

# Ouverture de ‘Development Policies in Large Retailers’\*

*Silvio M. Brondoni\*\* , Sabina Riboldazzi\*\*\**

## *Abstract*

*Over-supply and global markets favour ‘standardised selectivity’ in consumption and impose new competition rules for retailers. In particular, market-driven competition emphasizes global economies of scale related to the ‘intensity of sharing’ key resources in a networking system marked by sophisticated competitive collaborations. Over-supply and market-driven competition therefore presuppose a business network and are a challenge to closed organizations hindered by their small size and scope of operations.*

**Keywords:** Global Markets; Over-Supply; Consumption Crisis; Market-Driven Competition; Large Retailers; Development Policies

## **1. Ouverture**

Over-supply and global markets favour ‘standardised selectivity’ in consumption and impose new competition rules for manufacturers and retailers.

Some years ago, when primary demand for goods was growing and marketing channels constituted stable distribution formats, products with ‘strong’ brands were sufficient to support large ‘brand extensions’ where advertising investments guaranteed their success. In fact, the advertising voice share was correlated and essentially the same as the market share and leading brands with big budgets were unassailable. This is no longer the case.

Globalisation has brought about an increasing production overcapacity that extols ‘strong brands’ and edges ‘weak brands’ out of the market characterized by a low brand and product turnover rate and far from competitive quality/price ratios in relation to the global mass market. In global markets, brand equity becomes a primary intangible asset only when aimed at accelerating sales in a market-driven management approach to face lower demand and dynamic marketing channels.

In this context of economic crisis, profound changes have manifested in buying habits and spending behaviours characterized by:

- The drastic increase in consumer disloyalty
- The explosion of purchasing non-loyalty
- The search for more advantageous points of sale and products
- The postponement of non-essential purchases

---

\* The Authors: S.M. Brondoni § 1, 2, S. Riboldazzi § 3

\*\* Editor-in-Chief Symphonya. Emerging Issues in Management ([silvio.brondoni@unimib.it](mailto:silvio.brondoni@unimib.it))

\*\*\* Assistant Professor of Management, Milano-Bicocca University ([sabina.riboldazzi@unimib.it](mailto:sabina.riboldazzi@unimib.it))

- The replacement of costlier products
- The reduction of quantities purchased.

Indeed, when disposable income decreases in the mass-market and consumers select purchases and points of sale, a drastic increase in brand disloyalty (brand switching) and non-loyalty purchases ensues (especially fostered by private labels and hard promotion) and many customer groups abandon costlier products (product switching) as well as reducing the quantities they purchase.

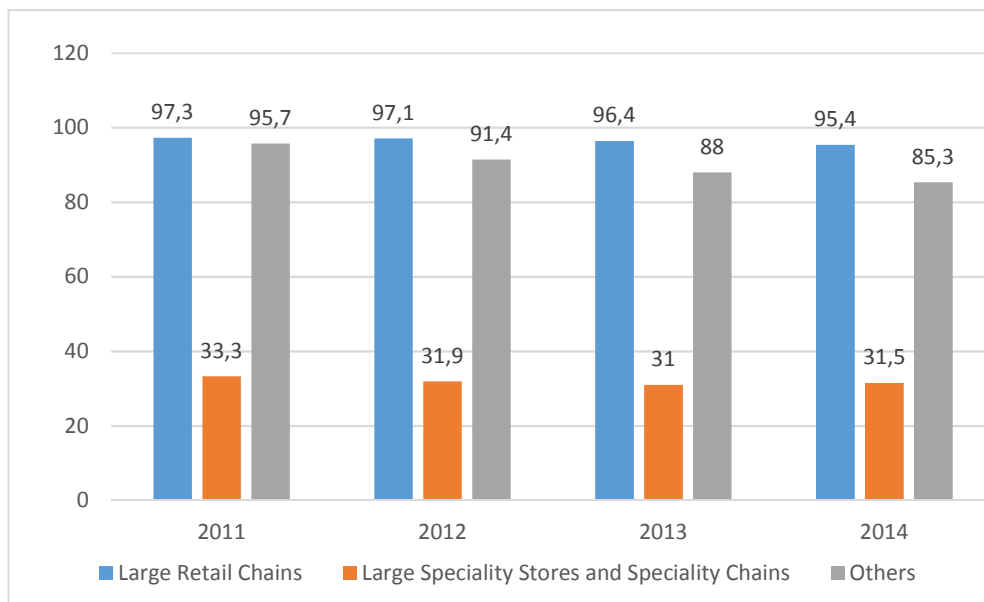
## 2. Instability in Consumption, Market-Driven Competition and Large Retailers

The trends of large retailers are a reflection of the effects of the economic crisis on purchasing power and consequently spending behaviour and consumption.

In the year 2014, large Italian retailers reported a declining turnover compared to previous years. With few exceptions, the turnover of large retailers gradually decreased, confirming the trend of 2013, the first year of losses in the history of large retail chains.

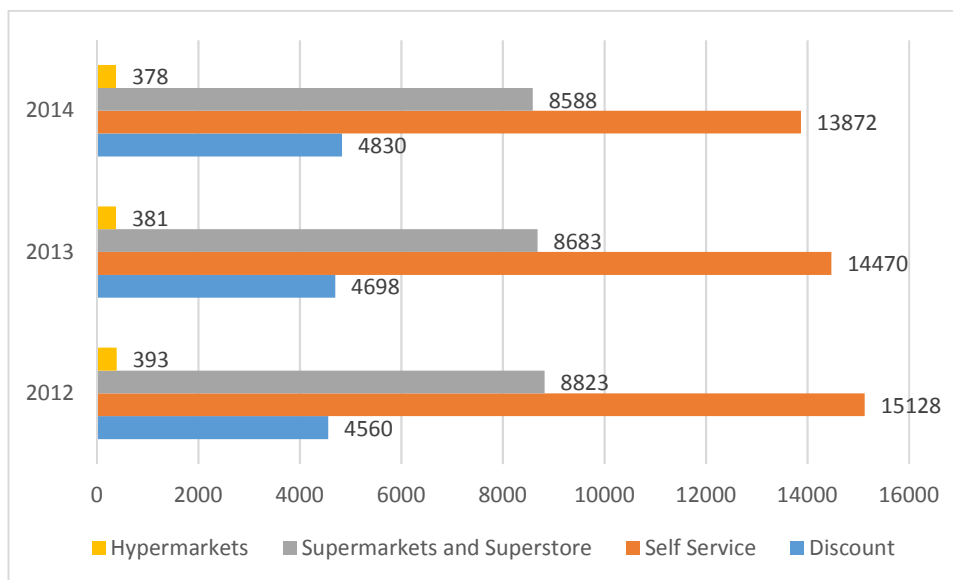
The buying trends are also confirmed when analysing the number of outlets, which decreased from 28,904 in 2012 to 27,668 in 2014 (FederDistribuzione data), a symptom of the closures of smaller players and/or large retailers refocusing on the territory. The discount store is the only retail channel that has increased in number of outlets since 2012, reaching in 2014 almost twice as many as in 2000 (DGM Consulting).

**Figure 1:** Turnover by Channel (billion euro) - Years 2011-2014



Source: Authors' elaboration of DGM Consulting and Federdistribuzione Data

**Figure 2:** Number of Points of Sale by Format - Years 2012-2014



Source: Authors' elaboration of DGM Consulting and Federdistribuzione Data

In this scenario, the largest retailers are changing their strategies in an attempt to counter the stagnation. Their goal is to be more effective/efficient, lower costs, invest in corporate assets and resources to maintain/improve their competitive positions. For example, opening new outlets has been replaced by redeveloping the network, renovating or restyling stores with strong store brands, hypermarkets seeking to reduce space, at times turning into superstores, while supermarkets increase their surface area to give more space to fresh, organic and premium products, expanding the space for promotion and technology to develop personalized offers.

The consumer crisis is pushing companies to adopt competitive behaviours based on market-driven management that favours competitive pricing and consumption loyalty (more flexible and less expensive than purchasing loyalty).

Over-supply and global markets thus call for new competition rules that enhance the offers of manufacturers and retailers with strong market-driven policies, where the brand is a 'system of responsibility' in manufacturer-trade-consumer relations.

In particular, the market orientation of retailers is characterized by the management of unstable customer aggregates (demand bubble), continuous comparison with competitors, high substitutability of products and performance conditioned by turnover and margins.

Market-driven competition also emphasizes global economies of scale related to the 'intensity of sharing' key resources in a networking system marked by sophisticated competitive partnerships. This is why closed organizations face increasing difficulties in global economies. Global competitive relationships presuppose a business network, high managerial and organizational skills, the ability to dominate communications, new product R&D, marketing, control and

finance. Small and medium-sized enterprises instead increasingly reduce their role to simple production facilities and local marketing, without a ‘global vision’, namely, ‘closed’ organizations driven to passive imitation of their nearest competitors (‘production-driven management’).

Thus, the ability of retailers to remain in the market depends on their capacity to compete within their networks where coordination, the speed of processes and the optimization of the interaction mechanisms become crucial for the success of the entire system. Indeed, in global markets, competition does not take place between individual companies but between the supply chains and marketing channels within which the value generation processes are determined based on the dynamics of flows activated aimed at efficiency and the effective capacity to respond to the variety and the variability of demand.

### **3. Development Policies of Local and Global Mass-Market Retailers**

The mass-market retail industry has reported a slowdown in turnover in the 2000s, particularly in markets hardest hit by the recent global economic crisis.

Accompanying this slowdown in market growth are diverse corporate behaviours correlated to business type, environmental factors and the demand and supply of different markets.

Indeed, the global retail market has seen a variety of corporate institutional models that compete in the different market spaces and adapt their development policies. Thus, in different regions, local retailers compete with big global retailers who translate their overall development strategies into actions consistent with the particular competitive characteristics of the specific markets.

Global retailers (e.g., Walmart, Carrefour, Metro, etc.) are characterised by large size, considerable negotiating power in supply chains worldwide and highly competitive distribution formats in many foreign markets.

These companies pursue development through selecting countries based on their commercial attractiveness rather than on proximity (geographic, cultural, etc.).

Development thus foresees continuous interaction with a complex system of variously localized actors (suppliers, competitors or other partners) to take advantage of specific knowledge, skills and competitive advantages to achieve positive business results at the corporate level.

Large retailers therefore pursue their corporate mission within the sphere of an open and unstable competitive system by balancing the goals of profitability with the fulfilment of a complex matrix of variously localized stakeholder and shareholder expectations. The aim is to obtain consensus and resources to dynamically manage a portfolio of distribution formats (supermarkets, superstores, minimarkets, etc.) popular in markets with greater economic opportunities in line with the contingent business development objectives.

The geographic dispersion of formats, point of sale opening/closing dynamics, alliances and innovation are thus elements that characterize the development of large retailers.

The ability to learn new value frontiers from the market through the management of advanced information systems translates into innovation processes to efficiently/effectively exercise the distribution functions and the management of an

offer that is standardized/adapted to the particular commercial features of the various market spaces in which they operate.

Process, organizational and product innovations therefore determine the growth trajectories of large retailers that develop sophisticated competitive collaborative relationships (networking) to react promptly and dynamically to exploit the opportunities that arise in larger markets.

In particular, product innovation becomes critical to match supply to demand that changes over time and according to the various spaces in which the company operates.

Product innovation in retail can be classified as 'top level' when leading to radical service transformation and hence determining the birth of a new format or distribution formula, 'second-level' product innovation refers to changes in the service attributes of existing distribution formulas or modifications to the retailing-mix levers (product range, price, merchandising, etc.).

Due to their size and ability to manage networking relations, large retailers are able to quickly develop 'second-level' innovations to differentiate from competitors, support sales at the local level and consequently achieve the overarching results. The acceleration of these innovation processes stimulates "first level" innovations (development of new distribution formulas) that are difficult for local distributors, hindered by their limited size and scope of operations.

Indeed, large retailers frequently compete in the various markets they operate in with smaller retailers that according to the Italian retail market are classified as small/medium independent subsidiaries, cooperatives and associated enterprises. For example, Coop (first Italian retailer for sales) is a consumer cooperative consisting of 97 cooperatives (Undicesimo Rapporto Sociale Nazionale Della Cooperazione di Consumatori, 2014), Conad (second Italian retailer for sales) is a national consortium that unites 2,673 independent retailers aggregated in 8 cooperatives (Conad, Annual Report, 2015), Selex (third Italian retail group by sales) is a trade group that began as a voluntary union and today aggregates 17 independent retailers and wholesalers (Selex Gruppo Commerciale, Bilancio Sociale, 2014).

These types of companies develop according to a mainly local approach that is unlikely to allow them to consider the internationalization path and they therefore pursue development in domestic or adjacent markets.

Value creation thus takes place respecting the proper balance of interests of those converging in the organization with a stakeholder system that generally lacks dynamism and is confined to the region in which the company operates.

For example, in the Italian retail market, many companies in the mass-market retail sector were created according to a capitalist family business model and then in some cases evolved to different business models (e.g., affiliated retailing).

The small size of these companies (compared to large chains that operate on a global level) is a limitation to their development from a competitive perspective. In some cases, local companies have been acquired by larger and often foreign companies. In other cases, competition from big global chains has led domestic enterprises to adopt collaborative agreements or business combinations such as voluntary chains (vertical aggregations in the marketing channels that bring together one or more wholesalers with a number of retailers) and buying groups (horizontal aggregations of single enterprises operating at the same level of

marketing channels). Furthermore, many local retailers have joined purchasing groups and/or developed sales networks through other forms of aggregation such as, for example, franchising. The objective is to reach a certain critical mass, to contain costs by sharing some activities managed to support local marketing.

The limited size and geographic prevalence, the reduced point of sale opening/closing dynamics, the collaboration agreements developed mostly with local partners and 'second level' innovations are thus the elements that distinguish local retailers. Despite their small size and operating scope, they attempt to imitate large-sized competitors, particularly with regard to in-store marketing activities and the retailing mix.

Indeed, local retailers, thanks to the wealth of information on consumers they can obtain and the use of new technologies, also adopt dynamic behaviours in relation to assortment aggregation, product price definition, merchandising and communication choices, decisions relating to their private label portfolio and the development of pre-, during and post-sales services.

In-store activities in particular are often managed according to more adjacent competitors to support sales in defined commercial areas, strengthen the brand relationship developed with a specific part of demand and thus achieve development goals anchored to the opportunities of smaller markets.

## Bibliography

- Bansal, P., & Kilbourne, W. E. (2001). The Ecologically Sustainable Retailer, *Journal of Retailing and Consumer Services*, 8 (3), 139–146.  
[http://dx.doi.org/10.1016/S0969-6989\(00\)00012-6](http://dx.doi.org/10.1016/S0969-6989(00)00012-6)
- Brondoni, S. M. (2012). Innovation and Imitation: Corporate Strategies for Global Competition, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, 1, 10-24.  
<http://dx.doi.org/10.4468/2012.1.02brondoni>
- Brondoni, S. M., Musso, F. (2010). *Ouverture de 'Marketing Channels and Global Markets'*, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, 1, 1-6  
<http://dx.doi.org/10.4468/2010.1.01ouverture>
- Burt, S. L., Mellahi, K., Jackson, T. P., & Sparks, L. (2002). Retail Internationalization and Retail Failure: Issues From the Case of Marks and Spencer, *The International Review of Retail, Distribution and Consumer Research*, 12 (2), 191-219.  
<http://dx.doi.org/10.1080/09593960210127727>
- Conad. (2015). *Annual Report*.
- Coop. (2014). *Undicesimo Rapporto Sociale Nazionale della Cooperazione di Consumatori*.
- DGM Consulting. (2015). *Evidenze e Future Tendenze nella Grande Distribuzione Organizzata*.
- Gennari, F. (2010). Management Control in Global Mass Market Retailers, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, 1, 56-64.  
<http://dx.doi.org/10.4468/2010.1.06gennari>
- Gripsrud, G., & Benito, G. R. G. (2005). Internationalization in Retailing: Modeling the Pattern of Foreign Market Entry, *Journal of Business Research*, 58 (12), 1672-1680.  
<http://dx.doi.org/10.1016/j.jbusres.2004.11.003>
- Musso, F. (2010). Innovation in Marketing Channels, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, 1, 23-42.  
<http://dx.doi.org/10.4468/2010.1.04musso>

- Riboldazzi, S. (2010). Retail Policies in the Global Gasoline Market, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, 1, 86-101.  
<http://dx.doi.org/10.4468/2010.1.09riboldazzi>
- Robinson, T. M., & Clarke-Hill, C. M. (1990). Directional Growth by European Retailers, *International Journal of Retail & Distribution Management*, 18 (5).  
<http://dx.doi.org/10.1108/09590559010005606>
- Rosenbloom, B. (2004). *Marketing Channels: A Management View*. Mason, Ohio: Thomson South Western.
- Salvioni, D. M. (2003). Corporate Governance and Global Responsibility, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, 1, 2003, 44-54.  
<http://dx.doi.org/10.4468/2003.1.05salvioni>
- Selex Gruppo Commerciale. (2014). *Bilancio Sociale*.