



Consumer observations on channel choices—Competitive strategies in Finnish grocery retailing

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ABSTRACT

This article aims at providing consumers' observations on their choices between various grocery retailing channels. The theoretical roots are based on Porter's competitive strategies and their further developed variations, but also the retailing research concerning competition and consumer perspective will be discussed. The results of the study confirm that consumers have one primary store, which is often a hypermarket or a supermarket. In addition, they prefer to shop in several supplementary stores located close to their homes. The empirical study also reveals that all retail channels have both weaknesses and strengths from the consumers' viewpoint.

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1. Introduction

A retail channel is a pathway from the producer to the consumers. It contains various retailers who are involved in the delivery of goods and services to consumers. The traditional perspective sees the channel as a structure with several producers, a limited number of retailers or other intermediaries and an unlimited amount of consumers as final users (Järvinen and Lehtinen, 1997). However, during the last decade traditional channels have experienced several changes when retail chains have developed bigger entities and multi-channel models have replaced the traditional channel structures. In addition, consumers have become multi-channel shoppers as a consequence of decline in channel loyalty (Gensler et al., 2007). The changing reality is about to have its effect on the topics emerging among academics working with retail channel research.

The tradition in channel research has been strong since the 1960s and the variety of research conducted vast (see state-of-the-art reviews by e.g. Schwartz, 1965; Gaski, 1984; Stern and El-Ansary, 1992; Cronin et al., 1994). Relationships between producers and intermediaries from the producers' point of view have dominated the channel studies. The most common variables in channel research have been power and conflict (e.g. Gaski, 1984), whereas channel competition and co-operation have become sources of interest only recently, and even today these topics are rare in channel research. Stern and El-Ansary (1992) (see also Weitz and Jap, 1995; Andersson et al., 1996) do not even mention the term

competition in their classification of various types of channel research. However, it can be assumed that competition within the channel is one cause of the conflicts occurred.

The review by Järvinen (1998) concludes that channel literature does not accept consumers as full members within the channel and there are no extensive discussions on the influence of consumers even though it is the consumers that in the end decide which retailers they buy from and which they do not. Falvey (1988, 277) reminds that:

You can do almost everything wrong in business and still succeed if you serve the customer. You can do just about everything right in business and fail if you do not take care of their needs, wants, desires, and emotions.

Falvey's words hold in the grocery retailing competition even today. His view is supported by Stern and El-Ansary (1992) as they encourage all channel members to keep their eyes on the most important people in the entire channel – consumers – and Hardy and Magrath (1988), who remind that one of the oldest axioms in marketing is to keep close to the consumers. Anderson et al. (1996) even suggest that channels should be evaluated with two dimensions: consumer needs and costs. In spite of the few arguments on behalf of consumers' importance in retail channel context, consumers seem to be the most neglected factor in the channel research. Therefore, it is important to shift the focus of retail channel studies to the consumer perspective.

This article aims at providing consumer's observations on their choices between various grocery retailing channels. The study was started along the lines of the research idea developed by Morganosky (1997), who has conducted studies on the impacts of structural changes within grocery retailing on grocery retailing

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itself and the consumers. Her special concern has been the cross-shopping patterns between different grocery retailing channels.

The article endeavors to find answers to the following questions:

- What are the cross-shopping patterns of Finnish consumers within different grocery retailing channels?
- What do consumers regard as the strengths and weaknesses of different retail channels?
- How do retail channels compete with or complete each other from the consumers' viewpoint?

Section 2 will discuss the channel competitive strategies in grocery retailing, after which in Section 3 there will be details and analysis of the research data. Section 4 will briefly touch upon the Finnish retail grocery channels as the context of the study, followed by consumer observations on these grocery retail channels in Section 5. In Section 6, the paper will concentrate on channel competition or completion from the consumers' viewpoint, and in Section 7 conclusions and discussion were outlined.

2. Channel competitive strategies in grocery retailing

Recent changes in the retail channel environment have affected not only retailers but also consumers. According to the table by Järvinen and Lehtinen (1998) the most dramatic change is the oversupply of goods and services experienced by all Western countries. The second one concerns channel structures, as producers move from one-channel to multi-channel strategy, the third and fourth illustrate a tendency towards co-operation and increasing power of retailers as intermediaries. The fifth change concerns consumers as they are becoming more experienced and quality conscious. Therefore, the monologue that characterizes mass marketing-oriented organizations and tries to manipulate consumers has to be turned into a dialogue with consumers. Some of the above changes listed in Table 1 have been going on for a longer period, e.g. Bucklin and Schmalensee observed already in 1987 an increased retailer concentration and Stern (1987) stressed the growth of retailer power.

2.1. Consumer preferences in multi-channel retailing

Many retailers play important roles in those channels where producers lack direct contacts with consumers. Retailer co-operation can achieve positive results in the form of increased sales volume and publicity (cf. Narus and Anderson, 1996) and they are in special position to manage and influence consumers (Järvinen, 1998).

Multi-channel retailing is becoming the standard approach (McGoldrick and Collins, 2007). Multi-channel strategies concern channels that often are organized as complex networks instead of traditional channel structures (Rapp and Collins, 1987; Moriarty

and Moran, 1990). Multi-channel types can be classified according to their characteristics, e.g. Järvinen (2001) has proposed three types according to ownership, differentiation and complementary nature. From retailers' point of view, consumer channel use is important to understand in order to maximize retailers' efficiency in meeting the needs of the consumers. Channels can complete each other and give consumers better shopping options (Johnson et al., 2006; McGoldrick and Collins, 2007). The study of Johnson et al. (2006) also indicates that consumers who try emerging retail channels do not switch completely to the new channels but just add them as further shopping options. Yet multiple buying environments most probably change consumer buying habits, because various channels interact and influence each other in the consumer mindset, as Park and Lennon (2006) state. However, Birgelen et al. (2006) argue that multi-channel research has so far left issues connected to consumer satisfaction and behavioral intentions virtually unaddressed.

Dowdell (2006) reports that almost 80 per cent of consumers shopped at five or more retailers in a 3-month period, and one quarter shopped at least at 10 retailers. He groups consumers' opinions of retailers in four segments: routine replenishment, big shops, experience makers and quick shops. Out of these alternatives routine replenishment retailers earn the most frequent shopping trips and have wide, consistent selections. McGoldrick and Collins (2007) profile four scales for multi-shoppers in their empirical study: ease of shopping, risk-reduction, product value and experiment seeking. On the other hand, Salmon (1987) concentrates on summarizing consumers' preferences in retail channels: one-stop shopping for routine needs, complete assortment, convenience (location, opening hours and parking), availability of post-sale services and hassle-free return privileges together with reasonable price level.

Another key component of consumers' channel preference is their behavioral loyalty to each channel (Gensler et al., 2007). Aalto-Setälä et al. (2004) studied the reasons for high prices in the Åland Islands, a small archipelago between Finland and Sweden. They found that high prices manifest the strong regional spirit among the inhabitants: they are prepared to pay higher prices for products that are produced in Åland. Further support for loyalty is given by Johnson et al. (2006), who confirm that consumers remain loyal to their local stores if they are satisfied with them and have a feeling of belonging to the local community.

Practically all grocery retail chains target on long-term relationships with consumers. On the other hand, Light (1988) has noticed that in many cases consumers feel that they have a relationship with both retailers and producers. We agree with Light, as many retail chains and producers have together developed various kinds of long-term loyalty programs. Park and Lennon (2006) particularly stress the interaction between sales personnel and consumers because of its positive impact on purchasing behavior. Juttner and Wehrli (1994) even see long-term relationships with consumers as a stabilizing element and they suggest that information exchange provides a basis for personalized offerings.

According to the above studies, long-term relationships between consumers and retailers benefit both parties and create loyalty and commitment. However, consumers seem to prefer multi-shopping and frequenting various retailers instead of only one. One reason for that can be the retailers' neglect of consumers as soon as they have established a relationship with them, as Kotler (1995) claims. In order to avoid this, retail channels need to adopt new strategies and attitudes towards their existing customers. When taking into account that producers believe in multi-channel structures in spite of the increasing competition between retailers, this issue arises among the most important strategic decisions. Therefore, it can be suggested that consumer

Table 1
Changes in channels (cf. Järvinen and Lehtinen, 1998).

| | | |
|-----------------------------------|---|--------------------------------|
| Demand | ⇒ | Oversupply |
| One channel strategy | ⇒ | Multi-channel strategy |
| Channel member competition | ⇒ | Channel member co-operation |
| Producer domination | ⇒ | Retailer power increase |
| Price conscious consumers | ⇒ | Quality conscious consumers |
| Consumer manipulation (monologue) | ⇒ | Consumer commitment (dialogue) |

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