LOG950 Logistics

Deli Counters Effect on the Turnover in a Grocery Store and the Potential for Development of Deli Counters in the Norwegian Grocery Market; a Case Study of a Norwegian Grocery Chain.

Hanna Stokkevåg Aadland

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Abstract

“When you’re finished changing, you’re finished”

-Ben Franklin-

There have been dramatic changes within the consumer market; hence the quote is very suitable for describing the today’s grocery market. The consumer expense ratio on groceries has been decreasing and this has released funds that the consumers want to spend in order to satisfy their needs for wide assortment, high quality and convenience.

The thesis is an investigation of the opportunities connected to the grocery department deli counters. This in terms of the research problem: Is the presence of deli counters affecting the turnover in a grocery store and is there potential for development of deli counters in the Norwegian grocery market? The answer to the research problem is based on a theoretical framework that contains theories concerning the grocery market, the five forces analysis, deli counters, consumer behavior, strategy, retail formats, economic theory, core competence and outsourcing. It has also been developed six research questions and four propositions. The methodology is an exploratory case study of an anonymous Norwegian grocery chain. The grocery chain has provided data material from 19 grocery stores of which 10 of these contains deli counters.

The first part of the research problem is to investigate if the deli counters affect the turnover in the grocery store. The data material is analyzed in the computer program GAUSS and indicates that the stores with deli counter have more customers in total compared to the stores without deli counters. In addition these customers purchase more per sale and of complementary and substituted products.

The second part of the research problem is to examine if there are potential for development of deli counters in the Norwegian grocery sector. The theory indicates that the consumers want deli counter products. At the same time the consumers are price conscious, hence it seems like there is demand for a low price retail format that includes deli counters. However since operations of deli counters could be claimed not to be the same core competences as in the grocery store it could be wise to considered outsourcing. This second part is mainly based on the explorative research design and it is developed three hypotheses that could be investigated in further research.
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1 Introduction

In the last decade there has been an evolution in Norway and in the western world in general (Lund 2012). The consumer’s expense ratio on food has decreased significantly at the same time as the average income has been dramatic increased. In addition there have been technological and managerial changes (Strøm, Lunde et al. 2008). These are some of many factors that are the foundation for what can be claimed to be an evolution. In the today’s global market which are highly competitive, the retail industry is searching for new opportunities to strengthen its market position and survive in the retail marked (Colla 2004). This situation is very much current for the Norwegian grocery sector. The Norwegian grocery sector is an oligopoly with four big grocery chains that has over 80 percent of the market shares (Handelsbladet and Andhøy Institutt 2010), and the competition between the four chains are intense. This intense competition together with increasing customer demand for higher quality, wide assortment of prepared food and healthy easy complete meals makes opportunities and advantages for the company that has the quickest reaction to the changes in customers needs (Martinez and Hayden 2003).

1.1 Thesis statement

As far as the author’s research has revealed there is limited research on the Norwegian grocery sector. Even though there are many stakeholders in the Norwegian grocery sector, it seems like the sector in general has had limited academic interest. However based on the author’s observations it is reasonable to assume that almost the entire population in Norway is customers of the grocery sector. Further the grocery sector employs a large part of the Norwegian population. Hence the grocery industry and the population in general could profit and benefit from increased academic research and interest in the Norwegian grocery market.

From a supply chain perspective the grocery sector handles a large inventory turnover and a large number of customers every day. The market is in addition highly competitive and it could be advantageous to investigate opportunities that could be beneficial for the grocery sector. This can increase the knowledge within the Norwegian grocery sector. This can be used to reduce the cost, waste, increase
service level, etc. in the grocery supply chain and in other areas that has to manage a large number of goods through their supply chain.

1.2 Appraisal

With the changes that are present in the Norwegian grocery sector there is a variety of relevant topics that are interesting for further research. The changes in customer demand and the intense competition in the Norwegian grocery market makes it interesting to study potential opportunities that could be advantageous for the grocery sector. In today’s consumer market there is an increasing demand for fresh, healthy, ready to go meals. The deli counters are important in order to satisfy these changes which are present in the consumer market.

There is limited information about the Norwegian grocery sector. Little research has been made and the industry is quite closed in terms of sharing information. The author has previous education within the Norwegian grocery sector and hence some information in this thesis will be based on the knowledge that was acquired through a bachelor degree in retail management at Handelshøyskolen BI.

1.3 Thesis outline

The outline for the thesis is as follow:

The first chapter is an introduction to the master thesis and the statement of thesis.

The second chapter presents the background for the research problem together with the thesis research problem and the belonging research questions.

The third chapter is the theoretical framework. In this chapter theories concerning the grocery sector, deli counters and consumer behavior, strategy, retail formats, economic theory, core competence and outsourcing are presented.

The fourth chapter presents the research methodology. This chapter explains the approach, the chosen research design, the data collection method, the propositions, the statistical measures and reliability and validity.

The fifth chapter describes the company that is the objective for the case study in this master thesis.
The sixth chapter are the analyze chapter. First there is a description of the Norwegian grocery market through a five forces analysis. Second the results conducted through the mathematical and statistical program GAUSS is presented.

The seventh chapter is the discussion chapter. In this chapter the theoretical framework and the results from the analysis is discussed to solve the research questions.

The eighth chapter presents the conclusion to the research problem.

1.4 **Limitations**

The first limitation is that it has been made very little research on deli counters and on the Norwegian grocery market. Hence it has been difficult to find relevant information.

Another limitation is that it took some time before the dataset was received from the company who is the objective in this master thesis. Further the dataset was extremely large, and the school computers did not have the capacity to process the data. A computer with extra capacity had to be ordered in order to cope with this problem. In addition, it was hard to find someone with knowledge regarding how to analyze a dataset which contained over a million rows and columns. This was a time consuming process, and much valuable time were used in order to sort out the relevant data.

Since the dataset was so large, it was impossible to use all the data due to time restrictions. This means that there is still much valuable information in the dataset which has not been analyzed yet. This has possibilities for future research. Initially, price elasticity was supposed to be an important aspect in the thesis. However the dataset contained too little variation to make this possible.

The conclusion on the first research question is based on data material provided by the case company. Since this conclusion is based on just one grocery chain there is not possible to be sure that the conclusions are current for other grocery chains. Hence this are a field that should be further studied to see if the results are valid for other grocery chains with deli counters included in the grocery format.
2 Research Problem

This chapter presents the background for the research problem. Thereafter the research problem and the research questions for this thesis are introduced. The information that is presented in the background of research problem is based on information and theories that is presented later on in this paper.

2.1 Background for the Research Problem

Theory that shows that there has been changes in the customer expense ratio and preferences are presented in the theoretical framework. These changes have resulted in released funds for the customer. The customer can spend these funds in ways which they find more suitable in order to satisfy their needs. As a result of these changes the consumers from time to time desire to buy exclusive fresh goods and easy and healthy food that are made to go. At the same time as these consumer preferences are increasing the stores that originally sold such products, specialized grocery stores (like butchers, fishmonger etc.), have had a decreasing market share in Norway. There has been an evolution in the Norwegian grocery market in the last decade. This has made it hard to run profitable, independent specialized stores without being a part of the large cooperation between the main grocery chains. Hence, many specialized stores are closed.

There have been many attempts from the grocery chains in the Norwegian grocery market to implement deli counters in their retail format. However, in many cases it has been difficult to manage deli counter optimally and many retailers has gone away from retail formats which include deli counters. As far as my research and literature studies has revealed there has not been any attempts to measure the deli counter’s actual effect in a grocery store and further if it is beneficial for a grocery store to implement a deli counter in a store format.
2.2 Research problem

Based on the considerations above the following research problem is sought answered in this master thesis:

*Is the presence of deli counters affecting the turnover in a grocery store and is there potential for development of deli counters in the Norwegian grocery market?*

The master thesis is an exploratory case study of a grocery chain in the Norwegian grocery market.

2.2.1 Research questions

The research questions should together specify what is needed to answer to achieve the purpose of the analysis (Gripsrud, Olsson et al. 2004 ). Thus the following research questions are sought to be answered to achieve the purpose of the analysis; answer the research problem. Question 2 and 3 are referring to substituted and complementary goods to the own produced products sold in deli counters.

1. Do the customers at a grocery store with deli counters purchase more than a customer in a grocery store without deli counters?
2. Does the presence of deli counters affect the sale of substituted goods?
3. Does the presence of deli counters stimulate to a higher sale of complementary goods?
4. Do the customers want to have deli counters included in a grocery store?
5. Is there market potential for further development of deli counters in the Norwegian grocery market?
6. How to successfully develop a deli counter in a grocery store?
3 Theoretical Framework

Theoretical framework can be defined as a group of related ideas that provides guidance to a research project or business endeavor (BusinessDictionary 2012). The theory in this chapter will be used as a base for the research method and the discussion. First a description of the functions of the grocery sector and retailing is presented. Second the Michael Porters five forces analysis are explained. Third theory regarding deli counters and the importance of consumer behavior are described. Fourth strategic theory is presented. Fifth theory regarding Retail formats is presented. Sixth economic theory concerning substitutes, complementary products and price strategy will be presented. The two last theories that are presented are regarding core competence and outsourcing. The chapter will end with a theoretical summery.

3.1 The Grocery Sector

The grocery sector is the field of study in this master thesis. The grocery market is a part of the retail industry and hence this chapter is a description of the retail sectors function and importance.

3.1.1 Retailing

“Retailing comprises the business activities involved in selling goods and services to consumer for personal, family, or household use. It is the last stage in the distribution process, whereas wholesaling is an intermediary stage”

(Sharma 2008).

In general terms retailing includes all the business and people that is involved in the physical movement and the transferring of ownership of products or services from the producer to the end customer. Thus the retailers provide valuable functions in the supply chain. Some of these functions are: collection of assortment from various suppliers, communication between the participants in the supply chain, shipping, mark, advertise, and prepay for goods. In addition they also provide customer service. The retailer market is divided into different industries. Some of these are the grocery market, the clothing market, furniture market etc. Common for the different markets within the retailing sector are that the different retailers have some special characteristics; normally they offer products through multiple formats and have small average sales transaction.
Further retailers are based on customers unplanned purchase, and provides goods in locations that are visited by customers (Sharma 2008).

3.2 Five forces analysis

When defining the competition in the Norwegian grocery market there is important to reconsider that competitors can be others than just the companies which are perceived as the direct competition. In addition there is the threat of new entrants, the strength of the suppliers and customers, and also to which extent your market is possible to substitute. The five forces analysis is a holistic way to look at any industry and to get an overview over the complexity within the industry (Porter 2008).

![Five Forces Diagram](image)

Figur 1 Five Forces (Porter 2008)

Rivalry among existing competitors: Rivalry among existing competitors can happen in several familiar forms. This includes price discounting, advertising campaigns, new product introductions and service improvements. High rivalry among existing competitors will limit the profitability of an industry. However, the degree of how much the industry’s profit is driven down depends on the intensity with which companies compete and on the basis on which they compete.

Threat of new entrants: New entrants bring new capacity and market share. This puts pressure on costs, prices and the rate of investment necessary to compete. When threat of new entrants is high, incumbents must hold down their prices or boost investment to deter new competitors. The threat of entry depends on the height of the entry barriers.
Bargaining power of suppliers: Powerful suppliers can squeeze profitability out of an industry if the industry is unable to pass on cost increases to their own prices. These powerful suppliers capture more value for themselves by charging limiting quality or services, higher prices or shifting costs to industry.

Bargaining power of buyers: The buyers can also capture more value for themselves. This is done by forcing down prices, demanding higher quality or more service and playing the participants in an industry off against one another. This is all happening at the expense of industry profitability. The buyers can be characterized as powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive. In general, there may be distinct groups of customers who differ in bargaining power. This is also true for the bargaining power of suppliers.

The threat of substitute product or services: A substitute performs a similar or the same function as an industry’s product by a different means. Substitutes are always present in an industry. However they may be easy to overlook since they can appear to be very different form the industry’s product. The industry profitability suffers when the threat of substitutes is high. This is because substitute products or services place a ceiling on prices (Porter 1996).
3.3 **Deli-counters**

The term deli counters are in this thesis defined by the author as *a counter in a grocery store served by deli-counter personal which is separate from grocery store employees. The deli counters sells fresh goods like meat, fish and finished meals like pizza and dinners.* This is not an established definition. However to describe the use of the term deli counter in this thesis the author found it necessary to make a definition.

> “When you`re finished changing, you`re finished”
> -Ben Franklin-

These words from Ben Franklin are a statement that is current for describing today’s situation for the deli counters. If the managers of the deli counters not keep up with the changes in the market it will be difficult to manage the deli counter profitable. The customer needs are constantly changing and it is very critical for grocery stores to adjust their deli departments. This involves understanding the customers eating habits. By acquiring knowledge within this topic there are better possibilities to provide the right products in each store, and in addition create attractive in-store deli concepts that truly will delight the customers. The convenience trend has made a new big competitor to the deli-counter product. This competition has the shape of the development of refrigerated single-served meal solutions (Haxthausen 2003).

In the article written by Haxthausen (2003) three steps that will help to build a suitable deli offer is recommended. These are:

1. Understand your customer needs and their behavior as food consumers
2. Get the deli products selection right in each of your store
3. Building exciting deli concept around your product

In order to truly understand what the customers are demanding it is important to look into demographic variables, income and consumption. Manufacturers or suppliers of the deli products also can be helpful in providing insight in market trends and new product developments. Once there is an understanding of what the
customers are demanding, a strategy should be developed to effectively meet this demand. To optimize the deli-counter operations, there are a lot more steps and recommendations that will help in developing and adapting a deli-counter to the customer needs. Even though this topic is relevant for how to run a deli counter and will to some extent be discussed in the conclusion, this topic is not directly relevant for the thesis and will not be discussed further. However, this is a very interesting aspect in the operating of deli counter and is a relevant topic for further research (Haxthausen 2003).

The article by Heller and Major (2005) registered a net contribution from the deli-counter to the overhead store turnover to be on average 8 percent. However, this contribution has a great variation. This variation could to some extent be argued with a weakness for those operators that run the department with a grocery mindset vs. running it like a true culinary destination. The changes in customer demand are in some ways the foundation for growth in demand for products from deli-counters. However, this growth is not without challenges. The department is in general struggling with escalating prices, hard competition, difficulties in employee training, and operating a deli-counter profitable. However, the consumer has a clear demand for healthier food choices. There are three key words in the customer’s definition of healthier food. These are: Fresh baked, cooked/made to order and to promised quality (Heller and Major 2005).

It has been almost impossible to find any research concerning the development of deli-counters in grocery stores in Norway. However, the author assumes based on previous knowledge and observations that the Norwegian groceries chains have made different attempts on include deli-counters in grocery stores. But many of the grocery stores have gone away from including deli counters in their stores. In addition, many of the specialized grocery stores have not the possibility to compete with the grocery chains on price and localization. Hence, many of them are forced to close. There is not an established definition on what special grocery stores are. However, the author defines the term in this thesis as a store that is independent from other chains and are specialized on a product group like meat or fish. Typical names are fishmongers or butcher.
Even though the specialized stores are vanishing and there has been different attempts to establish deli counters in a regular grocery store the customers from time to time desire to buy exclusive fresh goods. The deli counter therefore is a potential pull factor to get customers into the store; assuming that they will buy other groceries when they first entered the store. Hence there is potential and benefits for a store to have a deli counter that pulls customers.

### 3.3.1 Consumer behavior

Consumer behavior is a topic that is very relevant in answering on what are the consumer needs and wants. Since the customer and the consumer preferences is affecting most of the decisions done within retailing the topic is to some extent mentioned in most of the theoretical chapters in this thesis. The following will shortly explain some important issues concerning consumer behavior.

Today`s customers are much more demanding than the customers was in previous years. Previous shopping was more like a social scene for amusement and relaxing. Today many customers do not longer enjoy spending time on shopping in general and especially not on grocery shopping. In addition the view that high price reflect high quality is no longer commonly accepted. The market can be shared in segments which include different kinds of customers, and these different customers have different attitudes toward shopping, preferred brands and products. The stores own brands were in the introduction phase viewed as second-class products. However the last years the stores have developed their own brands and people in general has a much more positive attitude against private labels. This has led to that many private brands are perceived to have good enough quality, and in some cases even better quality than the producers brands (Sharma 2008).

It is a tendency that customers often patronage one store format, but still they often cross-shop. Hence a customer can shop for a product category at a various retailers during a period and even visit multiple numbers of retailers at one shopping trip (Sharma 2008).

The customer is to some extent going through a process that affects their purchasing decisions. This process is to a high extent affecting the customers
shopping behavior. This decision process consists of stimulus, problem awareness, information search, evaluation of alternatives, purchase, and post-purchase behavior (Sharma 2008). The customer behavior is an important theoretical area in understanding why customers choose a store before another and thereafter which products they choose after entered the store. In the context of understanding the profitability of the deli counters it will be valuable to understand the customer’s behavior. This area will be mentioned to support the research but will not be emphasized in this thesis and it is necessary with further research.
3.4 **Strategy**

“In a crowded retail marked, it is perilous to forget the close and complex relationship between products, consumers and the arena in which product exchange takes place”

*(Sharma 2008)*.

When it is hard competition in a market the handling of the competition can be highly time consuming and the actual the customer can easily be forgotten. The customer is the basic for a company’s income and hence the relationship between the customer and the products in the company has to be kept in mind. On the surface it is not a complicated task to figure out who is the target customer. Most retailers actually have an opinion of who is buying their products. Further they have the target market defined. The characteristic of their customers is mapped based on segmentation criteria’s like localization, convenience, demographic etc. However a typical mistake done by many retailers is that they in strive to pleasure and attract the target market the retailer extend its product range or do other competitive moves to pleasure perceived demands. These efforts can be a danger to the core range or the core competencies that the company already possesses. This due to the fact that changes in a retail format that does not make sense to the customer could confuse the customer. In the end this would make the company less attractive. Hence changes in the retail format have to be taken into deep consideration before implementing. However, even if the retailer makes the best effort in the world to define who the target customers are there will always be some customers in your target market that do not buy your product *(Sharma 2008)*.

In order to have the possibility to perform optimal and attract the target market to the stores it is important that the retail chain creates a retail strategy. A retail strategy is an overall plan that should be used to guide the company. This strategy should contain six basic steps, which are:

1) Defining the business: what are the company’s strengths and what does it possess that could be used as a competitive advantage in the market place.
2) Setting objectives: after defining how the business should look like there has to be set objectives on how to achieve this. Which part is essential and how should they be managed.

3) Defining the customer market: what preferences have the customers and who are the target market. This step is done by market segmentation like demographic, localization, lifestyle etc.

4) Developing an overall plan: this part is figuring out how it all should fit together. Localization strategies, product assortment, organization structure etc.

5) The fifth step is to enact and integrate the strategy into the company.

6) The last step is very important and is making evaluation of performance and also making modifications after evaluating the results (Sharma 2008).

Groceries are something all people needs; we all need to eat! Since the grocery sector is needed by more or less the whole population the sector has to change with the changes in the population. Hence there are several demographic and lifestyle trends affecting retailing. For instance changes in gender roles, consumers’ sophistication and confidence, poverty of time, component life-style and consumer demographics. Demographic variables are variables like gender, age, life expectancy, income, education etc. Another factor that affects the customers is social factors, which includes culture, social class, reference groups, family life-cycle and time utilization. Psychological factors also affect the consumers and they are factors like personality, attitudes, perceived risk and the importance of the purchase. By using these different factors, the retailers have a better possibility to get insight into their target market and understand better how to satisfy them (Sharma 2008).

To avoid the mistake of changing the format so it confuses the customer there are some recommended actions that a company can follow.

1. The company should specify efforts that satisfy the target markets needs and wants.

2. Have a strategic plan to handle offensive and defensive moves by the competitors.

3. Be updated on changes and upcoming trends in the market so the company can respond in time to prevailing market conditions.
4. All the time look for potential opportunities to strengthen the market position (Porter 1985).

3.4.1 The generic strategies

“Competitive strategy is about being different. It means deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value”

-Michael E. Porter-

To compete successfully a firm should have a competitive strategy. The goal with a competitive strategy is to develop a competitive advantage that is a value for the company and provides the customers product or services that offer superior value. These values can have the shape as a good product to a low price, a superior product (differentiation) worth paying for or a best value product (both low price and differentiation). Competitive strategies exist in countless variations. However there are two main issues in the core of competitive strategy. The issues are: does the firm target a broad or a narrow market? and are the company’s competitive advantage linked to a low cost or to product differentiation?

To have a successful competitive strategy companies should include a strategy plan on how to meet the target markets demand and offensive and defensive reactions on competitor’s moves. Further it should include how to respond to changes in market conditions, possible initiatives to strengthen the market position and how to secure competitive advantages. In other words, the goal of create competitive advantages is to do a better job than the competitors in order to give the customer the value they demand to secure the place in the market.

Porter has provided five generic strategies that are different competitive strategies a company can follow.

These five are:

1. Low-cost provider strategy
2. Broad Differentiation strategy
3. Focused cost strategy
4. Focused differentiation Strategy
5. Best-Cost provider Strategy

The low cost can be shared in two types of strategies and are dependent upon if the focus is on a broad or a narrow target market. The low cost strategy is based on a broad customer base and focus on having as low cost as possible. To succeed with a low cost strategy a key is to have meaningful lower cost that the rivals and this should be the theme of the company’s strategy. The strategy should include standard features and services in the store format that is important to the customer. However these should have a competitive price. The cost advantage that makes it possible to have lower price than the customers should be well implemented and it should be difficult for the competitors to copy or match.

To make a low cost strategy profitable there is two options. The first one is to use the cost advantage to underprice the competitors and attract the price sensitive customers. If the lower price attracts enough customers, this will increase the total profit. Option two is to keep the same price, have the same market share and use the lower cost to achieve higher profit margins on the products sold.

The low cost strategy work best when there is a market that is highly price competitive, the products are standardized and available from many competitors. Another way that a low cost strategy could be the best alternative are if it is difficult and not many possibilities to differentiate any value to the buyers. There should also be low switching cost for the customers and the company that follows a low cost strategy should have a significant bargaining power over the supplier.
The second competitive strategy that is recommended by Porter is a differentiation strategy. This strategy can be split in two and are dependent on whether the focus is on a broad or a small market. The strategy focuses on differentiate in that sense that the company has features that makes the customers prefer spending their money at the company instead for at the competitors.

The keys to success with this competitive strategy are that the company must have something that really is valued by the customer in sense of being unique and appealing. If the company truly is valued by the customers, this strategy will make it possible for the firm to command a premium price and build brand loyalty. There are two approaches a company can choose from in order to achieve differentiated based advantage. The first approach is to incorporate features that increase the value that the customers achieve through the product. The second approach is to incorporate features that increase the buyer’s satisfaction in non-economic or intangible ways. This features could for instance be emotional values like brand value.

The differentiation strategy works best when there are ways to differentiate a product and the product can have many different values that could please the customers. It could also be used when the customer needs and use are differentiated. There also has to be few of the competitors that follow the same differentiation strategy for the strategy to be a success (Porter 1985).
3.5 Retail format

A retail format can be defined as the store package that the retailer presents to the customers. It is a holistic retail mix that is used by a set of retailers. The retail mix is a set of variables that retailers use to develop business strategies and constitutes for instance the assortment mix, price, transactional convenience, service level and localization, price, services etc. These variables differs the store formats in terms of quantity and quality. The store format is based on the physical store where the vendor interacts with the customer (Sinha, Mathew et al. 2005) (Colla 2004).

![Diagram of Influence on Retail Format](Colla 2004)

The development of store formats is influenced by five factors. The first factor is changes in consumer buying behavior. The development of the structure in retailing is the second factor, while the variable internalization of retailers and new players is the third factor. Further, the fourth factor is technological developments and the fifth is retailing legislations. These five factors are describing the environment that the retailers operate in. The composition of these factors makes the foundation for the direction that the store formats in a country develops and the changes in one of the variables affect the other factors (Colla 2004).

In light of the model above, the following is a brief description of how the influence is in the Norwegian grocery market. As mentioned in chapter 7, the five forces analysis, the Norwegian grocery sector is an oligopoly with four main chains that has over 80% of the market. The market is in many ways saturated and there is an intense competition between the actors in the market for market shares. The customer buying behavior is also discussed in the same chapter. The customers are looking for ways to buy more convenient, healthy and are less loyal to store formats than previous. Base on own knowledge there has been some international retail actors that has tried to enter the Norwegian grocery market.
However it is difficult for new entrants to establish in the Norwegian market, so the actors have withdrawn themselves. Some on the Norwegian actors have established stores in foreign countries like Sweden and Denmark. Technological developments have made it possible to use RFID technologies to streamline inventory and other operations. It has also made it possible with electronically pricing and self-served checkout. The retail legislation makes restrictions on the grocery actors on how long hours the stores can be open, salary to the employees, localizations and sizes of the stores, cooperation’s between the actors etc. (Colla 2004).

One aspect that is important to consider when choosing retail format is which format is preferred for the target customer. A variable that complicates this decision is that research on consumer behavior has shown that customer is less loyal and is often switching grocery stores. This may be a result of that the retail industry provides a variety of different retail formats. Hence the customer must constantly decide if they will stay loyal, test new formats or purchase at many different formats at one time. Thus there is competition between different retail formats in addition to the competition between retailers that follows the same format. In that matter it can be claimed that the different retail formats function as substitutes and complements to one another. In a market that are saturated of a variety of more or less similar formats, and customers that are less loyal the decision of choosing format is of particular importance. The questions are then should retailer invest in formats that attract and makes loyal customers, aggressively attract new customers, or maybe attract customers that switch (Tripathi and Sinha 2008) (Thejeswini 2010) (Leszczyc, Sinha et al. 2000).

The variables in the retail mix will together define the overall retail format. Which retail mix that is most suitable for the store must be decided after a consideration of key drivers of growth, the customers profile, customer expectations, the nature of competition and challenges in the market place. By considering these elements the retailer has the possibility to combine a retail mix that will satisfy the target market’s need more effectively (Sinha, Mathew et al. 2005).

The combination of the variables included in the retail mix can be distinguished by seven parameters. Typically combinations of these seven parameters give rise to some generic retail formats.
1. Categories of merchandise: Category of merchandise refers to different categories of goods held in store. Does the store format only hold food products or does the store in addition hold nonfood products like clothing, office supply etc.

2. Variety of brands: Food and grocery stores can also be differentiated based on the variety of brands held in the store for each type of the categories of merchandise.

3. Number of SKU’s: This refers to how many stock keeping units that are kept on inventory for the different brands. In small retail stores one may not find all SKU’s under any given brand.

4. Price of merchandise: Retail stores can be differentiated based on price level they follow in the store. There are stores that sell their merchandise at wholesale prices, maximum Retail Prices (MRP) discounted prices or at lowest price in the market (EDLP)

5. Service offered in the Store: This is referring to which extra services that the store provides to the customer. Are the store an over-the-counter store, self-serviced stores or do they also offer home-delivery services to their customers.

6. Accessibility: This is referring to how easy it is to reach a particular food and grocery store. It can be defined either in terms of distance or the time required to reach a particular store.

7. Ambience: This refers to the shopping conditions that exist within a store. It is a composite parameter composed factor like cleanliness, lightning, walking space, arrangement of merchandise (Sinha, Mathew et al. 2005).

The seven parameters can be combined to a variety of different retail mixes. However in most grocery and retail markets in western countries are dominated by a few types of retail formats. In general there is a tendency that western grocery chains positioning their retail formats with focus on price. The variable price seems to play a more important role in the retail mix than the focus on products and brands. Research shows that off all retail advertising in Europe, 90% of all advertising were price related and 70% focused exclusive on price (Sinha, Mathew et al. 2005).

It is also a tendency that large retail chains in the western world are primarily differing in pricing policy, assortment and service level and with a fairly large
common set of products and brands. Hence the variation in retail mix can be limited to three generic store formats.

These three are:

- Conventional supermarkets are characterized in general terms by high low pricing, broad assortment, and some service.
- Discount supermarkets are characterized by everyday low pricing policy, narrow assortment and no service. This format can be divided into two which are soft and hard discount. Soft discount grocery formats have some central characteristics and are defined and amplitude of some distinct practices. The first one is a limited breadth of assortment; a soft discount format usually carries around three thousand SKUs (stock keeping unit). The discount formats also has a strict position in terms of costs. Thus it is essential for the format to provide low pricing and value for money. Low-discount formats typically have an extensive part of its assortment in private labels, usually somewhere around 50 percent (Colla 2003)
- Hypermarkets that has a pricing policy somewhat between the two other formats, wide assortment and low service (Sinha, Mathew et al. 2005).

The two store formats that are based on every-day-low pricing or high-low pricing stores present a trade-off for the customers. This trade-off is the choice between a shopping basket that has a fixed or variable costs. The reason for this is that formats that are based on high-low pricing can offer lower total costs for small baskets, while store format that are based on every day-low price offer a lower total cost for a large basket. Retail formats that provide the customer with different price strategies may not induce extensive store-format switching among customers (Solgaard and Hansen 2003).

The customers preferences of a store format can be explained by the interplay between the customers travel cost, membership’s fees, constraints in consumer inventory capacity and the retail cost structures. Research has showed that supermarkets with wide assortment are the preferred format by consumers when they have to buy more than a threshold number of categories. Therefore supermarkets should carry an extremely broad assortment. The changes in technologies and to what extent these are available for the customers are something managers should keep special attention when developing store formats.
This could be changes for how the customers can acquire and store goods or changes in the cost of using existing technologies (Bhatnagar and Ratchford 2004).

The customers have different purchasing requirements. And how the market share is divided is an expression of which format that is preferred by the majority of the population. The preferences of the majority changes over time and are influenced by variables like socio-economic and changes in demographic. Some changes that have influence the last decades are the quest for personalization of lifestyle, higher demand for quality, service, atmosphere and stimulating experience. These changes can be a problem for grocery stores that are essential based on volume. In markets where these kinds of store formats are dominant the formats are going to face difficulties in adapting to changing market conditions. It will be challenging to remain profitable and avoid losing market shares when satisfying a growing demand for unplanned purchases and changes in the competitive environment. Another format that will be vulnerable is the average supermarket without any strength in price or quality. A format that has the possibility to benefit from the customers unplanned purchases is the local convenience store (Colla 2004).
3.6 Economic theory

This chapter is shared in five parts. First the phenomenon price elasticity is explained. Second the term cross elasticity of demand is presented. The third part introduces the substitution goods. The fourth explain the term complementary goods.

The goal with any economic activity is to maximize profit in the long run. A firm should at any time adapt to the price and the production quantity that gives the maximum margin between the total income and the total cost

(Hoff 2009)

In a free and competitive market (so called perfect competition) the supply and demand have a direct effect on the quantity sold, bought and the belonging pricing. If there is shortage of supply the price will increase and opposite if the supply exceeds the demand. Based on this the price in a free and competitive market will always move to price equilibrium and none of the companies in the market has any possibility to affect the price. Hence there is no possibility for a firm to have any price strategy, since the price is set by the marked. Certainly most market does not behave in that way. For most market the “economic man”, which are one of the criteria’s for a free market, does not exist; the firms in an industry do not have access to all necessary information in terms of changes in market conditions and demand. For a market that is not perfect changes in consumer preferences and technology affect the cost structure and potential output decisions. The Norwegian grocery market is an oligopoly market and the participants in the market are dependent on each other and will be affected by the other company’s strategic moves. One competitive move (like pricing) from one of the actors will affect the competitors. Thus when there is an oligopoly market the pricing used by the companies will be highly strategic. Since the demand is not settled and will be influenced by the competitors move there is impossible to identify a demand curve for the products provided in the marked. Therefore it is a common practice that the future price strategy is based on estimates and predictions. (Sloman and Hinde 2007).
One factor that is very important for the customer's satisfaction is the variable price. Price is the part of the product that is most easy to see and a hence simple to measure and compare. Rapidly changes or other confusions around the price can easily confuse and annoy the customers. One price technique that is much used by retailers is cost-plus pricing. This pricing technique is adding a markup amount (or percentage) to the retail cost. Another common technique is simply charging the amount that the manufacturer suggests. Since the pricing has a central role in the customer’s perception of the retail store and the customer’s attitude towards the store it is important that pricing decisions are made in an integrated and adaptive manner. The pricing is a crucial part in the management’s decisions because it has interrelationship with the overall objective and the other components of the retail strategy. To have a well working price strategy the retailer should be familiar with the price elasticity of demand and how this elasticity is in the target market (Sharma 2008).

For most goods and services price represents the strongest competition tool a firm can use to sell their products to the market. Pricing are the only competitive tool that has a direct impact on a company’s income and in almost all cases price is the foundation for a company’s income. The set price level will therefore be critical for the firm in reaching its goals, economic and others. The price level will also impact how the other competitive tools are going to be used in marketing. Indeed this is most accurate for standard goods. Branded and differentiated products sometimes have better use of other more advantageous competitive moves. Anyhow, for most products the fact is that the price level effects on how large the demand are. In the context of pricing price elasticity is an important parameter to have in mind when setting prices on a company’s products (Hoff 2009).

The work of making a suitable price strategy is a complicated task. To complicate the task even further there are many government restrictions that deal with horizontal and vertical price fixing, price discrimination, minimum prices, unit pricing, item price removal and price advertising. Within a supply chain there are also internal conflicts concerning which part should be in control of the pricing. Manufacturer, wholesalers and other suppliers that are in a weak position can be required to provide price guarantees. When the competitive environment is added
in this already complicated picture there is potential for problems and restrictions like market pricing, price wars and administered pricing (Sharma 2008).

### 3.6.1 The price elasticity of demand

Price elasticity of demand is defined as “the responsiveness of quantity demanded to a change in price: the proportionate change in quantity demanded divided by the proportionate change in price” (Sloman and Hinde 2007).

In other words price elasticity is an expression that refers to the demands sensitivity to price changes described by how the percentage of purchased quantity changes if the price is changed with 1 % (Hoff 2009).

\[
e^p = \frac{\text{Relative change in demand}}{\text{Relative change in price}} = \frac{\Delta M}{M} \frac{\Delta P}{P}
\]

(Where M and P is the original amount and price.)

The price elasticity of demand is determined by a diversity of factors. Some of these are; availability of substitutes, household income, consumer preferences, expected duration of price change and the product’s share of a household’s income. The price elasticity of demand can be elastic or inelastic. If there is an elastic price elasticity of demand the change in purchased quantity will exceed the change in price. In contrast, if there is an inelastic price elasticity of demand the purchased quantity will be less than the change in price (Andreyeva, Long et al. 2010).

The price elasticity of demand is vital to have knowledge about if a company is considering price changes. This is because it is essential for future predictions to know how this will affect the quantity demanded. For example what is the point of earning slighter higher profit on the sold units, if in the process the number of sold units decreases more than the income increases (Sloman and Hinde 2007). There is none straight forward method on how to figure out the price sensitivity on demand of a company’s customers (Hoff 2009).

The price elasticity is very important to have knowledge about and in light of deli counters the price elasticity is important to be aware of and consider when
including deli counters in a soft discount store format. However the data material provided was not suitable to measure the customer’s price elasticity. Hence the topic price elasticity is mentioned here to underline the importance of being aware of customer’s sensitivity regarding price and is a very interesting aspect for further research.

### 3.6.2 Cross elasticity of demand/ cross price elasticity

The term Cross-price elasticity can be defined as “the reflected change in demand for a particular commodity when prices of other products change” (Andreyeva, Long et al. 2010). In other words cross elasticity or cross-price elasticity of demand are a measure of the changes in the demand for a good when the price of another product are changed.

The formula under is used to calculate the coefficient of cross elasticity of demand.

\[
E_{A,B} = \frac{\% \text{ Change in quantity demanded of product } A}{\% \text{ change in price of product } B}
\]

If the cross price elasticity (E) is negative it means that the two products are complementary to each other. This means that it could be expected that the quantity demanded for a complementary products will increase if the price on the main product decrease. In contrast, positive cross price elasticity denotes substitute products. This denote means that it could be expected that the quantity demanded for a substitute product will increase when the price for main product increase (Moffatt 2012).

### 3.6.3 Substitute products

In economic theory one way to classify two or more products is by examine the relationship between the demand when price of one of the products changes. This relationship between the demand and price makes foundation for a classification of products as a substitute or complementary products. Substitute products are products that easy could replace each other in use and easily could do so if the conditions changes. A substitute has a positive cross elasticity of demand. This means that the demand for a product increases when the price of another product is increased. Equal this means that the demand for a product decreases when the
price for a substitute product is decreased. Goods that typical are described as substitutes are margarine and butter, tea and coffee (Sloman and Hinde 2007).

The fact that goods are substitutable for another has direct economic consequences. The economic consequence is that as long as goods are possible substitute to each other, the demand will be linked together by the fact that the consumers have the possibility to change products if they find it profitable (Sloman and Hinde 2007).

The degree of how substitutability products are to each other varies. However the higher substitutability the change in demand based on price will be. For instance a spike in cost of a brand in a product category like toothpaste will most likely change the demand for other brands. But product that does not have a high degree of substitutability would be less affected, like for instant mouthwash. This different effect on demand is due to that the toothpastes are directly substitutes to each other, while the mouthwash is only partial substitutes (Sloman and Hinde 2007).

3.6.4 Complementary products

Complementary products are products or materials that have a relationship to another product. The products is associated with another and thus if the price for one product decrease it has an increasing effect on the price of complementary products. On the other hand if the price of one product increases, the demand for the complementary products will decrease (BusinessDictionary). Examples of complementary goods are for instance razor and razor blades, sausages and ketchup.
3.7 Core competence

The term core competence can be defined as “specific skills the company has or must have to create unique value for customer. From a strategic outsourcing viewpoint core competence are activities that offer long term competitive advantage and thus must be rigidly controlled and protected” (Quinn and Hilmer 1994).

To define the term further core competence is not products or “those things we do relatively well”. It is those activities – usually intellectually-based service activities or systems – that the company performs better than any other enterprise” (Quinn 1999). In addition it is important to mention that core competence does not mean that an organization should just have enough competence to produce a given product; rather it is a holistic strategic area that makes the foundation for collective learning in the organization (Willersrud 2010).

In other words core competence is skills or knowledge that cut across traditional functions. It is flexible, long-term platforms – capable of adaption or evolution which is important to the customer and will be valued over time. A company’s core competence is often of limited number, usually more than one and less than five. It is areas where the company can dominate, and are a source of leverage in the value chain. Core competence also should be embedded in the organization’s culture, values, organization structure and management system (Quinn and Hilmer 1994).

In organizations that have a high degree of decentralization it can be difficult to focus on core competences. The management’s ability to consolidate corporate wide skills into competencies is crucial to create and sustain core competencies that help the organization to adapt quickly to changing opportunities. Unlike physical assets core competence does not diminish with use. Core competencies need to be nurtured and protected so the knowledge does not fade away. In some ways it is possible to say that competencies are the glue that binds the business together (Prahalad and Hamel 2003).
The term core competence is a concept that managers should think carefully through before deciding which activities they should do themselves and which activities they could outsource (Quinn and Hilmer 1994). However building core competence is more than just the question integrate or outsource. There are at least three tests that can be applied to identify core competencies:

1. A core competence provides potential access to a wide variety of markets.
2. Core competence should be perceived as a benefit and value of the end customer of the product.
3. Core competence should be difficult to imitate

The skills that is important for the competitiveness, central for customers and can be important for future opportunities cannot be “rented in” by outsourcing (Prahalad and Hamel 2003).

3.8 **Outsourcing**

The term outsourcing is a much discussed topic. It is made various attempts to define what the term outsourcing means and include.

“Outsourcing is any task, operation, job or process that could be performed by employees within an organization, but is instead contracted to a third party for a significant period of time” (Bucki).

This is just one of many definitions of the term outsourcing. However all the definitions have some main commonalities; they all concern some kind of task that a firm has possibility to do for themselves but contract it to a third party company. The key strategic issue in insourcing versus outsourcing is whether a company can achieve a maintainable competitive edge by performing an activity internally—usually cheaper, better, in more timely fashion, or with some unique capability – on a continuing basis (Quinn and Hilmer 1994).

In the 1990’s strategic outsourcing became a fashion, where companies outsourced key components to rapidly cut cost (Simechi-Levi, Kaminsky et al. 2004). In outsourcing literature there is described many benefits connected to outsourcing. These benefits have reinforced the outsourcing trend; outsourcing seems like a good opportunity for a firm to increase profitability.
Typical motivations factors for outsourcing are:

- Better focus and more flatten organizations: by concentrating limited resources on a few core competencies.
- Internal innovation capabilities: through effective personnel and motivational links to outside knowledge sources and eliminate inflexibility.
- Expand the knowledge and physical investment capabilities.
- Economic of scale: Third party companies has the potential to aggregate orders from different buyers and hence reduce cost through economic of scale both in purchasing and manufacturing.
- Risk pooling: through outsourcing the buyer can transfer uncertainty to the supplier. The supplier has the potential to gather the orders from the customers and reduce uncertainty through risk pooling effect.
- Reduce capital investment: it is easier and probably more profitable for the third party to make investments in product development and machinery, thus they sell too many different customers.
- Focus on core competencies: by focusing on the core competencies to the firm, and strategic outsource areas that is not necessary or profitable for the firm to produce, the firm has the potential to strengthen its competitive advantage.
- Increased flexibility: Outsourcing can increase flexibility in three ways, one: it can increase the ability to react on changes in customer demand second: it can take advantage of the supplier’s knowledge in product development and three: get access to new technologies and innovations (Simechi-Levi, Kaminsky et al. 2004) and (Quinn 1999).

Core competence is a word that often is mentioned in connection with outsourcing. Core competence is by many highlighted as the glue that holds a business together. Hence processes that are important for the core competence should be kept in-house. A research shows that approximately 60-90 percent of firm’s in-house activities can be outsourced without any risks connected to it. Even so, it is not always the best solution to outsource all process that is not directly linked to the core competence (Quinn and Hilmer 1994).
3.8.1 Risks with outsourcing

In the chapter above, the many advantages with outsourcing are discussed. However uncritical outsourcing has many pitfalls and risks connected to it. Specific there are two very important risks caused by misjudgments when making outsourcing decisions.

The first one is loss of competitive knowledge: by outsourcing critical components or processes a firm can lose its competitive edge, and make opportunities for competitors. Also the outsourcing firm loses the opportunity to produce products that fit their own and not the producer’s agenda (Simechi-Levi, Kaminsky et al. 2004).

Secondly outsourcing can lead to a loss of insight in important knowledge and insight in product development, a solution that often requires cross-functional teamwork. Suppliers and buyers typically have different goals and objectives. These conflicting goals and objectives can create conflicts, disagreements and unprofitable agreements for both parts. For instance if one of the buyer’s objective with outsourcing is increased flexibilities, it is better potential to match supply and demand. In good economic times conflicts can be hidden under the surface. However, in bad times the supplier, who often has small margins, are dependent on long time commitments, and the buyer often wants to decrease the purchase of the product. Hence a long-term commitment will be a huge financial risk. Conflicting objectives can also arise in product development. The buyer often wants the product to quickly be adapted to changes in customer demand, while the supplier focuses on cost reduction (Simechi-Levi, Kaminsky et al. 2004).

3.9 Theoretical summary

This chapter has presented some theoretical concepts which are relevant for the research and the analysis in the master thesis. The main focus in the theoretical concepts is presented in this section

3.9.1 The Grocery Sector

The grocery market is the field of study in this section. Hence this section is a description of the sectors functions and importance. The grocery sector provides
an important role between the supplier and the end customer. They collect
assortment, communicate, ships, mark, advertise and provide customer service. In
addition they have small average sales transaction and they rely on customers
unplanned purchases.

3.9.2 The Five Forces Analysis
This section explains briefly the five forces analysis by Michel Porter which is
used in the analyze chapter. This analysis gives a holistic overview over the
industry which is the objective in this thesis. The factors that influence on the
industry are the five forces the rivalry among existing competitors, threat of new
entrants, barging power of buyers, barging power of suppliers and the treat of
substitution.

3.9.3 Deli counters
This section explains deli counters, recommendation for optimal operation of deli
counters and some issues that the deli counter industry is struggling with. For the
management of the deli counters it is vital to keep up with the changes in the
customer demand: the industry is challenged by the producer’s development of
refrigerated single served food. To handle this it is important that the deli counters
adjust to the changes in customer’s needs. This could be done by segmenting the
market and look into the changes that are present and also be in contact with
manufacturers that often has a better insight in changing trends. To operate deli
counters so it is attractive to the customers it should be a culinary destination
rather than be run with a grocery mindset. Problems that are challenging the
operations are escalating prices, hard competition and difficulties in employee
training. Three words that is important to keep in mind when managing a deli
counter is: fresh baked, cooked/made to order and to promised quality.

3.9.3.1 Consumer behavior
This section briefly mentions some aspects of consumer behavior. It explains
some of the changes in the attitude towards shopping. Further that the customer’s
do not longer necessary believe that price reflects quality. It also mentions the fact
that the customers are much less loyal than they used to be.
3.9.4 Strategy

This section presents some strategic issues that are necessary for a company to consider. Strategic changes can be beneficial to please the target customers. However it is very important that changes not are a danger to the core competencies that a company possesses and confuses the customers. Hence the effect of strategic changes has to be considered before they are implemented. This chapter presents six basic steps that should be a part of a company’s overall plan. These are: defining the business, setting objectives, defining the customer market, developing an overall plan, enact and integrate the strategy and last evaluate performance and make modifications. The chapter also presented recommended actions to not confuse the customer. These are: specify the target markets needs and wants, have a strategic plan to handle competitors, be updated on changes and always look for opportunities.

3.9.4.1 The generic strategies

The focus in this section is how to choose the right strategy. Do the firm target a broad or narrow market and are the competitive advantage linked to low cost or production differentiation. The goal with having a competitive strategy is to do a better job than the competitors in order to give the customers the value they demand and secure the place in the market. The two main strategies are based on low cost, which could be to a broad or a limited market. The second one is differentiation to a broad or limited market. Low cost strategies should only include standard features and services and a cost advantage. This strategy is the best to use when the products are homogenous and the market is highly price competitive. The differentiation strategy should have something that is valued by the customer so it is possible to take premium price and build brand loyalty. This strategy is most suitable in a market where there are ways to differentiate.

3.9.5 Retail format

This section explains the different forms of retail formats. A retail format is a holistic retail mix that is used by a set of retailers and contains different variables. In today’s market the consumers are less loyal and this makes the task of deciding retail format difficult. However the decision should be based on the key drivers of growth, the customers profile, customer’s expectations and the competition in the market place. In western countries the grocery chains are mainly differing on price, assortment and service level. This is the foundation for three generic retail
formats. These are conventional supermarkets, discount supermarkets and hypermarkets.

3.9.6 Economic theory

This section discusses price elasticity, cross price elasticity, complementary goods and substitution goods. The price in oligopoly markets is often highly competitive. In this kind of market the changes in market conditions and demand are effected by how the company’s in the markets competes. Price is a factor that customers easy can measure, and hence a very important factor for customer satisfaction. Pricing that does not make sense annoys the customers. To set the right price is a complicated task and very important in achieving the economic and other goals. It is vital for a company to have information about the cost consequences of a decision before it has to be taken. Consequently it is important for the company to have knowledge about how the decision will affect the cost picture and purchase activity (Hoff 2009).

3.9.6.1 Price elasticity of demand
Price elasticity is an expression that refers the demands sensitivity to price changes. Even though the price sensitivity not is measured in this thesis the price elasticity is important in understanding how consumers act, for instance if the company considers price changes.

3.9.6.2 Cross price elasticity
This section explains the term cross price elasticity. Cross price elasticity measure the changes in demand for a good when the price of another product changes. It the cross price elasticity is negative two products are complementary and if it is positive two products are substitutes.

3.9.6.3 Substitute good
This chapter explains what a substituted product is. Substituted products are products that easily could replace one another.

3.9.6.4 Complementary good
This section explains what complementary goods are. Complementary goods are products that have a relationship to one another. Hence if the sale of one product increases, the sale on the other one will increase as well.
3.9.7 Core competence

This section explains the term core competence and the importance of nurture the core competence a company possesses. Core competence is special skills that a company possesses that offers a long term competitive advantage. Companies that have a high level of decentralizations can have difficulties on focusing on their core competences. This is not good because core competences should help the organizations to adapt quickly to changing opportunities. To identify the core competencies of a company there are three tests that should be applied. Does the core competence provide access to a wide variety of market? Does it give benefit and value to the end customer? And is it difficult to imitate?

3.9.8 Outsourcing

This section discusses the topic outsourcing. Outsourcing is any task operation, job or process that could be performed by employees within an organization, but instead is contracted to a third party for a significant period of time. There are many benefits from outsourcing. One of them is that it seems to increase the profitability of a firm. Other benefits is that it is easier to focus on core competences, it is easier for the third party to achieve economic of scale, more flatten organizations, risk pooling, reduce capital investment and increase flexibility.

3.9.8.1 Risk with outsourcing

This section presents some risks with outsourcing. The two main risks are loss of competitive knowledge and loss if insight in important knowledge and product development. Another problem can be conflicts between the company and the third part.
4 Research Methodology

In this chapter the research methodology is described in terms of research design and data collection method.

4.1 Approach

Using a correct method is important to get reliable answers to fill the purposes of any study. Furthermore the approach plays an important part in the collection of information. Partly because the empirical information has to be consistent with the research purpose and partly because the information has to be treated correct (Bryman and Bell 2007).

The thesis is based on a quantitative case study of a Norwegian grocery chain.

4.2 Research Design

Research design can be defined as “a logical plan for getting from here to there, where here may be designed as the initial set of questions to be answered, and there is some set of conclusions (answers) about these questions” (Yin 2009).

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of research question</th>
<th>Requires control over behavioral events</th>
<th>Focus on contemporary events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, why</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many how much</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>archival analysis</td>
<td>Who, what, where how many how much</td>
<td>No</td>
<td>Yes/no</td>
</tr>
<tr>
<td>History</td>
<td>How, why</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>How, why</td>
<td>No</td>
<td>yes</td>
</tr>
</tbody>
</table>

Figur 4 Research Design (Yin 1994)

There are three conditions that distinguish the different strategies. These are the form of research questions, the needed control over behavioral events and focus on contemporary events. The different research designs have its advantages and disadvantages. The goal with the research design is to avoid gross misfits and use the right research design for to solve the research problem.
Yin (2009) has presented five components of a research design that are especially important for case studies:

1. **Study questions:** The case study method is most likely to be appropriate for “how” and “why” questions. It is important to clarify precisely the nature of the study questions in this regard. The thesis study questions is presented in chapter 2.2.1

2. **Propositions:** Propositions are made as a supplement to the study questions. Each proposition directs attention to something that should be examined within the study. The propositions are presented in chapter 4.4.

3. **Unit of analysis:** Unit of analysis is related to the fundamental problem of defining what the “case” is. The unit of analysis in this thesis is a grocery chain in the Norwegian grocery market.

4. **Linking data to the propositions:** Different tools and techniques are used to analyze the data. It is important to be aware of the main choices and how they might suit the case study. This will create a solid foundation for the later analysis. This is done in chapter 6.

5. **Criteria for interpreting the findings:** Statistical analyses offer more explicit criteria for interpretations. However much case study analysis will not rely on statistical analyses and hence other ways of thinking about such criteria is important.

### 4.2.1 Explorative design

In an initial stage of the research it can be appropriate to use an exploratory design. This is a suitable design if the researcher has limited knowledge within the research area. Explorative design is a more flexible and unstructured process than other designs and can be used to find possible connections. In an explorative design the main goal with the research is to:

- Understand and interpret
- Literature studies
- Develop hypothesis

(Gripsrud, Olsson et al. 2004).
First it is important to understand and interpret the situation that is going to be studied. To have the possibility to understand the situation there can be necessary with literature study to achieve more knowledge concerning the area. Hypothesis is often developed as a foundation for future studies. In addition to literature and secondary data it is also often necessary to collect primary data to get a more detailed understanding. (Gripsrud, Olsson et al. 2004).

In this master thesis an explorative design is used. At the exploratory stage, literature studies were conducted to understand and interpret the market situation for deli counters. An exploratory research method can often be seen as elastic. Hence the direction of the master thesis has changed while the primary and secondary information have been gathered. It is not an easy task to limit the factors that is affecting the deli counters. However since the research problem is to investigate whether there is any effect of having a deli counter in a soft discount grocery store it has been appropriate to use an explorative design to get insight and knowledge about the topic.

### 4.2.2 Case Study Method

Case studies can be used for the development of theories. A case study research approach was chosen as research methodology for investigating the research questions. The general objective is to develop as full understanding of the case as possible. In this master thesis a Norwegian grocery store is the unit of the case study, and one single grocery chain is chosen. Since the data material is sensitive information it is chosen to keep the company anonymous.

Yin (2009) define case study as «an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009).

A case study typically uses multiple methods and tools for data collection from a number of units by direct observer(s) in a natural setting. Thus it is a detailed investigation alongside data collection with the objective to analyse the context and processes that are involved in the phenomenon that are studied.
The goal is to really understand the phenomena that is being studied (Meredith 1998). Hence by using a case study methodology there is an opportunity to study a phenomenon in its natural settings and reveal complex and underlying meanings and links. Further a case study are appropriate to use when there is limited knowledge.

Meredith (1998) cites three strengths of case studies:

1. The phenomenon can be studied in its natural setting and meaningful, relevant theory generated from the understanding gained through observing actual practice.
2. The case method allows the much more meaningful question of why, rather than just what and how, to be answered with a relatively full understanding of the nature and complexity of the complete phenomenon.
3. The case method lends itself to early, exploratory investigations where the variables are still unknown and the phenomenon not at all understood.

The case study method has however some disadvantages. These are for example requirements that are needed to conduct the method like use of time, information obstacles, access hurdles, cost and the need for using several methods and entities for triangulation (Meredith, 1988). Another disadvantage for case study is that the results of a case study are based on the results from one company. Hence there is not possible to be sure that the results are current if the same analysis would be preceded on another case company.

4.2.3 Data Collection

When collecting data, the researcher can select in a wide range of data collection methods. The methods are divided into two categories; secondary and data primary. These two categories are presented below.

4.2.3.1 Primary data
Primary data is often more relevant and more suitable than secondary data. The reason for this is that primary data are collected for the specific purposes that the data is going to be used to. The timeframe for collection of primary data are much greater than for the secondary data and often requires much work connected to collection and processing (Gripsrud, Olsson et al. 2004 ).
The thesis mainly based on primary data received from VISMA Retail, which are the Nordic countries largest supplier of software and services for finance and administration (Visma 2012). Further the primary data in the thesis is general information received from the company that is the objective in the case study. This information has been provided to the author in conversations on the district office or by mail and by telephone. The author also has spent one day observing how the stores operates the deli counters.

4.2.3.2 Secondary data
Before the collection of primary data it is necessary to obtain and evaluate existing data within the actual topic. The use of secondary data is often more inexpensive and less time consuming compared to gathering of primary data. It also can be used to disprove or confirm assumptions that starts in the beginning of a research process (Gripsrud, Olsson et al. 2004).

Secondary data is data that initially was gathered for another purpose. Hence the data must be evaluated before it can be used to something else than its original purpose. The data’s quality has to be evaluated, that is the data’s validity and reliability. The most relevant assessments criteria’s in this context is actuality; propose, approach, time, who has gathered the data, motives, method, sample size, design, control procedures and potential sources of errors (Gripsrud, Olsson et al. 2004).

The secondary data which are used in this master thesis are general literature regarding retailing, background information from websites, academic books, deli counter business websites, earlier research papers and government pages.

The table below presents the different data collection methods used in the thesis.
Quantitative - Numbers from the company that is the objective in the case study.

Qualitative - General information from the company that is the objective in the case study. - Literature
- Background information from website - Earlier research papers
Observation of the case company - Government reports

4.3 Data Collection Method

Before explaining how the data material was collected, the master thesis’ hypothesis and propositions is presented.

4.4 Propositions

Based on literature research on the grocery sector, deli counters and economic theory it is developed some propositions. These propositions regard the effect it is reasonable to assume that the deli counters will have on a grocery store.

Proposition 1: Presence of a deli counter has an effect on substituting products in the grocery stores.

Proposition 2: the presence of deli counters affects the sale of complementary goods

Proposition 3: the presence of deli counters will attract more customers to the store compared to a store without deli counters.

Proposition 4: by having a deli counter included in the store, the store will have a higher turnover per customer than a store without deli counters.

These propositions are answered in chapter 6.
4.4.1 Statistical measures

The dataset provided contained sales data regarding 19 different stores and 171 different product groups. The given dataset are from 2010 and 2011.

Excel was used in order to aggregate the large dataset and to sort out the relevant data for the research. Sales data was used to find turnover per product group per day. The turnover was also calculated with regard to turnover per day divided between total turnover on complementary goods, total turnover on substituted goods, total turnover on deli counter goods and total turnover on goods which are not a part of the deli counter goods. In addition, dummy variables were made, both for stores with deli counters and stores without deli counters. Excel was also used to find number of customers per day per store.

Further the data was exported from excel to a mathematical and statistical program called GAUSS. This was done in cooperation with professor Odd I. Larsen. GAUSS was used to analyze the data material. Regression models were used in order to reveal statistical connections. These statistical connections are presented in chapter 6.

4.4.2 Observation and conversations with the case company

The author spent one day at one of the case company’s stores. A whole day was spent in order to get a deep insight in how the deli counter was organized. Further the author also got insight in the pricing strategy of the own produced goods sold in the deli counter.

In addition, the author had several phone calls with the district manager for the company. It was also held a meeting at the district office where general information about the market and the store where provided. It was also given information regarding how the deli counters were operated. Since the company is anonymous, this information is not directly revealed in the thesis. However it is used as background information in the discussion part.

4.5 Reliability and Validity

It is important to consider the validity and reliability of the research in order to evaluate the quality of the measurement. Validity and reliability is frequently used
when deciding how well one or more phenomena are measured (Gripsrud, Olsson et al. 2008).

In order to measure whether the presence of deli counters affect a grocery store and further if there is potential for development of deli counters in the Norwegian grocery market, collecting numbers and analyze them in GAUSS was an appropriate method to use. The thesis supervisor supported this decision. By using this method the author analyzed the data set and hence was able to find answers to the thesis research problem.

Reliability regards the extent to which one can trust that the results are reliable and if the measurement will give the same result if repeated many times with the same or with other methods (Gripsrud, Olsson et al. 2008). If the same dataset was analyzed it is likely that the same results will be found. The dataset contained sales data from 2010 and 2011 regarding 19 different stores and 171 different product groups. Hence the high number of data in the dataset secures the reliability.

One disadvantage with case study methodology is that the results are based on one case and hence the results are not possible to generalize. There are necessary to conduct further research on this topic on other grocery stores to have the possibility to generalize the results.
This chapter presents the grocery chain that is the case in this master thesis. The grocery chain is anonymous and the following chapter is only a general description of the company that is the objective for the research. Hence there are not any references in this chapter that could link the information to the company.

5.1 General description

The subject for this case study is one of Trondheim’s oldest trading companies. The company has evolved through different stages and is today a viable grocery chain in the Norwegian grocery market. The grocery chain has expanded considerably since the first established grocery store and has today stores located from North to South in Norway.

5.1.1 Chain description

The grocery chain is positioned as a low-discount grocery format and follows a soft discount strategy. Soft discount grocery formats have some central characteristics and are defined and amplitude of some distinct practices. The first one is a limited breadth of assortment; a soft discount format usually carries around three thousand SKUs (stock keeping unit). The discount formats also has a strict position in terms of costs. Thus it is essential for the format to provide low pricing and value for money. Low-discount formats typically have an extensive part of its assortment in private labels, usually somewhere around 50 percent (Colla 2003). All the four large grocery chains in Norway have at least one retail format that follows a soft discount format, thus there is many competitors within this market.

The grocery chain mainly locates their grocery stores in strategic localizations based on convenience. In general they have three main concepts. The first one is a regular low discount store, with focus on low price, limited assortment and facilities. The second concept is a soft discount store with larger store space, broader assortment and deli counter. Last, “Brustadbua” is a store which is open on Sundays and provides the most necessary grocery products in facilities fewer than 100 square meters. Through these three concepts the grocery chain reaches a wide range of customer and is a competitor to the other store formats that are a part of the other large Norwegian grocery chains.
The company has stores located in a wide geographic area in Norway. Some of the stores are placed in city centers and others are located at the country side. In the context of competition it is difficult to clearly state without further research which competitors that are most relevant. However based with foundation in previous knowledge of the Norwegian retail market it is reasonable to assume that a store has multiple competitors. First of all there are the stores that are located closest, these are the most obvious competitors. Second there are stores which are located at the customers travel distance to work, school, their kid’s kindergarten etc. To make the picture even more complicated the customer has in addition preferences towards which store to choose. These preferences can be linked to brand names, service, price, experience, habit etc. However since the competitive situation is not directly linked to solve the research problem the accurate competitive situation will not be quantitative analyzed. However the information about the market the company competes in is useful in understanding the conditions the company are competing under.
6 Analyze

The purpose with the analysis is to investigate if the presence of deli counters affects the turnover in a grocery store and if there is potential for development of deli counters in the Norwegian grocery market. Thus the two following analysis is conducted to answer the research questions.

6.1 The five forces analysis

The following five forces analysis is conducted to describe the Norwegian grocery market. This is relevant for solving the research problem.

6.1.1 Rivalry Among existing competitors

The Norwegian grocery market is an oligopoly with four main grocery chains. An oligopoly exists when there is a market situation where a few numbers of companies dominates and are responsible for a major part of the supply to the market. Further the competition can be defined as concentrated. In an oligopoly market the companies must consider their competitors reaction when deciding a competitive move regarding pricing, marketing etc. (Leksikon 2011). The four main grocery chains in the Norwegian grocery market are “Norgesgruppen”, “Reitangruppen”, Coop Norway and ICA Norway. These four shares the Norwegian grocery market between them and covers 80 % of the market shares (Handelsbladet and Andhøy Institutt 2010). Based on Porters (1985) view of competition in an oligopoly market, the competition within the Norwegian grocery sector happens in familiar ways. The firms maneuvers in the market place with the goal to get the best possible market position. Common competition strategies used in the grocery market are price competition, advertising wars, launches of new products, better customer services and/or guarantee conditions (Porter 1985).

The four different chains includes a large number of competing retail formats, large scale retail concepts, and a greater range of more or less integrated wholesale functions. This market condition is a result of a transformation that has manifested itself within the Norwegian grocery sector in the last decade. This transformation has the shape of mergers, acquisitions and/or cooperation between companies. Most of these cooperation’s are formed as voluntary chains, centrally managed enterprise branch, or through stores under license (franchise) (Lund
These cooperation’s are called “House of Brands” (Anselmsson, Johansson et al. 2008). This means that a main chain has many different store formats under its domain. These store formats compete on multiple levels. They both compete with other store formats that are under the main chain and in addition compete to the others main chains retail formats. These store formats cover most of the market from low-price stores brands to full assortment store brands.

The four chains have different approaches on their business model and the different retail formats under one chain can have different business model. For instance, Rema 1000 (part of Reitan group) cultivates its franchise model, where all the merchants are self-employed and runs the store as their own. The chain Kiwi (part of Norgesgruppen) has another approach and 80 percent of the Kiwi stores are driven by the chain managers with employed store managers. Both of these chains focus on new establishment of stores. Kiwi has this year planned to open 30 new stores which will give them total 550 stores. Rema has planned 25 new stores this year and will have 520 stores all together (Laugen 2012).

### 6.1.2 New entrants

Based on the authors previous knowledge about the Grocery sector the Norwegian grocery market is in many ways saturated and there are high barriers to enter for new entrants. This is due to the economics of scale which the large chain achieves through their large cooperation’s. There have been some problems for new entrants who have made attempts to enter the Norwegian grocery market. First of all a new entrant has to have a sustainable amount of capital to have the possibility to compete with the four big retail chains. Most of the grocery chains also have a fully integrated wholesaler function so it is difficult for new entrants to get access to supply. However nothing is impossible for a company that are quick to respond on changes in customer demand.

### 6.1.3 Customer barging power

Since the early 20th century there has been an evolution within the grocery market. In the western world there has been a decreasing change in the expense ratio on commodities. An average household in Norway used in 2005-2007 on average 11 percent of their income on commodities. Compared to the expense ratio in 1958
that was on average 40 percent, this is a foundation for a significant change in how the income is spent (Strøm, Lunde et al. 2008).

According to the authors Martinez and Hayden (2003) today’s customers have a growing demand for a wide assortment of prepared food. This includes complete meals which are purchased through restaurants and supermarkets deli counters. Due to the time pressure in today’s society the consumers uses the increased income to purchase more convenient. In addition consumers are looking for quality, variety and value for money. These changes in consumer preferences, as well as technology developments and other economic changes are some of the reasons for why companies are looking for new opportunities (Martinez and Hayden 2003).

What typical Norwegian households have for dinner has had some small changes. The last 30 years different kinds of minced meat filet of chicken and salmon/trout have become the most common ingredient (Helle 2009). However the Norwegian eating habits have changed very little since the 1970th. The Norwegians follows recommendations about healthy and disciplined food habits (Kjærnes 2001). What Norwegians choose to have for dinner is a result of strong social and cultural norms. The daily dinner are controlled by many tacit rules and are surrounded of a strong moral. Hence the eating habits in a society are following some social norms, and therefore many Norwegian has quite similar eating habits (Tveter 2005).

As mentioned the Norwegian grocery store formats compete for the customers at multiple levels. Most of the products sold from a grocery chain in Norway are homogenous. No matter which store in Norway a customer enter it will be possible to buy products from Tine, Gilde, Toro, Freia and so on. Thus it is a growing trend that grocery firms strives to differentiate from each other with the development of own store brands like “Euroshopper” and special campaigns like “10 - NOK markets” to attract and keep customers. In the context of pulling customers to its stores there are additional aspects which influence the customer’s choice rather than only price and product range. These aspects can be conditions like location, parking possibilities, reputation, service-level and effectiveness. The ideal situation for a grocery chain is when customers have an established habit to
shop at one specific store in order to satisfy their needs. In attempt to create this customer habit, the locations of the stores are particularly important to the main chains and the store formats. The goal is to cover the needs to a majority of the consumers in the local market. Through analyzes and developing insight in the population base, consumer behavior and –attitudes, formulation of store formats and advertising, the big chains makes the foundation for attract the “right” customers to the different store concepts. Additional the chains affect the customer after they have entered the store through in-store advertising and to guide them to purchase groceries that give the greatest profit for the stores (Matkjedeutvalget 2011).

### 6.1.4 Supplier barging power

The Norwegian retail industry is a complex industry which includes a wide range of businesses of different size and range. The last 20 years the retail industry has had a strong productivity growth. Considerable resources have been invested in developing efficient logistic systems. Some results of this are; development of IT-based logistics systems, electronic payment systems, centralized chain formation and development of new forms of operation. This has contributed to improved productivity and economies of scale in the industry. In addition wholesaler and retailer have been closer integrated and this has been an important instrument for increasing the efficiency of trade. There is a huge focus on having economies at all levels in the supply chain, and this has shifted the power at the expense of the manufacturers and wholesalers to the store chains (Lund 2012). The foundation of power in the grocery sector is mainly based on whom has control over the system, store design, location of commodities and marketing (Matkjedeutvalget 2011).

### 6.1.5 Substitutes

The grocery stores are to a large extent substitutes to one another. In addition restaurant, gas station, convenience store is substitutes to a typical grocery store. However if the term substitutes is broad defined a substitute to the grocery stores is all possible alternatives that the customers can satisfy the same need.

### 6.1.6 Summary Five Forces

The Norwegian grocery sector is an oligopoly with four large chains that has over 80% of the market shares. Hence a competitive move from one of the chains will
affect the other companies in this market. The four different chains includes a large number of competing retail formats, large scale retail concepts, and a greater range of more or less integrated wholesale functions. Even though the chain follows different business approaches they are perceived as quite similar in the consumers mind.

The Norwegian grocery market is a hard market to enter. Based on the strong competition between the exciting companies there are high barriers to enter.

There have been large changes in the consumer market the last decade. The customers has released founds to spend the way they want. There is a tendency that customer want to use this released funds on a wide assortment of prepared food, quality, variety and value for money. This includes complete meals purchased through restaurants and supermarket deli counters. These changes in consumer preferences are potential for new opportunities for the grocery sector.

The increased integration between the actors in the grocery market has been the foundation of that the grocery chains has bargeing power over the suppliers.

Since the grocery chains to a large extent are quite similar they are in many ways substitutes to one another. All Norwegians has to eat and even though restaurants and convenience stores can be a substitute to grocery stores it would not be a realistic picture that the customers would substitute with these to a large extent.
6.2 *Analysis of the Data Material*

The following analysis is based on data material provided by the company that is the objective for the case study in this master thesis. The dataset contains in total 19 stores were 10 stores are included deli counters and 9 stores are without deli counters. The table below describes the dataset.

<table>
<thead>
<tr>
<th>Dummy</th>
<th>Varegrupper inkl fokus</th>
<th>Varegrupper +fokus</th>
<th>Varegrupper xfokus</th>
<th>Antall dager</th>
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In total the stores have 171 different product groups. In the analysis it is focused on 28 product groups. The 28 product groups are further divided into four groups. These are own produced products, complementary products, substitute products and the last group includes the other product that are sold in the store. The last column in the table is the total numbers of days that are registered to the different stores in the data material. From the table it is stated that the different stores has different number of dates observed. Some of the stores did not have the same start date on the data material, and some of the stores are Sunday open. In order to cope with this problem the calculations are made per day and Sundays are removed. In addition, days with lower turnover than 5000 NOK are also removed.
The following analysis is conducted with help of Odd I Larsen, professor at University College Molde. The analysis is carried out through the computer program GAUSS which are a mathematical and statistical system.

### 6.2.1 The difference in sale per customer

\[
\text{dependent variable} = \ln\left(\frac{oms \times fvd}{\text{ant. kunder}}\right)
\]

The dependent variable is a natural logarithm of the turnover from the stores except the turnover from the deli counters divided on the number of customers at each day. The own produced products in the deli counters is not included in this analysis. This is because to have the possibility to compare the sale in the stores with deli counters with the stores without there has to be made comparison on the same product groups.

The estimated parameters in the following tables represent the level differences compared with the store with the lowest store number. This store does not have a deli counter. This is random and is used as a comparison to the other stores.

The stores are ranged by the original store number and the dummies in the table illustrate whether the store has a deli counter or not. Stores with deli counters are marked 1, while stores without deli counters are marked 0.
In the table below X1-X18 are dummy variables for the stores where the number represents the stores in ascending order. The store with the lowest store number is among the variables since this is the store that is the foundation for the comparison. The estimated parameters express level differences compared with the store that are excluded in terms of turnover for each customer except the products sold in the deli counters.

In the table above all the stores are significant different from 0 and hence the turnover per customer are significant different from the store with the lowest store number.
In the table the parameters are calculated with \( X_01 = \exp(0.19527) = 1.2156 \).

The percentage in the last column represents the difference between the different store and the referent store. For instance store \( X_01 \) which is a deli counter store, are 21.56 percent higher turnover per customer than the dependent store. The other percent differences are presented in the table. The negative sign means that the difference between the store and the reference store are higher and the positive sign means otherwise.

8 of the 10 stores with deli counters have a higher sale of other goods per customer. Concerning the stores without deli counter 4 of the stores sell more than the reference store per customer and the other 4 sells less. Based on this first analysis it may seem like it is a small tendency that the stores with deli counter have a larger turnover per customer than the stores without deli counter.
### 6.2.2 Sale per day for all stores

X19- X23 are dummy variables for all the stores from Tuesday to Saturday. The

Regression analysis is normed to a Monday for the store with the lowest store number, same as in the analysis above. All the parameters except Thursday have T-values over two and hence are significant different from 0. Hence all the days except Thursday has different sale than Mondays.

As it is possible to see from the table the sale per customer on Tuesdays are = \( \exp(-0.03914) \times 0.96161607 \). Thus the sale on Tuesdays are = 100*(1-0.961607) = 3.8% lower than the sale on Mondays. The sale per customer on Wednesdays is 5.36% lower than the Mondays. Thursday is not significant different from 0 and hence it is not a trustworthy result. On Fridays and Saturdays the sale per customer is significant higher than 0 and is 15.46% and 22.37% higher than the sale per customer on Mondays. This result is not surprising. It is reasonable to assume that the Norwegians purchases more on Mondays to fill up their fridge after the weekend. In addition, it makes sense that there are fewer customers on Tuesdays and Wednesdays since it is natural to do grocery shopping for the weekend on Friday and Saturdays.
6.2.3 Sales per day, deli or no deli

X24-x28 are dummy variables for stores with deli counters compared with the stores without deli counter on the weekdays Tuesdays to Saturdays.

| Variable | Estimate | Standard Error | t-value | Prob | >|t| | Standardized Cor with Dep Var |
|----------|----------|----------------|---------|------|------|-----------------------------|
| CONSTANT | 4.899959 | 0.009028       | 542.741636 | 0 | --- | --- |
| X24      | 0.006592 | 0.011605       | 0.568069 | 0.57 | 0.00645 | -0.032226 |
| X25      | 0.051281 | 0.011628       | 4.409997 | 0 | 0.049954 | -0.001484 |
| X26      | 0.00928  | 0.011646       | 0.796832 | 0.426 | 0.009033 | 0.024016 |
| X27      | 0.089494 | 0.011636       | 7.69113  | 0 | 0.087178 | 0.251055 |
| X28      | 0.083675 | 0.01171        | 7.145376 | 0 | 0.080553 | 0.303154 |

Tabell 8 regression for the deli stores

X24 and X26 is not significant different from 0. Hence the deli-counter stores do not have a significant different sale per customers on these days. X25, X27 and X28 are however significant positive. Hence the deli-counter stores differ from the stores without deli-counters with a higher turnover per customer on Wednesday, Friday and Saturday.

The table presents the difference in percentage. The sale in the deli counters are 5.26% higher per customer on Wednesdays, 9.36 higher on Fridays and 8.73% higher on Saturdays compared to the stores without deli counter.

Based on these results it is reasonable to assume that it is possible that the deli counters has a higher turnover than the stores without deli counter. Hence it is reasonable to say that the 4th proposition by having a deli counter included in the store, the store will have a higher turnover per customer than a store without deli counters is correct.

However the turnover can be affected by other variables. The turnover in a store can be claimed to be a result of:

Turnover = Population + income in population + marketshare + competition
The influence of these factors is not taken into consideration in the analysis. Hence the results presented above that indicated that the deli counter stores has higher turnover per customer could be caused by some of the other variables.
### 6.2.4 Number of customers

The following regression model is done with a natural logarithm of the customers as the dependent variable.

\[ \text{Dependent} = \ln (\text{number of customers}) \]

The independent variables are the same as in the previous analysis.

X1 to X18 represent the estimated difference between the stores and the store with the lowest store number. These have T-value higher than 0 and hence the difference is significant different from 0.

| Variable | Estimate | Error  | t-value | >|t| | Standardized Cor with Dep Var |
|----------|----------|--------|---------|---|-----------------------------|
| CONSTANT | 6.969231 | 0.012569 | 554.4687 | 0 | --- | --- |
| X01      | -0.68212 | 0.017666 | -38.6119 | 0 | -0.38392 | -0.23423 |
| X02      | -0.55759 | 0.014274 | -39.0642 | 0 | -0.31383 | -0.20014 |
| X03      | 0.251084 | 0.01766 | 14.21745 | 0 | 0.141489 | 0.321249 |
| X04      | 0.090844 | 0.01433 | 6.339607 | 0 | 0.050756 | 0.18373 |
| X05      | -0.56503 | 0.017666 | -31.9941 | 0 | -0.31840 | -0.1649 |
| X06      | -0.15379 | 0.01773 | -8.67407 | 0 | -0.08593 | 0.079353 |
| X07      | 0.171464 | 0.017666 | 9.705783 | 0 | 0.096505 | 0.273551 |
| X08      | -0.2769 | 0.017666 | -15.6792 | 0 | -0.15604 | 0.006737 |
| X09      | -0.25866 | 0.017666 | -14.6416 | 0 | -0.14558 | 0.01768 |
| X10      | -0.64946 | 0.014255 | -45.5591 | 0 | -0.36642 | -0.25566 |
| X11      | -0.28579 | 0.01433 | -19.9438 | 0 | -0.15967 | -0.03849 |
| X12      | 0.023033 | 0.017666 | 1.304217 | 0.192 | 0.012979 | 0.185402 |
| X13      | -0.68625 | 0.014265 | -48.1091 | 0 | -0.38671 | -0.27707 |
| X14      | 0.178722 | 0.01433 | 12.47223 | 0 | 0.099855 | 0.235579 |
| X15      | 0.227819 | 0.014255 | 15.97102 | 0 | 0.128379 | 0.267429 |
| X16      | -0.60319 | 0.017666 | -34.155 | 0 | -0.3399 | -0.18763 |
| X17      | -0.66805 | 0.014265 | -46.3281 | 0 | -0.3724 | -0.26194 |
| X18      | -0.50826 | 0.019523 | -26.0343 | 0 | -0.22391 | -0.09978 |

All the T-values are higher the two, and hence all the estimated parameters are significant different from 0.
This table shows the difference in number of customers in percentage compared to the store with the lowest store number. The next analysis is comparing the deli stores with the ones without deli counters.

6.2.4.1 The different number of customers in the weekdays

In this table is the result of the analysis of the number of customers for all stores compared to the number of customers on Mondays.

The T-values indicates that all days except Fridays has a number of customers that is significant different from 0. Hence all days except Fridays have a different number of customers than Mondays.
The table shows the difference in percentage. And the interesting finding is that it seems like the number of customers are highest on Mondays (X19-X23<0). Since the Friday is not significant this seems like Fridays has the same amount of customers as Mondays.

### 6.2.5 Number of customers in the Deli counter stores

In this analysis the number of customers per day in the stores with deli counters is compared with the number of customers in the store without deli counters.

The table shows that the T-values are higher than two for Thursday, Friday and Saturday. Hence these estimates are significant different from 0.

This means that the stores with deli counters have relatively a higher level of customers Thursday, Fridays and Saturdays compared to the stores without deli
counters. Since $X_{22}+X_{27}>0$ and $X_{23}+X_{28}>0$ do the stores with deli counters also (relatively) has more customers on Fridays and Saturdays than on Mondays. This findings is a strong indication towards that the third proposition the presence of deli counters will attract more customers to the store compared to a store without deli counters is correct. On Thursdays, Fridays and Saturdays the customers then to do their grocery shopping in a store which have a deli counter, and hence shop other groceries as well.

6.2.6 Summary

In general, sales per customer are highest on Fridays and Saturdays. The sales on Fridays are 15.46% higher than sales on Mondays and sales on Saturdays are 22.37% higher compared to sales on Mondays.

Further the stores which have a deli counter have in general a higher turnover per customer on Wednesdays, Fridays and Saturdays compared to the stores without deli counters.

The results also showed that the stores with deli counters have a relatively higher level of customers on Thursday, Fridays and Saturdays compared to the stores without deli counters. The large negative percentage on $X_{23}$ (Saturdays) regarding number of customers can be a tendency to that the stores without deli counters loses customers on Saturdays (maybe to competitors or to stores with deli counters).
6.3 *The Substitution products*

The dependent variable in this regression is:

\[ \text{Dependent variable} = (\text{substituted products share of turnover ex. own produced prod}) \]

The analysis is normed to Mondays for stores without deli counters.

All the variables has a T-value higher than two, hence the estimates is significant different from 0.

X1-X5 are dummy variables for Tuesday to Saturday. The estimates have negative parameters. This indicates
that the turnover for substituting products is relatively lower than the turnover on Mondays. However the table indicates that the share of sold substitutes are lowest on Friday and Saturday, where the percentage is as high as 8.46% and 12.33% lower than on Mondays for the stores without deli counters.

The X06-X11 in the table above are dummy variables for Mondays to Saturdays for the stores with deli counters.

The difference between the stores with and without deli counters are calculated above. The table indicates that stores with deli counters sell 13.23% more than stores without deli counter of substituted products on Mondays. Hence, based on these findings, the first proposition presence of a deli counter has an effect on substituting products in the grocery stores is correct. Stores with a deli counter tend to sell more of substituted goods than stores without deli counters. This finding is further discussed in chapter 8.

In general this share is largest on Mondays and extra-large for the stores with deli counters.
6.3.1 Summary

In general, the turnover for substituting products is highest on Mondays. Further, a store which includes a deli counter sells 13.25% more of substituted products than a store without a deli counter on Mondays.

6.4 Complementary goods

This analysis is conducted the same way as the analysis for the substituted products but now the analysis is made in regard to the complementary goods.

The dependent variable in this regression is:

Dependent variable = ln(complement.prod.share of turnover ex.own produced prod).

The analysis is also here normed to Mondays for stores without deli counters:

All The variables except X01 and X02 has a T-value higher that two, hence the
estimates is significant different from 0 regarding X03- X11.

X1-X5 are dummy variables for Tuesday to Saturday. These are shown in the table below. The estimates regarding Wednesday to Saturday have negative parameters. This indicates that the turnover for complementary products is relatively lower on Wednesday to Saturday than the turnover on Mondays. The table indicates that the share of sold complementary products are lowest on Friday and Saturday, where the percentage is 22.9 % and 14.41 % lower than on Mondays for the stores without deli counters.

The X06-X11 in the table below are dummy variables for Mondays to Saturdays for the stores with deli counters. As shown in the table, a store with deli counter sells 16.08 % more complementary products on a Monday compared to a store without deli counters.

In the table below the stores with deli counters are compared to a store without deli counter. The results show that a store with deli counter sells 18. 59% more complementary goods on Tuesdays compared to a store without deli counter.
Hence it seems like the second proposition *the presence of deli counters affects the sale of complementary goods* is correct. As the table above shows, there is a strong tendency towards that the sale of complementary goods are higher for a store which has a deli counter than a store without deli counter. This finding is further discussed in chapter 8.

### 6.4.1 Summary

In general, the turnover for complementary products is highest on Mondays. Further, a store which includes a deli counter sells 18.59% more of complementary products than a store without a deli counter on Wednesdays.
7 Discussion

In this chapter the theory in the theoretical framework and the results from the analysis chapter is going to be discussed to solve the research problem and the research questions. The research problem is solved in two parts. The first part is solved by the analysis made in chapter 6 and the second part is solved by the theory in chapter 3 and the five forces analysis.

7.1 Part one of the research problem

The first part of the research question is: *is the presence of deli counters affecting the turnover in a grocery store.* Three research questions have been developed to answer this question. These are:

1) Do the customers at a grocery store with deli counter purchase more than a customer in a grocery store without deli counter?
2) Does the presence of deli counters affect the sale of substituted goods?
3) Does the presence of deli counters stimulate to a higher sale of complementary goods?

As mentioned in the research problem, the two last research questions regards substituted and complementary goods to the own produced goods which are sold in the deli counters.

These three research questions are answered in the sections below. The results of the data material presented in chapter 6 are used to answer the questions.

7.1.1 Do the customers at a grocery store with deli counter purchase more than in a grocery store without deli counter?

The results from chapter 6 illustrated that 8 of the 10 stores with deli counters have a higher sale of other goods per customer compared to a store without deli counter. The results further showed that the stores with deli counters have a higher turnover per customer on Wednesday, Friday and Saturday compared to a store without deli counter. Hence there is a tendency towards that customers purchase more in a grocery store with deli counter compared to a grocery store without deli counter.
There can be several reasons for this. A store which includes a deli counter satisfies more of the customers’ needs since the customers have more options than in a store without deli counter. It is also reasonable to assume that a store which includes a deli counter attracts affluent customers who tend to buy more. Since the stores in this thesis has a soft discount format it is also reasonable to believe that customers who normally do their grocery shopping at a store which offers low prices, instead chose to do their grocery shopping at a store which offers both low prices and in addition have a deli counter. This way the customers do not have to go to two different stores; they can get both low priced products and products from a deli counter in the same store.

As mentioned, Fridays and Saturdays are some of the days when a store with deli counters have a higher turnover per customer than a store without deli counter. It is likely that the customers chose to do their grocery shopping for the weekend at a store which includes both low prices and a deli counter. On these days customers also normally buy more than on regular weekdays, hence the turnover per customer increases.

The findings also showed that the stores with deli counters tend to have more customers on Thursdays, Fridays and Saturdays compared to the stores without deli counters. This indicates that the presence of a deli counter attracts more customers. This, together with the fact that customers tend to buy more in a store with deli counter is an indication towards that the customers value a deli counter in a grocery store with a soft discount format. This is further discussed in chapter 7.2.1.

7.1.2 Does the presence of deli counters affect the sale of substituted goods?

As mentioned, “Substituted goods” means goods which are substitutes to the own produced goods sold in deli counters. Substituted goods to products sold in a deli counter can for instance be frozen products like chicken, meat, fish and so on.

According to the results presented in chapter 6, a store with deli counter sells 13.23 % more substituted products on a Monday compared to a store without deli counters. Actually, a store with deli counter sells more substituted products than a store without deli counters also on Tuesday, Wednesday, Thursday, Friday and
Saturday. This indicates that the presence of a deli counter in a grocery store affect the sale of substituted goods in a positive manner.

This is a rather surprising result. It would be reasonable to assume that a store which includes a deli counter would sell less of substituted products since the customer would buy products from the deli counter instead. However since the results show that stores with deli counters actually sell more of substituted products compared to a store without deli counter, it can indicate that deli counters attract more customers in total. This would also be in accordance to the findings discussed in chapter 6.1.1, which stated that stores with deli counters have more customers than stores without deli counters on Thursdays, Fridays and Saturdays.

7.1.3 Does the presence of deli counters stimulate to a higher sale of complementary goods?

As mentioned, “Complementary” means goods which are complementary to the own produced goods sold in deli counters. Complementary goods to a product sold in a deli counter can for instance be rice, pasta, sauce or other similar products.

The results in chapter 6 illustrates that the stores which includes a deli counter have a larger share of sold complementary goods compared to stores without deli counters. This share is especially high on Mondays, Tuesdays and Wednesdays, where a store with deli counter sells respectively 16.08 %, 18.59 % and 15.75 % more complementary products than a store without deli counter. This result implies a tendency towards that the sale of complementary goods is higher for a store which has a deli counter than a store without a deli counter. Hence it is reasonable to assume that the presence of a deli counter stimulate to a higher sale of complementary products.

This indicates that it is likely that customers who buy products from the deli counter also tend to buy the complementary products like rice or sauce in the same store.
7.1.4 Summary

Do the customers at a grocery store with deli counter purchase more than in a grocery store without deli counter?

The results showed that the stores with deli counters have a higher turnover per customer Wednesday, Friday and Saturday compared to a store without deli counter. Hence there is a tendency towards that customers purchase more in a grocery store with deli counter compared to a grocery store without deli counter. The finding also showed that the presence of a deli counter attracts more customers. That purchases more per sale.

Does the presence of deli counters affect the sale of substituted goods?

A store with deli counter sells more substituted products than a store without deli counters every day. This indicates that the presence of a deli counter in a grocery store affect the sale of substituted goods in a positive manner. This can undermine that deli counters attract more customers in total.

Does the presence of deli counters stimulate to a higher sale of complementary goods?

A store which includes a deli counter has a larger share of sold complementary goods compared to stores without deli counters. This share is especially high on Mondays, Tuesdays and Wednesdays. This result implies a tendency towards that the sale of complementary goods is higher for a store which has a deli counter than a store without a deli counter.
7.2 Part two of the research problem

The second part of the research problem is: is there potential for development of deli counters in the Norwegian grocery market. Three research questions have been developed to answer this research problem. These are:

1. Do the customers want to have deli counters included in a grocery store?
2. Is there market potential for deli counters in the Norwegian grocery market?
3. How to successfully develop a deli counter in a grocery store?

These three research questions are answered by the five forces analysis of the Norwegian grocery market and the theory presented in the theoretical framework. Thus the answers to these research questions have been the explorative part of this thesis and are answered in general terms.

7.2.1 Do the customers want to have deli counters included in a grocery store?

Based on the discussion of part one of the research question it seems like the deli counters attract more customers to the store and this can be an indication of that the customers want to have deli counters in the store. In this section the research question: do the customers want to have deli counters included in a grocery store, is answered. The answer to this research question is in general terms and of an exploratory design and is not directly linked to the case company.

The last decades there have been dramatically changes within the consumer market. Some would even call it an evolution. The consumer’s expense ratio on commodities has been decreasing and the consumers have a large amount or released funds to spend with the aim to satisfy their needs. The eating habits in Norway and in most countries are to a high degree driven by a strong social moral. This are the foundation for that many Norwegian households has quite similar eating habits that are controlled by social norms.

Specialized stores like fishmongers and butchers are vanishing from the market place. This is due to the fact that the large chains have gone into large cooperation’s and has advantages that independent specialized stores cannot compete with.
Even so the customers from time to time have the desire to use their released funds on exclusive commonalities and therefore deli counters has a potential as a pull factor on customers. A trend that is complicating the need for deli counters are that many producers have developed refrigerated single served meal solutions. Based on product development and new technology these finished meals have a high quality and hence are competing for the customer in satisfying the convenience trend.

The customers can be claimed to be much more demanding than the customers where in previous years. Customers are less loyal and are often switching grocery stores. This may be a result of that the retail industry provides a variety of different retail formats. Hence the customers must constantly decide if they will stay loyal, test new formats or purchase at many different formats at one time. The development within the grocery chains own products the customers are no longer convinced that a high price reflects quality. Some changes that have influenced the last decade are the customer’s quest for personalization of lifestyle, higher demand for quality, service, atmosphere and stimulating experience.

Today’s customers have a growing demand for a wide assortment of prepared food. This includes complete meals which are purchase through restaurants and supermarket deli counters. Due to time pressure in today’s society the consumer uses the increased income to purchase more convenient. In addition consumers are looking for quality, variety and value for money. These changes in consumer preferences as well as technological developments and other economics changes are some of the reasons for why companies are looking for new opportunities. There are three key words for what the customers want from a deli counter. That is fresh baked, cooked/made to order and to promised quality.

Even though the Norwegian households has similar eating habits the market can be shared into different segments that has different attitudes towards shopping, preferred brands and products, and many of the customers do not enjoy shopping groceries. The convenience trend is not the same as people buying whatever. For a grocery chain it is vital to adapt to this opportunity and be in the frontline to catch up on changing trends and other opportunities. There is a tendency that customer’s patronage one store format. Still the three generic store formats that are dominating in the world have different offers and this stimulates the customers to
satisfy different needs at different store formats. Hence they cross shop and can visit multiple numbers of retailers during one shopping trip.

Pricing has a central role in the customer’s perception of the retail store. One factor that is very important for the customer’s satisfaction is the variable price. Price is the part of the product that is most easy to see and hence simple to measure and compare. Rapidly changes or other confusions around the price can easily confuse and annoy the customers.

In the context of pulling customers to its stores there are additional aspects which influence the customer’s choice rather than only price and product range. These aspects can be conditions like locations, parking possibilities, reputation, service level and effectiveness. The ideal situation for a grocery chain is when customers have an established habit to shop at one specific store in order to satisfy their needs.

A retail format that provides the customer with an assortment and price strategy that makes sense could with advantage include and deli counter to satisfy the customers. This could induce extensive store format switching among customers and provide a store format that the covers more of the customers need. A grocery chain that does not have any strengths in wither price or differentiation is valuable in the market place when the customers has to choose store.

Based on the reasoning above it is reasonable to assume that the answer to the research question is that the customers want to purchase at deli counters to get excess to exclusive and convenient meals. However this has to be delivered on promise and have the quality and variety that the customers’ demands.

The theory is a great foundation for further research. And the following hypothesis is developed for further research:

*The customer satisfaction will increase by having a deli counter included in a grocery store.*
7.2.2 Is there market potential for further development of deli counters in the Norwegian grocery market

To answer this research question it is used theory from the theoretical chapter and the five forces analysis presented in chapter 6. This research question is answered in general terms and in the end it is developed a hypothesis that is potential for further research.

In the discussion chapter 7.1.1 it is answered in general terms that it is reasonable to assume that the customers in the Norwegian grocery market want to have deli counters included in grocery stores. This section is based on this finding and will further discuss the opportunities in the Norwegian grocery market to further develop deli counters in grocery store. The case company has a soft discount format and hence the benefits of having a deli counter in this kind of retail format are discussed.

As discussed in the section above the customers have an increased demand for higher quality, wide assortment and completed meals. This is a foundation for opportunities and can be an advantage for companies that response to these changes. As mentioned the specialized grocery stores are vanishing and since the customers still want to buy these kinds of products there are opportunities for further development of deli counters.

The question is then how is it possible for a grocery company to take advantage of this opportunity.

The grocery sector has an important role in satisfying customers and change with their demands. To truly understand what the customers are demanding variables like demographic, income and consumptions are essential to get insight in. When a market is characterized by hard competition there can be easy to lose the actual end customer out of sight. However this is a serious mistake because the customers are the basis for the company’s income. A typical mistake that can be done if the actual customer is loosen out of sight is that the management strive to please to many perceived customer demands and ends up with confuse and annoy the customer.
Since the customer in general has a much more positive attitude towards the store own brands and the customer do not necessary think that price reflects quality the discount formats has more positive attitudes from the customers.

If the development of retail format in a grocery chain is going to succeed it is important that the management develop a successful competitive strategy. This strategy should contain a strategy plan on how to meet the target markets demand and offensive and defensive reactions on competitor’s moves. Further it should include how to respond to changes in market conditions, possible initiatives to strengthen the market position and how to secure competitive advantages. In other word, the goal with creation of competitive advantage is to do a better job than the competitors in order to give the customer value that they demand to secure the place in the market.

Changes in the retail mix, like for instance including deli counters must be done after consideration of the key drivers of growth in the market. These key drivers are highly based upon the customers and are the customers profile and expectations, however it also includes the nature of competition and challenges in the market place.

Based on the section above it is reasonable to assume that the customers want to have deli counters. The market situation in the western countries in general is current for the Norwegian market and is dominated by three generic retail formats. The variation between these three is mainly on price, assortment and service level. However research has shown that the retail formats has a tendency to position retail formats with focus on price.

The competition can be defined as concentrated. In an oligopoly market the companies must consider their competitors reaction when deciding a competitive move regarding pricing, marketing etc.

The Norwegian grocery chains compete for customers at multiple levels. Even though the market contains different formats the store formats and their offers are quite homogenous. No matter which store in Norway a customer enter it will be possible to buy products from Tine, Gilde, Toro, Freia and so on. Thus it is a growing trend that grocery firms strive to differentiate from one another.
There is competition between different retail formats in addition to competition between retailers that follows the same format. The Norwegian grocery market is an oligopoly market and the participants in the market are dependent on each other and will be affected by the other company’s strategic moves. In that matter is can be claimed that the different retail formats function as substitutes and complements to one another. In a market that are saturated of a variety of more or less similar formats, and customers that are less loyal the decision of choosing the right format is of particular importance. The questions are then should retailers invest in formats that attract and makes loyal customers, aggressively attract new customers or maybe attract customers that switches.

These changes in consumer preferences can be a problem for a grocery store that is essential based on volume. In markets where these kinds of store formats are dominant the formats are going to face difficulties in adapting to changing market conditions. It will be challenging to remain profitable and avid losing market shares when satisfying a growing demand for unplanned purchases and changes in the competitive environment.

In the low cost strategy the cost advantage can be used to under price the competitors and attract the price sensitive customers. If the lower price attracts enough customers it will increase the total profit. The Norwegian market is highly price competitive and it is difficult to be the best low cost provider. Since the market is homogenous it can seem like it is potential for differentiation.

The key to success with the differentiation strategy are that the company must have something that really is valued by the customers in sense of being unique and appealing. If the company truly is valued by the customers this strategy will make it possible for the firm to command price premium and build brand loyalty.

Hence if the deli counters is something that the customer’s value this could be used to differentiate from other discount formats.

Pricing is a crucial part in the management’s decisions because it has interrelationship with the overall objective and the other components of the retail strategy. Also research has showed that price is a very important aspect to the customers. For most products the price level has an effect on how large the demand is.
Based on the reasoning above it can be claimed that there is market potential for further development of deli counters. The interesting aspects are that the customers are highly concerned with the price level but still the grocery chains mainly differentiate on price or assortment. Hence it is reasonable to assume that the development of a grocery chain that provides the customers with low price in general and with a deli counter that satisfy the customers demand for exclusive goods will be highly attractive for price sensitive customers that today cross shop to satisfy their needs.

The hypothesis that is developed by the answer to this research question is:

*Development of discount formats which includes deli counters will appeals to the customer's price sensitivity but still satisfy the customers need for exclusive goods.*
7.2.3 How to successfully develop a deli counter in a grocery store?

In order to investigate how to successfully develop deli counters, some important factors must be taken into consideration. In this section theory regarding store format, deli counters, core competence and strategy is used to answer the research question. In addition, results from chapter 6 are used to undermine some of the discussion.

Store format is central when deciding on if or how a store is going to implement deli counters. In today’s grocery market there is a variety of different store formats. As a result, the customers have become less loyal and are often switching grocery stores. When choosing a store format it is important to consider which format the target customer prefers.

Stores which include deli counters are typically conventional supermarkets that are distinguished by a broad assortment. The case in this thesis has been to have a deli counter in a soft discount store. Based on the discussion in the two sections above, price is an important factor to the customer. In addition they want to satisfy their needs and a store format that provides both low price and deli counter products could decrease the customers cross shopping. However a store which has a low price normally has a narrow assortment. Hence this type of store format usually does not include a deli counter. But as discussed in section 8.1 it seems like the customers prefer to do their grocery shopping at a store which includes a deli counter, at least on Thursdays, Fridays and Saturdays. This indicates that a store which include a deli counter attract more customers, even though the store has a soft discount format. The results from chapter 6 also showed that the turnover per customer normally is higher when a store (with soft discount format) has a deli counter compared to a store without deli counter. Hence it might seem like the customers appreciate a deli counter in a soft discount format.

On the other hand, the results from chapter 6 do not say anything regarding profitability from deli counters. Based on conversations between the author and the management at the store which is the objective for this research, it seemed like there was problems related to the organization of the deli counters. Another impression was that there also were problems related to the pricing of the products
sold in the deli counter. Even though the profitability not is measured in this thesis, there were indications towards that they are not driven optimally.

Retailer’s main functions are to collect assortment, communicate to both the suppliers in the supply chain, ship products, mark, advertise, prepay for goods and provide service. Deli counters is an own section in the store that are served by own personnel and has the goal to provide customers with convenience, healthy and tempting food, and finished meals. To have the possibility to satisfy the customers the understanding of eating habits are essential in order to have the possibility to provide right products in each store that creates an attractive deli counter. The manufacturers and suppliers to the deli counter have often valuable information concerning trends and new product development and can be used as a resource to provide the customers with the right assortment.

The quality of deli counters has a tendency to have large variations. A reason for this is that many operate the deli departments with a grocery mindset and not like a true culinary destination for the customers.

The deli counters in general has some problems that they struggle with. These are escalating prices, hard competition, and difficulties in employment training and to get the deli counters operated profitable.

Could one solution be to outsource the operation of deli counters? A typical mistake done by many retailers is that they extend their product range or do other competitive moves to pleasure perceived demands. This can be a danger to the core competencies that a company already possesses, because it could confuse the customer. Hence the management has to carefully take this into consideration before changing the strategy. Core competence is something that makes the company performs better than its competitors. The core competences that are important in managing a grocery store can be claimed to be quite different from the core competences that is required to operate a grocery store. Hence it is also important that managers think through the core competence of the company before deciding which activities they should do for themselves and which to outsource.
A soft discount grocery store has a low price format, and to run a deli counter is not a part of their originally core competence. Hence it might be suitable to outsource this part to a company which has deli counter as their core competence.

Outsourcing has many benefits. By outsourcing the operation of the deli counters the grocery stores that have deli counters included in the store format can get better focus on their core competence; operation of a grocery store and can achieve a more flatten organization which they can concentrate limited resources on. Also the knowledge in the deli counters can increase because there is one operator that gathers all the information. The third part will also have a better possibility to achieve economies of scale and flexibility through running all the deli counters under one third part. Also the grocery store will have risk pooling, since the third part and the grocery store will share the risk connected to the deli counters. The grocery store will also reduce capital investment in the deli counters since the third part will be responsible for this.

The answer to the research question is that it could be advantageous for a grocery chain to investigate the possibility to outsource the deli counter. There is extensive work that is required to manage a deli counter with success and a third part will have better possibility to successfully operate the deli counters so it satisfy the customers’ needs.

The hypotheses that are developed by the answer to this research question are:

A grocery chain should focus on the core competencies that are important to operate the grocery store. Hence the operation of deli counters will benefit from being outsourced.
7.2.4 Summary

Do the customers want to have deli counters included in a grocery store?

The customers have from time to time a desire to use their released funds on exclusive commonalities and hence deli counters has a potential as a pull factor on customers. The changes in consumer preferences makes companies look for new opportunities, like for instance deli counters. There are three key words for what the customers want from a deli counter. That is fresh baked, cooked/made to order and to promised quality. The results from chapter 6 also undermines that the customers want to have deli counters included in a grocery store, because the presence of a deli counter attracts more customers.

The following hypothesis is developed for further research: *The customer satisfaction will increase by having a deli counter included in a grocery store.*

Is there market potential for further development of deli counters in the Norwegian grocery market?

The specialized grocery stores are vanishing and since many customers still want to buy these kinds of products there are opportunities for further development of deli counters. If the deli counters is something that the customers value, this could be used by grocery stores to differentiate themselves from other discount formats. Changes in the retail mix, like for instance including deli counters must be done after consideration of the key drivers of growth in the market. These key drivers are highly based upon the customers; however it also includes the nature of competition and challenges in the market place.

Further it is reasonable to assume that the development of a grocery chain that provides the customers with low price in general and with a deli counter that satisfy the customers demand for exclusive goods will be highly attractive for price sensitive customers that today cross shop to satisfy their needs.

The hypothesis that is developed by the answer to this research question is: *Development of discount formats which includes deli counters will appeals to the customer’s price sensitivity but still satisfy the customers need for exclusive goods.*
How to successfully develop a deli counter in a grocery store?

Store format is central when deciding on if or how a store is going to implement deli counters. A soft discount grocery store has a low price format, and to run a deli counter is not a part of their originally core competence. Hence it might be suitable to outsource this part to a company which has deli counter as their core competence.

By outsourcing the operation of the deli counters the grocery stores that have deli counters included in the store format can get better focus on their core competence. Hence it could be advantageous for a grocery chain to investigate the possibility to outsource the deli counter. There is extensive work that is required to manage a deli counter with success and a third part will have better possibility to successfully operate the deli counters so it satisfy the customers’ needs.

The hypotheses that are developed by the answer to this research question are: A grocery chain should focus on the core competencies that are important to operate the grocery store. Hence the operation of deli counters will benefit from being outsourced.
8 Conclusion

The research problem sought answered by this thesis is as follows:

*Is the presence of deli counters affecting the turnover in a grocery store and is there potential for development of deli counters in the Norwegian grocery market?*

The research problem is answered in two sections. The first part of the research problem is *if the presence of the deli counters affects the turnover on a grocery chain.*

The results indicate that the customers in a store that contains deli counters has more customers in general, who purchase more per sale in total and of substitutes and complementary products. This results can indicate that the deli countes not just sell more products for each customer but also attract more customers in general. Hence it seems like the deli counters affects the turnover in deli counters by attracting more customers who purchase more per sale.

The second part of the research problem is as follows: *is there potential for development of deli counters in the Norwegian grocery sector?*

Deli counters is something that is valued by the customers and their need for deli counters are not covered in the Norwegian grocery market. However many customers are price sensitive and it seems like it is room for store format that provides low price and deli counters. Hence there is a possibility to further develop deli counters in the Norwegian grocery sector for a retail format that combines the discount format with the extra assortment and services provided by a deli counter.
9 Further research

This thesis has been challenging in terms of the lack of previous research conducted on the Norwegian grocery sector. Especially this is true for the deli counter departments. The second part of this thesis was based on an explorative design and there have been developed three hypotheses that could be beneficial for the deli counters to conduct further research.

These three hypotheses are:

*Hypothesis 1: The customer satisfaction will increase by having a deli counter included in a grocery store.*

*Hypothesis 2: Development of discount formats which includes deli counters will appeals to the customer’s price sensitivity but still satisfy the customers need for exclusive goods.*

*Hypothesis 3: A grocery chain should focus on the core competencies that are important to operate the grocery store. Hence the operation of deli counters will benefit from being outsourced.*
10 References


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