



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

**How to Work With Concept and Activities as a Foreign Hard
Discounter in Order to Better Fit the Swedish Market**

A multiple case study of Netto's and Lidl's adaptation to the Swedish market

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Abstract

Title: How to Work with Concept and Activities as a Foreign Hard Discounter in Order to Better Fit the Swedish Market: A Multiple Case Study of Netto's and Lidl's Adaptation to the Swedish Market

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Background and problem: The internationalisation of food discounters has increased in later years. This has led to more companies experiencing internationalisation processes into new markets, where adaptations are necessary in order to survive. The companies that entered the Swedish market were Netto and Lidl. The companies' establishment in the Swedish market have meant huge losses, and this is why we would like to examine how Lidl and Netto have worked with their concept and activities in order to better fit the Swedish market.

Purpose: Our purpose is to find insights in how foreign hard discount food retailers, striving to gain market shares in the Swedish market, can adapt their activities in order to become more appealing to the customers.

Methodology: In order to provide the reader and our study with the best empirical chapter possible, qualitative interviews were conducted with store representatives from Lidl and Netto. The empirical material gathered, was put in contrast to the theories utilised, in order to conduct a broad and interesting analysis leading to answering the research question and fulfilling the purpose.

Results and conclusions: This study concluded in several findings regarding adaptations made in order to become successful. Four areas of adaptations were identified; Product, Store, Personnel and Organisation. This study showed that adaptations within the fields of concept and activities can, if executed correctly, make the foreign hard discount food retailer better fit the Swedish market.

Key Words

Hard Discount, Internationalisation, Swedish Market, Adaptation.

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1. Introduction

This chapter begins with a background introduction of the hard discount phenomenon and its significance to the Swedish market. After this, a problem discussion follows which then leads to the purpose and research question of this study. Finally a short delimitation of the study is presented, followed by a short outline of the structure of the thesis.

1.1 Background

The discount food retailing industry has been well established in Europe during the 21st century. There are different brands within the discount segment and many of them have experienced an international expansion (Colla, 2003). However, as Colla (2003) further explains, the discount segment consists of a few large actors, which together accounts for about 70% of the accumulated stores. Within the discount segment, there are so called Hard discounters (HDs), which offer a narrow assortment at prices up to 30% lower than other types of retailers. The HDs find their revenues in selling volume, and famous brands within this segment are the international companies of Lidl, Aldi and Netto (Ćuzović et al., 2017; Colla, 2003).

Parallel to this, Sweden has seen an increase of international food retailers entering the market since the beginning of the 21st century. (Anselmsson et al., 2007). Especially a wave of HDs originating from foreign countries. HD is therefore a relatively new phenomenon for customers and competitors to get accustomed to. Lidl and Netto, German and Danish HDs, entered Sweden in 2002 and 2003 by transferring their business models into the market, meaning that they offered a narrow assortment with an extensive amount of foreign products to a cheaper price (Hedlund, 2014). These new entrants have gradually, during the later years, begun to turn big losses, which accumulated to billions (Hedlund, 2014), into gaining increasing market shares at the cost of the already established domestic local food retailers of Sweden (Gullstrand et al., 2012).

1.2 Problem Discussion

In the beginning of the 1990s, there was a strong tendency for food retail companies to internationalise their operations within Europe, due to the implementation of the European Single Market (European Commission, 1997). As of this phenomenon, the leading retail companies increased sales and 50 % of their sales figures was obtained from outside of their country of origin, indicating that the retail sector was not only focused to the domestic market (Wright & Lowe, 2010). Despite more revenues from the international markets, Wright and Lowe (2010) state that major HD companies have had difficulties with their continuous market expansions. Lidl for example, had to exit the Lithuanian market which is said to be explained by a high degree of saturation already existing in the Lithuanian market (Langviniene & Sekliuckiene, 2011). This failure in the Lithuanian market should, at least according to our own speculations, be possible to avoid with more preparations in order to better fit the market. In line with these speculations, Wright and Lowe (2010) further state that companies that do not make the organisational adjustments needed to the new market, is a contributing factor to why their businesses outside of their country of origin do not perform. As seen in the case of Lidl entering Norway, Lidl utilised the same internationalisation strategy as always. The fact that the interior of the Lidl stores looked more or less exactly the same as in rest of Europe and that

Lidl offered their own assortment to the Norwegian market might have been a reason for Lidl's initial failure in Norway (Eide, 2010).

It is a tough climate in the market for food retailers, especially when looking at how big market shares the dominant actors have in Sweden. According to Handelns utredningsinstitut (2016), ICA, COOP and Axfood, the three biggest food retailers in Sweden had, in 2015, a combined total market share of about 85 %. This in turn makes it difficult for foreign and domestic food retailers to expand and gain market shares in Sweden (ibid), due to the domination of the few. However, in the beginning of the 21st century, a trend among hard discounters to exploit the Swedish market could be seen, as the Danish food retailer Netto and later on the German food retailer Lidl penetrated the Swedish market (Gullstrand et al., 2012). Hard discount is a concept meaning that the companies offer a narrow and cheap assortment sold directly from pallets or out of boxes (Geuens et al., 2003; Zentes et al., 2017).

In the beginning, Lidl and Netto offered their own private labels (PL), which is an article produced and owned by the retailer (Business dictionary, 2017a), or brands originating from outside of Sweden in their stores. This was quite different from how the domestic Swedish competitors operated, especially in number of products offered in the stores (Lindblad 2014, 2015). Lidl implemented their own German manufactured PLs to their stores in Sweden without offering national brands (NB), which means brands sold in the entire domestic market, or Swedish PLs (Hedlund, 2014). As of this, there were only a few products showing good results, including Lidl's assortment of beverages. However, a food retailer will most definitely not survive by only having some products showing good results. Something needed to be adjusted in order to gain market shares. The Swedish customers furthermore only went grocery shopping at Lidl and Netto as a complement to the locally already established food retailers (Gripenberg, 2012), which might be a contributor to their economic decline in the beginning. When only having some customers purchasing small amounts of products, the likeliness of showing positive results decreases for every year that passes by. The former CEO of Lidl, Conor Boyle, said in an interview that Lidl should be the place where Swedes buy their groceries, and complement at other stores (Lindblad, 2015). The opposite to the situation stated above. However, since this interview was held in 2015, this points towards some sort of adjustment being made in how Lidl wants to approach the Swedish market. Lidl's assortment was initially perceived as strange, while they offered a narrow range of products (Gripenberg, 2012). However, Lidl now aims to have 95% of what customers need (Lindblad, 2015), further indicating an adaptation being made in the Swedish market. Lidl has been mentioned in newspapers since their initial establishment and in an interview, Boyle stated that crucial mistakes were made in the initial establishment. (Lindblad, 2015) However, none of the mistakes are explicitly mentioned, which opens up for further research.

As discussed in the problem discussion, it is not without challenges that food retailers internationalise into new markets, Sweden being one of them. We do see indications that adjustments have been made, and that a new approach is utilised in order to grow and prosper on the market (Lindblad, 2015). This opens up for further study, since, to the extent of our knowledge, little study has been made on the work of the HDs in terms of their concept and activities.

1.3 Purpose of the Study

The purpose of the study is to find insights in how foreign hard discount food retailers, striving to gain market shares in the Swedish market, can adapt their activities in order to become more

appealing to the customers. With the ambition to fulfill this purpose, we have stated the following research question:

1.4 Research Question

How can foreign hard discount food retailers work with their concept and activities over time in order to better fit the Swedish market?

1.5 Delimitations of the Study

This essay aims to research HDs striving to adapt to the Swedish market in terms of concept and activities. The decision to only interview current existing foreign hard discount food retailers in the Swedish market and not domestic competitors from Sweden, is justified with the fact that this study only aims at looking at how foreign companies can adapt to the Swedish market. It does not take the Swedish competitors into account, while they are somewhat irrelevant to this case.

1.6 Thesis Structure

The thesis consists of six chapters: introduction, methodology, theoretical background, empirical material, analysis and conclusion. In addition to this, the references and appendix will be found at the end of the thesis.

Introduction - The introduction will provide the reader with background information about hard discount and the problems Lidl and Netto had in their initial stage, once they had penetrated the Swedish market. Thereafter, the purpose and the research question of the study is presented. Finally, the delimitation of this study is described.

Methodology - In the methodology part, each method selected is described and justified. The study also reveals how the theories, empirical information as well as the analysis was conducted. Additionally, validity and reliability together with the ethical position is presented.

Theoretical Background - The theoretical background displays pre-existing theories within the hard discount and internationalisation processes. Hard discount as well as the former and revisited Uppsala internationalisation process model is described. In addition, the chapter includes a definition of national brands and private label. The wheel of retailing is also described, as well as the connection between every part of the theoretical background. It will also be pointed out, where our perspective of interest, within the different parts of the theories, lies.

Empirical Material - This chapter consists of empirical results from the qualitative face-to-face interviews carried out by the researchers to answer the research question of the study. The chapter begins to acknowledge how the internationalisation process of Lidl and Netto were conducted and from there on organisational adjustments and future outlooks are being presented.

Analysis - The analysis part evaluate the empirical findings and put those findings in relation to the theoretical background. The researchers then try to find connections between the two companies' strategies and how their operations have been adjusted since their establishment to Sweden.

Conclusion - The researchers utilise the analysis and the assumptions drawn in that chapter, in order to finally answer the stated research question, as well as fulfilling the purpose of the study. In addition, this chapter gives suggestions to further research as well as implications for practitioners.

2. Methodology

This chapter presents and justifies the selected methods. First, the choice of research method and research approach is presented. This is followed by a description of how the theoretical background was assessed and collected. Thereafter, the method for collecting the empirical material is elaborated upon. Finally, the study's credibility is evaluated when discussing the chosen method for this specific study, as well as the critique of the chosen method in the study.

2.1 Research Method

Method is something that can be described as a technique to collect and analyse data (Collis & Hussey, 2014). When conducting a study, a quantitative, qualitative or a mix of both methods can be used (Saunders et al., 2003). We have chosen a qualitative method, over a quantitative method, in order to conduct our study. This method is centered to communication expressed via words (Saunders et al., 2003), which means that the empirical data partially will be based on interviews. The purpose of the qualitative method is to gain insights and get a grip of a target group's attitudes, preferences and behavior patterns (Faarup & Hansen, 2011). In this study, this is achieved via an unstructured investigation, where the researchers ask questions and the respondents freely discuss and problematize the topic (ibid). While this study strives to conduct interviews with company representatives from Lidl and Netto, whom has both responsibility and experience from the companies, we find it most suitable to use the qualitative method. This, in order to not miss out on important facts, deriving from the respondents' free reasoning regarding the topic of the interview question. This stands in relation to the quantitative study, where focus lies on a higher number of respondents and questions easy to answer by filling in a form. As the study, according to us, require the respondents to develop their answers and to be able to answer follow-up questions, which is not easily done in a quantitative research, it is necessary with a qualitative approach.

2.2 Research approach

Collis and Hussey (2014) distinguish between deductive and inductive research approaches, where the former refers to a theory tested through empirical observations to draw conclusions from the hypothesis. An inductive research compared to the deductive research approach is developed from the empirical observations and from there on a theory is developed (ibid). One can say that, by using this approach, "you move from the specific to the general". (Collis & Hussey, 2014, p.7). Besides these mentioned research approaches, there is also a third approach which is a combination of them both (Eriksson & Kovalainen, 2008). This approach is called an abductive research approach and is utilised when wanting to discover new things in the study, e.g different variables or relationships (ibid). In this study, we have utilised a deductive method. We followed this approach by initially read and usurp knowledge regarding the companies and theories that could be of interest for this study. Out of this, we identified interesting and relevant theories, which laid the foundation to the interview questions. Both research of theories and companies, as well as the creation of the interview questions, were made with regards to the purpose of the study. The empirical material was then retrieved from the conducted interviews.

2.3 Research Design

This study used a multiple case study as its research approach. This method include two or more observations which derive from the same phenomenon (Lewis-Beck et al., 2004). The results originating from a multiple case study is often more generalisable and more likely to produce a high-quality theory in contrary to a single case study (ibid). We have looked at the phenomenon of hard discount in foreign food retailers and focused on Netto's and Lidl's work in terms of concept and activities in order to better fit the Swedish market. The reason why we included both Lidl and Netto in this study, is because both of them entered the Swedish market at the same time, with a difference of one year and they have both had difficulties since their establishment to the Swedish market. In addition to this, Lidl and Netto are also the only two HD food retailers currently active in the Swedish market, originating from outside of the country. It therefore makes both cases relevant to this particular study. By studying both Lidl and Netto's journey in terms of adaptations and how concept and activities have changed in the Swedish market, we as researchers get the possibility to attain a deeper understanding of the phenomenon. Also, it is possible to get a broader picture of how these HDs have adjusted to the Swedish market in terms of differences and similarities between the companies journeys.

2.4 Developing the Theoretical Background

2.4.1 Literary Sources

An author can utilise three different literature sources in a study (Saunders et al., 2003). Primary, secondary or tertiary literature sources are the ones existing and in the reality they often overlap each other (ibid). Primary literature sources, or grey literature as one might call it, are research data and "the first occurrence of a piece of work" (Saunders et al., 2003, p. 51). Published reports and local government publications are examples of primary literature sources (ibid). Secondary literature sources are material retrieved from already published or existing sources, which usually are available to retrieve from databases or on the internet (Bryman & Bell, 2011). The secondary sources are generally for the wider audience. However, they can be outdated due to delays of publications (Saunders et al., 2003). Finally, tertiary literature sources are also known as search tools and they exist in order to help the author locating the primary and secondary literature within a specific topic. It includes abstracts, encyclopedias and bibliographies (ibid).

This study has utilised secondary sources such as refereed books and journals. Wheel of Retailing and the HD chapter are secondary sources, meaning that the books and the articles are based on previous publications. Since the secondary sources are peer-reviewed before being published, it gives this study a certain degree of trustworthiness and further guarantee high quality. Besides the utilisation of secondary sources, we further utilised the Uppsala internationalization process of the firm (Johanson & Vahlne, 1977), which is an example of a primary literature source. When it comes to the books used in the thesis, the main priority was to find scientific literature written by recognised scholars in order to maintain the high quality throughout the entire study. In order to provide the reader with a study of high reliability, we found it important to go to different sources. This is the reason to why our theoretical background contained many different authors.

2.4.2 Justification of Literature Sources

The most frequent method, when gathering our sources, has been to use different search mechanisms such as Google Scholar and search services provided by the University library. The latter being two-parted, whereas the first service is via their digital database, where electronic journals and articles are accessible. The second service provided is the physical library at the university. Google Scholar is a search tool where academic literature can be collected and complemented to the services provided by our university.

While the study is linked with companies in the HD segment, we believed that the characteristics of the phenomenon HD would be of importance both to us as researchers, but also to anyone reading this study. Out of this, we researched information and carefully selected articles, which would be relevant in this particular study. While studying the HD phenomenon, we noticed that private labels and national brands were two recurrent and quite central concepts within the segment. We therefore dug deeper into the definitions of the two, to provide us and the reader with the best possible understanding.

Since this study has an international approach, it was important to find models and theories, applicable to the phenomenon of internationalisation. After evaluating different possibilities, the choice was between the Eclectic Paradigm of International Production (Dunning, 2000) and the Uppsala model of internationalisation (Johanson & Vahlne, 1977). Since the purpose is to get insights to adaptations in a specific market, we saw a better case in utilising the Uppsala model. This, since market knowledge and the decision making were explicitly mentioned in the Uppsala model by Johanson och Vahlne (1977). In 2009, the authors of the Uppsala model, released an updated version, since they realised areas of improvement in their original paper. In this version, the importance of the network is described and since we had discovered indications that our companies had difficulties with suppliers in the early years, we decided that the revisited Uppsala model from 2009 was of relevance to support the original model from 1977. Neither the first, nor the second Uppsala model, explicitly discuss the subject of retailers. We therefore felt the need to find literature regarding retailers. We then found the Wheel of Retailing, which illustrates the life cycle of a retailer from the entry phase to the last, so called, vulnerability phase. This model is not constructed entirely to HD food retailers, especially not in the sense of pricing, but we found it applicable to our case with the development of a retailer in a new market. The combination of the Uppsala models, the original and the revisited, together with the wheel of retailing provided us with a relevant theoretical background in order to construct a thorough analysis and conclusion. This will be further shown in the theoretical chapter.

2.5 Method for Empirical Material Collection

2.5.1 Empirical Sources

When collecting empirical material, the authors can either use primary or secondary data. The primary data refers to material, such as interviews, collected specifically for the conducted study, whereas secondary data is reanalysed data that already have been utilised for another purpose (Saunders et al., 2003). Saunders et al (2003) further states that secondary data can be utilised when conducting a case study. In this study we want to answer how foreign hard discount food retailers successfully can adapt to the Swedish market, we have therefore utilised both primary data and secondary data. By using primary data we gained knowledge of the businesses' experience, through the conducted interviews. However, the collection of primary data is sometimes difficult to get, since it depends on the respondent's willingness to answer the

questions. We therefore also supported the study with secondary data, such as news articles, regarding the internationalisation process of Lidl and Netto, in order to receive the bigger picture of how the already established companies Lidl and Netto entered and adapted to the Swedish market. It has also been important for us to get empirical data with different approaches and perspectives, since there is a risk only getting to know about the best parts of the firms when speaking to representatives from that particular firm. Therefore, secondary sources play a significant role in making the study more reliable.

2.5.2 Sampling Method

The two kinds of sampling methods existing, when collecting material for the empirical data, are probability and non-probability sampling (Saunders et al., 2003). Probability sampling method is the most frequently used when conducting a survey-based research (ibid). The goal is to generalize out of the sample from the chosen population. The latter one is according to Saunders et al (2003) common in connection with case studies and market surveys. Based on our subjective judgements and the small number of cases being studied, we chose the non-probability sampling method when we conducted this study. We believe that this approach will contribute to a study with a higher relevance, especially since we do not have enough cases to study because of a limitation in the number of hard discounters in the Swedish market. To better answer this study's research question, there is a range of different sampling techniques available, i.e quota, purposive, snowball, self-selection and convenience (ibid). Out of these, we chose the purposive sampling method, meaning that the interview objects are chosen by us personally. This method is commonly utilised when conducting a case study in addition to only having a small sample size (ibid), which suits this study well. This specific method was seen as the most appropriate in order for the study to answer the research question because of the qualitative approach and limited number of cases.

2.5.3 Choice of Sample

We have focused on the already established foreign HD food retailers in Sweden. Lidl and Netto are the only ones originating from outside of Sweden. First, we tried to get in touch with representatives at the Swedish headquarters. We wrote e-mails and made phone calls to Lidl's customer service, their PR-manager, to Netto's customer service and establishment manager. This was made without any success. We also had some e-mail correspondence with the first CEO of the Swedish Lidl, however, he chose not to participate. In our strive to reach someone from the headquarter, we tried to contact Lidl's former CEO, who now lives in Northern Ireland. The former CEO of Lidl did however not answer our e-mail. We narrowed down the sample size to stores located in Gothenburg, since this is in line with the purposive sampling technique mentioned above. We then went directly to seven different Lidl and Netto stores in the Gothenburg area hoping to get interviews. Out of this sample, there were three representatives, one from Netto and two in the same interview from Lidl, that agreed upon participating in our interviews. The remaining part of the sample disagreed upon participating in the interviews, referring to how centrally controlled their companies are and the time limitations in their personal schedules. In addition to this, some of the contacted people did simply not want to participate and finally there was one person we had booked an appointment with who, due to illness of his child, was not able to participate in this interview.

2.5.4 Empirical Material Collection

The empirical material that have been utilised in this study has been retrieved via qualitative interviews with representatives from the companies that were contacted. When conducting a qualitative interview, it can be done in a lot of different ways (Collis & Hussey, 2014). There is also a number of advantages and disadvantages in every specific type of interview method (ibid). Below, we discuss the advantages and disadvantages of the different methods utilised in this specific study. Later on in the execution of empirical material collection, a more direct description of the execution of the interviews will be presented.

2.5.4.1 Face-to-face interviews

When conducting a face-to-face interview with the the respondents, it facilitates the process for us, while we can gather comprehensive material in the same time as establishing a personal contact with the participants (Collis & Hussey, 2014). However, the face-to-face interview is rather time-consuming as of the transcription part.

2.5.4.2 Semi-structured interviews

A semi-structured interview is conducted with some already prepared questions, but the respondents are free to design his or her own answers (Collis & Hussey, 2014). In addition to this, there might be questions that were not planned to be asked in the first place (ibid).

2.5.4.3 Forming Interview Questions

The researchers are dependent on the material coming from the interviews and it is therefore vital to be prepared prior the interview (Saunders et al., 2003; Collis & Hussey, 2014). You can either ask open or closed questions in a qualitative interview, depending on what type of answers you look for (Collis & Hussey, 2014). Closed questions can only be answered by a yes or no, while an open question enables the respondent to give a comprehensive answer (ibid).

2.5.4.4 Recording and Transcription of Interviews

Qualitative interviews are often audio recorded and thereafter transcribed in order to get an understanding of what but also how the respondent answered the questions (Bryman & Bell, 2011). This can however only be done if the respondent has given permission to the interviewers prior the actual interview (Collis & Hussey, 2014). The advantage when recording the interview is that the researchers can listen to the interview several times afterwards, and from this conduct a thorough analysis (Bryman & Bell, 2011). When audio recording in a face-to-face interview, the researchers ought to take personal notes of the respondent, since recording does not capture expressions or body language (Saunders et al., 2003). This will be important in the analysis (ibid). There is however a downside with this method according to Bryman and Bell (2011), as the transcription part is highly time-consuming.

2.5.5 Execution of Empirical Material Collection

The interviewees were contacted personally by us visiting the stores and from there on prompting for face-to-face interviews. The biggest opportunity when conducting a face-to-face interview is that we can establish a more personal contact, which enables the respondent to feel more comfortable when answering the questions. We can therefore receive more relevant and

better empirical information which will be useful in this study. During our first contact with the respondents, we described the purpose of our study and asked if we should send the interview questions before the time of the actual interviews. Out of the sum total of our interviews, all were held face-to-face. All interviews were semi-structured, which made it easier for us to ask follow-up questions when it was considered appropriate. Our interviews consisted of 14 questions which was formulated and supported with follow-up questions in order to answer our research question. There were mostly open and indirect questions, which enabled us to get comprehensive answers from the respondents. First, we asked briefly of their position in the company and what their daily routines were. Generally, all questions were related to what mistakes Netto and Lidl made in their penetration to Sweden, what changes Lidl and Netto have done since the market penetration and we also asked what each of the respondents would have done if they could plan their own market penetration to Sweden. This in order to give us insights about what went wrong in the first place and to give the respondents the opportunity to freely discuss how a new market entry should be conducted. We made clear that this question were to be answered with consideration to all knowledge, experience and information that the respondents already had today. The final question was regarding the future outlook for the company. When answering the last question, the respondents discussed the value of the HD concept and the value of letting customers get used to a new entrant in a market.

When conducting the face-to-face interviews, one of us asked questions and the other one listened, asked follow-up questions and analysed and took notes of the body language of the participants. The interviews were tape-recorded with a mobile phone device. We asked the interviewees for their consent before the interviews were held. All of the interviewees approved of this, given that the audio recording nor the transcriptions would leak out to the general public. The interviews lasted between 20 and 50 minutes and were conducted in April 24th and in May 2nd.

2.6 Execution of the Analysis

There are many possible ways to analyse data for a researcher, once the empirical material has been retrieved (Saunders et al., 2003). In order to increase the understanding of the empirical material, either a deductive or an inductive approach can be utilised (ibid). The former refers to a structured way when shaping the analysis, including explanation and pattern matching. There is however a big problem when analysing with this strict method, while there might be big differences between the theory and the empirical material, which can make it harder to answer a study's research question. In contrast, the inductive method is not as structured as the deductive approach, which enables the researcher to use a more interpretive method when conducting the analysis. We analysed and compared our empirical findings with each other, in line with the inductive approach, which is not as structured as the deductive approach, in relation to our theoretical framework. This lead to a direct understanding of similarities and differences between the two companies, and also lead to an easier process in making conclusions out of the material.

Once the empirical material had been retrieved, we sat down and tried to find patterns and connections with the theoretical background. Practically, this meant extracting parts of the empirical material which had connections to upgrading the business, market knowledge, commitment decisions and networks. In our theoretical background, we mainly focused on the step between market knowledge and commitment decisions, which also lead to a focus on this step in the analysis. When analysing, we sought to find connections between given situations and theories, in an attempt to increase the understanding of how everything was connected.

2.7 Credibility

Being able to trust the findings is essential, when conducting a study (Bryman & Bell, 2011). For a qualitative researcher there are two aspects needed to take into consideration; Reliability and Validity (ibid). The reliability aspect concerns how similar other researchers results will be if the same methods for data collection and analysis are utilised (Saunders et al., 2003). There are however threats when utilising this method according to Saunders et al (2003). First, there might be participation error, meaning that there can be different results depending on which day of the week the data was collected. Second, there might be participant bias if the interviewees said what the bosses of the same company wanted them to say. Third, an observer error can appear. This due to the fact that different people can receive different answers because of the way they ask their questions. Last, observer bias might arise while different interviewers can interpret answer differently. The validity is more centered to whether the findings are really what they seem to be about (Saunders et al., 2003). Do a causal relationship exist between two different variables? There are likewise threats to the validity aspect. One of these threats is history, meaning that a previous major event might have somewhat of a misleading effect on the findings in a study. (ibid).

The respondents were all offered the possibility to contribute anonymously to our study, which can be seen as a prevention of participant bias. During the interviews, one of us asked the questions the whole time, which reduced the risk of observer error. In our study, the empirical information were gathered through semi-structured interviews, complemented with secondary sources, which gave us extensive answers. The respondents were all audio-recorded as well, which furthermore strengthen the credibility of this research project, as we transcribed the interviews and thus did not miss any important information. Besides the reliability aspects, there were no validity threats to this study i.e previous historical events that affected the results of the interviews. The only threat to the credibility was the fact that the interviewees were also employed by the companies in focus. This comes with a risk that the interviewees might think better of the situation than it actually is, or that they do not want to spread a bad image of the company. It is comparable with using the company web page as the only source. However, our feeling was that the interviewees answered honestly to the questions.

2.8 Ethical Position

The treatment of the respondents, participating in the interviews, are vital to take into consideration when conducting a research study of this proportion (Bryman & Bell, 2011). This study will follow the guidelines set by Bryman and Bell, and the participants have been treated in line by this framework. First, it is important for the respondents to both know the purpose of the study as well as knowing that they have the right to be anonymous before participating in the interview. When conducting the interviews, it is vital that the data gathered is treated with confidentiality, so that the collected material does not harm the participants in any way. The data must also be used for the research and the research only. Lastly, it is important for the researchers not to mislead or provide the partakers with false information regarding the research in any way. At first contact, the respondents were informed of the purpose of this study. Furthermore, the participants were offered the possibility to remain anonymous. Finally, once the interviews had been conducted, nobody besides us took part of the information gathered, i.e the audio-recordings and the transcriptions.

2.9 Method Critique

The empirical material of this study was collected through qualitative interviews with two sales managers, one from Netto and one from Lidl in Gothenburg. In addition, a supply manager in one of Lidl's stores participated in the same interview as the one with Lidl's sales manager. However, by choosing to only interview companies situated in Gothenburg, the method utilised in this study is not without limitations. Since all the interviews were with employees working in Gothenburg, this might affect the result, as it does not reflect the entire Swedish market for foreign hard discounters. This however, can be argued for in the entirely other way, while both Lidl and Netto are centrally controlled by the management of their country of origin. Due to this fact, Swedish stores should look more or less the same and follow the same strategies. This is also implied in our interviews, where other stores are mentioned as examples of how the future Lidl respectively Netto will look. Therefore, the limitation to stores located in the Gothenburg area is not necessarily a limitation for this study's relevance. The fact that we only got two interviews can also affect the result. We would have wanted to have more participants in the study, but this proved to be difficult as of how centrally controlled Lidl and Netto are by their management, and other factors explained previously in the methodology.

3. Theoretical Background

This chapter displays the characteristics of hard discount at first, followed by a description of private label and national brand. From there on, the internationalisation process is examined through the Uppsala internationalisation process model from 1977 and the revisited model from 2009. The chapter finishes with a description of the wheel of retailing. At the end of the Theoretical Background chapter a summary of relevant aspects of each theory are presented.

3.1 Hard Discount

Even before entering a HD store, one can identify some characteristics, which indicate that the store should be sorted into the category of HD. The exterior has no costly details, it is rather sending a message to potential customers passing, that this is a place where value comes before price (Zentes et al., 2017). After entering the store, it becomes even more clear that cost reduction has been a priority. Groceries are sold directly from boxes and pallets and there is no extravagant decoration to be found (Zentes et al., 2017). It is further described by Zentes et al. (2017) that the assortment is relatively narrow compared to other types of retailers, with a number of different products between 700-1500 articles. This could be compared to a supermarket, where the assortment could contain ten times as many articles (Zentes et al., 2017). HDs stand out when it comes to types of products on the shelves, since they have a large amount of PLs (Rampoldt, 2014). According to Rampoldt (2014), it is clear that the advantage of PLs is found in the cost cutting. Thanks to cheap PLs, HDs are able to sell their products to a much lower price than the competitors, giving actors within the HD segment a comparative advantage towards others (Colla, 2003). Considering the fact that PLs give a lower margin than other products that for instance Ica offer, it takes more sold units to reach the same turnover. However, according to Rampoldt (2014), when a HD manage to scale their PLs, the revenues will start pouring in, opening for further expansion and scale. The fact that Aldi and Lidl are the two leaders in selling PLs, further shows that scale in PLs is well established within HDs (Rampoldt, 2014).

The HD store is usually easy to access according to Zentes et al (2017), which also facilitates to keeping costs down. The fact that the HDs have not been establishing stores on exclusive locations has helped the segment to become successful. Especially in Germany, where the segment historically has been strong (Tordjman, 1994). In terms of staff, HDs do not tend to provide their customers with great service, as for instance a help desk or sales people on the floor (Zentes et al., 2017), which further lies in line with cutting costs.

It is the aware cost structure which opens up for the HD to maintain their price strategy (Kaas, P. 1994). What the PLs contribute with to the cost structure is that the HD tries to keep production costs as low as possible. Parallel to this, the producer do not need to put money on marketing, which saves even more costs in the process (Zentes et al., 2017). When further examining the assortment, the price can be up to 20-30% lower than the average store. Another distinction within the range of assortment is that HDs tend to offer some goods for a limited period of time, before these are substituted with a new limited product (Zentes et al., 2017). In the book by Zentes et al. (2017), it is further explained that the time-limited assortment mentioned above usually is not food. In regards of a changing assortment, another up and coming characteristic for HDs is the one of, so called, category migration. This means that the HDs partly leave the typical concept and begin to give space to more expensive products, such

as fresh meat. This is done in order to increase margins and customer flows within the stores (Zentes et al., 2017).

As stated above, HDs need the scale and big quantities in order to make their profits and turnover as large as possible. The streamline system within the discounters organisation is therefore of great use, since it is easy to go abroad and grow with a narrow assortment and rationalised stores (Colla, 2003). Retail companies within the discount segment do not only have the opportunity to go abroad, they also take the opportunity (Hjalmarsson et al., 2008). In the work of Hjalmarsson et al (2008), it is mentioned as a rapid expansion of discounters within Europe.

3.1.1 Private Labels and National Brands

A PL is an article produced by the retailer itself and the product is produced under contract by a manufacturer (Business Dictionary, 2017a). A NB, on the other hand, is sold nationally, often owned by a large manufacturer (Business Dictionary, 2017b). The PL segment is getting bigger and bigger and has now reached a position where the retailer's image is linked to their assortment of PLs (Chen, et. al., 2017). Another factor according to Chen et al. (2017) regarding PL is that it also builds store loyalty, since the product most often only is available at the particular retailer owning and selling it. NBs are increasingly being introduced into the assortment of HDs, while it is said to increase the overall sales in the stores (Lourenço & Gijbrecchts, 2013). The overall perception for customers, when HDs introduce NBs to their assortment, is positive (ibid). However, the price of the NBs must be offered low enough, in order to maintain a price-level with the already existing PLs of the HD (ibid). Finally, Martenson (2007) states that customers find stores with fewer NBs less attractive.

3.2 The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments

Within theories regarding the internationalisation of companies, there are several from which one can choose to read. This research, however, will focus on the Uppsala Internationalisation model by Johansson and Vahlne (1977) and the new revisited version of the very same theory from 2009.

The original Uppsala internationalisation model consists of four different stages, which goes in a cycle, where the company moves from one step to the other over and over again. This, since the company, for example, increases their commitment on the market or gains more market knowledge, which makes it possible to advance to the next level. The internationalisation process could therefore be seen as a gradual increase of commitment and knowledge. This chapter will explain how the model, and the different stages therein, works together as an establishment chain. The reader will later be able to get an understanding on what the revisited version from 2009 states regarding internationalisation.

The four stages of this model are the following; Market knowledge, commitment decisions, current activities and market commitment. The left column is the so called state and the column to the right is the so called change.

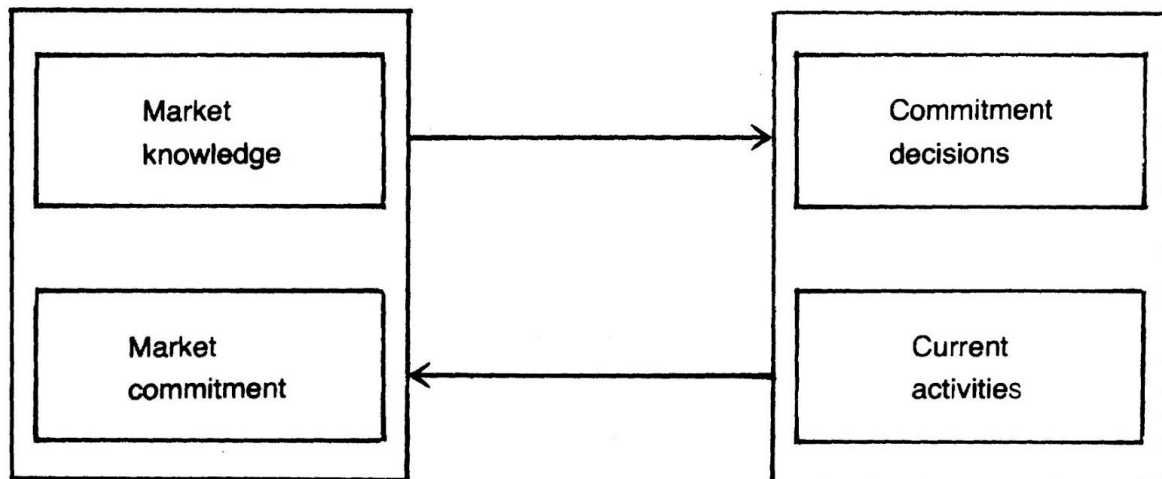


Figure 1: “The basic Mechanisms of Internationalization - State and Change Aspect” by Johanson and Vahlne (1977), p. 26.

3.2.1 State

The lack of knowledge is a large obstacle when it comes to internationalisation of firms. However, as Johanson and Vahlne (1977) also states, it lies a large difficulty in gaining the knowledge needed before the company actually enter the market of interest. This often lies in a lack of familiarity with language and culture in the new market (Johanson & Vahlne, 1977). This will be interesting to investigate further in our research, since Germany and Denmark, the countries of origin of our two companies Lidl and Netto, are neighbouring countries to Sweden.

Market knowledge is the first step in the process of internationalisation, and therefore, it is from the acquired knowledge many decisions originate. Companies use their knowledge of the new market when they decide between different alternatives on how to act. It is however important to remember that a lot of knowledge originates from experiences, which is difficult to have gained before a new market entry. Since the two companies of interest, Netto and Lidl, has been on the market since the beginning of the 2000’s, both will have acquired experiences. An aspect of interest regarding this fact is to what extent the accumulated experience has been utilised in the company's adaptation to the market. The other type of knowledge mentioned by Johanson and Vahlne (1977) is the, so called, objective knowledge; a type of knowledge which is possible to teach. The most important type of knowledge however, is, according to the authors of the model, the one conceived from experience. This, since objective knowledge is easier to access than the type where you need to experience something first, in order to add it to the accumulated knowledge of the company. It is also more useful in the process of decision making to have concrete examples and real life experience of how things actually are done, rather than the theoretical knowledge of how things can be done.

Knowledge in the domestic and the foreign market differ. This, since decision makers have collected experience through their entire lives, which is not the case when it comes to experience in the foreign market (Johanson & Vahlne, 1977). The company therefore need to gain knowledge and adapt as the understanding of the new market grows. Knowledge gained in the new market can also help to create competitive advantages, since experiences are unique for the particular company, something which is not the case with the teachable knowledge since it is easy to access for everyone. As we interpret this in regards to our case, it is not the best

situation to enter a market with a new concept, such as hard discount, however the experience gained from outside of Sweden could give an advantage against the others. As well as the lack of experience in the new market works in the opposite way giving a disadvantage.

In the process of internationalisation, both a general- and market specific knowledge is important. There is a distinction between the two, where the general knowledge is possible to transfer between markets and the market specific knowledge is attached to the specific market. A successful transferring of general knowledge is positive for the entire company (Johanson & Vahlne, 1977). In regards to this particular study, it will be interesting to investigate how these two types of knowledge have been combined in the adaptational process. Especially since this study aims to investigate how foreign HD can work with their concept and activities over time in order to better fit the Swedish market, where foreign is the key word in terms of general knowledge of how their type of business is conducted.

It is between this part of the model, and the part of commitment decisions, where we will have our main focus. This since we will research how foreign food HDs work with their concept and activities over time in order to better fit the Swedish market. We find this step of most interest in our research, since it is based on knowledge, moving towards decisions. Also, since this is a dynamic model, it is of interest to examine this step on the second and third lap. How does this step change as market knowledge increase after gained experience during the first lap in the model? It is of interest to see how and if the companies adapt their decisions after moving within the model. All four steps provides the company with new experiences, building up to how decisions will be made and implemented. These new experiences, which also could be described as market knowledge, plays an important role in what the new commitment decisions will be.

Commitment can be translated to the amount of resources a company invests in a particular market or project. However, it is not only the input that decides how large the commitment will be. Commitment also increases with linkages between different parts of the company in a cross border perspective (Johanson & Vahlne, 1977). Reasons to commitment can also be found in the revisited model by Johanson and Vahlne from 2009, where the network is lifted as an important factor in an internationalisation process. This 2009 revisitation will therefore be described and discussed in this theoretical part of the study.

This step, the market commitment, is the result of the accumulated experiences, decisions and commitments from and in the new market. Thus, this step is not the end of the internationalisation process. Once the market commitment is reached, the process continues into a new stage of market knowledge, and so the cycle continues (Johanson & Vahlne, 1977). We find this fact important to the study of foreign food retailers adaptation to the Swedish market, while we consider commitment being a factor which makes firms strive to gain more knowledge and improve their businesses.

3.2.2 Change

Basically, this part of the model touches the subject of how much and what resources the company should commit to the specific market based on experience and market knowledge (Johanson & Vahlne, 1977). It is also argued for, that identified problems and opportunities defines what the commitment decisions will be. When a local worker identifies a gap, whether it is an opportunity or a problem, the company starts to search in the area of the gap and then decides if it is possible and motivated to increase the commitment by filling the organisational

gap. We find this part especially relevant to our research question and purpose, since we are researching the phenomenon of adaptation to a new market. To fill a gap in a new market could be equivalent to adjusting to the very same.

Once a decision is made, there are effects to follow. The estimated effects could be distinguished in two branches; The economic effect and the uncertain effect. The economic effect concern the increased scale, which follows the implementation of the decision, whereas the uncertain effect is uncertain because of a lacking knowledge of the future market situation. As the company becomes more experienced in the new market, the level of uncertainty decreases. To describe the relationship between uncertainty and decision making, one can say that decisions are made when the uncertainty, and thereby the risk situation, is lower than the acceptable limit of risk (Johanson & Vahlne, 1977). We identify a connection between that of gaining knowledge and experience, and to make decisions. This, as a part of the adaptation to the market, which, according to what Johanson and Vahlne (1977) states regarding risk, would imply that an adaptation process is also dependent on the risk situation.

Of course, the characteristics of the market is a key factor of how much experience contributes in the decision making. Should the market be unstable, experience of how the market is today might not be valid facts tomorrow. On the other hand, if the market is very stable, experience might not be needed in order to make the correct decisions (Johanson & Vahlne, 1977).

Johanson and Vahlne (1977) conclude that decisions and internationalisation process will come in small steps, with the reservation if the company already has the experience from a similar market or has the resources to go large scale from an early stage. We see how this part lies in line with that of general and market specific knowledge, where Lidl and Netto are likely to have experience from markets close to the Swedish.

One essential part within the area of current activities is the time lag. The longer it takes before the company can harvest on their activities, the more commitment it gets towards the market. This is the case since the company need to stay in the market for a longer time before it gets a return on investment (Johanson & Vahlne, 1977).

Johanson and Vahlne (1977) argues that the current activities are the main source, from where companies gather their experience. This is made from engaging with experienced people, whom are employed by the company, or advisors. The findings of Johanson och Vahlne (1977) also indicates that it is more difficult to have interaction with customers than to have activities closer to production. This has to do with personnel and is also linked with the time lag mentioned above. The new staff need to adapt to the new market conditions and this time causes a lag from when the investment in personnel is made and when they have the knowledge needed for the market in question.

3.2.5 Limitations of The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments

The Uppsala Internationalisation process has been debated and criticised, especially whether the arguments presented in the theory are relevant (Forsgren, 2002). In cases of low market knowledge, it can lead to two alternative courses of action. Firstly, lacking knowledge of the foreign market decreases the foreign investments, while the risk of investing abroad is perceived as high. In the other case, the market knowledge is just like the first case low, but according to

Forsgren (2002), there is a strong belief in the possibilities and therefore the foreign investments increase despite the lack of market knowledge.

Forsgren (2002) states that companies can choose to establish subsidiaries in several countries without having the slightest knowledge of the market conditions. The companies striving to enter new markets can therefore make leaps, meaning that they do not have to begin by exporting to the market of interest, but can rather establish a subsidiary from the beginning (ibid).

3.3 The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership

The original Uppsala internationalisation model was created in 1977. The business environment has changed since, and the authors, Johanson and Vahlne, felt a need to go back and adjust their findings in the Uppsala model, to the world as it is today (Johanson & Vahlne, 2009). The new conclusions, that were drawn by Johanson and Vahlne (2009), was that the market operates as a network, in which companies work. It is crucial, in order to achieve a successful internationalisation, that the company is part of the network and avoid a situation of outsidership. The so called, Liability of outsidership is the first main argument lifted by the authors. This stands in relation to the liability of foreignness, which was part of the 1977 model. The previous liability of foreignness meant that a larger psychic distance between countries lead to a more complex internationalisation process. The second factor mentioned in the 2009 report is trust, learning and commitment through established relationships (Johanson & Vahlne, 2009). We identify a pattern that knowledge still is an important factor in the internationalisation process. However, market knowledge of other actors within the market is of higher importance than knowledge about the market as a whole. Considering the fact that the two studied companies both are foreign and that we consider the knowledge from the networks described by Johanson and Vahlne (2009) being a factor leading to a better adaptation to the market, makes this theory important in order to fulfill the purpose of this study.

A network is built on relations and by getting together and exchange experiences, the company can build a bank of trust, knowledge and commitment. The established network grows through experience and a developed knowledge of the different actors in the market. As the familiarity with the market grows, opportunities for joint operations increases. This is possible by committed work from at least two parts to build a relation. However, Rome was not built in one day and this is also the case with relationships. Johanson and Vahlne (2009) refers to data, in which they have found indications that point towards the fact that five years is the time it can take, without any guarantees for success, before two parts actually has enough knowledge of each other and thereby a good relation. When connecting this chapter to the one of market commitment, it does not feel unreasonable to believe that established and improved relations is a contributor to an increased market commitment. Especially since it, according to Johanson och Vahlne (2009) is difficult to establish relations. A factor, which could make the relation building process even more complicated, is the psychic distance. The further companies stand from each other in how they think in different situations, the more liability of foreignness there will be.

The relations in which companies get involved within the process of internationalisation is not only with other actors doing the same or similar things, it is also of high importance with good relations with customers and suppliers. It is when a web of such relations is created that we start

to discuss the phenomenon of networks (Johanson & Vahlne, 2009). The product gained from the networks is knowledge. Thanks to interaction between the supplier providing the products, middlemen and the user, knowledge will increase (Johanson & Vahlne, 2009), making it possible to provide an even better product in the end. The size of the network is of importance, in the company's search for market knowledge. Johanson and Vahlne (2009) speak of a chain reaction where one company's contacts have other contacts, with whom they share information, and these contacts have their contacts and so the chain continues. This means that if a newly established company wants to gain sufficient market knowledge, it needs to interact within existing networks in order to create their own specific network, as this could help the company to make the most correct decisions through increased market knowledge. A large and qualitative network could also lead to an extended commitment towards the market, especially since it, as stated above, takes time to build relationships. We have stated that knowledge is key leading to decisions being made. We have also found that knowledge can be attained through different ways and that networks are important. These factors play an important role in answering the research question of how foreign HD can work with their concept and activities over time in order to better fit the Swedish market. However, we would like to support the theoretical background with the retail perspective in order to provide a better ground for us to stand, when striving to fulfill the aim of the study. Therefore, we have examined the wheel of retailing, as we see connections to the Johanson and Vahlne studies from both 1977 and 2009.

3.4 Wheel of Retailing

The wheel of retailing was first mentioned by McNair in 1958 and has been a recurring model in the literature ever since (Zentes et al., 2017; Hollander, S., 1996; Brown, S. 1995). The wheel is shown in the figure below and the purpose of it is to show how the life cycle of a retailer is perceived. The three steps are explained; Innovation retailer, Traditional retailer and Mature retailer. In the first stage, also referred to as the entry phase, the food retailer enters as something new to the market. The prices and services are low (Zentes et al., 2017). As time passes by, the strategy is developed and, according to the model, the store is developed with a higher level of service, higher prices and an increased assortment. This, however, is not the traditional characteristics of a hard discounter, as their unique selling point is their low prices. As the retailer is entering the vulnerability phase, the return on investment is diminishing, and the prices get even higher (Zentes et al., 2017).

Our reflection to the wheel of retailing is that it is connectable to the original Uppsala models, both the old and the new version, since it takes time and experience to get the market knowledge needed in order to advance as an organisation. The longer a retailer has engagements in the market, the more committed they get, in sense of investments made. This is shown in, for example, an increase in services. Time and experience is key factors in building networks with suppliers (Johanson & Vahlne 2009), and since the second stage, according to the wheel of retailing mean a broader assortment and connections with domestic suppliers. However, the question of a price increase does not fully comply with the characteristics of a HD (Zentes et al., 2017). This shows that the wheel of retailing is not perfectly applicable to HDs, in regards to how the organisation is adjusted and developed over time.

As the retailer moves within the wheel of retailing, the retailer also moves within the Uppsala model of internationalisation.

In the entry phase, the company has little knowledge and makes the decisions thereafter. But, in order to advance to the trading-up face, experience is needed. And experience is what you

get by following the process in the Uppsala model from 1977. We suggest that, as the company advances in the wheel of retailing, it does several laps in the Uppsala model. When the accumulated market knowledge of what the customer actually wants, has reached a level where adaption can be implemented in order to attract the customer, the step to the trading-up face becomes a fact.



Figure 2: “The Wheel of Retailing”. Our compilation. Based on the figure made by Zentes et al. (2017), p. 28.

Model 1 – Relevant aspects of the Theories utilised

<p>Hard Discount - Private labels and National Brands</p>	<p>The trend among HD is that price comes before value. There is no extravagant interior or service. A clear trend regarding the HD can be seen in terms of a continuous internationalisation expansion. We find evidence that the introduction of both National Brands and Private Labels in new markets have had positive results.</p>
<p>Uppsala Model - The original and the revisited model</p>	<p>Companies need to gain knowledge and adapt as the understanding of the new market grows. Decisions and internationalisation process come in small steps. Companies need to be part of networks in today's world in order to prevent the phenomenon of Liability of Outsidership. Knowledge is still an important factor in the internationalisation process. However, market knowledge of other actors within the market is of higher importance than knowledge about the market as a whole.</p>
<p>Wheel of Retailing</p>	<p>When a food retailer establish themselves internationally for the first time, the prices are generally low. As time passes by, the strategy is developed and, according to the model, the store is developed with a higher level of service, higher prices and an increased assortment. When the accumulated market knowledge of what the customer actually wants, has reached a level where adaption can be implemented in order to attract the customer, the step to the trading-up face becomes a fact.</p>

The connections between the three models	The common thread in the three theories is to be found when looking into a development of a business concept. The wheel of retailing could be implemented into the Uppsala model, creating a model inside the model. As the wheel keep spinning, so does the Uppsala Model move forward. In the case of HDs development in a certain market, all aspects within the Uppsala model, the revisited model and the wheel of retailing are of interest. This, since they together show the development of a HD in a new market and how it could develop by following the different steps.
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4. Empirical Material

The empirical material starts of with outlining the internationalisation process to Sweden for both Lidl and Netto, by examining the mistakes they made in the early stage. From there on, the study presents alterations and adjustments made by the two companies ever since and the chapter ends with having a look at the future for the hard discount segment in Sweden.

4.1 Internationalisation process and the early stage in Sweden

4.1.1 Lidl

Lidl is a part of the Schwarz Group which is controlled by the Dieter Schwarz family. The company was founded during the 1930s and is characterised as a HD (Lidl, 2017). Lidl started expanding internationally in Europe during the 1990s, and in 2003 they penetrated the Swedish market by establishing 30 new stores (Wahlberg, 2003). However, Lidl begun contacting municipalities two years before opening up their first stores in Sweden. According to Wahlberg (2002), approximately 70 municipalities were contacted during this time but no stores were able to open. This because of the municipalities unwillingness to give Lidl building permit. Once this obstacle had been overcome, Lidl opened up a large number of stores in order to finance the fixed costs regarding distribution and central storage (ibid).

Lidl's assortment in the initial face of the establishment in Sweden consisted of around 800 articles (Wahlberg, 2002). This was a major problem, while the customers had to complement their visits by going to other grocery stores (Gripenberg, 2012). Besides having a narrow assortment, it was stated that Lidl did not have national brands or their own Swedish private labels in the initial face of their entry. Further on, Lidl had problems finding suppliers to their perishables (Wahlberg, 2003). In addition, the Swedish dairy companies also denied the enquiry of letting Lidl produce their own private label before entering the market in Sweden (ibid).

When looking at the store, store manager B told us that a lot has happened in regards of design within the Lidl stores. She also indicated that the blue and yellow color was stressful to the customers. Besides this, it was also stated during the interview that the cash desks in the Lidl stores were of German design, meaning that they were very short after the cashier had scanned the groceries, Forcing the customers to pack their groceries really quick once they had paid. In the initial face of Lidl's entry, the efficiency was of high importance and it was not unusual with only two workers in store, meaning one in the cashier and one on the floor. This was the case even when the queues and the work load were enormous. Store manager B further stated that Lidl did not teach the new staff necessary procedures in the beginning. Procedures like how to scan groceries in the cash desk. It was of higher importance to get staff, rather than getting well trained staff.

Lidl's aggregate loss during the first ten years in Sweden has accumulated to 2.7 billion SEK (Hedlund, 2014).

4.1.2 Netto

Netto is owned by Dansk Supermarked and was first opened 1981 in Copenhagen, Denmark. Just as Lidl, Netto started exploit new markets in Europe during the 1990s. Today, Netto has

aside from stores in Denmark also stores in Germany, Poland and Sweden. Netto is a hard discounter, meaning that they offer their narrow assortment to a cheap price (Netto, 2017).

In 2002, Netto entered Sweden via a joint venture with Swedish food retailer ICA and Dansk Supermarked A/S, the Danish grocery retailer (Schramm-Klein, 2012). However, this collaboration ended in 2007 (Netto, 2017). When Netto entered Sweden, the assortment consisted mainly of Danish and German groceries. In the beginning of their entry to Sweden, Netto's stores were considered dirty and messy by the customers shopping there according to store manager A. It was Furthermore stated, that the processes when ordering products in the beginning were done manually with paper and pencil.

Since their early establishment to Sweden, Netto has paid a high price. Their aggregate loss during the first twelve years was 850 million SEK (Hedlund, 2014).

4.2 Organisational adjustments in Netto and Lidl

4.2.1 Products and assortment

4.2.1.1 Origin of the product

In the beginning of Netto's presence in Sweden, most of the assortment contained Danish and German groceries. However, according to Store manager A, it did not take long for Netto to realize that this approach was not appealing enough to the Swedish customers. Store manager B has the same experience with a lack of Swedish groceries in the assortment having a negative effect on the company. Store manager B gave the example of soda, where she told us that customers came in to the store looking for Coca cola. However, when the customers realised that there was no Coca cola available, they left the store with a feeling that Lidl was a store with large gaps in their assortment. From Lidl's, and Store manager B's, point of view however, this gap did not exist, since they had their own cola beverage, which they considered held the same quality as a Coca cola but carried another label. This customer unfamiliarity with the assortment was, as stated above, also felt by Netto, according to Store manager A, and their solution was to quickly realise that they had to do some adjustments and added Swedish NBs, such as Scans köttbullar and Marabou chocolate into their assortment. Store manager A further discussed the importance for the Swedish customer to be familiar with the brand. In which Store manager A discussed that Swedes rely on the quality that Swedish brands are supposed to uphold, and are not easily convinced when it comes to realising the quality of foreign products. When discussing the origin of products in Lidl stores with Store manager B, she lifted the fact that Lidl is a large international company, with offices all over Europe. Store manager B explicitly lifted Feta-cheese from Greece, since the company has their own supply managers in Greece. It is therefore natural to buy the product from its country of origin. This in order to avoid Swedish copies of Greek Feta.

Products in the assortment with a foreign origin, is lifted by Store manager B by the example of only having German milk to begin with. After a while, the Supply manager from Lidl lifted that they introduced Arla milk in two different labels; Their own label and the Arla label. Despite the two articles containing the exact same product, customers complained that the private labeled milk tasted worse than the Arla labeled alternative according to the interviewees from Lidl.

Further, all interviewees say that the market is adapting to foreign products. Store manager A, pointed out the market as a changing phenomenon. We started to discuss the Slovenian chocolate, which was currently a part of their assortment, when he stated that “there is a large amount of immigrants recognizing these products”. This means that when a person with Slovenian roots walks into a store, he or she will buy the chocolate immediately. But of course, the Slovenian chocolate is not only meant for potential customers from the same country, and, according to Store Manager A, foreign products are more appreciated by the Swedish consumers. At least as long as the products come from an European country. Products originating from outside of Europe are received with more scepticism according to Store Manager A.

Furthermore, the supply manager, with responsibility for meat, stated that Lidl almost only had German meat products in the initial face of their establishment to Sweden. Ever since this period of time, the suppliers have been struggling to implement a stable assortment of Swedish products. This is also something that have been successful in the later years, with a broader assortment of Swedish products. This has led to that Lidl today, in accordance to what the customers have requested, has more Swedish than German meat products in their assortment. Store manager B discusses one reason to the demand of Swedish produced goods, being that consumers want to support the local producers, rather than the foreign producers.

The supply manager pointed on a distinction between the perception of different product categories. An example is toiletries, where German products are used to a great extent. And it should be added that they also sell very well. When the supply manager is discussing how this can be, he concludes that a Swedish and German soap does not differ enough to affect the customer's preferences. The supply manager concludes that price is the most important variable when customers make their decisions.

Common for our interview objects was the agreement on the time aspect for customers to adjust. According to store manager B, it has taken ten years to accept the foreign groceries but “now, they ask for the german sausages, instead of everything being Swedish”.

4.2.1.2 Private Label

“In order to survive on the Swedish market, you need to have your own private labels”. This is how Store manager A first addressed the subject of PLs during the interview. Manufacturing and making money, these are important factors in the market as it looks today. However, PLs is not something that was a part of Netto’s concept in their early years in the Swedish market. Store manager A stated that it was not until 2010 that Netto focused on their PLs in the assortment. However, he highlighted the importance of PLs and used terms as “revolutionised” when he discusses the effects of the introduction of PLs in the shelves.

According to the Lidl representatives, were Swedish PLs not a part of the assortment in the beginning of Lidl’s Swedish market expansion. The focus was mainly on German products, but during the last couple of years there has been a great expansion in the Swedish PL segment. Lidl today has, amongst others, dairy products and meat, which both carry Swedish names; Engens and Svea Lantkött. A focus on the design of their PL is that it should look nice and inviting. The supply manager lifted the importance of transparency, and therefore, all meat products are possible to see through the packaging. This is done to ensure the consumers that there is nothing to hide and the consumers themselves can check the quality, store manager B says.

The supply manager lifts a recent change that has been implemented in the Lidl PL concept, which includes putting all beef and pork under the same label and the chicken under the same label. This is supposed to make it easier for the customers to identify Swedish products and to orientate themselves within the segment. This creates some sort of branding and leads to expressing quality of all products within the brand.

4.2.1.3 National Brand

In the case of national brands, Lidl and Netto offered foreign brands and implemented these in their Swedish stores. Store manager A stated that while the customers did not recognise the products in the beginning, they needed to offer something the Swedish customers were accustomed to. Netto therefore started to implement Swedish NBs into the assortment. The brands introduced were for example Swedish meatballs and Swedish chocolate.

When discussing why Lidl is using NBs, the supply manager expressed that Lidl is internationally huge. The supply manager further states that, in order to keep prices down, they buy their products from international suppliers, leading to that foreign products become a large part of the assortment. This does not have to be something bad, as Store manager B mentioned the Greek Feta cheese bought from Greece by Greeks. She points on the quality in that case, instead of buying the Swedish copy.

Further, store manager B continued to lift the importance of finding a balance between Swedish NBs and their own foreign products. In order to get the consumers to try the foreign products, it is important first to make them shop their groceries in the stores by attracting the customer with familiar brands, such as Felix Ketchup. If Lidl only has the German ketchup available, store manager B sees a risk in customers being intimidated and leave the store, just as in the case with Coca cola mentioned above. Therefore, it is important with the presence of Swedish NBs. The strategy of Lidl is to have different options available and when the customers have settled with the thought of buying the cheaper ketchup, he or she will gradually buy more German goods.

4.2.1.4 Quality of the products

A key term when interviewing the company representatives was quality. One of the first things store manager B stated when asking about the Lidl concept was “Highest quality to the lowest price”. She feel that it has been a struggle for Lidl to continuously prove themselves as a quality option among the competitors and therefore, it is of great importance that the products maintain a high level of quality. This can be implemented in different ways, but the supply manager emphasised the extremely high quality of their products. The supply manager explains that the quality is continuously compared with the competitors and that Lidl always strive to maintain the content of meat, as high or higher than their competitors.

But, despite the quality supposedly being as good as any on the Swedish market, customers still complained in the initial phase. Store manager B mentioned scenarios where customers said phrases she did not want to recite during the interview. Today, however, she experience a completely different situation and the products are not as badly regarded. Store manager A lifted up the quality as the main factor, superior to the origin of the product. Since Swedish products are perceived as high quality goods, Netto initiated a focus towards such groceries once this was realised.

4.2.2 Store

Since Lidl and Netto opened their first stores in Sweden, lots have happened according to the interviewees. The previous German cash desks have been replaced in order to give the customers longer time to pack their groceries. The German way of packing groceries is apparently quite different according to Store Manager B. Store manager B stated that once they had introduced the Swedish kind of desk, their customers felt more comfortable and not as stressed as they did before. Store manager A also mentioned another improvement regarding the cashiers at Netto, where technological innovations has made it possible to implement 4G paying devices for customers paying with card. This stands in contrast to the slow devices, which were utilised in the early years of Netto.

Another improvement, adjusted to the Swedish market, is that of sanitation. The need for adjustments was, according to Store manager B, highlighted with the creation of a documentary, created by Netto. Store manager B stated that in the film, customers explicitly expressed their thoughts regarding the store. The sanitation was expressed to be an area, in which customers wanted to see improvements. As a reaction to this, Store manager A stated that Netto made the investments necessary, in order to meet the customer's expectations on what standards a store should uphold. Store manager A further discussed the matter of sanitation in an international context, where he compared Swedish sanitation standards to Spanish and English conditions. He concluded that Swedish stores uphold the degree of sanitation to a higher level than the countries mentioned.

Store manager A felt the urge of keeping the store in constant change, "It is terribly boring to walk around in a store, that has looked the same for the last 15 years". In line with this statement, both Lidl and Netto made substantial changes in the terms of stores, in order to make them more appealing to the customers. For instance, Lidl introduced a bake-off section in their stores and in 2014 this had been implemented in every Swedish store, meaning that they now offer an assortment of 30 different kinds of bread rolls, including small and food bread (Pettersson, 2014). This has been well-received by the customers as of the many alternatives available (ibid). Netto has also implemented bake-off in their new business concept, meaning that they now offer a wide range of baked bread. Store manager B also said, that her Lidl store, in combination with the bake off, has increased the bread department from only a few different types to twelve kinds of bread rolls. This is, according to Store manager B, a result of customers demanding a wider range of bread in the stores. Besides changing the assortment in the store, adjustments regarding the interior of the store have been made in order to become more appealing to the customers.

Lidl has, since the establishment to Sweden, introduced the concept called "the next step" in their stores, according to store manager B. This has included basic changes, such as repainting the stores from the typical blue and yellow to a more subtle grey tone. When Store manager B compares before and after re-painting, the change of colour has improved the overall experience of the store. In addition, new signs, telling the customers where certain groceries are to be found, has also been a part of the next step. These signs also follow the new subtle grey color. The conclusions drawn by store manager B is that both turnover and number of customers has increased, thanks to the implementation of the next step. In the case of Netto, they have also made adjustments regarding the color of interior, where the yellow color has been replaced with a new darker one. Store manager A said the following about the completed changes; "It is much more fresh, with a glimpse of the future with bigger freezing and refrigerating displays". Netto

focuses on items that are well-known and sold in large quantities. When visiting the new Netto store in Kållerød, we noticed a difference in focus towards fresh products, such as fruit and vegetables. The light setting was also more appealing than our experience from other Netto stores.

4.2.3 Personnel

When moving on to the subject of personnel, Store manager A immediately highlighted the cost-consciousness as a major factor for HDs, such as Netto and Lidl. In the early stage of Lidl, it was more important that the labor was present, than actually knowing what he or she was doing, according to store manager B. The training of the staff was not a priority, and ordinary staff was also not included in the work of Lidl. This was in line with the closed approach Lidl had towards the media. According to store manager B, this is no longer the situation. Today, Lidl supposedly include everyone in the organization by communicating through work related education, events for welcoming the staff and through newsletters. By doing this, store manager B suggests that a proudness and a feeling of being an active part of the company, grows among the staff, leading to a better performance. “We need to put an effort in our staff if we want to keep them”, store manager B said. In addition to this, the staff working on the “floor” have gotten more responsibilities, as the store managers now put more time in the office, making schedules, budgets and taking care off staff related questions. This, since Lidl has introduced a focus on store managers, providing them with courses in leadership and team effectiveness, store manager B says.

Efficiency in terms of workers, is utilised by both companies. In the case of Netto, store manager A implied that he sometimes felt that an additional worker would have a positive effect on the store. Then, the store would have someone who could focus on the final details i.e keeping the store proactive. At Lidl, the concept of “eins-eins”, one in the cashier and one on the floor, was initially implemented. This, regardless of the number of customers in store. Lidl therefore increased the number of staff but still practice efficiency by counting every minute in the working schedule. This, however, does not mean that the staff is working over their capacity, they are rather given a reasonable amount of tasks to do each day. Store manager B had the feeling that the amount of workers is enough to run the store, and if an increase in staff should be necessary, she would speak directly to her district manager.

4.2.4 Operations

Since the establishment of the companies, a lot has happened within the field of technology. According to store manager A, new innovations have made it possible to improve the ordering process, making it easier for the store managers in their daily work. Especially since the ordering process was manually executed before the advance in technology. Store manager A stated that groceries today are ordered electronically. This enables the store to reach a higher efficiency, since the staff only need to keep track of the stock balance, instead of conducting the entire process manually.

Store manager A also emphasised that when entering a new market, you need to be prepared to make necessary investments. Since the establishment to Sweden, Netto has been investing money in necessary store supportive systems, for instance a new scanning system. This was partly made possible, thanks to the fact that the former CEO introduced an improved cost consciousness within the company. Netto was prepared on initial losses, according to store

manager A. He further states that this is a part of an establishment process, and the investments leading to losses today are meant to provide the company with revenues tomorrow.

Another change in how Lidl operates is the attitude towards the media. In the beginning of Lidl's Swedish establishment, store manager B describes Lidl as a very closed company. Staff was told not to say anything if contacted by the media and the head quarter was also very restrained in their contacts with the media. Store manager B suggested that Lidl could have gained on initially being as open as they are today towards the media.

4.3 Future Outlooks for Hard Discount in Sweden

With a combined market share of 6 % (Handelns utredningsinstitut, 2016), the initial 15 years of Netto's and Lidl's Swedish establishment have not been flourishing. Despite these facts, some people still think HDs have future potential in the Swedish market. Despite major losses in the early establishment (Hedlund, 2014), Bent Holm, the former CEO of Netto, thinks the market shares for hard discounters will boost the next five to ten years to come (ibid). The participants in our interviews all think that the HD segment will continue to grow, and store manager A even stated that he "I believe and feel that HD is the future". The Supply manager at Lidl stated that they are growing quickly at the moment and that there are no reason to doubt further prosperity in the coming years. When Lidl becomes stronger in the Swedish market, their negotiation force will grow even further, which in turn will make it easier to access major suppliers in Sweden, according to the supply manager. This will also lead to a margin increase in Lidl's products. Sales manager B also stated that they will introduce self-scanning cash desks in their stores in Sweden in the coming future. The biggest change to come is that all stores will be re-designed in line with Lidl's new concept, the next step, meaning a national transformation in sense of coloring, shelves and assortment. A similar transformation can be seen in Netto's new store concept.

Something that speaks in favour for Lidl and their adaptations to the market, is the fact that they won the award; "retailer of the year" in 2016 (Jarstål, 2016). This was motivated by years of store related adaptations with the Swedish customer in mind. For example, improvements in assortment and developments regarding the interior has been made (ibid). Finally, Alterations have also been made through the implementation of customer suggestions into their assortment, an adaptation process which also was a part of the work leading to the award (ibid).

5. Analysis

In this chapter we examine the empirical material and consolidate this with the theoretical background. The aim of the analysis is to find similarities and patterns between the theories and empirical material, which also forms the conclusion in the study.

5.1 Product and assortment

In the empirical data, it stands clear that Lidl and Netto had an idea of how to conduct their business. Both are well established in Europe and before entering Sweden, Lidl and Netto had already been internationalising for some years (Wahlberg, 2003; Netto, 2017). This indicates that the general knowledge, which is knowledge transferable from one market to the other (Johanson & Vahlne, 1977), about how to internationalise the business concept had been attained prior to the establishment in Sweden. However, we question the level of market specific knowledge, which is knowledge attached to the specific market (Johanson & Vahlne, 1977), in the two companies when internationalising into Sweden. This, since almost only foreign products were offered, with an inadequate result in the initial phase of the internationalisation process (Hedlund, 2014). If the level of market specific knowledge initially had been higher, it is not sure that Lidl and Netto would have utilised the same establishment strategies from the very beginning. On the other hand, HD was a new phenomenon to the Swedish market, especially foreign ones, and therefore it is questionable if it was possible to have gained the market specific knowledge prior to the actual market entry.

Since the market entry, changes within the operations have been made and they were crucial, according to the interviewees, in getting customers into the stores. These adjustments meant offering NBs, such as Scan's meatballs and Coca cola. Even though the companies had their own alternatives, the Swedes wanted something they were familiar with. Here, we argue for the process being slow. The Internationalisation process of the firm (Johanson och Vahlne, 1977), is a dynamic model, meaning that it goes in cycles. What we suggest, is the importance for the companies to quickly move within these cycles, and thereby make the adjustments necessary, in order to fit the market in a better way. It was first in 2010, that Netto introduced Swedish private labels. This is a perfect example of a slow process where commitment decisions and current activities were not evaluated into new knowledge quickly enough. This scenario could, on the other hand, have its roots in a lack of commitment, where Netto maybe knew what they needed to do before 2010, but did not have enough commitment to the market to execute the adaptation process in terms of Swedish PLs. As one of our interview objects stated, a food retailer need PLs in order to survive on the market, indicating that the knowledge is obvious today. However, to get to the stage where the company produce PLs, a lot of work has to be done. This work includes a risk analysis, where, in line with Johanson and Vahlne (1977), uncertainty- and risk levels need to be lower than the acceptable limit of how much risk the company is willing to commit to. This is where we argue for knowledge being present, however not to the extent needed in order to make a decision. As of this, we find support to our claim that Netto's process within the Johanson and Vahlne state and change model from 1977 was moving too slow.

The specific market knowledge is attained through experience, and the experience in the Swedish market has made both Lidl and Netto to implement their own PLs in their assortments.

This means that an important adjustment, in regards to the original business plan for these foreign HDs, is the implementation of domestic PLs. However, it is important to consider the knowledge already attained through previous internationalisation processes and how business is conducted in the home market. These activities accumulate to the general market knowledge and if that is the main part of the knowledge bank, we presume that this knowledge will form the decision making in the internationalisation process.

The theory states that a successful transfer of general knowledge, leads to a positive result for the company (Johanson & Vahlne, 1977). However, what if that general knowledge is non applicable, or only applicable to a certain extent to the new market? This would imply that adaptations are necessary to a larger extent than a company initially might have thought. Especially considering the fact that Lidl and Netto went into the Swedish market offering foreign German and Danish products. This was, as the interviewees stated, not perceived well and it further implies that the general knowledge, in terms of what goods performed, was utilised. However, the market specific knowledge of what goods perform specifically in the Swedish market seem to have been lacking. Another important factor is that of trust, mentioned by Johanson and Vahlne (2009), where trust of the market is lifted. The customers' trust towards the foreign products was probably lower than the trust to familiar NBs, which we presume on the interviews, stating that the foreign products did not perform very well in the initial entry. Another dimension of the discussion of knowledge and to what extent a certain type of knowledge is attained or not, is the one of execution.

Knowledge is thoroughly discussed through the theories lifted in this essay, however execution, and the quality thereof, is not. We therefore want to lift a potential situation where both companies in this study, more or less, knew what to do, however did not execute good enough or at all in certain situations. From our point of view, it is possible to have great products in the assortment, but if the store does not get the product out of the store it does not matter how good the product may be. The process of getting the customers to appreciate and buy the groceries is of course dependent on knowledge of which products to include, however also and maybe further on how to execute an introduction of new products. This in order to better fit the Swedish market.

Above, we discuss the importance of the production of domestic PL in the Swedish market. However, the advantage of a HD is the scale and synergy effects in sales and production. Such synergies could be exemplified in the purchasing of Greek Feta cheese by the greek supply managers, mentioned by store manager B in the Lidl interview. In the case of Greek-feta, Lidl utilised their established European networks and general knowledge to purchase for the entire group. Since HDs have great general knowledge of purchasing certain goods in large quantities and then selling them in their stores across all markets, it does make sense that foreign products was the main part of the companies assortment for a relatively long time. It is in this situation we would like to highlight the importance of finding the balance between the utilisation of specific market knowledge and the general knowledge. As Johanson and Vahlne (1977) states, general market knowledge is transferrable to other markets with a positive result for the company. However, if general knowledge takes the overhand, it might lead to a negative result, as of the major losses experienced by Netto and Lidl in their establishment to Sweden (Hedlund, 2014). We have seen an adaptation from a domination of foreign goods to an increase of Swedish products, a seemingly necessary adaption in order to better fit the Swedish market. At least according to our interviewees. Should the studied companies have been offering Swedish goods initially, we probably would have seen a quicker increase in market shares. However, in defence of Lidl and Netto, it should be clear that they were acting upon the knowledge they had

by the time. This further shows that uncertainty regarding the specific market was larger than the certainty based on the general knowledge.

However, the adaptation in terms of assortment could also be linked to the wheel of retailing by Zentes et. al. (2017). This model claims that an update regarding assortment is part of the, so called, trading-up phase. This could have a connection to the market knowledge and commitment decisions, whereas knowledge is needed in order to know what new articles to introduce as well as commitment decisions are made when the known facts indicates that the adaptation is worth the effort. As we see it, the state and change model by Johanson and Vahlne 1977 is incorporated in the Wheel of retailing. We explain this assumption by seeing the connection in the company advancing in the Johanson and Vahlne 1977 model and going through the cycle several times, adapting its operations before the company finally is able to advance in the wheel of retailing. This could be supported when studying the new business concepts of both Netto and Lidl, both in sense of how the stores have changed but also in terms of new products introduced, such as NBs and Swedish PLs. These adaptations implies that a change towards the trading up phase has been made, which has been the result of a process where knowledge has been gained through experiences in the Swedish market, resulting in decisions being made which has increased commitment in the market. This, in turn leads to the move from the entry phase to the trading up phase.

The trading-up phase is also connectable in terms of the customer perception of the assortment. During the interviews, we found out that customers felt gaps in the assortment when none of their “normal” groceries were available. The store manager argued for the importance of having some key goods that customers are familiar with, so that other groceries will increase in a long term perspective. We see this adjustment as important, since the perception of the assortment is important if people are to shop there. On the other hand, the trading-up phase does not mean abandoning the core concept and the advantages from scale when buying foreign goods. Especially not since the adaptations in offering NBs, makes customers try the, for example, German sausages. First however, as the store manager at Lidl states, the company need to get the customer inside the store, and when they have gotten familiar with the foreign parts of the assortment by seeing it in the shelf, they might start purchasing it.

We do distinguish a two sided adaptation when it comes to the products. Firstly, the foreign food retailer need to gain the market knowledge on what products attract the customer. However, the customers also need to adapt and approve the assortment. This is proved first by Johanson and Vahlne (1977), and their theories regarding market knowledge, but also through our interviews where the customer maturing into the fact that buying other groceries than the usual is doable. When it comes around however, quality is the ground principal if a customer will have the desire to purchase the product, and by pushing on the quality, the customer adaptation and approval to the product could be reached more quickly. By looking at it from a different perspective, foreign goods does not only need to be a bad thing in a market entry. We see proof of this in the example of Slovenian chocolate in the Netto store, where the store manager lifts the importance of considering the multicultural society, since the Swedish population consists of different nationalities. This makes us further pushing on the fact that companies need to evaluate their process and continue in gaining the market knowledge, in order to know what goods might do unexpectedly well, even though they are sold in Sweden.

5.2 Store

We will now look closer on changes regarding the store and the most obvious change made within the field of the store we found, was the move into something new. A new concept. The interviews provided us with information about how the stores had transformed and adapted with incremental innovations, but also that both companies recently implemented big changes to better appeal to customers.

These improvements do correlate well with the trading-up phase in the Wheel of retailing, and show that changes are made after a certain amount of time. The next step, as it is called by Lidl, and the equivalent at Netto has meant, for example, that coloring of the stores have been modified. Both companies have left their original colors in order to transform to different shades of grey. This, fully according to the trading-up phase, however also connected with an increase in market knowledge. This, since Lidl and Netto seemingly have understood that they better appeal to customers when sending out a message of a more premium looking store, while still maintaining a low level of prices. This further supports our idea of the correlation between the state and change model by Johanson and Vahlne 1977, and the Wheel of retailing, mentioned by Zentes. et. al. (2017). This, since knowledge has led to decisions regarding store color, leading to repainting stores, increasing commitment since investments are made and finally this is one step to move from the entry phase to the trading-up phase. This change of concept is something that seems to have been carried out well in regards of execution, which is essential in order to reach the full potential once the company has provided itself with the market knowledge needed.

The large changes of the business concept regarding stores is not just a small step in renewing and updating the interior, it is also a giant leap to the adaptation towards the market. When comparing Swedish stores to foreign, it is clear that there is a higher level of sanitation in Sweden. This further implies that Lidl and Netto have learned from their experiences in the Swedish market, by investigating the preferences of the customers. This finds support in the market research Netto did, when they found out that their stores were perceived as messy.

A perspective of interest is the wheel of retailing in relation to the business model of a HD. This since the HD has low prices and cost effectiveness as their competitive advantage and since an increase in price is one of the factors taking the company from the entry phase to the trading-up phase. This would imply that the wheel of retailing is applicable on HDs to a certain extent but not all the way. However, this does not mean that the wheel of retailing is completely useless when analysing the adaptation of the store. We find support for this when looking at the actual correlation of how the two companies' stores have developed in regards to what the model states. Netto and Lidl have made their stores more pleasant to visit, and it is not only by changing the colors. Other adjustments towards the trading up face such as new cashier desks, new shelves and a bake-off section have also contributed in making the store experience more appealing to the customers. Especially with the bake-off section increasing the service level in stores. All pointing towards the connection of increase in market knowledge leading to the decision making. This is one example of when the wheel of retailing and the Uppsala model has a correlation.

The correlation could be exemplified with cashier desks; Lidl implemented their German style cashier desks, since their general knowledge said these desks were best suited for a Lidl store. However, as these German desks were used in Sweden, Lidl became aware of the fact that customers found the system when packing their groceries stressful. This led to adjustments in

new Swedish cashier desks. As of this, customer satisfaction was said to increase, and the store moved towards the trading-up phase thanks to taking a lap in the Johanson and Vahlne state and change model from 1977.

When looking at the possible future outlook for the stores, in terms of moving from the trading up phase to the vulnerability phase, this would, according to the wheel of retailing mean diminishing returns and higher prices. However, we do not see this as a big problem, since further growth of a HD also mean increased possibilities of scaling up the businesses, meaning decreasing costs and a better negotiation position. On the other hand, when looking at further adaptations of the store, this could lead to an increase in costs. A situation which would not be in line with the cost effectiveness of a HD. Therefore, we see a risk in adjusting the stores to a too large extent, where the return on investments actually do decrease as revenues does not increase with such extent when customer satisfaction of the store has reached a relatively high level. Lidl and Netto would, if too extensive adaptations are made within the store, just become another store with more foreign goods and maybe cheaper prices. The HDs would not send signals of cost effectiveness and this could in turn lead to confused customers, since it would be difficult to determine if the store still is a HD.

5.3 Personnel

When conducting the interviews, we noticed a difference in how the Netto and Lidl representatives expressed themselves regarding efficiency and number of staff on the floor. The Netto representative felt a lack of sufficient staff and emphasised that adapting the number of staff to the current needs would have positive effects on the store. When Store manager B, representing Lidl, discussed the matter, on the other hand, she felt that effectiveness was reached and that she had enough staff in her store. Here, we raise the question if Lidl might have an advantage in general knowledge regarding efficiency in relation to Netto. However, it could also be that Lidl just put more effort in their labour force than Netto.

We can only speculate in what the actual reason is, but facts are that Lidl have adapted in their treatment of the staff. Initially it was poorly trained staff and Lidl utilised their strategy of *eins-eins*, meaning one in the cashier and one in the store. This lies in line with the wheel of retailing, where limited service is part of the entry phase (Zentes et. al., 2017). However, Lidl realised that this system was not functioning and changed their operations leaving a concept by employing more staff to the stores. This shows that execution is key, even though the knowledge was high, the specific market knowledge was lacking, leading to a poor execution of the level of service needed.

A change of concept can also be seen in the way personnel is involved in the business. Lidl now give the staff the opportunity to really learn their occupation through staff-training, indicating an adaptation towards being able to provide a higher level of service, something the Netto representative indicates that he strives to achieve within his store. The higher level of service is also a step towards the trading-up face in the wheel of retailing and we do believe that the knowledge gained by Lidl comes from analysing what the customers and the staff want. It is important to remember that the market not only consists of customers purchasing goods, but also of staff making it possible to supply Swedish homes with what they need. This has lead to an adaptation in terms of welcoming days and newsletters for the staff.

It is, however, not only through satisfaction of the staff that Lidl have made adaptations in order to improve their business and efficiency in the Swedish market. In the recent years, Lidl has introduced store manager training where they are taught how to implement further effectiveness in their stores. This highly correlates with the move between market knowledge and the commitment decision, while the company understands that there is a gap in their organisation in terms of numbers of employees, which did not have sufficient training. This was rectified by an increase in commitment where it was decided to allocate more resources into the workers in the company. We freely analyse this as a step in increasing efficiency per worker by having well trained staff that knows exactly what to do, led by managers that knew exactly how to organize the store in the most efficient way. This must have been necessary in order to be able to keep the prices low. However, training the staff takes time, and therefore it is difficult to have perfectly trained and experienced staff from the beginning. This phenomenon is referred to as the time lag, by Johanson and Vahlne (1977). Time lag could of course have been an excuse why adaptations took long to implement, but as the scenario was described in the interviews, it was a conscious choice by Lidl not to teach their staff, how they were supposed to work.

5.4 Operations

During our interviews, we felt a strong focus from our interviewees on the word quality. Our interviewees felt that both companies have had to prove themselves more than their competitors. The supply manager referred to the quality as extremely good, and this is also an indication that representatives have the knowledge of emphasising on product quality towards the public. We connect this to the wheel of retailing and the trading-up phase, where status is increased. A focus on letting the market know that the companies offer products of high quality, proves that they have understood what the market demands and adapted accordingly.

To make organisational adaptations based on specific market knowledge, some sort of experience is required, since this is one way in acquiring such knowledge (Johanson & Vahlne 1977). However, one should not underestimate the importance of the network as Johanson and Vahlne (2009) mention. For instance, if a foreign HD food retailer seek to initiate a collaboration with a domestic supplier, the HD would need a network, in which they can find a suitable solution. In the early years of Lidl's establishment in Sweden, it was not easy to find suppliers. This, since the negotiational force in the company was a lot weaker than the established competitors. The status of the new entrant Lidl was low. However, as the Lidl supply manager implies, as market shares increases so will Lidl's influence on the market. This will make it easier to access suppliers in Sweden, and thereby expanding their network. This could, as Johanson and Vahlne (2009) state, further lead to Lidl accessing the knowledge their new contacts have attained from their earlier established networks. As networks grow, so does the use of them. The network, combined with market knowledge is also of importance in the process of finding locations in the establishment process. Lidl contacted approximately 70 municipalities in their struggle to find locations for their stores, however they were still not able to open any stores (Wahlberg, 2002). Finally, stores were able to open but the question is if they would have had these struggles if they had been part of a better network. Our own speculations to why it could have been problematic for a new foreign food retailer to establish in the Swedish market, has its roots in the extreme power of ICA with their 50% market share (handelns utredningsinstitut, 2016). If the local store manager is part of the city council, he or she have an interest in not letting new entrant establish, since a new entry would mean direct

competition to the local stores. This probably work quite well initially, but as the status of the new entrant increases, it will facilitate the process of opening up new stores.

One way of overcoming the difficulties with networking could be to take advantage of local actors' specific market knowledge. In Netto's case, this meant a joint venture with the Swedish market leader ICA. We think this can be seen as a smooth way of overcoming the obstacle of liability of outsidership. However, the cooperation did not work out as well as the two companies were hoping, and the joint venture was dissolved in 2007 (Netto, 2017). When analysing this situation, it seems clever to go together with the market leader. This would, theoretically speaking, save lots of time not having to chase market specific knowledge, networks nor the liability of foreignness. However, we ask ourselves if it could have gotten problematic for the two companies in terms of interests. This, since Netto probably wanted to grow as much as possible, when ICA probably did not want to lose market shares. We see the risk of ICA not being willing to do everything they can to help Netto in their establishment, since they would become competitors to ICA's core business. Once again, knowledge was present, outsidership was, theoretically, avoided, however the execution was a factor leading to poor results.

In the process of increasing commitment, investment is a key factor and something you, as a company, need to be prepared to do according to store manager A. The more resources that are allocated to a certain market, the more commitment the company get to that particular market (Johanson & Vahlne, 1977). New ordering- and scanning systems have been some of the decided investments made by Netto. These have lead to millions in spendings, which increased the commitment to the Swedish market, since more capital was allocated to the Swedish market. This also points towards steps taken towards the trading-up phase in the wheel of retailing. Of course, investments are not made if the company perceive strong indications that there will not be a return on investment. Store manager A stated that the efficiency has increased through smoother ordering processes and quicker payment in the cashiers. We therefore presume that Netto saw a satisfying level of return on investments, meaning that the technical adaptations have brought positive effects to the company. This indicates that knowledge led to execution and current activities which turned out well. The combination of a good system and a good execution was the recipe for a good investment.

6. Conclusion

Based on the analysis, the contributions are presented in the last chapter of the study. In addition to this, suggestions for future research are presented, which is followed by a description of implications for practitioners.

6.1 Contributions

Since the purpose of the study was to find insights in how foreign hard discount food retailers, striving to gain market shares in the Swedish market, can adapt their activities in order to become more appealing to the customers, we examined the two HDs, Lidl and Netto, currently active in the Swedish market. Our interviewees lead us to different areas of interest, where changes and adaptations had been made.

It is of course important never to forget who and what the company really is. In this case, they are HD food retailers. Meanwhile, it is important not only to enter a market expecting everyone to automatically purchase the goods offered. Change towards increased customer satisfaction is therefore of great importance, no matter how well established the company may be internationally. In terms of products, the introduction of domestic PLs and NBs into the assortment were a great success for both companies. PLs were important in order to uphold the margins and extend the assortment with locally produced groceries. The adaptation of implementing NBs in the assortment have been crucial in order to get more customers to visit the stores. It is important to adapt the assortment with NBs familiar to the domestic customers. If this is not the case, the assortment will be perceived as inadequate. In a long term perspective, they also play an important role. This, since when placed next to their PL or foreign equivalents, they lead the customer to the alternatives, which in a long term perspective will make customers purchase the PLs and foreign goods. As of this, we state that in order to better fit the Swedish market, foreign hard discount food retailers need to work with their concept and activities in an early stage once they have internationalised into a new market. Especially in terms of PLs and NBs. We also conclude that the level of quality of the execution is crucial in deciding how well the change will turn out.

The adaptations made regarding the stores are in some terms obvious. Cashier desks, a bake off and a general lift of the store, have been contributions in moving the stores from the entry phase to the trading-up phase within the wheel of retailing. This required knowledge before decisions were possible to make. However, thanks to these improvements, the turnover and the number of customers in both stores have increased. This points towards the fact that the adaptational process within stores has been successful.

Adaptations regarding personnel has also been implemented. Today, the staff is better trained, making the service levels and efficiency higher. We identify significant improvements in terms of the amount of staff, while this number has increased in order to adapt to the needs of the store. This, since the store need to meet the demands of the customers regarding the service level of the store. Staff is also more included in the working process and the company and managers are becoming better in leadership and planning effectively. The decision to make adaptations regarding staff has led to a higher level of service, taking the companies closer to the trading-up phase. It has been made possible by knowledge of what the current needs are.

Finally, the changes to increase service levels and satisfaction within both personnel and customer have proven to be successfully executed.

There is no doubt that the examined food retailers have implemented several different changes within different areas, in order to better fit the Swedish market and the customers within the market. However, it is important that the work Lidl and Netto have done in terms of concept and activities have been in line with what the customers in Sweden actually prefer. The interviewees, of course, felt that the adjustments made were successful. In order to support their statements, and also further support the fact that this study actually answers the question of providing the reader with successful adaptations in terms of concept and activities, we refer to the “retailer of the year-award” which Lidl won in 2016. This was, amongst other things, motivated by highlighting their work with store related adaptations of the company. This award also indicates that HDs have made quite a journey and that they now are more accepted by the suppliers, which further implies that the liability of outsidership is diminishing, as the companies are getting more established.

We conclude that market knowledge in combination with the ability to utilize this information into reality through great execution is central in the adaptational process of an internationalising HD food retailer. This would imply that the Johanson and Vahlne (1977) model is of relevance when studying the phenomenon of HD, despite the criticism, which has been lifted towards the model. Also, clear indications in this study point towards some sort of trading up-phase, even though areas such as price do not follow this part of the model. The wheel of retailing is therefore important to include in a study regarding the adaptation process of a HD food retailer, since it increases the understanding of how the retailer will develop.

6.2 Suggestions for Future Research

The purpose of this study was to see how foreign HD food retailers in the Swedish market could adapt their activities in order to become more appealing to their customers. However, even though this study contained the two HDs available in the Swedish market, the number of interviewees was limited. Future research should therefore strive to interview a higher amount of participants, which could be of interest for a study on the subject. In order to be more certain that general conclusions are possible to draw, future researchers should strive to find interviewees on different positions, where a focus on the general management would be interesting. This, since it would be of interest to see if the answers would differ between store- and supply managers and representatives in the general management. It could also be interesting to make a study of how the entrance and continuously performed adaptations have affected competing food retailers in Sweden. Have the competitors had to do something extra in order not to fall behind the rising HDs, Lidl and Netto, in terms of growth?

In regards to the theory, further research should examine if it exists tendencies of the HD food retailers of this study to enter the vulnerability phase of the wheel of retailing. Since we have seen indications on a move from the entry phase to the trading up phase, we do not find it far-fetched to believe that further adaptations could move the retailers towards the vulnerability phase.

6.3 Implications for practitioners

Our findings are of interest to decision makers within the examined companies, as well as decision makers in companies striving to enter the Swedish market. Key factors to keep in mind in the daily work, after reading this study is that the work process of concept and activities are of high importance. However, these processes have been to slow in regards to the Johanson and Vahlne state and change model from 1977. If the companies would have been moving faster within the model, by implementing adaptations from the very beginning, we suggest that the initial results would have been better. The adaptations also suggest that Swedish customers have higher demands on extra services within the stores. For decision makers, this basically mean that specific market knowledge is of great importance when internationalising their businesses to Sweden.

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Appendix

1. Participants

Interview A, Store manager A, Netto

The store is situated in Gothenburg and so is the store manager. The face-to-face interview was held 24th of April, 2017.

Interview B, Store manager B respectively Supply manager, Lidl

The store is situated in Gothenburg and so is the store manager. The supply manager is situated in Stockholm The face-to-face interview was held 2nd of May, 2017.

2. Interview Questions

1. How long have you worked in the company?
2. What is your role and your job assignments in the company?
3. What does the concept of Netto and Lidl imply?
4. What are the main factors for your company to appeal the Swedish customers?
5. How has the store changed during your time in the company?
6. How centrally controlled is Lidl/Netto? Do you have the possibility to implement your own ideas in the store or do you have to go through the head office?
7. What is according to you most important to think of, as a foreign har discounter, when wanting to establish the business in Sweden?
8. What were the biggest challenges that Lidl/Netto faced in Sweden?
9. How well does the foreign products sell in the Swedish stores?
10. In your assortment there are besides food articles also other products such as clothes and accessories. If that were not a part of the concept, would you as the store manager still have this a part of the assortment?
11. You also have private labels, how well does these sell/have sold over time?
12. Do you think a company can succeed without adapting towards a new market?
13. If you personally could rearrange the whole establishment once more, how would you do it? What had you done more or less of?
14. What do you think of Lidl/Netto's prospect in the future? in terms of market share etcetera.

