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Structural Change and Globalisation of the German Retail Industry

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Abstract

This paper gives an overview of current developments in German retailing. It describes structural changes in the companies, which include changing formats at shop level, the vertical integration of wholesale and retail activities, and processes of horizontal concentration. Using the example of grocery discounters, it investigates the evolution of a business model which is apparently incompatible with the traditional German production model. Subsequently the paper looks at the relationships between trade and production, where on the one hand concepts of “lean retailing” will be examined and on the other changes in the division of labour, which we see in the increased significance of private labels. At the same time, we observe an intensified twofold process of internationalisation. While retailers are internationalising their own operations through the setting up or acquisition of outlets and distribution systems abroad, they are also increasingly globalising their sourcing, The emerging global value chains, which are largely controlled by retailers, show highly differentiated patterns of configuration and co-ordination.

Zusammenfassung

Das Papier gibt einen Überblick über Entwicklungstendenzen im deutschen Einzelhandel. Es beschreibt den Strukturwandel der Handelsunternehmen: den Formatwandel der Betriebe, die vertikale Integration von Groß- und Einzelhandel sowie den horizontalen Konzentrationsprozess. Am Beispiel der Lebensmitteldiscounter wird die Entwicklung eines Geschäftsmodells untersucht, das nicht zum deutschen Produktionsmodell zu passen scheint. Anschließend werden die Beziehungen zwischen Handel und Produktion untersucht: zum einen Konzepte des *lean retailing* und zum *anderen* Veränderungen in der Arbeitsteilung, die sich in der Bedeutungszunahme von Handelsmarken ausdrücken. Zugleich ist im Einzelhandel ein beschleunigter zweifacher Internationalisierungsprozess zu beobachten: Neben die Internationalisierung der eigenen operativen Aktivitäten durch den Aufbau oder die Übernahme ausländischer Filialnetze und Distributionssysteme tritt die Globalisierung des Beschaffungswesens und die Entwicklung globaler, von Einzelhandelsunternehmen gesteuerter Wertschöpfungsketten, die sehr unterschiedlich konfiguriert und koordiniert sein können.

Contents

1 Introduction[1]

In 2001, Wal-Mart became the first-ever retailer to achieve the position of biggest company in the world. With a turnover of US$ 220 billion, eight times its turnover in 1990, it was well ahead of Exxon Mobil and General Motors. Among the twenty German companies with the biggest turnover in 2002, there were six retail groups. In 1990, there had been only two. These developments point to a dramatic structural change taking place in retail, spoken of frequently as the "retail revolution" in Anglo-American literature (for example in Wrigley/Lowe, 2002).

As we aim in this paper at providing an overview of the various dimensions this change is taking in German retail, empirical findings will be combined with theoretical concepts. In Section 2, we discuss the different features of this change within German retail companies; at the level of the shop or single site, this is known as format change, while at the level of the company or group, both the horizontal process of concentration and the increased vertical integration of wholesale and retail are of significance. In Section 3, we will look more closely at one aspect of format change and raise the issue of why grocery discounters have developed first and become so widespread in Germany despite the fact that their business model – based on minimal service, simple quality and low prices – would appear to be incompatible with the traditional German model of "diversified quality production".

In the subsequent sections, we will discuss the changes taking place at the interface between trade and supply. In Section 4, we will first briefly cover the various perspectives offered by lean retailing for optimising the flow of information and products. In the following section, we will then examine the changes in the division of labour between trade and production in connection with the increasing number of trademarks; trading groups no longer are limited to mediating sales but instead are beginning to take over the marketing and frequently also the development (design) of the products they sell.

Finally, a double process of internationalisation is taking place in retail at an intensified pace. Section 6 looks at how the operations of German retail companies are increasingly being internationalised through the setting up or acquiring

1 I would like to thank Christopher Bahn, Petra Potz, Hedwig Rudolph, Anne Schüttpelz and the reviewers Christoph Dörrenbächer and Christina Teipen for comments and observations.

of foreign outlets and distribution systems. Section 7 then deals with the globalisation of sourcing, which is assuming an increasingly significant role in many retail segments. Emerging global value chains can be configured and co-ordinated in many different ways, with retailers frequently playing a leading role. The paper will conclude with a short summary of results.

2 Format Change, Concentration and the Integration of Wholesale and Retail Trade

The structural change[2] at the level of the individual store (outlet) is known as the format change. An important element of the format change (Mayer/Fend 1999:321; Bohler 1993) since the 1950s is the replacement of the shop where customers are served from behind a counter by the self-service store. This change has come very far in Germany, and in some segments of retail it is nearly completed

The trend towards bigger and bigger stores, on the other hand, is still in full swing, from “cornershops” via supermarkets and specialist shops to large-scale superstores.[3] In grocery, the average sales area has almost doubled in the last 20 years to 400 m2. While the actual number of shops is on the decline, total sales area is still increasing. Sectors which have become dominated by large-scale formats in the last twenty years are the DIY and electrical markets. In 1982 in Germany, there were 720 DIY superstores (over 1,000 m2) with a total sales area of 1.3 million m2. In 2001 there were 2,609 stores with a total area of 11 million m2.

Besides the specialisation of individual outlets (e.g. specialist retailers, drugstores, clothing chains with specific target groups) we can also observe a certain amount of de-specialisation going on. Consumer markets and general superstores are formats which are still relatively new in Germany (Tietz 1993; Tordjman 1995; Müller-Hagedorn 1998). Grocery retailers are increasingly including other products such as (children’s) clothing in their range (Retail For-

2 There is a broad spectrum of literature available on the structure and development of German retail, especially from a business-oriented perspective (for introduction to and overview of this topic, see Beisheim 1999; Müller-Hagedorn 1998; Tietz 1993; Zentes/Swoboda 1998; and for the historical perspective, Berekoven 1986 and Spiekermann 1995). In addition, the more sociological viewpoint is particularly well established in British and American research (cf. Wrigley/Lowe 2002 for an introduction to Anglo-American research on retail).

3 Numerous problems have arisen for cities and regions since the advent of the trend towards bigger and bigger retail sites, most of which have to do with retail heading out of the centres and suburbs to peripheral locations. Cf. on this topic also Bahn (2002) on Germany/Berlin and Potz (2002) on Italy.

ward 2001), which often – as in the case of Tchibo – are sourced and marketed in batches (Schröder/Mehling 2001).

The format change in retail is leading to the emergence of new, innovative outlet forms. Sometimes, a parallel format change can be observed in several industrialised countries, e.g. the development of large-scale speciality stores for electrical or DIY articles. In other cases, new formats first emerge in one country and are only later transferred to others; an example of this would be the *hypermarchés* in France or grocery discounters in Germany. A third type of format change is found where one company creates a format which remains unique for a relatively long period, as was the case with IKEA (Sweden), The Body Shop (UK) or Toys 'R' Us (USA).

Closely connected with the trends at shop level described above, a process of concentration at company level is taking place. The speed of the process is partly due to the pressure of increased competition and the trend towards mergers throughout Europe. This seems to be a dominant trend in all developed countries – albeit under very differing conditions, at different speeds and in different variations. There are, too, significant differences among the retail sectors.

The five biggest grocery retailers in Germany have a 60% share of the market.[4] The concentration in the DIY sector is probably similar.[5] On the German market for electrical articles, the Metro group (Saturn, MediaMarkt) dominates with a turnover of over € 5 billion, while ProMarkt, which occupies the second place, has a turnover of only € 0.5 billion. In other segments such as clothing and furniture, however, the process of concentration is not yet so far advanced.

Due to the increasing concentration of grocery retail, retailers now hold the better cards when it comes to negotiations with suppliers (Monopolkommission 1994; Zentes / Hurth 1997; for a European comparison cf. Dobson Consulting 1999). The share held by the three biggest customers in the sales of German suppliers to grocery retailers increased from 30.2% in 1985 to 42.5% in 1995, with a further increase to 48.3% predicted for 2000 (Zentes 1997). Similar developments are likely to be found in other retail sectors.

4 In Europe, the market share of the five biggest grocery retailers doubled to more than 26% in just ten years (M+M Eurodata 2000). Comparing individual countries, the figure was 50% for Britain, 30% for Italy and 16% for Poland.

5 On the European DIY market the seven biggest groups achieved a market share of 28%, with Kingfisher taking first place with 10% followed by the franchise system OBI (owned by the Tengelmann Group) with 5% (Rohn: http://www.rohn.de/markt/branchen, download from 17.10.2002).

Similarly bound up with the process of concentration is the trend towards the vertical integration of retail and wholesale, which in Germany was already advanced in the 1970s. The overwhelming majority of German retail outlets now belong to concerns or groups which also carry out wholesale trading. Only 11.5% of all retail turnover results from activities carried out by non-integrated retail companies.[6] At least half of all retail turnover comes from 'multiples', where the single outlets are part of integrated and centrally managed concerns.[7] A further 5.5% of retail turnover comes from mail-order shopping (Olesch 1998). It is conspicuous that many of the big retail concerns in Germany are family businesses (e.g. Aldi, Lidl/Schwarz, Tengelmann, Otto-Versand).[8]

In Germany, retail affiliations (*Verbundgruppen*) have significant status, accounting for almost a third (31.5%) of all retail turnover. Their origins go back to the *Genossenschaft* movement of the late 19th century (similar to the co-operative movement in Britain), when independent retailers joined together and carried out their buying jointly in order to obtain goods more cheaply (cf. especially Olesch 1998 for the following section). At the end of the 1990s, approximately 80,000 independent retailers were organised in about 300 affiliations nationwide. Important affiliations are, for example, Edeka and Rewe in grocery, Garant in footwear and Vedex/Spielering in the toy sector. In the furniture sector, the share of affiliations in total turnover stands at 63% (EHI 2002:125). In the clothing sector, however, they have lost in status compared to retail concerns. Table 1 provides an overview of various retail segments in Germany.[9]

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6 Not all products, however, are sourced via group headquarters. There are as yet no studies on the proportion of internal vs. external sourcing in this area.

7 Out of this, department store companies account for 6.5%, multiple store chains active in only one market segment for 20,5% and chains active in several segments for 23,0%.

8 Six of the ten biggest German private non-quoted companies are retail groups: the four family-owned companies named above plus the two affiliations Rewe and Edeka (see below). As the groups have no publicity obligation – some of them are registered as endowments – and are frequently broken up into a number of single companies, often in the form of limited commercial partnerships (GmbH & Co. KG), it is often very difficult to obtain information in this area.

9 Retail is made up of several sectors, but it is often problematic to distinguish clearly between them due to the fact that the range of goods offered in many store formats contains products from different sectors. This problem affects not only department stores and the consumer markets – which have grown disproportionately over the last years – but also many other store formats, such as the biggest segment of all, grocery. The latter sells not only food but also a range of other products catering for consumers' day-to-day needs (non-food), especially products otherwise sold by drugstores, which is why drugstores like Schlecker and Drospa are placed in the grocery category.

Table 1: Selected retail segments in Germany, yearly turnover 1999 and biggest groups**

Segment	Bill.€	Biggest retail groups
Total retail***	281	
Groceries (Main income)	138	Edeka*, Rewe*, Aldi, Lidl/Schwarz, Tengelmann
Clothing, Textiles, Footwear, Leatherware	35	C&A, Garant*, P&C, H&M, KMT*, Deichmann
Furniture, Domestic Accessories	22	Atlas*, Begros*, VME*, Union*, Ikea
Metalware, DIY	16	Obi, Praktiker, Bauhaus, Hornbach, Hagebau*
Electric Appliances, Consumer Electronics	12	Saturn/Mediamarkt, Promarkt, Ruefach/Interfunk*
Toys	1	Vedex/Spielering*, Toys'R'Us, Idee+Spiel*
Department Stores	11	Karstadt, Kaufhof
Mail Order	17	KarstadtQuelle, Otto

Notes:
* Associations
** Turnovers according to business branches of commercial companies. A categorisation according to product group would show a much higher turnover particularly for clothing (67 bill. €) and toys (3 bill. €), due to the fact that other companies also distribute these products.
*** Not including motor vehicles, garages and chemists.

Sources: StaBA; EHI (2002); own compilation.

Especially since the post-war years, many affiliations have improved their standing by acquiring a number of other functions besides that of simple goods sourcing (as buying groups). Traditionally important activities are centralised regulation of invoicing and payment transactions and *del credere* insurance (liability towards suppliers), while among the newer elements are advisory and financing activities and the development and design of products which are manufactured by suppliers and distributed exclusively by affiliated companies (see section 5 on private labels).

A further important element contributing to the integration of affiliations is the development of group marketing through a uniform image, partly in sub-groups according to shop format or lines of business. A uniform image of the shops and the product range, and a structural homogenisation of the group members (according to outlet size and type), supported by a centrally managed membership and location policy, have led in many cases to affiliations having an almost identical appearance to franchise chains or integrated concerns.[10]

10 Changes to the monopoly law in 1973 made it easier to bind affiliated companies closer to the group. The changes legalised not only price and calculation recommendations but also "recommendations" in all other areas of competitive behaviour (Olesch 1998: 19).

In addition, the affiliation headquarters often own some outlets themselves (*Regiebetriebe*). Members of the group, too, are increasingly smaller or even larger chains rather than one-store companies. Finally, the differences between retail groups also become blurred when wholesale companies from the various groups act as suppliers to third parties. The extent of integration of the affiliation groups ranges from co-operation exclusively in sourcing (for instance in furniture) right up to fully integrated system affiliations (for instance in grocery).

3 German Grocery Discounters: A Success Story

Many retail formats which have proved successful over the last decades emerged more or less at the same time in several countries, for example DIY or electrical superstores. In the grocery sector, however, two new formats were developed virtually in isolation in two respective countries. One was that of the *hypermarchés* in France; the other was that of the grocery (hard) discounters in Germany (cf. Zentes 1998). Both formats emerged in the early 1960s.[11]

In 1962, Aldi opened the first ever grocery discount store. Right up to the present, Aldi has, with only a few variations,[12] remained true to its original principles of concentrating on a relatively limited range of high-sale, fast-moving goods (originally 400 products, now approximately 700 at Aldi Nord), keeping in-store presentation of goods to a minimum (products are left in their cardboard boxes or on the palette) and a low level of service. The high turnover/space ratio and low store and personnel costs implied low trade margins which in turn, combined with the low cost of sourcing made possible by bulk buying, meant that Aldi was able to pass on its costs savings to the consumer in low store prices. Another typical feature is the relatively small sales area taken up by an Aldi store, which is comparable with a typical German supermarket.[13]

In the 1970s, there then followed Plus (1972, owned by Tengelmann), Penny (1973, later acquired by Rewe) and Lidl (1973/8), along with a range of other smaller discount chains[14], which, however, led to some alterations to the

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11 In 1963 Carrefour opened the first ever *hypermarché*, a large-scale store, at the edge of Paris. It had a total store area of 2,500 qm, 12 checkouts und 400 parking spaces. Discounters and *hypermarchés* have made use of US-American experience while adapting it to the different conditions prevalent in each country. See also Rehmann (1967) for an overview of the many early types of discounter to emerge in the US and Germany.

12 On the history of Aldi, see especially Brandes (1998).

13 The first outlets had a sales area of at least 200 m2 (Rehmann 1967: 215).

14 The expansion was also encouraged by the abolishment of price maintenance in Germany in 1974 which thus allowed for the first time price competition in sales of branded articles.

original format (see below).[15] The market share of grocery discounters in German grocery retail has increased further in the 1990s from less than a quarter to more than one-third (EHI 2002). German discounters, however, are not just successful at home; like the French *hypermarchés*, they are achieving an above-average growth rate when they set up outlets abroad (see Section 6).

Why should this format have emerged and become so successful specifically in Germany? At first sight it is difficult to reconcile the features specific to grocery discounters with the – according to researchers – supposedly typical characteristics of the "German economic model"[16]; Aldi and the other discounters have little in common with the "diversified quality production" (Sorge/Streeck 1988; Streeck 1991) which characterises many of the most successful German companies on the international stage.[17] It is possible that the special conditions prevalent after the war in Germany, when the range of products available was heavily limited and presentation necessarily simple, gave rise to the emergence of this format – i.e., its innovation[18] – but they are hardly able to explain its immense success.

One special feature of German grocery retail is, as mentioned above, the significance of affiliations of independent retailers, which may be seen as "typically German" in their *Mittelstand* (small business) basis and their co-ordinated organisation. The affiliations are among the most successful type of enterprise in Germany, which has led to a low concentration at shop level (especially in comparison to Britain or France[19]) in spite of the high concentration at the level of commercial groups (see Table 3).[20] The former Aldi manager Brandes (1998)

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15 In 1979 the first grocery discounters were opened by French retailers as Carrefour in France (Ed) and Promodès in Spain (Día). Dansk Supermarket followed in 1981 with the first Netto store in Denmark. These chains have meanwhile also expanded beyond the borders of their original country.

16 On this topic, see especially concepts of 'national business systems' (Whitley 1992) and 'varieties of capitalism' (Hall/Soskice 2001).

17 Department stores would seem to fit better to this model, offering as they do a broad range of goods with trained personnel, and they are in fact far more frequently found in Germany than in most other European countries.

18 See Brandes (1998) on the development of the 300 stores which preceded Aldi in the 1950s and on the deliberate strategy of keeping the product range low despite an increasingly differentiated consumer demand. From 1962 this principle was combined with that of the self-service store.

19 In France, too, two of the five biggest groups in grocery are affiliations. One of them, however, Leclerc, is a group of officially independent *hypermarchés*, while the other, Intermarché, was not founded until 1969 – probably in reaction to the increasing number of large-scale formats. A similar pattern is found in Britain, where affiliations did not really exist until the 1960s and were mainly created in response to the new competition arising from the abolishment of price maintenance (Howe 2003:162).

20 In Italy, where affiliations have a similar traditional status to those in Germany, the retail structure is oriented even more towards small-scale formats, a politically willed phenome-

points out that Aldi is dependent on a local environment in which other shops fill the consumer "gap" left by Aldi's own relatively limited range of goods by providing those things which Aldi does not offer. We may speculate from this that grocery discounters and *Mittelstand* grocery retailers[21] did, for a certain period of time and up to a certain point, complement each other by providing a local shopping environment which was attractive to customers and which could also offer competitive prices compared to the big consumer stores.

Since 1968, *Mittelstand* retail has enjoyed protected status in Germany via the regulations on use of urban space set out in the *Baunutzungsverordnung* (BauNVO) by the German federal Government. This protection was extended in the following years (through addenda in 1977 and 1990). In most urban areas, excluding Central and Special Areas, shops are limited to a maximum area of 1,200 m2, i.e. a maximum sales area of 700 m2. In addition, the type of goods permitted to be sold in out-of-town large-scale store formats outside of shopping centres was limited. This politically intended protection of smaller stores had positive effects not only for the *Mittelstand* grocery shops but also for the (relatively small) discounters.

The market potential of discounters was underestimated for a long time in Germany compared to the perceived potential competition coming from the 'green-field' superstores. Later, the discounters, beginning with the newcomers Plus, Penny and especially Lidl, have increasingly broadened their product range[22], also offering those products which were previously only offered by *Mittelstand* retail, such as milk products, fruit and vegetables and – later – meat. The discounters thus increasingly have turned into competitors for the *Mittelstand* retailers organised in affiliations. Thus, the German policy of limiting the sales area of the single outlets, which was supposed to protect the *Mittelstand,* has ended up providing a haven in which the sharpest competition for *Mittelstand* retail has been able to develop more or less undisturbed.[23]

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non maintained through regulations which tend to prevent the spread of new store formats of whatever size and significantly slows down any kind of structural change (cf. Potz 2002). A highly regulated and very small-scale retail structure existed in Spain until the late 1970s. After the end of Franco's dictatorship and the following widespread liberalisation, the independent retailers who were not part of an affiliation had great difficulty in maintaining their position against the new formats being imported from abroad (Frasquet et al. 2003). By far the biggest grocery retailer in Spain today is Carrefour, which is not only represented by its *hypermarchés* but also owns the extremely successful grocery discounter Día.

21 *Mittelstand* retail combines a relatively cheap centralised sourcing mechanism and other support from the buying group with the high motivation and hard work of the *Mittelstand* businessman or woman.

22 Aldi Nord follows the most conservative product policy so far, stocking the lowest range of goods.

23 This leads to the more general question of how homogenous national production models can be said to be. The example of the German grocery discounters would seem to argue

At present, the affiliations, particularly Edeka and Rewe, are demanding an increase in the permissible sales area (Klein 2001; Winkler/Küssner 2002) which would allow their retailers to build bigger supermarkets with a broader range of goods and services.[24] Whether, however, this would really give them a competitive edge over the discounters, or whether rather the discounters would also widen their product range on a larger area, thus becoming even bigger competitors for the supermarkets, remains to be seen.

4 Integration Along the Chain: Lean Retailing

Trends towards vertical integration along the value chain affect not only the relation between wholesale and retail, but also that between trade and production. An internalisation of production and distribution is taking place in the consumer goods sector in several manufacturing companies. Well-known examples are the coffee manufacturer Tchibo, and the apparel manufacturers Benetton, Max Mara and Inditex (Zara). The phenomenon of backward integration from trading companies to production, on the other hand, is seldom seen. But, changes at the interface between trade and production frequently affect those areas of activity which were traditionally the domain of manufacturers, especially in the areas of design and marketing, which are now partly being taken over by retailers (on private labels see Section 5).

Similarly to the concept of lean production which emerged from Japan, the rather later concept of lean retailing, discussed under a number of names and variations in the 1990s (Abernathy et al. 1999; Wrigley/Lowe 2002), aims at an optimisation of not only intra-organisational but also inter-organisational processes. In the context of ECR (efficient consumer response) projects, manufacturers and retailers have attempted to optimise the flow of products and information along the entire value chain, starting at the point of sale with the collection of highly detailed data on customer demand (Ahlert et al. 1998; Ahlert/Borchert 2000; Von der Heydt 1999; Möll/Jacobsen 2002). This organisational integration of production and trade is also assisted by the use of information and communication technologies (ICT). The introduction of merchandise information and logistics systems led in the 1980s and 90s to significant rationalisation and centralisation effects (Gruninger-Hermann 1996:72f).

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that, at least on the edge of the system, niches can be created in which companies which do not fit the dominant production model can be successful. Jacobsen (2001: 37) tries to fit German retail into the German production model of diversified quality production. She sees “a diversified production … in German retail insofar as very different formats, i.e. specialist retailers on the one hand and discounters on the other, have both enjoyed great success.”

24 In evaluating this initiative it must be remembered that Rewe in particular owns a number of subsidiaries, including the discount chain Penny.

Optimisation along the supply chain first means simply a faster reaction of supply to actual sales.[25] The introduction of electronic scanner tills since the mid-1980s, combined with EDI (electronic data interchange) or the Internet, made it possible to provide sales information to the previous links in the supply chain right up to the manufacturers and to <u>their</u> suppliers, who were thus able to react more quickly to changes in demand. Bar-coding and electronic tracing tags, along with large investments in rationalisation, led to a significant increase in the speed of product turnover in distribution centres and warehouses. Based on a packaging and assortment of products tailored to the single outlets, we can observe a trend towards distribution centres with no storage space, where most of the goods are directly reloaded in a process known as cross docking.[26]

The clothing sector was a pioneer in the field of flexible, customer-oriented supply chains; the companies involved have to react fast to changes in demand due to short product cycles and to the nature of fashion itself. Whether a company is successful in this industry depends mainly on whether it can shorten its supply times and keep its inventory low. While traditional studies of flexibility requirements have tended to look mainly at high-fashion segments, Abernathy et al. (1999) argue that lean retailing is especially relevant to basic products, because this is the area where the conditions for sales forecasting, and therefore for a just-in-time chain, are most favourable.

ECR concepts are not just about optimising logistics, however. Data collected via the scanner tills also provides information about customer behaviour (who buys what, when and where?) and can be used as the basis for the development of new product marketing strategies precisely targeted at certain customer groups. Retailers, like manufacturers, are therefore able to adapt their product ranges more perfectly to customer demand. Data generated by retail may also be used for systematic product development by manufacturers or, in

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25 The average throughput time (i.e. from the supplier's packing line to the retailer's checkout) was extremely short in the dry grocery product sector at the beginning of the 1990s in the UK (29 days). The corresponding time for Germany was 47 days and the average throughput time in the USA was 100 days (Fernie 1996).

26 In addition, the liberalisation of the transport sector as far as logistics are concerned has led to the creation of companies and alliances which operate on a European scale and which are actively working towards the optimisation of their customers' supply chains as independent actors (Plehwe 1998). This has increased the out-sourcing of logistical functions for grocery retail and grocery producers (Bretzke1999; Hertel 1998). In spite of increased flexibility, however, there would also seem to be significant economies of scale and scope in the area of distribution. The trend towards bigger and bigger distribution centres continues, while in some branches we can observe to some extent a further tendency towards distribution centres taking over simple, production-related tasks, from barcoding to simple assembly work (e.g. final assembly of PCs).

the case of private labels, by the retail groups themselves (Ahlert/Borchert 2000; Möll/Jacobsen 2002; von der Heydt 1999).[27]

These potential developments are often discussed under the generic heading of category management, i.e. a co-ordinated management of specific product groups spanning trade and manufacturing. It is often argued that this also implies a reorganisation of internal management structures. Category managers at retail companies would be responsible for one particular product category (e.g. ice-cream or tissue products) all the way down the value chain, from the supply or even the product design, through logistics and price planning, to the final sale. Such a management structure, oriented towards product segments, would complement and potentially replace traditionally functional – and partly also regional – management structures.

On the whole, however, the expectations attached to the concept of a supra-organisational co-ordination through category management were probably much too high (cf. Weber, no year), especially as category management would be confronted with other managerial requirements with which it is incompatible, e.g. the aggregation of large purchasing volumes across product categories when negotiating prices and conditions with the manufacturers (cf. Behrens 1992; Bodenstein et al. 1992) or strategic price differentiation policies – as would be the case with cheap but lavishly promoted special offers (teasers) which only make sense from the point of view of the strategy as a whole and not from the perspective of a single product category.[28] Category management is also incompatible with key account management. This is a fashionable concept with manufacturers who are traditionally organised according to product areas, and involves a single manager being allocated to each big customer ("key account") who then deals with all products for this customer.

Behind all these difficulties lies the fundamental problem that the interests of retailers and manufacturers are frequently opposed when it comes to the issue of who controls the value chain. This can be seen, for example, in the competition between brands or labels controlled by trade and those controlled by manufacturers (see next section) and in differing price policies. We can, however, safely observe that organisational integration along the supply chain is increasing in many areas due to lean retailing and ECR, even if these concepts cannot always be fully implemented, and that trade is assuming a central role in these buyer-driven models (pull not push).

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27 There are parallels here to the discussions on 'systemic rationalisation' (Altmann/Sauer 1989).

28 Another example of a strategic pricing policy is the leader line pricing policy introduced by Tesco in 1977, whereby a limited range of certain goods which are in the focus of customers' attention is permanently sold at constantly lower prices.

Here it is also important to point out that the use of new information and communication technologies does not automatically lead to increased network integration between retailers and manufacturers. Internet marketplaces (business to business, B2B) may also lead to more arm's length sourcing (Warschun/Schneidewind 2002).[29] Tchibo is already sourcing approximately 10% of its non-food range via internet auctions (Weber 2002).

5 Increasing Significance of Private-Labels

The relation between retailers and manufacturers is not only changing due to stronger integration of their respective activities, but also because of changes in the division of labour. The traditional role of trade was that of the purely commercial enterprise, which distributed and sold goods which were designed, produced and sometimes marketed by the manufacturers. Private labels change this division of labour in that retail takes over functions which were originally the responsibility of the manufacturers, especially marketing and, in many cases, design and product development. Over the last decades, private labels have become increasingly important (Ahlert et al. 2000; Bruhn 2001). Yet there still exist significant differences among retail sectors and individual product groups.

In German grocery retail, the market share of private labels stands at over one-third in terms of volume (Nemeth-Ek 2002), with the share of turnover standing at 19% in 2001. In food, the share of turnover for private labels was on a range between 10% (beer and confectionery) and 30% (frozen foods). In non-food, it was between 6% (hair-care) and over 40% (tissue products) (EHI 2002: 264f).[30] The production of manufacturer's branded articles – especially premium brands – is concentrated on a decreasing number of frequently multinational concerns (Otzen-Wehmeyer 1996; Breitenacher/Tager 1996).[31] Marketing costs are very high for some manufacturers in Germany; Ferrero and MasterFoods (Mars) spend 14% and 17% of their turnover respectively on advertising (Spiller 2000: 394). Advertising costs in grocery retail, on the other hand, are less than

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29 It is not possible here to discuss the possible consequences of e-commerce in the form of electronic shopping (B2C).

30 The difference between the volume and the value shares is probably a result of the significantly lower price level at which private labels tend to be sold.

31 The share of the ten biggest companies in world-wide food production increased from 30% in 1974 to 41% in 1994 (ILO 1998). Ten of the twenty biggest suppliers for German grocery retail are subsidiaries of foreign multinationals, including Nestlé, Philip Morris (Kraft General Foods), Unilever and Danone (cf. LZ/NET 2003). Germany differs from other Western European countries in that no really globally operating multinational food company is based here. From an international point of view, companies such as Bahlsen, Dr. Oetker, the Imhoff Group (Stollwerck) or A. Oetker (Schwartau etc.) are relatively small.

1% (estimation according to EHI 2002: 303). Over half of all German grocery producers also produce private labels, which for 12% of producers made up over 35% of their turnover. Individual branded manufacturers also produce private labels, which are frequently identical with their own brands. The production of private labels as core activity is found more among smaller and medium-sized manufacturers with a weak capital base (Spiller 2000: 396f).

In the clothing trade, some big companies like C&A, but more frequently branded chains like Hennes & Mauritz, sell almost nothing but private labels. With various other outlet chains the turnover share for private labels is estimated between 20 and 40% (Zentes/Hurth 1999). In this sector, there are also important manufacturers such as Steilmann (cf. Grosz 1998) who already began to specialize in own-label production at an early date. In the meantime, however, most of these companies have moved most of their production abroad. Steilmann, for instance, now has its own production plants and contract manufacturers mainly in Rumania.

The market share of private labels in the furniture sector is estimated to be approximately 50% (Koppe 1997). The biggest German (and European) furniture manufacturer, the Schieder group, mainly produces private labels (or no-brand products) and has transferred most of its production to Poland.

In the sector of consumer electronics in Germany, it is mainly manufacturer's brands which are available in stores. Up to a short time ago, private labels had practically no significance in the sector. The big multinationals like Sony, Matsushita, Philips or TCE, which, however, are increasingly making use of contract manufacturers (see below) still maintain their central position in the USA and especially in Europe.[32] Over the last years in Germany, however, companies such as Medion AG or 4MBO International Electronic AG have emerged. These specialise in the design and sourcing of private labels and products which are not part of the regular range but are sold as one-off offers– from instruments for measuring blood pressure to telephones and PCs – for retailers and also take over the after-sales service. Where PCs are concerned, private labels have had a similar status to manufacturer's brands for many years; Vobis in Germany, for example, also sells private label products. It is in this sector, however, that new business models such as Dell's built-to-order direct marketing emerge (cf. also Gereffi 2001).

32 A pioneer is the US chain RadioShack, which was already selling radios under their own private label in 1954, and in 1977, at the same time as Commodore and Atari, put its own PC on the market. Today, RadioShack owns 7,200 outlets and seven factories in the US and a factory in China, and has a turnover of US$ 4.8 billion. "Our marketing strategy depends, in part, upon our ability to offer both private-label and third party branded products, as well as third party services to our customers. We utilize a large number of suppliers located in various parts of the world to obtain raw materials and private label merchandise." (RadioShack 2001)

If we compare Germany with other European countries, we see that private labels accounted for a 34% quantitative share of the grocery market at the end of the 90s, thus taking third place behind Britain (45%) and Belgium (35%) (Nielsen survey after Nemeth-Ek 2002).[33] In contrast to the United Kingdom, where Sainsbury's had already taken a pioneering role in the 1980s by concentrating on private labels in the premium segment, including the introduction of innovative products as private labels,[34] private labels for groceries in Germany are mainly concentrated in the lowest price segment of the discounters. In clothing, too, the British pioneer Marks & Spencer, which only offers private labels, operates in a higher price segment than its Continental competitor C&A (which is heavily influenced by the German market).

Most of the literature on private labels is written from a business perspective and tends to forefront marketing issues. Changes in the division of labour in the value chain, on the other hand, which are closely bound up with the private label phenomenon, have rarely been studied. Such changes most frequently affect (a) the design of the product itself (i.e., not only of the brand) and (b) the way in which the interface between retailers and manufacturers is organised. Hansen/Skytte (1998: 296) describe it as "frustrating to witness that virtually nothing is known about the buying of own-labels."

Olbrich/Braun (2001) differentiate between the "spontaneous buying-in of externally developed and produced commodities", the "division of labour with increasing intensity of co-operation", during which an optimisation of the logistical interface is likely, and a "division of labour with a high-intensity co-operation" during which "the range of goods, their design and market launch, the promotion and the market research are planned jointly by retailers and manufacturers" (own translation). The term "jointly", however, unfortunately blurs the different patterns of labour division and co-operation, for which to date only very selective empirical findings are available. Some aspects are briefly described in the following paragraphs.

Crewe/Davenport (1992), comparing Marks & Spencer's sourcing strategies with those of C&A, find that C&A adopts what they call an arm's length approach, where the retailer is not involved in details of production, while the sourcing of M&S is characterized as co-ordinated where the retailer takes action to influence the details of production (cf. also Tse 1985). It is possible that this difference can be put down to the fact that C&A and M&S occupy different market segments (C&A in the lower, M&S in the higher price range), but it may also be due to different capabilities of the manufacturers which might be higher in Germany than in Britain.

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33 In France (22%) as in the US, private labels play a much less important role.

34 The first product segment to be completely dominated by retail was that of ready meals, which became an important market in the UK during the 1980s (Doel 1996).

We have already mentioned that, in the food sector, it is particularly the smaller and medium-sized companies with a weak capital base which tend to produce private labels (Spiller 2000: 396f.). In Britain, too, the production of private labels in the food sector is mainly found among the small and medium-sized companies (Hughes 1996; Doel 1999). However, a comparison of two product groups (tissues and personal hygiene articles respectively) illustrates that company size and the degree of concentration do not determine whether a manufacturer concentrates on private labels. While both segments are dominated by big multinational producers, for tissues, the market share of private labels is well above average at 40%, while for personal hygiene articles, it is well below average with just a 10% share. Similarly, the fact that of the two biggest clothing manufacturers one, Steilmann, produces virtually only private labels, while the other, Escada, specialises in its own manufacturer's brands, would oppose the theory that the production of private labels is only carried out by smaller firms with less bargaining power.

In a German study by Nielsen, Haug and Partners (cit. in Bodenbach 1996: 203), 86% of the managers of grocery producers who took part in the survey stated that their relation to trade had improved through the introduction of private labels.[35] This should be seen in the context of what has been described as a highly conflictual relationship between grocery retailers and producers in Germany (Behrens 1992; Bodenstein et al. 1992). The relationship is mainly structured through the annual talks (*Jahresgespräche*) which take place between the two groups, where they negotiate complex systems of conditions (Schulze 1998) covering not only prices but also numerous other terms and conditions (e.g. the amount of shelf space). If the production of private labels has improved the relationship between producers and retailers, this may also be due to the fact that companies generally enter private label production during times of crisis, where capacities are under-used and private label production thus tends to be a (short-term) solution. The reasons for the dominance of short-term, price-based thinking in the non-discount segment of German trade have never been adequately researched (cf. Spiller 2000: 406). Nor is it yet clear whether the relationship between retail and private label producers is based on long-term trust, or whether retailers are simply dictating conditions.

Another important aspect is looked at by the studies carried out by Sturgeon (1997; also Lüthje et al. 2002)on the emerging role of contract manufacturers in the electronics industry, who are currently taking over a number of production tasks for branded manufacturers. There are two conditions which need to be present in order for this to happen: firstly, it must be possible to organizationally separate product design from production itself (including pro-

35 In studies on the procuring of private labels in the food sector in Britain (Doel 1999; Hughes 1996) the personal relationships between representatives on both sides were described as highly co-operative.

duction and "hard" product technology), and secondly, there have to be different economies of scale and scope in the area of design and marketing to those which pertain to production, in order for the organisational separation of design and production to be profitable.[36]

As far as consumer goods are concerned, the organisational separation of design and manufacture makes it possible to develop collections placed over a variety of product segments, which can be marketed using a single marketing concept yet at the same time produced by differently specialised manufacturers. Fashion collections which include bags and shoes as well as actual clothes, for instance, or the product "table" which can cover everything from crockery and cutlery to candlesticks can be designed to a uniform idea (economies of scope) and then transferred to various manufacturing companies who implement the design. These latter, on the other hand, have access to advantages of specialization and economies of scale, if they produce parts of more than one "design family".[37]

In many cases, however, the design is not done by retailers but by firms which specialise purely in design and marketing. Some of the leading firms in this area were originally manufacturers, e.g. Adidas, Puma and the doll manufacturer Zapf. Others began as designers, e.g. Jil Sander[38] or the Austrian trend drink company Red Bull. Many of these "designer companies" can also be found in the lower price range, such as CTC Clatronic (electrics) or Wenco (a wide range of small household items). Others, again, come from an import wholesale background, such as the clothing specialist Tom Taylor. While the companies named market their products with their own brands, there are other companies who have specialised in designing private label products.

These examples reveal a broad variety of different business models, made possible through the organisational separation and reconfiguration of the single activities in the value chain like marketing, design, production, distribution. This frequently leads to a blurring of the distinctions between retailers, wholesalers, designers and manufacturers.

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36 The increased – or increasable – turnover volumes for single product groups permit retail groups to partly take over further functions which are frequently specific to a product group.

37 The complexity of the chain becomes even greater if important design elements are bought in, as they can be, for example, through licensing in merchandising.

38 In the German clothing sector, such designer firms are relatively rare. Jil Sander has meanwhile been taken over by the vertically integrated Italian group, Marzotto.

6 Internationalisation of Retail

As retail's core activity – selling products – necessarily has to take place in decentralised locations close to the customers, economies of scale can only be achieved here at a local level (which leads to the tendency towards large-scale store formats). This is probably also the reason why the internationalisation of retail has started much later than in the manufacturing sector, where the cross-border divisions of labour and network structures have been evolving for some decades now.

In the 1990s, partly due to the implementation of the European Single Market, there was a particularly strong drive towards internationalisation in retail (Alexander 1997; Lingenfelder 1996; McGoldrick 1995; Sternquist/Kacker 1994; European Commission 1997). While the activities of European companies in the US had been concentrated on just a few firms (Tengelmann[39], Ahold, Delhaize "Le Lion", Carrefour), internationalisation within Europe took place at a large number of companies (Täger/Nassau 1998: 35f).

Table 2: Internationalisation of German Retail (Employees in 1000s)

	1990	1992	1994	1986	1998	2000	2001
German companies abroad	**156**	**169**	**172**	**187**	**225**	**278**	**309**
EU (15)	43	53	59	68	99	119	137
- Austria	12	12	13	17	26	47	47
- France	11	13	13	15	16	24	26
- UK	1	6	6	8	17	14	23
Eastern Europe	n.a.	7	6	11	27	51	54
- Poland	0	0	0	2	12	25	26
USA	111	105	102	99	90	96	102
Foreign comp. in Germany	**88**	**90**	**77**	**68**	**78**	**112**	**118**

Note: Participations from 20%, since 2000 from 10%

Source: Special evaluations by the German Federal Bank

39 Since 1979, Tengelmann has had holdings in the big US chain The Great Atlantic & Pacific Tea Company (A&P).

Table 3: Internationalisation of selected companies in grocery retail, including the five biggest in Germany, Britain and France (Number of outlets; ca. in 2000)

		Home country	Europe West	Europe East	USA/ CDN	other
D	Rewe (total)	7.626	2.100	390	---	---
	Penny	2.300	213	222	---	---
D	Edeka (without AVA)	10.682	272	---	---	---
D	Aldi	3.400	1.860	---	580	18
D	Tengelmann (grocery total)	3.092	414	286	815	---
	Plus	2.701	414	286	---	---
D	Lidl & Schwarz (only Lidl)	2.000	2.000°	<50°	---	---
UK	Tesco	692	76*	107	---	32
UK	Sainsbury	729	3*	---	168	---
UK	Asda (Wal-Mart)	232	---	---	---	---
UK	Safeway	1.476	---	---	212	---
UK	Somerfield/QuickSave	1.314	---	---	---	---
F	Carrefour	3.362	4.773+	142	---	725
F	Intermarché ITM	3.668	4.412++	41	---	---
F	Auchan	352	342	10	2	23
F	Casino	6.005	---	31	214	674
F	Leclerc	500°	12	8	---	---
NL	Ahold	2.400	3.830°°	390	1.300	647
US	Wal-Mart	3.122	335	---	174	344**

Notes: Some figures are probably incomplete; partly including 50% participations
° rough estimate
* Ireland
°° incl. Baltic countries
** incl. 296 in Mexico and Puerto Rico
\+ incl. 2.315 at grocery discounter Día in Spain
++ mainly at the German Spar Group which was acquired in 1997

Source: Own research from business reports and other company publications

German retailers, too, expanded their European activities considerably during the 1990s. The number of employees has tripled in Western Europe since 1990, while at the same time Eastern Europe became a new target region. In both regions, the pace of expansion has intensified over the last years (see Table 2). In 2001, German retail companies had 309,000 employees abroad, 197,000 of them in Europe. By far the biggest number of these were working in grocery retail. 41% of Aldi's turnover and 30% of Lidl's came from abroad in 2000 (M+M Eurodata 2001). Foreign companies, on the other hand, were under-represented in German grocery for many years. At the end of the 1990s, this changed radically with the market entry of Wal-Mart (taking over Wertkauf) and ITM-Intermarché (who took over Spar). In other segments, however, foreign companies have long been represented, especially in clothing: C&A,[40] but also Benetton and later H&M, Stefanel, Max Mara, Inditex (Zara), Mulliez (Orsay, Pimkie) and Zeeman. Foreign companies in Germany are often also innovators, e.g. IKEA (market entry 1974), The Body Shop (1983) or Toys 'R' Us (1986).

In order to explain the internationalisation of retailers, the literature (a good overview is found in Lingenfelder 1996) draws on a number of factors, pointing particularly at market saturation or monopoly problems on the domestic market, the capital base of investors, untapped market potential, weaker competition or higher profit margins in the potential host country, but also diversification of risk or the investor's entrepreneurial vision (Alexander 1997; Barth/Grabow 1998; Treadgold/Davies 1988; Zentes 1997). More systematic considerations were brought to bear on two aspects in particular: on the global and/or multinational strategic orientation (e.g. in Salmon/Tordjman 1989; Treadgold 1990/91; Lingenfelder 1996: 388ff.) and on market entry by takeover or by new investments (Zentes 1997).

What is conspicuous is that no connection, in general, is made between the literature relating to retail internationalisation and the more general mainstream literature on multinational companies and foreign direct investments. Currently, the most influential theory on multinational companies is probably the OLI paradigm developed by Dunning (1977; 1979; 2000). According to the OLI paradigm, three conditions have to be fulfilled in order for a direct investment to take place:

– The investing company has to have an *ownership-specific advantage* (O) which gives it a competitive advantage over other companies in the host country. This advantage may lie in the areas of technology, of marketing and market access, of sourcing or of management in general.
– The host country has to offer a *location-specific advantage* (L), which may arise from low costs factors or from the access to its market.
– Finally, there has to be an *internationalisation incentive advantage* (I), i.e. it has to be cheaper for the investing company to exploit its owner-specific advantage abroad itself than to sell this advantage to local companies, for example via licensing or franchising agreements.

In the view of Salmon/Tordjman (1989), Pellegrini (1992) and Dawson (1993: 27-30), Dunning's model is not valid in the case of retail, because the latter differs so fundamentally from the manufacturing industry. The difficulties with the

40 C&A is a Dutch family owned company with some important management functions being located in Germany.

classical direct investment theories may also arise, however, from the fact that these are based on the premise of internal company growth abroad being the norm and that they do not in fact offer any helpful explanatory model for external growth through mergers and acquisitions (cf. also Wortmann 2001).[41]

If we look at retailers which have set up new stores abroad, it can be seen that the Dunning OLI paradigm is also relevant to retail, at least in as far as it concerns internal company growth. Both German grocery discounters and French *hypermarchés* are characterised by two special features (see also Zentes 1998: 205): They both possess a competitive advantage in the professionalism of their format-specific marketing and management (O advantage) and their concepts are attractive to their target markets (L advantage)[42]; and finally, the companies see more advantages in transferring their concepts themselves than in licensing them to third parties (I advantage). The same is true of other internally expanding retail companies such as IKEA or Toys 'R' Us. In general, these companies follow a strategy known in the literature as "global", according to which different national or regional markets are all dealt with under a uniform concept.

Where external growth via takeovers[43] is concerned, however, it is frequently not so much a transfer of ownership-specific advantages (e.g. formats or distribution systems) but rather a synergy effect which stands in the foreground. Such a synergy effect might arise from, for example, an increase in buying volume and thus an increase of bargaining power in relation to manufacturers – who, too, are often operating internationally – which leads to lower buying prices.

This is also the goal which motivates international buying groups. While the grocery retailers organised in *Genossenschaften* were already co-operating internationally at an early stage, other grocery retailers began to join together in European alliances at the end of the 1980s, e.g. AMS, Eurogroup and FMD.[44] The buying volumes which were actually achieved via these organisations have remained relatively small, however (Robinson/Clarke-Hill 1995), and the alliances themselves are fairly fragile (Serapio/Cascio 1996 after Dawson 2000:

41 To explain takeovers, Dunning uses a second model which is based on the motive of resource seeking as a reason for takeovers abroad.

42 Owner-specific advantages are not limited to knowledge about a particular retail format. They may also lie in competencies in the areas of sourcing or distribution logistics. An example of the latter would be the Dutch grocery group Ahold in the US (see also footnote 25).

43 Out of 300 M&As carried out between European retail companies in 2000, 108 were cross-border (Arthur Andersen 2001:11; see also Schüttpelz/Deniz 2001).

44 One buying alliance in the DIY sector is A.R.E.N.A. The biggest German buying alliance in footwear, Garant, is also highly internationalised.

135). They thus tend to assume rather a “softer” co-ordinating role, by enabling the mutual exchange of information between headquarters and members. The choice of suppliers is co-ordinated fairly frequently, but ordering mainly takes place at the level of the individual members. While the internationalised retailers often have access to a broad range of their own international private labels, the private labels of the international alliances usually concentrate on just a few standard products with no innovative character (Bodenbach 1996: 99).

Täger (1999: 168ff) estimates that at least 30% of the sourcing volume in grocery retail in the EU could be carried out at European level and anticipates that in future the European centralisation of sourcing and logistics decisions will be further intensified even if the interests of manufacturers are often opposed to this. While retail is demanding that sourcing be more internationalised, the manufacturers prefer – albeit to very different degrees – the maintaining of national and local negotiations on prices and conditions (Hunt 1999).

7 Sourcing in Global Value Chains

In addition to the cross-border expansion of sales activities, the internationalisation of retail also has a second dimension: the internationalisation and globalisation of sourcing. In 2000, Germany imported finished consumer goods (excluding motor vehicles) to an approximate value of roughly € 100 billion.[45] About half of these imports were from developing and transforming countries (including the so-called threshold countries). The import share of these countries for consumer goods thus lies well above the average share for all goods (including raw materials) of 27%. Obviously, low production costs, resulting from low wage costs, play a decisive role in many consumer goods industries.[46]

Consumer goods imports from industrial countries mainly come from Western Europe. It can probably be assumed that these imports are carried out often (though it is not known exactly to what extent) by manufacturing companies, which frequently own a European production network (sometimes including Eastern European locations) or at least a Europe-wide network of distributing companies or branches (intra-company trade). As far as consumer goods imports from developing countries – but also some from transforming countries – are concerned, it is safe to assume that these are only controlled to a very limited extent by the manufacturers from these countries.

45 This estimate is based on an analysis of import statistics on the basis of two-digit SITC-positions (compare Table 4).

46 This is particularly true of labour-intensive segments like the clothing or toy industries, and less true of capital-intensive sectors like grocery or drugstore articles.

Table 4: German imports, total and selected two-digit SITC-product groups with a very high or high consumer goods share in 2000 (billion €)

	Total	App. 84	Foot. 85	Leath. 83	Furn. 82	Var. 89	Text. 65	T+CE 76	F+V 05
World	**544.1**	**21.0**	**4.3**	**1.2**	**6.8**	**16.0**	**10.1**	**17.0**	**9.9**
Industrial. countries	396.5	4.8	2.3	0.3	3.1	10.4	6.4	10.7	6.4
- West Europe	303.1	4.7	2.2	0.2	3.0	7.5	5.9	6.4	6.0
Devel./Transf.countr.	**147.6**	**16.2**	**2.1**	**0.9**	**3.8**	**5.6**	**3.7**	**6.2**	**3.4**
East Europe	59.8	4.8	0.6	0.1	2.7	1.4	1.3	1.2	0.7
Middle East +Turkey	11.8	3.1	0.0	0.0	0.1	0.2	0.8	0.4	0.7
Africa	11.8	1.0	0.1	0.0	0.3	0.1	0.1	0.0	0.3
Latin America	10.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	1.2
Far East	54.1	7.3	1.3	0.8	0.6	3.9	1.5	4.5	2.4
- China	18.2	2.3	0.4	0.6	0.2	2.5	0.5	1.9	0.2

Notes: see also footnote 45; discrepancies due to rounding
SITC 84 apparel
SITC 85 footwear
SITC 83 travel articles, handbags etc.
SITC 82 furniture
SITC 89 Various processed products: besides arms particularly toys, musical instruments, jewellery, stationery, printed matter, various plastic products
SITC 65 Textiles: besides spun and woven goods also knitwear, home textiles and carpets
SITC 76 Telecommunications and consumer electronics
SITC 05 Fruit and vegetables, also partly processed

Source: OECD, International Trade by Commodity Statistics; own calculations

The theory of the "new international division of labour" (Fröbel et al. 1977; 1986) was still based on the premise that exports by developing countries were the result of production being transferred abroad by manufacturing companies in industrialised countries, usually either in that they founded their own subsidiaries or that they employed contract manufacturers. In the early 1980s, much of the turnover of German consumer goods manufacturers in various sectors was already coming from products which had been made abroad. A study done by the HWWA (Jungnicke/Maenner 1984) named the following figures: for cutlery and knives 70%, for basketware 60%, for leatherwork and domestic appliances/lamps around 40%, for clothing and footwear about 30%, for knitwear 25%, woodwork (incl. furniture) 18% and in the segments clocks, ceramics, toys, musical instruments and jewellery between 7% and 15%.[47] More contemporary data for clothing was provided by a study done by the Ifo Institute (Adler/Breitenacher 1995); according to this, the turnover share of imported

47 In the food industry, the import share is probably similarly low even today.

goods for German clothing manufacturers was more than 75% in 1993.[48] Over the last decades, many German manufacturers have completely transferred their production to contract manufacturers abroad and have thus themselves become pure marketers concentrating on design and marketing (see above).[49]

A much older form of consumer goods import, which is particularly important for agricultural products, is that which is carried out via international, vertically integrated trading companies directly or indirectly involved in production. The best-known of these today are the “banana companies”, Chiquita (previously United Fruit), Dole (previously Standard Fruit) and Del Monte Fresh Produce. The power of these companies is based on their control over transport logistics (the “cooling and ripening” chain) from plantation to distribution in the destination countries and via established brands (Hallam 1997; van de Kasteele 1998).[50]

Increasingly, it is not only manufacturers and traders but also retail groups which import their own goods from developing, and usually also from transforming countries. Almost all of the bigger groups now have buying offices in Hong Kong, and frequently in numerous other countries, which are responsible for sourcing especially private labels but also many other products. So far, however, only little information is available on how often this occurs and what forms it takes.[51]

This kind of global sourcing is described by Gereffi (1994) as the buyer-driver global commodity chain. He opposes it to what he calls producer-driven chains controlled by producers. Here, it is the retail groups or marketers with no

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48 The majority of imports, accounting for over 40% of total turnover, came from outward processing trade (probably mainly from Eastern Europe). 14% came from contract manufacturing, 17% were arm’s length imported goods and 5% came from own subsidiaries abroad. For manufacturers of knitwear, the share of domestic production in total sales was below 60%.

49 The second half of the 80s saw an intense public discussion – the “hollow corporation” debate – on the perception that manufacturing companies were being “hollowed out“ (cf. *Business Week* 1986).

50 The London banana dealer, Fyffes, was the first company to turn a fruit into a brand, by simply putting a label on it. In 1929, bananas imported from Jamaica were labelled “Fyffes”. Significantly, this was a response to the founding of the Jamaican Banana Producers Association whose goal was to give producers more control over the distribution of their products.

51 Data on “Direct Sourcing from Abroad by German Retail (according to business formats and product groups)”, which is collected by the German Federal Statistical Office every four years (Lambertz 1999; also Hurth, 1998), is not very helpful, as it only covers companies and not concerns or groups. Thus it does not include the imports carried out by wholesale companies which are formally independent entities but which are actually owned by retail groups.

own production which determine (or "drive") the structure of the value added chain. [52]

> Buyer-driven commodity chains refer to those industries where large retailers, brand-named merchandisers, and trading companies play the pivotal role in setting up decentralized production networks in a variety of exporting countries … This pattern of trade-led industrialization has become common in labour-intensive, consumer-goods industries such as garments, footwear, toys, consumer electronics, housewares … International contract manufacturing again is prevalent … under original equipment manufacturer (OEM) arrangements. The specifications are supplied by the buyers and branded companies that design the goods. (Gereffi 1994:97)

However, the fact that Gereffi's theory generally characterises global value chains in the sectors named as buyer-driven*,* does not do justice to the differences which exist between the various kinds of configuration and co-ordination in these chains even within individual sectors. These differences are found, for example, in the ways in which global sourcing is carried out, in the division of labour between the companies in the chain and in the methods used to influence and control activities. Consumer goods imports from developing and transforming countries are not only carried out by vertically integrated retail companies, but also by a variety of other companies, marketers, sourcing agents, wholesale and import traders or manufacturers; in some sectors also by companies from the countries of origin, especially by so-called intermediaries (see below). We already mentioned above that in practice, it is often difficult to distinguish clearly between these different types of company, partly because companies themselves are no longer conforming to traditional categories.

The division of labour between companies from importing and exporting countries respectively is an important point in this regard. The companies from the exporting countries may be assemblers, responsible for the assembly (e.g sewing) of basic products which are usually imported by manufacturing companies, or local producers exporting part of their (standard) production. They may be full-package suppliers or original equipment manufacturers (OEMs) manufacturing to specifications set out by the company which has employed them, or – whereby this is probably the exception – companies which develop and market their own products (own brand manufacturers, OBM). Finally, besides export traders we also frequently find intermediaries, especially in the Asian threshold countries South Korea, Taiwan and Hong Kong.[53] One of the most highly developed intermediaries is Li & Fung in Hong Kong. The company, which has 60 offices world-wide (including offices in Central America and Eastern Europe),

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52 The name "commodity chain" is misleading, as the products studied by Gereffi in the clothing sector are <u>not</u> commodities, i.e. generally tradable goods; rather, they are manufactured to the specification of individual retail companies. Humphrey/Schmitz (2000) therefore suggest using the term "global value chains".

53 Berger/Lester (1997) talk of a switch from 'made in Hong Kong' to 'made by Hong Kong'.

processes orders from US and European retailers and marketers in the clothing sector. Using the most modern information and communication technology, the company organises material sourcing, production, customs and excise and transport all over the world (Lee-Young/Barnett 2001; Magretta 1998).[54] These intermediaries have several similarities with the contract manufacturers employed in the electronics industry (Sturgeon/Lester 2002), as they both offer their customers the organisation of production as a complete service. One important difference, however, is that the contract manufacturers in the electronics industry are industrial companies, while the intermediaries in the clothing industry co-ordinate production within a network of third companies.[55]

Finally, global value chains may be categorised according to the type of co-ordination or control they use. Besides the arm's length type chains, there are also highly co-ordinated chains where the importer may intervene directly (in an administrative style) with producers. A more arm's length approach is usually pursued when it comes to sourcing standard products or to commissioning competent intermediaries, who also take over the organisation of production and transport. "Chain governance" is particularly likely to be adopted by the importer where, in the attempt to find locations with low personnel and production costs, it uses quality control and may also transfer technology in order to make inexperienced producers capable of meeting higher standards. The probability of greater control along the chain is proportionate firstly to the specificity of product and production instructions and secondly to the risk carried by the importer in the case of supplier failure (Humphrey/Schmitz 2000; Gereffi et al. 2001b).

There is, therefore, a broad spectrum of different configuration and co-ordination structures of global value chains in the consumer goods sector, and the development of the division of labour between producers and importers can follow very different logics (cf. also Rudolph 2001). Until now, there have been hardly any studies which connect the structural change in retail in industrialised countries with changes in global sourcing.[56] One exception is a study by Dolan

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54 Gereffi (1994; 1999) describes this 'triangle manufacturing', as contracts (and payments) being made between an importer in an industrialized country and an intermediary in a threshold country who then makes contracts (and payments) with a manufacturer in a further developing country, the goods being delivered directly by the manufacturer to the importer.

55 A central issue for the global value chain approach, which has come out of developing country research, has to do with the chances for further development (upgrading) of the supplier, i.e. for changing the division of labour to benefit manufacturers in developing countries. Gereffi (esp. 1999) sees the participation in a global value chain as a way for producers at the periphery not only to export goods, but also to take part in a process of qualitative development towards more value-added activities.

56 As the concept of global value chains was originally developed in the context of research on developing countries, there are numerous studies which look at the end of the chain in

et al. (1999) which shows how concentration in British grocery trading has led to big grocery companies demanding more fresh vegetables from African countries, which they no longer buy at auctions in Britain ("half-channel marketing") but now obtain through co-operation with a smaller number of importers and also by exercising more direct control over production conditions in Africa.[57]

8 Conclusion and Perspectives

In this paper, we have described different dimensions of the structural change and internationalisation taking place in retail. We first described the structural change, i.e. the format change from smaller-scale to larger-scale store formats and the emergence of new types of store; the vertical integration process going on between retail and wholesale; and the horizontal process of concentration which has led to some trade segments being dominated by a few big groups. Using the example of German grocery discounters, we took a closer look at the emergence of a new format and showed how the specifically German retail structure and the related regulation directed at limiting the sales area of single stores have contributed towards the success of the discounters.

Further, we studied the changes at the interface between retailers and suppliers. The use of new information and communication technologies, in particular, leads to optimisation of the goods flow (lean retailing) and may contribute towards a closer integration (e.g. ECR) but also to a greater commercialisation of supplier relations (e.g. internet auctions). There have also been changes in

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these countries; e.g. on the clock industry in (especially) Hong Kong (Glasmeier 2000), on shoe production in Brazil (Schmitz 1998) and India (Knorringa 1999), on different kinds of export-oriented clothing manufacturers in Turkey (Dikmen 2001), on the clothing industry in Asian and Central American countries (Bonacich et al 1994) and in South Africa (Gibbon 2002), on the furniture industry in South Africa (Kaplinsky et al. 2002), on knitwear exports from India (Cawthorne 1995; Tewari 1999), on jeans production in Mexico (Bair 2001) or on the bicycle industry in Taiwan (Chu 1997). Importers from industrialised countries and their demands tend to appear in these studies only as external influencing factors, which, in their interactions with the local actors of the studies and their attempts at improving their situation (mostly in certain industrial clusters), control the developmental chances of the suppliers. Gibbon (2001) and Schmitz/Knorringa (1999) have looked at the criteria used by importers in the clothing sector and in the footwear industry respectively in more detail. At this point it is also important to mention the debate, mainly NGO-driven, on the corporate social responsibility of import companies, which cannot be discussed here further for reasons of space (cf. e.g. Fichter/Sydow 2002; Frenkel/Scott 2002; Gereffi et al. 2001a; Wick 2001).

57 Hughes (2000) provides a similar study on the growing integration of the value chain for cut flowers. This value chain, which is still comparatively young, is significantly different to the long-established chains for tropical fruit controlled by the "banana companies" Chiquita, Dole, DelMonte and Fyffes.

the traditional division of labour between retail and suppliers, with retail taking over the marketing, and in some cases also the design, of the products. The development of private labels is closely bound up with vertical integration and horizontal concentration, as the costs of marketing and (if applicable) product design can be spread out over a larger basis and distribution to shops is guaranteed. These developments, like the lean retailing approach, strengthen the position of retail groups as control centres for buyer-driven value chains.[58]

Finally, we looked at the different dimensions of the internationalisation of retail. Companies like the German grocery discounters or those such as IKEA or Toys 'R' Us, which have developed new, competitive formats, can exploit this advantage in other countries and build up their own outlet networks there. International growth of retailers through the takeover of already existing companies, on the other hand, is more common in less innovative segments of retail and must be interpreted – especially within Europe – as part of a cross-border process of concentration.

Besides the internationalisation of retailers, we also see a globalisation of sourcing. Consumer goods (except motor vehicles) are especially likely to be imported from developing and transforming countries. The developing global value chains can have highly differentiated configuration and coordination structures. There is as yet no empirical data on the role played by German retail groups in this area.[59] We can speculate that retail groups with increasing horizontal concentration and vertical integration are taking a more active role in the governance of global value chains. But, it is also possible that in many consumer goods sectors new types of company are emerging in Germany or in developing and transforming countries which organise global value chains, such as agents or intermediaries. We may finally speculate that the general increase in global supply structures is affecting the retail structure in Germany, leading to an increase in private labels or encouraging processes of concentration.

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58 Murray (1989:42ff) goes as far as suggesting that retail has become a central actor in the change to post-Fordism. Gereffi (1994: 99) also situates buyer-driven commodity chains in discussions on mass production and flexible specialisation (Piore/Sabel 1985).

59 The research project "Retail and Globalisation - on the control of global value chains by German retail companies", which is based at the department Internationalisation and Organisation at the WZB and funded by the VolkswagenStiftung, is studying the configuration and coordination of global value chains in various consumer goods sectors in more detail.

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