

The Retail Growth Strategies on the International Market and the Global Development Opportunities for Retailers

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ABSTRACT

For decades, strategic management has analysed the alternative routes to company growth. In present, retailers need to devote more attention to long-term strategic planning to cope effectively with the growing intensity of retail competition as well as shifts in customer needs. The changes in the global retail environment are the result of the emergence of new competitors, formats, technologies, and globalization. The retail strategy indicates how retailers will deal effectively with their environment, customers and competitors. The desire to grow business and increase its value is often a fundamental objective from the very beginning. A very important element in a retail strategy is the retailer's approach to building a sustainable competitive advantage by capitalizing the development opportunities. Establishing a competitive advantage means that the retailer, in effect, builds a wall around its position in a retail market, that is, around its present and potential customers and its competitors. When the wall is high, it will be hard for competitors outside the wall (i.e. retailers operating in other markets or entrepreneurs) to enter the market and compete for the retailer's target customers.

KEYWORDS: growth strategies; competitive advantage; retail environment; customers; international market; competitors; retail information; expansion

Ansoff's matrix (or product market matrix) is a well known categorisation of growth strategies. It consists of four separate strategies (Ansoff 1988): market penetration, product development, market development and diversification. With present products and in present markets, growth can be achieved by **market penetration**. Higher sales from existing markets can either be obtained by attracting current non customers, who either do not buy products in the offered categories at all or who buy them from competitors. Alternatively, the loyalty of existing customers of the retailer can be improved and the value of their shopping baskets increased.

Product development is characterised by offering new products to existing markets. This can be done by providing the existing customer base with new product categories in the existing stores. Apparel stores expanding into selling shoes would be a good example. Considering the fact that the retailer's "products" are his stores, product development in retailing often means introducing new retail formats in existing markets. Store retailers starting to offer their products in the Internet, or supermarket retailers opening convenience stores are examples of product development.

A current product offer can be targeted to a new customer segment, often in a new geographic area (**market development**). Regional retailers expanding their traditional store formats to other regions or national retailers expanding to new countries attempt to increase revenue for the company with this strategy.

Diversification entails offering new products to new markets. Tesco's Personal Finance, the Rewe Group's activities in the travel market, and Virgin Airlines are examples of this strategy. It should be noted, however, that the management literature warns of the dangers of diversification, when the core competence of retailers lies in other fields. While most companies focus on growth, some authors point out that Ansoff's matrix should be expanded to include the strategic withdrawal options from certain product or geographical markets. Sometimes closing down or divesting (selling off) the unprofitable parts of a business or those which do not match the current strategy, can help the retail company as a whole. For example, in 2005, Metro divested from the DIY market by listing its DIY retail chain Praktiker on the stock market, in order to focus on other, more profitable activities. In the same year, OBI sold its DIY stores in China to the competitor Kingfisher. Even though OBI operates about 500 DIY stores internationally and has sales of more than six billion EURO, it decided strategically that the future investment needed to ensure success in this huge market would be too high. At the same time, the company announced the opening of 100 new stores in Europe over the next five years.

These examples demonstrate that in retailing, growth strategies are closely connected to withdrawal strategies. Retailer portfolios, with respect to their stores, store formats, and country markets, are often

reassessed and a strategic withdrawal from one market often provides the starting point for expanding into other markets or for opening additional stores in the remaining markets. Growth strategies for retailers can take two basic forms:

- enhancing sales in existing retail outlets.
- enhancing sales by enlarging the outlet network.

Most retailers' statistics therefore differentiate between revenue changes in existing stores (also called comparable store sales growth), and changes in the scale of operations due to opening or acquiring new stores. For example, Tesco opened more than 100 new hypermarkets in Eastern Europe between 2002 and 2006, Kingfisher added 27 new B&Q DIY stores in China in 2005, and Fressnapf, a German pet store retailer, was founded in 1989 and now controls a store network of about 800 stores in 11 European countries. These examples also indicate the most important options for outlet growth:

- Organic growth: Most of Tesco's hypermarkets in Eastern Europe were established through organic growth.
- Franchising: Most of Fressnapf's growth comes from attracting new franchise partners, who open outlets under the Fressnapf brand.
- Acquisition: B&Q's sudden growth in China originated largely from the acquisition of outlets from the German DIY retail chain OBI.

Retailers have the greatest competitive advantage and most success when they engage in opportunities that are similar to their present retail operations and markets. Thus, market penetration growth opportunities have the greatest chances of succeeding because they build on the retailer's present bases of advantage and don't involve entering new, unfamiliar markets or operating new, unfamiliar retail formats. When retailers pursue market expansion opportunities, they build on their advantages in operating a retail format and apply this competitive advantage in a new market. A retail format development opportunity builds on the retailer's relationships and loyalty of present customers. Even if a retailer doesn't have experience and skills in operating the new format, it hopes to attract its loyal customers to it. Retailers have the least opportunity to exploit a competitive advantage when they pursue diversification opportunities. As retailers saturate their domestic markets, many find international expansion to be an attractive growth opportunity. Of the 50 largest retailers in the world, only 12 operate in one country. By expanding internationally, retailers can increase their sales, leverage their knowledge and systems across a greater sales base, and gain more bargaining power with vendors. But international expansion is risky, because retailers must deal with different government regulations, cultural traditions, consumer preferences, supply chains, and languages.

Organic Growth through Outlet Multiplication - The direct establishment of own new outlets is usually the primary method for retailers to expand their businesses. It is also called organic or internal growth. The resulting chain stores operate multiple retail stores under common ownership, and usually engage in some level of centralised decision making. Large retail chain stores comprise up to several thousand stores. Opening new branches offers the advantage that the retailer's concept can be transferred to the new store right from the beginning. Location decisions, store layout and all attributes of the new store can be tailored to the existing strategy. The store managers are company employees, which enables activities to be monitored closely and decisions to be made centrally. Risk is limited as expansion is gradual. At the same time, considerable financial resources become successively tied up in the store network.

The opening of branches requires substantial capital investment, which is a major constraint to growth. In many markets, organic growth is slow due to zoning restrictions, planning permission, the search for sites, including the acquisition and development of the premises, etc. This entails the risk that the critical mass is not reached fast enough and other retailers with similar concepts, but not similar constraints, expand faster. This problem particularly affects retailers that require large sites for their outlets, e.g. category killers and hypermarkets, because approval for these sites is restricted in many countries.

Another drawback can be seen in a loss of flexibility over time. Many chain store operations are slower to respond to changes in consumer demand and other situational factors, due to bureaucracy and a decreasing motivation of employees which is typical of larger businesses. Tailoring the assortment to the specific local needs is often easier for independent retailers than for large chain stores. However, modern retail information systems increasingly allow combining centralised decision making with a locally adapted marketing, including a locally adapted merchandise mix or prices.

Cooperative Arrangements - While the variety of cooperative arrangements is wide, joint ventures are clearly among the most popular forms of alliances. Since joint ventures are not retail specific, they are only outlined briefly here. A joint venture is formed when two or more parties decide to undertake economic

activity together and create a new enterprise as a legal entity in order to pursue a set of agreed upon goals. The parties agree to contribute equity and share the revenue, expenses, and control of the enterprise. For example, the French retailer Leclerc and the Italian Conad established the joint venture Conalec which operates a net of hypermarkets in Italy. A major advantage of forming a joint venture is the combination of the resources of two companies. Both companies bring financial and management resources, know how, store outlets or other assets to the deal. Especially when a retailer enters a new retail or service sector or a culturally distant foreign market, the market knowledge of a joint venture partner is valuable and can facilitate expansion. Another benefit of joint ventures is the reduction of risk for each company by splitting the risk between the participating companies. The larger the retail company, on the other side, the more likely it is to expand on its own, because it can more easily afford the expenses and absorb the risk in this case. The major drawback of joint ventures are the high coordination costs, because two independent partners with potentially conflicting objectives work together. Thus, managing a joint venture is more complex than managing a wholly owned company. Full control over the strategy of the joint venture is not present, because all decisions have to consider the interests of all participating companies. As a consequence, the stability of joint ventures is often considered to be rather low.

Franchising - While the fast food chain McDonald's is the most often cited example of a franchise system, many other well known retailers also operate as franchise systems. Benetton, The Body Shop, Fressnapf/Maxi Zoo, OBI, and 7 Eleven are examples. Franchising is defined as a contractual agreement between two legally and financially separate companies, the franchisor and the franchisee. The franchisor, who has established a market tested business concept, enters into a relationship with a number of franchisees, typically small business owners, who are allowed to use the franchisor's brand and must operate their business according to the franchisor's specified format and processes. The franchisor provides ongoing commercial and technical assistance. In return, the franchisees typically pay an initial fee as well as fees (royalties), which average about 5% of gross sales, plus some advertising fees. According to different national franchise associations, the franchising sectors in the different country markets have reached considerable sizes. In France, there are about 930 franchise systems, in Germany about 950, and in the United Kingdom about 700. On average, each franchise system has between 40 and 50 franchise outlets, but the largest often exceed 1,000.

A fundamental characteristic of franchising is that it always involves two separate and independent companies which assume distinct roles and a strict division of tasks in order to achieve a joint objective. Since the franchisee owns his own business, he is entitled to all profits that are generated. Franchising thus combines the benefits of a large, efficient retail system, including economies of scale in procurement, logistics, national advertising, IT systems, and administrative activities, with the strength of an independent entrepreneur who manages the outlet, including customer contact and supervising store employees. The common brand enables all participants in the franchising system to benefit from the advertising and goodwill generated by each outlet. From the consumer perspective, it is often impossible to detect the difference between franchising and own branches.

Mergers & Acquisitions - Companies also have the option of external growth, that is, to expanding by acquiring resources from other companies. Expansion through mergers & acquisitions (M&A) involves the consolidation or purchasing of existing retail companies or retail outlets. In a merger, two companies are combined and at least one of them loses its legal independence. In an acquisition, one company acquires a majority interest in another or takes over certain assets (stores) of another company. The term acquisition is often used restricted to a full takeover. The legal independence of the acquired company can remain intact.

M&A have played a major role in structural changes in the retailing sector over the last decades and constitute a well established growth mechanism. For example, in 1999, Carrefour merged with Promodès, to form the largest European retail company and the second largest worldwide. In 2004, Wm Morrison, which formerly had about 120 stores, completed the takeover of more than 200 Safeway stores. Major British food retail groups had made offers, but the Competition Commission had opposed the takeover by Tesco, ASDA, or Sainsbury's. In 2006, the Metro Group took over 85 Wal Mart stores in Germany, expanding its own Real outlet network of 330 stores by a quarter. The Austrian XXXLutz, the second largest furniture retailer in the world after IKEA, bought five furniture chains in Germany. The largest acquisition, Mann Mobilia, added seven stores to the company's network with a total sales space of 480.000 m². A list of similar examples would be long. M&A allow rapid expansion by overcoming the bottleneck created by the difficulty of establishing and developing adequate retail locations, which can take years from the site selection to finally opening a store. Within a short period of time, an acquisition makes an entire bundle of resources available to a company. Especially when first mover advantages are pursued in a new market, this can be a crucial success factor. Since

the customer base of the acquired retail company can often be preserved, market share is gained quickly. After an acquisition, either the integration process includes a change in the brand name of the outlets, or the original retail brand of the acquired retail outlets is retained. The latter is often the case, when the acquisition is used to expand into other retail sectors or formats. A food retailer entering the DIY market, or a supermarket company acquiring a discount chain, for example, could be well advised to keep the acquired chain's established retail brand. The acquired company's existing resources management expertise, personnel, sites, etc. focus on their established field of businesses and an objective also often pursued with an acquisition is that of exploiting the know-how and dedicated assets of the acquired company. However, integration costs following an acquisition can be high.

An incompatibility of company strategies, capabilities, resources, and cultures often results in an insufficient exploitation of existing potential for synergies. The takeover and associated cultural change in the acquired company may also result in a brain drain and the loss of significant management skills. Also, in many markets, it is difficult to find suitable takeover candidates. Successful retailers are, in most cases, not available for acquisition and less successful retailers often have retail locations, stores and premises that are not attractive enough for acquisition. Adequately evaluating the value of a retail company before an acquisition is, however, not an easy task and often, the real value and quality of the acquired company can only be assessed correctly after the acquisition. For example, in Germany, Walmart faced the problem that the store network acquired for market entry was unfavourable, and over time, other targets for takeover were not available on the market. The option of further expansion through acquisition may also be limited by antitrust laws, as the example of Safeway in the United Kingdom illustrates. In already highly concentrated markets, the acquisition of other outlet networks by the largest players is often not approved by the authorities. In summary, acquisition is a very fast growth strategy when adequate take over objects are available, but the associated risk is substantially higher than with organic growth.

Minority Investment in Retail Companies - Due to the difficulties associated with full scale acquisitions, acquiring a minority stake in another retail company is also a frequently pursued strategy. For example, Kingfisher bought a 21% stake in the German DIY retailer Hornbach and supports Hornbach's national and international expansion, for example by providing funds. In 2004, Hong Kong based AS Watson purchased a 40% stake in German drugstore chain Rossmann.

Acquiring partial ownership of another retail company involves similar advantages and disadvantages to the acquisition strategy in general. However, successful retail companies generally prefer to accept another company buying an equity stake in their company than to be acquired. Equity participation by a larger company can add resources that support its further expansion. Furthermore, the strategy can be useful in situations where full scale acquisitions are difficult, because of the particular market conditions or government control. At the same time, the remaining equity stake of the initial company reduces the risk of a brain drain, since the established management team of the acquired company often retains control, frequently only supplemented by additional management capacity from the acquiring company. The risk of over estimating the value of the acquired company is reduced, because the acquiring company achieves full transparency over business processes and results, facilitating a potential full acquisition after a certain time period.

Conclusion

Growth continues to be highly relevant for the success of a retail company, but at the same time is more difficult to achieve, because of several factors. These include the power of large retailers and the crowding out of independent retailers and small chains as well as the already high and increasing level of concentration in many retail markets combined with market saturation in many product categories. Flexible growth strategies therefore become more important. Retail companies usually do not use the above outlined strategies in isolation, but in combination, as the phenomenon of plural form networks has already developed. Especially larger, divisionalised retail store groups with different store formats often implement different growth strategies for different formats and/or markets. For example, Carrefour operates its hypermarkets in most parts of the world as own outlets, while it franchises its system in the Middle East (United Arab Emirates, Egypt, Saudi Arabia, etc.) to the Majid Retail Group that operates a number of large Carrefour hypermarkets in the region. The difficult market conditions in this region and the local knowledge of its franchise partner are the probable reasons for this strategy. Most of Carrefour's convenience stores all over the world are franchised, and the expansion with supermarkets stems at least partly from franchised outlets, while there is also a substantial number of own outlets. This is a fairly typical picture of retail companies that use different growth strategies over time and which tailor the growth strategy to the retail format and specific situation.

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