

International value chain processes by retailers and wholesalers — A general approach

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Abstract

Many traditional behaviorist or marketing approaches and descriptive models have been developed in the past to explain internationalization of retail firms. Only a few of these have a wider scope comparable to theories used today in international management research. The international retailing research so far has barely touched upon the international management of value-added activities and processes. This paper proposes and discusses a general value chain approach which opens up a promising perspective to provide a new direction for research and a better understanding of management options for increasingly internationalized retail firms. This appears to be all the more important because, in practice, more and more highly internationalized firms are structuring their value-added activities and processes on an increasingly international basis in order to gain competitive advantages or to increase their profits. © 2007 Elsevier Ltd. All rights reserved.

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1. Introduction

Internationalization of modern retailing has been going on since the 1990s with increasing dynamics and due to market saturation in many western developed countries (Cliquet, 2006). The world's largest retailers, such as Wal-Mart, Carrefour, Metro, and Tesco (Swoboda et al., 2005), or smaller, specialized ones like Sephora and Douglas, H&M, and GAP, achieve growing foreign turnover rates, but also have to conduct their value chain activities or processes (VCAs or VCPs) on an increasingly international basis. Despite the fact that the number of publications on this topic is growing, particularly in comparison with national retail or general international management literature, the knowledge on international VCAs by retailers is still not that extensive. This paper sees internationalization of retail firms not merely as the important adoption to single country markets or the strategic internationalization on the sales side (Sternquist,

1997, p. 263). Just like Dawson (1993) and Sparks (1995), we examine procurement and management processes as a part of retail internationalization and look further at logistics, operations, and the whole firm's value chain. This view takes into consideration that all VCAs are also a potential source for retailers' competitive advantages at the international level and, ultimately, for their success in each individual country and across the countries served. Our aim is therefore to analyze the retail management opportunities in the areas of market-oriented processes and supply chain processes, accompanied by the management or business processes of each value chain activity (VCA), the value chain processes (VCPs), and the whole firm.

The paper develops first an approach based on retail-specific VCPs and the respective management dimensions. Second and built on this approach, we investigate VCAs across border, looking at research questions and management options, illustrating them with examples and short case studies. An integrative look at value-added systems and the dynamics of international retailing complete the paper. We try through this general value chain approach to

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open up a promising perspective for the future to provide a better understanding of management options in increasingly internationalized retail firms.

2. Conceptual glance at retailing internationalization

2.1. Value chain approaches as a basis

The value chain perspective is mostly connected with Porter (1980), who defines a value chain as a market-oriented sequence of productive (i.e. value-added) activities leading to a firm’s success. This concept, however, was further developed in economics and management in various ways, its basic idea being related to earlier theories of the retailing value chain or of distribution channel systems (Seyffert, 1931; Gill and Stern, 1969). Today, industry-specific value chains are discussed. Richardson (1996), for example, focused on the clothing value chain, and has highlighted that competition in the fashion sector has shifted to the arena of timing and know-how, where vertically integrated firms have gained the lead (see also Abecassis-Moedas, 2006). Of course, the value chains are different in food, fashion or furniture retailing. Fig. 1 — connecting to Zentes et al. (2004) — shows different primary and management value chain activities and processes in particular (see the marketing systematization by Srivastava et al. (1999) and retailing perspective by Ellis and Keller (1992).

Market-oriented processes and activities, such as market analyses, innovation and trend recognition, with the aim of transferring the trends to the sales floor, are (or should be) a starting point in retailing value chain management. These are followed by such market-oriented processes as planning of the format and shop design, as well as development of assortments and of customer-related processes (e.g. sales promotion, customer relationships). Supply chain processes are, for example, purchasing, order management, or operations (e.g. in the case of planning and control of private labels), and logistics (including stock management, or logistic management of flash and never-out-of-shelf programs in the fashion sector).

Market-oriented and supply chain processes are reciprocal, that is to say market-oriented processes are at the beginning and the end, and supply chain processes are in between. Furthermore, management processes in the narrow sense, especially structural decisions (e.g. organization), systemic decisions (e.g. planning, controlling), or cultural decisions (e.g. HRM), are not only relevant for coordination of each VCA or VCP, but also for coordination of the whole firm (Zentes et al., 2004). Beyond this, we focus on strategic processes. Strategic means that they are of primary importance in achieving firms’ major goals. Operative support processes are considered separately. All of these can vary from one firm to the next so the choice is a subjective one.

2.2. Management dimensions of cross-border value chain activities and processes

Authors deal with different dimensions of (retailing) internationalization (e.g. Alexander and Myers, 2000; Vida, 2000). Focusing on approaches with wider scope, Sternquist (1997), for example, looks at OLI dimensions oriented towards the sales side: ownership advantages (particularly assets and transaction cost advantages), localization advantages (attractivity of markets), and internalization advantages (in the sense of protection of corporate secrets). Concerning VCAs, Porter (1986) looks at configuration (with the options of geographic concentration vs. dispersion) and coordination (with the options of low vs. high). Furthermore, it is common to view international management along the country axis (configuration or geographic-cultural distance), as well as the coordination or integration axis. In terms of VCAs, an internationalization mountain illustrates this view. Fig. 2 illustrates that innovation, for example, is mainly located and highly integrated in the UK and the USA, while market activities are found in each country, but at a different level of integration. This view can cover each particular VCA or the entire value-added system, providing an overall picture.

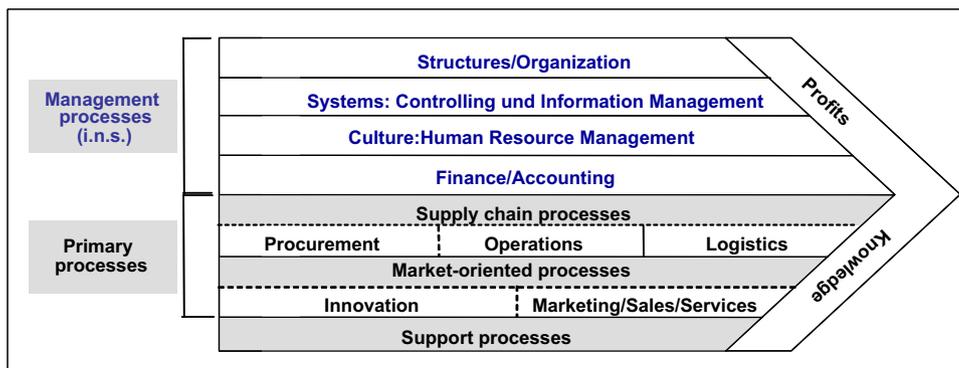


Fig. 1. Proposed international retailing value chain.

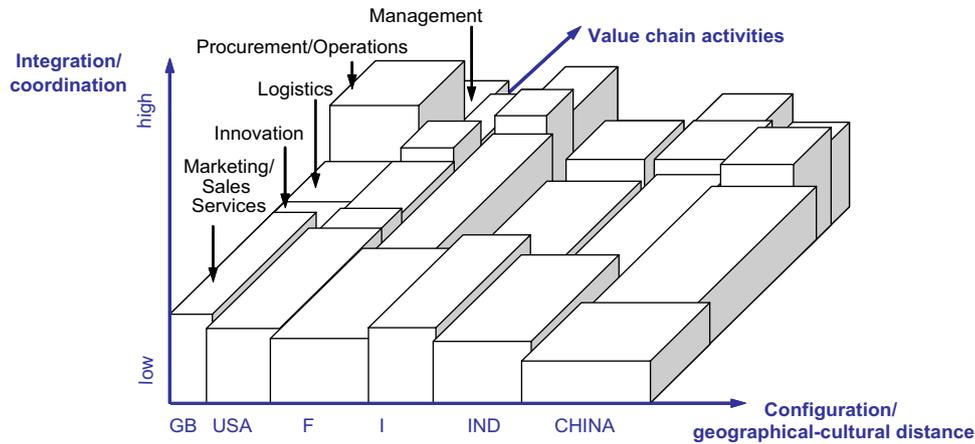


Fig. 2. Internationalization of retail firms in the internationalization mountain. Source: adapted from Swoboda and Schwarz (2006, p. 188).

With three dimensions (localization, integration and externalization of VCAs, and the options of low or high), further approaches extend this perspective. Jarillo and Martinez (1991, p. 297) framework integrates the three bodies of research, the competitive strategy theory for established multinational corporations (MNCs), which explains the choices along the integration/localization dimensions, the theory of the firm, which explains the choices along the second axis, and the theory of internalization, which tries to show how firms externalize (or internalize) activities all along their internationalization process. The alternative internalization vs. externalization, in particular, leads to a “make or buy” choice with important issues at different value chain levels for retailers concerning markets, cooperation and hierarchy. With Swoboda and Schwarz (2006), we thus try to combine the perspectives and look at configuration, coordination and externalization as basic management dimensions.

Configuration as a basic dimension: In the meaning of Porter (1986), configuration relates to geographical allocation of VCAs over regions or countries. This aspect of international value added can be considered the real globalization phenomenon because international location or countries’ competition is created in each value-added activity. The spectrum of core decisions extends from a high concentration to complete dispersion with two options:

- A low configuration is found if a VCA is concentrated geographically at a single location, while high dispersion (configuration) means that VCAs are performed at many locations or countries. If all VCAs are built up in each country, each foreign subsidiary becomes self-sustaining, as is typical of multinational or polycentric firms and often linked to reduced coordination by headquarters (Bartlett and Ghoshal, 2002).
- A second decision parallel to this is the geographical position of the locations. This choice is determined

essentially by comparative advantages or attractivity factors (e.g. market potential, cultural proximity, state incentives, factor costs) of a country.

The core decisions must be taken for each VCA. Nevertheless, we can also cite some general advantages. The arguments in favor of geographic concentration are economies of scale, experience curve effects, cost advantages, and easier coordination, for example, while for dispersion the examples are improved adoption to local conditions, decrease in transportation costs and in risks, achieving a national corporate image, or increasing national knowledge.

Porter’s options have to be extended for retailers and, in particular, their VCP on the sales side. Firstly, the sales attractivity of foreign countries in retailing results from two factors, traditionally called “push” and “pull” factors (Sternquist, 1997, pp. 264f). Push factors make the home market less attractive. Pull factors that make the foreign market attractive are market size, for example, and cultural or geographic proximity. Secondly in addition to this choice of a country market, the degree of adoption to local conditions (differentiation) is important in retailing (particularly in food retailing). This results from the localization advantages to be expected and from the need to adopt, e.g. due to legal requirements or the competitive situation. More so than an exporting manufacturer, most retailers will (have to) establish their customer-related VCAs close to the customer geographically. Advantages from geographic concentration as mentioned above seem to play a subordinated role in retail marketing. Thirdly, the retail firms have to define what can be offered competitively and successfully abroad. Relevant factors here according to Sternquist (1997) are, for example, assets (unique format, corporate image) or transaction cost advantages.

Here we connect the configuration decision with the options of geographic concentration and dispersion, but

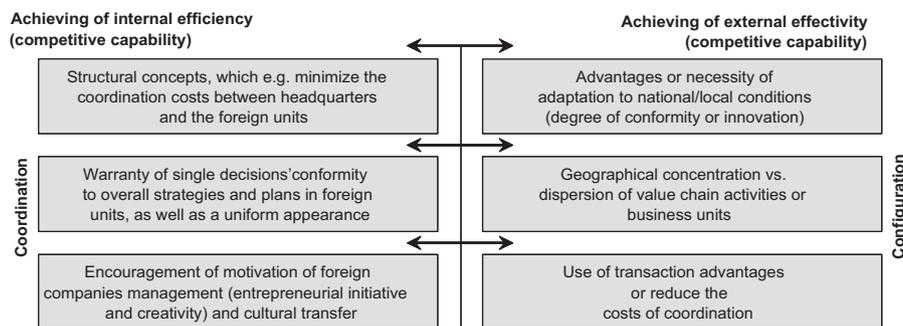


Fig. 3. Goals of the management of international retail firms.

also with advantages and necessities of local adoption, assets, and transaction advantages. Thus, we come closer to the understanding of [Jarillo and Martinez \(1991\)](#). In our view, the configuration forms the basic approach to securing the external or market effectivity of a retailing firm. By contrast, coordination is the basic approach primarily to safeguard internal efficiency (see [Fig. 3](#)).

Coordination as a basic dimension: Coordination and integration are defined differently in organization theory in international management or marketing. The competitive strategy theory established for MNCs speaks of integration, whereas we deal more with coordination in terms of system theory ([Swoboda and Schwarz, 2006](#)).

The need for coordination exists due to a basic dilemma present in systems based on division of labor. The need for coordination is then great when there is substantial division of labor, great complexity and intensity of relationships between the elements, large spatial, temporal, objective, and human distances to be overcome, when dysfunctional behavior jeopardizes the system in achieving its target, and so on. In international activities, the need for coordination depends on the extent to which similar activities should be harmonized, which is the case, for example, in a concept standardized worldwide. In international VCAs in retailing, however, this is not only limited to integrative forms. Here, there are also activities to coordinate in cooperation systems, e.g. franchise or license systems. Thus, coordination is independent of the chosen transaction form and of externalization.

We relate coordination as a way in which similar or related activities and processes (in different countries) should be harmonized with one another ([Porter, 1986](#)). Here, depending on VCAs, there are different potentials in the extremes—major/high level or minor/low level of coordination. The advantages of high coordination are warranties of single-decision conformity to overall strategy, as well as uniform appearance, minimization of coordination difficulties between headquarters and foreign subsidiary, and so on. The advantages of low coordination are, for example, a higher level of motivation, entrepreneurial initiative and creativity for foreign employees. The option of coordination relates to each VCA.

Once again, Porter's is expandable in two aspects. Firstly, naming the content of the retailing activity draws attention to strategies fulfilling the need for coordination, which essentially comprises structural, technocratic or personally oriented coordination instruments ([Khandwalla, 1972](#)). The purpose of this is, for example, to minimize coordination costs, to ensure that single decisions conform to overall strategy, and to motivate foreign managers, and to do so in terms of every VCA (see [Fig. 3](#)). Secondly, those management functions should be considered as enabling the management of the whole international retail firm. This means, for example, that there are also organizational structures and systems to be defined here.

In both cases we look at structural, systemic and cultural coordination dimensions. Systemic coordination, for example, comprises planning, controlling and information systems, and the wider cultural aspect, for example, HRM or the firm's culture and transfer thereof. With centralization and formalization, two governance inter-dimensional instruments can be observed separately. These are relevant, however, in all structural and systemic decisions and are therefore part of them. Although coordination dimensions are often examined, no single one is suitable for solving the problems involved due to the complexity of international VCAs. They complement each other mutually.

Externalization as a basic dimension: Externalization brings to the forefront the issue of how a firm's core competences or asset-based advantages are handled ([Sternquist, 1997, p. 265](#)). Initially, the decision contains the polar alternatives of market or integration/hierarchy. Market transactions are sourced from third parties (buy), and integration requires the processes to take place within the organization (intra-firm transactions or make). In market transactions, the price is the central coordinator, in integration it is the directive. Cloudy dividing lines, also in retailing, relate market and cooperation, for example, in contract buying or manufacturing, and between cooperation and integration in a co-owned firm with asymmetrical equity participation (70: 30).

Based on the transaction cost approach and on internalization theory (and its extensions, e.g. [Buckley and Casson, 1998](#)), this decision option has been widely

discussed. It is known that the transaction costs serve as the basis for those decisions arising in the search for a transaction partner, and in finalizing, supervising and implementing contracts. In management theory, arguments for internalization are, for example, considerable dependence on external firms, few synergies, or better positioning of firms' offers. Important motives for outsourcing are cost advantages, concentration on core business, improved performance, financing advantages, and shifting of risk (in risk theory, risks are viewed broadly, e.g. such as higher overall costs for internalization, opportunistic behavior by partner, loss of know-how, outsourcing of core competences).

Here, retailers have to make this decision for each VCA. Furthermore, this question is not only a constitutive decision to be taken for initial internationalization. This choice comes up again and again, e.g. in re-integration or re-internalization of an activity that was previously purchased from a third party, for example.

In addition, grocery retailers in particular extend their value chain depth by means of reverse integration. This integration of purchasing and distribution logistics into the firm's own value-added chain is an expression of strategic power expansion in the value-added process (e.g. Dapiran and Hogarth-Scott, 2003). It may accompany parallel outsourcing of support processes or operative processing, respectively, for example, transport activities to logistics service providers or the development of private labels to suppliers. Since retailers use contract manufacturing or often have goods manufactured under supply contracts, there is also a transfer of internal operations to cooperation activities here. In other sectors, such as textile retailing, similar forward integration is observed on the part of vertically integrated firms.

3. Managing cross-border value chain activities

We consider the options for structuring international VCPs from the basis of research questions, publications, examples, and short case studies followed by a look on the integration of the dimensions. Since the main focus in the literature is on marketing or market-oriented processes, we look at international supply chain processes of international retailers in more detail as these have rarely been analyzed. The topics covered are logistics and procurement, as well as operations in this connection. The latter has barely been touched upon in any retailing literature up till now, but does bear practical relevance, for example, in the planning and control of private label purchasing and production.

3.1. Supply chain processes

3.1.1. Procurement

International procurement activities by retailers require decisions on configurations, coordination, and externalization. The few studies on this topic in international retailing

literature can mainly be assigned to coordination and externalization decisions. As a basic principle, we can distinguish new orientation of purchasing in retailing, for example, in the form of increasingly strategic and international procurement (global sourcing compared with previous, more operative and national purchasing), in the form of (national or international) buying groups, and in the form of multi-channel sourcing (see the overview in Swoboda and Schwarz, 2006).

Insights into the configuration decision: The majority of consumer goods in Western European countries today are already imported directly or indirectly from abroad (almost 50% in the case of traditional German consumer goods retailing). Regarding the configuration of procurement (and of operations) of retail firms, at least two questions must be answered: in which countries are individual items and components purchased or manufactured under contract, and where is the purchasing organization based?

Regarding the countries from which merchandise is procured, two of the many determinants mentioned play a prominent role. On the one hand, there are factor data, particularly cost advantages, that a retailer can realize in specific countries. This leads, for example, to procurement countries being grouped according to cost indices in textile retailing so that decisions for procurement of individual components in different countries can be made on this basis. In companies like H&M, collection and pattern design take place in Western Europe, and prototyping in the lower-cost countries in Eastern Europe. Cost-oriented production takes place in various countries in Asia, while flexibility-oriented production — which enables a prompt reaction to market trends — takes place in selected countries in Eastern and Western Europe. It is also the costs that lead items in food retailing to be procured locally in emerging countries, apart from rounding out the assortment with higher priced world brands, as Metro does in China (e.g. with Barilla products in the noodle and rice category). On the other hand, it is mainly market factors (e.g. local divergent consumer behavior) that lead to a widely dispersed configuration of procurement in some retail firms.

The purchasing organization would be selected for convenience near the markets, particularly large procurement markets. Meanwhile retailing tends to find fully concentrated solutions in the country of origin or dispersion solutions in the corresponding sales market or region. Changes can be observed, however, in some firms. Wal-Mart, for example, like Lidl & Schwarz, has been concentrating international purchasing activities more and more in a central location and a Global Procurement Services (unit) (particularly in direct imports of non-food) since 2003. In addition to its headquarters in Düsseldorf, Metro has set up some buying centers of competence, one of which is in Hong Kong, and concentrates on private labels. All in all, the configuration decision depends on the category to be purchased. Meanwhile in retailing,

purchasing offices are widespread in the procurement countries, also for retailers that only operate nationally.

Insights into the coordination decision: Regarding coordination of procurement of all of the merchandise and components required by all subsidiaries, retail firms have to decide, for example, how to structure the buying process for articles and components and how planning or information transfer on procurement markets is to be handled, as well as how the countries and/or suppliers are to be managed.

Most of the publications on international purchasing can be assigned to this topic. They often deal with comparisons of purchasing in home and foreign markets. This indicates a more decentralized view of the core decision. A strong connection to the configuration decision is shown by Lawson (2001), who provides insights into the effectiveness of European retail sourcing of low-cost goods from low-wage, foreign suppliers. Johansson and Burt (2004) conduct an in-depth analysis. They consider the buying process of private vs. manufacturer brands in different contexts (including UK, Sweden, and Italy, vertically

In the same countries, Johansson (2002) barely noted any differences in buying processes.

In addition to the literature and the example given on purchasing offices, many more sources can be mentioned for structural, systemic and cultural coordination of international procurement activities. A high concentration of procurement confronts the firm with substantial structural and systemic challenges. Furthermore, Alpert et al. (1997) make an intercultural comparison of retail buyer decisions showing differences in the nature and conduct of business relationships within Japan and the USA, which might address the disadvantages of US firms in Japan. They thus point to a need for cultural adoption, also in procurement. Interaction with coordination in the domestic market is dealt with by Bengtsson et al. (2000). They show how Swedish food retailers perceive their domestic supplier relationships when they also have foreign relationships. Concrete examples on structures, processes or culture are wide. A short case study provides an insight into the global sourcing metrics of the Home Depot.

International Procurement at the World's Leading Home Improvement Retailer Home Depot

The Home Depot Inc. is the world's largest home improvement retailer. The Home Depot stores sell a wide assortment of building materials, as well as home improvement, lawn and garden products, and provide a number of services. Besides this, there are some other store formats like Expo Design Center, Home Depot Supply, and the Home Depot Landscape Supply.

The primary components of purchasing at Home Depot are Supplier Management, Strategic Sourcing, and Procurement Operations. Whereas in the past the focus was on Procurement Operations, nowadays and in the future Home Depot focusing on Strategic Sourcing and also putting more emphasis on Supplier Management. The firm runs a Global Sourcing and Procurement department, based on the principles of digitization, optimization, and globalization. Home Depot is putting efforts into organizing supplier management i.e. fulfillment (quality, capability, on-time delivery), supplier identification and qualification, supplier development, and supplier performance. For their global supplier performance management Home Depot uses the supplier performance scorecard. An overview of the global sourcing metrics can be found in the figure.

Global sourcing metrics of the Home Depot

Fulfillment	Quality	Cost Out	Functional Resources	Productivity	Risk	Digitization
<ul style="list-style-type: none"> Ø On-Time Delivery Ø Shipped Items Ø New Product Ramp Ø PTP 	<ul style="list-style-type: none"> Ø Supplier Scorecard Ø Cost Reduction Ø Quality Ø Delivery Ø SER Ø % On Scorecard Ø Supplier Quality Ø FPQs Ø SDRs Ø TQM Ø Growth Ø % Volume Ø Supplier ID Ø Supplier Approval Ø Innovation 	<ul style="list-style-type: none"> Ø Total Buy Ø Cost Out Ø PLR Ø eAuction Ø LTC/BPO Ø Auctions Ø Trend Ø Gross Auction Ø Auction Receipts Ø Savings Ø LCC Ø Trend Ø Orders Ø Receipts Ø Savings 	<ul style="list-style-type: none"> Ø Headcount Ø HD Ø Contractors Ø DNA Ø Penetration Ø BBs Ø MBBs Ø SQEs Ø Diversity Ø Women in Ldrship Ø 'Minorities' in Ldrship 	<ul style="list-style-type: none"> Ø Buy/Head Ø Heads Out/ Realigned from Reorganization Ø Heads Out/ Realigned from Outsourced Ø FPQs/SQEs Ø Supplier Surveillance/ SERs 	<ul style="list-style-type: none"> Ø Security (CTPAT) Ø Currency (S&P rate, country risk) Ø EHS Compliance Ø Capacity Assessment Ø Financial Stability Ø Geopolitical Assessment Ø IP 	<ul style="list-style-type: none"> Ø Initiative Implementation Ø Digitization Savings Ø Digitization Productivity

integrated and store-to-store) and present a specific model for private brands. The stages in this model are category review/market plan, needs identification/product specification, supplier search and decision, negotiations, test product, customer research, development, production, listing, ordering, merchandising, re-order, and evaluation.

Insights into the externalization decision: Concerning externalization of procurement or production, there are various questions to be answered, such as: can international procurement or operations be internalized or controlled by the firm itself and what kind of contractual arrangements shape supplier relationships?

Procurement is gaining strategic importance in retailing. This does not mean, however, that companies also handle their own procurement activities abroad. For example, the second largest retailer in Switzerland, Coop, gave up direct imports from and its own offices in China. This means that imports are mostly indirect, using wholesalers, as a result of which Coop hopes to achieve cost advantages, spread risks, and concentrate on its core business. At the same time, Coop controls the international production of its ecological products, which are important for the firm's profile and position, for example, cotton production in India. Furthermore, Coop is a member of Coopernic, one of the European buying groups that represents some international retailers: Rewe (Germany), E.Leclerc (France), Colruyt (Belgium), Conad (Italy). Coop also purchases via e-procurement using portals. In this respect, even medium-sized retailers can enjoy the advantages of international sourcing by being members of a buying group, although they only sell on a national or local basis (e.g. in sectors like consumer electronics, shoes). The examples give an indication of the diversity of internationally cooperating transaction forms in procurement.

Own production is rare in retailing, even if others in addition to the example mentioned are widespread. A widespread instrument is contract buying, i.e. close contractual bonding of the supplier to the retailer. An extreme example of this and at the same time a connection to the coordinative flexibility mentioned is the most successful retail brand in the textile sector over the past few years — Zara. It is known that Inditex (which owns Zara) has a close network of suppliers in and around La Coruña that it uses for flexible procurement of up to half of its assortment, which can be newly manufactured and brought onto the market in only one month. These suppliers have tight contracts, while over 50% of the assortment is also procured by Zara in Asia and Eastern Europe on the basis of regular (looser) purchase contracts.

All in all, we see a growing importance of cross-border cooperative arrangements. In particular, international value-added partnerships between large retailers and top brand manufacturers are growing. The use of traditional alliances and new media, e.g. extranets, virtual marketplaces, can be taken as further examples of these dynamics. Also, we observe a tendency towards centralization in some categories, particularly non-food, and a procurement concentration in internal business units, which at the same time are spread over the primary procurement markets in highly internationalized firms. The goal of this concentration is to obtain better financial purchasing terms, which are then partly passed on to country organizations.

3.1.2. Logistics (procurement and distribution)

Concerning international retailer logistics, researchers are not displaying a great deal of interest so far. Compared with national retail management this may seem surprising at first, but can perhaps be explained by the fact that the grocery supply chains are often structured specifically to the country concerned, and the unit logistic costs in other highly internationalized retailing sectors (e.g. cosmetics, consumer electronics) are relatively low. Nevertheless, there are retailing sectors with a high proportion of international logistics included in the total costs, for example, mail order, white goods, and textiles. In our view, the three management dimensions should be adopted once again. As it is known, the content of logistics decisions here concerns forms of delivery, as well as warehouse locations, functions and handling processes in warehouses, transport, packaging, and so on. Ideally, a differentiation is needed between procurement and distribution logistics.

Insights into the configuration decision: Important questions in configuration of logistics are: which locations are selected to carry out procurement and distribution logistics, and, for example, which locations and what tasks do the warehouses have?

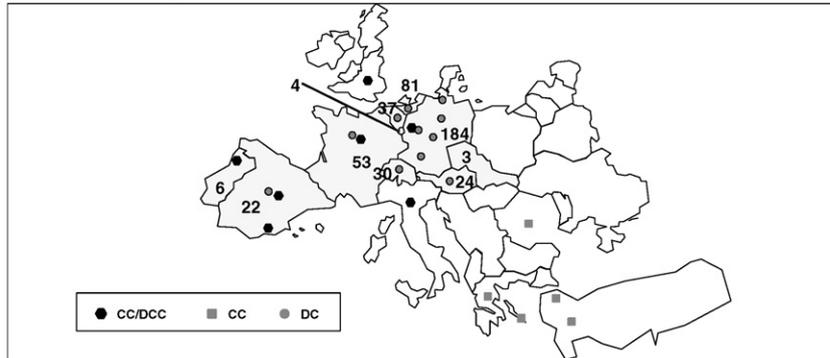
Even in logistics, a geographic dispersion appeared quite popular in food retailing, i.e. logistic networks are established in the corresponding sales market, which is sometimes a challenge in itself. The arguments in favor of dispersion of logistics are the local conditions in the individual countries, for example, the infrastructure or legal requirements. In China, for example, the logistics infrastructure may have improved in urban areas, but there are a large number of informal distribution channels that make it more difficult to coordinate a national logistics chain from beginning to end. Inconsistent policies by central and regional governments, as well as the fragmented market for logistics service providers (with around 15,000 registered firms) make even the simplest transport arrangements difficult, particularly if different towns and provinces are to be crossed and various licenses are required.

Worldwide concentrated versus regional specific logistics seem two obvious options. A geographic concentration should bring economies of scale and experience curve advantages. If the products purchased have different origins, complex concepts are realized that fulfill logistic aims, such as international product availability, flexibility and speed, or low costs across borders. The short case study dealing only with commodity flow models at C&A gives some indication of the complexity of possible solutions.

Logistics of the Dutch company C&A

With approx. 3 billions Euros sales, C&A belongs to the top 5 fashion retailers in Europe. Goods (mainly private labels) are purchased from Asia, Western and Eastern Europe, and distributed in different ways. In Germany, there is a central intersection for international logistics (see the so called CC/DCC in the figure).

European distribution network and number of outlets of C&A



Here, 2 – 3 trucks per day travel to each of the European sales country markets. In each country there is usually a national distribution center that picks the exact goods for each outlet and forwards them to the shops. From procurement to distribution, there are normally different logistics solutions depending on the country of delivery.

- Goods from German suppliers and importers are distributed through regional distribution centers in Germany or sent abroad via the CC/DCC. The latter takes about one week to reach the appropriate outlets.
- If there are several suppliers in the producing country that provide large volumes for C&A, the commodity flows for the international sales markets are split right away in country of manufacture. Such CC/DCCs exist in the UK, Italy, France and Spain, and CCs also with some special features in Turkey, Greece and Romania.
- Countries with a limited supply volume and which have no C&A outlets deliver the goods to the German CC/DCC and those with outlets deliver to the national distribution centers.
- Commodity flows are not split until they reach the CC/DCC in Germany, mainly due to customs regulations for delivery from non-EU countries, for example from the Far East, which provides some 25% of commodity flows.
- Logistics models for speed sourcing, i.e., where the sales location is determined at short notice, provide for delivery of the goods from national suppliers to a national consolidation center, and from there to the German CC/DCC or to individual countries.

Insights into the coordination decision: Possible questions relating to coordination of international retailing logistics relate to provisions as to which tasks are fulfilled efficiently by own service units or how these can be coordinated in terms of commodity or information flow.

In the few literature sources on international retail logistics, comparisons between countries and observations of general logistics process are widespread, just as they are in procurement. Fernie (1992), for example, compares physical distribution and logistics in the UK and Continental Europe, or in Ireland and Poland, taking Tesco as an example (Fernie, 2004, p. 55). In terms of content, he focuses on individual aspects, such as articles, stockholding levels in stores and depots, or number of deliveries per week/store.

Practical coordination decisions relate closely to the options of configuration decisions. The presence of a central logistics unit makes it possible to seek conformity with the overall strategy and a reduction in the extent of coordination difficulties. However, this involves substantial coordination efforts. This could be even more complex in retail firms which that have cross-border operations with the same logistics systems or even the same logistics partners.

As indicated in the C&A example, task assignments need stipulation within the overall logistics concept for the individual warehouses or stores abroad. Similarly, measures must be implemented relating to internationally applicable controlling or general information systems in logistics. Here, it is certainly a challenge to set up a consistent IT basis if we consider the emerging countries, for example. On this kind of infrastructure problem, some cooperation has even been observed between top international retailers, such as Carrefour, Metro and Tesco (Swoboda et al., 2005).

Insights into the externalization decision: Questions on the topic of externalization vs. internalization of logistics include the following issues. Do retailers handle international logistics themselves, do they leave it to the suppliers or do they employ special logistics service providers? How do they find these service providers in the individual countries internationally? What is the form of the interfaces to these service providers?

A basic decision is whether the retailer himself takes responsibility for or controls logistics internationally. If outlets are supplied directly by manufacturers or importers, this is not the case. On the other hand, simple transfer of the firm's own logistics competences abroad is not possible

automatically. This depends on the local conditions, as described above for China, and on achieving a critical mass. This was one of the reasons for Wal-Mart's failure in Germany, in spite of good US logistics. Another question linked to the former point is to know whether to employ logistics service providers at an operational level, i.e. whether the firm plans to make use of the cost, performance, financing or risk advantages mentioned. A combination of the firm's own responsibility and outsourcing is also found frequently in foreign markets. Logistics processes or stock-keeping alone are often controlled by the firm itself, while transport is handled through service providers, sometimes with companies present worldwide, such as DHL, TNT, and so on. For example, Lush Fresh handmade cosmetics, a UK subsidiary in Vancouver, Canada, hired UPS for order fulfillment in Canada and the US. And Blue Tomato, an innovative Austrian mail-order retailer of snowboards, hired DPD for delivery in the European Union and DHL for delivery outside Europe (Foscht et al., 2006).

All in all, there is a tendency towards cross-border logistics in different product areas to achieve cost advantages, as well as international, full-service support in the logistics area. In the future, sources of excellence in logistics may be found in the use of data warehouses configured and coordinated internationally, regionally or worldwide, free data interchanges, market oriented CPFR systems, and the like.

3.2. Market-oriented value chain activities

Some retailers (especially in the food sector) fully adopt and have a high geographic dispersion (configuration) of marketing activities. This is certainly true compared to some international manufacturing firms. This kind of multinational retailer does not generally have substantial coordination requirements. Sternquist (1997) mentions in contrast standardized operating firms, which in our sense are firms with geographically concentrated (low configured) marketing (e.g. Foot Locker, Toys 'R' Us). This global strategy typically entails a substantial need for coordination. There is at least one further group, namely that of firms with a transnational strategy, which certainly do adopt, but also coordinate highly, for example, with central planning, controlling, consciously making use of the country's culture, and seeking out learning effects (see Palmer and Quinn, 2005 on learning). This could be seen as an ideal type of successful international retailing firm.

The role of innovation is seldom considered a VCA in retailing, but should be viewed as such as internationalization increases. Innovations can be planned, as suggested, not only in the periodic collection designs of vertical fashion retailers. They do not only emerge in a decentralized way, e.g. in each country. We do not wish to expand on this here, however, although the question of configuration or coordination should be asked relating to innovations in retail firms.

Insights into the configuration decision: In marketing, configuration questions relate firstly to the classic decision in selecting attractive country markets and specifying market activities (see Swoboda et al., 2007). As elaborated, this can presumably be explained basically by the push and pull oriented goals of internationalization. Subsequent decisions concern provisions relating to assets, as well as to formats or positioning (e.g. store image; Burt and Carralero-Encinas, 2000), and at a more operative level, to the marketing-mix.

Furthermore, the configuration decision should be related to standardization or differentiation in terms of retailing concepts abroad. We view this as equivalent to foreign market adoptions, on which many analyses are available. The standardization or differentiation decision, however, should be considered as being a basic decision or basic orientation of a firm, while adoption is more specific to country and instrument. The division becomes clear in the study by Goldman (2001), who divides foreign retailers in China into several groups, looking at ten marketing instruments. It is not surprising that one of the results shows non-food retailers to be more standardized than food retailers, and that the fashion brand firms operating worldwide adopt least. It is wise to separate strategic from more operative marketing decisions, however, this depends very much on the firm concerned, as mentioned at the beginning.

Strategically, this relates to formats, positioning, corporate brand, and maybe assortments. This should be separated from configuration decisions relating more to marketing instruments, such as customer service, articles/products, design of advertising material or corresponding location decisions for the customer services organization, and so on. This division is also based on practical observations.

- Firms operating systematically on an international basis have a whole spectrum of formats and assortment modules they prefer to use for internationalization. Metro Cash&Carry, for example, has three different store concepts and modularized assortment concepts, where, as a matter of principle, one of the concepts and modularizations of the assortments conforming as far as possible to this concept are transferred to foreign operations. Tesco even develops new formats for markets, but also has a basic spectrum at its disposal. We make a distinction here compared with the strategies of firms that do not adapt, like many franchisors or German hard-discounters that do not even adapt their formats and the assortment structure in overseas markets (e.g. Aldi in the USA, but of course as a food retailer with adapted articles).
- By contrast, more operational observations were made in terms of standardization of private labels, where Tesco recently launched its private textile label Cherokee in the Czech Republic, Poland, Slovakia, and Hungary. At the same level, some concentration could

be observed in the production of advertising material, for the German-speaking and Eastern European countries, for example, by the mail-order firm Neckermann.

Insights into the coordination decision: The need to coordinate marketing processes is the greatest in companies which concentrate their marketing activities geographically (in retailing, this is mostly in regions or on the basis of country groups, but seldom worldwide). Here we should consider tightly run franchise systems that have established distinctly central and formalized planning and controlling processes in addition to mostly standardized concepts. The same strategy is applied by companies that adapt little to local requirements (e.g. H&M or Ikea). These could be contrasted with companies that operate multinationally, i.e. running largely autonomous subsidiaries abroad, with coordination on a financial basis at most, as it is the case with the US subsidiaries of Ahold or Delhaize, or at Billa, a subsidiary of Rewe. Both are merely ideal types. In terms of coordination in particular, the concepts mentioned for Metro at the same time form a basis for allocating tasks and competences to the firm's subsidiaries.

Correspondingly, there is also a large body of instruments available for market-oriented activities, as already elaborated, that can be used to coordinate in global, multinational and transnational firms.

Here, too, the strategic level, i.e. coordination in terms of format, positioning, and international customer groups, could be observed and separated from the requirements relating to performance standards in customer service, design of advertising material, and so on. The latter is e.g. handled centrally at Media Markt, the leading European retailer in consumer electronics, and would be assigned to the operational level if it then were not part of the positioning strategy. This assignment is thus subjective in each company.

An important factor is the response to the wide range of coordination instruments, which have barely been considered in the international retailing literature so far. These are plans, controlling or information systems that can be designed in terms of content, periodicity, centralization, and formalization. They determine strategy conformity or speed of decision making in a single country and internationally. The structural dimensions include centralization and formalization of decisions, as already described. "Softer" structural factors, for example, secondary organizational measures such as international project

teams, information exchange groups or innovation workshops, are less well known. This is similar in cultural coordination, for example, the firm's culture and its interaction with foreign cultures (multi-culturalism), also appointments policy, visitor traffic, and so on. The latter, combined with the above mentioned "soft" factors, are used by firms that previously conducted multinational operations to achieve a high level of coordination, which enables them to operate with a transnational strategy. This means that they adapt to the market in the same way as a multinational firm and, at the same time, they coordinate like a global one. Thus, at Metro Cash&Carry, for example, "soft" aspects such as exchange of information, training of foreign staff, and language and culture have been promoted for several years now in addition to structural and systemic coordination. This enhances conformity to the overall strategy, as well as the firm's (employees') learning effect and international know-how. Therefore it also reduces the perceived distances to foreign cultures and markets (e.g. Evans and Bridson, 2005 relating to psychic distance).

Insights into the externalization decision: The questions relating to externalization are not aimed only at establishing whether the retail firm devises individual marketing activities itself, but first of all focus more on the basic perspective of how far a cooperation activity is also used internationally as a market entry model (see current literature by Picot-Coupey 2006 on forms of market entry). The questions often posed in the literature are aimed generally at market entry and market operation strategy by means of joint ventures (Palmer and Owens, 2006), franchising or even licensing (however, this is losing ground in international retailing). Jarillo and Martinez (1991) describe Benetton and McDonalds relatively clearly as externalized firms. In view of the facts, however, we should be looking at the degree of externalization because we know that these firms also have their own stores, too.

Also included in the partial externalization are the international voluntary or buying groups if they go beyond cooperation on the buying side. Food retailers, such as the French firm E.Leclerc or the German firms Rewe and Edeka, the French Intersport and so on are among the largest international retailers in their retailing sector. Only very little has been published on their internationalization so far, but internationalization is based on different forms of cooperation agreements, as the short case study of 7-Eleven shows.

International Franchising and Licensing at the Japanese 7-Eleven

7-Eleven, Inc. is the world's largest operator, franchisor and licensor of convenience stores. Today, 7-Eleven is represented in more than 31,000 stores worldwide, primarily in North America and the Far East. Within the United States and Canada, 7-Eleven operates, franchises, and licenses over 6,000 7-Eleven and other convenience stores. Of these, approximately 3,500 U.S. locations are operated by franchisees and an additional 469 locations are operated by territory licensees. The remainder of the locations in the United States and Canada are company-operated stores. The company entered franchising in 1964, signed its first United States area licensing agreement in 1968, and signed the first international licensing agreement with Mexico in 1971. As of January 1, 2006, more than 23,800 7-Eleven stores are owned and operated by area licensees in 18 countries (see the figure below).

International licensing operations at 7-Eleven

Country	First Store	No. of Stores	Country	First Store	No. of Stores
USA	1968	469	Philippines	1984	265
Canada	1969	489	Malaysia	1984	700
Mexico	1971	595	Norway	1986	95
Japan	1971	11,069	Puerto Rico	1987	14
Australia	1977	359	South Korea	1989	1,238
Sweden	1978	71	Thailand	1989	3,311
Taiwan	1980	4,037	Turkey	1989	79
China (HK, Mainland, Macau)	1981/1992/2005	922	Denmark	1993	55
Singapore	1983	315	...		

In addition, 7-Eleven offers a Business Conversion Program, which allows owners of independent convenience stores to become a franchise of 7-Eleven.

In terms of externalization of marketing mix instruments, the cooperation highlighted with suppliers, or especially agencies, is worth mentioning, even if it can also be associated with the operational sector in our perspective. From the viewpoint of a retailer, the development of international advertising campaigns meanwhile and the related search for a reputable agency may well be of strategic importance. It is certainly strategic if the innovation or development of new formats and products, in particular, are outsourced to specialist agencies or suppliers, for example, in the fashion sector or by grocery retailers for clothing.

All in all, efforts can be observed today in some of the biggest international food retail firms to implement centrally developed standards for customer processes, administration and service within particular regions. This applies to regional, e.g. Europe-wide, quality control systems, to harmonize customer-oriented processes, and so on.

3.3. Integration of market-oriented and supply chain processes

Fig. 4 shows examples of decisions related to the international configuration, coordination and externalization of each retailing VCA or VCP. The distinction made at the beginning between VCA and VCP is particularly useful in retailing with regard to the dependency of supply chain processes on market-oriented processes. In addition to the relations mentioned sporadically, at least two aspects should be highlighted.

First of all, the dependencies between the supply chain and the market processes must be considered.

With regard to the internal importance and interfaces in the logistics for and towards marketing (such as availability

of merchandise, out-of-stock, or as a profiling dimension) a recent study (Schramm-Klein and Morschett, 2006), however, does not relate to retailing in particular, looks at aspects of the connection between logistics and marketing in terms of firms' competitive advantages. In this connection, the entire value chain related to this can form a competitive advantage, as was underlined by the recent success of vertical firms in the fashion sector (e.g. Zara, H&M or GAP). They succeeded in shifting the competition in the fashion industry mentioned at the beginning to the arena of timing and know-how, where vertically integrated firms have assortment and timing advantages in the market, but these advantages are based essentially on supply chain processes. As suggested, the basis is formed not only by internal or business processes, but by the entire value chain system, which also encompasses externalization, i.e. dyadic relationships and networks in single countries, and also increasingly across countries.

Secondly, management aspects of the whole value-added system should be addressed primarily.

If we look here at strategic internationalization in the meaning of Sternquist (1997) or our market effectiveness dimensions, the approach presented then permits a contrast of tendencies in retail firms according to the example provided by Jarillo and Martinez (1991). Among the information provided in Fig. 5, the differences are shown between food and fashion retailers. Benetton's franchise related structures, for example, show a high degree of coordination and externalization, but relatively little adoption to local markets. H&M also has a low configuration, while C&A disperses its activities over each country (e.g. the assortments). In food retailing, where assortments are mainly localized in most firms and thus do not really form a strong basis for differentiation of their

	Configuration	Coordination	Externalization
Procurement	<ul style="list-style-type: none"> Location of the sales organization Choice of markets for sourcing of individual articles and components 	<ul style="list-style-type: none"> Planning of the buying process for articles and components Transfer of information on procurement markets and management of sub-suppliers in different countries 	<ul style="list-style-type: none"> Finding suppliers in different countries Defining the external interfaces to the suppliers
Operations	<ul style="list-style-type: none"> Locations of production facilities for articles (private labels) and components 	<ul style="list-style-type: none"> Assigning tasks to the individual production facilities or compound systems in the case of geographical dispersion and transfer of process technology 	<ul style="list-style-type: none"> Make or buy decision
Logistics (procurement and distribution)	<ul style="list-style-type: none"> Locations of organization in procurement and distribution logistics Locations of warehouses and assignment of tasks 	<ul style="list-style-type: none"> Assignment of tasks to the individual units Joint planning and control of commodity flows, as well as transfer of information and coordination of technology 	<ul style="list-style-type: none"> Decision to set up own warehouse, transport, rack jobbing, or disposal logistics. Finding service providers in different countries Defining the interfaces
Innovation	<ul style="list-style-type: none"> Number and locations of innovation centers 	<ul style="list-style-type: none"> Specifying tasks for innovation centers, exchange of information, and sequence of introduction of innovations to markets 	<ul style="list-style-type: none"> Developing new products/formats required in country markets
Marketing/sales/service	<ul style="list-style-type: none"> Selection of countries and country markets or customer groups Specifying marketing activities, e.g. standardized formats Location of customer service organization or production of advertising material 	<ul style="list-style-type: none"> Assignment of competences, coordination of sales policy and international customers Coordination of pricing policy in different countries Worldwide performance standards and work commitment of customer services 	<ul style="list-style-type: none"> Internationalization by integration/direct investment or cooperation Finding agencies in various countries or across countries

Fig. 4. Configuration, coordination and externalization decisions in retail firms.



Fig. 5. Firms and dimensions of internationalization.

individual strategies, other VCAs are important in making this distinction. Ahold appears to have low coordination, particularly in connection with large, autonomous subsidiaries in the US, while 7-Eleven operates mostly with highly coordinated franchising systems and Metro is similar, mostly with own subsidiaries, whereas Aldi tends to have an entirely standardized format and assortments structure. Wal-Mart can be seen somewhere in between.

Our efficiency dimensions further encompass internal coordination of the entire retailing firm. As described, this

relates to the primary and secondary organizational structure (including the degree of centralization and formalization in decision-making), the planning, controlling and information systems (once again including form, centralization and decentralization), as well as the firm’s culture and HRM, among other things. Here, too, there are cross-links, as suggested by Foster (2005), for example, with the diversity management of customer and employee differences based on three UK retail groups.

Finally, it is important to point out that the entire value-added system is relevant in all its network options, as are internal and external stakeholders.

4. Conclusion and a look at the dynamics of retailing internationalization

This paper provides an approach to international retailing in the areas of market-oriented processes and supply chain processes, accompanied by the management of each VCA, VCP, and of the whole firm. We trust we have made this clear, but are aware that further analyses of each VCA, of the value-added system and of the whole firm are obviously the next steps. As shown, most of the present studies deal with specific countries or comparisons thereof. We have tried to illustrate the cross-country perspective. The analysis shows that there are certain deficiencies in retailing research, particularly on international supply chain processes and management of an entire international retail firm. The arena for corresponding analyses in the retailing sector is wide if we compare the findings with

national retail management or with international management (where logistics, sourcing, ECR management and the like are analyzed in depth).

In general, we introduced the paper with past and current internationalization dynamics and the largest international retail firms. Thus, we are entitled to conclude by linking our approach to future dynamics. This linkage can be achieved in a research-oriented and a practical perspective.

Unlike national retailing research, questions of dynamic management have only recently been examined in international retailing research. Studies on exits and failures can be allocated to dynamics as they can be viewed as supplements to the views on market selection, entrance, or motivations for going abroad. Studies on market adoptions can broaden the primary decisions on the operation mix upon initial market entry with a dynamic view of permanent adoption. In addition, studies on a longitudinal effect of market entry strategies are steps towards dynamics (see [Gielens and Dekimpe, 2001](#)). (Entry) Strategy switches in international retailing (such as take-over of joint venture partners), however, are yet to be analyzed in detail.

To illustrate the dynamics in our context, we could begin with the internationalization mountain mentioned (see [Fig. 2](#)). In a dynamic perspective, the mountain changes in the course of time (see [Fig. 6](#)). Here, a new country is entered or another is relinquished, procurement is integrated more into the retail headquarters, the quality system is standardized in the Western European countries served, or English is introduced as the firm's language. The range of conceivable international changes extends beyond the view of incremental models or steps. It is self-evident that internationalization develops unceasingly in the sense of an ongoing process. At the same time, however, it can be connected with more or less emphatic revolutionary steps from the subjective point of view of the firms, for example, with episodes (e.g. entry to important markets) or epochal changes (e.g. reorganization of a planning system or change to a new CEO with new ideas and goals) (see [Kutschker and Bäurle, 1997](#) on the basis of evolutionary theories and, in a wider context, [Swoboda, 2002](#)). There is

no shortage of theoretical approaches in explaining the dynamics. Traditional bases could be found in economic theories (e.g. life cycle, direct investment, industrial economics) or in behaviorist theories (which combined with diffusion, growth, or decision theories have led the discussion for years, for example, in the form of stage or incremental learning models). Furthermore, a large number of views have been expressed, e.g. from the perspective of institutional economics, network or resource oriented theories, systematic planning, or contingency theory ([Swoboda and Schwarz, 2006](#)). On a superordinate level, [Van de Ven and Poole \(1995\)](#) systematize conceivable theories which explain the dynamics of firms (e.g. evolutionary, dialectic). [Merlin \(1992\)](#) refers to the empirical analysis options for dynamics, for example, repeated single views, short episodes, or bibliographic history.

5. Summary and overview of the special issue

As indicated, cross-border value chain views are of little relevance. Questions of configuration, coordination or culture have not yet won the recognition in international retail research that is their due, particularly in view of the requirements of retail firms with ever higher degrees of internationalization. The intention of this article was therefore to develop a framework in which, on the one hand, previous research can be structured and, on the other hand, research directions for further research can be shown. According to the framework, this special issue of the Journal of Retailing and Consumer Services has the following structure.

In the first article Steve Burt, Keri Davies, John Dawson and Leigh Sparks deal with the categorizing patterns and processes in retail grocery internationalization. In particular, they investigate three leading international grocery chains regarding their international activities and show that previous classifications have to be supplemented.

The second article by Brenda Sternquist, Rodney C. Runyan and Zhengyi Chen focuses on buyer–supplier relationships in China and, in particular, on the question “Does state ownership matter?” The authors describe how the buying system in China works and compare three types

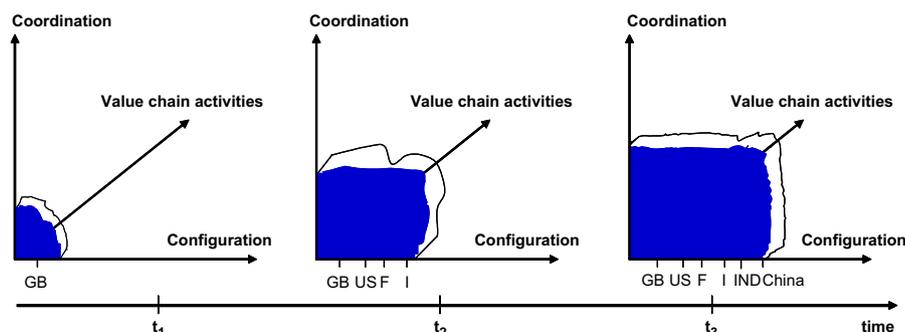


Fig. 6. Dynamic internationalization — change in the international mountain. Source: adapted from [Swoboda and Schwarz, \(2006\)](#) and [Kutschker and Bäurle \(1997\)](#).

of retail ownership — state-owned enterprise, privatized former state-owned enterprise, and foreign joint ventures and organic enterprise. They also investigate the key constructs that describe buyer–seller relationships.

In the third article, Bernhard Swoboda and Michael Anderer focus on the question of how to coordinate the international retailing firm. They discuss models and evaluations of structural, systemic and cultural options based on a survey regarding the coordination options used by European retailers.

Daniele Pederzoli deals in the fourth article with the seldom viewed issue of the internationalization of voluntary groups. In an exploratory analysis, he discusses selected value chain aspects of three voluntary groups of different sizes and with different degrees of internationalization.

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