“Hello Jumbo!” The Spatio-Temporal Roll-Out and Consumer Adoption of a New Chain After an Acquisition

Prof. Els Gijsbrechts
From
Tilburg University

Abstract

Large-scale acquisitions have become quite pervasive in the grocery retail scene as a way to expand to or intensify the presence in a country where sites are scarce. Such acquisitions are ‘risky business’ however, often with higher post-entry failure than greenfield expansions, especially if the acquirer has a fixed format or banner that consumers are still largely unfamiliar with (Gielens and Dekimpe 2001). The physical roll-out and conversion of the acquired stores to the new banner often takes multiple years, with the old banner in place for quite a while. Conversion is typically done a few outlets at a time and the planning of this is deemed critical for the success of the operation (EFMI 2011; Planet Retail 2011). Still, despite its importance, the academic literature offers little guidance to retailers as to how to roll-out its banner or on ‘which stores to convert when’.

Anecdotal evidence and industry sources suggest that in practice, the conversion pattern is mostly guided by supply-side considerations. In this paper, we show how the dynamics of consumer responses to the new and the old banner, affect the overall traffic implications of alternative (spatio-temporal) roll-out strategies. To this end, we develop a model of store choice with Bayesian learning in which consumers (i) update their perceptions about the old banner as the roll-out proceeds and its stores’ value may deteriorate and (ii) may learn about the value of the new banner not only through store visits, but also through social influence or ‘neighborhood effects’ before conversion. The model allows to capture consumers’ response to a store conversion, at different points in time, as a function of local competition and the presence of other (old- and new-banner) outlets of the retailer.

The empirical application considers the national roll-out of a Dutch EDLP player (Jumbo) after its acquisition of a leading HiLo chain (Super de Boer), and analyzes the shopping patterns of about 1,500 households, across a four-year period covering 100+ actual store conversions. In a number of counterfactuals, we examine how the timing and geographical order of store conversion impacts the retailer’s overall traffic, thereby providing guidelines for when to convert each of the acquired stores to the new banner.