

# Trade, Over-Supply and Global Markets. The Coop Italia Case

*Vincenzo Tassinari\**

## 1. Modern Retail Trends

Over the last years, business companies have undergone a process of radical restructuring, in response to changes in the economic environment and in the consumer behaviour.

New retail strategies have emerged, sectors are more concentrated and, in most countries, big retailers have gained large market share.

In a global market the search for new competitive advantages led companies to pursue new strategies: internationalization, cost *leadership*, commercial and technological innovations, new relationships with suppliers and the market.

These changes occurred in different ways and times according to different geographical areas, and such differences are reflected in the present competitive context.

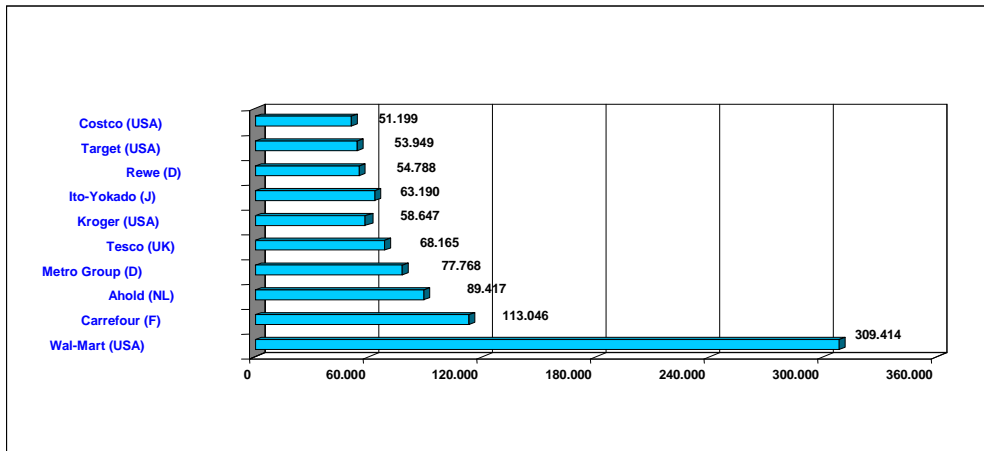
If we consider the retailers' global ranking, Wal-Mart is the leader with a turnover of around 309.414 Mio dollars. Wal-Mart was founded in the **US** and grew quickly conquering, in a short time, different market such as: Argentina, Brazil, Mexico, Japan, Canada, China, Korea, Puerto Rico. In Europe (UK and Germany) achieves the thirteenth place in the European retailers ranking; however it is not yet present in Italy.

In Italy, the modernization of retail industry started very late compared to main industrialized Countries, due to socio-economic backwardness and to legal barriers to entry. These factors prevented the Italian retailers from aspiring to an important role on the global market.

---

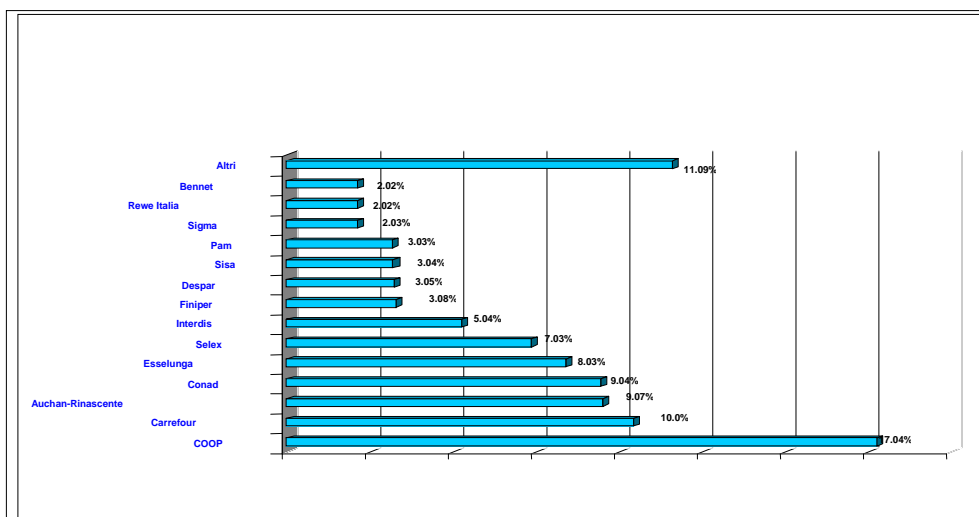
\* Coop Italia, President

**Figure 1: World Top 10 Retailers (Mio Dollars, Sales 2004)**



Source: M+M Planet Retail

**Figure 2: Retail Shares in Italy – Hyper and Supermarkets**



Source: Coop Italia Data

Today Coop Italia is the leader in Italian retail industry (retail share hyper-super 17.04%); in a highly competitive context, Coop differs from competitors thanks to elements such as quality, safety, ethics, good value, environment awareness. Coop needs to “innovate to compete”. Innovation has always been an integral component of the company’s life: from its culture to its internal structure, from R&D to production processes and supply to market. Starting from a deep understanding of consumers real needs and behaviour, it is necessary to develop innovative approaches also to the relationships with consumers, providing high value and quality products which meet consumer’s demand and allow to create brand loyalty. Thus, innovation can be seen as a new way to interact with the market in order to increase customer satisfaction and trust into the company. Innovation is a complex and faceted phenomenon, which can assume multiple forms and dimensions:

1. strategic which refers to the innovative content of formats, to its market positioning and the creation of a *store image*.
2. operating which includes traditional retail marketing levers used to create value for end customers. Such levers allow also for an innovative positioning, and they include: assortments, in-store visual merchandising and related services.
3. cross which refers to relational innovation and *customer orientation*, as well as to information technology and *e-tailing*.

It is therefore necessary for Coop to integrate innovation into all its structure: identity, mission, strategy, culture, products and services portfolio, value chain management, and, finally, relationship with consumers.

In the current competitive context Coop safeguards and enhances a national retail model that stems the risk of a non distinctive foreign model, which do not always meet Italian culture.

In a national context where the growth of 'modern' has not yet reached the maturity levels of the major European Countries, Coop carries on its sales network development and modernization process, contributing to improve and consolidate the Italian model.

To contribute to the modernization of Italian offer, Coop development plan for 2005-2007 includes:

- opening of 82 new stores, Hyper and Supermarkets;
- a new total area of sale of over 280.000 m<sup>2</sup>;
- increased yearly turnover of over 2.000 Mio Euro;
- potential increase of market share of over 2 percentage points;
- expansion of the Dico *discount* network, with new openings, *franchising*, acquisition of minor chains to reach 350 new stores before 2008.

Most of these operations will be developed in Central - Southern Italy, so as to reduce the difference in terms of number of stores between North and South. This will be possible also due to the new alliance among Coop, Despar and Sigma (Centrale Italiana). Sintesi (the buying central of Despar) is closing down, while the new buying central will include also Sigma which cooperates with Coop since two years for products purchasing. This alliance will be interesting not only for the effects on prices, but also as a development source for the stores networks in the various territorial areas; Centrale Italiana has a *leadership* position among Italian buying centrals with a market share of 22%, followed by Intermedia/Rinascite (17.9%), Esselunga/Selex/Agorà (17.4%), GS/Carrefour (15.4%), Interdis/Mecades (11.6%).

Coop confirms itself leader in the top of mind awareness and its innovation is based also on its ability to understand customers, their demands, their needs, and to give them adequate answers.

New consumer is mature, with a real conscience and will, he is aware that society can be improved also by consuming, he can choose better by who, where and what to buy, also with a European '*benchmarking*'. He asks for good value, but also reciprocity, transparency, equity, reassurance.

Exactly to listen to and meet consumers' demands, Coop has kept among its targets for 2006 the protection of consumers purchasing power, through:

- a 'refocusing' of good value policies on customers expectations;
- an action for the control of the purchase/sales prices through rationalising the production chain.

Today, in Europe and in Italy, there is a strong attention to the risk of inflation, which is rising throughout Europe, a little less in Italy, both for the high cost of petrol and for the increased prices of hand-manufactured articles due to the increased cost of raw materials and semi-finished products. Italian households have to bear higher expenses than in the past for some basic commodities and services, thus reducing their purchasing power; in particular, the items that affect them the most are: petrol consumption, telephone, health, home bills, clothing and shoes.

To understand this situation, it is enough to quote two analysis on economic and consumption trends; Indicod-ECR reports how Italian families lost 10% of their real resources in 15 years, while over the same period of time many new and very expensive needs have grown; ISTAT reports how over 90% of Italian families find it very hard to make it until the end of the month.

Those who for years declared that the purchasing power of Italians had even increased should refrain from speaking for a long, sabbatical period.

Large retailers tried to address this situation by reducing sale prices and gross margins. Today, gross margins on grocery products are strongly reduced compared to the space these products occupy in-store and to the turnover they generate.

Furthermore, Italian mass retailers answered developing "entry level" products lines and increasing private label shares.

In fact, between 2002 and 2005, entry level share went from 4% to 7,5% while private label share from 10% to 12%. Industrial brands maintained their share around 40%.

The "intermediate" brands lost from 37% to 31%. This shows how the so-called "polarization" of consumption is leading, *'bottom up'*, to polarization of industries.

In Italy, there is a great potential for private label producers – even if they are not able to surpass the 40% share of the best British retailers, they can undoubtedly get close to the 20% of the French retailers.

That is a fact, and industries in Italy should better evaluate it carefully, as a real chance for development, instead of exorcising it.

Coop has reinforced its commitment to contain sale prices and to protect consumers purchasing power, in particular thanks to:

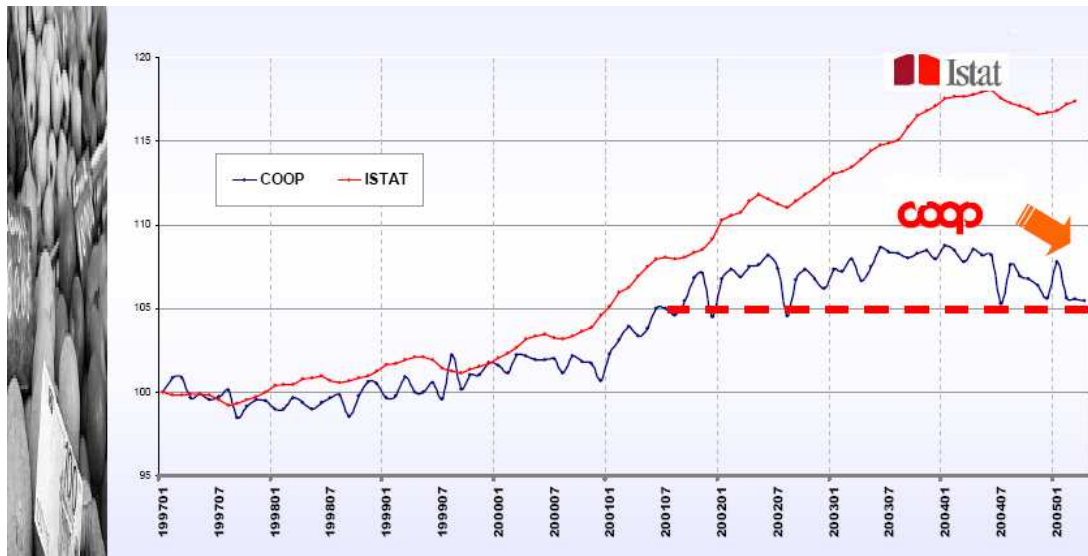
- price block of Coop private label products;
- strong control of both purchasing and sale prices of branded products;
- increased investments to support promotional activities addressed to members and customers;
- price reduction (deflation) on important categories of food products.

In 2005, Coop prices went back to the 2002 levels. Coop inflation at sale (food) was significantly lower than the national average, at 10 percentage points

below the ISTAT figure, equal to 100 the price level of both indexes in January 1997.

In real terms, this meant protecting the purchasing power of the members leaving a lot of money in Italian people's pocket because prices had not increased.

**Figure 3: Coop Prices vs ISTAT Prices in Food**



Source: Coop Italia Data

The containment of prices is not enough; consumers, when facing financial difficulties, need to be reassured; an example of this is the growth of Coop private label sales compared to branded products; the first count for almost 20% of sales (interesting figure, since it is close to the percentage of top European retailers such as Ahold (22%), Auchan (21%), Rewe (20%) ), with a slight increase over the same period of the previous year (+4% based on the trend). This shows how consumer seeks for good value but also needs to be reassured on products quality; to this regard, private label seems to be the right balance between price/quality.

Coop leadership in Italian retail market does not derive exclusively from its market share; the positive economic results of the Coop system are the fruit of heavy investments on corporate identity. Coop private label plays a relevant role in this context.

Through a continuous innovation, Coop wants to guarantee products up to date and in line with consumers demands, that comprises:

- Intrinsic quality;
- Safety. Coop private label products are guaranteed by means of controls throughout the supply chain; Coop carefully selects its private label suppliers, with whom it stipulates specific manufacturing agreements, as well as planning audits and controls on each stage of the processing, from raw materials to finished products.

- Ethics. Coop Italia was the first Italian company to be granted SA8000 certification. It sets the rules for an ethical corporate behaviour towards workers; this commitment became a binding requirement in the selection of Coop private label suppliers.
- Good value. Large volume of sales allow Coop to produce its private label products with advantageous conditions and to transfer this saving to the final sale price.
- Environment care. Attention to packaging, saving on used materials, reusing and recycling.
- Perceived quality. To evaluate perceived quality, Coop involves members who commonly use the product and, in most cases, the evaluation provides for a comparison with the most popular branded product. To achieve an objective judgement all evaluations are blind tests.

Innovation and a strong identity are thus fundamental elements in Coop's mission; elements that allow to create products of high value and quality (saving, reciprocity, transparency, equity, reassurance) and that meet consumer's demands.

## 2. Who will be Winner?

Innovation and efficiency are with no doubt the "lethal weapon" of big multinational companies that will sell more and more innovative products at increasingly low prices.

Opportunities will be available also for those companies that are not big, but intelligent and "with a soul".

Against the "lowest price" obtained through an exasperated costs reduction, not only we can hold out on the market but also, why not, we can win with the fairest price.

Where that is supported by a good efficiency level, but most of all by "values". Values like quality, reassurance, but also the respect of rules and rights, always more important, mainly for young generations.

The value of Italian production and industry reaches in some cases excellent levels.

The current paradox is that while the Italian wine and gastronomic heritage is winning all over the world, this is not the case of Italian production. Paradoxical is the fact that one of the world-renowned Italian brands, Parmigiano Reggiano, is exported only for the 15%, and "beaten" by Australian 'Parmisan'. Too much emphasis on the 'Made in Italy' label, too little on the real values to be used to "sell" the Italian products in the world.

Values, corporate identity, quality – these are the only possible strategic way for businesses; but it is needed to add them with a real recovery of efficiency of the Italian system.

Each player shall look for the right combination to offer to consumers.

European mass retailers are replacing 'Every day low price' with 'Every day fair price'. Even Wall Mart seems to be rethinking its strategy of the lowest price at all costs.