

## MODELS OF RETAIL FIRMS IN EUROPE

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### Abstract

In this paper we compare the organization of the food retail firms in four European countries: France, Germany, Italy and the United Kingdom. We verify that the differences in organization are much more important than the structural differences in Europe and we try to explain why there are different models of retail firms in different countries. We wonder whether a "best way" would possibly emerge in the future. We find that sometimes, despite the absolute differences in costs, federated systems could have better performances when retailing is growing fast.

### Stylized facts: the market structure

The patterns of evolution of the retail structure in grocery present, at a first glance a great homogeneity in the major European countries. It is easy to note several dimensions in which the retail structures tend to be similar:

1. the reduction of the number of the outlets per capita;
2. the growth of the large grocery outlets, like supermarkets and hypermarkets;
3. the concentration of the major outlets in few firms, both as a consequence of the internal growth and of M&A operations.

### Stylized facts: the property right structure

There are several levels at which it is possible to describe the ways the resources are coordinated in an organization. A basic element of the coordination is the property right structure. A set of assets or activities coordinated in an organization could refer to a single proprietor or to different investors, linked by contractual agreements, informal links and costs sunk in the relationship. It may be useful to define as "federated retail systems" the organizations where a central organism manages some functions, like marketing, buying, logistics, and a network of independent retailers manages the outlets, under more or less tight contracts with the central offices. A way to describe different property right structures in retailing is to distinguish between multiple chains, buying groups and voluntary chains. Federated systems have different market shares in the four European countries. In the UK the federated systems of retailing are a marginal phenomenon.

In Germany, voluntary chains and buying groups jointly manage 54.5% of supermarkets with a surface of 400-1499 sqmt, and 31% of the largest supermarkets and

hypermarkets (1989). They have generally adopted a mixed structure. The federative central has a direct proprietary control of an important share of the outlets, which amounts to more than 70% in the Rewe Group and to 52% in Edeka. More puzzling is the French case. The share of the federated systems amounted in 1989 to 45.5% of the total surface of supermarkets and hypermarkets. Federations like Intermarché and Leclerc, which are not classified as buying groups or voluntary chains, have a great importance. In Italy voluntary chains and buying groups have had a faster growth in supermarkets than multiple groups.

### Why is there such a difference?

The transaction cost theory and the theory of property rights point to the existence of one best way to organize the firm, or to share the property rights within it. In this view the persistence of several forms of firm should be explained only as the effect of obstacles in the market, preventing the selection of the most efficient structures. The growth and the decline of buying groups and voluntary chains in Britain might support this explanation. After the rapid growth of the major retailers, small shops tried to gain economies of scale acting cooperatively to manage indivisible inputs, but they did not succeed and have been confined to market niches. In France, Germany and Italy, there is room for another explanation, i.e. the advantages of a federation when new large stores are rapidly established. Federating is not a reaction against multipliers, it is instead a competitive strategy. During the development of the super and hypermarkets it is important to obtain the better locations rapidly and to be the first mover in each single market. The firms having initially developed some organizational skills could then federate several independent shopkeepers to gain the control of the market. This could explain in some way the persistence of different systems. The differences in efficiency could in fact be overcome by the advantages of the rapid growth and the conquest of the best locations. Nevertheless, the advantages in growth do not establish a permanent advantage of federated systems: a possible evolution is to transform progressively a federation into a single property system. The cases of Germany and of the voluntary chains in Italy are well understood. The particular form some federated systems like Leclerc and Intermarché in France have taken, emphasizes the role of heavy costs sunk in the relationship in preserving federated systems against competitive forms of firm.