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Intertype competition: specialty food stores competing with supermarkets

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Abstract

Empirical findings are presented in this paper concerning the competitiveness of specialty food stores when competing with supermarkets. Taking both a specialty food store-oriented perspective and a consumer-oriented perspective, the obtained results of two quantitative studies suggest that specialty food store managers' and consumers' evaluation of the importance of various store choice factors are quite similar. Additionally, specialty food store managers show highly positive expectations towards future intertype competition with supermarkets. © 2002 Elsevier Science Ltd. All rights reserved.

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1. Introduction

The development of competitive advantage is one of the main challenges which food stores is facing. In fact, retailing in general has been regarded as one of the most dynamic and competitive areas of business organization (Collins, 1992; Leszczyc et al., 2000). While food is essential to life consumers cannot consume unlimited amounts of food. Facing a near-saturated market, being the case in most Western countries, retailers seek to find ways to differentiate themselves from other retailers and thereby creating preference, or even loyalty, towards their own outlets. In short, retailers are aiming for competitive advantages. A competitive advantage can be defined as “a unique position which a firm develops vis-à-vis its competitors through its patterns of resource deployments and/or scope of decisions” (Hofer and Schendel, 1978, p. 25). A retailer obtains a competitive advantage by offering consumers a considerable ‘service-output’ at a given cost, as compared to competing retailers. Two types of competitive interaction among retailers are most commonly identified (Ingene, 1983; Miller et al., 1999; Levy and Weitz, 2001): (1) *Intratype competition*, which refers to competition between the same type of outlets (e.g., a specialty food store

competing with another specialty food store). (2) *Intertype competition*, which refers to competition between *different* types of outlets (e.g., a specialty food store competing with a supermarket). This paper deals with the second type of competition. The purpose of the paper is to investigate how specialty food stores compete with supermarkets. Towards this end, we consider the following problem areas: are there correspondence between the importance assigned by specialty food store managers and consumers to various store choice factors (Baker and Hart, 1989; Hildebrandt, 1988); what are managers' intended image of specialty food stores and what is the image as perceived by consumers; and how competitive are specialty food stores in future intertype competition with supermarkets?

The purpose of this study is approached from both a specialty food store-oriented perspective and a consumer-oriented perspective: The total service-output of a specialty food store would include factors such as the location of the shop, information about the shop and its products, assortment, customization of products, product quality, etc. None of these, or other factors, should be excluded beforehand as having potential for gaining ‘competitive advantages’. The competitiveness of specialty food stores when participating in intertype competition with supermarkets can therefore be regarded as an abstract concept which in itself does not provide

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much information about the critical success factors of specialty food stores. Instead, a distillation of the concept has to be made in order to provide more specific information about the factors which specialty food stores consider as being important for their competitiveness. However, whether the perceived critical success factors of specialty food store managers are sufficient for competing in the food market depends highly on the importance attached by consumers to these critical factors when choosing among different types of food-outlets. In consequence of these considerations, two quantitative studies were conducted. The first study elicits specialty food store managers' opinions of their critical success factors and of their estimated future competitiveness when competing with supermarkets. This study encompasses four types of specialty food stores. The second study elicits consumers' assessments of the most important store choice factors when deciding whether to choose a specialty food store or a supermarket.

This paper takes its point of departure in the Danish retailing. The historical development in Danish retailing has in general terms been close to the historical development in the rest of the Western countries. Like in most other Western countries there has been a decrease in the number of food outlets complemented by a larger geographical and economical concentration of retailers. The results obtained in this study might therefore also be of interest to retailers and academics in other Western countries. This paper is organized as follows: In Section 2, a review of the present intertype competitive position of specialty food stores is conducted. Also, an overview of the Danish food retail structure is provided. In Section 3, four research questions are established, as is the methodology used. The results of the two empirical studies are presented in Section 4. Section 5 discusses the implications of the obtained results and provides suggestions for further research. In Section 6 some concluding remarks are proposed.

2. The competitive context

According to Porter (1979, p. 215) "an industry can...be viewed as composed of clusters or groups of firms, where each group consists of firms following similar strategies in terms of key decision variables...I define such groups as *strategic groups*". The Danish retail food market can be divided into six strategic groups each offering a unique mix of price, service, and products. Three of these strategic groups—warehouses, discount supermarkets, and conventional supermarkets—compete for the major shopping trips of consumers and can together be labeled the 'supermarket market' (see Marion, 1998). Other three strategic

groups—minimarkets, specialty food stores, and kiosks—compete for fill-in or specialty shopping. These three groups can together be labeled the 'fill-in market' (see Marion, 1998). Although the supermarket market and the fill-in market represent two different ways of distributing food to consumers they both compete for the consumers' food money. In this paper, the widest possible definition of a 'supermarket' is used covering the 'supermarket market'. With regard to the fill-in market this paper is focusing on specialty food stores only. A specialty store is usually defined as "a small or medium-sized establishment or boutique handling limited lines of goods" (Stern & El-Ansary, 1988, p. 42).

2.1. The Danish supermarket market and specialty food stores

Various formats constitute the supermarket market in Denmark, namely discount stores, warehouses (i.e. hypermarkets and combination stores), and conventional supermarkets (including up-scale supermarkets). Two large supermarket groups, Dansk Supermarket and FDB, dominate the Danish supermarket market having a total marketshare of 68% (2000). The corporate retail chain Dansk Supermarket (marketshare 25%) is owned by the Dansk Supermarket Ltd. whereas FDB (marketshare 43%) is a consumer co-op. The Danish independents hold together a marketshare of 28%. Fifty five percent of the independents are joined in wholesale-sponsored voluntary cooperative groups, whereas 32% are joined in retail-sponsored cooperatives (refer to Levy & Weitz, 2001). Aldi, the German discount store chain, holds a marketshare of 4% of the supermarket market.

The Dansk Supermarket comprises the discount store chain Netto (marketshare 10%), the hypermarket chain Bilka (marketshare 5%), and the combination store chain Føtex (marketshare 10%). FDB comprises the discount store chain Fakta (marketshare 7%), the hypermarket chain OBS (marketshare 3%), the combination store chain Kvickly (marketshare 9%), the conventional supermarket chains SuperBrugsen (marketshare 16%) and Dagli'Brugsen (marketshare 5%), and the up-scale chain Irma (marketshare 2%). The Danish independents comprise conventional supermarkets (total marketshare 22%), discount supermarkets (total marketshare of 4%) and others (total marketshare 2%). In general, Danish specialty food stores can be characterized as owner managed independents, since cooperation and integration among these stores is almost absent (MBI, 2000; Stockmann, 2000). There are a total of 5700 (2000) specialty food stores in Denmark which together hold a marketshare of 45% of the fill-in food market and about 12% of the total food market.

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