

# Why did Lidl Fail in Norway?

A Stakeholder Approach

**Haakon Winger Eide**

**Supervisor**

Andreas Falkenberg

*This Master's Thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.*

University of Agder, 2010

Faculty of Economics and Social Sciences

Department of Economics and Business Administration



## **Abstract**

When talking to a Norwegian about Lidl, most people will have a strong opinion about the company. Some will tell you that Lidl was a positive contributor to the Norwegian grocery market, because of their low prices and “exotic” products. Some will tell you that they never shopped there, because they didn’t want to support a foreign company that ignored the labor unions, build large and unattractive buildings in their towns, only had unfamiliar food in the shelves and who sent the profit out of the country. If you ask Norwegians why Lidl failed in Norway, many will argue that Lidl did not fulfill the Norwegian shoppers' needs and did not fit in with their values

But is it as simple as that? Why is Lidl a success in most other European countries, while in Norway they decided to pull out of the market after less than four years? What did Lidl do wrong in their attempt to establish their brand name in Norway? Why didn’t they manage to adapt to the Norwegian market? And maybe more important, is it only their failure to adapt to the Norwegian market that led to Lidl’s withdrawal all their operations from Norway? Perhaps it is something else and special with the Norwegian market and competition that made them fail?

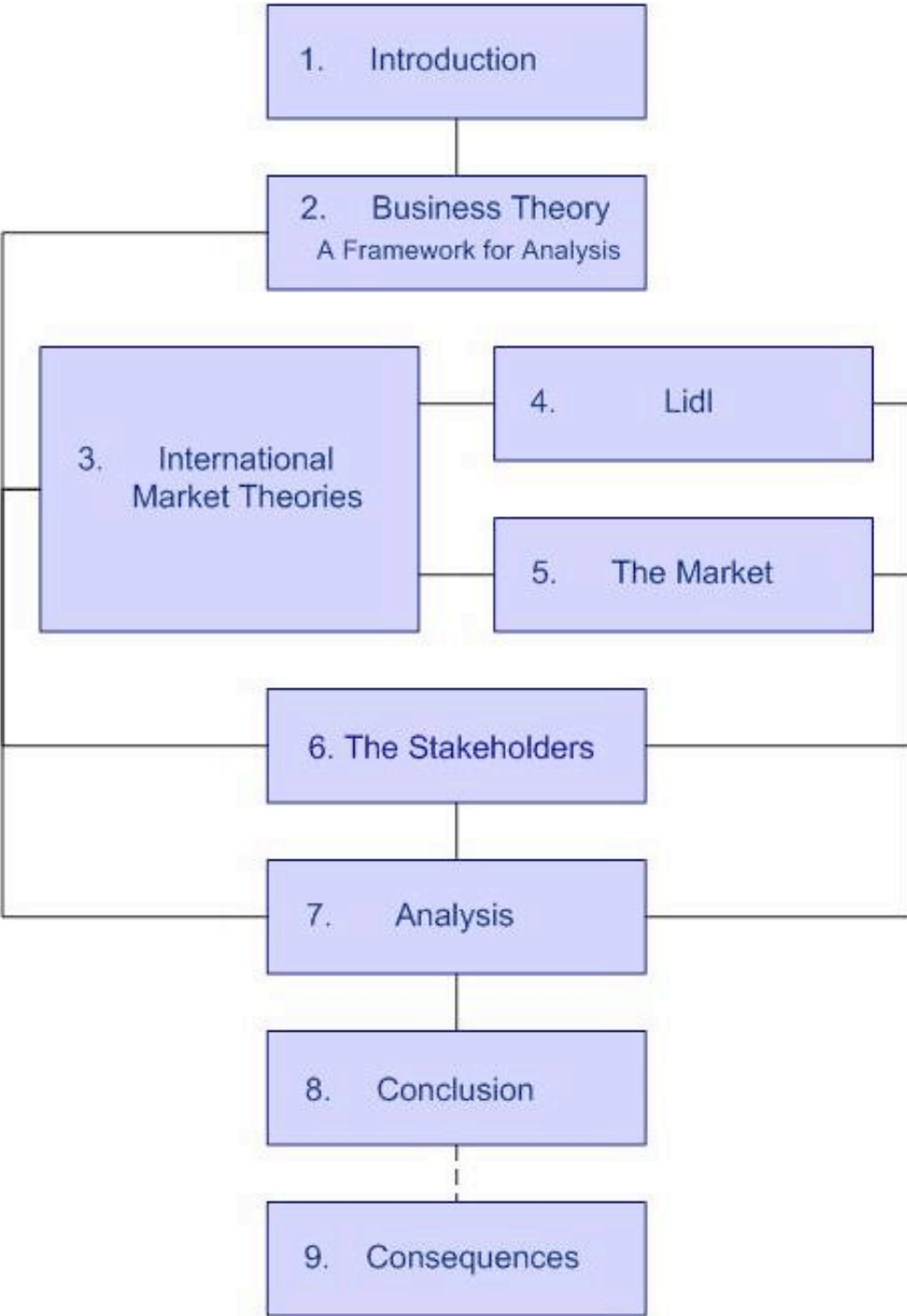
This thesis tries to answer these questions through a Stakeholder Approach.

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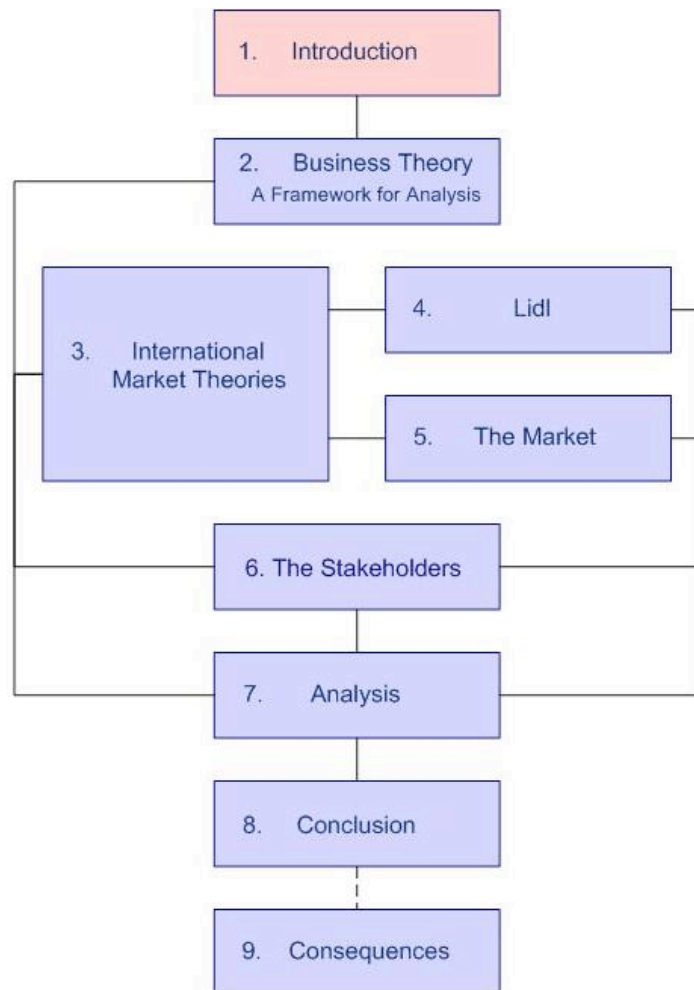
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# Outline of Thesis Structure



# Chapter 1: Introduction

- Lidl - A success in Europe - failure in Norway
- Globalizing Markets
- Shortage of Research and Studies
- Why study failure?



## **1.1 Lidl - A Success in Europe - Failure in Norway**

Lidl Stiftung Co. KG - popularly known as Lidl, is a Germany-based, international retail giant. The company can follow its roots back to the 1930ies. From the mid 1970ies the company started taking its current shape and form - as a discount, or low price, grocery chain. Since that time, the company has grown at a formidable pace, to the point that it today ranks as a major player in the grocery retail market in Europe. Appendix 1 shows that Lidl is ranked as the largest European discount retailer measured by turnover. The company has spread its business concept to most European countries. The company is organized as a "Stiftung" - or Foundation - wherefore its policies and accounts are not public. Based on the company's observed behavior, it is fair to assume that the company follows a rapid growth policy, and that it aims to become a major player in any market it decides to enter (Meland 2004).

Back in 2001, the corporate decision to prepare for the entry into the Norwegian market had been made, and a company Lidl Norge GMBH was established in Germany, with a Norwegian branch office, Lidl Norge NUF. On September 23. 2004, the first 10 Norwegian Lidl-shops opened for business. By 2007, the number of outlets had grown to over 50 (Brønnøysundregistrene, 2010).

On March 14. 2008 it became public knowledge that Lidl had signed a contract with its competitor - Rema 1000 - to sell all of its Norwegian business - i.e. all of its real estate and indirectly its market share. In plain language -Lidl gave up on Norway. The company continues to exist in the trade registry, as a branch office with no activities other than managerial (Brønnøysundregistrene, 2010).

Based on Lidl's success stories elsewhere, we can conclude that Lidl obviously is doing something right with their internationalization strategies (appendix 1). Germany is Europe's biggest economy; it is no surprise that the three largest retailers are all from Germany. Their success and solid base in the home country lay as a base for their international operations. Lidl clearly has an internationalization strategy that usually leads to success. Their strategy is also one of standardization.

When Lidl made their withdrawal from the Norwegian market after only 3.5 years of operation, it was certainly an unexpected move from such a large company, usually



known for its decisiveness, stamina, perseverance, muscle and financial strength. The Norwegian failure was a unique case in Lidl's corporate history - the first ever time the company pulled out of a country entirely.

What makes Norway such a special case? Where did things go wrong? Maybe they entered the Norwegian market without having done enough research - assuming that Norway would be like other markets? Maybe they took some wrong steps that later proved critical? Maybe it is the buying habits and behavior of the Norwegian customers that is significantly different from other Europeans? Other explanations can perhaps be found in the structure of the existing grocery retail industry. Maybe the competition made it difficult or maybe outright impossible for a new foreign player to enter the Norwegian market and steal market share?

Are there one or a few reasons that stand out as the major obstacles that prevented their success?

## 1.2 Globalizing markets

The world is getting "smaller" - as travel opportunities increase with bigger and faster means of transportation, communication- and information technology develops at a rapid pace. This is bringing people around the world into closer contact with each other than ever before.

Trade between nations is increasing, as a result of this increased contact. Markets are expanding geographically, as the opportunity to transport goods fast and cost-effectively has improved. As a result, competition between nations becomes possible in areas that before were hindered by distance. Specialization becomes a result, as countries concentrate on what they are good at and where they have a competitive advantage. The advantages may be due to availability of natural resources, educational skills etc.

Competition in general increases as foreign players enter already mature markets. Such increased competition has also grown stronger in the retailing industry in Europe. Overseas businesses have looked to Europe, and similarly European companies have increasingly started to look beyond the border of their own country, for business opportunity to grow, and to benefit from economies of scale. For the last three decades or so, this trend has also entered the grocery markets - including fresh food (Howard, 2004)

Recent years have recorded a growth in cross-border initiatives. The 100 largest retailers in the world are growing more than twice as fast abroad as domestically. The 35 largest retailers are all entering one new market each year (Gielens, 2001).

Even though retailers are expanding rapidly into new markets, it seems that many are struggling to achieve profitability in foreign countries. It usually takes many years to reach profitability (Gielens, 2001).

The financial newspaper The Economist, in an article on the 17<sup>th</sup> of June 1999, concludes that it is hard to succeed in international retailing:

*“Wal-Mart’s British acquisition comes at a time when retailers have caught globalisation fever. They are behind most manufacturers, but the bug is the more virulent for that. In the past several months, Royal Ahold, a Dutch supermarket operator, has bought supermarkets in Poland, four rival chains in Spain, one in America and two in Argentina. France’s leading hypermarket,*

*Carrefour, which is in 20 markets, has opened stores in Chile, Colombia, Indonesia and the Czech Republic; it recently announced that it would move into Japan next year. Tesco, Britain's biggest food retailer, has set up shop in South Korea, its sixth overseas market. And Promodès, another French hypermarket group, has become the market leader in Argentina. Meanwhile, fast-growing clothes chains, such as The Gap, Sweden's Hennes & Mauritz (in 12 markets), and Spain's Zara (in 17), are opening a branch in a new country every few weeks. ...Despite this enthusiasm, however, retailers seem to be finding it hard to make a success of the transition from national to multinational. ...Carrefour's operating margins in France are more than 6% of sales, whereas, after operating internationally for 30 years, it still loses money in much of Asia, Latin America and even some parts of Europe. Meanwhile Wal-Mart, which first went abroad in 1991, makes a return on capital of 5.8% on its international business, far lower than in America. Can today's headlong rush succeed?"<sup>1</sup>*

The history of international retailing also tells us that it is difficult to succeed abroad. In the 1950s, Sears' joint venture failed in Australia and they were also forced to withdraw from Cuba in 1960. The 1970s saw the failure in the UK of the American GEM stores and Carrefour hypermarkets, and the exit from Australia by K-Mart in 1978. The 1980 once again saw a Carrefour failure when they were not able to establish hypermarkets in the US (Tordjman 1988) Later in the 1980s, K-Mart failed in Czechoslovakia, and Tesco and Toys 'R' Us exited from France. In 1998 the world's largest retailer, Wal-Mart closed all their shops in Germany after just 8 years in the country (Christopherson, 2007).

In Norway in 2008, Lidl withdrew from a country for the first time.

### **1.3 Shortage of research and studies**

Even though retailer internationalization has a long history, it's only in the later decades that researchers have conducted significant academic research surrounding this topic. Akerhurst and Alexander 1996; Alexander 1997; Alexander and Doherty 2000; Brown and Burt 1992; Kacker 1985; McGoldrick and Davies 1995; Sternquist 1998; Sternquist and Kacker 1994; Hollander 1970 are all relatively modern articles surrounding this topic. Most scientific articles, apart from Hollander (1970), that have investigated the internationalization of retailers, deal with the success factors. Even though Hollander (1970) attempts to look at factors that lead to failure, he does not manage to come to

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<sup>1</sup> [www.economist.com/node/214279](http://www.economist.com/node/214279)

any clear-cut conclusions as to which factors are most likely to bring about or contribute to failure. The academic literature highlights many positive statements and metaphors concerning the internationalization process of retailers. Often the internationalization is described in terms of Stages theory, Development theory and Waves of internationalization theory, all of which deal with growth and success. Research most often identifies factors that reduce risk and encourage internationalization, such as management competencies or critical success factors (Burt et. al. 2003).

## **1.4 Why study failure?**

It seems like failure in international retailing could be just as likely as success. It is therefore strange that literature concerning the success factors of international retailing abounds, whereas literature concerning critical risks and factors contributing to failure hardly exists at all. Internationalization theories are generally aiming to help businesses succeed (Godley, 2001). It is likely that theories concerning the factors that may lead to failure may benefit businesses equally much.

Godley and Fletcher (2001) argue that it is important to count failures as well as successes before meaningful comparisons with recent trends can be made. They also argue that one of the reasons why there is such shortage on information regarding the failures in international retailing is that retailers themselves try to *“wipe out failed activities from the stock of explicit knowledge, and from both public and corporate memories”*. (Godley 2001)

As globalization seems to get more and more important for more and more businesses, the need for good knowledge and theories surrounding these topics are growing. Through this study of Lidl's failure in the Norwegian market, I hope to have found some of the critical mistakes and misjudgments that were made in their preparations for business, their operating procedures, their product portfolio - and some of the peculiarities of the Norwegian marketplace that Lidl must have failed to recognize and take seriously enough.

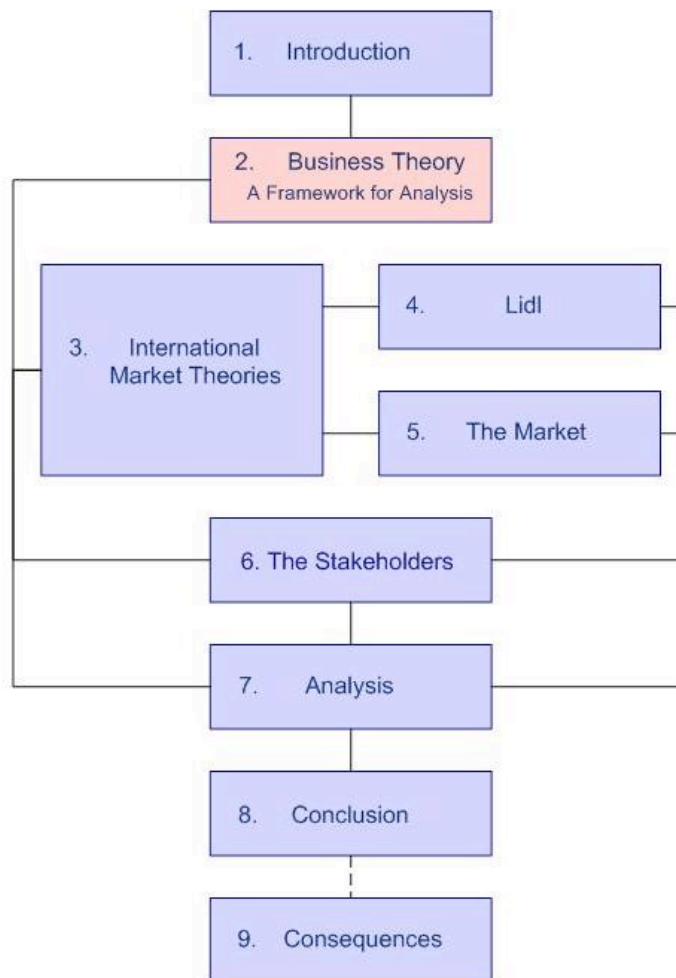
Hopefully this may provide some new knowledge for other companies planning to go abroad to new markets and help them make better plans and preparations.

To try to find some answers to why Lidl failed, I will look at what happened before and during Lidl's entry in the Norwegian market, and what Lidl did right and wrong. I will compare how the actual events and Lidl's actions correspond with current business management and internationalization theories.

## Chapter 2: Business Theory - A Framework for Analysis

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- The Development of Economics and Management Theory
- The Stakeholder Approach
- A Practical Approach - The Stakeholder Matrix



# 2.1 The Development of Economics and Management Theory

Trade theories have for centuries been an important part of trade across borders and internationalization of businesses. In the 18<sup>th</sup> century, Adam Smith - (1723-1790) - a philosopher, turned his interest and focus towards subjects of economics and trade. His most famous literary work was titled "The Wealth of Nations" (1776) - (full title of book: An Inquiry into the Nature and Causes of the Wealth of Nations). Smith is known as the "inventor" of economics theory. In his book Smith discusses how a country may increase its wealth and prosperity. He emphasizes free markets, segmentation and that a country should specialize in, and export, such commodities in which it has an absolute advantage (Smith, 1778).

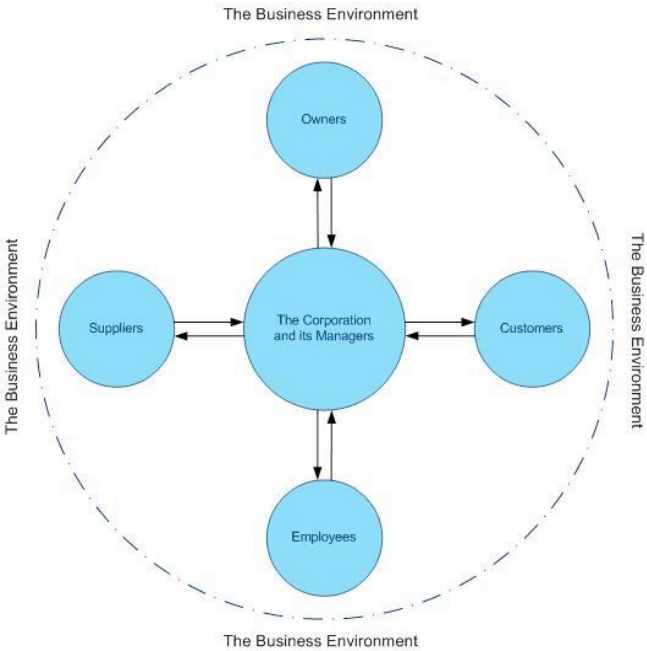
Economics- and Business theory has evolved and has been developed greatly since Adam Smith's days - but some of his concepts are still valid, and lie at the basis of much of the research and theory produced ever since.

In 1817 David Ricardo published his book "On the Principles of Political Economy and Taxation", where he explains the concept of comparative advantage. A concept which refers to the ability of one country to produce a particular service or good at a lower opportunity cost than another country.

In older days, business and their environment was simpler than today. As long as businesses were mainly family run, there were only suppliers on one side and customers on the other to worry about.

As business grew and became more capital intensive, in came owners and employees and managers to manage these various "resources". This stage could be illustrated as shown in Figure 2.1.

Figure 2.1 – The Managerial View of the Firm



Markets were simpler, often characterized by scarcity of goods. The task was to produce as much as possible, and sell at good prices, or provide goods from suppliers and sell to gain maximum profit. This kind of thinking is at the basis of traditional Shareholder Models of Business Management (Freeman, 1984).

Better business theory usually develops from observations of successful enterprises. Successful enterprises may be the result of a fortunate chain of events - almost plain luck. However, more likely they are the result of wise management decisions somewhere along the way.

In the last decades, more detailed business theories have emerged. In 1967, Peter F. Drucker, a Professor of Management, New York University, published his book "The Effective Executive" - where he highlights two managers of large American Corporations, who has had profound influence on Business Management Theory - and subsequent thinking and practice; namely Theodore Vail - of Bell Telephone System, and Alfred P. Sloan Jr. - of General Motors. According to Drucker, Vail made some strategic decisions that were controversial in the 1920s, but which paved the way for new understanding of the role of a business in society. Vail formulated the business purpose of his company as "Our business is Service" - in other words his focus was on how the company could be of benefit to the user/customer, and not solely on creating profit. The background for this shift of focus was his underlying fear that the then new telephone business would otherwise be nationalized (Drucker, 1970).

Again according to Drucker; Sloan formulated a new strategy for management in GM, based on a strong, central management that laid out common business policies and direction of development for the individual branches of the large corporation. At the same time the responsibilities for executing this policy and direction was delegated down through levels of management. Delegation of power down through the organization would spur involvement and sharing of goals, and return commitment and identification with the company (Drucker, 1970).

These thoughts may be seen as an early recognition of the fact that there were several "stakeholders", with different interests and interaction points with the business - and its products and services - in this case authorities and management/employees, in addition to customers and shareholders.



In 1967, Philip Kotler, a Distinguished Professor of International Marketing at the Kellogg School of Management at Northwestern University, published his book "Marketing Management - Analysis, Planning and Control". This book long served as the most used textbook for graduate level studies in marketing, and is still in use - now in its 11th edition. The book is organized into four parts, each dealing with major steps in the marketing management process; Analysis, Planning, Decision making and Control. Each part discusses different methods, techniques and theories concerning each of these steps of the process, with advice and suggested techniques ranging from macro, strategic decision making, to micro level techniques for information gathering and quantitative modeling and analysis (Kotler, 1967).

## 2.2 The Stakeholder Approach

In 1971 Bernard Taylor argued that the importance of stockholders would diminish in the future. *"In practice it is clear that in the 1970s business will be run for the benefit of other stakeholders, too."* (Freeman, 1984, pp 34)

In 1977 R. Edward Freeman, Professor of Business Administration at The Darden School, University of Virginia, was asked by AT&T, then the Bell System, to develop an education program for executives that would help their future leaders to understand and manage the external environment. He built on work which had been made by researchers at Stanford Research Institute and Wharton School of Business Management- Russell Ackoff and Eric Trist. They had attempted to come up with a *"way to categorize the business environment"*<sup>2</sup> (Freeman, 2009).

The executive program at Bell Systems lead to further development of the stakeholder concept. --- In 1984 Freeman published his book "Strategic Management: A Stakeholder Approach" (Freeman, 2004). He defined "stakeholder" as *"any group or individuals that can affect or is affected by the achievement of a corporation's purpose"*<sup>3</sup> (pp. 229). From the viewpoint of a senior manager, Freeman meant that if a group of individuals could affect the firm, managers should develop an explicit strategy to deal with that group, or stakeholder (Freeman, 2004).

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<sup>2</sup> <http://www.youtube.com/watch?v=bIRUaLcvPe8>

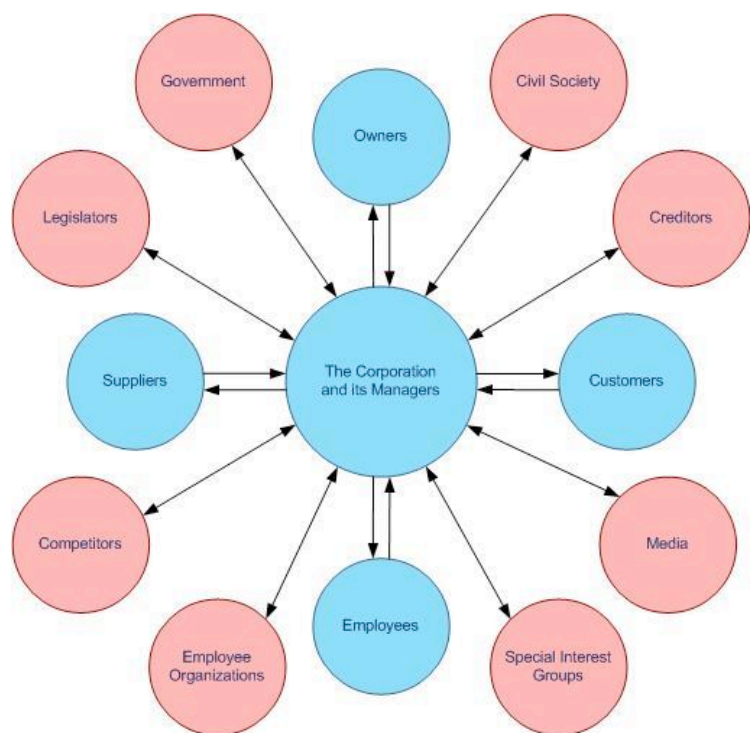
<sup>3</sup> <http://www.youtube.com/watch?v=bIRUaLcvPe8>

Freeman is recognized by some to have formulated this theory. Freeman himself will not take credit for having developed the concept (Freeman, 2009).

Today, Freeman (2009) describes Stakeholder theory as “an idea about how business really works”. He describes the stakeholders as any group or individual that in some way or other has an interest in - a "Stake" - in the products as well as the doings in other areas of a business. Freeman emphasizes how ethics have become an important part in any business strategy in recent years (Freeman, 2009).

Stakeholder thinking seems to have become a favored approach to Business Management and Strategic Decision Theory. This concept recognizes the fact that business exists in an open society, with almost unlimited access to information, through newspapers, television and not the least - Internet. Business managers thus become accountable to not only owners/shareholders, employees, suppliers and customers, but to a great degree to many other interest groups. In today's information society, everything a company says or does can become known to the public almost instantaneously. Managers must therefore keep an eye on the effects the business has on all aspects of society - all of the time (Freeman, 2009).

**Figure 2.2 - Internal and External Stakeholders**



Source: Adapted from Freeman, 1984

All these groups that are likely to affect a business - internal, as well as external, are all encompassed in the term Stakeholder and shown in Figure 2.2. The blue bubbles represent the traditional model of a business. These are sometimes labeled "internal

stakeholders". The labels in each of the pink bubbles are just one way to categorize into groups all other stakeholders - sometimes called "external stakeholders". The figure clearly shows that managers have more balls to juggle than just the internal stakeholders.

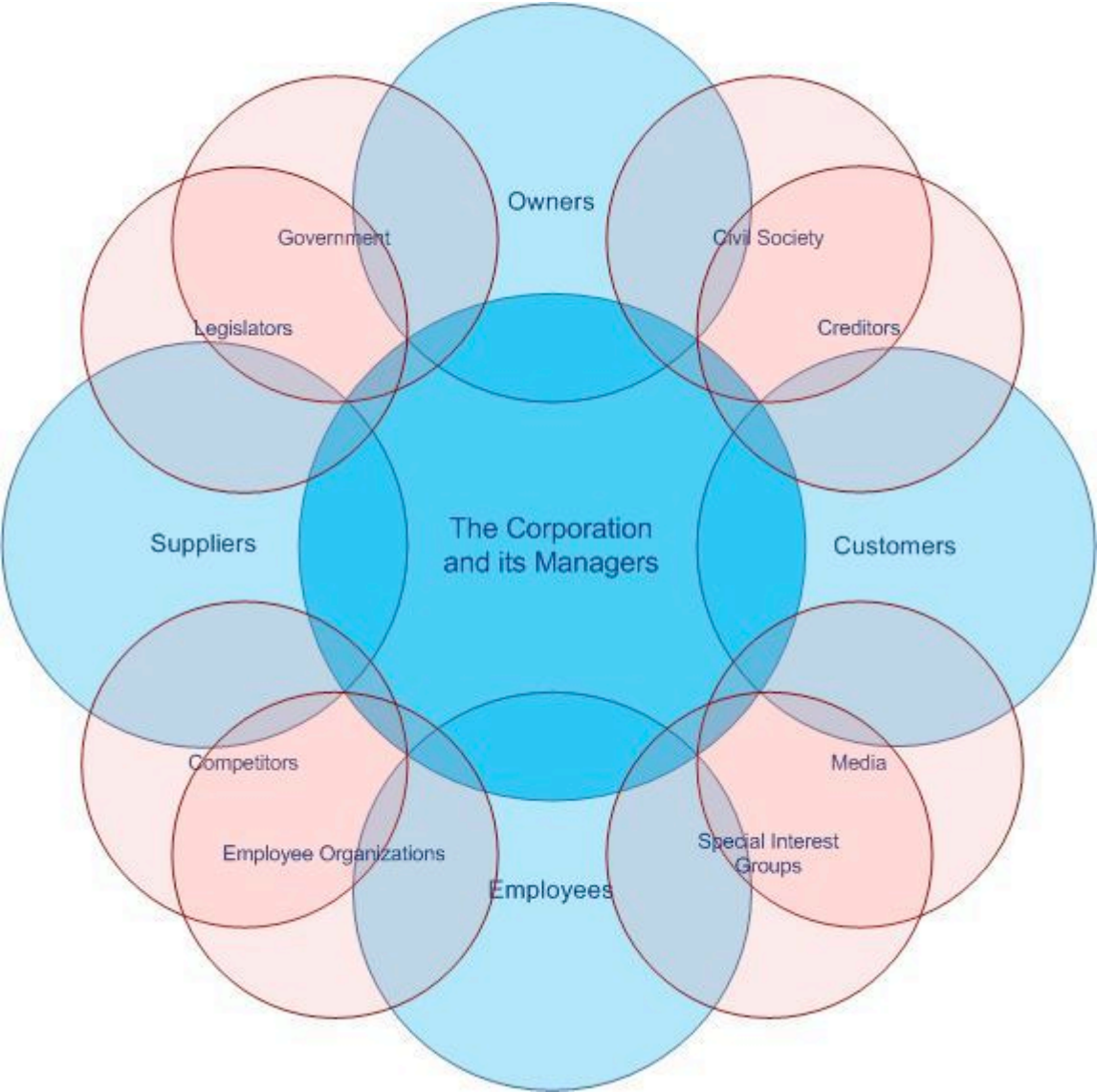
The previous figure indicates that the individual stakeholder groups can be seen separate from each other, and that they exist at arms length. Truth is that there may be close interaction between groups, and that information can be exchanged between them so completely and so fast. Figure 2.3 is an alternative representation of stakeholder groups - the same bubbles, closer together and more transparent (Freeman, 2009).

A stakeholder approach is equally important in the local market as in international markets. As a matter of fact it may be more important when taking a business abroad. Management will then have to deal with more unfamiliar factors.

The theory says that management must attempt to identify which groups of people have an interest - or a stake - in the purpose and the products and the doings of their business. Theory then suggests that success is dependent on how well the business manages to adapt its products and its services to the expectations of all of these groups of stakeholders - not only the internal (Freeman, 2009).

This will require some structured thinking.

**Figure 2.3 - Internal and External Stakeholders - Tight Relationships**



Source: Adapted from Freeman, 1984

## 2.3 A Practical Approach - The Stakeholder Matrix

To help investigate the influence various stakeholders may have had on Lidl in Norway, I have developed a "Stakeholder matrix" (Figure 2.4). A conceptual version of the matrix - incorporating the stakeholder categories of figure 2.3, would look like the one below. The matrix will function as a structured road map for the research process. Freeman states *"that you can't look at any one of those stakes, or stakeholders if you like, in isolation"*<sup>4</sup> (Freeman, 2009). The matrix visualizes the idea that any stakeholder may have an effect on any other stakeholders. A worksheet can help the planner to see relationships of stakeholders which are not obvious at the outset.

**Figure 2.4 – The Stakeholder Matrix**

Stakeholder Matrix - identification of Stakeholder groups															
		The Company / The Business	Stakeholders internal to the business			Stakeholders external to the business									
			Employees	Managers	Owners	Competitors	Media	Special Interest Group	Employee Organizations	Suppliers	Society	Government	Legislators	Creditors	Shareholders
The Company / The Business															
Internal to the business	Employees														
	Managers														
	Owners														
External to the business	Competitors														
	Media														
	Special Interest Group														
	Employee Organizations														
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	Legislators														
	Creditors														
	Shareholders														
	Customers														

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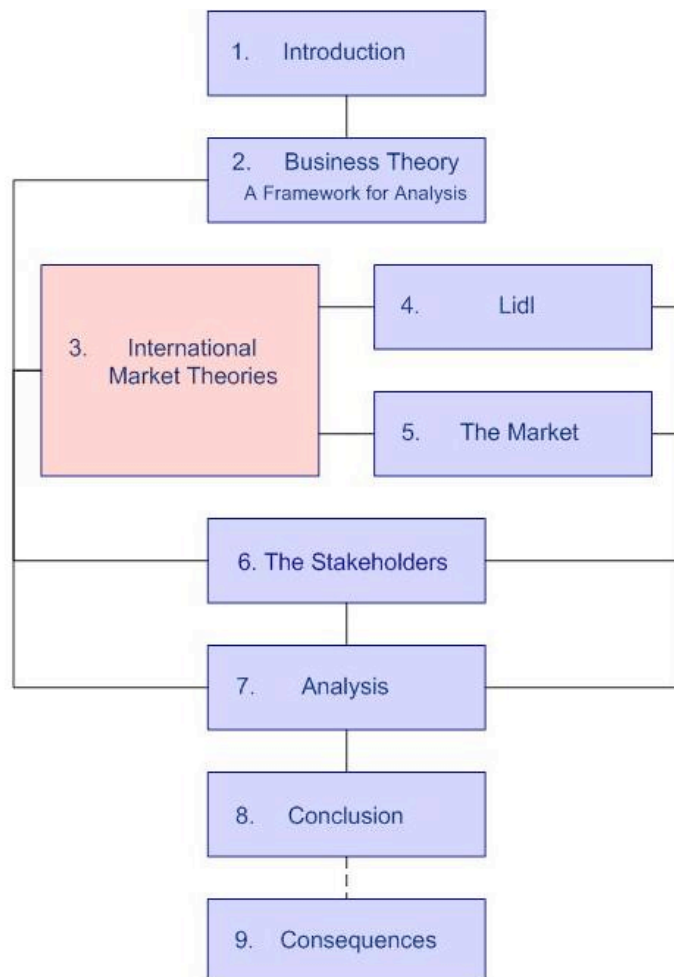
The matrix thus represents the Stakeholder approach in a format more suitable for practical work. Ref. Figure 2.2 and 2.3.

<sup>4</sup> <http://www.youtube.com/watch?v=Ih5lBe1cnQw> – 00:28

## Chapter 3: International Marketing Theories

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- **Facilitating Exchange Across Cultures**
- **The Uppsala Model**
- **Cross Cultural Challenges**
- **Establishing Barriers**
- **Monopoly/Oligopoly**



### **3.0 International Marketing Theories - Planning to Take the Business Abroad**

Expanding ones business to new markets requires planning. When expansion plans involve crossing of national borders, the planning challenges have to involve new dimensions - in addition to the planning procedures required for domestic purposes. These additional dimensions together are often referred to as "culture".

International expansion will involve planning dimensions like Legislation, Demographic data, Infrastructure, Typical behaviour patterns etc. - factors that can no longer be taken for granted as being like just like at home.

Fortunately a lot of research, theory and recommendations has been developed to help in the process. Some relevant parts of these theories will be outlined in the following. The study and analysis of Lidl's short presence in Norway be viewed against these theories and recommendations.

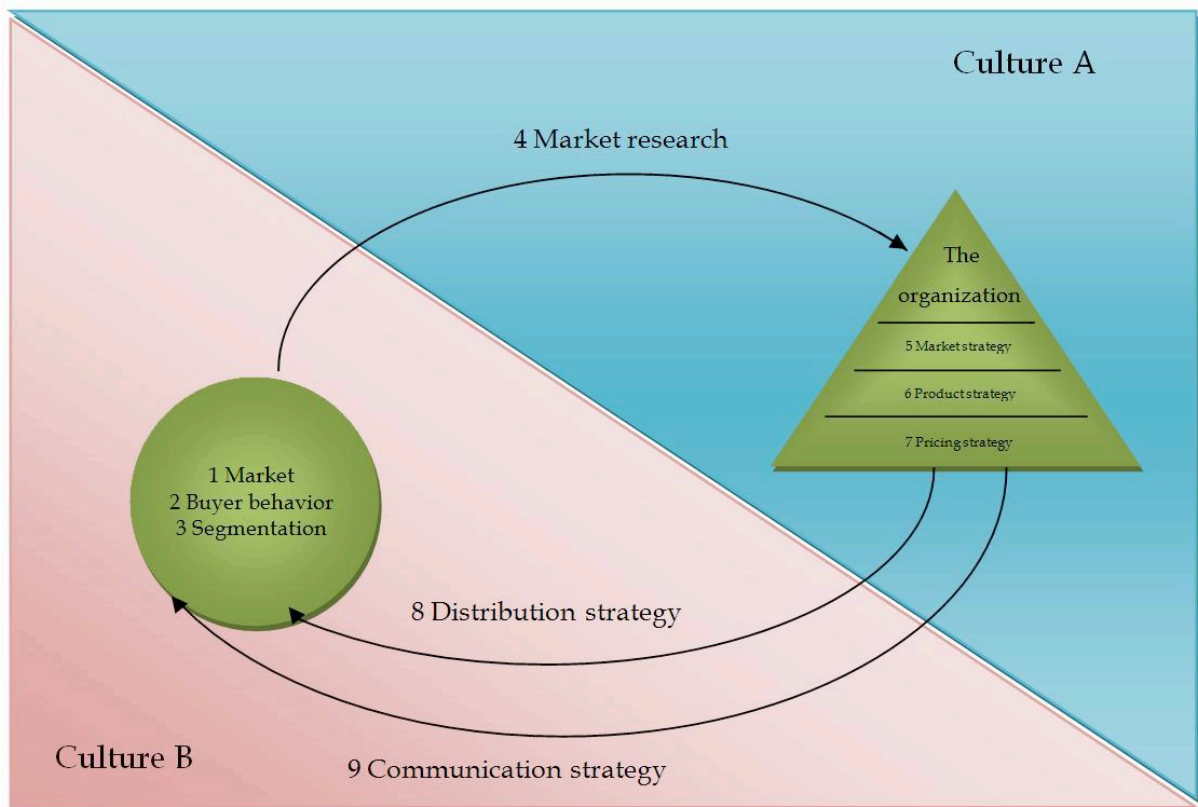
#### **3.1 Facilitating Exchange Across Cultures**

Falkenberg (2010) has illustrated the process of internationalization as shown in Figure 3.1. Process must start with collecting information about the new market, process the info and design distribution and communication strategies.

All contributions to the theory on the subject emphasize the need to study the prospective market thoroughly, and in particular note structural and behavioral differences compared with the home-market, and incorporate not-so-clearly-visible differences in peoples' behavior, preferences, beliefs etc. - factors that can be summarized in the term "culture".

Cavusgil (1985) has described the process in some detail, as a 3-step process: 1-Preliminary Screening, 2-Assess Market Potential, 3-Assess Company's Sales Potential.

**Figure 3.1 – The Decision Making Process**



Source: Falkenberg, 2010

### **3.1.1 Preliminary Screening - Find a suitable market for further investigation**

Step 1 should be to identify a market with potential. Ideally one should pick the market with the greatest potential. It would take a lot of effort to screen all possible markets to find the best one. One can therefore assume that markets for further investigation would be targeted in a different way - (see topic 3.2 – The Uppsala Model).



**Table 3.1 – Preliminary Screening - Factors to Consider**

<i>Demographic/Physical Environment</i>	<i>Political environment</i>
<ul style="list-style-type: none"> <li>- Population size, growth, density</li> <li>- Urban and rural distribution</li> <li>- Climate and weather variations</li> <li>- Shipping distance</li> <li>- Physical distribution and communication network</li> <li>- Natural resources</li> </ul>	<ul style="list-style-type: none"> <li>- System of government</li> <li>- Political stability and continuity</li> <li>- Government involvement in business</li> <li>- Government involvement in communication</li> <li>- Attitudes towards foreign business</li> <li>- National economic and developmental priorities</li> </ul>
<i>Economic Environment</i>	<i>Social/Cultural environment</i>
<ul style="list-style-type: none"> <li>- Overall level of development</li> <li>- Role of foreign trade on the economy</li> <li>- Currency: inflation trade, availability, controls, stability of exchange rate</li> <li>- Per capita income and distribution</li> <li>- Disposable income and expenditure patterns</li> </ul>	<ul style="list-style-type: none"> <li>- Literacy rate, educational level</li> <li>- Similarity and differences in relation to home market</li> <li>- Language and other cultural considerations</li> </ul>

Source: Cavusgil, 1985

**3.1.1.1 Assess Market Potential - Special challenges and development trends**

Step 2 should be to collect thorough information about the market under consideration. Table 3.2 shows factors to be considered. The company will want to determine the present and future aggregate demand for the industry within the selected market (Cavusgil, 1985).

**Table 3.2– Assessing Market Potential - Factors to Consider**

<i>Market access:</i>	<i>Product Potential:</i>
<ul style="list-style-type: none"> <li>- Limitations on trade: tariff levels, quotas</li> <li>- Documentation and import regulations</li> <li>- Local standards, practices, and other nontariff barriers</li> <li>- Preferential treaties</li> </ul>	<ul style="list-style-type: none"> <li>- Customers needs and desires</li> <li>- Local production, imports, consumption</li> <li>- Exposure to and acceptance of product</li> <li>- Availability of linking products</li> <li>- Attitudes toward products of foreign origin</li> <li>- Competitive offerings</li> <li>- Regional and local transportation facilities</li> <li>- Availability of manpower</li> <li>- Conditions for local manufacture</li> </ul>

Source: Cavusgil, 1985

### 3.1.1.2 Assess Company's Market potential

Stage 3 of the screening process involves assessing company own sales potential in those countries that prove promising based upon earlier analysis (table 3.3).

**Table 3.3 – Analysis of Company Sales Potential - Factors to consider**

<i>Sales Volume Forecasting</i>	<i>Landed Cost</i>
- Size and concentration of customer segments segments	- Costing method for exports
- Projected consumption statistics	- Domestic distribution costs
- Competitive pressures	- International freight and insurance
- Expectations of local distributors/agents	- Cost of product modification
<i>Cost of Internal Distribution</i>	<i>Other Determinants of profitability</i>
- Tariffs and duties	- Going price levels
- Value added tax	- Competitive strengths and weaknesses
- Local packaging and assembly	- Credit practices
- Margins/commission allowed for the trade	- Current and projected exchange rates
- Local distribution and inventory costs	
- Promotional expenditures	

Source: Cavusgil, 1985

### 3.1.4 Step two: Buyer Behavior - Cultural differences

Kotabe (2008) notes that buyer behavior in the new country will be different from one market to another, and the importance of being “*sensitive to cultural biases that influence your thinking, behavior, and decision making. ...Unfortunately, many cultural mistakes put the company and its products in an unpleasant situation or even create permanent damage. The globalization efforts of numerous firms have been derailed by cultural mishaps.*” (pp. 133).

### 3.1.5 Step three: Segmentation

It is hard for a company to manage to fill all needs of all people. Segmentation is a way to narrow down the customer base, and focus efforts on a smaller group of consumers.

### **3.1.4 Step four: Market Research**

Adequate market research should be conducted, to discover and disclose critical factors. The managerial challenge is to balance cost of research and the time-factor against expected benefits, and risk of not being thorough enough (Kotabe, 2008).

Market research will involve the following steps: (Kotabe 2008, pp 196-197).

- Define the research problem(s).
- Develop a research design.
- Determine information needs.
- Collect the data (secondary and primary).
- Analyze the data and interpret the results.
- Report and present the findings of the study.

### **3.1.5 Step five: Market Strategy**

Market strategy has to determine where, how and when to enter the new market. In principle every new market should be looked at with the same thoroughness. In practice size matters. Large markets involve greater potential, and greater risk. They therefore seem to justify larger resource commitments up front.

Market strategy will involve decisions about form of entry, whether joint ventures or wholly owned subsidiaries etc. Current market size will be considered, but future market potential through growth is often more interesting. The so called emerging markets are typical examples (Kotabe, 2008).

Kotabe (2008) lists decision criteria that influence the choice of entry:

*Risk* - A major concern when choosing entry modes is the risk factor. Risk relates to the instability in the political and economic environment that may impact the company's business prospects. Generally speaking, the greater the risk factor, the less eager companies are to make major resource commitments to the country or region concerned.

*Company Objectives* - Corporate objectives represent a key influence in choosing entry modes. Firms that have limited aspirations typically prefer entry options that entail a minimum amount of commitment. Proactive companies with ambitious strategic objectives, on the other hand, usually pick entry modes that give them the flexibility and control they need to achieve their goals.

*Need for control* - Most multinationals prefer to have a high degree of control over their foreign operations. Control may be desirable for any element of the marketing mix plan: positioning, pricing, advertising, the way the product is distributed, and so forth.

*Internal Resources, Assets, and Capabilities* - Companies with tight resources (human and/or financial) or limited assets are constrained to low commitment entry modes such as exporting and licensing that are not too demanding on their resources. Even large companies should carefully consider how to allocate their resources among their different markets, including the home market. In some cases, major resource commitments to a given target market could be premature given the amount of risk. On the other hand, if a firm is overly reluctant to commit resources, it could miss major market opportunities. Internal competencies also influence the choice-of-entry strategy. When the firm lacks certain skills that are critical for the success of its global expansion strategy, it can try to fill the gap by forming a strategic alliance.

*Flexibility*- An entry mode that looks very appealing today necessarily may not be attractive 5 or 10 years down the road. The local environment changes constantly. New market segments emerge. Local customers become more demanding or more price conscious. Local competitors become more sophisticated. To cope with these environmental changes, global players need a certain amount of flexibility. The flexibility offered by the different entry mode alternatives varies a great deal. Given their very nature, contractual arrangements such as joint ventures and licensing tend to provide very little flexibility. When major exit barriers exist,

wholly owned subsidiaries are hard to divest and, therefore offer very little flexibility compared to other entry alternatives.

*Entering new markets through wholly owned subsidiaries* - Multinational companies often prefer to enter new markets with 100 percent ownership. Ownership strategies in foreign markets can essentially take two routes: acquisitions and mergers, in which the MNC buys up or merges with existing companies, or Greenfield operations that are started from scratch. Full ownership entry entails certain benefits to the MNC, but it also carries risks.

*Benefits* - Wholly owned subsidiaries give MNCs full control of their operations. It is often the ideal solution for companies that do not want to be saddled with all of the risk and anxieties associated with partnerships such as joint venturing. Full ownership means that all of the profits go to the company. Wholly owned enterprises allow the investor to manage and control its own processes and tasks in terms of marketing, production, and signal to the local market. In some markets wholly owned subsidiaries can be created with local companies much faster than joint ventures that may consume years of negotiations before their final take-off.

*Caveats* - Despite the advantages of 100 percent ownership, many MNCs are quite reluctant to choose this particular mode of entry. The risks of full ownership cannot be easily discounted. Complete ownership means that the parent company must carry the full burden of possible losses. Developing a foreign presence without the support of a third party is also very demanding on the firm's resources. Obviously, apart of the market-related risks, substantial political risks and economic risks must be considered. Companies that enter through a wholly owned enterprise are sometimes perceived as a threat to the host country's cultural/or economic sovereignty.

*Greenfield operations* - Acquisition strategies are not always feasible. Good prospects may already have been nabbed by the company's competitors. In many emerging markets, acceptable acquisition candidates often are simply not available. Overhauling the facilities of possible candidates can also be much more costly than building an operation from scratch. In the wake of these downsides, companies often prefer to enter foreign markets through Greenfield operations established from scratch. Greenfield operations offer the company more flexibility than acquisitions in areas such as human resources, suppliers, logistics, plant layout, or manufacturing technology. A major disadvantage of Greenfield operations is that they require enormous investments of time and capital.

(Kotabe, 2008, pp 283-290, 302-305)

### **3.1.6 Step six: Product Strategy**

The customer needs differ from one country to another. And the international businesses can face the challenges related to the product strategy in three different ways. The firm can choose to use the same product or communication strategy as they use at home, or they can adapt their strategy to the foreign marketplace. This enables the firm to fulfill the wants and needs of its foreign customers. The third strategy is to redesign products to suit preferences of the foreign market (Kotabe, 2008). These dilemmas can be referred to as "Standardization versus Customization".

### **3.1.7 Step seven: Pricing Strategy**

According to Kotabe (2008), global pricing is one of the most critical and complex issues that global firms are facing. Price is the factor that creates the revenues, and a company's pricing policy can make or break it in overseas expansion efforts.

Even in the same geographical areas, such as the European market, prices vary across borders. Kotabe (2008) argues that this comes as a result of the following: *Company* (costs, company goals), *Customers* (Price sensitivity, segments, consumer preferences), *Competition* (Market structure, intensity) *Channels* and *Government policies* (price controls, taxes, import duties).

### **3.1.8 Step eight: Distribution Strategy**

Appropriate distribution channels increases the chances of success dramatically, as distribution costs represent a large share of the total cost (Kotabe, 2008). The market research and strategic consulting firm InfoTrends suggest a number of methods a company can use to decrease their distribution costs.

- Find new channels to distribute
- Exam competitors' strategies and compare them and their effectiveness with your own
- Interview your distribution partners to identify areas for improvement, as well as existing strengths to be encouraged

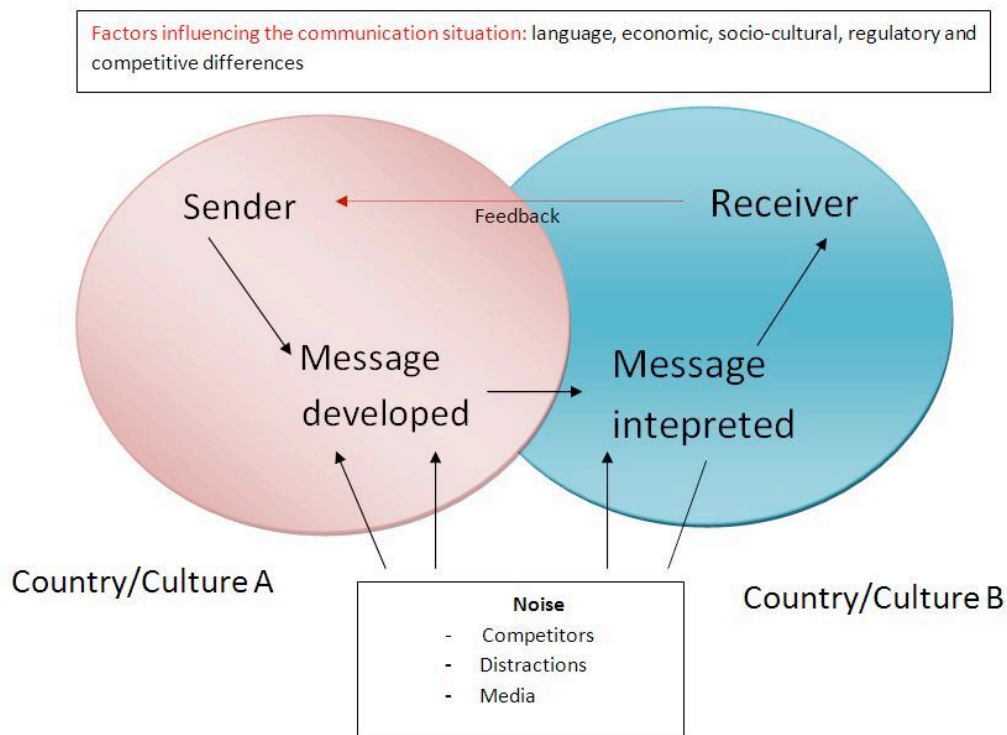
(Source: InfoTrends)

### **3.1.9 Step nine: Communication Strategy**

Organizations cannot operate without communication. Communication can take various forms, but all forms involve the transfer of information from one part to another. In order for the transfer of information to qualify as communication, the recipient must understand the meaning of the information transferred to them. If the recipient does not understand the meaning of the information conveyed to them, communication has not taken place (Learning Management, 2010).

The figure by Hollensen (figure 3.4) shows elements of the international communication process. It points out that there may be a difference in the message the company intends to send the receiver in the foreign country, and the way the message is interpreted. The figure also shows that "noise" from competitors, distractions, cultural differences and media are reasons for the wrong interpretation of the message (Hollensen, 1998). The figure makes clear the importance of knowing the market and culture your business is entering. By knowing the competitors, media and other distractions, the company has a better possibility to know how the messages they are developing are interpreted by the receivers.

**Figure 3.4 – The Communication Process**



(Source: Hollensen, 1998)

### 3.2 The Uppsala Model

Uppsala Model is the short name of a theory developed in 1975 at Uppsala University, Sweden. In brief the model states that internationalization of a firm in real life often happens via a gradual process. Their empirical base was observations of how Swedish firms often approached foreign markets. The methodology was shown to be used not only by Swedish firms (Johanson et al, 1977).

International expansion was usually gradual and cautious, taking small steps and evaluating small successes and failures along the way. Expansion was usually one market or country at a time, with gradually increasing commitment in the new country.

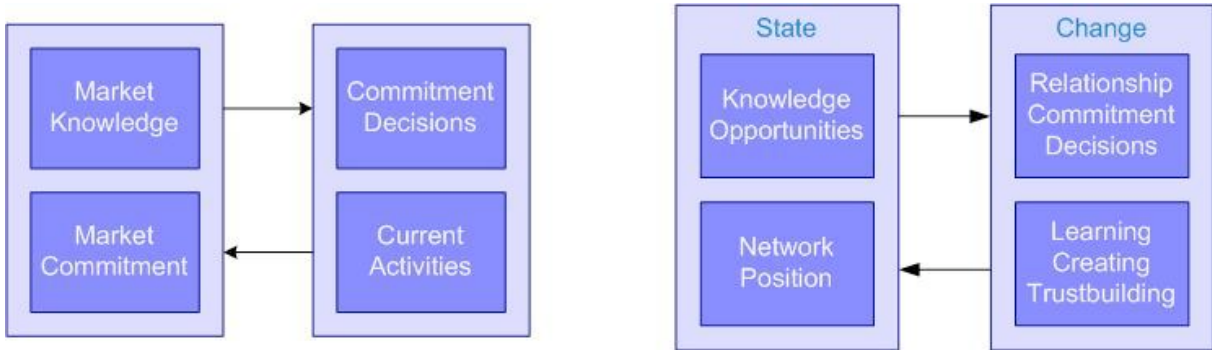
Observations indicate that new markets are approached in an order corresponding to what the researchers called *"the psychic distance between the home and the import/host countries"* (Johanson et al, 1977, pp 24). Psychic distance was defined as *"the sum of factors preventing the flow of information from and to the market"* (Johanson et al, 1977,



pp 24) - such as differences in language, education, business practices, culture and industrial development (Johanson et al., 1977).

A revisited version of the model was published in 2009. The update recognizes the fact that the business environment has changed in many ways since 1977. New are the importance of relationships and networks, and the cost and risk of what the authors call "outsidership". There has been a reduction of importance of "psychic distance" and corresponding increase in importance of relationships and networks, when planning for internationalization and expansion abroad (Johanson et. al, 2009).

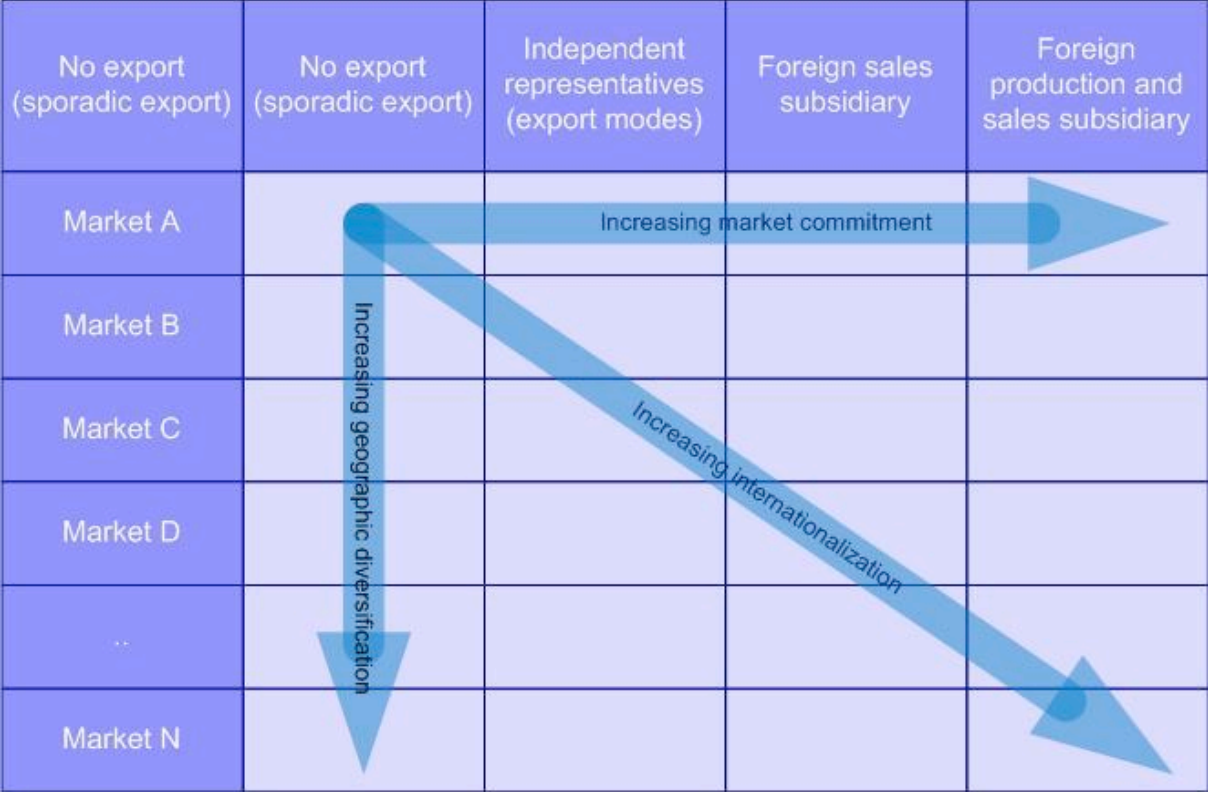
**Figure 3.2 - The Development of the Uppsala Model (1977, 2007)**



(Source: Johanson et.al 1977, 2009)

Figure 3.3 is an illustration of the concept of gradual approach along both the X and Y axis. The X-axis represents the degree of involvement in each market over time, and the Y-axis represents the move to new markets over time. The diagonal thus represents the sum total of a company's international exposure and involvement over time. By moving simultaneously along both axes - the learning curves of each move can be used to facilitate the next moves in successive markets (Gustavsson, 2009).

**Figure 3.3 – An Interpretation of the Uppsala Model**



(Source: Gustavsson, 2009)

The new recognition of Relationships, Networks and Outsidership can be seen to reflect some of the same thoughts that lie at the base of Stakeholder thinking. Modern theories recognize that business exists in a more open society/environment than before, and that relationships form web-patterns rather than the simpler point-to-point relationships of older theory.

**3.3 Standardization versus Customization**

An often discussed theme in global marketing is whether a company should standardize or customize their product strategy. Standardization means offering a uniform product in all areas the company operates. The aim for this strategy is to minimize costs and pass the savings on to the customers through low prices. This strategy is dependent on standardized customer needs everywhere they operate (Kotabe, 2008).

Customization is the opposite of standardization. When using a customized strategy the company is trying to fulfill the different needs of the company's target customers. Changes are done to the product or service to match the local conditions. Standardization has a product-driven orientation – lower costs via mass production – customization is inspired by a market-driven mindset – increase customer satisfaction by adapting products to local needs (Kotabe, 2008).

### **3.3.1 Forces That Favor Standardization**

Kotabe (2008) lists a number of forces that favor a standardized business model.

*Common customer needs* - For many product categories, consumer needs are very similar in different countries, and the functions for which the product is used can be identical.

*Scale Economies* - Scale economies in the manufacturing and distribution of globalized products are in most cases the key driver behind standardization moves. Savings are often realized because of sourcing efficiencies or lowered R&D expenditures. These savings can be passed through to the company's end-customers via lower prices.

*Time-to-market* - In scores of industries, being innovative is not enough to be competitive. Companies must also seek ways to shorten the time to bring new product projects to the market. By centralizing research and consolidating new product development efforts on fewer projects, companies are often able to reduce the time-to-market cycle.

(Kotabe, 2008, pp 354)

Standardized and localized product(s) is not an either-or question. Management should look at each part of their product portfolio, and determine which parts need modification and which can stay unchanged (Kotabe, 2008).

### **3.3.2 Barriers to standardization**

The four major barriers to standardization relate according to Kotabe, 2008 to (1) cultural differences, (2) advertising regulations, (3) differences in the degree of market development, and (4) the “not invented-here” (NIH) syndrome.

### ***Cultural differences***

Notwithstanding the “global village” headlines, cultural differences still persist for many product categories. Cultural gaps between countries may exist in terms of lifestyles, benefits sought, usage context, and so forth. A case in point involves luxury goods that target global elites. The user benefits of cognac are by and large the same worldwide. The usage context, however, varies a lot: in the United States, cognac is consumed as a stand-alone drink; in Europe, often as an after-dinner drink; and in China with a glass of water during dinner. As a result, Hennessy cognac, adapts its appeals according to local customs while promoting the same brand image (Kotabe, 2008, pp 449).

### ***Advertising regulations***

A major roadblock that global advertisers face is the bewildering set of advertising regulations advertisers need to cope with in foreign markets. Advertising regulations are usually imposed by the local government. In many countries the local advertising industry is also governed by some form of self-regulation, which can take various forms. One possibility is that local advertisers, advertising agencies, and broadcast media jointly agree on a set of rules. Alternatively, the local advertising industry and government representatives decide on a code of advertising ethics (Kotabe, 2008, pp 457).

### ***Advertising “Vice Products” and Pharmaceuticals***

Though restriction, if not outright bans, apply to the advertising pharmaceuticals and so-called vice products in many countries. Despite the opposition of advertising agencies, advertisers, and media channels, rules on the advertising of tobacco and liquor products are becoming increasingly more severe (Kotabe, 2008, pp 457).

### ***Market Maturity***

Differences in the degree of market maturity also rule out a standardized strategy. Gaps in cross-market maturity levels mandate different advertising approaches. When Snapple, the U.S.-based “New Age” beverage, first entered the European market, its biggest challenge was to overcome initial skepticism

among consumers about the concept of iced tea. Typically in markets that were entered very recently, one of the main objectives is to create brand awareness. Products that are relatively new to the entered market also demand education of the customers on what benefits the product or service can deliver and how to use it. As brand awareness builds up, other advertising goals gain prominence (Kotabe, 2008, pp 449).

### ***Government Regulations***

Government requirements are also a major consideration in entry mode choices. In scores of countries, government regulations heavily constrain the set of available options. Trade barriers of all different types restrict the entry choice decision (Kotabe, 2008, pp 457-458).

### ***Cultural Distance***

Some argue that through higher percentages of equity ownership, multinational enterprises (MNEs) are able to bridge differences in cultural values and institutions. Others note that by relying on joint ventures instead of wholly owned subsidiaries, MNEs are able to lower their risk exposure in culturally distant markets. A Comprehensive analysis of a wide range of studies in the literature found no clear-cut evidence in favor of either argument (Kotabe, 2008, pp 288).

### ***Local infrastructure***

The physical infrastructure of a market refers to the country's distribution system, transportation network, and communication system. In general, the poorer the local infrastructure, the more reluctant the company is to commit major resources (monetary or human) (Kotabe, 2008, pp 288).

### ***"Not-Invented-Here" (NIH) syndrome***

Finally, efforts to implement a standardized campaign often must cope with the NIH syndrome (Kotabe, 2008). NIH is a term used to describe persistent social, corporate or institutional culture that avoids using or buying already existing products, research or knowledge because of their external origins. As a social phenomenon, "Not Invented Here" syndrome is manifested as an

unwillingness to adopt an idea or product because it originates from another culture, a form of nationalism (Wikipedia.org).

## **3.5 Barriers to establishing**

The level of competition and structure in a market plays an important role for a new player trying to enter. For that reason, the following sections are highlighting relevant market theories that deal with this side of the challenge.

### **3.5.1 The Herfindahl-Hirschmann Index**

The Herfindahl-Hirschman Index, or HHI, is a standard index of concentration and it is the most often used index in anti-trust analysis (Motta, 2004). The HHI is an efficient method to highlight the differences in competition in different countries (Chin, 2001). The index is given by the sum of the squares of market shares of the largest firms in the industry. It can vary between 0, when the market is entirely fragmented (each firm has a market share close to 0) and 10,000 when there is only one firm in the industry that has 100% of the market (Motta, 2004). Increase in the HHI generally indicates a decrease in competition and an increase of market power, whereas decreases indicate the opposite (Department of Justice, 2010).

According to the 1992 Horizontal Merger Guidelines, a market where the post merger HHI is below 1000 will be classified as "un-concentrated". A market between 1000 and 1800 will be classified as "moderately concentrated" and above 1800 it will be classified as "highly concentrated." A merger will raise "significant competitive concerns" if it produces an increase in the HHI of more than 100 points in a moderately concentrated market or more than 50 points in a highly concentrated market. A merger is presumed "*likely to create or enhance market power or facilitate its exercise*"<sup>5</sup> (Chin, 2001) if it produces an increase in the HHI of more than 100 points in a highly concentrated market (Chin, 2001). The U.S. Authorities has set an absolute limit at HHI 1800, and will not allow that mergers in an industry exceed that point (Hole, 2008).

### **3.5.2 Monopoly and Oligopoly**

To be able to understand the Norwegian grocery market, and the failure of Lidl in the country, it is also necessary to look toward monopoly theory. Four players on a national

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<sup>5</sup> <http://www.unclaw.com/chin/teaching/antitrust/herfindahl.htm>

level is by definition an oligopoly, however, if there is cooperation between them it leans towards a monopolistic situation.

### **Monopoly**

A monopoly is a situation where there is only one seller that controls the market, and there are no possibilities for newcomers to enter the market. The monopolist can adjust the price to the level wanted (Dedekam jr., 2002).

Dedekam jr. points out some reasons for monopoly:

- *Control of the commodities: By having control of all the suppliers, it is hard for newcomers to enter the market.*
- *Economies of scale: The bigger chains, the lower average costs. Small newcomers cannot enter the market, as their fixed costs are too significant to be able to compete on price.*
- *Cartel: To achieve lower operating costs, businesses form a cartel to gain a market share that enables them to agree to set the prices at a specific level.*

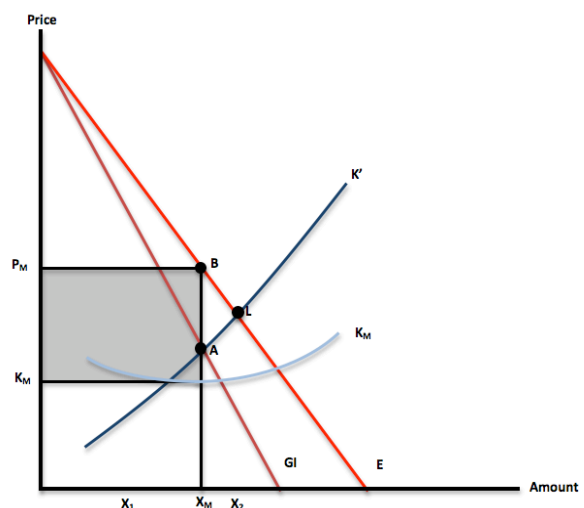
### **The monopolist's adaption**

Figure 4.1 shows the monopolists adaption. In point A in the figure, the marginal cost equals the marginal income. Amount sold is then  $X_M$ . By drawing a vertical line from A to the demand curve, E, we see that we get the price  $P_M$ . The grey area shows the monopolists income. In few words we can say that the profit-maximizing quantity is determined by the intersection between the marginal income curve and the marginal cost curve (Dedekam jr. 2002).

### **Welfare cost of monopoly**

We know from theory that a monopolist are not only claiming a price that is higher than during perfect competition, but are also offering lower quantities.

**Figure 3.4 - Profit-maximizing quantity for a monopolist**



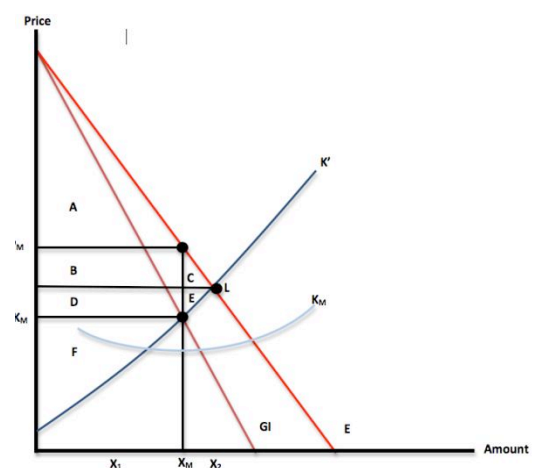
We can see the welfare loss when there is a monopoly in Figure 10.2. When we have perfect competition we have equilibrium in point L. The price will then be  $P_F$  and the amount sold will be  $X_F$ . The consumer surplus is  $A+B+C$ , and the producer surplus is  $D+E+F$ . The total social surplus is  $A+B+C+D+E+F$ . As we saw from figure X.X the monopolist set the price  $P_M$  and the quantity  $X_M$ . The consumer surplus is then reduced by  $B+C$ , and now only consist of  $A$ , and the producer surplus increases from  $B+C$  to  $B+D+F$ , and increase of  $B-E$ . The total social surplus is reduced by  $C+E$ , to  $A+B+D+F$ . The producer is gaining, but not enough to cover the increased cost of the consumers

(Dedekam jr, 2002).

### ***Oligopoly***

In an oligopoly there is a relative low number of stores competing. The number of competitors is so low, so that changes in one firm influence all the other firms. The firms have to guess what actions the competitors are going to do, when they are setting the price. If your firm lowers the price, then you will get more to do, and the competitors less to do. It is therefore likely that the competitors will lower the price too. When they lower the price you will be back to the normal workload, but you and your competitors will earn less than earlier (Dedekam jr, 2002). This is shown in the Sweezy-model.

**Figure 3.5 – Welfare loss in monopoly**



### ***The Sweezy-model***

The Sweezy-model (Figure 10.3) shows a demand curve, E, which shows the effects on price adjustment in an oligopoly. If one player sets its price higher than today's price,  $p^*$ , and the other competitors don't follow, the demand will fall. However, if the player chooses to lower the price, the competitors have to follow to keep their customers. Then the total demand will increase, but the average price in the market will fall fast. As a result of this the demand curve is kinked (Dedekam jr, 2002).



### **Price Leadership**

In the case of price leadership, one firm makes a choice before the other firm. This is sometimes called the Stackelberg model in honor of the first economists who systematically studied leader-follower interactions (Varian, 2006).

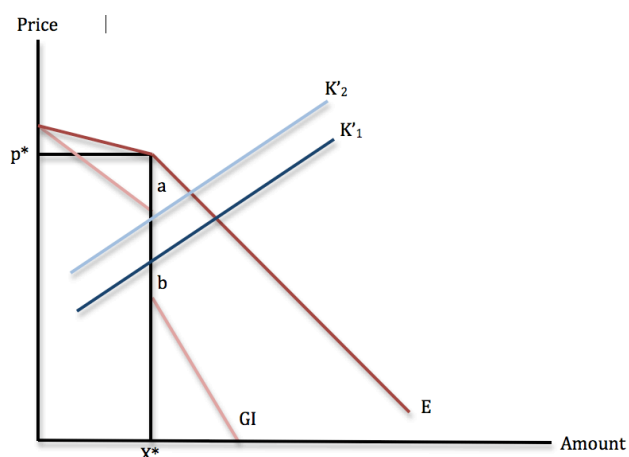
If there are two firms in the market and they are producing a homogeneous product, then there are four variables of interest: the price that each firm charges and the quantities that each firm produces. When one firm decides its prices and quantities it may already know the choices made by the other firm. If one firm gets to set its price before the other firm, we call it the price leader and the other firm the price follower. Similarly, one firm may get to choose the quantity first, in which case it is a quantity leader and the other is a quantity follower. The strategic interactions in these cases form a sequential game (Varian, 2006).

On the other hand, it may be that when one firm makes its choices it doesn't know the choices made by the other firm. In this case, it has to guess about the other firm's choice in order to make a sensible decision itself. This is a simultaneous game. Again there are two possibilities: the firms could each simultaneously choose prices or each simultaneously chooses quantities (Varian, 2006).

There is also another possible form of interaction. Instead of the firms competing against each other in one form or another they may be able to collude. In this case the firms can jointly agree to set prices and quantities that maximize the sum of their profits. This sort of collusion is called a cooperative game (Varian, 2006).

An oligopoly can be close to a monopoly, or to perfect competition. This depends on the power of the competitors and how willing they are to collaborate (Dedekam jr, 2002).

**Figure 3.6 – The Sweezy-model**



### ***Competitive Environment***

The nature of the competitive situation in the local market is another driver. The more and stronger competitors are the more difficult it is for a new player to succeed (Kotabe, 2008).

### **3.6 Exit strategies**

When a company plans to expand to a new country, focus will be on strategies for success. Failure to succeed and subsequent exit is a possible outcome, and it may therefore be wise to evaluate the consequences of failure and have a contingency plan.

Kotabe (2008) has looked at various reasons that may contribute to a decision to exit from a market, and topics to consider in that context.

- *Sustained losses.* Key markets are often entered with a long-term perspective. Most companies recognize that an immediate payback of their investments is not realistic and are willing to absorb losses for many years. Still, at some point, the company usually has a limit to how long a period of losses it is willing to sustain.
- *Volatility.* Companies often underestimate the risks of the host country's economic and political environment. Many multinationals have rushed into emerging markets lured by tempting prospects of huge populations with rising incomes. Unfortunately, countries with high growth potential are often very volatile. However, it is easy to ignore or downplay the risks associated with entering such markets, such as those stemming from exchange rate volatility, weak rule law, political instability, economic risks and inflation. Numerous multinational companies pulled out of Argentina and Indonesia in the wake of these countries' economic turmoil.
- *Premature entry.* The entry-timing decision is a crucial matter. Entering a market too early is usually an expensive mistake. Entries can be premature for reasons such as an underdeveloped marketing infrastructure (e.g., in terms of distribution, supplies), low buying power, and lack of string local partners. Often exiting a market is the only sensible solution instead of hanging on.
- *Intense competition.* Intense rivalry is often another strong reason for exiting a country. Markets that look appealing on paper usually attract many competitors. The outcome is often overcapacity, triggering price wars and loss-loss situations

for all players competing against one another. Rather than sustaining losses, the sensible thing to do is to exit the market, especially when rivalry players have competitive advantages that are difficult to overcome.

- *Resource allocation.* A key element of marketing strategy formulation is resource allocation. A strategic review of foreign operations often leads to a shake-up of the company's country portfolio, spurring the MNC to reallocate its resources across markets. For instance, following a review of the results of its global operations in 2002, McDonald's stated that it would concentrate on sales growth in existing restaurants. As a result, the fast-food giant announced that it would close operations in three countries, restructure its business in four other countries, and close 175 restaurants in about 10 other countries.

(Source: Kotabe, 2008, pp. 309-310)

### **3.6.1 Risks of exit**

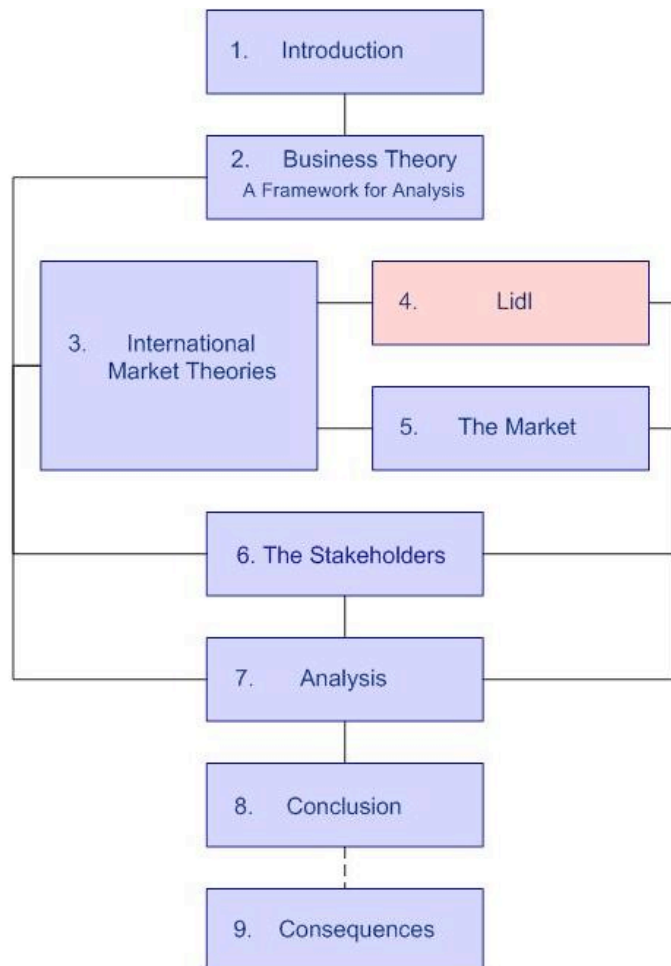
Exiting a market is a decision that should not be taken lightly. Just as there are barriers to entry, there are exit barriers that could delay or complicate an exit decision. Apart from exit barriers, there are other risks associated with an exit.

- *Fixed costs of exit.* Exiting a country often involves substantial fixed costs. In Europe, several countries have very strict labor laws that make exiting very costly.
- *Disposition of assets.* Assets that are highly specialized to the particular business or location for which they are being used also create an exit barrier. The number of prospective buyers may be few, and the price they are willing to pay for these assets will most likely be minimal.
- *Signal to other markets.* Another concern is that exiting one country or region may send strong negative signals to other countries where the company operates. Exit costs managers jobs; customers risk losing after-sales service support; distributors stand to lose company support and might witness a significant drop in their business. Therefore, an exit in one country could create negative spillovers in other markets by raising red flags about the company's commitment to its foreign markets.
- *Long-term opportunities.* Although exit is sometimes the only sensible thing to do, firms should avoid shortsightedness. Rather than closing shop, it is

often better to pay a price in the short term and maintain a presence for the long haul. Exiting a country and re-entering it once the dust settles comes at a price. Rival companies that stayed in the country will have an edge. Distributors will be leery about buying the firms products of services, especially when long-term relationships are involved.

(Source: Kotabe, 2008 pp. 310-311).

- Who is Lidl?
- Lidl's Strategy
- Lidl in the Nordic Countries
- Lidl in Norway



## 4.1 Who is Lidl?

Lidl Stiftung Co. KG

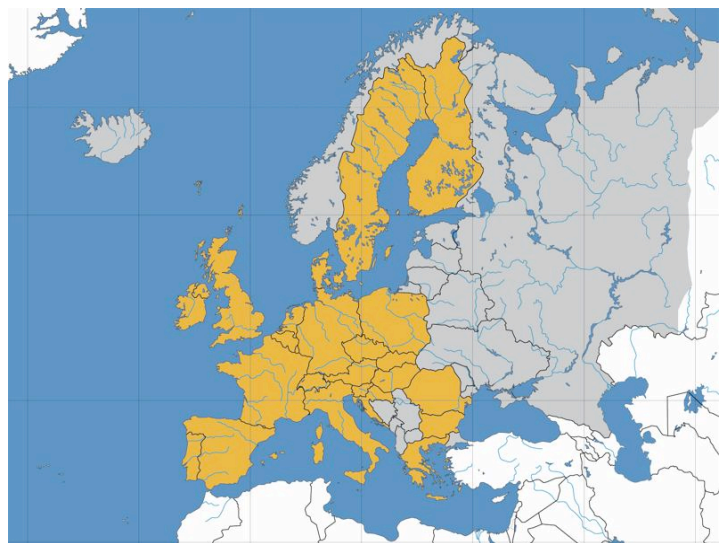
Stiftsbergstrasse 1

74167 Neckarsulm

Germany,

owns and operates the international retail chain popularly known as Lidl. Lidl is an international retail giant - Europe's biggest in many respects. The firm originated in the 1930s under the family names "Lidl und Schwarz Lebensmittel-Sortimentsgroßhandlung". The Lidl-store, as we know it from our daily shopping experience, sits at the tip of a long branch of a corporate tree. Near the corporate base there is the "Dieter Schwarz Stiftung gemeinnützige GmbH" - Rötelstraße 35, 74172 Neckarsulm - Germany ([www.dieter-schwarz-stiftung.de](http://www.dieter-schwarz-stiftung.de)). Next in the corporate tree is Lidl Stiftung & Co. Verwaltungs-GmbH, which controls Lidl Stiftung GmbH & Co KG, which again controls the operating companies of the Lidl group. The operations are generally organized through a subsidiary or branch office in each country, which controls the individual stores (Brønnøysundregistrene, 2010).

When the first Lidl store was opened in 1973, it was basically a copy of the already established low price retailer Aldi. Later Aldi developed their own profile, with larger stores and a bigger assortment than Lidl (Iyikoey, 2005). Today Lidl is considered a soft discounter, with more than 1400 Stock Keeping Units (SKUs) (Giverholt, 2003). As Lidl grew large in Germany during the 1980ies, it became the foundation for Schwartz-Gruppens success. In the 1990ies Lidl opened their first stores outside Germany. Today Lidl has more than 8000 stores in 25 different countries, and the number continues to grow. This makes Lidl the largest low price grocery retailer



European countries where Lidl operates (Wikipedia.org)

in Europe measured by turnover (see appendix 1) (Ness, 2001). They have recently started to go beyond Europe, to places like Cyprus and Dubai (Bloomberg Businessweek, 2009). Lidl claims that their simplicity is the cornerstone of their success, and the benchmark for all their operations and work processes. They show this by having the same layout inside and identical exterior design in all stores (Ivoikoey, 2005).

## **4.2 Lidl's Strategy**

Lidl claims they buy and sell groceries with the aim of offering their customers *"everyday top quality products at the lowest possible price"* (pp 3). To reach this aim, the company headquarters and all the stores follow a well thought through and standardized strategy (Iyikoey, 2005). Further policy statements are not published.

### **4.2.1 Brand products on the shelves**

In Germany as much as 85% of the items in Lidl's shelves are private label items (Haug, 2003). The 15% branded products nevertheless gives Lidl the reputation for having more brand products in their shelves than its competitors. A German researcher commented: *"Lidl uses the brand products as a frequency generator. And they need these products to strengthen their image as a discounter. This is because customers can only through brand name products compare with prices at Real and Edeka"* (Iyikoey, 2005, pp 6).

### **4.2.2 Pressing prices down**

In Europe, Lidl is a large player, and they are using this power to press the prices from the suppliers to an absolute minimum. They are also using an aggressive price strategy with spectacular special offers to give the impression of particularly low prices. These prices are normally applied for only a short period of time, but long enough to build the impression of low prices. Both competitors and consumer representatives have criticized the company for this approach, which they consider to be misleading and unserious marketing (Iyikoey, 2005).

To press the prices further down, Lidl focuses on the pure retail, offering their products directly from boxes or from pallets (Iyikoey, 2005). Lidl is known for selling beer at very

low prices. When entering Sweden, Lidl lost money for each bottle of beer they sold. They used beer as a frequency generator (Molberg, 2004).

#### **4.2.3 Information policy**

Lidl is organized as a foundation, wherefore its policies are not public (lidl.de). Lidl also has a “no information policy”, sharing as little information as possible with external sources, such as the media and government (Haug, 2003).

### **4.3 Lidl in the Nordic Countries**

Just after the turn of the millennium Lidl began to expand their business to the Nordic region.

#### **4.3.1 Finland**

In August 2000, Lidl registered their business in Finland (Yritys- ja Yhteisötietojärjestelmä, 2010). In Finland most people did not believe Lidl would manage to achieve success when they opened their first store in October 2002. However, the positive articles in Finnish press lead to free marketing worth millions. Also, the new Lidl stores managed to press the prices down. In 2003 the prices in Lidl store were 22 percent lower than the closest competitors. And after Lidl's entry, the Finnish market experienced stagnation of the rapid price increases that had happened in the period prior to Lidl's entry (Dagligvarehandelen, 2003).

#### **4.3.2 Sweden**

Lidl Sverige AB was registered in March 2000 (121.nu, 2010). In September 2003, Lidl opened their first 11 stores in Sweden. By January 2007 Lidl had 116 stores in the country. Lidl's estimated annual turnover was 220 million Euros. And it has a market share between 1 and 1.5 percent. As in other European markets Lidl had to introduce more branded goods (Dietrichson, 2007).

#### **4.3.3 Denmark**

Lidl Danmark K/S was registered in April 2002. In September 2005, Lidl opened their first 13 stores in towns across Denmark. Their plan predicted 50 new stores annually. At the time of Lidl's entry approximately 25 percent of the market volume was sold through discount stores (Ministry of Foreign Affairs of Denmark, 2005). One year later the



number of stores was 35, with many more to come in the following months. Management was content about development so far, and optimistic about the future. The ambition was to become the number one discount chain in the country. The Danish manager said; *"Our owners are financially strong and patient, and have always managed to get a strong foothold in the countries the chain had chosen to enter"*<sup>6</sup> (Jacobsen, 2006). In September 2007 Lidl had opened 46 stores in Denmark, half as many as they expected (Grünbaum, 2007).

## **4.4 Lidl in Norway**

In 2001, the corporate decision to prepare for the entry into the Norwegian market had been made, and a company Lidl Norge GMBH was established in Germany, with a Norwegian branch office, Lidl Norge NUF. The Dane, Jesper Innes, was appointed managing director. And the next three years was spent preparing for the opening (Brønnøysundregistrene, 2009).

### **4.4.1 PR**

Even before Lidl opened their first store in Norway, over 3000 articles and stories had been written or broadcasted about Lidl in Norwegian media. For comparison, the Norwegian retailer Rema 1000 had established 139 stores in Norway before the The Norwegian Broadcasting Corporation (NRK) broadcast the first news story about them. This coverage had an estimated marketing value of over 100 million NOK (Olsson, 2004). In the first period after Lidl announced its entry, most of the articles written about Lidl in Norwegian press were negative. However, numbers from Observer Norge AS shows that this trend was changing in the months before Lidl opened their first store. In August and September 2009, 75 percent of the 612 articles written about Lidl were of a positive or neutral character. In the same time period, 457 articles were written about NorgesGruppen, 448 about Coop, 320 about Rimi and 309 about Rema 1000 (Skaalmo, 2004).

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<sup>6</sup> <http://www.dinside.no/359488/danskene-elsker-lidl>

#### 4.4.2 A grand opening

On 23. September 2004 Lidl opened 10 stores in Norway, located in Askim, Florø, Kristiansand, Larvik, Lier, Nordfjordeid, Os, Sarpsborg, Stord and Ålesund (nettavisen.no, 2004). Lidl was known as an aggressive grocery retailer and was a feared competitor for the established Norwegian retailers. To prepare for the competition, the four major Norwegian retailers managed to push the prices from the suppliers so low that it was feared that some of the Norwegian branded goods would go out of business (Østerbø, 2008).

#### 4.4.3 Prices

Lidl managed to sell their private label products cheaper than the comparable brand products sold by the competitors. On the other hand, they did not manage to beat Rema 1000s private label products on price (Gultvedt, 2004).

#### 4.4.4 Problems

Despite using their proven and hitherto successful internationalization strategy, signs of problems were starting to show. It was clear that Lidl struggled to get a foothold in the Norwegian market. In 2005, one year after the opening of their first store, the market share was only 1 percent (AC Nielsen, 2006). At the same time, the size of the store at Mysen, outside Oslo, was reduced by 400 square meters. Another store in the same area, in Sarpsborg, was also reported to have low or negative profit (Smaalenenes Avis, 2005). From the establishment of Lidl Norge in 2001 to the exit in 2008, Lidl had a total of five different managers (Brønnøysundregistrene, 2009).

#### 4.4.5 Adaptation to the Norwegian market

By January 2007 the number of Lidl stores in Norway had grown to 50. With the exception of four stores, they all had the same exterior look and the interior design as Lidl stores all over Europe.

**Table 4.1: Customer Satisfaction**

Customer Satisfaction 2008	
1 Coop Obs!	75,5
2 Meny	75,1
3 Coop Mega	74,4
4 Ultra	73,0
5 SPAR	70,2
6 ICA MAXI	69,3
7 Coop Prix	67,7
8 REMA 1000	66,3
9 Coop Marked	66,1
10 Joker	65,6
11 KIWI	65,4
12 ICA Supermarked	65,2
13 RIMI	61,3
14 ICA nær	59,4
15 Lidl	57,7

Source: Dagens Næringsliv, 2009

Lidl realized that they had to get more branded products in their stores to fulfill the needs of the Norwegian consumers. During the three first years they added more than 400 well known, branded products to their assortment to accommodate the Norwegian customers' needs and wishes (Østerbø, 2008).

The introduction of more branded goods that were familiar to the customers led to a growth in customer loyalty. According to Gfk Norge A/S, a market analysis agency based in Oslo, the customer loyalty increased from 6.9 percent in the fourth quarter of 2005 to 9 percent in the first quarter of 2006 (Dietrichson, 2006). In April 2007, *Dagligvarehandelen*, a weekly newspaper for the grocery industry in Norway reported that Lidl's revenues in the country were rising, and that they were gaining ground on the competitors. According to the journalist Christian Dietrichson, Lidl at this time had realized that it would take time before the Norwegian customers accepted Lidl's own private labels (Dietrichson, 2006).

Lidl's store number 47, was the company's first store in Norway's largest city, Oslo. Lidl could not find a place to build their standard type store, and had to adapt their concept to fit in an existing building in a narrow city street. Adequate parking was available nearby. Lidl also adapted this store in many other ways, a.o. to be able to compete against the many fruit and vegetable shops in the area (Dietrichson, 2006).

During the first period of operation, Lidl realized that Norwegian customers wished to find the familiar, brand name products where they would do their grocery shopping. Lidl tried to accommodate these wishes, and introduced as much as 400 branded products on their shelves. After these adaptations, the future of Lidl in Norway looked brighter.

#### **4.4.6 Obstacles**

When Lidl starts business in a foreign country they aim to build as many stores as possible as fast as possible. However, when entering Norway, Lidl struggled to find proper land in many areas. A reason for this was that their building plans were often rejected by the local politicians (Meland, 2004). The rejection in Sogndal was one of the most covered cases. Mayor Karen Marke Hjelmeset stated to the local newspaper that she was happy to thwart Lidl's plans. In her opinion, local goods were preferred in her

municipality. When Lidl later placed a bid on suitable land for their store, the municipality used its first right of refusal and bought the land (Meland, 2004).

#### **4.4.7 Employee Organizations**

Before they even opened their first shop, Lidl became known for treating their employees poorly in other countries, for paying low wages and demanding long hours etc. (dn.no, 2004). Lidl was also accused of being opposed to unions in other countries.

Whether rumors or facts, the information was circulated by a willing press (dn.no, 2004). Rumors of poor working conditions and a tough work regime in Lidl's shops, and about Lidl being opposed to organization of their workforce, seem to have been false. There is no evidence that this had a negative effect on Lidl's hiring efforts (Ravnsborg, 2004).

#### **4.4.8 Environmentalists**

Lidl was considered as an environmental threat by some environmentalist. The Norwegian Youth Conservation Association, (Natur og Ungdom), meant that Lidl's operations would lead to an increase in greenhouse gas emissions, since they would be transporting their merchandise from Germany. They also argued that Lidl's operations would kill local, environmentally friendly food-production (Bonden, 2006).

#### **4.4.9 The withdrawal**

Despite the growing income, Lidl didn't manage to gain satisfying return on their investments. In March 2008 Lidl gave up their market strategy in Norway, and all Lidl stores, warehouses, offices and employees were sold to the Norwegian grocery retailer Rema 1000 for 1.9 billion NOK. Transfer of responsibility for all Lidl's 600 employees was included in the deal (Sundberg, 2009).

The Norwegian Competition Authority is supervisor and enforcement body of the Competition Act. The objective of the Government is to ensure sound competition in markets, to promote fair prices and consumer's freedom of choice. NCA thus held a stake in Lidl's operations by monitoring activities in relation to the law (Ekeberg et al, 2008).

Their main involvement, however, happened after Lidl had closed their operations and sold out to Rema 1000. It became NCA's job to assess the legality of Rema 1000's takeover (Ekeberg et al, 2008)

It is interesting to note that if Lidl by the time of takeover had reached a size big enough that the operation was of a "EU/EFTA dimension", the authority to evaluate and rule on the matter would have passed to a supranational body - ESA (Ekeberg et al, 2008).

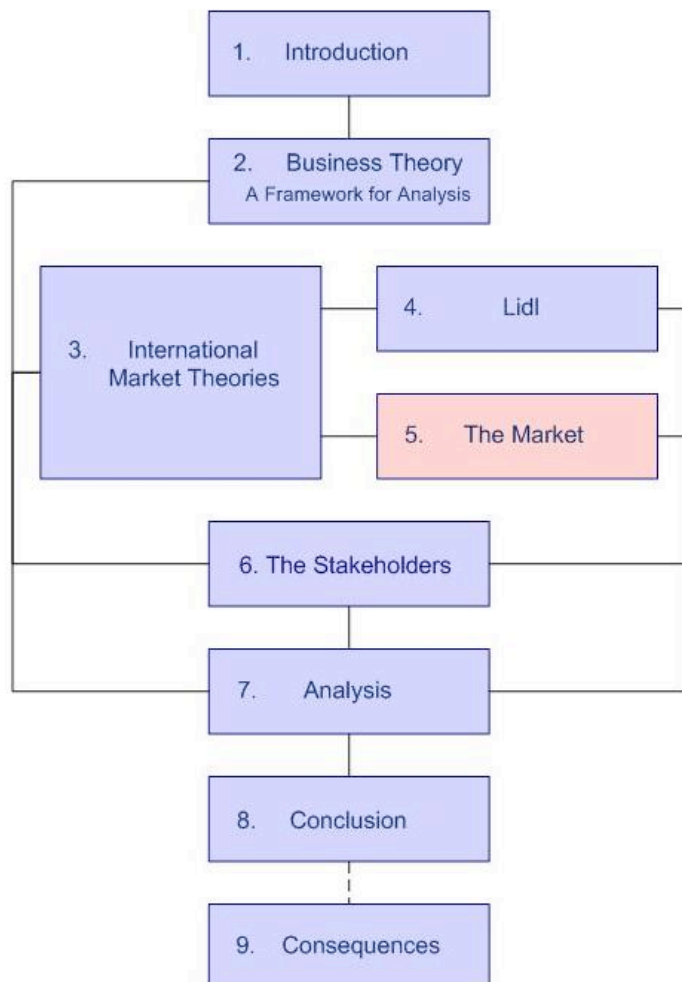
The HHi evaluation had to be carried out on local community level. The only place the law gave the NCA the power to disallow the merger on basis of the HHi, was in the municipality of Nordfjordeid (Ekberg et al, 2008).

In legal terms Lidl was still a "small player" at the time of the takeover. The immediate effect on competition was relatively minor, measured by the HHI-index. The law does not allow for a ruling on the basis of what "competitive potential" Lidl might have represented, and the takeover was approved with only minor alterations (Ekeberg et al, 2008).

## Chapter 5: The Market

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- The Grocery Market in Norway
- The Grocery Market in Europe



## **5.1 The Grocery Market in Norway**

The Norwegian grocery retail market consists mainly of four players, NorgesGruppen, Reitangruppen, Coop and ICA. Together they control 18 brand concepts in the grocery industry. The 18 concepts range from soft discounters to hypermarkets. The Institute of Grocery Distribution (IGD) defines Soft Discounters as concepts with 1,200 to 4,000 SKUs. They focus on price, but also on having a relative high number of fresh goods, such as fruit, but they also focus on frozen and dry groceries (Rema 1000, Kiwi). The hypermarkets are large stores with an enormous range of products under one roof, often more than 20,000 SKUs. They sell groceries as well as general merchandise (Smart Club, Coop Obs!). Lidl is defined as a hard discounter, and was the only hard discounter in Norway. Hard discounters have less than 1,200 SKUs, limited national brands and they focus on dry groceries (IGD Research, 2007).

### **5.1.1 History**

In the late 1800s the first consumer co-operatives were opened in Norway. The purpose of these consumer co-operatives was to protect the poor workers from being exploited by rich and powerful retailers. The consumers copied a British model and joined a co-operative to prevent that a foreign businessman harvested the profits. However, the first consumer co-operatives were weak, and were boycotted by suppliers as well as wholesalers. As a result of this, NKL (Norges Kooperative Landsforening), today known as Coop, was established in 1906 (Bogen, 2008).

After World War II, there were shortages of goods in Norway, as in the rest of Europe. The government determined import quotas to control the amount sold. This situation gave the suppliers the bargaining power. The many private wholesalers were fighting against this system, and when there no longer was a need for import quotas the power was slowly turned from the suppliers to the wholesalers. From the 1960's the wholesalers became the dominant power in the grocery industry. For a period four wholesalers shared the market. Out of those four, two of them are still among the large players in the market today, Joh. Johanneson and NKL (Bogen, 2008).

In the 1980's there was a new shift of the power in the grocery market, this time from the wholesalers to the retailer. A shift mainly caused by the entry of two young shopkeepers with a nose for business. Stein Erik Hagen targeted the area around Oslo with his Rimi stores, and in Trondheim, Odd Reitan established his Rema concept. Both Reitan and Hagen had been studying the low price grocery industry in Europe, among others, Aldi in Germany. Both Rimi and Rema immediately became popular, and their market share grew rapidly. By buying directly from the suppliers, and not taking the detour via the wholesalers, Hagen and Reitan could sell their groceries much cheaper than the existing retailers. They were also demanding bonuses from the suppliers, which enabled them to lower their prices, at the same time as their incomes were rising (Bogen, 2008).

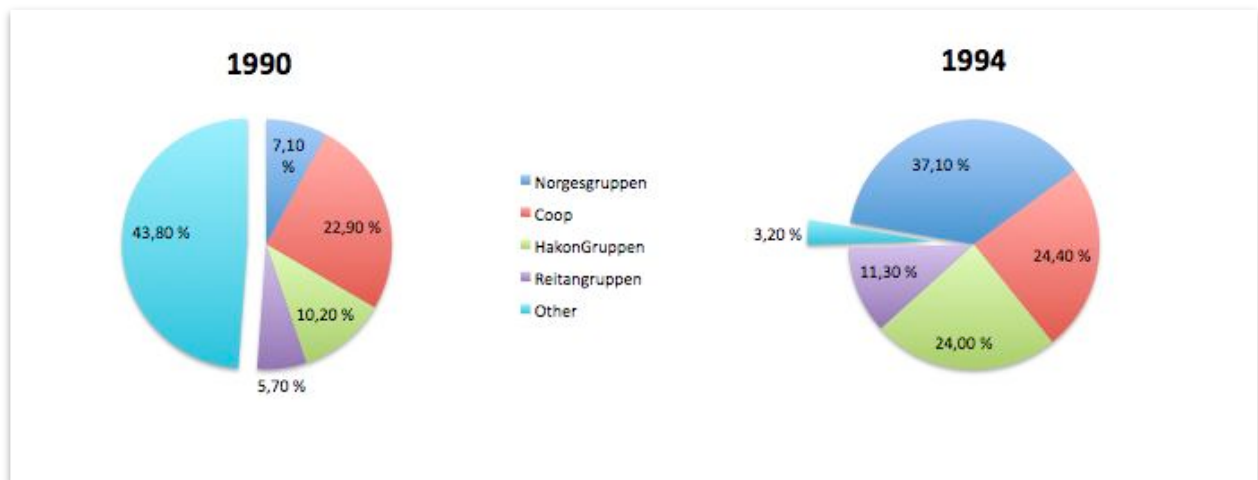
As Rimi and Rema 1000 grew rapidly, the power was slipping out of the wholesalers hands. Joh. Johannson were one of few wholesalers that managed to stay in business. Stein Erik Hagen was a major customer of Joh. Johannson, but according to Bogen, Hagens way of business was disloyal, and this led to a still existing conflict between the two. And in 1994, Joh.Johannson hired the previous co-worker of Hagen, Sverre Leiro as the CEO of a brand new company, NorgesGruppen. All of Joh.Johannsons retailers were merged in to this company (Bogen, 2008).

From 1990 to 1994, a period often referred to as "The big leap", NorgesGruppen increased its market share from 7,1 percent to 37,1 percent. Rimi, at this time known as HakonGruppen, and later ICA, increased its market share from 10,2 to 24 percent, Reitangruppen grew from 5,7 to 11,3 percent, and Coop were relatively stable, with a small growth from 22,9 to 24,4 percent. Over a period of only four years, four retailers had gained control of 96,8 percent of the Norwegian grocery market (Bogen, 2008).

Another player on the grocery retail market in the last years is Smart Club. Smart Club was established by businessman Atle Brynstad trough his investment company CG Holding in 1995. Smart Club had at its peak 8 hypermarket stores. In July 2008, the chain was bought up by Coop NKL who converted three stores to their own hypermarket chain, Coop Obs!, two Coop Mega and one Coop Extra (Coop.no, 2010).



**Figure 5.1: The development during “The big leap” from 1990 to 1994**



Source: Bogen, 2008

### 5.1.2 The Norwegian grocery industry today

Today, the Norwegian grocery market consists of NorgesGruppen, ICA (formerly Rimi and Hakongruppen), Reitangruppen and Coop. Together they have control of 99 percent of the market. For comparison, the second most concentrated grocery industry in Europe is in Sweden, where 78 percent of the market is controlled by the five largest players (Bogen, 2008).

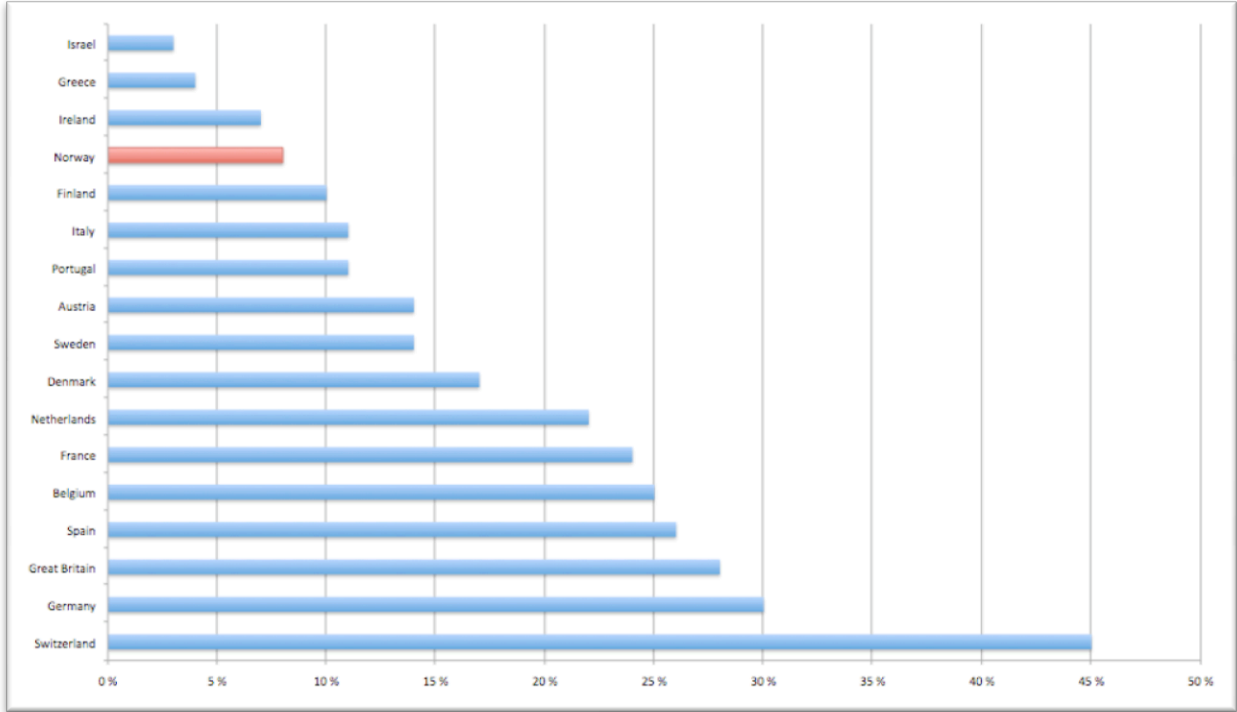
For the average customer it may look like the Norwegian market consists of more than four players, as NorgesGruppen, ICA, and Coop operates with several brand concepts. NorgesGruppen controls Kiwi, Ultra, Meny, Centra, Jacob’s, Eurospar, Spar, and Joker. ICA has the ICA Nær, ICA Maxi, ICA Supermarked and Rimi in their portfolio. Coop operates Coop Mega, Coop Prix, Coop Marked, CoopObs!, Coop Extra and Smart Club. Reitangruppen only operates Rema 1000. Norway has 18 different brand concepts, but they are controlled by only four owners. The low price soft discounter segment has a 50% market share (mainly Kiwi and Rema 1000), and it is growing (Nielsen, 2009). Rema 1000’s philosophy is that the simplest solution often is the best. The idea behind the Rema 1000 stores consists of the key elements, quality, lowest price and skilled employees. The store interior should look the same in all stores, and the selection of products should consist of branded goods at a low price (Reitan, 2005). Norgesgruppen is most known in the low price grocery market as Kiwi. Kiwi has a market share of 11,5 percent and expands rapidly. The same way as Rema 1000, Kiwi is focusing on selling

low priced branded goods. But they are also focusing on service and having special offers. Kiwi also offers a money back guarantee on some brands (NorgesGruppen, 2009).

The Norwegian grocery retail market is known of having a large share of branded goods. In Europe in 2005, 17.6 percent of all groceries sold were private labels. This made Europe the region in the world with the highest number of private labels. But at the same time the average number in Norway was only 8 percent as we can read from Figure 5.2 (Nordic Council of Ministers, 2005). Switzerland is the European country with the largest share of private labels. Only 55 percent of all groceries sold here are branded goods. According to Professor Frode Steen at The Norwegian School of Economics and Business Administration, marketing, habits and the “fear of the new” can be reasons for Norwegians skepticism to the retailers own private labels (Østerbø, 2008).

The Norwegian grocery retailers have been accused for earning money through hidden money flows, such as “shelf space payment”. The grocery chains are not only paying the suppliers, but the suppliers are actually paying to get their products in the shelves. The

**Figure 5.2: Share of private labels - European countries**



Source: Nordic Council of Ministers, 2005

more they pay the better placement do their products get. This is according to Bogen (2009) not good for the competition, as the grocery chains only care about the suppliers that are able to pay the most and the small suppliers with less resources are being pressed out. The negotiations of the “shelf space payments” are referred to as “The Autumn Hunt” (Høstjakta). It is known for its hard negotiations, where the suppliers often are seen as the losers (Bogen, 2009).

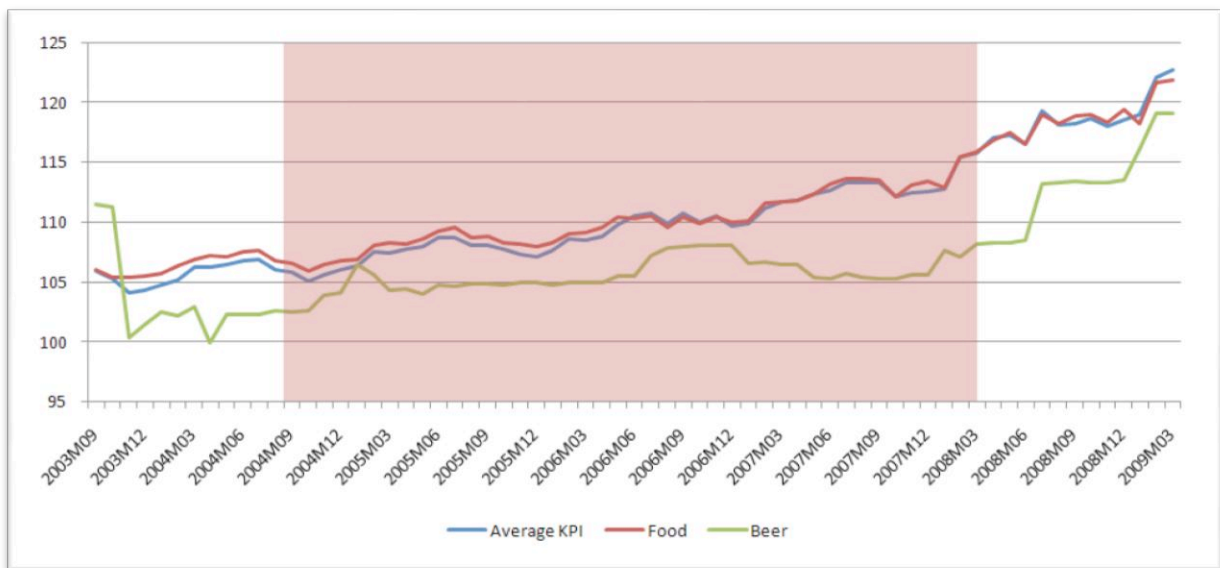
The already established retailers have through their positions in the market been able to negotiate low prices and favorable terms and conditions. The retailers in Norwegian grocery industry are big, and with their large quantities they are able to achieve more profitable terms than small and independent retailers as well as newcomers. To be able to establish a successful retailer chain in Norway, it is critical that they grow fast to a size that is comparable with the existing and established players. Only that way they are able to achieve deals with the wholesalers that make it possible to be profitable (Amdam et. al. 2009).

### **5.1.3 Norwegian price development before and after Lidl**

According to data recorded by SSB in the period from September 2003, one year before Lidl's entry on the Norwegian market, to March 2009, one year after the retailer left the market, the food prices had a stable growth before, under and after Lidl. The average Consumer price index (CPI) in figure 5.3, is the average prices of the most commonly bought grocery products (appendix 2).

During the fall of 2004 we can see a small decrease in the average prices; this is not a reaction to Lidl's entry, but a normal seasonal fall in fruit and vegetable prices (Lavik, 2004). We can therefore see from this data that Lidl did not influence the average prices on Norwegian groceries. However, we can read from the graph a large decrease in the prices on beer in the months before Lidl's entry, and a relatively steep rise in the prices just a few months after Lidl withdraw all their business from Norway. From October 2003 to November 2003 the price index on beer fell by 9.8 percent, from 111.3 to 100.3 (1998 = 100). This is claimed to be a result of the low price retailer Lidl's plans to enter the Norwegian market (Lavik, 2004).

**Figure 5.3: Norwegian price development 2003 – 2009 (1998 = 100)**



Haakon Winger Eide / Sept. 2010

Source: Statistics Norway, 2010

### 5.1.4 Product Range

It is a common experience that the assortment of food in supermarkets in a number of countries in Southern and Central Europe is larger, more diversified and more attractive than in the Nordic countries. Also, there is more service; the staff weighs the vegetables and packs at the counter (Nordic Council of Ministers, 2005).

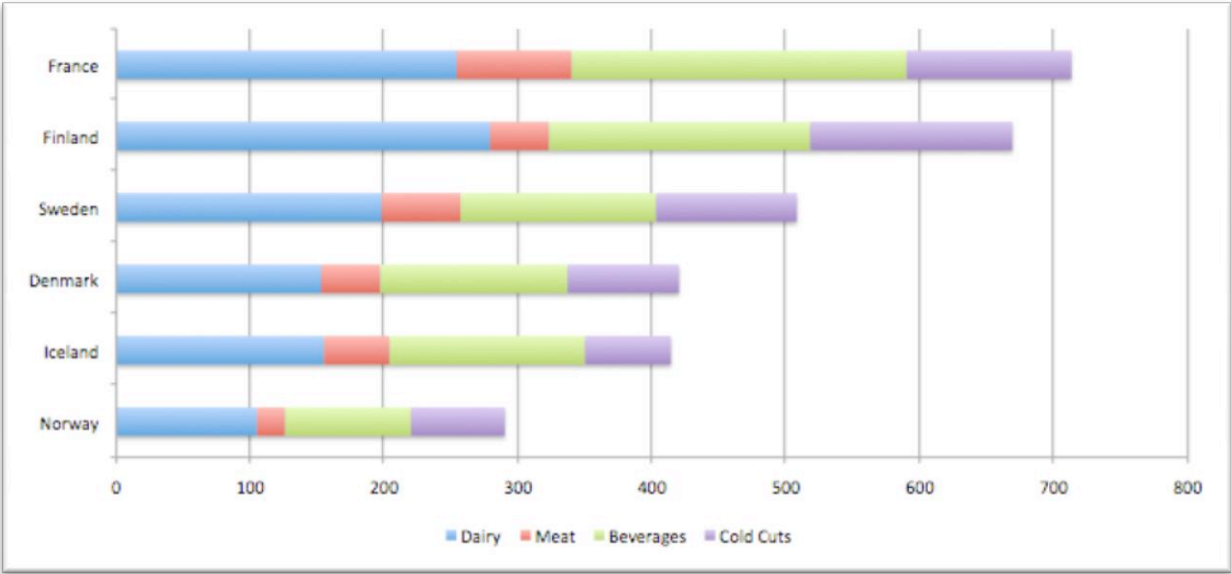
Diversity and variety of food products on the shelves is a central element of competition in retail. The more choices for consumers in the stores, the better the stores satisfy the demands. When consumers can choose from a large variety, there is more pressure on the suppliers to increase their efforts to offer all the products the consumers prefer (Nordic Council of Ministers, 2005).

In Figure 5.4 we can see the different number of food items in an average supermarket in the Nordic countries and France. The food supply in the Nordic countries was investigated and compared to France by including a number of supermarkets belonging to different retail chains located close to large cities and capitals: Oslo, Reykjavik, Stockholm, Copenhagen, Helsinki and Lyon. France was picked out as the benchmark country since French consumer food prices correspond closely to the average for EU15. The investigation includes different categories of products. The survey is based on data collection in 36 shops that are member of different retail chains and located close to the capitals in five Nordic countries and close to Lyon, as Lyon is about the same size as the

Nordic capitals (Nordic Council of Ministers, 2005). The survey was conducted in discount shops, supermarkets and hypermarkets. The results are weighted by the market shares of the types of supermarkets (discount shops, supermarkets and hypermarkets, respectively) in order to obtain figures that are representative of the retail structure in each country (Nordic Council of Ministers, 2005).

Overall the investigation shows a wider selection of products in France than in any of the Nordic countries. Two explanations are likely for these differences. First, the retail structure is different in France than in the Nordic countries. Since larger stores have more products the, differences are, in part, explained by differences in retail structure. Second, the evidence suggests that a food store in France in general has more choice to offer consumers compared to a similar food store in any of the Nordic countries. The investigation on the range of food products is based on a limited sample of supermarkets and the results are thus somewhat uncertain. However, the investigation indicates that Iceland and Norway seem to have, in addition with to comparably high price levels, a narrower assortment of food compared to France. The same holds true for the Nordic EU members Denmark, Finland and Sweden although the differences are smaller (Nordic Council of Ministers, 2005).

**Figure 5.4: Number of food items in an artificial average supermarket, 2005**



Haakon Winger Eide / Oct. 2010

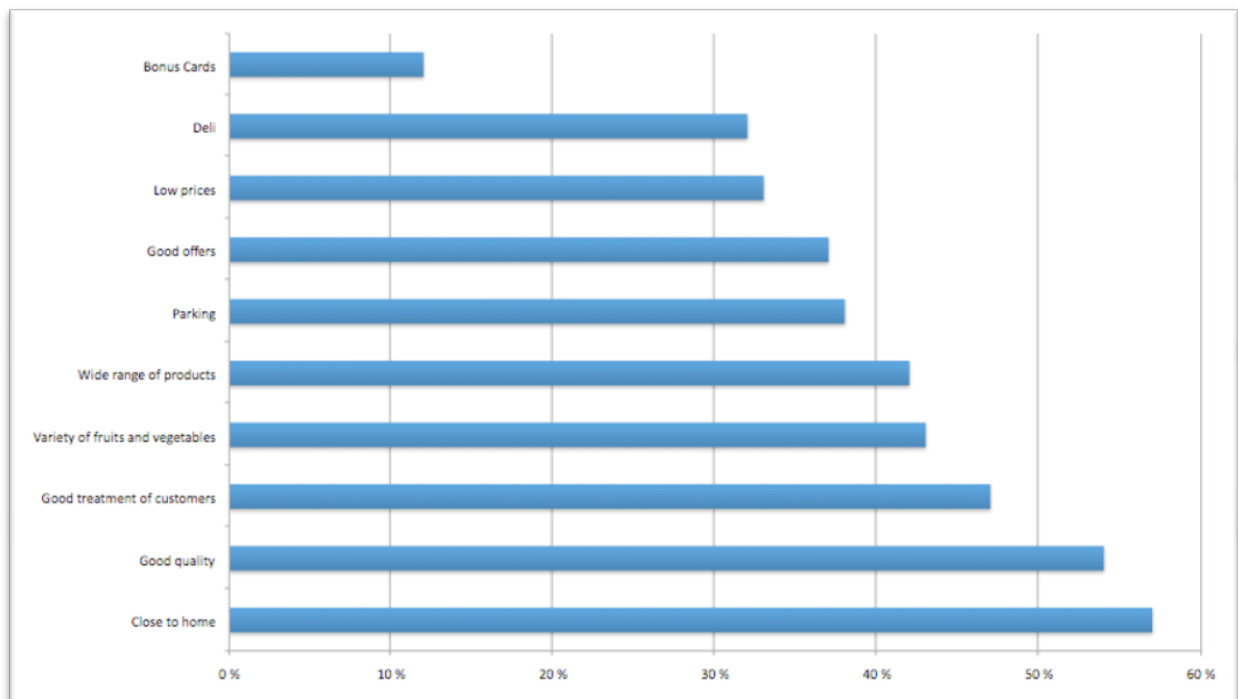
Source: Nordic Council of Ministers, 2005

### 5.1.5 Norwegian Customers

According to the Managing Director in ICA Norway, Portuguese Antonio Soares, the Norwegian consumers act in a completely different way than in other European regions. He says that Norway is an “up side down-market”, compared to other countries he has experience from. Norwegians do their shopping often, they are price sensitive, and they shop in small quantities. Soares claims that in other regions, especially in Poland and the Baltics, the consumers are willing to drive long distances to large malls, and they then do their shopping for weeks at a time (dn.no, 2009).

Mr. Soares view on the Norwegian shopping trends corresponds well with a survey performed by Norsk Gallup in 2006. According to the survey, 57 percent of Norwegian retail customers say they emphasize the travel distance to the store when they are shopping their groceries. Good quality, and good customer treatment is very important for respectively 54 and 47 percent of the consumers. Surprisingly, reasonable special offers and low prices are considered very important for only 37 and 33 percent of the respondents to this survey (Nilsen, 2006).

**Figure 5.5: Norwegian shopping trends**



Source: Aftenposten, 2010

According to Østerbø, the success of the established low price retailers in Norway shows that Norwegian consumers are price sensitive. But surveys are also showing that Norwegian consumers seek stores with nice and attractive interior. Norwegians also prefer branded goods to private labels (Østerbø, 2008).

A survey named “Food Policy Consumer Panels” performed from 2002 to 2005 it was measured what Norwegian consumers are seeking when shopping groceries. According to the panel, price on the groceries is an important issue. However, the price is not the only important factor. Quality, usage and other additional values seems to be just as important. According to the panel, there is a need for more fresh and Norwegian groceries in the stores.

The data collected from the survey are also claiming that when a Norwegian item is competing against a similar item from a foreign country, price is not the most important issue. The Norwegian consumers choose products from their home country as they have more knowledge about the production processes, and the quality of the agricultural products.

Norwegian consumers generally think that Norwegian products are cleaner and less industrial than the same products from other countries.

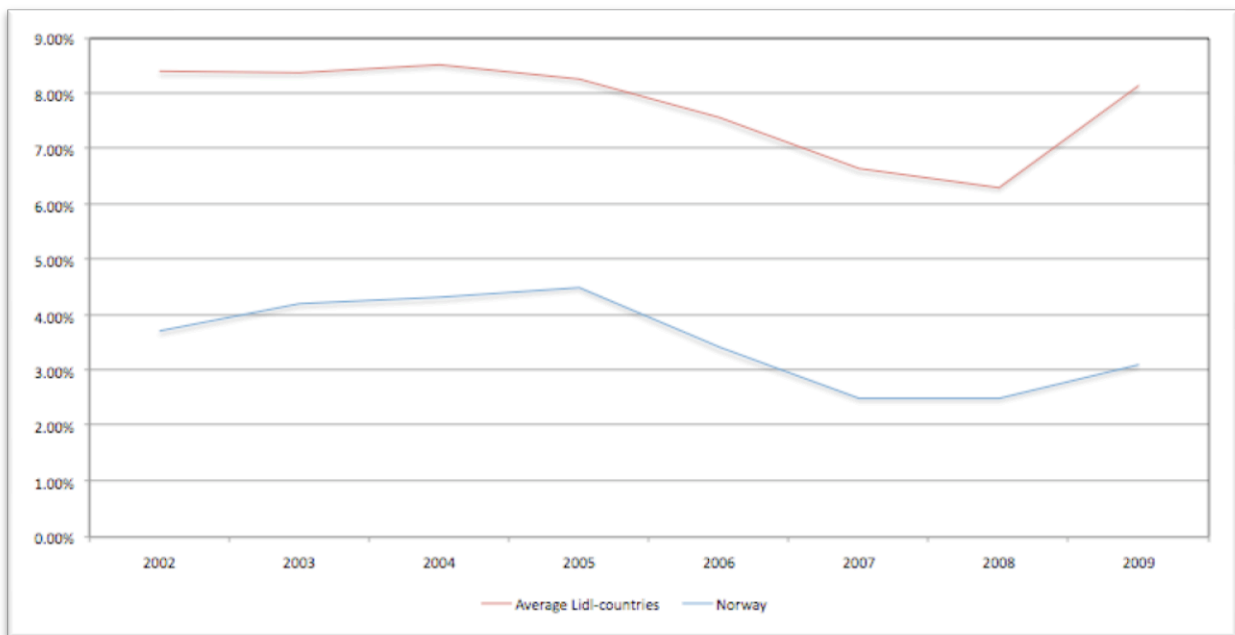
According to the panel, the Norwegian producers must find a way to produce more exclusive products. It seems like there is a growing opinion that “meat is meat” and “cheese is cheese” of retailers as well as consumers. The products have to show their identity and advantages clearer (Forsell et al., 2006).

#### **5.1.6 Labor Force**

Norway is in a fortunate situation with low unemployment rates, high level of equality between sexes, and high average income.

Figure 5.6 shows the difference in unemployment rates between Norway and the other countries where Lidl operates.

**Figure 5.6: Unemployment rates**



Haakon Winger Eide / Nov. 2010

Source: Eurostat, 2010

### 5.1.7 Number of players

When studying table 5.1 it is clear that the grocery retail market is much more concentrated in Norway than in the other Scandinavian and European countries listed. While the four largest players dominated 99.2 percent of the Norwegian market in 2000, the 5 largest players in Sweden controlled 90.9 percent in the same period. In the other countries listed, the largest players are controlling less than 90 percent of the market (Ness, 2001).

One of the reasons why the grocery chains in Norway have managed to gain this dominant position was their ability to take advantage of the large potential for higher efficiency that existed in the 90's. The Norwegian players were also able to standardize their concepts and gain control of many stores all over the country in a short period of time. The local and regional differences were also quite small in Norway compared to other European regions. When they managed to successfully implement economies of scale to their business model, they could get better prices from the distributors. Standardized store layouts, computer systems and HR also contributed to the growth (Ness, 2001).



**Table 5.1: Grocery retailers in a selection of European countries**

Country/Chain	Market share	Country/Chain	Market share
<b>Norway</b>	<i>2000</i>	<b>Finland</b>	<i>2000</i>
Norgesgruppen	34,1 %	K Group	37,6 %
Hakon Gruppen	26,6 %	S-Group	28,9 %
Coop	24,1 %	Tradeka/Elanto	12,4 %
Reitangruppen	14,1 %	Spar Group	9,1 %
<i>Others</i>	<i>0,8 %</i>	<i>Others</i>	<i>12,0 %</i>
<b>Sweden</b>	<i>1999</i>	<b>Denmark</b>	<i>2000</i>
Ica-handlarna	43,0 %	FDB-Gruppen (co-op)	37,2 %
Kooperationen	22,6 %	Dansk Supermarked	25,0 %
D&D	18,6 %	SuperGros	17,4 %
Axl Johnsen/Hemköp	4,1 %	Aldi	4,1 %
Bergendahls	2,6 %	Edeka Danmark	4,0 %
<i>Others</i>	<i>9,1 %</i>	<i>Others</i>	<i>12,3 %</i>
<b>UK</b>	<i>2008</i>	<b>Switzerland</b>	<i>2008</i>
Tesco	30,4 %	Migros	39,0 %
Asda Group Ltd.	16,8 %	Coop	35,0 %
J sainsbury PLC	16,1 %	Denner	7,0 %
William Morrison Supermarket	11,8 %	Volg	4,0 %
Aldi. Netto and Lidl	6,2 %	Aldi	3,0 %
<i>Others</i>	<i>18,7 %</i>	Cash & Carry	2,0 %
		<i>Others</i>	<i>10,0 %</i>

*Sources: AC Nielsen, Supermarket, Dansk HandelsbladADVFN, Brassicas Today*

### 5.1.8 Degree of Competiton (The Herfindahl-Hirschman Index)

Table 5.2 shows the market concentration in 15 European regions by using the Herfindhal-Hirschman Index. When we compare the HHi values in the Norwegian industry with the other European industries, it is clear that Norway by far has the highest HHi, which are as we learned from the previous chapter, an indication of lower competition and a higher degree of market power.

### 5.1.9 Import regulations

The Norwegian government strictly regulates the import of agricultural products. And Norway is according to Madsen (2007) one of the countries, if not the country in the world with the highest import barriers on food products. 232 agricultural goods have a tariff higher than 250 percent. The tariff on meat from chicken is 435 percent, while it is 443 percent on milk and 363 percent on pork (Berentsen, 2004).

**Table 5.2: Concentration in the retail sector, measured by the Herfindal-Hirschman index**

<b>Country</b>	<b>Total share of the 5 biggest players 1999*</b>	<b>Largest player</b>	<b>HHi 1999</b>
Norway	99,40 %	33,60 %	2657
Sweden	78,20 %	36,50 %	1804
Finland	68,50 %	29,00 %	1410
Holland	56,20 %	29,10 %	1112
Belgium and Luxemburg	60,90 %	23,70 %	950
Portugal	63,30 %	19,50 %	946
Denmark	56,40 %	21,90 %	932
Ireland	62,10 %	18,80 %	927
Great Britain	63,00 %	21,10 %	922
Austria	60,20 %	19,60 %	880
France	56,20 %	17,80 %	698
Spain	40,30 %	17,90 %	449
Germany	44,00 %	10,90 %	408
Greece	26,80 %	10,90 %	166
Italy	17,60 %	5,10 %	71

\* The four largest in Norway

Source: Norwegian Competition Authority, 2005

These import regulations protect the Norwegian agricultural industry and as a result the prices of these kinds of products are higher in Norway than in the EU countries. The regulated market creates yet another barrier for companies that want to start doing business in Norway. A foreign player will often have the advantage that they can use their existing wholesalers from their home country, and that way make use of their economy of scale. But in Norway, the strict import regulation of agricultural goods ensures that it's not profitable for a foreign player to import agricultural goods into the country.

In Sweden, Lidl sells their Milbona milk, a Germany-produced milk that is shipped from Travemünde in Germany. This milk is sold at a price 15 to 20 percent lower than the Swedish produced milk sold in other grocery stores. In Norway Lidl does not sell milk produced in Germany. The reason for this is said to be that Norway is not a member of the European Union (Magnus, 2003).

To deal with this, Lidl therefore had to develop agreements with the integrated wholesalers in Norway, or develop their own supply, distribution and logistics system (Amdam et al. 2009).

### 5.1.10 Competitors

In the book “Rik på lavpris” - (Rich on low prices) from 2008, the author Espen Bogen has a critical view on the Norwegian grocery industry. As a seller and product manager hired by several producers in the grocery industry he has firsthand experience with the retailer chains and their ways to do business.

Bogen (2008) points out the degree of competition as a problem:

*“It may look like the number of stores in the Norwegian grocery industry is significant. The average consumer will experience a large and varied number of stores, because of all the chain concepts like, Kiwi, Ultra, Meny and Rimi amongst others. The number of concepts is significantly larger than the number of chains. This gives the consumers an impression that the competition in the Norwegian grocery industry is significant.” (pp. 13)*

Not only are Bogen (2008) claiming that there is a significant lack of competition in the industry, he also claims that the prices to the consumers are higher than needed because of the structure in the industry

*“It is a well documented fact that the grocery prices in Norway are larger than in other comparable European countries, such as Sweden and Switzerland. ...for Norwegian politician the high prices issue is a problem caused by agricultural politics, but it is a much more complicated problem.” (pp. 15)*

Bogen (2008) also claims that because of the grocery chains power they are able to get the most out of the suppliers.

*“The suppliers are threatened to pay significant amounts directly to the four dominant grocery chains if they don't pay, their items will not be sold in the chains. ...by doing it this way, the customers or the local merchandisers doesn't get any of the profit. ...the profit goes directly to the chains headquarters.” (pp. 93)*

According to Bogen (2008) his conversation with the grocery chains confirms that the suppliers are highly controlled by the chains:

*“... the German hard discounter Lidl is planning to establish stores in Norway. During the negotiations they ask if there is collaboration between Gillette and*

*Lidl in other countries. You are not planning to sell your products to Lidl in Norway, are you? The questions have a hidden, but clear message. ...we, the suppliers got threatening questions about Lidl, and our plans to sell to them.” (pp. 81, 169)*

The Norwegian Competition Authority admits that there are problems with the lack of competition in the Norwegian grocery industry. They also say that the development in recent years can be signs of strengthened entry barriers as both Smart Club and Lidl gave up their attempts to gain profitable market shares in Norway. The competition authority suggests some changes that can be done to lower the entry barriers. It should be included in the planning law that the objective of competition shall be emphasized as a positive element in the development of municipal plans. By making it more convenient for new players to enter the local market, the degree of competition will most likely increase (Amdam et. al. 2009).

Another suggestion to increase the degree of competition is to get more competition in the production line of Norwegian agricultural goods. Today, there the regulations enable the producers to process the Norwegian agricultural goods in a foreign country and import the goods back to Norway without any additional customs charges. The competition authority claims that a strengthening of this arrangement will reduce the existing entry barriers (Amdam et. al. 2009).

In a report published in 2000 The Norwegian Competition Authority stated that they will stop further concentration in this industry: *“Given today’s concentration of retailers in Norwegian grocery sector, the Norwegian Competition Authority is critical to a further concentration, as this will lead to or strengthen a significant limitation of the competition” (Norwegian Competition Authority, 2000).*

Since 2006 the grocery chains have been forced to publish their agreements with the largest wholesalers. This enables the Norwegian Competition Authority to react on deals, bonuses and discounts that can have negative influence on the competition in the industry (Amdam et. al. 2009).

### **5.1.11 Local infrastructure**

Norway is an elongated country, one of the countries in Europe with the lowest population density. In addition to this the infrastructure has limitations. According to The World Economic Forum, Norway was ranked 61 out of 133 countries worldwide. The infrastructure and the market size are according to the World Economic Forum the main reasons for low competitiveness in Norway (Bjerke, 2009). And in some parts of Norway, Norwegian retailers are actually having cooperative distribution channels to be able to be profitable and more competitive (Giverholt, 2003).

Norway also stands out as the country with the lowest unemployment rate in Europe. In 2004, the unemployment rate was half the size of the average unemployment rate as in the other “Lidl countries” (Eurostat, 2010). This made it harder for Lidl to attract workers according to Regional Director in Lidl, Mikalsen (Handelsbladet FK, 2007).

### **5.1.12 Indirect Import Barriers**

On the national level, the Parliament (Stortinget) makes the laws, and government (Regjeringen) governs according to the laws. In a referendum in 1972 and again in 1994 the Norwegian people voted not to become a member of the European Union. Norway relationship with The EU is regulated through the EEA Agreement. This allows Norwegian laws to be different in many areas.

Wine and spirits is a part of Lidl's standard product range in Europe. In Norway however, the sale of such products are sold through the governmental controlled spirit and wine shops, “Vinmonopolet”.

## 5.2 The Grocery Market in Europe

Norway is the European country with the highest number of stores per capita. In 2002 there were 8.7 grocery stores per every 10,000 inhabitants. And the other Nordic countries follow with an average of 6.1 stores per 10,000 capita (Nordic Council of Ministers, 2005). Explanations to the high number of stores per capita, compared with rest of Europe (Table. 5.1) may be the low number of people living in Norway and that the households are spread over a larger area. The trend in Europe has the last years lead to a decentralization of the stores. They are now bigger and a longer distance away from competitors than earlier (Ness, 2001).

Another significant indifference is the sizes of the stores and their turnover. Supermarkets larger than 2500 square meters represents less than 5% of the stores in the UK, however, 45% of the money spent in grocery stores are spent in the large supermarkets. In Norway, those large stores are almost non-existent. The number of stores between 1000 and 2500 square meters are almost the same in both Norway and the UK, however these stores has 65% market share in the UK, and only 4-5% in Norway (Nordic Council of Ministers, 2005).

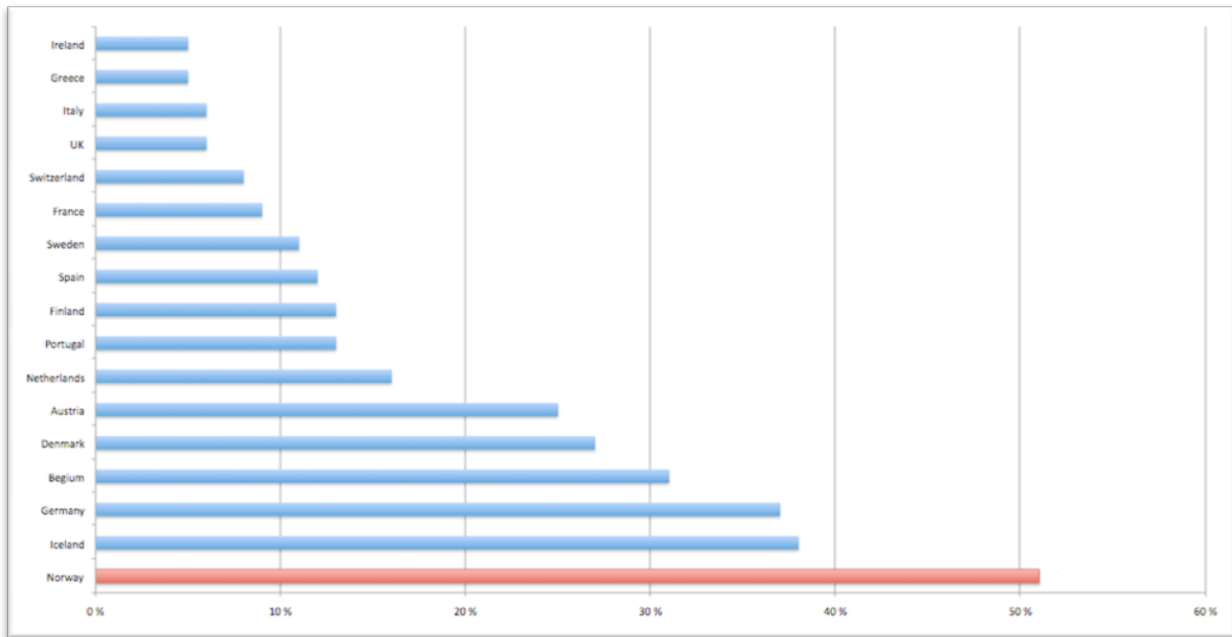
While the low price segment is significant in Norway, they have focused on making the stores more “exciting” in the UK. This has most likely caused a close to non-exciting low price segment in the UK (Ness, 2001).

While the market in the Europe moved away from the low price segment, Norway moved in a different direction from a highly fractured structure to a market consisting of strong chains with focus on low prices. Europe seems to be starting to move towards the low price segment that has had a strong foothold in Norway for years (Ness, 2001).

An ongoing development is the implementation of more private labels in the stores. Traditionally Norway has had a limited number of private labels. In 1991, only 3 percent of all products sold were private labels. In 1995 this had grown to 5 percent. And in 1999 8 percent of all groceries sold were private labels (Ness, 2001). From figure 5.2 we see that Norway still is one of the European countries with the least share of private labels sold. Only Ireland, Greece and Israel have a lower share than Norway.

Figure 5.7 shows the differences in market share by countries in the European market.

**Figure 5.7: European discounters 2003 – Market share by country**



Source: Nordic Council of Ministers, 2005

**Table 5.3: Number of shops per 10 000 inhabitants (2002)**

	Number of shops <sup>1</sup>	Million inhabitants	Number of shops/ 10 000 inhabitants
Norway	4 022	4.6	8,7
Finland <sup>2</sup>	3 295	5.2	6,5
Iceland	190	0.29	6,6
Denmark	3 310	5.4	6,1
Sweden	4 693	9.0	5,3
Germany	29 600	82.5	3,6
Netherlands	3 930	16.1	2,4
UK	14 445	59.0	2,4
France	14 335	61.4	2,3

Note 1. This number includes shops that belong to chains in the respective countries, i.e. it is exclusive of specialized food shops and kiosks. Note 2: Includes small shops.

Source: Nordic Council of Ministers, 2005

### **5.2.1 The Competition in the Norwegian industry**

In 2008, The Norwegian Competition Authority published a report on the competition in the Norwegian grocery industry. In this report, the competition authority was worried about the competition in some areas of the industry.

### **5.2.2 Vertical integration**

In the report, The Norwegian Competition Authority points out some problems in the Norwegian grocery industry regarding the competition. The competition authority claims that the grocery industry is strongly integrated horizontally and vertically. The close vertical relationship between wholesalers and retailers has contributed to save money on the more efficient links between procurement and distribution. This has also made it more difficult for new entrants to succeed. According to the competition authority, new players in the industry will face problems when they attempt to deal with the wholesalers as they already are strongly integrated in the existing retailers. And as there is a lack of standalone wholesalers they are forced to accept the terms of the integrated wholesalers (Amdam et. al. 2009).

### **5.2.3 Cooperation**

As a reaction to the strengthened competition, Coop, NorgesGruppen and ICA teamed up and started the TakeCargo cooperation. The TakeCargo cooperation's aim was to reduce the distribution costs, so that the three rival retailers were able to compete with Lidl's low prices (Berglund, 2004).

### **5.2.4 Public regulations**

The Norwegian Competition Authority confirms that the limited number of appropriate land areas in Norwegian cities and municipalities are a potential establishing barrier. The Norwegian customers prefer to shop their groceries often and preferably in shops close to their home and work. The location of the grocery stores is therefore important. In some areas it is difficult to get hold of land that is usable for this type of industry, and many of the best land areas are already owned or rented by the established chains (Amdam et. al. 2009).

Public land-use plans can also make it difficult for a retailer to build their store at the preferred location. In Norway it is required that the retailers get a public license to build a store, even when they own the land (Amdam et. al. 2009).



### **5.2.5 Price Fixing and a Price Leader**

As the Sweezy-model (Figure 4.3) shows, the Norwegian retailers have a common interest in not to compete on price. All the existing chains will profit from not competing on price. If there is no hard competition on price, the chains are likely to be more profitable than in a competitive environment. Price cooperation is hard to make work in the real world. First of all price cooperation is considered illegal, and as a result of this the cooperation's has to be through a tacit collusion. Another reason that price cooperation's is difficult is that even if it is profitable for the chains to avoid competition, it can be profitable in the short term for small players to break out of this tacit collusion. By setting the prices lower than the competitors the market share will most likely grow. However, it is likely that the other chains will follow this strategy, and eliminate the price difference. This will cause lower profit and harder competition for all players. In a tacit collusion, the chains have to choose between long-term profits, or short-term gain (Norwegian Competition Authority, 2005).

Known theory and empirical studies show that the probability for cooperation between competitors also depends of different market structural conditions. According to the Norwegian Competition Authority the Norwegian grocery industry has a characteristic that makes it relatively easy for the players to cooperate, because of the concentrated market, the short time needed to react to the competitors change in prices and the barriers against newcomers. However, it is demanding to establish and maintain cooperation in this industry because of the large number of products and prices (Amdam et al, 2009).

To be able to have a well functioning price agreement it is critical that they have a functional way to share price information. The grocery industry cooperated with the analysis firm, ACNielsen to get updated, weekly reports that included what prices each individual grocery chain used in specific areas. These reports made the market more transparent for the players, and enabled them to react faster on the price changes performed by their competitors. This information reduced the uncertain factors in the market, and made the competitive environment more stable and easier to handle for all players that received the reports (Amdam et al, 2009)

In 2005 the Norwegian Competition Authority started investigation on the ongoing information sharing between the grocery chains performed by ACNielsen. During this investigation, the competition authority discovered that the weekly reports from AC Nielsen to the grocery industry published updated and detailed information on each player's prices, and that this information was harmful for potential competitors. And in 2007 the competition authority informed AC Nielsen and the grocery industry that this practice could be in contravention with the Norwegian Competition Act (Amdam et al, 2009).

After this orientation, AC Nielsen and the grocery industry agreed to perform major changes to this report. The changes made it impossible to use the report to investigate the price changes in the competitive chains. The report is also published once a month, in contrast to once a week. The number of products in the report is also reduced from 50-60.000 to around 2.000. As a result of these changes, the report is less detailed, and less harmful for the competition (Amdam et. al. 2009).

Bogen (2008) brings up the issue regarding the information sharing:

*Per Erik Burud<sup>7</sup> told me that he was monitoring the competitor's prices every day. He could check them on his computer, provided by the analysis firm ACNielsen. His ambitions was that Kiwi one day would be bigger than Rema. But why didn't he then set his prices lower than the prices at Rema? The reason for this is that Burud knows that this will cause Rema to lower their prices as well, and they both will earn less. ...It seems like there is a tacit acceptance amongst the players, that Rema is the price leader. As long as nobody beats Rema on price, they will all get rich." (pp. 111)*

### 5.2.6 Price level

From figure 5.8 we can see a comparison of food prices in the Nordic countries. We can conclude that the food prices generally are higher in the Nordic countries than in the EU15<sup>8</sup>. And among the Nordic countries, Norway and Iceland stand out as the two with the highest prices. Norway and Iceland are not members of the European Union and maintain tariffs on the import of agricultural products. The systems are not identical, but

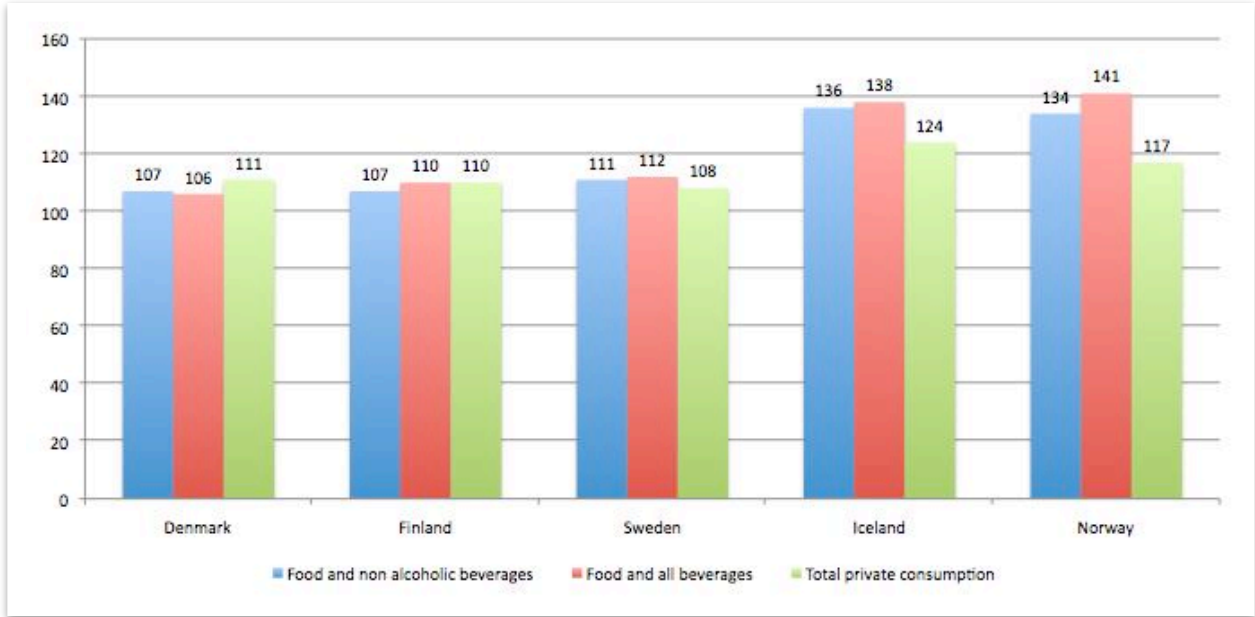
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<sup>7</sup> CEO of Kiwi (NorgesGruppen)

<sup>8</sup> EU15 - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom (EEA, 2010).

their effect in practice is much the same, i.e. to keep imports low in order to ensure the sale of domestic production of agricultural products that are considered of strategic importance, for example meat and milk. This regulation seems to be a main reason why the food price levels in these two countries are much higher than in the rest of the Nordic region and in Europe. The figure is excl. taxes as some countries has a different tax rate on food than on normal products (Nordic Council of Ministers, 2005).

**Figure 5.8: Net food and beverages prices (excl. taxes), 2004**

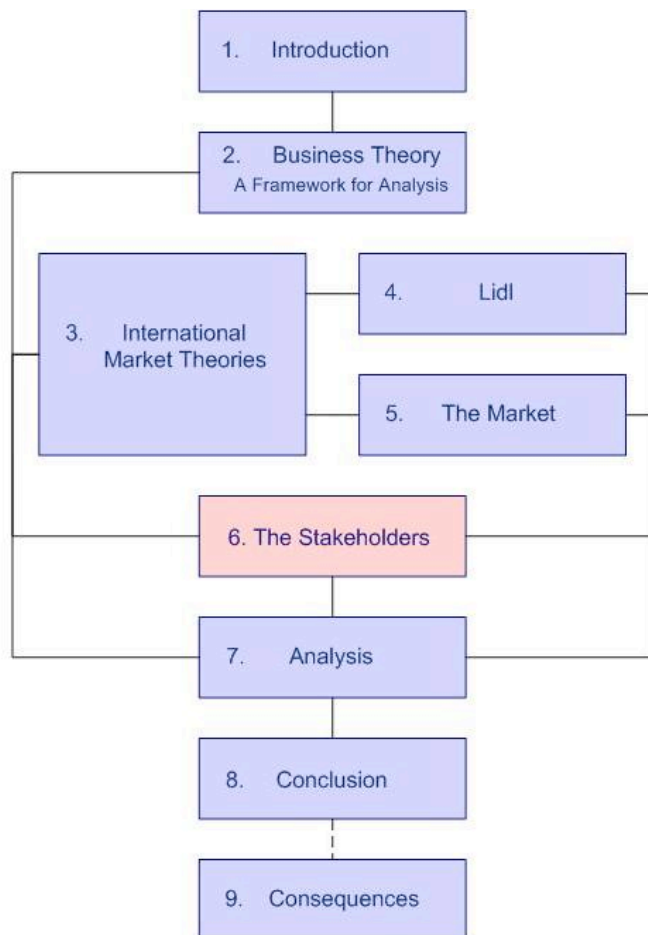


Source: Nordic Council of Ministers, 2005

## Chapter 6: The Stakeholders

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- Lidl Stakeholders Matrix
- The Stakeholders Influence



## 6.0 Stakeholder Analysis - A practical Approach

For a practical application of the Stakeholder Theory, one must try to identify which stakeholders are relevant in Lidl's case and make a list.

A Stakeholder Matrix applicable for Lidl's operations in Norway is shown on the following pages. Lidl's stakeholders have been identified and each class of stakeholders has been broken down to a level suitable for the analysis. Note that the subdivisions within each "class" may be expanded almost indefinitely - for finer and finer analysis. As Freeman (2009) states: "*Stakeholders turn out to be not products, not accounts, not assets, not liabilities. They turn out to be living, breathing human beings. Remember that ultimately Stakeholders are individual people of flesh and blood*".<sup>9</sup> That goes for every class of Stakeholders - be that Government, Managers, Customers etc. Making management decisions on a person by person level is of course not feasible. One has to classify and categorize and try to find common characteristics for each group or class of Stakeholders, and attempt to provide the best possible service for all groups (Freeman, 2009).

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<sup>9</sup> <http://www.youtube.com/watch?v=Ih5IBe1cnQw>, 05:30

# 6.1 Lidl Stakeholder Matrix

Figure 6.1 – Lidl Stakeholder Matrix

**Stakeholder Theory - every interest group interacts - or may interact - with any other interest group - to a varying degree**

		The Company / The Business	Stakeholders internal to the business										Stakeholders external to the business															
			Employees	Managers	Owners	Suppliers	LIDL central logistics	Norwegian brand suppliers	Society	Government	Ministry of Government Administration, Reform and Church Affairs	Norwegian Competition Authority	Ministry of Finance	Customs	Municipalities	Creditors	Shareholders = Lidl Stifting KG	Customers	Competitors	Norgesgruppen	Rema 1000	ICA	COOP	Media	Employee organizations	Special interest groups	Natur og ungdom	
<b>The Company / The Business</b>																												
<b>Internal to the business</b>	<b>Employees</b>																											
	<b>Managers</b>	6.1.2																										
	<b>Owners</b>	6.1.3																										
<b>External to the business</b>	<b>Suppliers</b>	6.1.8																										
	LIDL central logistics																											
	Norwegian brand suppliers																											
	<b>Society</b>	6.1.9	6.1.7		6.1.9																							
	<b>Government</b>	6.1.1			6.1.1																							
	Ministry of Government Administration, Reform	6.1.1																										
	Norwegian Competition Authority	6.1.1																										
	Ministry of Finance	6.1.1																										
	Customs	6.1.1																										
	Municipalities	6.1.1																										
	<b>Creditors</b>																											
	<b>Shareholders = Lidl Stifting KG</b>	6.1.10																										
	<b>Customers</b>	6.1.11							6.1.11	6.1.11																		
	<b>Competitors</b>	6.1.4				6.1.8		6.1.4	6.1.4	6.1.4				6.1.4														
	Norgesgruppen	6.1.4				6.1.8														6.1.4								
	Rema 1000	6.1.4				6.1.8														6.1.4	6.1.4							
	ICA	6.1.4				6.1.8														6.1.4	6.1.4	6.1.4						
	COOP	6.1.4				6.1.8														6.1.4	6.1.4	6.1.4	6.1.4					
	<b>Media</b>	6.1.5				6.1.5		6.1.5	6.1.1					6.1.5						6.1.5								
	<b>Employee organizations</b>	6.1.7						6.1.7												6.1.7								
<b>Special interest groups</b>	6.1.6						6.1.6						6.1.6											6.1.6				
<b>Natur og ungdom</b>							6.1.6																6.1.6					

Haakon Winger Eide / Nov. 2010

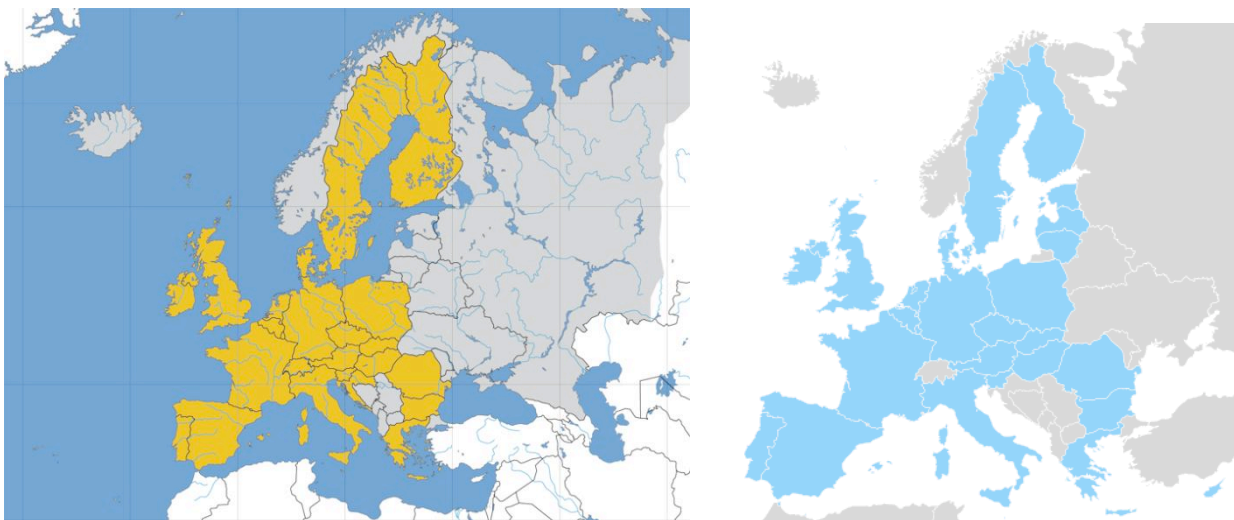
The idea of this two dimensional matrix, as explained earlier (Chapter 2.3), is to try to identify the various stakeholders and the relationships between them. Figure 6.1 is a development of Figure 2.4 so that it handles all the relevant stakeholders in Lidl's case. Appendix 3 presents an evaluation of my experience when trying to apply this thinking.

## 6.1.1 Government

### *National Government*

When comparing the maps of EU with the map of countries where Lidl operates, we clearly see the similarities between the two maps. Lidl are mostly operating in countries within the EU, and in 2004, Norway was the only country outside the EU with Lidl stores. Although Norwegian law is harmonized with EU-rules to a large extent, there are a number of areas where Norway has been allowed to keep its own, special and often restrictive laws. Lidl thus had to adapt to a whole new set of trade barriers and laws and regulations.

**Figure 6.2 – Countries where Lidl operates (left), EU countries (right)**



(Source: Verified to be correct, Wikipedia.org)

### **Advertising regulations**

Norwegian law does not allow advertising for tobacco and alcoholic beverages. As a consequence, Lidl's strategy to sell beer as a frequency generator, met difficulties in the strict Norwegian alcohol regulations. Just months before Lidl opened their first store in Norway, The Norwegian Directorate of Health and The Federation of Norwegian Commercial and Service Enterprises, two organizations within the health and retailer industry respectively, agreed on a common interpretation of the Norwegian alcohol law, stating that it is forbidden to sell beer with zero profit (NTB, 2004). Lidl was therefore forced to abandon one of their most known and successful marketing techniques. And as a result they lost one of their main competitive advantages; cheap German beer.

## ***Infrastructure***

The government is responsible for the road and railways.

The Norwegian infrastructure is ranked as poor compared to other European nations. Cost of local distribution within the country is expensive as a result of the size of the country and the infrastructure. To be able to open stores all over the country they would need a high ratio of stocks per store. There is no question that Lidl, with low number of stores, and low volume initially compared to the competitors would have significant problems with keeping the distribution costs low. Lidl had established one distribution centre in the Oslo-area, which initially had to supply the Lidl-stores all over southern Norway. In the startup phase, distances between stores were long. To be able to open stores all over the country they either had to keep more stock per store, or suffer the cost of frequent supply.

The fact that some competitors joined forces to arrange joint transportation schemes made the transportation-cost challenge even tougher for Lidl.

## ***Import regulations***

Norwegian agriculture enjoys large subsidies and protective measures through legislation. Import of private labels is one of Lidl's major strategies. High import barriers (tariffs) prevented Lidl from importing several of their private label products in this sector - especially important product groups like dairy, meat and other agricultural products. As they had to move away from their standardized strategy and start negotiating with local suppliers they gradually lost pieces of their relative price advantage.

## ***Local government***

Norway is divided into 19 regions (fylker), and 430 municipalities (kommuner) - each with their own local government and local administration. Permissions to acquire land and build are handled on a municipality level. Lidl met problems when looking for suitable areas to build their stores. There are many examples that Lidl was seemingly not wanted by the local governments in some Norwegian municipalities. And in some areas the local government even admitted directly to the media that Lidl was unwanted and even a threat to the local agricultural environment and local shops. The effect from



this may have been that Lidl did not manage to expand at the pace they wanted and needed to succeed.

### **6.1.2 Managers**

Managers have a big "stake" in the company. The job provides their income - probably a relatively high one - and it represents a stepping-stone for further career opportunities. Managers at every level of the organization will therefore have had the best intentions of doing a good job to make the operation within their area of responsibility.

Lidl replaced their managing director five times during its short life in Norway - from 2001 to 2008. #1 Jesper Innes - (Danish) 2001-2005, #2 Christian Eric Beutelspacher (German) 4 months 2005, #3 Alexander Herrmann Sonnenmoser (German) 2005-2007, #4 Werner Evertsen (Norwegian) 2007-2008, #5 Stefan Kopp (German) 2008+ (Brønnøysundregistrene, 2010).

Management replacement can reflect the difference in managerial tasks and required skills through the different phases - buildup and operational. It may also have to do with management fatigue, from working "up-hill", wrestling with unexpected challenges, and lack of quick success.

The fact that four managing directors did not manage to turn trends, may have been a contributing factors towards top-management's decision to close shop in 2008.

### **6.1.3 Owners**

Shareholders would normally be seen as owners. In Lidl Germany the owners are partly shareholders and limited lartnership owners. Given the size of Lidl's operations worldwide, it is likely that Management of Lidl Stiftung KG would have performed the owner-functions over Lidl Norge - including making the decision to close operations and sell out the contents of the Norwegian business.

See chapter 8 for a discussion of the decision to pull out.

### **6.1.4 Competitors**

Success of a business is by tradition measured by its books - its accounts - its ability to create financial results. Another important measure of success for a grocery sales business is market share. Market share is seen as a means to achieving financial success.

When Lidl entered the Norwegian market in 2004, it was already a mature market, and more or less a saturated market. As explained previously, the market was already at that time dominated by the four major players - NorgesGruppen, COOP, Rema 1000 and ICA. Their market share at the time was considered to be about 99 percent. In all locations Lidl planned to establish a store, it was already one or more Rema 1000, Coop, ICA or NorgesGruppen stores. Lidl was thus aiming to conquer a piece of the existing market - not to expand it. This meant "stealing" from the companies who dominated the market. Neither of the four liked that idea - and there was a high level of agreement between them about that. Although cartels are not permitted under Norwegian law, their common interest was clear to see for everyone. It is believed that the four companies managed to at least pull in the same direction in an attempt to discourage Lidl, and to influence on other stakeholders' opinion about the newcomer.

### ***Level of competition***

Both the Herfindal-Hirschman Index (Table 5.2) and the low number of players in the market (Table 5.1) give us an indication that Norway is a region with lower competition and more powerful players than other comparable European countries. The Norwegian market may look like an oligopoly, but only four big players with a near 100 percent market share combined, and in addition tendencies of concealed cooperation, makes it near to monopolistic. As learned from chapter (Monopoly) a monopolistic situation tends to be a barrier for newcomers. It is also no doubt that Norway has the most concentrated grocery market in Europe, and this may, according to Varian, 2008 function as an establishing barrier for newcomers, such as Lidl.

### ***Price Collaboration***

Not only are the competitors strong, but their price collaboration in the period before 2007 is likely to have had a negative effect on Lidl's chances. Lidl was up against a "cooperative game" with 99 percent market share - a cross between oligopoly and monopoly. When the price collaboration was regulated in 2007, they may already have caused irreparable damage to Lidl.

### ***Coordination between players***

Since the grocery chains were willingly sharing information on prices with their competitors, there is reason to assume that they also collaborated in other areas, such as a collectivistic pressure on the suppliers. The buying power of the existing chains made

it harder for the suppliers to sell their products to Lidl. Bogens firsthand experience is a proof that there was a lot of information sharing and collaboration within the Norwegian grocery market. This activity is most obvious during the annual event commonly referred to as "The Autumn Hunt" - when sellers and buyers get together to discuss terms.

There are also examples indicating that the existing grocery chains collaborated in other areas to make Lidl fail with their strategy. In April 2004, just months before Lidl opened their first store in Norway, the Norwegian grocery chains contacted The Norwegian Directorate of Health. They called for a clarification on what the minimum allowed price on alcoholic beverages was (aftenposten.no, 2004). The clarification stated that beer could not be sold at a loss. It had to carry a price tag that covered cost, plus a normal profit rate. Why did the grocery chains suddenly become so interested in having a minimum price on beer? Did they call for this clarification to ensure that Lidl could not implement one of their most successful frequency generators in Norway?

### ***The competitor's reaction***

The relatively slow expansion rate enabled the competitors to perform the changes needed to be able to take protective measures. A slow expansion rate could also have had an effect on Lidl's attempt to achieve the needed scale economics to be able to achieve low purchase prices as well as a functioning distribution strategy.

### ***Monopoly/Oligopoly indications***

All these factors discussed previously in this section indicate that the Norwegian industry is leaning towards a monopoly with a price leader. Rema 1000 is seen as price leader, according to Bogen.

As monopoly theory predicts, the lack of competition and the barriers towards newcomers is likely to have had a great negative effect on Lidl, and their plans and efforts to establish a profitable business in the country.

## **6.1.5 Media**

### ***Company - Media relationship***

The fact that Lidl had a "no communication strategy" may have been detrimental to the general climate between the company and the press. Journalists appear to have been

trained to be aggressive, and it is considered the role of the press to "dig" for information. There is no evidence to support such a thought, but it is possible that Lidl's strategy may have come at the cost of some of the negative focus from at least parts of media and press.

### ***Media – Society relationship***

When Lidl chose to approach Norway with the same "no communication strategy" that they use elsewhere, they immediately became interesting for the Norwegian media. The "no communication strategy" may have been a deliberate part of their communication plan, to get the press interested and thereby generate a lot of media coverage. On the other hand it may have perceived as negative by the Norwegian society. Norwegian may not have liked Lidl's secretive profile.

This strategy led to considerable media coverage in the early face. There was a lot of negative focus, but the media coverage led to recognition of the brand name Lidl. This coverage was estimated to be equal to over 100 million NOK worth of advertising. Unfortunately much of the writing was of a negative character. Many Norwegians had heard about Lidl long before they opened their first store. It is reason to believe that many had a negative opinion as a result.

In surveys conducted by Norwegian Customer Survey - (Norsk Kundebarmeter ved Handelshøyskolen BI) - Lidl scored near the bottom of the sampled companies and organizations. Lidl was the least liked among Norwegian grocery stores. Even with the low market penetration, respondents had a negative impression of Lidl. It is likely that many of the respondents had never even frequented a Lidl store. It is therefore not unlikely that their opinion had been colored by negative press coverage.

### ***Media – Customers relationship***

To try to understand why there was such a negative opinion about Lidl, we can look at the "Elements of the international Communication Process" figure. The "noise" made by the Norwegian media can have influenced on the message the sender, in this case Lidl, was communicating to the receiver, the Norwegian customers. The message developed by Lidl was interfered by the media and the competitors, so that the message interpreted by the receiver sounded different. Because of this noise from the competitors and media the message was changed from the low prices and high quality,

to the employee's rights, and the threats to the environment and local products and stores before it reached the end customer.

### **6.1.6 Special Interest Groups**

In the time before the Lidl shops opened, environmentalist groups were claiming that Lidl was a threat to the local and global environment. The media coverage from these demonstrations may have caused the Norwegian society and Lidl's potential customers to get a negative impression of the company.

### **6.1.7 Employee Organizations**

The negative rumors must probably be attributed to "communication noise" between Employees, The Press, Society and Customers.

### **6.1.8 Suppliers**

Lidl's main concept is to sell their own private labeled products produced at a central location in Europe and ship the same products to all the stores around Europe. Lidl's European suppliers would not even know where Lidl would redistribute their products, and would therefore not need to be considered from a Stakeholder point of view. As previously described, Lidl had to abandon parts of their product strategy and start selling branded goods well known to the Norwegian customers. To get supply of Norwegian branded goods, Lidl had to negotiate with the suppliers that also supplied the other four players in the Norwegian market.

With a market share less than 2 percent Lidl did not have the same bargaining power as the large competitors, and they would have to struggle to get as good a deal as the others. Also there are indications that NorgesGruppen, Ica, Reitangruppen and Coop were doing all they could to prevent the suppliers to sell to Lidl.

These factors probably resulted in Lidl not getting the low purchase prices that they needed to become the price leader. It is also possible that Lidl had to sell the branded products with no profit at all or even at a loss, to manage to attract new customers, as well as to build customer loyalty.

All in all the implementation of the branded goods was most likely a costly business for Lidl. With the relatively low quantities compared to the existing Norwegian retailers, it is not likely that Lidl got the best price from the producers or distributors, and could not

become a price leader on the products that customers really wanted. Lidl therefore could not run the same type "bargaining price campaigns" that they are known for in other countries, and thereby build their image of a really low-price company.

#### **6.1.9 Society**

Surveys manifest that a trend in the Norwegian society is to prefer groceries with Norwegian origin, because they want to protect their society from outsiders. In Lidl's case this may have resulted in thinking like: "We do not want to support a foreign country by buying their goods instead of our own" and "We do not want to support foreign big-capital. They just take our money and send it out of the country". These are examples heard on TV or seen in print, and which to some extent could be attributed the Norwegian society.

#### **6.1.10 Shareholders**

Despite Stakeholder theory's focus on all stakeholder groups, Shareholders/Owners stand out as the group with the ultimate power to make strategic decisions - including the "live-or-die" decision. Shareholders probably also have a say on internationalization strategy. Their strategy seems to imply strong and decisive effort when an expansion decision has been made- including building at least one distribution center, and at least 10 stores prior to opening. Additional stores and additional distribution centers are usually added in rapid succession. This way they aim to achieve the needed economies of scale as quickly as possible. Caution does not seem to be part of their strategy once the "go" has been given.

Shareholders invariably expect financial results in the long run. Lidl does not publish their strategies, but their shareholders probably have policies or rules about how long a subsidiary in a new country should take before starting to generate a profit or at least show signs of improvement. They probably have "yardsticks" based on previous experience in other, similar countries.

It is fair to assume that Lidl Norge failed to meet their expectations. It is also fair to assume that shareholders/owners must have stopped believing that it was just a matter of a little more time before things would improve. Exactly what happened decided to withdraw all their operations from Norway is not easy to investigate. The full story will probably never be told.

### **6.1.11 Customers**

#### ***Buying behavior***

Norwegian customers seem to differ from European customers in many ways. Anonio Soares perception contributes to this statement. Shopping trends (Figure 5.4) surveys are also showing that the Norwegian shopping trends in many ways did not fit to Lidl's strategy.

- The survey indicates that low prices are one of the least important factors when choosing where to do the grocery shopping. Lidl's main company objective is to sell products to the lowest possible price.
- Most important when shopping for groceries is that the shop is close to home. Lidl's strategy was to build their stores outside the city centers.

Also the table concerning customer satisfactions (Table 4.1) is an indication that Norwegians are not that concerned about price when they decide if they like or dislike a store. The table shows that Norwegians prefer the more exclusive stores with less regard for price.

We can see quite clearly that the Norwegian customers are used to a different way of grocery shopping than in other European countries. Norwegians are used to shop their groceries in discount stores. Kiwi and Rema 1000 are both strong players in the discount segment, a segment that has more than 50 percent market share in Norway. When Lidl arrived Norway, they opened their stores in an already well established segment with strong competition. As Norway is a country with the highest share of discounters, Lidl were to a larger degree offering the customers in other European areas a new price segment. Another problem that probably Lidl faced was that Norwegian customers' are shopping small quantities every time they shop. Norwegians tend to do their shopping several times a week in their local store. Lidl's strategy to place their stores outside the city centers did not fit the Norwegians buying behavior very well.

As Lidl did not manage to become the price leader as they were in other European countries, it seemed like they were stuck in a situation with prices on the same level as Rema 1000, but in the eyes of a Norwegian, less attractive products. To cope with the Norwegian buying behavior, Lidl gradually added 400 new and branded items.

But why don't the Norwegian customers care that much about low prices? The Norwegian grocery market, even the biggest supermarkets, has a relatively limited number of products in the shelves compared with other European countries. The prices are also not varying that much between the different store concepts. This may mean that Norwegians look at the prices as given. To be able to gain significant market shares, Lidl must have changed the Norwegian buying behavior. By setting their prices significantly lower on the products the customers wanted, than the competitors could manage, the result could have been a shift in Norwegians focus from quality and closeness to home, to price. However, surveys shows that Lidl did not manage to sell their products at a significantly lower price than the competitors. Lidl became "yet another" soft discounter, that the Norwegians did not need.

### ***Product strategy***

When Lidl entered Norway in late 2004, they sold mostly own branded products that was unknown to the Norwegian consumers. This was a result of Lidl's standardized strategy, and an important way to keep their prices on a competitive level. The high number of private labels seems like a mismatch with the Norwegians buying behavior. At the time of Lidl's entry, the number of private labels in Norwegian grocery stores was amongst the lowest in Europe. Private labels were considered as something new and unknown. And as Professor Frode Steen says, the "fear of the new" can be the reasons for Norwegians skepticism to Lidl's private labels. Also, Norway is an egalitarian society with few really poor people. The unemployment rates (Figure 5.5) is an indication of that. Rema 1000 franchise Frode Pettersen reflected on this: *"The Norwegian customers are price sensitive, but also affluent. As a result of this they want their Coca Cola as cheap as possible, but they don't want to buy a private labeled coke to save an additional krone."*<sup>10</sup> (Smaalenenes Avis, 2005)

Other reasons that the private labels did not achieve acceptance can be that Norwegians tends to prefer Norwegian groceries. And the packaging of their products clearly showed that the products were not produced in Norway, and they did not appeal to the Norwegians the same way as the known branded goods sold from the established stores.

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<sup>10</sup> <http://www.smaalenene.no/nyheter/article1424760.ece>

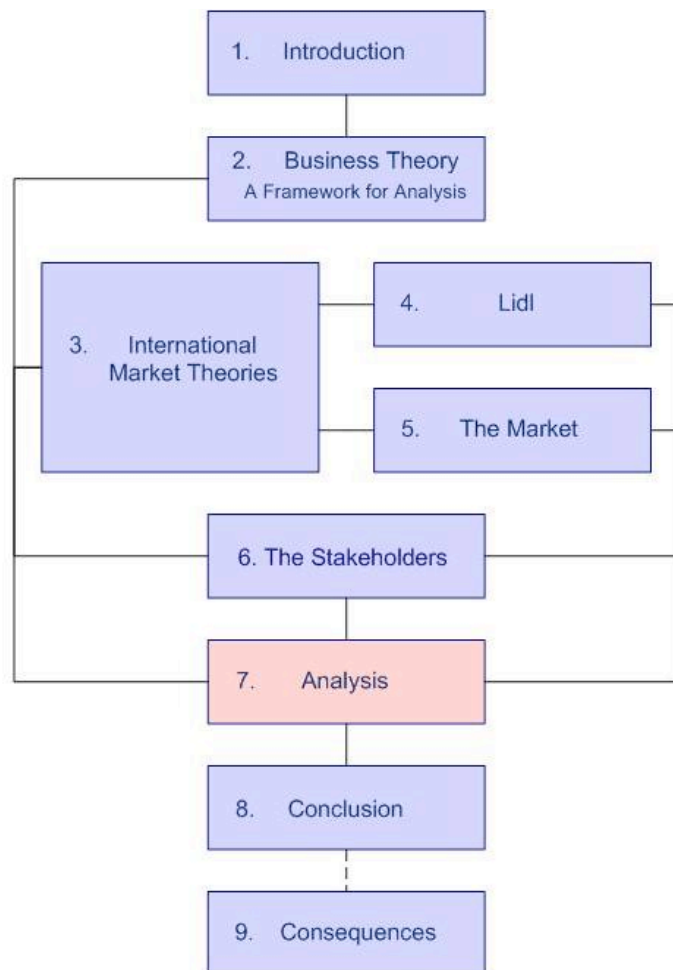


By adding large percentage of Norwegian brand products, Lidl managed to gain a larger market share and improve the customer loyalty. However this led to a change from using an extension of their home strategy to an adaption strategy. And this resulted in higher expenses. Lidl did however manage to successfully adapt one of their stores to fit the local market. Their first store in Oslo had a different layout than ordinal Lidl stores, so that it was better integrated to the metropolitan environment. They also managed to successfully adapt their product range to be more competitive in that specific area. Perhaps Lidl should have accepted the extra costs of customization, and adapted more of their stores to fit each local market?

## Chapter 7: Analysis

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- Preliminary Screening
- Assessing Market Potential
- Market Strategy
- Price and Product Strategy
- What could they have done differently?



## **7.1 Preliminary Screening**

It may look as if Lidl had looked at the Nordic region - Finland, Sweden, Norway and Denmark - and decided time had come to conquer the northern outposts of Europe.

From a geographic viewpoint, Norway looked like the next natural country for Lidl to expand to, as they already had opened in most European countries, including two Nordic countries. There are also several factors that made Norway look attractive: The Norwegian citizens have a high annual income and high level of education, the economy and government is relatively stable and the way of living is in many ways similar to the German. On basis of a preliminary screening (table 3.1) Norway would clearly look like an attractive country to internationalize to.

## **7.2 Assessing Market potential**

Even though Norway is similar in most ways, it is also a country that differs in several areas. Norway is one of the least populated areas in Europe, and the least populated country Lidl has ever done business in. With a population of only 4.9 million, and a population density of only 14 people per square kilometer. Lidl must have missed the great variation of population density, from 2 per square kilometer in Finnmark to more than 1000 in Oslo. From a market potential point of view (table 3.2), Norway would have looked like a small country with scattered customer clusters.

Norway also varies slightly from a political viewpoint. As one of very few West European countries outside the EU, there are more restrictions on cross-border trade than within the EU.

When comparing the theory with the facts, Norway will on one hand look as a tempting country to develop a business, as the average income is high, the government is stable etc. On the other hand more thorough research might have revealed several factors about the Norwegian business environment that should have made the alarm bells ring for Lidl's internationalization team.

### **7.3 Market Strategy**

Despite clear indicators that Norway was special, Lidl used their standardized model, and entered the Norwegian market with wholly owned stores as a 'Greenfield operation'. This means that they have to find the locations and to build their stores from scratch. This strategy is, according to Kotabe (2008), a necessity for proactive companies who want to achieve their ambitious strategic objectives. This method enabled Lidl to have full control of all their distribution channels, prices and advertising operations in Norway.

Players in the grocery industry are dependent on economies of scale to be able to be profitable. When entering a foreign market, Lidl wants to gain as large market shares as soon as possible to achieve their goals. Kotabe (2008) argues that also large companies with a lot of resources, like Lidl, are taking risks by investing major research commitments to a market. But Lidl had chosen to make these large investments to be able to reach their goals.

Their strategy implies strong and decisive effort, including building at least one distribution center, and at least 10 stores prior to opening. Additional stores and additional distribution centers are planned in rapid succession after opening, in order to achieve economies of scale quickly. Caution does not seem to be part of their strategy once the "go" has been given.

Also, by having control of the whole operation in Norway, they were able to maintain their strategy to keep as much information and knowledge as possible inside the firm. By organizing their Norwegian operation in the form of a limited company in Germany - Lidl Norge GmbH - and a branch-office in Norway - Lidl Norge NUF - they were able to have a maximum power over their operations, more flexibility and full control of the potential profits.

Apart from the fact that Greenfield operations seem to have been their only strategy elsewhere, almost all the existing players in this market were all part of strong groups, and there were no obvious acquisition candidates. Greenfield strategy may therefore have been the only option.

However, this method included a relatively high risk. A 100 percent ownership requires the largest investments of both time and capital, and they have to carry the full burden of possible losses themselves.

Lidl might have benefited from cooperating with players who already knew the Norwegian market. However, there were none to cooperate with, and none to acquire. They thereby lost an opportunity to benefit from someone who knew the market. The fact that Lidl was wholly owned by a foreign company may also have had a negative effect on the Norwegians acceptance of the company.

## **7.4 Price and Product strategy**

Lidl did not manage to be the retailer with the lowest prices, but they were among the price leaders. Lidl approached the Norwegian market with a fairly standardized “product”. Very soon, parts of this product proved unsuitable. Gradually they realized that they had to deviate from this strategy in several product areas. They made the adaptations piece by piece, and their learning curve may have been too slow. Customers may for too long have experienced that Lidl did not stock the products they sought, and turned their back on Lidl before improvements arrived. Some of those customers may never have returned to find out about the adaptations.

Standardization may have been a necessity to achieve success, but it may also have been one of their reasons for failure. Norwegians tend to seek branded goods and stores with nice interior. Lidl stores were perceived to be the quite opposite.

The fact that Lidl sold mostly unbranded German products was probably a more important factor. It appears that Norwegians have a high brand loyalty. Some products are almost like part of "the Norwegian soul". For instance products like Freia Melkesjokolade, (Milk chocolate). Solo (soft drink), Geitost (goat cheese - Norwegian style) and others. Price was not such an important factor.

Norwegian law stopped Lidl from using one of their most important frequency generators – low priced beer. This may seem like a detail, but it is known to be considered a significant factor towards Lidl's success in their home country. They were deprived of one of their trump-cards in Norway. Unfortunately for Lidl there was nothing they could do about it.

## 7.5 What could they have done differently?

To eliminate some of the disadvantages with the Norwegian market, such as the inefficient infrastructure, Lidl could have used a more Uppsala-like approach, and paid more attention to market segmentation.

Lidl planned to open stores from Mandal in the south to Fauske in the north (Røed, 2004). Those two extremes are 1,500 kilometers apart, with an estimated driving time of 20 hours according to Google Earth. They might have looked more closely at the distribution of population by region and distance from Europe or from the capital - Oslo.

A quick job of segmentation would have revealed that:

- a) 88% of the population lives on 60% of the land area comprised of 15 of 19 regions, all within approximately 8 hours drive from Oslo.
- b) 50% of the population lives on 28% of the land that area comprised of 8 of 19 regions around Oslo, all within a 2.5 hours drive from Oslo.
- c) The remaining 12% of the population lives on 40% of the land area comprised of 4 of 19 regions.

(Source: Statistics Norway)

A quick exercise of segmentation would have revealed this, and might have re-shaped their localization strategy.

If Lidl had managed to establish a significant number of stores in area b), they would probably have been able to reach a higher market share with less expense and effort. It is also probable that Lidl would have achieved a higher rate of acceptance for their private labels as a result of higher Lidl-store density. They would definitely have had a greater number of people within acceptable driving distance from each store. The market exposure would have been more concentrated and more visible among competing store brands. The region surrounding Oslo is the Norwegian market segment most similar to Europe. It is a possibility that Lidl would not have faced the same strong resistance in a more urban environment, with limited agricultural activities, allowing positive attitudes to grow. Lidl's experience in Sogndal supports this view.

If this strategy had turned out to be successful, Lidl could have gradually expanded to other Norwegian areas, such as the areas around Bergen and Trondheim. If they already had acceptance among the customers in the Oslo-area, it would probably have been easier to be accepted in other Norwegian areas.

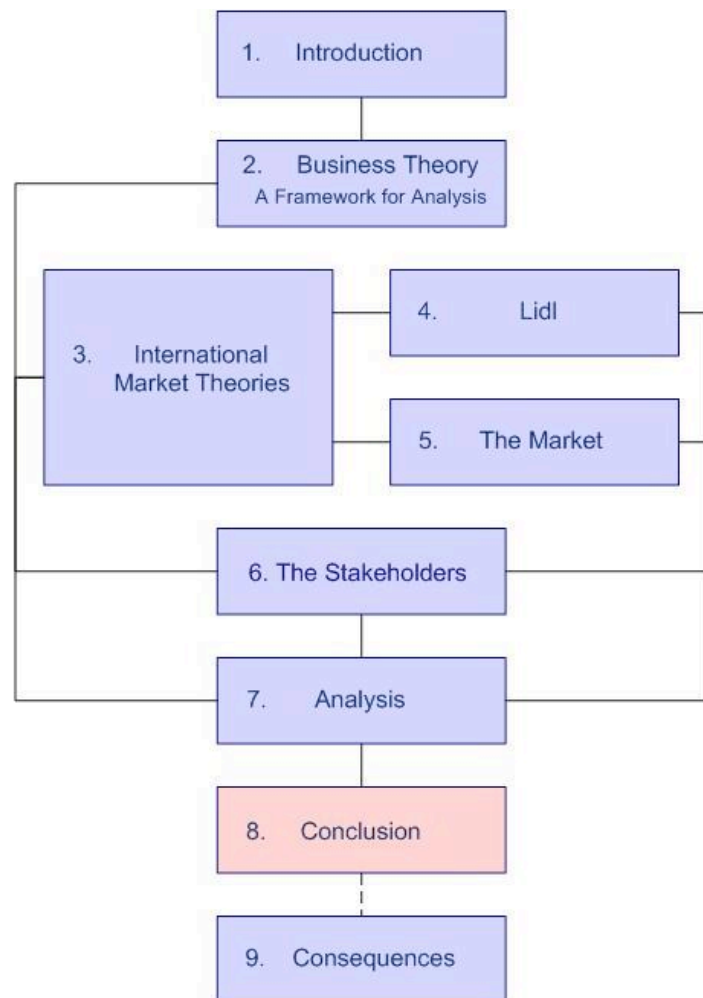
However, this strategy also has some disadvantages. The land available in urban areas is limited, and it they could have faced even more problems finding suitable places to build their stores. It is likely that they to a larger extent would have had to abandon their standardization strategy when it comes to appearance of stores or storefront. Freeman discussed tradeoffs, if Lidl had been willing to make the tradeoff between standardization and adaptation, they might have been more successful.

The timing for their entry was maybe not ideal. 2004 was a good year in Norwegian economy, and the majority of consumers did not see the need to save pennies on groceries. Maybe if they had chosen to enter the Norwegian market today, things would have been different. Even though Norway is a unique economical position compared to other European nations, the financial crisis in 2008 caused also the Norwegian consumers to allocate their money more carefully. We see that the soft discounters such as Kiwi and Rema 1000 are gaining ground on the more exclusive brands such as Ultra and Meny. Also the Norwegian industry was not mature in the sense of Private Labels. It is only in the latest years that private labels have been a common sight in Norwegian grocery stores. If Lidl entered today, there would perhaps to some extent be easier to get acceptance for that kind of labeling. You cannot blame Lidl for not waiting for bad times.

## Chapter 8: Conclusion

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- The Main Reasons
- No Light at the End of the Tunnel





## **8.1 The Main Reasons**

My analysis has not been able to find one reason that led to Lidl's failure. This was as expected. However, in my opinion there are three main reasons that stand out.

### **8.1.1 Government regulations - effect on product strategy**

The first, and probably most significant factor is the fact that Norway and Norwegians in many ways differ from the other cultures where Lidl operates. Norwegians not only seem to have a different mindset when it comes to buying behavior, but they also tend to protect their own resources as well as way of life through the governmental import regulations. The import regulations made it hard for Lidl to follow their main internationalization strategy; standardization. When Lidl had to abandon that many of their strategies, they to some degree lost their competitive advantage as a scale economy as they usually had in other regions.

### **8.1.2 Competitors**

The second reason that seems likely to have affected Lidl's strategy is the competitive environment. With four players controlling 99 percent of the market, Lidl had to fight with strong players to steal market share. Lidl was also regarded as a very strong threat for the existing four players, and their collaborating strategy to counter this threat made it even more difficult for Lidl. When Lidl realized that they needed to sell more branded goods, the competitors probably had the power to influence the prices Lidl got from their suppliers.

### **8.1.3 Inadequate market analysis**

The third reason is Lidl's failure to identify and react to the most critical pitfalls in an effective way. All the Norwegian import regulations are publicly available, and they should have been able to foresee the effects on their business. A thorough analysis on the effects of these regulations could have given Lidl an indication to rather focus on other European areas.

Lidl had full access to the market share figures. The 99 percent market share held by the four existing players meant that Lidl would have to fight to "steal" market share. And that it would take long to build size. They must have underestimated the challenge.

## **8.2 No Light at the End of the Tunnel**

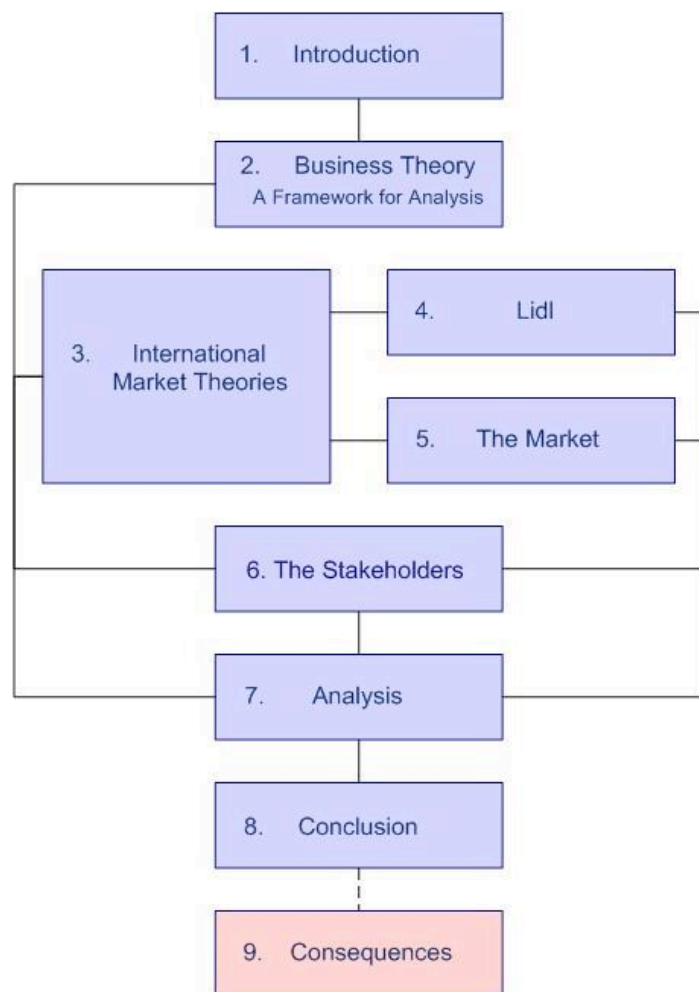
Lidl did not manage to achieve their goals during their time in Norway. However, losing money the first three years is not an unusual situation for a company entering a market through a “greenfield operation”. Lidl spokesmen had also stated that when they entered a country, they were there to stay. Lidl has the financial strength to be able to handle financial losses.

It is likely that they realized that it would be extremely difficult to turn the trend, and Norway may have required a disproportionate amount of management time. As a result they decided to close shop and withdraw from the market and spend their investments in more promising areas.

## Chapter 9: Consequences and suggestions

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- Consequences and Suggestions
- Consequences of Low Competition
- Consequences for Lidl
- Consequences for the Future
- Consequences for the Norwegian Customer
- Opportunities Lidl Missed



## **9.0 Consequences and Suggestions**

Lidl tried to make profitable business in Norway, but failed. This chapter highlights the consequences of their failure, both for Lidl and the Norwegian Society.

### **9.1 Consequences of Low Competition**

If it is true that the Norwegian market tends to lean towards monopoly, we can conclude from the theory that Norway has a reduced consumer surplus. However, the theory tells us that it is the consumers and the producers who suffer from this, while the grocery-sales chains increase their surplus.

If Rema 1000 is the de-facto price leader in the Norwegian market, and all the players agree on not setting a price lower than them, Norwegians find themselves in a situation with higher prices than necessary. Since Lidl is no longer around to disrupt this situation, the market will continue to suffer from the cooperative play with a given price leader.

### **9.2 Consequences for Lidl**

For the first time ever, Lidl experienced that their strategy did not bring them success. As Lidl has a “no information policy” it is not public knowledge how this affected the company’s strategy. It is not likely that the financial losses were so significant that they influenced Lidl’s further expansion plans. More likely is it that Lidl, as an ambitious German company has analyzed their mistakes, so they can be able to be even more successful in the future. Lidl is currently planning to take their concept to the Canadian market. For the first time Lidl will expand to a country outside Europe. They will probably meet more cross cultural challenges than ever before. In this case it will probably be helpful that the Lidl managers have the Norwegian failure in the back of their minds. Their Norwegian failure has shown that their standard strategy is not infallible.

They were used to being successful in applying their standardized strategy all over Europe. Did it hurt them financially? Did Lidl see Norway as a loss of prestige? Will it reflect negatively on their image in other markets?

They probably did not lose more than they can handle. They probably lost some of the confidence they so far have had in their standardized strategy. Norway is a small country in Europe, but an outsider to EU. Lidl's failure will probably not have been noted by Lidl customers elsewhere, so the scratch on the image will hardly be noticeable.

Lidl must have learnt a lesson or two from their experience in Norway. They may have started to think more about stakeholders and other internationalization theories as a result?

### **9.3 Consequences for the Future**

Lidl, the largest European discounter, did not manage to establish a profitable business in Norway. This ought to give other potential players second thoughts about the Norwegian market. At the time of Lidl's entry, another German low price retailer, Aldi, was looking at Norway as a potential market. However, after Lidl's failure, there has been no sign of this activity on their part. This is no surprise, as the Lidl failure unveiled several factors that were difficult to handle for a newcomer grocery retailer. It is not likely that another grocery retailer will look at Norway any time soon.

### **9.4 Consequences for the Norwegian Customer**

Norwegians should be worried about the future development of this industry. When Lidl chose to withdraw, the number of players was reduced from five to four. The Norwegian customers could have benefited from having a fifth player, and in principle the authorities wanted it. It seems more likely that things will develop in the opposite direction. In the recent years, media has reported that ICA is struggling to understand the Norwegian buying behavior, constantly changing their store concepts etc. They are losing market share, and are struggling financially in Norway. ICA is doing well in their home country, Sweden. This may indicate that there is a chance that ICA will do the same as Lidl –leave before losing even more. If this should happen, it is not likely that a completely new player will choose to take over ICA, as the recent history has shown how difficult the Norwegian market can be. More likely one of the existing players will want to take over. If this happens, and today's biggest player NorgesGruppen chooses and will be allowed to buy ICA the same way Rema 1000 bought Lidl, the HHI would increase by almost 1100 points based on today's market shares. Even if the three remaining players

would split ICA into three equal parts, the HHI index would increase by almost 600. This would come at the top of an already high score - way over what is considered sound in other markets (Ref. Table 9.1).

**Table 9.1 – Acquisition scenarios**

	Market share nov.10	Aquisition ICA -> NorgesGruppen	Aquisition ICA -> All remaining
NorgesGruppen	43,4	55,9	47,57
Reitangruppen	18,5	18,5	22,67
Coop	19,1	19,1	23,27
ICA	12,5		
HHI	2747	3832	3318

How the Norwegian Competition Authority will react on this is a very interesting question, but not easy to foresee.

**9.5 Opportunities Lidl Missed**

Internationalization theories teach to first look to identify the market with the most potential. Lidl found Norway, but maybe they missed a much closer market - their own country. Norway is a country with 4.9 million people, living on 334 000 square kilometers of land. Norwegians have relatively thick wallets, but did they really want cheaper groceries?

What about the idea of spending their investment money in Germany instead - or maybe in their neighboring country Poland? In an optimistic scenario, they might have dreamt about conquering 20% of the Norwegian market. In terms of customer count this means roughly 1 million customers. What would the cost of capturing another 1 million customers in Germany or Poland been in comparison?

Lidl's low communication profile did not do much to help. A different communication strategy probably could have. Lidl might have spent some more on good advice from communicators who were familiar with Norwegians' likes and dislikes and their values and in broad terms the Norwegian culture.

They might also have used more indirect techniques to strengthen their image. My research into the Lidl company has shown that the ultimate owner - the Schwarz Stiftung - uses dividends from among others Lidl to finance projects for the public good, in the fields of education and research, art etc. They might have spent symbolic sums of money on such projects in Norway and made sure to put Lidl's stamp on it. This might have worked wonders for their image.

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## Appendix 1

### European discount retailers by turnover

Rank	Discounter	Owner	2007 turnover M€
1	Lidl	Schwarz Group	29229
2	Aldi Süd	Aldi Süd	18041
3	Aldi Nord	Aldi Nord	17037
4	Dia/Ed/Minipreço	Carrefour	10441
5	Penny Markt	Rewe	8665
6	Plus	Tengelmann	8419
7	Netto	Dansk Supermarked	3932
8	Colruyt	Colruyt	2777
9	Netto	Edeka	2730
10	Leader Price	Casino	2479
11	Norma	Norma	3100
12	Rema 1000	Reitangruppen	3061
13	Biedronka	Jerónimo Martins	2392
14	EuroSpin	EuroSpin	1850
15	Fakta & Coop Prix	Coop Norden	1413
16	Kiwi	Norgesgruppen	1021





### **Appendix 3**

This thesis has attempted to analyze Lidl's short history in Norway with methodology suggested by a Stakeholder Approach. The primary idea and purpose of the Stakeholder Approach is to aid in planning - i.e. before the fact. The structure suggested by the approach has proved itself useful for my purpose - to some extent. It has been useful for providing a tool to identify topics, events and relationships that may have had a bearing on Lidl's operations. It is my opinion that a Stakeholder Approach would be an even more valuable tool in an a-priori analysis - for instance for a Company planning to take its business to new, foreign markets.

In my attempt to apply Stakeholder thinking to the Lidl in Norway case, I attempted to structure Stakeholder relationships with the aid of a 2-dimensional matrix. The idea was to be open-minded about possible relationships between external parties, and the effect such informal groups may have on the company's plans and efforts. The matrix-idea evolved during the process of systemizing information. Had the idea been available as a proven tool for analysis beforehand, it would have been a valuable tool during the brainstorming-phase, to pinpoint areas for fact-search and analysis in a structured way.

This method proved to have its shortcomings with respect to presentation in a Thesis/Report format. Dilemmas arose about where to present the subject matter in the report-structure.

For practical use in business, I suggest that further work might attempt to develop Computer-based methods for team-based work. A structured Stakeholder Approach, employing computer tools to aid in the process could prove very useful. Tools could incorporate old and proven Brainstorming-techniques with "Groupware" - i.e. software making use of databases, hyperlinks, existing cooperation-software etc. - to aid in the current analysis process, and to memorize previous experience.

This task, however, is beyond the scope and format of this thesis.