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# Competitive convergence in retailing

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## ABSTRACT

This article's objective is to study the influence of a new hybrid format in the retail distribution sector and this emerging market context is defined as competitive convergence. To attain this objective, 1150 surveys of retail distribution professionals were conducted. These surveys aid in distinguishing retail formats and indicate their competitive position allowing us to generate positioning maps of the Spanish retailing. In addition, Cramer's coefficient V was used as an association measure between qualitative variables and latent class analysis (LCA) modelling was used to build a segmentation analysis of the competing offer. This analysis shows how retail formats evolve and adapt their competitive variables, even adopting characteristics from different formats (*competitive convergence*). Supermarkets dominate the Spanish retailing and a hybrid retail format's better competitive position in aspects commonly associated with other formats supports. Spanish retailing provides an example of the non-static nature of retail formats and business models.

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## 1. Introduction

The distribution sector provides a crucial and dynamically evolving link between producers and consumers. In the majority of countries, the commercial distribution sector occupies second place in importance owing to the relevant contribution it makes to business activity and the gross domestic product. Within commercial distribution, it is possible highlight retail commerce because of its economic contribution and its dynamic and innovative nature (OECD, 2010).

During the last few years, the evolution of retail sales has made notable changes to and the reorganisation of distribution channels. Some of the most influential factors in the evolution of retail distribution are the following (Colla, 2004; Dawson, 2001): customer service capabilities, relationships with suppliers, competition between retail formats, business innovations, government policy on retailing, integration and the internationalisation of retailing companies, and relationships with financial institutions and institutional agencies.

The evolution of Spanish retailing provides significant insights. Spanish distribution lagged significantly behind European retailing in the middle of the twentieth century. Nevertheless, in the 1980s and 1990s the convergence of Spanish grocery retailing with that of Europe accelerated and became incorporated into globalisation through intense structural change (Casares, Aranda, Martín, & Casares, 2013). The evolution in Spanish retail was idiosyncratic in the European context and its structural change refers to specific stages that were a consequence of the Spanish backwardness in the 1940s (Maixé-Altés & Castro, 2015). The distribution sector currently represents 16% of the Spanish economy and has a significant social relevance. Within this sector, retail activity is the most significant, employing over 1.7 million workers. In particular, the non-specialised retail trade sector provides 37% of the total turnover and 26% of employment.

Retailers' strategies have recently changed in response to the recession: in a mature environment with slow growth opportunities. In fact, grocery retailers are expanding their target market and developing new strategies in order to capture the competitors' customers. In particular, retailers attempt to stimulate the switching between different store formats. As a result, new 'hybrid' formats (i.e., new formats which combine the characteristics of different store formats) are emerging as a consequence of the 'trading up' and 'trading down' policies implemented by retailers in response to the new market context (Cardinali & Bellini, 2014).

The Spanish mass consumption product market is distinguished by the predominance of the supermarket, which, in comparison to its competitors, appears to be the best-positioned market with respect to product variety, price levels, distributor brands, fresher products, customer service and human capital management (Sellers-Rubio & Mas-Ruiz, 2007). The most relevant company in the supermarket format is MERCADONA, a family-owned company with 100% of Spanish capital, which has the objective of satisfying needs as regards food, personal hygiene and home and pet care in 4.8 million homes. MERCADONA has 1574 supermarkets, which have an average retail space of 1500 square metres. MERCADONA employs 75,000 people in fixed positions; in the year 2015, it reported €20,831 million in sales.

The expansion of MERCADONA supermarkets (in the last 10 years, the company has increased its revenue 2.7-fold) leads us to suggest that the company's differentiating strategy has helped readjust the positioning of other formats and trade names in the Spanish mass consumption market. In this respect, this objective of this article is to determine the influence of the supermarket format on Spanish retail distribution by analysing its positioning versus other retail formats. We additionally intend to study the influence of MERCADONA on the supermarket format. Finally, we also aim to identify the reactions of other retail formats to the competitive strategy adopted by MERCADONA.

## 2. Theoretical framework

### 2.1. *The economy and commercial distribution*

Commercial distribution is a transversal activity that has vertical links to other agents in the value chain, which confers on it a vital role in economies. Moreover, wholesalers and retailers are closely linked to each other and to other sectors of the economy, such as agriculture, the manufacturing industry, computing services, energy, logistics and transport. Commercial activity has, together with this transversal nature, direct relationships with

economic, social and environmental elements. Commercial distribution is responsible for the employment of almost 29 million people and accounts for 9.6% of total EU added value. European retailers have simultaneously been leading international players, with five out of the top 10 global retailers stemming from the EU. Commercial distribution is particularly important as regards employing young people, with 13.7% of employees being in the 15–24 age range. With a total of 3.5 million young employees, retail employs almost one out of five young active people in the EU. It is also characterised by a huge proportion of small- and medium-sized enterprises (SMEs), almost one out of four European SMEs carry out their activities in this sector (European Commission, 2015).

The retail sector is also one of the largest users of information and communication technology (ICT), and is therefore an initiator of innovations. It plays the main role in the development of a sustainable economy and gives citizens simple access to cheap and high-quality products under the conditions of the current economic crisis (Obadić & Globan, 2015). It is assumed that the growth of international retail is connected with the growing levels of globalisation. An increase in living standards and accelerated urbanisation has allowed very favourable economic conditions for the rapid expansion of the retail sector worldwide. Although the international retail sector currently seems relatively small vis-à-vis financial services and the telecommunications sector, it would appear that international retail is one of the sectors most responsible for a dramatic growth in direct foreign investment in services (Godley & Hang, 2012).

With regard to European institutions, retail has an essential role to play in stimulating growth and job creation in the internal market. The efficiency of this sector has implications for innovation, price trends and competitiveness. All measures that policymakers might take to help its development will therefore have a direct impact on the quality of life of European consumers, who should benefit, from access to the widest choice of high quality products at competitive and affordable prices (European Commission, 2015).

The legislative complexity of this sector has, in recent years, generated continuous debate both among academics and in society as a whole owing to the effects of the aforementioned public acts on employment, process, productivity and competition in the sector. This debate has led to two different perspectives of interior commercial policy: the liberal approach and the protectionist approach. We have, on the one hand, the freedom of the entry of new competitors, the deregulation of sales forms and systems or the freedom of agents to relate with each other clashing with, on the other, the regulation of operators, administrative restrictions, entrance barriers or the regulation of structures and processes (Suárez & de Jorge, 2010).

Retailing legislation also plays a very important role in the growth of the retail industry and the proliferation of retail formats. By changing the rules of competition, the state can steer, or constrain, corporations to develop certain formats rather than others (Griffith & Harmgart, 2012), and facilitate, or limit, the making of economies of scale and acquisition of bargaining power (Davies & Whitehead, 1995).

## **2.2. Evolution of retail formats**

The study of the evolution of retail sales has long been the focus of both academics and practitioners. Formats appear, are modified and lose profitability, but it is sometimes difficult

to reconcile academic interpretations with the perspectives of professionals in the sector (Reynolds, Howard, Cuthbertson, & Hristov, 2007).

Various criteria have been used to establish the typologies of retail formats (Bucklin, 1972; Pellegrini, 1990; Stern & El Ansary, 1982). 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 (Colla, 2004). The same customers can therefore visit different types of stores, on different shopping occasions (Dawson & Burt, 1998), while the formats are, to a great extent, interchangeable.

The principal theories that aim to use time to explain both the evolution of retail formats with time and the introduction of new retail formats have been extensively systematised in specialised literature (Table 1): *cyclical theories* (Davidson, Bates, & Bass, 1976; Hollander, 1966; McNair, 1958); *environmental theories* (Blizzard, 1976); *conflict theories* (Gist, 1968); and another group formed of the *combination of the previous theories* (Izraeli, 1973).

### 2.3. Competitive convergence

The definition of certain formats is confusing, and even certain companies' operational sides make it difficult to classify them correctly. For example, the most important distribution company in the world (Walmart) has been classified, in different cases, as a discount store operator, a hypermarket or a store. It is therefore necessary to be aware of the various limitations of the evolution and classification of retail formats (Anitsal & Anitsal, 2011). First, the definition and specification of retail sales structures are incomplete; they are not very precise. Second, conceptualisations, paradigms and generalisations are based on descriptive literature, and it is therefore complicated to classify them as theory (Brown, 1988). Third, although circumstantial phenomena are addressed, the history of retail sales is not carefully examined (Savitt, 1989). Fourth, most of the theories regarding change in retail formats are based on the US model, which in many cases differs from the distributive structure of other countries (Brown, 1988). Fifth, theories on the evolution of retail formats are not mutually exclusive (Samli, 1998).

What is more, in the majority of European countries there is a saturation of new commercial formats together with a high business concentration, thus supposing modifications to their characteristics. The weighting acquired by certain components of retail offered 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 offer accordingly. New services and formats also come into being as a response to these same trends (Colla, 2004).

The case of retail distribution is a good example of the fact that retail sales formats and business models are not static: during the last decade, supermarkets have made notable advances in establishing self-service establishments in food distribution and reducing the prominence of specialised sales. The market shares of the sector's most important companies have simultaneously been reconfigured (in 2015, 22.7% MERCADONA, 8.6% DIA GROUP and 8.5% CARREFOUR). Over time, retailers develop new formats, reposition existing models and abandon models that they consider to be exhausted (Reynolds et al., 2007; Sellers-Rubio & Mas-Ruiz, 2007).

Retail operators have characteristic elements derived from different formats (*competitive convergence*): traditional commerce is diluted by specialised commerce, the discount philosophy reaches different formats, and large establishments use specialised retail strategies.

**Table 1.** Theoretical interpretations of the evolution of retail formats.

WHEEL OF RETAILING THEORY	ENVIRONMENTAL THEORY
<ul style="list-style-type: none"><li>- Developed by McNaire, in 1958, proposes that new retail formats are geared towards more reduced costs and prices</li><li>- The new idea obtains competitive advantages until another format assimilates and exceeds them (inter-type approach)</li><li>- Completed by other authors using intra-type competition arguments</li></ul>	<ul style="list-style-type: none"><li>- Developed by Bizzard in 1976, it is linked to environmental changes and the resulting response-adaptation of retail formats in four contexts:</li><li>- Stagnation without making the necessary changes (lack of adaptation)</li><li>- Errors in foresight (bad interpretation)</li><li>- Incorrectly oriented response due to underestimating or magnifying changes (insufficient evaluation of changes)</li><li>- Incorrect retail policies with breaking down of businesses (erroneous interpretation of the environment)</li></ul>
<b>RETAIL LIFE CYCLE THEORY</b> <ul style="list-style-type: none"><li>- Formulated by Davidson, Bates and Bass in 1976, states that retail formats have different development stages from launching to decline to disappearance due to exhaustion and lack of adaptation</li></ul>	<b>THEORY OF POWER AND CONFLICT</b> <ul style="list-style-type: none"><li>- Developed by Gist in 1968, warns that retail companies are influenced by the strategic decisions of other participants in the channel and on occasion, there arise notable variations in their functions</li></ul>
<b>RETAIL ACCORDION THEORY</b> <ul style="list-style-type: none"><li>- Proposed by Hollander in 1966, explains gradual transformation of retail formats based on the cyclical motion between generality at the beginning of activities and specialisation over time</li></ul>	<b>GENERATIONAL ADAPTATION THEORY</b> <ul style="list-style-type: none"><li>- Professors Javier Casares and Alfonso Rebollo propose that changes are not based exclusively on the introduction of new retail formats because sometimes existing formats experience reconfigurations and technological and organisational transformations (intra-type competition)</li></ul>

Source: Casares et al. (2013).

Therefore, according to Reynolds et al. (2007), one finds that retail formats consider varied strategic proposals that combine retail space, location, selection and different sale styles.

An interesting study on the degree of competition between different store formats (González-Benito, Muñoz-Gallego, & Kopalle, 2005) presents a model showing the degree of interaction between supermarkets, hypermarkets and discount stores in the Spanish market. These authors discussed intraformat and interformat competition, and they showed empirically that competition is more intense within a format than between different store formats.

The matter of intertype and intratype competition is of great relevance in the current context of economic recession, since retailers are looking for marketing strategies to prevent consumers from switching store formats (Cardinali & Bellini, 2014). This trend is not of course new (Hirschmann, 1978; Levy & Weitz, 2009), but in recent years it has increased rapidly, thus affecting the market retail structure (Miller, Reardon, & McCorkle, 1999). Retail competition is unlikely to be restricted completely to intratype rivalry, as different formats essentially compete for business from most, if not all, consumer segments. The actual level of intertype competition is attenuated by the degree of diversification of the formats (Soberman, 2005). Given the substantial differences in positioning, assortment composition, pricing, and store environment, the extent of intertype competition is expected to be smaller than the extent of intratype competition (Cleeren, Verboven, Dekimpe, & Gielens, 2010).

The emergence of a new form of competition that goes beyond the traditional boundaries depicts a new market context that is defined as *competitive convergence* (Ancarani & Costabile, 2009) in order to emphasise a growing competition between different firms or, as far as the retail sector is concerned, between different retailers or different store formats (Cardinali & Bellini, 2014).

We additionally propose the existing relationship between retail formats and the nature of companies; the characteristics of the company are projected through a specific strategy represented by its retail format. The company selects its market and its clients, defines and differentiates the products and scope, promotes, finds and retains its buyers, uses their resources and ultimately seeks a return on investment. According to Reynolds et al. (2007), the formats are developed within business models: the two go together. This interpretation meshes well with the *MERCADONA model* analysed in this study for the specific case of the Spanish retail sector.

In this context, the following two hypotheses are proposed:

*Hypothesis 1:* The convergence of retail formats in Spanish retail distribution is directly linked to the growth of supermarkets.

*Hypothesis 2:* This convergence of retail formats is directly linked to the development of MERCADONA in a specific manner.

## 2.4. Competitive factors

Business capacity is an important element in retail sales because it influences economic growth, improves competitiveness, creates jobs, stimulates the economy and contributes to profit redistribution (Spencer, Kirchhoff, & White, 2008). Business strategies include innovation, recognising and creating opportunities, developing new organisations, using resources in new opportunities and creating wealth. However, the main challenge of retail



distribution activities lies in having the *right product at the right location, at the right time and at the right price* (Fisher, Raman, & McClelland, 2000). If this result is achieved, it becomes possible to achieve other final objectives such as optimising benefits, maximising the results of investments and satisfying various internal and external pressure groups (Wang, Yang, Song, & Sia, 2014).

Store formats are defined as competing categories of store types, providing specific benefits to match the needs of different customer types and purchasing situations (González-Benito, Bustos-Reyes, & Muñoz-Gallego, 2007). Store or retailing formats are therefore diverse in their price, quality and commercial offer image, indicating that the effects of these variables may differ (Morschett, Swoboda, & Schramm-Klein, 2006).

Various studies have reviewed the competitive factors of supermarkets, hypermarkets, hard-discounts and city stores (Cervellon, Sylvie, & Ngobo, 2015). Supermarkets stand out because of their average levels of prices, the provision of certain services and the offer of a wide and in-depth selection (Cleeren et al., 2010; Solgaard & Hansen, 2003); they also have a range of varied brands and frequently use promotions (Rajiv, Dutta, & Dhar, 2002). Hard-discounts always have low (Morschett et al., 2006), and even aggressive prices (van Heerde, Gijsbrechts, & Pauwels, 2008), a narrow and limited selection and a reduced level of services (Solgaard & Hansen, 2003); they also have a considerable rotation of products but a limited range of brands (Levy & Weitz, 2009; Zentes, Morschett, & Schramm-Klein, 2007). Finally, hypermarkets have an average level of prices and services (Solgaard & Hansen, 2003), a wide and varied selection (Levy & Weitz, 2009; Zentes et al., 2007) and a great diversity of brands (Olbrich & Grewe, 2009).

In Europe, discount store, supermarket and hypermarket formats dominate the retail market, with dimensions which potentially differ from each other (Zielke, 2008), while being the most widespread formats (Calvo-Porral & Lévy-Mangin, 2014). The positioning and competitive strategy of retailers differ depending on the emphasis placed on the level of quality, price, selection and services (Geyskens, Gielens, & Gijsbrechts, 2010). The rapid evolution of retail formats and the introduction of new retail sales formats lead retailers to focus on product, price and services, as justified below.

#### 2.4.1. Product

Formats can be defined on the basis of the categories offered and their capacity to adjust to purchasing situations and clients' needs (González-Benito et al., 2005). According to the aforementioned authors, European discount stores and supermarkets dominate the retail market with traditional food stores (specialised commerce). According to Zentes et al. (2007) and Levy and Weitz (2009), discount stores provide a limited selection of food products at very low prices, whereas supermarkets are self-service stores that offer a variety of packaged and fresh food products. In this respect, the variety of selection offered by retailers in their establishments is a determining factor in the selection of store, satisfaction and sales (Kahn & McAlister, 1997).

Selection considerations were first addressed by Baumol and Ide (1956), who focused on selection size (width and depth). Subsequently, other research has focused on how consumers choose stores as a function of their selection (for example, Messinger & Narasimhan, 1997). Erica and Pieters (2002) also conceptualise selection variety from the perspective of attributes: the consumer who buys products one by one as opposed to the consumer who checks the attributes of each product in the selection.



Grewal and Levy (2007) formulate a study about the impact of products with distributor brands on retail commerce profitability, highlighting the idea that in the past, most retailers based their distributor brand strategy on the price variable without paying sufficient attention to quality. However, retailers have begun to pay more attention to the quality of distributor brand products: Corstjens and Lal (2000) have developed a study in which they conclude that distributor brands with a notable level of quality may be an instrument with which to generate differentiation and customer loyalty. According to Jacoby and Chestnut (1978), the success of a distributor brand in the long term is not based on the number of consumers who purchase it once but on the number of consumers who become regular purchasers.

#### 2.4.2. Price

Price is among the factors with the greatest influence on retail format differentiation. For example, in Seiders and Costley (1994) and Moore and Carpenter (2006), identifying the relationships between price and final selection of the retail format generates relevant information for suppliers and retailers (Kumar, 2014). There are analyses regarding the use of prices as a reference for consumers (Biswas, Pullig, Yagci, & Dean, 2002), buyer response to price reductions (Grewal, Marmorstein, & Sharma, 1996; Seiders & Costley, 1994), consumer identification of price with value or quality (Grewal, Krishnan, Baker, & Borin, 1998) and the relationship between price and a format's image (Sweeney & Soutar, 2001).

#### 2.4.3. Service

Retail formats compete to satisfy consumers' needs (Wong & Sohal, 2003). Now that there are coincidences in selections with similar prices and service hours and location is of decreasing importance (Hummel & Savitt, 1988), customer service is increasingly effective as regards achieving a competitive advantage (Ellis & Kelley, 1993): *retail sales companies are service companies* (Berry, 1986). The catalogue of services offered is a relevant facet (Gupta & Sharma, 2014). In strategy literature, the services offered have been identified as a fundamental decision (Aaker, 1998) in the same way as decisions made in the target segment of services (Anderson & Narus, 1995).

Conversely, there is a growing trend for companies to define new competitive strategies that reconcile their interests with service to society (Fan, 2005). This positioning is based on the values that exceed the commercial offer of products and services, seeking new social or environmental dimensions. Social corporate responsibility encompasses society's economic, legal, ethical and philanthropical expectations of businesses (Garriga & Mele, 2004). This perspective provides a company with competitive advantages because it communicates its values, serves as a differentiator among competitors and reinforces esteem and loyalty among pressure groups (Hulberg, 2006).

In this context, the third hypothesis is proposed:

*Hypothesis 3:* The hybrid positioning of MERCADONA generates different groups in the Spanish distribution sector according to the competitive strategies being applied (product, price and service).

### 3. Method

In order to attain the objectives, 1150 surveys of retail distribution professionals in Spain were conducted with respondents selected according to their position in the company (director, owner, department chief or area chief). Probabilistic sampling was conducted in which the interviews' final distribution considered representation criteria by retail format (hypermarket, large supermarket, medium supermarket, small supermarket, discount store, wholesale market and specialty store) and city. There is a  $\pm 2.9\%$  margin of error ( $p = q = 50$ , for a confidence level of 95.5%).

The fieldwork surveys collected information about positioning (by retail format and trademark) with respect to corporate strategy and the determining factors of competitiveness for Spain's retail sector. Specifically, data on seven variables were gathered: product variety, distributor brand, price level, customer service, treatment of fresh products, environmental commitment and human resources management.

These variables aid in distinguishing retail formats and indicate their competitive position in Spain's distribution sector with respect to *products* (variety, distributor brand, treatment of fresh products), *prices* (price level) and *services* (customer service, commitment to the environment, human resources management) allowing us both to generate positioning maps of the Spanish retail distribution and to address Hypotheses 1 and 2 of this study. In addition, within the framework of both hypotheses, Cramer's coefficient  $V$  was used as an association measure between qualitative variables derived from the chi-square statistic  $\chi^2$  in tables of size  $R \times C$ , with a 0–1 variation range, where 0 shows absence of association and 1 shows perfect association. This coefficient is expressed in the following formula:

$$V = \sqrt{\frac{\chi^2}{N m}}$$

$$\text{where } \chi^2 = \sum_{i=1}^r \sum_{j=1}^c \frac{\left(n_{ij} - \hat{E}_{ij}\right)^2}{\hat{E}_{ij}}; \hat{E}_{ij} = \frac{n_{i.} n_{.j}}{N}; m = \min(r - 1; c - 1)$$

$n_{ij}$  is the joint frequency of the  $i$ -th attribute of a qualitative variable and of the  $j$ -th attribute of the other qualitative variable,  $n_{i.}$  and  $n_{.j}$  are the corresponding marginal frequencies,  $N$  is the sample's total size, and  $\hat{E}_{ij}$  is what is understood as the joint theoretical frequency of an independent statistics case.

Hypothesis 3 was addressed by means of a segmentation analysis of the competing offer. To build the groups or clusters, latent class analysis (LCA) modelling was used. This analysis technique delivers superior performance in parameter estimation, that is, in identifying segments. Moreover, it is not based on the premise that observed variables should comply with other statistical models' traditional assumptions (normal distribution, linearity and homogeneous variance).

The LCA technique draws on a probabilistic model and cases are classified according to the probability of belonging to each segment; it not only makes it possible to work with metric and categorical variables simultaneously, but also provides statistical criteria with

which both to test the model's validity and to identify the most appropriate number of segments. The classes are formed from a latent categorical variable that divides the entire group of individuals into mutually exclusive classes. The primary goodness of fit measures used for these models are the Bayesian (BIC) and the Akaike (AIC) information criteria.

## 4. Results

### 4.1. Competitive positioning of supermarkets in the Spanish retail distribution (format convergence)

In contrast with Hypothesis 1, the selected sample's preferences were studied to determine the most competitive format with respect to three groups of variables (product, price and services). As may be observed in Table 2, which confirms that the supermarket is the most competitive retail format, the degree of association between preferences and the respondents' professional profile is significant, as shown by a Cramer's coefficient V ranging between 0.30 and 0.40 (The hypothesis of statistical independence is therefore rejected according to the chi-squared test, which in all cases attains a *p-value* of less than 0.01).

**Table 2.** Competitive positioning by retail format.

MOST COMPETITIVE FORMAT (CRAMER V COEFFICIENT = 0.3271; Chi-Squared Test of Independence: <i>p-value</i> < 0.01)							
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Others	n.a.	All
Specialised stores	34.41%	18.40%	3.66%	37.07%	0.44%	5.89%	0.14%
Discounters	36.51%	26.42%	24.93%	5.32%	2.24%	4.58%	0.00%
Supermarkets	51.52%	28.92%	3.99%	5.65%	3.52%	6.36%	0.04%
Hypermarkets	32.40%	59.97%	1.87%	4.02%	0.94%	0.67%	0.13%
MOST COMPETITIVE FORMAT IN PRICE (CRAMER V COEFFICIENT = 0.3201)							
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Others	n.a.	Total
Specialised stores	34.59%	20.40%	9.07%	32.01%	0.35%	3.59%	100.00%
Discounters	42.02%	18.49%	36.97%	0.84%	1.68%	0.00%	100.00%
Supermarkets	50.41%	27.08%	9.81%	2.93%	5.15%	4.62%	100.00%
Hypermarkets	33.73%	55.42%	4.82%	3.61%	1.20%	1.20%	100.00%
MOST COMPETITIVE FORMAT IN PRODUCT (CRAMER V COEFFICIENT = 0.4077)							
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Others	n.a.	Total
Specialised stores	38.58%	20.74%	1.44%	34.77%	0.81%	3.66%	100.00%
Discounters	37.54%	31.93%	15.13%	10.64%	2.52%	2.24%	100.00%
Supermarkets	54.88%	31.28%	1.80%	6.67%	2.54%	2.83%	100.00%
Hypermarkets	36.14%	58.63%	0.00%	4.42%	0.80%	0.00%	100.00%
MOST COMPETITIVE FORMAT IN SERVICES (CRAMER V COEFFICIENT = 0.3098)							
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Others	n.a.	All
Specialised stores	30.07%	14.04%	0.47%	44.42%	0.17%	10.42%	0.41%
Discounters	29.97%	28.85%	22.69%	4.48%	2.52%	11.48%	0.00%
Supermarkets	49.27%	28.39%	0.36%	7.35%	2.87%	11.65%	0.12%
Hypermarkets	27.31%	65.86%	0.80%	4.02%	0.80%	0.80%	0.40%

Source: Own elaboration from survey data.

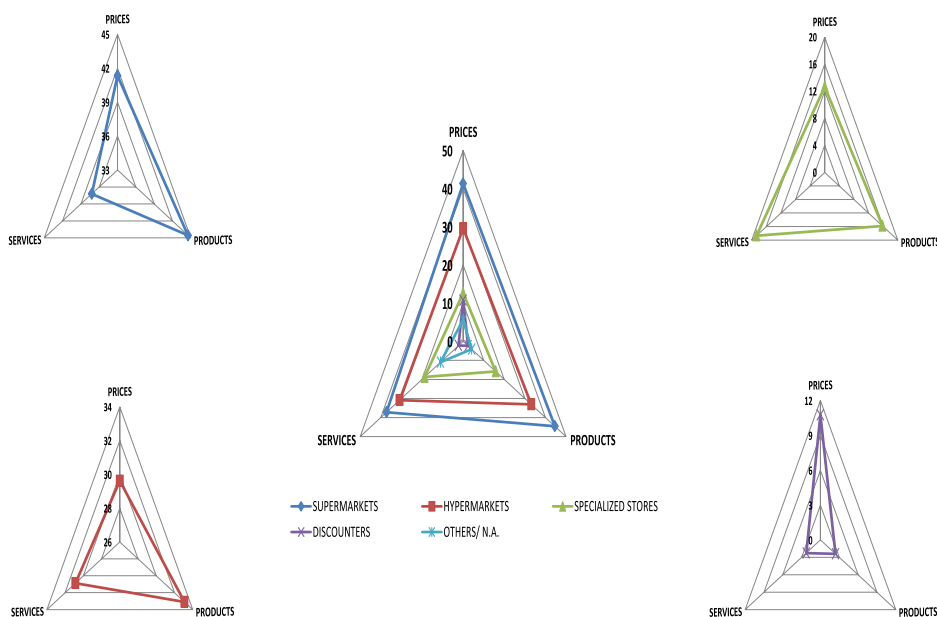
Similarly, Figure 1 shows the position of each retail format as seen by competitors with respect to the three groups of variables considered (price, product and services). Supermarkets are identified as having the best position among retail formats: they comprise 45% of competitors in products, 42% in services and 41% in prices.

In order to provide a greater level of detail as regards the competitive position of retail formats, Figure 2 expands the analysis to the seven variables collected during fieldwork (product variety, distributor brand, price levels, customer service, treatment of fresh products, commitment to the environment and human resources management). Supermarkets were again best positioned and, with the exception of services linked to environmental resources, competitors view this retail format as the most competitive for the remaining variables.

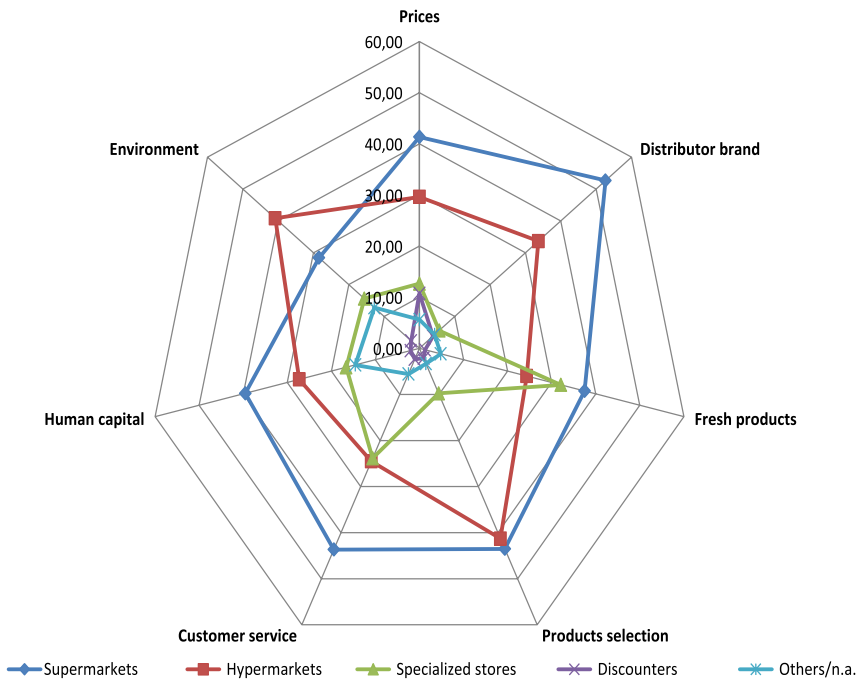
This analysis shows how retail formats evolve and adapt their competitive variables (Reynolds et al., 2007), even adopting characteristics from different formats (*format convergence*), thus allowing supermarkets to dominate the Spanish distribution sector. They have additionally strengthened some elements that are characteristic of other retail formats: distributor brands (discount stores); product variety (hypermarkets) and customer service (specialty stores). This competitive positioning of supermarkets makes it possible to speak of *format convergence* in Spanish retail distribution, pointing to a reduction in strategic differences among establishments.

#### 4.2. MERCADONA's role in format convergence

In contrast with Hypothesis 2, separate consideration was given to supermarkets on the one hand and MERCADONA on the other, in order to assess the latter's influence on the supermarket format as a whole.



**Figure 1.** Positioning map of retail formats by product, price and services. Source: Own elaboration from survey data.



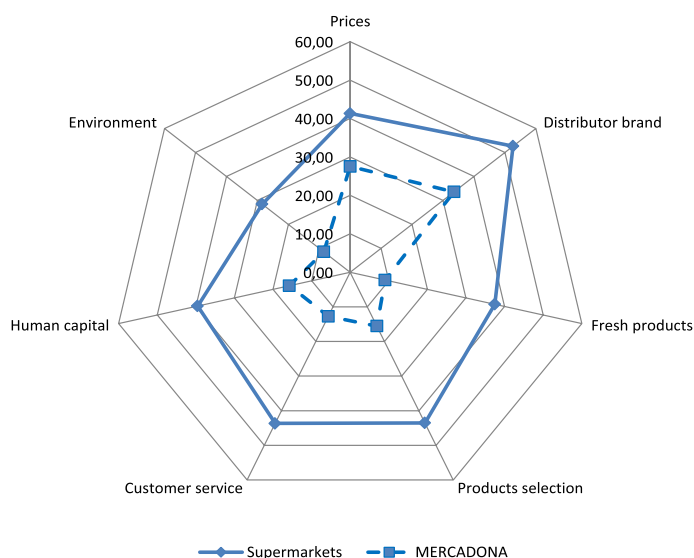
**Figure 2.** Positioning map of retail formats, detailed according to relevant variables. Source: Own elaboration from survey data.

Figure 3 shows that MERCADONA establishments are well positioned in several competitive aspects related to retail formats: prices, distributor brands, customer service and human resources management. In particular, more than 60% of retail establishments that select supermarkets as the best-positioned format as regards prices and distributor brands view MERCADONA as the origin of competitive strength in this retail format.

In accordance with this competitive position, Table 3 recalculates Cramer's V coefficients considering this new scenario (MERCADONA itself as a format which is distinct from that of supermarkets). The results again show a medium association level between retail format preferences and the respondents' professional profile (values between 0.29 and 0.40; the hypothesis of statistical independence is therefore rejected according to the chi-squared test, which in all cases attains a *p-value* of less than 0.01), consistent with the hypothesis that MERCADONA helps explain format convergence in Spanish retail distribution. Moreover, MERCADONA's better competitive position in aspects commonly associated with other retail formats (Figure 3 and Table 3) supports the proposition that it may be transforming into a hybrid retail format with its own characteristics (*MERCADONA model*).

#### 4.3. Segmentation of competing offers in the face of MERCADONA's model

Segmentation in the Spanish retail sector has been developed using the LCA technique. In this case, different variables that characterise retail formats are considered: product variety,



**Figure 3.** Positioning of the MERCADONA model with respect to the supermarket format. Source: Own elaboration from survey data.

distributor brand, price levels, customer service, treatment of fresh products, commitment to the environment and human resources management.

The first step in the LCA is to obtain the optimal number of segments. In this study, 10 models were estimated, beginning with one latent class and progressively incorporating up to 10 latent classes (Table 4). Finally, the latent class model's goodness of fit was assessed by employing the BIC, following Littell, Henry, and Ammerman (1998), who prefer the BIC for its more adequate correction; a seven-group model was therefore selected.

Based on this sample segmentation in seven groups, estimated parameters are presented to ensure the functionality of the segmentation variables used. Table 5 shows the Wald statistic, which reveals whether differences in the coefficients among the groups or latent classes are significant. The  $p$ -value associated with this statistic ( $p < 0.05$ ) shows that the seven concepts (product variety, price levels, distributor brand, fresh products, customer service, human capital and environment) are important as regards segmenting the sector in seven latent classes. It is thus possible to accept Hypothesis 3 since, as shown, there are different groups in the Spanish retail distribution based on their strategic position *vis-à-vis* the MERCADONA model.

Table 6 shows the most relevant characteristics that comprise the profile of the seven groups identified:

- *GROUP 1: Local commerce, dynamic and competitive*  
This is the largest segment (22.2% of the sample), and it is primarily composed of local trade formats that include specialty stores, self-service stores, supermarkets and discount stores (which, when aggregated, comprise more than 95% of the group).
- *GROUP 2: Specialised commerce, traditional and competitive*  
The second segment constitutes 20.3% of the sample and is primarily composed of specialised commerce (83% of the group); this type of commerce is competitive because, in addition to a concern for similar businesses or large distributor companies, it can

**Table 3.** Competitive positioning by retail format considering the MERCADONA model.

MOST COMPETITIVE FORMAT (CRAMER V COEFFICIENT = 0.3278; Chi-Squared Test of Independence: p-value < 0.01)								
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Mercadona	Others	All	n.a.
Specialised stores	17.28%	18.40%	3.66%	37.07%	17.13%	0.44%	0.14%	5.89%
Discounters	16.06%	26.42%	24.93%	5.32%	20.45%	2.24%	0.00%	4.58%
Supermarkets	26.19%	28.92%	3.99%	5.65%	25.33%	3.52%	0.04%	6.36%
Hypermarkets	18.61%	59.97%	1.87%	4.02%	13.79%	0.94%	0.13%	0.67%

MOST COMPETITIVE FORMAT IN PRICE (CRAMER V COEFFICIENT = 0.3192)								
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Mercadona	Others	n.a.	Total
Specialised stores	10.86%	20.40%	9.07%	32.01%	23.73%	0.35%	3.59%	100.00%
Discounters	14.29%	18.49%	36.97%	0.84%	27.73%	1.68%	0.00%	100.00%
Supermarkets	14.90%	27.08%	9.81%	2.93%	35.51%	5.15%	4.62%	100.00%
Hypermarkets	12.05%	55.42%	4.82%	3.61%	21.69%	1.20%	1.20%	100.00%

MOST COMPETITIVE FORMAT IN PRODUCT (CRAMER V COEFFICIENT = 0.4088)								
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Mercadona	Others	n.a.	Total
Specialised stores	21.27%	20.74%	1.44%	34.77%	17.31%	0.81%	3.66%	100.00%
Discounters	16.25%	31.93%	15.13%	10.64%	21.29%	2.52%	2.24%	100.00%
Supermarkets	31.81%	31.28%	1.80%	6.67%	23.07%	2.54%	2.83%	100.00%
Hypermarkets	21.69%	58.63%	0.00%	4.42%	14.46%	0.80%	0.00%	100.00%

MOST COMPETITIVE FORMAT IN SERVICES (CRAMER V COEFFICIENT = 0.2923)								
	Supermarkets	Hypermarkets	Discounters	Specialised stores	Mercadona	Others	All	n.a.
Specialised stores	19.72%	14.04%	0.47%	44.42%	10.34%	0.17%	0.41%	10.42%
Discounters	17.65%	28.85%	22.69%	4.48%	12.32%	2.52%	0.00%	11.48%
Supermarkets	31.85%	28.39%	0.36%	7.35%	17.41%	2.87%	0.12%	11.65%
Hypermarkets	22.09%	65.86%	0.80%	4.02%	5.22%	0.80%	0.40%	0.80%

Source: Own elaboration from survey data.

**Table 4.** Evaluation of models with different number of latent classes.

	LL	BIC(LL)	Npar	L <sup>2</sup>	df	p-value	Class.Err.
1-Cluster	-11,398.156	23,042.9752	35	11,543.7229	1115	3.9e-1702	0
2-Cluster	-10,172.5674	20,845.5085	71	9,092.5456	1079	4.4e-1244	0.0294
3-Cluster	-9,405.0031	19,564.0906	107	7,557.4171	1043	2.5e-969	0.0518
4-Cluster	-8,967.5011	18,942.7972	143	6,682.4131	1007	8.5e-822	0.0675
5-Cluster	-8,689.0502	18,639.6059	179	6,125.5112	971	4.0e-734	0.0713
6-Cluster	-8,504.688	18,524.5922	215	5,756.7868	935	3.5e-681	0.0805
7-Cluster	-8,347.9459	18,464.8187	251	5,443.3027	899	2.2e-638	0.0805
8-Cluster	-8,267.8028	18,558.2431	287	5,283.0165	863	2.1e-623	0.0957
9-Cluster	-8,173.9594	18,624.2668	323	5,095.3296	827	1.8e-603	0.0965
10-Cluster	-8,096.7751	18,723.6089	359	4,940.9611	791	1.3e-589	0.0981

Source: Own elaboration from survey data.

analyse and detect each retail format's positioning, therefore identifying the main competitors for each specific factor:

- Specialised or traditional commerce is the primary competitor in prices, offering fresh products, customer service, human capital and environmental management aspects.



**Table 5.** Estimated parameters for the model with seven latent classes.

	Wald	p-value	R <sup>2</sup>
Variety of products	1,635.9305	4.1e-326	0.2743
Price level	2,875.4568	7.5e-592	0.3305
Distributor brand	2,579.785	2.6e-528	0.3009
Customer service	2,995.6021	1.1e-617	0.5104
Fresh products	2,716.8258	9.4e-558	0.4725
Environment	4,692.9841	1.5e-983	0.4868
Human capital	2,831.6481	2.0e-582	0.4829

Source: Own elaboration from survey data.

- The second segment particularly values hypermarkets with regard to product variety.
- Offerings of distributor brand products are associated with hypermarkets and the hybrid format.

MERCADONA is well positioned in aspects commonly associated with discounts: prices and distributor brands. For GROUP 2, MERCADONA's hybrid position displaces discount stores and hypermarkets.

- *GROUP 3: Mass consumption organised retail*

This segment comprises 19.1% of the sample, and its makeup is balanced between formats that belong to chains or distribution trademarks (61% are discount stores, self-service stores, supermarkets or hypermarkets).

For this group of companies, the MERCADONA model is not viewed as the main competitor in any of the factors analysed, but for some, it has a notable relevance (prices, product variety and distributor brand). For GROUP 3, the original supermarket format is very competitive in setting prices, product variety, distributor brand availability, customer service, attention to human capital and environmental management factors.

- *GROUPS 4 and 5: Short-sighted and conservative commerce*

These two segments coincide in always considering their own format as the best positioned and therefore, always identifying their main competitor as situated within their own business sphere (intra-type competition). However, their interpretation of MERCADONA's model as a hybrid position competitor differs:

- *GROUP 4: Short-sighted and conservative big-box store commerce*

This segment constitutes 18.3% of the total sample and is primarily composed of big-box stores (27.5% supermarkets and 25.1% hypermarkets). Within intra-type competition, the best-positioned competitors in all of the factors analysed are hypermarkets. The MERCADONA model is considered relevant to some extent with respect to prices and product variety and offering distributor brand products.

- *GROUP 5: Traditional, short-sighted and conservative commerce*

The fifth group is 11.7% of the total sample and is primarily composed of specialised or traditional commerce (95% of the group). Within intra-type competition, the best-positioned competitors in all of the factors analysed belong to specialised or traditional commerce. The MERCADONA model is considered somewhat relevant with respect to its environmental-factor management and its offering of distributor brand products.

- *GROUP 6: Alternative or transitional commerce*

This segment is 4.4% of the sample and includes diverse retail formats (for example, 35.3% supermarkets, 33.3% specialised commerce and 17.6% self-service stores).

**Table 6.** Competitor profile compared to MERCADONA model.

Segment	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
Relative size	22.2%	20.3%	19.1%	18.3%	11.7%	4.4%	3.9%
Indicators							
Specialised stores	41.2%	82.9%	39.1%	24.2%	94.8%	33.3%	11.1%
Discounters	10.2%	3.8%	7.3%	13.2%	0.7%	11.8%	73.3%
Self-service	12.9%	6.8%	17.7%	10.0%	3.7%	17.6%	8.9%
Supermarkets	31.0%	5.1%	30.1%	27.5%	0.7%	35.3%	4.4%
Hypermarkets	4.7%	1.3%	5.9%	25.1%	0.0%	2.0%	2.2%
PRICES							
Specialised stores	0.8%	32.4%	0.0%	1.0%	84.2%	8.7%	0.0%
Discounters	13.3%	12.9%	6.5%	11.6%	0.0%	4.3%	80.0%
Supermarkets	5.8%	0.0%	45.6%	3.4%	15.0%	13.0%	4.4%
Hypermarkets	4.6%	26.2%	35.3%	70.0%	0.0%	2.2%	2.2%
Mercadona	75.5%	27.6%	12.6%	12.6%	0.0%	6.5%	11.1%
Others	0.0%	0.9%	0.0%	1.4%	0.8%	65.2%	2.2%
VARIETY OF PRODUCTS							
Specialised stores	4.1%	18.1%	1.8%	1.4%	80.6%	10.0%	0.0%
Discounters	1.2%	0.4%	3.2%	0.5%	0.0%	8.0%	31.1%
Supermarkets	19.7%	20.8%	72.0%	8.1%	19.4%	20.0%	24.4%
Hypermarkets	31.1%	44.7%	14.2%	83.8%	0.0%	16.0%	26.7%
Mercadona	43.0%	14.6%	8.3%	6.2%	0.0%	22.0%	17.8%
Others	0.8%	1.3%	0.5%	0.0%	0.0%	24.0%	0.0%
MMD							
Specialised stores	0.8%	2.3%	0.0%	0.0%	68.8%	2.1%	0.0%
Discounters	2.5%	3.2%	2.3%	1.9%	0.0%	6.4%	60.0%
Supermarkets	5.7%	7.7%	64.1%	3.8%	27.3%	29.8%	11.1%
Hypermarkets	15.6%	42.3%	19.4%	75.7%	0.8%	4.3%	11.1%
Mercadona	73.0%	44.1%	13.4%	17.6%	3.1%	34.0%	17.8%
Others	2.5%	0.5%	0.9%	1.0%	0.0%	23.4%	0.0%
FRESH PRODUCTS							
Specialised stores	28.4%	92.2%	6.9%	9.8%	95.5%	23.4%	26.7%
Discounters	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%
Supermarkets	25.0%	2.2%	91.2%	9.3%	1.5%	36.2%	8.9%
Hypermarkets	13.1%	3.5%	0.9%	74.5%	0.0%	0.0%	8.9%
Mercadona	33.1%	0.9%	0.9%	3.4%	0.0%	0.0%	15.6%
Others	0.0%	1.3%	0.0%	2.9%	3.0%	40.4%	0.0%
CUSTOMER SERVICE							
Specialised stores	8.1%	82.1%	3.7%	5.9%	98.5%	8.0%	0.0%
Discounters	0.0%	1.3%	0.9%	0.5%	0.0%	0.0%	63.6%
Supermarkets	35.9%	4.5%	88.4%	9.8%	0.0%	40.0%	25.0%
Hypermarkets	7.3%	4.9%	3.7%	79.5%	0.7%	2.0%	0.0%
Mercadona	48.3%	7.2%	3.2%	2.0%	0.7%	8.0%	11.4%
Others	0.4%	0.0%	0.0%	2.4%	0.0%	42.0%	0.0%
HUMAN CAPITAL							
Specialised stores	2.5%	73.8%	2.0%	2.7%	79.5%	30.4%	0.0%
Discounters	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	69.8%
Supermarkets	16.0%	4.7%	90.0%	6.9%	18.9%	13.0%	11.6%
Hypermarkets	23.5%	9.9%	5.0%	82.4%	0.8%	0.0%	7.0%
Mercadona	58.0%	9.9%	2.5%	7.4%	0.8%	4.3%	11.6%
Others	0.0%	1.6%	0.5%	0.5%	0.0%	52.2%	0.0%
ENVIRONMENT							
Specialised stores	0.0%	65.2%	2.5%	1.0%	87.3%	13.6%	0.0%
Discounters	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	78.6%
Supermarkets	13.3%	3.0%	85.6%	2.0%	10.3%	6.8%	4.8%
Hypermarkets	50.3%	23.2%	11.9%	94.0%	0.0%	34.1%	9.5%
Mercadona	35.9%	7.6%	0.0%	2.0%	1.6%	0.0%	7.1%
Others	0.5%	1.0%	0.0%	1.0%	0.8%	45.4%	0.0%

Source: Own elaboration from survey data.

For this group of companies, the primary competitor is not included in the usual formats and they consider other distribution channels as their competitors in price, product variety, fresh products, customer service, human capital and environmental management. However, they acknowledge MERCADONA's hybrid position by listing it as their first competitor in distributor brands and their second competitor in product variety.

- *GROUP 7: Discount-oriented commerce*

The last segment constitutes 3.9% of the sample and focuses on discount stores (73% of the group). Companies in this segment consider the best-positioned format as their own, and therefore, they identify their main competitor as situated within the same business sphere (intra-type competition), linked to discount criteria.

The MERCADONA model is well positioned because it shares strategic elements. In this respect, it is a remarkable competitor in the areas of prices, product variety, fresh products, distributor brands and management of human capital.

## 5. Conclusions and implications

Retail sales are one of the most important activities in any developed country because they contribute to business development, the generation of employment, the stability of prices and continuity in the supply of consumers, with the food segment being particularly important in terms of both volume and value (Godley & Hang, 2012; Obadić & Globan, 2015).

In the last few years, the introduction of new retail formats has significantly altered the nature of retail distribution, with increasingly saturated, concentrated and internationalised markets and new competition patterns (Colla, 2004; Dawson, 2001).

The phenomenon of competitive convergence in the retail sector, instead, is more recent, especially in Spain. At the end of the nineties, with the introduction of a new commercial legislation, several retailers began to develop new market strategies, thus extending their target market: specialised and non-specialised retailers started to compete with each other for the same households.

The applied analysis has allowed the identification of certain elements that configure the Spanish distribution sector: (1) clearly identifying the competitive elements of each retail format; (2) considering that the supermarket is the best positioned retail format; (3) confirming that the supermarket has strengthened certain elements found in other retail formats; (4) pointing to MERCADONA as the leader in the process of supermarket advancement given that more than 60% of the establishments in the sector consider that the hybrid positioning of the MERCADONA trade name is the origin of its strength; and (5) finding that the evolution of the retail sector signifies the introduction of a convergence of formats.

However, it has been possible to demonstrate that competition in the sector exists not only between formats but also specifically towards MERCADONA's hybrid positioning, thus leading to a new global interpretation of the Spanish retail sector. In general, we can conclude that the sector has clearly identified this hybrid positioning, analysing and identifying its competitive elements in its business strategy; the hybridisation of store formats has not occurred to the same extent in all store formats. In addition to the fact that some formats are gradually becoming closer and partially overlap in macro- parameters, there are also those which are keeping their own identity. We have therefore followed the sector's

segmentation in order to identify seven large groups in Spanish retail distribution as a function of their positioning versus the MERCADONA model:

- The first two groups (*Proximity commerce, dynamic and competitive* and *Specialised commerce, traditional and competitive*), which account for almost 45% of the sector, are configured as very competitive commerce. Companies in this group consider MERCADONA as a direct competitor as regards prices and distributor brands but irrelevant with respect to fresh products and the environment. The first group (*Proximity commerce, dynamic and competitive*) sees the MERCADONA model as a direct competitor in a variety of areas, whereas for the second group (*Specialised commerce, traditional and competitive*), MERCADONA's hybrid positioning displaces discount establishments and hypermarkets.
- There are two groups on the opposite side: *Short-sighted and conservative big box store commerce*, and *Traditional short-sighted and conservative commerce*. These short-sighted groups represent 30% of the sector, and they consider their own format to occupy the best position, thus signifying that they place themselves as their own direct competitors in their own business sphere. From this perspective of intra-type competition and hybrid positioning, MERCADONA stands out because of its distributor brand product offerings, prices and product selection (especially for the *Short-sighted and conservative big box store commerce* group).
- Two other minority groups – *Alternative or transitional commerce*, and *Commerce geared towards discounts* – are also interesting. Together, they attain slightly more than 8% of the distribution, and they consider the MERCADONA model to the extent that they share strategic elements with that model.

### 5.1. Business

The results of this study are important for business development, possibly helping to interpret the evolution of retail formats in Spain:

(1) The gradual process of standardisation between store formats opens up a discussion on the role of store format in retailing strategy. This segmentation is becoming less important in comparison to the differentiation strategy or to the joint manoeuvres of marketing levers which give each retailer a distinctive identity. This means that, given the irreversible nature of the standardisation, in the near future the degree of differentiation between formats will lessen. The differentiation will be achieved through the joint operation of levers macro and micro by joint manoeuvres of macro- and micro-marketing levers (Bellini, Cardinali, & Ziliani, 2011) in order to sustain customer loyalty (Cardinali & Bellini, 2014).

(2) The dominating position of MERCADONA is not as relevant to fresh products and, to a lesser degree, customer service. These issues shall be addressed in future business strategies.

(3) MERCADONA is the main inter-type competitor for each of the retail formats, both with respect to elements in which the retail format exhibits a weakness and with respect to elements in which the retail format exhibits strength. For discount establishments, MERCADONA is a direct competitor in fresh products and product selection; for hypermarkets, elements such as distributor brands and prices contribute to strategically position MERCADONA as a direct competitor; and finally, for specialised establishments,

product selection, distributor brands and price are MERCADONA's main strengths. This aspect contributes to identifying MERCADONA as a new hybrid format in Spain's retail distribution sector.

Finally, this study is positioned within the analysis of the evolution of retail formats, and as mentioned in the theoretical review, defining certain retail formats is confusing. Even when specifically referring to companies' operational aspects, it is difficult to classify retail formats correctly. Spanish retail distribution provides a good example of the non-static nature of retail formats and business models. It would therefore be interesting to overcome the limitations of this analysis in future investigations by performing more in-depth research along at least two lines:

- Developing an empirical analysis to clarify the behaviour of retail formats on the basis of the different types of competition – intra-type, inter-type or spatial – so as to provide more details about certain elements concisely proposed in our study.
- Making progress in fixing variables that allow a more precise description of the configuration of the hybrid MERCADONA format to be made and, as a result, to contrast its definitive consolidation in the Spanish distribution system.

## Disclosure statement

No potential conflict of interest was reported by the authors.

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