Logistics strategies in domestic and international retail expansion: The case of the Greek food multiple retail sector

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DECLARATION

I declare that:

a) the contents of this thesis have been composed by myself,

b) the work contained within is my own unless otherwise stated,

(c) all contributions from others have been clearly indicated and given due reference, and

d) this work has not been submitted for any other degree or professional qualification.
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ABSTRACT

The logistics function contributes substantially to the efficient functioning of retail operations, and it is in the best interests of retailers to employ a logistics strategy in the course of their expansion.

In the present thesis, the author delves into the impact of logistics upon retailers' competitive advantage, by making use of four theoretical approaches to the theory of the firm. These are the network theory, the transaction costs analysis, the eclectic paradigm and the emergent or deliberate strategies approach. In addition, the thesis investigates thoroughly the facilitating role of logistics during food multiple retailers' domestic and international expansion.

The sector under empirical investigation is the Greek food multiple retail sector, where a number of structural changes occurred in the last decade, greatly enhanced by the advent of retail multinationals.

The findings of the extensive interviews carried out among Greek and foreign retailers in Greece, indicate the major role played by logistics in multinational retailers' expansion. Multinational retailers make use of deliberate logistics strategy practices, as the latter were found to be central to retail internationalisation. The importance of both logistics and information technology functions for multinationals' expansion was confirmed in the author's examination of the eclectic paradigm. Greek firms on the other hand, stressed the increasing role of logistics in their domestic operations, and employ the emergent logistics strategy following the entry of retail multinationals that put competitive pressure upon them.
The investigation of network theory underlines specific preconditions that are necessary for the formation of retail logistics networks in Greek food multiple retailing.

On the other hand, the study of transaction costs theory can not accommodate to the full an explanation of why domestic and multinational food multiple retailers decide to externalise or to internalise the transportation and the warehousing operations.

Overall, the findings of the thesis corroborate the primary role of logistics as a significant competitive catalyst in the course of food multiple retailers’ domestic and international expansion and therefore, understanding has been extended in this area of research.
List of Tables

Table 2.1: Factors that prompt a firm to internationalise ........................................... 19
Table 2.2: Organisational characteristics of the modes ............................................... 30
Table 2.3: Essential characteristics of market entry methods ..................................... 32
Table 2.4: Market entry mode profiles ................................................................... 36
Table 2.5: Classification of market-making activities and risks - losses associated ...... 45
Table 2.6: The transaction cost theory of the multinational firm ............................... 46
Table 2.7: Comparison of forms of economic organisation ....................................... 63
Table 3.1: The distribution / logistics effects of consumer, societal and retail change in U.K. food retailing .......................................................... 72
Table 3.2: The introduction of centralisation and other major logistics trends in British food multiple retailing between 1960s till mid-1980s ........................................ 75
Table 3.3: The advantages / disadvantages of centralisation for multiple retailers ...... 77
Table 3.4: The impact of composite distribution ..................................................... 78
Table 3.5: Key ratios in the grocery supply chain in Europe ....................................... 79
Table 3.6: Classification of third party distribution services ..................................... 81
Table 3.7: The benefits of contract / own account distribution .................................. 83
Table 3.8: Degree of asset specificity in relation to the ease of measurement ............ 90
Table 3.9: Main differences between logistics strategy & strategic logistics ............ 95
Table 3.10: Typology of logistics strategies and strategic logistics ......................... 96
Table 3.11: Main differences between retail logistics strategy & retail strategic logistics ........................................................................................................... 97
Table 3.12: Comparative features of transaction exchange and strategic network...

Table 3.13: Percentage of third party penetration (externalisation) in European food multiples...

Table 4.1: Information technology in retail operations...

Table 4.2: Benefits of EPoS systems...

Table 4.3: Benefits from the implementation of EDI...

Table 4.4: Information technology systems in U.K. food multiple retailing...

Table 4.5: Information technology and corporate strategy...

Table 5.1: Approaches to the internationalisation conceptualisation...

Table 5.2: Understanding retail internationalisation...

Table 5.3: “Push and pull” factors behind internationalisation...

Table 5.4: Cultural preference of mainland European retailers...

Table 5.5: Salmon and Tordjman’s classification of international retail strategies...

Table 5.6: Early movers versus followers within retail internationalisation...

Table 5.7: The parameters of international retailing...

Table 5.8: The 13 largest retail firms in Europe...

Table 5.9: Outlets and turnover by retail format in European food retailing...

Table 5.10: Number of food stores in operation in European food retailing...

Table 5.11: Geographical diversification and product diversification...

Table 5.12: Advantages and disadvantages of various mechanisms to establish international retail operations...
Table 5.13: Market entry strategies of European food retail multiples

Table 5.14: Foreign retail market entry strategies by nature of activity

Table 5.15: Ownership, location and internalisation advantages in food multiple Retailing

Table 6.1: Population forecast based on sex and age group

Table 6.2: Size of households

Table 6.3: Retail sales value between 1994 - 1998

Table 6.4: Annual retail sales value of selected products

Table 6.5: Major indicators of the Greek economy, 1997-2003

Table 6.6: Some indicators of the Greek business environment

Table 6.7: GDP and employment by sector in the Greek economy

Table 6.8: The major cities in Greece based on population

Table 6.9: Retail employment structure across the European Union

Table 6.10: Social indicators of the Greek environment

Table 6.11: Population profile by social grade

Table 6.12: Retail outlets for the period 1951 to 1995

Table 6.13: Retail outlets per 1,000 inhabitants for the period 1951 to 1995

Table 6.14: Proportion of population per supermarket

Table 6.15: Percentage of sales per store format

Table 6.16: Major acquisitions in Greek food multiple retailing

Table 6.17: New store establishments and store acquisitions for food multiple retailers between 1993 and 1998

Table 6.18: The major food retailers ranked by sales in 1999
Table 6.19: Profile of the leading food multiple retailers in Greece.................227
Table 6.20: Food wholesale and retail companies between 1978 and 1998............230
Table 6.21: The major buying groups in the Greek food retail market..................232
Table 6.22: Number of EAN scanning stores (units) across the European Union.......234
Table 6.23: Major shopping centres in Greece.............................................237
Table 6.24: The market share of the top 10 food multiples in the food retail market...238
Table 7.1: Basic concepts in research.........................................................242
Table 7.2: Themes, research topics and research propositions............................243
Table 7.3: Differences between quantitative and qualitative research..................247
Table 7.4: The three uses of deviant cases...................................................253
Table 7.5: Standards required for supporting the quality of findings....................260
Table 8.1: Managerial positions of the interviewed managers............................266
Table 8.2: The importance of logistics for: i) domestic and multinational food
multiple retailers and for ii) small - large store format retailers........................270
Table 8.3: Centralisation of logistics operations for the major food multiple retailers..271
Table 8.4: Warehousing operations for the major firms in the Greek food multiple
retail market.................................................................................................276
Table 8.5: Research propositions and findings for logistics strategy and
logistics practices in Greek food multiple retailing sector...............................283
Table 8.6: Logistics and information technology costs in the Greek food
multiple retail sector....................................................................................288
Table 8.7: Stock turnover ratio for the major domestic and international food multiple retailers that operate in the Greek retail market

Table 8.8: Logistics and information technology in Greek food multiple retail sector

Table 8.9: The transportation function in Greek food multiple retail sector

Table 8.10: Strategic retail logistics network between retailers and third party companies in Greek food multiple retail sector

Table 8.11: The share of own brands sales in the Greek food multiple retail sector

Table 8.12: The eclectic paradigm in the Greek food multiple retail sector

Table 8.13: Transaction costs theory in food multiple retail logistics
<table>
<thead>
<tr>
<th>List of Figures</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 2.1: The internationalisation process of the firm</td>
<td>17</td>
</tr>
<tr>
<td>Figure 2.2: Dimensions of internationalisation</td>
<td>20</td>
</tr>
<tr>
<td>Figure 2.3: Asset specificity, uncertainty and frequency</td>
<td>43</td>
</tr>
<tr>
<td>Figure 2.4: The product life-cycle and its effects on the location of one</td>
<td></td>
</tr>
<tr>
<td>country’s production and trade</td>
<td>47</td>
</tr>
<tr>
<td>Figure 2.5: The diamond of competitive advantage</td>
<td>52</td>
</tr>
<tr>
<td>Figure 2.6: Interactions between ownership mode and approach to the relationship</td>
<td>65</td>
</tr>
<tr>
<td>Figure 3.1: From logistics strategy to strategic logistics</td>
<td>94</td>
</tr>
<tr>
<td>Figure 3.2: The buyer-seller service relationships</td>
<td>101</td>
</tr>
<tr>
<td>Figure 3.3: The choices according to the level of transaction costs and integration costs for international food multiple retailers’ facing the externalise / internalise decision for their logistics operations</td>
<td>104</td>
</tr>
<tr>
<td>Figure 4.1: ECR focus areas at European level</td>
<td>122</td>
</tr>
<tr>
<td>Figure 4.2: Information planning grid</td>
<td>136</td>
</tr>
<tr>
<td>Figure 4.3: Global drivers, information technology and the network organisation</td>
<td>139</td>
</tr>
<tr>
<td>Figure 4.4: Five levels of I.T. induced reconfiguration</td>
<td>141</td>
</tr>
<tr>
<td>Figure 4.5: The three eras of information technology</td>
<td>145</td>
</tr>
<tr>
<td>Figure 4.6: Asset specificity and the safeguards’ necessity</td>
<td>152</td>
</tr>
<tr>
<td>Figure 4.7: Matrix based on the different perceptions regarding asset specificity</td>
<td>154</td>
</tr>
<tr>
<td>Figure 5.1: Retail internationalisation based on motivational structure</td>
<td>167</td>
</tr>
</tbody>
</table>
Figure 5.2: Stages of retail internationalisation................................. 177
Figure 5.3: International development positions................................. 178
Figure 5.4: Paths for growth............................................................... 186
Figure 5.5: The evolution of strategic marketing planning....................... 201
Figure 7.1: Case study methodology.................................................... 252
## Contents

### Chapter 1: Introduction

1. Logistics operations in the Greek food multiple retail sector: The author’s rationale.. 1
2. Aims of this thesis and methods of achieving these aims. 4
3. A chapter by chapter outline 8

### Chapter 2: A review of the international business literature with an emphasis to the services sector

1. Introduction 16
2. Definition, process and dimensions of internationalisation 17
2.1 Foreign operation method 25
2.2 Sales objects 25
2.3 Target markets 25
2.4 Organisational capacity 26
2.5 Personnel 26
2.6 Organisational structure 26
2.7 Finance 27
3. Modes of internationalisation 27
3.1 International 27
3.2 Multinational 28
3.3 Regional 28
3.4 Global 29
3.5 Transnational 29

XIII
4. International market entry methods ......................................................... 31
5. Theories of international production ....................................................... 37
  5.1 Microeconomic theories of international production ........................... 38
      5.1.1 The market power approach ...................................................... 38
      5.1.2 Internationalisation (Transaction costs) approach ......................... 39
  5.2 Macroeconomic theories of international production ......................... 47
  5.3 Mesoeconomic theories of international production and Porter’s
    contribution to international business literature ..................................... 50
  5.4 The eclectic paradigm ........................................................................ 54
  5.5 Network theory .................................................................................. 62
6. Conclusions ............................................................................................. 66

Chapter 3: A critical examination of the literature on retail logistics..69

1. Introduction .............................................................................................. 69
2. The food retail logistics function ............................................................ 70
3. Centralisation and the use of third party distributors in food multiple retail
   logistics ................................................................................................... 74
   3.1. Centralisation ............................................................................... 74
   3.2. Third party (contract distribution) ............................................... 79
4. Transaction costs economics and retail logistics: The “ make – internalise
   versus buy – externalise ” decision ....................................................... 86
5. Internationalisation and retail logistics strategy ...................................... 93

XIV
6. The formulation of a strategic network in retailing: The best answer to the
  externalise / internalise decision?.................................................................99

7. Conclusions.................................................................................................108

Chapter 4: A critical review upon the information technology in
retailing literature.................................................................110

1. Introduction.................................................................................................110

2. Information technology and food retailing..........................................................112

3. Information technology and food multiple retail logistics..........................................124

3.1 Information technology and the development of centralisation.................................125

3.2 Information technology and externalisation (third party distribution)
of logistics operations........................................................................................128

4. Information technology and the formulation of food multiple retailers’
international logistics strategy................................................................................131

5. Information technology and the strategic retail network.............................................139

6. The impact of information technology on food multiple retail logistics
transaction costs....................................................................................................147

7. Conclusions.................................................................................................156

Chapter 5: Retail internationalisation literature..............................................159

1. Introduction.................................................................................................159

2. Theoretical approaches to retail internationalisation.................................................160

3. The determinants of international expansion in the European food
  retail environment..............................................................................................168

XV
3.1 Political/Legal aspects..........................................................168
3.2 Social aspects..................................................................169
3.3 Cultural aspects.................................................................170
3.4 Economic aspects..............................................................172
3.5 Geographical proximity.....................................................173
3.6 Retail structure.................................................................174
3.7 Supply chain aspects..........................................................175
4. Theoretical frameworks of retail internationalisation.............176
5. Retail internationalisation strategies of the European food multiples..................................................183
6. Entry strategies to international retail markets.........................188
7. Transaction costs theory (internalisation), the eclectic paradigm (OLI) and retail internationalisation.................................194
8. Retail internationalisation and strategic retail network............201
9. Conclusions........................................................................205

Chapter 6: The Greek food retail sector.................................207
1. Introduction........................................................................207
2. The Greek food retail environment.......................................208
2.1 The Greek consumer..........................................................209
2.2 Economic factors..............................................................212
2.3 Geographical and socio-cultural factors..............................215
2.4 The retail legislative environment.......................................218
3. The structure of the Greek food retail market..........................................................221
4. Other major developments that occurred over the 1990s in the Greek food multiple retail sector.................................................................229
  4.1 The decreasing importance of the wholesaling sector...........................................229
  4.2 The formation of buying groups and alliances....................................................231
  4.3 Logistics – Supply chain management...............................................................232
  4.4 Information technology – logistics related information technology applications...233
  4.5 Own brands, customer loyalty cards and non-store selling..................................234
  4.6 The evolution of suppliers – retailers relationships during the 1990s.................235
  4.7 Shopping centres and out of town development.................................................237
  4.8 Market concentration..........................................................................................237
5. Conclusions..............................................................................................................239

Chapter 7: Research methodology.................................................................241
  1. Introduction............................................................................................................241
  2. Theory and propositions.......................................................................................242
  3. Qualitative versus quantitative research.............................................................246
  4. Case study methodology.......................................................................................248
  5. The in-depth interviews........................................................................................254
  6. Data analysis..........................................................................................................257
  7. Problems encountered during the empirical research.........................................261
  8. Conclusions............................................................................................................263
Chapter 8: The findings of the empirical research

1. Introduction
2. Research methodology and research propositions
3. Research theme 1: Logistics strategy and logistics practices
4. Research theme 2: Information technology and logistics
5. Research theme 3: Strategic retail logistics network created between food retail multiples and the third party logistics companies
6. Research theme 4: The application of the eclectic paradigm (OLI) in the Greek food multiple retail sector
7. Research theme 5: The application of transaction costs theory into retail logistics
8. Conclusions

Chapter 9: Summary and conclusions

1. Outline
2. Contribution of the thesis to the existing literature
3. Suggestions for further research
4. Managerial implications

References
Chapter 1: Introduction

1. Logistics operations in the Greek food multiple retail sector: The author’s rationale

It is claimed that logistics can contribute to the achievement of a differential competitive advantage for a firm, through improved customer service and in particular via a reduction in the costs of operations (A.T. Kearney 1993).

A definition of logistics is provided by the Council of Logistics Management (as quoted by Bowersox and Closs 1996, p. 4):

“Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements”.

In food retailing, the logistics function encompasses five elements: storage facilities, inventory management, transportation, packaging and communications (Smith and Sparks 1993). Smith and Sparks (1993) argue that the effective management of these elements enables the retailer to enhance financial performance.

The present thesis will examine the impact of the logistics function in the process of domestic and international expansion of retailers within the Greek food multiple retail sector. Moreover, the logistics function has been examined under various research angles for manufacturing firms; nevertheless, researchers of the retail sector have relatively ignored this function (Fernie 1997) and most importantly, no research has been conducted for its role during retailer’s expansion.
This merits special attention as logistics contributes largely to retailer’s domestic and international expansion due to the plethora of products that need to be distributed to a vast number of stores. Following the above, it is the author’s view that the logistics function is of higher importance to retail firms compared to manufacturing firms especially when retailers are gradually becoming “logistics businesses”, dealing with a range of pure logistics matters (e.g. warehousing, transportation...). We should remind the reader that the retailer’s traditional role has been product selling (McGoldrick 1990). Therefore, this thesis aims to fill a gap in the existing literature by showing inter alia, the logistics (and some of its elements) importance for retailer’s domestic and international expansionary strategy as well as to identify its association with another firm function, information technology. The author will also try to uncover potential similarities and differences between domestic and multinational retail firms operating in the Greek food multiple retail sector in relation to their logistics strategies and distribution operational practices. It is useful to mention that certain business aspects and distribution operational practices may vary between domestic and international expansion as for example, firms face the extra costs of doing business abroad (Terpstra and Sarathy 2000). Some of these costs are the result of differences in sourcing and product requirements, variations in consumer tastes and different exchange rates amongst countries – it is the traditional concept of “the extra expense of doing business abroad”. Border crossing also presents direct obstacles to the movement of goods as a result of differences in transportation and warehousing services infrastructure, transport regulation and telecommunications infrastructure amongst countries, to name a few (Terpstra and Sarathy 2000).
The efficient use of logistics operations may be a factor for the reduction of the uncertainty and complexity that prevails in international operations.

The sector under investigation is Greek food multiple retailing. Product distribution in that country has never been easy as Greece is characterised for its mountainous nature and the very large number (around 115) of populated islands. The above create ex ante extra logistics requirements (e.g. need for distribution by various methods such as sea and road, larger number of warehouses...) and probably extra costs, for retailers pursuing expansion into that environment (Bourlakis and Davies 1999). Apart from the above, the Greek food retail sector was characterised by small independent shops mainly run by families until the early 1990s, and with no foreign retailers operating in the local food multiple retail scene (Bourlakis 1995).

During the 1990s, the process of change in many aspects of the food retail market was dramatic (Bourlakis and Davies 1999) as international food multiple retailers (e.g. Makro, Promodès, Delhaize Le Lion) entered the market. Subsequently, these firms imported new retail formats (e.g. hypermarket and discount format) and new schemes (for example, customer loyalty cards).

The retail changes that took place during the 1990s have been examined and commented by various researchers (see for example, Boutsouki and Bennison 1997 and Bourlakis 1995 and Bourlakis et al 1996 for supplier – retailers relationships in the food channel, Boutsouki et al 1995, Bennison and Boutsouki 1996 and Bennison and Boutsouki 1998 for the impact of retail internationalisation on the domestic market).

A substantial number of these changes were logistics - related ones. Nevertheless, no attention has been given by researchers to analyse the impact of retail
internationalisation on that specific host country level towards logistics developments per se and therefore, the Greek food multiple retail sector is an ideal "laboratory" for investigating issues associated with changes in the logistics function. Given the rapid structural and organisational changes that took place in the host market during the last decade, logistics issues under examination include, amongst others, the implementation of centralisation and the use of information technology systems. As logistics strategies and operational practices were developed from scratch by both domestic and international firms, an examination of that country sector can provide the reader, amongst other things, a clear insight for a range of issues for these firms' strategic development and implementation towards the logistics function.

The present thesis and to the best of the author's knowledge, can claim that the present investigation having logistics in the heart of the argument, it is the first of its kind for the Greek food multiple retail sector.

2. Aims of this thesis and methods of achieving these aims

This thesis has several aims and the first of them, is the identification of the importance of logistics and its related functions (mainly transportation and warehousing) as operational tools in the implementation of retailer's strategy at domestic and at international level.

Food multiple retailers, in the course of their domestic and international expansion, may follow different strategic approaches, such as the emergent or the deliberate strategic approach (Mintzberg 1987). The strategic expansionary approaches of foreign and local
retailers are examined for the Greek market in connection to the retailers’ logistics operations.

Another aim of the present work is to investigate the association between information technology and logistics for food multiple retailing and the subsequent potential impact that such association can have upon a retailer’s strategy. It is worth reminding to the reader that information technology – communications is one of the five elements of retail logistics function referred in Smith and Sparks (1993), so the author will also explore whether information technology leads to increased logistics efficiency in retailing.

A fourth aim of this thesis is the examination of an international business theory, the network theory, into the Greek food multiple retail sector. The application of the network theory is investigated for the presence of logistics networks formed between food multiple retailers and third party logistics companies in Greece. Some of the network elements under investigation include: the co-operation, the effective communication and the continuity of co-operation between food multiple retailers and third party logistics companies (Jarillo 1993).

A further task of the thesis is the investigation of Dunning (1979) eclectic paradigm, another international business theory that consists of three elements - advantages (ownership, location and internalisation).

The eclectic paradigm provides one of the main explanations in international business activity. So, its examination in the Greek food multiple retail sector aims to shed light to the factors that led a retailer to enter the Greek market and the impact of
internationalisation on the host market structure and on the organisation of Greek retail firms.

The sixth and the final objective of the study, is the relevance of Williamson’s (1985) transaction costs theory to the issues under examination. Transaction costs theory investigates the association between two parties during an economic exchange, and contains as its basic ingredients the uncertainty prevailing in an exchange, asset specificity in production, the frequency of an exchange and opportunistic behaviour shown by the participants of transactions. The transaction costs related issues are investigated by the author within the context of food multiple retailers’ domestic and international logistics strategy. In particular, a thorough analysis is provided on whether transaction related costs of logistics operations have an influential role to play upon retailers’ decision to externalise or internalise transportation and warehousing. It is useful to mention that the network theory (Jarillo 1993), the eclectic paradigm (Dunning 1979) and the transaction costs analysis (Williamson 1985) are major international business theories that have been applied extensively to the manufacturing sector but with limited or none empirical applications to the retail one (Sparks 1996). Therefore, an empirical investigation of these theories to the retail sector will provide inter alia, new insights for the retail internationalisation process per se and for the externalisation / internalisation issue that retailers face in their domestic and international logistics operations. However, this has not been the only reason for focusing on these three international business theories. It is our view that these theories complement each other as transaction costs – internalisation (Williamson 1975) is one of the three core elements of the eclectic paradigm (Dunning 1979). Dunning’s (1979) eclectic theory has
considered firm’s internationalisation by extending Williamson’s (1975) initial work on transaction costs analysis and introducing the ownership and location elements. The network theory on the other hand, provides a better understanding for the various relationships that occur during a firm’s internationalisation (Thorelli 1986). Some of these relationships involve dealing with suppliers and the associated transaction costs of switching to another supplier to name few. These relationships are very much applicable to our research where we examine relationships occurring between a buyer and a seller of a logistics service. According to Johanson and Mattson (1987) these forms of relationships are quite complex and more or less interdependent with other business activities. The same authors (Johanson and Mattson 1987) argue that the transaction costs analysis as well as most international business theories can not explain adequately these relationships and propose the use of network theory. The author has taken their proposal on board in order to investigate inter alia the relationships occurring between the retailer (buyer) and the third party logistics service firm (seller) on both domestic and international level.

We return our discussion to the six aims cited in the beginning of this section and based on these aims, the author develops five research themes as follows:

i) logistics strategy and logistics practices,

ii) information technology and logistics,

iii) the formation of a strategic retail logistics network between food retail multiples and third party logistics companies,

iv) the application of the eclectic paradigm in the Greek food multiple retail sector and,

v) the application of transaction costs theory into retail logistics.
Under the umbrella of these research themes, seventeen research topics are formulated, and the author puts them on test via the use of seventeen research propositions.

The empirical study is mainly qualitative, with a number of in depth interviews conducted by the author. The relevant interviews were personal interviews of the author with senior retail managers working for the major domestic and international food multiple retailers in Greece, and are supported by secondary data.

3. A chapter by chapter outline

Chapter 2 introduces the international business literature. The literature is overwhelmingly orientated towards manufacturing sector firms, and the author’s endeavour is to relate the principles and the applicability of the theory for the services sector. It is the author’s view that by discussing this literature in the services sector, it will be possible to pinpoint certain issues that benefit research in the retailing sector.

At the start of Chapter 2, the process and the modes of internationalisation are discussed, followed by an examination of the international market entry methods. Subsequently, the author identifies possible similarities and differences between the manufacturing and services sectors as far as these issues are concerned.

The theories of international production developed during the past decades are also discussed and a special analysis is provided towards three international business theoretical frameworks. These are the transaction costs analysis, the eclectic paradigm and the network theory that put together a dominant part of the author’s present work. The application of these theories to the services sector is examined and specific issues
relevant for the application of these theories to the food retail sector are thoroughly underlined. Some of these issues are logistics – related ones such as the need for efficient distribution capabilities by service firms (and by retail firms) on international level (Hamel and Prahalad 1985) as well as the need for a successful management of third party logistics firms. To our surprise, limited research work was found for the role of logistics during firm’s internationalisation and none for its role towards retail internationalisation. This supports author’s reasoning to introduce a separate chapter (Chapter 3) for the full analysis of that function in retail operations and especially towards the international ones that as mentioned earlier, may be more complex and costly compared to the domestic operations.

Hence, **Chapter 3** introduces the retail logistics literature and the core elements of that function are presented and discussed. The author focuses his analysis on two aspects of that function: centralisation and the use of third party distributors. Recent developments in the European food retailing scene that are related to these aspects are illustrated as well. The transaction costs theory is analysed for the retail logistics function and elements of that theory are examined for their applicability to the transportation and warehousing operations. In turn, retail internationalisation and retail logistics strategy are discussed in a separate section and in conjunction to each other. In the relevant section, the author examines specific strategic approaches that can facilitate our understanding for the development of a logistics strategy during retailers’ international expansion. The last section examines the potential application of the network theory in retail logistics operations and transactions. The network theory is associated with the
externalisation (use of third party companies) / internalisation (in-house) issue that retailers face for certain elements of the logistics function, such as transportation and warehousing.

The author applies the network theory in the food multiple retail sector and the findings identify that some European retail firms favour logistics externalisation / internalisation practices, while other European retail firms implement a network theory strategy in their logistics operations. It is useful to note that in Chapter 3, the author develops the first research theme (logistics strategy and logistics practices) and the relevant research topics are proposed.

**Chapter 4** introduces the information technology business literature relevant to the retail logistics function and amongst other things, it stresses its role towards the retail internationalisation process. As argued earlier, distribution on international level may be more complex and costly and information technology can have a significant role to play towards the reduction of that complexity and the costs involved. Additionally, this chapter provides an opportunity to stress the association between logistics and information technology operations.

It is useful to mention that according to Willcocks and Fitzgerald (1993, p.28), information technology (IT) is defined as:

"The technical means available, equipment and attendant techniques and is essentially activity based, supply orientated and technology and delivery focused whilst information systems (IS) are business applications, more or less information technology based. The concern for information systems is to be business focused and demand orientated. Information systems are the business ends to which information technology supplies the means".
Numerous information technology applications have been developed for the retail logistics function, so it is imperative to illustrate clearly the importance of information technology within that function. The contribution of information technology to the centralisation (warehousing) and externalisation (use of third party firms) of logistics operations, is also discussed and specific information technology applications are presented.

Information technology can support food multiple retailers' logistics strategy at domestic and / or at international level, something that is illustrated via the use of various frameworks.

The retail network is another case where information technology can add to a company's competitive edge, so the examination of the importance of that function towards the formation of the retail network mode, is a further task that needs to be accomplished by the author. Logistics and information technology are examined jointly but in association with transaction costs theory, in an effort to identify the impact of information technology on food multiple retailers' logistics related transaction costs. It is worth pointing out that in Chapter 4, two more research themes (namely information technology and logistics, and the formation of a retail logistics network between food retail multiples and third party logistics companies) are developed alongside the relevant research topics.

It is our objective to discuss the logistics and information technology functions in conjunction to the mainstream international business theories in the initial chapters. These theories (e.g. transaction costs analysis, eclectic paradigm and network theory)
were analysed under specific functional perspectives in the relevant chapters (e.g. via the logistics function perspective in Chapter 3 and via the information technology function perspective in Chapter 4). This will help the reader to understand fully the association between the logistics and information technology functions and the examined international business theories. It will also help to build both a gradual understanding for our reasoning to opt for the logistics function as the core element of our empirical investigation as well as to fully analyse which elements of these theories were included in that investigation. The above are discussed fully in Chapter 5 where the retail internationalisation literature is presented and we focus our analysis on the three aforementioned international business theories. A plethora of research areas will be suggested that link logistics to retail internationalisation and with some of them forming part of the author’s empirical investigation. This chapter initially builds upon the discussion provided in Chapter 2 concerning that process for the services sector and as mentioned earlier, elements of analysis taken place in Chapters 3 and 4 are included as well. Nevertheless, in Chapter 5, the analysis focuses on the food multiple retail sector where the empirical research was conducted. It should be noted here, that the retail internationalisation process is defined by Alexander (1997, p.37) as:

“The transfer of retail management technology or the establishment of international trading relationships which bring to a retail organisation a level of international integration which establishes the retailer within the international environment in such a way as to transcend regulatory, economic, social, cultural and retail structural boundaries”.
Chapter 5 sheds light upon that process, by analysing various approaches and theoretical frameworks as well as by identifying the determinants and the factors initiating international retail activity. The discussion is centred around cross-border retail activity within Europe. Separate sections are devoted to the European food multiple retailers, a section related to their internationalisation strategies and a section including their market entry strategies. This was deemed necessary as only European firms have entered the Greek food multiple retail market so far and such an examination provides the platform for an assessment of the strategies of foreign retail firms in Greece.

The last sections of Chapter 5 link the retail internationalisation process to three international business theories, namely, the transaction costs theory, the eclectic paradigm and the network theory and builds upon similar analysis for these theories that took place in the previous chapters. These theories are closely linked to the retail sector and further research topics that are part of two research themes are proposed.

The relevant research themes are in this case: the application of the eclectic paradigm in the Greek food multiple retail sector and the application of transaction costs theory into retail logistics.

Chapter 6 presents the Greek food retail sector and where particular emphasis is given to the presentation of the local multiple retail sector, as this is the sector where the author conducts the empirical investigation.

Chapter 6 starts with a presentation of the domestic food retail environment (e.g. economic, social and political factors), followed by an analysis of the structure of the domestic food retail sector and its major players. A solid understanding of the
conditions that prevail in that sector is provided to the outsider and the latter includes numerous developments that took place in the previous decade, presented in a separate section. A number of these developments are logistics and information technology related, something that adds further interest to the author’s initiative to examine the logistics strategies and processes during domestic and international food multiple retailers’ expansion.

Chapter 7 introduces the research methodology followed in this thesis, where at the start, the main differences between qualitative and quantitative research are clearly distinguished. The author also provides an explanation for the adoption of the qualitative research path in the present thesis.

The following section of Chapter 7 is devoted to the case study methodology approach applied in the current work, with the Greek food multiple retail sector representing the case in hand. The author devotes specific sections of the thesis to the methods that the data were collected and to the analysis of the data, as in-depth interviews were the main data collection method in this thesis. The interviews were conducted with senior managers representing four domestic and four multinational firms in the Greek food multiple retail sector.

At the end of Chapter 7, the author discusses the problems encountered during the empirical research and the methods followed to overcome these problems.

Chapter 8 provides the findings of the empirical research. In general, the findings reveal major differences between domestic and multinational firms for a range of issues.
These differences are largely attributed to the another level of advancement between foreign and Greek retail firms, as far as logistics and information technology is concerned. The findings indicate the vital role played by logistics in international retailers’ expansion and entry in the Greek market. In addition, the interview findings stress the critical link of information technology and retail logistics operations and point out specific requirements deemed as necessary for the successful formation of retail logistics networks in the Greek food multiple retailing.

The empirical findings for the factors that can play a major role in the process of retailers’ expansion at the domestic and the international level are also presented.

The author’s findings also suggest that the transaction costs theoretical framework cannot accommodate a complete explanation for retailers’ externalisation / internalisation decision in logistics operations.

Finally, Chapter 9 gathers together the pieces of the research effort of the present thesis and assesses the contribution of this thesis to the business literature, followed by the author’s thoughts upon the potential management implications of the work.

Possible avenues for future research on the theme of the present thesis are also discussed. The author hopes that the present piece of research effort will be of interest to retail professionals and academic researchers, by facilitating retail management thinking and further research on the issues investigated.
Chapter 2: A review of the International Business literature with an emphasis to the services sector

1. Introduction

There is a variety of reasons that companies go overseas and a major incentive is increased sales and profits unavailable to them in their home markets. This movement to foreign markets is part of the internationalisation process that during the past decades has become a viable strategic option for most firms. More specifically, in the decade that followed the end of the Second World War, the main bulk of direct foreign investment, measured in terms of stocks and flows, was directed at primary products, raw materials and resource-based manufacturing.

During the 1980s, however, direct foreign investment was directed primarily at technology-intensive manufacturing and service industries. Statistics from the UN Centre on Transnational Corporations show that by the mid-1980s, about 40% of the world's total direct foreign investment stock was in services, compared to about 25% in the early 1970s and less than 20% in the early 1950s (United Nations Centre on Transnational Corporation 1989).

In general, the literature on the internationalisation process and international business theories is mainly directed towards the manufacturing sector, to the relative neglect of the services sector. In this chapter, the author attempts to fill this gap by providing the neglected theoretical issues that characterise this internationalisation process in the
services sector. In Chapter 5, the author examines the above in the retail sector where the empirical research is conducted.

In the present chapter, the process and the modes of internationalisation are discussed, followed by an examination of the international market entry methods.

The following sections are dominated by international business theories and a special analysis is provided in association with three international business theoretical frameworks: (a) transaction costs analysis, (b) the eclectic paradigm and (c) the network theory that are examined for both the manufacturing and the services sectors.

An evaluation of these three theories is of primary importance for the author’s research in the non-manufacturing sectors, as it will be possible to pinpoint certain issues that will benefit our understanding of the internationalisation and other processes in the retail sector.

2. Definition, process and dimensions of internationalisation

A number of definitions have been proposed for the term “internationalisation”.

According to Welch and Luostarinen (1988, p.36):

“Internationalisation is the process of increasing involvement in international operations”.

Buckley (1983, p. 42) suggests that:

“A multinational enterprise is the firm that adds value by operating in more than one national economy”,

while Dunning (1993, p.9) provides a more detailed definition:
“Internationalisation is the totality of cross-border activities, be they production or trade in assets, goods or services; and be they within the same institution or between independent economic agents”.

The above definitions focus on firm’s international activities although a firm can be international by operating only at domestic level; for example by exporting from its domestic base (Enderwick 1989).

Moreover, most definitions for internationalisation and the vast majority of the internationalisation theories are associated with manufacturing related activities as they initially developed to explain the international operations of such firms. The services sectors were either ignored or were implicitly assumed to be governed by the same factors that determine production in the international business literature (Buckley et al 1990).

For example, Tookey (1969) examines internationalisation in terms of “exporting”, “international marketing” and “international business”, whilst Bilkey and Tesar (1977) consider internationalisation from the perspective of increased export dependence in a growing number of markets. Internationalisation is indicated then, by criteria such as exporting activity, sometimes not applicable to the services sectors.

As far as the firm’s motivation to internationalise is concerned, various authors (Aliber 1983; Ball and Mc Culloch 1993; Douglas and Craig 1995; Hymer 1979; Lambin 1996; Yamin 1980; Welsch and Luostarinen 1988) mentioned a number of factors that may prompt the domestically oriented firm to engage into such a process.
The author classifies these motivational factors into three categories (Table 2.1) in an attempt to illustrate the different motivations that lie under each category.

**Table 2.1: Factors that prompt a firm to internationalise**

<table>
<thead>
<tr>
<th>Domestic environment (External to the firm)</th>
<th>Host country’s environment (External to the firm)</th>
<th>Firm’s environment (Internal to the firm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply-side concerns:</td>
<td>Acquire technology and management know-how in the host country, low unit-labour costs and availability of skilled labour</td>
<td>Ability to denominate assets and goods in different currencies and desire to diversify risk across a range of countries and product markets</td>
</tr>
<tr>
<td>Low levels of national productivity, high unit-labour costs, shortages of skilled labour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic markets with low growth potential</td>
<td>A market with large growth potential</td>
<td>Lower production costs through economies of scale</td>
</tr>
<tr>
<td>Restrictive regulatory environment and an overall, unfavourable business environment</td>
<td>Access to government inducements that are offered to attract investments and favourable business environment</td>
<td>Possession of certain advantages can explain the need to expand on an international basis</td>
</tr>
<tr>
<td>High competition, high concentration levels in the specific sector</td>
<td>Low competition and low concentration levels in the specific sector</td>
<td>Firms become aware of other business opportunities by operating abroad</td>
</tr>
<tr>
<td>Country’s population is declining or under stagnation</td>
<td>Positive demographic trends</td>
<td>Local subsidiaries can be the source of innovation such as new products/processes</td>
</tr>
<tr>
<td>Negative economic trends with average consumer’s disposable income being stable or declining</td>
<td>Positive economic trends with average consumer’s disposable income on the increase</td>
<td>Products/services can be tested to various markets leading to an improved final product/service</td>
</tr>
</tbody>
</table>

An interpretation of the internationalisation process was provided by Swedish academics that developed the Uppsala Internationalisation Model (stages model).

In this model, Johanson and Wiederscheim-Paul (1975) noted that the internationalisation of a firm is seen as a process in which the enterprise gradually
increases its international involvement, from no regular export activities, to export via independent representatives, sales subsidiary and finally production abroad. Nevertheless, they did not explain the dynamics of progress from one stage to the next and according to Reid (1983), this model is too deterministic and general as the firm’s choice of entry and expansion modes are more selective and context-specific.

Reid (1983) also stressed that the sequential nature of the process essentially denies the leapfrogging of stages, e.g. straight to foreign direct investment and moreover, in the non-manufacturing sectors, the suggested sequence and entry methods are not applicable. Finally, no initial conditions are presented as the model does not explain when, why or how the process starts and the factors that may influence the internationalisation process are not explained (Andersen 1993).

Another attempt to illustrate the internationalisation process was by Johanson and Vahlne (1977) who argued that this process evolves in an interplay between the development of knowledge about foreign markets and operations on one hand and an increasing commitment of resources to foreign markets on the other (Figure 2.1).
They made a distinction between state and change aspects of internationalisation with the state aspects of internationalisation being market commitment and market knowledge and the change aspects being the current business activities and commitment of resources decisions.

As far as the market knowledge is concerned, two kinds were distinguished: objective knowledge that can be taught and experiential knowledge that can only be acquired through personal experience. Experiential market knowledge generates business opportunities and is consequently a driving force in the internationalisation process.

But experiential knowledge is also assumed to be the primary way of reducing market uncertainty. Thus, in a specific country, the firm can be expected to make stronger resource commitments incrementally as it gains experience from current activities in the
The model implies that additional market commitment will be made in small steps with three exceptions.

First, when firms have large resources the consequences of commitments are small. Thus, big firms or firms with surplus resources can be expected to make larger internationalisation steps. Second, when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than through experience. Third, when the firm has considerable experience from markets with similar conditions it may be possible to generalise this experience to the specific market.

Market knowledge and market commitment are assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed. Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions (Figure 2.1) and the process is seen as a causal one. Overall, this process is relevant for both manufacturing and services firms and for the latter, Edvardsson et al (1993) have pointed out that internationalisation is based mainly on experience and from this perspective, it can be seen as a learning process.

Moreover, Erramilli and Rao (1990) have found that in committing resources to foreign markets, the corporate decision-makers in service firms are influenced by “experiential” rather than “objective” knowledge stemming from operations in various markets. Nevertheless, other studies (e.g. Johanson and Sharma 1987) emphasised that the internationalisation process is not valid for specific service industries (e.g. technical consultants) and that the cumulative reinforcement of foreign commitments implied by
the internationalisation process model proposed by Johanson and Vahlne (1977), is absent.

Overall, the model gained strong support in studies for a wide spectrum of countries and situations (Carlson 1975; Davidson 1983; Hook and Czinkota 1988; Kogut and Singh 1986) and empirical findings confirmed that commitment and experience are important factors explaining international business behaviour.

A dimension that was rather missing from the two aforementioned models (Johanson and Wiederscheim-Paul 1975; Johanson and Vahlne 1977) was the “physical distance” between countries and whether it has an influential role upon the internationalisation process. Hallen and Wiederscheim-Paul (1979) aimed to shed some light to the above and argued that in most cases, firms penetrate foreign markets beginning with the markets closer to their home base but gradually extending operations to more distant and more complex markets.

Psychic distance is defined in terms of factors such as difference in language, culture, political systems, etc., that blur information that flows to the firm from the foreign market (Vahlne and Wiederscheim-Paul 1973).

Thus firms initiate the internationalisation process by visiting those markets that they can most easily understand and the perceived market uncertainty is relatively low.

Given the diversity of international operations, there is a need for a broader framework for assessing the extent of “increased international involvement” on a number of different dimensions and an example of such a framework is presented in Figure 2.2.
FOREIGN OPERATION METHODS

How (Agents, subsidiaries, licensing, franchising, management contracts...)

TARGET MARKETS
Where (Political / cultural / physical distance differences.....)

SALES OBJECTS
What (Goods, services, know-how, systems)

Organisational Capacity

ORGANISATIONAL STRUCTURE
(Export department, International division.....)

PERSONNEL
(International skills and experience; training.....)

FINANCE (Funds, allocation of resources....)

Figure 2.2: Dimensions of internationalisation (Welch and Luostarinen 1988)
In general, internationalisation can be expected to be associated with, and perhaps dependent upon, developments along each of the dimensions shown:

### 2.1 Foreign operation method

Evidence indicates that as companies increase their level of international involvement, there is a tendency for them to change the method/s by which they serve foreign markets (Luostarinen 1979). Thus, on the method of operation dimension, it is expected internationalisation to be reflected in both increasing depth and diversity of operational methods.

### 2.2 Sales objects

As a firm increases its involvement in international operations there is also a tendency for the firm to diversify (Luostarinen 1979). This diversification may occur at two levels: i) expansion with a new product line and ii) change in the whole product concept to include elements such as services, technology and know-how.

### 2.3 Target markets

There is a basic tendency for firms, particularly in the early stages of internationalisation, to approach markets which appear simpler, less hostile and less costly to penetrate, and these are the markets that are located closer in physical and cultural terms (Luostarinen 1979). A firm’s shift of activities to more “distant” locations can therefore be seen as one indication of greater maturity achieved in international operations.
2.4 Organisational capacity

The first three dimensions concentrate on the components of actual foreign market activity and such an approach leaves aside the variety of internal company changes. Such internal changes are consequent upon and reflect the degree of internationalisation and they also form the foundation for additional steps forward in the overall internationalisation process. In the internal resources area, finance and personnel are important, but so is the adjustment of internal organisation structure to handle foreign activities.

2.5 Personnel

The success of internationalisation in any company depends heavily on the type of people that are involved into that process and on the company’s personnel policies. International personnel development remains a prime indication of the internal extent to which a company has effectively become internationalised, although it is perhaps more difficult to measure than the preceding dimensions.

2.6 Organisational structure

As the international operations grow and diversify, the organisational structure for handling such operations needs to be accordingly adapted. Organisational changes are often a clear statement of commitment to the objectives of international involvement and in the following section, various international modes are illustrated that are dependent on specific organisational structures.
2.7 Finance

The growth of international operations inevitably places increasing demands on the availability of funds to support the activities undertaken abroad. The amount of financial resources that a company allocates for its international operations – in comparison to the funds allocated for domestic operations – can provide a further indicator of the degree of internationalisation.

It is worth stressing that the above framework can be applied to both manufacturing and service firms as its dimensions are applicable to both sectors. Therefore, an issue for future investigation could be whether specific dimensions of that model are of bigger importance to the manufacturing and / or the services sector.

3. Modes of internationalisation

In this section, the international, multinational, regional, global and transnational modes will be discussed. The similarities and differences amongst them will be stressed as well as firm’s underlying strategy with respect to each mode of operation.

3.1 International

The strategy of international companies is based primarily on transferring and adapting the parent company’s knowledge or expertise developed at home to foreign markets. The parent company retains considerable influence and control upon product
development and subsidiaries can adapt the product to local demand. Nevertheless, they have less autonomy compared to multinational subsidiaries.

3.2 Multinational

The multi-domestic (or multinational) company focuses on maximising effectiveness and efficiency in exploiting economies of scale, experience and scope in various functions. A company adopting such an orientation assumes that foreign market opportunities are as important as home market opportunities. However, the company takes the view that the differences between its international markets are so acute that adaptation to meet foreign market needs is necessary to retain competitive leverage. Thus the company essentially follows a differentiated strategy with different marketing mixes in many markets as subsidiaries aim to exploit local opportunities (Bartlett and Ghoshal 1989).

3.3 Regional

By shifting operations and decision-making on the periphery, the company is in a better position to maintain an insider advantage (Townley 1990). Morrison et al (1991) suggest that regional as opposed to global competitiveness is a more viable strategic option. Since the formation of various trading blocks between countries (e.g. European Monetary Union), companies take such developments into account in their long-range planning and strategically try to build a market position on a regional base.
These companies develop different marketing mix strategies for each region in order to meet better customers' needs.

3.4 Global

A company that adopts a global strategic orientation makes no distinction between domestic and foreign market customer demand, as it seeks to serve a basically identical global market. Levitt (1983), one of the early proponents of the necessity for companies to globalise marketing strategies, suggested that it was a necessary path if they were to compete effectively in the international arena. A few years later, Ohmae (1985) argued that every company operating on global scale should have a presence in three regions: Japan, Europe and United States. These are the “Triad” regions and various trends (e.g. increasing capital intensity, soaring R&D costs, converging world-wide consumer tastes) have made it imperative for firms to enter all these markets in order to become global players.

3.5 Transnational

Transnational companies integrate diverse assets, resources and people into operating units around the world. Through flexible management processes and networks, transnational companies aim to build three strategic capabilities: i) global scale efficiency and competitiveness, ii) national-level responsiveness and flexibility, and iii) cross-market capacity to leverage learning on a world-wide basis.
In such organisations, the ownership of the operations becomes less clear in terms of where any particular product was made and what the domestic nationality of the manufacturer or service provider is. Ghoshal and Bartlett (1992) argue that the aim of transnational companies is to further the company’s global scale efficiency and competitiveness in its totality. This task means the company needs the ability to recognise market opportunities and risks across national boundaries and to be able to link capabilities across barriers. Table 2.2 illustrates the specific firm’s organisational characteristics that each mode deploys (but not for the regional mode) according to Bartlett and Ghoshal (1989). It is the author’s view that although Bartlett and Ghoshal examined only manufacturing firms, these modes can be applicable to service firms as well.

<table>
<thead>
<tr>
<th>Organisational characteristics</th>
<th>Multinational</th>
<th>Global</th>
<th>International</th>
<th>Transnational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Configuration of assets and capabilities</td>
<td>Decentralised &amp; nationally self-sufficient</td>
<td>Centrally and globally scaled</td>
<td>Sources of core competencies centralised, others decentralised</td>
<td>Dispersed, interdependent, and specialised</td>
</tr>
<tr>
<td>Role of overseas operations</td>
<td>Sensing and exploiting local opportunities</td>
<td>Implementing parent company strategies</td>
<td>Adapting and leveraging parent company competencies</td>
<td>Differentiated contributions by national units to integrated world-wide operations</td>
</tr>
<tr>
<td>Development and diffusion of knowledge</td>
<td>Knowledge developed and retained in each unit</td>
<td>Knowledge developed and retained at the centre</td>
<td>Knowledge developed at the centre and transferred to overseas units</td>
<td>Knowledge developed jointly and shared world-wide</td>
</tr>
</tbody>
</table>

Source: Bartlett and Ghoshal (1989)
Apart from the above, the two authors (Bartlett and Ghoshal 1989) discussed a plethora of other organisational characteristics (facilitating learning, complexity and co-ordination, organisational network and competitiveness) that they were examined only for the transnational mode.

Finally, these modes will be re-examined in Chapter 5 where the author aims to identify their applicability to the retail sector and a plethora of examples will be provided for specific retail firms that follow each mode.

4. International market entry methods

In the course of internationalisation, firms must make a variety of important decisions. A critical one is the choice of market entry mode that makes possible the entry of a company’s products/services, technology, human skills, management or other resources into a foreign country (Terpstra and Sarathy 2000). Therefore, it is useful to distinguish between four modes of entry into a foreign market: exporting, licensing, strategic alliance and wholly owned manufacturing subsidiary. The market entry modes are broken down into several different activities in Table 2.3 (Paliwoda 1995).

Following Table 2.3, the author provides an analysis of the entry modes that can be operated by both manufacturing and service firms; nevertheless, the services sector dominates the analysis. The issue of entry mode will be examined in depth for the retailing sector in Chapter 5. In particular, and for the services sector Enderwick (1989) argued that the contractual forms of foreign involvement, for example, licensing,
management, contracting and franchising are far more popular compared to the other modes.

<table>
<thead>
<tr>
<th>Table 2.3: Essential characteristics of market entry methods</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market entry method</strong></td>
</tr>
<tr>
<td>Export form</td>
</tr>
<tr>
<td>Freight forwarder</td>
</tr>
<tr>
<td>Export houses</td>
</tr>
<tr>
<td>Agents</td>
</tr>
<tr>
<td>Distributors</td>
</tr>
<tr>
<td>Piggybacking</td>
</tr>
<tr>
<td>Consortium exporting</td>
</tr>
<tr>
<td>Contractual form</td>
</tr>
<tr>
<td>Licensing</td>
</tr>
<tr>
<td>Know-how agreement</td>
</tr>
<tr>
<td>Franchising</td>
</tr>
<tr>
<td>Management contracts</td>
</tr>
<tr>
<td>Joint ventures</td>
</tr>
</tbody>
</table>

**Investment form**

| Merger / Acquisition | Acquiring or merging with a company already in the market and effectively purchasing instant market information, market share and channels of distribution. |
| Strategic business alliance | Collaborations between companies, sometimes competitors, to exchange or share some value activities. |
| Wholly-owned subsidiary (traditional foreign direct investment) | Build-up representation (for sales and / or production activities) in the foreign country and a slow to achieve and expensive to maintain entry method. |

Source: Paliwoda (1995)

Buckley et al (1992) argued that in location-bound service firms, the export form is non-existent whilst it plays a major form for the manufacturing sector. Boddewyn et al (1986) noted that service firms that are engaged into cross-border activity can be classified as follows:

a) foreign-tradeable services that are separable from the production process itself, as well as transportable across national boundaries from the site of service production to the location of consumer receipt or use (e.g. financial loans), b) location-bound services that are tied to the service’s production location because time and space production constraints are shared by producer and consumer (e.g. retail, hotel accommodations) and
c) a combination of services where part of the production process is location-bound and another part is capable of producing a foreign-tradeable product (e.g. computer data processing). This classification can help to understand why location-bound service firms do not favour certain entry methods, such as exporting.

Erramilli and Rao (1990) have pointed out the two general types of foreign market entry situations amongst service firms: i) Client following where service firms enter foreign markets primarily to serve the foreign subsidiaries of their domestic clients and ii) market seeking that refers to the case where a service firm enters foreign markets primarily to serve foreign customers. Roach (1991) added the “importing customers” issue that is applicable to services that are regarded as a unique offering by the customers. For example, tourist attractions (museums, theme parks), prestigious medical centres and universities that invite customers to travel to their service location.

Several authors (Agarwal and Ramaswami 1992; Anderson and Gatignon 1986; Hill et al 1990; Vernon 1983) proposed that the key characteristics distinguishing these mode types between firms (manufacturers, service firms...) are:

i) the varying levels of control (the ability to influence systems, methods, and decisions),

ii) dissemination risk (the risk that firm-specific advantages in know-how will be expropriated by a contractual partner),

iii) resource commitment (financial, physical and human resources that firms commit to a host market),

iv) flexibility (the ability of a firm to change entry modes quickly and with minimal costs), and
v) ownership (the extent of a firm’s equity participation in an entry mode) that each entry mode possesses.

Hill (1990) argued that investment modes of entry (e.g. strategic business alliance, wholly owned subsidiary) are characterised by high levels of dissemination risk and low levels of flexibility while exporting arrangements are shown as having low levels of control, dissemination risk, ownership and resource commitment and a high degree of flexibility. He also noted (Hill 1990) that in the middle are the contractual modes, which are characterised by median amounts of control and flexibility and medium to high levels of dissemination risk, resource commitment and ownership.

A more complete list for these characteristics is provided on Table 2.4 (Paliwoda 1995) where it can be noted that investment modes of entry are generally more expensive (Characteristic: Costs direct and indirect) and risky (Characteristic: Total exposure to risk) modes, compared to the export ones (agent and distributor).
### Table 2.4: Market entry mode profiles

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Agent</th>
<th>Distributor</th>
<th>Licensing</th>
<th>Franchising</th>
<th>Joint-equity venture</th>
<th>Strategic business alliance</th>
<th>Wholly Owned subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed of market entry</td>
<td>High</td>
<td>High</td>
<td>Slower</td>
<td>Slower</td>
<td>Slow</td>
<td>Slow</td>
<td>Slowest</td>
</tr>
<tr>
<td>Costs direct &amp; indirect</td>
<td>Low</td>
<td>Low</td>
<td>Higher</td>
<td>Higher</td>
<td>High</td>
<td>High</td>
<td>Highest</td>
</tr>
<tr>
<td>Degrees of freedom</td>
<td>Low</td>
<td>Low</td>
<td>Contractual</td>
<td>Contractual</td>
<td>Limited</td>
<td>Limited</td>
<td>Total</td>
</tr>
<tr>
<td>Total exposure to risk</td>
<td>Low</td>
<td>Low</td>
<td>Moderate/High</td>
<td>Moderate</td>
<td>Moderate/High</td>
<td>Moderate/High</td>
<td>High</td>
</tr>
<tr>
<td>Investment payback period</td>
<td>Short</td>
<td>Short</td>
<td>Short/Medium/Long-term</td>
<td>Short/Medium/Long-term</td>
<td>Medium</td>
<td>Short/Medium/Long-term</td>
<td>Long-term</td>
</tr>
<tr>
<td>Perceived long term profitability</td>
<td>Moderate/Low</td>
<td>Moderate/Low</td>
<td>Low</td>
<td>High/Moderate</td>
<td>High/Moderate</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Ability to expand within mode</td>
<td>✓</td>
<td>✓</td>
<td>Limited</td>
<td>✓</td>
<td>Limited</td>
<td>Limited</td>
<td>✓</td>
</tr>
<tr>
<td>Stable mature product</td>
<td>✓</td>
<td>Limited</td>
<td>Limited</td>
<td>✓</td>
<td>Limited</td>
<td>Limited</td>
<td>Less frequent</td>
</tr>
<tr>
<td>Excess capacity utilisation</td>
<td>✓</td>
<td>Limited</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>New product launch</td>
<td>✓</td>
<td>✓</td>
<td>With caution</td>
<td>✓</td>
<td>Limited</td>
<td>Limited</td>
<td>✓</td>
</tr>
<tr>
<td>Achieving market coverage</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Receiving feedback</td>
<td>Limited</td>
<td>Limited</td>
<td>Very limited</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Method of recovery income for sales</td>
<td>Commission</td>
<td>Outright sale</td>
<td>Royalty</td>
<td>Royalty fees + ongoing sales of inputs</td>
<td>Shared</td>
<td>Shared according to agreed formula</td>
<td>Total profits</td>
</tr>
<tr>
<td>Control over market mode by principal</td>
<td>Limited</td>
<td>Limited</td>
<td>Contractual and limited</td>
<td>High</td>
<td>Moderate/High</td>
<td>Moderate/High</td>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Paliwoda (1995)

To conclude, the market entry methods were discussed and it was shown that specific forms of investment (contractual forms) are more applicable in the services sector and specific classifications were provided. Based on these classifications, it was found that the location factor has an influence to the market entry method decision and therefore, location bound service companies do not favour export forms.
5. Theories of international production

Although the latest theories of international business have focused on international production, initially, they were developed for the examination of international trade.

More specifically, between 1500 and 1800, the prevailing doctrine of political economy and arguably the first theory of trade was mercantilism and based on that theory, nations engaged in trade to maximise their wealth by maximising the gap between exports and imports (Mc Kiernan 1992). During that time, the classical theory was established that formed the basis of modern trade and international business literature. Adam Smith, David Ricardo and John Stuart Mill, the leading classical economists, argued that nations trade because there are differences in the prices of the factors of production of the goods exchanged between the same (or similar) goods their countries import (Mc Kiernan 1992).

During the 1970s and 1980s, the theories of international production were developed and advanced as general theories of the multinational corporation. These theories can be analysed at three levels, following Cantwell’s (1991) classification: macroeconomic (examining broad national and international trends), mesoeconomic (considering the interaction between firms at an industry level) and microeconomic (looking at the international growth of individual firms).

The author subsequently illustrates the major theories at each level along with Porter’s contribution to the international business literature. Chapter 2 concludes with a separate analysis of the eclectic paradigm and the network theory that are of vital importance in the author’s research. This is also the case for the internalisation – transaction costs
theory and a similar level of analysis will be devoted to the relevant part of microeconomic theory.

5.1 The microeconomic theories of international production

5.1.1. The market power approach

Hymer (1976) tried to apply a theory of the firm at the industry level in an effort to establish the determinants of internationalisation. Hymer (1976) started with the assumption that in serving a particular market, domestic firms would have an intrinsic advantage over foreign firms. Domestic firms, he argued, would have a better understanding of the local business environment and given such domestic advantage, a foreign firm wishing to produce in that market would have to possess some kind of firm-specific advantage that would offset the advantages held by indigenous firms. One of these advantages is market power and its definition is taken from Lall (1976, p.31):

"Market power may be simply understood as the ability of particular firms, acting simply or in collusion, to dominate their respective markets (and so earn higher profits), to be more secure, or even to be less efficient than in a situation with more effective competition. The concept may be applied to buyers (monopsonists) as well as sellers."

The main idea of this theory is that in the early stages of growth, firms steadily increase their share of domestic markets by means of merger as well as capacity extension and that as industrial concentration (and market power) rises, so do profits.

However, there comes a point beyond which it is no longer easy to increase concentration in the domestic market. At this stage, profits earned by a high degree of
monopoly power at home are invested in foreign operations, leading to a similar process of increased concentration in foreign markets. Hymer’s (1976) seminal contribution put for the first time the firm in a central place in the explanation of international production.

5.1.2. Internalisation (transactions costs) approach

The transaction costs theory has been seen as fundamental to the theory of the multinational company and the theory of the firm. Coase (1937) analysis formed the basis for theoretical advances coming from a number of writers such as:

- Arrow (1969), who was the first author to use the term transaction costs,
- Simon (1957), who proposed the bounded rationality issue,
- Williamson (1975), who put emphasis on the efficiency with which transactions between units of productive activity are organised, and
- Rugman (1981), who further developed the internalisation issue.

Rugman (1981, p.25) defines internalisation as the process of making a market within a firm in which:

“Internal prices (or transfer prices) of the firm lubricate the organisation and permit the internal market to function as efficiently as a potential (but unrealised) regular market.”

The transaction costs theory has been explored by various disciplines (see for example Rindfleisch and Heide 1997 on marketing), however the development of transaction cost theory into a theory of multinational firm was proposed in the 1970s by Mc Manus

39
(1972), Buckley and Casson (1976), Brown (1976) and Hennart (1977). The basis of their proposition was that when the transaction costs of an administered exchange are lower than those of a market exchange, then the market is internalised and firm's efficiency is thereby increased.

Transaction costs are defined as (Hallwood 1990, p.7):

"The costs of organising the business and include the ex ante costs of carrying out a market transaction such as finding a suitable transactor and informing it of the desire to transact, negotiation costs, the costs of drawing up contracts, policing costs and contract renewal costs, with the ex post costs incurring when opportunistic behaviour by one of the transactors occurs".

Therefore, the internalisation (transaction costs) approach tries to explain the institutional form, i.e. "the governance structure" (market, hierarchy) of these transactions and the principal dimensions on which transaction costs economics presently rely. Following Williamson (1989) such conditions can be:

1) the condition of asset specificity, 2) the degree and type of uncertainty to which they are subject, and 3) the frequency with which they recur.

More specifically, asset specificity has reference to the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value and can take many forms such as:

a) site specificity as where successive stations are located close to each other so as to economise on inventory and transportation expenses,

b) physical asset specificity such as specialised material that are required to produce a component,

c) human asset specificity that arises in a learning-by-doing fashion and
d) dedicated assets which are discrete investments in general purpose plant that are made at the behest of a particular customer (Gatignon and Anderson 1988).

Williamson (1991) at a later stage, added two more types of asset specificity: brand name capital (assets specific for supporting / developing firm’s brands) and temporal specificity (assets that are engaged on a specific function on a temporary time period).

The value of asset specific investments will vary according to the task environment, notably the degree of task interdependence. The degree of interdependence is defined by Scott (1981, p.43) as:

“The extent to which the items or elements upon which work is performed or the work processes themselves are interrelated so that changes in the state of one element affect the state of the other”.

Interdependence can be seen in retail distribution between logistics and information technology investments.

As far as the issue of uncertainty is concerned, it is possible, ex ante to gather information and to specify contracts between supplier and buyer, to take care of various future contingencies, and also, ex post, to control the fulfilment of the agreement between the parties. However, when uncertainty prevails, either stemming from environmental related uncertainty or from a business partners’ behavioural uncertainty, contracts will be very complex and costly both to construct and to enforce, especially in the case of small-numbers bargaining. “Small numbers” means that there are few alternatives open for a buyer or for a seller to replace each other in a transaction.
A major reason for this, is that the asset specificity is high. The higher the asset specificity, the more dependent the parties will be on each other and the higher the costs of switching to another party will become. Therefore, the issues of bounded rationality and opportunism are more than relevant in the internalisation decision.

According to Powell (1990, p. 298), bounded rationality is the:

"Inability of economic actors to write contracts that cover all possible contingencies",

while opportunism following Powell (1990, p. 299) is the:

"National pursuit by economic actors of their own advantage, with every means at their disposal, including guile and deceit".

Opportunism poses a problem to the extent that a relationship is supported by specific assets whose values are limited outside of the relationship and if transactors make transaction specific investments, then they must safeguard against the hazards of opportunism. Frequency of transactions also enters as a major concept in the analysis.

According to Williamson (1985), if there are only occasional transactions and the asset specificity is very high, there is no opportunity for vertical integration and the market transaction must be developed with the aid of some arbitrating agency. If the frequency is high / recurrent and the asset specificity is high, the transaction cost approach expects vertical integration to take place in most cases.

The above are depicted on Figure 2.3 that is based on Williamson’s (1985) work.
Figure 2.3: Asset specificity, uncertainty and frequency (Williamson 1985)

More specifically, market transactions should be expected to prevail whenever asset specificity is low: numerous suppliers should then effectively compete. When asset specificity is high, the choice of a governance mechanism depends on the level of uncertainty and on the recurring character of the transaction (as discussed earlier). However, internal procurement is expected to dominate when high uncertainty and measurement problems combine with high / recurrent frequency, so the firm has in these circumstances an incentive to incur the set-up costs of organising the transaction.

On the other hand, Williamson (1985) noted that when the levels of uncertainty and measurement problems are low and the frequency of transactions is recurrent, various situations can emerge including vertical integration or outsourcing that leads to organisational forms such as strategic alliances and networks. It may also become profitable for the two parties to establish a permanent governance structure, such as a joint-venture. These arrangements establish a long-term transactions management system, ensuring an even-handed sharing of control. Hence, outsourcing is favourable
for low-frequency transactions and for high-frequency transactions that are characterised by a low level of uncertainty and measurement problems as well as high asset specificity. However, transaction costs theory has its limitations. For example, Dietrich (1989) suggests that the theory focuses to a large extent on cost minimisation and structural features for the focal company and neglects the interdependent nature of the relationship between the two parties concerned. One of these issues is how to deal with a dispute between parties, where the transaction costs paradigm suggests that dispute resolution requires access to a third party enforcer, whether it be the state (i.e. through contracts) or a legitimate organisational authority (Williamson 1991a). This resulted to a number of safeguarding means suggested by scholars coming from various fields. Some of them include informal safeguards, such as relational or goodwill trust (Sako 1991) and reputation (Weigelt and Camerer 1988), as well as formal safeguards such as financial and investment hostages (Williamson 1985).

Another limitation of transaction costs theory is that it offers no clear method of estimating such costs (Buckley 1988) and how substantial are such costs in relation to other business costs such as transport costs, production costs or marketing costs.

Casson (1982) takes up the issue of transaction costs in an in depth analysis that leads to a refinement of the internalisation theory by extending its application to the international markets. Casson (1982) argues that market imperfections are obstacles to trade and transaction costs are incurred in attempting to overcome these obstacles. Table 2.5 identifies these obstacles, by indicating the “market marketing activities” as steps required to overcome such obstacles and the risks and losses (transaction costs)
associated with each market-making activity. These steps are taken in sequence and this trade process can be applied to both manufacturing and service sectors.

Table 2.5: Classification of market-making activities & risks - losses associated

<table>
<thead>
<tr>
<th>Obstacle to trade</th>
<th>Market-making activities (steps)</th>
<th>Risk</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>No contact buyer-seller</td>
<td>1. Contact-making via search or ads.</td>
<td>Failure to make contact</td>
<td>Sunk costs* of search and advertising</td>
</tr>
<tr>
<td>No knowledge of reciprocal wants</td>
<td>2. Specification of the trade and communication of details to each party</td>
<td>Misunderstanding of specification</td>
<td>Sunk costs of setting up the transaction which led to receiving the misspecified commodity, plus capital loss incurred on resale of the unwanted good, plus transaction costs in the resale</td>
</tr>
<tr>
<td>No agreement over price</td>
<td>3. Negotiation</td>
<td>Failure to agree over price</td>
<td>Sunk costs of negotiation</td>
</tr>
<tr>
<td>No confidence that goods correspond to specification (e.g. due to asymmetric information**)</td>
<td>4. Monitoring: i.e. screening of quality, metering of quantity and observation of “contingent” events</td>
<td>Default on specification caused by dishonesty or incompetence of other party</td>
<td>Costs of remedying the problem plus indirect costs of damage or disruption to other activities</td>
</tr>
<tr>
<td>Need to exchange custody of goods</td>
<td>5. Transport</td>
<td>Default in transport</td>
<td>Ditto</td>
</tr>
<tr>
<td>Tariffs, taxes on gains from trade, price regulations, quotas</td>
<td>6. Payment of taxes and tariffs. Avoidance or evasion of taxes, tariffs, regulations</td>
<td>Financial risk</td>
<td>Financial loss</td>
</tr>
<tr>
<td>No confidence that restitution will be made for default</td>
<td>7. Enforcement</td>
<td>Failure to enforce</td>
<td>Compensation that would have been due plus sunk costs of attempted enforcement</td>
</tr>
</tbody>
</table>

Source: Casson (1982)

* Sunk costs occurred once the investment has been made and the supplier has incentives to continue the relationship as long as the variable costs are covered (even if the total costs are not).

** A seller may exploit a buyer by selling a lower quality product than was expected or agreed upon. This is an example of asymmetric information, a problem that occurs frequently as the seller knows more about product related issues (e.g. quality) than the buyer (Rubin 1991)
The propositions in Table 2.5 above are applicable at both domestic and international level and as argued earlier, the transaction cost theory can account for extending the theory of the multinational firm.

As shown in Table 2.6 (Hennart 1991), different types of multinationals result from the internalisation of various types of markets and this theory can be a powerful tool for revealing the fundamental features of multinationals which are hidden behind the wide diversity of their forms.

<table>
<thead>
<tr>
<th>Table 2.6: The transaction cost theory of the multinational firm (MNE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of MNE</strong></td>
</tr>
<tr>
<td>Horizontal integration by R&amp;D-intensive firms</td>
</tr>
<tr>
<td>Horizontal integration by advertising-intensive firms</td>
</tr>
<tr>
<td>Vertical integration into distribution</td>
</tr>
<tr>
<td>Vertical integration into raw materials and components</td>
</tr>
</tbody>
</table>

Source: Hennart (1991)

Overall, the multinational will produce more services in-house than the average small firm and will achieve some scale benefits as was pointed out by Feketekuty (1985).

A major limitation of transaction costs theory is that it does not make a clear distinction between beginners in foreign markets and companies that have already advanced in internationalisation. Moreover, transaction cost analysis is limited to the extent to which it can explain complex choices among alternative entry modes, especially for service firms (O'Farrell and Wood 1996).

The application of transaction costs theory at international level and more specifically with respect to international retailing, will be attempted by the author in Chapter 5.
5.2 Macroeconomic theories of international production

The product cycle model (PCM) formulated by Vernon (1966), is included under the macroeconomic theories of international production. This theory tried to explain why particular competitive advantages possessed by multinationals or potential multinationals appeared to originate from a particular country rather than another.

The theory also proposed how these advantages tended to be exploited first in the home market, then via exporting and eventually by foreign direct investment abroad.

The theory was essentially put forward to explain US direct investment in import substituting manufacturing activities in countries that were a step or more behind the US in the standard of living and in terms of economic development (see Figure 2.4).

Figure 2.4: The product life - cycle and its effects on the location of one country's production and trade (Wells 1972)
Vernon’s (1979) starting point was the assumption that producers are more likely to be aware of the possibility of introducing new products in their home market than elsewhere. The kinds of new products and services introduced, therefore, would reflect the specific characteristics of the domestic market. But gradually, countries that were recipients of that activity became major exporters as can been seen in Figure 2.4.

In the services sector, Dunning (1993) stated that this theory is helpful in pinpointing some of the reasons for the early foreign involvement of some multinational service firms. The latter can be the case for activities such as commercial banking, advertising, market research, management consultancy, insurance, hotels and fast food, whose initial competitive advantages strongly reflected the economic and cultural environment of their home countries and set up foreign operations after having first serviced the domestic market. However, Dunning (1993) argued that in cases where services are location bound, the theory adds little to explain the incentives for the entry of foreign firms into these sectors.

Moreover, the theory sheds little light on the extent to which non-service multinationals might wish to engage in service activities, or why some service multinationals are themselves diversified in a number of markets. In his criticism of the product cycle model, Kojima (1978) argues that countries should undertake outward direct investment in industries which employ resources in which they are comparatively disadvantaged while encouraging inward direct investment in those industries which require resources in which it is comparatively advantaged. As an extension of this argument, Kojima and Ozawa (1985) claim that global welfare is increased where international production
helps to restructure the industries of each country in line with dynamic comparative advantage. The Kojima-Ozawa approach applies particularly to a country which is growing rapidly but its application to the services sector is questionable as exporting (mainly) and foreign direct investment are not the most favourable methods in services (Dunning 1993). Additionally, the product cycle model can not fully explain the international investment by multinational manufacturing and service firms. Firms nowadays, have become more complex and it is unrealistic to assume a simple evolutionary sequence from the home country outwards.

Macroeconomic theories of international production can also take account of financial influences on foreign direct investment and Rugman (1981) noted that firms seek to diversify their investment portfolio among countries to avoid or minimise risks (the risk diversification hypothesis). Rugman’s (1981) idea that firms seek to diversify their investment portfolio among countries to avoid or minimise risks appears less relevant in explaining multinational activity in services as, for the most part, such activity may not be capital intensive. Nevertheless, Rugman (1981) accepts that this approach can be well encompassed into a more general theory of international production and trade, under the umbrella of the internalisation paradigm.

To conclude, the cited theories suggest that the kinds of the industries involved in international expansion vary according to the endowment characteristics of the country of origin and its stage of economic development. In the product cycle model, the growth of demand leads to the relocation of production (and services), while in Kojima – Ozawa
argument the emphasis is put upon supply-side opportunities and constraints in the
process of international industrial restructuring.

5.3 Mesoeconomic theories of international production and Porter’s
contribution to international business literature

While the market power school supposes that, in general, internationalisation lowers the
extent of competition and increases collusion amongst firms, the meso-competitive
international industry approaches share the view that in general this process tends to be
associated with rivalry in order to sustain the process of technological competition
amongst multinationals. The meso-competitive approach has as its starting point the
interaction between firms and as Vernon (1974) pointed out the original product cycle
model was losing out on explanatory capacity so he suggested a modified version.
Vernon (1974) noted that after the initial innovation phase of the product cycle,
established firms were seen as preserving their position through the existence of scale
economies in place of technological leadership.
In this case, the reason for relocating production abroad (import-substituting investment)
was no longer a matter of simple profit maximisation. The emphasis shifted towards
risk-minimising strategies and security became a more important consideration for the
firm relative to profitability. Following the idea that multinationals’ expansion can be
linked to a process that benefits from the existence of scale economies within firms,
Pavitt (1987) introduced the “technological accumulation” issue. This term encapsulates
the view that the development of technology within a firm is a cumulative process as new methods are tested and adapted in the light of experience (Atac 1986).

Even where new technology is acquired from outside the firm, it must be gradually adapted and integrated with its existing methods. While the product cycle theory supposed that an individual act of technology creation was subsequently diffused abroad, in the technological accumulation approach the use of technology in new environments feeds back into adaptation and new innovation. When a firm (manufacturer, service firm) is located in an area that is itself a centre of innovation in the industry concerned, the firm may gain access to research facilities which allow it to extend technology creation to new directions (e.g. computer firms favour Silicon Valley in California).

The technological accumulation approach therefore, addresses the question of why a particular type of technology is developed at an international level, something that can be answered by other international business theories such as the internalisation theory.

We turn our attention to Michael Porter's theoretical contribution on the theory of international production and the relatively new competitive advantage theory of the national diamond. This diamond theory is depicted in Figure 2.5 and entails four factors that make up the competitive advantage/s (or disadvantage/s) of a country (Porter 1990).
These are:

1. Factor conditions. The nation’s position in factors that are necessary to compete in a given industry, such as skilled labour or infrastructure.

2. Demand conditions. The nature of the home demand for the industry’s product or service.

3. Related and supporting industries. The presence or absence in the nation of input supplying and horizontally related industries that are internationally competitive.

4. Firm strategy, structure and rivalry. Local conditions related to how companies are created, organised and managed and the nature of domestic competitive rivalry.

A nation’s competitive advantage and the country’s specific advantages related to its firms, depends on the strength of each of these factors.
Favourable factor conditions include the traditional endowment of natural resources that was the basis of the original theory of comparative advantage.

Porter (1990) argues that over time, vigorous competition in the industry will help the growth of truly efficient firms and it will also assist the growth of the input of supplying firms. In addition, the presence of a sophisticated consumer demand will help the competitive skills of the industry to be further developed. Porter’s “national diamond” shows that over time, a nation can build up and sustain its competitive advantage in an industry.

Therefore, these four sets of factors interact to develop the basis of the national competitive advantage and this pattern of interaction provides the national platform on which the firm competes in international markets. In turn, as firms or industries become successful in international markets, they need to “upgrade” their competitive advantage and this happens by innovation and by investment in “advanced” factors such as technology or infrastructure, thus further reinforcing and sustaining the base of their national competitive advantage. The process then becomes a mutually reinforcing system for continual progress and upgrading. Nevertheless, this theory aims to explain issues that are to a large extent external to the firm.

The resource-based view (see for example, Grant 1998) defines the firm in terms of its capability to sustain competitiveness by changing speedily and flexibly its products and/or services. For the international firm, the resource-based view can be illustrated by Porter’s value-chain concept that suggests that the firm’s activities in transforming raw materials and other inputs to final goods can be viewed as a collection of complementary
and sequential tasks, each adding value to the product (Porter 1985). Some tasks are in operations (purchasing, manufacturing and marketing), others are support activities (finance, personnel). The concept is an elaboration of the value-added notion in economic theory, which does not specify the activities inside the firm but simply views the firm as a transforming agent between inputs and outputs.

The value chain is the internalised sequence of operations undertaken by the firm and from that perspective, it can be regarded as a microeconomic approach of international production. At an international level, the stage of the value chain that can be best leveraged might not have the same form as at home. For example, in markets in which the firm has limited experience or in products that are at a different stage in the life cycle in various countries/marke ts, licensing a technology to a local manufacturer might be preferable to making and selling the product directly to the customers.

To conclude, the diamond concept has a strong underlying manufacturing element and as far as the services sector is concerned, it can be applicable to a lesser extent for some value chain activities (e.g. marketing, logistics). Nevertheless, Porter’s (1985, 1990) theories provided a new insight to the theory of international production.

5.4 The eclectic paradigm (OLI)

The eclectic paradigm grew out of the desire to synthesise the previously discussed approaches to international production. The three major principles of the eclectic paradigm are derived from a variety of theoretical approaches: the theory of the firm, organisation theory, trade theory and location theory. Dunning (1980) labels this
approach eclectic and has expanded the internalisation theory by suggesting that at any
given point in time, the stock of foreign assets, owned and controlled by multinational
firms, is determined by (Dunning 1973; Dunning 1977; Dunning 1979; Dunning 1981;
Dunning and Rugman 1985; Dunning 1988a; Dunning 1988b):
a) the extent and the nature of the ownership specific or competitive advantage / s (O,
ownership advantage) of firms that is / are internal to a firm and:

"Which an enterprise may create for itself (e.g. certain types of knowledge, organisation and human skills) or can purchase from other institutions, but over which, in so doing, it acquires some proprietary right of use. Such ownership-specific assets may take the form of a legally protected right, or of a commercial monopoly, or they may arise from the size, diversity or technical characteristics of firms" (Dunning 1980, p. 10).

Dunning (1980) has also argued that the firm's specific advantage is transformed into a
valuable asset fully owned by the multinational firm that can act as a barrier to entry to
potential rival firms. The nature of the ownership specific advantage of the
multinational as an asset, allows the multinational to make it mobile across national
boundaries but permits the use of such knowledge to be safeguarded within the internal
market created by the multinational firm. In another typology, Dunning (1983, p.45)
distinguished between the asset (Oa) and transaction (Ot) advantages of multinational
enterprises:

"While the former (Oa) arise from the proprietary ownership of specific assets by
multinationals vis-à-vis those possessed by other enterprises (e.g. from the exclusive
privileged possession of assets or access to particular income generating assets), the
latter (Ot) mirror the capacity of multinational hierarchies vis-à-vis external
markets to capture the transactional benefits (or lessen the transaction costs)
 arising from the common governance of a network of these assets, located in
different countries".
Although transaction costs theory was initially concerned with issues related to the manufacturing sector, for the non-manufacturing sectors, Dunning and Norman (1983) pointed out that international service firms enjoy certain intangible advantages (e.g. experience on serving markets, brand image) that can play a major role to their international expansion. The literature on the various types of multinationals adds weight to this argument by emphasising more the intangible advantages such as global distribution capabilities rather than other advantages considered that can be easily imitated and displaced (Hamel and Prahalad 1985). Dunning (1989) also stressed certain ownership advantages that are particularly relevant to service firms. These are: quality consistency, reputation and product differentiation (due to the presence of strong human element in services), economies of scope (e.g. in retailing is achieved via the large product range on both food and non-food items), economies of scale and specialisation (e.g. in buying), the access to control and ability to effectively process and disseminate information (for the information-intensive sectors) and favoured access to inputs and / or markets (e.g. tourism and leisure industry).

b) The second element of the eclectic paradigm refers to the extent and nature of the location bound endowments (L, location advantage) offered by countries to firms to create or add further value to these competitive advantages and especially (Dunning 1980, p.9):

"Those which are available, on the same terms, to all firms whatever their size and nationality, but which are specific in origin to particular locations and have to be used in those locations".
Thus, in the absence of more favourable location conditions overseas, a firm would serve foreign markets by exports from a domestic base. In the services sector, Boddewyn et al (1986, p.43) argued that:

"International services firms encounter no special problems in terms of the location requirements of foreign direct investment, except in the case of location-bound services since the choice of host countries is dictated by consumer requirements in the latter case".

Therefore, location-bound services (e.g. hotel, restaurant industries) present a different case as they have to be situated close to consumers.

In the light of the above, Dunning (1989) added the country-specific location factor that incorporates issues such as host country attitudes and host state policies towards trade and investments, as well as the host country’s local infrastructure.

c) Finally, the last element of the eclectic paradigm refers to the extent to which the market for these advantages are best internalised by the firm itself (I, internalisation advantage), rather than marketed directly to foreign firms in the case of multinational operations. It is simply the answer to the question why should a firm internalise the use of its ownership-specific advantages by investing in the overseas production instead of choosing other alternatives such as the use of licensing. The main reason that such alternatives may not be followed lies in the nature of the markets for these products and that markets are imperfect. The greater the market imperfection, the greater will be the incentive for a firm to replace such an imperfect external market by internalising market transactions. Dunning (1988a, p.6) describes the internalisation advantages that result from the co-ordination of the use of complementary assets as:
“The transactional benefits arising from a common governance of a network of these assets, located in different countries”.

That such benefits can be enjoyed only through co-ordination within the firm rather than by external market co-ordination is said to be the result of transactional market failure and there are three reasons given for this according to Dunning (1988a). First, risk and uncertainty may be significant in transactions carried out across national boundaries. Second, where there are externalities, benefits external to the transactions concerned may not be captured by parties transacting at arm’s length and third, there may be economies of scope through the direct co-ordination of interrelated activities.

Buckley and Casson (1978, p.5) suggest that some of the internalisation costs involved may offset the internalisation benefits, as for example:

“1. The extra communication costs that occur within the international arena,
2. the costs arising from problems associated with foreign (subsidiaries’) ownership and control, and
3. the operating costs of a foreign unit that are fixed independently of the volume of transactions.”

In the services sector, Dunning (1993) identified specific reasons for the presence of transaction costs related benefits that are potentially higher than the relevant benefits accruing to manufacturing firms or as Dunning (1993, p. 269) states:

“Services contain a larger element of customer tailoring than do goods and they are more idiosyncratic”.

Dunning (1993, p. 269) further adds that:

“Since there is a greater human element in their production, their quality is likely to vary much more than that of goods”,

58
and also argues (Dunning 1993, p. 269) that:

"Markets for many services are highly segmented and the opportunities for price discrimination which can be best exploited by hierarchies, are considerable".

Additionally, internalisation may bring many advantages to potential buyers. For example, existing customers in one market face lower search and transaction costs if they wish to purchase the same service in a second market where it is serviced by the same multinational. Supporting the above, Enderwick (1989) noted that advances in information technology reduce both market imperfections and the cost of the communication infrastructure facilitating non-equity agreements.

It will be useful to note that the eclectic paradigm was initially pioneered in order to explain international manufacturing production. Nevertheless, it can be well applied to the services sector and various authors have examined its application in specific service sectors (see for example, Yannopoulos 1983 for the banking sector). Overall and for international production to occur, all three conditions must be satisfied and the configuration of these ownership, location and internalisation (OLI) advantages will vary according to country, nature of activity and firm specific characteristics.

Dunning (1993) explicitly outlined the major differences between the eclectic paradigm and the rest of the international business literature in an attempt to evaluate its usefulness. Following Dunning (1993), the eclectic paradigm, like most economic models, identifies and evaluates the most significant variables affecting the level and patterns of international production, rather than attempting to isolate those factors that affect the strategic actions of firms. And although it acknowledges the influence of firm
specific characteristics in international production, it is mainly focused upon country and industry characteristics; moreover, in a rather static or comparative static terms. Although some attempt has to be made to theorise about the changing paradigm configuration that is faced by firms or industries over time, for the most part, economists have been content with the eclectic paradigm in their explanation of the international allocation of multinational activity at a given point of time or between points of time.

Moreover, no real attempt has been made either to incorporate the interaction between firms into the eclectic framework and particularly the feedback effects of a firm’s actions on the behaviour of its competitors. The eclectic approach does not also acknowledge the fact that the capabilities of firms in implementing their chosen strategies may vary from company to company.

In Dunning (1991), it was suggested that it is misleading to give the impression that the variables which make up the eclectic paradigm are independent of each other. For example, a firm’s response to an exogenous factor like location might itself influence its ownership advantages, including its ability and willingness to internalise markets.

Finally, Dunning (1993) has acknowledged the fact that firms may invest abroad, particularly via the acquisition and merger route to protect or gain a competitive position rather than to exploit existing ownership specific advantages.

Overall, few theories discussed so far are based on a specific advantage the possession of which leads to direct international investment. According to Mc Kiernan (1992), all modern theories may be incapable of explaining contemporary developments in international business such as subcontracting and / or externalising some of the value
chain activities on international level. Feketekuty (1985) documents the fact that multinational manufacturers who do choose to contract out, want to be provided with services of a known quality and of a uniform standard around the world. The same author argued that as service companies have responded to meet the demand for such global services, have also created global service networks that are used as efficient channels of trade for such services. O’Farrell and Wood (1996) stress the above with respect to the services sector and note that studies of the internationalisation process of manufacturing firms tend to focus on firm’s internal resources (and capabilities) and the availability of them is taken for granted. They argued that this is not the case for service firms as their competitive advantage lies on (O’Farrell and Wood 1996, p.4):

“The development of such knowledge-based inter-firm relationships that is a cumulative process of adjustment based on growing trust and interdependence”.

An institutional form that can support the above is the network form that permits manufacturing and service firms to gather information, mobilise new partners and gain access to other skills and specialised services. However, the existence of networks can not be explained by the aforementioned theories and therefore, this institutional form merits a separate analysis addressed in the section that follows.
5.5 Network theory

The network theory was developed outside the domain of economic theory as its conceptual origin can be traced in sociology and in anthropology (Tichy et al. 1979).

In the international business field, the network theory has been developed by a group of Swedish researchers, namely Johanson and Mattsson (1986) and Mattsson (1985).

The rationale of network theory is that the internationalisation of the firm means that the firm establishes and develops positions in relation to its counterparts in networks formed in foreign markets (Johanson and Mattsson 1988) and therefore, firms in networks invest in relationships with other firms (Charan 1991). Moreover, the international firm may use its network positions effectively to externalise some of its activities, without losing control of its crucial assets, as is the case of subcontracting for manufacturing firms.

Zerrillo and Raina (1996, p.209 and 210) outline the major incentives behind network formation:

"i) Firstly, firms often establish relations out of necessity and often establish relationships with other organisations in order to meet legal or regulatory requirements. These relationships can be voluntary or mandatory (e.g. hierarchies).

ii) The second factor is asymmetry as a result of the gap between the amount of information possessed by various organisations. Therefore, a need or wish for control will occur, accompanied by the reluctance of the other firms to relinquish control. This is a strong motivator in organisational decisions to interact.

iii) The third factor is reciprocity as organisations might consider that co-operation and collaboration will be more appropriate than dominance, control and competition. In this case, they will seek harmony, balance, equity and mutual support as a means for achieving shared or complementary goals and maximising joint value.

iv) Fourthly, the issue of efficiency as organisations might establish relationships with other organisations in their pursuit of improving their internal input/output ratio (in Williamson’s terms, in order to economise the cost of transaction)."
v) A fifth factor is stability or predictability as the complexity and uncertainty of the external environment drive organisations into inter-organisational relationships that are supposed to serve as coping strategies and to forecast and absorb uncertainty.
vi) Finally, legitimacy as inter-organisational relationships can be the result of firm’s desire for an increase in their legitimacy and for the demonstration or improvement of their reputations”.

It is useful to stress that Oliver (1990) also suggested the same six factors through an attempt to identify the determinants of inter-organisational relationships. Powell (1990) compared the major economic organisational forms and identified the key differences between them, namely amongst markets, hierarchies and networks (Table 2.7).

Table 2.7: Comparison of forms of economic organisation

<table>
<thead>
<tr>
<th>Key features</th>
<th>Market</th>
<th>Hierarchy</th>
<th>Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative Basis</td>
<td>Contract-Property</td>
<td>Employment</td>
<td>Complementary</td>
</tr>
<tr>
<td></td>
<td>Rights</td>
<td>Relationship</td>
<td>Strengths</td>
</tr>
<tr>
<td>Means of Communication</td>
<td>Prices</td>
<td>Routines</td>
<td>Relational</td>
</tr>
<tr>
<td>Methods of Conflict Resolution</td>
<td>Haggling-resort to</td>
<td>Supervision</td>
<td>Norm of reciprocity-</td>
</tr>
<tr>
<td></td>
<td>courts for</td>
<td></td>
<td>Reputational concerns</td>
</tr>
<tr>
<td></td>
<td>enforcement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degree of flexibility</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Amount of Commitment among the parties</td>
<td>Low</td>
<td>Medium to High</td>
<td>Medium to High</td>
</tr>
<tr>
<td>Tone or Climate</td>
<td>Precision and / or</td>
<td>Formal, bureaucratic</td>
<td>Open-ended,</td>
</tr>
<tr>
<td></td>
<td>suspicion</td>
<td></td>
<td>mutual benefits</td>
</tr>
<tr>
<td>Actor Preferences or Choices</td>
<td>Independent</td>
<td>Dependent</td>
<td>Interdependent</td>
</tr>
<tr>
<td>Mixing of forms</td>
<td>Repeat transactions</td>
<td>Informal organisation</td>
<td>Status Hierarchies</td>
</tr>
<tr>
<td></td>
<td>Contracts as</td>
<td>Market-like features:</td>
<td>Multiple partners</td>
</tr>
<tr>
<td></td>
<td>hierarchical</td>
<td>profit centers,</td>
<td>Formal rules</td>
</tr>
<tr>
<td></td>
<td>documents</td>
<td>transfer pricing</td>
<td></td>
</tr>
</tbody>
</table>

Source: Powell (1990)
In market transactions, the benefits to be exchanged are clearly specified, no trust is required and agreements are bolstered by the power of legal sanction. Network forms of exchange, however, entail indefinite, sequential transactions within the context of a general pattern of interaction. In hierarchies, communication occurs in the context of the employment contract. Relationships matter and past interactions shape current ones but the patterns and context are shaped by one’s position within the formal hierarchical structure of authority. On the other hand, the network approach suggests that additional emphasis should be given to transaction costs as facilitating or retarding joining or leaving networks (Thorelli 1986). For example, a firm committed in a network, would think twice before incurring the transaction costs (including risk) of switching to another supplier as relationships of trust and social bonds have been built up with the existing supplier/s over a long period of years. The major contribution of network theory, is that the network is made up of many relations that are more or less interdependent and with existing integrated and non-integrated arrangements that can not be explained by the transaction costs analysis (Johanson and Mattsson 1987), or by other international business theories. This is of major importance as in the internalisation model, the implicit assumption is that the firm’s development activities take place internally, while network activity is nowadays based on a web of both external and internal activities among firms (Thorelli 1986). It is worth pointing out that various names have been given to this particular organisational form, such as virtual corporation by Byrne et al (1993), value-adding partnerships by Johnston and Lawrence (1988), strategic networks by Jarillo (1993) and clan by Ouchi (1980) and most of them encompass the same
characteristics. Jarillo (1993) introduced the strategic networks approach based on the network theory, by suggesting that the ownership status and the approach, co-operative or not are the two most important dimensions (see Figure 2.6). According to Jarillo (1993 p.130):

"The top row shows that a company may or may not in fact be based on cooperation. In the first case, we find a company with a strong sense of shared goals and the approach is a co-operative one, and all players belong to the same owner. In the second case, even with a common owner, each unit plays its own game, in an adversarial relationship with the others. It is one of the characteristics of bureaucracies".

<table>
<thead>
<tr>
<th>Common ownership</th>
<th>Co-operative approach</th>
<th>Non-co-operative approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertically integrated company</td>
<td>Bureaucracy</td>
<td></td>
</tr>
<tr>
<td>No Common ownership</td>
<td>Strategic network</td>
<td>Free market</td>
</tr>
</tbody>
</table>

Figure 2.6: Interactions between ownership mode and approach to the relationship (Jarillo 1993)

Jarillo (1993, p.131) also argues that:

"The bottom row shows, on the right-hand side, a relationship where independent units compete with each other. But the other box shows the relationship that underlies a strategic network: a situation where independent units consider their relationship a co-operative one, because they believe there will be more to share by co-operating. These companies which are independent units, stay in the network with the belief that by working with others they will be more productive, and that productivity will be passed down to them. The above are of great importance for
firms going international as costs across borders tend to be higher than domestically, the concept of the extra expense of doing business abroad”.

To conclude, the network (and strategic network) theory has been applied extensively to both manufacturing and service sectors (see for example, De Toni and Nassimbeni 1995 for the textile industry, Hines 1994 for the automotive industry, Thorelli 1986 for the aerospace and computer equipment industry and Jarillo 1988 for the fast food service sector) at both domestic and international levels. This theory also called for the need of an investigation to the relationships that occurred between firms in strategic alliances, joint ventures and franchising businesses at international level (see for example Hines 1994; Thorelli 1986; Jarillo 1988). Therefore, this theory provides an extra insight of the internationalisation process especially when it can explain complex forms such as franchising, subcontracting and the formation of strategic alliances at an international level, something that other international business theories (e.g. transaction costs theory) can not explain to the same extent.

6. Conclusions

The various aspects of the international business literature were introduced in this chapter and they were analysed for the relevance of their application to the services sector.

The author underlined that as the international business literature is essentially orientated towards the explanation of the international activities of the manufacturing sector, its application to the services sector will provide helpful insights to the present thesis.
The author illustrated and examined the internationalisation process and suggests that most theories can be applied to both manufacturing and service sectors.

It is the author's belief that the Uppsala Internationalisation Model is not applicable to service firms, especially when the suggested by the model sequence of action is based on an entry method (e.g. export form) that is not the most favourable method followed in services. The entry method issue was analysed in a separate section and it was emphasised that in comparison to manufacturers, service firms favour contractual forms of foreign involvement. In general, service firms, especially the ones that are location-bound, do not prefer the export form and this validates the previous argument about the applicability of the Uppsala Internationalisation Model to service firms. Overall, the location factor has a major influence to location-bound service firms, regarding the market entry method decision.

The dominant theories of international production were also discussed and the transaction costs theory was found to be of limited use to service firms for the explanation of the foreign entry mode issue, although this is not the case for the manufacturing firms. However, the author's discussion on the latter issue came with the suggestion that this theory can be a useful tool to international manufacturing and service firms especially for the decision regarding market internalisation of their business activities.

The analysis of the eclectic paradigm attempted to depict that ownership advantages have a greater role to play for service firms' international expansion, in comparison to manufacturing firms. With respect to the location advantage, location is of major
importance to location-bound service firms. As far as the internalisation advantage is concerned, specific characteristics of the service sector were indicated that may be associated with higher or lower transaction costs for the service firms.

Subsequently, it was suggested that the aforementioned theories are of limited value to explain adequately the international activity of service firms, as these firms usually form knowledge-based relationships with other firms, based on trust and interdependence. Finally, an examination of the network theory was attempted and the relevant theory seems to be not only applicable to both manufacturing and service firms, but it offers an alternative explanation of the internationalisation process. To conclude, in the present chapter the author’s main task was to discuss the importance of the international business existing theories and their relevance to the non-manufacturing sector.

The author firmly believes that the exposition of the theories presented in Chapter 2 will benefit the research attempted towards the retailing sector in the present thesis.
Chapter 3: A critical examination of the literature on retail logistics

1. Introduction

Various researchers have argued that logistics is a key business process that can provide increased customer satisfaction and at the same time eliminates cost for services not valued (Bowersox and Closs 1996; Christopher 1992; Saunders 1997).

The current definition of logistics is provided by M. Christopher (in Harvey 1996, p.4) as:

“The process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and related information flows) through the organisation and its marketing channels in such a way that current and future profitability are maximised through cost-effective fulfilment of orders”.

It is useful to note that logistics is oriented primarily to the processes of a single firm whilst supply chain management encompasses in addition to the above, the external environment of an organisation and subsequently, includes the external flows of materials, information and financial amounts between various businesses (Davis 1995; Hines 1999). Christopher (1999, p.29) also argues that:

“Logistics management is essentially an integrative process that seeks to optimise the flows of materials and supplies through the organisation as well as its operations to the customer”.

He continues (Christopher 1999, p.29):

“It is now recognised that for the real benefits of the logistics concept to be realised, there is a need to extend the logic of logistics upstream to suppliers and downstream to the final customers. That is the concept of supply chain management that is based upon the idea of partnership in the marketing channel and a high degree of linkage between entities in that channel”.
In the analysis that follows, the author examines the logistics function (not the supply chain management operation) in food multiple retail and the focus is on the relevant practices at the company level (retail firms). In addition, the author aims to introduce the retail logistics function so a separate section is exclusively devoted to warehousing and third party distribution, two issues of growing importance in the food retail logistics function.

A number of various theoretical approaches will also be discussed from the transaction costs and the network theories. The present chapter concludes with the examination of particular themes such as internationalisation and logistics that will be discussed from the retail logistics perspective.

2. The food retail logistics function

Logistics has been a major function for food retail operations (McKinnon 1986).

For example, most British food retail multiples in the early stages of their development (1960/70s), implemented logistics practices and developed warehouses in order to centralise stockholding (Fernie 1989). During the 1980s, logistics increased its importance in multiple retailing (both food and non-food) and several trends resulted to that increase according to McKinnon (1986, pp.49-50):

"1. Development and promotion of a new framework for the integrated management and costing of the main physical distribution functions of transport, storage, stockholding, handling and order processing.
2. Expansion of multiple retailers’ operations in terms of the size and geographical spread of branch stores and the volume and range of goods handled.
3. Increases in the real cost of physical distribution at a time when intense competition has reduced profit margins."
4. Downward pressure on stock levels exerted by high interest rates and declining financial liquidity.
5. Deterioration in the trading relationships between manufacturers and multiples.
6. Growth in the number and size of firms offering specialist distribution services to multiples.
7. Advent of new materials handling and information processing technology”.

Under a similar vein, Smith and Sparks (1993) noted that during the 1980s and 1990s, various consumer, societal and retail changes have had an effect towards retail distribution and logistics. Moreover, they provide a framework, arguing that retail responses to socio-economic trends require changes to the physical distribution strategy and operations of retailers (see Table 3.1).
<table>
<thead>
<tr>
<th>Consumer and societal change</th>
<th>Retail change</th>
<th>Distribution effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption has increased towards more and better products and patterns have broadened, deepened and become more complex</td>
<td>Increase in average size of stores associated with the growth of the food superstore (hypermarts and large supermarkets)</td>
<td>The previous increases (consumption, store size) leads to increased vehicle requirements (sheduling) and need to handle larger volumes of a wider range of products</td>
</tr>
<tr>
<td>Consumer behaviour that has moved from price towards non-price dimensions such as quality or service</td>
<td>A move towards out-of-town locations linked to the need for a large site</td>
<td>The movement away from high street locations has improved and eased the distribution position in many cases</td>
</tr>
<tr>
<td>Shopping behaviour that is influenced by increased consumers’ mobility and shopping associated with or as a leisure activity has increased</td>
<td>A steady increase in the percentage of own-brand food products consumption</td>
<td>Development of own brands that are in retailers’ control leads to closer control throughout the distribution channel</td>
</tr>
<tr>
<td>Individuals or households have seen income levels rising, having more leisure time and with an increase in awareness of health and fitness</td>
<td>A product extension based on new consumer demands such as organic, fresh and non-food products</td>
<td>This product extension has increased the complexity of retail distribution and allowing the usage of specialist distribution companies, especially for products that require special temperature environments</td>
</tr>
<tr>
<td>Group behavioural changes such as holidays abroad</td>
<td>There has been financial availability to enable food retailers’ expansion</td>
<td>Finance is a key part of retailing and attention has turned to costs of distribution</td>
</tr>
<tr>
<td>Society where an individualistic development takes place, e.g. take-home alcohol replacing the public house</td>
<td>Food retailers have become increasingly reliant on service and value added elements rather than pricing elements</td>
<td>The service and value-added elements are applied into retail distribution that must match the product retail offering and therefore, a need for high-quality distribution</td>
</tr>
<tr>
<td></td>
<td>Food retailers have invested heavily in technology</td>
<td>Technology is applied into all distributional aspects and retailers control distribution by information rather than by doing</td>
</tr>
</tbody>
</table>

Source: Smith and Sparks (1993)
The same researchers have provided the elements that comprise the food retail logistics function (Smith and Sparks 1993):

- Number, type and location of the storage facilities (e.g. issues such as: centralised control, specialised depots, composites, in-house or contractor management, site location and scale, picking methods, owned or leased premises),

- levels of stockholding / inventory management in terms of both quality and quantity (e.g. issues such as: increased product range, bar coding, date coding, investment / promotional buys, quality control, stock turnover days, service levels, fresh foods),

- transport to be used in moving products (issues such as: own fleet, bigger trailers – less deliveries, delivery window targets, backhauling, multi-temperature trailers),

- packaging and unit sizes and how they are handled (e.g. issues such as: pallets, roll cages, plastic trays, potato cages, pack sizes for merchandising, pre-packs),

- communications about the distribution elements of a company (e.g. issues such as: computerised systems, electronic mail, electronic data interchange, sales-based order, depot on-line real-time systems, forecasting, checkout plus, hand-held scanners and modem).

The next section will focus on storage facilities (warehousing / centralisation) and the use of third party distribution on transportation and warehousing whilst communications will be discussed in the following chapter. The author pays particular emphasis upon the examination of the warehousing function as this function accounts for 60% of total food multiple retail distribution costs in British food retailing (Institute of Grocery
Additionally, both centralisation / warehousing and transportation account for 95% of total food multiple retail distribution costs (Institute of Grocery Distribution 2000).

Centralisation / warehousing and transportation are capital intensive activities and there is a strong tendency for these functions to be assigned to third party distributors, something that is not the case for other logistics functions such as packaging (Institute of Grocery Distribution 2000). Warehousing and third party distribution merit a separate analysis as they have a central part in the author's empirical research for the Greek food multiple retail environment.

3. Centralisation and third party distribution in food multiple retail logistics

3.1 Centralisation

Centralisation implies that the supplier is not delivering directly to the retail premises but to retailer-controlled regional distribution centres (RDC), and therefore, the retailer is responsible for the distribution of goods to retail outlets.

Centralisation has been developed to a high degree in the Western European retail environment. For example, the top four British multiple grocers have more than 97% of product volume going through centralised networks (Institute of Grocery Distribution 1998). The introduction of centralisation (and other logistics trends) is depicted in Table 3.2 that presents the British food multiple retail environment. Although these developments were a result of a 30 year process, until the early 1970s, most retail stores
received the bulk of their store deliveries directly from the suppliers’ factories or warehouses and a similar situation took place for the rest of Western Europe (Cooper et al 1991). Overall, there are many differences between European countries as far as the extent of the realised centralisation is concerned. In Southern Europe, to take an example, the level of centralisation achieved by food retail firms is lower than the one achieved in the rest of Western European food retail firms (Bence 1995; Cooper et al 1991).

Table 3.2: The introduction of centralisation and other major logistics trends in British food multiple retailing between 1960s till mid-1980s

<table>
<thead>
<tr>
<th>Period</th>
<th>Problem</th>
<th>Innovation</th>
<th>Consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960s and 1970s</td>
<td>Disorderly delivery by suppliers to supermarkets and queues of vehicles led to both inefficiency and disruption</td>
<td>Introduction of regional distribution centres (RDCs) to channel goods from suppliers to supermarkets operated by retailer</td>
<td>(1) Strict timing of supplier deliveries to RDC imposed by retailer (2) Retailer builds and operates RDC (3) Retailer operates own delivery fleet between RDC and supermarkets within its catchment area</td>
</tr>
<tr>
<td>Early 1980s</td>
<td>Retailers becoming too committed to operating logistics services in support of retail activity</td>
<td>Operation of retailer-owned RDCs and vehicle fleets to specialist freight companies</td>
<td>(1) Retailer can concentrate on “core business” of retailing (2) Retailer achieves better financial return from capital invested in supermarkets than in RDCs and vehicles</td>
</tr>
<tr>
<td>Mid-1980s</td>
<td>Available floorspace at retail outlets being under-used and too much floorspace used for storage</td>
<td>Conversion of storage floorspace at supermarkets to sales floorspace</td>
<td>(1) Better sales revenue potential at retail outlets (2) RDCs absorb products formerly kept in store at supermarkets (3) Just-in-time (JIT) delivery used from RDC to replenish supermarket shelves</td>
</tr>
</tbody>
</table>

Source: Cooper et al (1991)
It is worth mentioning that certain factors have promoted the development of centralised distribution in British food multiple retailing during the past decades:

1. The increase in the number, size and quality of contractors providing an integrated distribution service, has made it easier for retailers to extend their control over intermediate storage and shop delivery without becoming directly involved in the development and / or management of physical distribution systems. Many contractors have acquired the necessary capital resources and managerial skill to handle large-scale distribution operations on retailers’ behalf and have vigorously marketed their services (Fernie 1989).

2. Major advances in information technology have greatly enhanced the relative advantages of centralised distribution. Multiple retailers’ distribution operations generate exceptionally large quantities of information because of their extensive product range, high turnover, broad supply base and numerous outlets. Information handling is further complicated by the need to monitor and control stock at two levels in the distribution channel (warehouse and store levels) and regulate the flow of supplies between them (Lamey 1996).

3. Certain improvements to the transport system have proved especially beneficial to the warehousing operations of multiple retailers, such as: the construction of the motorway network, increases in the maximum weight and dimensions of lorries and the development of new multi-temperature, compartmentalised vehicles (Quarmby 1989).

4. Finally, retailers came under increasing pressure to use retail floorspace more intensively, partly as a result of rising site costs, but also to accommodate expanding
sales volumes within existing outlets by converting storage space into sales display area (McKinnon 1988). Overall, stock centralisation provides many advantages (and disadvantages) to multiples that are illustrated on Table 3.3.

Table 3.3: The advantages / disadvantages of centralisation for multiple retailers

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer, larger deliveries reduces “backdoor congestion” at stores</td>
<td>Capital investment required to establish a distribution network</td>
</tr>
<tr>
<td>Overall improved ability to control movement of goods</td>
<td>Increased costs at head office as key functions are centralised</td>
</tr>
<tr>
<td>Reduction in order cycle and delivery lead times</td>
<td>Loss of flexibility and adaptability of purchasing at the local level</td>
</tr>
<tr>
<td>Improve selling space / warehouse space ratio at store level</td>
<td>Increased risk of major stock-outs at branches if a supply disruption occurs</td>
</tr>
<tr>
<td>Lower storage costs in central warehouse compared with branch sites</td>
<td>Difficulty to recruit managers of sufficient calibre to run large-scale distribution operations (McKinnon 1990)</td>
</tr>
<tr>
<td>More responsive to customer/branch order demand</td>
<td>Heavy dependence on centralised distribution can constrain the expansion of a chain</td>
</tr>
</tbody>
</table>

Source: Fernie (1989)

From the mid-1980s onwards and according to Whiteoak (1998), British food multiple retailing has seen the “Head Office control” stage that is the control of replenishment was transferred from the regional distribution centres to retail head offices.

A further innovation at this time period was the introduction of the concept of composite, multi-temperature storage and distribution centres (Smith and Sparks 1993). These centres enable ambient, chilled, fresh and frozen products to be distributed
through one system of multi-temperature warehouses and vehicles and has increased centralisation levels as well (Table 3.4).

**Table 3.4: The impact of composite distribution**

<table>
<thead>
<tr>
<th>Distribution trends</th>
<th>Pre-composite distribution</th>
<th>Post-composite distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional depots</td>
<td>Single &amp; small</td>
<td>Large &amp; complex</td>
</tr>
<tr>
<td>Centralisation</td>
<td>About 70 per cent</td>
<td>Increased to 85 per cent</td>
</tr>
<tr>
<td>Stock holding</td>
<td>High in store</td>
<td>Low in store &amp; depot</td>
</tr>
<tr>
<td>Delivery frequency</td>
<td>Less than daily</td>
<td>Daily</td>
</tr>
<tr>
<td>Identify costs</td>
<td>Some case rate</td>
<td>All costs known</td>
</tr>
<tr>
<td>Chill chain control</td>
<td>Single temperature</td>
<td>Rigorous control for freshness</td>
</tr>
<tr>
<td>Computerisation</td>
<td>Half telesales</td>
<td>Total integration</td>
</tr>
</tbody>
</table>

Source: Smith and Sparks (1993)

Whiteoak (1998) has also stressed the implementation of “just in time” principle where, at regional distribution centres, stock is reduced to the minimum to support pick-by-line cross docking¹ and composite networks are supported by accurately timed, daily deliveries on very short lead times. Furthermore, McKinnon (1996) outlined the trends that occurred in British retail logistics over the past two decades and apart from the development of regional distribution centres and composite distribution, he also pointed out:

- The increased use of information technology in retail logistics,
- the movement by retailers to extend their control upstream by integrating secondary (from regional distribution centres to stores) and primary distribution operations (from suppliers’ factories / warehouses to retailer’s regional distribution centres), and

---

¹ “Cross docking is a technique in which goods arriving at an RDC are unloaded from the inbound vehicle and moved from the goods receiving area across the dock for marshalling with other goods for onward despatch without being put away into stock” (Whiteoak 1998, p.116).
- the introduction of Supply Chain Management and Efficient Consumer Response (discussed in Chapter 4).

It is useful to note that the importance of centralisation for logistics strategy will be examined in the Greek food multiple retail sector where centralisation was developed for the first time during the 1990s. The introduction of this method of operation was illustrated earlier in British food multiple retailing, a sector that was chosen for its efficiency when compared with other European ones (Table 3.5).

<table>
<thead>
<tr>
<th>Table 3.5: Key ratios in the grocery supply chain in Europe</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Spain</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flow through retailer's distribution centres (% of centralisation)</td>
<td>85 %</td>
<td>60 %</td>
<td>70 %</td>
<td>75 %</td>
<td>88 %</td>
</tr>
<tr>
<td>Total stock in supply chain days</td>
<td>42</td>
<td>50</td>
<td>40</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>Total logistics costs as % of retail sales</td>
<td>9 %</td>
<td>10 %</td>
<td>9.8 %</td>
<td>10 %</td>
<td>9.2 %</td>
</tr>
</tbody>
</table>

Source: Coca-Cola Retailing Research Group (1994)

In the section that follows, third party distribution and the reasons for retailers using that method are discussed. Although third party distributors can be employed to numerous logistics services, the author will focus on transportation and warehousing that account for the vast majority of total retail distribution costs as stressed earlier.

### 3.2 Third party (contract) distribution

Lieb, Millen and Wasserhove (1993, p.37) have stated the following definition for contract distribution / third party logistics:
“Third party logistics is the use of external companies to perform logistics functions which have traditionally been performed within an organisation. The functions performed by the third party firm can encompass the entire logistics process or selective activities within that process”.

Virum (1993, p.356) provided an alternative definition, that emphasises the role of third-party logistics as a strategic concept:

“A longer term relationship between two parties which see each other as partners and where the logistics solution is worked out in co-operation specifically for each case. Generally the goal of the relationship should be to develop into strategic alliances that will be a win-win situation for both parties”.

Third party distributors were initially used by food retailers to meet seasonal demand (e.g. Christmas), certain product categories (e.g. frozen) and remote geographical areas (Fernie 1989). Over the years, these firms were able to offer a range of “value-added” logistics services to their clients, including strategic planning, site acquisition, warehouse design, stock control management and systems development, in addition to transport-related functions (A.T. Kearney 1994).

By putting focus upon transportation and warehousing, Cooper (1993) has provided a classification of third party distribution services that is presented in Table 3.6.
Table 3.6: Classification of third party distribution services

<table>
<thead>
<tr>
<th>Type of third party service</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract hire transport</td>
<td>Vehicle and driver supplied by hirer, who retains maintenance and employment responsibilities. Client organises work, including loads and routing</td>
</tr>
<tr>
<td>Dedicated contract distribution</td>
<td>Involves both transport and warehousing, dedicated to a particular client so as to avoid conflicting priorities. Effectively a third party replication of own account operations and the relationship’s potential duration can facilitate the adoption of advanced logistical techniques and concomitant equipment, especially information technology</td>
</tr>
<tr>
<td>Dedicated contract transport</td>
<td>Similar to the previous category, but without responsibility for storage</td>
</tr>
<tr>
<td>Shared contract distribution</td>
<td>Where clients are willing to share user facilities in terms of packaging, handling, storage and even destinations. Consolidation of storage and transportation reduces services cost</td>
</tr>
<tr>
<td>Shared contract transport</td>
<td>Similar to the previous category, but without responsibility for storage</td>
</tr>
<tr>
<td>Express</td>
<td>A more sophisticated version of common shared service, involving both transport and warehousing (for sorting than storage), offering, for relatively small consignments (up to 35kg) fast, generally guaranteed delivery</td>
</tr>
<tr>
<td>Groupage</td>
<td>Similar to express, but consignment sizes are not restricted through service is inevitably slower due to consolidation outbound</td>
</tr>
<tr>
<td>General haulage and storage</td>
<td>A common user service providing both shared storage and haulage facilities to multiple clients</td>
</tr>
<tr>
<td>General haulage</td>
<td>Common user transportation only</td>
</tr>
</tbody>
</table>

Source: Cooper (1993)

Regarding the factors that led to the introduction and growth of contract distribution, Harvey (1996) stressed the industrial relations issue as the principal reason behind the decision of retailers such as Sainsbury and CWS to outsource the provision of the distribution service.
Harvey (1996, p.7) also states finance as the second reason for the retailers’ outsourcing decision:

“Particularly in a period of soaring property values when the three major grocery retailers (in Britain) were spending £2bn a year in acquiring retail space”.

Another factor (according to Harvey 1996, p.8) is:

“The extreme concentration of ownership and subsequent centralisation within the UK retail sector and the very high level of sophistication and investment in information technology and data capture”.

Harvey (1996) suggests a fourth factor that is related to the change in retail firm’s business philosophy. In recent years, retail firms tend to focus on their core competency (retail store management), so a deliberate disinvestment of a large range of former in-house operations has been taking place across retail sectors.

McKinnon (1990a) distinguished the factors that promote the externalisation of logistics operations that stem from the business environment, to factors emanating from the supply side and factors associated with the demand side. On the supply side, there have been major improvements in the nature of the third-party logistical services on offer, with service standards continuously rising and operations becoming more efficient. Logistical services have also been marketed much more skilfully and aggressively than in the past. On the demand side, the prevailing conditions during the 1980s encouraged firms to concentrate capital investment on their core business of activity. A relevant financial reason cited for contracting out logistical services, was that retailers would achieve a greater return on capital employed (ROCE) in their mainstream business,
rather than in a distribution-related activity. The management of in-house distribution operations has also been more difficult by rising customer expectations, the proliferation of regulations on vehicle operation and product handling, the rapid growth rate of technological change in this area and uncertainties about future trends in fuel prices and other related costs. Regarding the firm's microenvironment, Fernie (1989) provides a more complete list of the benefits from the use of contract / third party distributors, classified into three categories: strategic, financial and operational. For the own-account distribution, Fernie (1989) provides the categories of cost, control and economies of scale concerning the benefits stemming from that distribution method (Table 3.7).

Table 3.7: The benefits of contract / own account distribution

<table>
<thead>
<tr>
<th>CONTRACT DISTRIBUTION</th>
<th>OWN – ACCOUNT DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Reasons</strong></td>
<td>Cost</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Cost – plus argument</td>
</tr>
<tr>
<td>Spread risks</td>
<td>Monitoring costs</td>
</tr>
<tr>
<td><strong>Financial Reasons</strong></td>
<td>Control</td>
</tr>
<tr>
<td>Off-balance sheet financing</td>
<td>Total responsibility though the supply chain</td>
</tr>
<tr>
<td>Opportunity cost of capital investment</td>
<td>Better customer service</td>
</tr>
<tr>
<td>Better planned budgets</td>
<td>Loyalty to one, not several companies</td>
</tr>
<tr>
<td><strong>Operational Reasons</strong></td>
<td>Security for new-product development</td>
</tr>
<tr>
<td>Accommodate seasonal peaks</td>
<td>Economies of scale</td>
</tr>
<tr>
<td>Reduce backdoor congestion at warehouse / store</td>
<td>“In-house” Technological Innovation</td>
</tr>
<tr>
<td>Provision of “specialist services”</td>
<td></td>
</tr>
<tr>
<td>Improve service levels</td>
<td></td>
</tr>
<tr>
<td>Management expertise</td>
<td></td>
</tr>
<tr>
<td>Minimise industrial relations problems</td>
<td></td>
</tr>
</tbody>
</table>

Source: Fernie (1989)

Following Fernie (1989), a critical reason cited by the larger retailing chains for contracting out logistical operations, is the inherent flexibility that can be achieved through a mix of own account and contract distribution. With the aid of sophisticated
information technology, the network can be controlled by information from the company headquarters. The key factor, however, is the ability of the retailer to control and monitor costs by comparing performance levels between contractors and the own account operation.

Overall, the critical decision, is whether to externalise (contract distribution) or to internalise (own account) the distribution functions. Fernie (1990) noted that the element of cost-effectiveness in the relevant operation is the most important one in that decision, although whatever option is taken, some management expertise will still have to be retained to monitor the performance of the contractor.

In a relevant survey of British food multiple retailers (Institute of Grocery Distribution 2000), it was found that these firms are committed to maintain a balance between in-house and third party distributors. According to Fernie (1998a), the transport function was most frequently outsourced amongst British retailers (both food and non-food), primarily because the core competencies required for that function are of a residual nature and with low asset specificity.

At a European level, the deregulation of road haulage that occurred over the past 30 years in most European countries, has made it much easier and more attractive for firms to contract out the transport function (McKinnon 1998). In McKinnon (1998) it is argued that the recent growth in the externalisation of that function, it is not exclusively related to deregulation but to other factors such as a general change in managerial attitudes to contracting out that occurred in Britain between 1980s and 1990s.
Overall, different logistics and distribution strategies have evolved for food multiple retailers across Europe in terms of centralisation and whether these firms should externalise or internalise logistics functions (Fernie 1992).

More specifically, centralisation and contracting out of distribution, two main features of British food multiple retail distribution, have not been adopted to the same extent by other European food multiples (Fernie 1995; Financial Times Management Reports 1997). These differences in logistics strategies have been attributed to various factors such as (Fernie 1998a, p. 53):

"1. The extent of retail power,
2. the penetration of store brands in the market,
3. the degree of supply chain control,
4. types of trading format,
5. geographical spread of stores,
6. relative logistics costs,
7. level of information technology development, and
8. relative sophistication of the distribution industry."

Fernie (1992, 1998a, 1998b) explained the variations in retail logistics networks based upon these factors and argued that the large superstore format supported the development of large scale logistics operations such as regional distribution centres and composite distribution. Location (and geographical spread of stores) was found to be an important factor in terms of the physical distances that products had to be moved. On the latter, Fernie (1998a) noted that centralisation was more appropriate to countries with urbanised environments (e.g. Belgium, Netherlands) where stores can be replenished easier.
As far as the use of third party firms is concerned, Fernie (1998a, 1998b) states that it varies by country according to the regulatory environment, the competitiveness of the third party sector and other distribution issues (cost efficiency..) (see also Fernie 1989 and McKinnon 1990). Apart from the above, the use of third party distribution can be examined via the use of transaction cost analysis.

In the following section, this theory is discussed and it is the author’s view that transaction cost analysis can support an empirical examination towards the externalisation/ internalisation issue in retail logistics operations.

4. Transaction costs economics and retail logistics: The “make – internalise versus buy – externalise” decision

As discussed in the previous section, retailers have the ability to externalise the logistics function and therefore, they face the classic “make versus buy” economic dilemma.

If a firm (retailer) can “make” (perform for itself) the distribution functions more efficiently than “buying” it from other firms, it will be in the retailer’s interests to vertically integrate. For example, transportation can be accomplished by private trucking fleets or by third-party agents and warehouses may be contracted rather than private warehouses being built. The common characteristic of such channel relationships is increased logistics performance that enhances the overall channel cost and/or service offering. Since specialisation of channel members means more interdependency and increased risk, channels involving third party arrangements also emphasise relationships that are co-operative, they look to mutual benefits and risk
sharing and they are long term in orientation (Mentzer 1993). Gattorna et al (1991) outlined the aspects that influence the decision of a buyer of such logistics services. Gattorna et al (1991) distinguish between control aspects and physical aspects, with control aspects including:

a) the ability to get exclusivity of service,

b) a sufficient range of contractor’s managerial activities,

c) the prospect for the continuity of the relationship and the commitment and the reliability attached to the relationship,

d) the ability for performance measurement,

e) cost control through pricing agreement,

f) commercial and financial security,

g) reliable customer service, and

h) the minimisation of problems stemming from industrial relations related issues.

On the other hand, the physical aspects include:

a) operational flexibility.

b) the ability to cope with a vast range of physical activities (e.g. a wide product range for retailers),

c) the ability to maximise level of service,

d) geographical coverage, and

e) product / market specialisation with a variety of products (e.g. in the case of short product life) and in specialised markets (e.g. frozen market).
The decision, however, between accomplishing the distribution functions internally or externally is actually more complex. An appropriate theoretical framework is Transaction Cost Analysis (TCA) that provides us with a better understanding of the factors leading a channel member to externalise or internalise its activities (Williamson 1975; Williamson 1989). The theory of transaction costs was extensively discussed in Chapter 2 and it suggests that firms will choose to undertake internally only those business functions / tasks that they find cheaper to administer themselves, than to purchase in the external market. According to transaction cost theory, the transaction costs are the "deal making" costs between the firm and its supplier and can be split into (Hobbs 1992):

A. Assessing value for money (information costs), and with two elements entailed within information costs: (1) the price discovery costs (finding out prices) and (2) evaluating the quality of the item being exchanged (measurement costs),
B. physically making the transaction (negotiating the contract costs), and
C. ensuring the contract is adhered to (monitoring or enforcement costs).

The theory predicts that other things being equal, firms will always adopt the policy (either externalise and / or internalise) that involves the smallest amount of transaction costs (A+B+C). Dawson and Shaw (1990) argued that as a generalisation, external transactions (contracting out) are likely to replace internal organisation when no idiosyncratic/specifie assets are required, many competitive suppliers are available, when tasks are repetitive, the task environment is stable and
not complex and finally, when performance outcomes can be easily and accurately assessed. In support of the Dawson and Shaw (1990) view, Lacity and Hirschheim (1994, p.225) argue that:

"With a small number of available vendors, the transaction costs associated with outsourcing are considerable and the increase in the number of outsourcing vendors decreases the transaction costs associated with outsourcing because the threat of vendor opportunism decreases when the customers have sourcing alternatives".

Sheffi (1990) reasoned that, in general, very small corporations where the transportation and logistics function is relatively simple and very large corporations, which can afford sophisticated in-house staff, may not be ideal candidates for externalising the logistics function. However, the latter is not confirmed in the British food multiple retailing in the case of multiples which enjoy the highest third party penetration in the grocery trade (Institute of Grocery Distribution 1998).

Aertsen (1993) showed how transaction cost analysis (TCA) and more specifically, how one of its elements, asset specificity in conjunction with performance measurement can support the decision of a firm to externalise or to internalise a logistics function.

Aertsen (1993) focused on asset specificity by assuming that the issue of frequency can be overlooked, as transactions in physical distribution are recurrent. However, a significant amount of uncertainty is present in transaction costs theory. Although the assumption concerning the issue of frequency can be accepted, there are reservations regarding the uncertainty issue, as not every environment that a firm operates is uncertain.
As far as asset specificity is concerned, Williamson (1985) delineates three forms:

i) Site specificity where successive assets (e.g. regional distribution centres and stores) are located close to each other so as to economise on inventory and transportation expenses,

ii) physical asset specificity where certain assets (e.g. trucks) are brought into a contract to serve a specific company (e.g. retailer) and the asset can be slightly modified to serve other companies after the completion of the contract, and

iii) dedicated assets, which are investments in highly specialised equipment (e.g. logistics software packages) that can be only used within a specific contract.

However, the variations of contracting out the physical distribution can not be explained solely with reference to differences in the degree of asset specificity.

To explain under what conditions, firms decide to contract out their physical distribution function, the ease of performance measurement must be also taken into account (Williamson 1991b). Based on that reasoning, Aertsen (1993) illustrates in Table 3.8 the situations when externalisation or internalisation is favoured.

<table>
<thead>
<tr>
<th></th>
<th>Measurable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Specific</td>
<td>Contract out (1)</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Specific</td>
<td>Contract out (3) (safeguards)</td>
</tr>
</tbody>
</table>

Table 3.8: Degree of asset specificity in relation to the ease of measurement performance

Source: Aertsen (1993)

---

2 Asset specificity arises when one of the partner in an exchange has invested resources specific to that exchange and this asset needs either to be modified for an alternative use or can not be used alternatively (Williamson 1985).
It must be stressed that the ease of measurement and not the result of performance measurement in contracting out is taken into consideration. As shown in Table 3.8, in three out of four situations contracting out is preferred to own account distribution. However, it is our view that own - account distribution and contracting out could co-exist in most cases and in situation (2), where additional monitoring facilities are required to limit the possibility of opportunistic behaviour.

One possible solution for the latter problem is the establishment of an EDI network by the firm upon the contractor.

As information systems become accessible, the possibility of monitoring contractor's performance increases and with that, the possibility for the distribution contractor to behave opportunistically decreases, as retailers can control distribution better by information.

As far as situation (3) is concerned, the relationship will be characterised by additional safeguards to protect transaction specific investments. These safeguards can be built into certain types of relationships, such as logistics partnerships, joint ventures, strategic alliances or strategic networks.

Overall, when contracting out is preferred, the strength of the contractual relationship varies with the level of asset specificity and the measurability of performance. If performance is measurable and no specific investments are brought into transaction, it would be likely that a short-term relationship would be developed. As far as retail logistics at the international level is concerned, the four alternative situations cited in Table 3.8 may be less applicable during the
internationalisation process as many changes may rapidly occur. For example, during the internationalisation process, a retailer may be less capable of measuring logistics performance. The assets needed may also be specific - idiosyncratic because both the retailer and the selected service provider may need to engage in specific investments to develop proprietary know-how to make international transactions possible. Hence, if contracting out is preferred, a network establishment with information systems / information technology as a facilitator of the internationalisation process is needed (combination of situations 2 and 3 in Table 3.8). Alternatively, an own-account operation (situation 4 in Table 3.8) may be preferred, depending on the ease of performance measurement.

Finally, the crossing of national borders presents logistics functions with a variety of general barriers adding to the firm's costs, such as tariffs, non-tariff barriers, different exchange rates, differences in product requirements, variations in consumer tastes and alien business practices. Border crossing also presents direct obstacles to the movement of goods as a result of differences in transportation services, transport regulation and telecommunications, to name few of them. All the above add further to the burden of existing transaction costs (e.g. inventory, expenses) in retailers' logistics operations. It is expected that within the European Union, common standards will gradually prevail especially within transportation and telecommunications infrastructure that will reduce transaction costs (Schary and Skjott-Larsen 1998). On the other hand, an issue that may cause extra logistics-related transaction costs, is the implementation of various formats by retailers at home and abroad. The issue of whether retail firms implement at the
beginning of their domestic and international expansion one format strategy (or different) will be thoroughly investigated in the present thesis, with the help of transaction costs analysis.

To conclude, internationalisation provides a plethora of additional cost related issues for retail firms to deal with and many of these costs are related to increased transaction costs that occur during that process. These costs can be considerable in the retail logistics function, so the next section links retail logistics strategy to internationalisation and other strategic directions pursued by food multiple retailers.

5. Internationalisation and retail logistics strategy

Logistics has become a central element to the strategy of the international enterprise. Quinn, Doorley & Paquette (1990, p.68) stress the strategic and operational importance of the logistics function:

"The capacity to command and co-ordinate services, activities, supplier networks and contract relations (via logistics) across the globe has become the most strategic weapon and scale economy for many of today’s successful enterprises".

According to Fabbe-Costes and Colin (1999, p.66):

"The classic approach to formulating a logistics strategy consists in beginning with the firm’s overall strategy and then defining the logistics strategy that will enable the firm to reach its objectives. Logistics is thus conceived as a functional support system and a tool for international strategy. However, logistics like other functions opens new strategic lines of action. In order to formulate these new lines, it is imperative to reverse the classic approach, to think strategic logistics rather than logistics strategy. Strategic logistics consists in imagining and developing strategic actions that would be impossible without strong logistics competencies. From being seen first as a key factor for success, logistics is becoming a fully competitive advantage".
This viewpoint makes it necessary to think about logistics at the very moment the overall strategy is being elaborated, as logistics can be the very foundation of the strategic action. The strategic interrelation between logistics and strategy shown in Figure 3.1 may lead to different strategy formulations.

Moreover, Fabbe-Costes and Colin (1999, p.66) argue that:

"The determining factor for reversing the perspectives would seem to be the maturity of the perception of logistics as a cross-functional and deliberately open-ended management domain in the firm. Thus, the interactive loop between strategy and logistics is generally initiated by a request from strategy to logistics, historically centred on the control (reduction) of logistics costs. The experience, know-how and systems developed in logistics action then retroact on the strategy, becoming the vector of its reformation".

The major differences between the two approaches are summarised in Table 3.9.
Table 3.9: Main differences between logistics strategy & strategic logistics

<table>
<thead>
<tr>
<th>Perception of logistics</th>
<th>Logistics Strategy</th>
<th>Strategic Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategy support</td>
<td>Strategy foundation</td>
</tr>
<tr>
<td>Effects on organisation</td>
<td>Improvement, evolution</td>
<td>Change, transmutation</td>
</tr>
</tbody>
</table>


Fabbe – Costes and Colin (1999) examined the interaction between strategy and logistics in a number of strategic issues, based on an investigation of several retailers, manufacturers and logistics firms. It is the author’s view that a better understanding of the differences between logistics strategy and strategic logistics can be achieved by illustrating a typology of these approaches in a wide spectrum of strategic directions.

In Table 3.10 specific examples are provided for food multiple retail companies that follow a specific approach.

According to Fabbe-Costes and Colin (1999, p.70-71), Table 3.10:

“contains various classic generic strategic axes and considers strategic formulations by adopting both perspectives described in the previous figure (Figure 3.1). The generic axes are in line with those proposed by Ansoff (1965), Porter (1985), Strategor (1988) and others”.

95
Table 3.10: Typology of logistics strategies and strategic logistics*

<table>
<thead>
<tr>
<th>Generic axes</th>
<th>Logistics strategy</th>
<th>Strategic logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost domination</td>
<td>Reduce logistics costs (e.g. Carrefour gave up supplying its stores directly from manufacturers and supplies are delivered by cross-docking in warehouses operated by logistics suppliers)</td>
<td>Reduce overall costs with logistics (e.g. Carrefour developed a continuous replenishment programme with some of its suppliers and with Lever (major supplier) inventories decreased from 27 days to seven in December 1997)</td>
</tr>
<tr>
<td>2. Differentiation</td>
<td>Improve the quality of logistics service (e.g. by using local logistics providers for geographically remote areas, Greek retailers are able to increase the logistics service to stores) (Self Service Review July 1999)</td>
<td>Logistics factor of differentiation (e.g. Wal-Mart has developed an intranet information system. Retail Link that will allow 7,000 suppliers around the globe to access data about product sales, inventory information and shipping details) (The Grocer 1999)</td>
</tr>
<tr>
<td>3. Innovation</td>
<td>Logistics support for innovation (e.g. logistics information technology systems such as EDI and warehouse systems such as Dallas have supported the use of regional warehouses)</td>
<td>Logistics as a source / motor for innovation (Efficient Consumer Response is accepted by both suppliers and retailers as a main retail logistics innovation and is jointly developed by both parties. It has also increased their co-operation far beyond the field of logistics)</td>
</tr>
<tr>
<td>4. Strategic Alliance</td>
<td>Logistics as a means of alliance (e.g. third party logistics firms form an alliance - partnership with the food retailer they serve and for at least the time period that is specified in the contract)</td>
<td>Logistics as a source / motor for alliance (e.g. Intermarche’s powerful centralised logistics system placed its “independent” members in a position of total dependence vis-à-vis the rest of the buying group)</td>
</tr>
</tbody>
</table>
5. Diversification

Use of logistics synergies (e.g. road haulage firms have become specialised logistics suppliers in their European operations and for certain goods that present homogeneous logistics characteristics. For example, Salvesen for frozen products)

Diversifying through or in logistics (e.g. numerous third party logistics firms provide a range of logistics services to their food retail clients)


* Examples for approaches 1, 3, 4, 5 are provided by Fabbe-Costes and Colin (1999)

Taking into consideration the above, the author identified the main differences between retail logistics strategy and retail strategic logistics (Table 3.11) in a specific strategic direction that is food retailers’ domestic and international expansion.

Table 3.11: Main differences between retail logistics strategy & retail strategic logistics

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Retail Logistics Strategy</th>
<th>Retail Strategic Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception of logistics</td>
<td>Strategy support</td>
<td>Strategy foundation</td>
</tr>
<tr>
<td>Effects on organisation</td>
<td>Improvement, evolution</td>
<td>Change, transmutation</td>
</tr>
<tr>
<td>Major benefit of logistics</td>
<td>Tool to control / reduce costs</td>
<td>Source of firm’s competitive advantage</td>
</tr>
<tr>
<td>Logistics’ Role in Retail Strategy</td>
<td>Secondary importance</td>
<td>Primary importance</td>
</tr>
<tr>
<td>Time – Sequence of the Approach</td>
<td>Reactive</td>
<td>Proactive</td>
</tr>
<tr>
<td>Strategic Approach</td>
<td>Non-intended, emergent</td>
<td>Intended, deliberate</td>
</tr>
</tbody>
</table>

Source: Bourlakis (1997a)

The initial two parameters (perception of logistics, effects on organisation) are based on Table 3.9 and it is worth noting that the six parameters (Table 3.11) represent a wide spectrum of organisational, strategic and other issues. As far as the third parameter (major benefit of logistics) is concerned, logistics can have various roles and it can
mainly support a firm towards cost reductions. On the other hand, logistics can become the source of competitive advantage following the resource-based view. This theory takes the view that organisations are bundles of resources (Amit and Schoemaker 1998) which managers have to develop and build towards achieving their strategic objectives, determined by firm’s managerial competencies or capabilities. In food retailing therefore, firms may pursue different strategies and achieve different performance levels, as a result of similar resources but differing competencies (e.g. logistics competencies).

The fourth parameter illustrates the role of that function in retail strategy that can be of primary or secondary importance. This reasoning is related to the other parameters from Table 3.11 as for example, if logistics is perceived as the foundation of retailer’s strategy (first parameter, Table 3.11), it should be regarded of primary importance, whilst this is not the case if it only supports retail operations.

The last two parameters from Table 3.11 are based on the “Classical” school of thinking (Whittington 1993) where the focus of strategy is seen as deliberate (intended), proactive and rational, directed towards profit-maximisation, and very much the restricted domain of top management. It views corporations as hierarchies that are directed from the top and strategy is a rational process of analysis which is designed to achieve a competitive advantage of one organisation over another in the long term. On the other hand, strategy is a non-rational process that emerges from a combination of influences within the organisation (and therefore reactive). From this perspective, Mintzberg (1987) suggests that strategy is emergent rather than deliberate and those strategies which are imposed top-down without incorporating other organisational constituencies, are unlikely to be
effective, realised strategies. Based on the above, the author will examine the importance of logistics to food multiple retailers' strategy and apart from that, whether the logistics strategy that was planned at the retailers' headquarters for transportation and warehousing operations, is the strategy that was actually implemented at the end.

Concluding the above discussion, the formulation of retail logistics strategy is a critical issue and retailers need to pay extra emphasis to logistics strategy in the course of their domestic and international expansion.

6. The formulation of a strategic network in retailing: The best answer to the externalise / internalise decision?

The traditional role of logistics has been to establish and maintain the connection between operations and between production and customers, by facilitating the management of the company's transportation and inventory systems.

Nowadays, logistics plays an even more important role: co-ordinating operations and especially managing relationships amongst channel members. McKinnon (1994, p.46) argues that several developments encourage both the providers and the users of distribution services to develop closer partnerships:

- "The adoption of the just in time principle, with its reliance on precision instead of inventory, makes distribution systems more vulnerable to failures of service and encourages companies to co-operate with service providers in maintaining and improving performance,
- the introduction of Electronic Data Interchange links between contractor and customer greatly increases the transparency of the supply chain and increases client confidence in the provider's abilities and at the same time, the investment in time and equipment on both sides also strengthens their relationship, and
- technological developments in the fields of transport and materials handling are making it possible to tailor equipment more closely to individual firms'
logistical needs as with Electronic Data Interchange, this investment increases mutual dependence”.

The above issues are of great importance in food multiple retailing, especially when retailers have either the option to make “in-house”/internalise certain logistics activities or to externalise such activities by allowing their provision to logistics service companies. However, some retailers may follow a mixed approach, as for example in warehousing where they use both public and third party warehouses. In addition, it may be possible to maintain the advantages of each approach whilst minimising the respective disadvantages, if a hybrid approach is chosen. Such form would provide the company with the long-term planning security of a large, integrated company, where one can invest in the relationships because they are intrinsically stable. It would also provide the company with the advantages inherent to being in direct contact with the latest technology, thus being able to innovate faster than de-integrated companies.

At the same time, the firm would do away with the co-ordinating bureaucracy, keep the entrepreneurial drive of independent firms and will make sure that the unit performing a specific activity is well adapted to the execution of that activity. This is the network approach and is effectively a re-organisation for the firm that captures the available resources from other firms. If such a re-organisation turns up to be more efficient than internally integrated activities, the network formation becomes a competitive advantage to the firm (Jarillo 1988). Christopher (1998, p.276) advocates the above and states:

“The most important issue in network is process integration. Processes are the fundamental ways through which value is created. Such processes include new product development, order fulfilment, supplier management and customer
management. To achieve real integration in the supply chain requires ideally that these processes also be integrated – upstream with the supplier and downstream with customers”.

In a similar approach, the network can be seen as the final stage of the evolution of a buyer/seller service relationship, as Figure 3.2 depicts.

<table>
<thead>
<tr>
<th>Transactional</th>
<th>Strategic Alliances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Purchase</td>
<td>Third Party Arrangements</td>
</tr>
<tr>
<td>Repeat Purchase</td>
<td>Service Agreements</td>
</tr>
<tr>
<td>Partnership Arrangements</td>
<td>Integrated Networks</td>
</tr>
</tbody>
</table>

**Figure 3.2: The buyer-seller service relationships (Wood et al 1995)**

Additionally, Table 3.12 illustrates the distinct opposite sides of that evolution of the relationship, the free market - transaction exchange and the strategic network alternative (Bowersox et al 1992).

<table>
<thead>
<tr>
<th>Transaction Exchange</th>
<th>Strategic Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>shorter term</td>
<td>longer term</td>
</tr>
<tr>
<td>multiple suppliers, who are played off against one another for concessions</td>
<td>fewer suppliers (maybe even one) who are treated as valued partners</td>
</tr>
<tr>
<td>price dominates</td>
<td>value-added services dominate</td>
</tr>
<tr>
<td>little dedicated investment from supplier</td>
<td>specialised investment can be high for both partners (asset specificity)</td>
</tr>
<tr>
<td>little information sharing</td>
<td>much sharing of every kind of information</td>
</tr>
<tr>
<td>firms are independent</td>
<td>firms are interdependent</td>
</tr>
<tr>
<td>formal, infrequent communication</td>
<td>Frequent, formal and informal communication</td>
</tr>
<tr>
<td>little interaction between respective functional areas</td>
<td>many functional areas may interact across the partners</td>
</tr>
</tbody>
</table>

Source: Bowersox et al (1992)
The network theory is of great significance to food multiples and logistics service providers, as this approach can secure numerous benefits to both parties.

Bowersox et al (1992) expose the benefits of cost reduction and joint synergy as networks allow participating firms to concentrate on tasks that can perform most efficiently. Network participating firms reduce risk and share creativity, as the coming together of different experiences increases the likelihood of success and the creation of a competitive advantage via the leverage of critical capabilities and flexible response to market changes.

But what are the overall implications for retailers from the above analysis and especially, for food multiple retailers that pursue an international expansion?

In international markets, a company faces similar to home choices on how to co-ordinate its activities. However the externalise / internalise across borders decision is far more complex, as organisation costs across borders tend to be higher than domestic, related to the traditional concept of the “extra expense of doing business abroad”.

For example, communication and transportation costs tend to be higher compared to the relevant costs in the home country.

If this is the case in international markets, firms will not internalise operations abroad, but they will rely on pure market mechanisms. However, it can also be argued that transaction costs are also higher across borders due to the need to adapt products to each country, due to high costs of information gathering and due to creation of specific assets. Facing such high costs, the firm will try to internalise operations, but if the costs of doing so are also high, the net result is that no transaction of any kind will eventually
take place. In food multiple retail logistics, if transaction costs are high and integration / organisation costs are low, internalisation through own account distribution will take place. The latter is conditional upon the retailer’s ability to operate its own distribution in foreign market with no cost disadvantage.

If, on the contrary, organisation costs are high and transaction costs are low, a contract distribution (externalise operations) decision is far more appropriate, as the retailer will not be efficient enough to handle these high organisation / integration costs. In that case, a third party distributor, is therefore, more appropriate. If however, transaction costs and organisation costs are low, the choice depends on factors associated with the demand side (e.g. company’s history, company’s financial status) and also with the supply side (e.g. existence of logistics service providers), if we are to follow McKinnon’s (1990a) classification. It will also depend on financial factors (e.g. cost efficiency) as well following Fernie’s (1989) classification. Such choices could be either the own account distribution, or the contract distribution or a combination of them (Figure 3.3).
Finally, the strategic retail network is the optimal organisation mode when both costs (internal organisation and transactions) are especially high across borders and there is an advantage to be exploited from co-ordinating world-wide operations closely. This mode has also the potential to capture the main advantages of the network participating organisations, considered as autonomous independent units (as discussed earlier). According to Jarillo (1988, p.33):

"Strategic networks are long-term, purposeful arrangements among distinct but related for-profit organisations that allow those firms in them to gain or sustain competitive advantage vis-à-vis their competitors outside the network".

Within the strategic retail network, the food retail multiple takes the role of "central controller" and organises the flow of products and information among itself and the logistics service providers that are independent companies. By working close together,
a close relationship and a better understanding is being gradually developed among the network participants, based on good co-operation that leads to the achievement of common goals. If however, this is not the case, the other three choices that are cited in Figure 3.3 could be more appropriate. Additionally, it is the author’s view that Figure 3.3 can be applied in the same manner to food multiple retailers’ domestic expansion. Following the above, the author (Bourlakis 1998a) examined various European food multiples in connection with the logistics externalisation / internalisation decision in the course of their domestic and international expansion. It is worth mentioning that different practices were found to be followed by European food multiples in connection with the externalisation / internalisation issue in their warehousing and transportation operations. Bourlakis’ (1998a) findings are displayed in Table 3.13.

Table 3.13: Percentage of third party penetration (externalisation) in European food multiples*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asda***</td>
<td>64 % - 64 %</td>
<td>Delhaise “Le Lion” (Belgium)</td>
<td>5 %</td>
</tr>
<tr>
<td>Safeway</td>
<td>45 % - 48 %</td>
<td>Vendex (Belgium)</td>
<td>20 %</td>
</tr>
<tr>
<td>Sainsbury</td>
<td>64 % - 74 %</td>
<td>Ahold (Netherlands)</td>
<td>5 %</td>
</tr>
<tr>
<td>Somerfield</td>
<td>50 % - 100 %</td>
<td>La Rinascente (Italy)</td>
<td>30 %</td>
</tr>
<tr>
<td>Tesco</td>
<td>38 % - 0 %</td>
<td>Docks de France (France)</td>
<td>0 %</td>
</tr>
<tr>
<td>Waitrose</td>
<td>48 % - 48 %</td>
<td>FDB (Scandinavia)</td>
<td>10 %</td>
</tr>
</tbody>
</table>

* For the British firms, the relevant numbers have not changed significantly over the past years whilst no latest data were found for the European firms
** The available data for European multiples included average third party penetration for both transportation and warehousing

Based on that examination, he found (Bourlakis 1998a) that the strategic retail network mode is present only in the operations undertaken by Marks and Spencer.

This retail firm which was considered as a food retailer, has operations in numerous countries and has been one of the leading exponents of contracting out physical distribution services by contracting out its entire distribution needs (Fernie 1989; McKinnon 1986). Most importantly, Marks and Spencer works successfully with its logistics service providers and has a co-operative approach, something regarded as the starting point for network formation (as discussed in Chapter 2, Figure 2.6).

To be more specific, this co-operative approach can be better illustrated through the formation of a new logistics service company (BOC Distribution Services) in response to a partnership relationship with Marks and Spencer. This happened when Marks and Spencer began to diversify into chilled products and eventually, Marks and Spencer
became a major client for that company, accounting for a little less than the half of the company’s distribution business (MarketLine International 1997).

Marks and Spencer has also provided guaranteed business to another logistics company, Exel Logistics (NFC) that runs warehousing and transportation for Marks and Spencer’s operations in various European countries, a relationship that was originally based on their good working relationship in Britain (Davis 1995).

As far as the other European food multiples are concerned, Bourlakis (1998a) found that in general, British food multiples such as Tesco, J. Sainsbury and Safeway favour a combination of contract and own account distribution practices (Institute of Grocery Distribution 1996; Pellew 1990). Other European firms such as Delhaize Le Lion from Belgium, Ahold from Netherlands, the German multiples Aldi and Rewe and the Scandinavian organisations Kesko and FDB, do not use third party logistics specialists widely, as distribution for these companies is operated mainly in-house (Distribution - Verpackung, Lager, Transport und Logistik in Industrie und Handel 1997; Fordern und Heben 1997; Institute of Grocery Distribution 1993).

Finally, the French food multiples Carrefour and Cora outsource nearly 100% of their warehousing and distribution activities, an exception to the French rule, as leading grocery multiples in France carry out most of their activities in-house (Distribution D’ Aujourd’ Hui 1997; Management Horizons 1994/95). It is worth emphasising that European food multiple retail firms which make use of third party firms do not follow the strategic network mode, as no secondary data were found to indicate that they have developed a close co-operation with third party distributors.
7. Conclusions

In this chapter, the author introduced the retail logistics function and a special analysis was devoted to two major aspects of this function, warehousing - centralisation and third party distribution. Both of them have gained importance in food multiple retailing over the past decades, so the reasons that led to their rapid development were thoroughly discussed.

In addition based on Fernie's (1992, 1998a, 1998b) work, it was stressed that specific factors led to a different level of development for the centralisation and the third party distribution operations across Europe. It is the author's view that further research is needed towards that direction that it will support empirically Fernie's (1992, 1998a, 1998b) work. As far as the externalisation (use of third party distribution) and the internalisation (own account distribution) issues are concerned, the use of transaction costs analysis as the most appropriate framework of analysis was suggested.

Given the above, the author examined the relevance of the transaction costs theoretical framework to retail logistics strategic operations. By taking into consideration the work of other researchers (e.g. Aertsen 1993), the author noted that during the internationalisation process of a retail firm various conditions may prevail that can lead to increased logistics related transaction costs.

Subsequently, the author investigated the link between the retail internationalisation process and the retail logistics strategy pursued in connection with the latter. Based on Fabbe-Costes and Colin's (1999) work, the author highlighted the distinction between the retail logistics strategy and the retail strategic logistics approaches, under various
parameters. Most importantly, the author pointed out that the formulation of retail logistics strategy needs to be resolved in advance of the retailer’s expansion to the domestic and the international competitive arena.

In the last part of Chapter 3, the author examined the usefulness of network theory in the retail logistics function. The framework provided (Figure 3.3), introduced the concept of the strategic retail network, a framework associated with a retailer’s organisation and transaction costs during international expansion.

The author tried to clarify that during internationalisation increased transaction costs may occur in the form of organisational costs and four alternative situations were highlighted in respect to the externalisation and / or internalisation of the logistics function decision. With the help of the developed theoretical framework (Figure 3.3), the author investigated a number of European food multiple retailers and it was found that the strategic network mode was in operation only in the case of Marks and Spencer. Although other European food retailers made use of third party logistics firms, no data were found to show that they did follow the co-operative approach to the extent that Marks and Spencer does. According to the developed theoretical framework in Chapter 3, the issue of co-operation seems to be critical for the formation of strategic retail network. The author will undertake the task of delving into the importance of the co-operation factor upon the formation of a strategic retail network, later on in the present thesis where the Greek food multiple retail sector is examined.
Chapter 4: A critical review upon the information technology in retailing literature

1. Introduction

The rapid degree of innovations in computers and information technology have had profound impact on the way that business are contacted by firms and it has been argued that information technology related business changes are greater compared to the changes caused by the industrial revolution (Knight 1999). Information technology encompasses the gathering, processing, storage, retrieval, display and communication of information or data, normally by means of microprocessor equipment (Willcocks and Fitzgerald 1993) and a similar view is proposed by Lockett and Holland (1991) in respect of this definition but applied into retailing. Linking information technology to logistics, Fitzgerald and Willcocks (1994) noted that information technology is the supply of information based technologies while logistics information systems are organisational applications, more or less information technology based, designed to deliver on the logistics information needs of an organisation and the defined stakeholders.

Under a competitive related perspective, Porter and Millar (1985) suggest that information technology affects competition in three vital ways:

1. Information technology can alter the rules of competition by changing the industry’s structure. Information technology can drive a company’s costs down and can also increase profit margins for cost efficient firms.
2. Information technology creates competitive advantage differentials by giving companies new ways to outperform their rivals (e.g. it can limit or reinforce the strength of one of Porter’s [1980] five forces of competition).

3. Information technology spawns new business activities, often created from a company’s existing core operations (e.g. diversification of an information technology firm to related sector).

It is useful to note that following the above classification, Parsons (1983) provided a framework where he stresses the impact of the use of information technology on three levels:

a) Industry level where information technology changes the fundamental nature of the industry.

b) Firm level where information technology influences the competitive forces facing the firm, and

c) Strategy level where information technology supports the generic strategy of the firm.

Overall, this chapter aims to examine information technology in the retail industry and to illustrate its importance in the retail logistics function. Moreover, information technology can support retailers’ logistics strategy on either domestic and / or on international level, an issue that will be explored further. The usefulness of information technology in the formation of a retail network is another topic incorporated and discussed.
The final task regarding information technology, is its joint examination with logistics within a transaction costs theory approach, with the aim to identify the impact of information technology on food multiple retailers’ logistics related transaction costs.

2. Information technology and food retailing

Earl (1990) argued as far as the retailing sector is concerned that information technology has become the means of delivering the goods and services. Information technology in a retail (and a food retail) context provides the infrastructure for the management of information.

Over the past 20 years, information technology led to a dramatic increase in the availability of information on product movement in the distribution channel.

It must be said that prior to the introduction of scanner systems, the only sources of information on product movement were manufacturer shipments or warehouse withdrawals (Clemons and Row 1993). In the same rationale, Wilson (1998) argued that without advances in information technology, the evolution of modern retailing would have stalled in the 1970s. Running a chain of hundreds of stores, each carrying thousand of products would be hopelessly inefficient in the absence of information technology systems.

The above were supported by Dolen (1986) who argued that retailers who will be able to identify opportunities to exploit effectively information technology, will have much to gain. To be more specific, this function can be a productive factor for retail operations as it contributes towards the creation of output (Reardon et al 1996).
Overall, information technology can contribute to numerous areas of retail operations and some of them are listed in Table 4.1 below.

Table 4.1: Information technology in retail operations

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Offering new products or services (e.g. internet shopping)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Modelling of store and consumer behaviour</td>
</tr>
<tr>
<td></td>
<td>Making “what if” decisions</td>
</tr>
<tr>
<td>Analysis</td>
<td>Processing of market research information forecasting</td>
</tr>
<tr>
<td></td>
<td>Immediate feedback on sales through “bar coded” information</td>
</tr>
<tr>
<td></td>
<td>Supplier monitoring</td>
</tr>
<tr>
<td></td>
<td>Direct product profitability</td>
</tr>
<tr>
<td>Service</td>
<td>Reducing checkout queues</td>
</tr>
<tr>
<td></td>
<td>Reducing the incidence of “out of stock”</td>
</tr>
<tr>
<td>Operations</td>
<td>Faster checkout throughput</td>
</tr>
<tr>
<td></td>
<td>Linking of sales, inventory and purchase orders</td>
</tr>
<tr>
<td></td>
<td>Reduced stockholding</td>
</tr>
</tbody>
</table>

Source: Howe et al (1992)

The author reckons that it will be useful to provide the types of information technology that contribute to the information technology infrastructure. Dawson (1994a) states two kind of technologies available to retail firms, the core technologies and the application technologies.

The core technologies provide the necessary information infrastructure and result from widely agreed standards. Core technologies, in their own right, do not provide added value to information but they allow for the implementation of application technologies. There are three core technologies relevant to retailing (Burt and Dawson 1991):

1. The identification of items with bar codes (used on product cases and pallets to identify contents and in more advanced instances, quantities) by optical - electronic methods. The most common use of this technology is the collection of sales data at the retailer’s point of sale (EPoS) that can be used to improve retail efficiency (Davis 1995).
By owning information for consumer's behaviour, retailers also increase their power in the grocery distribution channel (Ogbonna and Wilkinson 1996) by developing for example own brands that may meet better their customer needs. Some other benefits arising from the EPoS technology are related to better and more informed decision-making based on broader informational or strategic gains. Table 4.2 summarises the most important benefits arising from the EPoS technology (Hogarth-Scott and Parkinson 1994 and Ody 1990). Such major benefits can be conventionally categorised as “hard” (direct) and “soft” (indirect) (Dawson et al 1987).

<table>
<thead>
<tr>
<th>General benefit area</th>
<th>Type of benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock control</td>
<td>Fewer stock-outs</td>
</tr>
<tr>
<td></td>
<td>Fewer over-stocks</td>
</tr>
<tr>
<td></td>
<td>Less stock held in branches</td>
</tr>
<tr>
<td>Merchandising</td>
<td>Better range planning and better allocation to branches</td>
</tr>
<tr>
<td></td>
<td>Better monitoring of sales patterns with suggested re-order requirements</td>
</tr>
<tr>
<td></td>
<td>Better monitoring on new lines and promotions</td>
</tr>
<tr>
<td>Operational</td>
<td>Reduced paperwork as well as better labour scheduling</td>
</tr>
<tr>
<td></td>
<td>Improved customer services / customer loyalty</td>
</tr>
<tr>
<td></td>
<td>Accurate pricing and ease of price changes</td>
</tr>
<tr>
<td></td>
<td>Improved cash management / banking</td>
</tr>
<tr>
<td></td>
<td>Improved shrinkage control</td>
</tr>
<tr>
<td></td>
<td>Faster throughput at checkouts</td>
</tr>
<tr>
<td></td>
<td>Better information</td>
</tr>
<tr>
<td></td>
<td>An improved bargaining tool with supplier</td>
</tr>
<tr>
<td>Credit</td>
<td>Improved authorisation systems reduce fraud</td>
</tr>
<tr>
<td></td>
<td>Less paperwork</td>
</tr>
<tr>
<td></td>
<td>Better deal on bank charges with electronic banking systems</td>
</tr>
</tbody>
</table>

Source: Hogarth-Scott and Parkinson (1994) and Ody (1990)

EPoS technology is used widely in warehouses to identify product locations and in vehicles to record product movement on to and off the vehicle. It has been argued
(Lynch 1990) that in conjunction with EDI (Electronic Data Interchange), EPoS offers the potential for a fully automated sales and stock handling system.

2. The second technology is the electronic transmission of information using standard protocols. An example of the application of this core technology is the creation of Electronic Data Interchange (EDI) networks based on a specific standard that allows for the co-ordination of various parts of the supply chain (EDIFACT) (Fynes and Ennis 1994). The Economist Intelligence Unit (1988) grouped the benefits accruing from EDI to business into three categories: strategic, operational and opportunity related. Strategic benefits include those which can be of crucial long-term significance to the functioning of the corporate activity, such as faster trading cycles, improved inventory management and gaining competitive advantage through “win-win” partnerships. Operational benefits are of major importance to the daily operation of the company but they usually have an impact only on individual departments within the organisation, including a reduction in working capital requirements, improved cash flow, security and error reduction and acknowledged receipt of order and delivery. EDI also shortens the order lead times between shop and distribution centre and between a retailer’s central buying point and the supplier of the product. For example, some of the large British grocery multiples supply their shops with fast moving lines from a distribution centre within few hours of the order being transmitted, allowing shops to cut stocks while maintaining, or even raising, the level of product availability (Institute of Grocery Distribution 1998).

Moreover, McKinnon (1990b) specified some potential savings in clerical and administrative costs and, therefore a saving in “human error” rates, as well. Some other
benefits include the enhanced image and competitive edge, while a more complete list of
the benefits stemming from implementing EDI, is given in Table 4.3.

<table>
<thead>
<tr>
<th>Direct benefits</th>
<th>Benefits from combining EDI with improved management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reductions in the usage of telephone</td>
<td>Reduced inventory management</td>
</tr>
<tr>
<td>Less transcribing, data entry, document matching, etc.</td>
<td>Better cash management</td>
</tr>
<tr>
<td>More efficient paper and paper handling reduction systems</td>
<td>Improved inventory management</td>
</tr>
<tr>
<td>Prompt receipt of trading transactions</td>
<td>Improved customer service</td>
</tr>
<tr>
<td>Reduction in the use of conventional mail</td>
<td>Development of closer relationships between trading partners</td>
</tr>
<tr>
<td>Reduction or elimination of data entry</td>
<td>Increased sale productivity</td>
</tr>
<tr>
<td>Lower postage costs; including stamps, stationery and clerical labour</td>
<td>More flexible buying strategies</td>
</tr>
<tr>
<td>Reduction in administration costs</td>
<td>Improved manufacturing process (e.g. JIT)</td>
</tr>
<tr>
<td>Faster transfer of information</td>
<td>Streamlined operations</td>
</tr>
<tr>
<td>Increased record accuracy</td>
<td>Reduction in stockholding by all trading partners (supplier, distributor, retailer)</td>
</tr>
<tr>
<td>Reduced clerical errors</td>
<td>Reduction in order-processing time</td>
</tr>
<tr>
<td>Reduced number of paper bottlenecks</td>
<td>Reduction in the payment cycle, cutting interest on outstanding payments</td>
</tr>
<tr>
<td>Elimination of manual re-keying of data into the recipient’s computer system</td>
<td>Lower incidence of stock-outs and savings in the costs of correcting errors and reconciling disputed documents</td>
</tr>
<tr>
<td>Improved information about other members’ operations</td>
<td>Reduced number of sales representatives’ calls</td>
</tr>
</tbody>
</table>

Source: Benjamin et al (1990); Takac (1993)

Overall, Bamfield (1993) suggested that EDI was slow on the uptake in the early 1980s, but EDI was quick on the uptake in the early 1990s. The explanation given by Bamfield (1993) on the latter, was associated with development of EDI networks, cost and performance improvements and management learning during the 1990s.
According to Mukhopadhyay (1992), EDI is often seen as a competitive necessity rather than a competitive advantage in certain industries (transportation, grocery, retailing, automotive). Additionally, many suppliers in the fast moving goods sector (manufacturers, logistics firms) have implemented it in response to the demands made by their customers (retailers). In an attempt to link the use of EDI to retail logistics outsourcing, McKinnon (1990b, p.39) stated that:

“EDI has promoted the use of logistics outsourcing, enabling retailers to exert almost as much control over contract distribution as over in-house operation. It has also created an opportunity for contractors to become much more heavily involved in the collection, transmission and processing of logistical information, thereby adding value to the basic physical functions of transport, storage and handling”.

Finally, it has been argued (Larson and Sijbrands 1991) that the combined use of EPoS and EDI facilitated the implementation of quick response retail technology. Such a combination provides higher sales and lower stock levels for retailers through the rapid data collection and processing of product sales data (stock keeping units).

3. The last core technology is the processing of data on microprocessors, allowing the reorganisation and representation of data in order to change them into information which is made usable by the management.

For that reason (and not only for that), retailers adopt the application technologies that use the data collected, transmitted and processed by the core technologies to create useful information. These application technologies are addressed through tools, such as database management systems, statistical modelling systems, decision-support systems. Some applications include (Dawson 1994a):
- Merchandising applications used to optimise the use of sales space, including store layouts and shelf space, such as Apollo, Spaceman, Share Allocation Models and Category and Range Selection Tools (Mintel 1996),
- stock models used to minimise stock holdings and to optimise replenishment processes, such as Safeway’s stock management III system (Davison and Scouler-Davison 1997),
- labour scheduling models used to optimise job allocations and trying to minimise labour costs, such as Staffplanner II used by Safeway (Mintel 1996),
- accounting and control applications, used not only to make more accurate and to minimise the costs of purchase ledger but also to check supplier performance and credit worth of customers, such as the Enterprise resource planning tools (Richmond et al 1998),
- business planning applications including budgeting and sales forecasting, such as I3 software used by Asda from Island Pacific Systems (Fernie and Sparks 1997),
- identification of optimum location for stores and warehouses via the use of geographical information systems, such as Smallworld used by Tesco (Mintel 1996),
- marketing applications, mainly buying related in order to optimise purchasing conditions and to evaluate product performance in order to support negotiations with suppliers, as well as customer evaluation through customer loyalty programmes (The Grocer 1998), and
- applications of network technologies allowing additional facilities to be carried at marginal cost, alongside the main facility, such as EFTPoS (Electronic funds transfer at the point of sale) which provides a reduction of around 40% in the cost of processing
transactions (Hogarth – Scott 1989). Other benefits that stem from the use of EFTPoS include (Hogarth – Scott 1989):

- Simplicity and convenience of using EFTPoS,
- consumers do not have to carry cash,
- good customer reaction although it is slower than cash but faster than cheques or credit cards,
- an additional cash point as consumers can draw cash from the till over and above the amount of the bill,
- more precise information on consumer purchasing patterns, and
- faster customer throughput as it reduces congestion and queuing time at the tills.

Apart from the above, recent developments include radio frequency using radio signals to communicate messages in-cab communications and the satellite tracking of vehicles that allows the vehicles to be constantly monitored (Institute of Grocery Distribution 1998). Safeway estimates that its new satellite tracking system will save over 1.5 million pounds each year on vehicle drivers’ wage bill, by greatly reducing the number of wasted journeys and delays (Institute of Grocery Distribution 1998).

Another development is the warehouse control systems (e.g. Denver, DCAMS, DCOTA), which integrate the reception, storage, picking and shipping of goods into a single process. A further improvement in the performance of warehouse control systems can be secured by full automation (Bell and Davison 1997). These systems are of rising importance as the warehouse is becoming central to the logistics process for the whole supply chain, as it is regarded the main element in the efficient use of the firm’s
stockholding. In general, information technology systems are used in various aspects of retail logistics operations. Table 4.4 illustrates the type of information systems favoured by the major British food multiple retailers in various logistics operations.

<table>
<thead>
<tr>
<th></th>
<th>Transport</th>
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<tbody>
<tr>
<td>Asda</td>
<td>Not available</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iceland</td>
<td>Paragon</td>
<td>Starr Track</td>
<td></td>
<td>E3 Trim</td>
</tr>
<tr>
<td>Safeway</td>
<td>Paragon</td>
<td></td>
<td>Dallas</td>
<td>Inforem</td>
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<tr>
<td>J. Sainsbury</td>
<td>TOPS</td>
<td></td>
<td>DISCO (WWCS)</td>
<td>DISCO (WWCS)</td>
</tr>
<tr>
<td>Somerfield</td>
<td>Logix</td>
<td></td>
<td>DCS 2000</td>
<td>DCS 000 SSM</td>
</tr>
<tr>
<td>Tesco</td>
<td>Paragon</td>
<td>Dataease</td>
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<tr>
<td>Waitrose</td>
<td>HUB</td>
<td>Lotus</td>
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A recent issue is the increased use of the Internet in the grocery supply chain.

The introduction of the Internet improved the flow of information between the channel members and its use is largely favoured by a number of food multiple retailers (Quarrie and Hobbs 1997). For example, J. Sainsbury is already rolling out Xtra Trade, a system that allows suppliers to exchange supply chain information over the Internet, while Tesco is using a similar system called Tesco Information Exchange (Retail Solutions 1999). Although it looks just like any other EDI system, the major benefit from the use of the Internet, is that both retailers and suppliers avoid extensive use of paperwork and moreover each stage of the entire system is far more transparent.
It has also been argued that the use of the Internet could make EDI redundant, as it is incredibly cheap (Management Consultancy 1996).

Another development in the grocery supply chain has been ECR (Efficient Consumer Response). According to Fiddis (1997, p.40), ECR can be defined as:

“A global movement in the grocery industry focusing on the total supply chain – suppliers, manufactures, wholesalers and retailers, working closer together to fulfil the changing demands of the grocery consumer better, faster and at less cost”.

At a European level, ECR Europe has developed a model identifying 14 focus areas that are grouped under three headings, the category management, the product replenishment and the enabling technologies (see Figure 4.1). The enabling technologies (see Figure 4.1) have a critical role to play and according to Fernie (1998a) they are the means for communication between channel members and (Fernie 1998a, p.30):

“are the drivers in making ECR work”.

Additionally, these technologies offer numerous benefits that have already been discussed in the present chapter (e.g. benefits from EDI and EFTPoS). The product replenishment process aims to increase flexibility in the movement of products across the supply chain, in such a manner that both manufacturers and retailers will be able to manage more efficiently their inventory. Category management has a strong marketing emphasis and an area with an enormous potential as far as cost savings are concerned.

For example, Fernie (1998a, p.35) argued that:

“The Coopers & Lybrand survey (including 10 European manufacturers, 5 retailers and 15 product categories) in 1996 (Coopers and Lybrand 1996), estimated that 16 per cent of ECR’s total supply cost savings could be achieved by optimising promotions”.

121
In the same survey (Coopers & Lybrand 1996), it was estimated a potential cost savings of 5.7 per cent of sales turnover for the food channel members that will work close together under these principles (Fernie 1998a).

It is also useful to stress that the aforementioned issues (category management, product replenishment and enabling technologies) work in parallel and support each other.
towards the achievement of an integrated supply chain in physical (e.g. products), monetary (financial transactions) and information (e.g. product movement data) flows.

As ECR aims to integrate various flows and activities between food manufacturers and food retailers, it can then be regarded as a more “holistic” development that is similar to supply chain management.

Finally, many academics argue that information technology is expected to create a competitive differential advantage for retailers (Harrison 1991; Lockett and Holland 1990/1; Slater 1990), via the provision of numerous benefits (see for example, Porter and Millar 1985; Reardon et al 1996).

However, a number of academics support the view that information technology has not been productive enough due to the misuse of technology (see for example, Manzi 1992). Some of them noted the potential failure in the provision of information structures and processes that facilitate the use of information technology (Loveman 1991) and the failure to completely integrate the acquired technology into a firm (Schnitt 1993).

Davis (1991) stressed the lack of management involvement that may add substantially to the misuse of information technology.

In conclusion, it is unquestionable that the advances in information technology and the associated developments in the use of information systems and communications, have been effectively combined to allow for new developments in food retailing.

Following the discussion in the present section, the author examines in the section to follow, the importance of information technology in two specific aspects of the retail logistics function, namely the centralisation and the externalisation / outsourcing of retail logistics operations.
3. Information technology and food multiple retail logistics

Firms operate in environments that are characterised by increasing competitive intensity, so the efficient co-ordination of their business operations is highly critical.

Rockart and Short (1989, p.16) illustrate the importance of information technology towards that co-ordination by noting:

"Information technology's promise and perhaps its ultimate impact, is to be the most powerful tool in the twentieth century for enhancing the co-ordination of various business functions".

On the other hand, this co-ordination places heavy demands on the co-ordination of the flow of information. Galbraith (1977) suggested a framework to manage information flows falling into two general categories: reducing information flow or increasing the capacity to handle it.

Information technology provides part of the solution as it can increase that capacity as well as to pinpoint the most important areas of that information to deal with.

Many applications of information technology in retail operations enable this co-ordination. For example, Slater (1990) mentions applications in the areas of accounting, operations requirements, productivity, information feedback, integration of the supply chain, automation and planning of retail activities. By focusing on the importance of information technology within logistics, various authors (see for example Larson and Lusch 1990/1; Gustin et al 1995) argue that information technology leads to the establishment of an integrated logistics management that reduces the total logistics system costs by maximising the benefits of faster flow of goods. In a survey carried out by P-E Consulting, the critical role of information technology for the development /
integration of European manufacturing firms’ logistics operations was clearly confirmed (P-E Consulting 1996). The issue was further explored for food multiple retail logistics operations, where Smith and Sparks (1993, p.54) found that information technology enabled the transformation of food retail logistics operations in Britain as:

“Operations are linked by computer to head office to allow the passing of data and the imposition of monitoring and control”.

Smith and Sparks (1993) also stress the role of information technology towards centralisation and outsourcing (use of third party distribution), the latter being significant elements of retail distribution. Therefore, the author’s task in the next section is the examination of the role of information technology towards centralisation and outsourcing.

3.1 Information technology and the development of centralisation

Major advances in information technology have greatly enhanced the development of centralised distribution, so numerous food multiple retailers have relied heavily on information technology systems (Beaumont and Sparks 1990).

Davis (1995) indicated the major prerequisites for centralisation, where information technology systems play a major role and these prerequisites are provided in the following list:

- The concurrent development of the road network and truck technology (size, carrying capacity, durability etc.), in order to allow for a greater range of delivery.
- The mechanisation of storage and picking that in combination with warehouse information systems would allow for a greater throughput of stock.

- The development and application of information technology so as to reduce lead-times between the customer and the supplier.

- The advance in warehouse management systems that would allow for the efficient and effective management of larger and more varied inventory, and

- the availability of large, flat, greenfield sites with an easy access to motorways and the appropriate planning permission.

Based on the above, information technology systems can support the management of retailer's warehouses in a cost-effective manner. It is worth pointing out at this stage, that food multiple retailers' logistics operations generate an exceptionally large bulk of information, given the extensive product range, the high turnover, the broad supply base and the numerous outlets of these companies. The handling of information is further complicated by the need to monitor and control stock at various levels in the distribution channel and also to regulate the flow of supplies between the successive levels of channel (Hill 1989). Nevertheless, the use of large and sophisticated computer systems support retailers' logistics operations and are the technological medium through which the activities of the whole retail supply chain are controlled.

For example, the installation of electronic point of sale (EPoS) and the development of direct links between the computer systems of retailers, their suppliers and the distribution contractors through EDI networks, helps retailers to control better their logistics operations and to derive greater benefits from centralised buying and distribution.
At the end of the 1980s, the major European food multiples established a network of composite or multi-temperature warehouses which supply almost the entire range of products to their stores. These retailers recognised at an early stage that by setting up their own depots, they could receive some of the numerous benefits discussed in Chapter 3. Third party logistics specialists often run these depots, with the retailers keeping in-house part of work required in order to control and measure service levels and also to sustain the expertise gained by them over the years.

In relation to the latter, McKinnon (1990a) noted that food retailers have developed highly advanced computer systems in order to control their logistics operations including warehousing. Alongside a similar research line, Whiteoak (1998) mentioned that information systems are critical for both the centralisation and the management of the retail supply chain from the head office. Whiteoak (1998) also stressed that with the growth of information technology, a firm can reduce its investment in logistics assets by substituting information for them. In particular, the usage of quick response systems that require faster reaction times by logistics, enabled information to become an invaluable aid in decision making. Whiteoak (1998) also noted that information has been the only resource (or asset) that has actually become cheaper due to technological improvements and firms substitute information (a less expensive asset) for inventories, warehouses and transportation equipment (that are considered to be more expensive assets).

Such a course of action allows retailers to focus their efforts on moving data, not trucks (Rudd 1987). Moreover, the use of information technology towards centralisation can build up a differential competitive advantage that can act as a barrier to entry to potential
and actual competitors. Davis (1995) cites the example of WINS (Warehousing Information Network System) with the potential to improve efficiency and effectiveness of the warehousing function to such an extent that competitors will be at a disadvantage unless they adopt a similar or a more efficient system. To conclude, information technology plays a vital role in the development of centralisation, especially when it can facilitate the efficient movement of various flows (e.g. physical, information) in the supply chain.

Finally, food retailers can achieve a differential competitive advantage via the use of information technology in their warehousing operations by managing data and information flows in the supply chain.

3.2 Information technology and the externalisation (third party distribution) of logistics operations

The decision for the retail firm to either externalise or internalise the logistics function is dependent upon a range of factors that were discussed in Chapter 3.

In this section, the importance of information technology for third party distribution will be discussed. Quarmby (1990) argued that the decline of own account operations and the growth of contract distribution reflects the power of information technology to substitute “control by information” for “control by doing it yourself”. For example, systems used by J. Sainsbury’s for branch ordering, depot replenishment, stock control and the picking (retrieval) and assembly of individual branch orders, all mean that the effective control of activity in one of their contract depots is exactly the same as that in a
J. Sainsbury-owned depot (Ormerod 1996). The significance of assigning distribution to a third party firm, is that it creates a “market” for fully-integrated and professional distribution. The rise in the demand for distribution received, was well matched by the logistics service providers, as there has been an increased variety of carriers offering sophisticated services. The “control by information” is so important that some retailers, notwithstanding their willingness to subcontract physical distribution activities, insist nonetheless on interposing proprietary information systems as a means of monitoring performance by third parties and of maintaining ownership over data (Mathe and Dagi 1996). Additionally, the development of EDI in the retail supply system was developed over a period where multiple retailers were steadily increasing the use of outside distribution contractors. McKinnon (1990b, p.39) states that:

“EDI has promoted contract distribution by enabling retailers to exert almost as much control over contract distribution as over an in-house operation”.

EDI has created an opportunity for contractors to become heavily involved in the collection, transmission and processing of logistical information, thereby adding value to the basic physical functions of transport, storage and handling.

EDI also increases the transparency of the supply chain’s workings and increases client confidence in the provider’s abilities. At the same time, the investment in time and equipment of the parties concerned, strengthens the relationship.

Apart from EDI, Davis (1995) proposed that numerous technological developments in the retail supply chain had a major effect on increasing the efficiency of third party distribution. Some of these developments were (Davis 1995):
• Automatic vehicle location (AVL), which eliminates the costs of delays and also the detection of significant deviations from planned routes.

• In-vehicle navigation systems / On-board computers increasing the ability to evaluate the driver's performance.

• Computerised vehicle and routing systems (CVRS) which advise the haulier on the best route to take and also to calculate the best order with which to load the vehicle,

• other advances in transport technology (truck technology, rail and intermodal technology, shipping industry),

• applications concerning the warehouse (warehouse control systems), by combining information systems and technology with sophisticated handling equipment.

Apart from the above, A.T. Kearney (1993) reported that manufacturers and retailers reckon that the majority of companies underutilise or make slow progress in adapting information technology as an aid to logistics integration.

In the grocery industry, Fernie (1994) supports the above and notes that information technologies that facilitated firms to implement quick response initiatives in the supply chain have been available for some time, however the adoption of these technologies has been slow even among the retail innovators. Moreover, companies that overlook the importance of information technology as a tool of integration can severely limit the degree of integration they may achieve and its associated benefits.

Finally, apart from the externalise / internalise dilemma applied to the retail logistics function, major food retailers have nowadays the opportunity to outsource the
information technology function. Numerous articles have been published in this area (e.g. Alexander and Young 1996; Fitzgerald and Willcocks 1994; Lacity and Willcocks 1996), but the focus of the analysis is upon the contribution of information technology towards the externalisation decision of the logistics function.

4. **Information technology and the formulation of food retailers' international strategy**

Simon (1977) proposed that information technology can support corporate decision making as managers who face multiple tasks in complex environments, need to use information technology in order to reduce the uncertainty associated with decision making.

This approach is highly applicable in international decision making, where the conditions are far more uncertain and unpredictable compared to domestic environments.

In the course of retail internationalisation, information technology can contribute substantially in the reduction of decision making, by assisting management to co-ordinate efficiently logistics operations. As far as such efficient co-ordination is concerned, Sparks (1994a, p.58) argues that:

"Internationalisation is fundamentally important to modern logistics although it complicates the situation and adds difficulties. However, technology / communications have improved and specialist operators have extended their coverage and service to make internationalisation less problematic in a physical supply sense than it was previously. Transportation enhancements aid this process".
Under a similar reasoning, Cooper (1995) stressed that the successful management of all kinds of global logistics systems depends on the successful management of information systems and networking. According to Cooper (1995), EDI frequently represents the foundations upon which global operations are built and clearly, information systems management represents a critical success factor for global companies and one factor of rapidly increasing importance.

Manheim (1992) supports the above view and contends that information technology has become a competitive necessity for global firms in order to integrate company’s operations and especially logistics operations. In Manheim’s (1992) own view, information technology will sooner or later become a source of competitive advantage, especially if senior executives will be able to identify opportunities that will establish such an advantage. Browne (1991, p.193) discussed the above in relation to the transportation function by suggesting that:

“Given the growing importance of information technology, it is hard to imagine how a carrier could seriously entertain global ambitions without achieving mastery in the information area”.

Overall, information technology can support the co-ordination of firm’s operations at domestic and at international level. Focusing on the international level side, Ives, Jarvenpaa and Mason (1993) suggest that information technology can support a firm towards globalisation in a number of ways, as the implementation of many world-wide

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3 A feature that must be adopted if an organisation is to remain at least equally competitive with other leading organisations of the same type.

4 An organisation that is based on that advantage, is more effective than any competitor for a substantial period of time and producing profits that are significantly above the average of firms in the same industry.
strategic systems in areas such as procurement, logistics, demand forecast and inventory management, can promote a company's efficiency.

In the case of retailing, Mandeville (1994) provides examples of retailing firms (e.g. Wal-Mart) where information technology systems' standardisation has been a main supporting factor for retail internationalisation. Information technology is of high importance during the internationalisation process of retailing firms where the co-ordination of the supply chain activities across country units must be carefully monitored.

Therefore, within an international context, information technology should play a greater role for the inter-unit co-ordination required in implementing a business strategy (Jarvenpaa and Ives 1993). The argument of whether logistics information technology systems have the main facilitating / co-ordinating role during retailers' domestic and international expansion, will be examined empirically, later on in the present thesis.

Another question is whether information technology can make a contribution to corporate strategy. Such contribution can take shape in three types of relationships, following Lucas and Turner (1987) who associated the level of integration with strategy formulation (see Table 4.5).
<table>
<thead>
<tr>
<th>Level of Integration with Strategy Formulation</th>
<th>Primary Objective</th>
<th>Secondary Effect</th>
<th>Examples</th>
</tr>
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<tbody>
<tr>
<td>Independent</td>
<td>Operational efficiency</td>
<td>Managerial information</td>
<td>Warehouse control systems (e.g. Denver)</td>
</tr>
<tr>
<td>Policy support</td>
<td>Aid repetitive decision making</td>
<td>Better understanding of problem dynamics</td>
<td>Business planning applications (e.g. budgeting)</td>
</tr>
<tr>
<td>Fully integrated</td>
<td>Open new products, markets, directions</td>
<td>Change decision-making process; alternatives considered; evaluation criteria</td>
<td>EDI, Internet communications technology</td>
</tr>
</tbody>
</table>

Source: Lucas & Turner (1987)

For the first type of relationship, independent information systems help the firm to implement its strategy by creating greater operational efficiencies. These systems are not directly linked to the strategy formulation process and they are not integrated within a strategic plan. The need for such a system is usually perceived by an operational unit and its primary objective is to improve efficiency. Most information systems that fall into this category, process routine transactions and produce output that goes to customers. A more direct contribution to strategy comes from policy support systems that are designed to aid the planning process. In this kind of relationship, the system helps management to formulate the plan but is not part of it. In this case, the system is not part of an end product or service produced by the firm but it is an administrative device to interface the various components of the planning system.

However, the most exciting prospects appear when the technology itself becomes part of the strategy, as its incorporation expands the range of strategic alternatives considered.
by the firm. This is the third type of relationship, where technology bears an integral relation to a company’s strategic thinking by helping the company to define the range of strategic options open to exploit. Roche (1992) provided a new dimension to the approach by stressing that information technology follows rather than leads the multinational corporate (and logistics) strategy. Roche (1992) notes that given the weak state of information technology in the early stages of its development, information technology was not a cutting-edge technology of change, so information technology lagged behind the corporate strategy pursued.

More importantly, Roche (1992) argues that this information technology infrastructure did not match and it did not facilitate the implemented international business strategy. However, during the 1970s, more electronic linkages became available at the international level and information technology started to play a greater part in the strategic expansion plan of the multinational firm. Roche (1992, p. 45) notes that:

"There are major questions today (1992) regarding whether or not this is still the case".

The author will examine for food multiple retailing the argument of whether information technology strategy leads or follows logistics strategy during the firm’s strategic planning. It is worth stating at this stage, that research carried out at the Harvard Business School noticed that over the decades, a significant shift took place away from the “traditional” view on the role of information technology towards the “strategic” view approach. Proponents of the “traditional” view point out that information technology supports the functions of the organisation, while the “strategic” view considers
information technology as critical to strategy formulation and implementation (Cash et al 1992).

This strategic shift is illustrated in Figure 4.2, that presents the information planning grid as developed by Cash et al (1992). The grid assesses the strategic impact of information technology (existing information technology applications, vertical axis) and the strategic impact of application development portfolio (information technology applications under development, horizontal axis) upon the company’s strategy. The grid presents four strategic options on how information systems should be organised and planned.

It should be said, however, that the grid does not help to uncover potential strategic applications, so its use must be restricted in the guidance of information systems administration and not for the assessment of the information technology potential.

**Strategic impact of application development portfolio**

<table>
<thead>
<tr>
<th>Strategic impact of existing information systems</th>
<th>Low</th>
<th>High</th>
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<tbody>
<tr>
<td>Stragiect Low</td>
<td>Support</td>
<td>Turnaround</td>
</tr>
<tr>
<td>High</td>
<td>Factory</td>
<td>Strategic</td>
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</tbody>
</table>

*Figure 4.2: Information planning grid (Cash et al 1992)*

In the strategic quadrant of the information planning grid, there are companies that are critically dependent on the smooth functioning of information technology for their
competitive success. In the relevant quadrant, existing applications and applications that are under development are closely linked with business plans and corporate planning. Internet retailers (e-retailers) fall in this quadrant as both existing and under development applications are of critical importance (Ensor 2000).

Companies that fall in the turnaround quadrant need a substantial information technology planning effort, because the impact of applications under development is critical to their ability to achieve strategic business plans. In general, firms (and retailers) that decide to replace their existing systems with ones that are under development, fall into that particular quadrant. The third quadrant is the factory quadrant, a situation in which existing applications of information systems have a high strategic impact but future applications are not critical to their ability to achieve strategic business plans. Firms (and retailers) that have already implemented state-of-the-art systems can be accommodated in that quadrant.

In the support quadrant, we can rank firms for which the use of information technology is not connected to competitive success. Small retail shops can be found to be candidates for that quadrant, as the latter may make use of some information technology applications (e.g. EPoS). However, neither existing or under development systems are of major importance for the operations of small retail shops.

The aforementioned issues will be examined for food multiple retailing by considering whether food retail multiples fall into a specific quadrant or there has been a shift over the years from one quadrant to another. As a final step of the analysis, the author discusses the framework proposed by Ives et al (1993). Ives et al (1993) presented the
global business driver approach with the objective to provide a close alignment between
the firm's global vision and the firm's information technology strategy.

Global business drivers are those entities that benefit from global economies of scale and
scope and thus making a contribution to the company's global business strategy.

Once global business drivers are agreed upon, they form the basis for the information
technology strategy.

In food retailing, global own brands, global customers, global retail formats and global
distribution / logistics, are regarded as global business drivers as for all of them
information technology strategy is a facilitator of their global expansion.

Dawson (1994a, p.228) examined the above and stated that:

"It is hard to imagine how the European hypermarket could have become an
established form of retailing without information technology".

The global business driver approach is depicted in Figure 4.3 where Ives et al (1993,
p.146) note that:

"The most important prescription for successful global implementation of business
application is a shared common information technology / data model with data
successfully passed from node to node in a communication network which is an
electronically-wired organisation".
Therefore, information technology and its ability to process efficiently the inner transactions of the multinational corporations, can have a great effect on the underlying organisational structure of the multinational firm, leading possibly to the network form, an issue that merits separate analysis and hence, is discussed in the following section.

5. Information technology and the strategic retail network

Ciborra (1986) argued that if organisations are seen as networks of exchanges, then the organisational use of information technology concerns not only “data” or “individual decision making” but also interdependent decision making and communication related to
exchanging. Information technology is thus seen as a mediating technology and as a technology which links several individual firms through standardisation and extension of the linkages. Additionally, information technology has repeatedly played a role in the evolution of organisational structure and as costs associated to information technology have fallen in recent years, unit costs of transactions have dropped dramatically. For example, the use of information technology lowers the costs of organisation and control and it can streamline all or part of the information processing that is required in carrying out an exchange amongst network members. This information processing includes information to search for partners, to develop a contract, to control the behaviour of the parties during contract execution and so on (Clemons and Row 1992).

In support of the above, McAndrews (1992) noted that information technology is often used to create business value by linking firms together in networks. As discussed in Chapter 2 and Chapter 3, a network is a collection of separate units that create value by virtue of the fact that they are interconnected, so that transactions can take place between them (Rotemberg and Saloner 1991). Therefore, separate enterprises are connected through a shared information network in order to achieve superior co-ordination and efficiency in their operations and these information connections within the network have eliminated organisational boundaries (Schary and Skjott-Larsen 1998). An information technology network can be defined as an information system that links together many users for a specific purpose (McAndrews 1992). These networks are information intensive as they are able to process large amounts of information. They can be also seen in terms of a hierarchy of five levels of business reconfigurations, with these levels
being conceptualised as a framework through which companies assimilate the consequences and benefits of information technology.

Figure 4.4 is a schematic representation of these five levels, along two basic dimensions, the degree of business transformation and the range of potential benefits from information technology (Venkatraman 1991).

![Figure 4.4: Five levels of I.T. induced reconfiguration (Venkatraman 1991)](image)

The first stage of development is described as the localised exploitation of information technology stage and involves using information technology in a manner to help solving a single logistics business problem. This might be the installation of a warehouse control computer or perhaps a vehicle routine program. The second stage of development, is the internal integration of information technology stage and is best described as the installation of a company’s wide database or system from which all reports are generated. As a result, the internal business process is improved and the
same happens for the rest of the business organisation and functions. These two levels are viewed as evolutionary, requiring relatively incremental changes in the existing organisational processes. In contrast, the other three levels are conceptualised as revolutionary, requiring fundamental changes in the nature of business processes. Following the stage of internal integration of their systems, many companies enter stage three that is the business process redesign stage. At this point the introduction of a major information technology project should enable a company to operate in a completely new manner. For example, the use of EDI enables retail companies to receive information on a 24 hours a day basis, instead of restricted to receiving information only during working hours. The majority of European food multiple retailers are in a par with that level, however, few retailers can find themselves in the next stage described as the business network redesign stage. According to Venkatraman (1991, p.127):

"This stage is concerned with the reconfiguration of the scope and tasks of the business network and includes the business tasks both within and outside the formal boundaries of a focal organisation and the consequent redesign of them through information technology capabilities".

A good example at this stage is the strategic retail network (discussed in Chapter 3) that requires information technology capabilities to accommodate suppliers and third party distributors at national and international level. Marks and Spencer was illustrated in Chapter 3, as a company that follows the strategic retail network form and manages logistics operations through the use of EPoS and EDI links to suppliers and logistics service providers (O’Laughlin et al 1993).
Overall, logistics information technology systems provide a platform for effective communication between network members. The theme just mentioned will be investigated for the case of food multiple retailers and third party logistics firms later on in the present work. The final stage (Figure 4.4) is defined as the business scope redefinition stage, with e-retailers (e.g. Amazon) falling into that stage. For these firms, information technology is really their core business, as these firms do not run any shops and they have also contracted out the logistics operations to third party firms for distribution of the products to their customers.

But in the case of e-retailing, these firms were created from scratch and therefore, it can be argued that no evolution of stages took actually place. On the other hand, a well-known firm in that stage is Iceland, the British grocery retailer. This firm has reached the business scope redefinition stage as it is gradually being transformed from a traditional grocery retailer to a very successful e-retailer. This transformation can be better seen via the renaming of the company name (and stores) from Iceland to Iceland.co.uk (see company’s history at http://www.iceland.co.uk).

Apart from the above, O’Callaghan et al (1992) noted that the establishment of an EDI linkage between firms signifies a commitment to the network relationship that removes transactions from the open market. EDI also increases the intensity of the relationship and requires a more co-operative relationship that may lead to further joint improvements. One of these improvements can be seen in Cunningham and Turnbull’s work (1982) who state that the network firm can provide an entry vehicle for companies unable or unwilling to commit such vast resources to a particular product market area or country. This has already occurred in food retailing, with Exel logistics, the British
logistics service provider, that followed Marks and Spencer to various European countries, as discussed in Chapter 3. It is worth mentioning that British logistics service providers have been in the vanguard of technological innovation in the retail sector. Such innovations are amongst other factors that led to a greater degree of contracting out in Britain compared to other European countries, so British companies are in a good position in expanding abroad, as stressed earlier with the case of Marks and Spencer.

In the context of retail expansion, it will be examined empirically whether a successful co-operation between a food multiple retailer and a third party firm leads to a further development of this co-operation (e.g. a contract renewal) between these firms. Additionally, it will be examined whether the co-operative approach followed by the retailer (network controller) with third party logistics firms (network members), is beneficial to the retail firm.

Overall, the trend for contracting out logistics operations provides flexibility in responding to changes and as Bowersox (1990) observes, the latter has become possible through the sharing of information in formal information technology networks.

A final theoretical contribution linking information technology and the network approach was presented by Nolan (1984) who created a framework for understanding the evolution of information technology within organisations. This framework describes three successive eras: the Data Processing or DP era, the Information Technology (I.T.) era and the Network era (Figure 4.5).
During the time of the first era, the so called DP era, organisations were functional hierarchies, where work methods and procedures were well defined and the control systems were designed to monitor the outputs of functional units. Data processing was originally introduced into these forms of organisation to automate specific tasks, with transactions processing systems supporting the paperwork-processing queue that included items such as sales orders and invoices. The beginning of the Information Technology era is traced in the early 1980s. During that era firms refocused the use of information technology on the knowledge worker and it was the time that the emergence of computer workstations, application portfolios for office automation and many other applications were first observed in the business scene.

In the Network era, the move towards the use of information technology to leverage business performance became more pronounced. Following Nolan (1984), if major
productivity improvements are to occur, new technology must be introduced alongside new forms of organisational structure, as information technology alone will not enable organisations to achieve the business results they seek. But if information technology capabilities are combined effectively with new organisational forms, dramatic productivity improvements will occur and new methods of accomplishing tasks will emerge as the work carried out within a firm is reengineered.

The point made by Nolan (1984) is quite similar to Venkatraman’s (1991) argument concerning the business network redesign stage. Both researchers stressed that the network form (and the strategic retail network form) will depend upon information technology related capabilities that in turn will necessitate the adoption of a specific organisational structure. As a confirmation to the above argument came the findings by Bowersox and Daugherty (1995), who noted that different organisational forms will be formed in the future.

As Bowersox and Daugherty (1995, p.77) clearly state:

“There is a need for more strategic alliances through the application of information capabilities and a need for more transparent logistics organisation structure, as firms will place less focus on the establishment of traditional command and control organisations structures and instead will rely upon greater utilisation of information technology”.

To conclude, information technology can play a major role towards the formation of the network organisation. The issue seems to be of tantamount importance and it needs to be addressed as follows: can information technology assist firms to increase their efficiency? This is what will be examined in the following section: can information
technology increase retail firms' efficiency in conjunction with the company's logistics function?

6. The impact of information technology on food retail logistics
transaction costs

In the sections analysed so far, it is evident that retail firms compete nowadays in highly complex markets characterised by increasing competitive intensity. There is also an increasing need for better co-ordination amongst firms that co-operate across the channel. Information technology has a major role to play here, as it enhances this co-ordination and its key feature is the possibility of decreasing the costs of co-ordination (Ciborra 1983).

This was also argued by Ciborra and Olson (1989, p.287) who noted:

"The goal of information technology is to reduce transaction costs through improving information handling and communication".

These researchers stressed that this may be accomplished by:

- A standardisation of tasks, thus reducing task uncertainty (e.g. their communication via EDI),
- a standardisation of interfaces between execution of subtasks, thus streamlining co-ordination (with the introduction of Universal Product Code on products),
- facilitating the reporting and the monitoring of performance of various functions (e.g. systems to monitor trucks' performance),
• encouraging communication through the creation of new communication channels or improvement of existing ones, thus reducing hierarchical barriers and allowing new ideas to flow more easily.

The above suggestions by Ciborra and Olson (1989) can be extensively and profitably employed by retail firms and such an example can be electronic trading that increases efficiency and reduces transaction costs within the distribution channel. Burt and Dawson (1991) found that some of these transaction costs are referred as the costs of paper-based transactions. Burt and Dawson (1991) report the case of Casino (the French food retail group) where cost savings resulted after the establishment of an EDI system. In the same study it was also found that for the Galeries Lafayette / Monoprix, the French department store, the cost of a paper-based order (price: FF 53) is reduced to FF 23 if the order is exchanged on magnetic tape or disk, to just FF 3 if transmitted by EDI. The issue of cost efficiency will be examined empirically and in particular whether logistics information technology systems contribute towards the reduction of logistics related transaction costs. Additionally, the transaction costs that can occur in outsourcing the logistics function can be considerably high, so retailers may save significantly on management costs in many cases; as for example during soliciting vendor bids and negotiating contracts. In addition, the use of information technology enabled retailers to become more flexible and efficient in various logistics areas such as vehicle scheduling and routing. A number of examples can be provided to support the latter but probably the best documented is that of Argyll's use of Paragon system (Howe et al 1993). The benefits
of introducing such a system and the associated with them benefit of reductions in transaction costs across the channel, include (Howe et al 1993):

- Greater vehicle utilisation,
- improved service levels to stores, and
- reduction in transport costs and capital investment in vehicles.

In a similar line, Barrett and Konsynski (1982) argued that the three basic incentives for the adoption of information technology systems were cost reductions, productivity improvements and product / market opportunities. Malone et al (1987) support the above view, as they observed that the impact of information systems upon company performance is lower costs and an increase in the capacity to transmit information.

If we take into consideration the information processing costs that are related to transacting through a contract negotiation, as for example for a contract between a food multiple retailer and a logistics service provider, Coase (1960) stated that these costs can be grouped into four main classes:

- Search costs (e.g. for possible vendors), necessary to set up the minimal social unit for the exchange,
- contracting costs, related to the negotiation of the terms of trade and drawing up of the contract which regulates the exchange,
- control and regulation costs for the implementation of the contract under conditions of uncertainty, the policing of deviations from the contract terms and the enforcement of sanctions to restore conditions suitable to the terms agreed upon, and
• maintenance costs of the whole transaction, for example costs of resources employed to let the exchange develop from one phase to the next.

Information systems undoubtedly have the potential to reduce some of these costs; for example, the search costs and contracting costs. We can apply the above in a food retail organisation where the information system is transaction costs wise defined as the network of information flows that are needed to create, set up, control and maintain the organisation’s contracts with other channel members. This transactional perspective adds to the current knowledge about the organisational uses and impacts of information technology and thus allowing for viewing information as mediating technology.

The key feature of this mediating technology is the possibility of lowering the costs of transacting via the use of different technologies or scenarios. Ciborra (1981, p.309) presents some of those scenarios as follows:

• “Middlemen or arbitrators (for example, specialised information technology providers such as IBM) trusted by A (e.g. retailer) and B (e.g. logistic firm) who would lower costs of information handling, contracting, control, and maintenance of exchange,
• a finer information system through which the behaviour of the parties and the contract itself could be better monitored, thus standardising the exchange process (e.g. EDI in food retail),
• the intermediate market could be abolished in favour of the vertical integration of A (e.g. retailer) and B (e.g. logistics firm)”.

Thus, information technology can be seen as a mediating technology, which reduces the transaction costs between channel members and a safeguard mechanism, especially when the logistics service provider may exploit the retailer by offering a lower quality service than expected or agreed upon. Such behaviour will increase the provider’s
profits at the expense of the retailer. The logistics firms may know more about service quality, compared to the retailer, a prime example of asymmetric information between two parties (Rubin 1990). If that sort of asymmetric information prevails in the exchange, information technology becomes the only communication medium available to retailers to monitor logistics providers’ opportunistic behaviour.

According to Ciborra (1981), no type of information technology can eliminate opportunism altogether; nevertheless, it may be possible for information technology to monitor opportunism. The above will be examined later on, in the context of whether logistics information technology systems are a factor that supports the monitoring of logistics firms’ opportunism. We have already discussed about opportunism and asymmetric information so another element of transaction costs theory is the asset specificity element, something that can be proved significant during retail internationalisation.

A specific asset has a narrow range of potential applications that become even narrower at an international level, due to the higher uncertainty that prevails in international markets. Therefore, it is difficult to make use of a specific asset in international markets, whilst the general asset can have a wide variety of applications and it can be more easily used away from the home markets. The last argument can be seen in Figure 4.6, with asset specificity greater than zero (e.g. in retail internationalisation and a contract between a food retailer and a logistics service provider), certain safeguards are needed (information technology in this case) to secure the contract.
A zero asset specificity implies a general asset. Williamson (1985) makes the point that when specific assets exist and no safeguards are employed, the contract is unstable and moreover, companies (e.g. retailers) must spend more money monitoring supplier (e.g. logistics firm) behaviour because they may behave opportunistically.

Following the schema proposed by Williamson (1985), the retailer faces the choice of seeking safeguards, motivated by transaction or relationship specific assets used in a certain process. According to Williamson (1992, p.147) the three outcomes displayed in Figure 4.6 correspond to the following description:

- "Transactions that are efficiently supported by general purpose assets (asset specificity = 0) are located at mode A and do not need protective governance structures as discrete market contracting suffices and the world of competition obtains.

- Transactions that involve significant investments of a transaction-specific kind (asset specificity >0), are ones for which the parties are effectively engaged in bilateral trade and node B enjoys no safeguards (safeguards=0). Such transactions are apt to be unstable contractually and may revert to node A in which event it would be replaced or transformed to a general purpose asset or
be relocated to node C (by introducing contractual safeguards that would encourage use of that specific asset >0).

- Transactions located at node C incorporate safeguards (safeguards > 0) and thus are protected against expropriation hazards”.

Nevertheless, Williamson (1992) did not incorporate some other choices such as the internalisation of such activities. For example, retailers facing problematic situations on a continuous basis with third party companies, may opt to internalise a specific logistics function. This is probably the case for larger firms that have the financial strength to employ such logistics related specific assets. Therefore, Williamson’s (1992) reasoning may be more applicable to small and medium-sized firms that have limited financial power. In addition, Williamson (1992) argued that safeguards were normally sought only by one firm involved into the contract and not by both parties of the contract.

In the case where both firms (buyer and supplier of an asset) will seek safeguards, an explanation has been provided by Christy and Grout (1994). Based on the approach provided by Christy and Grout (1994), the author of the thesis formulates a matrix (see Figure 4.7) with the supplier and buyer asset specificity dimensions put on the horizontal and vertical axes, respectively.
<table>
<thead>
<tr>
<th>Asset Specificity</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Supplier)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quadrant 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spot market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low costs of switching</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No safeguards are sought by either buyer (retailer) or supplier (third party)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quadrant 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier seeks safeguards; seller seeks to determine characteristics of the buyer and the viability of the contract</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quadrant 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buyer seeks safeguard; buyer must assess the ability of the supplier to provide the product as well as willingness to exert the effort required and tendency to switch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quadrant 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value-adding partnership and Network creation or vert. integration (manufacturer)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Both buyer and supplier seek safeguards; buyer seeks a capable, reliable supplier and supplier seeks a buyer who will not be fickle or capricious</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 4.7: Matrix based on the different perceptions regarding asset specificity**

The horizontal axis, represents the perception / evaluation (low or high) that a supplier of a specific asset will have for that asset, whilst the vertical axis represents the evaluation / perception (low or high) that the buyer of the same asset can have.

It is worth noting that various firms perceive / evaluate asset specificity in a manner different to each other. Although the latter may not be the case amongst firms in the same sector, this could be the case for firms that operate in dissimilar sectors.

For example, a logistics firm may have an expertise in using an asset (e.g. warehouses, trucks) and it may regard that asset as a low asset specificity one, whilst for the buyer of that asset (e.g. a retailer), this may not be the case. The thorough examination of Figure 4.7 makes possible to uncover the relationships that may exist for different pairs concerned across the supply chain.
In quadrant 1, both the supplier and the buyer perceive / evaluate asset specificity as being low, so neither of them experiences an expropriation risk and no safeguards are sought. If asset specificity remains low for the buyer and the supplier commits specific assets to the relationship (quadrant 2), the supplier seeks safeguards in order to undertake the contract. In quadrant 3, the asset specificity is high for the buyer but this is not the case for the supplier as the supplier owns general purpose assets that presumably can be invested elsewhere. The buyer seeks safeguards by attempting to contract assurance that the supplier will exert the required effort and will be averted from switching to another buyer. Finally, when there is high asset specificity for both buyer and supplier (quadrant 4), it is in each party’s interest to seek safeguards from the other side. The buyer seeks a capable and reliable supplier. The supplier seeks a buyer who will not be capricious with immediate prices or quantity pressures. In that case, the result is the formation of a value-adding partnership or a network where both parties can gain from mutual co-operation. Overall, logistics information technology systems are considered to be the safeguards factor in this thesis, as far as the relationship between a food retailer and a logistics firm is concerned. To conclude, this section illustrated the areas where information technology can contribute towards the reduction of logistics related transaction costs. It was pointed out that some of those logistics related transaction costs can be found to dominate the formation of a contractual relationship between a food multiple retailer and a logistics firm.
7. Conclusions

The aim of this chapter was to clarify the importance of information technology within the firm distribution mechanism and more specifically, within the retail logistics function.

In the beginning of the chapter, the author introduced a number of information technology applications employed in retail logistics operations. It was stressed that information technology co-ordinates retail operations and as a consequence, it provides numerous efficiency related benefits to retail firms.

Information technology was also examined for its contribution to two strategic aspects of logistics: namely warehouse centralisation and third party distribution assignment.

For both strategic options, information technology was found to be the major vehicle that distributes product and mainly information flows across the supply chain.

The management of information flows was identified as a critical issue for retail firms, something largely confirmed by the work of a number of academics cited.

Those researchers argued that information technology can result in the creation of a differential competitive advantage owned by retail firms that have in place information technology systems and they are able to manage efficiently such flows.

The latter becomes of major strategic and operational importance if retailers decide to “control by information” third party logistics companies and the whole supply chain.

In strategic terms, these systems can be sufficient means to monitor subcontractors’ performance for the full range of the supply channel. The role of information
technology seems to be central for the formulation of an international logistics strategy. In foreign markets, conditions are far more uncertain compared to domestic environments and the analysis in the discussion suggested information technology as a critical success factor for global companies. The author supports the above suggestion and also shares Manheim’s (1992) view that information technology will sooner or later become a source of competitive differential advantage, in particular for international firms. These firms have established international networks with other firms (e.g. logistic service suppliers) and as it was noted before, the information technology function is highly critical for the effective management of these networks.

In another section of Chapter 4, the author’s effort was devoted to the influence of information technology upon the evolution of a firm’s organisational structure.

More specifically, various frameworks were presented concerning the link between information technology and the network mode. The author examined these frameworks in food retailing and provided specific examples that link their application to the relevant sector. With the development of one of these frameworks (Figure 4.4), the strategic retail network was highlighted. The importance of information technology for the implementation of the strategic retail network mode was coupled with the example of Marks and Spencer. In addition, Iceland.co.uk was found to be the only grocery retail firms that has transformed its business via information technology and it is the only retail firm that has already reached the business scope redefinition stage.

Additionally, the link between information technology and logistics efficiency was examined via the application of transaction costs theory in food retailing. The logistics costs that occur between channel members were clearly identified in relation to elements
of transaction costs theory. Specific areas where information technology contributes towards increased logistics efficiency were also discussed. The author made the reader of the thesis aware that Williamson's theory does not cover a situation where both firms involved in a contract seek mutual safeguards. Therefore, the author developed a matrix based on how two firms perceive asset specificity for assets involved in a contract.

The author proposed four alternative strategic options where firms may seek information related safeguards. Finally, the author extends Williamson's work by providing the necessary conditions for the creation of a network relationship between a logistics supplier and a retailer in the case where both firms seek safeguards.
Chapter 5: Retail internationalisation literature

1. Introduction

In the past decades, the European food retailing scene has seen numerous transformations. One of these transformations, was that traditional retailing has been replaced to a considerable extent by large scale retail multiples\(^5\) that having become major players in their domestic markets, aimed to expand on international level (McGoldrick 1995).

A definition of international retailing has been given by Alexander (1997, p.37) as:

“The management of retail operations in markets which are different from each other in their regulation, economic development, social conditions, cultural environment and retail structures”.

As far as the retail internationalisation process is concerned, there are extra issues to take into consideration and Burt (1991) notes that this process takes many forms such as:

i) The transfer of retail concepts (e.g. retail format),

ii) the transfer of retail operations (e.g. from providing technical assistance until direct operational involvement), and

iii) the transfer of management functions (international sourcing and buying, use of management and technology consultancy).

Focusing on retail operations level, Dawson (1993, p.26) provides a definition for retail internationalisation as:

“The operation by a single form of shops, or other forms of retail distribution, in more than one country”.

\(^5\) A multiple is a retail chain with more than 10 stores whatever the store size and format (McGoldrick P.J., 1990)
Under a similar vein, Burt (1990) brings to our attention the fact that the majority of the literature on the process of retail internationalisation has been applied to the internationalisation of retail operations and not to the process. But during the past decade, considerable research effort has been devoted to that process (see for example, Alexander and Myers 2000; Helfferich et al, 1997) that became a central theme for study in the retail literature.

However, according to Pellegrini (1994), the research findings on the theme are rather elusive and inconsistent while Vida and Fairhurst (1998, p.141) argued that:

"The retail internationalisation process appears to be a complex and relatively poorly understood phenomenon".

The present chapter aims to shed some light into the internationalisation process by analysing the various approaches and the frameworks suggested in research, as well as to identify the factors that led retailers to engage into foreign market operations.

As the focus of this discussion is on cross-border retail activity in Europe, the author devotes separate sections to the study of European food multiple retailers' internationalisation and market entry strategies. In the last two sections of Chapter 5, the retail internationalisation process is evaluated with the use of three international business theories, namely the transaction costs theory, the eclectic paradigm and the network theory.

2. Theoretical approaches to retail internationalisation

According to Sparks (1996), one of the characteristics of the retail internationalisation literature, is that the main theoretical concepts used have been borrowed from other sectors, and mainly from the manufacturing of production
sectors. In support of the latter, come Davies and Fergusson (1996) who analysed a number of theoretical models that can explain retail internationalisation, but with most of them emerging from the general literature on international business.

Table 5.1 outlines these models, by providing the relevant approach, the meaning and the research agenda for the general business and retail literature.

<table>
<thead>
<tr>
<th>Approach</th>
<th>Meaning</th>
<th>Research, Critique, Extension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Networks and Relationships</td>
<td>The ability to create a net of relationships with the potential for cohesive and mutually complementary action and the ability to harness the synergistic potential of that net in pursuit of a competitive goal</td>
<td>Hakansson (1982), Cunningham and Culligan (1991), Brahm (1993), Johanson and Mattsson (1987, 1991)</td>
</tr>
</tbody>
</table>

Source: Sparks (1996)

It should be reminded that these approaches have already been discussed in Chapter 2 (with the exception of the “push and pull” factors), where they were examined in the
services sector. In this chapter, the author aims to shed extra light on the retail internationalisation process and therefore, some of these approaches (the eclectic paradigm, the internalisation – transaction costs and the network theory) were applied in food multiple retailing.

It is worth mentioning that various researchers have argued that the above theories can not encompass to the full the concept of retail internationalisation (see for example, Alexander and Myers 2000). Moreover, Sparks (1996, p.61) argues about:

“The extent to which the direct implantation of such concepts into retailing can be sustained; and the breadth of this conceptualisation of retail internationalisation”.

Supporting the above, Sparks (1996, p.61/62) notes that:

“Dawson (1993, 1994b) has provided a wide-ranging review of the form and extent of retail internationalisation, and has criticised the simplistic concept adoption that has characterised much of the academic literature. He identifies the key features of retail internationalisation - that are not discussed in the literature - as: the need for adoption of management practices and processes in response to the cultural character of the host country, the role of individual entrepreneurs in taking an international perspective and the lack of knowledge by retailers of the impact on and value of the firm of the process of internationalisation”.

On the other hand, Alexander and Myers (2000) point out that Sternquist (1997a,b) has stressed the direct applicability of conceptual frameworks developed outside the retail sector. More specifically, Sternquist (1997b, p. 264 in Alexander and Myers 2000, p. 337) claims that:

“We can use Dunning’s (1981) (OLI) approach for explaining US retailers’ foreign direct investment”.

162
Another issue is the dimensions of the retail internationalisation process and Burt (1995) cites the importance of geographical, strategic and time dimension of that process. Dawson (1993) believes that these dimensions should be taken into account with some other forms of retail internationalisation, such as international sourcing, international retail operations and internationalisation of management ideas.

The above are illustrated in Table 5.2, where based on Dawson’s (1993) work, Sparks (1996) exposes the possible components of the retail internationalisation process.

**Table 5.2: Understanding retail internationalisation**

<table>
<thead>
<tr>
<th>A : Dimensions to Retail Internationalisation</th>
<th>A1 : Financial Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2 : Cross-border Shopping</td>
<td></td>
</tr>
<tr>
<td>A3 : Managerial Movements</td>
<td></td>
</tr>
<tr>
<td>A4 : Retail Activities</td>
<td></td>
</tr>
<tr>
<td>B : International Sourcing</td>
<td>B1 : Buyer Decisions</td>
</tr>
<tr>
<td>B2 : International Sourcing Organisation</td>
<td></td>
</tr>
<tr>
<td>B3 : Technology</td>
<td></td>
</tr>
<tr>
<td>B4 : Buying Groups and Alliances</td>
<td></td>
</tr>
<tr>
<td>B5 : Non-Retail-Product Sourcing</td>
<td></td>
</tr>
<tr>
<td>C : International Retail Operations</td>
<td>C1 : Reasons</td>
</tr>
<tr>
<td>C2 : Dimensions</td>
<td></td>
</tr>
<tr>
<td>C3 : Extent and Directions</td>
<td></td>
</tr>
<tr>
<td>D : Internationalisation of Management Ideas</td>
<td>D1 : Transferability of Retail Concepts</td>
</tr>
<tr>
<td>D2 : Expertise Transferred</td>
<td></td>
</tr>
<tr>
<td>D3 : Mechanisms of Transfer</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sparks (1996)

In the present thesis, the author aims to illustrate retailers’ international expansion via the components cited in Table 5.2. Therefore, the author contends that international retail operations (part C) were enhanced by technology - information technology (part B3) that was the facilitator for transferring retail concepts (retail formats, own brands, part D1) in conjunction to retail logistics, that is the main mechanism (D3)
for transferring these concepts. Additionally, the international planned and purposive movements of European food multiples will be examined, rather than the unplanned or incidental ones (Kacker 1988). A prime example is the case of Promodès that internationalised under a well-planned strategy (Halley 1997).

This is directly relevant to Dawson’s (1993) second dimension to the classification of international retail operations, and the extent to which managerial decision making is centralised at head office in the home country or it is delegated to host country operations. The author will investigate the theme by trying to shed some light into the emergent / deliberate strategy approach of European food retailers’ operations. Therefore, an attempt will be made to uncover on whether operations like logistics were directed from retailers’ headquarters (a deliberate strategy) or if local subsidiaries followed a different strategic route (an emergent strategy).

For example, J. Sainsbury’s expansion to the United States implies that the major strategic decisions were directed from the British headquarters, and as a consequence the strategy pursued was a deliberate one right from the beginning.

The British food retailer followed a certain strategic route for a variety of issues, such as supply chain management (see Wrigley 1993) and company’s further expansion within United States (see Wrigley 2000).

Additionally, one of the starting points of the retail internationalisation process, is why retailers are engaged in it. This can be better seen under the “push and pull” factors that indicate the reasons of why retailers decide to move away from the domestic market. More specifically, Alexander (1990) stressed that “push” factors encourage internationalisation as a result of environmental or company specific
conditions in the domestic market, and “pull” factors are essentially attractive conditions which draw retailers into new markets (Table 5.3).

Table 5.3: “Push and pull” factors behind internationalisation

<table>
<thead>
<tr>
<th>Boundary</th>
<th>Push</th>
<th>Pull</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>Unstable structure, restrictive regulatory environment, anti-business culture dominant, consumer credit restrictions</td>
<td>Stable structure, relaxed regulatory environment, pro-business culture dominant, relaxed consumer credit regulations</td>
</tr>
<tr>
<td>Economic</td>
<td>Poor economic conditions, low growth potential, high operating costs, mature markets, small domestic market</td>
<td>Good economic conditions, high growth potential, low operating costs, developing markets, property investment potential, large market, favourable exchange rates, depressed share prices</td>
</tr>
<tr>
<td>Social</td>
<td>Negative social environment, negative demographic trends, population stagnation or decline</td>
<td>Positive social environment, positive demographic trends, population growth</td>
</tr>
<tr>
<td>Cultural</td>
<td>Unfamiliar cultural climate, heterogeneous cultural environment</td>
<td>Familiar cultural reference points, attractive cultural fabric, innovative business / retail culture, company ethos, homogeneous cultural environment</td>
</tr>
<tr>
<td>Retail structure</td>
<td>Hostile competitive environment, high concentration levels, format saturation, unfavourable operating environment</td>
<td>Niche opportunities, company owned facilities, “me too” expansion, favourable operating environment</td>
</tr>
</tbody>
</table>


Apart from factors cited in Table 5.3 above, Dawson (1993) added the “other motivations” factors, that reflect general motivations to internationalise (for example risk diversification, entrepreneurial vision) and less dependent upon the environmental issues provided by Alexander (1997). Following Dawson (1993) these motivations include:
- Higher profits obtained in the host country because of existing differences in competitive and/or cost structures,
- the presence of a consumer segment that has not been targeted in the host country but for which a store format has already been developed in the home country,
- risk diversification by retailers across several markets,
- use of surplus capital or the gaining of access to new capital sources at lower cost than in the home country,
- entrepreneurial vision,
- an opportunity to get access to new management ideas or technology that will then be transferred to the home country,
- the consolidation of buying power,
- reaction to the internationalisation of manufacturers,
- encouragement, possibly inducement, by major manufacturers wishing to enter new markets in which they currently have limited presence and
- the desire to follow existing customers abroad.

The work by Dawson (1993) initiated further exploration of that issue. For example, Alexander (1997) mentioned about autochthonic, reactive, expansive and proactive internationalisation based on the factors of domestic market saturation and global relevance of operations (Figure 5.1).
High

<table>
<thead>
<tr>
<th>Reactive</th>
<th>Expansive</th>
</tr>
</thead>
</table>

Saturation

<table>
<thead>
<tr>
<th>Autochthonic</th>
<th>Proactive</th>
</tr>
</thead>
</table>

Low

Low

Global relevance of operations  High

**Autochthonic:** the retailer has reached a point in the development of the domestic operation where saturation in the market of origin is unimportant and the retailer's operation has limited potential within the global environment

**Reactive:** the retailer has reached a point in the development of the domestic operation where saturation in the market of origin is high and the retailer's operation has limited potential within the global environment

**Expansive:** the retailer has reached a point in the development of the domestic operation where saturation in the market of origin is an important factor and the retailer's operation has a considerable potential within the global environment

**Proactive:** the retailer has reached a point in the development of the domestic operation where saturation in the market of origin is an unimportant element but the retailer's operation has considerable potential within the global environment.

Source: Alexander (1997)

Williams (1992a,b) examined the importance of the factors for retail internationalisation and discovered that as a rule, retailers have a proactive stance and that retailers identify opportunities first and they subsequently become international.

Williams (1992a,b) also argues that the "push and pull" factors, and the resulting approaches, are not satisfactory enough to explain to the full the motivations behind the retail internationalisation process. Alexander (1995) supports Williams’
(1992a,b) view and states that the motivation is much different at country level, can change over time and can be even different from that existing at firm level.

It is worth noting that issues such as logistics information technology and supply chain management are not frequently mentioned as potential factors behind retailers’ internationalisation, in most retail internationalisation theories. Therefore, in the next section the author examines a number of issues that can be regarded as serious candidates to boost international retail expansion and where the management of the supply chain is one of them.

3. The determinants of international expansion in the European food retail environment

In this section, the author examines the determinants of international expansion based on Alexander’s (1990) “push and pull” factors. These determinants will be related to the European and to the Greek retail environments (in Chapter 6), with the aim to understand better the competitive conditions in those markets. This was deemed as necessary especially when only European retailers have entered so far, the Greek food multiple retail market.

3.1 Political / Legal aspects

The regulatory environment creates numerous obstacles to the expansion of international retailers and a number of studies have been devoted to that issue (see for example, Davies and Whitehead 1995). One of these obstacles is the regulation that governs store operating hours. In Italy for example, most food retailers are closed on Sundays and stores can not operate on a 24-hour basis (Samiee 1995).
Other regulations include laws that restrict the opening of large stores and limit their presence to certain locations, and such restrictions are in place in most European countries (Samiee 1995). Nevertheless, the creation of the European Union affected the working conditions in food retailing, as the new laws introduced, deal with various areas of retail distribution. These laws removed barriers to trade among European countries and in parallel a harmonisation of standards in areas such as labelling, food product safety and transportation took place (Samiee 1995).

### 3.2 Social aspects

Change occurs in the social aspect of the company's environment with a subsequent effect upon demand and consumer behaviour (Chain Store Age 1996). For example, demographic changes underpin some of these consumer changes, as the number of people in the older age groups increases at a faster rate than in other age groups. Given such changes in the structure of population across Europe, retailers alter the types of product and the service requirements for a significant number of their customers. Some other social aspects with significant implications for European food retailers are provided in the following list (Dawson 1995):

- A change in the relationship between workplace and residence, as more women work outside home and an increase in travel to work times,
- a more active search for individualism in lifestyle and in consequence in the products and services sought,
- personal mobility is increasing through increased car ownership,
- quality expectations are rising between consumers,
- non-price promotional responsiveness is increasing,
- price knowledge is decreasing as product ranges get larger and retail brands make direct comparisons impossible across some product areas and
- increasing awareness of “green” issues.

For example, more women work outside home and alongside the fact that there is an increase in travel to work times, female consumers have become time conscious and prefer bulk purchasing at weekends. This aspect has influenced large format retailers and due to their size, they are able to offer “one stop shopping” and products in large quantities.

3.3 Cultural aspects

According to Alexander (1990), cultural aspects such as local language, a nation’s social values and local consumers’ attitudes and behaviour, might be more important to retailers’ international expansion than originally thought. Pellegrini (1991) outlines the impact of the cultural determinants of buying and consumption behaviour. These aspects are relevant to food retailers as for example, in the course of the internationalisation process, food retailers will often seek to expand into markets they believe their operations will have an immediate relevance and with which they feel familiar. The latter is a proposition by Treadgold and Davies (1988), and the author presents in Table 5.4 the related empirical evidence for the European food and non-food retailers provided by the Corporate Intelligence Group (1991).
Table 5.4: Cultural preference of mainland European retailers

<table>
<thead>
<tr>
<th>Country of origin</th>
<th>Zone A: number of active retailers</th>
<th>Zone B: number of active retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Spain 47</td>
<td>Germany 30</td>
</tr>
<tr>
<td>Belgium</td>
<td>Spain 47</td>
<td>Netherlands 28</td>
</tr>
<tr>
<td>Switzerland</td>
<td>27</td>
<td>Denmark 2</td>
</tr>
<tr>
<td>Italy</td>
<td>26</td>
<td>Austria 10</td>
</tr>
<tr>
<td>Portugal</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td><strong>Average = 33</strong></td>
<td></td>
<td><strong>Average = 18</strong></td>
</tr>
<tr>
<td>Germany</td>
<td>Austria 33</td>
<td>France 25</td>
</tr>
<tr>
<td>Netherlands</td>
<td>28</td>
<td>Spain 10</td>
</tr>
<tr>
<td>Switzerland</td>
<td>23</td>
<td>Denmark 9</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>Italy 8</td>
</tr>
<tr>
<td><strong>Average = 25</strong></td>
<td></td>
<td><strong>Average = 13</strong></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Belgium 20</td>
<td>France 6</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
<td>Spain 5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3</td>
<td>Portugal 2</td>
</tr>
<tr>
<td>Austria</td>
<td>2</td>
<td>Italy 1</td>
</tr>
<tr>
<td><strong>Average = 9</strong></td>
<td></td>
<td>Germany 0</td>
</tr>
<tr>
<td><strong>Zone A</strong>: national markets which have a linguistic association with the country of origin, are within the European Economic Area and are connected by land with the country of origin</td>
<td><strong>Zone B</strong>: national markets which do not have a linguistic association with the country of origin, are within the European Economic Area and are connected by land with the country of origin</td>
<td></td>
</tr>
</tbody>
</table>

Source: CIG (1991)

Burt (1993) supports the contention that cultural proximity encourages expansion from one market into another. On the other hand, Alexander (1996, p.25) argues that:

“The European cultural mosaic has affected the development of international operations and has been partly responsible for the limited degree of pan-European development which might reasonably have been expected in some easily exportable non-food retail sectors, especially”.

Finally, Dupuis and Prime (1996) state that the cultural aspects’ issue is influenced by one theory developed in the field of international business by the School of
Uppsala, the Stages Theory (Carlson 1975) that was discussed in Chapter 2. They claim that the larger the business and the cultural distance, the higher the international transaction costs associated with retailers’ international expansion.

3.4 Economic aspects

When a food retailer is assessing international expansion strategic options, it is of vital importance to understand the economic conditions (e.g. market development, consumer’s disposable income) that exist in various markets.

Alexander (1997, p.32, 33) notes that:

“International retailers often reduce risk by avoiding operating in significantly different economic conditions. Retailers which are based in developed economies will favour moving into markets that have reached similar levels of economic development where they will be able to operate the type of retail outlets they have developed in their domestic market and, in consequence, serve a similar set of customers”.

He also estimates that the more economically advanced a country, the more retail activity will take place into and away from that country. Myers and Alexander (1995) found out that French food retailers favoured an expansion to those markets with developing or underdeveloped retail markets, such as Italy, Spain, Portugal and Greece, but those markets also possess geographical and cultural proximity.

In the same survey (Myers and Alexander 1995), Dutch food retailers showed an orientation toward the less developed markets in the European Union, as well as towards the emerging markets outside the European Union (e.g. Hungary).

British food retailers, on the other hand, were attracted to opportunities in less developed markets, but were also drawn to markets with geographical proximity (Alexander 1996). The factors of geography, culture and economic (market)
development provide the basis for the consideration of the direction of international expansion. Alexander (1997, p.158) epitomises the above by noting that:

"The ideal market for an internationalising retailer would be one where geographical proximity is combined with close cultural associations and an economy which is similar to the economy in the domestic market but where the retail structure has yet to undergo a modernisation process".

Hence, a separate analysis is needed for the issues of geographical proximity and retail structure and the author provides that in the following pages.

### 3.5 Geographical proximity

Another factor which influences retail internationalisation is the geographical proximity between two countries and it is generally accepted that European food retailers will look to advance to geographically proximate markets before they start to expand into more distant and distinct ones (Burt 1993; Treadgold 1988; Treadgold 1991a). Robinson and Clarke-Hill (1990) support the above view and their empirical analysis amongst the major German, Belgian, Dutch, Danish, French and British retailers traced that many European retailers have actually expanded into European Community countries. Although European retailers entered the markets of their European neighbours, this has not always led to the expansion from one European Union member state to another. For example, it has been frequently observed that expansion into markets, such as Spain, took place before that country joined the European Union. In Eastern Europe, the process of market liberalisation that commenced in the late 1980s, increased European food retailers’ interest to these markets although in the beginning, the complex regulatory systems, the intolerable levels of bureaucracy and the limited consumer purchasing power discouraged entry
(see for example, Drtina 1995). Nowadays, the European food retail multiples make sizeable investments in the markets of Eastern Europe (for the Polish market see Dawson and Henley 1999), especially as many of these countries will join the European Union in the near future.

3.6 Retail structure

The retail structure of a market can be illustrated via various indicators and one of them is retail market concentration that measures the share of the market held by a group of retail firms (Treadgold and Davies 1988).

Another indicator is the degree of retail density that is the number of outlets per inhabitant (Alexander 1997). According to Alexander (1997), retail density is closely linked to retail market concentration and he argues (Alexander 1997) that when concentration levels increase, firm density decreases.

Alexander (1997) provides few more indicators of retail structural developments such as the product sector, innovation and employment. As far as the product sector parameter is concerned, Alexander (1997, p.263) argued that:

“The structure of retailing within different product sectors is also indicative of the stage of retail structural development. In Portugal at the beginning of the 1990s there were 1.1 non-food retail outlets for every food outlet. In the Netherlands, there were 2.2 (Eurostat 1993). Therefore, as retail density decreases, so the ration of non-food to food retail outlets rises”.

This probably implies that when retail density decreases, it is more likely for the food retail sector to be more concentrated compared to the non-food one.

For the innovation parameter, Alexander (1997, p.265) notes that:

“Innovation will flow from one market to another market”.
Alexander (1997) provides the example of United States where innovations developed in that retail market were transferred in Europe and elsewhere.

For the employment parameter, Alexander (1997) explains that as large multiples dominate a market, the number of independents falls and in turn, the number of self-employed workers in the retail sector decreases.

The empirical evidence offered by Alexander (1997) confirms his assumption in various European markets and it also shows the effect that these parameters have towards retail internationalisation. For example, Alexander (1997) argues that it is no coincidence the fact that European food multiples favoured to expand in the past decades to Southern Europe, as these markets enjoyed low market concentration levels. But over the past few years, market concentration has increased in these markets, so European retailers started to expand to Eastern Europe.

### 3.7 Supply chain aspects

The importance of the supply chain infrastructure is critical to the food retailers' international expansion decision, as food retailers evaluate transportation and warehousing facilities and the availability of logistics service providers before deciding to operate abroad. This infrastructure is necessary for the retailers' expansion in the host market and it should be emphasised that the logistical environment differs markedly between countries. For example, European retailers' expansion in Poland has been negatively affected by the underdeveloped state of domestic logistics and supply chain management systems (Dawson and Henley 1999), while this is not the case for the Western European markets where retail entry occurred (Fernie 1996).
The formation of the European Union accelerated the development of common standards in the supply chain among the member countries and in turn, facilitated retail firm internationalisation across the same economic trading area.

Having discussed the determinants of retail internationalisation, the next section will provide an examination of that process, by presenting the theoretical frameworks developed.

4. Theoretical frameworks of retail internationalisation

A substantial amount of research has been devoted to the examination of international retail operations (see for example, Knee 1966; Yoshino 1966; Carson 1967; Hollander 1970; Dawson 1978; Waldman 1978; Goldman 1974). Nevertheless, the first attempt to categorise international retailers, was given by Hollander (1970) who based on retailers’ merchandise, format and operation characteristics, provided a specific classification for international retail firms.

More recently, Treadgold (1991b) identified the extent and nature of retail international operational activity based on:

- The geographical spread of activity / geographical presence as defined in terms of the number of countries operating, and
- time / amount of time being engaged on internationalisation and the more the time the retailer has spent on internationalisation, the more the accumulated experience gained for the retailer to manage international operations.

Treadgold (1991b) states that retailers in the course of internationalisation, follow three stages (Figure 5.2 with examples given for the British food retail sector for the year 2001):
- Reluctance, the initial stage when they operate in a very few markets as retailers are hesitant and not experienced to be engaged to numerous international markets,
- caution when they have gained some international experience and retailers make careful moves and finally,
- ambition when the retailer is experienced by operating in many markets.

Figure 5.2: Stages of retail internationalisation (Treadgold 1991b)

In the same rationale, Treadgold (1988) provides another typology based on two parameters, namely local responsiveness and benefits from integration. Treadgold (1988) mentioned that international development positions range from multinational to transnational and finally global. Global retailers vary their offering (format, merchandise) very little across national boundaries, achieving the greatest economies of scale but showing the least local responsiveness. Multinationals, on the other hand, try to develop a diversity of retail formats in a small number of markets and at the same time being highly responsive to local market preferences. A situation that
lies in the middle is transnationals, where the retailer seeks to gain global efficiency while responding to some extent to local consumer needs (see Figure 5.3, with examples from the European food multiples).

![Figure 5.3: International development positions (Treadgold 1988)](image)

The parameters in Figure 5.3 can not be easily measured; therefore, it is difficult to provide a strict classification of retailers in international markets based exclusively upon them. Additionally, there seems to be no global food retailer that has not adapted to some extent a significant part of its retail offering to the local market. Salmon and Tordjman (1989) provide a classification system having as main parameters, the need to adapt to local conditions and the operational advantages of maintaining a common approach in all markets. They noted three different strategies: global, multinational and investment (Table 5.5), but the author should bring to the reader's attention that the first two strategies were proposed by Treadgold (1988)
while the third strategic alternative (investment) is distinctly different to any other strategy discussed so far.

Table 5.5: Salmon and Tordjman’s classification of international retail strategies

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>The retail formula is replicated in all markets around the world in which the company has a presence. The formula appeals to a global segment and is correspondingly positioned. There is a standardisation of marketing mix strategy. There is vertical integration in distribution, production and design. Management is centralised and depends on the rapid exchange of information. There exists a capacity to grow quickly taking advantages of considerable economies of scale. There is limited transfer of know-how as the companies outlets are all following the same marketing strategy</td>
</tr>
<tr>
<td><strong>Multinational</strong></td>
<td>The retail formula is adapted to local conditions, as is the marketing mix strategy, but the retailer continues to operate within a broad sector maintaining similarities across markets. Management is decentralised although there exists regular communication between markets. There is restricted growth capacity with few economies of scale, but an important transfer of know-how</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>An existing company is purchased in the non-domestic market. This forms part of a portfolio of non-domestic investment. Development is isolated with little communication between markets. This facilitates the swift development of an international presence. Risk is low and the transfer of skills is not considered an important factor.</td>
</tr>
</tbody>
</table>

Source: Salmon and Tordjman (1989)

Another approach is provided by Sternquist and Kacker (1994) that identified in their in-depth study and their review of a number of cases, four different approaches concerning retailers’ international involvement:

- **Standard Formula Global Approach**, when international retailers use a standard package of market offering in all overseas markets, sell the same merchandise mix (a strong ownership advantage) and have the same store design and provide the same promotional message to its customers (e.g. Aldi).

- **The Growth-Induced International Approach**, when not all international retailers have the resources to implement the standard formula approach, so they
decide to move overseas with a set of distinct market offerings, adapting and compromising them to local needs (a medium ownership advantage, for example the case of Carrefour).

- **The Silent Investor Approach** when a substantial investment is made into foreign retail ventures while at the same time avoiding managerial responsibilities and the investor is satisfied with the location of the foreign retailer and with the economic and political environment in that country (a strong location advantage). Sternquist and Kacker (1994) provide as an example the cases of Delhaize Le Lion, Promodès and Ahold that acquired local retailers in United States but they did not interfere with managing these operations as the retail managerial know-how in that country was very advanced.

- Finally, the **Limited Role Approach** when international involvement takes the form of limited participation (minority shareholding, joint ventures, management contracts, franchising), so retailers are able to internationalise without having to acquire ownership in foreign countries (no ownership or location advantages). Sternquist and Kacker (1994) cite the example of Promodès in Portugal that formed a joint venture with a local firm.

Overall, Sternquist’s and Kacker’s (1994) reasoning seems to be a reintroduction of some of the approaches already discussed [mainly, Salmon and Tordjman’s (1989) and Treadgold’s (1988)]. Nevertheless, Sternquist’s and Kacker’s (1994) main contribution is that it introduces for the first time, the advantages of retail ownership and retail location. Moreover, Sternquist and Kacker (1994) stress the importance of logistics, and in particular the importance of warehousing facilities at critical locations under the global approach. Other research that linked the issue of logistics /
supply chain to retailers’ development stage during the retail internationalisation was by Lamey (1997). Lamey (1997) provides an analysis of the early movers and followers within retail internationalisation and discusses the associated advantages and disadvantages of those firms in Table 5.6 and where the issue of the existence of a supply chain infrastructure is one of them.

**Table 5.6: Early movers versus followers within retail internationalisation**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early mover</td>
<td>Position to take an early lead in the market</td>
</tr>
<tr>
<td>Ability to partner with the best local players</td>
<td>Need to find and train staff in modern retailing techniques</td>
</tr>
<tr>
<td>Ability to find the best sites</td>
<td>Absence of adequate warehousing / supply chain infrastructure</td>
</tr>
<tr>
<td>Ability to tie in local suppliers</td>
<td>Need to educate suppliers</td>
</tr>
<tr>
<td>Follower</td>
<td>Greater availability of trained staff</td>
</tr>
<tr>
<td>Greater consumer acceptance / understanding</td>
<td>Inability to find suitable local partners</td>
</tr>
<tr>
<td>Suppliers have formed a better understanding of needs</td>
<td>Fewer sites available</td>
</tr>
<tr>
<td><strong>Retail infrastructure / supply chain is improving</strong></td>
<td>Reduced ability to tie in local suppliers</td>
</tr>
<tr>
<td>Learn from others’ mistakes</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lamey (1997)

In concluding the previous analysis, it will be useful to note that the aforementioned classifications have caused some confusion amongst researchers. Helfferich et al (1997) cite the example of IKEA (a non-food retailer), that has been labelled as a global retailer (see Laulajainen 1991), as an international retailer (see Laulajainen 1993) and also as a multinational retailer (see Treadgold 1988). In an attempt to provide a clarification for the above, Helfferich et al (1997) have proposed an alternative categorisation for international retailers, by reconciling various parameters / aspects of the retail internationalisation process (see Table 5.7).
Table 5.7: The parameters of international retailing

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Category</th>
<th>Category</th>
<th>Category</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>International (beginners or slow developers)</td>
<td>Global (fast developers or inimitable niche)</td>
<td>Transnational (accumulators of experience)</td>
<td>Multinational (portfolio managers)</td>
</tr>
<tr>
<td>Geographic scope</td>
<td>1 continent</td>
<td>2 or more continents</td>
<td>1 or more continents</td>
<td>1 or more continents</td>
</tr>
<tr>
<td>Cultural spread</td>
<td>1 cultural zone</td>
<td>2 or more cultural zones</td>
<td>2 or more cultural zones</td>
<td>2 or more cultural zones</td>
</tr>
<tr>
<td>Cultural orientation*</td>
<td>Ethnocentric</td>
<td>Mixed</td>
<td>Geocentric</td>
<td>Polycentric</td>
</tr>
<tr>
<td>Marketing</td>
<td>Expansion of home format or international alliances</td>
<td>Minimal adaptation, homogeneous markets</td>
<td>Medium adaptation, heterogeneous markets</td>
<td>Major adaptation or diverse formats, heterogeneous markets</td>
</tr>
<tr>
<td>Management</td>
<td>Domestic HQ</td>
<td>Centralised control</td>
<td>Integrated retail network</td>
<td>Independent units</td>
</tr>
<tr>
<td>Companies</td>
<td>Halfords (non-food retailer)</td>
<td>Aldi</td>
<td>Marks &amp; Spencer, Spar, Makro, Carrefour</td>
<td>Ahold, Tengelmann, Delhaize Le Lion</td>
</tr>
</tbody>
</table>

* The authors follow Keegan’s (1995) classification coupled with McGoldrick’s and Fryer’s study (1993).

It is worth noting that this classification does not depict any sequential stages of development, as retailers progressing beyond the international status stage can develop activity in any of the other three categories. Additionally, this categorisation contains numerous parameters, but few critical parameters that other authors included (e.g. operating strategy, benefits resulting from each strategy) are not stated at all. Therefore, the framework proposed by Helfferich et al (1997) can not be regarded as a complete “synthesis” of the aforementioned classification systems.

On the other hand, the Helfferich et al (1997) approach is the only approach that encompasses parameters from diverse issues (as for example from marketing, culture,
and geographical spread) and this is rather its main contribution to our understanding of retail internationalisation.

5. Retail internationalisation strategies of the European food multiples

The largest retail markets in Europe (based on total sales) are the German market and the French market. Hence, it is not a coincidence that German and French organisations occupy 10 out of the 13 highest ranked positions in Table 5.8 that shows the largest retail firms in Europe (based on both domestic and international sales).

<table>
<thead>
<tr>
<th>Table 5.8: The 13 largest retail firms in Europe*</th>
</tr>
</thead>
<tbody>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Metro</td>
</tr>
<tr>
<td>ITM Enterprises**</td>
</tr>
<tr>
<td>Ahold</td>
</tr>
<tr>
<td>Carrefour</td>
</tr>
<tr>
<td>Rewe</td>
</tr>
<tr>
<td>Tengelmann**</td>
</tr>
<tr>
<td>Edeka</td>
</tr>
<tr>
<td>Aldi**</td>
</tr>
<tr>
<td>Tesco</td>
</tr>
<tr>
<td>J. Sainsbury</td>
</tr>
<tr>
<td>Auchan</td>
</tr>
<tr>
<td>Centres Leclerc</td>
</tr>
<tr>
<td>Promodès</td>
</tr>
</tbody>
</table>

Source: Dawson (1999)

* Does not include recent mergers and acquisitions such as the one by Carrefour and Promodès that led to the formation of the largest retailer in Europe.

** Tax included

It is worth mentioning that some of the listed retailers (e.g. Metro, Rewe, J. Sainsbury) have both food and non-food operations; nevertheless, food sales account for the majority of their total sales. Moreover, for many of these firms, the share of
domestic business relative to foreign business remains high. Additionally, the so-called “euroconcentration” that is the European market share achieved from a food retailer, and defined as the ratio of the value of European food sales over the total value of European sales, is still quite modest. For example, the major European retailer Metro (according to Table 5.8) that has a presence in twelve European countries (Corporate Intelligence Group 1997), has achieved a European market share of 3.2% (year 1994) that is far too low (Nielsen 1996).

Apart from the above, some trends that take place across Europe regarding the structure of the European food retailing, as well as in the strategies of the European food multiples include (Euromonitor 1995):

1. The decline in the number of retail outlets per head of population,
2. the increasing market shares of multiple retailers and the resulting rapid market concentration,
3. the restructuring of operations among many of Europe’s major food multiple retailers, with the divestment of low underperforming divisions or the exit from non-profitable markets,
4. the development of superstores or hypermarkets selling both food and non-food products,
5. the entry of food discount outlets into a number of countries, with a particular emphasis on hard discounting, and
6. the emergence of multichannelisation for most food multiple retail groups. Carrefour / Promodès for example has convenience, neighbourhood, discount, supermarket and hypermarket stores.
It is worth mentioning that numerous food multiples have focused their initial expansion on large store formats (hypermarkets, supermarkets) and it is not surprising that these formats dominate the total turnover in the European food retail sector (see Table 5.9).

**Table 5.9: Outlets and turnover by retail format in European food retailing**

<table>
<thead>
<tr>
<th>Format</th>
<th>Outlets by Format (%)</th>
<th>Turnover by Format (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarkets</td>
<td>0.7 %</td>
<td>25 %</td>
</tr>
<tr>
<td>Large Supermarkets</td>
<td>2.6 %</td>
<td>25 %</td>
</tr>
<tr>
<td>Small Supermarkets</td>
<td>7.8 %</td>
<td>24 %</td>
</tr>
<tr>
<td>Superettes</td>
<td>17.9 %</td>
<td>15 %</td>
</tr>
<tr>
<td>Traditions</td>
<td>71 %</td>
<td>11 %</td>
</tr>
</tbody>
</table>

Source: European Retail Digest (1995)

* hypermarkets > 2,500 sq. m, large supermarkets between 1,000 and 2,500 sq. m, small supermarkets between 400 and 1,000 sq. m, superettes between 100 and 400 sq. m and traditionals <100 sq. m.

Large formats can be regarded as a success and with a remarkable growth in the period between 1984 – 1994 at the expense of smaller formats that have suffered from large scale competition (see Table 5.10).

**Table 5.10: Number of food stores (formats) in operation in European food retailing**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarkets</td>
<td>2135</td>
<td>3883</td>
<td>1748</td>
<td>+82 %</td>
</tr>
<tr>
<td>Large Supermarkets</td>
<td>6017</td>
<td>12728</td>
<td>6711</td>
<td>+112 %</td>
</tr>
<tr>
<td>Small Supermarkets</td>
<td>19036</td>
<td>34389</td>
<td>15353</td>
<td>+81 %</td>
</tr>
<tr>
<td>Superettes</td>
<td>89786</td>
<td>87064</td>
<td>-2722</td>
<td>-3 %</td>
</tr>
<tr>
<td>Traditional</td>
<td>470485</td>
<td>348086</td>
<td>-122399</td>
<td>-26 %</td>
</tr>
</tbody>
</table>

Source: European Retail Digest (1995)

Apart from the above, it will be useful to examine the internationalisation strategy of the major European food multiple retailers. These companies have a core business at their home country from which they start and the strategic option open to them are internationalise via geographical diversification abroad, or to follow the domestic
A combination of the above is the case of a pure portfolio strategy (Figure 5.4) (Pellegrini 1995).

The above are discussed in a more detailed manner in Table 5.11 where Pellegrini (1994) argues that companies may follow a strategic path of product diversification, (horizontal dimension, Table 5.11). Firms may also choose to diversify in both products and markets by moving diagonally towards the centre of the square, becoming a sort of conglomerate. More specific to retail internationalisation is the case where retailers start moving vertically in Table 5.11 (vertical dimension) or diversifying geographically, with their first move being into geographically adjacent markets. Once a solid presence has been built in national markets, retailers move into the markets of other nearby countries, although the latter can not be regarded as a universally followed strategic path for growth. The same applies for product diversification, with retailers moving into other store types initially, and finally into unrelated sectors.
Table 5.11: Geographical diversification and product diversification

<table>
<thead>
<tr>
<th>Other foreign countries</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other similar countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other national markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjacent markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Original market</td>
<td>CORE</td>
<td>Similar store types</td>
<td>Other store types</td>
</tr>
<tr>
<td>Original store type</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Pellegrini (1994)

Based on Table 5.11, Pellegrini (1994) explains some possible strategies followed by the major European food multiple retailers:

i) Pure geographical diversification (global retailers), when certain retail concepts can be replicated without much variation across countries. German hard discounters (Aldi, Lidl) provide a good example of this, as they expand via the hard discount concept.

ii) Globalisation and limited product diversification, with Tesco being the best example here, as Tesco is a retailer with a global dominance ambition via a large format expansion. On the other hand, Tesco diversified into other retail formats especially at domestic level (as for example, petrol station format, convenience store format).

iii) Pure product diversification / national retail conglomerates, with the companies falling into that category to be the Swiss retailer Migros. Migros is a retailer that has
not moved across borders as the internationalisation path falls outside the company’s scope, but it has been steadily pursuing a product diversification route.

iv) Product diversification and limited internationalisation, as after diversifying into home territory, these retailers seek to move cautiously abroad (e.g. J. Sainsbury), and finally

v) International retail conglomerates, with companies such as Metro and Ahold to have a strong international presence combined with a well-diversified portfolio of retail activities.

It is worth observing that in the previous analysis the issue of logistics / supply chain management has not been incorporated. Nevertheless, alternative domestic and international expansionary strategies may require different logistics strategies. Moreover, no emphasis was given upon the consideration of non-store selling methods (e.g. e-retailing), an issue of rapidly increasing importance in recent years in grocery retailing. Having discussed the internationalisation strategies followed by the European food retail multiples, in the next section the author examines the international market entry strategies of the European retailers.

6. Entry strategies to international retail markets

Dawson (1993, p.30) argues that:

“The two key dimensions for a typology of international retail operations are the mechanism by which internationalisation is achieved and where in the overall organisation, decision making resides for the retail business in the host country”.

188
As far as the relevant internationalisation mechanism is concerned, Dawson (1993) suggests five strategic options. These strategies are cited in Table 5.12 alongside the strategic advantages and the disadvantages associated with them.

Table 5.12: Advantages and disadvantages of various mechanisms to establish international retail operations

<table>
<thead>
<tr>
<th>Mechanisms</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal expansion / organic growth</td>
<td>Can be undertaken by any size of firm - Experimental openings are possible with modest risk and often modest cost - Ability to adapt operation with each subsequent opening - Exit is easy (at least in early stages) - Allows rapid prototyping</td>
<td>Takes a long time to establish a substantial presence - May be seen by top management as a minor diversion - Requirement to undertake full locational assessment - More difficult if host market is distant from the home market</td>
</tr>
<tr>
<td>Merger or take-over / acquisition</td>
<td>Substantial market presence quickly achieved - Management already in place - Cash flow is immediate – Possibility of technology transfer to home firm - May be used as a way to obtain locations quickly for conversion to the chosen format</td>
<td>Difficult to exit if mistake is made - Evaluation of take-over target is difficult and takes time - Suitable firms may not be available - Substantial top management commitment necessary</td>
</tr>
<tr>
<td>Franchise-type agreements</td>
<td>Rapid expansion of presence possible - Low cost to franchisor – Marginal markets can be addressed – Local management may be used – Wide range of forms of agreement available - Use locally competitive marketing policy - Way of overcoming entry barriers</td>
<td>Possible complex legal requirements - Necessary to recruit suitable franchisees - Difficult to control foreign franchisees - May become locked into an unsatisfactory relationship</td>
</tr>
<tr>
<td>Joint venture</td>
<td>Possible to link with firm already in market - Help available in climbing learning curve - Possible to move later to either exit or make full entry into the market</td>
<td>Necessary to share benefits Difficulties in finding a suitable partner</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>Find out about market with minimal risk - Allows those who know the market to manage the operation</td>
<td>Passive position - Investment made over which little influence</td>
</tr>
</tbody>
</table>

Source: Dawson (1993)
The author of this thesis provides some examples related to the market entry strategies pursued by various European food multiple retailers based on Lamey’s (1996) work.

Table 5.13: Market entry strategies of European food retail multiples

<table>
<thead>
<tr>
<th>Market entry mechanisms</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Acquisition</td>
<td>Auchan acquired Docks de France (1996)</td>
</tr>
<tr>
<td>3. Organic growth</td>
<td>Aldi in numerous European countries</td>
</tr>
<tr>
<td>4. Franchising</td>
<td>M&amp;S in Greece, 7 Eleven in Asia</td>
</tr>
<tr>
<td>5. Joint venture</td>
<td>Promodès with Sonae in Portugal</td>
</tr>
<tr>
<td>6. Non-controlling interest</td>
<td>Ahold has a minority stake in Jeronimo Martins in Portugal</td>
</tr>
</tbody>
</table>

Source: Lamey (1996)

As far as the nature of the preferred market entry mechanism by retailers is concerned, Burt (1991) examined food retailers’ international movements in Europe and found acquisitions as the most popular form constantly since the late 1970s (see Table 5.14). On the other hand, Quinn and Doherty (2000) bring to our attention the increasing popularity of franchising as a preferred foreign market entry strategy, especially during the past decade.

Table 5.14: Foreign retail market entry strategies by nature of activity

<table>
<thead>
<tr>
<th>Nature of activity</th>
<th>Number</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal growth</td>
<td>38</td>
<td>18.1</td>
</tr>
<tr>
<td>Acquisition</td>
<td>84</td>
<td>40.0</td>
</tr>
<tr>
<td>(majority stake)</td>
<td>(60)</td>
<td>(28.6)</td>
</tr>
<tr>
<td>(minority stake)</td>
<td>(24)</td>
<td>(11.4)</td>
</tr>
<tr>
<td>Consolidation</td>
<td>18</td>
<td>8.6</td>
</tr>
<tr>
<td>(minority to majority share)</td>
<td>(6)</td>
<td>(2.9)</td>
</tr>
<tr>
<td>(raise shareholding)</td>
<td>(12)</td>
<td>(5.7)</td>
</tr>
<tr>
<td>Operational joint venture</td>
<td>45</td>
<td>21.4</td>
</tr>
<tr>
<td>Franchisor / franchisee</td>
<td>10</td>
<td>4.7</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>8</td>
<td>3.8</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Burt (1991)
Overall, it is a common phenomenon for the European food retail companies to employ a wide range of market entry mechanisms for developing an international presence.

For example, Marks and Spencer (Dawson 1993):
- Acquired companies in Canada and in USA,
- reached the Belgian market through internal expansion,
- used at an early stage the method of a joint venture to enter the Spanish market,
- followed the franchising entry mode in Greece,
- entered Hungary with a joint venture, before moving to a franchise type agreement, and
- had a non-controlling interest in the company selling St Michael products in Japan.

Nevertheless, Alexander (1997) points out that Marks and Spencer before beginning the establishment of its international chain of stores, was in favour of the exporting foreign market entry method.

Following the above, Dawson (1994, p.275) comments that:

"The pattern of expansion (for European retailers), is first one of internal expansion or small scale take-over into nearby and culturally similar countries, then with a major acquisition in a non-European market and finally, expansion across a broad front involving small acquisitions and single store openings".

As far as the factors influencing the retailers’ foreign market entry choice, Dawson (1995) argues that environmental turbulence has a major impact upon the choice of market entry mechanism. Dawson’s (1995) rationale behind such a decision is that
within a volatile and turbulent environment, retailers may prefer the path of joint ventures and individual store openings to major acquisitions.

It is also useful to note that no research has been carried out so far to investigate the issue of logistics strategy within the food retailers’ foreign market entry strategy, as various market entry methods may require different logistics strategies.

Finally, the author devotes a brief analysis to retail alliances that following Robinson and Clarke-Hill (1995, p.134) can be defined as:

“A coalition of two or more organisations intended to achieve mutually beneficial goals”.

These alliances were developed during the past decades and internationalisation has been a key underlying factor to their creation (Sternquist and Kacker 1994).

Dawson (1993) provides some other factors as follows:
- Opportunities open to retail firms by the move to a Single European Market,
- a requirement to source more effectively from non-domestic suppliers,
- a reaction to manufacturers’ attempts, as for example mergers of manufacturers that improve their bargaining position with retailers, and
- attempts to improve the development of retailers’ own brands.

Moreover, retail alliances have a protective role to play for their members, due to the provision of numerous benefits to the alliance members during their international expansion.

Dawson and Shaw (1992) and Robinson and Clark-Hill (1995) provide some of the key benefits that the retail alliance participants share:
- A common voice in the trade/political arena,
- brand and image transfer,
- buying economies / buying power,
- trading format skills,
- procurement in specific product areas,
- promotional skills,
- system and technology skills,
- protection against market entry coming from rival retail firms,
- high speed international growth and geographic market extension,
- market entry into new product segments and trading formats,
- protection from a take-over, and
- enhanced competitive position for subordinate players.

Treadgold (1991b) identifies the benefits and the principal motives behind the formation of a retail alliance. Treadgold (1991b) proposes the following types of retail alliances: development-led alliances (e.g. to develop further own brands), purchasing-led alliances (e.g. to increase buying power), skills based alliances (e.g. to develop further logistics or promotional skills) and multi-function alliances (e.g. a combination of the previous types). A fair number of European grocery retail alliances have been formed over the past decades, such as AMS (Associated Marketing Services), ERA (European Retail Alliance) and EMD (European Marketing and Distribution) (see European Commission 1997a).

Having analysed so far the various issues of the retail internationalisation process, in the following sections, the author aims to link these issues to three international
business theories, in order to provide a better understanding of some aspects of the empirical research to be attempted in the present thesis.

7. **Transaction costs theory (internalisation), the eclectic paradigm and retail internationalisation**

As discussed in Chapter 2, the transaction costs (internalisation) theory was proposed by Coase (1937) in a domestic context and it was subsequently developed by numerous researchers such as Williamson (1975), Buckley and Casson (1976) and Hymer (1976) in an international dimension.

In an international context, internalisation is the theory of the multinational enterprise encompassing the reasons for international production (manufacturer) and trade (retailer), and hence becomes a device for transferring a firm’s specific advantage on a world-wide scale (Dunning 1977). The multinational firm is then an organisation that is able to monitor the use of a specific advantage, and internalisation allows the multinational firm to control its affiliates and to regulate the use of that advantage on a global basis (Buckley 1995). Buckley (1988, p. 181, 182) also states that this approach applies to the multinational enterprise and rests on two general axioms:

"(1) Firms choose the least cost location for each activity they perform, and (2) firms grow by internalising markets up to the point where the benefits of further internalisation are outweighed by the relevant costs."

There will be no further analysis of the internalisation theory as this task has been accomplished by the author in the previous chapters.

However, internalisation theory can be applicable to food multiple retail logistics and therefore, it will be useful to highlight some of its fundamental aspects:
1. Food retailers perform some other functions apart from routine selling of products (e.g. distributing, handling, storing the products). So, the co-ordination of these functions may require external markets / agents (e.g. logistics service providers), if the tasks can not be performed internally or it is not cost efficient for the firm to do so.

2. The potential for opportunistic behaviour by third party logistics firms is likely to lead food retailers to engage in protracted and expensive contract negotiations with them. Moreover, retailers can monitor these firms by establishing safeguard mechanisms, and this can be facilitated via the use of information technology systems that link food retailers with these agents. These systems fit to specific information technology standards (e.g. Tradanet), leading to reduced transaction costs (e.g. via the increased volume of transaction). These systems may also guarantee the efficient and continuous performance of the food retail supply chain as they may minimise any possibility for third party’s opportunistic behaviour. The issue of opportunistic behaviour in the retail logistics function will be empirically investigated by the author as to whether logistics information technology systems are a major factor for the monitoring of third party logistics companies’ opportunism when a food multiple retailer decides to externalise its transportation and warehousing operations.

3. A relevant issue is buyer uncertainty over a given service, and the resultant availability of local logistics service providers that can provide the opportunity to retailers’ logistics partners to internationalise. It is logical to assume that retailers will prefer to trade with logistics service providers that are already known to them, rather than dealing with unknown service providers from a host country. Trading
with unknown service providers may incur higher transaction costs for retailers, due to the new contract arrangements and practices to be implemented.

4. Apart from buyer uncertainty, there is also the environmental uncertainty that a food retailer encounters during internationalisation, as specific aspects (for example, regulation, political issues) of the host country’s environment are unknown to the firm. This may have an effect upon the food multiple retailers’ operations.

The author will examine empirically whether the environmental uncertainty is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations.

5. The asset specificity is another issue of interest in food retail logistics operations, as logistics service providers can make investments (for example in warehouses, trucks) that are specific to the requirements of a particular retailer. Nevertheless, some of these investments can become operationally feasible for use by other retailers as well. This will be another area for the author’s empirical investigation, and more specifically, the author will examine whether asset specificity is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations.

6. Opportunistic behaviour and bargaining related problems with third party logistics providers are usually eliminated by retailers, due to the large number of logistics service providers. Food channel members can also aim for increased efficiency via the establishment of a long-term relationship of the parties involved, leading to a retail network. The development of the network will eliminate or decrease transaction related costs such as: new contract arrangements, new negotiations. Network development will accelerate the supply chain learning process between the
retailer and the service provider, as the two companies work close to each other, but they are independent entities as well. Within the network, food multiple retailers can internalise the logistics function following a thorough evaluation on the efficiency of externalising such a process. This quest for efficiency in the face of transaction costs is the main determinant of the various forms of firm organisation according to Williamson (1981). Moreover, Williamson (1985, p.105) argues that:

"Direct measures of transaction costs are rarely attempted".

The latter is supported by Buckley (1988, p.184) who proposes that:

"A major problem is the measurement of transaction costs and despite listings of these costs and classifications nowhere do we find estimates of such costs".

This actually supports the author’s view to examine the issue of the logistics externalisation / internalisation decision by evaluating the relevant transaction costs via a qualitative research method (personal interviews). The interviews will provide the interviewees’ perceptions for the logistics externalisation / internalisation issue above, but in connection with specific elements of that theory.

7. Concluding the analysis regarding the transaction costs theory, it should be noted that one of its main elements, the issue of frequency, characterises most logistics operations and especially, the transportation and warehousing functions. This will be also examined empirically later on, as to whether the frequency of transactions is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations.

In addition, Dunning (1979) argues that internalisation theory can not provide in its own right the reasons of why firms engage into international activities.
Dunning (1979) went on to pioneer a theoretical framework known as the eclectic or OLI paradigm (OLI - Ownership, Location, Internalisation).

More specifically, Dunning (1981) synthesised elements from other international business theories (and from the internalisation theory of the firm) and postulated that multinational firms’ assets are determined by:

a) The extent and the nature of the firm’s ownership specific or competitive advantage vis-à-vis other firms. Dunning (1981) argues that the firm’s specific advantage becomes a valuable asset owned by the multinational firm. This advantage is of two kinds: the asset (Oa) and the transaction based (Ot) advantages (discussed in Chapter 2). In food multiple retailing, the asset advantage (Oa) can include a range of superior own brands and a retailer’s market image (Burt and Carralero – Encinas 2000; Sternquist 1997a). In the transaction based advantage (Ot) one can incorporate a retailer’s exceptional management capabilities in overall operations or specific operations, such as store management and purchasing. Cantwell (1991) argues that the multinationals with the strongest ownership advantages are more likely to take over firms whose ownership advantages are weak, than vice versa. This was the case for Lidl (the German discount retailer) in France, which bought DIA, the discount format of Carrefour / Promodès in that country. Moreover, DIA stores exit from the Italian market, as DIA stores could not compete with the German discounters Lidl and Aldi. Finally, it is worth pointing out that food multiple retailers follow some of the aspects related to the manufacturers’ adoption of the eclectic paradigm. For example, retailers export their tangible ownership advantage, their own brands across countries, as the Marks and Spencer’s case that exported its own brands in the past (Alexander 1997).
b) The second element refers to the extent and the nature of the location bound endowments offered by countries to firms to add further value on their competitive advantage. In food multiple retailing, such endowments are related to: transport, inventory and store costs (e.g. based on country's infrastructure and availability of locations for stores and warehouses). It is useful to note that food retailing is by definition, location bound, as it requires a face to face contact and the availability of many attractive sites to firms can become a big internationalisation incentive. Another issue is the extent to which a product (the own brands for retailers) needs to be adapted to a particular environment / market (e.g. country's differences on legislation and culture). A final issue to consider, is the availability of investment incentives that will decrease the extra costs of organising cross – border activities compared with domestic activities.

c) The third element refers to the extent to which the market for these advantages, are internalised by the firm rather than marketed directly to foreign countries or firms (the internalisation approach). In retailing, the internalisation approach has been mainly investigated into the logistics function (see for example, Aertsen 1993; Bourlakis 1998a; Fernie 1989, 1990, 1998b; Lamey 1996; McKinnon1990a), where a retailer can either externalise or internalise this function at domestic and at international level. In the present thesis, logistics is considered as part of the internalisation advantage and not of the ownership (mainly transaction based, Oi) advantage, given that the process of logistics externalisation is very popular across Europe (McKinnon 1999). Furthermore, food multiple retailers that follow the externalisation practice, probably do not “own” a logistics advantage, as the specific logistics function is assigned to a third party firm (the logistics service provider).
It is useful to note that the eclectic paradigm has been theoretically only explored into the retail sector, but no empirical analysis has been undertaken so far (see Dawson 1993; Pellegrini 1993; Sternquist 1997a,b). On the other hand, the direct relevance of the eclectic paradigm to applied retailing has been questioned by a number of academics (for example, see Dawson 1993). In Table 5.15, there is an attempt to explore the eclectic paradigm advantages in food multiple retailing. Additionally, specific factors are highlighted for each of the eclectic paradigm advantages epitomising the author’s previous analysis. Therefore, these factors comprise the key retail aspects for each advantage of the eclectic paradigm.

Table 5.15: Ownership, location and internalisation advantages in food multiple retailing

<table>
<thead>
<tr>
<th>Ownership Advantage of firm of one nationality over those of another</th>
<th>Location Advantage that may favour home or host countries</th>
<th>Internalisation Advantage to protect or exploit the co-ordination advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factors</strong></td>
<td><strong>Factors</strong></td>
<td><strong>Factors</strong></td>
</tr>
<tr>
<td>Tangible (Factor: Own brands) &amp; intangible advantages (Factor: Retailer’s market image)</td>
<td>Cross-country cultural, business &amp; political differences &amp; adaptation to local tastes (Factor: Host country’s environment)</td>
<td>Need for avoidance of search &amp; negotiating costs within new logistics contracts (Factor: Retailer’s expertise in logistics)</td>
</tr>
<tr>
<td>Advantages of common governance and those due to size (Factor: Retailer’s management capabilities)</td>
<td>International transport and communication costs and societal and infrastructure provisions (Factor: Host country’s infrastructure)</td>
<td>To capture economies of interdependent activities and to control supplies and market outlets (Factor: Retailer’s expertise in logistics)</td>
</tr>
<tr>
<td>Ability to obtain products on favoured terms from manufacturers (e.g. bargaining power and capabilities) (Factor: Retailer’s management capabilities)</td>
<td>Legislation and investment incentives (Factor: Investment incentives provided by the host country)</td>
<td>To be able to manage successfully logistics operations &amp; to engage in various practices such as cross subsidisation and transfer pricing (Factor: Retailer’s expertise in logistics information technology systems)</td>
</tr>
<tr>
<td>An advantage from employing extensively a specific store format: (Factor: Retailer’s experience on a specific store format)</td>
<td>Location-bound as need to be close to customers (Factors: Availability of location for stores and warehouses in the host country)</td>
<td>Need for effective internalisation as investment in stores is capital intensive (Factor: Retailer’s expertise in logistics information technology systems)</td>
</tr>
</tbody>
</table>
Finally, Dunning (1989, 1993) argues that the significance of each advantage in the eclectic paradigm can vary across industries (micro level), regions (macro level), firms (micro level) and countries (macro level). The author will investigate empirically in the present thesis the strategic implications of the three eclectic paradigm advantages to the retailers that operate in the Greek food multiple retail sector.

8. Retail internationalisation and strategic retail network

The network theory has been extensively discussed in the previous chapters, where the author presented the underlying reasons for the formation of this organisational mode. As far as the evolution of that mode is concerned, Webster (1992) developed the strategic sequence for network formation that is depicted in Figure 5.5.

![Figure 5.5: The evolution of strategic marketing planning (Webster 1992)](image)

It is noteworthy that along the continuum of pure transactions at the one end to the fully integrated hierarchical firms at the other end, firms use increasing administrative control in pursuit of economic efficiency. Webster (1992) argues that at steps 1 and 2 there is little in the way of a relationship beyond a basic economic
transaction based on price, specification and availability. At step 3, long term relationships are still adversarial and depend heavily on market control. Step 4 involves real partnership, mutuality, trust and dependence. In step 5, both parties commit resources to strategic alliances. Network organisations (step 6) are corporate structures, which result from multiple relationships and strategic alliances.

Webster’s (1992) approach should not be understood merely as “repeated transaction” associations, but rather as partnerships or strategic alliances to achieve synergy effects between buyers and sellers towards common goals. Webster’s (1992) view above can be applied in the retail supply chain as retailers used to purchase services from logistics firms on a short term basis, something regarded as a typical market transaction exchange. At a later stage, retailers entered into long term contracts with logistics firms, as retailers were satisfied by their performance, although they had to spend time and resources for vetting and monitoring such performance (McKinnon 1999). The latter led most food retailers to concentrate on the services provided by a few logistics firms and gradually, close relationships were formed that were based on mutual co-operation and trust. This characterises the network organisation, an organisational form that is quite different from the traditional market transaction exchange (Jarillo 1993). Richardson (1972) argued that networks of co-operation and association exist because firms need to co-ordinate complementary but dissimilar activities. This can also be seen in Dunning’s (1988a, p.25) work who notes that:

“The exploitation of complementary ownership advantages by horizontal or vertical integration, is not only consistent with the premises of the eclectic paradigm, but points to a need for broadening its scope to embrace quite specific international alliances between enterprises (and network models), as part and parcel of their wider international strategies”.
The issue of international alliances was tackled by Buckley (1991), who argued that the multinational of the future will strive for restructuring and rationalisation. Buckley (1991) goes on to state that a number of co-operative modes of business will be formed, in the shape of alliances and joint ventures, although Buckley (1991) does not mention the network form. Looking for a link between the transaction costs theory and the strategic retail network, the author noted in the previous chapters, that the network form can provide the most efficient organisational mode and therefore, can minimise the relevant transaction costs. This is the essence of the network as if transaction costs are generally low to start with, there is no network; there is a simple market relationship where every retailer either externalises or internalises the retail logistics functions.

If transaction costs are high, the retailer will probably internalise the relevant operation, as no “outsider” will find it profitable to perform this function.

If transaction costs are lowered by certain mechanisms (e.g. information technology in the supply chain) and trust has been formed between the two parties that will minimise opportunism, does the retail network arise. The retail strategies described above are of high importance during the retail internationalisation process, as transaction costs can be higher abroad compared to domestic retail activities.

For example, the higher costs of information gathering in foreign retail markets for various suppliers and in addition the higher costs for monitoring their performance. Moreover, organisation costs across borders tend to be higher than the domestic ones, as for example, communications and transportation tend to be more expensive operations compared to organising these costs for the domestic retail market. As the
author discussed in Chapter 3, such organisational costs lead to the formation of the strategic retail network across the food retail supply chain (Bourlakis 1998a).

There are two additional factors to be mentioned in support of the network formation at an international level:

a) The internationalisation of third party logistics firms across Europe, that will enable them to meet sufficiently food retailers’ demands for logistics services and it will therefore, support the formation of closer links with them in the continent, and

b) the increasing importance of information technology systems that are the prime facilitators of effective communication and co-ordination between the food supply chain network members (Bowersox and Daugherty 1995). A very good example here is the Electronic Data Interchange (EDI) facility that allows the transmission of data (e.g. product sales data, product inventory data) between the computer systems of the food retailers, the product manufacturers and the logistics firms.

In conjunction with the previous discussion, Dawson (1995) noted the creation of various types of networks and argues (Dawson 1995, p.8) that:

“International road, high-speed rail and information networks are emerging rapidly and are presenting new challenges for retailers because:
- They alter the structure of distribution costs and the balance between trucking and local delivery,
- they provide opportunities for networked organisations with new forms of external relationships with customers and suppliers and new internal relationships amongst employees (Dawson and Shaw 1990; Horluck 1994; Rockart and Short 1991),
- they facilitate access, on a cost effective basis, to new suppliers in other parts of Europe, and
- they create the possibility of decentralised decision making subject to monitoring from the centre of the organisation (Lorenzoni and Baden-Fuller 1995).”
Summarising the analysis, it was illustrated that the network form is strategically important for food multiple retail firms working together with third party logistics firms. It was also stressed that the network mode is operationally and strategically important during retail expansionary times and it is applicable during the retail internationalisation process. Retailers expanding into foreign markets are encountered with higher organisational and transaction costs and a need for a more efficient co-ordination of resources is called for.

9. Conclusions

The aim of this chapter was to illustrate the issue of retail internationalisation, so the various aspects of that process were discussed.

The author highlighted the influence of numerous international business theories towards the development of the retail internationalisation literature. The author pointed out that academic research carried so far on retail internationalisation concerning the applicability of the international business theories in the retail sector is rather contrasting. There is, however, a lack of empirical research to confirm and to vindicate the rejection of these theories into the applied retailing arena.

There seems to be a gap in the retail literature as far as the inclusion of the logistics and the supply chain in retail internationalisation theories are concerned. It is worth stating that in the literature, the logistics and the supply chain issues are not even mentioned as possible factors facilitating retailer's internationalisation.
The author outlined various determinants of international retail expansion in the European food retail environment, based on Alexander's (1990) work on “push” and “pull” factors. Subsequently the strategic importance of the logistics and the supply chain operations in international expansion was underlined.

The author’s next task was to examine the internationalisation strategies followed by the European food multiples. Although numerous academic researchers have pointed out the various strategic directions (e.g. product and / or geographical diversification), none of them has incorporated the issue of logistics into their analysis. It is the author’s view that further research on that direction is necessary in order to examine the strategic fit of logistics in domestic and international retail strategies.

The issue of an adopted logistics strategy in the process of market entry for a food retailer also needs further investigation, as it seems that alternative market entry methods may employ different logistics strategies by different retail firms.

In an attempt to shed extra light to the retail internationalisation process, an examination of three international business theories (the transaction costs analysis, the eclectic paradigm and the network theory) took place, but with the incorporation of the logistics element. Via that examination, he highlighted the issues that formed part of his empirical investigation; logistics externalisation / internalisation was one of them. In concluding Chapter 5, the author argued that the strategic importance of logistics is a rather neglected issue in the retail internationalisation literature.

The author proposed certain directions where further research can be undertaken and he also underlined the issues that will be examined empirically in the Greek food multiple retail sector, discussed in the chapter to follow.
Chapter 6: The Greek food retail sector

1. Introduction

Small independent shops mainly run by families dominated the Greek food retail sector until the early 1990s, and with no foreign retailers operating in the Greek food multiple retail scene. During the 1990s, the process of change in many aspects of the food retail market was dramatic, as initiated by new legislative measures such as the deregulation of pricing on basic consumer goods and the removal of constraints on store operations (Bourlakis 1998b).

In the aftermath of the new legislation, international food multiple retailers (e.g. Makro, Promodès, Delhaize Le Lion) entered the market and imported new retail formats (e.g. hypermarket and discount format) and new schemes (for example, customer loyalty cards). As the international firms opted to capture a significant share of the market, the domestic multiples responded by acquiring other firms, whilst few others formed buying groups in order to increase their bargaining power towards suppliers. The retail changes that took place during the 1990s have been examined and commented by various researchers (see for example, Boutsouki and Bennison 1999 in connection with the department store sector, Boutsouki and Bennison 1997 and Bourlakis 1995 and Bourlakis et al 1996 for supplier – retailers relationships in the food channel, Boutsouki et al 1995, Bennison and Boutsouki 1996 and Bennison and Boutsouki 1998 for the impact of retail internationalisation on the domestic market).

These developments will be discussed in this chapter where the author aims to provide a clear picture of the structure of the Greek food retail sector.
It is worth stressing that the analysis places emphasis on the multiple sector, where most structural changes commenced.

2. The Greek food retail environment

The Greek food retail market is one of the smallest in Europe and with one of its main characteristics being the plethora of existing small retail outlets. These outlets mushroomed across the country especially during the 1950s and 1960s (Bell 1998), due to the low cost of entry and the limited range of alternative employment opportunities (Michailidis 1992). For example, there were 57,211 groceries in 1951, and by 1969 their number increased to 71,820, their highest number ever achieved (National Statistical Service of Greece 1992). During the last decade increased competition from domestic and international multiples led to a decrease in the number of groceries, and their number was 43,470 by 1995 (Bourlakis 1998b).

As far as the domestic multiples are concerned, it is noteworthy that during the 1970s and 1980s, these firms suffered from a lack of financial capital, as the local banking sector was not supportive enough. This was related to governmental policies that did not allow the financing of retail businesses with low interest rates, and in par with the favourable financing terms provided by banks to manufacturing firms.

The above can be verified by the fact that in 1990, just 6.7% of the total amount of loans given by Greek banks, was directed to commercial enterprises (retailers and wholesalers) (Delis 1990). The above led local multiples to become dependent on suppliers for capital, something that restricted domestic retail expansion.

---

6 Groceries are retail outlets (whatever the format) that sell mainly food and drink products.
The limited expansion and dominance of the local multiples facilitated the entry of international food retail firms during the early 1990s (e.g. Makro, Promodès, Delhaize Le Lion), as the market and the consumer welcomed the new product offerings and the new retail formats introduced by the foreign entrants. The presence of international retail firms alongside the desire of the government to adopt free market policies and to harmonise legislation towards the Single European Market, produced an environment that supported up to date approaches to retail management; various aspects of that environment are discussed in the following pages.

2.1 The Greek consumer

The Greek population is 10.5 million inhabitants and is ageing. Consumers over the age of 65 represent 16% of the total population and this age group is forecasted to be more than 20% at 2020 (Table 6.1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (million)</th>
<th>Male (million)</th>
<th>Female (million)</th>
<th>0 – 14</th>
<th>15 – 44</th>
<th>45 – 64</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10.578</td>
<td>5.229</td>
<td>5.349</td>
<td>1,661</td>
<td>4,587</td>
<td>2,546</td>
<td>1,784</td>
</tr>
<tr>
<td>2000 (%)</td>
<td>(100)</td>
<td>(49.4)</td>
<td>(50.6)</td>
<td>(15.7)</td>
<td>(43.3)</td>
<td>(24.06)</td>
<td>(16.86)</td>
</tr>
<tr>
<td>2005</td>
<td>10.719</td>
<td>5.303</td>
<td>5.416</td>
<td>1,671</td>
<td>4,455</td>
<td>2,622</td>
<td>1,971</td>
</tr>
<tr>
<td>2005 (%)</td>
<td>(100)</td>
<td>(49.4)</td>
<td>(50.6)</td>
<td>(15.6)</td>
<td>(41.56)</td>
<td>(24.46)</td>
<td>(18.38)</td>
</tr>
<tr>
<td>2010</td>
<td>10.791</td>
<td>5.345</td>
<td>5.446</td>
<td>1,723</td>
<td>4,247</td>
<td>2,775</td>
<td>2,045</td>
</tr>
<tr>
<td>2010 (%)</td>
<td>(100)</td>
<td>(49.5)</td>
<td>(50.5)</td>
<td>(15.96)</td>
<td>(39.35)</td>
<td>(25.71)</td>
<td>(18.95)</td>
</tr>
<tr>
<td>2015</td>
<td>10.843</td>
<td>5.379</td>
<td>5.464</td>
<td>1,732</td>
<td>4,016</td>
<td>2,929</td>
<td>2,164</td>
</tr>
<tr>
<td>2015 (%)</td>
<td>(100)</td>
<td>(49.6)</td>
<td>(50.4)</td>
<td>(15.97)</td>
<td>(37.03)</td>
<td>(27.01)</td>
<td>(19.95)</td>
</tr>
<tr>
<td>2020</td>
<td>10.828</td>
<td>5.381</td>
<td>5.447</td>
<td>1,702</td>
<td>3,821</td>
<td>3,046</td>
<td>2,259</td>
</tr>
<tr>
<td>2020 (%)</td>
<td>(100)</td>
<td>(49.7)</td>
<td>(50.3)</td>
<td>(15.71)</td>
<td>(35.28)</td>
<td>(28.13)</td>
<td>(20.86)</td>
</tr>
</tbody>
</table>

The proportions of single-person households and households that consisted of two members grow over the years, with a subsequent decline in the proportion of large-sized (3, 4 and 5 members) households (Table 6.2).

Table 6.2: Size of households

<table>
<thead>
<tr>
<th>Inhabitants per Household</th>
<th>Households '000s &amp; (%) Year:1993</th>
<th>Households '000s &amp; (%) Year:1995</th>
<th>Households '000s &amp; (%) Year:1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>707 (19.4)</td>
<td>779 (20.7)</td>
<td>798 (20.8)</td>
</tr>
<tr>
<td>2</td>
<td>1,041 (28.7)</td>
<td>1,086 (28.9)</td>
<td>1,130 (29.5)</td>
</tr>
<tr>
<td>3</td>
<td>724 (19.9)</td>
<td>742 (19.8)</td>
<td>755 (19.7)</td>
</tr>
<tr>
<td>4</td>
<td>807 (22.2)</td>
<td>816 (21.7)</td>
<td>825 (21.5)</td>
</tr>
<tr>
<td>5</td>
<td>356 (9.8)</td>
<td>333 (8.9)</td>
<td>320 (8.3)</td>
</tr>
<tr>
<td>Total</td>
<td>3,636 (100.0)</td>
<td>3,756 (100.0)</td>
<td>3,828 (100.0)</td>
</tr>
</tbody>
</table>


It is noteworthy that consumer-spending power has been greatly affected by the government's austerity plan, as the economic policy to join the European Monetary Union required substantial cutbacks on consumer spending. This policy has reduced the inflation rate to a record level of 2% (1999), but on the other hand, reduced consumer expenditure and therefore, retail sales increased at a lower pace during the past years (Table 6.3).

Table 6.3: Retail sales value between 1994 - 1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales Value*</td>
<td>6,035</td>
<td>6,673</td>
<td>7,264</td>
<td>7,712</td>
<td>8,060</td>
</tr>
<tr>
<td>% change (previous year)</td>
<td>14.5</td>
<td>10.5</td>
<td>8.8</td>
<td>6.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

* no data available for only food retail sales and value given is not inflation adjusted

Source: Retail Intelligence (1999)

The austerity policy followed by the government led local consumers to be very price conscious. Price is the major criterion for grocery shopping (Bourlakis and Davies 1999) and this can partly explain the rapid growth of own brands that are normally low priced, as well as the development of discount retail formats.

Moreover, the local consumer allocates a considerable proportion of his budget on food consumption, and as Table 6.4 illustrates food retail sales dominate total retail
sales, followed by housing (e.g. accommodation) and energy and transport (e.g. purchasing a car).

Table 6.4: Annual retail sales value of selected products (1995)

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Total Drachmae (billion)</th>
<th>Per Household Drachmae ‘000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>4,561</td>
<td>1,214</td>
</tr>
<tr>
<td>Beverages</td>
<td>616</td>
<td>164</td>
</tr>
<tr>
<td>Tobacco</td>
<td>608</td>
<td>162</td>
</tr>
<tr>
<td>Clothing &amp; footwear</td>
<td>1,018</td>
<td>271</td>
</tr>
<tr>
<td>Housing &amp; energy</td>
<td>2,214</td>
<td>589</td>
</tr>
<tr>
<td>Household equipment</td>
<td>1,167</td>
<td>311</td>
</tr>
<tr>
<td>Health &amp; medicine</td>
<td>769</td>
<td>205</td>
</tr>
<tr>
<td>Transport</td>
<td>2,135</td>
<td>568</td>
</tr>
<tr>
<td>Leisure</td>
<td>853</td>
<td>227</td>
</tr>
<tr>
<td>Other goods / services</td>
<td>1,873</td>
<td>499</td>
</tr>
</tbody>
</table>


The behaviour of Greek consumer varies depending on the area selected (Bourlakis and Davies 1999) as in urban areas he / she is cosmopolitan and international while in rural areas remains quite traditional. Local consumers are neither brand loyal nor store loyal, but they rather look for “value for money” products on a constant basis. Store proximity is quite an important factor as Greek consumers tend to shop close to their homes by visiting food stores at least twice per week. However, this pattern of behaviour is expected to change in the near future, as increased car ownership and the improved road infrastructure will transform the local consumer to a more mobile shopper that will favour shopping in more distant locations (Bourlakis and Davies 1999).
2.2 Economic factors

The late 1990s have been characterised by a sustained recession as the Greek government sought to reduce high inflation and public sector deficits, in an attempt to prepare the Greek economy to join the European Monetary Union.

This was more than necessary as Greece had the lowest income per head, the highest inflation and the bigger external debt amongst all European Union members (Self Service Review, Summer 1999). Therefore, an austerity economic policy plan was introduced in 1995, that in conjunction with the devaluation of the local currency in 1998, resulted to a fall in disposable incomes. The above led to a substantial improvement in the country’s economy as the current economic situation is very promising.

For example, the real gross domestic product (GDP) growth was expected to be at 3.5% in 2000, a number that exceeds the European Union average, while it is expected to be around 3% for the 2001-2003 period (Table 6.5).

Table 6.5: Major indicators of the Greek economy, 1997-2003

<table>
<thead>
<tr>
<th>Key Economic Indicators</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000 (est.)</th>
<th>2001 (est.)</th>
<th>2002 (est.)</th>
<th>2003 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP* (% change)</td>
<td>3.2</td>
<td>3.7</td>
<td>2.8</td>
<td>3.5</td>
<td>3.4</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Consumer Prices – Inflation (% change)</td>
<td>5.5</td>
<td>4.8</td>
<td>2.5</td>
<td>2.0</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Private consumption per head ($)</td>
<td>8,380</td>
<td>8,230</td>
<td>8,560</td>
<td>9,030</td>
<td>9,550</td>
<td>10,000</td>
<td>10,440</td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>10.3</td>
<td>10.0</td>
<td>10.0</td>
<td>9.8</td>
<td>9.5</td>
<td>9.5</td>
<td>9.2</td>
</tr>
<tr>
<td>Government Debt (% of GDP)</td>
<td>109.5</td>
<td>106.5</td>
<td>104.5</td>
<td>101.0</td>
<td>99.0</td>
<td>97.0</td>
<td>94.5</td>
</tr>
<tr>
<td>Inward direct investment (% of GDP)</td>
<td>0.82</td>
<td>1.08</td>
<td>1.06</td>
<td>1.10</td>
<td>1.21</td>
<td>1.18</td>
<td>1.19</td>
</tr>
</tbody>
</table>

* GDP: Gross Domestic Product
Private consumption per head is another indicator that is of special importance to retailers and as shown in Table 6.5, it is forecasted to increase over the next few years.

Apart from these indicators, some aspects of the economic environment are provided in Table 6.6. These aspects cover a wide range of issues (foreign trade, taxes, labour market) and where the last column added on the right of the table by the author identifies the potential impact of these factors upon food retailers.

**Table 6.6: Some indicators of the Greek business environment**

<table>
<thead>
<tr>
<th>1999 – 2000</th>
<th>2001 – 2003</th>
<th>Possible impact upon food retailing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy towards foreign investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The new investment agency will help to reduce bureaucratic obstacles to direct investment</td>
<td>Greece will increasingly be seen as a good location for foreign companies to launch operations in the Balkan peninsula</td>
<td>Foreign food retailers will enter Greece in order to expand to the Balkan countries</td>
</tr>
<tr>
<td><strong>Foreign trade and exchange controls</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A few procedural obstacles to free the full movement of capital, despite the liberalisation that took place in May 1994</td>
<td>Remaining procedural obstacles will disappear. Greece is expected to enter European Monetary Union, adopting the Euro as its currency</td>
<td>Joining European Monetary Union and adopting Euro will facilitate international food retailers’ expansion as monetary transaction costs (e.g. foreign currencies exchange) will disappear</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efforts to curb tax evasion will continue. Many tax-free allowances will be eliminated. Further cuts in indirect taxes will reduce inflation</td>
<td>Fiscal practice will come closer into line with the rest of the European Union. Tax evasion will remain an issue</td>
<td>Tax harmonisation leading to reduced transaction costs, will support food retailers’ expansion</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rates, although falling, will remain the highest in the European Union until shortly before Greece enters the European Monetary Union</td>
<td>Interest rates are expected to be in line with the European Monetary Union interest rates by 2001. The stock exchange is expected to become more efficient</td>
<td>Specific financing options (stock market, loan capital) that will be available to food retailers, is expected to assist food retailers’ strategies</td>
</tr>
</tbody>
</table>
**The labour market**

Real wage increases will be moderate. Increased flexibility in working practices will be negotiated

Labour costs will remain among the lowest in the European Union, but higher than in central and eastern Europe. Labour unions will remain strong.

The issue of labour costs will be a positive factor to attract international food retailers.

**Infrastructure**

Transportation activities on the Egnatia Road project (in Northern Greece) will take place as well as the ones stemming from the new Athens airport with the associated motorway links. Work on the natural gas distribution network from Russia will commence.

The extension of the Athens Metro line and the natural gas conversion of power stations will be completed. The Olympics in Athens in July 2004 will provide a spur to improve transport in the capital.

The above will cut down distribution costs as transportation will become more efficient. The local consumer is expected to become more willing to commute and out of town retail developments are expected to benefit from these projects.


Finally, Table 6.7 illustrates the importance of retailing (and wholesaling) in the domestic economy in terms of GDP and employment, and as can be seen in Table 6.7, retailing consists 26.3% of GDP and 23.4% of employment in 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP by sector (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>14.5</td>
<td>12.8</td>
<td>12.7</td>
<td>12.1</td>
</tr>
<tr>
<td>Industry</td>
<td>25.5</td>
<td>22.6</td>
<td>21.2</td>
<td>20.1</td>
</tr>
<tr>
<td>Services (e.g. tourism, banking, shipping but not retail-wholesale)</td>
<td>35</td>
<td>39</td>
<td>40</td>
<td>41.5</td>
</tr>
<tr>
<td>Retail-wholesale*</td>
<td>25</td>
<td>25.6</td>
<td>26.1</td>
<td>26.3</td>
</tr>
</tbody>
</table>

| Employment by sector (% share) | | | | |
| Agriculture | 27.3 | 22.0 | 20.8 | 20.5 |
| Industry | 27.6 | 26.0 | 23.6 | 23.2 |
| Services (e.g. tourism, banking, shipping but not retail-wholesale) | 23.1 | 28.9 | 32.2 | 32.9 |
| Retail – wholesale* | 22 | 23.1 | 23.4 | 23.4 |

* no data available for just food retail and wholesale

Source: International Monetary Fund “Country Report” (1997)
2.3 Geographical and Socio-cultural factors

Greece is a country of about 132,000 square kilometres (51,000 square miles) located in the Balkan peninsula of the Eastern Mediterranean sea. The country’s population is estimated to be 10.5 million with the average population density being approximately 76 inhabitants per square kilometre (200 per square mile).

The population is concentrated in the two major conurbations of Greater Athens and Thessaloniki, which account for a third and a tenth of the population respectively (see Table 6.8). International food retailers focus their initial expansion on these cities.

<table>
<thead>
<tr>
<th>City</th>
<th>Population (000s)</th>
<th>City</th>
<th>Population (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Athens</td>
<td>3,373</td>
<td>4. Heraklion</td>
<td>220</td>
</tr>
<tr>
<td>2. Thessaloniki</td>
<td>1,050</td>
<td>5. Larissa</td>
<td>190</td>
</tr>
<tr>
<td>3. Patra</td>
<td>320</td>
<td>6. Ioannina</td>
<td>150</td>
</tr>
</tbody>
</table>


A distinctive characteristic is the country’s topography with its mountainous nature and the large number of populated islands (about 115). These issues should be taken into consideration by retailers, especially for their logistics operations as it can be very difficult and expensive to serve stores that are located in remote islands.

On the socio-cultural level, a major characteristic is the “family tradition” as it is very common for small retail firms to be family owned. This is noticeable within large firms as well, and it is not surprising that the major Greek food multiples are still owned and managed by family members (to be discussed in Table 6.19).

Another characteristic regarding the domestic retailing and wholesaling sectors, is that Greece enjoys the highest rate of self - employment in the European Union,
something that reflects to some extent the individualistic nature of the local business culture. The relevant self-employment numbers are 72 % for the retailing sector and 38 % for the wholesaling sector, while the average numbers for the rest of the European Union are 26.6 % and 12.6 % respectively (Self Service Review, April 1997). Table 6.9 provides another set of data concerning retail employment across Europe and shows that Greece has substantially low participation rates for female workers (the second lower within the European Union) and the lower participation rate for part time workers.

Table 6.9: Retail employment structure across the European Union (1996)

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of female workers (%)</th>
<th>Share of part – time (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>58,1</td>
<td>33,3</td>
</tr>
<tr>
<td>Denmark</td>
<td>55,4</td>
<td>38</td>
</tr>
<tr>
<td>France</td>
<td>54,3</td>
<td>16,8</td>
</tr>
<tr>
<td>Germany</td>
<td>64,3</td>
<td>27</td>
</tr>
<tr>
<td>Greece</td>
<td><strong>41,6</strong></td>
<td><strong>3,3</strong></td>
</tr>
<tr>
<td>Holland</td>
<td>57,5</td>
<td>52,2</td>
</tr>
<tr>
<td>Ireland</td>
<td>47</td>
<td>16</td>
</tr>
<tr>
<td>Italy</td>
<td>37</td>
<td>6,8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>58,5</td>
<td>11,3</td>
</tr>
<tr>
<td>Portugal</td>
<td>47</td>
<td>6,4</td>
</tr>
<tr>
<td>Spain</td>
<td>50,2</td>
<td>6,4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>59,5</td>
<td>42,9</td>
</tr>
<tr>
<td>EUR – 12</td>
<td>53,3</td>
<td>22,3</td>
</tr>
</tbody>
</table>

* The provided data are estimations
Source: Self Service Review (April 1997)

It is worth mentioning that part time employment was restricted in the past by legislative measures. These were abolished during the 1990s and nowadays, most multiples make use of part time employees to a considerable extent. Thus, 40 % of the total employees work on a part time basis for the 10 largest food retail multiples (Self Service Review, Summer 2000). Apart from the above, other social trends include an increase in the number of divorces - that is still very low per ‘000 population - and an increase in the life expectancy for both males and females (Table
6.10). These need to be taken into consideration by retail firms as an increase in the number of divorces leads to an increase in the number of single households.

Single households favour the purchasing of small amounts of products in small packages that retailers must have in stock.

Table 6.10: Social indicators of the Greek environment

<table>
<thead>
<tr>
<th>Year</th>
<th>Birth rate (a)</th>
<th>Marriages (a)</th>
<th>Divorces (a)</th>
<th>Death rate (a)</th>
<th>Life expectancy at birth (a):</th>
<th>Doctors (a)</th>
<th>School enrolment (b)</th>
<th>Thefts (a)</th>
<th>Crimes (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birth rate (a)</td>
<td>10.1</td>
<td>10.0</td>
<td>10.1</td>
<td>9.8</td>
<td>9.9</td>
<td>9.7</td>
<td>9.7</td>
<td>9.7</td>
<td>9.6</td>
</tr>
<tr>
<td>Marriages (a)</td>
<td>5.8</td>
<td>6.4</td>
<td>4.7</td>
<td>6.0</td>
<td>5.4</td>
<td>6.1</td>
<td>5.9</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Divorces (a)</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Death rate (a)</td>
<td>9.3</td>
<td>9.3</td>
<td>9.5</td>
<td>9.4</td>
<td>9.6</td>
<td>9.7</td>
<td>9.6</td>
<td>9.7</td>
<td></td>
</tr>
<tr>
<td>Life expectancy at birth (a):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>74.6</td>
<td>74.6</td>
<td>74.6</td>
<td>74.9</td>
<td>75.1</td>
<td>75.0</td>
<td>75.1</td>
<td>75.2</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>79.4</td>
<td>79.7</td>
<td>79.6</td>
<td>79.8</td>
<td>79.7</td>
<td>80.2</td>
<td>80.2</td>
<td>80.3</td>
<td></td>
</tr>
<tr>
<td>Doctors (a)</td>
<td>2.8</td>
<td>1.7</td>
<td>1.7</td>
<td>3.2</td>
<td>3.4</td>
<td>3.5</td>
<td>3.6</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>School enrolment (b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td>97.0</td>
<td>100.0</td>
<td>97.0</td>
<td>98.0</td>
<td>98.0</td>
<td>100.0</td>
<td>99.0</td>
<td>99.0</td>
<td></td>
</tr>
<tr>
<td>Secondary</td>
<td>98.0</td>
<td>97.0</td>
<td>98.0</td>
<td>98.0</td>
<td>97.0</td>
<td>99.0</td>
<td>99.0</td>
<td>98.0</td>
<td></td>
</tr>
<tr>
<td>Thefts (a)</td>
<td>4.8</td>
<td>5.6</td>
<td>5.3</td>
<td>5.7</td>
<td>6.0</td>
<td>6.2</td>
<td>6.3</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>Crimes (a)</td>
<td>33.1</td>
<td>35.8</td>
<td>37.0</td>
<td>34.9</td>
<td>29.6</td>
<td>32.7</td>
<td>33.7</td>
<td>38.0</td>
<td></td>
</tr>
</tbody>
</table>

(a) = Per ‘000 population  (b) = Gross ratio, as a percentage of school age

Finally, Table 6.11 illustrates the country’s population profile ranked according to social grading. The social grade (E1/2/3) consisting of state pensioners and unskilled workers is the most dominant group as it commands more than 40 % of the total population.
Table 6.11: Population profile (age: 15 +) by social grade (1997)

<table>
<thead>
<tr>
<th>Class</th>
<th>'000s</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A</td>
<td>785</td>
<td>7.5</td>
</tr>
<tr>
<td>Class B</td>
<td>607</td>
<td>5.8</td>
</tr>
<tr>
<td>Class C1</td>
<td>1,350</td>
<td>12.9</td>
</tr>
<tr>
<td>Class C2</td>
<td>2,166</td>
<td>20.7</td>
</tr>
<tr>
<td>Class D</td>
<td>1,203</td>
<td>11.5</td>
</tr>
<tr>
<td>Class E1 / E2 / E3</td>
<td>4,343</td>
<td>41.6</td>
</tr>
</tbody>
</table>


Definitions:
A = Upper middle class (high managerial, administrative or professional)
B = Middle class (Intermediate management, administrative or professional)
C1 = Lower middle class (supervisory or clerical and junior managerial, administrative or professional)
C2 = Skilled working class (skilled manual workers)
D = Working class
E1/2/3 = Citizens at the lowest level of subsistence (State pensioners, widows, casual or lowest grade workers)

The data provided above partly explain the successful introduction of own brands and the rapid expansion of discounters across the country. Both appeal to the price conscious consumer that can be largely found in the C1, C2, D and E1/2/3 groups that account for more than 85 % of the total population.

2.4 The retail legislative environment

The issue of legislation has been proved as a major barrier to the expansion of the retail sector in Greece and the various legislative controls have made it difficult for retailers to respond effectively to changing consumer demands (Boutsouki and Bennison 1995). Some of the most prohibitive measures included limits on store’s opening hours, restrictions of the sale of specific product categories (e.g. fresh bread) to specialist shops, strictly enforced price controls on food and other convenience goods and a prohibition on the employment of part time labour (Michailidis 1992).
The above limitations fragmented the development of retailing during the 1970s and 1980s; nevertheless, new legislation was introduced in 1990 in line with the Single European Market harmonisation target. The most significant changes stemming from that legislation include (Michailidis 1992):

- The extension of opening hours from 50 to 68 hours per week and with the permission for the stores to open any time between 7 a.m. and 9 p.m., Monday to Saturday. In exclusively designated tourist areas, longer daily opening hours and Sunday opening hours are granted.
- Controls on minimum and maximum prices were removed, giving retailers much greater scope to compete on price (except for baby foods, pharmaceuticals and fruit and vegetables where retail and wholesale profit margins are still controlled).
- The removal of the restrictions on the sale of fresh bread, meat and fish other than specialist traders, allowing their sale in general food outlets for the first time.
- The removal of restrictions on the employment of part-time labour allowing the use of part-time employees, as well as the use of overtime workforce. It is noteworthy that until that time, most food multiple retailers had been employing a very limited amount of part-time employees. Further legislation was introduced in 1998 that permitted retailers to use part time employees on a minimum 10 hours per week basis for a limited time period (Self Service Review, Summer 1998). As a consequence, retailers adapted their employment policy by incorporating an increased use of part-time employees.
Another aspect of the legislation introduced in 1998, was that it provided the authority to local municipalities to decide on numerous retail-related legislative issues (e.g. granting a store licence). This led to the creation of a complex and an inflexible retail business environment, especially when local governors provided in many cases, extra bureaucratic barriers to food retail multiples (Self Service Review, Summer 1998). It is useful to mention that the issue of store planning permission became of major importance in 1995 when the Minister of Commerce imposed restrictions on the maximum size of a retail format permitted in areas located outside the major cities. This was the outcome of an intense pressure and lobbing from local small retailers to deter the entrance of the largest multiples into their territory (Bennison 1995). This legislation was based on the population of a particular geographical area / municipality and more specifically, the legislation imposed the following (Bourlakis and Davies 1999):

- A store having a maximum selling space of 600 sq. m. just on the islands of Chios, Kos and Lesvos.
- A store having a maximum selling space of 2,000 sq.m. just on the islands of Crete, Rhodes and Corfu.
- A store having a maximum selling space of 200 sq.m. on the rest of the islands and a maximum selling space of 1,000 sq.m. in municipalities with a population of less than 30,000 inhabitants.
- A store having a maximum selling space of 2,000 sq.m. in municipalities with a population between 30,000 and 100,000 inhabitants.
- No limits for store selling space in Athens, Thessaloniki and municipalities with a population over 100,000 inhabitants.
Makro and Promodès entered the market in 1991 and 1992 respectively and pursued a rapid expansion via the hypermarket format. But following the introduction of the aforementioned legislative measures, Promodès started developing the discount format (DIA) and focused its hypermarket expansion on the major cities.

3. The structure of the Greek food retail market

Bennison (1995) described the traditional structure of retailing in Greece, characterised by a high number of shops per head of population and a relatively low percentage of multiple organisations. Based on various censuses of commerce taken since 1951, it can be concluded that retail outlets were on the increase in the Greek retail market till the mid-1980s, but in subsequent years there has been a substantial decrease (Table 6.12).

Table 6.12: Retail outlets for the period 1951 to 1995

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of retail outlets</th>
<th>Number of Groceries*</th>
<th>Number of Super Markets**</th>
<th>Average size of Outlets (full - time persons employed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>81,965</td>
<td>57,211</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>104,700</td>
<td>64,181</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>135,000</td>
<td>71,820</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>160,000</td>
<td>63,680</td>
<td>428</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>185,000</td>
<td>58,090</td>
<td>635</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>184,281</td>
<td>54,362</td>
<td>996</td>
<td></td>
</tr>
<tr>
<td>1995***</td>
<td>161,000</td>
<td>43,470</td>
<td>2,250</td>
<td></td>
</tr>
</tbody>
</table>

Source: National Statistical Service of Greece (1992)

* Groceries: retail outlets (whatever the format) that sell mainly food and drink products

** Supermarkets: food retail outlets with a selling area between 400 – 2,500 sq.m.

*** Estimation based on Self Service Review Statistics as the latest national survey for retail statistics was conducted in 1988.

Table 6.13 below shows that food and drink outlets per 1,000 inhabitants have been on the decline since the late 1960s. Such decline may be largely attributed to the
growth of supermarket outlets that caused a large number of smaller food and drink retail outlets to close.

Table 6.13: Retail outlets per 1,000 inhabitants for the period 1951 to 1995

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Food / Drink</th>
<th>Non-food</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>10.8</td>
<td>7.6</td>
<td>3.2</td>
</tr>
<tr>
<td>1958</td>
<td>12.5</td>
<td>7.7</td>
<td>4.8</td>
</tr>
<tr>
<td>1969</td>
<td>15.5</td>
<td>8.2</td>
<td>7.3</td>
</tr>
<tr>
<td>1978</td>
<td>17.0</td>
<td>6.8</td>
<td>10.2</td>
</tr>
<tr>
<td>1984</td>
<td>18.7</td>
<td>6.4</td>
<td>12.3</td>
</tr>
<tr>
<td>1988</td>
<td>18.5</td>
<td>5.5</td>
<td>13.0</td>
</tr>
<tr>
<td>1995*</td>
<td>17.8</td>
<td>4.7</td>
<td>13.1</td>
</tr>
</tbody>
</table>

Source: National Statistical Service of Greece (1992)
* Estimation based on Self Service Review statistics as the latest national survey for retail statistics was conducted in 1988.

It is worth stating that supermarket growth was focused initially in the Greater Athens area that represents more than 30 % of the total population (see Bourlakis and Galanis 1993). This explains the fact that the proportion of population per supermarket in Athens is approaching the corresponding levels of France and Germany, something that is not the case for the rest of the country (see Table 6.14).

Table 6.14: Proportion of population per supermarket (1997)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population per supermarket</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>7,010</td>
</tr>
<tr>
<td>Denmark</td>
<td>5,675</td>
</tr>
<tr>
<td>Belgium</td>
<td>4,200</td>
</tr>
<tr>
<td>Germany</td>
<td>7,366</td>
</tr>
<tr>
<td>Italy</td>
<td>9,800</td>
</tr>
<tr>
<td>Greece</td>
<td>10,135</td>
</tr>
<tr>
<td>Athens</td>
<td>7,800</td>
</tr>
</tbody>
</table>

Source: European Retail Statistics (1998)

Overall, large and small supermarkets taken together accounted for 46 % of total retail sales in the Greek food retail market in 1998 (Nielsen 1998).

Table 6.15 illustrates the percentage of retail sales achieved by various formats in the Greek food retail market.
Table 6.15: Percentage of sales per store format

<table>
<thead>
<tr>
<th>Retail format</th>
<th>Percentage of retail sales per store format in the domestic food retail market (1998)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarkets</td>
<td>9 %</td>
</tr>
<tr>
<td>Large supermarkets</td>
<td>14 %</td>
</tr>
<tr>
<td>Small supermarkets</td>
<td>32 %</td>
</tr>
<tr>
<td>Small grocery shops</td>
<td>45 %</td>
</tr>
</tbody>
</table>

* no data available for store numbers per format

Source: Nielsen (1998)

The characteristics of each store format are:

- **Small grocery shops (kiosks, convenience stores, small groceries).** These are small food shops that can be self and counter service shops. They sell basic food necessities and are of a maximum sales area of 400 sq.m. They still represent the majority of food retail stores (in numbers) that operate in Greece. In recent years, numerous food retail multiples (e.g. Veropoulos, A/B Vasilopoulos, Masoutis) entered the convenience sector as they established small food retail shops. This was innovative for the local market as it happened for the first time, and where in the past, multiples were expanding via the medium and large store formats strategy.

- **Small supermarkets.** These are self - service shops, with a sales area of 400 – 1,000 sq.m. that sell mainly food and drink products. The small supermarket sector has been under intensive competition during the past years as multinational discounters (namely DIA, Lidl) expanded via this format. To be more specific, DIA started operations in June 1995. DIA operates in the soft discount retail sector and focus on selling own brands and the leading brands from each product category. In the area of hard discounting, where there is a larger scope to focus on own brands and less on branded goods, the German multinational Lidl, started
operations in the Greek food market during 1999 (Bourlakis 1999). It must be mentioned that domestic firms plan to operate discount stores as well.

- **Large supermarkets.** These are self-service shops with a sales area of 1,000 - 2,500 sq.m. and where food products account for the majority of sales. This format has a promising potential and it accounts for 14 % of total retail sales in the food retail market. Legislation introduced in 1995 restricts the hypermarket development in specific geographical areas, so a very good alternative especially for the multiples is probably via the large supermarket format strategy.

- **Hypermarkets.** These are large self-service stores with a sales area of more than 2,500 sq.m. They sell food and non-food items (food items account for the majority of sales) and these stores are becoming increasingly popular. The foreign food retailers have been heavily involved in hypermarket development and two of them (namely Makro and Promodès) led the way by opening the first hypermarkets in Athens, in the early 1990s. They were followed by A/B Vasilopoulos, a Greek company that also opened two hypermarket stores before its acquisition in 1992 by the Belgian Delhaize Le Lion group (European Retail 1994).

- **Petrol stations.** This format was introduced in 1999 and it was the outcome of an alliance between a major food multiple retailer (namely Veropoulo) and an oil company (namely Texaco). The rest of the food retailers and the petrol companies operating in Greece are expected to follow suit (Self Service Review, Summer 1998).
From the previous analysis regarding store formats, it can be observed that retail multinationals introduced new store formats to the domestic market (e.g. hypermarket, discount), with domestic firms following suit. Additionally, the advent of retail multinationals gave the impetus for an aggressive expansion within the country by the large domestic multiples and these firms were also involved in numerous acquisitions. More specifically, there were approximately 25 acquisitions between 1993 and 1994 (Boutsouki et al 1995), with the largest domestic companies being especially active in buying up smaller ones (Table 6.16). It is worth noting that prior to 1993, the large domestic companies focused their expansion almost entirely on organic growth. Nevertheless, the creation of the leading buying group (KEAP) in Greek food retailing between Marinopoulos and Promodès in 1994, forced domestic food multiple retailers to revise their strategy and to start acquiring smaller retailers in order to strengthen their position (e.g. their bargaining power against suppliers) in the sector.

Table 6.16: Major acquisitions in Greek food multiple retailing (1993 - 1994)

<table>
<thead>
<tr>
<th>Acquiring Company</th>
<th>Acquired Company</th>
<th>Year</th>
<th>Acquiring Company</th>
<th>Acquired Company</th>
<th>Year</th>
</tr>
</thead>
</table>

Source: Ependytis (1995)
From 1995 onwards, large multiple retailers opted to expand via organic growth (see Table 6.17), while at the same time small and medium sized retailers moved towards the formation of buying groups.

**Table 6.17: New store establishments and store acquisitions for food multiple retailers between 1993 and 1998**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New store establishments</td>
<td>61</td>
<td>60</td>
<td>127</td>
<td>158</td>
<td>165</td>
<td>208</td>
</tr>
<tr>
<td>Store acquisitions</td>
<td>93</td>
<td>72</td>
<td>28</td>
<td>21</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Self Service Review (Summer 1999)

In 1999 and 2000, three acquisitions took place that are worth describing.

The first one involved Masoutis, a major Greek food retail multiple that acquired Biskas in 1999, while in 2000, Carrefour / Promodès acquired 50 % of Marinopoulos share capital, creating the leading food multiple retailer (based on sales) in the local market. Marinopoulos has been co-operating with Promodès since 1994, when both firms formed a joint buying group and acquired 20 % of equity of each other (for the above, see Table 6.19). During 2000, A/B Vasilopoulos (a subsidiary of the Belgian retailer Delhaize Le Lion) acquired Trofo, a major Greek food multiple retailer and subsequently, it became the second largest food multiple retailer (based on sales) in the domestic market.

The top 10 food multiple retailers (based on sales) are presented in Table 6.18, whilst in Table 6.19, the author provides their market image based on each multiple’s characteristics and growth strategy profile. Table 6.19 includes the profile of Makro and Marks and Spencer as well, although these firms are engaged into the wholesale and the department store retailing sectors respectively. The rationale behind their inclusion in Table 6.19 is that both firms enjoy large sales stemming from food products.
Table 6.18: The major food retailers ranked by sales in 1999

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrefour / Marinopoulos Group*</td>
<td>397</td>
<td>283</td>
</tr>
<tr>
<td>A/B Vasilopoulos**</td>
<td>246</td>
<td>104</td>
</tr>
<tr>
<td>Sklavenitis</td>
<td>180</td>
<td>33</td>
</tr>
<tr>
<td>Veropoulos Group</td>
<td>156</td>
<td>161</td>
</tr>
<tr>
<td>Makro***</td>
<td>124</td>
<td>5</td>
</tr>
<tr>
<td>Masoutis</td>
<td>96.5</td>
<td>112</td>
</tr>
<tr>
<td>Atlantic Group</td>
<td>80</td>
<td>114</td>
</tr>
<tr>
<td>Metro</td>
<td>80</td>
<td>50</td>
</tr>
<tr>
<td>Pente</td>
<td>64.5</td>
<td>72</td>
</tr>
<tr>
<td>Arvanitidis Group</td>
<td>40</td>
<td>87</td>
</tr>
</tbody>
</table>

* The data provided account for both companies following their joint-venture.

** A/B Vasilopoulos acquired Trofo at the end of 2000 becoming the second largest food multiple retailer. Data for A/B Vasilopoulos account for both companies.

*** Makro is included in this table although it is neither retailer nor a multiple. In Greece, Makro attracts numerous small business owners and other professionals that make their family shopping in its premises, so Makro operates as a retailer in that perspective. Makro is expected to expand rapidly in the near future and therefore, to have more than 10 stores (definition of a multiple).

Source: Self Service Review (Summer 2000)

Table 6.19: Profile of the leading food multiple retailers in Greece

<table>
<thead>
<tr>
<th>Company</th>
<th>Characteristics</th>
<th>Growth Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrefour / Marinopoulos Group</td>
<td>Price and quality oriented. The company sells a very large number of own brands. It was established in 1992 in the Greek food market (Promodês) and in 1994, Promodês entered a joint buying group (KEAP) alongside Marinopoulos. It acquired 50% of Marinopoulos in 2000 and formed the largest food retailer.</td>
<td>A subsidiary of the French retailer Carrefour. It operates via hypermarkets, supermarkets and discount stores (namely DIA). It plans to develop new stores inside and outside Greece (the Balkans, Cyprus). It is not clear as yet on whether the new group will adopt Marinopoulos’ non-food existing retail activities (cosmetics, clothing). Marinopoulos also co-operates with Praktiker in the D.I.Y. sector and has got a franchise agreement with Marks and Spencer (Marinopoulos Group manages M&amp;S stores in Greece).</td>
</tr>
<tr>
<td>A/B Vasilopoulos</td>
<td>Top quality and reasonably priced products, extensive product range and a good own brand development. It was the first food multiple retail company that was listed in Athens stock</td>
<td>The Belgian Delhaize Le Lion group took a controlling interest in 1992. It acquired Trofo in 2000 and became the second largest food retailer in the domestic market. It operates hypermarkets, supermarkets and convenience stores and plans to</td>
</tr>
<tr>
<td>Company</td>
<td>Description</td>
<td>Strategy</td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Sklavenitis</td>
<td>“Value for money” oriented, very good own brand development, private Greek company established in 1951 and owned by Sklavenitis family.</td>
<td>Its stores (hypermarkets, supermarkets) are exclusively located in the Greater Athens area. It has very good relationships with suppliers and has achieved a very good financial performance in recent years.</td>
</tr>
<tr>
<td>Veropoulos Group</td>
<td>Price oriented, very good own brand development, private Greek company established in 1973 and owned by Veropoulos family.</td>
<td>Co-operation with Spar on know-how matters especially in own labels. It is the first Greek food retailer that internationalised (to Fyrom) and it has recently developed home delivery service. Operates via hyper, supermarkets and convenience stores and plans to sell via the internet as well.</td>
</tr>
<tr>
<td>Makro Hellas</td>
<td>Price-oriented, medium own brand development. Acquired in 1998 by Metro, the German retailer.</td>
<td>A wholesaler that operates 5 cash and carry hypermarkets and plans to expand rapidly in the years to come. It sells both food and non-food products and has been very successful so far. It plans to expand to Bulgaria in the forthcoming years.</td>
</tr>
<tr>
<td>Masoutis</td>
<td>Price oriented with limited own brand development. A private Greek company that is owned by Masoutis family.</td>
<td>It operates via supermarkets and a few hypermarkets in Northern Greece. It acquired Biskas, a major multiple in 1999.</td>
</tr>
<tr>
<td>Atlantic Group</td>
<td>Price oriented with good own brand development. Private Greek company that owns Farma Tetras, Christopoulos and Kipseli. It is owned by Apostolou family.</td>
<td>Atlantic more than doubled its number of stores during 1994 through acquisitions. Atlantic operates via hypermarkets and supermarkets and it has developed wholesaling – cash and carry activities. It has formed the 3rd largest buying group (namely Kipseli) and entered the domestic stock exchange in 2000. It plans to sell via the internet.</td>
</tr>
<tr>
<td>Metro</td>
<td>Price oriented and with a sufficient own brand development. A private Greek company that is owned by Panteliadis family</td>
<td>It operates via supermarkets and it has also developed wholesaling - cash and carry activities.</td>
</tr>
<tr>
<td>Company</td>
<td>Description</td>
<td>Additional Information</td>
</tr>
<tr>
<td>--------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Pente</td>
<td>Price oriented but with a limited own brand development. A private Greek company that is owned by two Greek families.</td>
<td>It operates via supermarkets and aims to expand across the country and also to increase its own brand portfolio in the years to come.</td>
</tr>
<tr>
<td>Arvanitidis Group</td>
<td>Price oriented with very limited own brand development. A private Greek company that is owned by Arvanitidis family.</td>
<td>It operates via supermarkets and very few hypermarkets. Its stores are in Northern Greece where it has expanded rapidly over the past years.</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>A British department store retailer that sells only own brand products.</td>
<td>It has a franchise agreement with Marinopoulos Group and the company has expanded via more than 30 stores across the country. It sells various food and non-food products and it achieved sales of 20 billion drachmae (1999). The company aims to expand its business within Marinopoulos retail formats, so M&amp;S food products have already been placed into Marinopoulos hypermarkets.</td>
</tr>
</tbody>
</table>

4. Other major developments that occurred over the 1990s in the Greek food multiple retail sector

In order to have a better view of the competitive environment prevailing in the Greek food multiple retail market, it is necessary to analyse some other related developments that occurred during the last decade.

4.1. The decreasing importance of the wholesaling sector

During the 1960s and the 1970s, wholesaling in Greece played a significant role considering the fact that the majority of the consumer goods sold by retailers were supplied from wholesalers (Papavasiliou 1988). From the late 1970s onwards, the wholesaling sector started losing its importance in the food supply chain.
In particular, between 1978 and 1988, there has been a reduction in the number of food wholesale companies, whilst a substantial decrease also occurred between 1988 and 1998 (see Table 6.20).

Table 6.20: Food wholesale and retail companies between 1978 and 1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of food wholesale companies</td>
<td>6,958</td>
<td>6,844</td>
<td>4,200</td>
</tr>
<tr>
<td>Number of food retail companies</td>
<td>62,003</td>
<td>53,560</td>
<td>39,400</td>
</tr>
</tbody>
</table>

Source: Self Service Review (Summer 1999)

The substantial decrease in the number of wholesale companies between 1988 and 1998 can be attributed to the following reasons:

- Food multiple retailers strengthened considerably their power over the last few years and have gained sales and market share at the expense of smaller retail firms that are the major clients of wholesalers. Moreover, the multiples have built their own warehouses, so they are sourcing products directly from suppliers.

- The introduction of large cash and carry outlets led by the subsidiary of the German company Metro (named Makro in the local market). Five units, each of them larger than 7,000 square metres, are currently in operation and in addition to that, few domestic multiples have also developed cash and carry operations as well. These are Metro, ENA (business unit of the Greek retailer Trofo that was acquired recently by A/B Vasilopoulos) and Atlantic. These four companies (Makro, ENA, Metro and Atlantic) account for sales of 120 billion drachmae (1998) from a total wholesaling market worth of 250 billion drachmae (Self Service Review, Autumn 1999).
The rapid development of discounting that has become a primary or supplementary product source for small retailers, by replacing wholesalers in that perspective, and finally

- the creation of numerous buying groups (see next section) that source products straight from suppliers under very competitive prices and therefore, their members do not need wholesalers' support (Self Service Review, Summer 1997).

### 4.2 The formation of buying groups and alliances

Another recent development is the formation of buying groups between food retail firms (Bourlakis 1999). The first buying group (KEAP) was formed in 1994 by Marinopoulos and Promodès and following that event, numerous groups were created by small (having between 1 to 3 stores in their portfolio), medium sized retailers (having between 3 to 10 stores in their portfolio) and food multiples. The major buying groups are KEAP, ELOMAS, Kipseli and Asteras (see Table 6.21) but apart from these groups, other alliances were also formed in order to achieve synergies in other business areas. For example, an alliance called AXON, was formed between six food retail multiples (e.g. Alfa – Delta, Dio Alfa, Galaxias, Biskas, Kantzas, Gountsidis) in response to the entrance of foreign discount chains. This alliance opts to develop discount stores via a number of methods including franchising. Franchising has become very popular lately in the food discount sector, where DIA was the pioneering firm of that method (Self Service Review, Summer 1999).
Table 6.21: The major buying groups in the Greek food retail market

<table>
<thead>
<tr>
<th>Group</th>
<th>Group Sales (billion Drachmae, 1999)</th>
<th>Total number of stores (1999)</th>
<th>Year the group was formed</th>
<th>Participating food retail firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. KEAP</td>
<td>397</td>
<td>283</td>
<td>1994</td>
<td>Marinopoulos, Carrefour / Promodès (merged and became one company in 2000)</td>
</tr>
<tr>
<td>2. ELOMAS – ELOMES</td>
<td>247</td>
<td>395</td>
<td>1995</td>
<td>Large, medium and small sized food retailers</td>
</tr>
<tr>
<td>4. Asteras</td>
<td>145</td>
<td>270</td>
<td>1996</td>
<td>Small and medium sized food retailers</td>
</tr>
<tr>
<td>5. Pekas*</td>
<td>130</td>
<td>861</td>
<td>N/A</td>
<td>Consumer co-operatives</td>
</tr>
<tr>
<td>6. ELETA</td>
<td>128</td>
<td>334</td>
<td>1997</td>
<td>Medium sized food retailers</td>
</tr>
<tr>
<td>7. ASPIDA</td>
<td>93</td>
<td>231</td>
<td>1996</td>
<td>Small and medium sized food retailers</td>
</tr>
</tbody>
</table>

* Pekas represents the major consumer co-operative group. Overall, individual food retail co-operatives are of minor importance in terms of sales in Greek food retailing.

Source: Self Service Review (Summer 2000)

4.3 Logistics - supply chain management

The suppliers were traditionally responsible for the delivery of the products to food retailer’s stores in the Greek retail market. However, in the past years, food multiple retailers became personally responsible for that delivery as they developed their own warehousing and transportation facilities (Bourlakis et al 1996). More specifically, large warehouses were built initially in the Greater Athens area, at a latter stage in Thessaloniki and in other areas by both domestic and international food multiple retailers. The multinational retailers were the ones that developed central warehouses initially. Retailers also developed their transportation infrastructure by introducing their own fleets, and they externalised that function in certain product categories (e.g. frozen goods). Nevertheless, the use of third party companies has been very limited due to the small size of third party firms that can not accommodate
to the full the needs of a multiple retailer. The local legislation has also been a barrier as it has been quite restrictive towards third party logistics firms’ development\(^7\). It is worth mentioning that logistics gained popularity in the food channel after the formation of ECR Hellas (Efficient Consumer Response) that took place in 1995, with its main objective being the support of both manufacturers and retailers towards increased logistics efficiency (Self Service Review, March 1998).

4.4. Information technology – logistics related information technology applications\(^8\)

Information technology became an important issue in Greek food multiple retailing during the past decade and as can be noticed in Table 6.22, a major logistics-related information technology application, scanning, was introduced in 1992.

It is worth mentioning that multinational firms (Makro, Promodès and A/B Vasilopoulos) were the ones that initially implemented scanning in the Greek food multiple retail market, but nowadays, most multiples aim to introduce scanning into their stores.

\(^7\) These issues are fully discussed in Chapter 8.
\(^8\) Latest data about logistics related information technology practices are given in Chapter 8.
Table 6.22: Number of EAN scanning stores (units) across the European Union

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>N/A</td>
<td>115</td>
<td>648</td>
<td>1147</td>
<td>2250</td>
<td>3000</td>
<td>3500</td>
</tr>
<tr>
<td>Denmark</td>
<td>N/A</td>
<td>14</td>
<td>530</td>
<td>1300</td>
<td>1800</td>
<td>2000</td>
<td>2659</td>
</tr>
<tr>
<td>France</td>
<td>2</td>
<td>420</td>
<td>3471</td>
<td>6650</td>
<td>10000</td>
<td>15000</td>
<td>20000</td>
</tr>
<tr>
<td>Germany</td>
<td>23</td>
<td>290</td>
<td>2252</td>
<td>7260</td>
<td>9773</td>
<td>12187</td>
<td>14900</td>
</tr>
<tr>
<td>Greece</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>16</td>
<td>37</td>
</tr>
<tr>
<td>Holland</td>
<td>1</td>
<td>137</td>
<td>740</td>
<td>1100</td>
<td>1750</td>
<td>2400</td>
<td>3000</td>
</tr>
<tr>
<td>Ireland</td>
<td>N/A</td>
<td>N/A</td>
<td>30</td>
<td>101</td>
<td>169</td>
<td>203</td>
<td>282</td>
</tr>
<tr>
<td>Italy</td>
<td>9</td>
<td>20</td>
<td>1250</td>
<td>3690</td>
<td>5500</td>
<td>6100</td>
<td>6800</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>N/A</td>
<td>N/A</td>
<td>18</td>
<td>20</td>
<td>Included under Belgium</td>
<td>Included under Belgium</td>
<td>Included under Belgium</td>
</tr>
<tr>
<td>Portugal</td>
<td>N/A</td>
<td>N/A</td>
<td>83</td>
<td>269</td>
<td>N/A</td>
<td>4000</td>
<td>4400</td>
</tr>
<tr>
<td>Spain</td>
<td>N/A</td>
<td>36</td>
<td>912</td>
<td>5039</td>
<td>8180</td>
<td>8953</td>
<td>11505</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7</td>
<td>160</td>
<td>2792</td>
<td>6043</td>
<td>9000</td>
<td>16142</td>
<td>18000</td>
</tr>
<tr>
<td>EUR - 12</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>80081</td>
<td>98953</td>
</tr>
</tbody>
</table>

* N/A means that there are no data available

Source: European Commission (1997b)

Over the past five years, food multiple retailers started introducing other logistics information technology applications such as EDI, Continuous Replenishment Planning and Cross Docking (Self Service Review, March 1998), with the multinationals being at the forefront of such activities. Overall, logistics related information technology applications are of rising importance within the Greek food multiple retail sector.

4.5 Own brands, customer loyalty cards and non-store selling

Own brand sales were limited till the early 1990s as the local food multiple retailers had a modest own brand portfolio. In the post multinational entry era that started in 1991 where multinational food retailers introduced a big range of own brands, domestic multiple retailers responded by expanding their own range as well.
In a survey conducted by the Self Service Review amongst Greek consumers, it was found that the prospects of own brands are very promising, as the price seems to be the dominant criterion for purchasing an own brand product (Self Service Review, July – August 2000).

Another development that occurred during the past few years is the introduction of customer loyalty cards by the food retail multiples. Loyalty cards were introduced in 1996 by a multinational firm (namely A/B Vasilopoulos), and nowadays, loyalty cards are developed by domestic food multiple retailers as well (e.g. Atlantic) (Self Service Review, Summer 1999). It should be said however, that it is highly questionable whether domestic retailers have the appropriate facilities (for example, software packages) and experience to manage properly the plethora of information that stems from these loyalty cards.

Finally, the home delivery service was introduced in 1999 by the major food multiples (e.g. Veropoulos, A/B Vasilopoulos) and these firms (and Atlantic) have also considered selling their products via the internet (Self Service Review, Summer 2000).

4.6. The evolution of the suppliers - retailers relationships during the 1990s

The arrival of Promodés in the Greek retail market in 1992 and the formation of the KEAP buying group consisting of Marinopoulos and Promodès in 1994, led the deterioration of the relationships between suppliers and retailers (Bourlakis 1995; Bourlakis et al 1996).

It is worth stressing that KEAP initially, and the other multiples at a latter stage, demanded more favourable financial terms from their suppliers, although the food
multiples have been enjoying very good financial terms from these suppliers (Bourlakis 1995). In 1995, the Greek Association of Manufacturers of Branded Consumer Goods proposed to the retailers the introduction of a code of ethics with the aim to promote the development of sound trade and market conditions.

The proposal was turned down by the association of Greek Supermarkets (Self Service Review, April 1995) and this rejection led to an intensity in the suppliers – retailers relationships. An intervention by the Ministry of Commerce in 1997 looked unavoidable, especially when the Ministry of Commerce is said to have received numerous complaints from suppliers noting that they simply can not satisfy multiple retailers’ financial demands (Self Service Review, Summer 1997).

In 1998, the Ministry of Commerce implemented a new regulatory regime obliging both suppliers and retailers to inform the authorities on issues related to financial discounts, in store product promotions and product pricing schemes (Law 6/98) (Self Service Review, Summer 1998). The newly introduced legal framework was a good step towards the improvement of the suppliers – retailers relationships and the latter cause was also helped to succeed by the formation of ECR (Efficient Consumer Response) Hellas. ECR Hellas was formed in 1995 with the aim to bring suppliers and retailers together by identifying common areas for mutually beneficial cost reduction across the supply chain (Self Service Review, March 1998).

Nowadays, there is a possibility for a new deterioration of this relationship, as Carrefour has already achieved better financial terms from suppliers compared to other multiples following its joint venture with Marinopoulos (Self Service Review, July - August 2000).
4.7. Shopping centres and out of town development

Another issue that has become popular in recent years, is out of town development, largely supported by the latest improvements in the national road network.

In the Greater Athens area and in the Thessaloniki area, retail parks are developed whilst other major towns (e.g. Patra, Heraklio, Larissa) are expected to establish the out of town development as well. Out of town development is welcomed by large format retailers and in particular by Carrefour that favours this form of development (Bourlakis and Davies 1999). The entrance of Carrefour will accelerate the shopping centre development as well, and will intensify competition among food multiple retailers in Greece (see Table 6.23).

Table 6.23: Major shopping centres in Greece (covering an area of over 5,000 sq.m.)

<table>
<thead>
<tr>
<th>City</th>
<th>Shopping Centre’s Name</th>
<th>Opened</th>
<th>Square Meters</th>
<th>Anchor Tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Athens</td>
<td>Sanyo – Continent</td>
<td>1999</td>
<td>11,500</td>
<td>Continent (Carrefour / Promodès)</td>
</tr>
<tr>
<td>Thessaloniki</td>
<td>Continent Thessaloniki</td>
<td>1997</td>
<td>22,000</td>
<td>Continent (Carrefour / Promodès)</td>
</tr>
<tr>
<td>Athens</td>
<td>City Plaza</td>
<td>1996</td>
<td>20,000</td>
<td>Marinopoulos</td>
</tr>
<tr>
<td>Athens</td>
<td>Continent</td>
<td>1994</td>
<td>20,000</td>
<td>Continent (Carrefour / Promodès)</td>
</tr>
</tbody>
</table>

Source: Bourlakis and Davies (1999)

Overall, the Greek retail market provides numerous opportunities for both shopping centre and out of town developers, and food multiple retailers are expected to capitalise on this potential (Bourlakis and Davies 1999).

4.8 Market concentration

Between 1990 and 1999, the top 10 food retail multiples more than tripled their market share in the food retail market (see Table 6.24).
Table 6.24: The market share of the top 10 food multiples in the food retail market

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of sales of the top 10 food multiple retailers (billion drachmae)</td>
<td>174.83</td>
<td>239</td>
<td>657</td>
<td>1,100</td>
<td>1,464</td>
</tr>
<tr>
<td>Total value of sales in the food retail market (billion drachmae)*</td>
<td>941</td>
<td>995.7</td>
<td>1,500</td>
<td>1,848</td>
<td>2,012</td>
</tr>
<tr>
<td>Market concentration of the top 10 food multiple retailers (%)</td>
<td>18.5%</td>
<td>24%</td>
<td>43.8%</td>
<td>59%</td>
<td>72%</td>
</tr>
</tbody>
</table>

* The above market includes the sales of food and drink products in retail stores.


It is the author’s view that the inter-temporal increase in market concentration observed in Table 6.24 is the outcome of the entry of international food retailers in Greece. There were two waves of foreign entry: Promodès, Makro and Delhaize Le Lion entered initially the market in the beginning of the 1990s, whilst Lidl and Carrefour expanded in the Greek market in the late 1990s. In the early 1990s, domestic multiples responded to the first wave of foreign entrants by expanding rapidly in the local market. The expansion of the domestic retail multiples in order to thwart foreign competition and to benefit from size related economies of scale, was largely assisted by the acquisitions and the mergers that took place in the local market till the mid-1990s. On the other hand, smaller retailers responded to the threat posed by multinational retail firms by forming joint buying groups.

During the late 1990s, two multinational food multiples namely Carrefour and Delhaize Le Lion – A/B Vasilopoulos acquired two major local food multiples, that they were Marinopoulos and Trofo respectively.

The above can partially explain the overall increase in market concentration, and it is worth pointing out that for the first time in the Greek retail history, the local food multiple retail sector is dominated by multinational companies.
5. Conclusions

In this chapter, the author provided an analysis of the Greek food retail environment where specific elements of that environment were discussed. The structure of the Greek food retail market was traditionally dominated by small scale domestic firms; but in the space of less than a decade, domestic and international multiples have become the major players in the local market. Apart from the above, numerous developments took place for the first time in the Greek food scene over the past decade and these developments were presented in a separate section. It was shown that most of the changes were the outcome of, and they were enhanced by, the advent of retail multinationals in Greece. The impact of retail internationalisation on this small but promising market has been examined in the past (see for example Bourlakis et al 1996; Boutsouki and Bennison 1997). These researchers stressed specific issues that were the outcome of this process of retail change, such as own brands’ development, new retail formats, the formation of buying groups and the increase of retail power over suppliers. However, the research was not based on an international business theoretical framework. Therefore, the author will examine the impact of the retail internationalisation process upon the Greek food multiple retail sector via the use of the eclectic paradigm, with the aim to provide a better understanding of the aforementioned process of change. Additionally, none of the aforementioned researchers has identified the impact upon the local logistics operations and strategies caused by retail internationalisation and foreign retail entry.
It is worth noting that most researchers in the retail internationalisation field have neglected various aspects of retail internationalisation in connection to logistics, as it was stressed in Chapter 5. In this chapter, the author clearly demonstrated that the advent of multinationals initiated logistics-related activities, as foreign firms were the ones that initially implemented logistics-related practices. Greek retail firms followed suit, and it seems apparent that logistics has been gaining importance in retail operations over the past years in the domestic market.

Therefore, the Greek food multiple retail sector can be an ideal “laboratory” to investigate not only the impact of retail internationalisation on host country’s logistics practices, but also a range of logistics-related issues such as retailers’ logistics strategy and logistics information technology, amongst others.

In an attempt to examine the above, the author will apply specific theories from the international business and the firm strategy literature, such as the transaction costs analysis, the network theory and the emergent / deliberate strategic approach.

To conclude, the present chapter introduced various structural supply related characteristics of the Greek food multiple retail sector. In the course of their presentation, the author identified research areas that merit separate investigation and therefore, will form a major part of the empirical research in the chapters to come.
Chapter 7: Research methodology

1. Introduction

The starting point for any research is the identification of those theories or the relevant set of explanatory concepts essential to define the research problem.

Silverman (1994) argues that the theories provide the impetus for research. The author of this thesis discussed in a critical manner in the previous chapters, the specific international business and business strategy theories to be investigated in the Greek food multiple retail sector. The empirical relevance of the theoretical literature will be tested via the use of seventeen research propositions.

Another issue that will be addressed in this chapter, is the methodology used or (Silverman 1994, p.2):

"The general approach to studying a research topic. It establishes how one will go about studying any phenomenon".

In the current empirical research, the case study methodology is applied, and like theories, methodologies can not be either true or false, but only more or less beneficial to the examination of the issue in hand.

The final sections of this chapter provide a discussion about the methods used for data collection and data analysis, and the problems that the researcher encountered in conducting the empirical research. The data collection methods are specific research techniques that can be quantitative (e.g. factor analysis) and qualitative (e.g. interviews) in nature, and are (Silverman 1994, p.2):
“More or less useful, depending on their fit with the theories and methodologies being used, the hypothesis / propositions being tested and / or the research topic that is selected”.

In the data analysis section, the author will illustrate the method followed for examining the collected data. All the above are depicted on Table 7.1 that gives an outline of most issues that are covered in this chapter.

Table 7.1: Basic concepts in research

<table>
<thead>
<tr>
<th>Concept</th>
<th>Meaning</th>
<th>Relevance</th>
<th>Current Thesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Theory</td>
<td>A set of explanatory concepts</td>
<td>Usefulness</td>
<td>Theories: Transaction costs analysis, Eclectic paradigm, Emergent / Deliberate strategy</td>
</tr>
<tr>
<td>2. Hypotheses / Props</td>
<td>A testable proposition</td>
<td>Validity</td>
<td>17 propositions</td>
</tr>
<tr>
<td>3. Methodology</td>
<td>A general approach to studying research topics</td>
<td>Usefulness</td>
<td>Qualitative Case Study Research</td>
</tr>
<tr>
<td>4. Data Collection Method</td>
<td>A specific research technique</td>
<td>Good fit with theory, propositions and methodology</td>
<td>In - depth interviews</td>
</tr>
<tr>
<td>5. Data analysis</td>
<td>A specific technique for data analysis</td>
<td>Good fit with theory, propositions, methodology and data collection method</td>
<td>Thematic analysis under two categories (domestic / multinational retailers) and one subcategory, based on the type of format followed by retailers</td>
</tr>
</tbody>
</table>

Source: Silverman (1994) for the first three columns

2. Theory and propositions

In this thesis, the author examined various theories that were discussed in relevance to retail logistics. Having that objective, the empirical study was based on 5 theoretical themes and on issues such as: logistics strategy and logistics practices, information
technology and logistics, retail logistics network, the eclectic paradigm and the transaction costs theory. Subsequently, specific research topics were developed around these themes that were investigated during the interviews. Moreover, the author’s research propositions were put on test based on the interviewees’ responses (see Table 7.2).

It is noteworthy that the topics were examined for both multinational and domestic firms that operate in the Greek food multiple retail sector. This was very useful as differences (and similarities) between these two categories may be uncovered, as well as the possible influences stemming from the multinational activity in the local market upon the domestic firms.

Table 7.2: Themes, research topics and research propositions

<table>
<thead>
<tr>
<th>Themes</th>
<th>Research topics</th>
<th>Research propositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Logistics Strategy &amp; Logistics practices</td>
<td>1. Identify the importance of logistics for both multinational and domestic food multiple retailers and examine whether they apply the Strategic Logistics approach or the Logistics Strategy approach</td>
<td>1. Logistics is of primary importance within a food multiple retailer’s strategy</td>
</tr>
<tr>
<td></td>
<td>2. Examine the importance of warehousing for the food multiple retailer’s logistics strategy</td>
<td>2. Warehousing is the starting point for a food multiple retailer’s logistics strategy during domestic and international expansion</td>
</tr>
<tr>
<td></td>
<td>3. Examine whether the logistics strategy that was planned at the retailer’s headquarters, for transportation and warehousing operations, is the strategy that was actually implemented at the end</td>
<td>3. The logistics strategy that was planned at the food multiple retailers’ headquarters, for transportation and warehousing operations, is the strategy actually implemented.</td>
</tr>
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<td></td>
<td>4. Examine whether food multiple retailers follow a “one</td>
<td>4. Food multiple retailers implement only an one</td>
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</table>

243
<table>
<thead>
<tr>
<th>2. Information Technology &amp; Logistics</th>
<th>5. Examine if the information technology strategy leads or follows the logistics strategy adopted in a retailer’s strategic planning</th>
<th>5. The information technology strategy follows the logistics strategy in a food multiple retailer’s strategic planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Examine if the logistics information technology systems contribute towards the reduction of logistics related transaction costs</td>
<td>6. Logistics information technology systems are the main factor towards the reduction of logistics related transaction costs</td>
<td></td>
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<tr>
<td>7. Examine if the logistics information technology systems play a primary facilitating role for the retailer’s domestic and international expansion</td>
<td>7. Logistics information technology systems are the prime facilitator for the retailer’s domestic and international expansion</td>
<td></td>
</tr>
<tr>
<td>3. Retail Logistics Network</td>
<td>8. Examine if the co-operative approach (in the strategic retail network) between the retailer (network controller) and third party logistics companies (network members) can provide better results to the retailer</td>
<td>8. Managers from food multiple retailers estimate that a co-operative approach with third party logistics companies is beneficial to the retailer (e.g. provides increased retail efficiency, lower retail costs)</td>
</tr>
<tr>
<td></td>
<td>9. Identify the importance of the logistics information technology systems, for the effective communication between the food multiple retailers and the third party logistics companies.</td>
<td>9. Logistics information technology systems are the prime contributing factor for an effective communication between the food multiple retailers and the third party logistics companies</td>
</tr>
<tr>
<td></td>
<td>10. Examine if the successful co-operation between a food multiple retailer and a third party logistics company, can lead to a further development of this co-operation (e.g. the renewal of contract)</td>
<td>10. The successful co-operation between a food multiple retailer and a third party logistics company leads to a further development of this co-operation (e.g. a new contract) between these</td>
</tr>
<tr>
<td>Part</td>
<td>Description</td>
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</tr>
<tr>
<td>4. The Eclectic Paradigm</td>
<td>11. Identify the importance of the ownership advantage (and its associated factors) within the eclectic paradigm, for retailers that operate in the Greek food multiple retail sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>11. The ownership advantage (Factors: Own brands, experience on a certain store format, management capabilities, market image), is the most important element within the eclectic paradigm for retailers that operate in the Greek food multiple retail sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12. Identify the importance of the location advantage (and its associated factors) within the eclectic paradigm, for retailers that operate in the Greek food multiple retail sector</td>
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</tr>
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<td></td>
<td>12. The location advantage (Host country’s factors: The host environment, the host infrastructure, the provided investment incentives, the availability of locations for new stores and the availability of locations for warehouses), is the most important element in the eclectic paradigm for retailers that operate in the Greek food multiple retail sector</td>
<td></td>
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<tr>
<td></td>
<td>13. Identify the importance of the internalisation advantage (and its associated factors) within the eclectic paradigm, for retailers that operate in the Greek food multiple retail sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13. The internalisation advantage (Factors: Expertise within logistics, logistics information technology systems expertise), is the most important element in the eclectic paradigm for retailers that operate in the Greek food multiple retail sector</td>
<td></td>
</tr>
<tr>
<td>5. Transaction Costs Analysis</td>
<td>14. Examine if environmental uncertainty (e.g. economic, regulatory, political) is a factor that leads a food multiple retailer to internalise the transportation and warehousing operations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14. Environmental uncertainty favours the internalisation of a food multiple retailer’s transportation and warehousing operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>15. Identify if asset specificity is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>15. The larger the specific amount of an asset (e.g. trucks, warehouses) that is required for a retailer’s transportation and</td>
<td></td>
</tr>
</tbody>
</table>
warehousing operations, the larger will be the tendency for the retailer to internalise such operations

| 16. Identify if frequency is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations | 16. The high frequency of transactions that occurs during the use of transportation and warehousing functions leads food multiple retailers to favour the internalisation of these functions |
| 17. Examine if logistics information technology systems are the major factor for the monitoring of third party logistics companies’ opportunism, when a food multiple retailer decides to externalise its transportation and warehousing operations | 17. Logistics information technology systems have the major role for monitoring the opportunistic behaviour of the third party logistics companies, if a food multiple retailer opts to externalise its transportation and warehousing operations |

Having discussed about the themes, the research topics and the relevant propositions, a brief examination of the major characteristics of qualitative and quantitative research will take place in the following section.

3. Qualitative versus quantitative research

There have been many attempts to provide a clear definition of qualitative research in the social sciences, and to determine whether or not it can or it should be distinguished from quantitative research (see for example, Burgess 1984; Bryman 1988; Silverman 1994).

According to Mason (1996, p.4), qualitative research is:
"Grounded in a philosophical position which is broadly "interpretivist" in the sense that it is concerned with how the social world is interpreted, understood, experienced or produced. Whilst different versions of qualitative research might understand or approach these elements in different ways (for example, focusing on social meanings, or interpretations, or practices, or discourses, or processes, or constructions), all will see at least some of these, as meaningful elements in a complex - possibly multi-layered - social world".

Moreover, qualitative research is (Mason 1996, p.4):

"Based on methods of data generation which are flexible and sensitive to the social context in which data are produced (rather than rigidly standardised or structured, or removed from "real life" or "natural" social context, as in some forms of experimental method)".

He also argued that this type of research (Mason 1996, p.4):

"Aims to produce rounded understandings on the basis of rich, contextual and detailed data. There is more emphasis on "holistic" forms of analysis and explanation in this sense, than on charting surface patterns, trends and correlations. Qualitative research usually does use some form of quantification, but statistical forms of analysis are not seen as central".

The above are clearly portrayed in Table 7.3 that provides a detailed view of the differences between qualitative and quantitative research.

| Table 7.3: Differences between quantitative and qualitative research |
|---------------------------------|-----------------|-----------------|
| **Role of research**            | Quantitative    | Qualitative     |
|                                 | Preparatory     | Means to exploration of actors’ interpretations |
| **Relationship between researcher and subject** | Distant | Close |
| **Researcher’s stance in relation to subject** | Outsider | Insider |
| **Relationship between theory / concepts and research** | Confirmation | Emergent |
| **Research strategy**           | Structured      | Unstructured    |
| **Nature of data**              | Hard, reliable  | Rich, deep      |

In the present thesis, the author resorted to a qualitative research implementation, as the issues under investigation are quite complex in nature. Moreover, for most of the issues under examination, it was not possible to apply quantitative methods, as discussed extensively in Chapter 5 in the theory of transaction cost section. The appropriate information that could be obtained for most topics under examination, made it necessary to explore the attitudes, the beliefs and the experiences of the various informants. Therefore, in-depth interviews were used, a qualitative research method that is preferred over the other two major qualitative research methods (Patton 1990): the direct observation, where the investigator becomes an observer of people activities, behaviours, interactions and the document analysis, where data collection is extracted from official company records.

4. Case study methodology

According to Robson (1993), there are three traditional research methodologies. These are namely: the experiment, the survey and the case study. He argued (Robson 1993) that the experiment is a classical form of research which owes much to natural sciences and he stressed that experiments feature strongly in social science research and particularly in psychology.

Some characteristics of an experiment would involve, for example, the definition of hypotheses, the control of known variables and a planned change or introduction of new variables during the experimental process that is more applicable to quantitative research.
The survey research on the other hand, involves collecting information by asking a set of predetermined questions that follow a given sequence (Chisnall 1992). These questions are addressed to a sample of individuals and the aim is to generalise the results of the sample of a given population.

The final methodology is the case study where (Miles and Huberman 1998, p.193):

"Cases are individuals or more molar units meant to share several common characteristics".

It has been argued that case studies provide little basis for scientific generalization (Kennedy 1976). On the latter, Yin (1984, p.10) states that:

"Case studies like experiments are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent a "sample", and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation). Or as three notable social scientists describe in their single case study, the goal is to do a "generalising" and not a "particularising" analysis (Lipset et al 1956, pp.419 - 420)".

According to Chisnall (1992), the case study is a useful methodology for a researcher interested in gaining rich knowledge of a specific context. As the author aims to get a deep understanding of numerous contemporary phenomena (see Table 7.2) within a real life context (Greek food multiple retailing), the case study methodology was favoured for the empirical research. Apart from the above, Yin (1984) emphasised the importance of the case study design that is the starting point of that method. The case study design will define what is the “case” under examination and whether the design should be holistic or embedded, and whether the design should be single or multiple (Yin 1984).
According to Yin (1984), being embedded implies that within the case study, attention is also given to a subunit or subunits whilst (Yin 1984, p.42):

"The holistic is applicable when no logical subunits can be identified and when the relevant theory underlying the case study is itself of a holistic nature.

The single case design on the other hand, is justifiable under certain conditions (e.g. where the case represents a critical test of existing theory, where the case is a rare or unique event) but (Yin 1984, p.41):

"A potential vulnerability of it, is that the case may later turn out not to be the case it was thought to be at the outset. Single case designs therefore, require careful investigation of the potential case to minimise the chances of misrepresentation and to maximise the access needed to collect the case study evidence”.

On the other hand, multiple case design is more appropriate when the subject of the study requires the examination of numerous cases where (Yin 1984, p.45):

"Every case should serve a specific purpose within the overall scope of inquiry”.

Under the multiple case design, each case should be regarded as “unique” and clearly distinctive from the rest. In this thesis, the overall case under examination is the Greek food multiple retail sector and the author investigated four domestic and four multinational firms that operate in that sector.

The author’s objective is to illustrate potential similarities and differences between domestic and multinational firms across a range of issues, as well as to identify the impact of internationalisation upon domestic firms’ operations.
Nevertheless, only two multinational food multiple retailers were operating in Greece at the time the empirical research was conducted (Winter 1998). The author felt that the multinational category was not sufficiently presented, so he decided to include in his research, a multinational food wholesaler and a department store retailer as well.

It is noteworthy that the department store retailer was selling a substantial range of food items. This led to the implementation of a multiple case study design and therefore, minor modifications were made to the initial design in order to accommodate on top of the food retailers (the initial single case design), the other two firms as well (the food wholesaler and the department store retailer).

The need for the use of a multiple case study design is also verified by the fact that the examined food multiple retailers are different from each other (e.g. by operating different store formats) so from that perspective, each retailer was considered as a “unique” case. Eight cases were investigated then, and two groups each of them consisting of four domestic and four multinational retailers were formed.

The first case examined was a “pilot case”, as the researcher needed to verify on whether it was feasible for the topics under examination to be put on test. No problems were encountered during the examination of the first case so subsequently, the rest of the cases were examined following the same manner.

The eight cases were also studied jointly and were subject to a comparative analysis (Ragin 1987). In these comparisons, underlying similarities and systematic associations were sought out, in connection with the issues under examination. This has also been called replication strategy (Yin 1984), as a conceptual framework oversees the first case
study and then successive cases are examined in an attempt to see whether the new pattern matches the one discovered earlier (Figure 7.1).

Moreover, this multiple case study design was an embedded one as particular attention was given to food retailers' subunits (the retail formats), that characterised each retailer from the other. Additionally, there were five different research themes under examination (see Table 7.2), further supporting the use of an embedded case study form. Finally, Mason (1996, p.100) states that:

“A qualitative researcher must work out not only when to start making sampling decisions, but also when to stop. Looking for negative instances is one example of that”.

Figure 7.1: Case study methodology (Yin 1983)
These instances (see Table 7.4) will contradict findings and will facilitate the gain of a better understanding of the tested topics.

**Table 7.4: The three uses of deviant cases**

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Deviant cases that provide additional support for the analyst’s conclusions, perhaps by showing to the participants that an event is unusual</td>
</tr>
<tr>
<td>2</td>
<td>Deviant cases that require modification for the analyst’s emerging ideas</td>
</tr>
<tr>
<td>3</td>
<td>The deviant case is considered exceptional for good, explainable reasons</td>
</tr>
</tbody>
</table>

Source: Perakula (1997)

In the present thesis, there were no negative instances or deviant cases, and the total number of cases (eight) was regarded as a satisfactory one, taking into consideration that the two groups (domestic and multinational retailers) were sufficiently represented. This is the case of the theoretical or purposive sampling where the researcher selects (Mason 1996, p. 96):

"Units which will enable you to make meaningful comparisons in relation to your research questions, your theory and the type of explanation you wish to develop".

Moreover, this number (8) of cases follows Einsenhart’s view (1989) that recommended that the number of cases should be between four and ten in this type of research. Einsenhart (1989) argues that theoretical saturation, that is the point where incremental learning is minimal and pragmatic considerations (e.g. time constraints) can dictate if more cases should be included or the case collection should end. If the number of cases is below four, it is difficult to generate solid conclusions. If the number of cases is higher that ten, the researcher can become overwhelmed by the complexity and the volume of the data to be analysed.
5. The in-depth interviews

The author started his empirical research by sending a letter to a few senior managers for each retailer and requesting for an interview to take place. Complete confidentiality and anonymity for all respondents was guaranteed, and the author also proposed the findings to be presented on a company basis, if and only if the participants provide their consensus. It was also explicitly stated to them that the final report would be sent to all interview participants for comments. The interviewed persons were asked to introduce the researcher to other divisional and operational managers in the same firm, who were subsequently interviewed. This resulted in interviews that were from different functions (e.g. marketing, logistics, information technology) for the same firm, and with all interviewees being senior managers. The interviewees are “key informants” that were selected because of their expertise / knowledge of the food multiple retail market, and for their important position in their firm’s strategy. This is in line with Burgess (1984, p.75) view that:

“In field research, informants are selected for their knowledge of a particular setting”.

The ethnographic approach (semi-structured, in-depth interviews with open ended questions) was followed during the interview, that according to Banister et al (1994, p.52) it:

“Highlights informants’ opinions and expertise”,

and according to Walker (1985, p.4):

“The researcher encourages the informant to relate in their own terms, experiences and attitudes that are relevant to the research problem”.
Burgess (1982) advocated the above and mentioned that in-depth interviews provide the opportunity for the researcher to probe deeply and to open up new dimensions of a problem and to secure accurate and inclusive accounts that are based on personal experience.

It is useful to stress that historically, the term in-depth interview has meant a relatively unstructured one-to-one interview, where the interviewer is guided by the interviewee's response and where he/she is free to follow up any interesting ideas introduced by the interviewee (Proctor 2000). In this thesis, there was a list of topics/research topics that led the interview (Table 7.2) and therefore, the interviews were semi-structured using open-ended questions.

This is advocated by Walker (1985) who mentioned that an in-depth interview is not completely unstructured, as this degree of structure depends mainly on the examined topic. Banister et al (1994) argued that a semi-structured interview could explore precisely the areas that the interviewee perceives gaps, contradictions and difficulties, so questions can be tailored to the position and to the comments of your interviewee. Additionally, the interviewee, including the ones that were not anticipated may raise various issues. As mentioned earlier, the questions were open-ended, giving the ability to the respondents to fully elaborate, as well as providing them with a degree of freedom and spontaneity when answering them. On the other hand, open-ended questions are time consuming and demand more effort from the respondent. At the same time, the interviewee was encouraged by the interviewer to expand on the examined topic and also to express his/her opinion. Such flexibility allowed during the interviews, contributed towards the collection of rich and meaningful data. The researcher tried to
avoid the potential problems of bias and error introduced, as there was a face - to - face communication between the respondent and the interviewer (Moutinho and Evans 1992). Furthermore, Mason (1996) argues that qualitative interviews have a relatively informal style, and they have a thematic, topic – centred approach, as the researcher does not have a structured list of questions, but a range of topics, themes or issues to cover.

This method favours the examination of complex issues and helps (Mason 1996, p.41):

“To achieve depth and roundness of understanding in these areas, rather than a broad understanding of surface patterns”.

The author followed this method in order to investigate the issues in hand (Table 7.2) and with most interviews lasting on average one hour and a half, with the exception of five interviews that lasted two and a half hours. A tape recorder was used during the interview, but there were a few occasions when managers did not allow it and therefore, the interviewer took written notes.

The vast majority of the interviewees were fairly co-operative and many of them noted that they had not been involved in a similar research before. The in - depth interviews were conducted in each respondents’ office (with the exception of three phone interviews) and as a result they had the opportunity to answer in a friendly and familiar environment. Moreover, that method enabled the researcher to decide upon the timing of the questions based on the progress of the discussion, as to focus on certain issues that the respondent was willing to answer with less hesitation. Forty-two managers were interviewed, a number that is regarded quite satisfactory as various researchers (for example, see Burgess 1984) argue that 35 to 50 interviews are enough to support most research studies.
6. Data analysis

Thematic analysis was used for analysing the data that is (Banister et al 1994, p. 57):

“A coherent way of organising interview material in relation to specific research questions.”

In the current thesis, the data were organised in relation to specific research topics and were tested via the use of research propositions. But most importantly, the author’s overriding concern is to provide an analysis in such a way that is vivid, credible and meaningful to the reader. Mason (1996, p.111) mentioned the categorical indexing technique that uses:

“Classificatory categories to establish the common index”.

He also stressed that (Mason 1996, p.111):

“You may want to create more than one type of category (or level of categorization)”.  

In this thesis, the author distinguishes two main categories (domestic and multinational retailers), whilst a subcategory was created based on the retail formats followed by the companies under examination. This has allowed the researcher to illustrate sufficiently any similarities or differences amongst the examined retailers.

As far as the style of analysis used is concerned, it should be noted that narrative analysis was followed that is loosely formulated and it is almost intuitive by using terms defined by the analyst (Riessman 1993). Narrative analysis typically takes the perspective of the teller and reveals someone’s experiences. According to Glaser and
Strauss (1967), a number of devises are available for this approach, and the researcher may, for example (Glaser and Strauss 1967, p.229):

“Quote directly from interviews or conversations that he has overheard. He can include dramatic segments of his on the spot filed notes. He can quote telling phrases dropped by informants.”

Quotes were chosen, primarily because they have value in defining, supporting or elaborating the researcher’s interpretation of events. The author includes specific quotes in Chapter 8 where research findings are discussed; these quotes represent views shared amongst managers.

These views are better depicted on the matrices that are used in chapter 8. The matrices incorporate all interviewees’ thoughts and views, and specific issues are highlighted against the propositions tested. In general, the matrices involve the crossing of two or more main dimensions in order to see how they interact and compress data, as to permit drawing coherent conclusions (Miles and Huberman 1994).

The matrices used in this thesis, were conceptually ordered displays (Miles and Huberman 1994) that they matched the research propositions examined.

The major output of that display, is that it can bring together various responses from interviewers from various categories (domestic and multinational retailers, in this case) based on conceptual coherence (Miles and Huberman 1994). Moreover, the matrices facilitated the researcher to pinpoint the similarities or differences between the multinational and the domestic retail firms, whilst an extra column (additional remarks) was provided in order to highlight issues that merit extra attention, as for example, the potentially different logistics practices followed by specific format retailers.
It is worth pointing out that specific standards were followed during the empirical research with the objective to conduct reliable and credible investigation.

The five standards followed by the author are according to Miles and Huberman (1994), the following:

i) Objectivity / confirmability of qualitative work,

ii) reliability / dependability / auditability,

iii) internal validity / credibility / authenticity,

iv) external validity / transferability / fittingness, and

v) utilisation / application / action orientation.

These standards are fully illustrated in Table 7.5 as well as the purposes to be met and the tactics implemented by the author to guarantee that his research has followed these standards.
<table>
<thead>
<tr>
<th>Standard</th>
<th>Purpose to be met</th>
<th>Tactic followed by the author</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectivity / Confirmability</td>
<td>The findings should depend on the subjects and conditions of the inquiry rather than on the inquirer</td>
<td>The author tried to be neutral and also to minimise potential biases – the methods &amp; procedures followed were reported in this chapter in a very detailed manner – The study data are retained and available for reanalysis – Academic colleagues supported the procedure followed</td>
</tr>
<tr>
<td>Reliability / Dependability / Auditability</td>
<td>The process of the study should be consistent, reasonably stable over time</td>
<td>The research process was audited by academic colleagues – The researcher made every possible effort to conduct research under a thorough &amp; solid manner (e.g. using clear research questions, sound theoretical concepts were clearly incorporated)</td>
</tr>
<tr>
<td>Internal validity / Credibility / Authenticity</td>
<td>The findings should make sense, be credible, be of truth value and authentic</td>
<td>Data triangulation was implemented – Findings are coherent, related to examined theoretical concepts and considered as accurate by informants</td>
</tr>
<tr>
<td>External validity / Transferability / Fittingness</td>
<td>The findings should be transferable to other contexts and can be “generalised”</td>
<td>The author estimates that some of the findings are generic enough to be applicable to other retail sectors – A possible threat of generalising, is that the findings may not be relevant for other countries, as the local sector differs largely in characteristics compared to other European sectors (e.g. it is a less developed retail sector)</td>
</tr>
<tr>
<td>Utilisation / Application / Action orientation</td>
<td>The findings should be taken into consideration by the research participants and other interested groups as they can benefit from them; if possible, the findings should be utilised</td>
<td>The findings were sent to research participants and were presented to a conference that was held in Athens – The findings are simple enough to be understood by potential users – Some of the research findings can be utilised by both domestic and international firms (e.g. the finding that the third party logistics sector in Greece is underdeveloped may be of interest to European third party firms, whilst the finding that Greek retailers do not have a formal logistics strategy may persuade them to focus on the formulation of a coherent logistics strategy)</td>
</tr>
</tbody>
</table>
As can be seen from Table 7.5, data triangulation was used that is (Miles and Huberman 1998, p.199):

"The self-consciously setting out to collect and double-check findings using multiple sources and modes of evidence".

The author sent the findings to the interviewees and he subsequently contacted them to ask for their consent in publishing them, as well as to identify any possible disagreement concerning thoughts expressed during the interviews. Moreover, these findings were discussed with the editor of the leading monthly periodical (namely the “Self Service Review”) in the Greek grocery sector, Mr Demetrios Michailidis. In addition, the author presented a paper in Athens during the European Logistics Association Conference (Bourlakis 2000), where Greek academics and managers from the retail sector were present as conference participants. All the persons above (the interviewees, the editor of the “Self Service Review” and the conference participants) expressed their interest in the author’s findings, and they were happy to agree with the significance and the validity of the interview results. Moreover, few of them noted that these findings “provide the real picture of the sector although they are quite harsh as far as the competitive position of the domestic firms is concerned”.

7. Problems encountered during the empirical research

A number of problems came up in the course of the author’s empirical research that is worth discussing. To start with, the author had great difficulty in persuading managers to be interviewed in the first place, although a letter was sent a fortnight in advance of
arranging a meeting with any of them. In that letter, the author introduced himself and outlined the topics that would provide the basis of an interview. The majority of the managers were reluctant to participate and stated numerous reasons as an excuse. The most frequently mentioned excuse was the lack of time, while other managers stated the need to get permission from the company’s top management. Unavoidably, a number of interviews were never conducted, as permission was not eventually granted. After making a plethora of telephone calls, the author managed to gain interview access for eight multiples for whom their managers were able and willing to provide an interview.

During the interviews, most managers were hesitant to expand on their thoughts. The researcher found that by stating his past professional background (as a sales manager for a leading food manufacturer and a person that was dealing with their colleagues from other retail firms - retail buyers), he managed to gain their trust and subsequently, to overcome this “reserved attitude” stance.

The interviewed managers understood the research topics in hand and their answers were quite informative. Nevertheless, some confusion was caused by the term “transaction costs” and therefore, the researcher had to clarify that term to the interviewees by providing numerous examples for its application in food retail logistics operations.

At the end of the interview, the vast majority of the interviewees demanded from the researcher not to present the findings on a company to company basis. Hence, the author decided to analyse and to illustrate most of the data divided into two main
categories (based on domestic and multinational firms) and one subcategory (based on the retail format pursued by the retail firm).

After completing the analysis of the data, the author mailed the findings to the interviewed managers for feedback comments, as well as to ask for their consent in publishing a few of the data provided. Some of the managers asked for specific data to be deleted for reasons of confidentiality.

8. Conclusions

The present chapter examined the nature of the issues under investigation and therefore, the underlying themes, the research topics and the resulting research propositions were presented. The potential differences between qualitative and quantitative research were also discussed and the rationale for implementing a qualitative approach was put forward and was justified.

In a separate section, the various research methodologies were examined and the reasons for selecting the case study methodology to investigate specific issues in the Greek food multiple retail sector, was clearly provided.

In-depth interviews were used as the appropriate data collection method, as the relevant technique could be used to explore the topics in hand and subsequently, the type of questions used, was discussed.

This chapter also examined the reasoning for the number of cases studied, the tactics followed to minimise possible validity threats and illustrated the way that research was
conducted in this thesis. At the end, the interviews’ problems encountered by the author were analysed.

It is not the author’s claim that the research strategy followed, was the ideal one. However, by taking into consideration, the complexity and the plethora of the examined issues, the author is confident enough that the proposed research strategy will provide credible, meaningful and informative findings for the firms operating in the Greek food multiple retail sector.
Chapter 8: The findings of the empirical research

1. Introduction

This chapter contains the empirical examination of the various theories proposed so far in the Greek food multiple retail sector. The examination includes domestic and multinational retailers that operate in that sector, and five research themes are investigated (see Table 7.2).

Firstly, the importance of logistics, and its relevant functions, towards the implementation of retailers’ strategy at domestic and at international level is explored.

Secondly, there is the investigation of logistics information technology systems’ contribution to the reduction of retailers’ supply chain costs, and the role played by these systems in the course of retailers’ expansion.

Thirdly, there is an examination of the retail logistics network, and its major elements (co-operation, communication and continuity of co-operation), as formed between food multiple retailers and third party logistics companies.

Fourthly, the eclectic paradigm and its three components (ownership advantage, location advantage and internalisation advantage) are analysed to verify their importance in the formation of domestic and multinational retailers’ strategy.

The fifth theme under examination concerns the transaction costs theory that is investigated on whether its main elements (uncertainty, asset specificity and frequency) are potential factors that led the food multiple retailers to opt for a specific logistics strategy, as far are the transportation and warehousing functions are concerned.
The next section introduces some methodological issues (a full discussion was provided by the author in Chapter 7), while the rest of the present chapter provides the findings of the empirical research.

2. Research methodology and research propositions

The empirical study comprises of in-depth interviews that were conducted with senior managers that work for Greek and multinational retailers (see Table 8.1).

Forty-two senior managers were interviewed between October and December 1998.

These managers represent the major multinational and domestic firms that operate in the Greek food multiple retail sector.

Table 8.1: Managerial positions of the interviewed managers

<table>
<thead>
<tr>
<th>Managerial Position</th>
<th>Number of persons interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>3</td>
</tr>
<tr>
<td>General Manager</td>
<td>9 (8 firms in total, but there were 2 general managers for a particular multinational. Three out of nine general managers were interviewed over the phone)</td>
</tr>
<tr>
<td>Commercial Manager</td>
<td>6</td>
</tr>
<tr>
<td>Logistics Manager</td>
<td>9 (8 firms in total, but there are 2 logistics managers for a particular multinational group)</td>
</tr>
<tr>
<td>Information Technology Manager</td>
<td>5</td>
</tr>
<tr>
<td>Marketing Manager</td>
<td>2</td>
</tr>
<tr>
<td>Store Development Manager</td>
<td>3</td>
</tr>
<tr>
<td>Store Managers</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>1 (the Marketing co-ordinator)</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
</tr>
</tbody>
</table>

Amongst the multinationals, the author included a food wholesaler and a department store retailer. This was the result of the limited number of multinational food multiple
retailers (only 2 multinational retailers) operating in the Greek retail sector at the time that the empirical research was conducted. Both firms, the food wholesaler and the department store retailer have a large number of food items in their stores. All firms included in the author’s empirical investigation are classified as multiples.

The only exception to the above is the wholesaling company that has a smaller number of stores, however it is expected to increase its number of stores in the near future. Managers from these retailers were interviewed, on the seventeen research propositions that were put on test based on the relevant research topics. These research topics will be provided in advance of each research proposition, in order to highlight the theoretical concepts under examination, as discussed in Chapter 7 (see Table 7.2). Additionally, at the end of the analysis for each theme, a conceptually - ordered display is given that highlights the examined issues against the propositions to be tested.

3. Research theme 1: Logistics strategy and logistics practices

The first four research propositions examine issues related to retail logistics. The first research proposition investigates the importance of logistics in retailers’ strategy, while the same issue (the strategic importance) is discussed for the warehousing function.

The warehousing and transportation functions are analysed with respect to the emergent or the deliberate strategic approach, and the importance of logistics related transaction costs are assessed in the context of the retailers’ format strategy.
Research Topic 1: Identify the importance of logistics for both multinational and domestic food multiple retailers and examine whether they apply the Strategic Logistics approach or the Logistics Strategy approach.

Research Proposition 1: Logistics is of primary importance within a food multiple retailer’s strategy (the Strategic Logistics approach).

Interviewees from domestic and multinational food multiple retailers agreed that logistics has become nowadays an important issue for food multiple retailer’s strategy. Managers from multinationals however, mentioned that logistics is an issue that is the basis of their overall strategy.

"The logistics function is crucial for my firm’s operations". (Logistics manager of a multinational hypermarket firm)

Most managers from Greek food multiple retailers noted that logistics was not an issue at all on the strategic agenda in the Greek food retail scene until the early 1990s.

Following the advent of food retail multinationals, Greek companies accelerated their expansion in the local market, and logistics became gradually an important issue for them, as there was an increasing need for logistics support.

A logistics manager of a multinational discounter stressed that logistics is the most important issue in the company’s strategy, as without effective logistics the discounter will not be able to achieve the economies of scale (on selling) it requires. The same logistics manager also argued that without warehousing space at store level, everything depends on discounter’s logistics capabilities:
"Both hypermarket and supermarket formats can be profitable even with one outlet and there is no need for central warehouses, whilst the discount format requires centralisation even with few outlets". (Logistics manager of a multinational discounter)

The issue of logistics capabilities was also mentioned for the neighbourhood store format that has been recently developed by food multiples in the local market.

"Neighbourhood stores sell mainly fast moving consumer goods under a small amount of space. Having limited warehousing space at store level, there is a need for very efficient logistics operations mainly in order to avoid product stock - outs". (Logistics manager of a multinational retailer)

On the other hand, managers from Greek retailers had a different view for both the discount and the neighbourhood store format.

"I can not think of any special reasons for considering logistics as a major issue for the discount and neighbourhood formats’ strategy". (Logistics manager of a leading Greek multiple)

For large store formats (hypermarkets, supermarkets), similar views were shared amongst managers from domestic firms.

"Logistics is gaining importance over the years, but it is not the decisive factor for retailer’s large format development". (General manager of a Greek firm)

The above provides the notion that whatever the format used, domestic retailers follow the Logistics Strategy approach, while multinationals favour the Strategic Logistics one (see Table 8.2).
Table 8.2: The importance of logistics for: i) domestic and multinational food multiple retailers and for ii) small and large store format retailers

<table>
<thead>
<tr>
<th>Retailers</th>
<th>Logistics Strategy</th>
<th>Strategic Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinational Retailers</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Greek Retailers</td>
<td>(+)</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Store Format</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Store Format (Hypermarket, Supermarket) Retailers</td>
<td>(+) Greek food multiple retailers only</td>
<td>(+) Multinational food multiple retailers only</td>
</tr>
<tr>
<td>Small Store Format (Discount, Neighbourhood shop) Retailers</td>
<td>(+) Greek food multiple retailers only</td>
<td>(+) Multinational food multiple retailers only</td>
</tr>
</tbody>
</table>

(+) The food multiple retailer follows this approach during its expansion.

(-) The food multiple retailer does not follow this approach during its expansion.

**Research Topic 2:** Examine the importance of the warehousing function for food multiple retail logistics strategy.

**Research Proposition 2:** Warehousing (centralisation of goods) is the starting point for a food multiple retailer’s logistics strategy during domestic and international expansion.

The interviewees mentioned that centralisation of logistics operations has become a major issue in the Greek food multiple retail sector, and that the major multiples have already implemented it (see Table 8.3).

270
<table>
<thead>
<tr>
<th>Food Multiple Retailer</th>
<th>Regional Distribution Centres (RDCs) are operated by</th>
<th>% of Centralised Distribution (Volume of products) (1998)</th>
<th>Regional Distribution Centres are not used for the following products**:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinationals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/B Vasilopoulos (Delhaize Le Lion)</td>
<td>Retailer</td>
<td>82%</td>
<td>Frozen goods, cheese &amp; meat (assigned to a third party)</td>
</tr>
<tr>
<td>Continent (Carrefour / Promodès)</td>
<td>Retailer</td>
<td>90%</td>
<td>Frozen goods, cheese &amp; meat (assigned to a third party)</td>
</tr>
<tr>
<td>DIA (Carrefour / Promodès)</td>
<td>Retailer</td>
<td>100%</td>
<td>RDCs are used for all products (fully integrated)</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>Retailer (Marinopoulos)</td>
<td>95%</td>
<td>Frozen goods (assigned to a third party)</td>
</tr>
<tr>
<td>Makro (wholesaler)</td>
<td>DOES NOT USE CENTRAL WAREHOUSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lidl (estimated)***</td>
<td>Retailer</td>
<td>100%</td>
<td>RDCs will be used for all products</td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Veropoulos</td>
<td>Retailer</td>
<td>50 - 60%</td>
<td>Cheese &amp; meat (assigned to a third party)</td>
</tr>
<tr>
<td>Atlantic</td>
<td>Retailer</td>
<td>50%</td>
<td>Frozen goods, cheese &amp; meat (assigned to a third party)</td>
</tr>
<tr>
<td>Masoutis (estimated)***</td>
<td>Retailer</td>
<td>60%</td>
<td>Frozen goods, cheese &amp; meat (assigned to a third party)</td>
</tr>
<tr>
<td>Trofo</td>
<td>Retailer</td>
<td>30 - 40%</td>
<td>Frozen goods &amp; cheese (assigned to a third party)</td>
</tr>
<tr>
<td>Marinopoulos</td>
<td>Retailer</td>
<td>50 - 60%</td>
<td>Frozen goods, cheese &amp; meat (assigned to a third party)</td>
</tr>
</tbody>
</table>

* The above data were provided by the interviewees
** Multinationals have already started the establishment of fully integrated warehouses that will accommodate all product categories. This explains the difference in the degree of centralisation observed between domestic and multinational firms as in many cases, third party warehouses are used on a selective basis for the specified product categories.
*** The estimations are based on a secondary reference source material (Self Service Review, September 1998)
Nevertheless, numerous storage problems occur to retail firms during the summer time in Greece, due to the need for extra warehousing space for frozen goods, cheese and meat. These circumstances led food multiple retailers to externalise the warehousing operation for the frozen goods category. It is worth mentioning that there is no proper warehousing infrastructure in the Greek islands. For example, in Crete (the largest Greek island), there are no retail warehouses, with the exception of the premises owned by two food multiples, so goods are transported from the Athens harbour (Piraeus) straight to the stores.

Moreover, warehousing is considered as a major function for the retailers’ logistics strategy.

“Centralisation is the starting point of my firm’s logistics strategy, as sales stem mainly from own brands that can only be distributed efficiently via the use of central warehouses”. (Logistics manager from a multinational discounter)

The logistics manager stressed the case of Lidl (the German food discounter):

“Although Lidl has developed numerous stores, it has not started operations yet, as it is required to finalise the central warehousing operations”. (Logistics manager of a multinational discounter)

Managers from multinationals that operate the hypermarket, the supermarket and the department store format, argued that centralisation is of importance to retailers’ logistics strategy:

“Warehousing is a major issue for my firm’s logistics strategy as it can provide numerous benefits, and has become a focal point during retailer’s strategic development.” (General manager of a hypermarket firm)
It is noteworthy that the managers of two multinationals emphasised the importance of warehousing by presenting some key results (based on accounting, financial and marketing related ratios) achieved before and after centralisation. It is remarkable that certain ratios (e.g. product stock outs, store selling efficiency, customer service) were dramatically improved. Following their request, these ratios are not presented.

Nevertheless, managers of a multinational food wholesaler gave a different view:

"Centralisation is not an issue for my company and for most wholesalers". (Logistics manager of a multinational food wholesaler)

The logistics manager of the relevant wholesaler also added that:

"My firm was acquired recently by the largest European retailer, that is nowadays developing central warehouses for the acquired wholesale operations. I suspect that sooner or later my firm will reorganise its logistics operations in Greece". (Logistics manager of a multinational food wholesaler)

Centralisation of warehousing operations is applied by two Greek food multiple retailers, engaged in both retail and wholesale activities. These two Greek food multiple retailers service both activities from the same warehouses.

For most Greek food multiples, warehousing is an issue that merits extra attention to their logistics strategy. Managers from domestic firms however, did not support their views by providing the strategic and the long-term efficiency benefits of centralisation (as the managers of multinationals did), and they stated the following:

"My firm developed warehouses because all multinationals did the same, as it is probably the best way to expand our business". (General manager of a major Greek multiple)

"My company gets extra discounts from manufacturers / suppliers, as it is responsible for the stocking and the distributing their products " . (Commercial manager of a Greek retailer)
During the past decades, most food multiple retailers opted for large inventories that were kept at stores and provided extra profits due to high inflation. In the last few years, there has been a significant decrease in the rate of inflation, something that led food multiples to opt for maximum selling efficiency at store level, and that can be achieved only via central warehouses”. (Marketing manager of a domestic multiple)

The above suggest that Greek food multiple retailers are not aware of the long term benefits of warehousing, and the reason that implement such an operation is to become more price competitive. Moreover, the analysis supports the findings of Research Proposition 1. To be more specific, Greek food multiple retailers follow the Logistics Strategy approach, as they implement the warehousing function in order to reduce logistics costs and to gain extra benefits, and not to achieve a competitive advantage as such.

We can gather our conclusions for the centralisation of warehousing in the local retail market as follows:

- It is a very important issue for the multinational hypermarket, supermarket and department store format retailers.
- It is a virtually non-existing issue, at this stage, for a multinational cash and carry retailer and,
- it is a key issue - the starting point of retail operations for the multinational food discounter s.

As far as the domestic food multiple retailers are concerned, centralisation of warehousing operations is an issue that merits extra attention, but it is not the key point
of their logistics strategies. It is useful to mention that the managers of the multinational retailers further supported their views by presenting the key results obtained before and after centralisation of their operations in Greece. On the other hand, the managers of the Greek firms simply focused their discussion on the financial rewards accruing to their companies by such a practice.

**Research Topic 3:** Examine whether the logistics strategy (for the transportation and warehousing operations only) that was planned at the retailer’s headquarters, is the strategy that it was eventually implemented (an emergent or a deliberate strategy).

**Research Proposition 3:** The logistics strategy that was planned at the food multiple retailers’ headquarters for the transportation and warehousing operations, is the strategy actually implemented.

To start with, most interviewees from both domestic and multinationals were specific enough to point out that logistics investments demand a large amount of capital. All interviewees referred to their companies’ warehousing operations as being the outcome of a long-term investment (see Table 8.4).
Table 8.4: Warehousing operations for the major firms in the Greek food multiple retail market (1998)*

<table>
<thead>
<tr>
<th>Food Multiple Retailer</th>
<th>Starting Year of Warehouse Operations</th>
<th>Total Warehouse Area (sq.m.) (1998)</th>
<th>No of Regional Distribution Centres &amp; Location (1998)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Multinationals</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/B Vasilopoulos</td>
<td>1994</td>
<td>36,584</td>
<td>1 (one in the Athens area and one planned for the Thessaloniki area)</td>
</tr>
<tr>
<td>(Delhaize Le Lion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continent</td>
<td>1994</td>
<td>25,000</td>
<td>3 (jointly with Marinopoulos in Athens, in Northern Greece and in Crete)</td>
</tr>
<tr>
<td>(Carrefour / Promodes)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIA (Carrefour / Promodes)</td>
<td>1996/7</td>
<td>28,000</td>
<td>2 (one in Athens and one in Thessaloniki area)</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>Not Known</td>
<td>5,000</td>
<td>1 (one in Athens that is on rent from Marinopoulos, the firm's business partner in Greece)</td>
</tr>
<tr>
<td>(wholesaler)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Makro</td>
<td>No warehouses in use</td>
<td>No warehouses in use</td>
<td>No warehouses in use</td>
</tr>
<tr>
<td>Lidl**</td>
<td>1999 (started operations in 1999)</td>
<td>35,000</td>
<td>1 (one in Thessaloniki in Northern Greece)</td>
</tr>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metro**</td>
<td>1998</td>
<td>15,000</td>
<td>1 (in Athens)</td>
</tr>
<tr>
<td>Masoutis**</td>
<td>1999/2000</td>
<td>15,000</td>
<td>1 planned for the Thessaloniki area</td>
</tr>
<tr>
<td>Asteras (Buying Group)**</td>
<td>2000/1</td>
<td>20,000</td>
<td>4 planned for: the Athens area, Thessaloniki, Larisa and Patra areas</td>
</tr>
<tr>
<td>Sklavenitis ***</td>
<td>1990</td>
<td>40,000</td>
<td>1 (in Athens)</td>
</tr>
<tr>
<td>Veropoulos</td>
<td>1997</td>
<td>28,000</td>
<td>2 (one in Athens and one in Fyrom)</td>
</tr>
<tr>
<td>Atlantic</td>
<td>1998</td>
<td>25,000</td>
<td>3 (one in Athens, one in Central Greece and one in West. Greece)</td>
</tr>
<tr>
<td>Trofo</td>
<td>1998</td>
<td>10,000</td>
<td>1 (in Athens)</td>
</tr>
<tr>
<td>Marinopoulos***</td>
<td>1988</td>
<td>50,000</td>
<td>5 (3 in Athens, one in Northern Greece and one in Crete)</td>
</tr>
</tbody>
</table>

* Data provided from the interviewees.  
*** Marinopoulos and Sklavenitis built their warehouses in 1988 and 1990 respectively. But from 1994 onwards, both firms started upgrading, as well as expanding their warehousing premises. The reason behind such an adjustment was to enable warehousing to deal with most product categories (fruit and vegetables, frozen, meat and...
cheese), as the existing facilities were exclusively used for a very few product categories (e.g. packaged goods). Promodès supported Marinopoulos towards the achievement of that, as they use the same warehouses.

As far as the logistics strategy is concerned, multinational food multiple retailers plan a specific logistics strategy at the headquarters that aim to implement it in every country in which they operate although they take into consideration the local circumstances (e.g. legislation, local infrastructure). For example, a multinational food discounter retains the same company policy all over the world, as far as the warehousing (uses Regional Distribution Centres) and the transportation (uses only third party companies) functions are concerned:

“...My company does not own a single truck as it externalises the entire transportation function in every country it operates”. (General manager of a multinational food discounter)

The same general manager also noted that the logistics strategy for the discount format was planned in succession of the retailer’s initial expansion in the local market via the hypermarket format:

“...Although my firm had already developed the hypermarket format in Greece, another group of managers was sent from the headquarters to develop the discount format. These managers had to become very familiar with the Greek market in order to implement successfully the discount format that was a new concept for Greek consumers. It was also the fact that my firm implements a different logistics strategy for each format”. (General manager of a multinational food discounter)

Managers from other multinationals agreed on the fact that they implement a logistics strategy (for the transportation and warehousing operations), that can be perceived to be the outcome of the headquarters’ plan.
These managers also noted that a specific amount of time is required for such an implementation, mainly due to local prevailing conditions (e.g. transportation infrastructure, availability of warehousing sites and third party companies, implementation of logistics systems). They also argued that this time period is longer for multinational retailers expanding via an organic growth pattern. On the contrary, the time period is shorter if retailers acquire local companies, or if they decide to co-operate (e.g. joint venture, franchise agreement) with a local partner.

“My firm benefited from this acquisition as some basic logistics systems were already in place, and therefore, the headquarters’ logistics plan was implemented straight away. Although my managers had to deal with a few issues (e.g. to upgrade the acquired retailer’s existing operations), I have to admit that I am glad that my team did not make all these from scratch”. (General manager of a multinational that acquired a local retailer)

Hence, multinational food multiple retailers implement the logistics strategy as planned at their headquarters and this policy is pursued in every country / market they operate.

As far as the Greek food multiple retailers are concerned, their logistics strategies were firstly planned during the last decade. The advent of retail multinationals with the subsequent introduction of warehouses, led local retailers to consider the importance of warehousing and of the logistics function in general, but subsequently, they implemented warehousing and other logistics operations as well. Table 8.4 shows the above where the domestic multiples, implemented warehousing at a latter date compared to multinationals. The only exception to the rule were Marinopoulos and Sklavenitis, that nevertheless, upgraded and expanded their existing warehouses, that were built during the late 1980s / early 1990s in the Greater Athens area.
These early warehousing premises were used exclusively for packaged items, and they were replaced by fully operational warehouses after 1994. Moreover, the entry of retail multinationals “pushed” most domestic firms to expand in areas located outside the Greater Athens area, so there was an additional need for warehouses to support the relevant expansion. However, the Greek retailers’ logistics strategy is not based on a proper and long-term logistics plan.

“There is no Greek food multiple retailer that is capable of developing long term logistics strategies. Domestic firms take into consideration the multinationals’ logistics strategies and get external support from specialised logistics consulting firms”. (Logistics manager of a major Greek food multiple retailer)

“My firm’s logistics strategy is based on a pilot logistics plan for both domestic and international operations. This is due to lack of experience regarding logistics and therefore, my firm’s logistics strategy is under continuous development although without following a formal strategic plan”. (General manager of a major Greek food multiple retailer that has recently gone international)

The general manager supported his views by explicitly stating that two major Greek retail buying groups, namely Asteras and Elomas, do not possess at this stage considerable logistics operations:

“With the exception of the major domestic multiples, local food retail firms do not have any logistics operations at all. For example, two major Greek retail buying groups, namely Elomas and Asteras, aim to match in buying strength the multinational retailers, but they do not own a single central warehouse”. (General manager of a major Greek food multiple retailer that has recently gone international)

From the discussion cited above, it can be concluded that multinational food multiple retailers support the research proposition at hand. These firms follow the deliberate logistics strategy approach, by implementing in the Greek market as well as in all international markets, the logistics strategy that was planned at the company’s
headquarters. They need certain time to implement this strategy in the local market, largely depending on the mode of entry strategy followed. Greek food multiple retailers on the other hand, follow the emergent logistics strategy approach, and their logistics strategy is not based on a long-term plan.

This is mainly due to the local firm lack of logistics specific capabilities (experience, knowledge), something that is partially resolved by getting support from consulting firms. All the above turn out in support of the findings coming from Research Proposition 1, that Greek food multiple retailers follow the logistics strategy approach and not the strategic logistics approach.

**Research Topic 4:** Examine if food multiple retailers follow an one store format strategy at the start of their expansion, to avoid increased logistics related transaction costs involved with a joint-format expansion strategy.

**Research Proposition 4:** Food multiple retailers implement an one store format strategy in the beginning of their expansion, due to increased logistics-related transaction costs associated with the operation of the joint store format development (the multi-format strategy).

The interviewees agreed that the adoption of the joint store format development creates additional transaction costs, and in particular logistics related transaction costs. These costs can be quite considerable depending on the developed formats:
"The logistics strategy for transportation and warehousing is identical for both the hypermarket and the supermarket formats. Some logistics practices however, may differ due to the different product range every format requires (e.g. a larger product range and a bigger variety in a hypermarket). This creates extra logistics related transaction costs". (Logistics manager of a major Greek food multiple retailer that expanded via the hypermarket and supermarket formats)

Logistics costs are increased when a retailer develops the hypermarket, the supermarket and the convenience store format at the same time.

"My firm uses different trucks and a separate product picking up process for each format, as each format contains a different product range. It is obvious that having developed three formats, there are increased logistics costs that are a lot higher compared to the logistics costs that my firm incurred when operating only one or two formats". (Logistics manager working for a multinational food multiple retailer that developed the hypermarket, supermarket and convenience store formats)

"My company follows separate logistics strategy for each format. Moreover, centralisation is a must for the discount operations, although this is not the case for the hypermarket operations as some firms may allocate warehousing space at store level; nevertheless, centralisation has been recently implemented for all the company's retail formats. Discount operations require a large number of stores in order to achieve the necessary economies of scale, and as there is no available warehousing space at store level, central warehouses are needed. Moreover, my firm uses separate warehouses and trucks for the discount and the hypermarket operations that add extra logistics costs". (General manager of a multinational food multiple retailer that operates the hypermarket and the discount formats)

Nevertheless, there was the common belief among all managers that the decision to follow the one store format strategy at the start of the firm’s expansion, and to follow the multi - format one at a later stage, has nothing to do with logistics - related transaction costs but it is due to:

"The extra financial risk involved in the implementation of the various retail formats at the same time". (Marketing manager of a multinational firm)

"The lack of management capabilities and the experience to deal with the various retail formats simultaneously". (Logistics manager of a Greek firm)
“International firms specialise to one format, and this is the format that they initially carry across national borders, as they have already developed an expertise on that particular format”. (General manager of a multinational discounter)

“The legislation in Greece forced my firm to implement smaller scale retail formats, as it was difficult to expand via the hypermarket format”. (General manager of a multinational)

A general manager working for a multinational food multiple provided an interesting fact. He remarked that in Eastern Europe, a few multinational food retailers developed many formats simultaneously and without taking into consideration the logistics-related transaction costs:

“The Eastern Europe retail markets are underdeveloped, so some multinational food retailers entered these markets by simultaneously operating various formats. These retailers faced extra logistics-related transaction costs stemming from this multi-format strategy. Nevertheless, their main priority is to dominate these markets whatever the costs involved”. (General manager of a multinational food multiple)

To conclude, the interviewees agreed that the joint store format development creates additional logistics-related transaction costs; although these costs are not regarded by them as being prohibitive towards the food multiple retailers’ multi-format expansion. Retailers usually opt for an initial one-store format expansion, an exception to the rule being Eastern Europe, where retailers opted for a simultaneous multi-format expansion. A number of reasons were stated for following the one-format strategy other than logistics-related transaction costs and therefore, Research Proposition 4 is not supported.
Table 8.5: Research propositions and findings for logistics strategy and logistics practices in the Greek food multiple retailing sector

<table>
<thead>
<tr>
<th>Research Propositions (1 – 4)</th>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Logistics is of primary importance within a food multiple retailer’s strategy (Strategic Logistics approach)</td>
<td>It is the basis of their overall retail strategy (the Strategic Logistics approach). The research proposition is supported</td>
<td>Gained importance following the advent of retail multinationals (The Logistics strategy approach). The research proposition is not supported.</td>
<td>The Strategic Logistics approach is followed by the multinationals, the Logistics Strategy approach is followed by the domestic firms</td>
</tr>
<tr>
<td>2. Warehousing is the starting point for food multiple retailer’s logistics strategy during domestic and international expansion</td>
<td>It is very important for hypermarket, supermarket and department stores, it is non-existing for cash and carry stores and it is the starting operational point for discounter. The research proposition is supported only by the managers of a multinational discounter</td>
<td>It is an issue that merits extra attention, but it is not a key point in their logistics strategies. The research proposition is not supported.</td>
<td>Lack of major warehousing infrastructure in Greek islands. Limited support by third party firms in the local market.</td>
</tr>
<tr>
<td>3. The logistics strategy for the transportation and the warehousing functions planned at retailer’s headquarters, is the strategy actually implemented (a deliberate strategy)</td>
<td>Multinationals implement the strategy as planned at headquarters in every market they operate. The research proposition is supported</td>
<td>Logistics as a strategic issue has recently emerged and there is a lack of strategic vision within the logistics strategy. The research proposition is not supported.</td>
<td>A deliberate logistics strategy is followed by the multinationals. Domestic retail firms follow the emergent logistics strategy path.</td>
</tr>
<tr>
<td>4. Food multiple retailers implement one store format in the beginning of their expansion due to increased logistics costs</td>
<td>All interviewees agreed that the joint store format development creates extra logistics related transaction costs, and logistics costs are not prohibitive to the expansion, and other reasons were stated. The research proposition is not supported.</td>
<td></td>
<td>In Eastern Europe, a few multinationals developed various store formats simultaneously, to dominate these</td>
</tr>
</tbody>
</table>
logistics related transaction costs associated with the joint format development (the multi-format strategy).

such costs vary depending on the developed formats.
supported by domestic and multinational firms.
markets and without considering the additional logistics related costs

4. Research theme 2: Information technology and logistics

Numerous information technology applications are included in the retail logistics function as discussed in Chapter 4. Therefore, the author’s first research proposition in the relevant theme, investigates whether the information technology strategy leads or follows the logistics strategy pursued by retail firms. The author’s research proposition will shed light on the importance of logistics information technology systems towards a potential reduction of logistics related transaction costs. The facilitating role of logistics information technology systems during retailer’s expansion will be assessed in the third and final research proposition of this theme.

Research Topic 5: Examine if the information technology strategy leads or follows the logistics strategy pursued in food multiple retailer’s strategic planning.

Research Proposition 5: The information technology strategy follows the logistics strategy in a food multiple retailer’s strategic planning.
Managers from multinational food multiple retailers stressed that during the 1980s, the company's logistics strategy was always developed in advance, and the information technology strategy had only a supporting role to play. During the 1990s, a dramatic progress in information technology took place, and made the existence for an information technology strategy a major issue for retailers. Nowadays, the information technology strategy is drawn in a parallel fashion to the logistics strategy, a view shared between the managers of the domestic and the multinational firms:

"Logistics and information technology strategies are not planned, developed and implemented in isolation to each other but together". (Information technology manager of a multinational firm)

"Whenever there is a meeting for a logistics task, there is always a manager representing the information technology department to verify if this issue can be supported by his department or not". (Logistics manager of a major Greek food multiple retailer)

"If I could allocate my time, I suspect that I spend more than 50 % of it for logistics information technology related issues. If I could name a manager that I have been working with on a very frequent basis, it has to be both the logistics manager and the general manager" (Information technology manager of a multinational food multiple retailer)

It is noteworthy that the logistics and information technology managers of the Greek food multiple retailers, stressed that, although the strategy to be followed for logistics information technology related issues (e.g. software packages, hardware, systems) is planned within the company, the actual development of most issues (software packages and logistics information technology systems) is assigned / externalised to third party information technology and consulting companies.
"Information technology gained importance in recent years as the major Greek food multiples begun installing scanning systems in 1997. I expect logistics information technology issues to become of major importance in the forthcoming years. But Greek retail firms are not capable of developing information technology issues in-house, so they are dependent on other companies" (Information technology manager of a Greek retail firm)

The managers above argued that consulting companies have a major role to play, not only during the development of logistics information technology issues, but also during their implementation as well. However, this is not the case for the multinational food multiple retailers. Multinational retailers develop and implement the logistics information technology issues in-house, and the relevant technology developed in the country of origin is installed in every country they operate.

"I am glad that the headquarters provided me with a range of logistics information technology packages, that were developed in the parent information technology department during the last decade. These packages are identical in use wherever the company operates, in order for the company to be fully compatible with its domestic and international operations". (Information technology manager of a multinational retailer)

Finally, the information technology manager of a multinational discounter mentioned that during the year 1998, the company upgraded the logistics information technology systems. Although the upgrading was achieved in less than a month’s time, eventually, the retailer’s logistics operations did not operate as it was required to be upgraded as well.

"Logistics operations are fully compatible with logistics information technology systems and every modification to the logistics information technology systems, has an effect upon the logistics operations". (Information technology manager of a multinational discounter)
This supports the previous analysis that logistics and information technology strategies are complementary, work in a parallel fashion, as this is the case for both Greek and multinational food retailers. The major difference between domestic and multinational firms lies in the development and in the implementation of logistics information technology issues. The Greek food multiple retailers are dependent on consulting companies for such issues, whilst the multinationals develop and implement information technology at the company’s headquarters, and they subsequently install the in-house developed information technology in every country they operate.

Research Topic 6: Examine if logistics information technology systems contribute towards the reduction of logistics related transaction costs.

Research Proposition 6: Logistics information technology systems are the main factor towards the reduction of logistics related transaction costs.

All interviewees stressed the large amount of capital that is required for developing logistics and information technology infrastructure (see Table 8.6). They also agreed on the influence that logistics information technology systems have in the reduction of logistics related transaction costs.
Table 8.6: Logistics and information technology costs in the Greek food multiple retail sector*

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Multinationals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/B Vasilopoulos (Delhaize Le Lion)</td>
<td>31 – 31</td>
<td>1,4 billion drachmae (1996/7)</td>
<td>1,7 billion drachmae (1993-98)</td>
<td>EPoS (IBM), EDI-D93A and Radio frequency in 1999</td>
</tr>
<tr>
<td>Continent (Carrefour / Promodés)</td>
<td>6 - 6</td>
<td>1 billion drachmae</td>
<td>300 million drachmae (1997)</td>
<td>EPoS (ICL), EDI-D93A</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>11 - 11</td>
<td>Not given</td>
<td>Not given</td>
<td>EPoS (ICL), EDI</td>
</tr>
<tr>
<td>Makro (Metro)</td>
<td>4 - 4</td>
<td>Not given</td>
<td>Not given</td>
<td>EPoS (IBM), EDI</td>
</tr>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marinopoulos</td>
<td>110 - 110</td>
<td>2 billion drachmae</td>
<td>500 million drachmae</td>
<td>EPoS (ICL), EDI-D93A</td>
</tr>
<tr>
<td>Trofo</td>
<td>10 - 43</td>
<td>Not given</td>
<td>Not given</td>
<td>EPoS (IBM), EDI planned for 2000</td>
</tr>
<tr>
<td>Masoutis</td>
<td>35 - 51</td>
<td>500 million drachmae</td>
<td>500 million drachmae</td>
<td>EPoS (IBM), EDI planned for 2000</td>
</tr>
</tbody>
</table>

* The above data were provided by the interviewees
** Warehousing and transportation costs are included

To be more specific, managers from Greek food multiple retailers noted that logistics information technology systems do contribute towards the reduction of logistics related
transaction costs. Moreover, given their limited experience and knowledge in the use of information technology systems, they are not in a position to estimate precisely actual cost reductions. It is worth mentioning that most domestic firms introduced the use of scanning systems in their stores in 1997.

"Following the installation of EPoS systems, logistics costs were decreased, but I am sure that if my firm was capable of using them more efficiently, the benefit from cost reductions would have been higher" (Logistics manager of a Greek retail multiple)

Multinational firms on the other hand, established the use of these systems right from the start of their operations, and a lot earlier than domestic firms did. Additionally, the managers of multinational food multiple retailers estimated that logistics information technology systems are the major contributor towards the reduction of logistics related transaction costs, as these costs can be significant during the retailer’s internationalisation. The multinationals’ managers supported their views by specifying certain logistics areas (stock forecasting, route scheduling, warehousing space allocation and optimising warehouses’ location), where major cost reductions took place via the use of information technology systems. At their request, these reductions are not presented in the thesis. The multinationals’ managers also stressed that logistics information technology systems can provide major cost reductions, if and only if the retailer is capable of managing these systems properly, otherwise the cost reductions will be of minor length. A similar view was shaped among the managers of Greek retail firms.

The managers of domestic and multinational retail firms referred to the two distribution methods based on the use of scanning systems (EPoS):
i) Distribution by store, a practice followed by multinationals, and ii) distribution by product, a practice followed by Greek multiples.

As far as the first method of distribution is concerned, multinationals are able via the use of scanning systems to identify the existing stock level at every store, and to control stock replenishment in an efficient manner. At the start of the process, the company’s retail buyers are informed (via the EPoS function) on the existing level of stock in every store. Subsequently, the retail buyers check out stock levels at warehouses by using warehousing information technology systems, and the next step is to make a forecast for the amount of products that the retailer will need for a specific time period.

Retail buyers and category managers make the estimation based on the previous years’ sales (the data are collected via the EPoS). Retail buyers place their orders (via the EDI systems) to suppliers, who in due time deliver the products to the retailer’s warehouse. The retailer distributes these products from the warehouse to the stores by using a few trucks for every store. The products that can not be kept at warehouses, are delivered directly to the stores by the suppliers (e.g. for frozen goods, see Table 8.3).

Through that method, the retailer gains significant cost reductions (e.g. better use of trucks, less inventory needed at retailer’s warehouse).

In the distribution by product method, a truck carries a single product category or a limited number of products categories to distribute to a number of stores within a specific geographical area. Therefore, a plethora of trucks is needed to serve to the full, one retail store. Information technology systems can extensively contribute in raising logistics efficiency, but this may not be the case for the Greek firms as their retail buyers can not make an accurate forecast for the products needed at each store.
Among all domestic firms, only Marinopoulos has installed scanning systems at all stores (see Table 8.6), as the company enjoys the support provided by Promodès, as part of their joint plan for Marinopoulos to apply the distribution by store method in the forthcoming years. Therefore, the distribution by product method is followed by domestic firms, with a considerable amount of products ordered at store level and not by centrally located retail buyers, as the multinationals do. It is expected that domestic firms will be in a position to order centrally in the years to come, if appropriate information technology systems will be in place to support such a function.

Overall, logistics information technology systems are used extensively by multinationals, and they facilitate the use of distribution by store, that provides efficiency gains to those firms. On the other hand, domestic food multiples seem to lose out on efficiency gains compared to multinationals, as they use the less efficient distribution by product method that is far less dependent on logistics information technology systems. The issue of efficiency was discussed with the interviewed logistics managers and many of them provided the relevant stock turnover ratios (see Table 8.7) that depict the increased logistics efficiency of the multinational firms over the domestic firms between 1994 and 1998.
Table 8.7: Stock turnover ratio* for the major domestic and international food multiple retailers that operate in the Greek retail market

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marinopoulos **</td>
<td>10.43</td>
<td>6.68</td>
<td>6.69</td>
<td>5.82</td>
<td>6.74</td>
</tr>
<tr>
<td>Veropoulos</td>
<td>6.64</td>
<td>6.65</td>
<td>6.41</td>
<td>6.02</td>
<td>5.06</td>
</tr>
<tr>
<td>Atlantic</td>
<td>6.86</td>
<td>7.84</td>
<td>7.17</td>
<td>7.30</td>
<td>4.82</td>
</tr>
<tr>
<td>Trofo</td>
<td>4.24</td>
<td>4.57</td>
<td>5.11</td>
<td>5.18</td>
<td>4.90</td>
</tr>
<tr>
<td><strong>Average ratio for domestic firms:</strong></td>
<td>7.04</td>
<td>6.43</td>
<td>6.34</td>
<td>6.08</td>
<td>5.38</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A / B Vasilopoulos</td>
<td>7.63</td>
<td>8.27</td>
<td>9.30</td>
<td>8.02</td>
<td>7.80</td>
</tr>
<tr>
<td>Continent (Promodês) ***</td>
<td>18.04</td>
<td>13.98</td>
<td>9.86</td>
<td>11.34</td>
<td>15.19</td>
</tr>
<tr>
<td>DIA (Promodês) ***</td>
<td>started</td>
<td>started</td>
<td>7.51</td>
<td>14.47</td>
<td>18.89</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Makro ****</td>
<td>9.39</td>
<td>11.91</td>
<td>10.97</td>
<td>10.05</td>
<td>5.83</td>
</tr>
<tr>
<td><strong>Average ratio for multinationals:</strong></td>
<td>11.68</td>
<td>11.38</td>
<td>9.41</td>
<td>10.97</td>
<td>11.92</td>
</tr>
</tbody>
</table>

* Stock turnover ratio = Cost of Sales / Stock (Inventory)
** Marinopoulos utilises jointly with Continent the same warehouses, but its stock turnover performance is poor compared with that of Continent
*** DIA and Continent are examined separately as Promodês utilises a separate logistics infrastructure for each type of retail format
**** Makro is a wholesaler and does not use central warehouses

To conclude, managers from the multinationals only supported the research proposition.

Managers of domestic firms simply agreed that logistics information technology systems contribute towards the reduction of logistics related transaction costs.

Multinational retailers make an extensive use of such systems, whilst domestic firms have just started to implement them. Moreover, domestic firms do not have the appropriate experience and the knowledge to estimate the cost benefits stemming from information technology systems as multinationals do.
Research Topic 7: Examine if logistics information technology systems play a primary facilitating role during retailers' domestic and international expansion.

Research Proposition 7: Logistics information technology systems are the prime facilitator for the retailers' domestic and international expansion.

Most interviewees agreed that logistics information technology systems play a facilitating role for retailers' domestic and international expansion.

Managers from Greek food multiples emphasised the systems' supporting role in retail logistics operations, whilst managers from the multinationals also confirmed the key role played by the relevant systems for the same operations.

"Logistics information technology systems are a tool in retailers' logistics strategy that support my firm's expansion". (General manager of a Greek multiple)

"These systems are a necessity in order to implement the logistics strategy, something considered to be of critical importance for my company's expansion". (General manager of a multinational discounter)

Moreover, a number of managers of multinationals stressed the importance that these systems will have in the future.

"Logistics information technology systems are always taken into consideration as they are probably the major facilitator for the firm's logistics strategy. But in the near future, these systems will probably have a major role in my firm's overall strategy. Most multinational retailers have already started developing certain logistics information technology systems' capabilities, as their use will be of critical importance in the years to come". (Logistics manager of a multinational retailer)

Other managers from multinational firms noted the problems that their firms encountered in Greece:
“At the start of my company’s expansion in the Greek market, the logistics information technology systems were not compatible to the local infrastructure, so my firm could not operate these systems at all. Facing such a major problem, the parent company responded rapidly by modifying and adjusting these systems within a few weeks time”. (Information technology manager of a multinational discounter)

The managers of Greek food multiple retailers noted that logistics information technology systems are under continuous development, and that their systems are far less advanced compared to the ones run by multinationals.

“ My firm strives to improve logistics information technology systems on a frequent basis. The information technology department has developed some expertise, but it gets a substantial amount of support from consulting companies. Foreign retailers on the other hand, have developed logistics information technology systems’ expertise in-house and there is no way to reach that level of advancement in the near future”. (General manager from a major Greek multiple)

This is the underlying reason of why opinions between the managers of Greek and of multinational food multiple retailers differ, as far as the facilitating role of logistics information technology systems is concerned.

“ These systems will have only a supporting role in my company’s logistics operations and its overall expansion, at least in line with the present level of logistics information technology advancement in use by my company”. (Logistics manager of a Greek food multiple)

To conclude, the research proposition is advocated only by the managers of the multinationals, whilst the managers of domestic firms consider that these systems have only a supporting role during retailers’ expansion. This variance of opinions is the outcome of the different level of information technology advancement in use between domestic and multinational firms.
Therefore, it can be concluded that multinational firms lie in the strategic quadrant of the information planning grid (see Figure 4.2 in Chapter 4), as they are dependent on the functioning of these systems in order to expand. Moreover, existing applications and applications under development are linked with the firm’s business plans and with corporate planning, as noted in Research Proposition 5. Domestic firms on the other hand, lie in the support quadrant as the use of information technology is not connected to competitive success (see Figure 4.2 in Chapter 4). Moreover, it has been shown in Research Propositions 6 and 7 that Greek retail firms have moved to the turnaround quadrant, as they aim to achieve a critical impact upon their businesses emanating from recent information technology applications, as well as from the ones to come.

The previous analysis also suggests that the domestic firms are at the “evolutionary level”, and they aim to integrate these systems internally (see Stage 2, Figure 4.4 in Chapter 4). The multinationals are placed at the “business process redesign” stage (see Stage 3, Figure 4.4 in Chapter 4 for revolutionary levels), as they have integrated successfully these systems and therefore, operate in a completely new manner.

This kind of new manner is the distribution by store method that is dependent on the successful integration of information technology systems. In comparison, domestic firms follow the distribution by product method, and that practice is less dependent on logistics information technology systems.
Research Propositions (5–7)

5. The information technology strategy follows the logistics strategy in food multiple retailers' strategic planning

<table>
<thead>
<tr>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>The logistics and the information technology strategies are regarded as being complementary and they work in a parallel fashion. This is the case for the multinational retailers. The research proposition is not supported.</td>
<td>The logistics and the information technology strategies are regarded as being complementary and they work in a parallel fashion. This is the case for the Greek retailers and the research proposition is not supported.</td>
<td>For the development and the implementation of logistics information technology issues, Greek retailers are dependent on consulting companies, whilst the multinationals depend mainly, on their own capabilities.</td>
</tr>
</tbody>
</table>

6. Logistics information technology systems are the main factor towards the reduction of logistics related transaction costs

<table>
<thead>
<tr>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>The managers of multinationals considered these systems as the main factor behind the reduction of logistics related transaction costs. The research proposition is supported.</td>
<td>The managers of domestic retailers agreed that these systems contribute towards the reduction of logistics related transaction costs, but they are not in a position to calculate precisely the relevant cost benefits. The research proposition is not supported.</td>
<td>The multinationals are far more advanced in using these systems and they can also identify logistics activities with a scope for their efficiency to be further improved. Domestic firms started using these systems recently, and therefore, they have a limited experience and knowledge to comment on the issue.</td>
</tr>
</tbody>
</table>

7. Logistics information technology systems are the prime facilitator for the retailer's domestic and international expansion

<table>
<thead>
<tr>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers of multinationals regard these systems as being of primary importance, and they argued that they constitute a necessity for implementing the logistics strategy. The research proposition is supported.</td>
<td>Managers of domestic retailers regard that these systems have only a supporting role, and that they are a tool for their logistics strategy. The research proposition is not supported.</td>
<td>Greek retailers employ less advanced systems compared to the multinationals, and this leads to underestimate their strategic significance. However, most domestic retailers are in the process of adopting rapidly these systems.</td>
</tr>
</tbody>
</table>
5. Research theme 3: Strategic retail logistics network created between the food retail multiples and the third party logistics companies

This section examines the specific elements behind a potential creation of a strategic retail logistics network between food multiple retailers and third party logistics companies.

It should be noted that the Greek legislation did not encourage the development of third party distribution in the past (Sifniotis 2000) as it obliged firms to be the sole owners of products that they aimed to transport. This legislative measure caused various inconveniences in the management of the supply chain. For example, trucks were travelling at times empty as they could not transport other suppliers' products. Extra administrative costs also occurred as transported products needed to be sold to various third party logistics firms and at the end, to be sold again to the firm that initially assigned this task to third party firms. However, this legislation is expected to be soon harmonised to European Union standards that will allow firms to transport products without owning them. Another area of concern is warehousing, where the existing legislation allows firms to build a warehouse that will make use of a 40 % (maximum) out of the total area built, while in the rest of Europe, this percentage is 60 - 70 % (Sifniotis 2000). Additionally, the maximum height imposed on a warehouse must be of no more than 11.7 metres, while the permitted maximum height is 30 metres for the rest of Europe. Although certain steps have been taken to improve this situation, there are still numerous obstacles towards third party development for both the transportation and warehousing operations.
As far as the empirical research is concerned, the following two research propositions examine specific elements (e.g. co-operative approach and communication) of the strategic retail logistics network. A further research proposition is included with the aim to identify whether successful co-operation between network members leads to further co-operation between them.

**Research Topic 8:** Examine if the co-operative approach (a strategic retail network is based on a co-operative approach between the two parties) between the retailer (network controller) and third party logistics companies (network members) can provide better business results for both parties.

**Research Proposition 8:** Managers of food multiple retailers estimate that the co-operative approach with third party logistics companies is beneficial to the retailer (e.g. provides better economic results such as increased retail efficiency, lower retail costs).

All interviewees agreed that the issue of co-operation is of tantamount importance in distribution channels, especially between food multiple retailers and third party logistics companies. As far as the third party distribution is concerned, the managers of the Greek food multiples stressed that such a practice is favoured in a few cases (e.g. during Christmas period, distributing to the islands, for certain product categories), for both warehousing (see Table 8.3) and transportation (see Table 8.9). The managers underlined that this practice is used on a supplementary basis, as Greek food multiple
retailers regard own-account operations as being more efficient, compared to the operations provided by the third party logistics firms.

Table 8.9: The transportation function in the Greek food multiple retail sector (1998)*

<table>
<thead>
<tr>
<th>Food Multiple Retailer</th>
<th>Number of trucks operated by the retailer</th>
<th>% of retailer’s (own-account) transportation (volume of products)</th>
<th>1. % of transportation through third party companies as part of total transportation volume, 2. Number of trucks used by these third party firms, 3. Third party transportation is used for.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinationals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/B Vasilopoulos (Delhaize Le Lion)</td>
<td>35 (Athens area)</td>
<td>60 - 70 %</td>
<td>1. 30 - 40 %, 2. Not known 3. Used for stores away from Athens and for frozen goods, cheese, meat</td>
</tr>
<tr>
<td>Continent (Carrefour / Promodés)</td>
<td>50 (Marinopoulos trucks)</td>
<td>Not given</td>
<td>1. Not known 2. 60 trucks via 5 third party companies, 3. Used for frozen goods and for the islands (Crete)</td>
</tr>
<tr>
<td>DIA (Carrefour / Promodés)</td>
<td>NONE</td>
<td>0 %</td>
<td>1. 100 % third party, 2. 25 trucks and using more than 10 third party companies, 3. Not known</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>3 (Marinopoulos trucks)</td>
<td>Not given</td>
<td>1. Not known 2. Not known 3. A British third party company is used for frozen goods and for the islands (Crete)</td>
</tr>
<tr>
<td>Makro (Metro)</td>
<td>Does not make use of the</td>
<td></td>
<td>Transportation function</td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Veropoulos</td>
<td>85</td>
<td>95 %</td>
<td>1. 5 %, 2. Not known 3. Used for frozen goods and for the islands (Aegean and Crete)</td>
</tr>
<tr>
<td>Atlantic</td>
<td>60</td>
<td>99 %</td>
<td>1. 1 % 2. Not known 3. Used for frozen goods and for just one store in the Aegean islands)</td>
</tr>
<tr>
<td>Marinopoulos</td>
<td>90</td>
<td>Not given</td>
<td>1. Not known 2. 90 trucks via 6 third party</td>
</tr>
<tr>
<td>companies,</td>
<td>1. 5 %,</td>
<td>3. Used for frozen goods and for the islands</td>
<td></td>
</tr>
<tr>
<td>Trofo</td>
<td>40</td>
<td>95 %</td>
<td>2. Not known</td>
</tr>
</tbody>
</table>

* The above data were provided by the interviewees

Managers of Greek food multiple retailers can not estimate whether the co-operative approach can provide better results, especially when the externalisation of logistics operations is still at its infancy, and there are no available financial ratios to evaluate this decision. Multinational food multiple retailers on the other hand, apply third party distribution to a far larger scale (especially in the transportation function).

In particular, a multinational discounter has already externalised its entire transportation function. It is noteworthy that the multinational retailers that operate in the Greek food multiple retail sector follow the same logistics strategy in the areas of transportation and warehousing in every country they enter to operate. More specifically, a multinational multiple favours the use of its own trucks (own - account) in every country that operates, whilst a multinational discounter uses only third party distributors for the transportation function all over Europe. The above also confirm the presence of a deliberate strategy pursued by the multinationals as far as logistics practices (externalisation, internalisation) are concerned.

Multinational food multiple retailers evaluate on a continuous basis third party distributors, with the help of available financial ratios. During the interviews, the managers of multinationals came forward with specific examples on the use of these ratios, although they did not give the permission to the author to include them in the
present thesis. However, the managers of these firms can not estimate whether the co-operative approach between them and third party distributors could offer better economic results to their companies, as they are not aware of any financial ratios to measure the benefits of such co-operation. The managers of the Greek and of the multinational retailers simply speculated that the co-operative approach is always beneficial and is the basis for achieving better results. All managers were emphatic on the issue of existing legislation that has apparently put a constraint upon the growth of third party distribution services. All managers stressed that unavoidably, the prevailing legislation limits the co-operation between the retailers and the third party logistics firms. Epitomising on the above said, a manager concluded:

"The existing third party logistics companies can not cope with the food multiple retailers' demands. The largest third party companies own a fleet of 40 to 60 trucks and possess warehousing space between 7 to 10,000 sq.m., whilst my company owns 85 trucks and owns warehousing space in excess of 25,000 sq.m. How do you expect then to evaluate the issue of co-operation when these companies are used only on specific occasions?" (Logistics manager of a major domestic food multiple)

To conclude, domestic and multinational retailers agreed that the co-operative approach is beneficial for all parties involved. However, all managers argued that the issue of co-operation can not be evaluated and that the legislation has put a constraint upon the expansion of the local third party distribution sector, so the latter remains underdeveloped.

**Research Topic 9:** Identify the importance of logistics information technology systems in establishing an effective communication between the food multiple retailers and the third party logistics companies.
Research Proposition 9: The use of logistics information technology systems plays a primary role in the establishment of an effective communication between the food multiple retailers and the third party logistics companies.

The managers of the Greek food multiple retailers are not in a position to estimate the importance of logistics information technology systems, as an essential tool in communicating with the third party logistics companies. This is explained by the fact that most of the Greek retail firms have started the operation of these logistics information technology systems in the last few years. Moreover, Greek food multiple retailers do not externalise the logistics functions to a large extent, and the use (and also the joint-development) of logistics information technology systems for communicating with third party firms is therefore, very limited.

The managers of the retail multinationals, on the other hand, confirmed that logistics information technology systems are the major contributing factor for an effective communication between their parent firm and the third party logistics companies in other European countries.

"Logistics information technology systems are the means for the communication between retailers and third party companies. Moreover, Western European third party logistics companies are the ones that are responsible for most of the main developments that took place during the past decade, as far as these systems are concerned". (Logistics manager of a multinational retailer)

It must be said that there are only a few multinational logistics firms operating in Greece, and they are not involved in major assignments; therefore, Greek firms dominate the relevant market. Having said that, however, the domestic third party
logistics companies have not as yet developed any expertise and capabilities in logistics information technology systems.

"Logistics information technology systems were introduced recently in the Greek food distribution channel, mainly by retailers and to some extent by manufacturers. But third party logistics companies were less active as far as the introduction and the development of any of these systems is concerned". (Logistics manager of a multinational retail multiple)

"Food multiple retailers are well ahead of third party distributors in every aspect of the logistics function, and that’s the reason of why retailers prefer to use own-account distribution methods. As far as logistics information technology systems are concerned, Greek third party distributors expect from retailers to show them the way that can be used, but more importantly third party distributors expect the financial support of retailers in order to implement these systems. Retailers on the other hand, are quite sceptical to support third party logistics companies to improve their logistics information technology infrastructure. However, some retailers have just started supporting financially third party firms to improve their relevant information technology infrastructure". (Logistics manager of a multinational)

The above have implications for the communication between channel (and network) members.

"Third party logistics companies should start making bigger use of logistics information technology systems, as they lag behind other channel members on that issue. This creates numerous problems, and one of these is a lack of effective communication between retailers and third party companies, as the vast majority of third party firms do not make an extensive use of these systems." (General manager of a multinational hypermarket firm)

The general manager elaborated on the above and shared his experience from Western Europe:

"In Western Europe, there is an advanced level of logistics information technology systems, and every firm engaged in the distribution channel recognises the strategic importance of these systems and aims to improve them on a continuous basis. Effective communication between channel members is ranked highly in the strategic hierarchy of operations. But I have to admit, that this strategic aspect is left neglected within the Greek distribution channel". (General manager of a multinational hypermarket firm)
To conclude, the managers of multinationals supported the research proposition based on their experience. In the Greek distribution channel, the use of these systems is in its infancy and therefore, the importance of these systems can not be clearly assessed, given the fact that third party distributors need to improve their logistics information technology infrastructure.

Research Topic 10: Examine if the successful co-operation between a food multiple retailer and a third party logistics company, can lead to a further development of this co-operation (e.g. via a renewal of the existing contract).

Research Proposition 10: The successful co-operation between a food multiple retailer and a third party logistics company leads to further development of this co-operation between the parties involved (e.g by extending the existing contract).

Managers mentioned that they continue their co-operation with third party logistics companies, and therefore, renew existing contracts if they are satisfied or if they are slightly satisfied with the overall performance of these companies. Retailers make use of numerous third party companies for transportation and warehousing, as every logistics company can service due to its small size, only a small percentage of a food multiple retailer’s logistics needs.

"Contracts are renewed even when a third party logistics company is not very efficient. Most retailers take into consideration that the Greek third party distribution sector is not adequately developed. I expect, however, these companies to become more efficient in the years to come". (Logistics manager of a Greek multiple)
A Greek food multiple that entered recently international markets decided to partner with the most reliable and efficient third party distributor for its international logistics operations.

"I was satisfied with a few third party companies, but this particular distributor proved to be very efficient and reliable on numerous problematic situations. This is the reason for choosing this company for our international operations. My firm supported this distributor financially (through the grant of a low interest loan), in order to gain its trust and its full commitment". (General manager from a domestic company that has recently entered international markets)

Very few international third party distributors operate in the Greek market, and none of them has installed the capacity to accommodate to the full the food retailers’ logistics needs.

"Although my firm’s strategy towards logistics externalisation, is to favour the multinational logistics companies with whom we co-operated successfully in the past, this was not possible in the Greek market, as there were very few multinational logistics firms. Moreover, multinational logistics companies in Greece have very modest operations and they lack the necessary infrastructure to work with. My firm decided to work with numerous domestic third party firms, that they are assessed every year, and for the moment, they meet my firm’s objectives". (Logistics manager of a multinational discounter)

A multinational multiple offered a contract to a leading British third party logistics company (namely NFC - Excel), in order to provide its support for the formulation of the retailer’s warehousing strategy in the Greek market. It does not come as a coincidence that NFC - Excel has successfully consulted the retailer’s parent company in its operations in a number of European countries. Additionally, a multinational department store retailer has chosen a British distributor for the transportation of a certain product category (frozen goods) in the Greek market. This third party logistics company has been very efficient for retailer’s domestic and international operations.
Hence, both domestic and multinational firms support the research proposition, as contracts with third party companies are renewed if retailers are satisfied. This is more evident among the multinationals that make a larger use of logistics firms. But when retailers decide to appoint distributors for their international operations, they are far more selective. In that case, domestic and multinational firms employ the best distributors as the selection is based on the outcome of their previous co-operation.

It is noteworthy that multinational retailers select to grant a contract to multinational logistics firms, potentially enhancing the internationalisation process in that particular sector.

To conclude, the strategic network approach is not an issue for the moment in the Greek food multiple retail sector, even when one aspect of it (a successful co-operation that leads to a further tightening of this co-operation), is followed by retailers.

However, the co-operation and effective communication network elements can not be evaluated due to the underdeveloped third party logistics sector, as well as the minor use of logistics information technology systems. Currently, the relationship between the food multiple retailers and the third party logistics companies is a transactional one, as there is a repeat purchase situation of these services by retailers (see Figure 3.2 in Chapter 3). Nevertheless, few retailers are moving to the partnership arrangements phase with third party logistics firms (see Figure 3.2 in Chapter 3), by supporting financially third party logistics firms. From the above, it can be concluded that the future sounds very promising as retailers seem to have a co-operative attitude against third party logistics firms. On the other hand, if third party firms manage to improve their infrastructure and also increase the scale of their operations, they will become
gradually valuable partners to retailers, and possibly, a number of networks between the two sides will be formed.

### Table 8.10: Strategic retail logistics network between retailers and third party companies in the Greek food multiple retail sector

<table>
<thead>
<tr>
<th>Research Propositions (8 - 10)</th>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Managers of food multiple retailers estimate that the cooperative approach between them and the third party companies provides better economic results</td>
<td>The managers of domestic and multinational retailers speculated that the cooperative approach is beneficial to distribution channel members, although they can not evaluate the issue of co-operation</td>
<td>The research proposition is partially supported by both domestic and multinational firms</td>
<td>The issue of co-operation can not be examined in full, as the third party distribution sector is underdeveloped and the issue of “co-operation” can not be measured.</td>
</tr>
<tr>
<td>9. The use of logistics information technology systems is the prime factor for the effective communication between food multiple retailers and third party logistics companies</td>
<td>Managers of multinationals regard these systems as the major contributing factor for the effective communication between these channel members, although their answer is based on the experience gained by the parent firm. The research proposition is supported.</td>
<td>Domestic retailers can not estimate the importance of these systems towards the effective communication between the channel members, as the implementation of these systems is at an early stage. The research proposition is not supported.</td>
<td>Third party logistics companies have not as yet developed these systems. These firms need to improve their logistics information technology infrastructure in order to enhance the transfer of communication within the channel.</td>
</tr>
<tr>
<td>10. The successful co-operation between a food multiple retailer and a third party logistics company leads to a further strengthening of this co-operation (e.g. a new contract) rewarded by the retailer to the third firm</td>
<td>The managers of multinationals support the research proposition, as their firms renew the contract with a third party firm if they are satisfied with the service provided</td>
<td>The managers of domestic retailers support the research proposition, as their firms also renew the contract with a third party firm if they are satisfied with the third party’s service performance</td>
<td>At international level, retailers are far more selective and choose the most reliable and efficient third party logistics firm.</td>
</tr>
</tbody>
</table>
6. Research theme 4: The application of the eclectic paradigm (OLI) in the Greek food multiple retail sector

In this section, the importance of the three competitive elements of Dunning’s (1980, 1988a) eclectic paradigm (ownership, location, internalisation) are assessed for the retailers’ international expansion in the Greek food multiple retail sector.

The author examined both multinationals and domestic firms. Domestic firms consider internationalisation as a viable strategic option, and two Greek retailers have already been engaged, although to a limited extent, into that process. Moreover, these firms have experienced multinational retailers’ activity in Greece and are affected by the internationalisation process. Therefore, it is expected that the impact of retail internationalisation in the domestic environment can be seen via the examination of the relevance of the eclectic paradigm.

Finally, specific factors were examined (see Table 5.15 in Chapter 5) that facilitated the investigation of a complex topic such as the eclectic paradigm’s competitive advantages.

The author provided the interviewees with a list of these competitive factors, in order to understand to the full the essence of the eclectic paradigm. The interviewees were also asked to add any other factors that they could be considered as being relevant, however no other factors were stated.

Research Topic 11: Identify the competitive importance of the ownership advantage (and its associated factors) in the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.
Research Proposition 11: The ownership advantage (Associated Factors: Own brands, experience gained on a certain store format, management capabilities, market image) is the most important competitive element within the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.

All interviewees from Greek food multiple retailers consider the ownership advantage as a very important issue, and stressed that one of the factors in particular, namely own brands, has become a major element of domestic retailers’ strategy during recent years (see Table 8.11).

“Own brands were underdeveloped in the Greek food retail sector. But the advent of multinational food multiple retailers and the subsequent introduction of their own brands, led most Greek food retailers to respond by expanding their own brand portfolio as well. An exception to the rule was Veropoulos that had already in place a big own brands’ range, developed with its co-operation with Spar”. (Marketing manager of a major Greek food multiple)

Table 8.11: The share of own brands sales in the Greek food multiple retail sector (1998)*

<table>
<thead>
<tr>
<th>Food multiple retailer</th>
<th>% of sales from own brands in total retail sales</th>
<th>No of own brands (No of items)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Multinationals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/B Vasilopoulos (Delhaize Le Lion)</td>
<td>15 %</td>
<td>500</td>
</tr>
<tr>
<td>DIA (Carrefour / Promodès)</td>
<td>Not given</td>
<td>650</td>
</tr>
<tr>
<td>Continent (Carrefour / Promodès)</td>
<td>15 %</td>
<td>Not given</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>100 %</td>
<td>Not given</td>
</tr>
<tr>
<td>Makro (Metro)</td>
<td>Less than 5 %</td>
<td>Very limited</td>
</tr>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atlantic</td>
<td>5 %</td>
<td>150</td>
</tr>
<tr>
<td>Marinopoulos</td>
<td>10 %</td>
<td>Not given</td>
</tr>
<tr>
<td>Trofo</td>
<td>6 %</td>
<td>170</td>
</tr>
<tr>
<td>Veropoulos</td>
<td>13 %</td>
<td>420</td>
</tr>
</tbody>
</table>

* The above data were provided from the interviewees
The managers of the multinationals on the other hand, did not consider the ownership advantage and most of its associated factors as being the most important competitive issue. The managers of multinationals emphasised that this view applies not only to the Greek market, but to their companies’ overall international strategy.

“During the past decades, food multiple retailers were expanding internationally based on the ownership competitive advantage and its associated factors. Nowadays, none of these factors can provide a differential competitive advantage, as most international retailers seek to become more efficient. This efficiency can not be exclusively traced in ownership factors”. (General manager of a multinational hypermarket firm)

However, the managers in charge of a multinational discounter provided a far different view.

“Own brands have a major role to play in my firm’s international expansion, and this applies to the Greek market as well”. (General manager of a multinational discounter)

The market image factor on the other hand, is perceived not to be an important factor at all for most managers of multinational retailers, as it is not an issue at all for international food retailing.

“ The market image can not provide in its own right the reason to expand internationally, especially when local customers are not aware of the retailer’s market image and profile. It is probably important in other retail sectors, such as fashion retailing”. (Commercial manager of a multinational firm)

Supporting the above, the marketing manager of a multinational department store retailer considered market image to be an important issue especially for its non-food (clothing) product range. Nevertheless, it is of importance to Greek firms, which expand on domestic level, and customers are fully aware of them.

Only managers from multinational retailers considered experience on store format as an important issue.
"Most multinationals have an expertise in one format and that experience is quite important to their expansion”. (Store development manager of a multinational)

The managers of multinational retailers came forward with a similar view regarding the management capabilities factor.

"Management capabilities are needed in order to expand at an international level and therefore, are necessary for my firm’s expansion in the Greek market as well”. (Store development manager of a multinational)

But the managers of the Greek food multiple retailers had a different view, they did not regard the management capabilities to be of any importance at all. The latter potentially reveals the fact that international operations require a far more advanced level of management capabilities compared to domestic operations. In addition, the latter also reflects the influence of the ownership status of the major Greek food multiples, that are family owned and family run, upon these management capabilities, that are far different from the management capabilities developed by professional managers.

To conclude, only the managers of the Greek firms supported the ownership advantage research proposition, and two associated factors (own brands, market image) were underlined by managers for their vital competitive importance. For the multinationals, the ownership advantage has lost its importance, although specific format retailers regarded some of its factors as being quite important. It is noteworthy, that these findings give a more clear view on the importance of issues such as operating format, market image, own brands and product lines for motivating retailers to internationalise compared to past studies (for example, see Alexander 1990). Moreover, the interviews’ answers support Williams (1992a, b) rationale that retailers should possess a unique
competitive advantage to internationalise, and for example, this was found to be the own brands and market image for a multinational discounter and a multinational department store retailer respectively.

**Research Topic 12:** Identify the importance of the location advantage (and its associated factors) in the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.

**Research Proposition 12:** The location advantage (The host country’s competitive factors: competitive environment, supply chain infrastructure, investment incentives, availability of locations for new stores and availability of locations for warehouses), is the most important competitive advantage element in the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.

Most interviewees mentioned that the location advantage used to be of central importance in retailers’ strategy. Nowadays, this advantage is of decreasing importance, as various issues (e.g. new legislation, new customer needs, non-store selling methods) have led food retailers to pursue other strategies (e.g. acquisitions), as well as to develop various store formats.

“Following the selection of a specific country for international expansion, the next step is the identification of the store format to enter this particular market. My firm decides to choose the most appropriate formats for that country, and it must be said that most multinationals have the ability to enter every country via various formats”. (General manager of a multinational retailer)
Many managers stressed that new selling methods such as home shopping and internet shopping have gradually reduced the importance of the location advantage.

"Nowadays, a retailer can sell a product without having a store. For the time being, this does not constitute an issue for the Greek food multiple retail sector, but it is of rising importance for other retail sectors". (Store development manager of a multinational food retailer)

As far as the factors of the location advantage are concerned, managers from both domestic and multinational firms estimate that the host country’s environment and the supply chain infrastructure have a minor role to play in a retailer’s strategy.

"Most retail concepts (formats, products) are easily modified to be adapted to the local environment, and the domestic supply chain infrastructure can also be developed if it is not adequate enough". (Marketing manager of a multinational retailer)

Many managers noted a few occasions where their companies have assisted in the development of the local supply chain infrastructure.

"My company built the road network around its hypermarket store in Larissa (a major city in Central Greece), but no financial support was given to my company either from the local council or by the government". (Store manager of a multinational food multiple retailer)

As far as the investment incentives’ factor is concerned, all managers agreed that it does not have any importance at all for the Greek retail market.

"The government has not provided any investment incentives to retailers, as the manufacturing sector is still its top priority". (General manager of a domestic retailer)

The factors that seem to have a considerable role to play are the availability of locations for stores and warehouses, but this is limited to specific format retailers. To be more precise, managers from both domestic and multinational hypermarket retailers
confirmed that the availability of locations for store development is a major item on their strategic agenda.

"The hypermarket format depends on a single factor: location. Nowadays, it is very difficult to find a suitable location for the hypermarket format in Greece. Given such a location constraint, food retailers develop other smaller scale formats as well". (Store development manager of a multinational retailer)

The managers of a multinational department store retailer supported the above.

"The department store format is profitable only if located in the city centre in the Greek retail market. Appropriate locations are not only difficult to get, but very expensive as well". (Store manager of a multinational department store retailer)

The managers of a multinational discount retailer on the other hand, noted that the availability of locations for warehouses is an important issue in their firm’s strategy.

"It is not difficult to find suitable store locations, as discounters operate via small store formats. My main difficulty is to find a suitable and cheap location for a warehouse, as it should be located close to our stores and to the suppliers’ warehouses". (General manager of a multinational discount retailer)

To conclude, both domestic and multinational firms did not support the research proposition, as retailers have nowadays the ability to enter the Greek market (and other host markets), through various store formats and selling methods. It seems that overall the location specific competitive advantage does not constitute a central theme in a retailer’s strategy nowadays.

**Research Topic 13**: Identify the importance of the internalisation advantage (and its associated factors) in the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.
Research Proposition 13: The internalisation advantage (Associated Factors: Expertise in logistics operations, logistics information technology systems expertise) is the most important competitive element in the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.

The internalisation advantage has become an important issue for Greek food multiple retailers during the last few years, and with both of its associated factors having to play a central role in the enhancement of this advantage.

"Issues like logistics and logistics information technology systems were not on the agenda during the past decades. During the last five years however, the major Greek food multiples realised that both issues were extensively developed by retail multinationals, so they decided in the launch of the relevant operations as well. The multinationals, however, had already developed expertise on these issues, whilst for the domestic firms these operations were at their infancy". (Logistics manager of a major Greek food multiple retailer)

Many managers noted that various factors led the domestic retailers to implement logistics practices, as they were seeking increased operational efficiency.

"During the past years, inflation has been dramatically decreased. This led Greek food multiple retailers to stop stock holding as to benefit from price increases, and they started applying modern logistics practices such as centralisation, with the aim to decrease existing stock levels and subsequently, to increase efficiency in the supply chain". (Commercial manager of a Greek food multiple retailer)

"The introduction of logistics practices was not a clear-cut strategy for the Greek food multiples, but a competitive response to external pressure emanating from factors such as the competition from multinationals and the need for increased efficiency". (General manager of a Greek food multiple retailer)
The view expressed by the general manager offers further support to previous findings, (see Research Proposition 3) that Greek firms follow the emergent approach, as far as their logistics strategy is concerned.

Domestic firms favour the own account situation, implying that most logistics practices (e.g. transportation, warehousing) are internalised via the firm’s efforts, whilst advice on certain expertise is sought from other firms (e.g. for the development of logistics information technology systems).

For the multinational food multiple retailers, on the other hand, the internalisation advantage plays a central role in their strategy, as multinationals regard it as the most important element of the eclectic paradigm. In particular, expertise developed in logistics and in logistics information technology systems are major factors in the exploitation of the internalisation advantage.

"Expertise developed in logistics and in logistics information technology systems is a major issue in my firm’s strategy. These issues have gained an extra importance at international level, because retail multinationals have to be well organised to compete with domestic retailers. These factors are also central in the co-ordination of my firm’s international operations that consist of dealing with thousands of products, sold at hundreds of stores every day. Therefore, only with a great amount of expertise in logistics and in logistics information technology systems, multinationals will be able to cope with the demands of international operations”. (General manager of a multinational retailer)

For discounters, the internalisation advantage as presented in these factors, is not only the most important element in the eclectic paradigm, but it is also a prime theme in their business philosophy.

"Food discounters have become pure logistics businesses, and without developed expertise in logistics and in logistics information technology systems, they can not operate efficiently at domestic and international level”. (General manager of a multinational discounter)
Multinationals prefer to externalise their transportation function in the Greek retail market, and the aforementioned multinational discounter has also externalised its entire transportation function. Nevertheless, multinationals have developed over the years an expertise in logistics, and especially in the logistics information technology systems area that is developed in-house, as part of their incorporated internalisation advantage. Additionally, many managers stated the future importance of these systems for their companies:

"It is a common strategy amongst multinationals to outsource some of the logistics functions to a small or to a large extent. Logistics information technology systems are developed in-house, and multinationals externalise their development only in rare situations. In the future, retailers will be dependent on expertise stemming from information technology, and in particular, from logistics information technology systems that will be crucial to the internationalisation decision". (General manager of a multinational multiple retailer)

"In the years to come, food multiple retailers that do not possess logistics and logistics information technology expertise, or the ability to gain this expertise from third party companies, will not be able to expand at both domestic and at international level. To be more realistic, these retailers will not stay in the business". (Logistics managers of a retail multinational firm)

Other managers emphasised that logistics outsourcing will be increased in the future, as the local third party logistics sector is underdeveloped and therefore, it is expected to grow its presence in the local market.

All managers agreed that the internalisation advantage is an important element in the eclectic paradigm, with the managers of the multinationals considering it as the most important element of that paradigm. This variance of opinions is the outcome of a different level of expertise owned in logistics and in logistics information technology systems, with multinationals having reached a far more advanced level.
Nevertheless, this expertise can be gained from other companies as well, so logistics outsourcing / externalisation will become more popular in the near future within the Greek distribution channel. Moreover, these managers stressed the importance of logistics information technology systems’ expertise in relation to the internationalisation decision. Hence, this expertise can be a global driver for multinationals’ expansion, if we are to follow the suggestion by Ives et al (1993) as discussed in Chapter 4 (see Figure 4.3).

The managers of the Greek firms did not support the research proposition as they ranked lowly the importance of the internalisation advantage (with all of its associated factors). This may be largely attributed to the dissimilar level of logistics expertise possessed between the domestic and the multinationals. As noted earlier, domestic firms are at the early stages of developing sophisticated logistics practices. The impact of the entry in the local market stemming from retail internationalisation has intensified competition beyond price wars. Most of the managers working for Greek retail firms confirmed the implementation of newly introduced logistics practices in the wake of foreign entry that has put additional competitive pressure upon the local firms. The previous analysis for the eclectic paradigm is summarised in Table 8.12.
Table 8.12: The eclectic paradigm in the Greek food multiple retail sector

<table>
<thead>
<tr>
<th>Research Propositions (11-13)</th>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. The ownership advantage (and its associated factors) is the most important competitive element within the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector</td>
<td>Managers of multinationals consider that this used to be a very important issue, but now it is of minor importance within the eclectic paradigm. The research proposition is not supported.</td>
<td>Domestic retailers consider it as the most important advantage within the eclectic paradigm. The research proposition is supported.</td>
<td>Operational efficiency is becoming a major competitive advantage for the internationalisation decision.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Own brands</td>
<td>Not important</td>
<td>Very important</td>
<td>Consists a major issue for domestic firms and for a multinational discounter</td>
</tr>
<tr>
<td>Experience on store format</td>
<td>Important</td>
<td>Not important</td>
<td>An important issue for the multinational retailers only</td>
</tr>
<tr>
<td>Management capabilities</td>
<td>Important</td>
<td>Not important</td>
<td>Important for the multinational retailers only</td>
</tr>
<tr>
<td>Market image</td>
<td>Not important</td>
<td>Very important</td>
<td>Very important for the domestic firms and for a multinational department store retailer</td>
</tr>
</tbody>
</table>

12. The location advantage (and its associated factors) is the most important competitive element in the eclectic paradigm, for the managers of multinationals considered it of **minor importance** in the eclectic paradigm. The managers of domestic firms consider it of minor importance in the eclectic paradigm. The research proposition is supported. | Non-store location methods are becoming of increasing importance |
Retailers that operate in the Greek food multiple retail sector research proposition is not supported.

<table>
<thead>
<tr>
<th>Factors of host country's</th>
<th>Of minor importance</th>
<th>Of minor importance</th>
<th>Retail concepts can be adapted to the environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Of minor importance</td>
<td>Of minor importance</td>
<td>It can be developed by the retailer</td>
</tr>
<tr>
<td>Supply chain infrastructure</td>
<td>Of minor importance</td>
<td>Of minor importance</td>
<td>An important issue for the manufacturers only</td>
</tr>
<tr>
<td>Investment incentives</td>
<td>Not important at all</td>
<td>Not important at all</td>
<td>An important issue for the hypermarket and the department store retailers</td>
</tr>
<tr>
<td>Availability of locations for stores</td>
<td>Of minor importance</td>
<td>Of minor importance</td>
<td>An important issue for the discounters only</td>
</tr>
<tr>
<td>Availability of locations for warehouses</td>
<td>Of minor importance</td>
<td>Of minor importance</td>
<td></td>
</tr>
<tr>
<td>13. The internalisation advantage (and its associated factors) is the most important competitive element in the eclectic paradigm, for the retailers that operate in the Greek food multiple retail sector.</td>
<td>Managers of multinationals consider it as the most important advantage in the eclectic paradigm. The research proposition is supported</td>
<td>Managers of domestic firms argued that it has become important recently in the eclectic paradigm. The research proposition is not supported</td>
<td>Outsourcing will become an important issue in the near future</td>
</tr>
</tbody>
</table>

Factors

<table>
<thead>
<tr>
<th>Expertise gained in logistics</th>
<th>Very important</th>
<th>Important</th>
<th>For the discounters, logistics has become an indispensable part of their business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise gained in logistics technology systems</td>
<td>Very important</td>
<td>Important</td>
<td>In the future, this expertise will be critical to the international expansion decision</td>
</tr>
</tbody>
</table>
7. Research theme 5: The application of transaction costs theory into retail logistics

In the final section, issues that constitute the basis of the transaction costs analysis, such as uncertainty, asset specificity, frequency and opportunism are investigated.

The author’s aim is to identify to what extent uncertainty, asset specificity and frequency related issues are incorporated in retailer’s logistics strategy. Most importantly, to study whether these issues have an influential role on the internalisation or the externalisation decision, as far as the logistics functions of transportation and warehousing are concerned. On top of the three elements cited above, opportunistic behaviour in supply chain transactions will be also investigated. In particular, the author will examine if logistics information technology systems have a major role for the monitoring of third parties’ potential opportunistic activities in a situation where a retailer externalises the transportation and the warehousing operations.

Research Topic 14: Examine if environmental uncertainty (e.g. economical, regulatory and political) is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations.

Research Proposition 14: Environmental uncertainty favours the internalisation of food multiple retailers’ transportation and warehousing operations.
Managers of multinational food multiple retailers argued that uncertainty is an issue that has been always taken into consideration, especially in the case where retail internationalisation was regarded to be a risky strategy.

"During the last two decades, my firm has been very cautious at the time of international expansion, as the firm entered alien and unknown environments. Nowadays, environmental uncertainty is of minor importance, as a vast amount of information can be gathered before entering a new market. Moreover, my firm has become quite experienced of the internationalisation process, although I have to admit that environmental uncertainty is an issue that will be always difficult to eliminate completely.” (Commercial manager of a multinational multiple retailer)

The managers of a Greek multiple retailer, that has recently entered into foreign markets, stressed the need for the gathering of information for the host market to enter.

"My firm gathered a plethora of information for the host country and the firm’s senior managers spent a year in that country, familiarising themselves to the local market”. (President of a Greek multiple retailer that has recently entered into foreign markets)

Managers of other Greek food multiple retailers do not regard uncertainty as a strategic item that merits extra attention to be paid in connection to their domestic strategy.

"My firm has been operating in the domestic environment for at least three decades, and we are familiar with every aspect of it”. (General manager of a major Greek food multiple retailer)

Managers of both Greek and multinational retailers agreed that uncertainty has no effect at all upon a food retailer’s decision to externalise or to internalise the transportation and the warehousing operations. The managers clarified that it is a matter of what practise is more cost efficient on a long term basis, that such a decision is based upon.

"Although uncertainty scenarios are taken into consideration in a financial terms context, the decisive criterion for selecting the logistics practise to implement (to externalise or to internalise operations) is cost specific, irrespectively of the amount of
uncertainty involve. I am sure that firms opt for the less expensive practise, as they reckon that it will make logistics operations more efficient in the long run”. (Logistics manager of a domestic food multiple retailer)

“ My company followed this practise (the externalisation path), although we were aware of the fact that the third party distribution sector in Greece was underdeveloped. From that perspective, the decision to implement an externalisation decision dealt with a great amount of uncertainty. However, this choice was the most cost efficient on a short and on a long term basis, and eventually it has been proved to be a success”. (Logistics manager of a multinational discounter)

A number of the interviewees stated that food retailers operate in a fast-moving environment where uncertainty is taken for granted. These managers also made an attempt to provide an assessment of the level of environmental uncertainty prevailing within the Greek retail market.

“ My firm learnt to deal with uncertainty as the retail environment is a cut throat business. Uncertainty is part of everyday life not only for decisions regarding the logistics operations, but also for the vast majority of retail operations”. (President of a domestic food multiple retailer)

“ The Greek retail environment is not a hostile environment as such, as retailers do not encounter a great amount of uncertainty”. (Marketing manager of a retail multinational company)

Both groups of managers do not support the research proposition that for domestic and multinational firms uncertainty favours the internalisation of the transportation and the warehousing operations. Food multiple retailers externalise or internalise these logistics functions, based exclusively on the costs involved with every adopted practice, and the expected long run efficiency gains.
Research Topic 15: Identify if asset specificity is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations.

Research Proposition 15: The larger the specific amount of an asset (e.g. trucks, warehouses) required for retailers’ transportation and warehousing operations, the higher the tendency of the retailer to internalise these operations.

Most managers mentioned that asset specificity is an issue that should be examined in relation to the country’s third party distribution.

"Asset specificity is a factor that favours strongly the internalisation of a retailer’s logistics operations, if there are no major third party logistics companies available to undertake these activities. This is the case of the Greek distribution channel. Otherwise, the issue of cost is the decisive factor behind the decision to externalise or to internalise these functions". (General manager of a multinational retail firm)

Many managers argued that warehousing is a far more important function in asset specificity terms compared to transportation.

"Retail logistics operations demand capital assets that are quite expensive and when obtained, they are not easy to get rid of. This is the case mainly for warehousing”. (Logistics manager of a domestic multiple retailer)

"For the moment, it is far easier to externalise the transportation function compared to warehousing, as the assets involved in transportation (e.g. trucks) can be easily re-deployed in other uses. This is not the case however for warehousing operations, as the third party companies that operate in the Greek logistics sector are quite small and not willing to undertake the larger financial burden (compared to transportation) that warehousing involves. That’s why these firms, provide warehousing for specific product categories, such as frozen goods”. (Logistics manager of a multinational retail firm)
Moreover, many of the managers of domestic and multinational firms noted that nowadays a food multiple retailer has a variety of financial alternatives on asset specificity dilemmas. As a matter of fact, managers believe that the successful selection among these financial options has become the name of the game.

"Retail firms can make use of various financial options. For example, they can buy an asset (through cash, loan, etc.), they can lease an asset, they can rent it and of course, they can always employ a third party firm". (General manager of a multinational retail firm)

Many managers noted that retailers assess on a continuous basis the available financial options, and they may opt for a new one if the existing option is not considered to be efficient.

A few managers argued that asset specificity is a factor that may influence small food retailers’ logistics strategies with respect to the externalisation / internalisation dilemma. They emphasised that these firms do not have the appropriate financial means to internalise logistics operations, and they suggested that the externalisation of the transportation and the warehousing operations is a better financial bet for these firms.

"Retail multiples have a range of financial options with respect to logistics operations, whilst small retail firms do not have the knowledge, but most importantly the financial strength to imitate large firms’ logistics practices. It is in the interests of small retailers to make use of third party logistics firms, that are able to accommodate small retailers’ needs and can support their expansion". (Logistics manager of a domestic retailer)

The research proposition is partially supported by the managers of the domestic and the multinational firms, as asset specificity seems to have an influential role towards the internalisation decision if there are no major third party firms to undertake the logistics activities. Otherwise, the issue of cost is the decisive criterion for externalising or
internalising the logistics operations. Additionally, the warehousing function was found to be of higher importance in the asset specificity scale, compared to the transportation function, as retail firms favour strongly the internalisation of warehousing functions.

The underdeveloped state of the domestic third party distribution sector has an immediate effect on the latter. Third party firms can not accommodate to the full the needs of the multiple retailers, as such warehousing needs have a high asset specificity content. Nevertheless, these firms should be able to support small food retailer's logistics requirements. The externalisation of the transportation function, on the other hand, is strongly favoured although the domestic third party distribution sector is underdeveloped. Transportation is not only low asset specificity in its nature function, but it also requires less capital compared to the warehousing function. The local third party sector is underdeveloped, so it can only support substantially the transportation function, and therefore, retailer's externalisation of warehousing to a third party firm and the formation of a network with a third party firm, has long way to go in Greece.

**Research Topic 16:** Identify if frequency of use is a factor that leads a food multiple retailer to internalise its transportation and warehousing operations.

**Research Proposition 16:** The high frequency of use that can occur in the transportation and the warehousing operations leads food multiple retailers to favour the internalisation of these functions.
All interviewees agreed that frequency is not a factor that can influence in its own right decisions concerning the externalisation or the internalisation of transportation and warehousing.

"The decision to externalise or to internalise the logistics functions of transportation and warehousing, depends on various issues and definitely not on the frequency of their use, something that is taken for granted in retail logistics operations". (Logistics manager of a domestic retail firm)

Numerous managers of Greek and multinational food multiple retailers discussed about the experience that is gained from a frequent logistics operation.

"Retailers always benefit from the high frequency that occurs in transportation and warehousing, as they gain operational experience for these functions. Nowadays, most international retailers build on their own experience, and they also benefit from third party companies' extensive experience on these functions. It seems that gaining operational experience is a decisive factor for those retailers adopting a mixed approach (a mix of externalisation and internalisation of logistics operations)"). (General manager of a multinational discounter).

Food multiple retailers favour externalisation for remote geographical areas (e.g. the Greek islands), that do not demand frequent product deliveries and for those product categories (e.g. the frozen goods category) that are expensive to distribute.

"The food multiples in Greece usually externalise the transportation of goods to the islands, as few deliveries per month take place. My department estimated that it is less expensive to deliver products from Piraeus (the Athens harbour) to Italy, than delivering from Piraeus to Rhodes (an island close to Turkey). The transportation of frozen goods involves high delivery costs as it requires special assets and therefore, most retailers have already externalised the relevant operation. This is the case for warehousing as well that is externalised for specific product categories (e.g. frozen products, meat). Warehousing costs are considerable for these product categories, as they require different warehousing facilities and equipment compared to dry and fresh products. In remote geographical areas, retailers do not build warehouses (the products are kept at
The managers of the domestic and the multinational food multiple retailers do not support the research proposition in hand, as frequency per se does not lead a multiple retailer towards the adoption of a specific logistics strategy (externalisation or internalisation).

For specific cases (e.g. remote areas, specific product categories) that demand less frequent shipping of goods by retailers and entail high delivery costs, as they require specific assets, the externalisation strategy is favoured.

**Research Topic 17:** Examine if logistics information technology systems constitute the major factor for the monitoring of opportunistic behaviour of third party logistics companies, in the course of the externalisation process of a food multiple retailer’s transportation and warehousing operations.

**Research Proposition 17:** Logistics information technology systems constitute the prime device used by retailers for the monitoring of opportunistic behaviour of third party logistics companies, during the externalisation procedure of a food multiple retailer’s transportation and warehousing operations.

Most of the managers working for multinational food multiple retailers that have already externalised either the transportation and / or the warehousing function, stressed that
opportunistic behaviour is completely unacceptable among the members of the distribution channel.

"If a third party logistics company has a reputation for such behaviour or behaves in an opportunistic manner, there is no way to start or to continue co-operation with my firm". (General manager of a multinational retailer)

Multinationals’ managers also agreed that logistics information technology systems have a major role to play for monitoring the performance of third party logistics companies.

"Logistics information systems are used extensively for assessing third party logistics firms, and numerous performance ratios (e.g. on the quality of the provided service) are checked out on a regular basis. These systems are used in order to monitor their overall performance". (Logistics manager of a multinational retailer)

The managers in question specified that logistics information technology systems are supplied directly from the parent companies that possess the relevant experience and knowledge.

"My department has limited experience for developing logistics information technology systems, however the parent company has been developing these systems for the last two decades. Therefore, the parent company provides us with these systems, and in addition, it provides specific performance ratios in order to assess third party logistics activities". (Information technology manager of a multinational discounter)

Most of the managers working for the Greek food multiples do not consider logistics information technology systems to be an important factor for reducing third parties’ opportunism. They argued that opportunistic behaviour by third party firms, is a minor issue, as they are satisfied with the majority of their partners. However, they noted that a few third party logistics companies have actually shown opportunistic behaviour in the past.
“It was expected that some third party logistics companies will behave opportunistically, and a few actually did behave in such manner. However, following a serious warning sent by my department emphasising the possibility of terminating the existing contract with these firms, they clearly realised that my firm demands a professional behaviour from its partners. Logistics information technology systems, on the other hand, can not make life any better for my firm as far as the control of third parties is concerned. But I have to admit that this is due to the underdevelopment of these systems, and this applies not only to my firm, but for the domestic multiples in general”. (Logistics manager of a domestic multiple retailer)

The answers given confirm previous findings (see Research Propositions 5, 6 and 7) that highlighted the fact that logistics information technology systems have not been developed extensively amongst Greek multiples. Moreover, these firms do not make an extensive use of third party firms (compared to multinationals), and perhaps there is no major need to them to monitor third parties’ operational behaviour.

The managers of the multinational firms, that have in place the relevant information technology systems, support the research proposition, and they paid particular emphasis on the help provided to their companies by logistics information technology systems for monitoring third party firms’ opportunism.
### Table 8.13: Transaction costs theory in food multiple retail logistics

<table>
<thead>
<tr>
<th>Research Propositions (14 -17)</th>
<th>Multinational food multiples</th>
<th>Domestic (Greek) food multiples</th>
<th>Other remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>14. Environmental uncertainty favours the internalisation of a food multiple retailer’s transportation and warehousing operations</td>
<td>Managers of domestic and multinational firms agreed that uncertainty has no effect upon a food multiple’s decision for the externalisation or the internalisation of logistics operations. The research proposition is not supported.</td>
<td>Managers of domestic and multinational firms agreed that uncertainty has no effect upon a food multiple’s decision for the externalisation or the internalisation of logistics operations. The research proposition is not supported.</td>
<td>Uncertainty is not an issue anymore, as multinationals have become experienced in operating alien environments, whilst domestic firms are well aware of the conditions of the local environment. The issue of cost and efficiency gains accruing in the long run, is the decisive factor.</td>
</tr>
<tr>
<td>15. The larger the required amount spent on a specific asset for a retailer’s transportation and warehousing operations (e.g. trucks, warehouses), the higher the tendency for the retailer to internalise these operations.</td>
<td>Managers of <strong>domestic and multinational firms</strong> partially support the research proposition. The managers believe that asset specificity has an influential role towards internalisation, if there are no major third party firms to undertake the logistics activities. Overall, the issue of cost is the decisive criterion for externalising or internalising the logistics operations.</td>
<td></td>
<td>Externalisation of the transportation operation is strongly favoured. It is in the interests of small retailers to favour externalisation.</td>
</tr>
<tr>
<td>16. The high frequency of use that occurs in transportation and warehousing leads food multiple retailers to favour the internalisation of</td>
<td>Managers of <strong>domestic and multinational firms</strong> do not support the research proposition, as frequency per se externalise or internalise these operations</td>
<td></td>
<td>In situations where less frequent use of these operations take place, involve high delivery costs and they require specific assets, externalisation is</td>
</tr>
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</table>
8. Conclusions

The author’s objective in this chapter was to present the findings of the empirical research for the Greek food multiple retail sector. The author put on test seventeen propositions that were clustered to five themes: (1) logistics strategy and logistics practices, (2) information technology and logistics, (3) strategic retail logistics network, (4) the eclectic paradigm and (5) transaction costs theory.

The findings of the first theme (logistics strategy and logistics practices) highlight the vital importance of logistics for multinational retailers’ strategy, and indicate that internationalisation requires a well-planned strategy (the Strategic Logistics approach). Multinational firms also follow the deliberate strategic approach in transportation and warehousing, as they eventually implement the logistics strategy that was initially planned at headquarters level. Domestic firms on the other hand, do not have a strategic
vision in their logistics strategy (the Logistics Strategy approach) and they do not follow a long-term plan. The logistics strategy pursued by domestic firms is an emergent one, as logistics became an issue for them following the entry of retail multinationals in Greece. The author’s findings also indicate the importance of the warehousing function for most of the multinational firms, while the warehousing function is not a key issue for the domestic firms. The author illustrated the importance of that function per store format, and the warehousing function was found to be of critical importance for the multinational discount format.

It was also stressed that the multi – format strategy adds extra logistics related transaction costs on the company, but it is not a factor that prohibits retail expansion via a simultaneous use of numerous store formats.

As far as the second theme is concerned (information technology and logistics), all interviewees agreed on the link that exists between logistics and information technology, and they underlined the fact that these functions work in parallel in a retailer’s strategic planning.

A variance of opinions turned up between the managers of the domestic and of the multinational firms concerning the importance of logistics information technology systems towards the reduction of logistics related transaction costs, and their significance in the implementation of retailers’ logistics strategies. The managers of the multinationals stressed that these systems are the main factor behind the reduction of logistics related transaction costs, and they noted that these systems are of primary importance for the retailers’ expansion. The managers of the domestic firms had the
opinion that these systems play a supporting role to the retailers’ expansion, however they agreed with the multinationals’ managers' opinion that these systems do contribute towards the reduction of logistics related transaction costs. A major finding is that multinational firms seem to follow a deliberate strategy in their information technology operations, as they plan these systems right from the start of their operations, and they follow such a strategic tactic in every country they operate. Multinational retailers seem to follow a deliberate strategy in logistics and in information technology related operations, something that may lead them to appropriate operational efficiency gains.

It was shown that multinational firms have achieved a better logistics efficiency compared to domestic firms. Domestic firms follow the emergent strategy route for their logistics operations, and this may be the case for their information technology operations as well. Domestic firms lag behind the multinationals, as far as the development and the use of these systems are concerned.

In the third theme (the strategic retail logistics network), it was found that the strategic retail logistics network is not an issue for the moment in Greek food multiple retailing. Nevertheless, some of its elements (a co-operative approach between network members leading to better results and a successful co-operation that leads to the further development of this co-operation) have already taken place. However, retailers need to develop the use of performance ratios to be in a position to evaluate co-operation with other network members. The latter will be of a greater strategic assistance at an international level, where companies have to be far more selective in appointing a third party logistics firm partner. This denotes that at international level, retail logistics
networks are the outcome of a thorough examination of retailers’ alternatives. It was shown that in many cases, international retail networks are formed following the success of the co-operation between network members at a domestic level. The author also identified two necessary preconditions for the future formation of retail logistics networks in the Greek food multiple retail sector. These preconditions include the need for the growth of the third party logistics sector, alongside the need for a larger scale use of logistics information technology systems in the local market. The two identified issues have so far imposed a constraint upon network formations in Greek food multiple retailing.

In the fourth theme (the eclectic paradigm), the findings expand our understanding on the importance of the ownership advantage, discussed in previous studies (see for example, Alexander 1990; Williams 1992a, b). More specifically, elements incorporated in the ownership advantage constitute factors of no major importance as far as the internationalisation decision is concerned for the multinational food multiples. On the other hand, specific ownership related factors such as the use and the further development of own brands and market image, were found to be of high importance for multinational discount and department store retailers respectively. This was the case for domestic firms as well that aim to “defend” themselves against the “attacks” of foreign competitors via these factors (own brands’ development and market image).

The managers of the multinational firms regarded the ownership specific element of management capabilities as an important issue, while the managers of the domestic firms noted that these capabilities are of no importance to their strategy.
The latter suggests that internationalisation is a process that requires higher management capabilities, compared to domestic operations. These management capabilities can result in increased operational efficiency, something found to be of critical importance for those retailers having the intention to internationalise.

All interviewees agreed that the location advantage has lost its importance, especially if non-store selling methods start to become popular. A useful finding was related to the location of the warehouses factor. So far, store location used to be the focal point of the retailers' strategy; but this is not the case any more as retailers have the ability to expand via various store formats. Moreover, it was found that warehouses are crucial to discounters' operations and therefore, warehouse location is of major importance for their operations.

Numerous issues stem from the analysis of the internalisation advantage, as there was a contrast in the views expressed between the managers of the domestic and of the multinational firms. More specifically, this advantage was found to be the prerequisite for internationalisation. In particular, one of its factors, the logistics developed expertise, dominates the business philosophy of multinational discounters.

The other factor, the logistics information technology developed expertise, will become critical for international expansion in the years to come, as multinationals have already started developing expertise in that area. This is of high importance as logistics outsourcing will become more popular in the Greek food retail environment, and retailers will need logistics information technology expertise for managing retail logistics networks. Domestic firms on the other hand, considered this advantage as an important one, but they noted in a clear cut manner that the ownership advantage is still
the most important factor to their operations, as far as the eclectic paradigm is concerned.

Overall, the examination of the usefulness of the eclectic paradigm to the local retail market provided an extra insight for the impact of retail internationalisation upon the domestic retail environment. The managers of the Greek food multiples confirmed the implementation of a number of elements entailed in the eclectic paradigm in the aftermath of multinational retail entry in Greece. Some of these practices (e.g. the logistics-related ones) have not been identified before in similar studies on the Greek food multiple retail sector (see for example, Bourlakis et al 1996).

In the fifth and final theme (the transaction costs theory), the author illustrated that specific elements of this theory can not justify per se the retailers’ decision to externalise or to internalise the transportation and the warehousing operations. More specifically, environmental uncertainty seems to have no effect upon retailers’ decisions to externalise or to internalise the transportation and the warehousing operations, as such decisions are based on pure financial criteria.

Asset specificity was found to have a positive influence upon retailers’ decision to internalise the transportation and the warehousing operations, only if there are no third party logistics firms to undertake the tasks in questions and overall, it was found that retailers reach such decisions based on pure financial criteria.

In addition, firm’s size was related to asset specificity, as it was found that the asset specificity factor can influence the decisions taken by small retail firms with respect to externalisation or the internalisation of operations. These small retail firms do not enjoy
the financial strength of larger retail firms, so they may favour the externalisation of the transportation and of the warehousing operations.

Frequency of use per se was not found to be a factor that leads a retailer to externalise or to internalise the transportation and the warehousing operations. A frequent use of the logistics function provides operational experience to retailers. Retailers in order to incorporate the accumulated experience of other channel members co-operate with them, and eventually they may follow a mixed strategy approach via simultaneously externalising and internalising the transportation and the warehousing operations. However, if low frequency of the use of the logistics function is present alongside factors such as very high asset specificity and costly use of an asset, then a retailer favours the externalisation of the transportation and the warehousing operations.

Finally, opportunistic behaviour among channel members is not an acceptable practice within the distribution channel, as retailers seek to co-operate with reliable and efficient partners. Multinational retailers that have already in place appropriate logistics information technology systems can monitor the behaviour of third party firms, while domestic firms can not par such a monitoring on third parties as they have not developed such systems as yet.
Chapter 9: Summary and conclusions

1. Outline

The logistics function in food multiple retailing has been the focus of examination in the present thesis that was set out with the following aims:

1. To identify the importance of logistics and its incorporated functional elements towards the implementation of retailers’ strategy at domestic and at international level.

2. To examine the expansionary strategies followed by foreign and local retailers in the Greek food multiple retail market, in connection with retailers’ logistics operations.

3. To investigate the association between information technology and logistics for food multiple retailing at domestic and at international level and the subsequent impact that such association can have upon a retailer’s strategy.

4. To apply the network theory to food multiple retailing for domestic and for international logistics operations.

5. To investigate the impact of retail internationalisation upon the Greek food multiple retail sector and on the organisation of the Greek retail firms.

6. To examine the relevance of transaction costs analysis for food multiple retail logistics operations at domestic and at international level.

The thesis attempts to achieve the above aims through:
1. The further development of the work of Fabbe-Costes and Colin (1999) with respect to the importance of logistics and its associated functions for a food multiple retail firm’s strategy (see Chapter 3).

2. The implementation of the emergent / deliberate strategic thinking (Mintzberg 1987) to retail logistics operations, and the identification of the strategic approach that is most beneficial to a food multiple retailer (see Chapter 3).

3. The examination of the role of the information technology function in retail logistics operations, and the illustration of the input of information technology towards a range of logistics – related issues, such as the formation of retail logistics networks and retail logistics strategy (see Chapter 4).

4. The introduction of the strategic retail network (see Chapter 3) between retailers and third party logistics firms, and by further developing the major aspects of the network theory, as discussed in Chapter 2 (Jarillo 1988).

5. The investigation of the eclectic paradigm and its competitive advantages (Dunning 1988a, see Chapter 2 and Chapter 5) that can provide a thorough insight for the post entry impact of the multinational retail firms upon the domestic retail firms.

6. The examination of transaction costs analysis (Williamson 1975) in relation to the externalisation / internalisation decision of the retailers warehousing and transportation logistics functions (see Chapter 3 and Chapter 5).
7. A qualitative research study, which tested seventeen propositions, based on five research themes (see Chapter 7). These were:

I. Logistics strategy and logistics practices,

II. Information technology and logistics,

III. The formation of a strategic retail logistics network between food retail multiples and third party logistics companies,

IV. The application of the eclectic paradigm in the Greek food multiple retail sector, and

V. The application of the transaction costs theory in retail logistics.

All the above were examined for both the domestic and the multinational firms that operate in the Greek food multiple retail sector (see Chapter 7). The author hopes that the lessons learned from the present study will be appropriate for use in other national retail sectors as well. Empirical research upon other retail sectors to add support to the latter statement would be beneficial. Appropriateness to the food multiple retail sector in Greece was achieved by the author in the present thesis:

1. Because the empirical research conducted within the context of the food multiple retail industry (see Chapter 8), and

2. Because the empirical research took place in Greece (see Chapter 8).
Overall, the resultant research findings (see Chapter 8) provide a meaningful and informative insight to the research themes under examination. Moreover, the research findings enable the author to provide an analysis for the contribution of the thesis to the existing literature (see the next section of the present chapter). Suggestions for future research (see section 3 of the present chapter) and the managerial implications (see section 4 of the present chapter) stemming from this thesis, are also discussed.

2. Contribution of the thesis to the existing literature

The author claims that the thesis has made a contribution to various areas of the existing retail business literature.

In Chapter 2, the internationalisation process in the services sector was examined, and a major finding of that examination is that an essential international business theory, the Uppsala internationalisation model (Johanson and Wiederscheim-Paul 1975) is not applicable to service firms. Moreover, transaction costs analysis was found to be of rather limited importance to service firms as far as the selection of foreign entry mode issue is concerned. The above confirm the view taken by a number of academics (see for example, McKiernan 1992), that the main bulk of the international business theories are not in a position to provide a full explanation of the internationalisation process for service firms. Supporting other researchers’ work (see for example, O’Farrell and Wood 1996), network theory has been suggested as a theoretical framework that can potentially provide an explanation for the internationalisation process of the services sector.
In Chapter 3, the importance of the logistics function to retail strategy was noted, and it was identified that the retail expansion at domestic and at international expansion has been a rather neglected theme in the retail literature. In an effort to fill such an existing gap in the literature, the work of Fabbe – Costes and Colin’s (1999) on logistics strategy to the international level was expanded. In doing so, the author incorporated a wide spectrum of parameters applied to retail logistics (see Table 3.11). One of these incorporated parameters is related to Mintzberg’s (1987) view on strategic thinking.

The author’s next step was to introduce the Retail Logistics Strategy approach and the Retail Strategic Logistics approach that link strategy and retail logistics.

The two aforementioned approaches can provide some explanation for the important role of logistics in retailers’ strategy during international expansion.

In a separate section of Chapter 3, the network theory (Jarillo 1988) was discussed and it was found that little interest has been paid so far among researchers in connecting the network theory to the externalisation / internalisation issue. Following the above, the strategic retail network was properly introduced (see Figure 3.3) that includes as its main dimensions, the issues of transaction costs and organisation costs (Bourlakis 1998a).

The relevance of these issues to the international retail logistics operations were investigated, as international retail logistics operations face the externalisation / internalisation decision dilemma for the transportation and warehousing operations.

The concept of strategic retail network was empirically tested for the leading European food retail firms and a single firm (namely Marks and Spencer) that had adopted this
concept. A co-operative approach between retailers and third party firms was found to be a critical factor for the formation of a strategic retail network, something that provides further support to Jarillo’s (1993) work (see Figure 2.6).

In Chapter 4, various theoretical frameworks borrowed from the information technology literature (e.g. the information technology planning grid by Cash et al 1992) were applied to food multiple retail logistics operations. In addition, the importance of information technology for three areas of food retail operations was discussed towards:

a) The formulation of an international logistics strategy, b) the increased retail efficiency gained via the reduction of logistics – related transaction costs, and c) the monitoring of the behaviour of the members of the logistics network.

It was also found that transaction costs analysis (Williamson 1975) does not cover the situation where two firms involved in a contract seek mutual safeguards, information technology specific safeguards in the present case. Based on how the buyer and the seller of a logistics asset perceive asset specificity (as being high or as being low), the author proposed a matrix (see Figure 4.7) with network formation being an available strategic option. Network formation occurs when both the buyer and the supplier of a logistics asset perceive this asset being a high specific one, implying that there will be high transaction costs when switching to another supplier or buyer respectively. Close relationships are formed between the buyer and the seller of that asset who become members of the same network.
By providing the necessary conditions for the creation of a network relationship between a buyer and a seller of a logistics asset when both firms seek safeguards, Williamson's (1975) work has been extended.

In Chapter 5, it was stressed that there are contrasting thoughts in the literature concerning the direct applicability of international business frameworks to the retail sector (see for example, Dawson 1993, 1994b; Sternquist 1997a, b). In order to shed light to the above, the author identified specific areas where the internalisation theory (transaction costs analysis) can be applied to domestic and international food multiple retail logistics operations. Moreover, the author illustrated the key factors within the retail literature that can be classified as belonging to the retail eclectic paradigm competitive advantages. It was additionally shown that the network form is strategically important for food multiple retailers working together with third party logistics firms, and this was proved to be the case during domestic and international retail expansion.

The above formed part of the author's empirical examination, where the three theories (the transaction costs analysis, the eclectic paradigm and the network theory) were assessed for their application in the food multiple retail sector. In another section of Chapter 5, it was showed that on research grounds, logistics is a rather neglected topic in conjunction with the retail internationalisation process. Therefore, the empirical research in Chapter 8 dealt with this issue as well, where it was highlighted that the retail internationalisation process requires firms to follow the Strategic Logistics approach, that is a well planned deliberate strategy (Research Proposition 1).
The role of warehousing in retailer's logistics strategy was another area where an attempt for contribution has been made. It is worth stating that so far, various researchers (see for example, McKinnon 1990a) have already underlined the role played by warehousing in retail operations. However, limited work has been carried out so far to examine that part played by warehousing on the formation of the retail logistics strategy, and no work at all for its role on the formation of retail strategy per store format. The role of warehousing was found to be of vital importance, especially for discount retailers' logistics strategy (Research Proposition 2).

Mintzberg's (1987) strategic thinking was found to be applicable to retail logistics strategy in the transportation and the warehousing operations, for the food multiple retailers that operate in the Greek food multiple retail sector (Research Proposition 3). Moreover, it can be claimed that the impact of retail internationalisation on the host retailers' logistics strategy was clear-cut. It was showed that as multinational retailers entered the Greek market following a deliberate logistics strategy, the latter spurred their domestic counterparts to initiate an emergent logistics strategy.

Logistics strategy was linked to retail efficiency, an issue that to the best of our knowledge, no work has been done so far. Within that context, it was shown that the deliberate logistics strategy approach provides better operational results for the multinational firms, compared to the domestic firms' adopted emergent strategy approach (Research Proposition 6).
It is worth pointing out that numerous researchers (see for example, McKinnon 1990b) have stressed the co-ordinating role of information technology in retail logistics operations. Nevertheless, none of them has examined empirically the association between logistics strategy and information technology strategy in food retail operations, and the potential operational gains resulting from that association. This was another area of the author's empirical research, where it was found that these strategies are complementary and work in parallel, for both the domestic and the multinational retailers (Research Proposition 5). Following the pattern detected above, it comes rather as a not surprising finding that the author subsequently illustrated that multinational firms implement a deliberate strategy in the information technology function, something that taken in conjunction with their deliberate logistics strategy leads to increased logistics efficiency. As far as the domestic firms' information technology strategy is concerned, the research findings led to the conclusion that these firms follow the emergent information technology strategy approach, although one should have more empirical evidence in hand to support this statement (Research Proposition 6).

Moreover, logistics information technology systems were found to be a major factor for boosting retail international expansion (Research Proposition 7), and as it was stressed in Chapter 5 the latter was a neglected issue in the retail literature.

Another area where the author had made a contribution refers to the network – strategic network theory. As it was explicitly stated in Chapter 2, Jarillo (1993) brought forward the importance played by a co-operative approach among the network participants.
However, Jarillo (1993) did not examine whether the network theory can enhance the operational performance of the parties involved. This existing gap in the relevant literature was examined in Chapter 8 (see Research Proposition 8).

In the course of the investigation, it was found that the significance of a co-operative approach is ranked highly for the formation of a logistics network between food multiple retailers and third party logistics companies. The latter confirms the applicability of Jarillo’s (1993) work in food retail logistics operations. However, it has not been confirmed in the present work if network formation leads to the network participants having increased operational efficiency.

To the best of our knowledge, no research has been carried out for the case where a retailer seeks to assign to a third party firm its international operations. It was suggested that in general, international operations require additional retail logistics operations related competencies, compared to domestic operations and therefore, retailers are far more selective regarding the selection of a third party distributor at the international level.

The author’s research supports the work of Bowersox and Daugherty (1995), who suggest that specific preconditions must be met as to lead companies to form a logistics network.

In the case where networks are formed between food multiple retailers and third party logistics companies, it was found (see Research Proposition 10) that such formations are largely facilitated by the existence of a developed local third party logistics sector as
well as the proper use of logistics information technology systems by network members. Both issues were vividly highlighted in the work of Bowerson and Daugherty (1995) for their important share in network formation. The author’s own contribution here is that these preconditions are applicable to logistics network formations in the food multiple retail sector as well.

Via the empirical examination of the eclectic paradigm (Dunning 1988a) competitive advantages (Research Propositions 11, 12 and 13), the author aimed to show the impact of multinational retailers’ activity upon the Greek food multiple retail environment.

It is highly questionable whether this international business framework per se has ever been used in the past for an empirical study in the food multiple retail sector. With the examination of the ownership advantage (Research Proposition 11), we expanded our understanding of the factors that motivate a retailer to internationalise (see Alexander 1990, Williams 1992a, b). In general, the factors incorporated in the ownership competitive advantage are not sufficient enough to motivate a retailer to internationalise. Nevertheless, it was noted that the market image factor is very important for multinational department store retailers, a finding that comes to support the work of Burt and Carralero-Encinas (2000). The vital strategic importance of the presence of own brand items in the stores’ shelves of multinational food discounters was an additional ownership specific advantage finding by the author.

In the examination of the location competitive advantage (Research Proposition 12), it was emphasised that this advantage plays a minor role in a retailer’s strategy in
connection with the internationalisation issue. More specifically, the “availability of stores” factor was considered unimportant by most domestic and multinational firms that have the ability to expand via various formats and to employ non-store selling methods. The above finding contradicts the proposition put forward by other researchers (see for example, McGoldrick 1990), that store location constitutes a core competitive element of the retail strategy at domestic and at international level. Additionally, the author suggests the importance of the warehouses’ location, as an issue that has been neglected amongst researchers.

In the investigation of the internalisation advantage (Research Proposition 13), it was noted that this advantage is the major factor for a retailer’s internationalisation endeavours. This contradicts our analysis in Chapter 2 where based on other researchers’ work (see for example, Dunning and Norman 1983), it was found that service firms (retail firms included) rely to a great extent on their ownership advantage in order to enter foreign markets. In the present study, logistics and logistics information technology systems were found to be significant, as strategic and operational components in a retailer’s internationalisation process. The latter supports the work of Hamel and Prahalad (1985), who emphasised the importance of firm specific global distribution capabilities, rather than other advantages that can be easily imitated and displaced, as a successful recipe for international expansion.

Overall, it was shown that the eclectic paradigm can be a helpful framework for describing the impact of retailer’s international activity on a host country. The author’s current empirical work also supports Sternquist’s (1997b) view that this framework can be used to explain retailers’ foreign direct investment.
During the empirical examination of the major elements of transactions costs theory (Williamson 1975) for food retail logistics (Research Propositions 14, 15, 16 and 17), the usefulness of that theory for the retailers’ decision to externalise and / or to internalise the transportation and the warehousing functions, was examined.

It is worth pointing out that to the best of our knowledge, once again, no research has been conducted so far in that research direction. The findings show that the examined elements of the transaction costs theory can not explain adequately the externalisation / internalisation decision in the transportation and warehousing functions. Overall, it was emphasised that cost efficiency is the determining factor of such a decision to be taken by retailers, an issue not suggested by Williamson (1975).

The author’s findings also shed extra light to Dawson and Shaw’s (1990) argument (discussed in Chapter 3) that mentioned that contracting out is likely to replace internal organisation (internalisation) under the following:

i) When no idiosyncratic / specific assets are required, ii) when many competitive suppliers are available, iii) when tasks are repetitive, iv) when the task environment is stable and not complex, and finally v) when performance outcomes can be easily and accurately assessed. To be more specific, the author’s findings contradict the Dawson and Shaw (1990) argument as far as the importance of asset specificity, frequency, uncertainty and availability of suppliers - third party firms towards the externalisation / internalisation decision are concerned. In addition, the Dawson and Shaw (1990) argument was extended for the importance of the performance outcome that needs to be
easily and accurately assessed. This extension came through the finding that the performance outcome is of vital importance and following the above, that cost efficiency is the decisive factor for the externalisation / internalisation choice to be followed.

Based on the above findings, there is a need for a framework that will provide a solid and accurate understanding of the way that retailers decide to externalise and / or to internalise the warehousing and transportation logistics functions and therefore, further research is needed in that direction.

Having said that, however, there are numerous areas where further research will be welcomed and these are explored in the following section.

3. Suggestions for further research

The author in this thesis identified a plethora of potential areas for further research.

In general, there seems to be a need for an inter – firm examination for firms operating in various services sub-sectors. Such an attempt will identify possible differences and similarities between these sub-sectors, as far as the theoretical models (e.g. the eclectic paradigm and the network theory) stated by the author in Chapter 2 are concerned.

It is useful to note that these international business theories have been extensively applied in the manufacturing sector. However, the relevant theories can become useful frameworks for explaining and identifying similarities and differences during the internationalisation process for the various sub-sectors in the service industries.
The result of the latter will facilitate our understanding on the existing differences (and similarities) between the manufacturing and the services sectors as far as the internationalisation process is concerned.

In the present thesis, the eclectic paradigm was examined in the Greek food multiple retail sector at a given time period, and that time period spans from the early 1990s and onwards. Dunning (1993) argued that the eclectic framework of analysis can be a useful tool to explain the international allocation of multinational activity between various points in time (e.g. between two decades). Therefore, the Greek food multiple retail sector can be further examined in the future, in order to evaluate the validity of the eclectic paradigm but under the influence of new competitive factors and strategies prevailing in international and local markets. In that sense, a similar analysis can be conducted for other retail environments.

It was also noted in Chapter 2, that the network theory can offer some explanation for firm relationships occurring in strategic alliances, in joint ventures and in franchising agreements at the international level (see for example, Jarillo 1988). Therefore, the network theory can be extended to incorporate, apart from the study of international networks formed between retail firms and third party logistics firms, the investigation of network formation among retail firms, as for example in the case of retail franchising. In addition, the network theory can provide an alternative explanation for the conditions that determine the network formation in the retail franchising sector itself.
Additional areas for further research were also identified in Chapter 3, where the various elements that comprise the retail logistics function were highlighted (Smith and Sparks 1993).

In the present thesis, some of these elements (e.g. transportation and warehousing) were examined within the context of the empirical relevance of the various theories put forward. It is the author's view, however, that further research can be conducted regarding the rest of the retail logistics function elements. For example, it will be worth applying the transaction costs analysis for the externalisation or the internalisation decision as far as the information technology – communications element of the logistics function is concerned. By doing so, we could identify the characteristics and the preconditions needed for the outsourcing of the information technology element as well.

There is also a need for an empirical examination on Fernie’s (1998) work concerning the factors that influence the development of centralisation and third party distribution across Europe (see page 85). It will be worth investigating the contribution of each of these factors towards centralisation and third party distribution (for example, the geographical spread of stores factor and the relative sophistication of the distribution industry factor) and identify possible differences between various European retail environments.

Apart from the emergent / deliberate approach examined by the author, other theories on strategy (e.g. the resource based view, Grant 1998) can facilitate our understanding on
retailers' strategic decision making. Moreover, the various theories on strategy can examine the logistics strategy decisions made for other retail sectors as well.

Based on the findings of the present thesis, it is worth exploring further the strategic decision making for the retail information technology function, as the latter was found to be of major importance for the retail logistics strategy.

More research is needed to be directed towards the strategic retail network area and the author would propose at this stage that effort should be made to identify any other preconditions and factors that are vital for the formation of a network between retail and third party firms.

The case of Marks and Spencer was highlighted in this thesis, and that company was found to be the only retailer that follows a network mode of operation (Bourlakis 1998a). A case study for Marks and Spencer will enrich the understanding for the formation of a network. For example, a possible area of investigation is whether the senior management of that company, formed these networks under the deliberate strategy umbrella, and the underlying competitive reasons for doing so. A similar line of research can be conducted for other European retail firms that follow specific logistics practices (e.g. for Carrefour that outsource nearly 100% of its warehousing activities), and the underlying reasoning for doing so. As for example, if it is more efficient for the companies involved to follow that route.

In Chapter 4, the impact of information technology upon the formation of retail networks and retail organisational change was noted. For example, the author stressed
the case of Iceland.co.uk that transformed its business via the use of information technology, and eventually managed to become from a traditional grocery retailer, to a very successful e-retailer as well (see http://www.iceland.co.uk). It is our view that more research work needs to be channelled towards that area, that will uncover the true potential of the use of information technology, especially if the use of information technology conveys organisational transformation shocks on retailer’s existing organisational schemes.

The author developed in Figure 4.7 a matrix that depicts four alternative strategic options on how a retailer and a logistics firm perceive asset specificity for assets involved into a contract; the network mode was one of them. This matrix can form the basis for an empirical investigation that will extend our understanding regarding the part played by asset specificity in the formation of networks.

In Chapter 5, the contrasting views of other researchers were exposed (see for example, Dawson 1993, 1994b; Sternquist 1997b), regarding the appropriateness of international business theories in the examination of retail internationalisation. Although it was proved in this research study that one of these theories, namely the eclectic paradigm, can provide an alternative explanation for the retail internationalisation process, more empirical work is essential into other retail sectors and into other European countries’ environments to support the author’s findings. More importantly, logistics was found to be a rather neglected item on the retail internationalisation research agenda, so various areas were proposed where the logistics function can be incorporated in future research. Some of them are the examination of the impact of the logistics strategies pursued by
retailers upon the mode of market entry followed by retailers. Another proposed research area is the logistics related strategic implications for retailers pursuing alternative international expansionary strategies, such as the global, the multinational, the transnational and the international strategies.

In Chapter 8, the empirical findings of this study were presented, so we can use some of the findings to identify the areas where further research can be conducted. For example, the findings from Research Propositions 1 and 3 stressed that the retail internationalisation process requires the presence of a deliberate and well-planned logistics strategy (the Strategic Logistics approach). It was also indicated that multinational retail firms follow a deliberate strategy on their information technology operations as well. Nevertheless, more research is necessary on the theme in order to verify the above indication, as the author’s focus has been targeted on logistics operations.

The examination of Research Proposition 2 depicted that a different level of importance can be assigned per retail operational format, as far as the warehousing operation is concerned. It can be suggested that each retail format requires a different logistics strategy, and further research can possibly identify the different logistics requirements tailored per retail operational format.

The cost implications of the logistics strategies followed by retail firms can also be part of future research. If the various combinations of retail formats implemented by retailers can generate substantial cost savings to retailers’ logistics operations, then the
latter constitutes a source of competitive advantage for the retailers (Research Proposition 4).

Another potential research issue, is the way that retailers formulate their strategy.

It was found in this study (see Research Proposition 5) that logistics and information technology are operationally and strategically complementary, as they are planned and implemented simultaneously by retail firms. But how much integrated are the rest of the retail functions (e.g. store management, merchandising, purchasing) with each other, how are they planned and most importantly, how is the overall retail strategy formulated at domestic and at international level?

During the examination of the eclectic paradigm (Research Propositions 11, 12 and 13), it was found that the outsourcing decision will become a major issue for retailers in the years to come. Therefore, more research is needed to identify the general criteria that support retailers towards that decision, and the specific characteristics that are associated with externalising / internalising the various retail functions. Some work has been done for the logistics externalisation / internalisation dilemma in this study, but it is questionable whether findings from this study are universally applicable to the rest of the retail functions. Additionally, it is the author’s view that if retailers start externalising other operational functions as well, the network theory will be well placed to explain the organisation of the retail firm. However, the existing research on networks is not adequate enough to fully explain the latter, especially at the international level where networks of firms are far more complex (Jarillo 1993). Further research is needed to
encompass the externalisation of a range of retail functions, and to provide a better insight of the network formed amongst the retailer and these firms that will provide that function on retailer’s behalf.

Another finding (Research Proposition 15) was that asset specificity is a factor that may have a positive influence on the decision taken by small retail firms to externalise logistics operations. The link between asset specificity and retail firm size can be the basis for another research study, that will only test the latter, but it will also examine that link for various types of retail firms (e.g. multiples and non-multiples).

Overall, the application of transaction costs theory in food multiple retail logistics showed that the consisting ingredients of this theory can not fully explain the reasons of why retailers decide to externalise and / or internalise the transportation and the warehousing operations. Although the author suggested a few additional factors (e.g. such as pure financial criteria), that could influence retailers’ decisions, research on a complete theoretical synthesis of issues that play a major role in retailers’ decision to externalise and / or internalise these logistics functions is proposed.

The empirical research findings were based on an examination of the major firms that operate in the Greek food multiple retail sector. Therefore, it is possible that these findings may not be relevant or applicable to other retail sectors (e.g. the non-food retail sector), so a comparative analysis amongst the Greek food and non-food retail sectors would be of some interest. Needless to say, all research themes can also be expanded and examined for other European retail environments and beyond.
4. Managerial implications

This thesis comes forward with numerous managerial implications.

To be more specific, it was stressed in Chapter 2 that managers of international firms need to plan their expansion strategy on advantages that can not be easily imitated and displaced, and these are intangible advantages such as the global distribution capabilities (Hamel and Prahalad 1985). In another section in Chapter 2 (specifically section 5.6), the importance of the co-operative approach for network formation was exposed.

Based on that approach, managers from retail firms, and one should add from manufacturing companies as well, should identify firms for potential collaboration largely based on these firms' willingness to co-operate in the long run. The overall attitude of these firms towards the creation of shared goals should be also taken into consideration.

In Chapter 3, the issue of the logistics externalisation / internalisation dilemma was discussed, and the associated advantages and disadvantages were thoroughly listed (see Table 3.3). However, it was stressed (Fernie 1990) that whatever option is eventually adopted by the retail firm, some management expertise will have to be retained by the provider of the contract to monitor the performance of the contracted firm.

Although this was suggested for the retail logistics function per se, it is the author's view that it can form a general rule for managers facing the externalisation / internalisation dilemma for a specific firm operation.
Additionally, retail managers need to be aware that the management of warehousing operations is critical to retail logistics operations, especially for the discount retail format (see Chapter 8, Research Proposition 2). Moreover, these managers need to consider that the internationalisation process is a more expensive process compared to domestic expansion, and it is one that imposes additional transaction costs to the retail firm and its supply chain. Therefore, retail managers need to formulate a deliberate logistics strategy well in advance of the company’s international expansion.

Moreover, a deliberate logistics strategy provides better operational results as it was shown in Chapter 8 (Research Proposition 6) for the multinational firms.

Useful insights were also provided via the investigation of the leading European food multiple retailers in connection with the logistics externalisation / internalisation decision for the transportation and the warehousing operations (see Chapters 3 and 8). The logistics practices favoured by these firms were highlighted and the analysis can support retail managers’ strategic decision making concerning the logistics externalisation / internalisation issue for the aforementioned logistics operations.

Few management implications stem from the author’s critical review of the information technology literature (see Chapter 4). More specifically, retail managers need to be aware that information technology has become a vital function (a competitive necessity according to Manheim 1992), and it has a tremendous competitive impact to the retail firm. This impact can be seen via Figure 4.4 (Chapter 4) that outlines the five levels of information technology induced configuration. The example of Iceland.co.uk was given
that has reached the final stage (the business scope redefinition stage), and as it was mentioned earlier, it has been transformed from a traditional grocery retailer to a very successful e-retailer as well.

In Chapter 5, the vital role of information technology for the co-ordination of retail logistics operations was stated. The latter was found to be of increasing importance for international retail logistics operations, an issue that managers should be aware of in the years to come. The example of Marks and Spencer was cited, a company dependent on information technology for running its international logistics networks (see Chapters 3 and 4). It was also found that these systems constitute the primary facilitating engineering device for a retailer’s domestic and international expansion (Chapter 8, Research Proposition 7).

In the light of the above arguments, retail managers should be aware that in the future, they will potentially manage networks of different kind of firms, and not only logistics related networks, where the retailer will be the focal point of the network.

Managers will also need to have in place the appropriate information technology systems (and the managerial capabilities) to successfully do so.

In addition, managers involved in retailers’ strategic planning need to develop logistics strategies in a parallel fashion to the information technology ones. These two functions were found to be very closely associated, especially if logistics related competencies are dependent on information technology capabilities (see Chapter 8, Research Proposition 5).
Some other findings from Chapter 8 that will be of interest to retail managers, is that at an international level, the retail firms are far more selective in the appointment of a third party distributor, compared to a similar appointment at a domestic level (see Chapter 8, Research Proposition 10). This possibly indicates that retail firms during the internationalisation process need to safeguard successful operations and therefore, the appointment of the most reliable and efficient logistics partners takes place after a thorough examination of the prevailing circumstances.

Retail managers should consider that they can not depend the success of their firms’ international expansion upon the ownership and the location factors of Dunning’s (1988a) eclectic paradigm. Especially when host country firms will have the ability to react and to develop rapidly most of the ownership factors claimed by the foreign firm.

However, managers involved in department store retail operations should know that their firm’s market image is a very important aspect of their international strategy (see Chapter 8, Research Proposition 11). Additionally, managers from discount retailers should pay emphasis upon the own brands factor, and the availability of locations for warehouses factor, as both factors were found to be of major importance to their international expansion (see Chapter 8, Research Proposition 11).

Overall, managers from multinational firms should strive for operational efficiency that is deeply rooted in developed expertise from the simultaneous use of logistics and logistics information technology systems, but the latter should be in line with a well-planned logistics strategy. By doing so, the multinational retail firm will achieve a long-
term sustainable competitive advantage against its domestic counterparts (see Chapter 8, Research Proposition 13).

The author can epitomise some thoughts emanating from the present thesis as follows. The thesis presented inter alia, the business opportunities that exist within the Greek marketing channel. It was showed that domestic logistics firms can not match to the full the retailers’ logistics demands due to their small size, and they also lag behind retailers as far as the use of information technology systems is concerned.

Therefore, managers of multinational logistics firms may find the Greek market very attractive for entry, as the findings from the present work indicate.

It is the author’s belief that the juxtaposed managerial implications will be useful to managers that work in foreign food retailing environments. Although the findings are the result of an examination in the Greek food retail sector, it is hoped that they will prove universally beneficial to the retail managers’ strategic thinking and will assist retail decision-makers in other retail environments as well. Last but not least, it is hoped that the present piece of work will ignite further research to take place in the retail logistics field and especially, at the rather neglected international competitive retail logistics arena.
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