

A tale of two entries

How Netto and Lidl entered the Swedish grocery market.

Benedikte Borgström,

Jönköping International Business School, bobe@jibs.hj.se

Susanne Hertz and

Jönköping International Business School, hesu@jibs.hj.se

Anna Nyberg

Stockholm School of Economics, anna.nyberg@hhs.se

Keywords: Logistics, grocery retail chain, internationalization, strategy

Abstract

Almost simultaneously two hard discount grocery chains entered the Swedish market. The two chains, Netto and Lidl have similar profiles and are so-called hard discounters, which is an expression that generally denotes smaller stores with fewer stock keeping units than soft discounters. However, when it comes to mode of entry and establishment, Lidl and Netto have chosen radically different paths. The Danish firm Netto entered through a joint venture with the major chain in the Swedish market, ICA. German Lidl, on the other hand, made a greenfield investment in the market without any form of cooperation with established chains. The differences relating to mode of entry have a number of consequences for how they manage logistics internationally regarding storage facilities, inventory, transportation, unitization and packaging, and communication.

Methodologically, we will use a combination of interviews and secondary data to collect the empirical data, aiming to map and analyse the cases from a total supply chain perspective. At this stage secondary data are used to draw an initial picture. This paper compares and contrasts the two empirical cases with the prescriptions from internationalisation theory and SCM theory. The analysis illustrates the close interconnectedness between the choices made regarding SCM, and the resulting opportunities and restrictions in other strategic aspects of operating a grocery retail chain. How logistics influence the internationalization process will also be described and analyzed.

We can conclude that Lidl used a global sourcing strategy with a higher degree of standardization and own labels and relying on their German logistics supplier and solutions.

Netto on the other had more of a multinational strategy enabled by using the ICA network. However, increasing competition with ICA over time seems to cause Netto to leave the joint venture and establish themselves on the Swedish market.

Introduction

Almost simultaneously in the first years of the new millennium, two hard discount grocery chains entered the Swedish market. The two chains, Netto and Lidl have similar profiles in terms of preferred locations, size, and assortment. Both chains are so-called hard discounters, which is an expression that generally denotes smaller stores with fewer stock keeping units, SKUs, than soft discounters (Dawson 2003). Examples of soft discounters would be Kwik Save in the UK, or Rimi and Rema 1000 in the Swedish market.

However, despite other similarities, when it came to mode of entry and establishment, Lidl and Netto have chosen radically different paths. The differences relating to mode of entry have a number of consequences for how they manage logistics internationally (Harrison and van Hoek 2005). The Danish firm Netto entered through a joint venture with the major chain in the Swedish market, ICA. German Lidl, on the other hand, made a greenfield investment in the market without any form of cooperation with established chains. That made Lidl the first foreign grocery chain ever to the Swedish market without some form of cooperation with established chains.

Netto, through its joint venture with ICA, had a number of advantages in terms of access to resources. For example, it could use existing warehouses and other assets of ICA's established logistics system. Thus the costs of this system could be shared with the existing business. ICA as an established actor presumably had local knowledge that would be useful in gaining access to locations for the new stores. ICA also had established relations with local producers and other suppliers to the new chain.

By contrast, Lidl chose to draw to a large degree on their German resources, including suppliers, giving the assortment a distinctively German look. They had to build an entirely new warehouse and set up a logistics system dedicated to the new chain. Initially, the same German lorries that brought goods up to the Swedish warehouse also were used to transport goods to the retail outlets.

This combination of similarities and differences can be seen as providing a "live experiment", testing some of the theory regarding how a retail firm should enter and establish itself in a new market. In the UK the individual formulae only differ slightly between Netto's and Lidl's market segment (Dawson 2003). This is simple business logic based on the need to grow continually and the consequent pressures associated with bigness. There is, however, a lack of models describing and analyzing different types of organization, establishment and channel relationships in the case of retailer's internationalization (Dawson 2000a). As the retailer provides logistics service in addition to the product offering the supply chain and the foreign country seems to be important in different ways (Cerne 2003; Dawson 2000b; Elg et al. 2004). Especially, little has been written about the logistics and supply chain implications of the internationalisation process (Fernie 1998). This paper compares and contrasts the two

empirical cases with the prescriptions from internationalisation theory and SCM theory. The analysis illustrates the close interconnectedness between the choices made regarding SCM, and the resulting opportunities and restrictions in other strategic aspects of operating a grocery retail chain. How logistics influence the internationalization process will also be described and analyzed. Methodologically, we use a combination of interviews and secondary data to collect the empirical data, aiming to map and analyse the cases from a total supply chain perspective.

Theoretical framework

In order to compare and contrast with the prescriptions from internationalisation theory and SCM theory we will start to outline prescriptions regarding internationalisation, and especially retailing internationalisation. Thereafter we will do the same regarding SCM.

Internationalisation

One stream of research is rooted in economics and focuses on the reasons for the formation and expansion overseas of multinational enterprises (MNEs). A first prerequisite for the internationalizing firm would be that it needs to have access to some sort of competitive advantage in order to overcome the disadvantages necessarily associated with being an entrant in a foreign market (Vernon 1966). Early explanations for such advantages concentrated on location bound characteristics of the home market which could be exploited abroad. This line of research pays particular attention to the entry mode choices and discusses the best institutional arrangements for organizing and governing international business transactions, such as contractual transfers, joint ventures or wholly owned operations (Andersen 1997). Well-known, in this tradition, is the eclectic theory developed by Dunning (1988) that stress the importance of transaction costs.

In a similar, but conceptually distinct vein, researchers taking more of a resource based perspective have pointed to the value creating advantage inherent in being a multinational firm, rather than exploiting abroad an advantage originating in the home market. Among the advantages explored in these studies are learning and logistics (Malmberg et al. 1996; Sölvell and Birkinshaw 2000). Along similar lines, firms may also internationalize in order to source new skills capabilities (Kogut and Zander 1992; Wesson 1993).

Other theories try to explain the actual processes through which firms internationalize such as the Uppsala model (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). Johanson and Wiedersheim-Paul describe firm internationalization as a step-wise process, which proceeds as firms increase their involvement in increasingly more distant countries (1975). The path of increasing commitment starts with the firm having no regular exports; it proceeds with the establishment of independent representative or agents abroad; then, it continues with the establishment of sales subsidiaries. In the final phase, the firm sets up production facilities in the foreign country. Following this establishment profile, firms enter markets with successively greater 'psychic distance'. Psychic distance comprises those factors which hinder the flows of information between firms and market, e.g. differences in languages, culture, political systems, level of education, level of industrial development etc.

The Johanson-and-Vahlne model suggests that state and change aspects explain the internationalization (1977). State aspects are market commitment and knowledge about foreign operations. Change aspects consist of decisions to commit resources as well as performance of current business activities. The interplay between state and change aspects gives rise to a circular process where market knowledge and market commitment affect the decision to commit resources and the current international activities; and these, in turn affect market knowledge and market commitment. Thus, crucial is the role played by market knowledge and market learning.

Johanson and Vahlne (1990) argue that the Uppsala model can be complemented by a network perspective. Indeed, firms do not operate in isolation. Rather, “firms in industrial markets establish, develop, and maintain lasting business relationships with other business actors” (p. 19). These business actors might comprise: customers, customers’ customers, competitors, supplementary suppliers, suppliers, agents and consultants as well as agents and other public agencies (Johansson and Vahlne 1990). Thus, business relations do not only concern dyadic formal relationships (i.e. the contractual relationship between a firm and its customers), but includes all formal and informal relationships among networks of firms (Chetty and Blankenburg Holm 2000). Industries and markets can be considered as networks of business relationships in which each firm occupies specific positions. These positions are “developed through activities in the network and define important possibilities and constrains for present and future activities” (Johanson and Mattsson 1988:308).

In these terms, the process of internationalization involves the establishment and development of network positions by a firm in foreign markets (Johanson and Mattsson 1988). Specifically, firms can achieve internationalization in three ways: first, by establishing relationships in a country-based network which is new to the firm (extension); second, by deepening the relationships with foreign networks in which the firm has already a position (penetration); and third, by connecting and coordinating networks in different countries (international integration) (Johanson and Mattsson 1988). Ultimately, the internationalization process of a firm is influenced by both the degree of internationalization of the firm and the degree of internationalization of the market (Johanson and Mattsson 1988). And internationalization of a firm is seen as “a set of connected learning processes” which are influenced by various network members (Axelsson and Johanson 1992:208).

The internationalization of retailers

Globalisation is one of the dominant trends in retailing (Perkins 2001). A basic categorization of retailers’ internationalization is to a global or multinational strategy (McGoldrick 2002). A global retail strategy relies on standardization to achieve economies of scale and of replication. This means that in different countries similar product lines, distribution system, communication, service level and store design are used (McGoldrick 2002). Speciality retailers might use this strategy to take advantage of for example their product range. Furthermore, entry is described to take place in a large number of markets with relatively few stores in each. The multinational strategy on the other hand is adjusted to national conditions and reliant on local market knowledge regarding the assortment, price, promotions, service level, format design, distribution etc. This strategy relies on a policy to first increase market presence and market share in a few countries. Other categorizations exist, e.g. of the retailers

specific advantages that are presumed to be a factor driving a specific transfer strategy (Goldman 2001).

As pointed out by some authors, the globalisation of multinationals may be a matter of degree, and may differ depending on which dimensions are in focus. For example, McGoldrick (2002) describes Ahold as localizing everything the customer sees and globalizing back room activities. Actually, Dawson and Mukoyama (2006a) argue that all retail internationalization has to be localized to some extent. This means that it is important to understand what it is that the company is internationalizing and under what conditions this might be transferred as that process seldom is a scripted path (Burt et al. 2005). Studying the process of retailers' internationalization leads to the crucial importance of learning, for example, what it is that the retailer internationalize and its value to consumers in the destination market (Burt et al. 2005; Dawson and Mukoyama 2006c). Learning is a crucial aspect in the network perspective, which is used in retail studies (Elg and Johansson 1992) and to explain retail internationalisation (Elg et al. 2004).

Another aspect of retail internationalization regards the mode; franchising cause lower costs than self-start, and a joint venture represents a middle course (Dupuis and Fournioux 2006; McGoldrick 2002). This makes the retailers more or less dependent on a network. Elg, Ghuari and Sinkovics says that a supportive business network as well as an established contact network to decision makers on different societal levels are important to establish a position in the new market (2004). In some Nordic countries are, for example, locally developed plans for where retailing is to be allowed a severe problem to retailers trying to establish (Elg et al. 2004). This legislation has historically served to strengthen the major chains in the Swedish grocery market and thus contributed to the concentration of this market to three major organisations, the so-called *blocks* (Nyberg 1998).

However, Lidl's entry in Denmark and Finland substantiates that other routes are possible as well (Jørgensen 2006; Uusitalo 2004). This brings us back to the learning aspects of the network model and especially the Johanson-and-Vahlne model (1977). Dawson pinpoints that retailers sell a service to the consumer, which depends on key components provided by the retailer and an interaction between these actors (Dawson 2000b). The Johanson-and-Vahlne model's change aspects might be used to see the retailers' internationalization as a change that gives learning of performance of current business activities, especially of the dynamics and complexity in the foreign country (Dawson and Mukoyama 2006c). The key service components provided by the retailer might be, for example, service level and distribution that are linked to the retailers' supply network. Lately, large retailers appear to build their own logistics networks as logistics are a major part of the retailers' strategy (Bourlakis and Bourlakis 2001; Weijers and Janssen 1997). What happens then to the distribution structure when retailers internationalize?

Before we dig into that question in the section about SCM, we will argue that the retailers' internationalization process is specific (in line with Dawson and Mukoyama 2006a) and that its special characteristics are important.

Dawson and Mukoyama (2006a) claim that retailing is substantially different than production and therefore established models of internationalisation are useful only to the extent that these differences are understood. One of these differences regards the

number of outlets. Retailers have hundreds or thousands of outlets through which they trade whereof each and every one of them might be relatively small. Dawson and Mukoyama claim that if retailers have more than one outlet 40 per cent have ten or more while manufacturing firms with more than one establishment only 10 per cent have ten or more local units. This implies that extension often is wider when retailers internationalize. Further characteristics related to this type of extension are that retailing is spatially disaggregated and networked. Thus, the efficiency of operation of the network and the flows among the shops are critical to prevent that service level fall and shops run out of goods (Dawson and Mukoyama 2006a). Due to the number of outlets the role of goods-, information-, and knowledge flows are important. Also, Dawson and Mukoyama pinpoint that the outlet is the retailer's product (2006a). This is based on that retailers sell services not items. Therefore it is crucial to have many outlets and the role of the foreign outlets is to search for a larger market rather than search for lower costs as is usual to manufacturing firms.

Another difference is that retailers often have a large number of suppliers. This is related to the:

“[c]omplexity of the mix of items in the range and the dynamic nature of these ranges. While in manufacturing the parts and components are assembled in the same way to create each product this is not the case in retailing where items for resale can be assembled in many different ways, and in ways that can be changed”

(Dawson and Mukoyama 2006a:21)

The selection and assembly of goods for sale, i.e. the process of sourcing and distribution is vital for retailers (Gustafsson et al. 2006). Zara, Ikea, and Lidl's model is “structured around a consumer-driven integrated demand chain, not a supplier-driven supply chain.” (Dawson and Mukoyama 2006b:200). This model facilitates the retail firm to make profits in several points in the chain.

Dawson and Mukoyama mean that the retailers' investment in relations with suppliers has increased and retailers have taken more control of, for example, quality specification and branding of products (2006a). The assembling of a product in the final stage of the supply network together with the flat and wide type of supply network means that the network are shaped around the retailer (star-shaped) and agile in its performance (Harrison and van Hoek 2005). This type of network might imply high relationship costs (Gadde and Snehota 2000). Dawson and Mukoyama states that the cost of goods for resale may constitute 80 per cent of the overall costs (2006a). Also, the terms of trade with these suppliers is that the consumers often pay the goods before the supplier is paid, the retailers work with a negative working capital and current liabilities are higher than current assets.

SCM

Logistics, supply chain management and strategies are cornerstones in retail strategies for advantages both in terms of profits and market shares (Gustafsson et al. 2006). In a comparison of European retailers Weijers and Janssen found a heterogeneous set of strategies (1997:10):

“a multiplicity of strategies and structures, rather than a clear cut picture of logistics development in the food retail industry. The types of logistics procurement and distribution channels vary according to the business strategies used by retailers and

the particular balance of power in the channels between retailer, manufacturer, logistics services provider and wholesaler. National and local legislative and administrative arrangements also have an impact on the potentialities to rationalise and centralise logistics systems. And last but not least, the logistics requirements of the products in the channels also play an important part in the shaping of the logistics systems.

One trend was, however that retailers consolidated and centralised the supplies of their shops through their own distribution centrals (DC), sometimes in close collaboration with logistics service providers. This to gain economies of scale, better efficiency and stock control, and reduced risk of stock out (Weijers and Janssen 1997). More stores enable the retailer to further rationalise the logistics operations.

Apparently, in Weijer and Janssen's (1997) study of retail development in Europe they found that development is enforced by increased saturation in home market, more discounters, and a pressure to improve customer service. The development is enabled by formation of retail alliances, advances in IT and EPOS, and centralized procurement. Major barriers to the development are planning restrictions on shop and DC development and an increasing product variety in outlets. As Dawson (2000b) pointed out many retailers are active strategic developers, which is seen for example in the industry's initiatives regarding IT-enabled replenishment etc. Most retailers are familiar with the internationalization process though their sourcing of cosmopolitan product ranges (Ferne 1998). The logistics support to the foreign stores depends, among others, on their size and spread (Ferne 1998), which might be a huge uncertainty when the retailers establishment are hindered by locally developed plans for where retailing is to be allowed. In 2006 change drivers of retailing logistics are described to be among others scale and power of retailers, globalization of products, sources and retailers, pressures on costs and services, requirement for efficiency and effectiveness, role of information and technology, new management approaches, supply chain orientation, and environmental concern (Gustafsson et al. 2006:107).

We have discussed the distribution structure's crucial importance; logically this will not lessen in a foreign market. It seems like a tight control of the supply chain is facilitated by offering only own labels and use a symbiosis between the store atmosphere, the products presented and the service provided (Dupuis and Fournioux 2006). The own labels might facilitate an integrated supply chain in the internationalization process as the items sold might be produced locally but continue to be standardized. Burt et al found that 70 to 90 per cent of Ahold's merchandise was sourced locally and main reasons are (2006):

1. the low-value grocery products cannot carry large transport costs
2. replenishments rates are high
3. many suppliers have restricted capacity
4. consumers prefer regional sourcing

The "local" sourcing was one of Lidl's pros when entering the Finnish market (Uusitalo 2004). In this case it is described as a way to be an accepted actor but local sourcing is above all a source to ease logistical uncertainties even though many retailers have a wide range of countries from which they source (Gustafsson et al. 2006). Typical components of retail logistics involve storage facilities, inventory,

transportation, unitization and packaging, and communication (Gustafsson et al. 2006).

Case descriptions

Weijers and Janssen found that the retailers were very reluctant to give any information about their logistical strategy and performance as information about retail logistics is a strategic asset (1997).

Our ambition is to use a combination of interviews and secondary data to collect the empirical data, aiming to map and analyse the cases from a total supply chain perspective.

Lidl

Lidl has grown rapidly during its first three years in the Swedish market, and now accounts for 2.2 per cent of the Swedish grocery market in its segment (Fri Köpenskap 060922). According to the yearly report filed, total turnover in the Swedish Lidl stores amounted to about 2 billion SEK in 2005, about 220 million Euros. The chain made a loss of 400 million SEK (44 million Euro), or 20 % in the same year.

Geographically, Lidl stores are established in all of Sweden, from the very south to the north. Most stores are located in the outskirts of smaller towns and cities, but in 2007 the chain also opened its first store in central Stockholm. The stores are typically new establishments, many of them purpose built by Lidl. A recurring theme in the establishment of the stores has been the problems associated with gaining access to suitable grounds or in getting permission by local authority to sell groceries in the proposed sites.

Swedish grocery retailing is dominated by three or four major firms. Prior to 2002, these organisations accounted for over 90 % of grocery sales in Sweden. All three are integrated wholesale- retail operations. Thus, the market for independent wholesalers is virtually non-existent, outside of specialised and local firms, for example catering to restaurants or specialised in fruits and vegetables. Because there are no national independent grocery wholesalers in the Swedish market, Lidl had to build up all the necessary supply chain operations for supporting the retail outlets. A warehouse was established in Halmstad, on the west coast, but outside of that the German supply chain resources were largely relied on, essentially in the form of “stretching out” its German operations to cover Sweden. Later changes to assortment composition, as well as legal problems have driven changes in this area, making the supply chain operations more locally adapted.

Initially, the German origin of the chain was very evident in the stores, with the assortment totally dominated by own-label products. The share of Swedish products has increased gradually during the three years that the chain has been present in Sweden (Fri Köpenskap 060922), presumably to better accommodate the demands of the Swedish consumers. The same change has also taken place with regards to the assortment in the Norwegian Lidl stores (Dagens Naeringsliv, 060914), where local assortment in some stores now account for as much as 40% of the assortment

(Foodwire, 060914). In terms of internationalisation, the initial assortment design may be classified as following from a globalisation model of internationalisation. The increased local content of the assortment may be interpreted as a move towards a more multinational form of internationalisation.

So-called cabotage regulations, that are regulations regarding the extent to which foreign transporters may work within national markets, have also caused some problems for Lidl. According to this EU-wide regulation, foreign trucks are allowed to transport goods into a national market, but they are restricted in terms of taking on additional assignments within this market. Lidl used their German transport firm *Pape* not only to transport goods to their central warehouse in Halmstad, but also for further transports to the Swedish Lidl stores. This caused conflict between Pape and both the Swedish transport workers union and the Association of Swedish Transporters, and according to the Swedish road authority (Vägverket), the practice was in breach of cabotage regulation. To resolve the situation, Pape decided to acquire specific trucks for their Swedish daughter-company, and to only use Swedish drivers for these trucks (Fri Köpenskap 060915). In terms of internationalisation, one might argue that this resolution has two opposing effects on degree of internationalisation. From the perspective of Lidl operations, it does decrease the extent of internationalisation in their operations, since Swedish trucks and drivers are now carrying out this part of their Swedish operations. From the perspective of Pape, however, their degree of internationalisation is instead increased, as they have deepened their degree of engagement on the Swedish market, making Pape a more international firm.

Netto

Netto and Lidl are similar in size in their Swedish operations, and thus Netto also has a turnover in the Swedish market of about 2 billion SEK in 2005. Although still sizable, Netto's losses are only about half of Lidl's, or 180 million SEK. At the end of 2006, Netto had about 85 stores in Sweden.

Netto has established stores in the southern part of Sweden, up to about the level of Stockholm. The emphasis is on new establishments, although some conversions of earlier ICA and other stores have also taken place. Netto has not had the same problems in securing locations for its new establishments that Lidl has had. Presumably, in this area the relationship to an established actor has proven useful to Netto. ICA has a long-gained experience with the processes of awarding locations and of local political climates. Industry analysts characterise Netto as having the better locations as compared to Lidl (Dagens Industri, 070319).

In addition to establishing stores, a separate warehouse organisation has been built up. A central warehouse is located on the west coast (Falkenberg) and a distribution centre is located in the Stockholm area.

Not only the price level, but also the assortment in Netto stores is quite different to its established Swedish competitors. Like Lidl, Netto offers a selection of favourably priced non-food items each week. These products, which range from clothes to musical instruments, from small furniture to sporting goods, take up a sizable part of the store sales area. Although traditional Swedish grocery stores will also offer a certain selection of non-food items, and some seasonal goods, the extent in the Netto (and Lidl) stores is beyond comparison. This characteristic of the assortment contributes to making the Netto assortment stand out in relation to the established trade.

Late in 2006, ICA announced that they were reducing their ownership share in the Swedish Netto, from 50% to 5%, with Dansk Supermarked increasing their share accordingly. ICA will also take over the distribution centre and 21 stores, some of which will be converted to ICA stores. Netto announced that it would continue to expand, but concentrating at least in the mid term on southern Sweden, in the area where its remaining stores are located.

Table 1. Summarising the two cases.

	Netto	Lidl
Dimension of internationalisation		
Type of internationalisation	Extension	Extension
Judicial form of internationalisation	Joint venture with established local firm (ICA)	Greenfield investment. Establishing one operative firm and a holding firm in the Swedish market.
Degree of “newness” on the market.	a. The hard discount concept is radically different from established concepts. b. Entering through some form of cooperation with an established firm is historically the “normal” way to enter this market.	a. The hard discount concept is radically different from established concepts. b. Lidl is the first foreign firm in history to enter the Swedish grocery market through greenfield investment and without cooperation with established actors.
Effects on degree of internationalisation of the Swedish market	Brings a new concept and a new actor to the market. The cooperation with ICA makes the entry relatively more “contained”.	Brings a new concept and a new actor to the market. If successful Lidl potentially also alters perceived barriers to entry to the Swedish grocery market.
Model of internationalisation	Relative to Lidl more multinational – more initial adjustments to local market, partly due to and made possible by cooperation with ICA.	Global – but moving towards multinational
Assortment	Share of non-grocery higher than established Own label or non-local higher than established	Share of non-grocery much higher than established Own label or non-local much higher than established
Storage facilities, inventory and transportation	Establishment of new warehouse and distribution centres. Use cooperation to facilitate supply to the outlets	Establishment of new warehouse. Use home-market resources initially (Lidl, Germany) and thereafter develop specific resources
Unitization / packaging and communication	Localized	Localized

Concluding discussion

Prior to the entry of Lidl, the Swedish grocery retailing market had only been entered by foreign firms in cooperation with established local actors. It is a very concentrated market, and has been considered difficult to enter partly for that reason. Another important reason for the perceived high barriers to entry is the fact that there are no independent wholesale operations. This raises the costs of entering the market, as not only must retail outlets be established, but the supporting organisation of warehousing and logistics also has to be provided. If Lidl – and now Netto – are successful in establishing their operations profitably on the Swedish market this will not only increase the degree of internationalisation of the Swedish grocery market, their success can also serve to lower perceived barriers to entry. Conversely, if they were to withdraw from the market, it would be a strong signal against entry for other foreign firm. This holds especially if Lidl, who have a history of persistence and deep pockets, were to withdraw.

Previous research points to lower resource requirements as one of the advantages of joint ventures and other forms of cooperation. Comparing the two firms in terms of judicial form of entry, the financial results seem to support theory, with Netto only having to face losses half as big as those of Lidl. On the other hand, the decision by Netto to withdraw from the cooperation seems to point to other factors as important in determining the judicial form of entry and operations. One of the problems might be that they increasingly are becoming more of competitors, since ICA is trying to meet the moves of Netto by lowering the price on some items and increased focus on price in communication with customers. Thereby they become more of competitors and the possibility to develop a competitive advantage has decreased for Netto. However, it might also be part of the strategy of Netto to start as a J/V making use of combined resources and then withdraw. Now Netto has maybe reached volumes high enough to stand on its own. This would be in line with the gradual increase of involvement in internationalisation theory (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1990).

Both Lidl and Netto started with an assortment based on a relatively high degree of standardization making use of the global strategy (McGoldrick, 2002). Neither of them seemed to come close to a local sourcing of 70%-90%, which was seen as normal for firms like Ahold (Burt et al, 2006). Both firms relied heavily on home country suppliers and own label products. Lidl was relying even more on standardization over countries than Netto. One can assume that Netto got access to at least some local suppliers through ICA, which made it possible to complement its assortment with more local items. This would even be part of their agreement when establishing the J/V. However, for both firms the share of local suppliers has increased over the years.

Further, the two different types of entry influenced solutions of the firms on storage facilities, the inventories and the transportation. Lidl, establishing a greenfield investment, had their own warehouse in South West of Sweden, which was served by the logistics firm Pape used by Lidl in Germany. Pape not only delivered to the warehouse but also from warehouse to the to Lidl stores. Swedish workers union and Association of the Swedish Transport put a stop to the deliveries to the stores making

use of special cabotage rules thereby forcing Lidl to decrease the direct connection to a German logistics solution. Instead Pape set up a subsidiary and used only Swedish trucks drivers for the Swedish domestic transports. This way one of Lidl service suppliers had to increase the resources and their penetration of the Swedish market (Johanson and Mattsson, 1988). It seems logic that Lidl relied very much on their German logistics solutions to begin with but when conflicts arose this had to be more adapted to the rules of the local country. For Netto this was not a big problem since they could rely on the ICA network both for warehouse and transportation. However, with the split with ICA Netto will have to find new solutions concerning warehousing and transportation. As the degree of local sourcing decreased the unitization and packaging became less standardized for both firms.

The entry of Lidl and Netto brought an entirely new retailing concept to the Swedish grocery market. They brought price into focus to an extent unknown until then, and this in turn had substantial consequences for the established retailers. In the cooperative stores this was most clearly shown in the slimming down of their ecological product lines, and the accompanying increase in own-label, low-price products, but general price cuts have also been made. ICA, the biggest retailer has focussed on driving down prices on a large number of items, and increased price focus in its communication. A few stores belonging to smaller groups – notably Vi – have gone the other way, and instead increased the number of exclusive products in their assortment and the service level in the stores. Suppliers to the Swedish grocery retailers have been severely squeezed, and the share of imported products has increased in the Swedish stores. Thus, it is clear that perhaps as important as the fact that the degree of internationalisation of the Swedish market has increased the entry of Lidl and Netto served to change the characteristics and outlook of the established outlets as well.

References

- Andersen, Otto (1997), "Internationalization and market entry mode: A review of theories and conceptual frameworks," *Management International Review*, 37 (2), 27-43.
- Axelsson, Björn and J. Johanson (1992), "Foreign market entry - the textbook vs. the network view," in *Industrial networks: a new view of reality*, Axelsson and Geoffrey Easton, Eds. London: Routledge.
- Bourlakis, Michael A. and Constantine A. Bourlakis (2001), "Deliberate and emergent logistics strategies in food retailing: a case study of the Greek multiple food retail sector," *Supply Chain Management: An International Journal*, 6 (4), 189-200.
- Burt, Steve, Keri Davies, Andrew McAuley, and Leigh Sparks (2005), "Retail internationalisation: From formats to implants," *European Management Journal*, 23 (2), 195-202.
- Burt, Steve, John Dawson, and Roy Larke (2006), "Royal Ahold: Multi-national, multi-channel, multi-format food provider," in *Strategic issues in international retailing*, John Dawson and Roy Larke and Masao Mukoyama, Eds. London: Routledge.
- Cerne, Annette (2003), "Corporate Social Responsibility in Retail Systems," in 17th NFF Conference, Reykjavik.
- Chetty, Sylvie and Desiree Blankenburg Holm (2000), "Internationalisation of small to medium-sized manufacturing firms: a network approach," *International Business Review*, 9 (1), 77-93.
- Dawson, John (2003), "Food Retail, Wholesaling and Catering," in *Food supply chain management*, Michael Bourlakis and Paul Weightman, Eds.: Blackwell Publishing
- (2000a), "Retailing at century end: some challenges for management and research," *The International Review of Retail, Distribution and Consumer Research*, 10 (2).
- (2000b), "Viewpoint: retailer power, manufacturer power, competition and some questions of economic analysis," *International Journal of Retail & Distribution Management*, 28 (1).
- Dawson, John and Masao Mukoyama (2006a), "The increase in international activity by retailers," in *Strategic issues in international retailing*, John Dawson and Roy Larke and Masao Mukoyama, Eds. London: Routledge.
- (2006b), "The international transfer of key success factors," in *Strategic issues in international retailing*, John Dawson and Roy Larke and Masao Mukoyama, Eds. London: Routledge.

---- (2006c), "Retail internationalization as a process," in Strategic issues in international retailing, John Dawson and Roy Larke and Masao Mukoyama, Eds. London: Routledge.

Dunning, John H. (1988), "The eclectic paradigm of international production: A restatement and some possible extensions," *Journal of International Business Studies*, 19 (1), 1-31.

Dupuis, Marc and Jean Fournioux (2006), "Building an international retail strategy," in Strategic issues in international retailing, John Dawson and Roy Larke and Masao Mukoyama, Eds. London: Routledge.

Elg, Ulf, Pervez Ghauri, and Rudolf R. Sinkovics (2004), "A market and network based model for retailers' foreign entry strategies." Lund: Institute of Economic Research.

Elg, Ulf and Ulf Johansson (1992), "Samspelet mellan struktur och agerande i dagligvarukedjan: En analys ur ett interorganisatoriskt perspektiv", Doctoral, Lund University.

Fernie, John (1998), "The internationalization of the retail supply chain," in Logistics and retail management: Insights into current practice and trends from leading experts, John Fernie and Leigh Sparks, Eds. London: Kogan Page.

Gadde, Lars-Erik and Ivan Snehota (2000), "Making the Most of Supplier Relationships," *Industrial Marketing Management*, 29, 305-16.

Goldman, A. (2001), "The transfer of retail formats into developing economies: the example of China," *Journal of Retailing*, 77, 221-41.

Gustafsson, Kerstin, Gunilla Jönsson, David Smith, and Leigh Sparks (2006), *Retailing logistics & fresh food packaging: managing change in the supply chain*. London: Kogan Page.

Harrison, Alan and Remko van Hoek (2005), *Logistics Management and Strategy*: Pearson Education Limited.

Johanson, J. and L-G Mattsson (1988), "Internationalization in industrial systems- A network approach," in *Strategies in Global Competition*, S.A. Hyder and J-E. Vahlne, Eds. New York: Croom Helm.

Johanson, J. and J-E Vahlne (1977), "The internationalization process of the firm: A model of knowledge development and Increasing foreign market commitments," *Journal of International Business Studies*, 8 (1), 23-32.

Johanson, J. and F. Wiedersheim-Paul (1975), "Internationalization of the Firm-Four Swedish Cases," *Journal of Management Studies*, 12, 305-22.

Johansson, Jan and Jan-Erik Vahlne (1990), "The Mechanism of internationalisation," *International Marketing Review*, 7 (4), 23-32.

Jørgensen, Niels (2006), "Penetration of a new shop concept: The case of discount in Denmark," *International Journal of Entrepreneurship and Small Business*, 3 (3/4), 321-28.

Kogut, Bruce and Udo Zander (1992), "Knowledge of the firm, combinative capabilities, and the replication of technology," *Organization Science*, 3 (3), 383-97.

Malmberg, A, Ö Sölvell, and I. Zander (1996), "Spatial Clustering, Local Accumulation of Knowledge and Firm Competitiveness," *Geografiska Annaler*, 78 (B), 85-97.

McGoldrick, Peter (2002), *Retail marketing*. London: McGraw-Hill.

Nyberg, Anna (1998), "Innovation in distribution channels: an evolutionary approach," PhD dissertation, Stockholm School of Economics

Perkins, Ben (2001), "The European retail grocery market overview," *British Food Journal*, 103 (10), 744-48.

Sölvell, Ö and J.M Birkinshaw (2000), "Leading edge multinationals and leading edge clusters," *International Studies of Management and Organization*, 30 (2), 3-10.

Uusitalo, Outi (2004), "Competitive reactions to market entry: The case of the Finnish grocery retailing industry," *British Food Journal*, 106 (9), 663-72.

Weijers, Stef and Ben Janssen (1997), "Changing logistics strategies and structures in retailing: Evidence from large food retailers in France, Germany, the United Kingdom and the Netherlands " in 37th European Congress of the Regional Science Association. Rome.

Vernon, Raymond (1966), "International Investment and International Trade in the Product Cycle," *The Quarterly Journal of Economics*, 80, 190-207.

Wesson, TJ (1993), "An alternative motivation for foreign direct investment," PhD dissertation, Harvard Business School.