The retail industry in Western Europe
- Trends, facts and logistics challenges

Erik Sandberg

Linköping University
INSTITUTE OF TECHNOLOGY

Report

Department of Management and Engineering

Logistics Management

LIU-IEI-R--10/0096--SE

Summary

Retail companies in the Western European markets are facing a magnitude of challenges not seen before in terms of decreased profits and fierce price pressure. The retail industry in Sweden is not an exception. Recent years the development in many sectors has accelerated and international trends have been diffused to the Swedish market. However, in terms of maturity and price pressure it is still lagging behind the largest markets in Europe, and it is therefore valuable to consider the Western European markets and learn from their development in recent years. As a result of being the largest retail market in Europe, a special focus has in this report been given to the German market and German literature in the area.

The purpose of this report is to (1) summarise and structure recent literature about overall business trends in the retail industry, in particular those on the Western European markets, (2) summarise literature about logistics trends and challenges in the Western European retail industry, (3) give an overview of the do-it-yourself (DIY) and food sectors and their development in Europe and in particular Germany, and (4) present the German DIY retailer Hornbach and the German food discount retailer Aldi as case studies.

Except for changed demographic structures, that indirectly affect the retail industry, the most influential trends identified in the literature are internationalisation, private labelling, development of different store concepts, consolidation and vertical integration, and technology development. This report outlines these trends more in detail and relates them to the logistics challenges they represent. The report as such indicates the growing importance of logistics operations in order to tackle the trends and stay competitive.

Special attention is in this report given to the DIY and food sectors. The DIY sector has got increased importance in recent years whereas the food sector is the by far largest and most influential sector in the retail industry, and a sector from which other sectors are inspired.

In addition, two case studies at the German DIY retailer Hornbach and the German food retailer are presented in this report. The two companies represent two best practice cases within the retail industry, although they are competing with very different means and strategies.

Content

1 Introduction

Many Western European markets are today characterised as very mature with declining growth figures in terms of Gross Domestic Product, GDP, constantly high unemployment and stagnation of inflation-adjusted income. These characteristics, together with increased fuel prices and an altered demographic structure in the Western European countries, are changing the consumer demands. For the retail industry – an important and very large industry for the Western European countries – this means that retail companies are at the moment facing a magnitude of challenges not seen before in terms of decreased profits and fierce price pressure.

The retail industry in Sweden is not an exception. Recent years the development in many sectors has accelerated and international trends are also seen on the Swedish market. However, in terms of maturity and price pressure it is still lagging behind the largest markets in Europe, and it is therefore valuable to consider the Western European markets and learn from their development in recent years. As a result of being the largest retail market in Europe, a special focus has in this report been given to the German market and German literature in the area.

Despite the many differences among sectors of retail, this report aims at giving a general view of the sector, though special attention is given to the Do-It-Yourself (DIY) and food sectors. The DIY sector is gaining an even greater share of the total expenditure in the retail industry worldwide and it is therefore becoming more important to consider it on its own (Williams, 2008). From a Swedish perspective, several new international players have expanded in Sweden, which increases the pace of development and makes it interesting to extrapolate existing international trends. The food sector, as being the dominant sector in the retail industry, is many times a precursor of trends for the other sectors, which makes it interesting to consider more in depth.

1.1 Purpose

The purpose of this report is to (1) summarise and structure recent literature about overall business trends in the retail industry, in particular those on the Western European markets, (2) summarise literature about logistics trends and challenges in the Western European retail industry, (3) give an overview of the DIY and food sectors and their development in Europe and in particular Germany, and (4) present the German DIY retailer Hornbach and the German food discount retailer Aldi as case studies.

1.2 A fragmented industry

The retail industry in Europe is vast and consists of a huge number of very different sectors such as food, DIY, fashion, electronics, etc, that are operating on different markets with different conditions, and it is therefore sometimes problematic to discuss trends for the retail industry that are equally valid for all sectors and regions

(Lademann, 2004). For instance, as a result of different types of products, the life cycles are different between products in the food sector and the electronics sector, which in turn requires different types of supply chain operations. Another example is the ongoing vertical integration of many supply chains where e.g. DIY retailers have taken control upstream in their chains, while the manufacturers in the fashion sector have gone downstream (Zentes, 2008). The European markets are also, despite the many similarities, developing differently. For instance, taking internationalisation of German retailers as an example, it can be seen that whereas the food retailers (Aldi, Lidl, Metro, etc) and DIY retailers (Obi, Praktiker, Bauhaus, Hornbach) are dominating their home market and are expanding heavily abroad, other sectors do not. In the textile sector it is instead foreign companies that are expanding on the German market, e.g. the Spanish Zara (Inditex) and H&M from Sweden.

Considering literature about the retail industry, this gives that the literature is often scattered and focused on different geographical areas (countries or markets) or specific sectors within the retail industry. For instance, one example of geographical limitations is Pfohl & Röth (2008), who discuss trends for Western European companies, especially German companies, and the challenges these companies are facing when expanding on the Eastern European markets. Another example covering Germany, Austria and Switzerland is a report from EHI Retail Institute from 2006 (Kempcke, 2006) that identifies different retail trends companies in these countries are facing.

Research on specific retail sectors can also be found. One example is Kumar (2008), who discusses logistics capabilities needed for the grocery industry. In particular, the food industry has got attention in retail literature, probably as a result of being the largest sector. This can be seen when for instance looking at single case studies in literature. A long row of different well-known success stories and best practice cases in the food sector can be found, e.g. Wal-Mart (Gereffi & Christian, 2009) or Aldi (Brandes, 2004; Wortmann, 2004; Turban & Wolf, 2008).

1.3 The structure of this report

This report starts with an overview of the largest retail companies in the world, as a means to place the Western European market and the different retail sectors into a larger setting (Chapter 2). Thereafter the methodology of this report, which mainly consists of a literature study on German retail literature and a case study, is briefly described (Chapter 3). The next chapter (Chapter 4) deals with retail trends and logistics challenges connected to these. Thereafter the DIY sector is discussed (Chapter 5) followed by the case study of Hornbach (Chapter 6). Chapter 7 then discusses the food sector and chapter 8 the Aldi case study. Finally, chapter 9 presents some propositions about the future development of the industry.

2 The largest retail companies – A worldwide overview

This report, and the literature it is built on, is focused on the Western European markets. However, as a start Table 1 below shows the 10 largest retail companies in the world, measured in US dollar group revenue. The list in Table 1 is presented in a research report from Deloitte (Deloitte, 2009) that lists the 250 largest retail companies in the world, measured with total sales. As can be seen, food retailers dominate the list, the largest sector in the retail industry.

Table 1: Top ten largest retailers in the world measured in US dollars (Source: Deloitte, 2009)

Rank	Name of company	Country of Origin	2007 group revenue (U.S. $mil)	Operational formats	2002-2007 CAGR
1	Wal-Mart Stores, Inc.	U.S.	378,799	Cash & Carry/Warehouse Club, Discount Department Store, Hypermarket/Supercenter/Superstore, Supermarket	10.3%
2	Carrefour S.A	France	114,177	Cash & Carry/Warehouse Club, Convenience/Forecourt Store, Discount Store, Hypermarket/Supercenter/Superstore, Supermarket	3.6%
3	Tesco plc	UK	94,740	Convenience/Forecourt Store, Department Store, Discount Department Store, Hypermarket/Supercenter/Superstore, Supermarket	12.4%
4	Metro AG	Germany	88,189	Apparel/Footwear Specialty, Cash & Carry/Warehouse Club, Department Store, Electronics Specialty, Hypermarket/Supercenter/Superstore, Other Specialty, Supermarket	4.6%
5	The Home Depot, Inc	U.S.	77,349	Home Improvement	5.8%
6	The Kroger Co.	U.S.	70,235	Convenience/Forecourt Store, Hypermarket/Supercenter/Superstore, Other Specialty, Supermarket	6.3%
7	Schwarz unternehmens Treuhand KG	Germany	69,346	Discount Store, Hypermarket/Supercenter/Superstore	12.6%
8	Target Corp.	U.S.	63,367	Discount Department Store, Hypermarket/Supercenter/Superstore	7.6%
9	Costco Wholesale Corp.	U.S.	64,400	Cash & Carry/Warehouse Club	10.7%
10	Aldi GmbH & Co. oHG	Germany	58,487	Discount Store, Supermarket	4.3%

Taking a regional/country perspective on all the 250 companies at Deloitte's list, Table 2 below shows from where the companies originate. As can be seen, European and North American companies are dominating the list. French and German retailers are the most international ones. The 13 French companies on the list operated in an average of 18.9 countries and generated 35.3% of their sales abroad, whereas the German companies operated in 13.8 countries and had share of sales of 41.8% from foreign countries.

Table 2: Region/Country profiles of the top 250 retail companies (Source: Deloitte, 2009)

	No of companies	Average 2007 retail sales	Average no. of countries	% Retail Sales from foreign Operations 2007
Top 250 companies	250	14,474	6.8	21.3%
Africa/Middle East	**6**	**4,724**	**9.0**	**12.5%**
Asia/Pacific	**39**	**10,278**	**3.7**	**12.3%**
Japan	*24*	*9,205*	*2.8*	*10.0%*
Europé	**99**	**15,403**	**11.1**	**35.1%**
France	*13*	*27,895*	*18.9*	*35.3%*
Germany	*21*	*20,232*	*13.8*	*41.8%*
UK	*21*	*14,682*	*10.0*	*19.0%*
Latin America	**8**	**5,422**	**1.6**	**9.9%**
North America	**98**	**16,549**	**3.9**	**11.8%**
US	*87*	*17,520*	*5.1*	*11.7%*

The table 3 below shows the largest retailers from the central- and Western Europe markets.

Table 3: The 30 largest retailers in Central- and Western Europe (Source: Planet retail 2009, on www.lz-net.de)

Rank	Company	Country	Turnover 2008 in billion Euro	Market share in %
1	Carrefour S.A.	F	84.6	5.9
2	Tesco Plc	GB	62.3	4.0
3	Schwarz-Gruppe	D	58.9	4.3
4	Metro Group	D	46.5	2.6
5	Rewe Group	D	45.1	3.5
6	Groupe Auchan	F	42.8	2.6
7	Aldi Gruppe	D	40.6	3.2
8	Edeka-Gruppe	D	37.5	3.0
9	E. Leclerc	F	33.8	2.1
10	ITM Entreprises S.A. (Intermarché)	F	29.9	2.3
11	Casino Guichard-Perrachon S.A.	F	29.5	1.9
12	Ahold N.V.	NL	28.6	2.2
13	J. Sainsbury Plc	GB	25.2	1.7
14	Wal-Mart Stores Inc.	USA	24.4	1.5
15	WM Morrisons Supermarkets Plc	GB	19.8	1.3
16	Système U	F	17.9	1.3
17	El Corte Inglés S.A.	ES	16.2	0.5
18	Mercadona, S.A.	ES	15.4	1.2
19	Lekkerland GmbH & Co. KG	D	13.1	1.1
20	Coop Italia	IT	12.8	0.9
21	Marks & Spencer Plc	GB	12.3	0.6
22	Migros Genossenschafts-Bund	CH	11.9	0.8
23	Louis Delhaize S.A.	BE	11.5	0.7
24	Tengelmann Gruppe	D	10.7	0.8
25	Coop Schweiz	CH	10.2	0.7
26	Co-operative Group Ltd.	GB	9.9	0.8
27	Alliance Boots GmbH	GB	9.7	0.8
28	AS Watson & Company Ltd	UK	9.7	0.7
29	Musgrave	GB	9.7	0.8
30	JLP John Lewis Partnership Plc	GB	9.2	0.4

3 Methodology

This report is a part of a research project undertaken by researchers in the Marketing Logistics Research Group at Linköping Institute of Technology. The research presented in this report has mainly been conducted during autumn 2009 in Darmstadt, Germany, where one of the researchers in the research group has been working as a visiting researcher. The aim of the visit in Darmstadt has been to get an international view on the retail industry, including:

- Get access to German literature in the area. German researchers have a long tradition of publishing their research results in the German language in books and journals that are often difficult to access from Sweden.
- Via German researchers get access to empirical data and case studies.

3.1 Literature review process

The literature search has been conducted in two steps in accordance with the purpose of the study. The first step included literature on overall trends in the retail industry in the Western European markets, such as internationalisation, private labelling, new store concepts, etc. In particular, logistics-related topics have been focused, for instance the use of RFID. As a second step in the literature search, the DIY and food sectors and their development has been investigated more carefully. For both steps literature has been accessed mainly in five ways.

1. Scholarly, peer-reviewed research articles have been searched for via the data base Business Source Premier, which has been accessed via Linköping University's library. Typical search strings have been "retail + trends + logistics", "distribution + DIY", etc.
2. The scholarly, peer-reviewed retail journals International Journal of Retail and Distribution Management and International Review of Retail, Distribution and Consumer Research have been scanned for publications the last five years (2005-2009).
3. Google Scholar and Internet have been searched for academic articles, but above all, consultancy reports from e.g. KPMG and Ernst & Young. This type of material often gives a good overview picture of the industry/sector and is also a valuable source for recently updated facts such as turnover, profit margins, etc.
4. The BWL (Betriebswirtschaftlehre) library and its database at Darmstadt Institute of Technology has been searched for books.
5. Research colleagues at Darmstadt Institute of Technology as well as Saarland University have provided us with interesting material after our specifications.

A particular interest and focus has been kept on recent literature. As the topic concerns trends in the industry, this has been a crucial criterion. Despite our efforts, the reader should be aware of that most of the literature spans over 5 years, which means that data such as turnover, percentages, etc, from different sources sometimes seems to be inconsistent at a first glance. In addition, since the literature collected comes from different authors in different countries, with different research interests, the scope of e.g. the “DIY sector” might differ between sources of information. Another example of unclear definitions is how to understand the store concept “category-killer”. Here several different opinions exist. This reports tries to tackle these disparities with clear, well-structured references so that the reader is able to track the source from where the information comes from.

The German market has been given special attention in this report. As the literature has been collected in Germany, an extensive part of the literature has also been focused towards this market.

3.2 Empirical data

In order to better understand and actualize the trends, this research also includes an empirical case study. Hornbach, a German DIY retailer was chosen for this purpose, as an interesting player on the German as well as the Swedish market. The company has shown proof of being a precursor on a number of logistics-related areas through the years and has had a solid development when it comes to profitable growth. For the Swedish DIY sector Hornbach, together with its competitor Bauhaus, has been very influential, despite that Hornbach only has three stores in Sweden.

The collected data about Hornbach consists mainly of three parts. First, facts and figures, academic works referring to Hornbach, as well as short articles in newspapers, in particular those found on the website of the Lebensmittelzeitung (www.lz-net.de), have been used. Secondly, an interview with a top manager with very good insight in the overall company strategies as well as the logistics function was interviewed. The interview followed a semi-structured interview guide, with questions focused on Hornbach’s assortment policy, purchasing strategy, and logistics operations, and above all, the interplay between these areas. In connection to the interview, that was held at Hornbach’s head quarters in Bornheim in November 2009, one of Hornbach’s three DCs was visited, which gave an opportunity to discuss the physical flow in the DC more in detail. As a third information source to the case study, an article written by the Logistics Director of Hornbach (Makowski, 2003) was handed over.

4 Trends and logistics challenges for Western European retail companies

4.1 Trends

When it comes to trends for the retail sector there are external as well as internal factors affecting the retail companies (Kumar, 2008). The most discussed external one is changed demographic structure that puts new requirements on the industry, whereas internal ones are internationalisation, private labelling, development of different store concepts, consolidation and vertical integration, and technology development.

4.1.1 Changed demographic structures

A strong external trend on the Western European markets is a changed demographic structure (e.g. Kumar, 2008; Pfohl & Röth, 2008; Payton, 2008; Otto & Mensing, 2008; KPMG, 2006; Kaapke, 2008) that changes customer requirements. This in turn means new challenges for retail companies in order to satisfy new customer needs. For instance, from the German market the following demographic changes are expected to influence the retail industry;

- The total number of inhabitants is expected to decrease from 83.1 million people in 2010 to 75.1 million in 2050, which means a continued and intensified competition for these customers. (KPMG, 2006; Kaapke, 2008)
- The share of older people will steadily increase, which is expected to increase the demand for healthy food and home deliveries in the future (Pietersen, 2004; KPMG, 2006; Kaapke, 2008).
- Increased share of 1- and 2-people households, with a higher degree of households with single parents. This development is expected to increase demands for the convenience shopping (KPMG, 2006; Kaapke, 2008; Kreimer & Gerling, 2006).
- Another trend in Germany, affecting the need for convenience shopping, is the increasing rate of women that are working outside their homes (KPMG, 2006).
- An even more multicultural society makes the demand profile of the customers more diversified (Kaapke, 2008).
- The gap between richness and poorness are increasing which speaks for further segmentation of the retail market (KPMG, 2008).

4.1.2 Internationalisation

The retailing industry has for a long time been local in comparison to other industries. For instance, the 15 largest companies in the pharmaceutical industry represents 70% of the total sales worldwide (KPMG, 2006), whereas today some of the largest European retail companies have at most succeeded to come over 50% of their turnover in foreign countries. However, in recent years the internationalisation has also slowly started to accelerate (Lademann, 2004; Payton, 2008). The reasons for this development are both push-oriented as well as pull-oriented (Pfohl & Röth, 2008). From a push perspective, the highly mature home markets with relatively low GDP growth means severe price competition, which in turn means low profit margins and a need for growth in order to increase profit. Geographical expansion here offers what at least seems to be a lucrative growth strategy. From a pull perspective, the new markets, for instance in Eastern Europe, have relatively high GDP-growth and offers less competition in comparison to the home-markets in Western Europe.

Several different models for roll-outs of geographical expansions can be identified among retail companies today, and there does not seem to be one model more successful than the others. In general, four different models are seen (exemplified companies might have conducted different models on different markets):

(1) The foundation of own subsidiaries on external markets (E.g. Aldi, H&M, Hornbach)
(2) The foundation of own subsidiaries under other names on external markets (E.g. Tesco)
(3) Acquisition of local retailers and stores (E.g. Wal-Mart)
(4) Implementing franchising or joint venture with local players (E.g. Metro, Obi)

Independent from type of expansion model, there are however many obstacles for companies that expand abroad. Empirical investigations have shown that a common reason for companies to expand has been competitors that have been successful. Companies have tried to imitate their business concept, but the risk of failure of having such an imitation strategy is considerable (KPMG, 2006). Internal competencies might be very difficult to identify from outside and therefore many companies have failed to do a proper imitation and understand what is behind their competitor's success (KPMG, 2006).

Wal-Mart's withdrawal from the German market might be the most well-known empirical examples of a market entrance failure. From the start 1997 to the exit 2006, with a yearly loss of 200 million dollar, Wal-Mart tried to be profitable on the German market (Gereffi & Christian, 2009; Christopherson, 2007). However, strong local competition, especially by the local (German) discount company Aldi, surprised Wal-Mart. The Wal-Mart entrance, and the withdrawal, has been debated in retail literature and several explanations have been offered for the failure. Overall, Christopherson (2007) explains the failure with Wal-Mart's inability to change their business model and take use of their resources in an effective way, i.e. adjust to local regulatory environment and social norms. The report from KPMG (2006) has a similar view, where it is argued that except from a careful analysis of own strengths and weaknesses, it is elementary to have good knowledge of, and understanding for, the customers on the new market, as well as knowledge about local regulations and practices. Among successful companies with a large market share on their home market, the KPMG report continues, there has many times been a too high confidence in the own business model and an unwillingness to adjust to local conditions. So has for instance Marks & Spencer, that has a very strong position on the UK market, had difficulties with local adjustments and have since 2004 withdrawn all their business outside the UK (KPMG, 2006).

In essence, retail literature in general argues that successful geographical expansion for a retailer does not mean standardised offerings to customers on different markets. In fact, requirements for customisation in terms of products, opening times, additional services, etc, are crucial for success on the new markets (Payton, 2008; Kumar, 2008; KPMG, 2006). As an example, Payton (2008) discusses the differences of the UK DIY retailer B&Qs store concepts in the UK and China. Whereas the UK stores are stark outlets stacked with paint, drills and screwdrivers, the Chinese stores are more of showrooms, furnished and well designed. The reason for this is, according to Kingfisher, the parent company to B&Q, that the Chinese do not have a "do-it-yourself" culture, but a "do-it-for-me" culture (Payton, 2008).

There are however exceptions from the general rule for customisation. KPMG (2006) points out that also an entrance with a clear, detailed, for that market "new", business concept also might be a source for success. An increase of sales for the whole market can then be achieved. So has for instance, from a Swedish perspective, Hornbach and Bauhaus both been able to establish business in Sweden with concepts that previously not has been seen there.

Many Western European retail companies have today expanded their business to the whole world (Kumar, 2008; Payton, 2008), but one geographical area of particular interest the recent decade has been Eastern Europe (Pfohl & Röth, 2008; KPMG, 2006). Retail companies prefer these markets for two reasons; (1) they are expected to be closer to Western European countries when it comes to culture and needs than other regions of the world, and (2) the relative short distance from the home markets are seen as a logistics advantage (KPMG, 2006). Indeed, the previously closed Eastern Europe markets offer interesting opportunities for retail companies with their relatively high GDP and increasing welfare. Other important factors that enable the internationalisation on these markets are the EU-entrances 2004-2007 and the relaxed customs regulations with less bureaucracy and investment regulations (Lademann, 2004).

4.1.3 Private labelling

Traditionally, private labelling has been seen as a tool solely for cost minimisation (Huang & Huddleston, 2009). This view is however now changing, and the presence of high quality premium brands owned by the retailers have been recognised, especially in the grocery sector (Kumar, 2008). Private labels, or retail own brands, has become an important tool for keeping customers loyal to the store and the private label share of total sales for retail companies are increasing (Huang & Huddleston, 2009; Otto & Mensing, 2008). In Europe, the sales of private labels accounted for 25% of the total sales in 2005 (Otto & Mensing, 2008). Worldwide, an increase of 5% yearly is expected and in the developing countries the increase is expected to be as much as 11% annually (Otto & Mensing, 2008). The difference between countries is however large and also the presence of private labels in different sectors varies. For instance, in the grocery sector in the USA and UK the private labels accounted for 20% and 49% respectively (Huang & Huddleston, 2009).

A KPMG report from the German market shows that it is above all weaker brands that are loosing market shares to retail-owned brands, see Figure 1.

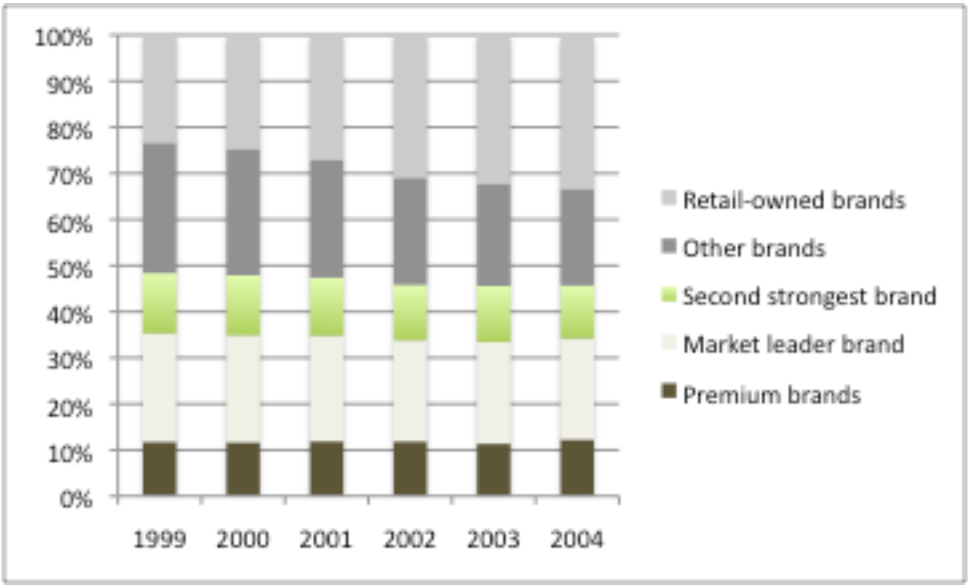

Figure 1: The development of different types of brands on the German market 1999-2004 (Source: KPMG, 2006, p. 36)

Huang & Huddleston (2009) identify three different types of retail-owned (private label) brands that all fulfil different requirements and have different aims; generic brands, mimic brands, and premium own-brands, see Figure 2.

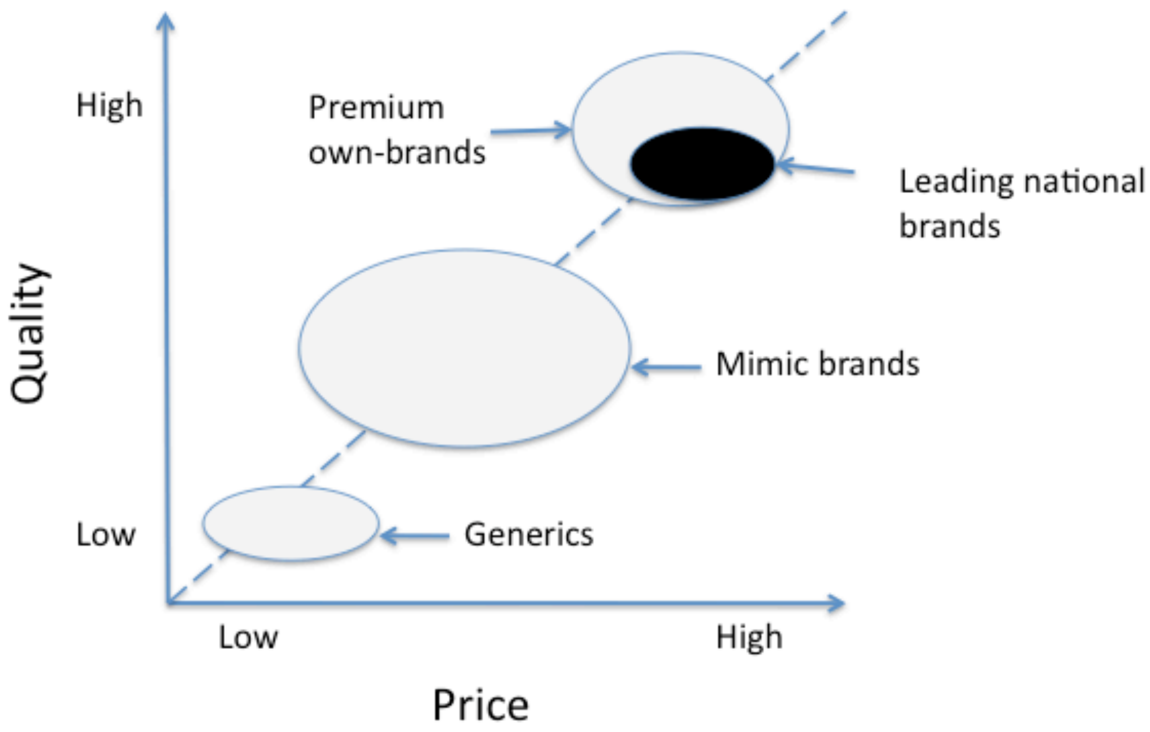

Figure 2: Positioning of different types of retail-owned brands (Source: Huang & Huddleston, 2009, p. 977)

The first type, generics, is known as the traditional retail-owned brand, aimed at providing customers with a lowest possible price alternative to the other brands. Often packed in simplest possible way and with relatively low quality, advertising, packaging and marketing is held to a minimum level. Products belonging to the middle group of retail-owned brands, referred to as mimic-brands, are directly competing with original brands by imitating them. These brands are supposed to offer the customers a "value-for-money" alternative to the original brands. Finally, the premium own-brands, which is the most recent generation of retail-owned brands, offer high value added products with innovative design with the same, or even higher, quality as the original, national brands. These retail-controlled premium brands, competing side by side in the store with original brands, means that retailers are now taking an active role in the supply chain when it comes to product development, innovative packaging, etc. This type of brands is also, as discussed above, an important tool for keeping customers loyal to the company's stores.

The increased sales of private label products, and the segmentation into different classes that covers the whole spectrum of products in terms of price and quality, changes the role of the suppliers (Otto & Mensing, 2008; Schäfer, 2008). There is a need for adjustment of manufacturing strategies among suppliers to cope with the new situation, which is many times difficult since the own brands are directly competing on the store shelf with the retail-owned brands (KPMG, 2006). Retailers have here an advantage in the form of access to data valuable for customer orientation (e.g. POS data), and will therefore be able to contribute to new, innovative products in terms of quality, design and packaging (Otto & Mensing, 2008). Overall, retailers are today facing the challenge of balancing a combined offering of traditional brands and retail-owned brands in the stores (Schäfer, 2008).

4.1.4 The development of different store concepts

Recent years there has been a trend towards more pronounced and specific store concepts among retail companies as a mean to position the own company against competitors (Lademann, 2004; Pietersen, 2004; Prumper et al., 2007; Sampson, 2008; KPMG, 2006). Retailers in the middle, without clear strategic direction and customer focus for their store concept, have lost considerably market shares to above all retailers with a “discount” or “category-killer” concept (Pietersen, 2004).

One of the strongest and most successful store concept recent years, in particular in Germany but also at other European markets, is the concept of “discounters”, characterised as low-price stores with limited assortment but god quality that is offered to certain customer target groups (Pfohl & Röth, 2008; Pietersen, 2004; Prumper et al., 2007, Lademann, 2004; Turban & Wolf, 2008). The limited assortment enables considerable cost improvements in logistics and supply chain operations and is hence the prerequisite and enabler for the low prices.

The discounter concept has shown to be successful in many sectors such as home electronics, furniture, shoes, DIY, textiles, but above all it can be seen in the food industry (Prumper et al., 2007; Pietersen, 2004; Kreimer & Gerling, 2006). In the German food sector, where the development of this type of companies has been most significant, the discounters’ share of total sales has increased from 25.7% in 1992, to 36% in 2002, to 40% in 2005 (Prumper et al., 2007). During the same time, the number of discount stores in the food sector increased from 2700 to 9700 (Prumper et al., 2007). The successful development of Aldi is one example of the diffusion of the discount concept, and is further described in chapter 8.

Lademann (2004), who discusses the development of retail store concepts on the German market, argue a continuation of the specialisation of the different store concepts and thus a reduced assortment (number of articles) for the discounters. At the same time though, Lademann predicts an increase of the non-food assortment for the food discounters. Between 1992 and 2001 the total number of articles by German discounters has decreased by 24%, whereas the non-food assortment has increased 17%. For instance, Aldi represented in 2000 1.6% of the German apparel sales and was the ninth largest apparel retailer in Germany (for a comparison, H&M was at the list placed as number 6 with 2.2% of the market). This development has continued, and Aldi, and its discount competitor Lidl, were in 2008 placed as the eighth and ninth largest apparel retailer in Germany with a turnover of such products of 1071 respectively 1029 million Euro (www.lz-net.de). H&M was on the same list ranked as number five, with a turnover of 2476 million Euro. This development is according the KPMG (2006) a dangerous one, arguing that the discounters Aldi as well as Lidl now are facing increased problems with obsolescence.

Another successful store concept is the “category-killers” or “big-box retailers” (Sampson, 2008), where a very deep assortment of a product category is offered to the consumers together with knowledge and expertise about the products. Due to the assortment range, the stores are large-sized. Examples from the US market are Toys R Us and Home Depot (Sampson, 2008; Arnold & Luthra, 2000). The category killers have got large impact on a long row of different retail sectors and no sector has been spared from their competition (Sampson, 2008; Lademann, 2004). Arnold & Luthra (2000) summarise the effects of the category killers’ entrance as consumer benefits in terms of pricing and assortment, rapid market penetration in the growth stage of the retail life cycle, decline in sales of local competing stores, growth and decline in various commercial sectors, economic growth in market of entry, job creation and loss, changes in market efficiency and competitive market structure and economic decline in nearby markets.

The increase of category killers means that there is also a trend towards larger warehouses (Sampson, 2008; Lademann, 2004; Kaapke, 2008). By examining a number of retail sectors over time on the US market, Sampson (2008) verified a correlation between size of the warehouse and sales revenue, and concludes that retailers that have not continued to enlarge their stores are today outperformed and not present on the market anymore. In order to stay competitive, it has hence been important to increase the size of the stores.

For the non-food retailing companies, i.e. all sectors except for the food sector, Lademann (2004) concludes a trend among German companies towards more narrow, but far more deeper, assortments. As a result of the ever-increasing range of supply in different assortments, traditional warehouses where “everything” have been offered, have difficulties to live up to what their concept promises; “everything under one roof”. In addition, they are not able to keep knowledge and competence about their whole range of products anymore, which means that they loose the customers’ trust. Simply put, the deepened range of supplied products has worsened the situation for traditional warehouses and made their mission of having such a broad assortment almost impossible. Instead category-killers have emerged in a long row of different retail sectors. So have specific warehouses for different sectors emerged, e.g. furniture, DIY, electronic equipment, etc. Also even more narrow, new sectors have emerged, such as baby-, car peripheral- and gardenstores (Lademann, 2004).

To conclude, whereas discounters continue to decrease their assortment (i.e. number of articles) category killers are increasing their depth of their assortment (Lademann, 2004). As a result, more traditional store concepts, such as supermarkets and warehouses that had their largest market share during the 90s, have been weakened and lost market shares (Pietersen, 2004; Lademann, 2004).

However, the concept of small “convenient shops” situated close to the customers and with generous open times, is another concept that has developed well in recent years (Pietersen, 2004; KPMG, 2006; Otto, 2009; Kreimer & Gerling, 2006). Here convenience stores in connection to e.g. gas stations, that satisfy other needs of the customer, might be an important competitive weapon (Lademann, 2004). In general, there can be seen a “convenience trend” in retail stores, above all in the food sector (Kreimer & Gerling, 2006). In Germany, but also valid in the rest of Europe, new fast food products have for instance been developed, suitable for the increased number of single households (KPMG, 2006; Kreimer & Gerling, 2006). The convenience trend also means that the location for the store is important. Traditional warehouses offering “everything under one roof” may sound convenient, but not if they are situated far out in a shopping mall or similar (KPMG, 2006). Instead, gas stations, situated close to the highway might here have a bright future (Lademann, 2004).

4.1.5 Consolidation and vertical integration

The mature markets and fierce price competition has put focus on increased turnover as a means to enhance profits. This has resulted in a development towards fewer, but larger, retail companies in most Western European countries where economies of scale are searched for (Otto & Mensing, 2008). For instance, in the German grocery sector today the ten largest companies stands for more than 90% of the turnover, and the top five companies’ share is expected to increase. In Switzerland the top 5 grocery retailers represents 92% of the market (Otto & Mensing, 2008). In the Swedish grocery industry, the development is similar; the top three companies ICA, Axfood and Coop represent over 90% of the market. ICA, the largest player, stands alone for more than 50% and their market share is increasing (Abrahamsson, 2008). The development of larger, but fewer, players can also be seen in other sectors (Hernandez, 2003; Lademann, 2004). Except for the growth of the own company, mergers and acquisitions have also contributed to the development. Examples of this are the merge between Praktiker and Max Bahr on the German DIY market, Kingfisher’s 21% share in Hornbach, and Edeka’s overtake of Spar and Netto and a large amount of Plus-stores.

Another trend for further rationalisation and cost improvements is vertical integration (Kempcke, 2006; Pfohl & Röth, 2008; Pietersen, 2004; Zentes, 2008), where integrated manufacturers and retailers manage and control the supply chain operations and assortment, as well as define the customer target group(s) (Schäfer, 2008). Instead of margins for both manufacturer and retailer, vertical integration reduces the margin to one only, which has resulted in over-average growth and profit margins for many vertically integrated companies (Pietersen, 2004; Schäfer, 2008). Pietersen (2004) refers to studies in the fashion industry, where cost reductions of 10-15% are estimated after 3-5 years. Except for cost reductions, increased vertical integration also means improved services, including reduction of lead times, i.e. time-to-market (Pietersen, 2004), and increased on-shelf availability (Zentes, 2008).

Lademann (2004) identifies from a manufacturer's perspective a number of different types of vertical integration present on the German retail market:

- Complete overtake of the stores by the manufacturer. One example here is Inditex, who owns and controls the complete supply chain.
- Exclude the retailer function and sell directly from the manufacturer. The development of larger factory outlets is an example of this.
- Franchise systems, where the manufacturer has a collaborative approach towards the stores.
- A dual distribution chain, consisting of stores owned by the manufacturer as well as traditional, own retailers. An advantage hereof is the ability for the manufacturer to directly influence the end customers and to build brand loyalty.
- Different kinds of deeper collaboration between purchasing organisations of retailers and manufacturers.

There are also retail companies who have taken control of the situation in their supply chains (Zentes, 2008). The increased size of retail companies and the resulting financial strength, and other trends such as increased private labelling, have made this development possible. Zentes and Schramm-Klein (2004) outlines a number of different activities where vertical integration has taken place, see Figure 3.

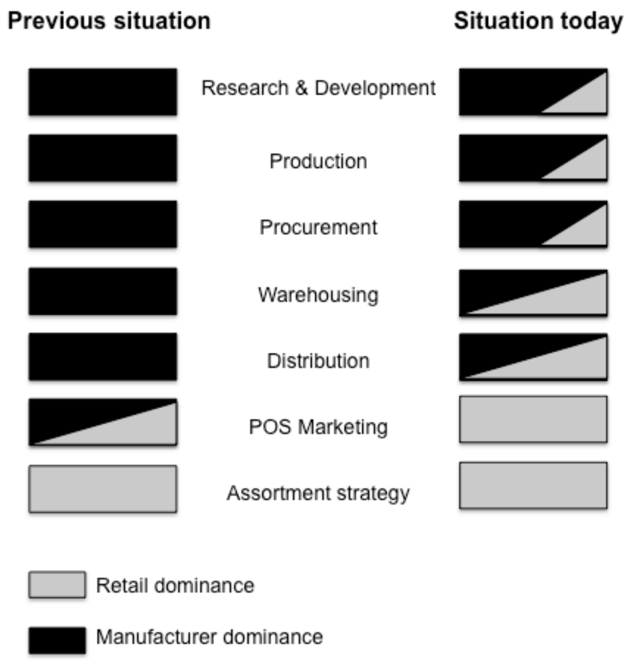

Figure 3: Manufacturers' and retailers' dominance of different activities previously and now (Source: Zentes & Schramm-Klein, 2004, p. 1701)

As can be seen in the figure, retailers have been more active when it comes to distribution, storing, procurement as well as production-oriented activities (such as e.g. final configuration). The driving forces behind this expanded domain of control are to a large extent to be found in potential improvements in the logistics operations (Zentes, 2008). Major activities to take over for the retailers are operations in central warehouse, distribution centres, etc, and here cost efficiencies as well as service improvements with e.g. a cross-docking concept is expected to be achieved (Zentes, 2008). The increased commitments however also put new requirements on logistics knowledge for the retail companies (Prumper et al., 2007; Otto & Mensing, 2008). Empirically, Hornbach presents a strong example for this development, see chapter 6 for a further description.

4.1.6 Technology development

The technology have been discussed for a long time in retail literature, often related to business concepts such as Efficient Consumer Response, ECR, Collaborative Planning, Forecasting and Replenishment, CPFR, and Vendor Managed Inventory, VMI (Kumar, 2008). In particular ECR has had an enormous impact for the development of the grocery sector, and is expected to have it also in the future (Kumar, 2008).

Two different purposes for technology can be identified; further cost improvements in terms of rationalisation and speed in operations – here technology is an important tool for further vertical integration where retailers can better connect their products and needs to the suppliers, and as an enabler for expansion and growth and operations that support customer loyalty and profiling (KPMG, 2006).

The technology development has always been closely connected to the logistics operations in retail companies, e.g. through the concept of ECR, and technology has been seen as an important driver for improved logistics performance. Technology limitations were what previously hampered the logistics advancements. This has however changed and today there is a gap between the technology frontier and logistics operations; advanced technology is available on the market that (so far) is not asked for among companies (Otto & Mensing, 2008). A report from the EHI Retail Institute (Kempcke, 2006) that investigates trends among leading German, Swiss and Austrian retail companies, reports that many retail companies are not using all technology available. In fact, the business concept of CPFR, which to a large extent is based on technology, has despite several years of discussion only been implemented to a very limited extent and there are few companies that have managed to establish a successful business case. Many companies asked in the EHI study are sceptic towards technology-related issues such as the use of automatic picking and packing and RFID, Radio Frequency Identification. It is argued that too high-tech inventories might not be flexible enough in terms of e.g. changed order structure or changed layout of the stores (Kempcke, 2006). When it comes to RFID, the KPMG report (2006) similar to the EHI study also concludes a more balanced view on RFID in recent years. One reason might be a more mature view on the advantages with RFID – the more this technology is tested and used, the better understanding for its limitations can be seen (KPMG, 2006). Nevertheless, other authors are still expecting RFID and other technology to be considerably more important in the industry in a few years, e.g. Kumar (2008) and Otto & Mensing (2008). Kreimer & Gerling (2008) mean that in sectors with more expensive products, the RFID technology might be worth a try, whereas in sectors with cheaper products, such as the food industry, still experience too high costs for the new technology. For increased development of RFID speaks also a continued interest and implementation of ECR worldwide (Kumar, 2008), that drives the technology development further and provides good examples of how the technology can be used to attain logistics advantages.

Another technology related trend is the increased sales over the Internet (Zentes, 2008). In Germany the increased sales have above all affected the traditional mail order trade, and a switch between these two market channels can be identified, see Figure 4 below. The trend for increased Internet sales are expected to increase further in the future (KPMG, 2006).

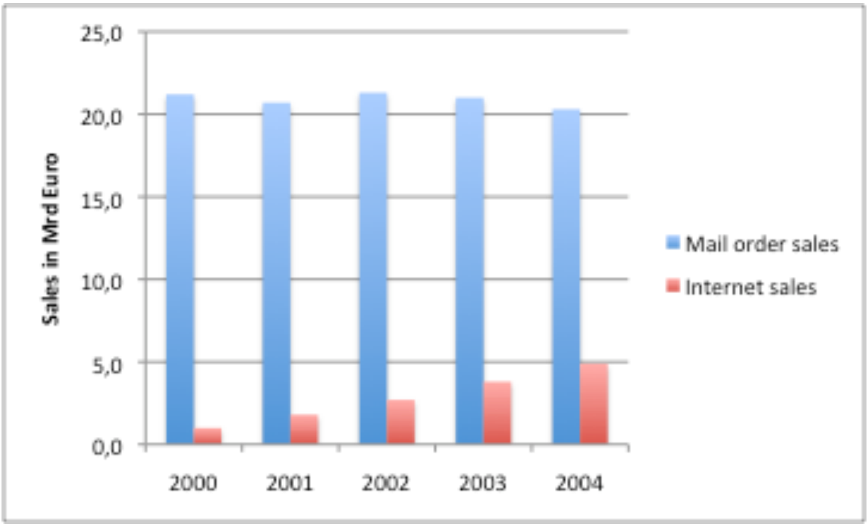

Figure 4: Development of mail order and Internet sales 2000-2004 on the German market (Source: KPMG, 2006, p. 38)

4.2 Logistics trends and challenges

The trends of internationalisation, private labelling, demographic changes, new store concepts, etc, all requires improved logistics performance. Prumper et al. (2007) points out that it is not enough to rely on economies of scale in the purchasing function, but also to manage cost reductions in the logistics activities. To secure the full potential of cost reduction it becomes necessary to consider operations throughout the whole supply chain (Prumper et al., 2007; Otto & Mensing, 2008; Otto, 2009) and therefore, as described above, the trend for increased vertical integration is strong in the retail industry. In particular, the potential of bundling of transports from the suppliers to retailers has a crucial impact on supply chain cost improvements, which has effected in increased initiatives from the retailers to manage the physical distribution from suppliers to the stores on their own (Prumper et al., 2007; Zentes, 2008). So have retailers to a larger extent built own central warehouses as well as distribution centres (Zentes, 2008). By overtaking the task of distribution, which traditionally to a high extent has been managed by the suppliers, efficient bundling of products from different suppliers can be enabled. Except for improved economies of scale in transportation, this also results in better control and planning of the physical distribution and considerably less number of deliveries to the stores (Prumper et al., 2007).

However, the development of retailers taking larger control of the supply chain also means considerably more responsibility and a further focus on logistics operations for the retailers is needed. Logistics related costs such as inventory carrying costs, transportation costs and IT costs will increase significantly which means that they have to be managed more carefully (Prumper et al., 2007; Schommer et al., 2005). This means in turn that the need for appropriate competence for buying logistics services from third party logistics providers increases.

In line with Prumper et al. (2007), a research report from Otto & Mensing (2008), which is based on interviews with the leading retail companies in the Fast Moving Consumer Goods (FMCG) industry in Germany, also stresses the development towards increased focus on management of the supply chain as a whole as a mean to reduce prices and at the same time increase service quality and performance of logistics activities. In short, logistics has become a major competitive weapon, but only for those companies who can manage it. The report presents four logistics strategies that are considered crucial for further success and to meet the changed requirements on retail companies:

1. *Bundled transportations to stores*. As a mean to create more cost efficient transportations, bundling of goods, e.g. through the concept of cross docking, is becoming increasingly important. In addition, for smaller shops located in the very centre of towns, the stores are not able to handle too many deliveries. This means that different types of goods have to be delivered on the same time.
2. *Reduced inventory levels*. Due to increased assortment and limited space in the stores, the inventory levels must be reduced. In addition, obsolescence can be avoided.
3. *More frequent deliveries*. In order to keep high availability in the stores, which is becoming more and more crucial (see above) due to reduced brand loyalty, more frequent deliveries are needed. High availability of goods should be enhanced by frequent, but smaller, deliveries.
4. *Synchronisation in the supply chain*. Manufacturing companies as well as retail companies will in the future be forced to collaborate even more and synchronise their flow of goods based on the requirements from the customers. As a tool for this, the proper management of information flow is important.

More specifically, these requirements affect a number of logistics areas that can be summarised as in Table 4 below:

Table 4: Future requirements on logistics areas (Based on Otto & Mensing, 2008 and Otto, 2009)

Logistics area	Comment
Cross Docking concept	A continuation of cross docking practices is expected as a mean to fulfil the above listed strategies. The concept of cross docking should enable efficient bundling of different types of products as well as cost efficiency in smaller, but more frequent deliveries.
IT systems	A further development of IT systems is expected to enhance cost reductions. Less paperwork and faster access to information are discussed as two improvement areas.
Standardisation	A prerequisite for more, efficient utilisation of IT systems is standardisation of tagging and labelling of products. This becomes more important in the future due to increased variety of assortment and internationalisation of trade.
Transportation network	Logistics service providers are in the future required to be able to better integrate different transportation companies and offer the shippers better information about their goods.
RFID	Despite limited use so far, is RFID technology expected to grow in importance.
In-store logistics	To improve the store logistics, which has so far been neglected by many retailers, is crucial for the total success of the supply chain. To integrate the last 10 meters of the supply chain in the distribution chain will make considerable contributions in the form of cost and service improvements.
Flexible production	For suppliers it is, in line with the need for supply chain synchronisation, becoming increasingly important to build flexible production systems, with small production lots and fast deliveries.
Degree of investment in assets	There are both pros and cons of having an own transportation fleet. It is an important act of balance to judge to what extent the transportations should be outsourced.
Working times for logistics	When the opening times of the stores become longer, the requirements for availability of logistics operations increase. This means that the working times for the logistics operations must be harmonised with the opening hours of the stores.
Logistics role and responsibility in the organisation	Despite growing importance, logistics has often an inferior role against e.g. the purchasing department. This means limited possibilities to plan, execute and control the logistics in a satisfactory way.
Collaboration with suppliers	Collaboration on logistics issues between retailer and supplier will be more important. Important areas for collaboration discussed are here for instance information sharing and joint cost reduction projects

The increased internationalisation represents another area where retail logistics is facing new challenges. For instance, the opening of the markets in Eastern Europe offers great opportunities for further expansion of many Western European retail companies as well as for logistics providers, however the expansion to these markets is also connected to many new challenges (Pfohl & Röth, 2008). Proper logistics performance requires the ability to manage and coordinate an extended supply chain. Economies of scale in single functions are not enough anymore; the whole supply chain should be managed and controlled (Pfohl & Röth, 2008; Kempcke, 2006). This includes the logistics handling in the stores, which often performs poorly in Eastern Europe countries where knowledge and education level in logistics is low (Pfohl & Röth, 2008).

A second challenge on the Eastern Europe markets is the alignment and understanding of local cultures (Pfohl & Röth, 2008). Still, according to Pfohl & Röth (2008), business life in these countries are influenced by a "planned economy"- thinking which makes it crucial to collaborate with governments and potential customers and adjust the business accordingly.

A third challenge on the Eastern Europe markets is the limitations in infrastructure. The absence of proper infrastructure makes it difficult to have central warehouses which makes the distribution structure complicated to manage. The concept of cross-docking, used in Western Europe, also become more difficult due to poor infrastructure.

5 The DIY sector

The DIY sector has existed for a long time but has in recent years grown in importance (Williams, 2008). There are several definitions of the sector, which means that it is sometimes difficult to compare findings from different regions or researchers. In particular figures of e.g. sales turnover might be misleading. This reports takes a broad view on the DIY sector and tries to present facts and figures as thorough as possible. The reader should however be aware of the different sources and different underlying definitions that can occur.

In the very centre of the DIY term stand construction and maintenance of houses, homes and gardens, including everything from renovation of e.g. kitchen and bathrooms, to decorations, accessories and furniture of the living rooms. Private persons, i.e. not professionals, should above all perform all these activities. For instance, Williams (2008) defines DIY as "home maintenance and improvement work conducted by household members on their own household without the paid services of a professional" (Williams, 2008, p. 312). From this follows that the DIY retailers provide products across a broad range of home-related categories needed for DIY-activities.

Considering marketing literature, it is characteristic for a retailer that they mainly are having private consumers as their customers, in comparison to e.g. wholesalers that sell to other channel intermediaries, for example retailers, or to business end users (Coughlan et al, 2006; Levy & Weitz, 2007). In practice, it is however often difficult to separate sales emanated from private consumers from the sales to companies. Indeed, the boundaries between a DIY retailer and for instance wholesalers such as Builders merchants are blurring (Henningsson, 2005).

5.1 An international perspective on the DIY sector

The global DIY sector is growing fast and 2008 it represented a turnover of US dollar 1170 billions (Datamonitor, 2009) [1]. The compound annual growth rate (CAGR) was 4% for the period 2004-2008. The growth is expected to continue in the future with 6.5% CAGR 2008-2013 to achieve a turnover of US dollar 1601 billions 2013, see Table 5 below.

[1] The market definition is defined as the "home improvement retail market" and consists of DIY equipment and products, and building materials.

Table 5: The total turnover of the sales in the DIY sector worldwide and its actual and forecasted growth 2004-2013 measured in CAGR (Source: Datamonitor, 2009)

	Year	$ (billion)	Growth
	2004	999,4	
	2005	1073,9	7,5%
	2006	1153,0	7,4%
	2007	1168,5	1,3%
	2008	1170,1	0,1%
	2009	*1218,7*	*4,1%*
	2010	*1318,1*	*8,2%*
Forecast	*2011*	*1430,5*	*8,5%*
	2012	*1525,1*	*6,6%*
	2013	*1601,0*	*5,0%*

Geographically, the DIY sector is having about the same share of the sales value in America, Europe and Asia Pacific, see Figure 5.

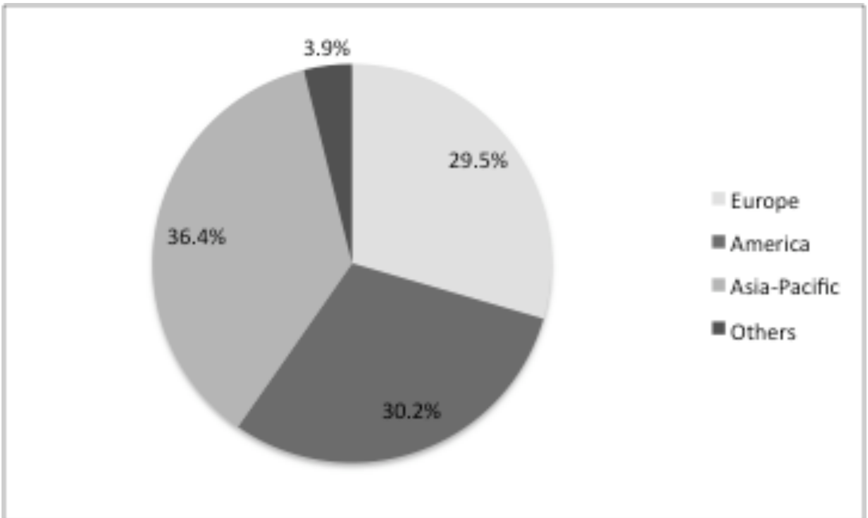

Figure 5: The share of total turnover for different continents (Source: Datamonitor, 2009)

As in other sectors, the DIY sector is becoming more and more consolidated in its structure. The three largest DIY retailers in the world are all representing a large share of the total sales; Home Depot Inc (6.30% of world's turnover), Lowe's companies Inc (4.20%), and Kingfisher Plc (1.60%), and their shares continue to grow (Datamonitor, 2009). Also when considering the development on a country level, there is a strong trend towards consolidated, almost oligopolistic, market structures. For instance, in the UK market the four largest companies, B&Q, Homebase, Wickes and Focus, control a share of 84.6% of the total DIY retail sales (Williams, 2008).

The DIY sector, just as the retail industry as a whole, is also worldwide facing major structural changes such as new store concepts, increased price pressure and internationalisation. Typical for the DIY sector is the very low brand loyalty among end customers. The sector is characterised as having highly undifferentiated products and services, and in general there are very low switching costs for the consumers (Datamonitor, 2009). Price therefore becomes an important tool for competition. In addition, undifferentiated products and services, and low switching costs for customers, are factors that facilitate and enhance new market entrances (Datamonitor, 2009). This, together with the fact that the sector in general is expected to have a continued growth, implies a further internationalisation of the sector.

5.2 The German DIY sector and its development

The German DIY market had in 2007 a turnover of 38.31 billion Euro (Kaapke, 2008). It is the largest DIY market in Western Europe followed by the UK and French markets. It differs from other European DIY markets in the sense that in Germany many regional players still holds a large market share, which makes it fragmented

5.2.1 The largest companies

A short overview of the largest players follows below in Table 6:

Table 6: The ten largest DIY-retailers on the German market (Source: EHI, 2009)

Rank	Company	Chain	No of stores (In Germany/Total)	Total sales area (1000 m 2)	Total turnover 2008 (million €)
1	Tengelmann	Obi	331/525	3,627	6,100
2	Praktiker	Praktiker, Extra, Max Bahr	346/446	2,818	4,670
3	Bauhaus	Bauhaus	126/206	1,945	3,990
4	Hornbach	Hornbach	89/125	1,430	ca 3,100
5	Zeus	Hagebau usw.	658/715	2,159	2,490
6	Rewe Group	Toom/B1 Baumarkt-Discount	365/365	2,248	2,212
7	Globus/Distributa	Globus/ Distributa	81/96	730	1,300
8	Eurobaustoff	Eurobaustoff	241/244	428	700
9	EMV-Profi	EMV-Profi	216/218	488	689
10	Baywa	Baywa	91/252	442	630

Obi: Obi is the largest German DIY retailer with a total yearly turnover of 6.1 billion Euro (EHI, 2009) and employs more than 38,000 people (Obi, 2009). Obi, founded in 1970, is today owned by the Tengelmann Group, to which also the food chains Kaiser's Tengelmann AG and Plus Eastern AG belong. Since 1993 Obi has expanded their business to 12 countries in Central- and Eastern Europe where above all Eastern Europe is seen as the market with most potential for further growth (Obi, 2009). The expansion has taken place both via organic growth but also via a franchise system. The share abroad of total sales was in 2008 46% (Obi, 2009). Obi can be considered to have a broad strategic direction, offering well developed services as well as low costs (Roeb, 2008). The stores are offering a broad and deep assortment with between 40,000-60,000 articles in each store, in the areas of garden, building materials, tools, sanitary accessories, and home decorations. Customers are expected to be private consumers such as families, and professional as well as semi-professional craftsmen (Obi, 2009).

Praktiker: The company group Praktiker is today competing on the DIY market with two brands; Praktiker and Max Bahr. The group is since 2005 introduced on the German stock exchange market, and is Germany's second largest DIY retailer with a turnover of 4.67 billion Euro. Praktiker Group is today having business in 9 countries, mainly Eastern Europe countries, but also e.g. Greece and Luxemburg. The sales abroad represented in 2008 32.8% of the total sales (Praktiker, 2009). Praktiker's stores are smaller than the competitors and the company is having a discount strategy in comparison to their competitors (Praktiker, 2009). In total about 70.000 articles are provided for the German market in the areas of workshop, living, garden and spare time. The offering, that is complemented with different services such as ordering- and transportation services, is directed towards private consumers as well as professional craftsmen (Praktiker, 2009). The other chain in the Praktiker Group, Max Bahr, has a similar product offering as Praktiker, but is considered to be more of a premium alternative on the markets and is therefore more service-focused than Praktiker.

Bauhaus: Bauhaus was founded 1960 in Mannheim, Germany and is today Germany's third largest DIY retailer with a turnover of almost 4 billion Euro (EHI, 2009). The company, which is family owned, is today present in 14 countries in Europe with in total 206 stores (EHI, 2009). Germany is still the largest market for Bauhaus, where they have 126 stores (EHI, 2009). Bauhaus offers the customers, private consumers as well as professionals, a broad range of products in the areas of workshop, house and garden. In total, 120,000 products are offered in 15 specialist departments that are present in each store (Bauhaus, 2009). In addition, services such as wood cutting, trailer hire and expert services of bathroom building and renovation is offered (Bauhaus, 2009).

Hornbach: Hornbach has in 2008 a turnover of 3.1 billion Euro (EHI, 2009). In total, Hornbach operated in 2008/2009 129 stores in nine European countries; Germany, Netherlands, Luxemburg, Switzerland, Sweden, Rumania, Slovakia, Czech, and Austria. The German located stores represented 59% of the sales. Hornbach's target customer group is "project-consumers", i.e. private persons that are about to build or renovate their home or garden. This customer group is served with a deep assortment and knowledge and services via very large-scaled stores (in average 11,000 square metres).

5.2.2 Strategies among German DIY retailers

As a result of the mature market, German consumers are known as very demanding customers. In a survey from 2008 among German DIY consumers, the most important criteria on the DIY store were (1) Good "value for money"- products, (2) competent personnel, (3) nice personnel, (4) Easy to find what you are looking for in the store, and (5) very low prices (Marketagent, 2008). Overall, the study shows on the importance of price as a competitive weapon for the retailers, together with skilled sales-personnel.

What is not included above in the top-five criteria is a broad or deep assortment. Despite this, in particular the assortment stands in focus for the German retailers when it comes to strategic positioning on the market. The German DIY retailers all have similar strategies, mainly focusing on an enormous breadth and depth in assortment (Schommer et al., 2005; KPMG, 2006). In a survey conducted by Ernst & Young (Schommer et al., 2005) with members of the top management teams of the 12 largest German DIY retailers, almost all players have described their overall company philosophy as to provide “everything for… the house/home/garden” (Schommer et al., 2005). As a consequence, most companies are identifying their competitive advantage vs. competitors as having an exhaustive assortment. The most common strategy is therefore, consequently, to increase depth and breadth of the assortment. Strategies directed towards niches or services are considered less focused (Schommer et al., 2005), and most companies are to be found somewhere in between a service and cost strategy, focusing on a broad and deep assortment. Roeb (2008) illustrates this with marketing slogans from Obi (even if he also points out Hornbach and Praktiker as being more differentiated towards either costs or services) as shown in Figure 6:

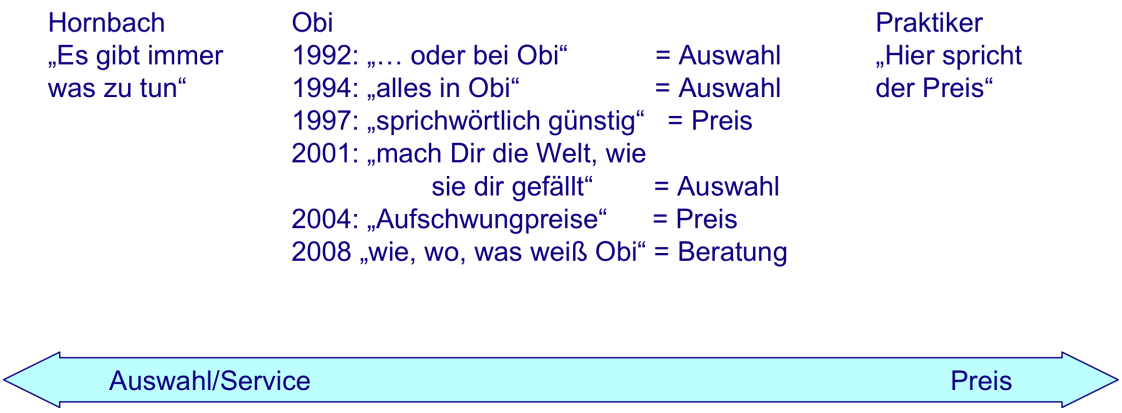

Figure 6: The positioning of Hornbach, Obi and Praktiker in terms of statements in commercials (Source: Roeb, 2008)

The strategy of broad and/or deep assortment also leads to a need for larger stores and, as a consequence, the sales productivity per square meter is decreasing. For instance, in 1985 the sales per square meter were 2,250 Euro, whereas it in 2003 were 1,500 Euro (Schommer et al., 2005). Even if cost per square meter also has been slightly reduced, this indicates a trend towards lower profitability for the retailers (Schommer et al., 2005). These figures can be compared to the other two Western European markets, UK and France, that in 2003 had a sales per square meter of 2,400 Euro respectively 2,800 Euro (Schommer et al., 2005). This development is a clear sign of how mature the German DIY market is.

5.2.3 Future strategies and challenges

The homogeneous strategy of the DIY retailers means that customers are less concerned about what retailer they visit, i.e. the customer loyalty is low in the sector, and the proximity to the store is considered as the most decisive criteria for German customers when choosing store (Schommer et al., 2005). Schommer et al. (2005) argues that a reason for the similar concepts of the DIY retailers is a lack of understanding that there are several types of customers with different needs to be served. Retailers must start to define different customer target groups and suggests a possibility for differentiation towards either discount strategy or a service strategy as a mean to hinder the eroding profit margins of the retail companies, see Figure 7:

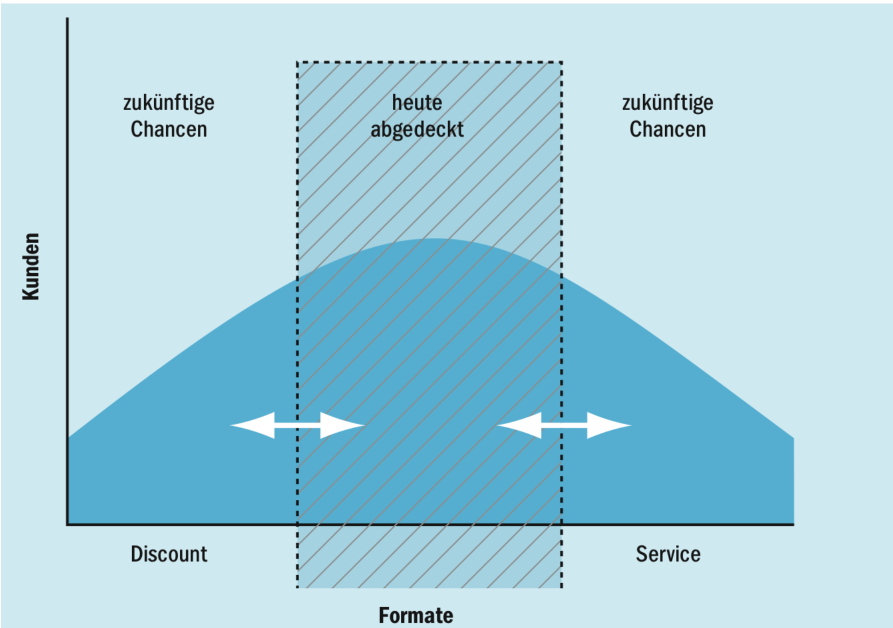

Figure 7: Future possible strategies for increased differentiation (Source: Schommer et al., 2005, p. 21)

A third strategy/future movement is recognised by KPMG (2006) who warns for the risk of having a too extensive assortment, making the assortment not possible to overview. In addition, several companies have expanded their assortment into other areas such as furniture, garden, household products, etc, which increases risk for obsolescence and more expensive supply operations. Not only a reduction of the breadth of the assortment, but also a reduction of the depth of assortment would, according to KPMG, be possible without jeopardising the advantages of a category killer concept. This would facilitate operations but also the ability to give service and guidance to the customers.

Except for having a too unified definition of the customer target group, Schommer et al. (2005) argue that the German DIY retailers are, despite the many market changes and development in the industry, having an old-fashioned view on management principles and performance measurements. Still, the study from Schommer et al. (2005) states, most retailers are managing their companies based on overall, traditional measurements such as total turnover, gross profit per sales square meter and turnover per store. These measurements are according to Schommer et al. (2005) not enough anymore because of three aspects:

(1) The nowadays very broad assortment requires different attention from management and personnel; the screw assortment needs a completely other management than value added services as renting machines and other equipments.
(2) The different products in the assortment also have different requirements on the supply chain operations. Examples are order handling routines, returns and communication with suppliers that differs extensively between different product groups.
(3) As more supply chain operations are taken over by the retailers, the requirements for e.g. logistics competence increases among the employees at the retailers. For instance, new process oriented measurements are needed.

Based on the fact that the German DIY market is the most mature one in Western Europe (KPMG, 2006) an even stronger repression competition can be expected in the future (Schommer et al., 2005). As a result, further consolidation of the players on the market can be expected (KPMG, 2006; Schommer et al., 2005). The merge between Max Bahr and Praktiker in 2007 is one of the most recent examples for this development. If not other strategies than the existing one with exhaustive assortment, Schommer et al. (2005) predicts that only three players will be present on the German DIY market in 2015.

Another trend and possibility for future profitability is a further expansion into new markets (KPMG, 2006; Schommer et al., 2005). The German DIY companies are already to a large extent internationalised and several of them have an outspoken strategy to make further expansions. For instance, the largest German DIY retailer, Obi, is today having a 30% share of the turnover in foreign countries but expects that this share will increase to 50%. Above all, the German DIY retailers are present in the Eastern Europe countries and other countries in the neighbourhood such as Austria and Switzerland.

6 Case study: Hornbach

Hornbach is Germany's fourth largest DIY retailer with a turnover of 2.75 billion Euro for the financial year 2008/2009 (see Table 7). In recent years the company has grown rapidly in Germany[2] but above all in other countries, and today it employs about 13,000 people. It operates 129 stores in nine European countries; Germany, Netherlands, Luxemburg, Switzerland, Sweden, Rumania, Slovakia, Czech, and Austria (Hornbach, 2009). Today the company is managed from the headquarters in Bornheim, Germany.

Table 7: The development of Hornbach in million Euro (Source: Hornbach's annual report 2008/2009

Year	2008/2009	2007/2008	2006/2007	2005/2006	2004/2005
Net sales	2,752	2,617	2,544	2,367	2,220
of which in other countries	1,065	962	862	788	688
Sales growth as % of net sales	5.1	2.9	7.5	6.6	8.0
EBIT	179	105	119	92	99
as % of net sales	6.5	4.0	4.7	3.9	4.5

6.1 Overall goal and competitive profile

Hornbach's business is primarily directed towards so-called "project consumers", i.e. private consumers that are about to carry out a larger construction- or renovation project at home or in the garden, either by themselves or with assistance from professionals. For this type of customers Hornbach offers a deep range of products in all needed product areas as well as complementary services, making it possible for the consumers to have one supplier and speaking partner for the whole project. The goal for Hornbach is hence to offer the customers everything needed for their projects. This includes, except from an exhaustive depth in assortment, also high quality of service and knowledge of the staff. Competitive prices are also seen as core for the company, in particular good value for money is strived for. Hornbach also has an outspoken goal to offer low prices on a continuous basis and thus avoid occasional discounts, which makes it difficult for customers to plan their purchases and their projects. Clear communication with customers and a willingness to make customers aware of what Hornbach stands for is important for Hornbach. The company has also been successful with this. For instance, Hornbach is considered to be the retail company offering most "good value for money" among German companies (Marketagent, 2008).

Beside this overall strategic market position, Hornbach also has a history of being an innovative company when it comes to new store concepts and the assortment. Indeed,

[2] On the German market Hornbach reported a sales growth of 1.2% for the financial year 2008/2009, whereas the German DIY market in total reported a downturn of 2% for the calendar year 2008 (Hornbach, 2009).

through the years Hornbach has been a precursor for new thinking in the DIY sector. So was Hornbach in 1968 the first company to introduce a store where garden and DIY products were combined, and in the middle of the 1980s the first ”megastore” in Karlsruhe with 8000 square meters was opened, and in 2003 they launched Europe's first drive-in store for DIY stores. In addition, Hornbach was also the first player in the DIY sector offering a lowest price guarantee. These examples of innovation are also recognised among consumers and has given Hornbach a good image on the market. For instance, among German consumers Hornbach is considered to be the most “up-and-coming” company, as well as the most “cool”, in the DIY sector (Marketagent, 2008).

In terms of competitors, Bauhaus, number three on the German market, is the most comparable competitor, having a similar assortment and store concept. In addition, the companies are also having a similar owner structure with a family as a main owner. This has advantages as well as disadvantages for the companies. An advantage is seen in the ability to more easily manage the company in a more centralised way. This can be compared to for instance the situation at Obi, the largest player on the German market, who has partly a franchise system with more independent stores, to consider. Disadvantages with a family owned company might be the financial situation, where players like Hornbach and Bauhaus are having more limited resources for expansions. So has for instance Hornbach a strict policy of not buying turnover - every year should be profitable.

Like the other larger German DIY retailers Hornbach has expanded their business to other European markets. They started their international expansion in 1996 and has since then grown organically to eight countries outside Germany. In Sweden, the first store was opened in Gothenburg 2003, which was followed by one in Malmö 2005 and one in Stockholm 2008. For the financial year 2008/2009 the sales outside Germany represented 41% of the turnover and even if Hornbach has continued to grow on the German market (1.2% in 2008/2009), the other markets are becoming increasingly important for Hornbach. Last financial year the sales outside Germany increased by 10.6% and the foreign market's contribution to total EBIT (Earning Before Interests and Taxes) was 73% (Hornbach, 2009) At the moment though, as a result of the uncertain economic macro situation, plans for future expansions are unclear.

One of the largest problems for Hornbach when it comes to new establishments is to find suitable locations. Since Hornbach always owns their stores, land as well as permission to open the store must be obtained. For future expansions, Hornbach continuously investigates new locations. Location selection is done very carefully, but some basic location factors could be observed:

- An area with high population density
- Good infrastructural accessibility
- A minimum of 30,000 m^2 land available

6.2 Hornbach's organisation

Hornbach was founded already in 1877 and is still a family owned company, now with the fifth generation as major owners of the company. The largest subsidiary, Hornbach Baumarkt AG, is however also marked on the German stock exchange market and since 2001 the UK retailer Kingfisher holds a 21% stake in Hornbach (Kingfisher, 2009). This strategic alliance can be seen as an example of increased internationalisation and consolidation in the retail industry.

Today, the Hornbach group (which in turn is owned by Hornbach Holding AG) consists of three parts; Hornbach-Baumarkt AG (operates all stores and is marked on the German stock exchange market), Hornbach Baustoff Union Gmbh (regional building materials merchant directed towards the professional construction sector), and Hornbach Immobilien AG (facilities). Figure 8 below shows the organisational structure for Hornbach-Baumarkt AG, the by far largest company within the concern that includes all the stores. The figure also shows the number of stores in each country (Hornbach, 2009).

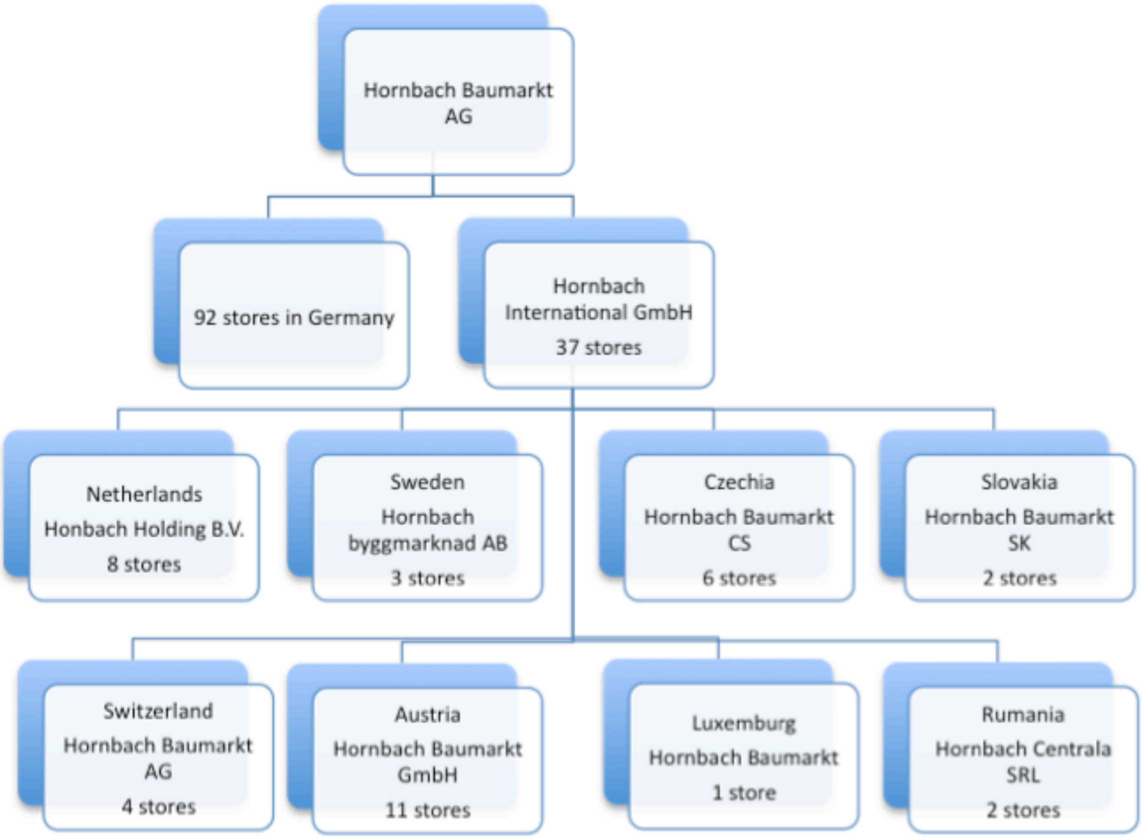

Figure 8: The organisation of Hornbach Baumarkt AG and the number of stores in different countries (Source: Hornbach 2009)

Internally, Hornbach mainly consists of three departments; store operations, merchandising, and IT and logistics. Store operations are responsible for the design and layout of the stores and internal logistics flows in the stores. The merchandising department can be seen as the "innovation department" at Hornbach, responsible for managing the assortment. The assortment is divided into several sub-groups, which is managed by a "captain", situated centrally at the head quarters. These central captains are complemented by local merchandisers at each store, who has the responsibility for the local adjustments of the assortment. The same local merchandiser is also responsible for purchasing as well as pricing of a product. In addition, since all products are given a landed cost (i.e. logistics costs per item) the merchandiser is responsible for the net profit margin of his/her product range. The overall captain's role is to consider the assortment range in the different subsidiaries and give the frames for the local merchandisers, in terms of e.g. use of IT systems and considerations for uniform design of the products. The merchandising department's work also includes the joint collaboration with suppliers about new products and new brands. So has for instance Hornbach together with a supplier developed a patented "colour-mixer", that is only available in Hornbach's stores. The merchandising department is also responsible for the sourcing of products, e.g. choice of supplier. The IT and logistics department is having the responsibility for IT and its development in the company, the physical flow of goods including e.g. ordering and control of transports from suppliers all the way to the stores, operations of Hornbach's three DCs in Germany, as well as design of the order quantities in the flow of goods. In addition, the IT and logistics department provides the merchandisers with cost calculations and logistics knowledge when it comes to e.g. sourcing decisions.

Given Hornbach's strong focus on logistics and optimisation of the complete flow of goods from suppliers to the store shelves, the company has been working for several years to find a suitable design of their organisation. In particular the interface between the merchandising department on the one hand, and IT and logistics on the other, has been in focus for improvements. The major task has been to develop strict, clearly defined responsibility areas for the different departments so that processes become smooth. For instance, whereas the product captains at the merchandising department are estimating and deciding total amount of products that shall be bought over a longer period of time, e.g. a year, the IT and logistics department is responsible for defining delivery dates and order quantities. In addition, the two departments are working with strict time schedules for the sourcing process of new products, in order to avoid delayed deliveries and better internal communication of the progress of different projects.

6.3 Assortment

In average around 50,000 products are sold in each Hornbach store. In Sweden, the over average size of the stores allows to have as much as 60,000 products. In total, the Hornbach stores together offers almost 80,000 products. The product range follows in general the international trend for category killers, where a deep assortment is offered to the customers. An overview of the different product categories is given below:

- Tools and electrical equipment
- Wallpaper, flooring, and interior decorations
- Construction materials, chemicals, and wood
- Sanitary and heating
- Garden furniture and decorations

Hornbach is aware of the local conditions and specific needs on the different markets and therefore a large part of the products in a store is sourced locally. For instance, instructions and brand names in the language of the country is a widely recognised, important feature. On the Swedish market approximately 60-70% of all products originate from Sweden. This means that Hornbach to a large extent works together with local Swedish companies to provide country specific products, which are delivered directly to the stores. In fact, from a logistics point of view, Hornbach recognises a balance between the share of products that should be distributed to the stores via DCs and the share of products that should be sourced locally and delivered directly to store from the supplier. Hornbach hence considers several alternatives for the sourcing of the stores in order to always find the most cost efficient way. As a help for this, the IT and logistics department provides local merchandisers with figures on landed costs from DC so that the alternative with lowest total cost (product price and landed cost) always is chosen.

6.4 Physical structure and flow of products

As a result of a decision to centralise the distribution at Hornbach in 1999, Hornbach has concentrated their distribution to three distribution centres (DC) across Germany from which all stores in Europe are supplied. These are situated in the north (Lehrte) and in the southwest (Essingen), and in southeast (Vilshofen) of Germany. Together these DCs complement each other geographically and provide a suitable platform for further expansion into e.g. Sweden and the Eastern Europe countries. So is e.g. the Swedish stores supplied from the northern DC in Germany, situated in Lehrte. Except for distribution via DC the stores are also supplied directly from suppliers. The flows are shown in Figure 9 below:

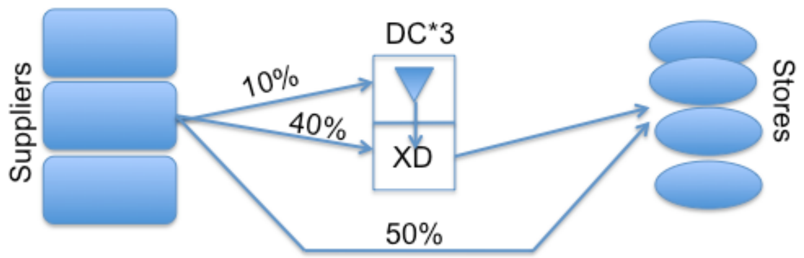

Figure 9: Percentages (of products) of the flows of goods in Hornbach's supply chain

Overall, the DCs are considered to have two main functions. First, they serve as a hub for the cross-docking activities, i.e. split of larger deliveries from suppliers and bundling of different products to different stores. Second, they provide a traditional inventory for seasonal and imported products that because of the lot size cannot be directly delivered to the stores. Increased internationalisation of procurement means that the DCs have got increased importance recent years and is seen as a source for competitive advantage towards competitors.

Above all, efficiency in cross docking activities is considered as a key activity for having a cost efficient flow of goods and at the same time be able to have a deep assortment. This is an area where Hornbach has shown proof of being very successful. In fact, if considering company costs (i.e. costs for operations as well as fixed costs for warehouses and stores, personnel, etc) as a percentage of the total turnover, this figure (33.1%) is almost as low as for Praktiker (29.3%), the only competitor to Hornbach with an outspoken discount (low price) strategy (Roeb, 2008). The expected cost advantage by Praktiker is hence almost deleted by Hornbach's efficient supply chain operations. Above all, cross docking was implemented early and has helped Hornbach to gain a strong position with respect to logistics costs. To increase supply chain efficiency, Hornbach is continuously trying to increase the share of goods that are cross-docked.

Deliveries arriving from supplier to DC are normally already marked with final destination (i.e. store) and are at the DC split and reloaded on another truck with destination to the store. In average 80 trucks arrives to DC and about 150 trucks leaves every DC on a daily basis. The deliveries can be mixed with the seasonal and imported products that are stored at the DCs. To facilitate smooth handling at the DCs, the stores are having fixed order quantities representing complete pallets. However, the trend is towards smaller batches, which means that goods to several stores are sometimes delivered to the DC from a supplier on the same pallet. This in turn means more handling and sorting in the DCs, and hence the optimised order quantities are a balance between handling costs in DCs on one hand, and inventory carrying cost in the stores and DCs on the other.

Except for supply from the DCs, goods are also delivered directly from suppliers to the different stores. Also this flow of goods is carefully considered from a logistics efficiency point of view. Fixed delivery times outside the opening hours are arranged so that an optimal supply can be ensured without hindering customers.

The stores are receiving deliveries from the DCs on a daily basis. In order to be able to offer their "project consumers" everything they need for their projects, the Hornbach stores have an average size of 11,000 square metres, which is more than any other competitor in Germany (Hornbach, 2009). The average size on the German DIY stores was in 2008 about 5,000 square metres (EHI, 2009). Hornbach's new stores are of even larger in size, in average 15,000 square metres, and many stores are larger than so. For instance, the store that was opened in Stockholm 2008 has 22,000 square metres.

For the physical flow of goods IT is seen as an important tool. Hornbach has during the years, in close relationship with logistics operations, worked with their IT systems as a mean to further centralise the flow of goods in the supply chain. The system enables control of costs and is hence an important tool for decisions of whether materials should be taken to inventory, to be cross docked, or delivered directly to the stores.

The information system also plays an important role when it comes to collaboration with suppliers. Here Hornbach has a well-developed system of rating all suppliers of the DCs according to the deviation of their deliveries from the originally negotiated terms. Too early and too late deliveries as well as variations in the amount of delivered material are recorded. This information measuring the effectiveness of the suppliers is sent to the suppliers in regular reports. This knowledge has over the years been an important prerequisite and platform for successful collaboration and development of supplier relationships.

6.5 The role of logistics in the company

From a logistics point of view, Hornbach has the last decade taken an active role in their supply chain and operational excellence in logistics operations is considered as a competitive advantage for the company. In comparison to competitors, Hornbach early realised the advantages of not having the transportation costs included in the price from suppliers, as was the former standard for the players in the industry. The large stores, and a sales productivity per square meter that is higher than competitors' (Hornbach, 2009), means that Hornbach in comparison to their competitors has relatively large order batches to the stores. This means that Hornbach is able to, better than its competitors, create economies of scale in their physical distribution system.

By taking control of the whole chain by themselves - instead of "just wait for the goods to come" at the end of the chain - Hornbach has been able to take advantage of this and make considerable cost improvements in the supply chain. As noted by Hornbach's Logistics director, "*retailing does not have logistics – retailing is logistics*" (Makowski, 2003), gives that they should control the materials flow. As stated in the annual report 2008/2009, logistics has become a competitive weapon for Hornbach as a whole:

"In the past year as well, our logistics infrastructure actively supported our expansion within Europe, also laying a foundation for further growth. Many suppliers, for example, have opted for this distribution channel for Eastern Europe. Not all manufacturers are able to assemble cost-effective complete deliveries, particularly for Romania. Connecting these suppliers to HORNBACH's logistics structures enabled transport costs to be optimized." (Hornbach, 2009, p. 57)

Logisticians at Hornbach are considering themselves as "process engineers", with the tasks of making the supply chain visible, clarify the potential for improvements, and bring internal as well as external supply chain members together in order to be able to optimise the flow of goods (Makowski, 2003). Not only the IT and Logistics department, but also merchandising and other departments are working towards the goal of having control of the entire chain from suppliers to end-customers. In this work long-term agreements and trust-based relationships with suppliers is an important issue. Indeed, the design of efficient processes is at the very core of Hornbach, which are thereafter linked to efficient IT solutions that can further support the supply chain operations. The statement of "*Process leads – IT serves*" is a typical managerial principle for the company.

6.6 Conclusions about Hornbach

What is then behind Hornbach's success? What makes Hornbach successful? What is the competitive advantage of Hornbach? In this chapter we address these questions by using strategic management theory as a basis for a discussion.

6.6.1 Elements of Hornbach's strategy

A number of elements in the overall company philosophy can be identified that differs from traditional behaviour in the retail industry. These elements, we argue, are the foundation for Hornbach's sustainable competitive advantage vis-à-vis competitors.

Well-defined target customer group: Hornbach's business is focused towards so-called "project-consumers", i.e. private consumers that are about to execute construction or renovation in their homes or gardens. These customers, who are expected to be interested and committed to their projects and also to have reasonable "know-how" of what they are about to do, are served with everything needed for their project.

Well-defined store concept: For this customer group, Hornbach runs very large warehouses, in average the largest in Germany, in which they are able to offer the customers a deep assortment and knowledge in the form of speaking partners and services. The goal is to offer "one-stop-shopping" for the project-customers.

Consistent and uniform offering: In order to build trust among customers an over time consistent business concept is an important part of Hornbach's communication with customers. Also between different stores the same values should be recognised by the customers. Customers should know what Hornbach can offer. One part of this strategy is to have "everyday low prices", so that customers can plan their purchases without chasing occasional discounts.

High availability: In order to offer their project customers everything they need availability is extremely important for trust among customers and hence critical for the whole business strategy. Hornbach therefore recognises logistics operations as one of their core capabilities in their company, considering "*retailing does not have logistics - retailing is logistics*". To achieve high availability, several different functions in the company are initiated in logistics issues and not only a narrow logistics department with limited authorities is having high availability on their agenda, but the company as a whole.

Cost efficiency: Operational excellence in operations is not only important for high availability, but is also important for cost efficiency reasons. In the middle of the physical flow of goods stands since more than a decade a well functioning, smooth cross docking system in the three geographically well placed DCs. Together with a well adjusted IT system improvements and different logistics solutions can continuously be searched for.

Innovations: Hornbach is well-known for their creative new-thinking in the industry, both when it comes to new store concepts, logistics operations as well as collaboration and joint development together with suppliers.

To conclude, in line with literature in the previous chapters (e.g. Schommer et al., 2005; KPMG, 2006), Hornbach has clearly specified their business in terms of customers, the offering as well as how this offering should be delivered to the customers. Thanks to this precision, Hornbach has been able to sharpen its competitive edge and therefore it poses a good example of Porter's (1996) statement that strategy is about being different. Few, if any, competitors have in such a clear way defined what their businesses are about - and what they are not about.

The described elements above are closely related to the logistics operations in the company. Logistics should here be given a broad understanding, covering all activities involved in the physical flow of goods and the related information flow. Accordingly, Hornbach recognises the importance of logistics, and logistics considerations is a natural part of the overall strategic agenda. Finally, the innovation element indicates the importance for creativity and a need for never standing still in the development of a business. What is a successful strategy, store concept or target customer group today may be outdated tomorrow.

6.6.2 Hornbach from a strategic management perspective

The strategic management theory field is vast, and numerous schools of thoughts have been in focus during the years. At an overall level, the field is dominated by the *market positioning perspective*, mainly represented by Porter (1985; 1996), and the *resource based view of the firm* (e.g. Olavarrieta & Ellinger, 1997; Barney & Clark, 2007). Hornbach represents a typical case where these perspectives complement each other for a better understanding of the foundation for a sustainable competitive advantage.

Market positioning perspective: From a market positioning perspective (Porter, 1985; 1996), Hornbach denotes a good example of where the application of more than one of

Porter's (1985) generic strategies (low cost, differentiation and focus) does not mean a market position "stuck in the middle" – this position should not be considered as a failure, but rather as an accomplishment. Hornbach differentiates themselves from competitors mainly with superior services (Roeb, 2008) and an exhaustive assortment suitable for their targeted customer group, called "project consumers". At the same time, Hornbach is able to keep prices fairly low in comparison to competitors. This is due to cost efficiencies in the physical distribution where Hornbach since long has developed their cross-docking system and IT system. The fact that Hornbach is also able to compete with price is also seen among German consumers who consider Hornbach to be the DIY retailer offering the most "value for money" (Marketagent, 2008).

In Porter's (1996) terminology Hornbach has taken a needs-based position on the market, with a well defined target customer group, the so-called project consumers, that will find anything they need for their projects in Hornbach's stores. KPMG (2006) warns for a development of a too deep assortment among category killers, however, for project consumers to Hornbach this is not a threat, as these customers are expected to be genuinely interested in the products and appreciates a large assortment. Indeed, this target customer group wants to be able to take decisions concerning products on their own.

The resource based view: The case company description indicates that Hornbach has an ability to align the needs of the target customer group and assortment policy with the logistics operations in the supply chain. For Hornbach, taking a comprehensive view on the supply chain does not only encompass transportations in the form of choice of 3PL and a smooth physical distribution network with three DCs and their cross docking operations, but also how these logistics operations are aligned with the assortment, sourcing issues and the customer target group. Hornbach is hence able to successfully link their entire logistics system (which in itself is well integrated in terms of DC operations, transportations performed by 3PL companies, ordering activities from the stores, etc) to marketing and other strategic issues.

For instance, based on a well functioning IT system (that in turn are well integrated with the logistics operations) Hornbach's merchandisers can be provided with cost information (landed cost) for potential new products as well as for different sourcing alternatives of a product. To source via larger multinational suppliers and bring the goods via the DCs are thus not always preferable. So is e.g. about 60-70% of the assortment in the Swedish stores sourced local. The sourcing and assortment decisions can be taken on hard facts in the form of landed costs, and a continuous balance between local and central sourcing can be carried out. This enables Hornbach to offer the customers good value for money. Overall, Hornbach's supply chain operations are *efficient* as well as *effective*.

Another example of the alignment between the logistics system and market position is the defined target customer group that requires large stores and high sales volumes per store (and per square metre). This in turn enables better economies of scales in the transportation from the DCs to the stores. The overall market strategy of having an exhaustive assortment in large warehouses goes hand in hand with advantages for the logistics design chosen. As a result of the defined targeted customer group, Hornbach in comparison to competitors gains from taking a larger logistics responsibility for their supply chain.

To conclude, from a strategic management perspective one could argue that Hornbach has a "strategic fit" between the logistics operations/system on one hand, and the market position on the other. This fit can be viewed as a distinctive capability, described in the resource based view as "bundles of resources" (Wernerfelt, 1984), that is valuable, rare and imperfectly imitable, which means that it has the requirements to form the basis for the company's sustainable competitive advantage (Barney & Clark, 2007; Olavarrieta & Ellinger, 1997).

Valuable: Except from the efficient logistics system, the fit between the logistics system and the market position renders "economies of integration" (Håkansson & Persson, 2004) in the sense that operations can be performed more efficient as well as more effective and thus so-called Ricardian rents, i.e. rents earned by efficiency in operations, as well as monopolistic rents can be achieved (Peteraf, 1993).

Rare: Despite the hard competition in the DIY sector, Hornbach has not many direct competitors who have the same customer target group and the large stores and therefore Hornbach is having partly another logistics system than the competitors. Hornbach's logistics operations and overall strategy can also be viewed from a dynamic perspective and offer support for the rareness criterion. Over the years Hornbach has been able to be the precursor of many innovations for the DIY sector, of which many of them have enabled an improved fit between the logistics system and the market position of the company. Historically, for instance, the presentation of a mega store in the 1960s enabled considerably economies of scales in transportation as well as the handling in the store.

Imperfectly imitable: Hornbach's strategic fit is indeed an example of a complex bundle of resources that is asked for in definitions of a distinctive capability. It consists of a socially complex network of people and departments that has been formed and adjusted to each other for many years and it is therefore to be considered as history dependent as well as casually ambiguous (Barney & Clark, 2007).

6.6.3 Final comments

The analysis above shows that a number of specific strategic elements enable Hornbach to compete (1) from a market positioning perspective with costs as well a differentiation strategy, and (2) from a resource based view with a strategic fit between the logistics system and market position that constitute a valuable, rare and difficult-to-imitate distinctive capability.

The case company states an example of how a company can base their competitive advantage on a combination of a clear market strategy and logistics and SCM capabilities. Furthermore, it shows the importance of having a broad perspective and understanding for the entire company where market aspects as well as operations are considered. In logistics research, this is close to having a systems thinking. Hornbach hence states an example of how such a systems thinking can be applied on a company's overall strategy.

7 The food sector

The food sector is the by far the largest retail sector and due to its dominant role, an overall division of the entire retail industry can be done into the food sector and non-food sector (Lademann, 2004). For instance, in Germany the food sector represents 45% of the total turnover in the entire retail industry. It is also special in the sense that it is many times considered as the most developed retail sector (Pietersen, 2004). In fact, the food sector is often considered as the pioneering one, having the most advanced logistics set-up, having the most well educated staff, and being first when it comes to internationalisation and retail-owned brands (Kreimer & Gerling, 2006). Other sectors also seem to take inspiration from this sector.

This chapter gives a short overview of the German food sector and is followed by a description of Aldi in the next chapter.

7.1 The German food sector and its development

The German food sector has in recent years continued to grow by ca 1% on a yearly basis, whereas the retail sector as a whole has stagnated. Just as the other sectors, the German food sector is characterised by fierce competition and has undergone major changes the last decade (Kreimer & Gerling, 2006). Table 8 below shows the largest food retailers on the German market.

Table 8: Turnover for the 10 largest food retailers on the German market selling food (non-food sales excluded), including hygiene products such as washing powder, soap, etc. (Source: Lebensmittelzeitung, www.lznet.de)

	Company-group	Turnover 2008 in billion Euro	Change in %
1	Edeka-Gruppe	33.9	+ 4.3
2	Rewe Group*	24.7	+ 7.0
3	Schwarz-Gruppe	21.5	+ 5.8
4	Aldi Gruppe	19.8	+ 0.9
5	Metro Group	13.6	- 6.6
6	Tengelmann Gruppe	8.5	- 2.7
7	Lekkerland GmbH & Co. KG	7.8	+ 1.3
8	Anton Schlecker	4.8	- 18.9
9	dm-Drogeriemarkt GmbH + Co.KG	3.0	+ 11.4
10	Norma Lebensmittelfilialbetrieb GmbH & Co.KG	2.6	+ 2.6

7.1.1 Trends

The German food sector is dominated by the overall, international trends of retailing in the Western European countries as have been described previously in this report. Below a number of trends typical for the food sector are listed:

Internationalisation: Although the German food sector has been internationalised late in comparison to other sectors such as textiles, most of the leading German food retailers are today present on a long row of other European markets as well as other countries. Several companies are already established or are planning for an expansion to the largest markets in Asia, China and India (Kreimer & Gerling, 2006).

Convenience: Although the Germans' price sensitiveness remains to be considerable, customers are also to a higher extent than previously demanding more convenient shopping (KPMG, 2008; Kreimer & Gerling, 2006). One explanation for this development is the changed demographics, where the increased share of single households and older people are less interested in weekly shopping at larger shopping malls outside the towns.

Ecological products: Another strong trend in the food sector is ecological/environmentally friendly products (KPMG, 2008; Kreimer & Gerling, 2006). In Germany the sales of ecological food was doubled from 2 billion Euro in 2000 to 4 billions in 2005 (Kreimer & Gerling, 2006) and the development is expected to continue.

Wellness: Partly related to the trend for ecological food there is a growing trend for wellness and healthy food. The development is just as the convenience trend explained mainly by demographic changes where people in general tends to be more interested in healthy food. In the footsteps of the demand for convenience in combination with wellness, many new, innovative food products have been developed in recent years – fast food has become healthy. Here the supermarkets have created themselves a competitive niche, which is one of the reasons for their success (see section below).

Retail-owned brands: The share of retail-owned brands is expected to increase further in the German food sector to the cost of less successful manufacturer brands, (KPMG, 2008; Kaapke, 2008; Kreimer & Gerling, 2006). Above all the food discounters are utilising own brands, where about 70% of the sales originate from own brands. For companies with other store concepts retail owned brands represent about 12-13% of the total sales (Kreimer & Gerling, 2006). Retailers are in general considering own brands as a means to balance good quality and low prices and at the same time take the initiative in the supply chain. In the food sector, as in other sectors, own brands have been an important tool for differentiation and are seen as a source for sustainable competitive advantage (Kreimer & Gerling, 2006).

7.1.2 Successful store concepts

As for all sectors, there has been a massive increase of stores and size of the store in the food sector in recent years. Also in relation to other sectors, the food sector has had a rapid development towards larger (but not as large as hypermarkets) stores that have outperformed smaller, traditional food stores. As a consequence, between 1995 and 2005 20,000 smaller stores were closed or rebuilt to larger units in Germany (Kreimer & Gerling, 2006). In the meantime the sales per square metre, i.e. the "sales efficiency", has decreased from 4,850 Euro/m^2 in 1995 to 4,350 Euro/m^2 in 2005. This trend is problematic, not at least due to increased energy costs, and creates a further need for cost efficiency improvements in the logistics flow (Kreimer & Gerling, 2006; KPMG, 2008).

Considering different store concepts, discounters and supermarkets (1,500-2,000 m^2) have in recent years increased their market shares, whereas traditional, large-sized hyperstores, or superstores, with more than 5,000 square metres, have faced a decreased market share (Kreimer & Gerling, 2006).

Winners during last decade have above all been companies with a discount strategy. This group reached in 2005 a market share of 40% at the German market (Prumper et al., 2007; Kreimer & Gerling, 2006). As described in chapter 4, the discount strategy combines good quality products with low prices due to a limited assortment with few articles. This enables among others less obsolescence and cost efficiency advantages in logistics and supply chain operations. Table 9 below shows the largest discount food retailers on the German market.

Table 9: The 6 largest discounter retailers on the German market 2008 (Source: Lebensmittelzeitung, www.lz-net.de)

	Company	Turnover 2008 in billion Euro	Turnover 2007 in billion Euro	No of stores 2008	No of stores 2007
1	Aldi Gruppe	24.1	23.4	4,267	4,235
2	Lidl (Schwarz-Gruppe)	15.0	14.3	3,036	2,902
3	Penny (Rewe Group)	6.8	6.3	2,080	2,008
4	Plus (Tengelmann)	6.6	7.0	2,700	2,766
5	Netto (Edeka-Gruppe)	4.5	4.0	1,422	1,279
6	Norma	3.3	2.9	1,355	1,316

Another advantage for discounters, in particular noticed in the food sector, is the ability of discounters to offer convenience values for the customers (Kreimer & Gerling, 2006; KPMG, 2008). As the discounter stores are relatively small they can be placed in the very centre of towns and not only in traditional shopping malls, and has hence been an alternative for the every-day shopping customers. This situation has further strengthened the discounters' competitiveness since there is a growing overall trend of convenience that can be seen among customers in general (Kaapke, 2008; KPMG, 2008).

Another type of stores that are also often situated close to the customers is the smaller supermarkets, which are similar to the discounters steadily increasing their market share due to the convenience trend (Kreimer & Gerling, 2006). Except for being stores situated close to the customers, the supermarkets have been able to profit on the wellness trend. In this area the supermarkets are able to compete through innovative products and value added services such as bakery and catering services (Kaapke, 2008; Kreimer & Gerling, 2006). A particular interest can be seen for ecological products and new stores solely selling these products have been seen. The largest company in this niche, Alnatura, has had a tremendous growth in recent years (Kreimer & Gerling, 2006) and in 2009 the turnover was 361 million Euro, an increase of 18% in comparison to the previous year (Alnatura, 2009)

Whereas the discounters and smaller supermarkets in the food sector are experiencing increased market shares, the larger hypermarkets or superstores (over 5.000 m^2) have had problems with decreased market share in recent years. Somewhat contradictionary in comparison to the retail industry as a whole, the larger food stores suffer from the increased requirements of convenience and demographic changes such as increased share of single households and older people with less need for larger, weekly, purchasing of food.

8 A simple management model – The case of Aldi

Aldi has been a pioneer of the discount concept and is today one of the most famous best practice cases of companies competing with this concept. This chapter shortly describes the company.

8.1 The company

Aldi (ALbrecht DIscounter) was founded by the two brothers Karl and Theodor Albrecht who opened their first store in 1946 in Essen, Germany. Like all other stores after the war the Aldi stores were only able to sell a limited range of products. Later, when availability and diversity of products increased in Germany, the Aldi brothers realised that they could develop a new niche of grocery business by sticking to the limited assortment range and offer very low prices thanks to efficient supply chain operations, large scale purchasing and small stores (Wortmann, 2004). Today, the number of regular products at Aldi is between 600-700. This assortment is complemented by occasional products and offerings.

Aldi has an extraordinary growth record; since 1970 to 2000 the turnover has grown in average 25.2% annually, and the number of stores 12.7% (Pietersen, 2004)[3]. Over the years Aldi have succeeded to have an annual profit margin of about 4%, whereas competitors have had normally not more than one percent (Brandes, 2004). Compared to other international retail companies, Aldi was in a report from Deloitte (Deloitte, 2009) ranked as the 10th largest retailer in the world (measured by revenue). On the same list, Wal-Mart was ranked as number one, followed by Carrefour and Tesco. The Swedish company IKEA, as a comparison, was placed as number 32.

Today, Aldi consists of two separate concerns managed by one Aldi brother each, but are similar to each other and often discussed as they still were one concern. Organisationally, the Aldi concern consists of a complex network of companies that each are responsible for a cluster of stores. In 2006, the Aldi companies together had almost 8.000 stores in the world, see Table 10.

Table 10: Aldi's number of stores and turnover in million Euro 2006 (Source: EHI in Turban & Wolf, 2008)

	Stores in Germany	Stores outside Germany	Stores in total	Turnover in Germany	Turnover outside Germany	Turnover in total
Aldi Sud	1,692	1,773	3,465	11,200	9,200	20,400
Aldi Nord	2,503	1,975	4,478	10,600	7,896	18,496
Aldi Total	4,195	3,748	7,943	21,800	17,096	38,896

[3] The growth has however decreased during the last decade. Between 2002 and 2007 the CAGR (Compound Annual Growth Rate) was 4.3% (Source: Deloitte, 2009).

The international expansion started in 1967 when Aldi Sud opened their first store in Austria (Wortmann, 2004). Both Aldi Sud and Aldi North have today expanded their business outside Germany to a long row of countries throughout Europe, but also to USA and Australia. To avoid competition, the Aldi Sud and Nord have divided their expansion to different countries (Aldi, 2009). The expansion abroad has followed Aldi's original store concept with no, or few, "parallel products", where efficiency in operations and large scale purchasing have dominated the strategy. So is therefore the same products offered on the new markets. For instance, there is an overlap of 70% between the products sold in Spanish Aldi stores and the German Aldi stores (Wortmann, 2004).

8.2 Strategy

According to Brandes (2004) Aldi as a company differs considerably from its competitors in two ways; the assortment policy and how the management of the company is designed.

8.2.1 Limited assortment with high quality

In an environment where the depth of assortments is growing faster and faster, Aldi, representing the discounter concept, continuously keeps its assortment between 600-700 articles (Brandes, 2004). Analysing the success of Aldi from a consumer perspective, Brandes (2004) concludes that Aldi has managed to create a profile of providing a limited assortment, but with high quality products. Instead of letting the customer choose among products in a deep assortment, Aldi has already chose the most value for money products. The depth in itself, Brandes argues, do not create more sales. From an American psychology study, Brandes argues that a large number of articles in fact can hamper the sales as can be seen from the American study in Table 11:

Table 11: Customer's reaction of depth in assortment on the shelf (Translated by author, Source: Brandes, 2004, p. 410)

	24 articles	6 articles
Percentage of customers, which interested stays in front of the products	60%	40%
Percentage of the interested customers that buys something	3%	30%
Total number of customers that actually buys something out of 1000 customers	18	120

Further psychology studies also shows that customers that are offered a large amount of products tend to be more unhappy with their shopping, since they have higher doubts about if they really picked the right article (Brandes, 2004).

The products in the assortment are chosen due to high requirements of turnover rate and sales velocity, in line with the overall goal of offering low prices to good quality to the customers.

8.2.2 Absence of management concepts

Brandes (2004) argues that another difference between Aldi and its competitors is the trust and application of managerial methods. Brandes (2004) points out that the increasing number of management concepts such as Customer Relationship Management and Efficient Consumer Response, have actually blinded many companies. Instead of making clear the overall strategic position, companies rely on business concepts that are not useful without knowing the overall strategic direction of the company. Aldi on the other hand, has not applied any of these management concepts, but trusts instead simple, from the owner influenced, guidelines. These are in turn based on common sense and people knowledge. From these guidelines, hidden in a strong company culture, Aldi is taking actions on the market. The culture is by Brandes (2004) compared to IKEA's culture where the founder Ingvar Kamprad, just as the Aldi brothers Karl and Theo, is the paragon for a cost saving culture. Similar to stories about Ingvar Kamprad, the story about Theo that reuses paper when writing notes (using both sides of the paper) is a well-known anecdote.

8.3 Management principles

Brandes (2004) discusses important success elements of Aldi, which can be summarised in the following principles.

8.3.1 Simplicity

Aldi has managed to realise simplicity in the form of common sense in their organisation. Organisationally, this means among others the following:

- No central staff of marketing, controlling, organisation or human resources, which means that most management decisions are delegated
- Well defined goals and competence needs for all positions in the company
- Well defined, but few, measurements and other statistics are used for the follow up and control
- Budgets and annual business plans are not used
- No market research or surveys and analysis are used
- No complex purchasing conditions

8.3.2 Customer orientation

Aldi can be considered as customer oriented, but not in the traditional meaning of having customer knowledge in the form of market surveys, price sensitiveness of customers, etc. Instead Aldi's focus is on building trust by the consumers for their quality of their products, which is done by follow up and clear responsibility agreements with the suppliers. In addition, Aldi does not do any calculations on the consumers' price sensitiveness – instead they constantly offers lowest possible price of all their products. In focus stands common sense about what the customer needs and the question "why should people want to buy this product?".

8.3.3 Creating trust among suppliers

Not only creating trust about high quality among cosumers is important for Aldi. Aldi is also known as a stable and trustworthy customer by the suppliers, always demanding high quality products but under reasonable conditions. Many of the suppliers have a partner-like relationship to Aldi today and have been suppliers for a long time. The message from Aldi, which is a long term reliable customer, is simple: deliver high quality products to reasonable prices. If the customer fails to do so, the supplier will be "punished" by losing deliveries to a number of Aldi's hubs. If the quality problems continue, Aldi will find another supplier.

8.3.4 Clear, long terms goals

Aldi has during the years had a long terms strategic direction that has not been changed. During the years Aldi has resisted temptations of different kinds, keeping their strategic agenda. Temptations such as new business concepts, diversification into other industries, manipulation with product quality for lower prices, etc have continuously been denied. The most remarkable example of this is the limited assortment strategy. In times where all competitors have broadened as well as deepened their assortment, Aldi has kept the same number (about 600-700) articles in their assortment. New articles have continuously been introduced, but then always other articles have been taken out of the assortment.

8.3.5 Management presence

The management style of Aldi has always been high presence of top management in the daily work, as a result of the decentralised organisation. A dialogue between employees and top management about continuous improvements is always preferred before data analysis, market research, etc. Aldi is also having a trial and error culture, where too long analyses for optimisation are replaced by test activities of e.g. new products, new layout of stores, packages, etc.

9 Discussion

This chapter finalise this report by presenting a number of propositions about the future development of the retail industry, and a discussion on the development from a Swedish perspective.

9.1 Propositions for the future

Proposition 1: The identified trends in this report will remain dominating the retail industry

This report has identified a number of business trends for the retail industry in the Western European countries. Although a trend will not continue forever, several things speak for a continuation of the trends the forthcoming years.

- *Geographical expansion* to above all Eastern European countries will continue as long as the growth of GDP are faster than in the Western European countries. In addition, several of the larger European retailers have just started to expand beyond the European borders. Here countries like India are considered to have great potential for continued growth.
- *Private labelling* has been a source for competition for many years now, but still several companies report goals of increased shares of these brands. As long as these goals are not met, and the cost- and value advantages of these brands continue to exist, the share of retail owned brands is likely to increase further.
- The development of *different store concepts* is expected to continue as a result of increased specialisation and specific requirements of the different sectors. This report shows for instance on a promising development for stores with an ecological profile in the food sector.
- When it comes to *consolidation and vertical integration*, several sectors are at the moment restructuring their supply chains. Although some sectors have reached a very high level of consolidation, a continued globalisation of supply speaks for more consolidation as well as vertical integration. The more internationalised supply chains, the more possibilities for economies of scale will become possible.

Proposition 2: Retailers are becoming more powerful

Beside the traditional situation where a strong supplier controls the entire supply chain, retailers have taken a stronger position as intermediaries between manufacturers and end customers. A common explanation for this development, discussed in retail literature as well as supply chain- and market literature, is the increased importance of end customers and the information about them. Simply put, it is more likely that the retailers are able to capture this information than the suppliers further upstream in the supply chain. The trend towards increased share of private labels is here an example of when the retailers have utilised their power and information (data) about the end customers in order to develop new products with higher customer value.

Another factor that further enhance and strengthens the retailers' position is logistics skills, which enables the retailers to take control and become the channel captain of the supply chain operations.

Proposition 3: RFID is still waiting for its commercial breakthrough

One of the most important logistics-related developments, and the most discussed technology issue, has for a long time been the entrance of RFID in retailing. Overall, this technology is predicted to have great impact on the industry and is considered very promising. However, the discussion about RFID and its commercial spread is confusing and lacks clear trends. The perhaps most obvious problem for the RFID technology is the very sparse number of quantitative studies that can support previous predictions about RFIDs superiority. A common, but perhaps less helpful conclusion, is therefore that RFID has remained to be a promising, but not yet implemented, technology for the future.

The major obstacle for the commercial diffusion of RFID is the high costs of the technology. Most suitable sectors for RFID would therefore be sectors with relatively high value products.

Proposition 4: Food continues to be the dominating retail sector

As a result of its size food will maintain its position as the dominating retail sector, from which other sectors often will be inspired and learn. This report shows on a number of new trends in the food sector, mainly driven by demographic changes, such as convenience and wellness. These trends represents new challenges for the food sector that will further develop, restructure and shape it. New trends are hence important drivers for the sector in order to stay in pole position.

Proposition 5: There is a growing need for customer segmentation and management of multiple market channels

Increased demographic diversity and, as is argued by Schommer et al. (2005), a competition where targeted customer groups are too homogeneous, indicate a need for improved customer segmentation among companies in order to differentiate themselves from competitors. Increased customer segmentation where different, more specific offerings are developed, will affect the management of market channels. Successful retailers must to a higher extent than today be able to manage multiple market channels as well as parallel organisational structures in order to meet an increasingly fragmented and hence more demanding market. The most obvious example of a new market channel is Internet sales, that is becoming more important in several retail sectors today.

Proposition 6: The importance of logistics will continue to increase for retail companies

This report denotes that logistics can be a major source for competitive advantage for retailers. Although logistics has always been important for retailing, the identified trends in this report further reinforce the role of logistics. Indeed, logistics can be decisive for future competition among retailers.

- Independent from who (supplier or retailer) takes control of the supply chain operations, adequate logistics skills and resources are prerequisites for successful geographic expansion. The required logistics skills spans over a number of areas, including the planning of physical flow of goods, warehouse operations, transportation, etc.
- Logistics also plays a key role for the increased vertical integration in many supply chains where the retailers are expanding their domain of control. Logistics has here become the main arena for this development. By taking control of supply chain operations, economies of scale and scope can be created and a larger part of the value chain can be controlled by the retailers.
- Logistics competence is also an important prerequisite for continued cost efficiency in times of increased market and customer segmentations. "One size fits all" is no longer possible for efficient logistics operations and a logistics platform that is able to handle a diverse range of goods to different markets under increasingly higher service requirements is needed. Overall, efficient and effective logistics operations will be necessary in a cost leadership strategy as well as in a differentiation strategy (e.g. Porter, 1985).
- In some sectors, for instance DIY and electronics, an increased share of retail-owned brands also means new challenges for logistics. Products that are typically sourced from foreign low cost countries are purchased and transported in larger batches than previously, demanding more control, planning and inventory management.

9.2 A Swedish perspective

Although this report has taken the entire Western European markets into consideration, in particular Germany, it has also consequences for the Swedish one. In short, it can be argued that the development on the western European markets also affects the Swedish retail industry. With a history of being a relatively isolated market, the Swedish one is now facing an increased amount of international competition. This internationalisation can be seen in an increased number of foreign retail chains entering the Swedish market, but also through acquisitions, where Swedish chains become part of larger, multinational companies. Reasons for this development might be several. One reason is the relatively high profit margins in many sectors in Sweden – in comparison to e.g. Germany, Sweden still offers lucrative options for profitable growth.

In the light of this development several interesting questions can be posed:

- Will Sweden be a market enough large for perfect competition, or will there be an oligopoly situation where relatively high profit margins can be remained? For instance, in the DIY sector there has been suggested that the Swedish DIY market is large enough for not more than three (large) players.
- How will Swedish retailers act on the increased competition? What counter-movements are possible to take? Here knowledge about local conditions as a means to create customer loyalty might be an important competitive weapon. Another ingredient increasingly important is financial muscles that can support aggressive investments in order to keep the initiative. The situation though is very different in different sectors and a further analysis of the different sectors are needed.
- Will Lidl or other players such as Aldi be able to successfully introduce a hard discount concept in Sweden in the grocery sector? Until know this has bee a difficult task, as stated by the CEO of Lidl Sweden: *"The greatest challenge for us [Lidl] is to explain for the Swedish people what discount is. In Sweden low prices stands for bad quality, but we sell [good] quality to low prices. That is what we will explain for the consumers."*(E24, 18 January 2010)

References

Abrahamsson, M. (2008) "Logistics based business model – the case of Swedish food retail and manufacturing industries", Conference paper, NOFOMA, June 5-6, Helsinki

Alnatura (2009) www.alnatura.de

Arnold, S. & M. Luthra (2000) "Market entry effects of large format retailers: a stakeholder analysis", International Journal of Retail & Distribution Management, Vol 28, No 4, pp. 139-154

Barney, J. and Clark D. (2007) "Resource-Based Theory: Creating and Sustaining Competitive Advantage", Oxford, Oxford University Press

Bauhaus (2009) www.bauhaus.info

Brandes D. (2003) "Die 11 Geheimnisse des Aldi-Erfolgs", second edition, Campus Verlag, Frankfurt a.M.

Brandes, D. (2004) "Aldi – Das Muster der Einfachheit: Weninger ist mehr", pp. 407-429. In Riekhoef, H.-C. (2004) "Retail Business in Deutschland: Perspektiven, Strategien, Erfolgsmuster" First edition, Wiesbaden

Christopherson, S. (2007) "Barriers to 'US style' lean retailing: the case of Wal-Mart's failure in Germany", Journal of Economic Geography, No. 7, pp. 451-469

Datamonitor (2009) "Global home improvement retail", research report accessed via Linköping university library

Deloitte (2009) "Feeling the squeeze: Global powers of retailing 2009", Deloitte, Research report

Gereffi, G. and M. Christian (2009) "The impacts of Wal-Mart: The rise and consequences of the world's dominant retailer", Annual Review of Sociology, No. 35, pp. 573-591

Coughlan, A.T., Anderson, E., Stern, L.W. and El-Ansary, A.I. (2006) "Marketing Channels", 7th Edition, Upper Saddle River

EHI (2009) "Handel Aktuell 2009/2010", Report, EHI Retail Institute

Henningsson, M. (2005) "Retail trade demands on distributors – Strategic and operational implications", IMIE Licentiate thesis No. 90, Linköping University

Hernandez, T. (2003) "Retail restructuring: a geomatics-based analysis of the home improvement sector", Progress in Planning, Vol. 60, No. 1, pp. 35-53

Hornbach (2009), Annual report 2008/2009, www.hornbach-holding.com

Huang, Y. and P. Huddleston (2009) "Retailer premium own-brands: creating customer loyalty through own-brand products advantage", International Journal of Retail & Distribution Management, Vol. 37, No 11, pp. 975-992

Håkansson, H. and G. Persson (2004) "Supply Chain Management: The Logic of Supply Chains and Networks", The International Journal of Logistics Management 15(1): 11-26.

Kaapke, A. (2008) "Daten – Zahlen – Fakten: Aktuelle Trends im Einzelhandel und deren Bedeutung für die Baumarktbranche", 9th Internationaler BHB-Baumarktkongress, Berlin, 18 November

Kempcke, T. (2006) "Aktuelle trends in der Handelslogistik: Daten, Fakten, Hintergrunde aus der empirischen Forschung", Research report, EHI Retail institute

Kingfisher (2009), www.kingfisher.com

KPMG (2006) "Trends im Handel 2010", KPMG, research report

KPMG (2008) "Sortimente und Warengruppen im deutschen Lebensmitteleinzelhandel – eine Bewertung aus Verbrauchersicht", KPMG, research report

Kumar, S. (2008) "A study of the supermarket industry and its growing logistics capabilities", International Journal of Retail & Distribution Management, Vol 36, No 3, pp. 192-211

Kreimer, T. and M. Gerling (2006) "Status quo und Perspektiven im deutschen Lebensmitteleinzelhandel 2006", research report, KPMG and EHI Retail Institute

Lademann, R. (2004) "Betriebstypinnovationen in stagnierenden Märkten under Globalisierungsdruck", pp. 71-96. In Riekhoef, H.-C. (2004) "Retail Business in Deutschland: Perspektiven, Strategien, Erfolgsmuster" First edition, Wiesbaden

Levy, M. and Weitz, B.A. (2007) "Retailing Management", 6th Edition, McGraw-Hill Irwin

Makowski, E. (2003) "Perspektiven der Handelslogistik in der Baumarktbranche am Beispeil der Hornbach Baumarkt AG", Thexis, No 3, pp. 53-57

Marketagent (2008) "Handels-Check: Imagestudie Baumärkte & Gartencenter", www.marketagent.com

Obi (2009) www.obi.de

Otto, A & Mensing, H-U (2008) "Neue Wege in der Konsumerguterdistribution in Deutschland", research report from MARS Deutschland

Otto, A (2009) "Konsumguterdistribution in Deutschland – Status Quo und Entwicklungsrichtung", Conference proceeding in 26. Deutscher Logistik-Kongress, pp. 394-425, BVL, Berlin

Olavarrieta, S. and A. Ellinger (1997) "Resource-based theory and strategic logistics research", International Journal of Physical Distribution & Logistics Management, Vol. 27 (9/10)

Payton, S. (2008) “Supermarket sweep”, Financial Management, Jul/Aug, pp. 16-19

Peteraf, M. (1993) “The cornerstones of competitive advantage: A resource based view”, Strategic Management Journal, Vol. 14 (3)

Pfohl, H.C. and C. Röth (2008) “Osteuropa: Auswirkungen der EU-Osterweiterung auf die Handelslogistik”, Jahrbuch Logistik, edited by H. Wolf-Kluthausen, pp. 278-283

Pietersen, F. (2004) “Handel in Deuschland – Status quo, Strategien, Perpectiven”, pp. 31-69. In Riekhoef, H.-C. (2004) “Retail Business in Deutschland: Perspektiven, Strategien, Erfolgsmuster” First edition, Wiesbaden

Porter, M. (1985) “Competitive advantage: Creating and sustaining superior performance”, New York: Free Press.

Porter, M. E. (1996) “What is strategy?”, Harvard Business Review, November-December

Praktiker (2009) Annual report 2008/2009, www.praktiker.de

Prumper, W., J. Pohl, and J. Thoms (2007) “Innovation im Handel – Nachhaltiger Erfolg durch Beschaffungslogistik”, Jahrbuch Logistik, edited by H. Wolf-Kluthausen, pp. 99-103

Roeb, T. (2008) “Zwischen Premium und Discount – Perspektiven für eine Neupositionierung in der Baumarktbranche”, 9th Internationaler BHB-Baumarktkongress, Berlin, 18 November

Sampson, S. (2008) “Category killers and big-box retailing: their historical impact on retailing in the USA”, International Journal of Retail & Distribution Management, Vol 36, No 1, pp. 17-31

Schäfer, A. (2008) “Chancen vertikaler Konzepte in der Baumarktbranche”, 9th Internationaler BHB-Baumarktkongress, Berlin, 18 November

Schommer, P., T. Harms, P. von le Fort and P. Seitz (2005) “Baumärkte in der Strategiefalle”, Ernst & Young, Retail and Consumer Products

Turban, M. and J. Wolf (2008) “Absatzbezogene strategien der Internationalisierung des Lebensmittel-Discountmarkts bei Aldi und Lidl im Vergleich”, Research report, Dusseldorf Working Papers in Applied Management and Economics, Fachbereich Wirtschaft, Fachhochschule Dusseldorf

Wernerfelt, B. (1984) “A Resource-Based View of the Firm, Strategic Management Journal, Vol. 5

Williams, C. (2008) “Re-thinking the motives of do-it-yourself (DIY) consumers”, The international Review of Retail, Distribution and Consumer Research, Vol. 18, No. 3, pp. 311-323

Wortmann, M. (2004) “Aldi and the German model: Structural change in German grocery retailing and the success of grocery discounters”, Competition & Change, Vol. 8, No. 4, pp. 425-441

www.lz-net.de, Lebensmittelzeitung Deutschland

Zentes, J. (2008) “Innovative Logistiklösungen des Handels – Auf dem Weg zur Logistikfuhrerschaft”, pp. 176-183, in Baumgarten, H. (2008) “Das Beste der Logistik: Innovationen, Strategien, Umsetzungen”, Springer-Verlag Berlin, Heidelberg

Zentes, J. and H. Schramm-Klein (2004) “Bedeutung det Markenfuhrung in vertikalen Marketing”, pp. 1679-1705, in Bruhn, M. (2004) “Handbuch Markenfuhrung”, 6th ed., Gabler, Wiesbaden

Appendix I: Interview guide Hornbach

About the research project

Members of the Marketing Logistics Research Group at Linköping Institute of Technology have a long tradition of research on retail companies in Sweden. In the summer 2009 another research project was launched that is focusing on the internationalisation and the increased competition from foreign companies on the Swedish market. As a result of the changed market situation, new business models are required where assortment policies, purchasing strategies and logistics operations need to be better aligned to each other.

One sector of certain interest for this project is the Do-It-Yourself (DIY) sector. This sector is at the moment changing fast, including trends of consolidation, vertical integration, ”category-killer” store concepts, etc. On the Swedish market Hornbach as well as Bauhaus have taken a leading position for this restructuring of the market. We are therefore interested to interview employees at Hornbach in order to get a better picture of the company. Except for employees at Hornbach Sweden, it would also be very valuable to get an international perspective of the company. In particular, the interface between the parent company Hornbach and its subsidiary Hornbach Sweden is of interest.

Interview topics

The interview topics below cover above all assortment policies, purchasing strategies and logistics operations.

Hornbach in general

1. Organisational structure
    a. Parent company vs. Hornbach Sweden?

2. Hornbach's overall strategy/business model
    a. Why Sweden?
    b. Competition on the Swedish market vs. other markets?

3. Hornbach in the future
    a. Overall strategic direction?
    b. Further expansion?
    c. Sources for inspiration (e.g. other sectors such as food)?

Purchasing

4. Suppliers to Hornbach
    a. Long term agreements?
    b. Division between smaller local and larger multinational suppliers?
    c. Degree of freedom for subsidiaries, e.g. Hornbach Sweden?
    d. Power balance between Hornbach and suppliers?

Assortment

5. Assortment strategy/policy
    a. Own brands?
    b. Trends recent years?
    c. Local differences between different Hornbach subsidiaries?

6. Position on the market
    a. Low price vs. differentiation?
    b. Other competitive advantages?
    c. Future threats when it comes to the assortment?

Logistics

7. The physical flow of goods
    a. Central/regional warehouses?
    b. Interface of responsibility between parent company vs. different subsidiaries?

8. Logistics measurements
    a. Important measurements (central as well as local)?
    b. Who is responsible?

9. Importance of IT for the supply chain?
    a. Development and trends?