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Food retailing

Guest Editor: Andrew J. Newman

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Food retailing

Guest Editor
Andrew J. Newman

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Food retailers and financial services in the UK: a co-opetitive perspective

Elisa Martinelli and Leigh Sparks

Keywords Food products, Retailers, Financial services, Competitors, United Kingdom

The financial services sector operates in a turbulent environment. The availability of financial services for customers has grown considerably, with providers encompassing retailers through to specialists. Food retailers in particular are the non-financial sector key movers in the market change underway. Within this context, this paper aims to provide a framework to consider the operational, strategic and relational issues concerned with the entry of British food retailers into the financial services sector. It explores in particular the service provision relationships between large food retailers and financial institutions, suggesting that this is a case of co-opetition, a concept which refers to the concomitant presence of competition and co-operation in a relationship. Promoters and inhibitors leading to a co-opetitive relationship involvement are examined.

Stock control and supplier relationships at the local pub in a market town: a case study investigation into effective demand management

Neil S. Towers and John Pratten

Keywords Retail trade, Licensing, Stock control, Supplier relationships, Case studies, United Kingdom

There are about 60,000 public houses in the UK that operate in a diverse retail sector from the wholly independent small business to the corporate brewery managed public house. The publican in all these establishments have the common aim of being able to service the customer who demands supply from a range of available beverages. Each publican has access to a variety of formal and informal mechanisms to ensure that their stocking policies relate to current demand requirements. The relationships of the publican with their product suppliers are embedded in the objective of supply chain management to minimise costs associated with their operation whilst maximising service levels to the customer. This paper seeks to develop the understanding of how publicans develop relationships with their suppliers and their stock holding policy considerations, using a case study approach.

A case study exploring the packaging design management process within a UK food retailer

Delia Vazquez, Margaret Bruce and Rachel Studd

Keywords Food products, Retailing, Design management, Strategic management, United Kingdom

Food retailers invest heavily in design expertise to create exciting packaging to entice customers to buy premium food products, and to strengthen their competitive edge. The process by which food retailers manage food packaging design has not been documented and this is an oversight in the design management and retailing literatures that this paper addresses. An in-depth case study of one of the top four UK retailers is presented and their approach pack design management is analysed and discussed. The process outlined here was in place in 1997 at a time when the retailer had just moved from number three in the market place to number two and was aiming to be number one. The process documented is that of a dynamic growing food retailer working on improving its brand image through packaging design.

Pills by post? German retail pharmacies and the Internet

Ruth A. Schmidt and Elke A. Pioch

Keywords Pharmaceuticals industry, Internet, Retailing, Medicines, Germany

The advent of Internet trading in medicines, as epitomized by the recently attempted market entry of the Dutch Internet pharmacy DocMorris into the tightly regulated German retail pharmacy sector, presents a new competitive challenge to this industry. Based on the findings of a 1999 field study of retail pharmacies in Berlin and Brandenburg and an examination of pharmacy Web sites, as well as pharmacy related professional portals and networks on the Internet, this paper applies Bickerton *et al.*'s framework of competitive forces to structure the analysis of attitudes and

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developments in the application of information technology in this sector.

UK vineyards sector case study: analysis of retail activities using exemplar strategic marketing tools

Oliver Richardson and Charles Dennis

Keywords Viticulture, Marketing strategy, Marketing mix, United Kingdom

There has been considerable research into wine marketing worldwide, but little has been published concerning the marketing of UK wines. This paper outlines the background to the retail marketing activities of UK vineyards. Strategies are analysed using three exemplar frameworks: the Ansoff matrix, generic strategies, and the marketing mix. The analysis also makes reference to marketing segmentation. The most active vineyards are pursuing strategies in all four of Ansoff's growth vectors, with the largest players involved in diversification, for example into tourism. The marketing mixes for most UK wine producers are hybrids between the parameters expected for the "fine" and "beverage" wine segments. For the tiny UK wine industry to exist and prosper, we contend that it is necessary to target niche segments using Porter's "focused differentiation" approach. Larger vineyards attempt a broader target with tourism activities. UK wines from vineyards of all sizes are differentiated primarily by prestige pricing and by what is effectively "place marketing".

Food retail positioning strategy: a means-end chain analysis

Derek Devlin, Grete Birtwistle and Norma Macedo

Keywords Food products, Retailing, Marketing strategy

This research conducts a means-end chain analysis of the food sector and explores the extent to which the findings made can be used to inform the retail positioning strategy of food retailers. Using means-end theory as the theoretical underpinning of the study, the paper employs laddering methodology to identify the linkages between food retail store attributes and personal values. The findings of the paper present a more personally relevant representation of consumer's perceptual orientations towards food retail store image. At the attribute level "good quality products"; "good reputation"; "store has additional services" and "value for money" are most sought after. These were linked to the consequences "feel good" and to "save time". Overall, the findings support previous value driven research, concluding that "happiness" and "quality of life" are the most strived for personal values. Strategic implications for retailers are discussed and future research recommendations are made.

Guest editorial

This special issue draws on a varied and diverse range of topics from many branches of the retail sector. It uses a fairly broad definition of retailing to capture less familiar topics related to the sector. The purpose of this is to appeal to the wider readership of the *BFJ*, and to emphasise the importance and eclectic nature of retailing. Indeed, this approach has provided contributions that may be of interest to academics and students from a variety of disciplines. Hence, by representing varied questions and issues in various contexts it should assist *BFJ* readers to appreciate the scope of retail academic research.

Recently, during a rather harmless but energetic academic debate, I was confronted with a need to uphold the importance of taking a retail perspective and to consider commercial imperatives, when developing the technology that produces goods and services (for example, food products and the systems that delivers them). My strategy was to depict retailing as part of a chain of activities from source materials to end consumer. The argument followed the premise that "failure to consider retailing as a crucial part of this cycle is to deny that goods or services must, eventually, be sold or exchanged". For many in the discussion group this presumption was inconclusive and lacked the benefit of alternative (scientific) perspectives. Perhaps so, but nevertheless retailing accounts for 11 per cent of UK gross domestic product (GDP) and is valued at £200 billion in annual sales, with particular growth in sales of non-food categories such as financial services in most major food supermarkets. The varied nature of the sector is hopefully represented in the selection of papers and cases that now follow.

When we think of food purchasing we rarely think of the implications of diversification into sectors such as retail banking and insurance. The Martinelli and Sparks paper takes a traditional area like food retailing and demonstrates how changes in strategic direction have influenced other sectors, in this case financial services. The paper considers the operational, strategic and relational issues concerned with the entry of British food retailers into the financial services sector. For example, food retailers use financial services to secure themselves customer loyalty and therefore competitive advantage. This is a highly successful competitive strategy, and is also of great benefit to other relationship partners such as manufacturers. For example, retailers such as Tesco and Sainsbury have very strong reputations and brands, as so do the big name banks involved. These are serious businesses with considerable reputations for trustworthiness. Hence, there is little doubt that working partners such as manufacturers, which supply these retail institutions, would benefit from these linkages.

The next paper offers what could be a model for the British pharmaceutical market to follow. "Pills by post" is perhaps a concept that British consumers are not quite ready for, given the complexities and issues surrounding the Health Service Trusts. However, the opportunities for British chemists are clearly

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evident from the Schmidt and Pioch paper and case. In the UK, there is still the question of technology adoption rates, which are improving but still show evidence of social exclusion. This paper reports that only 1 per cent of Germans use an Internet pharmacy, which is a very small number indeed. However, there may be some benefit from linking to the emerging supermarket pharmacy chains that are now a familiar sight in most major stores. Hence, the move by food chains to provide a range of products via transactional Internet sites could be extended to medicines. For example, Schmidt and Pioch allude to (with reference to Balabanis and Vassileiou, 1999) a positive relationship between intention to buy from Web sites and income, prior experience of home shopping and strength of retailer brand. The latter is possibly the key issue for breaking into the UK market.

Of major importance to those organisations that adopt a marketing orientation is the theory and significance of retail positioning strategy. Most businesses continually ask key questions such as how do we measure and evaluate our customers' views, and what factors could we use to gauge the success of our positioning? The following paper from Devlin, Birtwistle and Macedo presents a methodological direction to elucidate questions of this nature, and may be deployed in many contexts. In brief, the empirical research investigates and identifies the attributes that consumers desire most from food retailers and discusses the components that form the basis of a means-end methodology. This is followed by analysis of the consequences of these attributes and the desired personal values resulting from them. Clearly, a study of this type can be used to inform the strategic decision making process of other types of food retailers (e.g. caterers, restaurateurs) and, naturally, manufacturers.

Research into the retail supply chain is of increased value to investigative inquiries when placed within the context of other sectors, where similar research issues may be encountered. For example, much can be drawn from the supply chain processes in the licensed trade, particularly the close relationships developed between retailers and suppliers. The Towers and Pratten case which follows on in sequence centres on the way in which benefits are derived from such relationships. Small independently leased public houses have developed a very close and mutually beneficial relationship with wholesalers, and the case seeks to develop the understanding of how publicans develop relations with respect to their stock holding policy. In essence, the publican has realised that the combined attributes of the two contributors to supply are greater as a collaborative partnership than as two separate participants in the same supply chain operating independently one of each other. Working and responding together in servicing fluctuating customer requirements can bring about benefits to both enterprises in a supply chain. Such a strategy can provide similar benefits when transferred to other sectors, such as for hoteliers and small catering businesses.

To survive, all businesses must achieve some market penetration. The market orientation and, consequently, the marketing activities of retail businesses vary across the sector and with the size of the organisation. Small businesses (SMEs), for example, are frequently questioned for adopting little or no marketing activities. In general, this is said to be due to a "lack of expertise or interest" in undertaking such activities, regardless of the potential benefits. The UK wine market is an area where little has been published in comparison to wine marketing worldwide. The next case from Oliver Richardson and Charles Dennis addresses this and considers the background and development of the retail marketing activities of UK vineyards, and analyses various strategies using three exemplar frameworks. The authors assert that for the small UK wine industry to exist and prosper, it is necessary to target niche segments using Porter's "focused differentiation" approach. Larger vineyards attempt a broader target market with tourism activities and diversification of various types. Analogous situations exist across the entire food sector and for SMEs and larger firms alike.

A major element of the marketing mix, product, incorporates a range of tangible and intangible elements. This last piece explores a key area of research and attribution for manufacturers and retailers: food packaging design. The authors, Vazquez, Bruce and Studd, argue that food retailers invest heavily in design expertise to create exciting packaging to entice customers to buy premium food products, and to strengthen their competitive edge. However, the process by which food retailers manage food-packaging design is generally under-researched. The case considers a top retailer and analyses this organisation's approach to pack design management, with the aim of improving its brand image through packaging design. In effect, this research produces a template for other studies and is of benefit to retailing and manufacturing organisations that seek ways to enhance customer perceptions of quality, functionality and added benefits. For example, understanding the process by which retail organisations undertake pack designs can assist key food product manufacturers cultivate closer relationships. This makes for mutually beneficial strategies in areas of pack design innovation and profile raising exercises for all concerned.

I trust that this selection of studies provides a useful contribution to the *British Food Journal* and, above all, helpful guidance to future research in this field.

Andrew J. Newman
UMIST, Manchester, UK

Reference

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Food retailers and financial services in the UK: a co-opetitive perspective

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Keywords *Food products, Retailers, Financial services, Competitors, United Kingdom*

Abstract *The financial services sector operates in a turbulent environment. The availability of financial services for customers has grown considerably, with providers encompassing retailers through to specialists. Food retailers in particular are the non-financial sector key movers in the market change underway. Within this context, this paper aims to provide a framework to consider the operational, strategic and relational issues concerned with the entry of British food retailers into the financial services sector. It explores in particular the service provision relationships between large food retailers and financial institutions, suggesting that this is a case of co-opetition, a concept which refers to the concomitant presence of competition and co-operation in a relationship. Promoters and inhibitors leading to a co-opetitive relationship involvement are examined.*

Introduction

During the last 20 years in the UK, the financial services sector has undergone phenomenal change. Deregulation in the 1980s, combined with technological developments and consumer change have brought about demand-led retail banking strategies implying an institutional and market structural renewal (Clarke *et al*., 1988). As a result, financial institutions have diversified their product ranges and channels (Gardener *et al*., 1999).

The expansion of different ways to obtain financial services has opened up the sector to non-traditional providers and new channels. From a bank-orientated financial system, there has been a shift towards a multi-channel orientated system where barriers to traditionally separated sectors have been eroded. As a consequence, many companies from different business sectors have entered the market, increasing the level and type of competition. In particular, among the newcomers, large food retailers seem to possess some special characteristics (Martinelli and Sparks, 1999; Alexander and Colgate, 2000), enabling them to play a major role in financial services provision.

Within this context, the paper develops a framework that considers the operational, strategic and relational implications arising from the entry of British food retailers into the financial services sector. Focusing in particular on the relational issues, this paper aims to explore the service provision relationships in the UK between large food retailers and financial institutions. To meet this goal we utilise an idea that blends the two concepts of competition

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and co-operation: namely "co-opetition" (Brandenburger and Nalebuff, 1996). Co-opetition involves competitors actively working together to create a new enterprise to compete in the market place.

Accordingly, the paper first considers general aspects of competition, co-operation and co-opetition in the financial services sector. Second, we describe briefly the ways in which British food retailers are currently offering financial services. The paper then depicts the strategic and relational issues arising from these developments. From this an appraisal of the promoters and inhibitors for successful co-opetitive relationship involvement is developed. Finally, the paper attempts to examine the future research directions deriving from the involvement of food retailers in the financial services market.

Competition, co-operation and co-opetition in the financial services sector

Previous studies of the relationships between retailers and financial institutions have been focused mainly on a bank-company client perspective. The financial institutions were conventionally supposed to be the suppliers of financial services, while the retailers' function and role in this framework were well-defined as a bank's customer or an intermediary. This has now clearly changed, both directly (Martinelli and Sparks, 1999) and as understood by consumers (Martinelli, 2002). We need therefore to reconsider the development of bank/retailer relationships.

Researchers (e.g. Bliss, 1988; Worthington and Harbisher, 1997; Worthington, 1992a; 1994), who have addressed their attention to the specific relationship involving financial institutions and retailing firms, have often concentrated on the effects of the development of the plastic payment card system for the players involved (Worthington, 1995; 1996). The focus has been mainly on the impact of debit (Worthington and Harbisher, 1997) and credit cards (Worthington, 1988; 1992b) on these relationships. Worthington and Harbisher (1997) in particular, employ the concept of relationship marketing to analyse the relationships between retailers and their financial services suppliers. This research retains a basic bank-company/client perspective.

Retailing firms have not only developed their own credit cards which may compete directly with those of financial institutions, but they have now entered the financial services sector by providing a wide range of basic financial services. As a consequence, the relationship between retailers and financial services providers is evolving and is producing changes not only in their interaction, but also in their positioning in the competitive environment.

Worthington (1998a) claims that from a "branch centric" system we have been shifting into a "card centric" system in which technology has been, and will be, through the new generation of multi-functional and multi-applications smart cards (Worthington, 1996), the evolution driver. In order to meet the increasing customer demand of "anytime, anywhere and anyhow shopping" (Chadwick, 1998), the system is now evolving further towards a "multi-channel" dimension. The availability of different ways to obtain banking services has reduced the personal customer's need to come into a bank branch, and changed the consumer relationship with banks (Dibb and Meadows, 2001). Moreover customers are displaying an increasing confidence with financial matters and there are signs that they are becoming more willing to switch providers, which also may facilitate movement from one provider to another.

These consumer and retailer changes require a different approach to the study of the relationships between retailers and financial institutions: no more a bank-company/client perspective, but a competitive viewpoint. From a well-defined function as a bank's customer, an intermediary and acceptor of the payment instruments issued by the bank (Alexander and Colgate, 1998; Worthington, 1996), retailers have begun to undertake the role of competitors and/or partners towards financial institutions. Not all retailers are in a position to undertake such activities. Alexander and Colgate (2000) and Colgate and Alexander (2002a) in an international survey point to the varying desires, capabilities and achievements of different retailers. Within the UK, it is the large food retailers that have perhaps developed the most extensive financial services (Alexander and Pollard, 2000).

Alexander and Colgate (1998) view the ways in which financial institutions and retailers co-operate through a "strategic alliance perspective". They depict a "synergistic relationship" based on the presence of mutual benefits. However, these authors examine in particular "how a banking relationship, developed by a retailer with its customers, may affect the existing relationship a customer has with a retailer" (Alexander and Colgate, 1998, p. 226). This current paper suggests how a banking relationship, developed by a retailer with its customers in co-operation or competition with financial institutions, affects the existing relationship the latter have with a retailer.

Worthington (1998b) highlights how retailers have employed the expertise gained and the approaches adopted in the supply chain of goods to take part in the value embedded into the supply chain for services. Starting from this point, we argue that, particularly in the cases in which the two players enter in an equity partnership establishing a joint venture (see below), the concomitant presence of competition and co-operation in the business relationship is leading to a co-opetitive relationship. This is because of the overlapping, and so competing, activities in which they co-operate.

"Co-opetition" is a concept used by Brandenburger and Nalebuff (1996): it is the blending of competition and co-operation. Co-opetition involves competitors actively working together to create a new enterprise to compete in the market place. It is an extension in many ways of joint ventures (and this may be the legal entity involved) in that there is overlap between the new enterprise and the existing companies in competitive terms. That is not working together (to co-operate) in order to compete, but working together, competing at the same time, recognising that organisations have finite resources, yet common objectives (Worthington, 1998b). The idea that co-operation and competition are both present in the relationships between firms is not new at all, but the accent in the academic literature has been mainly stressed on the analysis of the two concepts separately.

As Meyer (1998, p. 42) recognises "the emergence of the concept of co-opetition is driven by such developments as increasing global competition, changing customers demands, growing complexity of doing business, shorter product life cycle", all distinctive elements of the present situation of both the financial services and the retailing sectors. This acknowledgement has led some financial institutions to build closer relationships with the new retailer entrants to financial services, rather than losing a piece of their potentially increasingly narrower pie. In order to transform this "theft" into an opportunity of new income streams and cross-selling, they have accepted their turning into allies with which co-operate. This corresponds to Brandenburger and Nalebuff's (1996) idea of "thinking complements", that is ". . . finding ways to make the pie bigger rather than fighting with competitors over a fixed pie" (Brandenburger and Nalebuff, 1996, p. 14). But at the same time that they co-operate, they compete primarily because customers' perceive the food retailer as the financial service provider. In so doing therefore, they are acting as "co-opetitive" organisations.

We now turn to an examination of the activities of food retailers in financial services (see also Alexander and Pollard, 2000). This will allow a consideration of the extent to which the relationships we identify are co-opetitive and the key factors necessary to make such relationships work in the long term.

British food retailers and financial services

The movement of British food retailers into retailing financial services is increasingly significant, as evidenced by the sharply increasing uptake of their services. The food retailing market in the UK is competitive (Competition Commission, 2000). Food retailers have developed their businesses in many ways. In particular they have undertaken huge new store development programmes to modernise and renew the facilities for consumers and they have increasingly controlled and dominated their supply chains, taking more of the costs out and obtaining more of the value for themselves (Seth and Randall, 1999). Food retailers have also endeavoured to understand much more about their customers and their behaviours. Understanding and then meeting changing customer needs and wants is critical to their success. For some food retailers this has taken the form of loyalty card schemes. For all successful food retailers, it has involved being data rich and fast moving. The move of food retailers into the financial services markets is both a consequence of their understanding and knowledge of consumers and their ability to develop appropriate initiatives quickly.

The chief executive of Tesco Personal Finance (TPF) declared that it was logical and natural for retailers to enter the retail banking sector because "supermarket banking is an extension of the new paradigm – non branch-based banking" (Brown-Humes, 1998). Customer demands for banking have altered and retailers feel they can satisfy this need. In addition they can then offer a range of other financial services products. Thanks to the marketing data food retailers have acquired from loyalty cards and other sources, and their awareness of customers' needs, they can sell their customers other products, both non-food merchandise and financial services. Large food retailers now offer an increasingly wide range of basic financial services, through their shops, direct selling and on their web-sites. Such financial services may also be purchased by non loyalty card holders and others, attracted by a combination of the pricing of the products and the association with the brand.

The largest British food retailers have offered co-branded credit cards since 1996. From then they have provided additional financial products to their offer, including cash-back facilities, saving accounts, personal loans, mortgages, pensions, and insurance schemes. The trading concept underpinning the retailers' provision of financial services has a number of components. These include good value; easy, simple and wide, but not deep, financial products' range; extended hours; seven days a week; self-service machines available for simple transactions and enquiries; free telephone banking lines and/or financial advisers on hand to provide information on the available products.

In order to offer these financial services British food retailers have built alliances with financial institutions, seen as providing a source for new and complementary products. Operationally, the co-operation between the two parties involved takes either of the following forms (see also Alexander and Pollard, 2000):

- *Joint-ventures*. Establishment of a subsidiary, that is an independent business entity, whose share equity is owned by both companies in order to provide banking services via telephone banking or in-store financial desks/centres in practice. It is formed for strategic purposes in order to preserve the separate identity/autonomy of the organisations involved.
- *Tie-ups*. A kind of strategic alliance without the creation of separate organisation or legal business entity. The relationship emerges mostly as a supplier-customer relationship in which the bank provides the commercial outlet as a shop-in-the-shop solution. The purpose is to offer a better service to the retailer's customers.

Wm Morrison and Asda chose this second approach. They rented out floor space within selected superstores to well-known financial institutions. Wm Morrison entered a relationship with Midland (HSBC), while Asda chose Lloyds. In this way, they spurned a direct involvement in the field, choosing a lighter commitment through commercial agreements. The retailers earn a commission (rent) but the customer is "owned" by the financial institutions. This may be an initial step in to the market, as Asda have announced a search for a full partner. Such a tie-up does not preclude the provision of other financial services products (e.g. pet insurance), possibly with other providers. The overall effect therefore can appear somewhat disjointed, with the financial services activities perceived as less central to the retail offer. It is also possible that costs may be higher, though most evidence on this is commercially confidential.

The other three main British food retailers have instead chosen the joint venture approach. Tesco formed a joint venture with Royal Bank of Scotland plc (RBSG) in June 1997 and then enlarged its financial services offering by starting relationships with for example Direct Line Insurance (a RBSG business) and Scottish Widows (pensions). Tesco Personal Finance offers savings accounts, credit cards, loans, home, travel and other insurances, pensions, and mortgages amongst other services.

The Sainsbury's partnership with Bank of Scotland (BoS) led in February 1997 to the establishment of Sainsbury's Bank, a 55/45 joint venture equipped with a banking licence and therefore operating formally as a bank. The financial services' offer includes telephone-based fixed rate mortgages, pet and home insurance, personal loans, and credit cards. With the Halifax merger with the Bank of Scotland, the partnership is now with HBOS.

While Sainsbury and Tesco decided to base their operations fundamentally on telephone contact (although Web presence is important), Safeway is acting quite differently. They have arranged an in-store banking presence through a joint venture with Abbey National. This financial subsidiary joint venture was formed in March 1997 in order to run Safeway's Direct Savings Account and manage its in-store financial desks. Abbey National is now present in a number of Safeway stores.

Strategic and relational implications of food retailers' involvement in financial services

When food retailers in Britain entered the financial services market in the mid-1990s, the high street banks and other traditional services providers regarded the move as a short-term gimmick. However supermarkets are now investing heavily in this market, exploiting the value-added potential for their brands and achieving considerable success, keeping costs very low and providing convenience to consumers.

The provision of financial services by food retailers raises issues for researchers and business practitioners because of the consequent major intra- and inter- sector implications for strategy and relational issues. From the strategic point of view, financial services are used by food retailers to secure themselves customer loyalty, competitive advantage and an enhanced market in respect of their direct competitors. For example Clink and Dewhurst (2002) suggest that Tesco seek to gain an extended customer experience, enhanced customer loyalty and a longer term customer relationship through the activities of TPF. Profitability, customer loyalty and differentiation and advantage are thus three main objectives they seek to achieve.

First, financial services are a tool to make direct profits as well as cross-selling with the wide range of products and services that food retailers offer. Retailers do not have to provide basic, yet money-losing services such as the high-street banks may have. They are "cherry-picking" the most appropriate and profitable products. In this way they can finance their development strategies and concentrated core offer in the home market, in a virtuous cycle that leads them to more cross-selling opportunities as they increasingly enlarge the offer of non-core products. The most recent Tesco Annual Report states that they have over two million TPF customers with 400,000 savings accounts and 900,000 credit cards. They claim that 50 per cent of all TPF transactions are made at times when the banks are shut and that some 80 per cent are store-based. Sainsbury's Bank has over one million customers. Whilst the exact meaning of such figures is unclear, the financial outcome of these initiatives for Sainsbury and Tesco (and their partners) is now beginning to show a return on the investment (see Figure 1).

Second, food retailers attempt to use financial products to enhance customer loyalty. By providing financial services retailers secure themselves a competitive advantage towards direct competitors: they aim to build stronger and longer customer relationships, derived from customer confidence in the retail store brand (Alexander and Pollard, 2000). This could feed again into the virtuous circle, providing a synergistic effect on the retail brand if the customer is satisfied with the retailer's financial services offer. The level of involvement and trust entailed in a financial business relationship when compared to the purchase of food is an interesting research question. Some financial services transactions may be low trust and involvement purchases, whereas others

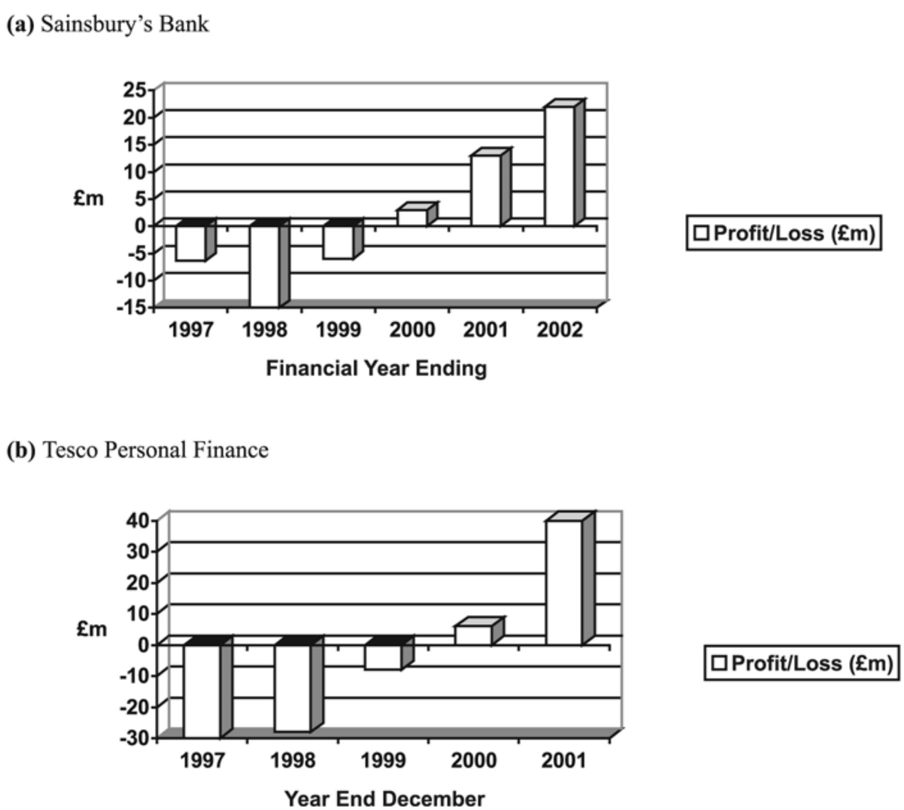

Figure 1.
Profit and loss at Sainsbury's bank and Tesco personal finance

require higher levels of both. The retailer position in this respect may depend heavily on the perception of their (and their partners') brands. More negatively however, it is possible that a bad experience in financial services, e.g. insurance, could damage the retail brand. Service delivery and quality is therefore a priority.

Third, the provision of financial services by food retailers has to be seen within their broad strategy to achieve differentiation and competitive advantage by adding value to the basic core offer. This is an augmented product approach (Colgate and Alexander, 2002b). Through the provision of additional products and services retailers aim to satisfy a greater percentage of customers' needs and wants. Tesco was the first of the main food retailers in adopting a card loyalty scheme that paved the way to its greater involvement in the financial services field. This brought Tesco both differentiation and competitive advantage compared to other grocery companies which, despite their earlier comments, were then obliged to follow their lead. Such differentiation is not long sustainable in retailing, as initiatives can be quite quickly imitated. The competitive advantage is then dependent on the quality of the operation. Financial services provide an additional opportunity for retailers in this respect.

The retailers' brand represents a key factor on which the food retailers overall diversification strategy is based (Burt and Sparks, 2002). As Leahy (1998) argues retailers "are well positioned to capitalise on brand strengths and develop relationships with their customers. As a matter of fact, customers trust them and trust is the underpinning of financial services". They can exploit their position as a marketing tool to gain a competitive advantage towards direct competitors, as well as to achieve a concomitant inter-sector effect, such as a weakening of bank loyalty. The provision of financial services by food retailers should be interpreted as the opening of another front of competition with High Street banks in particular, and financial institutions in general. From this point of view, we argue that food retailers are becoming direct competitors to the latter, while co-opetitors with their partner financial institutions. It is instructive that the partners for the main food retailers' joint ventures have come not from the "big 4" traditional banks, but from the financial institutions seeking to challenge them, whether from a Scottish base or from the standpoint of an ex-building society operation. This reflects the competitive dynamism and turbulence in the market.

Promoters and inhibitors for a successful co-opetitive relationship

Table I attempts to summarise the rationale for involvement in these partnerships. It would appear that for food retailers and some of the "newer" national financial institutions there are obvious synergies to coming together. This is far less clear for the traditional national banks who have most to lose from such developments.

Retailers need partners to ensure appropriate skills and expertise and to add some consumer confidence to the operation. In this they have some structural features acting as facilitators to the financial services' provision, such as:

Issue	Retailers	Financial institutions
Brand	Food retailers have a trusted brand that they have developed strongly in recent years. Ability to use the brand to sell into new areas	Many banks do not have a good brand and thus have to subordinate their name in any partnership. "Newer" financial institutions may be better off in this regard
Customers' information	Some retailers have tried to capture extensive data on customers and need to use these data to get a return. Retailers know more about shopping patterns and consumption than banks may	Financial information may be available to some banks, but the ability to use this is unclear. Traditionally been more product focused
Assets	Stores represent fixed assets that need to be used, and are open long hours. Staff and technology assets may also help retailers, though specialist staff may not be available	Banks should have knowledge of financial services sector, though they appear often to be customer unfriendly
Marketing	Retailers are amongst the most forward looking marketers in the UK	Financial institutions are patchy in their approach to marketing. They tend to spend a lot on advertising and promotion, but have not been very strong on in-store promotion and marketing
Opportunity and risk	For retailers, they see the market as ripe for them as they feel their advantages and skills outweigh the risk. The biggest risk is probably brand damage through service failure	Traditional banks have a high exposure to new entrants. Some have responded by exploring new channels, e.g. Internet. The newer financial institutions see an opportunity as they can gain exposure and market share through partnerships. The risk for them is loss of identity in the partnership

Table I.
Involvement in financial services

massive footfall, pleasant atmosphere, nation-wide coverage, ready-made branch network in key locations and low customer acquisition costs. For some of the financial institutions it is the main route to a national market and they gain from the association in reputation and reward terms. As Clink and Dewhurst (2002) note, the RBSG saw the potential to extend their offer by multi-brand, multiple channel distribution and to improve efficiency through additional volumes of business.

The retailers' brand extension represents a factor which has to be carefully managed in order to not negatively affect the brand reputation. To deny credit to a customer or repossessing his/her property in the case the owner could not keep up the mortgage repayments, may mean losing a customer or decreasing his/her loyalty to the retailer's brand as a whole. Moreover, as flexibility and ease of use are the strengths of the financial services provided by retailers, at the same time, they can attract high risk people unable to find credit elsewhere, and in this way have to sustain losses due to increasing bad-debt write-offs. The bank's experience helps to protect them from this, although this is still a feature of the operation. For example TPF had a bad debt provision in 2001 of £40 million on an income of £187 million and expenditure of £107 million.

In terms of the evolution of the relationship between food retailers and financial institutions, the initial flurry of activity in 1997 has seen subsequent progress by these partnerships. "Tesco need RBS's expertise in areas like risk pricing for loans and credit cards and servicing and processing. Tesco brings ideas on merchandising, customer acquisition and product design" (Brown-Humes, 1998). In the case of Sainsbury's Bank, Bank of Scotland had spare capacity and a low cost operation, in addition to being the Scottish banking market leader. Their aggressive and innovative approach in direct banking was what Sainsbury was searching for.

Looking at the structural and organisational features of the organisations involved, we can suggest the presence of shared values and cultural affinity. Undoubtedly, the food retailers and financial institutions observed share many common features. First, they both have a similar "industrial process", identifiable in the combination of the product with the commercial in the case of retailers or the financial with respect to financial institutions service, where the intangible aspects play a major role. Second, they operate within an intense competitive environment, probably increasingly complex, and have to face up to an increasingly sophisticated and demanding customer. Furthermore, their core products are becoming ever more standardised. Moreover, the food retailers' provision of financial services emphasises their standardisation, contributing to a weakening of the competitive advantage of specialisation possessed by the "big 4" financial institutions. The chief executive of Sainsbury's Bank underlined the similar culture in customer services between Sainsbury and Bank of Scotland. Presence of cultural similarities and shared value can be found also in the partnership between Tesco and Royal Bank of Scotland: "RBS was a natural choice: a bank with broad financial skills and a proud heritage, its relatively small English presence ensured it was at ease with Tesco's aggressive approach to the English banking sector ... cultural compatibility between the two companies was quickly apparent" (Pring, 1998).

Many of these issues are considered in Table II. Table II provides details of the various contributions to TPF as outlined by those involved in running the

Table II.
Tesco personal finance (TPF) business model

Tesco contribution	RBSG contribution	TPF contribution
Use of brand	Tailored products	Marketing and customer insight
Access to customers	Call centres	Product design and development
Space in stores	Service centres	Setting delivery standards
Clubcard	Financial expertise	100 head office staff
Tesco.com		

Source: Clink and Dewhurst (2002)

business. We can suggest that in short, Tesco provide the brand and access to customers, whilst the RBSG provide the technical and service know-how and back up. The joint venture company is basically concerned with the operations and ensuring the processes run smoothly. It should be clear that whilst it is possible to learn the skills needed to operate such businesses, it is difficult to obtain the brand reputation and customer access in the same way. Retailers may therefore be less vulnerable in any future dissolution of the partnership.

Pooling resources and skills is a way to achieve common goals, as well as goals specific to the individual partners. Complementarity between partners' business lines, geographic positions or skills and knowledge of internal core competencies are fundamental. From this viewpoint, the relationship between food retailers and financial institutions meets these requirements. It is a strategic alliance, which supports and leverages both parties' core competencies. The case of Sainsbury's Bank, for instance, meets the requirement to run the joint venture as a completely autonomous subsidiary answerable only to its own board. Asda and Wm Morrison on the other hand, represent examples in which the partner's superior knowledge or skill (the bank in these cases) give them sole authority to run the venture, in the form of operating control.

Another variable particularly relevant to the presence of a solid relationship is trust. This is a concept however that is difficult to precisely define and to confirm its existence or the degree of its presence. Wilson and Jantrania (1994) relate trust to the other partner's abilities, expertise and knowledge perception. We can therefore consider the presence of trust through reputation. A positive reputation is a signal that a partner should be trustworthy. Food retailers, in particular the ones that have chosen a greater involvement in the financial services sector (Tesco and Sainsbury) have a strong reputation coming from their brand strength, while the banks involved have a good name for innovation and dynamism. The partners are therefore serious businesses with considerable reputations and might be broadly considered as likely to be trustworthy. However the dimensions of trust inside the relationship are difficult to examine fully.

The presence of confidence and commitment between parties are other variables producing a successful relationship. To create or to boost their level it is for example necessary to exchange information and increase the contact points between the partners. The integration of IT systems between the companies involved might be a way to infer exchange of information. Moreover the appointment of a Bank of Scotland director of customer strategy as first marketing director of Sainsbury's Bank underlines the increasing inter-relationships between partners.

A relationship can not be considered successful if it is not satisfactory. Satisfaction "relates to performance of the key elements of the exchange process" (Wilson and Jantrania, 1994, p. 57), meeting the other partner's expectations and thus avoiding its searching for alternative partners. Owing to the continued enlargement of the range of financial services provided, the profit earned by the ventures (see Figure 1) and the greater involvement from both parties we can infer satisfaction at this stage. The extent to which this is a signal for a long-standing relationship remains open to question however.

The depth of relationship has been increased, as witnessed by the expansion of service provision. The range of services provided varies by retailer and could include contracted out services through the joint venture eg to insurance partners. To a considerable extent the retailer brand is used as an umbrella for a range of services from various providers. The channel portfolio has also increased and Internet based interaction is now more prevalent, reflecting trends in the wider market for Internet banking.

Observationally, there has been development also in the ways in which some of the services are provided. The visibility of the financial services provision in store is much higher, including dedicated space for leaflets, notices, advice etc. There is much greater cross-selling using loyalty cards, retail brand products (eg insurance offers on corn flakes packages) and in-store magazines as well as advertising. For some products the marketing and approach to selling the product has been altered. Tesco's aisle-end display of packaged travel insurance for different groups is perhaps a good example of this. They have simplified the product into obvious and straightforward categories and produced a series of (literally) "off the peg" packages. Purchase of this if you have a Tesco Clubcard is straightforward and requires no form filling with the package being activated at the checkout. The combination of new products and new product merchandising and promotion strategies has seen their share of this market increase considerably. TPF are selling over 2000 such packages per week (Clink and Dewhurst, 2002).

Conclusions and future directions

The paper has described the operational, strategic and relational issues entailed in the provision of financial services by food retailers and characterised the development of their relationships with financial institutions as a "co-opetitive" dimension. This is one in which competition and co-operation are present at the same time, adding value to each other and achieving mutual benefits. The examples we have used are in one sense a modified version of co-opetition as the competitors that have co-operated are not long-standing sector businesses. Instead they are new entrants to a much changed sector structure. As such there is an added impetus to co-operation in order to compete successfully amongst themselves but also with the established players.

The food retailers' provision of financial services is contributing to changing the industry's boundaries. These are becoming less and less clear and altering the positioning and role of the organisations involved. On the one hand, commoditised financial services, which are standardised, easy and convenient, provided by and from retailers, with new distribution channels such as the Internet, satisfy customers without great needs and knowledge of financial products, and possibly those with time constraints. On the other hand demanding public and business companies may remain the domain of more traditional financial institutions. These have to specialise and develop their relationship marketing approach.

Retailers' interests are focused on the personal sector in order to give a "good deal" to their customers. There is a danger in this dichotomy. As traditional banks withdraw from "standard" locations and provision and as retailers continue to take market share, so the onus is on consumers to change behaviours. Some of the most financially vulnerable in society may find this very difficult and thus not obtain adequate services at reasonable cost.

There is also a danger for the partners in terms of the sustainability and the future of such co-opetitive businesses. Partners bring different elements to the partnership. Any dissolution of the partnership would of course leave each with their own attributes. However, it would seem that the technical attributes that the banks brings to the partnerships are able to be learnt by the retailers, but the retailer attributes (which revolve around customer access and brand) would not be able to be "taken" by the banks. This raises questions about the long-term nature of the partnerships as there may come a point when there may be more value to be gained by competing alone.

In terms of future research directions, this subject area has been considered mainly in a business-to-business perspective so far, thoroughly ignoring the retailer-customer focus. Besides some theoretical assumptions (Colgate and Alexander, 1998; Alexander and Pollard, 2000) concerning the interaction between retail organisations and their customers, not validated by any field research on the consumer, scholars have broadly neglected the matter. As a consequence, future research avenues on the topic should be addressed in this way (as Martinelli (2002) has begun to do for France). Even if the reality is that the food retailers entry in the financial services sector is long term, this is not yet recognised by the prevailing literature on the financial services sector, which still continues to mainly ignore the food retailers' channel in their subject matter. While their market share is currently small, it has grown rapidly and there is enormous potential. If food retailers are in financial services to stay, and we believe they are, then we need new research thinking on the subject.

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Stock control and supplier relationships at the local pub in a market town

A case study investigation into effective demand management

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Keywords *Retail trade, Licensing, Stock control, Supplier relationships, Case studies, United Kingdom*

Abstract *There are about 60,000 public houses in the UK that operate in a diverse retail sector from the wholly independent small business to the corporate brewery managed public house. The publican in all these establishments have the common aim of being able to service the customer who demands supply from a range of available beverages. Each publican has access to a variety of formal and informal mechanisms to ensure that their stocking policies relate to current demand requirements. The relationships of the publican with their product suppliers are embedded in the objective of supply chain management to minimise costs associated with their operation whilst maximising service levels to the customer. This paper seeks to develop the understanding of how publicans develop relationships with their suppliers and their stock holding policy considerations, using a case study approach.*

Introduction

Forecasting and managing demand for customers requires a strategic, holistic view of the supply chain involved in delivering customer service expectations. The effective execution of these detailed plans can ensure achievement of customer service goals with the use of management feedback information on an operation's performance against pre-determined plans. The demand management activity provides signals for revising plans and associated corrective actions to maintain supply to the specified customer's requirements (Vollman *et al.*, 1997). This approach necessitates detailed attention to stock control of beverages throughout the supply chain to maximise high levels of customer service. There is an ever-increasing range of products on offer to the consumer from real ales with a short shelf life to keg and bottled beers, wines and spirits with longer shelf life. But there is a trade-off between stock holding and customer service that is central to an effective operation and is particularly relevant to the public house. Poor demand management will inevitably lead to high residual stock, reduced cash flow and costly discounting to move slow moving products. Appropriate stock holding will offer customers consistent

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availability of a wide range of products to meet their fickle requirements. This ability to be able to plan and co-ordinate all those activities necessary to achieve desired levels of delivered service and quality at the lowest possible cost is fundamental to managing an operation effectively (Christopher, 1998).

Using a case study approach this paper seeks to investigate the influences that stock control have on managing customer demand at the local pub. Understanding the nature of the relationships that exist linking the brewer/wholesaler and public house, and then to the end customer, or consumer for the supply of beverages and information is essential. The recognition of the existence of any of these activities in an enterprise, particularly where the product is a perishable food or drink is central to developing an effective operation that communicates relevant information to support the operations activity (Jordan *et al.*, 1994). Melnyk *et al.* (1985) noted that the information system would only succeed if it were user friendly to the operating detail supplied by the individual. The suggested solutions offered by the short term planning system are to be viewed as recommendations and not directives since the responsibility for the actions of the stock control system are retained by the individual who manages the operation. The ability to allow discretionary decision making as part of the overall product stocking activity is vital to manage the operation effectively. Some years on from the study by Melnyk *et al.* (1985) and discretionary decision making is arguably more relevant now given the wider choice of brands on offer in the public house, the increased risk of unwanted residual stock and the rapidly changing consumer behaviour.

Stock control for effective demand management

For each link in the network between individual customers and suppliers there exists a relationship that aims to deliver precisely to their customer's requirements and to the required service level (Handfield and Nichols, 1999). For the publican this requires an investment in stock in anticipation of actual customer demand within the range of different products offered for sale. Each customer will have different demands that are satisfied by the publican holding the correct mix of stock of different brands to fulfil those customers' expectations. Demand management and stock holding is then repeated upstream throughout the supply network of wholesaler and brewer. This approach requires for a voluntary or contractual co-operation between member firms of the network to achieve their common goal. Slack *et al.* (1998) describe the different types of relationships that can exist within supply chains, ranging from an integrated hierarchy within a fully vertically integrated firm to the short-term trading commitment where the relationship does not exist beyond an individual order. It is essential that the relationship deliver the necessary level of service for the customer whilst minimising costs for the operation and does not become a self fulfilling activity.

These relationships are then exploited by the manager of the public house to maximise supply chain performance from two perspectives. First, it is to manage inventory and relationships to achieve a higher level of customer service, and secondly to manage both upstream and downstream activities within the supply chain (Ellram, 1991). Suppliers need to know and understand their customer's future requirements in order to predict their demand accurately and cope with the marketplace needs of flexibility and adaptability (Stoop and Wiers, 1996).

For most public house operations the contribution that material costs have on the total cost of the operation is between a half and two-thirds of the total. The key to successful management of the operation is to focus on the accuracy of the forecasted requirements using techniques to plan in the short term and adjust the replenishment of consumed stock on a day-to-day basis. Based on previous and future sales activity of the operation, the stock control system should support the public house's need to satisfy the customer's orders on demand. Research published in this area is limited, but a three year longitudinal study published by Towers (1999) showed that introducing too sophisticated computer and manual systems clouded the need to have clearly identified disciplines for controlling store rooms and providing easily compiled management information from which to take corrective action. A key is the need for integrated and not interfacing systems of control (Stevens, 1989) as there is an inseparable dependency between Brewery, wholesaler and publican.

The structure of the public house retail trade

Traditionally, the breweries owned most of the public houses, and either installed managers, who were simply employees of the breweries, or allowed the public houses to be run by tenants or leaseholders. Ownership was retained by the breweries, which charged rent for the use of their property, and controlled the types of stock that could be sold. Indeed, the breweries themselves often supplied the stock, but the tenants and leaseholders retained the profits. There are also free houses, which are owned outright by the individual licensees.

Currently, about 35 per cent of the public houses in the UK are free houses, but some are owned by chains that are unaffiliated to the brewers, so it does not mean that all are small businesses. Lease and tenant holders run 42 per cent of pubs and the remainder are managed houses owned by breweries and corporate chains.

The managed houses are part of a major business enterprise, and so their financial controls have been devised to effect economies of scale. Managers may find that their tills are directly connected to head office, so that the sales of particular products are monitored. Alternatively, they have to make regular and detailed reports on the sales of each product, so that head office is able to monitor trends, on gross profit for example and affect the appropriate delivery of stock. Tenants, leaseholders and free traders have no similar level of direct support from a brewery.

Methodology

The case study approach was chosen as it allowed the phenomenon of the business activity and the relationships with their customers to be examined in its social context, and allowed the researcher to be able to get close to the participants and to be sensitive to the holistic nature of demand management or stock control activities (O'Donnell and Cummins, 1999). The focus of the case study qualitative approach to research tends to be on dynamic processes, with the aim of explaining rather than predicting phenomena (Leavy, 1994). The research investigated the supply of spirits, wines, cordials, soft drinks and "alcopops" using detailed semi-structured interviews and participant observation of the different supply chains. The diverse supply networks identified in the licenced retail trade, which is predominately a grouping of small businesses lends itself to the phenomenological approach which is "centrally concerned with the understanding of things rather than measuring them" (Gordon and Langmaid, 1988, p. 2).

The in-depth study of public houses was conducted from the perspective of three different supply chains:

(1) An independent small business leased public house supplied from an independent wholesaler.

(2) A brewery managed public house (the majority of turnover from drink sales).

(3) A brewery managed public house (40 per cent of turnover from drink sales, 60 per cent from restaurant sales).

The illustrative case study was undertaken in a Shire-county market town which had approximately 29 pubs but had seen none of the investment in branded pubs or urban or city centre style superpubs. The town had a population of approximately 15,000, had some light industry and acted as a service centre for the surrounding largely agricultural area and as a residential area centre for large urban/industrial areas.

Influences of effective demand management

An independent small business leased public house supplied from an independent wholesaler

The independent wholesaler – business activity. The depot of the wholesalers serviced 326 current customer accounts with an average sale of £350-£400 per customer, offering an all-week seven-day delivery. The depot delivered to a radius of 50 miles using a fleet of nine delivery vehicles that included the independent leased public house. This depot was part of a national UK group network of eight depots. The stock holding policy was stated as 21 days for main line core items within the whole range. This is aggregated from a ten-day historical customer sales profile, regenerated each week. Because of the short shelf life of real ale stock holding was limited to seven days.

Stock control and supplier relationships. The wholesaler provided two levels of delivery service depending on distance from the depot, shown below Table I.

The customer accounts are dived between three customer sales managers who each have a team of telesales to support them. Demand management and stock level knowledge were recognised as the main shortcomings of their customers. The wholesaler had been able to exploit these weaknesses into an added value activity for the publican through the telesales team making regular weekly contacts. The purpose of the regular telephone call was two fold; firstly to act as a trigger and a discipline for the publican to have an up to date stock level prior to the call and secondly to manage its marketing relationships with the aim of retaining business through customer loyalty. The Depot Manager commented:

> The pub trade is notorious for ordering at the last minute based on the publican's perceived knowledge, intuition and experience. We know that can be very inaccurate. We can turn that situation around by monitoring trends for each customer by each product item and market this to the publican as one less thing they have to worry about. Particularly for the smaller pub where cash is crucial we can develop this relationship to our mutual benefit. Also aggregating demand from all our customers allows us to better plan our depot stock holding. Product cost will always be important but so too is our responsiveness to customer demand.

The wholesaler had the previous ten week sales to each customer from which they are able to evaluate recent trends in demand across the individual range of products specific to each outlet and suggest possible alternatives to the publican. Having a close relationship with their customers the depot telesales team would often make two phone calls, the first to trigger the publican to establish current stock levels and the second within an hour to discuss the order content. Any day-to-day fluctuations in demand from customers could normally be taken up by the stocking policy of the wholesaler. Large changes in demand within their region would be accommodated by reallocation of stock between depots in the national network. Out of stock situations at the wholesaler were said to be rare.

An independent small business leased public house – business activity. The public house was based on the edge of the town centre and employed three full time members of staff together with the equivalent of four part time casual employees. The owner has outright management control of the business. The conditions of the lease required that beers, lagers and stouts were purchased from a specific supplier, but spirits, wines, cordials, soft drinks and alcopops could be obtained from any source. The customer clientele varies quite considerably through the week but is generally aged between 18 to mid-30 years old with an increasing proportion of the over 40 years of age.

Distance from depot	Latest order time for same day delivery
Within four miles	11.30a.m.
Over four miles	9.30a.m.

Table I. Wholesale depot delivery service levels

Stock control and supplier relationships. There was no computerised stock management system and all records were hand written. Each week a formal manual stock check was made in the storeroom and in the bar area of the 51 different product lines. The publican used the results of the stock check, and then applied this knowledge and intuition of customers' past demand, together with any local events such as festivals to determine the replenishment requirements from the wholesaler. The weekly order was then given to the wholesaler for delivery the following day. An important element in establishing future demand was the forecasted weather for the forthcoming week. Sales of spirits, wines and soft drinks were seen to be consistent and level, divided between fast and slow moving lines within each range. The storeroom stock acted as the safety stock, the replenishment lead time and delivery service accommodated any major changes in the pattern of demand. Alcopops presented a different scenario because of the high influence of week-to-week fashion changes and the younger age of the customers. There was not deemed to be a high level of brand loyalty and substitution of alternative brands was readily accepted. Hence the publican assessed the stock levels for each brand as well as the whole category of alcopops, in the knowledge that it was unlikely that fashion changes would create unwanted residual stock. The publican's views were quite clear:

> I am a small business, with a small cellar where cash is crucial and floor space is limited. If I had poor stock control I could only blame myself for ordering the wrong product that I would have to sell at a loss. I rely on a proactive supplier who will help me to manage my pub to retain my customers and that will be good for the wholesaler, as I will be a loyal customers of theirs.

In setting the stock levels the publican sort to source spirits, wines, cordials, soft drinks and alcopops from their local supplier that provided a seven day a week delivery service at no extra cost. There was limited storeroom space and it was of paramount importance to have a responsive supplier who could meet daily and weekly requests to service the changing demands of the business. This allowed the publican to hold minimum amounts of stock and therefore maximised cash flow. The wholesaler depot was based 14 miles from the public house and stock outs that affected customer service were rare. The last occurrence was in early autumn, ine months prior to this study when a short spell of untypically warm weather over a weekend created abnormal demand that could not be serviced from the current arrangements. The publican countered:

> We did get it badly wrong but the customers hardly noticed as the wholesaler gave me two quick deliveries within 24 hours. To me I would only get that from a genuine two-way relationship.

A brewery managed public house (majority drink sales)

Business activity. This public house was situated close to the town centre and employed four full time staff and the equivalent of ten part time staff. The public house was one of a number of similar local pubs owned by a large national brewer. The pub manager reported to the area manager and was tasked to deliver a targeted gross profit from the business. The brewery dictated the complete range of products to be sold from a portfolio of beers, lagers, ciders, wines, spirits, alcopops and soft drinks. The landlord was not allowed to purchase any product other than that specified by the brewery and currently stocks a range of 57 main product lines. The customer clientele was predominantly in the age range 18 to mid-30 years old but was supplemented by older aged customers during the week. There was not seen to be particular brand loyalty within the range of available products. The publican summed it up:

> The majority of our customers will drink whatever is fashionable and if that is not available the next best thing will do.

Stock control and supplier relationships. The public house was electronically linked through the sales till directly to the brewery. The system, which could potentially create weekly suggested replenishment orders, was not currently in use and the stock ordering was carried out using only a simple manual method. The publican added:

> My job is to ensure I deliver the gross margin targets to the Area Manager. I can do that without the use of an electronic gadget. I know my customers' drinking habits – that's what I'm paid for. The store room is large enough for me to carry enough stock to cope with the most extreme circumstance. The manual stock check makes us keep a physical eye on what we have with enough buffer outside.

The manager undertook a weekly stocktake using a written *pro forma* and determines the weekly order using an arbitrary policy of a minimum stock level trigger of 14 to 19 days based on sell-by date. The order was given over the telephone to a central telesales department within the brewery that is then processed to create the normal weekly delivery. The telesales staff did not discuss historical trend information to assist the manager to make more informed reorder decisions. The publican's view was that he had a better knowledge of his customers' consumption patterns "compared to the remote telesales team with no local knowledge".

To cover for a shortfall in supply there was the availability of an additional emergency mid week delivery, but this attracted a premium charge for the manager. However, the manager did have the option of sourcing short term carry over volumes from other brewery managed public houses within their area at no extra cost other than collection costs.

The manager had access to enough storeroom space to allow him to set approximately two week stock levels across all the product range on offer. The location of the public house created sufficient demand from customers, particularly at weekends where they followed a predictable pattern within the town centre circuit, generating an overall average turnover of stock of approximately ten days.

> We need to ensure that the customers start their Saturday night with us so that they likely to visit us again in the last half an hour. That way we get two bites of the cherry. We do that by offering happy hour discounts which gives us an edge.

As part of forecasting future longer term demand fluctuations the manager would identify forthcoming local and national sporting events, as well as local events such as the annual town Jazz festival. Local knowledge played a key part in ensuring future abnormal fluctuations were accommodated in the ordering process and within the last two years there had been no stock outs. The managed house had consistently met and often exceeded its gross profit objective.

A brewery managed public house (40 per cent of turnover from drink sales)
Business activity. This public house was situated on the outskirts of the town and employs ten full time staff and the equivalent of five part time staff. The public house was one of a number of similar local pubs owned by a large national brewer. The pub manager reports to the area manager and is tasked to deliver a targeted gross profit from the business. As with the previous pub the brewery dictated the complete range of products to be sold from a portfolio of beers, lagers, ciders, wines, spirits, alcopops and soft drinks and the landlord was not allowed to purchase any product other than that specified by the brewery. The customer clientele was predominantly couples in the age range 20 to mid-40 years old without children and was supplemented by older aged customers during the week who are eating out.

Stock control and supplier relationships. This public house was electronically linked through the sales tills directly to the brewery. The stock management system was used as an integral part of managing the business. A complete stock check was undertaken every three weeks with inputs from named authorised staff. The checkers initials were also added. Each week an interim check was conducted on 25 product lines for stock in the storeroom. The minimum stock levels were set at between ten days and a month depending on recommendations from the stock management system. The manager based the majority of the ordering decisions from the suggested re-order quantities given by the brewery. The system allows for confirmation by exception so that only alterations are confirmed, otherwise all other orders were accepted by default. The manager's view is that:

> . . . the brewery has the expertise to manage the stock replenishment activity. I should apply my finite effort at managing the operation with the best available information. The relationship I have with the brewery is based on mutual trust for each other's expertise. We have a common gaol of contributing to profit through the best use of our strengths. Why divert our time to replicate the work of others at the Brewery in the supply chain?

His direct contact with the telesales group at the brewery was minimal.

As with the other national brewery pub if a shortfall in supply were to occur there was the availability of an additional emergency mid week delivery, but this also attracted a premium charge for the manager. However, the manager did have the option of sourcing short term carry over volumes from other Brewery managed public houses within their area at no extra cost other than collection costs.

This public house's food was its main offering that was supplemented by the sale of drink. Hence the consumption of drink was on the whole dependant on the performance of food sales. Although outside the scope of this investigation, the high proportion of food sales within the total offering contributed to a different influence on the relationship with the brewery. The strict discipline observed within the operation as a whole seemed to impact favourably on the stock control of beverages across the bar and with served meals.

Effective demand management issues

The study identified that in all three cases the publican played a pivotal role in the managing demand between customers and suppliers to the public house. The profile of customers and their associated purchasing behaviour created many problems for the publican in managing their operation, but the constraints of a national product range or a tied agreement had not adversely influenced the service levels demanded by their customers.

Each case study has highlighted how the supply chain is managed from different perspectives. The small independent leased public house has developed a very close and mutually beneficial relationship with its wholesaler. The publican had realised that the combined attributes of the two contributors involved in supply were greater as a collaborative partnership than as two separate participants in the same supply chain operating independently from one another. Working and responding together with a common focus of servicing fluctuating customer requirements brought benefits to both enterprises in the chain. Although the small pub had access to limited resources, by the very nature of its size and restricted access to finances this did not deter it from effectively managing stock control and supplier relationships.

The brewery managed public houses varied considerably in their approach to stock control and supplier relationships. Where food sales made a considerable contribution to the offering the use of computer based decision making support from the brewery seemed to be a factor to a more sophisticated approach to stock control and supplier relationships. The extra dimension of food as a dominant driver in the composition of demand management, and the consequential drinks requirement produced a delegated approach to decision making from a central brewery based function. The publican for this outlet, and the small independent saw themselves as a facilitator of the contributing value adding activities within their span of control to achieve fulfilment of customer service expectations. They managed these activities to their own advantage and gained a more informed view of their future requirements. However the brewery managed public house where sales were predominantly from drinks seemed to operate much more in isolation from any central support function. As a business there was a clear financial objective and with its town centre location was more about ensuring volume of sales from within the range of drinks in stock, with shortcomings from stock outs being overcome with product substitution, despite having the largest cellar of the three case study outlets.

The aim of delivering customer service at the lowest possible cost in the supply chain (Christopher, 1998) was evident in all three cases. The common goal of ensuring availability on demand behind the bar of the public house appeared to be embedded in successful supplier relationships and effective stock control. What seemed to be important in ensuring continuity of supply was the availability of stock from the supplier to the public house or a sufficient stock holding capability at the public house. Although this may seem an obvious conclusion to draw, the unpredictable nature of human behaviour in a relaxed social environment created a complex array of responses within the supply chain.

Conclusions

This paper has shown that despite the different circumstances observed in the supply chains, good stock control and developed supplier relationships are fundamentally important to managing demand by the publican. The approach publicans take to demand management determines their effectiveness at point of consumer service delivery. Regular and accurate updates of the stock levels within each product line were crucial to forming an informed judgement on replenishment requirements. The relationship developed with the publican's suppliers underpinned a timely response to the re-order activity. As Slack *et al.* (1998) identified, this relationship took a variety of forms from a total committed integrated hierarchy observed in the last case to a short term trading approach combined with a large stock holding seen in the second case. Interestingly the independent leased pub developed a very close working partnership with its wholesaler, who had a very clear understanding of the demands and limitations of the small business. All three cases reinforced the views of Ellram (1991) and Stoop and Wiers (1996) that integrating their activities and knowledge of customer's future requirements were crucial to managing their respective supply chains.

The use of a computer based stock management system was seen to be effective in the context of that observed in the last case but its absence in the first two cases was not generally seen to be disadvantageous in either stock control or supplier relationships. Since the wholesaler provided usage trends for the publican of the independent house to arrive at re-order decisions for each product line this activity was seen as an integral part of the supplier relationship. We were however unable to establish in the second case through either corroborated or triangulated evidence the exact impact of locally based decisions on stock replenishment from a national brewery managed house.

Clearly issues relating to demand management are complex. This paper has highlighted the influence, role and attitude of the publican and developed a greater understanding of the topic. The research allowed for analytic generalisations (Yin, 1994) to be established from the study to gain a greater awareness of the phenomenon. Having identified a series of factors that influence demand management, our intention is to extend this research into all public houses within the chosen town. Using the town as the unit of analysis and by using quantitative methods embedded in a qualitative research design a greater knowledge of the phenomena will be gained. Developing and extending the analytical generalities from a wider sample of public houses will increase the richness of our understanding of servicing and managing customer demands.

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A case study exploring the packaging design management process within a UK food retailer

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Abstract *Food retailers invest heavily in design expertise to create exciting packaging to entice customers to buy premium food products, and to strengthen their competitive edge. The process by which food retailers manage food packaging design has not been documented and this is an oversight in the design management and retailing literatures that this paper addresses. An in-depth case study of one of the top four UK retailers is presented and their approach pack design management is analysed and discussed. The process outlined here was in place in 1997 at a time when the retailer had just moved from number three in the market place to number two and was aiming to be number one. The process documented is that of a dynamic growing food retailer working on improving its brand image through packaging design.*

Introduction

Design has been acknowledged as a strategic tool in competitive industries (Kotler, 1973; Walsh *et al*., 1992) and is also acknowledged that there are few industries as competitive as the food retail industry (McGoldrick, 2002). This paper examines the design management processes that deliver a retail brand in an under explored design management sector, the UK food retail sector. This sector is of great interest because of the volume of design work produced. UK food retailers have greater product portfolios than any other sector, up to 40,000 product lines and develop thousands of design projects each year (Southgate, 1994). Food retailers are highly competitive and packaging design is used as a strategic tool for differentiation and to develop their retail brand equity.

The objectives of the research are firstly to outline and discuss the packaging design management process within a UK food retailer. The second

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objective is to initiate some theoretical development by providing a model of the process observed in one leading food retailer. It is hoped this will provide a starting point for further work and analysis in this underdeveloped area.

There is very little theory development in the "design management" literature in this sector. Most of the literature consists of case studies describing processes in different industries; the electronics industry (Sony and Phillips in particular) has received particular attention. The literature as a result, has an "engineering" product based bias and focuses on fairly prescriptive, sequential processes. Topalian *et al.* are some of the few academics to have developed design management frameworks. This paper is one of the first attempts to broaden the scope of the design management literature (such as it is, in its primary stages) into a retail environment and a food retail environment.

This paper will present a brief summary of the design management literature. The methodology adopted will then be outlined and the results presented in a shortened case study form. Finally, the implications for design management are discussed and future directions for research highlighted.

Packaging design, design management and retail design management

The UK food retail sector is of interest for the packaging design management literature because of the volume of packaging design, with approximately 4,000 packaging design projects completed per year across categories as diverse as pet food and shampoo (Southgate, 1994). No manufacturer deals with the volume of packaging design work across categories and therefore food retailing is unique and worthy of analysis.

The first to define packs as the "silent salesman" was Dichter (1957). He argued that the pack must come alive at the point of purchase, so as to represent the salesman. Pilditch (1961) emphasised the role of packaging as a "sales clincher", to stimulate impulse sales. He continued by recognising the need to incorporate emotional values in packaging design in competitive markets. This was taken further by Lewis (1991) who stated that a pack is the physical embodiment of the core values of a brand forming the essence of the brand, and the brand's identity. Lewis also discussed the strong impact the pack designers have in a process of building relationships between the brand and the consumer.

Packaging design must create conditions that encourage the consumer to lower their psychological defences and become interested in the products cited by Green (1986). Packaging design is tactical, taking visual "cues" from the brand leaders in the design, to send the message to the consumer that own brand quality is the same as the brand leader with the aim of promoting own brands at the expense of manufacturer brands. Green (1986) also argues that the use of packaging design is not merely an exercise in "making things pretty" or to provide the right psychological conditions for the consumer to spend. Its aim is to segment a market and target a particular consumer. Keller (1991) suggests that packaging design can help customers make brand associations, which build up a positive overall brand image. Packaging has a key role in communicating product benefits to the consumer with product benefits, according to Keller (1991), being the personal value that customers attach to the products.

Pack design can aid the consumer in the decision process through various elements of the product, for example the colour red of McVitie's Digestives helps consumers easily identify a particular type of biscuit in the market place. Wind (1982) identifies structural or functional characteristics of the packaging, which portray product benefits to specific groups of people, for example the twist in the neck of Toilet Duck toilet cleaner. Functional benefits are less subjective than aesthetic aspects of the package and consequently these should be easier to measure in terms of their impact on consumer choice. Customers attach meanings to various design elements, both aesthetic and functional, and these elements can be manipulated by the designer to achieve the strategic goals of the marketeer (Snelders *et al.*, 1993).

Southgate (1994) postulates that UK food retailers use pack design strategically to improve sales and profits. In the 1980s UK food retailers began to improve the pack design, they found that good packaging design and improvements in product quality enabled them to compete with food manufacturers directly. Southgate (1994) identified that the own label share of trade grew dramatically in the 1990's as a result of better use of packaging design. Southgate (1994) argues that the major UK food retailers are brands in their own right; Tesco, Sainsbury, Asda and Safeway are defining and communicating their own distinctive brand values through packaging design. Southgate continues by stating that food retailers use pack design to communicate the brand values, not just as a vehicle to achieve impulse purchase. A pack then, is not simply a container for a product, but it also embodies marketing strategies, brand values and sales strategies. Manufacturers and retailers have seen the impact packaging can make to sales and as a result food packaging has become increasingly sophisticated.

Dick *et al.* (1996) suggest that developing retailer brands is a powerful long term weapon against competing retailers, which helps insulate the retailer from competitive attacks. They also suggest that brand names act as a cue for consumers when judging quality of products. Cue utilisation theory (Cox, 1967; Olsen, 1972) argues that consumers employ two types of indicators or cues to assess quality of products. Direct indicators are all related to the physical properties of the product. Indirect indicators include prices or brand names. Direct indicators are often not available to the consumer so in many cases indirect indicators are used. Olsen (1972) discusses the fact that in many cases consumers use surrogate indicators that they believe are related to real objective measures. The brand name is used as a surrogate for ingredient quality. Dick *et al.* (1996) reinforce the idea that branding and packaging are very important cues for the consumer when processing information about potential purchases. Although packaging and branding may appear to be superficial concepts within overall marketing strategy in fact the time pressed consumer uses "surrogate cues" to replace "real" product quality measures when making their purchase decision.

This elevates the importance of packaging design to a higher level in marketing strategy than has been assumed to be the case historically. In competitive markets, packaging design has become increasingly important as a strategic marketing tool aiding the consumer's purchase decision process.

Brand names and symbols are the most obvious tangible packaging design cues on packs that exploit brand equity. Retailers own brand products utilise symbols and words that exploit existing brand associations for the leading brands in that product category. This effect is known as "competitive overlap" (Aaker, 1991) and can negatively affect customers' ability to recall the communication effects of a brand, by creating "interference" in consumer's memories (Keller, 1987). Packaging design management is about managing the cues coherently and effectively.

Strong packaging design identity is essential in retailing and this must be managed to create a cohesive, persuasive, shopping experience states Fitch (1991). The underlying ethos of the packaging design identity has to be clearly communicated to build the associations with the brand. For example, Sainsbury's mission is "good food costs less at Sainsbury's" and so the product design must reflect this ethos. Fitch (1991) argues that retail brand identity is a means of differentiation in that, an effective retail packaging design ensures that the consumer is so perfectly attuned with the retailer brand that they will not consider buying another product.

The retail store brand image was defined by Martineau (1958) as "the personality of the retail store". Keaveney and Hunt (1992) go further by describing the retail store image as "the overall impression of a store as perceived by consumers". Baker (1994) suggests that retail store brand image is the embodiment of an individual's cognitions that have been developed from perceptions of a particular retailer and that represent a meaning to an individual. Porter and Claycomb (1997) say that a well recognised, positive brand image is one of the most valuable company assets, and that a strong retail brand image is an essential element in retail strategy. They also contend that a powerful retail brand image encourages repeat purchases.

It has long been recognised that design is in many ways a process of order. Papanek (1984, p. 73), defined design as "as the conscious and intuitive effort to impose meaningful order". This order is of paramount importance to food retailers with the complexity and number of design messages in their stores; the retailers must manage a complex set of packaging messages in a coherent manner. Green (1986) also identified that packaging design in food retail is strategically relevant because it is essentially a way of organising products in a logical and clear manner for the customer. Products must be laid out rationally, with related products located near to each other, in order to maximise sales. This is also a function of packaging design management.

Berry and Seiders (1992) have recognised that it is vitally important for retailers to manage packaging design messages in a coherent manner for consumers, otherwise the risk is the strategic message is lost or at worst damages the retail brand identity. Managing packaging design effectively then is of key strategic value. Food retailers have seen the impact good packaging can make to sales and as a result food packaging has become an increasingly important and strategic retail function.

The design management process has been outlined as a prescriptive, sequential process by authors such as Hollins and Pugh (1991) and Heap (1989). The first author to begin to set out a framework for the "management" elements of design management was Topalian (1994). He identified two levels of design management, the corporate level and the project level:

(1) *At corporate level*:
   - Design skills contribution to corporate profitability.
   - Design responsibility and leadership.
   - Corporate design police.
   - Positioning and "visibility" of design.
   - Centralisation and integration of design.
   - Auditing corporate design and design management practices.
   - Developing corporate design management systems.
   - Establishing and maintaining corporate design standards.
   - Funding of design activities.
   - Legal dimension of design.
   - "Green" dimension of design.
   - Design awareness and design management skills development programme.
   - Design and the manifestation of corporate identity.
   - Evaluation of the contribution and impact of design.

(2) *At the project level*:
   - The nature of the design process and the different types of design project.
   - Formulation of design project.
   - Selection of design specialists.
   - Composition and management of "augmented"design project teams.
   - Planning and administering design projects.
   - Costing design work and developing design project budgets.
   - Design project documentation and control systems.
   - Design research.
   - Presentation of design recommendations.
   - Implementation of design solutions.
   - Evaluation of design projects.

Topalian proposed that it was vitally important to have a board level member responsible for design, operating as a design champion.

Topalian's (1994) definition of design management activities is concerned with implementing and planning a design policy throughout an organisation. The complexity of the process implies that it is a corporate activity that requires management and control just as any other corporate activity.

Cooper and Press (1995) developed the initial principle of a two level design management process and expanded it into a three-tiered process. They postulate that three levels of design management activity exist within an organisation: board level, middle management level and design activity level highlighted in Figure 1. The board level are involved in defining corporate strategy. Middle management levels co-ordinate detailed strategy with marketing and other functions. The design function must maintain awareness of design trends and select design specialists to carry out design work.

The process by which a packaging design with a consistent and coherent retail brand image is managed through a retail organisation is a key strategic component of developing a strong retail brand in a competitive market place and therefore worthy of analysis.

Aims and methods

The aims of the research was to document and explore the food retail packaging design management process. One leading UK food retailer was selected for case study analysis. The retailer targeted was one of the top four retailers in the competitive UK food sector. During the period under study the retailer moved from number four retailer up to number two, with aspirations to be number one. The intention was to analyse retail design management practices during this key strategic period. In all, three interviews were conducted with senior design management executives within the retailer. The results presented in this paper focus on the process outlined in one in-depth long interview with the head of packaging design.

In-depth interviews were chosen as a research method due to the complexity of the design process itself, it would take much more time to elicit the data through questionnaires for example. The retailer is a very fast moving player

	Strategy	Policy	Process Planning	People	Investment	Training	Documentation	Projects
Level 1 Board level	Design Vision, Strategic Direction and approval, creating supportive environment							
Level 2 Middle Management level	Implementing and monitoring design strategy, creating management structures, developing projects, evaluating outcome							
Level 3 Design activity/ function level	Managing design, identifying skills, implementing, monitoring and evaluating design work							

Source: Adapted from Cooper and Press (1995)

Figure 1. A design management matrix

in the marketplace, and access to respondent's time was a research constraint. An interview conducted by a skilled interviewer would produce more data than a questionnaire would allow, enabling probing on certain key elements of the process by the interviewer. In addition, the retail design management process is an unexplored area consequently an effective questionnaire would have been difficult to produce.

The validity of the data was ensured by the careful selection of the research aims and the respondent. In addition all the interviews were tape-recorded and transcribed verbatim, along with the transcripts being sent back to the interviewee for accuracy checks (Cassell and Symon, 1994). The research aimed to study a top UK retailer's process and a top retailer granted access to data. Reliability of the data was corroborated with the use of secondary data sources, (as outlined by Sykes (1990)) such as brand manuals and corporate identity manuals and the use of interviews with other key personnel to cross check information. The data was analysed using a careful analysis and synthesis methodology that examined, categorised, tabulated and recombined the evidence provided (Yin, 1994).

A checklist of questions was used for the interview to ensure all issues were covered (see Appendix). The questions included issues such as: what is your definition of design management, how long does the design management take and so on. In addition, secondary data was collected from the company (for example, design management manuals, examples of design briefs, etc.) and about the company's performance and issues affecting the food retail market. An in-depth case was prepared, and a model of the pack design process developed.

Case study exploring Retailer A's pack design process

Pack design department

The head of design is responsible for all packaging design within the retailer; this includes categories from pet food to toiletries. There are three in-house designers, and the retailer utilises a roster of different design agencies.

Role of the head of design

The head of design manages the design agencies and is responsible for the nomination of a design agency. The design brief comes from marketing and the head of design will appoint the appropriate design agency. The project and the relationship is managed between design and marketing. The marketeer is responsible for making sure all the deadlines are met. The head of design is responsible for ensuring the product fits into the retailer's brand strategy.

Retail brand packaging guidelines

There is a packaging manual that outlines the pack design department's guidelines on the retail brand characteristics, honesty, value for money, and how to achieve those characteristics on a particular packaging design. The manual defines and explains the retailer brand characteristics. The head of design is responsible for developing and updating the packaging manual. Minor updates of packaging design can be done independently but if a change in direction were planned then the manual would have to be approved through all levels of the company.

Retail brand packaging consistency

The retailer takes great pains to portray its corporate image consistently through marketing communications. The packaging colours are red and cream, and these are used consistently. These colours are also used on point of sales (POS) material promoting products. In this way, there is a cohesive corporate identity for the customer but it is not actually managed from a central point. The packaging design department do liaise with marketing and store design but not a regular basis. The cohesive retail brand image is managed in an informal sense.

> The informal management of our image is something to do with the fact that we have a very open company culture, very flat structured. We are always in the news and the consistency is therefore managed by our own external communication (head of packaging design).

The consistency of design and the timing is co-ordinated by the marketeer working within the trading section of the retailer; the marketeer drives the project and sets up liaison meetings.

Creating "Retailer A'ness"

The pack design department are trying to create a distinctive "Retailer A'ness", by defining some pack characteristics that must be observed, for example the scale of the retailer logo is important, as is copy readability, and products are always shown real size.

> We are very keen to build trust with consumers, so that they can believe in a pack shot as a true representation of the product. This is back down to our corporate philosophy of good honest value. It's taken extremely seriously (packaging design manager).

The retailer makes a great effort not to mislead customers about the food product inside the packaging. For example, the retailer does not try to make the product look bigger than it really is and has very strong convictions about true representations of the pack. Highlighted below are the key factors taken into consideration at when defining the packs characteristics:

- scale of Retailer A logo;
- copy readability;
- pack shots always shown real size; and
- good, honest value.

Retailer A's corporate mission statement

The corporate message or mission is "to deliver good honest value" which is an important part of the design process. Retailer A "colleagues" are aware of this and put it into practice, as part of the pack design guidelines. The corporate mission is interpreted differently on text and in different categories. It is interpreted in terms of the category; pet food would have a different honest value than a soap powder or a food product. The pack design department do not attempt to dictate for example, that honest value will always be X, it is defined more loosely.

Good honest value

Marketing take "good honest value" as part of their guidelines on new product development. "Good honest value" permeates all levels of Retailer A, from the way the retailer works to the way that products are developed, and the type of products that are developed. The head of design considers this corporate culture to be one of the strands that co-ordinates consistent product design and development.

The packaging design brief

Retailer A's pack design department receive a written brief which outlines the target audience of the pack to be developed. The brand leaders of the segment are outlined with their strengths and weaknesses and promotional spend. The Retailer A's objectives for this market segment are outlined, for example to keep pace with the brand leader, or if the brand is perceived as a weak brand then to attempt to overtake the brand leader in sales terms. The brief will also outline the reasons for developing the new product, for example the segment is growing and the new product will be the beginning of a new product family. Alternatively the product could be repositioned because it is failing, and the reasons for the lack of sales listed below will be discussed in the brief:

- the target audience;
- the brand leaders;
- aims of the design;
- reasons for developing the product; and
- reasons for repositioning of the product.

The pack design process

Category review

The beginning of Retailer A's pack design process (see the list above) is the category review which is conducted by the category manager working within the trading group. The next stage is the feasibility study and presentation of the project to the directors, trading directors, who will then decide whether it is worth pursuing.

Feasibility study

Retailer A operates through its trading areas and each trading area has category managers, buyers, and marketers. Once the feasibility study has been approved, the marketers or the buyers write the design brief and it is given to the head of design. The decision to reposition a product or to produce new packaging is taken by analysing the sales of the product against the brand leader and against the category as a whole. The product's sales growth must be in line with the market, if not the decision is taken to repackage the product or to delist it.

> We do not design for design sake. There has to be a reason, if a product isn't performing then we will be discussing why it isn't performing, if it's not performing because it's losing sales then we will need to know why and to analyse the packaging, redress the packaging (Head of packaging design).

There are several criteria used to make a decision in the feasibility study to redesign a product. Products are analysed if they are not performing in sales terms. It may not be the design that is the problem, for example the particular market segment may be experiencing declining sales. Or the category does not have the right fixture to be displayed effectively, or may need repositioning in the store flow, this will be determined by other departments. Some products are old and they do clearly need redesigning but Retailer A may not do it because they could not justify the cost of redesigning the product against its potential market return.

Costs signed off

The design brief is then given to the design agency, they will then provide a quote for the draft design. The costs will be approved and then the design element of the project begins.

Stage one design

The pack design department will meet the design agency and give them a detailed brief face to face. The agency will then develop stage one design, which incorporates two concepts developed to a highly finished standard. This is presented to the head of design and the marketer and/or buyer within that area. The team will come to a consensus about whether it is worth pursuing the project.

Design panel

The design agency will do more design work if needed and then the design will go to Retailer A's design panel. The design panel consists of the head of design, and the marketing director. The design panel looks at how the new product design will fit into the rest of the retailer's portfolio. So if two buyers are developing an Ambrosia cream product then they must be distinguishable, the products must be right, not copying the brand but decent value. The design brief will outline where the product is merchandised and which products it will be merchandised next to. All these elements are included in the design concept presentation:

> The design agency should present back to us the visual of the pack visual on the page and also a visual of the product's impact on the fixture (packaging design manager Retailer A).

Stage two design
If the product is approved the next stage is stage two design. Once that is completed then the design will be presented to the chief executive, who then approves the concept or rejects it.

Chief executive commitment to design
The chief executive sees every new product, there is a design panel meeting every week, and there is a regular weekly meeting with the chief executive, where he sees every new product. The meeting with the chief executive drives the whole process, buyers know they have to meet the deadlines set by the chief executive, which are every two weeks; these deadlines are built into the design brief with suppliers and design agencies. It is a fast moving process and everyone works to strict deadlines.

Artwork, reproduction and print
If the chief executive rejects the packaging design that is presented, then the pack design team has to then go back through the iterative loop of the packaging design process. If the product is accepted then the product moves forward to the artwork, repro and print stage. The retailer uses one artwork supplier, the printers are nominated by the suppliers/manufacturers of the product. Figure 2 shows in detail the process in which the pack design is created taking into consideration all the stages.

Justifying the design spend
There is no specific budget for design. The budget is influenced by the value of the product and the margin but it is not a percentage of the sales. The initial idea to redesign a product comes from marketing. The marketing department will analyse their product range and decide which products need to be repackaged. The marketing representative will go to the category review meeting with their trading manager and the proposal will be accepted or rejected. There are limits on packaging re-design spend, first, there is a time constraint. Second, it would be difficult to justify re-designing an entire product portfolio.

The importance of design to Retailer A
Pack design is a very important function for the retailer; there are specific procedures in place and tight deadlines for development. Packaging design is viewed as a strategic function that delivers brand values to the consumer.

> Design is extremely important to us, its part of the total marketing mix. It is essential to have packaging around a product on shelf and consumers judge the product by the packaging. It's very, very important because it makes a statement about us as a brand and it also makes a statement about the quality of the product (packaging design manager Retailer A).

The retailer is committed to using design effectively. There is a head of design in place and there is a roster of design agencies, the design department follows

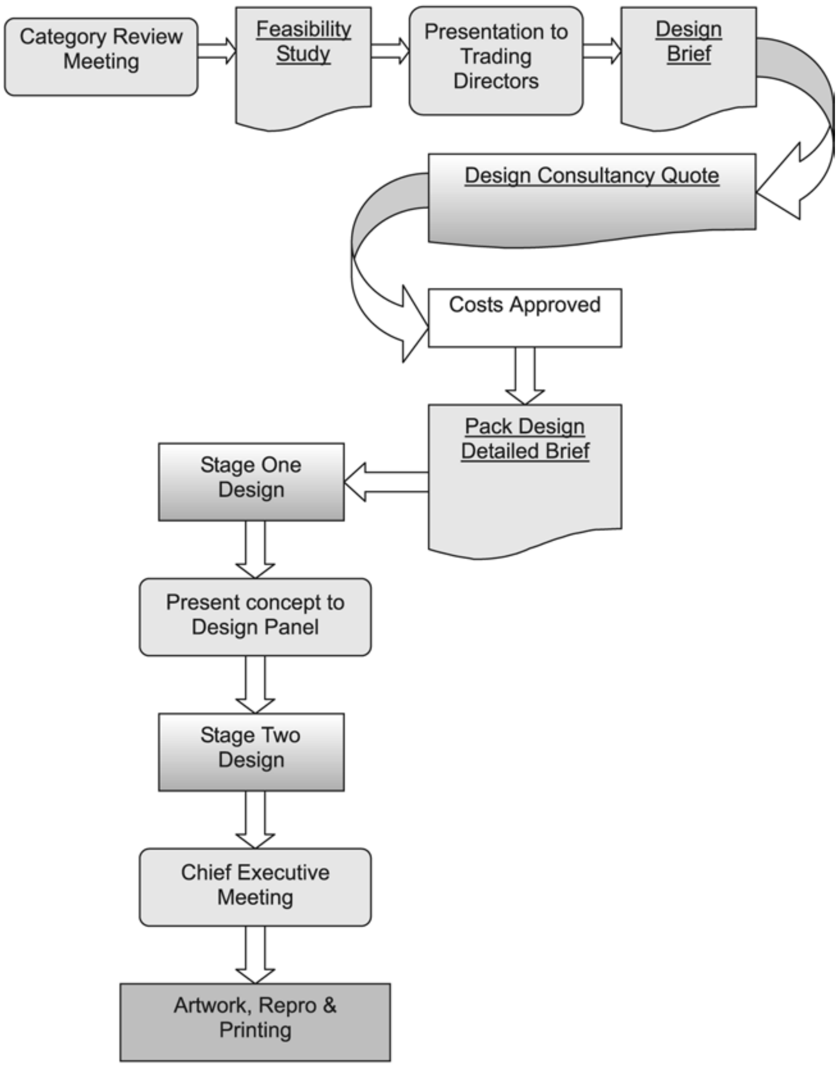

Figure 2.
Retailer A's packaging design process

set processes and the chief executive himself sees design as very important. Pack design is seen as part of competing in the market place, it is a strategic function.

> Our aim is to be number one in the food retail market place. It is difficult always to do something new and the innovation is seen as vital for our ambition to be number one. Design is seen as a big part of giving something new to the consumer, whether it's the store design or pack design, design is part of being the best retailer (packaging design manager Retailer A).

The retailer is committed to a fast paced pack design process (defined in Figure 2), which nevertheless is careful to interpret brand values that have been developed extensively in-house. There is a brand manual and a head of design to ensure all pack design fits in with the corporate brand strategy of the retailer.

Case study analysis

The retailers pack design process is strongly influenced by the company culture, which is open and informal. There is a family feeling to the relationship with the design agencies. The retailer makes a lot of effort to develop their retailer brand values, and interprets these precisely and carefully through packaging design, for example the value of "honesty" is highly valued. The volume of new product development is critical, this retailer wants to revamp all products very quickly to keep up with the market and become market leader. Much of the packaging design process is geared to speed and delivering on time. A very important feature was the prominence of the retailer logo on pack, this was paramount to the chief executive, who was developing a brand to compete with Proctor and Gamble and it was not a me-too, aiming clearly at brand in its truest sense. The retail brand had at its heart the "good honest value" brand values, which was developed with the zeal of a brand looking to develop trust, consistency and a long-term relationship with the consumer. The pack shots were scrutinised to ensure they delivered the brand values and hence brand equity in the chief executive's strategic plan. The design agencies tend to be long term relationships to ensure consistency and also speed of production, the brand values are communicated to them and they are brought in as part of the team. Interestingly, suppliers, manufacturers, and agencies have to work in the retailer's culture, to the retailer's deadlines. This ensures a brand identity is developed. The manufacturers do not have the power in this situation; they are developing the retailer's brand to their deadlines and values.

The main themes analysed in the research included the briefing process, the sourcing design process and the design evaluation process. Also the methods used to integrate design into other corporate functions within the retailer. These were found to be mostly embedded within the chief executive, who had a clear vision of the brand and worked hard to develop a consistent and cohesive brand image.

The limitations of the research are that only one retailer was examined, improved validity and reliability would be added by interviewing all UK food retailers and additionally by comparing results with other retailers in different sectors. This would give more perspective and highlight differences and similarities of approach. Another limitation is the fact that the design suppliers and the manufacturers of the products were not included in the research; this would add additional perspective to the reliability of the results.

The implications for future research are that this paper has started the process of theory building in the retail design management field with the model presented. More retailers should be added to the model building process and the views of manufacturers and design suppliers should also be incorporated.

The implications for marketing managers are that the retail sector appears to value design highly as a strategic process and invests heavily in packaging design. The packaging design management process is a highly efficient, deadline driven process, with the retailer driving forward own brand values aggressively in a competitive market place.

Conclusion

The pack design process is concerned with developing the retail brand through its packaging. The head of packaging design's role was defined as "to make sure the product fits into the retail brand strategy". The brand was very important within the design process, the central reason for the design manager's existence. There is a brand manual and a corporate identity manual but no packaging design manual because there are so many products within so many categories that the manual would be too time consuming to develop. The brand manual is the guide for packaging design; packaging has to be interpreted in terms of the brand. The business culture seems to be influential; there is an "energy" about retailer that drives forward innovation. Much of this culture seems to stem from the chief executive. There is board level personal involvement in the packaging design process. The retailer is committed to using pack design effectively. There is chief executive level personal involvement in all design projects. The brand is an important part of design management. Design managers must understand the brand and be able to communicate the brand to design consultancies.

There is little research and negligible theory development in the area of retail design management. Further research could involve developing a stronger theoretical base that included a framework for research developed from several sectors of design management.

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Appendix. Interview question checklist

(1) How is your company structured? Does this help or hinder the design management process?
(2) Who is responsible for packaging design? Does design have board level representation?
(3) What is your process for sourcing a packaging designer?
(4) How do you evaluate whether the packaging design is successful or not?
(5) How do you evaluate the need to redesign a product?

(6) What elements do you include in the design brief?
(7) How integrated is design into your company processes? Is design considered a core business process?
(8) Does your company have a design policy?
(9) Does your company use cross-functional teams to develop design projects.
(10) How many people are employed in your design department?
(11) Can you outline the packaging design management process from initial idea to final production?
(12) How is finance raised to fund new packaging designs?
(13) Is there a design champion within the company?
(14) What is your role within packaging design in your company?
(15) What is your corporate mission statement?
(16) How is this mission communicated throughout the company?
(17) How is the value of design communicated throughout the company?

Pills by post? German retail pharmacies and the Internet

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Keywords *Pharmaceuticals industry, Internet, Retailing, Medicines, Germany*

Abstract *The advent of Internet trading in medicines, as epitomized by the recently attempted market entry of the Dutch Internet pharmacy DocMorris into the tightly regulated German retail pharmacy sector, presents a new competitive challenge to this industry. Based on the findings of a 1999 field study of retail pharmacies in Berlin and Brandenburg and an examination of pharmacy Web sites, as well as pharmacy related professional portals and networks on the Internet, this paper applies Bickerton* et al.*'s framework of competitive forces to structure the analysis of attitudes and developments in the application of information technology in this sector.*

Introduction – the DocMorris challenge

Since June 2000, 0800DocMorris.com, claiming to be the Internet service offered by Apotheek van Wersch, a pharmacy trading from Kerkrade in The Netherlands, has caused a considerable uproar in the German pharmacy trade. With a customer base of around 5,000 and a maximum of 130 orders a day, the Internet trade in medicines still seems rather limited. However, the lucrative German market, which makes up 80 per cent of DocMorris's turnover has much more to offer. It is therefore the company's declared aim to expand further by breaking into the hitherto tightly controlled German prescription-only market through Internet trading.

These activities have provoked swift defensive legal action and much debate. Following a joint complaint by *Deutscher Apothekerverband* (the German Association of Pharmacists) and a leading German pharmaceutical concern, an injunction against DocMorris's Internet trading activities was granted. The activities were judged to be contrary to legal principles set out in the *Arzneimittelgesetz* (law on medicines), as well as in the *Heilmittel-Werbegesetz* (law on advertising of medicinal products). Contravention was found in three areas: first, pharmacy-only medicines are not to be dispatched to the end user via the mail order channel; second, only medicines which meet German criteria can be traded in Germany, and finally it is illegal to advertise prescription-only medicines and medicines not permitted in Germany

A previous version of this paper was included in the proceedings of the 11th International Conference on Research in the Distributive Trades, 27-29 June 2001, Tilburg, The Netherlands. This paper should be read as a case study, which follows the debate until September 2001

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(www.netdoktor.de/topic/Internetapotheke/docmorris.htm). However, the full legal position remains far from clear. Thus the injunction failed to be upheld by the federal courts in Stuttgart, Berlin and Hamburg (www.abda.de (accessed 9 January 2001)). Simultaneously, test cases with 15 insurance providers were under way to establish whether prescriptions dispensed via Internet trading would be processed by the various health insurance companies.

So what is this battle for (at best marginal) custom all about? Are German pharmacists simply jealously guarding their highly protected environment against uncomfortable change and additional competition? Or are there other issues at stake? This paper discusses the key structural and political factors at play in the debate surrounding the use of the Internet and its potential as a tool for the German pharmacy trade, and relates them to a primary research based study of pharmacists and their views and activities with regard to IT developments.

The German pharmacy trade

> In Germany every year approximately 900 million medicines are prescribed and a further 600 million are sold as self medication OTC in pharmacies (www.abda.de (accessed 13 December 2000)).

Throughout the 1990s German retail pharmacies have experienced increasing downward pressures on margins in an increasingly uncertain competitive environment. The sector remains one of the most tightly regulated: most medicines may only be dispensed in the presence of a pharmacist, who can only own and run one outlet; prices for drugs are fixed nationwide and marketing/promotional activities are tightly restricted. Consecutive legislative measures aimed at containing healthcare costs have resulted in average net margins of only 0.6 per cent (Volksbanken Raifleisenbanken, 1999) putting 40 per cent of German pharmacies in a marginal loss-making position (ABDA, 1999).

In contrast, the external environment has presented pharmacists with the challenge of major changes. These include the integration of East Germany and consequent restructuring of the sector, plus the advent of the single European market with the possibility of international trade. In addition, there is threat of potential legalization of multiple formation, as well as the growing competition from new entrants to the general sales list market, such as drugstores and supermarkets. Sector strategic responses to these changes have been explored in Schmidt and Pioch (2001) and Pioch and Schmidt (2001), who discussed the central role of the professional self-image of pharmacists in shaping their stance. They also pointed to marked differences in the extent to which pharmacists were responding proactively to the constraints posed by the tight regulatory regime and other external pressures.

The advent of direct competition via the Internet thus presents a further challenge, which may make it necessary for the retail pharmacy profession as a whole, as well as for each individual pharmacist, to reevaluate their position with regard to the strategic role of information technology in their business.

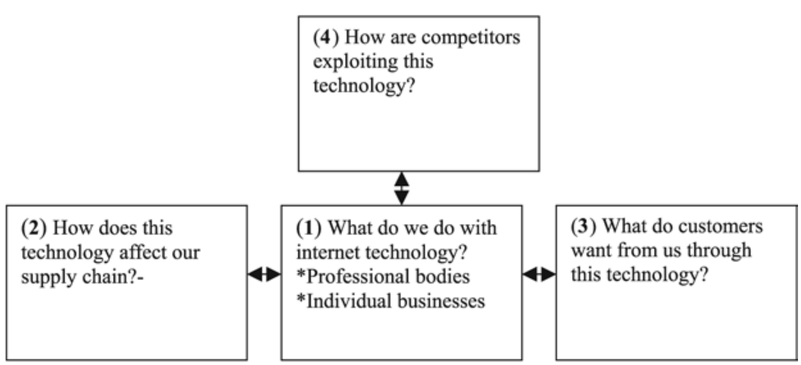
Research objectives and design

This paper sets out to investigate the current attitudes towards and key applications of new technology and the Internet in the German retail pharmacy trade. This is done in the light of the main themes emerging from the current debate surrounding the advent of the potential threat from Internet pharmacies, i.e. the regulatory regime, pricing issues, service levels and requirements, professional ethos, skills development and ultimately cross-border trade. The aim is to contrast and compare the perspectives of the various stakeholders in this debate and to assess the impact of the Internet on this tightly regulated market from the point of view of German pharmacists.

Bickerton *et al.*'s (1998, p. 2) decision-making framework for newcomers to the possibilities of Internet marketing has been adapted and used to organize the findings thematically (see Figure 1). It builds on Porter's model for evaluating changes in the competitive environment but focuses on the particular issue of new technology. The model is used as an aid to structure the discussion of the findings in the remainder of the paper.

The primary research was designed to make use of the Berlin and Brandenburg area (federal state surrounding Berlin and formerly part of the German Democratic Republic) as a case study, and within this area it set out to capture the activities of pharmacies currently operating Web sites, as well as the views of those who do not.

In the first phase, fieldwork was carried out in September 1999 in Berlin and Brandenburg. Data collection and analysis followed the principles of grounded theory (Strauss and Corbin, 1990; 1994), adopting the constant comparative method of data collection and theory formulation until theoretical saturation was achieved. Observation in the unit of analysis (the community pharmacy) was combined with in-depth key informant interviews, comprising 13 pharmacists representing 11 pharmacies with a variety of characteristics representing the different outlet types making up the market in this geographical area. The views of representatives of the two key federal professional bodies, the Berlin Pharmacists' Chamber (*Apothekerkammer*) and the Pharmacists' Association (*Apothekerverein*)[1] were also sought.



Source: Adapted from Bickerton *et al*. (1998:2)

Figure 1.
New technology and the competitive environment

In the second phase a detailed examination of the content and features of Berlin and Brandenburg pharmacies' Web sites accessible via yahoo.de was carried out. The Web sites of potential competitors, such as leading German health and beauty drugstores (e.g. Schlecker and IhrPlatz), as well as 0800DocMorris.com have also been scrutinized. The analysis is structured around the key issues of presentation and interaction as detailed in Table I.

Following a detailed thematic analysis of the findings, these were linked back to the themes and perspectives on Internet pharmacies emerging from the DocMorris debate, as covered by the media and on the Internet.

Findings

Overall, findings[2] indicate that German pharmacists are relatively slow to embrace the introduction of IT. Whilst there are some initiatives by individual pharmacy owners, overall the main thrusts of IT developments in the pharmacy trade are centrally driven by suppliers on the one hand and by the major pharmacists' professional associations and voluntary trade networks on the other. Due to the legal prohibition of multiple formation for German pharmacies, this is the only way in which economies of scale and scope can be exploited and coherence of developments achieved.

What do we do with Internet technology? Developments driven by pharmacists' professional bodies

True to the core ethos of the profession, the National Confederation of Federal Pharmacists' Associations (ABDA – the umbrella organization which incorporates the Pharmacists' Association and its marketing subsidiary, as well as the Pharmacists' Chamber) is currently developing an Internet portal

	Berlin	Brandenburg						
	A	B	C	D	E	F	G	H
Presentation								Not contactable
Picture of team and/or shop			✓	✓	✓	✓	✓	
Opening hours/emergency cover		✓	✓		✓	✓	✓	
Location map		✓	✓					
Advert for additional services			✓	✓		✓	✓	
Advertising of products		✓		✓		✓	✓	
Advice on health topics	✓	✓			✓		✓	
Links to other sites	✓	✓	✓					
Other special info features		✓			✓			
Interaction								
Visitors' book			✓					
Contact details/e-mail address	✓	✓	✓	✓	✓	✓		
Newsletter, bulletin, mailing list	✓			✓				
Customer card application					✓			
Detailed feedback proforma				✓	✓	✓	✓	
Discussion group facility	✓			✓				
Teleshopping (product range)	✓ (1138)			✓ (55)				

Table I.
Pharmacy Web site features

for offering advice on all health and pharmacy related issues. Pharmacists are encouraged to use the portal to advertise products and services to be ordered over the Internet and picked up in the pharmacy. ABDA claims German pharmacists are not lagging behind in Internet usage, as the new portal would enable customers to contact their local pharmacy and reserve medicines in advance:

> Pharmacists welcome the Internet as an excellent medium for information and communication. They see this new medium as a superb chance to further enhance their role as providers of information and advice on medicines. ABDA therefore will be offering a new health portal in the new year . . . (www.ApoIndex.de (accessed 13 December 2000)).

The Pharmacists Marketing Association (MGDA (www.mgda.de)) reflects the same ethos in its explicit aims of supporting/enhancing self-medication in pharmacies and emphasizing the advice function of pharmacies. They mediate between consumer and industry with the retail pharmacy as the focal point. MGDA offers intranet services for the marketing of pharmacies and runs workshops for pharmacists to learn how to present their businesses on the Internet. In January 2001, they were running an online research project, via online questionnaire addressed to pharmacists, on the *status quo* regarding Internet use and prevailing attitudes.

Apotheke.de (January 2001) (owned by Gehe, a prominent pharmaceutical wholesaler with European wide interests) aim:

> . . . to create a centralized, neutral and independent platform which offers pharmacists Internet representation as well as access to useful information.

The site features a pharmacist-only intranet as well as public domain access for customers (which serves as a gateway to individual pharmacies' home pages). Medizin.de is linked to Apotheke.de and offers a free listing service for all pharmacies.

Also directed at both the pharmacy owner and the end consumer, ApoIndex.de (by Pharma-networx) offers a leading pharmacy Web site with access to facts, figures, statistics, advice, a database of the around 21,000 German pharmacies and a search engine facility (by postcode) for late and weekend openings. In a linked page, Pharma-networx.de offers Internet services and products around everything to do with health and the Internet, in particular featuring pharmacy homepages which they frame as a "must have" marketing tool. There has been a substantial growth of home pages registered with ApoIndex.de from 29 in March 1998, over 309 in October 1999 to 987 in January 2001.

What do we do with Internet technology? Developments driven by individual pharmacies

However, whilst there may be rapid growth in the number of home pages listed, 987 are only a very small proportion of the potential of more than 21,000. For Berlin and Brandenburg, ABDA lists 872 and 521 pharmacies for 1999 (www.abda.de), however, only four respectively have Web sites easily located and accessed via one of the leading general search engines, yahoo.de. The main features of these Web sites are summarized in Table I.

A comparative evaluation of Web site content and features shows that the pharmacies make the greatest use of their Web site as a communication and presentation vehicle. Often loving attention to detail in the design of the site shows a great deal of commitment to duplicating the professional and customer care ethos of the pharmacy in the virtual environment. Web sites aim to differentiate their virtual offering by introducing additional service features, such as pollen (allergy) information, links to other services, such as the poison information centre, and beauty advisory services, linked to the promotion of pharmacy-only medicinal cosmetics. The human side is stressed through photos of the team, and care is also taken to entertain, through flash animation, advice features, newsletters and discussion groups. Thus the service script is transferred to the Web site and even elaborated on. In contrast, interactive elements such as contact via email or visitor book facilities, both potentially serving as valuable data gathering devices, and teleshopping opportunities are still relatively limited. For the latter, the emphasis is typically on medical gadgets and pharmacy only cosmetics ranges. However, one Berlin pharmacy (see Table I, A) presents a good example of how this can easily be extended to cover a whole range of health related and associated products. The Web sites of the majority of pharmacies investigated stand in marked contrast to comparable Web sites of leading German drugstores, such as beauty24.de, ihrplatz.de and schlecker.de. For them, the focus is much more commercial. Extended product ranges emphasize beauty and wellness related themes with price competition playing a major part.

In contrast, pharmacy Web sites generally do not compete on price, but focus on the superior character of the merchandise and the complementing advice function (thus mirroring their actual shop offering and professional self-image). Where teleshopping facilities are offered, beautifully presented visual images of the products on sale are utilized throughout, by pharmacists and drugstores alike, in sharp contrast to the DocMorris Internet pharmacy, which simply lists product names, packet contents and prices.

The Web sites examined indicate one potential use of the Internet for retail pharmacies, namely information provision, however, the small numbers point to limited uptake to date. This is reflected in the findings of the 1999 field work, where respondents varied considerably in their use of IT. A large pharmacy in Berlin made strategic use of it:

> We have excellent computer equipment and software, naturally that is up to the individual pharmacist, our boss is a partner in a software house, making software specifically designed for our computer and he sells all upgrades to the pharmacy as soon as they come out. Yes, this is really excellent (AP6).

Smaller pharmacies typically adopt a cautious wait-and-see attitude or even reject the whole concept:

> We don't have Internet access because I am no friend of computers (AP1).

At that time the representative of the Pharmacists' Association admitted:

> We are getting there, last year we collaborated with a particular firm and offered a course in basic Excel and Windows to give people a flavour of what might be possible. We have a bit of catching up to do. Now we also offer an Internet course, especially for pharmacists, and there is also a so-called intranet in use in pharmacist circles. This intranet exists but is currently still under construction, this is steered by ABDA from above. So far it is not really doing all that much (PA).

However, there is also evidence from younger, more entrepreneurial orientated pharmacists:

> They set up their own intranet to gain economies of scale from suppliers and to improve customer service. This is achieved by access to each pharmacy's inventory (AP11).

How does this technology affect our supply chain? Supplier driven developments
Despite claims that the pharmacy trade is already leading in business-to-business electronic communications – "90-95 per cent have electronic link-ups with the suppliers" (PC), there are large differences between pharmacies. Respondents interviewed during the 1999 field work indicated that the use of an old-fashioned punch card system is by no means uncommon:

> We still have a really old-fashioned system here, with punch cards, which are used to transfer the data; some pharmacies which are even smaller simply do it over the phone, they don't even have punch cards, and the larger pharmacies are connected to the suppliers via their computers; so there are quite a lot of different systems (AP4).

Whilst nine of the pharmacies included in the investigation had computer links with suppliers, few were driving IT updates proactively. Initiatives often stem from the suppliers who insisted on the standardized introduction of the present electronic ordering systems in the first place:

> We do use electronic data transfer, it cannot be done any other way; this has been pretty much imposed by the wholesalers, so they imposed it and we started transferring the data electronically . . . It's about 12 years ago, they practically said either you order electronically, and there weren't really many computers then, or else (AP8).

For East German pharmacies, the introduction of IT was also supported by the *Treuhand Gesellschaft* (body overseeing the transition process from formerly State owned concerns into private ownership):

> We were administered by the *Treuhand* and one time we were lent a computer for four weeks, just as an introduction, must have been a computer firm in cooperation with Treuhand; well we couldn't keep that one, but then another firm came along and then everything happened very rapidly. And this has been a big help, before we were always looking everything up in the Red List [listing all medicines, strengths and pack sizes], whenever there was anything, is it available in that size, that strength . . . (AP2).

Thus, whilst electronic ordering and stock control systems are – on the one hand – virtually imposed as a necessity to be able to comply with the obligatory stock holding requirements, and – on the other hand – because of supplier demands, comments indicate a leaning towards passive acceptance rather than proactive enthusiasm amongst the majority of the Berlin and

Brandenburg respondents. There were only a few notable exceptions, with one pharmacist (AP6) praising the benefits of automatic reordering and ordering in response to POS data inputs:

> . . . if demand could not be met immediately either because products were out of stock or had not been part of the inventory, the system initiated ordering automatically. Another actively used the computer system to link up a small informal buying group, and also produces statistical information for other network partners (AP11).

What do customers want from us through the new technology? Perceived demand

Some of the relative complacency observed may be due to a perceived lack of pressure from customer to engage with IT. The market differs considerably from the typical early IT adopter profile. Quelch and Klein (1996, p. 61) found:

> . . . audiences skewed toward college-educated white males in their early thirties, earning higher than average incomes and employed in the computer, education, and other professional fields.

In contrast the aggregate market for medicines is biased towards females and the elderly (AWA, 1999), and this is also reflected in the profile of the customers of respondents: nine particularly mentioned old age pensioners as key customers and five referred to young families as an important core segment. This factor inhibits Web site development:

> We don't know whether our customers would be interested in it [i.e. the Internet], I mean, most of our customers are elderly, and a few young ones, mums with children, and whether any of them are computer freaks, who are interested in this kind of thing . . . It's a pity, but maybe one day . . . we will have to wait and see (AP2).

However, customers do value the pharmacists' expertise and advisory function, and IT has an important part to play in that. Orchestrated by MGDA, the awareness raising campaigns of the last five years have drawn the public's attention to the provision of advice by their local pharmacist. Market research by *GEMAR-Marktforschungsinstitut* shows growing demand for such services. In 1998, 95 per cent of Germans thought advice for OTC medicines was very important. For prescription medicines, the figure rose from 72 per cent in 1995 to 86 per cent in 1998 (ABDATE, 2000). The representative of the Pharmacists' Chamber explained the crucial role of electronically stored information:

> What is important is the ABDA database. This is probably the largest database in Europe or even the world, which lists the largest collection of medicines, their effects, side effects and contra-indications. This is an expert system available to each pharmacy via the special pharmacist software. It makes all this information available at the POS and thereby substantially enhances patient safety . . . it works like this . . . when the sale is put through then the database automatically checks whether there are any contra-indications or incompatibilities [with other drugs] which might cause danger to the patient (PC).

This is further supplemented by human expertise:

> We [i.e. the Chamber] offer an information service giving all pharmacies access to a team of experts, which is committed to answering questions within 24 hours, these are usually complex difficult questions regarding pharmaceutical matters. This is done by fax (PC).

When questioned whether email would be an appropriate medium for answering such queries, the Chamber representative added later "we have email, but they [i.e. the pharmacies] don't".

Individual respondents strongly stressed the importance of the professional advisory function and named the need for human contact as their key reason for opposing Internet trade in medicines:

> In these times of the Internet and ordering medicines via the Internet it is important to re-emphasize these core values (of quality professional advice and care), as we could be treading a very dangerous path. So often there is a call for mail order pharmacies, this originates with . . . the insurers who think it would be cheaper; it is a very dangerous thing. We often observe that we are the break and control, which is absolutely needed where contra-indications between different medicines are concerned, or even when it is just the question of which one is the best medicine. It is easy to press the wrong button, even in a doctor's surgery, and we spend a lot of time checking with doctors: is it the right product, the right strength, the right quantity and dosage? The patient is often too excited to remember correctly what the doctor said, and if it doesn't say on the prescription, then naturally we can't say how the medicine should be administered. Especially elderly people often ask for advice, and others ask questions concerning the impact of medicines on their ability to react, whether they can drive a car or not – as I said it is absolutely necessary to be able to provide this service (AP10).

This approach certainly pays off in terms of customer evaluations of the services offered by pharmacies. A Consumer Monitor 1999 satisfaction study shows that out of 47 sectors, pharmacists (after opticians) occupy second place, demonstrating an increase in mean satisfaction measure for pharmacies for the last three years (ABDA, 2000).

Whilst opposed to Internet trading, respondents were aware of different uses of IT, particularly in the form of customer cards, an electronic means of capturing customer information, which could be used in a variety of ways to strengthen long-term ties, including the possibility of loyalty schemes and direct marketing. However, as Table II indicates, pharmacists were divided in their evaluation of such a facility.

The most important counter-argument to the use of customer cards is that of a perceived unnecessary duplication of what is an integral part of the interpersonal relationship between the pharmacist and the patient. Small

Yes, because ...	*n*	No, because ...	*n*
Supports control, guardian and advice function	4[a]	We know our customers	4
		Data protection issues	2
Helps personalize the relationship via, e.g. birthday cards, etc	1	Impersonal	1
		Lack of competitive pressure	1
Strengthens customer ties	1	Opposed in principle	1

Note: [a] Multiple responses permitted

Table II.
Customer cards – pros and cons

pharmacies in particular see personal knowledge about their customers as their own unique strength and are therefore reluctant to embrace change in this area:

> Well, in this small pharmacy we have it all in our heads . . . in a large pharmacy it is all computerized, the stock management and automatic reordering, even when, for instance a patient has the same thing every week and suddenly he or she isn't there anymore, they have died or something like that, and the computer carries on and orders stock for another two months, even though maybe the patient has even been in to say goodbye and told you that he or she is moving to England, well we have it in our heads just like everybody always used to in the old days (AP8).

In summary, the analysis of issues related to three of the themes in Bickerton *et al.*'s (1998) adapted model, namely the profession's response to Internet technology, supplier demands and perceived customer expectations, suggests a relative reluctance by the majority of respondents to embrace the challenges of the new technology. Apart from the issues raised above, this may also be due to increasing time pressures on the self-employed pharmacists, who see their margins dwindling and have limited resources to spare for additional qualified personnel. This ultimately leads to a skills gap, which is difficult to overcome despite the efforts of the professional organizations.

The Pharmacists' Association's representative states:

> Well, I would say we are already doing quite a lot, but of course one could always do more, so maybe eventually we might run one session a week; but there comes a point when people get really exhausted and don't feel like it any more and would rather go to the pub than to the "House of Pharmacy". But we could do more, so for instance we now also offer that people might learn about IT. Well, at the end of the day everybody has IT in their business already in the form of the pharmacy software, i.e. the stock management system, but it is rare that anybody does anything creative with that (PA).

Participation in the Pharmacists' Chamber is on a voluntary basis only, and the Chamber therefore takes care to reflect popular demand in its offering. When questioned about developing Internet usage for pharmacies, the Chamber's representative said rather than finding time or money for development it was a question of:

> . . . the motivation of the pharmacists in Berlin. It would have to have their support. If they are not prepared to get involved with the new medium Internet – and that is largely a question of the age profile, then it is a problem (PC).

He describes the decision-making process in the Chamber:

> It is always the same, it has to be supported by members' opinions, as in all democratic systems, and we have to see what is possible. It cannot be imposed from above. The demand has to come from the pharmacists and then we have to assess what is feasible and have to implement it. This is also the reason why work in APKA is largely voluntary (PC).

The change in the professional definition of the traditional "pharmacists' assistant" to "pharmaceutical manager", who has to undergo a longer dual system apprenticeship and a further education course with mandatory IT content, may go some way towards addressing this skills gap in the medium to long term. However, in its conception it does relegate IT to the status of a support function rather than a strategic component, and in any case may take some time to filter through. In the meantime, whilst there are some excellent initiatives in the application of Internet technology in the pharmacy trade, both at the professional association level and within a small number of individual pharmacies, collective developments, attitude formation and accompanying professional updating and skills development may be rather slower than the public image ABDA wishes to portray.

How are competitors exploiting this technology?

Not surprisingly, only a small number of customers are currently using the Internet for the purchase of medical supplies, however, awareness is growing:

> . . . according to an Emnid survey this year 1 per cent of Germans used an Internet pharmacy; 55 per cent are aware of the possibilities of ordering medicines over the Internet and 14 per cent believe that they can obtain prescription only medicines without a prescription through this channel (netdoktor.de/topic/Internetapotheke/illegaler_handel.htm).

Smart drugs and lifestyle ethical drugs, such as Viagra, are the top Internet sellers, and there is also a growing demand for remedies (often alternative, or even bogus) for chronic illnesses.

However, this is not without risks – world health organization research shows 10 per cent of medicines purchased over the Internet are fakes (www.abda.de (accessed 10 January 2001)). Also Internet suppliers may simply not be acting ethically or in the consumer's interest as shown by two mystery shopper studies carried out by a leading German consumer research organization. PRAXIS (publication of the consumer organisation) ordered 11 products from five Internet pharmacies – only one refused to supply on the grounds of German regulations, the rest got through customs without any problems. All medicines supplied turned out to be genuine, however, one contained a hormone which is illegal in Germany, two contained clearly dangerous substances, but without any explanation of the dangers, contra-indications and possible side effects. Where medicine information leaflets were provided, they were in Spanish or English. In the second study *Stiftung Warentest* (equivalent to the UK's *WHICH?*) ordered 22 medicines from 16 suppliers worldwide. They found huge price differences, some charging extortionate sums for advice and postage (one medicine worked out 17 times the price it would cost in a German pharmacy) and very little information on side effects and contra-indications. This is in breach of EU law stipulating that medicines can only be supplied to consumers with adequate product information.

In contrast to shop-based German pharmacies, which are legally obliged to carry a substantial core product range (out of the full range of 45,000 medicines – an average German pharmacy stocks around 8-12k and can get the rest within hours), Internet pharmacies such as DocMorris can focus their offering on a relatively small selection of premium price products, which they sell at lower prices, thus effectively cherry picking. Thus, DocMorris delivers from an original core product range of 350, which in view of its success has now been expanded to 1,150 medicines (comparable in size only to one of the Web sites investigated above, but very different in focus).

Much of DocMorris's success can be ascribed to a distinct distortion of the competitive environment brought about by differential legislation. First, DocMorris is making use of the much lower value added tax in The Netherlands (8 per cent as compared to 16 per cent in Germany) (www.abda.de (accessed 17 October 2000)). Second, due to the Dutch law on medicine prices – which came into effect in June 1996 and undercuts the German government's price ceiling for medicines – the firm enjoys a further real price advantage. The law effectively capped prices:

> This measure was intended to keep prices at the same level as average prices in neighbouring countries, but has, in fact, kept many prices lower than average (Retail Intelligence, 1999, p. 50).

In the absence of the same legal obligation to offer a specified width of assortment and services, which governs German pharmacies, this dual price advantage can be passed on relatively undiluted to the customer, who may purchase medicines at prices 10 per cent to 25 per cent below comparative German prices. Building on this price advantage, DocMorris have made offers to the German medical insurers to sell a selected range of medicines considerably cheaper (at least 10 per cent) to their clients against prescription, and have stated that, as an added bonus, they would not expect the patient to make a contribution (as they would in Germany). However, in this context it should also be noted that DocMorris offer no description of the medicines; the only advice available is via email and through a telephone hotline. Manager Waterval has been quoted as freely admitting that providing advice is simply not the core of the business (www.netdoktor.de/topic/Internetapotheke/docmorris.htm).

The Internet challenge and developments at federal and European Union level

It is largely because of the absence of a commitment to overall patient care, including a strong advice and service function that ABDA, the medical profession, the Association of Research Pharmaceutical Suppliers VFA, and also the association of pharmaceutical wholesalers (Phagro) stand united in their opposition to the Internet as a channel for the distribution of medicines, advocating the mantra of the twin issues of product safety and consumer protection (www.pharmazeutische-zeitung.de).

However, the National Association of Medical Insurance Funds have expressed views strongly in favour of competition and parallel channels, on condition of a clarification of control mechanisms. More specifically, even though ABDA have threatened to sue medical insurance funds if they deal with DocMorris, a representative of AOK (one of the largest medical insurance companies) has spoken in favour of dealing with Internet providers and others have already reimbursed prescription costs to DocMorris. According to the Dutch Internet pharmacy, all but four of Germany's health insurers now accept trade with them (www.0800DocMorris.com (accessed May 2001)). In view of perceived high medicine prices, a working group of German Consumers' Associations also supports competition via the Internet provided that a proposed a set of guidelines/code of practice for potential Internet pharmacies is adhered to. The proposals include certification and control through the relevant local government agency. Furthermore, the laws of the target country have to be taken into account, medicines must be provided in their original packaging and include patient information in the language of the target country, and providers must be located within the EU (www.agv.de). However, research commissioned jointly by ABDA and the Association of Research Medicine Producers shows German prices for medicines in a European comparative context to be in the lower third. Clearly this is an outcome of recent cumulative cost control/cutting measures and regarding pharmacies as unduly expensive may no longer be justified (ABDA, 2000).

In line with EU wide legislation (there are similar prohibitions in 15 EU member states) the German law on medicines 1998 (*Arzneimittelgesetz*) currently opposes Internet supported mail order medicine services due to the above consumer protection issues. However, the conflicting federal judgments concerning DocMorris resulted in former Federal Health Minister, Andrea Fischer, considering legalization of the sale of medicines via the Internet (www.zdf.de). She argued that since there is clear evidence of demand for Internet pharmacies, it should not be the job of politicians to prohibit consumers from fulfilling their desire. On her resignation, her successor Ulla Schmidt was asked by ABDA to take an explicit stance against this relatively open position (www.abda.de (accessed 10 January 2001)), but overall the jury appears to be still out.

Under a strict interpretation of current German legislation, for the private person, importing larger quantities of medicines may even be treated as a criminal offence. However, all this is only partly successful in curbing potential international trade, as within the EU the postal service only checks packages of suspicious appearance. Therefore, imports of medicines from other countries can pass the border unchecked in unobtrusive packaging, particularly if they are shipped through one of the more liberal markets, such as The Netherlands, the UK or Denmark, where mail order supplies of some medicines are permitted.

Discussion and conclusion

Due to the limited nature of the exploratory qualitative focus on the Berlin and Brandenburg area, current findings can only serve as a barometer of pharmacists' opinions and activities, rather than standing as generalizable to Germany as a whole. However, as a case study grounded in the views of pharmacists the research serves as a useful vehicle to draw out key themes of the ways in which the profession views their service offering to the public and the rather marginal role of the Internet within that.

Arguably the present scope for Internet pharmacies is relatively limited for a number of reasons. The entry of a new player into the competitive environment is currently causing controversy rather than shaking up the market. Germany has the densest network of pharmacies in the world, and DocMorris's 48 hours delivery time does not compare favourably with the average lead-time of two hours enjoyed by regular pharmacy customers. Also the role of prescription-only medicines is still negligible in Internet trading, as it is far too cumbersome, bureaucratic and time consuming, and therefore only really workable for prescriptions not passing through the medical insurers but paid for directly by patients.

However, this could take a different turn if customer demands and supplier behaviour (see Boxes 3 and 2 in Figure 1) changed. To date, little consumer research with pharmacy customers has been undertaken, thus any analysis is based around provider perceptions. It should be noted, though, that Balabanis and Vassileiou (1999) showed a positive relationship between intention to buy from Web sites and income, prior experience of home shopping and strength of retailer brand. Traditionally in Germany home shopping has had a strong appeal to a broad range of customers and middle-income consumers in particular. This may be a good predictor of a propensity for Internet shopping once the necessary infrastructure is in place. Conversely, customers are not acculturated to obtaining medicines from other than specialist outlets. Only further research would help to form a clearer picture of potential consumer demand for pharmacy services on the Internet.

Likewise, investigations into other supply chain members' attitude and developments are necessary to gauge their potential to support actively Internet trading in medicines. On the available evidence, no active move to support on-line developments are detectable that go beyond making ordering more efficient and pricing information readily available.

It seems most likely that legislative changes at national and European level will have the largest impact on the future and viability of on-line pharmacies. For the time being, a kind of stalemate seems to have been reached. Following the Frankfurt judgment (9 November 2000), the link between *Apotheek van Wersch* – which differentiated DocMorris from other Internet providers by giving them the legitimacy of an association with a certified pharmacy – was severed, as the former officially agreed not to appeal and to cease trading to German customers (www.pharmazeutische-zeitung.de (accessed 21 November 2000)). This also disqualifies DocMorris from legitimate trade with medical insurance funds. As DocMorris continues to ignore the Frankfurt judgment, the Pharmacists' Association has applied to the court to impose fines on DocMorris (www.abda.de (accessed 5 January 2001))

In the longer term, the only real way forward may lie with EU legislation rather than national or federal judgments. The EU is currently working on e-commerce guidelines, which should take special features of medicine into account. However, Spain *et al.* (2000, p. 433) cite Rogers (1997) who stated:

> The European Commission has acknowledged that any moves by the European Union to ban sales of drugs on the Internet is bound to have only limited effect.

Notably, a Bonn lawyer issued DocMorris with a certificate stating that selling medicines via the Internet was covered by these new guidelines (www.netdoktor.de/topic/Internetapotheke/docmorris.htm). Also in Berlin and Hamburg, DocMorris won the argument that the restraining order is not compatible with EU guidelines (www.de.news.yahoo.com (accessed 4 January 2001)).

In the absence of World Health Organization (WHO) guidelines regulating online sales of prescription drugs a better way forward than litigation may be indicated by the US model, where the National Association of Boards of Pharmacy (NABP) introduced a voluntary certification programme for Internet pharmacies, which aims to ensure minimum standards of customer care and information (Spain *et al.*, 2000).

However, as long as national differences in legislation, value added tax rates and the regulation of medicine prices prevail, the introduction of cross-border competition through international Internet pharmacies introduces a strong element of unfair competition. This could be further exacerbated should a multiple chain of pharmacies with the resultant economies of scale and scope become involved and succeed in using the Internet as a market entry mode.

For the present it has been established that in the German context insurance companies are acting illegally if they advise their members to use foreign mail order suppliers of medicines (www.abda.de (accessed 9 November 2000)). This means that the retail pharmacy profession may have gained some time to develop its own strategic approach to the use of the Internet. As analysis of pharmacists and their professional bodies has shown (see Box 1 of Figure 1), the response to the challenge is still in its infancy. Nevertheless, aggregate developments of professional networks and portals, as well as expert systems are very promising and serve to translate much of the value added provided in the actual pharmacy shop into the virtual medium. This complements the range of excellent individual Web sites, which are translating the professional image and customer friendly service orientation of German pharmacies into a complementary Internet offering. However, it would be dangerous to overlook the marked reluctance of much of the profession to engage with the medium Internet at all. Erosion of margins, a high age profile among pharmacists and the pressures of self-employment, as well as a professional self-image, which sees business issues and skills as rather secondary to the core function as expert and advisor on medicines, may all conspire to leave many owners of SME pharmacies ill-equipped should a future DocMorris look-alike succeed in challenging the law and forging cut-price links with medical insurers and end consumers.

Notes

1. In the text these are referred to as AP and numbered, with the representatives of the Pharmacists' Association and Pharmacists' Chamber labelled PA and PC respectively.
2. Subheadings in the Findings section draw on Bickerton *et al.* (1988, p. 2).

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UK vineyards sector case study

Analysis of retail activities using exemplar strategic marketing tools

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Keywords *Viticulture, Marketing strategy, Marketing mix, United Kingdom*

Abstract *There has been considerable research into wine marketing worldwide, but little has been published concerning the marketing of UK wines. This paper outlines the background to the retail marketing activities of UK vineyards. Strategies are analysed using three exemplar frameworks: the Ansoff matrix, generic strategies, and the marketing mix. The analysis also makes reference to marketing segmentation. The most active vineyards are pursuing strategies in all four of Ansoff's growth vectors, with the largest players involved in diversification, for example into tourism. The marketing mixes for most UK wine producers are hybrids between the parameters expected for the "fine" and "beverage" wine segments. For the tiny UK wine industry to exist and prosper, we contend that it is necessary to target niche segments using Porter's "focused differentiation" approach. Larger vineyards attempt a broader target with tourism activities. UK wines from vineyards of all sizes are differentiated primarily by prestige pricing and by what is effectively "place marketing".*

Introduction

There has been considerable research into many aspects of wine marketing worldwide. For example, Spawton (1991) described a framework for marketing planning for wine drawing on McCarthy's (1960) well-known "4Ps" of the marketing mix. Spawton posited that marketing planning is essential for the winemaker, whether a one-person winery or a large multinational. Amongst the factors were:

- *product*: tangible and intangible benefits such as appellation, varietal or blend;
- *promotion*: the communication mix including word-of-mouth, point-of-sale displays and media advertising;
- *place*: the distribution channels such as supermarkets and off-licenses; and
- *price*: e.g. prestige (high) pricing vs. market penetration.

Of these aspects, place is particularly important for wine marketing. Thode and Maskulka (1998) introduced the concept of a "place-based" marketing strategy, i.e. a marketing strategy that identifies a consumer product such as wine with a

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specific geographic area. They explained why it is essential to the wine business and described the potential for the geographical source to help develop a product's brand equity. Price was mainly determined by the region of production and the year of vintage, but not significantly correlated with grape variety or alcoholic content (in the example of Spanish red wines). This pattern has a particular relevance for the product aspect of marketing UK wines, which are in general considerably more expensive (on a grape variety basis) than the wines of the major wine producing countries – although usually not sold by year of vintage. Promotion is arguably one of the major challenges facing UK wine producers. As Knowles and Egan (2001) pointed out (referring to beer, but the comment is equally valid for wine) low level entry is relatively easy, but achieving substantial sales through pubs and off-licences "would require sizeable investments in . . . brand image".

Spawton (1991) drew a distinction between marketing strategies for "fine" vs. "beverage" wines, illustrated using the marketing mix. In addition to the 4Ps, Spawton included selling, e.g. scarcity and quotas for fine wines; and inventory, ageing and maturing for fine wines vs. stockturn for beverage ones. The division of the market into fine and beverage wines is a form of marketing segmentation – provision of separate marketing mixes for different groups of customers. In the "UK wines and Spawton's marketing mix framework" section below, we outline some of the variations in marketing mix elements for UK wines. In the "Generic strategies" section we examine marketing mix variations for "focused differentiation". A summary of Spawton's marketing mix framework is included in Table I.

Marketing mix components	Fine wines	Beverage wines
Product	Appellation First growth varieties Vintage Regional Limited quantity	Varietal or blend Taste Consistency Quality control
Price	Prestige and "skimming" No promotions	Sensitive and competitive Frequent promotions
Place (distribution)	Specialist outlets	Supermarkets Off-licences
Promotion (communication)	Personal recommendation and reputation PR	Mass media Point-of-sale displays
Selling	Scarcity Quota allocation Case lot quantities	Continuous availability Truck load quantities
Inventory	Ageing and maturing essential	Stockturn paramount

Source: Summarised and adapted from Spawton (1991)

Table I. The marketing differences between the fine and beverage wine industries (worldwide)

Despite the research attention given to wine marketing, little has been written about the marketing of UK wines. Such papers as have appeared have mainly concerned specific aspects of marketing (e.g. Web marketing (Richardson, 2002b)). To date little has been published on marketing strategy of UK vineyard(s). Indeed, the marketing tactics of UK vineyards seem to have emerged piecemeal over the last half-century. Coincidentally, the main theories and models of marketing have been developed over the same period. This paper is a sector case study that seeks to examine the retail marketing activity of UK vineyards in the light of exemplar marketing theories or models. There are many approaches to marketing that could be used by vineyards. We have chosen three on the grounds of being well known and representative of marketing strategy theory. These are first, Ansoff's matrix, second, generic strategies, and finally the marketing mix. Marketing segmentation is an additional area that would merit a separate paper; here we touch on the most relevant aspects under the "generic strategies" heading.

The rest of this paper proceeds as follows. First, we briefly outline the development of UK vineyards and their retail marketing activities. Next, we categorise these activities in terms of Ansoff's (1987) growth vector matrix, Porter's (1990) generic strategies for competitive advantage and Spawton's (1991) marketing mix framework. Finally, we comment on the applicability of these models for the marketing of UK wines.

Wine production in the UK

Vines appear to have been introduced to Britain by the Romans, and survived their departure. In 731, the Venerable Bede commented on their growth in Britain, and in the reign of Edwy (around 956), a vineyard was recorded near Glastonbury. By the time the *Doomsday Book* was published, there were 42 vineyards in southern Britain, belonging either to the monasteries or to noble estates. In his account of this development, Skelton (2001) notes that William the Conqueror gave Leeds Castle in Kent to his brother, Bishop Odo, together with a vineyard of two arpents (about two acres). This may well be the same site that was replanted with vines in 1980.

Three events, plus climate changes, were probably responsible for the decline in the industry. First, in 1152, Henry II married Eleanor of Aquitaine and the resulting political alliance gave England access to relatively cheap French wine. Then in 1348, the Black Death hit England and surviving farmers were probably more concerned with growing food than grapes (Crisp, 2002). Finally, in 1536, Henry VIII broke the power of the monasteries, causing the loss of most English production. After that, the industry survived in a few areas, notably around London and, along the South Downs from Dorking to Guildford (Selley, n.d.), until the last vineyard at Castell Coch in Wales was grubbed up in the First World War.

The modern revival began with a few enthusiasts in the 1950s with the planting of Hambledon Vineyard in Hampshire by Sir Guy Salisbury-Jones. Following this, Jack Ward at Horam in Sussex founded the Merrydown winery.

This was a critical commercial venture, since it provided commercial winemaking facilities vital to the fledgling industry as small vineyards could take their grapes there to be made into wine. Although Merrydown has now ceased production, its activities encouraged sufficient growers and wine makers to start serious commercial developments. Today there are over 400 vineyards in the UK, from the Isles of Scilly to Leeds in Yorkshire, and from Mersea Island in Essex to Anglesey.

Marketing of UK wines

The reasons for planting were many and varied. Professor Rod Thompson of Rossiter's Vineyard bought a farm on the Isle of Wight and, having looked for uses for the land, concluded that:

> It was an ideal site and planting vines seemed a great deal more romantic than anything else (Mann, 2002).

In contrast, Americans Stuart and Sandy Moss searched diligently for an ideal site that would produce grapes for a top quality sparkling wine. To quote Skelton (2001):

> They were determined to come to market with a product that was as good as they ever hoped it would be and with packaging that lived up to the product.

In other words, they thought of the marketing side before they allowed romance to enter the equation.

Vines take four or five years to produce serious amounts of grapes. During this time, thought needs to be given to the problems of selling the resultant wine. Reference to Table II shows the wide range of methods that have been employed by different organisations over the last 30 years; 20 years ago, the majority were producing a single product – usually a white wine with grapes that were unfamiliar to the public. Thus the "Seyval Reichensteiner" produced by Three Choirs in Gloucestershire was purchased by visitors to the vineyard, but was totally unknown elsewhere. Many vineyards are still in this position, selling varietal wines either by the case (with more relaxed licensing requirements) or in an off-licence on the premises – see Figure 1. Others, such as Bowerchalke in Wiltshire produce no wine but sell their grapes to wine makers. This requires less marketing providing that the quantities are relatively small and the local purchasers (either wholesale or retail) and occasional tourists can absorb the output.

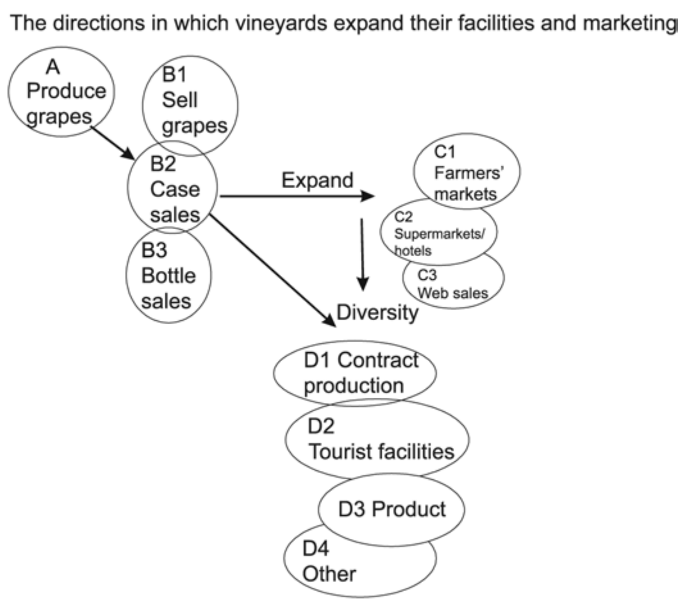
Background to the retail marketing of UK vineyards

The expansion of wine production in favourable sites has led to the need for serious thought to be given to marketing the product. This has also implied a need for extra vigilance in quality control for, while some of the early acidic products had rarity value, the continuance of production requires that the product be acceptable to a wider audience. Investment in modern wineries and winemaking methods has resulted in a higher quality product. However, there is still a need to convince sceptical large buyers of the quality and the

	OP	CS	BS	CP	FM	OT	FOL	HC	W	WS	T
Brightwell		●						●			
Hendred	●		●		●						
Cwm Deri			●	●	●	●	●			●	●
Nyetimber	●	●							●		
Denbies			●	●		●	●	●	●	●	●
Three Choirs			●	●	●	●	●	●	●	●	●
Chiltern Valley			●	●		●	●				●
Mersea			●				●	●	●		●
Bearsted			●		●				●		
Astley			●						●		
Frome Valley			●			●		●	●		●
Coddington			●					●	●		
Valley Vineyards			●	●					●		
Bothy			●								
New Wave wines			●	●			●		●		●
Wyken			●			●	●				●

Notes: OP = one product; CS = case sales; BS = bottle sales; CP = contract prod.; FM = Farmers markets and shows; OT = Other wine-related activities; FOL = Food/on licence; HC = Hotel/cottages, etc.; W = wholesale; WB = Web sales; T = tourism
Source: Vineyard leaflets

Table II.
Activities of sample vineyards



Source: The authors

Figure 1.
Market directions

"standardisation" of the product. To this end, there has been a tendency by some vineyards either to disguise the unusual grapes used (e.g. Three Choirs "Premium Lightly Oaked Dry') or to emphasise it, e.g. New Wave Wines'

"Curious Grape" range. Nick Ingham, marketing director of Three Choirs (Richardson, 2002a) in a talk to the Thames and Chilterns Vineyards Association, told how they had used free publicity available from the winning of competitions such as Vinexpo to convince supermarkets and airlines that they had a quality product. For others, the marketing methods used and the outlets for the wines vary according to the size, location and financial development of the vineyard (see Table II). Very small vineyards, such as Hendred have concentrated on one type of product (e.g. white still wines) while others (such as Bothy) are beginning to branch out into the more profitable sparkling wines. The others show a range of product and marketing methods, including the use of the newly emergent farmers markets. Some too, have, via private negotiations, been sold in inns and shops close to their point of production. Three Choirs and New Wave Wines, which are the only two companies of serious size, have invested capital in extensive tourist facilities, as well as widening their product range. They, and a few sparkling wine specialists such as Nyetimber, have managed to get their products onto the lists of wholesalers, and via them, into hotels and even onto airlines.

In many of these cases, the problem is the continuity of production. Britain has an uncertain climate – 1996 was an excellent year but was followed by two years of very low production. A wet September can ruin a year's harvest and mean that the vineyard has no means of supply; interest will dwindle and retail outlets will look elsewhere. A few, such as New Wave and Camel Valley buy in grapes to ensure continuity, but most others value the cachet that the term "estate grown" brings.

This uncertainty of climate and the need to attract and retain customers and to ensure cash flow has resulted in an expansion of activities (see Figure 1). These include contract production – pioneered by Merrydown, and now undertaken by such organisations as Three Choirs, New Wave Wines, Valley Vineyards in Berkshire and Shawsgate in Suffolk. This in turn has meant that the smaller producers can concentrate on producing grapes and selling wine, confident in the quality of the product. A large number of producers have also developed tourist facilities, though such activity requires expensive staffing and shop facilities. Marketing of these facilities is via tourist leaflets. Three Choirs, for example, have expanded to include a restaurant, hotel and shop that provides a wide range of wines – both cheaper generic (e.g. "Dry Oaked") and more expensive varietal (e.g. Huxelrebe, Bacchus, etc.). From these products, several have also branched into others such as liqueurs. All these facilities are emphasised in the tourist brochures. Chiltern Valley in Oxfordshire has widened its range even further by including a brewery and uses its facilities to provide classical concerts – an ideal outlet for its sparkling wines. New Hall in Essex has a scheme to lease rows of vines to individuals, and to make the wine for them, as well as selling unlabelled wine to tourist outlets (including other vineyards) for self-labelling.

The development of the vineyards depends on the ability (and finance) to undertake serious marketing. Many small vineyards do not have the ability –

or the desire – to undertake such activities. However, as Table II illustrates, vineyards, often of the same size and age, often differ widely in their state of development. These patterns can be further analysed by means of established marketing theories – for example Ansoff's growth vector matrix, and Porter's generic strategies for competitive advantage. The Ansoff matrix (Figure 2) can be applied to illustrate the move of producers from their existing "Market penetration" stance either into a wider range of markets, or of products, or both.

Market penetration

In order to survive, all producers must achieve some market penetration. In the case of UK wine producers, the goal is mainly to persuade the customers of overseas wines to buy a local product. This can be done by producing an attractive product that the customer can find, at a price that they are prepared to pay – a process that usually involves setting up their own method of supply. A few vineyards with financial backing have sought an alternative market penetration by buying an established competitor with an existing supply network or reputation. One example of this is New Wave Wines, who have bought up Carr Taylor and the defunct (but well known) Lamberhurst brand in order to produce a wider portfolio of known products. A few of the larger producers have also attempted to penetrate supermarkets and off licenses, and there compete with wines from all over the world. However in these markets, large volumes and set prices (£3.99, £4.99, etc.) have meant that only the larger producers with bulk supplies, a guaranteed supply of raw materials, and large-scale facilities (e.g. New Wave Wines and Three Choirs) have achieved national

ANSOFF'S GROWTH VECTOR MATRIX

		Products	
		Existing	**New**
Markets	**Existing**	**Market penetration** – own supply methods	**Product development** – Changing styles to meet market demand e.g. Medium dry for 'coach parties'
	New	**Market development** – Use of web systems; own restaurants to serve wines	**Diversification** – tourism; 'specialist' wines to meet tourist market

Sources: Adapted by the authors from Jobber (2001, p. 260), originally from Ansoff (1987)

Figure 2.
The Ansoff matrix

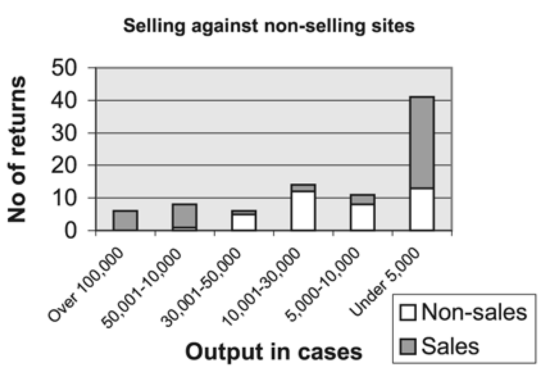
coverage. Other smaller producers, such as Valley Vineyards, Camel Valley in Cornwall and Bearsted in Kent have achieved a limited regional coverage.

On a lighter note, in 1996 Three Choirs used the *Beaujolais Nouveau* idea to ship its own *Nouveau Anglais* to Paris by plane, sea and road and achieved some sales from amused French consumers (Greaves, 1996).

Market development

Market development involves persuading non-wine drinkers to turn from other drinks, such as beer and spirits, to wine. According to a Web report, "British consumption has gone from 7.7 litres each in 1981 to 22 litres last year" (*Menu Magazine*, 2002). This rise in consumption has occurred both in the home and in restaurants, where wine is increasingly seen as a necessary accompaniment to food. It could be argued that the development of restaurants by some of the larger vineyards (e.g. Three Choirs, Wyken and Denbies) constitutes market development since they provide an addition to the supply of outlets for alcohol.

The World Wide Web – market penetration or market development? The World Wide Web is an interesting example of producers seeking both to penetrate existing markets, further from their base, and to expand the total market by means of education in addition to on-line ordering. A survey by Richardson (2002b) demonstrated that vineyards all over the world were developing Web sites for a variety of purposes. The larger vineyards were seeking to reinforce their marketing penetration while not competing with existing outlets (see Figure 3). The medium-sized and small sized suppliers were trying to expand their sales as well as using a comparatively cheap method of promotion to bring their regional product to a wider audience. The average percentage of actual sales made was low with over 60 per cent of those sampled reporting growths in sales of 1 per cent or less. However, 40 per cent of the 110 sampled vineyards used the term "marketing" when explaining why they had developed a site, against 15 per cent explaining it in terms of sales.



Source: Richardson (2002b)

Figure 3.
How vineyards have used their Web sites

Farmers markets

> A farmers market is one in which farmers, growers and producers from a defined local area are present in person to sell their own produce, direct to the public. All products sold should have been grown, reared, caught, brewed, baked, smoked or processed by the stallholder (NAFM, 2002).

These markets are currently seen as a major channel for the expansion of wine marketing, utilised by several vineyards. However, while successful, the problem of licensing has yet to be satisfactorily resolved. Most vineyards have "off-sales" licences, allowing them to retail bottles, but not to sell wine by the glass. This licence cannot just be transferred to another site, so special licences have to be obtained for each and every farmer's market attended. At about £10.00 a time, this is, as Oaten (2000) pointed out, a time-consuming and costly business, with no guarantee of good weather on the day of the market.

Product development

Product development for new markets involves using the existing product and production facilities for related purposes, e.g. the production of alternative alcoholic and non-alcoholic drinks. Currently, these are largely alcohol based, and include country wines (Cwm Deri and Windmill in Northants) and liqueurs (Cwm Deri, Chiltern Valley and Valley Vineyards). New Hall in Essex also produces a range of unlabelled wine for sale to small vineyards with product shortage because of a poor crop. This ensures continuity of product for sale to their tourist market. Three Choirs and New Wave Wines also provide a range of varietals (single grape wines) in addition to their normal "supermarket" blends, thus catering for a wider range of customer. Some vineyards also produce grape juice, catering for visitors who do not wish to consume alcohol (e.g. car drivers).

A further area of development has been into the contract production of wine for other vineyards and production to meet the specialist demands of big retailers. This involves a large capital investment in winery facilities – storage tanks, bottling lines, sparkling wine facilities etc. In the case of vineyards such as Three Choirs, wine for over 25 vineyards is produced. This means that the smaller vineyard does not require an expensive winery, but can concentrate on grape production and wine marketing.

Other wineries have different systems. The now defunct Merrydown winery in Sussex would take grapes, make wine and, in payment, retain a proportion of the wine for its own blends. New Wave Wines is a buyer of grapes at £500 a tonne, giving it a supply of raw materials from a wide range of sources within the UK. To the grower, this represents an average annual return of £2,000 per acre. To the company, it provides sufficient grapes to meet the demands of the supermarkets for wine, regardless of the vagaries of the weather at its own vineyard.

Diversification
Diversification in new markets concerns the inclusion of activities other than those directly relating to the production of alcohol, e.g. various forms of tourism and activities such as concerts.

Tourism is an obvious partner of vineyards. However, it is not without its problems. Howley and Van Westering (2000) noted that it brings with it a need for permanent staff (as opposed to weekend opening) and the need for tasting facilities. This is without any guarantee that the visitors will do more than taste the wine and use the toilets. It also involves considerable expense in advertising in tourist brochures.

Several vineyards, being located in country areas, and with "spare" buildings, rent out farm cottages to tourists, often making use of national cottage-hire companies for publicity. One vineyard owner commented that the income for this pays for the sprays required to keep disease off the vines. Mersea in Essex now has bed and breakfast, and has even converted an old winery into a self-contained tourist cottage. Several of the larger vineyards have invested heavily in tourism. Three Choirs has a high-class restaurant, hotel and tourist shop open all the year and has no difficulty in selling all the wine that it produces. Denbies at Dorking markets itself as a theme park, and sells a large proportion of its wine through its large restaurant and conference facilities situated in a custom-built complex in Surrey. Its brochure (Denbies, n.d.) describes:

> Denbies Day Out – a blend of delights, the finest wine and food all in the most splendid of settings. Our Wine Experience tours provide an exhilarating and unrivalled insight into the wonderful world of English wine.

Wyken in Suffolk also concentrates on its tourist potential, with a *cordon-bleu* restaurant open all the year, in addition to house and grounds tours. All these are heavily promoted through tourist literature. Tenterden Vineyard (2002) markets itself on the Web as "A vineyard plus so much more" with a herb garden, "vineyard park', rural museum, etc. to cater for the family day out.

In addition, the use of facilities for non-wine related activities provides additional income. Chiltern Valley at Henley hosts classical concerts in its ancient barn while Sharpham in Devon has expanded into cheese production – an ideal "stable-mate" for wine.

Porter (1990) in *The Competitive Advantage of Nations* proposed an alternative method of analysing the development of marketing. He examined the generic strategies possible, given the differing pulls of competitive advantage and competitive scope, as illustrated in Figure 4. According to Porter, competitive advantage relative to competitors is obtained either by lower cost or differentiating the products. Undifferentiated marketing was classed as the offering of the same product to all customers. Such marketing is notable amongst the smaller vineyards, For example, Hendred's sales are similarly labelled and priced both at the vineyard gate and at country markets, with only a simple case discount as a "bulk buy" incentive.

PORTER'S GENERIC STRATEGIES FOR COMPETITIVE ADVANTAGE

		Competitive advantage	
		Lower cost	*Differentiation*
Competitive	*Broad target*	**Cost Leadership** – mainly not feasible for UK vineyards	**Differentiation** – UK wine production is small but Denbies attempt a broad target with tourism activities
Scope	*Narrow target*	**Cost focus** – e.g. New Wave cheaper brands for supermarket trade	**Focused differentiation** – Smaller vineyards focus on the locality of produce, e.g. the East Anglia vineyards Muller Thurgau grapes

Sources: Adapted by the authors from Porter (1990)

Figure 4.
Porter's generic strategies

Cost leadership

With Cost Leadership, the producer seeks to gain advantage over the whole market by economies of scale and competitive pricing alone. In the wine industry, this has never worked well. Wines at £2.99 have never dominated the whole market and a large proportion of the consumers do not regard price as a critical factor. The global scale of the industry has also ensured that no one country dominates the industry. English wine, with a tiny share even of the British market, cannot hope to achieve any dominance on price.

Differentiation

Differentiation was defined by Porter (1990) as:

> . . . the ability to provide unique and superior value to the buyer in terms of product quality, special features or after-sales service.

It can also be achieved by concentration on price, distribution efficiency, promotion or the product itself. Promotion by means of national advertising (e.g. television or newspapers) is beyond the reach of all the producers in Britain, though is used extensively by the major companies in countries such as Australia, Italy and Spain. Reference to any edition of *Decanter* or *Wine* magazine will show the extent of this. At a regional level, a UK vineyard can make use of tourist brochures etc. in order to promote the attractiveness of the property and to draw attention to its unique and varying brands of wine. This is not always successful. One Somerset owner commented that a couple came in, used the facilities, sampled and commented "I like the Dry, my wife likes the Medium Dry – so we won't bother" (Farmer, 2002).

Labelling

Apart from emphasising the attractiveness of the producing vineyard, one possible area of differentiation could be said to be in the label, where a "brand image" exclusive to the producer can help consumers identify, say, a supermarket-priced wine that they liked with a more expensive wine from the same vineyard. Professor Paul Luna of the Department of Typography at Reading University, speaking at a UKVA wine-label judging competition in 2002, stressed the need for a clear label that was identifiable as being "English". Of 150 offerings, he rejected many as either being "too Australian" or "Granny's parsnip wine" or merely badly designed. The label from Denbies vineyard at Dorking won the competition for its clarity of features and text, and for being consistent across the vineyard's whole range of wines. Several overseas producers (and indeed British supermarkets producing their own brands) have employed label designers, several of whom have produced eye-catching names and labels such as "Old Git" or Waitrose's "Good Ordinary Claret". To date, this type of branding has not been widely attempted in Britain, though New Wave Wines have developed a "Curious Grape" label.

Focused differentiation

Focused differentiation involves focusing on one or more small areas that would be of minimal interest to the larger producers. This relates to marketing segmentation as in marketing UK wines, there are a number of product, place and price features that vineyards can use to achieve focused differentiation. Locality of produce is one, with wines being labelled as "Welsh", "Dorset Table wine", etc. Sadly, new European Union labelling regulations may soon remove the right of vineyards to stress the regional nature of their wines. However one advantage the UK has is that it has a very wide range of approved grapes valid for all regions, and it is on this variety of flavours and styles that the UK wine industry could market its products. New Wave Wines have now branded their wines under the "Curious Grape" label to emphasise this point, with varietals such as Ortega, Bacchus and Huxelrebe.

As outlined above, the marketing theme place can be stressed. UK wine has to be produced from grapes grown within the UK, and the term "Estate grown" implies that they are produced on a specific site. This unique local product has kudos, not only for local people, who can relate to it as a local product, but also to visitors who can seek it out for its unique qualities. The French describe the importance of *terroir* in the production of a wine and also value their *appellation controlée* to emphasise the quality (and variety of grape) approved for a specific region. The *terroir* aspect for UK wines is certainly valid, though has yet to be recognised as a mark of quality. For example a Madeleine Angevine wine produced at Leventhorpe, Leeds is totally different from one produced at Frome Valley, Herefordshire or at Hendred in Oxfordshire. In, say

Germany or France, there are often many vineyards within a specific region, producing a wine from the same grape. In Britain, there are often only a handful. Probably the area in which comes closest to the continental approach is in East Anglia, where several vineyards used the Muller Thurgau grape to produce their main wine. In such an area, the locational aspect, combined with the grape (and sometimes with the wine maker) can produce a range of unique products from the same grape.

English sparkling wine is one area where place of production has been stressed. England has a cool climate, suitable for the production of base wines similar to those of the Champagne. There has been an emergence of specialist producers, such as Nyetimber and Ridgeview, with a high quality sparkling product. These can concentrate on the pricing sector between the expensive French champagnes and the cheap, tank-fermented Italian and Spanish products. Both have won blind-tasting awards in France and can compete in the "middle range" sector of the sparkling wine market.

Cost focus and price segmentation

Wine is sold in the UK largely according to price. At the cheaper end of the scale, prices tend to be at price points, typically £2.99 and £4.99. Above this the typical price segments are £5.00-£6.99; £7.00-£10.00; over £10.00 and around £100.00. At the higher levels, even number final digit "prestige" pricing is more common. Few UK vineyards can concentrate on all of these brackets. In the lowest for example, low cost wines from Eastern Europe and other areas would overwhelm them. The highest price band largely reserved for the expensive *premier cru* French wines. UK vineyards can provide different offerings that will appeal to the middle ranges of the market. In the supermarkets, the larger producers – Valley, Denbies, Three Choirs and New Wave Wines – can provide a generic offering (e.g. Premium Selection or Lightly Oaked) within the £4.99-£6.99 range (see Table III). However as Atkin (2002) pointed out "for the [large] retailers, the deal is everything. To provide it, producers are obliged to cut corners and bottle inferior wine" Producers are obliged "to come up with a

Table III. Three Choirs and Denbies wines, classified by price brackets

Vineyard	Low price – under £5.00	£5.00-£6.99	£7.00-£10.00	Over £10.00
Denbies, Dorking	Estate White Surrey Gold	Juniper Hill Coopers Brook Rose Hill	Brut Redlands Riesling Chardonnay	Greenfields Cuvee Yew Tree Pinot Noir
Three Choirs, Newent	English House Dry Premium Selection Lightly Oaked	Mad Angevine Phoenix-Seyval Huxelrebe Red	Schonburger Huxelrebe Siegerrebe Bacchus Sparkling	Classic Vintage

Source: Vineyard price lists

promotional package" in order to get listed. Few UK producers can afford this as it results in too low a return per bottle. However, the larger producers believe that it does provide them with national exposure and a way of introducing their wines to new customers. This in turn has successfully led many consumers to visit the retail outlets at the vineyards, where the ambience makes them more likely to buy the more expensive wines on offer which begin in the £5.00 range and continue up to £10.00 for the rarer grape types. These latter also appeal to tourists, to whom price is not usually such a major consideration. Table III also shows that the "varietals" (i.e. single grape wines) are usually sold at higher prices than the introductory blends.

John Avery of Averys of Bristol told a meeting of South Western Wine growers that, since he could import South African wine at £8.00 a dozen, and, as a retailer, required a 33 per cent profit margin, then English growers required "added value" in order to survive (Avery, 2000). This was not to be found in the standard dry and medium dry (often dubbed "coach party") wines, retailing at around £5.00 a bottle at the vineyard outlet. With the exception of tourist areas, this is about the maximum that the market will bear and the producers must focus on this. However, rarer reds or sparkling wines can be priced at a higher level and can provide for a wider profit margin. This produces a wide range of products and prices, suitable for the pockets of a wide range of tourists. For example, Leventhorpe in Yorkshire can change £5.00 for its whites, £6.00 for reds and £10.00 for its sparkling wine. Sharpham Vineyard in Devon has taken this to the extreme; its polytunnel-grown Merlot/ Cabernet Sauvignon is priced at over £20.00 a bottle and is regularly sold out.

One or two vineyards have focused almost exclusively on the higher end of the market by stressing their quality. Bearsted in Kent and Camel Valley in Cornwall have established themselves as a "boutique" vineyards, using national and local competition successes to emphasise the quality and worth of their wine, and charging £2 to £3 a bottle over the national average – see Table IV. They also provide reds, sparkling whites and a "coach party" wine in their portfolio. Thus, they have products to appeal to the occasional visitor and the "quality wine" buyer as well as those willing to pay high prices for the rarity of reds and sparkling wines (£9.95 for Camel valley Reds). They also make use of a websites and a "wine club" in order to inform their existing and potential distant customers.

Low price – under £5.00	£5.00-£6.99	£7.00-£10.00	Over £10.00
	St Nectan Dry	Atlantic Dry Bacchus Seyval Blanc Rosé Red	Sparkling

Source: www.camelvalley.com

Table IV.
Camel Valley, Cornwall

UK wines and Spawton's marketing mix framework

Spawton's (1991) marketing mix framework (see Table V) would appear at first sight to put the UK wine industry largely in the "beverage", as opposed to "fine wines" category. Nevertheless, a number of fine wine features can apply.

Product

Few of the product attributes of "fine wines" have any substantial applicability to UK wines. According to the US Federal Institute (2000):

> Vintage wine is wine labelled with the year of harvest of the grapes and made in accordance with the standards prescribed in classes 1, 2, or 3 of § 4.21. At least 95 per cent of the wine must have been derived from grapes harvested in the labelled calendar year, and the wine must be labelled with an appellation of origin other than a country.

In many European countries, this has been interpreted to imply wine from a superior vineyard or year (e.g. Vintage Port). In the UK, the year on the label refers only to the year of origin and does not imply a superior product, as implied in Spawton (1991). It is only used loosely when a very large harvest results in the carrying over of stock to subsequent seasons, resulting in the need to differentiate between production years. In recent years, though, the

Table V. Summary of the typical marketing variables for UK wines, categorised using Spawton's marketing mix framework

Marketing mix components	Fine wines		Beverage wines	
Product	Appellation	✕	Varietal or blend	✔
	First growth varieties	✕	Taste	✔
	Vintage	✕	Consistency	✔
	Regional	✕	Quality control	✔
	Limited quantity	✔		
Price	Prestige and "skimming"	✔	Sensitive and competitive	✕
	Few promotions	✔	Frequent promotions	✕
Place (distribution)	Specialist outlets	✔	Supermarkets, off-licences	Minimal "Place" is central to marketing vineyard outlets
Promotion (communication)	Personal recommendation and reputation	✔	Mass media	✕
	PR	Minimal	Point-of-sale displays	At the vineyard outlets
Selling	Scarcity	✔	Continuous availability	✕
	Quota allocation	✕	Truck load quantities	✕
	Case lot quantities	✔		
Inventory	Ageing and maturing essential	✕	Stockturn paramount	✔

Source: Adapted for UK wines by the authors from Spawton's (1991) framework "keeping" quality of some English wines has become noticeably better and vineyards such as Chiltern Valley feature the year prominently on their reverse label. The regional aspect is certainly stressed, for this gives uniqueness to the product. Many vineyards (e.g. Camel Valley in Cornwall and Llanerch in Wales) stress the regional nature of their wines – an appeal partly to the patriotism of their clientele and also to "souvenir" requirements of tourists to the area. The "beverage" product attributes have more relevance, with emphasis on the varietal (e.g. Madeleine Angevine, Siegerrebe, etc) to the quality control. As outlined in the "focused differentiation" section above, differentiation of the product is linked to the place of production. The actual taste will vary from vineyard to vineyard, often a result of the *terroir*, which refers "not only to the soil but the subsoil, drainage, precise geographical location, topography and microclimate of a vineyard" (Pandell, 1998). These features are unique to the specific vineyard, so exactness of taste between varietals from different vineyards, and between different years (because of the vagaries of the UK climate), cannot be guaranteed.

Price

As discussed in the "cost focus and price segmentation" section above, few UK wines can meet the beverage attribute of "competitive". Nevertheless, some of the larger vineyards such as Three Choirs and New Wave Wines for example, aim for space on supermarket shelves in the £4.99 category. However, the cost of promotions means that few are willing to make the offers that Atkin (2002) outlined. Certain sites have to be competitive within their region – for example, the owner of Barnsole Vineyard in Kent commented that he could not sell wines over £5.00, because vast van-loads of cheap duty-free continental wine were passing his door.

Place

Few vineyards aim to distribute via grocery supermarkets on a national basis. Some supermarkets (e.g. Waitrose) do stock local brands in a limited range of outlets near to the vineyard, relying on local prestige to justify the shelf-space. Nyetimber and Ridgeview sparkling wines are marketed through Harrods. There are also one or two specialist English wine outlets – the English Wine Centre at Alfriston in Sussex and the Hop Pocket at Bishop's Frome in Herefordshire being notable examples. This ensures that there is some cross-regional trade in these wines; small individual vineyards do not necessarily have to set up their own Web sites or packaging and distribution systems.

As alluded to in the "product" section above, the "place" of production is central to the marketing of UK wines, leading to strategies of "place" marketing of retail vineyard outlets as consumer destinations. As described above, most are marketed by retailing directly from the place of production, with the place representing the unique selling proposition. A larger vineyard such as Denbies that distributes more widely is involved even more in place marketing in the conventional sense, as a tourist destination with theme park and restaurant in addition to retail.

Promotion

Massive newspaper and television promotions, of the type used by such producers as Hardys, are not within the range of any of the UK producers. Denbies once managed a promotion on Classic FM, but that is the nearest that any UK vineyard has approached to national coverage. Most promotion of UK wines is at the vineyard retail outlets and via tourist leaflets. In addition, the presence of stalls at Country markets, with the free samples involved, means that regional publicity is achieved. On a national level, English Wine Producers have a website aimed at promoting member vineyards, even though it does not currently have a sales "shopping cart" attached. The budget for the Web site and marketing manager is met by EU grants and by member vineyards – mainly the larger ones.

Selling

UK wines do not produce truckload quantities since production is limited and grapes cannot be sourced from outside the UK. The vineyards aim for continuous availability – a vital feature in tourist sites where a lack of product would soon reduce tourist numbers. The fine wines features of scarcity and case lot allocation are rarely used, although one vineyard, Horton in Dorset, applied quota allocation to its red wines in the 1990s.

Inventory

Few if any vineyards deliberately age and mature their wines longer than about a year before putting the wine on sale. Where older wines are available, it is usually as a result of exceptional harvests (e.g. 1996). The majority of vineyards prefer to keep a small buffer stock to enable them to serve customer needs, and to allow the new harvest to mature in bottle before being sold. The level of this buffer is estimated from demand and allowance for possible crop failure. In 2001, several small vineyards found themselves short of stock as a result of a wet September. However, many are also under pressure of space for the new harvest, as well as the need to turn stock into cash in order to pay for winemaking expenses (bottles, winemakers fee etc.). A few vineyards with capital behind them (e.g. Danebury in Hampshire and Nyetimber in Sussex) have invested heavily in storage facilities. New Hall in Essex has a large cellar space under the main house, with room for 750,000 bottles. Three Choirs maintain a large tank stock so that new blends can be created to meet supermarket demand.

Thus the marketing mix for UK wines indicates some of the features of fine wines and some of those of beverage wines. However, as with the other two models considered above, it is difficult to produce an exact fit to a specific model. The pattern produced is a zigzag between the two sides of the model, a feature that could bear comparison with that of other countries.

The applicability of the exemplar marketing models

In the sections above, it has been demonstrated that three of the most popular models of marketing strategy can be successfully applied to UK wines. First, the largest (and on size measure, therefore, the most successful) UK vineyards devote a large proportion of their activity to what is described as "product development" activities in Ansoff's matrix. The café, shopping and almost mini-theme park activities add to reputation and generate publicity.

Ansoff's matrix provides a valuable tool for analysing trends in market and product development. The larger vineyards have expanded both their range of markets and their range of products, whilst the small ones have remained in their existing markets, with only a slight movement into Web sales. However the development of farmers markets has provided a forum for sales by such vineyards, and is currently providing a major output for sales, from the high quantity and discounts requirement by supermarkets and high street retailers. Despite the current chaotic state of licensing in such markets, this may well be the short-term future for such small establishments.

It is difficult to fit UK vineyards' marketing activities into all sections of Porter's generic strategies model. UK wines retailed from vineyard outlets could never compete as cost leaders or market to the broad target where economies of scale are essential. However some are analysing and segmenting their markets in order to provide "high exposure" offerings in order to move into the areas where profitability is higher. For the tiny UK wine industry to exist and prosper, we contend that it is necessary to target niche segments using Porter's "focused differentiation" approach. UK wines are differentiated primarily by prestige pricing and by what is effectively "place marketing".

As mentioned earlier, Spawton claimed that marketing planning is essential even for the smallest vineyard. Space does not permit inclusion of an overview of what a plan might include, but in addition to the strategic approaches of Ansoff and generic strategies, the basic planning can be structured around Spawton's marketing mix framework. The product and the inventory mainly fit the beverage wines category. Variables to emphasise include the taste and consistency applicable to beverage wines, in contrast to appellation, vintage and ageing for fine wines. UK wines can be differentiated by high, prestige pricing and local "place" considerations.

In summary, this paper has demonstrated the applicability of exemplar marketing tools to the retailing of UK wines. As a sector case study, this paper has drawn attention to two essential aspects both concerned with place marketing. First, product development activities at the vineyard outlets can add entertainment benefits to the value of the product. Second, focused differentiation entails price segmentation and in particular, marketing at prestige prices. The perceived product benefits of the wine itself will often be linked to the place of the vineyard. The reputation of the vineyard and/or its location can justify the relatively high prices.

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Food retail positioning strategy: a means-end chain analysis

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Keywords *Food products, Retailing, Marketing strategy*

Abstract *This research conducts a means-end chain analysis of the food sector and explores the extent to which the findings made can be used to inform the retail positioning strategy of food retailers. Using means-end theory as the theoretical underpinning of the study, the paper employs laddering methodology to identify the linkages between food retail store attributes and personal values. The findings of the paper present a more personally relevant representation of consumer's perceptual orientations towards food retail store image. At the attribute level "good quality products"; "good reputation"; "store has additional services" and "value for money" are most sought after. These were linked to the consequences "feel good" and to "save time". Overall, the findings support previous value driven research, concluding that "happiness" and "quality of life" are the most strived for personal values. Strategic implications for retailers are discussed and future research recommendations are made.*

Introduction

Consumer research is undoubtedly one of the key elements in informing retail strategy and a key facilitator in the race for competitive advantage. Given the highly competitive climate that currently exists within the UK food sector, the need for innovative and insightful consumer research has never been greater. Of particular value to retailers would be a more sophisticated research approach that helps gain a deeper and more meaningful understanding of the dynamics of consumer's perceptual orientations and the heuristics that govern their store choice (Mitchell, 2001).

Means-end chain analysis (Gutman, 1982) has been identified as one such research approach that is believed to provide all of the aforementioned characteristics and, when applied correctly, will produce clear strategic outcomes for food retailers and marketing managers alike. Means-end theory provides a framework explaining how concrete attributes of a product or service (the means) are related to abstract personal values (the ends) by eliciting the perceived consequences of these attributes for the consumer. The theory shares many similarities with that of attitude research presented in Rosenberg's (1956) expectancy-value theory, with the premise in both theories being that consumer actions incur consequences, with specific product or service attributes that have been reinforced through their buying behaviour. Based on the assumption that consumers will rationally choose the product or service that more closely achieves the consequences they desire most, means-end theory seeks to gain a better understanding of the consumer by

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explaining why these consequences are important, i.e. what are the desired end-states gained by the consumer from these consequences.

Previous means-end studies have sufficiently identified consumers means-end chains and most have been successful in the development of a cognitive hierarchical value map indicating the interrelation of the attributes, consequences, and personal values for a given product or service (e.g. Klenosky *et al.*, 1993; Thompson and Chen, 1998). However, studies would seem to have neglected food retailing. In particular, there is little evidence that a study has been undertaken to assess the extent to which means-end chain analysis can be used to inform the strategic decision making process of food retailers.

Therefore, the purpose of this paper is to carry out a means-end chain analysis in the food sector, exploring the extent to which the findings can be used to help inform retail strategy. The paper examines the theory and significance of retail positioning strategy and discusses the components that form the basis of a means-end methodology. The empirical research study investigates and identifies the attributes that consumers' desire most from food retailers, the consequences of these attributes and in turn what the desired personal values are resulting from these consequences. The findings of the study are presented graphically in a hierarchical value map (HVM) and the implications of the findings for food retail strategy are discussed.

Retail positioning strategy

Positioning is defined "as the design and implementation of a retail mix to create an image of the retailer in the customer's mind relative to its competitors" (Levy and Weitz, 2001). Walters and Laffy (1996) argue that retail positioning strategy is an integrated activity, which comprises four specific areas, these are:

(1) *Merchandise decisions*. These relate to issues such as the core merchandise policy, branding, assortment profiles, branch stocking policy and merchandise augmentation.

(2) *Store format/environment decisions*. These relate to number and location profile of outlets, space allocation (merchandise, services, stockholding), visual merchandising, design and ambience.

(3) *Customer service decisions*. These relate to aspects such as number of facilities, product-services, service-products and personnel services.

(4) *Customer communications decisions*. These relate to elements such as advertising, public relations activities, display of promotions and visual merchandising.

Combined, these areas overlap to reinforce the overall positioning of the retail offer. Effective positioning can only be achieved by the skilful manipulation of each component part to create a retail offer that "fits" with the expectations of the target customer group (Darling, 2001). In the positioning process, research techniques such as means-end chain analysis are pivotal, since they can provide the retailer with a clearer understanding of the expectations held by consumers and identify any areas where a specific response should be taken. Walters and Laffey (1996) highlight that achieving a particular direction or differentiation can be done by placing an emphasis on one or two of the component areas of the store positioning strategy. Therefore, where consumer research indicates that customer service expectations are high, the retailer should adopt a customer service led positioning, where all productivity and profitability decisions are based on the premise that customer service is paramount. Ensuring that the retail strategy is planned, implemented and managed effectively is crucial because effective positioning has been linked to increased corporate performance (Davies and Brooks, 1989) and shapes how consumers will perceive the image of the store.

Store image

The significant role played by store image within food retailing is unquestionable and many authors have long advocated that a desirable store image facilitated by an effective positioning strategy can be considered a core element of the retail mix and can be integral in influencing store choice (e.g. Arons, 1961; Birtwistle, 2001; Doyle and Fenwick, 1974-1975; Lindquist, 1974-1975; Malhotra, 1983; Osman, 1973). This argument is based on the theory that congruence between consumer perception of store image and the objectives of market positioning strategies result in customer loyalty towards a store (Birtwistle, 2001). Store image can therefore, be considered a means for achieving competitive advantage.

Consumer loyalty will be more likely when the consumer perceives the store image to be "desirable". A wide belief exists, that consumers perceive images to be "desirable" when the store image is congruent with their self-image or the image to which they aspire (Bellenger *et al.*., 1976; Evans, 1993; Grubb and Grathwol, 1967; Lewis and Hawsley, 1990; Martineau, 1957; Sirgy *et al.*, 1989; Sirgy and Danes, 1982).

Conceptually store image was first thought of as a combination of the functional and psychological (or tangible and intangible) attributes of a store, which when combined define the way consumers perceive that store (Martineau, 1958). This is now a widely held assertion and has since been widely tested and supported by many store image researchers: Arons (1961), Dichter (1985a, b), Doyle and Fenwick (1974-1975), Keaveney and Hunt (1992), Lindquist (1974-1975), Oxenfeldt (1974-1975) and Zimmer and Golden (1988) to name but a few.

That said, other approaches have also been adopted, notably that of Engel and Blackwell (1982), James *et al.* (1976), Kunkel and Berry (1968), who are all of the opinion that store image is learned and that a behavioural approach is more appropriate. However, there is no doubt that the attribute-based approach dominates the majority of store image research. Consequently, researchers have attempted to identify the factors contributing to store image (Bearden, 1977; Doyle and Fenwick, 1974-1975; Ghosh, 1990; Kunkel and Berry, 1968;

Lindquist, 1974-1975), but most studies have shown likeness in findings and have lacked innovation. Mitchell (2001, p. 167) recognises this fact and notes:

> Although many store image studies have defined discriminant attributes, most have found very similar attributes to be important, giving little new insight into consumers' thinking and few have attempted to explain how these attributes lead to the satisfaction of personal shopping motives.

The study goes on to identify that previously classifying store attributes from an organisational or operational viewpoint has failed to explain the heuristics consumers' use for store choice from a consumer behavioural approach and states that it fails to "capture the richness of store image which is believed to be a picture, but is generally measured as a list" (Mitchell, 2001, p. 167). Mitchell's (2001) argument is strengthened by a number of store image commentators who also view store image as a multi-dimensional Web-like structure (Dichter, 1985a, b; Lindquist, 1974-1975; Zimmer and Golden, 1988).

Clearly, a more holistic approach is required. Of particular relevance is the store image research carried out by Thompson and Chen (1998), who realised the usefulness of a means-end methodology. Their study explored the link between attributes and personal values within the fashion sector. However, a study in the food sector is also required because store image dimensions are sector specific (Hansen and Deutscher, 1977; Mitchell and Kiral, 1998) and change over time (Davies, 1992). Attention has been paid as to how means-end theory can inform advertising strategy (e.g. Gengler and Reynolds, 1995; Reynolds and Gutman, 1988; Reynolds and Rochon, 1990; Shimp, 2000), however, the usefulness of the technique in informing the four decision making areas identified by Walters and Laffy (1996) has yet to be investigated and applied within the food sector. To carry out a study based on means-end theory, laddering methodology must be utilised (Gutman and Reynolds, 1988).

Laddering

Laddering was first developed as an analytical technique by Hinkle (1965) and is defined as:

> . . . an in-depth interviewing technique used to develop an understanding of how consumers translate the attributes of products into meaningful association with respect to self, following means-end theory (Reynolds and Gutman, 1988, p. 12).

The process involves using a semi-structured interview design that probes the reasons why a particular descriptor is important to the consumer. The technique seeks to ascertain the attributes (A) that the consumer uses to distinguish the product or service; to determine the consequences (C) of these attributes; and to evaluate how these, in turn, relate to desired end-states or values (V), represented by an association network or ladder. The premise here is that the consumer will utilise these "association networks or ladders" to solve problems, such as, deciding where to shop. The belief is that the:

> . . . distinctions at the different levels of abstraction, represented by the A-C-Vs, provide the consumer with more personally relevant ways in which products are grouped and

categorized. Thus, the detailing and subsequent understanding of these higher level distinctions provides a perspective on how the product or service information is processed from what could be called a motivational perspective, in that the underlying reasons why an attribute or a consequence is important can be uncovered (Reynolds and Gutman, 1988, p. 12).

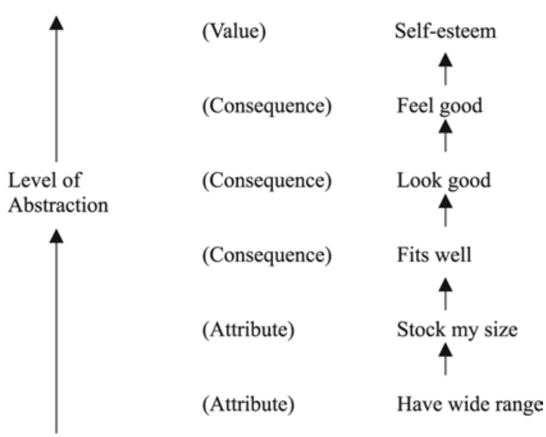
At this point an example might be helpful.

Consider Figure 1, this ladder represents the underlying motivational reasons behind the respondent's choice of store:

As in Figure 1, the elements were elicited one after another, with use of the laddering technique of interviewing. This technique encourages the respondent to think more deeply about the links between the attributes of the store and their desired end-state.

There are several stages to the laddering method. The distinctions utilised by the consumer to differentiate the product or service must first be determined. These descriptors are obtained from the respondents, prior to the laddering interviews, with the use of one or more elicitation procedures. The elicitation process is facilitated by standard content analysis procedures. This process involves the aggregation of all the raw data (the descriptors mentioned by the respondents) to eradicate any duplicate responses given; therefore, producing a more manageable list of constructs upon which the next research phase can be based. During this elicitation phase it is also necessary to ensure that each of the descriptors elicited are at the attribute (A) level of abstraction and not the consequence (C) or end value (V) levels. This study has adopted the following definitions to differentiate the specific levels of abstraction:

- *Attributes* – these are the concrete (tangible) and abstract (intangible) characteristics of a food retailer.
- *Consequences* – "more abstract meanings that reflect the perceived benefits (or costs) associated with specific attributes" (Thompson and Chen, 1998).



Source: Thompson and Chen (1998)

Figure 1.
Example of a consumer's means-end chain elicited by laddering technique of inteviewing

- *Values* – "represent enduring beliefs people hold regarding what is important in life. They pertain to end states or behaviours that people desire in their lives; they transcend specific situations, and they guide selection or evaluation of behaviour" (Shimp, 2000, p. 310).

Once the descriptors have been elicited they are made bi-polar and used as the basis for the laddering interview. The laddering interview commences with the respondent being asked to indicate whether they relate more to the positive end or negative end of the bi-polar descriptor. The respondent is then questioned as to why they have taken this stance, eliciting a new construct. The interviewer continues with this line of questioning eliciting a new construct at each level. This continues until the respondent fails to elicit a response. The higher up the hierarchical value ladder a construct is, the more important a role it plays in the individuals perceptual orientation, hence, these constructs are known as "core constructs".

Once this is done the data from the laddering interviews can be fed into an implications matrix, this denotes the number of times each descriptor was elicited and the number of relations between constructs. The descriptors that are mentioned most and have the highest number of relations can then be utilised to construct a tree diagram, known as a HVM (Reynolds and Gutman, 1988).

Reynolds and Gutman (1988, p. 12) identify the fact that the HVM is unlike cognitive maps output from multidimensional scaling or traditional factor analysis because it is:

> ... structural in nature and represents the linkages between the levels of abstraction (attributes-consequences-values) without reference to specific brands.

This type of qualitative data is of particular use to retailers because it provides a greater insight into the perceptual orientations of consumers on a holistic or *gestalt* level (Gengler *et al*., 1995), in turn, offering greater understanding as to why one retail offer may be more desirable than another, to that particular person or consumer segment. This information could then be utilised to develop positioning strategies that communicate how a retail brand delivers higher-level consequences (C) and desired end-states (V), as opposed to merely concentrating on promoting specific characteristics of that retail brand (A). In short, retailers that have an understanding of their consumer's perceptual orientations will be able to plan and implement the marketing mix, in such a way that the developed store image can be utilised as a basis for achieving competitive advantage (Reynolds and Jamieson, 1985).

Methodology

The empirical investigation was split into two main research phases, phase one: elicitation and phase two: laddering. Both phase one and phase two constituted a one-to-one interview with 15 respondents, with the same respondents being interviewed on two different occasions, once for each phase. Elicitation interviews lasted approximately 25 minutes each compared to approximately 35 minutes for laddering interviews. Wherever possible, the interviews followed Reynolds and Gutman's (1988) recommendations with regards to creating an optimal interviewing environment and utilising varied questioning techniques.

This study was primarily exploratory and qualitative in nature. Consequently, a judgemental sample of 15 respondents was selected; and consisted of nine women and six men of all age groups and socio-economic backgrounds. The respondents were chosen on the basis that they were responsible for their own respective household shopping and so had a wealth of experience and opinions, with regards food retailers. The sample also represented a cross section of shoppers from different retail outlets. There was a considerable degree of agreement and correlation in the results after having undertaken 15 interviews; the usual caveats relating to population and ecological validity apply.

Phase one – elicitation interview

Three different elicitation procedures were employed to ascertain the attributes (A) consumers perceived as being the distinguishing characteristics of a store. These constructs essentially represented the lower-level elements that constitute store image. Phase one incorporated three elicitation procedures this promoted triangulation of methods and data. The first two procedures utilised a list of the top ten food retailers (by percentage market share) as stimuli. This provided a wide spectrum of food retail offers of which the respondents would be likely to have a high degree of knowledge and experience and as a result would be able to provide in-depth responses. See Table I for a list of the retailers used.

The first elicitation procedure employed was triadic sorting (Kelly, 1955). Respondents were shown the stimulus list and asked to delete any retailer with whom they had no experience or did not recognise. The remaining retailers were placed on individual pieces of paper and three picked unseen at random. The respondent was then asked to identify any way in which two of the

	Retailer
1	Tesco (UK), plc
2	J Sainsbury's Supermarkets
3	ASDA Group plc
4	Safeway Stores plc
5	Somerfield plc
6	Wm Morrison Supermarkets plc
7	Co-operative Group
8	Marks & Spencer (food)
9	Iceland Group plc
10	Waitrose Ltd

Source: Mintel Retail Intelligence (2002)

Table I. List of top ten food retailers (percentage market share), used as stimuli for elicitation interviews companies were similar to each other, but were different from the third. The process was repeated until the respondent could not provide any more constructs. This procedure was repeated a number of times depending on the how successful the respondent was at articulating responses.

The second elicitation procedure was "preference – consumption differences" and followed the steps taken by Thompson and Chen (1998). In order to gather the distinctions that consumers perceive in the store image of food retailers, respondents were asked to rank the ten grocery retailers in their order of preference. They were then asked to distinguish each retailer from the next in line. That is, the respondent identified why they preferred their top preference retailer to their second preference retailer; then why they preferred their second preference retailer to their third preference retailer and so on.

The final elicitation procedure was based on open-ended questioning and contextual stimuli. This approach is often more inspirational and helpful to respondents because distinctions are being examined in the context of the setting in which they naturally occur. Respondents were presented with triads in the same way as in procedure one; however, they were also presented with a context for making a comparison. For example, the respondent was asked:

> If you had run out of fresh vegetables and each of the retailers was an equal distance from your home, which would you go to and why?

The context for the same triad was changed several times, in an attempt to elicit a number of different meaningful responses.

The responses given by each respondent were content analysed to eliminate any duplicate constructs. This provided clear descriptors that essentially were the store attributes that consumers utilised to form grocery store images. After moderator agreement each of the finalised descriptors were paired with their corresponding antonym to make them bi-polar and assembled into one complete list to be utilised in phase two of the research (see Table II).

Phase two – laddering interview

The purpose of the laddering interview was to the ascertain the "ladder" of linkages between the attributes, consequences and values in relation to food retail store images, in turn, achieving a deeper and more meaningful understanding of what motivates food shoppers to select where to shop.

The respondents were presented the list of bi-polar attributes and then asked to select the five, which matched their most important choice criteria. Starting with the first preference attribute, the respondents were asked to indicate which pole of the attribute they related to most (positive or negative). The interviewer then proceeded to use this as the basis for the "why is that important to you?" line of questioning to ascertain the consequences of the attribute. Further probing continued until the respondent could no longer explain "why?" Varied wording and questioning techniques were used to facilitate the "flow" of the interview and to overcome any difficulties the respondent was having in attempting to articulate an answer, as a result, the

Description	Antonym
Sells clothes	Does not sell clothes
Cheaply priced products	Expensively priced products
Good quality products	Poor quality products
Many promotions/special offers	Few promotions/special offers
Aimed at upper end of market	Aimed at lower end of market
Good own brand	Poor own brand
Offer additional services (café/banking/ride-on trolley/crèche)	Does not offer additional services
Staff well presented	Staff poorly presented
Familiar store layout	Unfamiliar store layout
Wide choice	Limited choice
Many well known brands	Few well known brands
Good reputation	Bad reputation
Stocks home and leisure products	Does not stock home and leisure products
Clean and tidy store	Dirty and untidy store
Large store format	Small store format
Open 24 hours	Not open 24 hours
Wide selection of frozen products	Limited selection of frozen products
Short queues	Long queues
Well-trained staff	Poorly trained staff
Stock speciality foods	Does not stock speciality foods
Sells petrol	Does not sell petrol
Do not pay for trolley/carrier bags	Do pay for trolley/carrier bags
Good availability	Limited availability
Good customer service	Poor customer service
Good value for money	Poor value for money
Offers sampling	Does not offer sampling
Store filled out of hours	Store filled continuously
Promotes healthy living	Does not promote healthy living
Good quality meat	Poor quality meat
Store I can trust	Store I do not trust
Pleasant atmosphere	Unpleasant atmosphere
For older customers	For younger customers
Highly innovative	Poor innovators
Self-service	Counter service

Table II. Store image descriptors elicited in phase one

response rate was high and the problems cited by Reynolds and Gutman (1988), i.e. inability to articulate answers and hypersensitivity were not encountered.

Data analysis

The initial task of data analysis was to content analyse the responses from the laddering interviews. The respondent's means-end chain ladders were aggregated until all the responses given could be summarised by 60 master codes, comprising 17 attributes, 37 consequences and six values as shown in Table III.

These master codes were broad enough categories to eliminate duplicate responses, however, narrow enough to ensure no meaning was lost. The second task of analysis was to construct an implications matrix that could then be

Attributes		Consequences		Values	
A1	Good Locality	C1	Saves time	V1	Self determination
A2	Store has additional services	C2	More free time	V2	Financial security
A3	Clean and tidy store	C3	Relieves stress	V3	Accomplishment
A4	Good availability	C4	Contentment	V4	Happiness
A5	Open 24hrs	C5	Family time	V5	Quality of life
A6	Wide choice	C6	Good parenting	V6	High self-esteem
A7	Good quality products	C7	Foods not contaminated		
A8	Cheaply priced products	C8	Do not get ill		
A9	Sells clothes	C9	Good health		
A10	Familiar store layout	C10	Feel good		
A11	Value for money	C11	Products available on demand		
A12	Many promotions	C12	Do not get frustrated		
A13	Big store format	C13	Do not feel unfulfilled		
A14	Good customer service	C14	Go when its quite		
A15	Good own brand	C15	Do not get bored		
A16	Good reputation	C16	Buy a range of products		
A17	Many well known brands	C17	God nutrition		
		C18	Buy durable products		
		C19	Don't waste money		
		C20	Can afford to live		
		C21	Pay a fair price		
		C22	Do not feel cheated		
		C23	Better taste		
		C24	Feel rewarded		
		C25	Self sufficient		
		C26	Free to move around at will		
		C27	No pressure		
		C28	Control of purchase		
		C29	Easy access to staff		
		C30	Staff meet my needs		
		C31	Feel valued		
		C32	Get a bargain		
		C33	Sense of achievement		
		C34	Can take a break		
		C35	Trust prices		
		C36	Do not feel cheated		
		C37	Do things I like		

Table III.
60 master codes established from content analysis of respondents' ladder data

used as the basis for identifying which constructs would be included in the HVM. The implications matrix scored the total direct, e.g. A-C, C-V and indirect, e.g. A-V relations between attributes, consequences and values by breaking down the ladders produced by respondents. From the aggregated data in the implications matrix, "chains" were then reconstructed to form an HVM. To do this it was first necessary to ascertain the most popular and stable relations that would be used in the HVM. Therefore, a cut-off level of four relations was established by systematically examining manageable numbers of constructs. All connections below this level were ignored, as it was deemed that they did not impact strongly on the consumer's perceptual orientation. The study chose to include direct and indirect relations in the HVM, based on the recommendations in previous studies (Klenosky *et al.*, 1993; Reynolds and Gutman, 1988; Thompson and Chen, 1998). The final HVM was represented in the fashion recommended by Gengler *et al.* (1995). In doing so the attributes, consequences and values are shown as circles with their size representing their relative importance, i.e. the number of times they were mentioned. In this paper the attributes, consequences and values were distinguished by the solidity of line used to draw them, as opposed to using different shades of colour, which was the suggested approach by Gengler *et al.* (1995). Adjoining lines depicted the relations between constructs in the HVM; the thicker the line the greater the number of relations. Overall, taking these measures enhanced the clarity and usefulness of the map. The final HVM is shown in Figure 2.

Results

In total seven attributes were found to be the basis of food retail store image, i.e. these attributes were found to be consumers most important store choice criteria. The final attributes used in the HVM (Figure 2) were a combination of four concrete and three abstract concepts. The concrete attributes, i.e. physical, tangible elements of the store, included: "store has additional services"; "clean and tidy store"; "familiar store layout" and "many promotions". Whereas, the abstract attributes were found to be: "value for money"; "good quality products" and "good reputation". Overall, "value for money" was found to be the single most important attribute, with all other attributes scoring equally and of equal importance. When comparing the most desired attributes of food shoppers with that of fashion shoppers, as found by Thompson and Chen (1998), it is evident that the attributes desired most differ by sector, supporting Hansen and Deutscher's (1977) assertion that store image is sector specific.

Adopting means-end chain analysis has enabled the study to take a more insightful approach that has not only identified the attributes that characterise food shoppers most important store choice criteria, but has also been able to provide an explanation as to how these gain personal relevance and meaning, i.e. what are the consequences and values for the consumer (Gengler and Reynolds, 1995). The findings made show that there were eleven consequences used in the HVM, including: "saves time"; "more free time"; "don't waste money"; "feel good"; "contentment"; "get a bargain"; "do not get bored"; "can afford to live"; "good health"; "durability" and "pay a fair price". The most dominant consequences were "saves time" and "feel good", this is typical of the modern food shopper, time poor and in need of constant stimulation (Newman and Cullen, 2001). Interestingly, the consequences desired most by food shoppers are mainly functional, this is a direct contrast to the consequences elicited by Thompson and Chen (1998) in their study of the fashion market, which were mainly psycho-social. This finding once again supports the argument that motivations for store selection vary according to sector (Hansen and Deutscher, 1977).

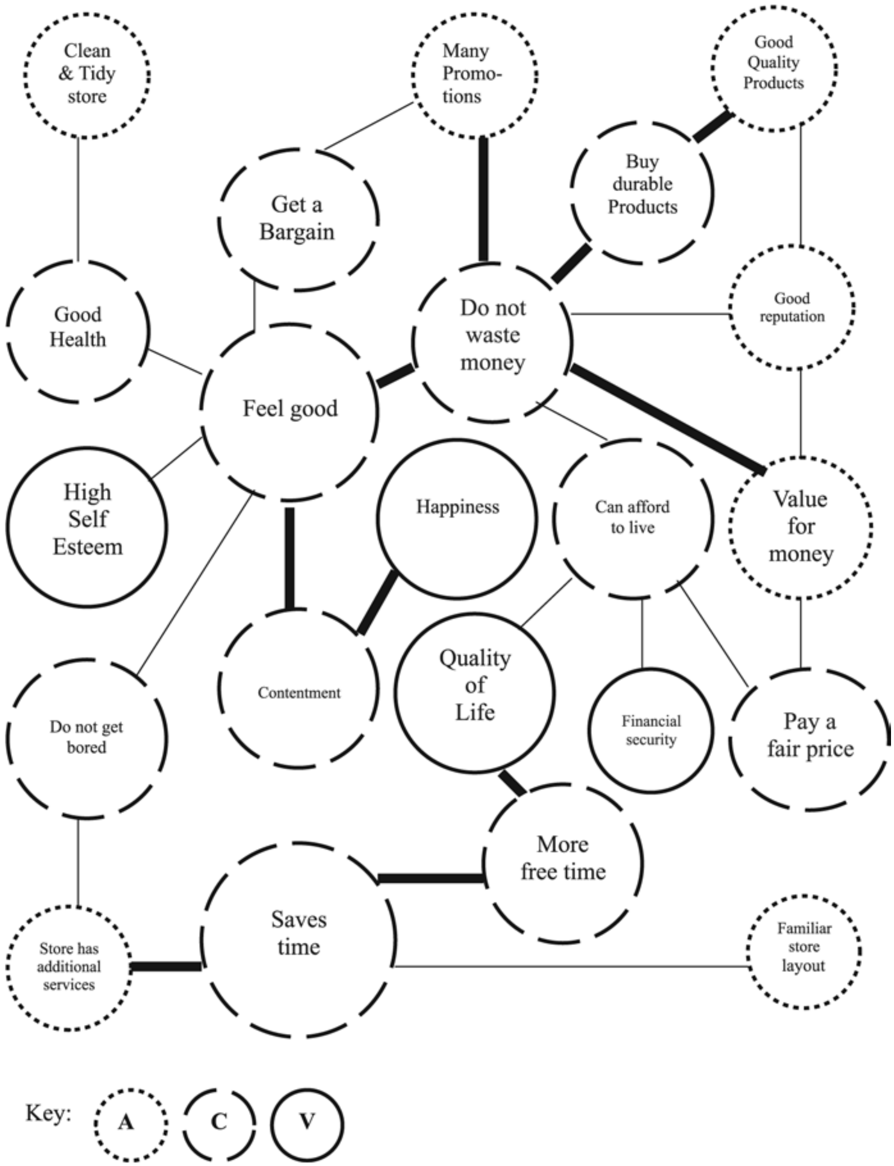


Figure 2.
Hierarchical value map

Out of the six values that were mentioned in the study, four were finally used in the HVM. The end-values consumers strive for when going food shopping are “financial security”; “happiness”; “quality of life” and “high self esteem”, with happiness and quality of life found to be the most important. These findings were supported by other personal values research, including Klenosky *et al.* (1993), Reynolds and Gutman (1988) and Thompson and Chen (1998). In particular, Thompson and Chen (1998) study found all of the same values ("happiness", "quality of life" and "security") to be of high importance, with the exception being they also added "sense of belonging" – a value that was not found in this study. These findings show that although attributes and consequences are sector specific; personal values are not, this is shown in the fact that food shoppers deem hedonistic values to be the most important, as is true of fashion shoppers (Thompson and Chen, 1998). However, this assertion requires further testing before any concrete conclusions can be drawn.

Implications for retail strategy

The purpose of the study was to carry out a means-end chain analysis in the food sector and identify how the findings made could be used to inform the retail strategy of food retailers. As a final element to the completion of this aim, the results of the empirical investigation were applied to retail strategy, in terms of the four strategic decision making areas outlined by Walters and Laffy (1996) which are merchandise decisions, store format/layout decisions, customer services decisions and customer communications decisions.

Merchandise decisions

The study has been very useful in informing strategic merchandise decisions of food retailers with merchandise related attributes found to be the second most important selection criteria for food shoppers. Analysis of the HVM shows that food retailers should ensure that "quality" and "value" are the key elements in their positioning strategy. "Promotional products" should be a core component of the food retail offer. Further analysis of the HVM shows that these merchandise related attributes were the basis of one of the two dominant means-end chains in the HVM (see Figure 3).

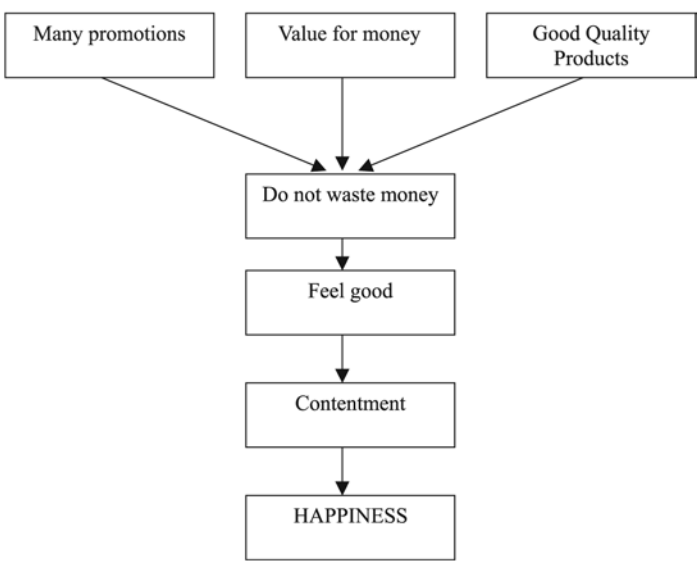


Figure 3. Dominant means-end chain stemming from merchandise related attributes

Figure 3 shows that any marketing communication should focus on the dominant consequence of these attributes, which was that, the consumer did not want to "waste money". Interestingly, this consequence was found to be important because it more closely helped food shoppers to achieve the desired end state of happiness through "feeling good" and being "content". Whereas, the pathway which one would have assumed to be more logical, i.e. achieving "financial security" from being able to "afford to live" was considered to be of less importance.

Store format/environment decisions

The study found that store format/environment attributes were the most important store selection criteria for choosing which food store to go to. As the HVM shows, food retailers should aim to offer as many additional services as is possible within their retail format, for example, facilities for banking, café in-store, crèche for children, etc. They should also attempt to keep the store layout similar across all branches and should keep movement of products within the store to a minimum. This is perhaps an impossible task, considering the space flexing requirements of food retailers, therefore, as an additional element, necessary steps should be taken to ensure that all has been done to facilitate the traffic flow around the store and also that the consumer can find products easily, for example, clear signage and labelling of products and maps of any product movements would be helpful.

The means-end chain analysis has been able to provide additional insight as to why these attributes were important. Figure 4 illustrates the second dominant means-end chain taken from the HVM, it shows the most desired consequence of store format/environment related attributes was to "save time", since it ultimately led to a better quality of life.

Going beyond the attribute level, food retailers should ensure that as many time saving features are incorporated into their stores as possible in line with

Figure 4.
Dominant means-end chain stemming from store format/ environment related attributes

the fact that this was the most desired consequence, for example, easy access location, parking facilities and convenience in store layout.

A surprising addition to the HVM was “clean and tidy store”. Consumers were drawn to such stores because good health was an implied connotation; this in turn led them to their more hedonistic desired end state of happiness.

Customer service decisions

The study concludes that customer service attributes were not of high enough importance to consumers to merit a place on the HVM. The lack of customer service elements could have been due to a number of reasons. First, selecting a cut-off level of four meant that some customer service attributes might have been ignored. Had the study selected a lower cut-off level more customer service elements would perhaps have featured in the HVM. However, the stance taken by the study was believed to be appropriate, since a cut-off level lower than four would have meant that the HVM was cluttered with many insignificant constructs that did not represent dominant perceptual orientations towards the selection of food retailers. The final HVM was clear, simple and represented the “core” constructs that make up consumer’s perception of food retail store image. Thus, it is of greater use to food retailers in developing positioning strategies. Alternatively, consumers may not have mentioned customer service factors as much as other elements because customer service is no longer seen to be a differentiating factor between food retailers. Many consumers most likely take customer service for granted, since the majority of supermarkets now provide a similar range of comprehensive customer services and so it has become a prerequisite of the food retail offer.

Customer communications decisions

Customer communication was not found to be a highly important element of store choice criteria for food shoppers, other than it was believed to be important that the retailer had a good reputation. What is interesting though, is that consumers believed that a good reputation came from providing good quality products and value for money, as opposed to having effective advertising strategies. This finding was to be expected though, since not many consumers would say that they based their shopping criteria on the advertising or PR of the retailer.

However, customer communications cannot be ignored because they reinforce the overall positioning statement of the retailer in the mind of the consumer. As in the previous strategic decision making areas, the key to customer communications strategy lies in the retailer’s ability to convey the higher levels of abstraction to the consumer. To date, many food retailers have focused on presenting fragmented unmeaning characteristics of their retail offer, i.e. the attributes of the store. Instead, food retailers should be emphasising the consequences to consumers of these store attributes and in turn, illustrating how these attributes will lead them to their desired hedonic end states, thus increasing the personal relevance of the retail offer to the consumer. For more information on using means-end chain analysis to build advertising strategies see Olsen and Reynolds (1983).

Conclusion

The paper concludes that food retail positioning strategies should be focused on emphasising the fact that the retail offer can act as a vehicle for the attainment of personally relevant end states of existence for consumers. The paper suggests that this will be more closely achieved by working at a higher level of abstraction when positioning the store, instead of merely presenting attributes, the retailer should focus on showing the consumer how these attributes have consequences and in turn, what is the overall benefit the consumer will gain. The retailer that more successfully translates the ladder of linkages between A-C-V (as is represented in the HVM) in their positioning strategy will undoubtedly be the retailer that achieves a more competitively differentiating store image.

To strengthen the practical relevancy of this study, future research would benefit from a case study approach assessing the extent to which food retailers currently base any strategy formulation on means-end or value driven research or principles. Means-end studies within the food sector should be an iterative process because consumer needs and wants have been found to change over time (Davies, 1992). In addition, further means-end studies would benefit from taking a segmented approach, since the store image dimensions consumers consider being most important are believed to differ depending on age (Joyce and Lambert, 1996) and socio-economic background (Doyle and Fenwick, 1974-1975).

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