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Competitive strategies in retailing—an investigation of the applicability of Porter's framework for food retailers

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Abstract

The objective of this research is to develop a framework for competitive strategies in food retailing. Managers of food retail channels were surveyed in order to derive the basic dimensions of competitive advantages that companies attempt to achieve in this industry sector. In a second study based on consumers, the central dimensions of retail store perception were investigated. Both studies reveal that three basic types of competitive advantage seem to prevail in food retailing: (1) price, (2) quality (with a comprehensive set of quality-orientated instruments, including customer service), (3) convenience. We find quality leadership and price leadership to be independent factors which can be achieved without conflicting with one another.
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1. Introduction

Competitive strategies deal with the development of attributes that characterise a company and differentiate the value it creates and offers in comparison to its competitors (Porter, 1980), i.e. the "core idea about how the firm can best compete in the market place" (Pearce and Robinson, 1994, p. 220). Because competition in the retail sector has been increasing for years, the importance of developing an effective competitive strategy appears to be increasing constantly (Cortjens and Doyle, 1989; Ellis and Kelley, 1992; Harris and Ogbonna, 2001). Given that retailing has become a mature industry with overcapacity, high concentration and, in many cases, price-driven marketing strategies which have led to rather homogeneous stores, differentiation from competitors through positioning seems increasingly necessary (Wortzel, 1987; Walters and Knee, 1989, p. 74).

According to Porter (1985), competitive strategy can be understood as the activities a company undertakes to gain a sustainable competitive advantage in a particular industry. These activities are determined by the strategic decision on the particular competitive advantage which the company is attempting to achieve, i.e. what advantage should be used to elevate the company from its competitors? This competitive advantage should fulfil certain criteria (Simon, 1988; Aaker, 1992; Mintzberg, 1996, p. 88; Walters and Knee, 1989; Brooksbank, 1994, p. 12; Corstjens and Doyle, 1989, p. 171). It must:

- Relate to an attribute with value and relevance to the targeted customer segment.
- Be perceived by the customer.
- Be sustainable, i.e. not easily imitated by competitors.

Consequently, the competitive advantage that a company selects should be based on its resources, strengths or distinctive competencies relative to competitors (Brooksbank, 1994, p. 12), but must also be perceived by consumers. That is, consumers must be aware of these competencies. This implies a simultaneous consumer and competitor-orientated perspective in the development of competitive strategies (Aaker, 1992).

In his familiar matrix with the dimensions "competitive advantage" and "scope of operation", Porter (1985) assumes that there are essentially three generic types of

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competitive strategy (based on two basic types of competitive advantage): cost leadership, differentiation and focus on certain target segments (which itself is either anchored through low-cost or differentiation). He also emphasises that companies must "make a choice" between the different generic strategies, since "being 'all things to all people' is a recipe for strategic mediocrity and below-average performance" (Porter, 1985, p. 12; see also Mintzberg, 1996, p. 87).

While it is commonly accepted that the (basic) concept of competitive advantage and competitive strategy is applicable across different industries, researchers have criticised Porter's concept in several respects, including the allegedly oversimplified dichotomy of cost leadership vs. differentiation (for an overview, see Miller and Dees, 1993). Also, the particular characteristics of certain industries, including (food) retailing, would require a more specific concept and allow different competitive advantages than in other industries (e.g. Harris and Ogbonna, 2001, p. 157; Uncles, 1998; Turock, 1999).

While Porter's concept has been tested for manufacturing companies in a number of studies, empirical evidence on the generalisability of the concept to retailing is rare. Accordingly, the purpose of this research is to investigate empirically Porter's framework of competitive advantage in the context of food retailing. Two empirical studies are conducted in order to develop a framework for competitive strategy and to evaluate the transferability of Porter's two basic types of strategy to retailing, one focussing on retail companies and the advantages they attempt to offer their customers compared to their competitors, and the other study surveying consumers and the dimensions in which they perceive food retail stores. Both aspects (company and consumer view) are treated as two perspectives of the same phenomenon in this paper.

2. The concept of competitive strategies

Porter (1980, 1985) proposes two distinct competitive strategies. A company (or strategic business unit) that decides to follow a cost leadership strategy has the objective of being able to realise its offer at the lowest possible cost. The competitive advantage of cost leadership is achieved by performing important value chain activities at a lower cost than competitors (Porter, 1985). Low-cost leaders must either have or develop some unique capabilities in order to achieve and sustain that position. Examples of such capabilities and resources are: a dominant market share, secured supplies of scarce raw materials or having developed more efficient linkages to suppliers. Companies striving for cost leadership in their industry usually look constantly for cost reductions and efficiency. They maximise economies of scale, reduce overheads and administrative expenses and use volume sales techniques (often including aggressive pricing) to proceed on the experience curve. Sustained capital investment is usually necessary and so too is a tight coordination of operations (Porter, 1980; Pearce and Robinson, 1994). Having achieved cost leadership, the company can—if it simultaneously offers an acceptable quality level ("all other things being equal, or not too unequal" (Mintzberg, 1996, p. 89))—either charge the same prices as competitors and enjoy higher profit margins or it can charge lower prices, usually increasing its sales volume (Day and Wensley, 1988; Pearce and Robinson, 1994).

Companies following a differentiation strategy strive to create and market unique products for varied customer groups. They aim to create a superior fulfilment of customer needs in one or several product attributes in order to develop customer satisfaction and loyalty, which can often in turn be used to charge a premium price for products. Contrary to competition with rather homogenous products, where price as a marketing instrument is in the focus, a differentiation strategy aims at reducing competitive pressure. It is a strategy that reduces the price sensitivity of consumers by offering uniqueness (Porter, 1980; Aaker, 1991; Pearce and Robinson, 1994).

As mentioned, it is assumed in the Porter framework that a company can only be successful by clearly deciding in favour of one of the generic strategies. He characterises companies that try to follow several generic strategies at the same time as "stuck in the middle", since he assumes that those companies fail to achieve any of them (Porter, 1985, p. 16; Walters and Knee, 1989). Limited resource availability is one reason for this assumption.

Many researchers have tested Porter's framework in different (industrial) sectors. Miller and Dees (1993) give an overview of the results. Some empirical studies have confirmed that the empirically observable strategies can, in general, be categorised into Porter's basic types (Miller and Dees, 1993; Walters and Knee, 1989). Others criticise that Porter's two basic types oversimplify potential sources of differentiation. Mintzberg (1996) conceptually develops six differentiation strategies. Miller (1992) empirically confirms his own hypothesis that the differentiation strategy (for manufacturing companies) can be carried out in (three) different variants, namely innovation (innovative products), marketing (brand image based communication policy), and quality (high quality and durable products). Other academics have added other possible competitive advantages for industrial companies, e.g. product range (Bolz, 1992) or customer service (Loomba, 1998). However, these conceptual and empirical studies have been conducted for manufacturing companies. Also, the argument by Gilbert and Strebel (1987) that highly successful companies have combined differentiation advantages and cost advantages in so called "outpacing strategies" is based on observations of manufacturing firms.

2.1. Competitive strategies in retail markets

Considering the characteristics of retail markets as mentioned above, clear competitive advantages relative to those of competitors become essential to success.

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