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The Outlook for European Grocery Retailing: Competition and Format Development

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ABSTRACT *This article analyses retail trends in the main European countries, and particularly format evolution and competition amongst retailing firms. On the basis of the existence of European retailing landscapes that are sometimes similar without ever being identical, the article analyses the impact of the main factors of change on different national markets. Whilst retail internationalisation and new entrants, commercial policy, legislative environments, technological innovations, consumers and buying behaviour will have a convergence effect on different countries' retail structures, substantial differences will still exist. European retailing in the coming years will probably be characterized by increasingly less marked differences between countries than one finds today, but market segmentation, variety and differentiation of retailing formats and brand names will be stronger within each country.*

KEY WORDS: Retail evolution, market shares, retail formats, retail internationalisation, comparative retailing

Introduction

European retailing still shows significant national differences. Will these differences remain in years to come? The basic fundamental trends that draw European countries together are essentially demographic and socio-economic: growth in average income, the growing added-value services sector, low population growth, the ageing population, the reduction in the average size of households, the increasing proportion of women engaged in professional activity and men's involvement in household tasks as well as the growth in access to motorized transport and urban growth. But, if all these factors which influence consumer's buying behaviour are currently following similar trends, they have not developed to the same extent, nor reached the same levels in all countries, giving rise to retailing landscapes that are sometimes similar, without ever being identical.

Other factors have influenced, and will continue to influence the development of retailing structure in each country. The substantial increase in economic integration and internationalisation of retailing companies during the 1990s also contributed to bringing European markets closer together, although the differences remain obvious. The overall strategic directions, the systems of governance and/or

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organizational structures of European companies are indeed more similar today than in the past, but their local deployment always varies. The development of technological innovations, especially those linked to the transmission and exchange of information has further enhanced the diffusion of innovations within Europe, but at different speeds in different countries. Furthermore, government policy on retailing benefits certain types of operations in each country, particularly in relation to the intensity and nature of the national competition and the reactions it provokes.

The objective of this paper is to provide first a framework for investigation and secondly the initial findings of the analysis of the impact that these principal factors of change – genuine scenario variables, in the sense given to the term by Porter (1985) – will have on the different national markets over the coming years (see Figure 1). In spite of the convergence effect (Tordjman, 1992) attributable to the action of these elements of the retail environment, substantial differences exist – and will continue to exist for a long time – amongst countries, and even amongst regions within the same country, in particular in terms of consumer buying behaviour, quantitative and qualitative developments in retailing formats and in the competitive environment. These latter elements can be best perceived in terms of retailing concentration, integration of organizational structures and strategies of cost reduction and differentiation.

This contribution is based essentially on an historical analysis of the sector, is conducted through an analysis of the specialized retail press, company documentation, and academic publications. The hypotheses concerning the national impact of different scenario variables aim principally to orient the research and generate debate rather than actually "predict" the future of retailing.

Factors Of Change In The Retail Sector

Consumer Buying Behaviour

Different criteria have been used to establish the typologies of retail formats (Bucklin, 1972; Stern El-Ansary, 1982; Filser, 1989; Pellegrini, 1990). Each retail format offers a range of "services" (assortment, price, choice, convenience/proximity, personnel, services, etc.) in combinations, which differ from each other in quantitative and qualitative terms. Customers frequent the different retail formats

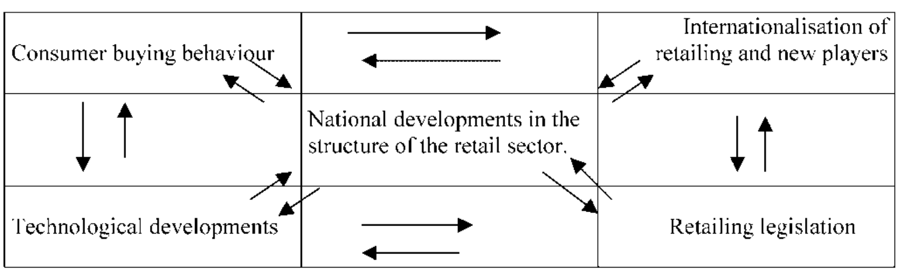

Figure 1. Factors of change in the retail sector.

to satisfy varying purchasing requirements at different times and shopping occasions. The same customers can therefore visit different types of stores, on different shopping occasions (Dawson & Burt, 1998; The Store, 2001), the formats being to a large extent interchangeable. The national market share of the different formats, at any given moment, is an expression of customer preference with regard to this arbitrage.

This preference changes over time, and the principal factors that influence these modifications are essentially of a socio-economic and demographic nature: growth in incomes and consumption (Arnt, 1972) together with rises in vehicle ownership and urban development (Guy, 1998), low birth rate, an ageing population, the decrease in the average size of households, the increase in the number of working women and men's involvement in domestic tasks. All these factors, even if they have not changed at the same rate, nor reached the same levels in all European countries, today present similar patterns of change (The Store, 2001), enabling the forecasting of analogous consequences in terms of buying patterns and purchasing frequency, and therefore in the evolution of the retail formats.

For example, after a long phase of catching up with the more developed countries of central and northern Europe by the southern European countries, it is now the turn of eastern European countries to move down the road that leads to a "post-industrial" consumer society. The retail infrastructure will rapidly adapt to new buying patterns and consumer behaviour, and "modern" retail formats (hypermarkets and supermarkets), which enable concentrated and planned buying of "everyday" goods, are spreading rapidly. In the rest of Europe, there remain, quite obviously, differences in the equilibrium – the respective market share – among the different modern retail formats, as well as in the specific forms that the same format can take in the different countries. But the differences in market share will gradually diminish rather than increase and although national models still endure, these are becoming increasingly similar.

In most European countries, we are witnessing the saturation of modern formats and a strong concentration of corporations. In such a situation, above and beyond the distribution of market share among the formats, an increasingly important aspect is the change in their internal characteristics. The weighting acquired by certain components of the retail offer in the overall mix of each format changes, in-line with the changes in trends in consumption, and the efforts made by companies to adapt their offering accordingly. New services and formats also come into being, as a response to these same trends.

Among the changes in the consumers' values that are acquiring increasing importance throughout Europe, though with differing intensities from one country to another, are the following: the growth in personal mobility and the increasing value placed on personal time (Bergadaá, 1990), the quest for personalization of lifestyle, but also for a social link (Cova & Roncaglio, 1999), the demand for quality products, services or atmospheres, but also a pleasurable and stimulating experience (Firat & Venkatesh, 1995), the need for reassurance (Rochefort, 1995), and ethics (Klein, 2000).

Some formats, whose strategy is essentially based on volume, such as hypermarkets and superstores, are going to face increasing difficulties to adapt, in particular in those countries where their format is dominant. To avoid losing market share and remain profitable, they will have to satisfy growing demand for unplanned purchases, adopt new differentiation and specialization strategies and develop purchasing experience in-line with consumer trends, and the changes in the competitive environment (Badot, 2000; Filser, 2002; Rieunier & Volle, 2002; Moati, 2001). The ‘‘traditional’’ average-sized supermarket, without any particular strengths either in price terms, like the discount stores, or in choice/quality terms, like the superstores, will also be a vulnerable format. The declining importance of planned purchases will favour the growth of local convenience stores. Formerly the preserve of independent operators, this sector will be increasingly dominated by the major grocery groups (The Store, 2001).

Retailing Legislation

Retailing legislation also plays a very important role in the growth of the retail industry and the proliferation of retail formats. In changing the rules of competition, the state can steer, or constrain, corporations to develop certain formats rather than others (Guy, 1998), and facilitate, or limit, the making of economies of scale and acquisition of bargaining power (Davies & Whitehead, 1995). The existing limits on the expansion of supermarkets, in many countries operate as a direct/organic entry barrier and oblige multinational groups to focus rather on acquisitions or joint-ventures (Wrigley, 2002).

In certain countries, such as Italy, where the legislative and administrative barriers to the opening of supermarkets have long been very high, recent legislation has now eased the restrictions. This should favour the growth of hypermarkets and large supermarkets, which has long been penalized (Pellegrini, 2001; Zanderighi, 2003). By contrast, in other countries, such as Spain, these restrictions have begun to appear (Frasquet, Gil and Molla, 2003) and one of the possible consequences will be a slowdown in the growth of hypermarkets. Retail legislation in the United Kingdom has contributed to favouring the growth of superstores rather than hypermarkets (Guy, 1998; Howe, 2003). In Eastern Europe, and in particular in Poland, new restrictive measures seek to defend the national operators facing competition from foreign supermarkets (Domanski, 2001).

Legislation governing the opening of stores remains different from one country to another, but a trend towards partial harmonization is noticeable (Guy, 1998). Those countries that have already modernized their retailing infrastructure are converging on a stabilization of restrictions.

There is also a convergence under way, in terms of the opening hours of stores and antitrust controls. In terms of the former, the general trend is towards increased liberalization (Howe, 2003) and even Germany, which in this context is the most restrictive country in Europe (Barth & Hartmann, 2003), finally relaxed them in 2002. In terms of inter-format competition, this relaxation could favour the convenience stores, to the detriment of limited-range discount stores. As for antitrust controls, they henceforth aim, in cases of mergers and acquisitions, to prevent the creation of monopolistic situations at the national and especially local level, of each catchment area. For example, the consequences of the takeover bid for Safeway in the United Kingdom, which could reach completion during 2003, will depend to a large part on the report by the OFT. The number of stores the buyer might be obliged to sell off, in accordance with the doctrine of the Competition Commission (Competition Commission, 2000), will influence the size of the bid and choice of buyer. Another type of intervention that is widely used at the local level across Europe is the "regeneration" of city centres, often sought after through a new centralized "town management", with the objective of exploiting the synergies between the different operators and thereby increasing their attractiveness. Increasing government intervention, aimed at reducing urban pollution by limiting the use of automobiles, also favours downtown areas and convenience stores at the expense of large supermarkets in the outer suburbs.

Technological Progress

The growth in technological innovations, in particular those associated with the transmission and exchange of information, has first and foremost generated an increase in productivity within companies. Marketing applications subsequently emerged, as did applications enabling strategic and organizational modifications (Dawson, 1994). In the years to come, with the increasing convergence and integration of information and communication technologies, these applications will continue to proliferate: an increasing amount of information on the items and consumers will be available, more easily accessible and the cost of processing this data will fall. Using the concept of Data Warehousing, the retail industry, starting with the market leaders, will adopt genuine Data Mining systems. The latter will distill information on product sales trends, consumer purchasing habits, seasonal variations, supplier lead times and delivery performance, variations in the flow of customers and data enabling forecasting and improved decision-making. Numerous applications can use such systems including in particular (Savage, 2002): replenishment decisions, promotion planning, weather-related sales forecasts, changes in interest rates and the behaviour of competitors, evaluation of product price variations by store, optimization of the sales floor as a function of the profit per square foot generated by each item, adjacency planning for better grouping of products, frequent shopper programme planning, and the budget production and monitoring based on historical data.

All these applications have, and will increasingly, enable the major groups to adopt both cost-cutting and growth strategies by pushing back the limits imposed by the expansion and internationalization of their networks. The economies of scale made by companies will continue to favour the increase in their average size and concentration and, as a result, the disappearance of many small and medium-sized operators, both on the national and international stage. However, these applications will also enable retailers to develop a more personal relationship with customers than the "transactional" relationships most retailers currently have with their customers. A growing number of operators will, as Tesco already does, use the data collected through loyalty cards to adapt their offers and provide their customers with specific solutions and services, through the use of databases, data mining and partnerships with their suppliers. Retailers' ability to create a genuine brand and deploy it in all segments of the retail mix will be at the heart of the development of closer relations with their customers. Matching the product offer to the local demand of a large number of stores, the large enterprises are now able, like the smallest ones, to obtain the cost economies of scope associated with the product and service mix offered to the consumer (Dawson, 2000):

> The Internet has enabled the development of a new channel of distribution that, in harmony with the stores, enables companies to increase sales by widening the range of services and customers' buying options. Several studies, backed by statistical data, have demonstrated the genuine synergies that exist between e-commerce websites and traditional bricks-and-mortar stores.

According to a report on e-commerce in the USA by Jupiter Research, the contribution of e-commerce to "physical" commerce in 2002 amounted to 232 billion dollars, i.e. 14% of total retail sales, whereas direct online sales only accounted for 40 billion dollars. In 2001, this contribution was 12%. For 2003, Jupiter Research estimates it will be 17%. Another survey by Nielsen/NetRatings estimates that the e-commerce websites of traditional retailers are starting to become significant generators of traffic for stores and catalogs. Lastly, a survey conducted by ForeSee Results over the 2002 Christmas period, demonstrates that the synergies between off and online are not merely limited to searching for information on the Internet prior to making a purchase in a store. 37% of the respondents, who claimed to be very satisfied with their online purchase, stated that they had done their research offline and bought online.

The Internet is therefore not simply a research tool, but also a sales tool, these two facets needing to be integrated into a more comprehensive multi-channel strategy. This is in keeping with the trend among consumers to practice a form of arbitrage between the different choices and channels as technology gives consumers more control over the place and time of their purchase, the breadth of choice they require, the price model they use and the quantity and quality of information they need (The Store, 2001).

Internationalization of Retailing and New Players

A major wave of acquisitions, joint ventures and mergers has characterized the European retail industry over the last few years. Many acquisitions and joint ventures enabled the market leaders to penetrate countries where access was difficult. However, some mergers within a same country were motivated by the fear of foreign competitors. Thus concentration on the national scale increased, and only the southern European countries (Spain, Portugal, Italy and Greece) still appear to be somewhat fragmented. Some European market leaders emerged, but none that could be deemed genuinely pan-European (Wrigley, 2002). The most powerful, and the only one with a strategy that is both multinational and of multi-format is Carrefour, which has secured dominant positions in particular in southern European countries, whereas it is not present at all in Germany, the United Kingdom and northern European countries (with the exception of Belgium). Carrefour's hypermarket concept has proved itself to be particularly well adapted to countries where spending on foods remains high and local competition is relatively weak. But Carrefour's soft discount brand: Dia, is not up to the standards (except in Spain) of the hard discount specialists. The latter (Aldi and Lidl) have experienced the same success in northern European countries as in certain southern European countries, such as Spain, Portugal and Italy, whilst they are still in their infancy in eastern European countries (Colla, 2003b) and there they still have good potential for market share expansion. The other big multinational retailers do not have genuinely pan-European or multi-format strategies, but have rather made inroads with a single format in a limited number of countries in a single homogenous geographic and cultural zone (the Anglo-Saxon north, the Latin south, the east). Auchan is achieving success with the hypermarket format (and large supermarkets) in southern Europe, just like Carrefour, but on a smaller scale. Tesco is proving itself in east Europe and in Asia, also as a hypermarket operator. Intermarché is experiencing major difficulties in Germany in the supermarket sector, whilst hard discount stores are faring better. Edeka and Rewe, like Tengelmann, have been successful particularly in exporting their soft discount brands (Plus and Penny) in countries bordering Germany (Colla, 2003). Wal-Mart arrived in Europe in 1997, and is still among the leaders in the United Kingdom with Asda, whilst it continues to suffer losses in Germany. The American leader has not managed to penetrate southern Europe and its major presence remains therefore limited to countries culturally the closest to the United States. Its recent refocusing on the American market could equally well slow down its European expansion, or prepare it for other major acquisitions, both on the British market (possibly Safeway) and in continental Europe (Wrigley, 2002). Wal-Mart's penetration in Europe has not only determined an intensification of competition in the United Kingdom and in Germany, but has also triggered competitive reactions on the European scale, the most significant of which was the Carrefour/Promodès merger (Cliquet, 2001; Colla & Dupuis, 2002).

As for Ahold, the Dutch market leader has always prioritized the United States in its international growth strategy, and became the number four operator in the US in the wake of an impressive series of acquisitions. But in Europe, outside its domestic market, its only acquisitions, substantial though they may be (ICA in Scandinavia and Superdiplo in Spain), have not been sufficient to make of it a major continental European group (Wrigley, 2002).

In 2003, Ahold was obliged to restate its earnings for the last two fiscal years and will not be expanding in Europe (or elsewhere) in the near future; on the contrary, they will have to divest themselves of assets to service high levels of debt. The group's recent troubles are indeed just an additional example of the difficulties encountered by major international retail brands over the past few years.

Internationalization can also contribute to destroying – rather than creating – value for consumers and stockholders, when it is pursued in a dispersed fashion in terms of countries and geographic zones, by companies that are of a modest size on their domestic markets and are over indebted (Dragun & Howard, 2003). Yet the only means currently available for achieving an increase in size in Europe – within the context of very high national concentration – is obviously international growth. The latter trend will therefore continue to gather pace over the coming years.

Retail Structure and Competition at National Level

The evolution of the British model based on "superstores": Towards more competition and variety in retailing formats?

The British market is still characterized in the early 2000s by a model that is quite different from that in other countries on the continent. In Britain, the large quality supermarkets ("superstores") have always been the leaders (54% of market share in food sales in 2000), in front of the hypermarkets (20%) and discount retailers (8%). The lack of restrictions imposed on companies in their choice of location since the post-war period enabled them to achieve high concentration of sales in large-size and very homogenous stores quite early (Bell, 2000a). The rapid decline in the number of small traditional stores gave the leaders the responsibility of offering British consumers a wide range of quality products, which on the continent remained for a long time the preserve of specialists. Efficient logistics and the broad geographic distribution of the retailing brand names, made possible by the concentration and homogeneity of the network of superstores, enabled the leading companies, all listed on the stock exchange, to generate levels of profits systematically higher than the French or German leaders (Burt & Sparks, 1993). Furthermore, in Great Britain, the separation between food and non-food purchases is more marked than elsewhere, and specialized superstores have reached advanced levels of development and are in fierce competition with department stores and variety stores.

How will this model change, and at what speed? What are the main factors of change and how will they operate?

In the first instance, the nature and intensity of the competition will change considerably over the coming years due to the recent arrival of Wal-Mart. The American group greatly destabilized the British market with its acquisition of Asda in 1999 (Burt & Sparks, 2001), at that time the third largest mass distribution retailer in Britain. This acquisition was perfectly logical for Wal-Mart, in whose eyes the British retailer had several positive characteristics: the size of the stores, above the national average, the corporate culture, very similar to its own and a strong brand in textiles.

Wal-Mart will certainly use all the means at its disposal over the coming years to accelerate their growth as much as possible, through their strategy of low costs/low prices/superior service (Colla & Dupuis, 1997, 2000; Rosenbloom & Dupuis, 1994). Wal-Mart will improve the efficiency of the logistics system by reducing the floor-space in the stores devoted to stocks and increasing floor-space in sales areas. This will enable them to offer more items, in particular in non-foods, and improve sales. Sales floor-space will also increase due to the opening of new stores. Increases in sales will systematically be accompanied by a reduction in margins and prices, accentuated by the better purchasing terms and conditions gradually obtained from suppliers, which with the increase in range of non-foods, will enable the Wal-Mart supercenters to considerably increase their attraction and sales.

Will Wal-Mart in 2010, be then the absolute market leader, by overtaking Sainsbury then Tesco? Whatever happens, the impact exerted on British retailing by the North American giant will be the major event of the decade between 2000 and 2010, as was the penetration of hard discount in the years between 1990s. Hypermarkets will certainly gain market share in Great Britain, which has experienced little penetration of this format.

The superstore retailers that do not react will, one after another, run into difficulties and progressively lose market share to the leader. This will lead them to concentrate sales, ultimately leading to the disappearance – or concentration – of the smallest (Morrison, Safeway, Somerfield) and the search for international alliances – or mergers and acquisitions – on the part of the largest (Tesco, Sainsbury). The latter will have to reduce their costs but also pursue a strategy of differentiation to distinguish themselves from their American rival.

The battle for control of Safeway – the fourth largest chain of supermarkets in the UK – which began in January 2003, confirms this trend. To date, and to everyone's surprise, William Morrison Supermarkets, the fifth largest group in the sector, put in a bid through a stock swap offer. Over the following weeks, Sainsbury and Wal-Mart/Asda expressed their interest in a possible acquisition, as did the private American investment fund Kohlberg, Kravis, Roberts (KKR) and Philip Green, a private investor and owner of the Arcadia textile group. Finally Tesco joined the list of possible buyers.

Safeway had long been the most vulnerable of the five British market leaders. Its small size compared to the three heavyweights is not compensated for, as in Morrison's case, by a strong regional power base. The size of its stores is smaller than those of all its competitors and its know-how in non-foods is the least developed.

Sir Ken Morrison, the owner of the firm that bears his name, is widely considered to be the best entrepreneur in the sector and of his generation. He succeeded in creating a homogenous chain of highly profitable quality superstores, geographically concentrated in the north of the country. His offer is his latest chance to redraw the retailing map of the United Kingdom: with the acquisition of Safeway; the newly merged group would become the number two chain of food stores, just behind Tesco and ahead of Wal-Mart/Asda. Furthermore the geographical synergies between the two groups are high, Safeway being particularly well developed in the south of the country. But one can nevertheless raise doubts about Morrison' ability to absorb a group larger than his own without diluting his own strengths, in particular the Morrison culture of quality and customer service.

As for Sainsbury's, the former market leader risks finding itself in fourth position in the sector. The group has no experience of mergers and has trouble in defending its current position. A Safeway/Sainsbury merger would pose a major problem of competition.

Wal-Mart Asda is a far more credible buyer: the group has an impressive track record of successful foreign acquisitions (except in Germany…). It has vast financial resources, a strong price positioning and is the darling of New Labour which seems to take a favourable view to the intensification in competition that followed its penetration of the British market. However the corporate culture of the American giant is very different from Safeway's, which has adopted a somewhat "convenience" positioning based on quality, with significantly higher prices and smaller stores than Asda's. The small size of Safeway's stores would make it difficult for Wal-Mart to match Asda's earnings. For Tesco, the most worrying outcome would be a victory for Asda, its most dangerous rival in the medium term and which, in the event of a successful merger, would find itself of a similar size. Finally, the most logical and probable outcome is the merger of Morrison and Safeway, with definite benefits for Safeway's stockholders and big risks for Morrison's stockholders. This hypothesis would also enable the new group to retain almost all its stores (some sell offs will be required even in this eventuality). If Tesco, Sainsbury or Wal-Mart were to win the battle, the takeover would necessarily be followed by the dismantling of the network and the sale of a substantial number of stores.

Concerning the policies of differentiation and relationships with suppliers, private labels, which reached a peak in the mid-1990s, stagnating thereafter, will not significantly increase market share in the decade from 2000 to 2010. By contrast, they will evolve into new categories and families of more innovative and higher quality products with higher margins. Concerning the relationships with consumers, the presence of loyalty cards – already high in Great Britain – will probably make further progress, as will the quantity and quality of data collected by their use. The data collected will give companies better knowledge of each store's local clientele, enabling better segmentation and more accurate adaptation of the assortments and promotions offered in the different catchment areas and tailored to the socio-economic profile of their customer base (Ziliani, 1999).

The ability to operate outside the national market and achieve international growth, as Tesco brilliantly began to do in the second half of the 1990s, will increasingly be a factor of competitiveness for British firms of the grocery sector.

Soft discount will not emerge from its crisis that was already making itself felt in the 1990s with the loss of independence of Kwik Save, whilst hard discount will progress slowly but surely. By contrast, the local food store formats, favoured by the increasing mobility of consumers, will continue to grow in towns and cities under the driving force of the main proponents (Tesco and Sainsbury in particular).

The arrival of Wal-Mart and the competitive pressure it will continue to exert over the next decade, coupled with the greater international opening of British retailing, will probably reduce the profit margins of firms, bringing them closer to the levels of those of their French and German counterparts. Simultaneously, the proliferation of retailing formats and brand names will widen the choice available to British consumers, raising it to levels above and beyond those offered by the sole model that dominated food retailing in the United Kingdom for so long (Seth & Randall, 2001).

Wal-Mart's impact will be relatively strong on the specialized retailers in certain sectors, notably pharmacy, optical, stationery, electronics, toys and home accessories. Boots and BHS risk losing market share, as does Marks & Spencer, where the attraction of the textile assortment could be weakened by Asda/Wal-Mart's brands, having already suffered from the arrival of foreign competitors (Zara, Mango etc.). Furthermore, Wal-Mart could be tempted to introduce into the United Kingdom the Discount format (Discount Department Store) which was so successful in Canada (Burt & Sparks, 2001) and which could destabilize the variety stores and department stores in the United Kingdom.

In a country that will be among the European leaders in online sales, both through Internet presence of stores and the attitude of customers, Tesco will in particular consolidate its lead in e-commerce food retailing. Its online business will probably gain it little market share, with limited profitability, however, it will increase the loyalty of customer and the volumes they purchase (Reinhardt, 2001).

Government policy could change the face of retailing in the United Kingdom if the government declared itself in favour of the opening of very large retail units in the suburbs; the greatest beneficiary naturally would be Wal-Mart. However, the very recent intervention of the Competition Commission, with its detailed analysis of the various geographic markets (Competition Commission, 2000), has demonstrated that it is determined to identify any local monopolies, as and when they emerge.

The evolution of the German model characterized by strong competition on prices: Towards greater retail concentration and increased differentiation?

Germany is the land of hard discount (33% of market share in 2000), hypermarkets having lower market share (25%). In non-foods, competition is still fierce between the hypermarkets, the specialized stores and traditional stores, but also with department stores. Distance selling has always had a substantial presence in Germany.

The arrival of Wal-Mart on the German retailing scene in 1997 triggered a genuine revolution. The debut was very hard for the giant from Bentonville. For several years, its two first acquisitions (Wertkauf in 1997 and InterSpar in 1998) generated substantial losses (between €200 and 250 million per year in the first three years) (Financial Times 2000, quoted by Burt & Sparks, 2001). Will Wal-Mart manage to stay on the same track over the coming decade, gradually reducing prices in successive waves and slowly but surely improving the quality of service, as is its current intention? This will be possible by perfecting its management techniques, thereby enabling it to reduce costs. Management will have to introduce centralized logistics and gradually get price reductions from suppliers. Little by little, the firm should learn to manage its human resources within the difficult context of highly unionised German labour relations, in spite of the fact that the Wal-Mart corporate culture is resolutely hostile to these organizations (Ortega, 1999). Once the existing stores start to generate income, Wal-Mart will proceed with other substantial acquisitions, enabling it to increase its volumes on the German market. The most attractive target for acquisition is the Real chain, belonging to Metro, which leads the sector with its 259 stores (Colla, 2001). From that moment, the Wal-Mart machine and its virtuous circle will be able to commence, as it did in the United States, Canada and the United Kingdom. Its ultimate success will be all the more substantial and disturbing for the other European retailers since, after having established a solid position in the German market, it will be poised to make further acquisitions in other European countries.

As for its competitors, the hypermarkets that will not have been bought out will find themselves in trouble and a process of concentration will ensue, but those retailers that manage to survive will own a portfolio of stores of far higher quality than they do today. The hypermarkets will thus gain market share, thanks in part to progressively extended opening hours, which should give them a competitive edge over the smaller stores.

The other retail formats that will be particularly affected by the American group are the smaller supermarkets and soft discount stores, who will find themselves caught in a stranglehold between the supercenters (Wal-Mart's hypermarkets), which are far more competitive than the German hypermarkets, and Aldi and Lidl's hard discount stores. The latter will square up to the competition without losing market share, nor reducing their profitability too much – currently the highest on the German market – with their offer continually adapted to their customers' basic purchases and their very low prices, mainly due to the high volume of sales per product and to the extensive use of own brands (Colla, 1997a).

These developments in competition will lead to increased concentration and accelerate the transition towards a chain's organization by the powerful voluntary groups (Markant, Rewe, Edeka and Spar). They will rationalize their logistics and their portfolio of different retail formats will gradually change in favour of supermarkets and "convenience stores". To improve their results, the two chains Metro and Tengelmann will also have to concentrate on their strengths, in search of commercial and logistic rationalization (Bell, 2001a). Metro – the world leader in cash-and-carry – has a disparate product portfolio. The disenchantment of its shareholders and the turnover among its managers make it vulnerable, just like Tengelmann. In the past, Tengelmann too chose the path of excessive diversification, without creating any genuine strengths, apart from its soft discount brand name: Plus, which occupies a good position and has good prospects abroad.

The competitive effects of Wal-Mart will also have major repercussions on non-food retail formats, in particular on department stores and variety stores, which are traditionally powerful in Germany: these will in any event benefit from the refurbishment of city centres and major bus stations (Zentes, Janz and Morschett 2000). The weaker specialized brands will also suffer and the process of concentration will enable the leaders in each sector to increase their own market share. Finally, thanks to the Internet, the German giants of distance selling will probably consolidate their position as European leaders.

The French model: Towards the multiple specialization of hypermarkets and greater differentiation?

In this early part of the twenty-first century, the French market displays certain relatively unique characteristics. The hypermarkets still have the highest market share (51% of the "grocery" segment, according to Nielsen), a share in 1999 of over 50% of total sales of the ten leading fascias in retailing and very satisfying results in the area of productivity. The organized associations of "independents" (particularly Leclerc and Intermarché) benefit from market share unrivalled in Europe.

In parallel, concentration greatly increased, to the point where it overtook that of the German and British markets (Bell, 2001b), especially after the Carrefour-

Promodès merger (Cliquet, 2001). The traditional competition on prices, coupled with the relatively conflictual state of relationships with suppliers, is changing towards slow growth in profit margins and less intense competition on prices. The Loi Galland of 1997 and the new economic regulations (NRE) of 2001 have greatly contributed to this turn of events (Colla, 2003a).

The eventual arrival in force of Wal-Mart on the French market in the second half of the decade, through the buy out of a few medium size chains (Casino, Cora or even Auchan) would considerably revive competition and destabilize the market. The Leclerc group of associated "independent" retailers has recently increased its international development and buying strength with an alliance with Italian Co-operative group CONAD. The same Leclerc could react to Wal-Mart's penetration by forming a buying group with the other big independent group, Intermarché, that could give them greater purchasing power in the food segment than that of Carrefour. The new group could combine the strengths of both players (Intermarché in supermarkets, own brand foods and DIY, Leclerc in hypermarkets, textiles, gold, culture, hygiene and beauty products etc.). Carrefour should be obliged to face more directly the new North American competitor, in particular if Wal-Mart succeeded in acquiring the Auchan group, or Casino and/or Cora. In this hypothesis, Wal-Mart would be its principal rival in hypermarkets and France would be the only country in Europe where Carrefour and Wal-Mart would be directly competing one against the other. The attractiveness of the American giant's product mix in the food segment would be greatly enhanced if it acquired Auchan (or Casino and/or Cora), whilst its non-food product mix could improve through its experience gained in the United Kingdom. The hypermarket concept would be even more likely to adopt more of the innovations that should enable it to retain a dominant share of the market far into the future, though with little growth, particularly when faced with competition from specialized superstores.

The market leaders in this retail format will pursue the restructuring of their stores in accordance with a choice of multiple specialization and a presentation by "shopping universes", with the aim of making their principal non-food categories more credible and attractive (Jones, Strachen and Wong-Smith, 1999), they will improve their downmarket discount image, improve the atmosphere in the stores to make the purchasing experience more pleasant for the customer (Filser, 2001). Own brands could reach UK levels, following greater concentration and the increase in negotiating power of retailers and the strategy of the market leaders (Colla, 2001; Bell, 2001c).

With the growth in margins of the new hypermarkets, the hard discounters – particularly the Germans Lidl and Aldi – will find themselves faced with an attenuation of the price war. Thus, they should manage to increase their market share over the next decade (Colla, 2003a). The discount sector – both hard and soft – could exceed 15% in the food segment, particularly at the expense of small supermarkets and traditional stores.

In non-foods, department stores and variety stores will strive to defend their weakening market share and benefit from the refurbishment of city centres (Houzé, 1998). The former will progressively orient their concepts towards top-of-the-range and luxury products, with the creation in their points of sale of display environments, genuinely coherent with the products. The latter will become local stores, aiming to satisfy the basic needs of urban consumers (Charrière & Gallo, 2001).

Specialized superstores will progress even more than hypermarkets, and gain market share in many non-food segments, in particular those where they are not yet leaders ahead of traditional retailers (household electrical appliances, footwear, gardening, computers, telephones, clothing and culture). But the main feature of the transformation in this sector will be the concentration of the independents in systems of association, maybe even franchises and "agile" chains" (Badot, 2001a).

As for e-commerce, if Europe lags behind the United States in this domain, France is a unique case within Europe. If one takes the total of sales on Minitel and the Internet, France is the leading country, in terms of market share, of this early part of the decade (BCG, 2000a). By contrast, France lags behind all other European countries – except Italy, Spain and Portugal – if one only takes into account sales on the Internet. Even the sector-by-sector distribution of sales in electronic commerce is highly influenced by the presence of Minitel (BCG, 2000b). Growth in sales on the Internet will therefore be partially dependent in the declining use of Minitel. The erosion in sales will vary from segment to segment: greater erosion in the food segment and lesser erosion in textiles/clothing, financial services and vacations. Whatever the outcome, in France all sectors will experience growth in sales on the Internet. However, the decline in sales on Minitel will be slow and the transition to the Internet difficult. At the end of the decade, the market share of online product sales will constitute only a part of distance sales, which will probably remain generally stable over the same period.

The Southern European countries: Towards greater concentration and integration of structures?

In Southern European countries (Spain, Portugal, Italy and Greece), French retailers already dominated mass retailing by early 2001. This enabled the hypermarkets to gain quite high market share in Portugal (41%) and in Spain (34%), lower than in only France. All these countries were characterized at the beginning of 2000 by a degree of concentration far inferior to that found in Northern Europe and by a significantly lesser degree of integration of organizational structures (Colla, 2001). This integration is reflected in the number of voluntary unions, buying groups and co-operatives, in the lower proportion of stores and warehouses directly controlled from the headquarters, in the sparse use of scanning and infrequent deliveries. However, concentration will increase over the next decade and these diverse parameters will reach the levels that currently characterize the more advanced countries.

Spain: towards the French model?: In so far as Spain is concerned, over the coming years hypermarkets will not gain market share as they did in the 1990s, thereby leaving room for supermarkets and hard discount. With the consolidation of the supremacy of French retailers, we will also witness the reinforcement of the handful of national leaders such as Hypercor (El Corte Inglès) in hypermarkets and Mercadona and Eroski in supermarkets; we will also witness the emergence of new players like Ahold, arriving from abroad. Still in a weak position in Spain, where the sector is dominated by Dia – a relatively "soft" retailing format – hard discount will gain market share with Lidl then Aldi. In non-food retailing, foreign retailers – and in particular the French – will continue to gain positions in highly fragmented sectors where strong local brand names are scarce, with the exception of clothing where the leading chains (Zara, Mango) have achieved aggressive international development. This growth will be at the expense in particular of traditional retailing, but also of department stores, which in Spain have reached their apogee (Gil *et al.* 2002) and hold the European record in terms of market share.

Online sales will not progress very much in Spain where – like Portugal, Italy and Greece – the cost of telephone communications is high, as is the cost of logistics; furthermore, the service is of mediocre quality, credit cards are little used and consumers like going to the stores and enjoy the sociable and festive aspect of the purchasing experience.

Italy: Towards an eclectic model and modernization of the entire retailing landscape?: In Italy, as in Greece, the retail industry was still in a phase of modernization in 2001. The large grocery stores, hypermarkets and supermarkets, are not yet present in great numbers and traditional specialized and non-specialized stores occupy a major position (Pellegrini, 2001). In the non-food segment, hypermarkets and specialized superstores are flourishing and rival traditional retailers. Some of the more advanced regions in Italy (Lombardy, Piedmont, Venetia and Emilia-Romagne) now resemble the French model and over the course of the next ten years, the process of modernization will continue and extend to the rest of the country.

Hypermarkets will at least double their market share (14% of retail food sales in 2000) both in food and non-food retailing; large supermarkets (18% in 2000) and discount stores (6.7% in 2000) will also gain ground. The increase in market share will be at the expense of traditional food stores and small supermarkets belonging to the numerous buying groups and voluntary unions that have networks across the entire country, whose logistics infrastructure is inefficient and whose skills in terms of management of non-food products and own brands is limited.

Penetration of the Italian market by French firms in the late 1990s (Colla, 1999a) will have been the decisive factor in the radical change in the Italian retail industry. The strategic alliance between Auchan and Rinascente enabled the French retailer to become the leader in hypermarkets in Italy, as the only chain developed in the entire country, and to occupy the third place in retailing throughout Italy. The acquisition of the Euromercato hypermarkets and GS supermarkets enabled Carrefour to become the second largest group in Italy, after the Co-op, and the third largest chain of hypermarkets, after Co-op and Auchan.

The French groups will certainly make further inroads into the Italian market over the next decade. With their superior financial resources and highly developed skills in the management of the hypermarkets, the French retailers will easily dominate the market of this format. The Co-op, the leading group in consumer co-operatives, and Conad, the retailers' co-operatives, will try to defend themselves by playing several cards: knowledge of the consumers and the local roots of their networks, the flexibility of their structure and the multiple channel nature of their business. To this, the Co-ops can add the financial resources emanating from the savings of the associates, as well as the image of a group with sophisticated management techniques in the ethical domain, with the mission of protecting both the environment and their customers' health (Colla, 1999b).

In non-foods, specialized superstores will gain ground alongside hypermarkets and at the expense of traditional retailers. It is the foreign retailers that will benefit the most from this revolution and the French, aided by the cultural affinities and geographic proximity, will take the lion's share in several sectors, in particular DIY, clothing, sports items, perfumery. In these same sectors – and even more so in furnishings, white and brown electrical goods – Swedish (Ikea), German (Media World, Douglas) and Swiss brands (Expert), will benefit from the growth in the Italian market. Online sales will progress modestly, given that Italy has never been in the vanguard of distance selling in Europe (Colla, 2001).

Competition on prices, which has been modest to date, will accentuate following more direct confrontation between large international and national groups and will lead to innovation and increased differentiation between the various retailing formats and brand names, as witnessed by, for example, the new "megastore" strategy of Benetton (Camuffo, Romano and Vinelli, 2001). However, an increasing number of Italian retailers – as seen recently with Coin, Giacomelli – are showing international ambitions. Legislation governing the retail industry is gradually becoming less restrictive in terms of opening of new stores (but recent decentralization at a regional level may allow some local restrictive practices), and will ban dumping and monitor concentrations, the possible constitution of monopolistic buying centres and abuse of dominant positions with regard to suppliers.

Internationalisation favours convenience stores and discount development in North European countries

Whilst the southern European countries seem to be moving closer to the French model, other smaller central and northern European countries are closer to the German or British models. The Republic of Ireland, which – alongside superstores – still has numerous small stores, but not many discount stores, is moving closer to its larger neighbour's qualitative model, introduced by the British market leaders themselves. Austria – a Germanic country – is closer to the German model, with its heavy concentration of discount stores and local stores. The Scandinavian countries, (Denmark, Sweden and Norway), are also characterized by a model based on small sized stores, with a large component of limited assortment discount stores. Among the three, Sweden is the country with more superstores. Their small size and legislative barriers (Denmark), geography and the massive presence of Co-operative groups, largely explain the shopping habits of these country's consumers.

Different systems characterize Switzerland and the Benelux countries. Switzerland, with the largest market share being held by large supermarkets and small discount stores, and its intense concentration and differentiation through private labels, has some characteristics of both the German and British models. Belgian consumers favour the large supermarkets but also like the discount stores and small supermarkets, favoured by very restrictive legislation. In the Netherlands also, side by side with the large supermarkets, the small supermarkets have a large market share. But in both countries there is a high degree of integration of stores and the leading retailers manage to get – by controlling the supply chain – the same advantages as larger stores that benefit from direct deliveries (Bell, 2000c).

The degree of concentration in all these countries – apart from Denmark – is very high: their small size and their search for economies of scale by the retailers explains, in part at least, this phenomenon.

The degree of internationalization of these markets is uniformly high, with the exception of Switzerland and Denmark where the main retailers (Migros and Co-op in the former, FDB and Dansk Supermarked in the latter) are local groups. In the Republic of Ireland, the British retailers (Tesco, Sainsbury, Safeway and Iceland) dominate the market. Carrefour recently bought out GIB, the Belgian market leader and, since September 2002 is back on the Swiss market. Casino owns Laurus, the second operator in the Netherlands after Ahold. As for the Dutch market leader, it owns Hakon Group, the second Norwegian operator as well as the Swedish market leader, ICA. Aldi occupies strong positions in Belgium, the Netherlands, Austria and Denmark. In Austria the leading group Billa/Meinl belongs to the German operator Rewe. In 2001, in Scandinavia, Co-op Nordic reunited the three national Co-operative groups FDB (Danish), Co-op (Norwegian) and KF (Swedish).

The number of domestic and international mergers and acquisitions has increased over the last years and further operations remain conceivable in the forthcoming years, as a consequence both of the presence of foreign market leaders setting targets for growth and, in particular in Scandinavia, of a structure to date still little centralized among the leading groups, which are for the most part Co-operatives and voluntary alliances. Furthermore, the dynamism of newly arrived foreign operators will progressively steer retailing in these countries towards a degree of standardization of retail formats and brands. Tesco and the other British leaders will progressively gain market share in Ireland, as will GIB and Albert Heijn in Belgium and the Netherlands with their hypermarkets, superstores and other quality supermarkets, just like Netto and Rimi (hard discount) and ICA/Ahold/Statoil (convenience stores) in Scandinavia.

Poland and the Central European countries: An accelerated retailing revolution and the emergence of local players

The Central European market (in particular Poland, Hungary, the Czech Republic and Slovakia) comprises over 60 million consumers. Their disposable income has increased over the past years and forecasts, even bearing into account slower growth, remain positive. Food sales are particularly high: 34% of average family expenses in Poland in 2000.

Among these countries, Poland is commercially the most attractive for mass retailing firms, notably due to its high and relatively young population – around 39 million inhabitants – distributed in a number of large towns of over 250,000 inhabitants. The modernization of the retail industry in Poland is more recent than in other countries in the region, such as Hungary and Slovakia and is likewise due to intervention from abroad (Colla, 1997b). It is only since 1996 that traditional stores began to decline when faced with tough competition from modern formats – hypermarkets, supermarkets, hard discount and specialized superstores – belonging for the most part to foreign firms.

Unlike Southern European countries, dominated by French retailers, international presence is more varied. Following the era of the pioneers – 1990/1995 – during which, in spite of the chaotic conditions in the country, certain firms made acquisitions (Gib, Billa) or directly opened stores (Ikea, Dohle) or indeed franchises (Rema, 1000), there followed a period of "colonisation" (Dawson & Henley, 1998), where a whole group of new retailers penetrated the country (Leclerc, Auchan, Docks de France, Casino, Jeronimo Martins, Metro, Tengelmann) making rapid development. Then, from 1998, the foreign retailers began to consolidate their positions, always against a background of strong growth.

In early 2000, 23 international retailers were present in Poland, representing all the range of retailing formats, and modern food retailing represented only 25% of the market (16% in 1998 and 22% in 1999). Hypermarkets, with 112 outlets, saw the strongest growth, even ahead of supermarkets and discount stores.

Over the next ten years, there will be a revolution in retailing and mass distribution will secure in excess of 50% of the market, growing at higher rates than in the rest of Europe, in particular in Italy and even than in Spain (Domanski, 2001). Foreign retailers, notably Casino, Auchan and Carrefour as well as Tesco (Bell, 2000b), Ahold and Jeronimo Martins, are already well placed to occupy the positions of leaders in Poland and the other Eastern European countries at the end of the decade.

The priority for firms will remain to establish a network of stores as rapidly as possibly, preferably using multiple formats, to make the largest economies of scale, cut purchasing prices and benefit from logistics synergies. During the forthcoming decade, hypermarkets could at least double, and supermarkets should achieve strong growth. However, in this event, the prospects for foreign firms will be less attractive. Their relatively small size, the limited use of electronic data transmission, the high cost of land and delays in setting up logistics infrastructures are among the elements that will prevent the foreign leaders (Spar, Julius Meinl, Gib, Ahold, Intermarché, Billa) from fully exploiting their competitive advantages. The national retailers will have every chance of gaining market share by modernising their stores through the creation of networks (buying groups, voluntary unions and franchising systems).

As for discount retailing, it already boasted 928 stores at the start of 2000 and, given the levels of income of Polish households (41% of the average income in the European Union in 2000) and the large proportion of the market in food retailing (34% in 2000), one can confidently forecast the very dynamic growth of this format (Domanski 2001). In a complex socio-economic context, with more modern retailing and less traditional local stores, consumers will favour low prices and not simply high profile international well-known brands. It is the German retailers (Tengelmann and soon Lidl, then probably Aldi) with the Portuguese group JMP and the French retailer Leader Price (Casino), who will most benefit from this growth.

The distribution of hypermarkets and large shopping malls – which will more than double – will also stimulate the development of specialized superstores, initially in DIY and electrical goods, then after in all other sectors, and the French (Castorama, Conforama, LeRoy Merlin, Extrapole, Sephora, etc) and German retailers (Obi, Practiker, Media Market etc) will take the lion's share.

Competition on prices will intensify amongst the modern retailers and will have the consequences already experienced in Western Europe: small stores will dwindle in numbers, the weaker firms – even foreign retailers – will disappear from the market and the concentration of fascias and firms will increase from its current very low level – 9% of the market for the first five groups in retail food sales in 2000 (Géant, Hit, GMP, Carrefour and Réal), whereas in France the figure was 74% – to approach the levels in Italy and Spain. Following greater concentration and integration of logistics, retailers will enter a phase of growth and, by the end of the decade, will reach levels comparable to those currently registered in Italy or Spain. It is only towards the end of this decade that a mature and oligopolistic system, enabling genuine differentiation, will have evolved. The government will tend to introduce new laws designed to slow down the rate at which new supermarkets and hypermarkets are opened, and ban currently tolerated practices such as selling at a loss.

Conclusions

Retail distribution systems rarely experience sudden and rapid change. In accordance with their frequently long life-cycles (Davidson, Bates and Bass, 1976), retailing formats "settle rather than disappear" (Badot, 2001b). However, their survival implies continuous transformation to adapt to consumers new expectations. In terms of format modernization and modern format's market share, the coming decade will enable the retail industry in Central European countries to close in on the Western European model. Thus, the Southern European countries will close the gap that still separates them from more advanced systems.

The growth of modern retailing formats having been entirely achieved in the other European countries, the transformations will essentially take place with the rise in power of hypermarkets and German hard discount stores, in the countries and regions where they are still underdeveloped, and with the increasing penetration of superstores and convenience stores.

In food retailing, and even more so in non-foods, significant transformations in all retailing formats will take place and new formats will appear, after the deployment of new strategies of differentiation of the offer and innovations in terms of the product mix, layout and atmosphere in the stores (Moati, 2000; Filser, 2001; Rieunier & Volle, 2002).

The overall impact of e-commerce in Europe will not be very consistent quantitatively over the coming decade, contrary to most of the forecasts made at the beginning of the century. The new channel will scarcely increase distance selling – particularly in information technology and "cultural" goods (Colla, 2001) – mainly in the countries where distance selling had already developed in the past, for both cultural and organizational reasons. Rather than increasing sales, the Internet will offer the traditional operators marketing synergies (particularly in terms of communication, customer services and customer loyalty), henceforth they will become all "brick and click" (BCG, 2001).

The internationalisation of European retailers, as well as the North Americans (Wal-Mart, Office Depot etc) will be the main factor of change in the competitive environment. The weighting of multinational enterprises will greatly increase and foreign groups will be more numerous among the leaders in each country, than they are today. Firms which, until the early 2000s, had retained a national character (e.g. the British retailer Sainsbury, the Italy's Co-op Italia and Esselunga, the Spanish retailers Mercadona, Eroski and El Corte Inglès, the Swiss Migros, etc.) will probably hold substantial positions abroad, just as more modest sized retailers will generate greater sales volumes in cross-border markets (Dawson, 2001).

The differentiation amongst retailers will be more marked and own brands will take a substantially greater place in all countries – except the United Kingdom, where they have already reached very high levels – and they will improve their image and positioning with regard to producer's brands.

Legislation governing the retail industry will still be aimed, for political or social reasons, at protecting some groups of retailers from the undesirable effect of aggressive price competition by stronger rivals. Public policies might have, for example, a more direct influence on the development of modern distribution in Central European countries, where the imbalance between modern formats (and powerful foreign retailers) and traditional formats (and weak national retailers) may be too pronounced. However, over the coming decade, retailing policy will more likely tend to intervene to defend consumers by excessive prices by preventing the achievement of monopoly positions, at national and local level, by large firms. Commercial legislation will also defend small and medium sized suppliers from the increase and/or abuse of large retailer' power in negotiations with small and medium sized manufacturers. The European Commission, with its vigorous anti-trust policies, will assist national governments in this fight.

By 2010, European retailing will be characterized by less marked differences amongst countries than one finds today, but market segmentation, the variety and differentiation of retailing formats, retail fascias and brands, will be stronger within each country. The consumer choice will then be increased, and their shopping experience will be enhanced.

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