

2009 School Seminar Series

Waikato Management School
Te Raupapa



Intra- and Inter-Format Competition Among Discounters and Supermarkets

Wednesday, 25 March 2009
10.00am – 11.00am
MSB.0.01

Dr Kathleen Cleeren
University of Maastricht, the Netherlands

Abstract

The price-aggressive discount format, popularized by chains such as Aldi and Lidl, is very successful in most Western economies. Its success is a major source of concern for traditional supermarkets. Discounters not only have a direct effect on supermarkets' market shares, they also exert considerable pressure to improve operational efficiency and/or to decrease prices.

We use an empirical entry model to study the degree of intra- and inter-format competition between discounters and supermarkets. Information on the competitive impact of new entrants is derived from the observed entry decisions of supermarkets and discounters in a large cross-section of local markets, after controlling for a number of local market characteristics. In our modeling framework, we endogenize the number of retailers, and allow for asymmetric intra- and inter-format competitive effects in a flexible way.

We apply our modeling approach to the German grocery industry, where the discount format has stabilized after two decades of continued growth. We find evidence of intense competition within both the supermarket and discounter format, although competition between supermarkets is found to be more severe. Most importantly, discounters only start to affect the profitability of conventional supermarkets from the third entrant onwards. This may explain why many retailers rush to add a discount chain to their portfolio: early entrants may benefit from the growth of the discount-prone segment without cannibalizing the profits of their more conventional supermarket stores.

Presenter: Kathleen Cleeren
Email: k.cleeren@mw.unimaas.nl