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6 Diversity in European Retailing

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Aldi sets eyes on Romanian market

German-based company Aldi, the world's tenth-largest retailer, which boasts a global turnover in excess of 39 billion euros, has entered the Romanian market by setting up a firm that is entirely controlled by an Austrian subsidiary of the group, Hofer. Market sources maintain that the German retailer is looking at the Romanian market for future expansion; however, the entrance project remains in the early stages of development. The new Bucharest-based Aldi Stores company headquarters, in which Hofer (Austria) holds 100 percent of the share capital, was legally registered approximately one month ago. As a result of the recent move, the Aldi company joins its main international rival on the Romanian market, Germany's retailer Lidl, which plans to carry out investments worth approximately 150 million euros in a network of more than 100 stores by 2011, according to market sources.

Press Clipping in Ziarul Financiar on 08.08.2007

(As of 2011 Aldi has not yet opened any stores in Romania)

The Romanian market entry marks yet another step in the internationalization of the German discount icon Aldi, who started venturing outside its home market in 1967 and to date generates almost half of its revenue abroad, with Europe accounting for the majority of this percentage (Planet Retail 2008). This is particularly remarkable as the European retail market and especially food retailing are very diverse and face retailers with countless challenges in their striving for European cross-border expansions (de Mooij and Hofstede 2002). Consumer preferences vary considerably across Europe and it is even hard for local stores to keep up with ever-changing and highly fragmented consumer tastes and needs.

In this chapter we will elaborate on the diversity of the European retail market and introduce you to the basic concepts of retail strategy, differentiation and internationalization of retailing. You will learn that retailing across Europe is subject to vast diversity in consumer behavior and that especially food retailers are challenged to respond to this diversity in retail management decisions. What works in one country, may fail in another. Retailing strategies cannot be extended to other countries without adaptation. Therefore, we devote special attention to the central issue of standardization and adaptation in the internationalization of retail operations. To illustrate these concepts, we will describe the business model and European internationalization of Aldi, a hard-discounter who bases its strength on strict standardization, but yet had to learn to adapt to diversity for international success.

6.1 European Retail Diversity

The world over, shopping is a local experience and habit. Increasingly, scholars find that tastes and preferences diverge largely across different cultures, countries and regions and predict consumer behavior to become even more heterogeneous given cultural differences (de Mooij and Hofstede 2002). Europe enjoys the highest cultural density and diversity on the globe. This diversity translates into a myriad of distinct consumer segments, impeding foreign players catering to the customer base of another country. Consumers shape retail markets, as their consumption patterns determine the product offering and shopping environment. Retailing is hence a very local business and requires a deep understanding of local tastes and preferences. Diversity in consumer behavior has led to diversity in retailing across Europe. Only a handful of food retailers have been successful across multiple countries, while many ventures failed or fell short of expectations.

Diversity across European Consumers

Consumers differ not only in the usual ways (by age and gender, education and occupation, marital status, and living arrangements) but also in their activities and interests, their preferences and opinions, the foods they eat, and the products they buy (Schiffman et al. 2008). Effectiveness in marketing and retailing means adapting to cultural values. This is especially the case in Europe. While international marketers would like one to believe that in the 'new Europe' with a single currency, consumers will become more similar, increasingly eat the same food, wear jeans and sneakers, and watch the same television programs, reality is likely to be different. There are large differences among the value systems of consumers in different European countries, value systems that are strongly rooted in history and that appear to be very resistant to change (de Mooij and Hofstede 2002). Despite globalization and the numerous theories of conversion of markets and consumer needs, there is evidence that consumer behavior is actually diverging in Europe as reflected in the consumption, ownership, and usage of many products and services.

De Mooij and Hofstede (2002) explain that the wealthier countries become, the more manifest is the influence of culture on consumption. When income levels are such that consumers have satisfied their basic needs and wants, they will spend their discretionary income on what best fits their value systems. The stereotypic ideal of Americans is a five-car garage, the Dutch will buy more luxurious holiday trailers, and the Spanish will eat out even more than they do now. In the new century with increased wealth, predicting and explaining consumer behavior differences across countries is indispensable for international retailers. When countries converge with respect to national wealth, cultural variables start to explain more of the differences in country-level consumer behavior. This has certain implications for marketers and retailers. Expanding operations to countries with different cultural values than one's own without adapting to these differences can lead to serious losses. This applies to the retail format used as well as to sourcing for different cultures. In collectivist cultures in Europe, for instance, people allocate a higher percentage of consumption expenditures to food than do people in individualist cultures, perhaps because food has an

important social function in collectivist cultures. In supermarkets, the variation and display of food needs more attention in collectivist cultures than in individualist cultures, where people are more focused on convenience and fast food. The European diversity in consumer behavior has thus a strong impact on the European retailing landscape.

Diversity in European Retailing

The impact of diversity in European consumer behavior on the European retailing landscape is illustrated by the data compiled in **Exhibit 6.1**. We computed the combined market share of the ten biggest retailers in each country and the share of domestic versus foreign influence thereof. Our classification of domestic and foreign retailers followed the rule that regardless of local subsidiaries, foreign retailers' operations originate in a different country. Though Lidl may, for instance, set up a local Swedish business, it is still considered a foreign retailer in Sweden.

One thing becomes immediately obvious analyzing the left part of **Exhibit 6.1**: High market density and dominant national players apparently come together. In Scandinavia and Western Europe, market concentration is highest and domestic players dominate. This is best illustrated looking at the German market, notorious for its competitiveness and accordingly low retail margins. Indeed, the top ten retailers in Germany are completely made up of domestic players. In Sweden, Finland, Switzerland and France the case is very similar.

Conversely, Eastern Europe is lacking this high influence of domestic retailers. The retail scene in the Czech Republic almost exactly mirrors that of Germany with only foreign-based retailers among the country's top ten. Given that retailing was only introduced and developed in Eastern Europe after the fall of the Iron Curtain, there simply has not been sufficient time for domestic retailers to emerge and reach the same degree of professionalism as their European counterparts. In addition, local consumer preferences were limited given the restricted choice and access to consumption under the Communist reign. Consumers strive for Western products and thus adapted quickly to the European retail formats entering the Eastern European markets.

Not all retail sectors are impacted by the diversity in consumer behavior in the same way. While diversity appears to be less eminent in non-food retailing like fashion, the sector with the highest diversity is indisputably food retailing. This is due to the high fragmentation of consumer preferences and tastes even within national borders, such as local tastes in Bavaria and Northern Germany. In their research covering the world's top 250 retailers, Deloitte Consulting (2009) found that while the fashion retailers of this sample were, on average, operating in ten countries, the world's biggest retailers of fast moving consumer goods (food retailing) had a presence in merely five countries, making it the least geographically dispersed sector. The right columns of **Exhibit 6.1** therefore take a special look at food retailing in Europe. Again we calculated the share of each country's top ten players as well as the domestic and foreign influence. As expected, market concentration is much higher in food retailing with the top ten players making up as much as 90 percent of the market in Scandinavian countries. Apart from a few exceptions in Eastern Europe, the top ten retail-

ers generally constitute over half of the grocery market. Concerning the domestic and foreign influence, a similar picture to the general retailing scene is obtained with national dominance in most Western European and foreign dominance in Eastern European markets.

Exhibit 6.1 Market Concentration and Internationalization in European Retailing

Country	Top 10 Retailers' Share (%)	thereof national (%)	thereof foreign (%)	Top 10 Grocery Retailers' Share (%)	thereof national (%)	thereof foreign (%)
Austria	36.4	16.4	20.0	75.5	27.6	47.9
Belgium	29.7	16.2	13.5	56.6	32.4	24.2
Bulgaria	15.3	12.0	3.3	24.6	13.9	10.7
Czech Republic	35.7	0	35.7	74.5	0	74.5
Denmark	52.2	46.9	5.3	82.7	69.6	13.1
Finland	56.6	54.8	1.8	97.2	92.2	4.9
France	40.0	37.0	3.0	73.3	66.7	6.6
Germany	36.3	36.3	0	75.2	75.2	0
Greece	15.3	6.0	9.3	29.1	9.9	19.2
Hungary	41.5	8.0	33.5	74.3	14.5	59.8
Ireland	48.7	31.9	16.8	83.7	51.3	32.4
Italy	22.1	18.6	3.5	52.0	43.6	8.4
Netherlands	32.5	26.3	6.2	66.6	54.4	12.2
Norway	49.6	38.9	10.7	92.8	76.3	16.5
Poland	26.3	4.4	21.9	41.9	5.5	36.4
Portugal	35.0	16.5	18.5	58.7	28.4	30.3
Romania	23.3	2.7	20.6	37.1	5.1	32.0
Slovakia	32.0	10.0	22.0	59.1	18.9	40.2
Spain	28.1	23.0	5.1	48.3	38.1	10.2
Sweden	47.8	46.7	1.1	83.3	76.5	6.8
Switzerland	45.9	42.2	3.7	68.2	63.1	5.1
United Kingdom	42.0	35.1	6.9	76.3	58.5	17.8







Source: compiled by authors from Datamonitor 2010/09 Retail Country Reports (2010)

Internationalization of Retailing in Europe

The internationalization of retailing has two main elements: sourcing and selling. International retail sourcing has a long tradition and is by no means a new phenomenon. Howard (2004) notes that even if their stores are entirely domestic, many retailers have been buying goods from foreign countries for a long period. For the better part of two decades, the push toward internationalization of retail store operations has been deemed imminent. While many retailers have ventured abroad, many have not. Moreover, many have found the terrain far more challenging and not quite as lucrative as originally anticipated.

Exhibit 6.2 compares the relative importance of international activities conducted by the ten largest European grocery retailers. In fact, turnover outside the domestic market exceeds 50 percent of total turnover in only four cases. Yet, the reasons to venture abroad have not disappeared, but have rather been reinforced by recent events: In developed countries, retail spending growth is weak and, due to a combination of demographics and shifting economic structure, this is likely to remain so. Apart from gaining market share at home, Europe's leading retailers will only find strong growth by moving into new markets, especially into fast-growing emerging and less developed retail markets.

Exhibit 6.2 Share of Domestic and Foreign Sales of Top 10 European Food Retailers

Retailer	Sales in 2007 (USD mn)	Domestic Sales in 2007 (%)	Foreign Sales in 2007 (%)
1  Carrefour	140.966	45	55
2 TESCO	103.400	73	27
3 METRO Group	75.538	42	58
4  Kaufland  LIDL	71.406	48	52
5 ALDI	65.460	51	49
6  Ahold	63.736	25	75
7  Auchan	63.071	52	48
8 REWE	56.251	68	32
9  Casino	55.952	62	38
10 EDEKA	51.267	95	5

Source: Planet Retail (2008)