

Supermarkets vs. traditional retail stores: diagnosing the barriers to supermarkets' market share growth in an ethnic minority community

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Abstract

We study the state of food retail system serving an ethnic minority community. This group, Israeli Arabs, enjoys a relatively high standard of living but continues to make many food purchases in a variety of small, specialized retail food formats. In contrast, the surrounding Jewish population is mostly shopping in supermarkets.

Data from a survey of consumer shopping behavior across formats of different product lines are used to identify the barriers to the advancement of the supermarket format in this minority sector. Our study shows that socioeconomic factors, found in earlier supermarket diffusion studies to be the main barrier, have no impact in this case. We identify the tendency to purchase perishable food items in traditional outlets and the geographical diffusion barrier (distance of supermarket formats) to be the main limitation on supermarkets' market share growth. Further, we find that both these factors are influenced by underlying cultural and ethnic factors characterizing the study population.

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Keywords: Retail modernization; Supermarkets; Retail formats; Cross format shopping; Marketing to ethnic minority community; The role of ethnic-cultural factors; Food shopping patterns; Israel; Israeli Arabs

1. Introduction

The replacement of small family owned, traditional food stores with supermarkets is a universal phenomenon. This process of retail modernization has been the subject of a large number of studies. Many have focused on less developed countries (LDCs) (Goldman, 1981; Kaynak and Cavusgil, 1982; Slater and Henley, 1969), others, on emerging economies (Findlay et al., 1990; Kaynak, 1985; Samiee, 1993). Typically, these studies describe the weaknesses of the traditional retail system, and analyze the limitations on the supermarket format's acceptance.

Traditional food retail systems are not only typical to LDCs and to emerging economies. They exist also in

developed economies where traditional food retail formats often operate alongside modern supermarkets. For example, consumers in the highly developed Asian economies of Japan, Hong Kong, Taiwan and South Korea regularly utilize traditional formats and supermarkets' market share there has peaked at less than the 50% level (e.g. Goldman et al., 2002).

A number of researchers have recently drawn attention to yet another case of the coexistence of traditional and modern food retail formats, this time in the highly developed economies of Western Europe and North America. In these cases ethnic-cultural minorities such as Muslims in the UK (Jamal, 1995, 2003, 2005; Penaloza and Gilly, 1999) and Chinese and Mexicans in the USA (Ackerman and Tellis, 2001; Lavin, 1996; Miller, 1998; Penaloza, 1994) make many of their food purchases in traditional formats.

This last phenomenon is at the center of this paper. We report the findings of a study of the cross format food shopping patterns of a large ethnic-cultural

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minority: Israeli Arabs. While members of this group can easily shop in the modern supermarkets serving the mainstream Israeli population, they continue to patronize traditional outlets. We test hypotheses relating to the factors that might explain this type of shopping behavior and thus act as possible barriers to supermarkets' market share growth.

Our study is positioned within two research traditions. The first is food retail modernization which looks at the barriers to supermarket format diffusion. The second focuses on the shopping and consumption patterns characterizing ethnic-cultural minority groups residing in developed countries.

Our theoretical framework integrates prior work on food retail modernization and consumer shopping patterns in both developed and developing countries. It is based on the work of Goldman et al. (2002) who model the market share change process whereby supermarkets gain market share from traditional formats. The theory identifies three general components of market share change: diffusion of supermarket use across geography, across socioeconomic segments and by product categories. Spatial accessibility of modern formats, consumer ability variables, culturally determined behaviors and perceived characteristics of modern and traditional food retail formats are viewed as factors limiting or enhancing each of these processes. Our measurement approach is based on data from consumer survey which is used to summarize the state of competition among retail formats. In our particular application we use a hierarchical series of discrete choice models covering the various possible explanations. This enables us to assess the relative impact of these factors on the retail modernization processes.

The present study highlights the role played by cultural variables and explains how they impact consumers' retail format choice.

2. Theoretical framework

The process of food retail modernization involves an increase in the market share of supermarkets. The rich literature on supermarket diffusion emphasizes the role played by geographic and socioeconomic factors. To increase supermarket market share retailers must penetrate new segments and increase supermarket accessibility. Studies (Appel, 1972; Findlay et al., 1990; Goldman, 1981; Kaynak and Cavusgil, 1982; Kumcu and Kumcu, 1987) show higher socioeconomic status consumers to be more likely to switch to modern supermarkets. The reason: a higher opportunity cost of time is making multi-stop shopping in many small stores more costly than the one-stop shopping associated with the supermarket (Betancourt and Gautschi, 1986, 1990). In addition, these households have access to better

transport and can store larger food quantities, making one-stop shopping even more cost effective.

When a spatial separation of socioeconomic groups exists, i.e. geographic and economic segments coincide, we typically see the coincidence of diffusion through economic and geographic segments: supermarkets first open in higher-income areas and later in lower-income ones. This pattern was observed in many developing economies (Slater and Henley, 1969).

Where no spatial separation of economic groups exists diffusion by income may lag geographic diffusion. In this case we find supermarkets becoming widely accessible even to lower-income consumers, but their use is unequal. This scenario too has been widely observed. Specifically, studies in developing economies reported cases where in spite of easy accessibility to supermarkets consumers prefer to continue and purchase their food in traditional formats. Many researchers attributed supermarkets' failure in these cases (e.g. Goldman, 1974, 1981; Kaynak, 1985) to economic factors: higher-income consumers getting higher benefits from switching from traditional stores to supermarkets. The underlying reason is their higher opportunity costs of time, more storage space and transportation possibilities enabling less frequent shopping for food. In contrast, lower-income consumers, who purchase small amounts and shop frequently, get lower benefits from shopping in supermarkets.

Some researchers, however, also view the problem as cultural. For example, lower-income consumers in the USA residing in inner city or ghetto areas have developed a "subculture of poverty" (e.g. Andreasen, 1972; Caplovitz, 1967). They put high value on attributes associated with small traditional outlets such as personal attention by store owners, social interactions during shopping and being part of an informal economy centered around these stores.

The product category dependent diffusion, i.e. the use of the supermarket only for selected product categories, is another barrier to supermarket market share growth. This "selective adoption" phenomenon has been documented in both developing economies (Goldman, 1982; Kaynak, 1985; Miossec, 1990; Yavas et al., 1981; Zain and Rejab, 1989; Othman, 1990) and in developed ones (Goldman et al., 2002). Many of the documented cases of selective adoption involve the perishables category. Consumers were found to systematically divide their food purchases: shop regularly for perishable items in traditional formats while purchasing other food lines in supermarkets.

One explanation for the existence of this behavior involves supply side factors. These relate to the underdeveloped and fragmented supply system for the perishable food categories and/or to supermarket's space limitations. These may result in supermarket's perishable offering being inferior in variety, quality and price

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