



Food Retail Competitive Strategy in Recession Economy: A Case of Successful Foreign Discount Stores in Finland

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Abstract

The study aims to increase our knowledge of how a retailer can survive in recession economy by changing its *competitive strategy*. In particular, the study is to identify those strategies that can help retailers to maintain successful performance despite turbulence in the operational environment. A case study approach is employed to explore a whole picture of a successful retailer's actions and strategy to scope with down turn economy. Results of the study show that retailers can maintain and improve their performance in times of crisis by adjusting their competitive strategies properly. We found that in recession period, retailers need to exercise a combination of competitive strategies including low cost focus and differentiation focus strategy. To be able to enhance low cost strategy, retailers need to have logic logistic center, to increase effectiveness of employees, and to reduce wastes from right-ordered for fresh food products, to strictly utilize first-in-first-out food product displaying methods. For focus strategy, firms need to pull unprofitable products from the shelves, and to focus on profit-driven product selection, to focus their promotion campaign on the most effective time and channel. In differentiation strategy, retailers need to be more selective for which products to offer, and to be more creative in their promotion program.

Keywords: Retailer, Recession economy, Competitive strategy, Performance

1. Introduction

In recession economy consumers feel insecure in their job and negotiate more about financial matters (Shama, 1978). Consumers also adapt their shopping behavior and habits, to be able to adjust to the changing economic conditions (Ang, 2001a, b; Ang *et al.*, 2000; Zurawicki and Braidot, 2005). This causes insufficient consumer demand for products and services, results in fierce competition in the market place (Zehir and Savi, 2004). In recession economies, companies react to these changes in the marketplace by reducing costs, cutting production, reducing investment, entering foreign markets, working more with equity capital, improving efficiency, re-structuring debt (Beaver and Ross, 1999; Laitinen, 2000; Pearce and Michael; 1997; Zehir, 2005). An economic crisis requires some changes to be made in companies' strategies. Literature shows a lack of investigation with respect to competitive strategy of firms in recession economy. To fill this gap and to respond to a suggestion for further in-dept study about companies' strategies in specific industry in recession economy by Mehmet & Engin (2007), this study aims to investigate competitive strategies that a retailer exercises in order to survive and make profit in down time. The research question, therefore, as follow: "*How do a food retailer utilize their competitive strategy to increase their performance in recession economy?*" This paper proceeds with discussing competitive strategy, statement of propositions, followed by the methodology, describing case company, findings, and conclusions and recommendations.

2. Porter's generic competitive strategies and food retailer's reactions in recession economy

2.1 Porter's generic competitive strategies

According to Porter (1985), there are three types of competitive strategies: low cost, differentiation, and focus. In low cost strategy, a firm sets out to become the low cost player in its industry. Low cost strategy can be achieved by pursuing of economies of scale, proprietary technology, preferential accessing to raw materials and other factors. In a differentiation strategy a firm seeks to be unique in its industry whether in its products or services, or in the way it

operations. By pursuing differentiation strategy, firms are often able to set premium price for their unique products or services. The focus strategy is the choice of a narrow competitive scope within an industry. The focus strategy has two variants such as (a) cost focus: a firm seeks a cost advantage in its target segment; and (b) differentiation focus: a firm seeks differentiation in its target segment. (Porter, 1985)

2.2 Food retailer's competitive strategy in recession economy

Shama (1981) points out that in recession time consumers spend more time on comparative shopping, and look for cheaper products. Recession calls for managers to use strategies to stimulate consumer demand. Such strategies often require a redefinition of the target customers and strategies. They may include *narrowing* the product line, offering cheaper products and quantity discounts, lowering prices, increasing promotion, and offering products directly to consumers. In addition, companies tend to eliminate unprofitable intermediaries in the distribution channel members and reallocation of scarce company resources to the better-performing channel members in economic down turn. However, since decisions of this kind often demand long-term commitments, they should be taken carefully (Kotler and Armstrong, 2006). Ang et al. (2000) suggest that lower operating costs and improving cooperate within the channel, can clearly affect company performance positively. In the same vein, Schafer and Roper (1985) maintain that under economic hardship firms may offer cheaper and more functional products with narrower lines. It may be postulated as follows

Proposition 1: In recession economy, retailers tend to exercise low cost focus strategy

Pricing is an important strategy for retailers to maintain and getting more customers in particular recession time. However, some customers are impacted by recessions to a lesser degree than are others, so price cuts are not always necessary to stimulate demand. Instead, a differentiated pricing implemented through *focus* discounting programs may enable marketers to maintain market share without completely sacrificing profit margins. Price may be weighed against quality thus, stressing on differentiated value are likely to be more effective than low price per se. In order to be differentiated with their competitors in recession economies, Goerne (1991) reports that marketing managers have been using significantly more coupons in the promotion mix. Roberts (2003) proposes that those businesses that increased marketing spending were not significantly less profitable during recession. Therefore, companies should differentiate with their competitors not only in product design but also in their investment on marketing budgets for the long term and be able to maintain spending in the short term, in order to survive during the hard times and be profitable in the future. As results, the following proposition may be postulated:

Proposition 2: In recession economy retailers tend to exercise differentiation-focus strategy

3. Methodology

In this study qualitative research methods are selected with case study approach. Qualitative methods are less structured and more intensive than quantitative methods so they are more flexible in terms of relationship with respondent. This leads to data having more depth and richness of context, offering a greater potential for new insights and perspectives (Aaker & Day 1986: 121). Qualitative research involves collecting, analyzing, and interpreting data that cannot be quantified (Parasuraman, 1986). The fundamental differences of phenomena looked for are in the qualities, not in the quantities.

Case study approach chosen for this study is appropriate to help to answer the research question "how" of the study, that is, a contemporary set of events on which investigator has little or no control (Yin 2003). In addition, the case approach allows an investigation to retain the holistic view and meaningful characteristics of real life events (Yin, 2003) like affect of recession economy on behavior of firms. In terms of sample, this study adopted a single case approach in order to conduct an investigation that generates deep insight to the issue. In addition, a single case study is a comprehensive description and analysis of a unique situation of the crisis. Under the single case approach, the questions of this study can be answered through describing competitive strategies of a food retailer in Finland as a unique case. This is a unique case because, the effect of the world financial crisis leading to economy recession in different countries are different. Moreover, a recession on the national level may affect different companies differently. In addition, the food retailer case company here is the only foreign food retailer operates in Finland. This is revelatory case because it enriches knowledge of food retailer strategy dealing with recession economy which has rarely been studied before. The criteria for choosing a company for this study are based on: 1) business line and its scope-food retail industry; 2) Time of operations in Finland-company has to be in operations before the crisis and still in business during the recession so the changes in its strategy to scope with the recession can be identified.

Data collection: the information collected for this study was gathered the data triangulation method using multiple sources such as in dept interviews, printed sources like company annual reports, retail journals, magazines; internet sources such as the case company's website. This multiple sources help to produce more complete, holistic, and contextual portrait of the object under study (Ghauri & Gronhaug, 2005). The interviews were carried out by in-dept interviews with Area Director, Sales Director, Area Manager, and Store Managers. The interviewees are directed involved in the firms from beginning of its establishment in Finland and are still working in the company. Therefore,

they have the best knowledge about the company's strategy changes now in current crisis situation. To increase the reliability of the study, the standardized interview guide was sent to interviewees in advance so that during the interviews, interviewees and interviewer could follow the same structure. During the interview, information was written down, and later on it was transcribed into data based to ensure the validity of the study. In addition, to minimize errors from the interviewer, draft of interview transcript and its interpretation were sent to the interviewees by mail to check if there was anything missing or incorrect so it was possible for informants to add or correct some details (Yin 1994: 33). Furthermore, the use of quotations from the interviews in the study is to allow readers to make their own interpretation (Patton 1990: 324).

4. Case description

4.1 Food Retail Markets in Finland

The Finnish economies have been growing rapidly in the past few years, but in 2008 the growth has fallen off with weaker tendency in exports, consumption and investments. The outlook for private consumption has become more negative and consumers are becoming more cautious. The food retail sector is concentrated. The three largest import/wholesale groups supply over 80% of Finnish market. Finnish retail chains are meeting the stiff competition through increased efficiency, centralizing purchases, forming international alliances and expanding operations within the Nordic and Baltic region. The fastest growing sector in the food retail trade in Finland is discount stores. While discount stores currently only account for about 10-13 percent of the retail trade in Finland, volumes have tripled over the last ten years. In Finland, large supermarkets and hypermarkets accounted for about 55% of retail food sales of USD 17 billion. Finnish consumers are gravitating towards fresher, more convenient, more nutritious foods, better quality, and more environmental concerns. The ongoing socio-demographic changes with busier life styles and increasing single-person households are affecting food retailing to a high degree. Retailers are shifting their product ranges towards healthier, ready-to-eat foods and home meal replacements. Organic and functional foods are gaining in popularity with significant consumer awareness in the area of food safety and healthy eating habits such as products with low-fat benefits, with nutritional advantages, with perceived disease-preventative qualities. Finnish consumers are willing and able to pay higher prices for food and drink products that fall into these categories. (Bettina, 2008)

4.2 Case Company L Discount Stores in Finland

The foreign L company has already established a presence in Finland since 2002. The entry of L has changed the dynamics of food retailing. By offering top quality products and fresh goods at the lowest possible prices, L has been able to build one of the fastest growing retail operations in Finland. Finnish retailers react by refocusing their stores to a more price-oriented basis and introducing new private label items to match Ls low prices. (Bettina, 2008)

Strategies adapted by L company in recession economy:

At the end of 2008 and beginning of 2009 the banking crisis which lead to global economy recession seem to start having effect to Finnish economy. The board of L company has decided to shift its competitive strategy from low cost strategy to focus strategy. This focus strategy includes low cost focus strategy and differentiation focus strategy. To be able to realize these strategies L company launches several actions. They consist of 1) every day low pricing product; 2) improving logistic systems; 3) reducing wastes; 4) increasing effectiveness of the stores; 5) withdrawing unprofitable products; 6) differentiating product range; 7) differentiating promotion program. By implementing these serial actions to pursue new competitive strategy, the L Company sees a recession as an opportunity for it to grow. To illustrate this the Area Director maintains that "...in recession economy, customers think twice about where they are going to shop, and we always offer the best ratio price/quality products to our customers..."

Everyday low pricing products. Under fierce competitive pressure and consumers buying behaviors during economic recession, L company has targeted its products as low pricing products in every day. "...We're always trying to get the price down..." commented the sale director. Example for this is that L company has kept discounting their products for longer period of time and more frequently discount certain groups of products. The area director commented on pricing strategy that "...prices for comparable products should be competitively priced. However, there are several dangers in cutting prices across the board. First, customers may resist moves by the company to reinstate prices after the recession has ended. Thus, we focus to discount certain group of products, product packages and combinations to attract our customers keep coming to our stores and maintain prices for other individual items..."

Improving logistic systems. In order to be able to offer every day low pricing products, L company has to reduce its operation costs through having better logistic systems. L company has implemented several steps to improve its logistics systems such as relocate logistic center, using more computer services, minimizing inventory level, using big stores as contemporary sub-center-warehouse for smaller satellite stores.

Reducing wastes. In order to achieve low cost focus strategy, the Board of L company has announced that "All stores and logistic centers have to commit to reduce the waste levels" This can be achieved from reducing over-ordered for fresh food product which leads to redundant waste products, having better sales forecast with help from computerizing

systems, better stools and equipments to handling and transporting products. In addition, all stores must strictly utilizing first in-first out displaying methods for food products so that there will not be any cases that new products are sold first, and old products are still remained unsold and gradually going to garbage place because of over dated.

Increasing effectiveness of the stores. L company has offered several training sessions for store managers, deputy store managers and other key personnel of the stores about how a store can increase the effectiveness of its employees. According to L company, the effectiveness of employees can be improved through exercise more strictly reward and punishment systems, maximum time limit for each particular tasks, incentive and bonus program, further education and promotion opportunities.

Withdraw unprofitable products. L company has made decision to withdraw all weak items from its stores. In the recession period, L company focuses its product offer characteristics on economy, durability, and functionality.

Differentiating product variety. L company has changed its products offering in its stores. The offers focus on multi-purpose goods over specialized products. L company also allocates extra effort to introduce new products in some key areas of its stores to maintain its strength over its competitors. One of the respondents mentions that "...as our store strength is known with having many different kinds of chocolates and foreign beers, we continue to strengthen our stores with updating variety of products offer within these areas..."

Differentiating promotion program. In promoting program, L company stresses more on superior price performance in time of economic crisis than other strength aspects. L company has also focus to allocate some of the promotion budget to points of sales (POS) promotion from which the consumer can gain value immediately such as "buy more, pay less" in which customers gain 5% bonus if the value of food products they buy more than 20 euros, and the bonus will increase to 10% of total food products if they buy more than 50 euros and the bonus is 20% if customers buy more than 100 euros. Customers get bonus immediately at the time they pay for their purchases as the bonus is deducted immediately from total amount. Other POS promotion that L company implements like inviting customers coming to its store and attending the lottery for winning its products. This kind of POS promotion is organized one a month. Besides, L company organizes also one a month sampling activities in which customers can taste its products and buy these products with discounted price in these days of product-sampling. Moreover, L company increases their promotion on the internet. Customers can study the coming campaign products on the company websites. They, further, can give feedback, ask questions, or give recommendations related to products offering. Related to promotion via TV advertising, L company now focus more on the most effective time of week day. According to L company records, people here do more shopping at the weekend. Thus L company focus their TV advertising on Thursday-Saturday, and remove TV advertisements for Monday-Wednesday. To be differentiated with local competitors, L company has carried out its unique campaign. In every two weeks, L company launch different product –campaign such as Healthy Products Week, Products for Your Lovely & Adore Pets, Asian Products Week, Italian Product Week, Spanish Product Week, American Product Week, Seafood Product Week, Sports Products, Baby & Kid Products, Luxury Products, Garden Products etc. These have created more excited to customers to come to the stores to shop despite of the effects of economic crisis.

Performance of L company after fourth month refocus its competitive strategy

After recognizing that global economic crisis may affect Finnish economy, L company has changed its competitive strategy from low cost strategy to low cost focus and differentiation focus strategy. Below are L company performance in four months from October to November 2008, and January 2009 (see Table 1). Table 1 shows how L company performance after 4 months undergoing new competitive strategy. The performance measurement is based on percentage of increase or decrease in each area compared to that of the same period of the previous year. As shown in Figure 1, in October 2008, sales of L company did not increase at all but the waste increased 5%. The best part of this month is that L company was able to decrease logistic costs compared to that of the same period of 2007. This leads to total performance of that month increase 1.8 %. In November, the situation got worst because of the effect of economic crisis. The sales were down 2.5% due to the number of customers reduced 3%. Since L company has refocus its competitive strategy, it was able to reduce logistic cost 10%.

This helps to L company to have the same performance with that of 2007. In December 2008, the change in competitive strategy shows the positive effect to all areas of performance. In December 2009, L company managed to increase its sales 3%, decrease logistic cost, and kept waste in the same level of that in the previous year. The effectiveness of employees was also increased in December 2008. The situation of L company is getting better also in January 2009 despite the effect of global economies becomes more serious to Finnish economy. The area director has commented that "...it was good that we have proper strategy in time so that we could keep our company in the right tract... the board of director of our company is very satisfied with what we have achieved so far, ... we will continue to pursue low cost focus and differentiation focus strategy to go through this economic down turn period..."

4.3 Implication of L company case

L company case has confirmed proposition 1 and 2 that in recession economy retailers tend to exercise low cost focus and differentiation focus strategy. L case company validates previous studies of companies' behaviors during economic recession on the one hand, it extends previous study by providing in more detail in-depth study about retailer's strategies in the period of economic crisis to survive and grow healthily on the other hand. In particular, L case company confirms that during recessions, companies offer discounts (Mandell, 1998), cut costs, adapt product variety (Song, 1998), and modifies product strategy (Roxas and Huszagh (1996) In addition, L company case confirms previous studies by Kim (1992) and Werner (1991) that the changes in promotion strategies during a crisis are very importance. Furthermore, the study validates the results by Shrager (1991) in which the author proposes that during a crisis, advertising campaigns should emphasize such rational motives as safety, reliability, and durability, rather than image and status (Shrager,1991).

This study extends previous studies by showing that during period of economic crisis, companies, on the one hand, have to adapt their strategy fit with their operating environments. On the other hand, the study points out that the companies have to focus their competitive strategy. The rationale for this is that companies have limited resources. To be unique, companies have to pursue differentiation strategy. However, not all businesses, areas of companies should be targeted for changes but focusing on product strategy and promotion strategy. Similarly, previous studies suggest that low cost strategy may be one of the most important strategies during recession economy. This study extends previous studies by showing that low cost focus strategy can keep a company to survive in the recession. More importantly, this study extends previous study by pointing out how a retailer can realize low cost focus strategy through improving logic logistic systems, reducing food wastes, increasing employees' effectiveness.

5. Conclusion

The purpose of this study is to investigate how a retailer react with economic crisis, and to assess the effects of competitive strategies including low cost strategy, differentiation strategy and focus strategies in such conditions; and to identify those that can help firms to maintain successful performance despite turbulence in the operational environment. A case study approach was used to explore a retailer's strategy to scope with recession economies. Results of the study show that appropriate competitive strategy can maintain or improve a retailer performance in times of crisis (see Figure 1.). In particular, in recession period, retailers need to exercise a combination of competitive strategies: low cost focus and differentiation focus strategy. To be able to enhance low cost strategy, firms need to have logic logistic center, increasing effectiveness of employees, and reducing wastes from right-ordered fresh products, strictly utilizing first in-first out food product displaying methods. For focus strategy, firms need to pull unprofitable products from the shelves, and focus on profit-driven product selection. In differentiation strategy, retailers need to be more selective in which products to offer, and more creative in their promotion strategy. The study makes some significant contributions to theory and practice. First, it investigates the effects of competitive strategy changes on company performance during times of economic crisis. The study reported here takes a more radical path in investigating the effects of competitive strategy changes on company performance measures. The performance measures set as sales, logistic cost, employees' effectiveness, and total performance. The purpose of this analysis is to provide decision makers and strategic planners with full evidence for effective strategy changes to implement during an economic crisis.

We also acknowledge that there are several limitations in this study. First of all, for the purpose of exploring how a retailer can deal with down turn economy, the present study investigates in depth one case company. The result of this study thus may not be able to generalize for other companies. Therefore, future study about competitive strategy of companies in recession economy can use the same framework of this study but using larger sample size to validate the results of this study. In addition, a cross countries study may be of interest for future study. This is because the effect of the world financial crisis leading to global economic crisis may differ in different countries. Finally, this study investigates performance of L company in only 4 months period after L company implements their new competitive strategy. This four months period can be considered as short period and it may not reflect the whole true about the effectiveness of the strategy in recession economy. Thus, a longitudinal study of the issue for longer period of time is needed.

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Table 1. Performance of L company after 4 months changes in competitive strategy

Area of Performance	October 2008	November 2008	December 2008	January 2009
Sales	+/-0% Increase	-2.5%	+3%	4.5%
Logistic costs	Decrease 5%	Decrease 10 %	Decrease 10%	Decrease 12%
Waste	Increase 5%	Increase 4.3%	+/-0%	Decrease 7%
Employees' effectiveness	+/-0%	Increase 5%	Increase 10%	Increase 11%
Number of customer visited stores	+/-0%	-3%	+4%	+ 2.5%
Total Performance	+1.8% Increase	+/-0% Increase	3.8% Increase	5.2.% Increase

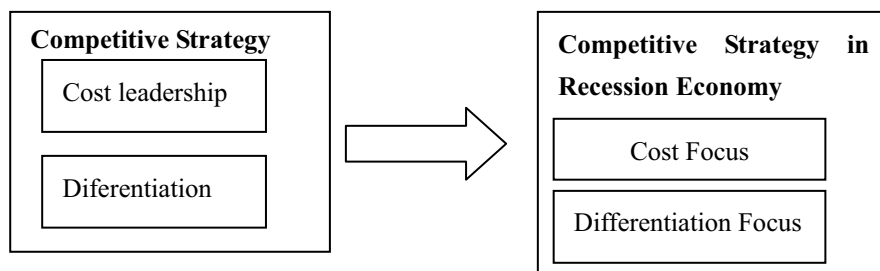


Figure 1. Shift in Company's Competitive Strategy in recession economy