle* as well as *MARTIN'S* as a part of *Giant Carlisle* (conventional supermarkets and superstores). In connection with the increasing relevance of the Internet and demand for online shopping, *Peapod.com* – one of America's leading Internet grocers – joined *Ahold* in 2000, providing Internet-based home shopping as well as grocery delivery as an integrated element of the *Stop & Shop* and the *Giant Landover* operating company.

With regard to the European market, *Ahold* started to expand at the beginning of the 1990s. During this period, the fall of communism enabled the company to establish a foothold in Eastern Europe, starting with setting up a holding company in the then Czechoslovakia in 1990. A year later, *Ahold* opened *Mana*, the company's first wholly owned supermarket chain in the region. Today, *Mana* trades under the *Albert* banner. In 1992, *Ahold* and its Portuguese partner formed *Jerónimo Martins Retail* (JMR). This joint venture operates conventional supermarkets and hypermarkets under the label *Pingo Doce*. In 1999, the company announced a partnership with the *ICA Group*, Scandinavia's leading food retailer. In this relationship, *ICA* and *Ahold* formed a joint venture to develop and operate discount stores and hypermarkets in Sweden and Norway.

Today, the company operates stores in a wide range of retail formats, including store and non-store formats, as well as different retail brands offering different kinds of products in the European market: conventional supermarkets (e.g. *albert heijn, albert, ICA*) superstores (e.g. *albert heijn XL*), hypermarkets (e.g. *hypernova, Pingo Doce*) and convenience stores (e.g. *AH to go*) in food retailing; quality wine and liquor stores (*Gall & Gall*); drugstores and health, body and beauty care stores (*etos*); and an online shop and online delivery service (*albert.nl*) as a non-store format. The latter, established in 2001, offers the same products as the *Albert Heijn, etos* and *Gall & Gall* stores, although *albert.nl* products are delivered to customers within 24 hours.

The expansion of *Ahold* into the European and North American markets was the result of a structured approach. Since its first steps in the US market in 1973, the company had focused on the acquisitions of local retailers operating different retail formats in the North American market and, in most cases, following the same strategy as that used to expand into the European market at the beginning of the 1990s. This approach contributed to the rapid international expansion of the group. Furthermore, it enabled *Ahold* to transfer its own retail brands as well as to build up new store formats, while respecting and taking advantage of the development of the retail landscape in a specific region or in an entire country. These processes of transforming local stores into powerful local retail brands were based on the application of deep consumer insights to improve products and services. With regard to the specific requirements and preferences of consumers in the different markets, the company also tried to realise economies of scale and economies of scope by replicating key components for the improvement of each of the different retail brands and retail formats. These key components were:

- **providing the best choice** every time by improving product quality, assortment and product presentation,

- **making shopping easy** by providing more convenience-focused products and services and enhancing the overall customer experience to make shopping more convenient.

With regard to the latter, the development and application of a variety of retail formats was an important tool to make shopping more easy for the consumer. Each of *Ahold's* operating companies improved existing retail formats and developed new format concepts using different layouts, sizes, assortments and service models. In this context, the company also strengthened the quality, quantity, variety and form of its marketing communications, inside and outside of its stores.

2.5.4 Retail Formats

2.5.4.1 Hypermarkets

Ahold operates hypermarkets only in the European market. Under the banner *Albert Heijn XL* (*AH XL*), the company offers a large choice of between 50,000 up to 60,000 items of food and non-food products as well as additional customer services in the Dutch market. This concept envisions one 'XL' market for every larger town and the surrounding region. Today, the company operates 21 hypermarkets in the largest regional centres in the Netherlands such as Amsterdam, Den Haag, Eindhoven and Rotterdam. In 2009, *Albert Heijn's* XL format was named the best store in the Netherlands.

Hypernova – established in 2001 – is one of *Ahold's* brands in Eastern Europe, operating a hypermarket format offering a similar range of food and non-food products and customer services in Slovakia. At the end of 2009, the company operated 26 markets in Slovakia. Under the labels *ICA* and *Pingo Doce, Ahold* also operates hypermarkets in Sweden, Norway, Portugal and in the Baltic States. With regard to *Ahold's* overall business strategy, the company has decided to increase the attraction of its hypermarkets by strengthening its price image, gaining deep consumer insights to meet customer expectations, preferences and needs, building customer loyalty through powerful local brands and private labels and encouraging sustainable and **socially responsible corporate behaviour**.

Through the combination of a supermarket and a department store, hypermarkets allow customers to satisfy their shopping needs within one shopping trip. They offer a wide range of products under one roof, including a full range of groceries as well as general merchandise. In general, *Ahold* stands for high quality products, but until 2008 it also stood for relatively high prices. In 2008, *Ahold* started a "price war" in the Dutch market by reducing the prices of more than 1,000 branded products, improving its price image significantly. Therefore, its hypermarkets now stand for high quality products at an acceptable price level. This adjustment in price strategy was also applied to the *hypernova* hypermarkets in Slovakia. Prices can be further discounted by using a free customer discount card – the "*Bonuskaart*" – in the Dutch market. Interestingly, in some cases special offer products can only be purchased at the discount price if the customer shows his discount card at the checkout.

Furthermore, the hypermarkets also now stand for a huge variety of products. Owing to the wide range of food and general merchandise offered *Ahold* takes care of customer needs and preferences for big shopping trips as well as for their daily shopping needs and also provides guaranteed parking and broad accessibility. The company has also succeeded in fulfilling customers' demands for high quality products by offering extensive ranges of fresh produce, delicacies and wine. Today, the company inspires consumers with unique products and services (e.g. one-hour photo developing, self-service checkouts) and a range of private label brands developed to meet the needs of specific types of customers.

The company has four private label ranges: *AH Huismerk* (house label), *AH Excellent*, *AH Biologisch* or *AH puur & eerlijk* (pure & honest, organic food) and *Euro Shopper*. *AH Huismerk* products are designed to fulfil customers' everyday needs at a low price. Prices are kept low by maintaining direct contacts with suppliers and large-scale purchasing. *AH Excellent* products are comparable to products from specialist shops. They offer "a good value – the best money can buy in the culinary world". *AH puur & eerlijk* includes five different product categories providing a variety of responsible products. These categories are organic, fair trade, sustainable catch (fish), free-range meat and ecological cleaning products at a normal price level, thereby improving customer loyalty. Comparable to *AH Huismerk*, the *Euro Shopper* line offers a huge variety of everyday products at low prices. *Euro Shopper* products are not only sold in the *AH XL* hypermarkets but also in other retail formats. Some of the *Euro Shopper* products are purchased in collaboration with other retailers in order to gain economies of scale. Overall, these private labels account for approximately half of sales in the Dutch market. With regard to the *hypernova* hypermarkets, strengthening the brand through an increasing emphasis on private label products is also a key component of the company's strategy in the Slovakian market.

2.5.4.2 Superstores

Under the labels *Stop & Shop, Giant Landover* and *Giant Carlisle, Ahold* operates superstores only in the North American market. These superstores are in general larger and more diversified compared with conventional supermarkets. The size of such superstores varies between 1,000 m^2 and 5,000 m^2 with an expanded customer service, bakery, deli counter, seafood counter and non-food section, e.g. clothery, jewellery, hardware and appliances. *Ahold's* superstores are "true" food stores with a share of non-food products of 30 % on average. Similar to hypermarkets they offer expanded one-stop shopping opportunities to customers.

Stop & Shop pioneered the superstore concept in New England in 1982. Their superstores are sized between 4,000 m^2 and 5,000 m^2. Similar to combination stores, some offer additional customer services such as petrol stations, full-service pharmacies and one-hour photo development. In recent years, *Stop & Shop* has taken the development of this format further, with superstores that not only serve customer needs, but also use less energy according to the overall corporate social responsibility (CSR) strategy of the *Ahold* group by setting up the "low energy superstore project" in 2001. This project was the result of three years of research and development aimed at reducing the energy usage of a single store by 30 %

including significant changes in store design. For example, a number of skylights maximise the use of natural daylight. Coupled with the further use of dimming controls and highly efficient artificial light, these changes should result in approximately a 50 % reduction in energy usage for interior and exterior lighting. An added benefit is that these efforts create a friendlier store atmosphere for customers and employees. Furthermore, state-of-the-art refrigeration systems could reduce related energy consumption by 26 %. Moreover, insulation and reflective paint on the roof contribute to more energy savings in terms of heating and cooling the superstores. In addition, the necessary construction materials were selected with regard to environmental performance and recycled content. Certain innovations of this project are already being incorporated in the *Giant Landover* and *Giant Carlisle* superstore formats as well as in other retail formats of *Ahold's* portfolio.

To persuade customers to visit the superstores more often, *Ahold* differentiates its superstores not only in product quality, product price and a sustainable socially responsible behaviour, but also in product mix. Following the same strategy as in its hypermarkets, *Stop & Shop, Giant Landover and Giant Carlisle Ahold* have built up powerful **private labels** in different product categories. Under the label *Nature's Promise,* natural and organic food is offered at a low price. *Simply enjoy* includes premium snacks, finger foods and desserts available at an everyday affordable price. *CareOne* stands for top quality health & beauty products, vitamins and over-the-counter products. Under the label *Guaranteed Value* the company offers essential everyday items (e.g. juice, ketchup, paper goods). Household, leisure and entertainment products are provided under the label *Smart Living*. *Pure Power* and *Pure Softness* include cleaning, paper and laundry products. *Companion* stands for high quality nutritional pet foods, treats, toys and litter. Surprisingly, *JaVaNa* coffee could only be found in the *Giant* superstores. In the future, additional efforts in the development and refinement of these private labels as a basis for customer brand loyalty are expected.

2.5.4.3 Conventional Supermarkets

Ahold's conventional supermarkets are integrated into the everyday lives of its customers. This retail format is a great success in the company's portfolio of different retail formats in each country in which it is established. The store concept provides a lot of advantages, namely a high product quality including freshness of products combined with a convenient customer services. With a share of more than 48 % of the company's worldwide store portfolio in 2009, this retail format is the most important to the *Ahold* group. In the Netherlands alone, the company operated 835 supermarkets in 2009. In the same year, 561 supermarkets were being run in the North American market.

Ahold operates its conventional supermarkets under various retail brands in the European market – *AH* (the Netherlands), *Hypernova* and *albert* (the Czech Republic and Slovakia), *ICA* (Sweden, Norway, Baltic States) and *Pingo Doce* (Portugal) – and in the North American market (*Stop & Shop, Giant Landover and Giant Carlisle/MARTIN'S*). Supermarkets play an important role in each of the areas the group is present, fulfilling the daily shopping needs of customers. In most cases, each of the supermarkets is a powerful local retail brand with a strong focus on the requirements and preferences of customers by offering a convenient and innovative shopping experience and a wide range of products, especially healthy choices including private labels. In the Netherlands, *Ahold* is known as the pioneer in the development of a modern supermarket concept, introducing many innovations in the past. These innovations range from the country's first self-service formats and the development of general merchandise as a grocery store category to the introduction of new products on store shelves that have since become mainstays of Dutch consumers. In this context, the organisation responds to the needs of its local customers increasing customer loyalty.

Furthermore, with its supermarkets *Ahold* adapts to the local context by taking into account the needs of different customer types and their shopping habits. In the Netherlands, for example, the *AH* supermarkets are mostly located in the neighbourhoods of its customers. Therefore, they are easy to reach and provide an opportunity for flexible shopping by opening up to 10 pm. In larger Dutch cities (e.g. Amsterdam, Rotterdam), these supermarkets are also open on Sunday. Each store looks at the needs and preferences of local inhabitants and listens to the product demands of customers. This approach leads to higher **customer satisfaction** and increased **customer loyalty**. Following this concept, *Ahold* has become the largest grocer in the neighbourhood, and the largest butcher, baker and greengrocer in the Dutch market as well. Overall, *Ahold* operates more than 700 stores of this type in the Netherlands, of which 200 are franchises. In general, the company benefits from this **franchising strategy** by a faster expansion of its retail brand, lower capital outlay and liability and the realisation of economies of scale.

2.5.4.4 Convenience Stores

In recent years, *Ahold* has responded to the increasing need and preference for easy and convenient shopping by starting to operate convenience stores in the Dutch and North American markets. Compared with conventional supermarkets, convenience stores are characterised by a limited selection of products. In many convenience stores, only one or two choices are available for each product category offered. This enables customers to shop quickly, picking the required products in a short time without long waiting times at checkouts. Typically, prices are higher than they are in supermarkets.

Ahold started its convenience store format *Albert Heijn to go* (*AH to go*) in 2002. These stores are located in places with a high pedestrian flow, especially at train stations, petrol stations and in city centres. These small formats are operated as stand-alone units, but also are associated with petrol stations. They mainly offer products for direct consumption or immediate use at a higher price level compared with other *Ahold* retail formats. The stores offer a wide range of fresh food and drinks. Convenience, quality and freshness are the characteristics of the approximately 1,200 *AH to go* articles, especially the company's private label products. The long opening hours – up to midnight – are a specific characteristic of this retail format.

In the North American market, *Ahold* opened its first standalone convenience store under the label *Giant to Go* in 2009 to expand and broaden its geographic reach. At an average of 400 m^2, this store concept combines an on-the-go service for busy families with high quality and fresh products, but at a higher price level compared with other *Ahold* retail formats in the US.

2.5.4.5 Online Shopping Formats

With *albert.nl* (established in 2001) in the Netherlands and *Peapod.com* (acquired in 2000) in the US, *Ahold* operates two online shopping formats. In the Netherlands, the online shopping channel offers the same attractive value as do the other retail formats operated by *Ahold*. Through *albert.nl*, a range of about 10,000 products are delivered to customers' kitchens within 24 hours at any chosen time between 8 am and 9 pm Monday to Friday, and between 8 am and 2 pm on Saturdays. Eighty percent of all households in the Netherlands are within the service area of *albert.nl*. The *albert.nl* website is designed to help customers make a quick and easy selection of the products they need. The bonus card, *Ahold's* overall loyalty programme, allows customers to look up previous purchases in order to create a new one at the touch of a button.

Peapod.com works in partnership with the *Ahold* USA retail companies and provides Internet-based home shopping and grocery delivery as an integrated element of the *Stop & Shop* and *Giant Landover* companies. As an element of the company's overall CSR activities, *Peapod* introduced the *NutriFilter* tool in 2009, a virtual nutritionist making shopping easier for people with allergies and dietary restrictions. *NutriFilter* follows the *USDA* guidelines for each nutritional component, providing more information than a cereal box ever could. Customers have the option of using five preset plans (gluten-free, peanut-free, *USDA* good fibre, *USDA* low fat and *USDA* low sodium), but can also customise their own plans. Customers are presented a blank nutrition panel, such as those seen on all packaged food products in the US, and they are able to select as few or as many nutritional criteria as are important to them. One can create a sort of dream label, specifying maximum calories, grams of fat, milligrams of potassium and so on, and then activate that specific filter. Besides its obvious convenience *NutriFilter* offers for people with dietary restrictions, it is also an excellent resource for the health-conscious in general. Moreover, by engaging children in the *Peapod.com* online shopping experience, parents can use the *NutriFilter* option to educate their children on the **nutritional values** they should look for.

In addition, *Peapod.com* offers tools to help customers save money and be a smart shopper. Among the money-saving features, there is a running total of expenditures as shoppers compile their orders, the ability to trim orders if they exceed the shopper's budget and a function that compares the unit prices of similar items. *Peapod's* system also allows shoppers to identify which of their usual purchases are on sale. Furthermore, since *Peapod.com* customers fill their grocery baskets from home or the office, there's less seduction for impulsive shopping and snack purchases, for example while waiting in the checkout aisle.

Recently, *Peapod.com* introduced *PeapodMobile* allowing customers to place grocery orders from their smartphones. Furthermore, the company developed a free *iPad* app as an additional element of *PeapodMobile* to give tablet users a convenient way for online grocery shopping. The different apps provide a search function, weekly specials, a list of previous purchases, a customised list with frequently purchased items and the "optimised views" function, allowing customers to view items in a list or a grid format.

2.5.5 Conclusion and Outlook

This case study has shown *Ahold's* historical development from a small retailer in the Dutch market to an international retail company operating several retail brands and retail formats. After becoming the largest grocery chain in the Netherlands, *Ahold* started its internationalisation strategy by acquiring its first supermarket chain in the North American market in 1973. Today, the company operates different powerful local retail brands providing a wide range of retail formats all over the world, but still focused on the European and North American markets. Together, with its efforts towards sustainable and **social responsible corporate behaviour** as well as introducing innovations that make shopping easier and are in line with the specific needs, preferences and requirements of local customers, this strategy has resulted in it becoming one of the top retail companies worldwide.

Questions

1. Ahold operates multiple retail formats. What are the typical advantages and disadvantages of each retail format?
2. Ahold's strategy of international growth is mainly based on the acquisition of powerful local retail brands. Discuss critically the challenges and opportunities of introducing the brand Albert Heijn with its specific formats in the international market.
3. Ahold operates online shopping formats in Europe and in North American market. Evaluate the relevance of the company's e-commerce and m-commerce formats for future growth in food retailing.

Hints

1. See Chapter 8 for internationalisation strategies.
2. See Zhang et al. 2010 for a general outlook on future developments in e-commerce and m-commerce.