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Costco and the Aussie Shopper

A Case Study of the Market Entry of an International Retailer

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Abstract

Retailing is a globalized industry yet retailers must respond to local shopping habits if they are to be perceived as legitimate by the host country customers. However, some retailers may be unable or unwilling to respond to all customer requirements. Costco, the membership warehouse club retailer, has been successful in its international expansion efforts, establishing its first Australian store in Melbourne in 2009. In the first twelve months of operation, the store became one of Costco's top five stores in the world. We investigate this success focussing on the customer, and use institutional theory to analyze what concessions were made by the customer and the company. Data were collected from consumer interviews, site visits and secondary media and industry sources. Analysis revealed negotiations based on the rejection, acceptance or adaptation of the regulative, normative and cultural cognitive aspects of the Australian shopper and the Costco business model. Customers made concessions to accommodate the new business model, and Costco responded to entrenched Australian shopping habits. This case is the first to explore the outcome of retail internationalization from the customers' perspective, revealing the concept of mutual concessions. The interaction and subsequent adaptation by both customer and retailer have resulted in the institutionalization of new shopping norms in the host country and success for the international retailer.

Keywords: Customer receptiveness, shopping habits, retailing, institutional theory, Australia

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Introduction

Intense competition leads retailers to expand operations abroad in order to attract new international consumers (Papadopoulos and Martin Martin 2011). The successful entry of a retailer into a new market is dependent on the acceptance of the business model by the local shoppers. When entering a new market, a retailer plans to become a player in the local industry, to become part of the shopping habits of the locals, and to become a ‘legitimate’ organisation. The process and outcomes of legitimacy are dependent on the acceptance and support of local consumers (DiMaggio and Powell 1983) and the retailer’s flexibility in responding to local customers.

Retail firm operations have been the focus of research into international retailing during the past decade (Alexander and Myers 2000; Ekeledo and Ayachandran 2009; Bhardwaj et al. 2011). Most of these studies have considered motivations, strategies, and experiences of internationalising retail firms. Yet, less is known about how incoming retailers into foreign markets are perceived by consumers (Pioch et al. 2009), or the receptiveness of domestic consumers to incoming retailers (Alexander et al. 2010). The importance of consumer perceptions are highlighted by Schultz and Block (2009, 53) who concluded in their study of in-store promotions that: “...*starting with customers and their views of the promotional alternatives, particularly in in-store, can provide a major improvement in the planning, managing and evaluation of in-store promotion going forward*”. This paper takes the perspective of the customer and the findings are of relevance to retail practitioners and scholars looking to understand more of the processes and consequences of internationalization.

Institutional theory is a theoretical approach that centres on organizational conformity to social norms (DiMaggio and Powell 1983; Scott and Meyer 1983). This theory suggests organizations must conform to institutional norms in order to be perceived as legitimate by

the relevant social actors (Meyer and Rowan 1977). In an international context, this theory suggests that legitimacy for a foreign retailer will increase by adapting their practices and structures to the institutional norms of the host market. Research on retailing has suggested that retailer practices and structures are affected by pressures from their institutional environment (Arnold et al. 1996; Handelman and Arnold 1999). These studies propose that retail actions are aimed at obtaining legitimacy within their environment, and show that consumer support and retailer legitimacy increase when retailer actions conform to local social norms. However, in foreign markets, international retailers might encounter a new set of norms that derive from the host environment which may differ significantly from those that prevail in their home markets. To succeed in a different market, retailers must be able to adapt, and to make concessions that do not damage the business model or brand.

This exploratory case study draws from the literature on international retailing and consumer behaviour, and uses a theoretical framework based on institutional theory to examine the consumers' responses and acceptance of a foreign retailer. Since the objective of this study is to address an unexplored area of research, case study methodology was deemed most appropriate for this purpose. Specifically, a case study of Costco's market entry strategy and first year's operation in Australia is conducted. Drawing from 14 in-depth interviews with consumers and secondary data including media, industry reports and in-store observations, this paper explores how shoppers perceived and responded to its retail business offer.

This paper will first review the relevant international retailing and consumer behaviour literature to develop three research questions. Next, a case study of Costco's first year operating in Australia is conducted. The paper concludes with a discussion of the findings, limitations and some areas for future research.

International Retailing

International retailing has been the focus of considerable research attention. Studies have addressed topics such as the motives, strategies, direction of international retail expansion, individual company experiences, market entry selection, and divestment actions (Treadgold 1991; Alexander and Myers 2000; Sternquist 1997; Laulajainen 1991; Alexander 1995; Vida and Fairhurst 1998; Alexander and Quinn 2002; Burt et al. 2004; Palmer and Quinn 2007; Cairns et al. 2008; Alexander et al. 2011). Similarly, several theoretical frameworks of the

retail internationalization process have emerged that draw attention to the driving forces that promote or inhibit the initiation of international retail activity (e.g., Salmon and Tordjman 1989; Dawson 1994; Sternquist 1997; Vida and Fairhurst 1998; Alexander and Myers 2000). Specifically, Alexander and Myers' (2000) framework recognises that the source of advantage exploited by a retailer is related to the firm's internal capabilities and formulated within a set of domestic environmental factors, yet, when entering a new market, the environmental context may change and the retailer will encounter the influence of host environmental pressures. Countries may vary dramatically in terms of contextual factors, cultural variation and retail infrastructure (Douglas and Craig 2011). The retailer, therefore, will decide to realign its source of competitive advantage to meet new market conditions, or not respond to these pressures. Thus, international performance will depend on the ability of the retail firm to respond to the conditions of the new market context encountered (Alexander and Myers 2000).

Post-Entry Performance

Although the contribution of the previously cited research is noteworthy, most of the studies focus on the firm's perspective of the drivers, mechanisms, and patterns of the internationalization process, while less is known about post-entry performance. Once a firm has started its internationalization process there is no guarantee of its success in a foreign market (e.g., Sparks 2000). The lack of guaranteed success is confirmed by recent studies that have explored unsuccessful internationalization attempts and subsequent divestment by international retailers (Goldman 2000; da Rocha and Dib 2002; Alexander and Quinn 2002; Burt et al. 2002; Bianchi and Ostale 2006; Gielens and Dekimpe 2007; Bianchi and Arnold 2004). These failures in foreign markets suggest that consumers worldwide do not have identical needs and preferences.

Success in international markets is based on the sound knowledge of the perceptions and behaviours that influence consumer acceptance of international retailers (Koopman 2000). Understanding consumers' preferences and developing targeted strategies may be one of the biggest challenges to retailers entering foreign markets (Hyllegard et al. 2005). However, most of the research on international retailing considers the firm's perspective, and less is known about the host consumer's perspective (Lee et al. 2008). The existing literature falls short in its analysis of consumers' perceptions and responsiveness to incoming international retailers. Consumption takes place within a context, which helps shape values and attitudes, as well as influencing consumption choices (Douglas and Craig 2011).

Retail Consumer Behaviour

Retail internationalization and the consumer behaviour literature have identified differences in consumer behaviour across countries (Huddleston, Good, and Stoel 2001) and consumer motivations for choosing domestic versus foreign retailers (Dmitrovic and Vida 2007). Recent work on consumer receptiveness by Alexander et al. (2010) and Pioch et al. (2009) provides a starting point to investigate consumer responses to incoming foreign retailers. Alexander et al. (2010) suggest that consumer responses (or receptiveness) can be affected by host market factors such as consumer culture and behaviour, and factors related to the incoming foreign firm, such as product offering or adequate adaptation to the host market. For example, country of origin has been found to affect consumer perceptions of incoming retailers. A study by Zarkada-Fraser and Fraser (2002) found that Australian consumers had higher store patronage support for a fictitious Australian rather than a US-owned supermarket. Country of origin is only one of many factors impacting on shopper acceptance of a new business model. Others include pricing, service, product assortment, store location, ambience, and legitimacy.

Institutional Theory

Institutional theory is used to analyse the Costco entry strategy to Australia, as well as the local consumer responses during its first year of operation. This theoretical framework suggests that every country, organization and society has a set of relevant institutional norms. Institutional theory posits that retailers must conform to local regulations, shopping norms and culture in order to be perceived as legitimate by the relevant social actors (Meyer and Rowan 1977; DiMaggio and Powell 1983). Success will be more likely when organisations achieve legitimacy from social actors in foreign markets. Being a legitimate organisation involves a broader societal perception that the entity's actions are desirable or appropriate. To achieve legitimacy, an organization is required to adapt its strategies to the relevant institutional norms of the specific market. Institutional theory asserts that legitimacy is gained when the entity, in this case Costco in Australia, is seen as "desirable, proper, or appropriate within some socially-constructed system of norms, values, beliefs and definitions" (Suchman 1995,574).

The elements of institutional legitimacy are regulative (laws, restrictions and sanctions), normative (social prescriptions and obligations), and cultural-cognitive (the

shared concepts and symbols that create meaning) (Scott 2005; 2008a; 2008b). Changes to the regulative elements are highly visible, whereas changes to the cultural cognitive elements are often difficult to discern if not embodied in symbols. These elements, the regulative, normative and cognitive, all come into play in the process of institutionalization and can be used to understand what adaptations are possible in the environment. For example, local regulations may prevent implementation of a firm's standardized business model. Further, the local culture (aka *the way we do things around here*) may not be malleable. These normative elements can be a less visible barrier to success in market entry. The most obscure element of institutionalization rests in the cognitive space that is defined as "shared conceptions that constitute the nature of social reality and the frames through which meaning is made" (Scott 2008a:57). The cognitive elements are often represented symbolically as in visual images such as logos or national flags. The regulative, normative and cognitive elements of institutionalization do not stand alone but interact, overlap and evolve constantly as circumstances require.

One overarching characteristic of institutions is their persistence over time, as institutions are considered long-term players in the market or society. Shopping habits in Australia have been institutionalized for many decades and the entry of a multinational retailer provides an opportunity to evaluate the responses of the business and the shopper.

According to institutional theory, there is evidence to suggest that the early years of a business are particularly fraught and subject to high rates of failure (Meyer and Rowan 1977). In the case of Costco, institutional theory suggests that the business model would be subject to the 'liability of newness' (Aldrich and Fiol 1994). These authors remind us that obtaining legitimacy can be difficult when there are few or no precedents to the proposed venture. The initial advantage enjoyed by Costco came from Australian and expat customers' awareness of its international operations. However, several million Australian shoppers had no knowledge at all of Costco, presenting a challenge for Costco to gain legitimacy in the Australian market.

Scholars have used institutional theory to look at retailer performance in new markets. For example, Pioch et al. (2009) used institutional theory to explore Wal-Mart's varying performance in Europe by assessing consumer acceptance of Wal-Mart in the German and UK markets. They support the notion that there are differences in 'norm saliency' across markets and that a foreign retailer's adherence to local norms is related to retailer patronage.

Bianchi and Arnold (2004) and Bianchi and Ostale (2006) use institutional theory to investigate the failure of multinational retailers in Chile. In foreign markets, international retailers might encounter a different set of norms derived from the host environment, which may differ from those that prevail in their home markets. A retailer may decide not to conform to those norms but instead attempt to change them to favour their own practices (Oliver 1991).

In some cases, international firms may decide to resist complying to host institutional norms, and attempt to change the institutional norms to their advantage. This decision can be a result of the firm's difficulty in conforming to host institutional norms (Kostova and Zaheer 1999), or from a strategic point of view (Lawrence 1999). For example, in the first case, an international firm can attempt to change certain nationalistic norms related to national feelings of local production by emphasising the attractiveness of foreign production or 'imported' (e.g., made in U.S.A.). Second, an international firm can try to strategically influence some of the host institutional norms that favour their own strategic position or advantage, by emphasising the importance of a different norm to which they comply strongly (e.g., support for the community).

Arnold, Handleman and Tigert (1996) identified a range of factors that contribute to organizational legitimacy and retail store patronage, including symbolic actions in the institutional, competitive and economic environments. While previous literature indicates the need for international retailers to consider local preferences based on local norms, few studies examine consumer behaviour and the link to international retailer performance. To our knowledge, the customer perspective has not been used to study the entry of an international retailer. A successful interaction between the retailer and the shopper is critical for business survival and customer satisfaction. We term that interaction 'mutual concessions' to indicate the bilateral and implicit understanding that both parties can have their needs met as a result of give and take.

In the first year, results for Costco in the Australian market exceeded the company's expectations. More than 100,000 members signed up and the Melbourne store generated revenues of A\$165.9 million (Avenell 2010), compared to A\$145 million for an average North American store (Greenblat 2011). This study explores the reasons why Costco has succeeded, with a focus on the customer response to the Costco offer. We extend the retail internationalization literature by exploring shopper responses to Costco in Australia during

their first year of operating in this market. The following research questions will be addressed:

- What institutional elements: regulative, normative and cultural/cognitive are relevant in the Costco case?
- How have these elements contributed to the retailer's performance and shopper acceptance?
- What mutual concessions have been made to the business model and shopping norms?

Methodology

Case study methodology was used to assess the previous research questions. Yin (1994,13) defines case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. According to the author, no attempt is made to isolate the phenomenon from its context, and it is of interest precisely because of its relation to its context.

Case study methodology was chosen because it allows researchers to study a retail organisation in its host environment and its customers in a natural setting, and obtain rich insights into complex processes which are usually difficult to assess by quantitative techniques (Yin 1994; Eisenhardt 1989). A single case was considered to be appropriate because it is highly pertinent to the objective of the study (Perry 1998). More specifically, this research is based on a single case study of the US retailer Costco in the Australian retail market. The single case of Costco's entry to the Australian market is considered appropriate because it represents a *critical case*, by meeting all the necessary conditions for testing a well-formulated theory and corresponds to a bounded contemporary phenomenon, which is inserted in a new host environment (Stake, 2000).

Due to the possibility of examining individual and organisational behaviour in their natural settings, the case study methodology has been used widely in the area of management, marketing, and retailing (e.g., Sparks 1995). Specifically, the single case study approach has been an increasingly popular methodology within the retail internationalization literature (Sparks 2000; Bianchi and Arnold 2004; Palmer 2005; Palmer and Quinn 2007; Jonsson

2008; Xun 2010; Bhardwaj et.al. 2011).

Fieldwork and Data Collection

This case study of Costco in Australia rests on a comprehensive study of primary and secondary data sources to answer the research questions. Following the recommendations of Yin (1994) and Eisenhardt (1989), the fieldwork proceeded during the year that Costco entered the Australian market. The data collection phase took place after the retail company opened its first store in Australia, located in Melbourne. The research involved the triangulation of different sources of data, including interviews with consumers, industry information, corporate reports, and observation of retail practices. Triangulation is a process of using alternative measures to clarify meaning and verifying the repeatability of an observation in order to reduce the likelihood of misinterpretation (Stake 2000). Data collection activities ended after six months of fieldwork and resulted in a database containing interview scripts.

During the first six months of 2010, fourteen face-to-face and telephone interviews with Costco customers were conducted. Participants were recruited based on a convenience sample of consumers located in Melbourne. They were chosen based on their representativeness as shoppers of Costco. Participants were asked about their shopping habits and their Costco shopping experience. Interviews were of a semi-structured nature and lasted an average of 45 minutes. We transcribed and reviewed the interviews to understand what the customers believed was acceptable, or not acceptable about Costco's operations in Australia, with a focus on what they perceive as their normal shopping habits. These interviews provided a broader understanding of Costco's performance in Australia from the point of view of the consumers.

In addition to the interviews, participant observations of Costco's Melbourne store's operation and retail practices were carried out during this first year by two of the authors. Observation was used to infer the salient norms of retailing for local consumers. A detailed report on various aspects of the retail offering, merchandise display, and shopping environment of the store was recorded in a field diary (Finn and Kayande 1999).

Data collected also included secondary sources regarding the company and information on the industry, such as corporate reports, newspaper articles, historical and

academic articles, photographs, and business periodicals. Press articles related to the retailing industry in Australia and Costco's performance in America were also collected during the months of study.

Data and Interpretation

Following McCracken's (1988) final step of discovery of analytic categories, and Spiggle's (1994) work on qualitative research, the process of analysis and interpretation resulted in inferences that were used to generate insights and connections to the research question and previous research (Spiggle 1994). Interpretation of the data occurred by iterating back and forth from the data to the theory and back to the data again in order to make sense of the data. The main goal was to obtain a holistic and illuminating grasp of meaning. Overall, interpretations of the data, which were triangulated with secondary data and institutional analysis, resulted in a number of common themes.

The next section provides an overview of Costco International's operations and key strategies, followed by a discussion of the findings from interviews and observations.

Costco

Costco operates a chain of no frills, membership warehouses that sell quality, nationally-branded and selected private label merchandise at very low prices. Costco's product assortment is represented by sundries, such as candy, alcoholic beverages (23%), food (21%), hardlines such as major appliances (19%), softlines such as apparel, jewellery (12%), fresh food (12%) and ancillary and other services such as a gas station and pharmacy (15%) (www.costco.com).

Costco's floor plans are designed to efficiently use selling space, handle merchandise and control inventory. Merchandise is displayed on pallets and is sold mainly in bulk form, rather than by single item. To shop at Costco, you must first become a member and pay an annual fee. Costco is extremely successful at membership retention; renewal rates are approximately 87%. The membership fee allows Costco to charge lower prices; revenues from membership fees account for about 75% of their net profit. Jim Sinegal, Costco's President and CEO says: "Costco is able to offer lower prices and better values by eliminating virtually all the frills and costs associated with conventional wholesalers and

retailers, including salespeople, fancy buildings, delivery, billing and accounts receivable. We run extremely tight operations with extremely low overheads which enables us to pass along dramatic savings to our members.” (www.costco.com)

As of September, 2011, Costco had stores in 9 countries: United States (422), Canada (81), Mexico (32), United Kingdom (22), Japan (9), Korea (7), Taiwan (6), Puerto Rico (4), and Australia (3) (www.costco.com). International operations contribute approximately 25% of their revenues, with a plan in place to double the revenues generated from these operations in the next 10-15 years.

Costco in Australia

According to Patrick Noone, Managing Director for Costco Australia, Costco chose to enter the Australian market because consumers here are similar demographically to US consumers. However, despite this similarity, an analyst’s prognosis for the success of the Costco model was not promising, citing four reasons (Thomson 2009). One, it was believed that “Costco is going to have to change a shopping culture, not a shopping habit. About 17% of people now go to the supermarket once a week to do their shopping” (Thomson 2009), implying that shopping in bulk would not fit the Australian culture. Second, no one was sure how the Australian customer would react to paying a membership fee to shop at Costco. A membership fee is very rare in Australian retailing history. Third, Costco US relies heavily on coupon discounts as a promotional tool. Australian consumers use coupons for fuel purchases, but generally not for grocery purchases. Finally, there was doubt as to how successful the Australian CEO would be at convincing Australians to accept the new offer.

On August 17, 2009, with great fanfare, the US retailer Costco opened its first store in Melbourne, Australia, in the Docklands precinct (Thomson 2009). The Docklands is described as a \$12 billion dollar premium waterfront development and is located on Victoria Harbour. Docklands is accessible by car, train, ferry and tram and is very close to the central business district of Melbourne. There are 6500 residents and 19,000 workers in the precinct, with over 10 million visitors in 2009. Melbourne is a large (3 million people) and, at times, congested city with the majority of the population living in the east and south eastern suburbs. These residents do not regularly travel to the western suburbs where the store is located. So, for those customers, visiting Costco is a special activity rather than a regular event.

The Australian food retail market is, essentially, a duopoly with Coles and Woolworths controlling approximately 60% of the market (Parliament of Australia 2009). There is little to distinguish the retail mix of the two major supermarket chains. Besides the 'Big Two', there are few other competitors in the food sector. This situation has existed for generations, but recently the entrance of Aldi has challenged this duopoly (Huddleston 2007). Australian shoppers are used to standardized supermarket formats that provide the basics for daily life in a clean and safe environment. Shopping for groceries is seen as a routine activity that is not particularly a fun event and is considered to be a utilitarian transaction (Minahan and Beverland 2005). While warehouse shopping is well-known in Australia through the Bunnings hardware chain, a membership warehouse is new for Australian shoppers. These factors describe the competitive environment that Costco entered in 2009.

Costco entered Australia with a standard business offer that was not known to the Australian retail consumer. In this section we consider the adaptations to the retail business model made by Costco and the Australian customer. Costco made some adaptations prior to the opening of the Melbourne store, others after the opening of trade. In-store observations revealed different features of the standardized offer including payment options, coupons, the in-store café, packing staff at checkout, security staff, Internet shopping, business only hours and in-store concessions.

In the next section, using institutional theory as a framework, we explore how both customers and Costco engaged in negotiations surrounding the business model offered in Melbourne, Australia. The business and consumer institutions, regulative, normative and cultural/cognitive are explicit and implicit. The customer interviews revealed that some aspects of the customers' requirements were not negotiable, others were negotiable. At the same time, Costco did not negotiate on its basic business model but was willing to concede on some aspects of its business offer.

Findings and Discussion

The case study findings shed light on the negotiations around the shopping institutions in Australia when the international retailer entered the market. The negotiations were based on the rejection, acceptance or adaptation of the regulative, normative and cultural cognitive elements of Australian shopping habits and the Costco business model. The findings and discussion are structured around the membership model, location, shopping experience, in-

store services, assortment, bulk purchase, coupons and payment options. These retail themes emerged from the analysis of interviews and in-store observations. A last theme related to country of origin.

The Membership Model

The Costco business model is based on a membership warehouse format that determines their offer around the world and provides much of their profit. Australian shoppers are not familiar with ‘paying to shop’. It is alien to their shopping traditions and several analysts predicted that the membership model would not be successful. The membership fee was presented as a ‘rule’ by Costco, that is, a prerequisite to shopping that is essential to the Costco business model. A ‘rule’ is a highly visible element of institutionalization (Scott 2008, 57) and is monitored carefully; there are sanctions (refusal of entry) imposed on those who do not pay the fee. Violation of the not ‘paying to shop’ norm was neither a concern nor an obstacle for the many Australian customers who flocked to the new store. The cost of membership is balanced by the savings garnered from bulk purchases and enjoyment of the Costco shopping experience. Costco’s provision of customer value appears to compensate for the apparent violation of task norms (Arnold et al. 1996). The success of the Melbourne store with over 100,000 members is an indication of the negotiated acceptance of the rule.

The model introduced initially allowed for two levels of membership – commercial (Business) and domestic (Gold Star membership). Business membership was priced at \$A55.00. Gold Star membership was priced at \$A60.00 with a household card. The advantage of Business membership was the marginally cheaper fee and that it allowed Business card holders to shop for one hour prior to the general store opening. This preferential treatment of Business members was mentioned by one of the interviewees, a businesswoman who took advantage of the ‘business hour’. She saw it as an unusual offer but one that she was firmly in favour of as it separated her retail tasks from the recreational shoppers, allowing her to shop in a less crowded environment. It also gave her some pleasure to be identified by Costco as a person deserving of special treatment. The Business membership remains but the business only opening hour is no longer evident.

One interviewee did not like the administrative requirements of the first visit requiring payment of the membership fee, having to provide personal information, and being photographed for the customer card.

“Lining up to get membership and paying \$60 for the year – appears unnecessary and time-consuming having to go through the bureaucracy.” (Respondent 10)

While the administration of the membership fee is a violation of an institutional norm, it appears that the key to customer acceptance of paying the fee, and overcoming that violation, was in the recouping of the fee on the first visit.

“We made enough savings the first time we went to, you know, negate the cost, so I was a bit annoyed at first, but then I thought, well OK, we’ve made our money back so it’s not such a big deal now.” (Respondent 5)

During Costco’s first year in Australia many customers were heard to comment that the cost of membership was acceptable as long as the cost was fully recouped on the first visit. Only one of our respondents returned her membership for a refund, saying that it was not good value for her. She remarked that she was not recouping the cost of her membership through her purchases. (Respondent 13)

Another aspect of the model that triggered positive responses was the Costco card. There was a sense of community and belongingness that was symbolized in the membership card. As one shopper remarked:

“I think that we’ll grow to accept it and even enjoy it, I guess. You watch people go in to Costco and they almost take pleasure in flashing their membership card. It’s almost like being part of a – not for me, but just watching people - it’s like being part of some kind of club or, yeah, I don’t know, they like it.” (Respondent 1)

The interviewees revealed a sense of ‘identity and belonging’ as a Costco member, that includes destination shopping, differentiation, pleasure and hedonistic shopping and social family norms. The Costco membership card was seen as akin to carrying a branded shopping bag. It provides a sense of shared brand identity, or being part of a larger brand community (Keller 1993) and, for the customer, may motivate store patronage.

Another symbol that has become institutionalized for Costco customers is the giant store trolley. The media, interviewees and one researcher commented that the giant store trolleys are only seen at Costco and are required to transport the bulk purchases. For customers, the trolley is a symbol of Costco that differentiates it from the competition and,

like the membership card, is part of belonging to the 'club'.

Store Location

Many of the respondents spoke negatively about the store location. The store is located in an urban renewal area known as Docklands; it is not well-known by most Melbourne residents. It is on the west side adjoining an industrial area and is not well served by public transport. In the US, the norm for customers is to travel by car to shop, but this is not necessarily the case for Australian customers who might use public transport or walk. Store location and bulk purchase offers make any transport other than a car almost impossible. Because the Costco store has been very successful, the car park is regularly full. On more than one occasion, one researcher cancelled a visit to the store when she was unable to locate a car park spot. As one interviewee reported:

“Parking was not that easy and location of store in Melbourne not that convenient.”
(Respondent 10)

Also, it can be difficult for customers who make the commute to get the goods home in a timely manner.

“It’s difficult getting the stuff home. Well, as I said, because half an hour some of the frozen stuff doesn’t last in that. I was trying to buy stuff for my daughter who had moved into a student house but she’s up in the country, and the things I wanted to buy were frozen and I couldn’t get them to her, which is a pity... Part of the problem, as I said, is it’s quite a long way, it’s hard to get parking.” (Respondent 5)

This customer, disturbed by the busy and crowded shopping conditions, had already learnt to schedule the visit for a quieter time.

“Part of the problem is that it’s quite a long way to get to the store and it’s hard to get parking. One day I went and it was unbelievably crowded. So, I’ve learned to go in the evenings when it’s much quieter.” (Respondent 5)

The city of Melbourne covers a very large area and, for many potential customers, the distance to the store is a major barrier to shopping at Costco. This situation may be alleviated as more stores are built, particularly in the south east and east of the city. Costco

elected to begin with a single store in Melbourne, Australia. The single store's location in the inner city area with barely adequate car parking, is regarded as a disadvantage and causes barriers to store patronage. While Costco appears to violate task norms of an easily accessible location with ample parking, this violation is balanced by a favourable value perception in the minds of its customers. Some customers have made concessions by adjusting the timing of their shopping trips.

The Shopping Experience and In-Store Services

Shopping as a leisure activity has become the norm in many societies, with families and friends spending some of their free time shopping rather than pursuing other recreational activities. Costco is a destination store adjacent to an ice-skating rink and a children's amusement park. This combination of shopping and recreation fits in with customers' comments about making the trip to Costco a family outing. In this sense, the chosen store location has many intangible benefits for Costco customers despite the difficulties inherent in the location. As in many societies, the weekend provides an opportunity for families to be together. Customers told us that they enjoyed going to the store with their families as they could combine some fun time with shopping.

The acceptance of the new shopping habit was exhibited in the amount of recreational time shoppers spent in the store and making the shopping trips a family event. Consumers thoroughly enjoy the Costco shopping experience and see it as very much part of the value of the offer.

“We still spend a fair bit of time just chatting and walking amongst the aisles and looking to see what people are buying, and laughing...that kind of stuff. So, it's a bit of entertainment as well.” (Respondent 1)

Costco has enriched the shopping experience with a range of in-store demonstrations and samples as well as the provision of the café.

The institutionalization of a practice can be affected by the local legislature and the associated regulations. In Australia, there are some restrictions on retail trade that required Costco to rethink their service provisions. Additionally, the regulative environment can include the rules imposed by the business.

A plethora of services is offered to Costco's US members; including consumer services (e.g., auto purchase program) and insurance services (e.g., personal health insurance). Most of these services are not offered to Australian Costco members in Australia. The additional in-store services are audiometry and optometry, both allowed under Australian law. The store has an optometry outlet that is competitively priced and attracted a comment from one of the interviewees.

Local regulations regarding land use have prevented Costco from including a fuel offer in Melbourne but there is a car tyre franchise in the basement car park. At the present time, supermarkets and, hence, Costco are not allowed to host a pharmacy which is a customer draw in other international locations.

The provision of other brand extension services, such as insurance, is not legally prohibited in Australia and we can only surmise as to why Costco is not offering these services at this time. One possibility is that the company has not secured suitable strategic partners for these offerings.

Assortment

Interviewees appreciated Costco's wide variety of products, including both international and Australian brands. Costco's Kirkland private label includes some products not well-known in Australia, such as maple syrup. Some customers saw this as a bonus, contributing to the attractive experience of shopping at Costco.

“One of the things we really love about Costco is introduction of some of the US and Canadian product as well. You get exposed to some of the delights that are available outside of Australia; whereas, you know, within Coles and Woolies now it's pretty much the same and pretty darn expensive these days.” (Respondent 2)

The merchandise assortment created a sense of surprise for some customers.

“I kind of had a broad idea of what to expect the first time I visited the store, but not a specific idea. So, I was surprised for example to find in store Optometry, and I was surprised to find that they sold outdoor furniture as well as some of the more conventional staples.” (Respondent 1)

Other customers were used to the Aldi weekly special but few Melbournians were accustomed to a warehouse store that stocked expensive jewellery and found that discovery incongruent with their expectations.

“It is a warehouse. You know what I mean? It’s a warehouse, it’s not a Tiffany’s on Collins Street, or you know... it’s a warehouse and, yeah, toilet paper, books, whatever, I’m happy to buy from there, just not diamonds. I guess... not when it comes to everyday items I don’t, but when it comes to what I wear and maybe jewellery and that kind of thing, I wouldn’t want to be seen as a Costco shopper.” (Respondent 1)

The idea of purchasing jewellery in a bulk purchase warehouse was an anathema and a violation of their cultural norms and inconsistent with their sense of identity. This customer could not conceive of purchasing expensive jewellery at Costco, though others we spoke with thought that it would be OK as long as the item was good value.

Other shoppers responded positively to the new assortment (especially the Costco private label Kirkland) that formed part of the in-store experience. Shopping for groceries and general merchandise at Costco became fun. The shopping experience was seen as a pleasure in comparison to the mundane transactional nature of some competitors. It may become a challenge for Costco to maintain that sense of excitement in the assortment as shoppers become familiar with the offer. Of course, there are constant price challenges from the local competitors, Woolworths and Coles, for groceries, Officeworks, and big box stores for general merchandise. Challenges to the value of the Costco model may cause customers to rethink the importance of the fun shopping experience.

Bulk Purchase

All respondents mentioned that Costco had much lower prices than other grocery competitors, which provided them with ‘value’, particularly through bulk purchases. The bulk purchase of goods is critical to the Costco offer and provides value not only in the price, but also offers the convenience of needing to shop less frequently for staple goods.

“The products that I purchase there often have a long shelf-life such as bulk tin products. I am looking for the lowest price for more expensive bulk items that will last a family of 8. Products like tinned tomatoes, sauces, deodorants, napkins. The aim is not to

shop regularly there but to purchase bulk items that last.” (Respondent 10)

And from another interviewee:

“My wife has sort of worked it out that actually it’s pretty good value so we get a massive pack of toilet rolls and some of the cleaners we get bulk packs, rubbish bags, lunch bags, those sort of things now because they are actually good value.” (Respondent 2)

However, purchasing in bulk is not a normal process for many customers.

“...but then, for instance, we bought an eight pack of coffee which we wouldn’t normally do but you know it was \$18 for eight packs!” (Respondent 1)

Another customer with a small family was not able to take advantage of the bulk purchase of fresh items.

“You can’t buy things that are going to go off quickly or, if it is just feeding the two of you. Like, you can’t buy a ten kilo cheese cake! Like, we wouldn’t be able to go through that much fresh food before it went off.” (Respondent 7)

Purchasing in bulk required the customer to adapt to this new approach to shopping. Adaptation might require customers to compute the unit costs of items, and compare prices to the competition. When determining the need for certain items, domestic storage space and product shelf-life were factored in. Additionally, customers need to have the required funds to pay for purchasing a larger basket of goods in one trip. Some consumers visit a Costco store only when they need to make big purchases; for weekly or more regular purchases they shop at the local grocery store. While bulk purchase is perceived as a disadvantage to some customers, our in-store observations revealed that many customers took advantage of the bulk fresh produce and meat offerings. Anecdotally, it is understood that a Costco member will consolidate a shopping list for the extended family and friends and do one shop and then break up the bulk and distribute.

Even though there are many instances of single items being available for sale at Costco, the bulk purchase model is another ‘rule’ of doing business there. The CEO of Costco, Jim Sinegal is well aware of the challenges of bulk and assortment sizes and is prepared to lose customers rather than add to the cost of doing business (Boyle, Mero and

Castillo 2006) by providing many single items.

The bulk purchase is seen as good value and provides a legitimate alternative to the existing duopoly in Australian supermarkets. Purchasing in bulk adds value by reducing the number of shopping trips for necessities and reducing the unit cost per item. The down side is the extra storage space required, the funds required and the transport of the bulk purchases.

Coupons

The most significant change to the business model that we observed after the opening was the elimination of coupons. The United States has a strong customer culture of coupon shopping. For example, in the US, Costco sends out a packet of coupons each month to its members; these coupons offer additional savings for a selection of products and services. Costco entered the Australian market with their standard coupon offering displayed on large posters at the store entrance. Perhaps Costco was hoping to educate customers to enjoy the benefits of coupon shopping, but none of our interviewees, the local media or retail spokespeople mentioned coupons. It was as if the coupons were 'invisible' to the local community. The local response to coupons is indicative that coupons hold little cultural or cognitive meaning for the Australian shopper. Several months after opening, Costco decreased the number of coupon offers until they finally disappeared from the entrance display boards and were replaced with advertisements for weekly specials. Recently, one researcher noticed that some individual items were highlighted with overhead banners, advertising that the item was eligible for an in-store discount coupon. It may be that Costco will continue to educate and persuade local customers to participate in the American norm of coupon shopping.

Payment Options

Costco in the United States offers two payment options: cash or Costco Card. The Australian shopping norm is for all major retailers to accept a full range of credit/debit cards, EFTPOS and cash. Costco made the decision, prior to opening in Melbourne, not to offer a Costco card and to accept a range of payment options expected by Australian customers. This concession to local norms was an essential change, as the Australian customer is accustomed

to being able to pay with a variety of tenders. Costco could see that any attempt to change that habit would have resulted in angry customers and lost business. The concession and adaptation of the business model occurred prior to the opening of the Melbourne store. Costco's knowledge of the Australian retail customer alerted the company to the long-held norm for customers to be able to use a variety of payment tenders. The range of payment options is a 'way of doing business' in Australia, and is so entrenched that Costco would not have been able to trade successfully in Australia had it not been flexible on this issue.

Country of Origin

There were mixed reactions to the question about Costco's American origin. Some interviewees would prefer to shop in Australian supermarkets but felt that the savings available at Costco overrode national loyalty. Others were ambivalent about what would cause a change in their shopping habits. As the following quote demonstrates, one interviewee saw environmental issues taking precedence over country of origin.

"I don't really look at country of origin and get concerned about it. Not as much as the chemicals and the environmental impact. Yeah, like excess packaging and beauty products that is full of chemicals and things like that. Like my recycled paper, toilet paper. I look more for that kind of stuff than Australian made. I don't know if they're Australian made, but I know that they're products, for example, that you wouldn't find in an American Costco. Like Vegemite and things like that. I don't want Australia to turn into the US."

(Respondent 7)

Mutual Concessions

Pre-entry Concessions

Prior to entering the Australian market, Costco made several concessions to its business model. Two of these concessions, the elimination of a pharmacy and a fuel station, were driven by regulative institutional norms (Scott 2005; 2008a, 2008b); ownership within the retail pharmacy sector is strictly regulated by the Australian Government through the Pharmacy Board of Australia. Local land restrictions prohibited Costco from installing a fuel

station. These regulative institutional norms forced Costco to amend its business model to conform.

Costco's concession to widen its payment options, and forego its private label Costco credit card, can be classified as adherence to a normative institutional norm, that is, Australian customers expected a full range of payment options. Violation of this norm would have likely alienated customers, making success difficult to achieve.

However, there are facets of their business model that Costco was not willing to make concessions on, namely, the paid membership model, the bulk assortment offer and the large warehouse format with merchandise displayed on pallets. These facets are essential to Costco's brand identity and its profitability.

Post-Entry Concessions

After its initial successful introduction into the Melbourne market, Costco made several post-entry concessions based on consumer response to its model. First, they modified the product assortment, reducing some product categories such as office supplies, while adding more Australian brands to the mix. The addition of Australian brands is viewed as a concession to a normative institutional norm; Australian customers desired more 'home' brands, and Costco conceded to that desire. Second, Costco's reliance on coupons as a promotional tactic was significantly reduced because they held minimal cultural or cognitive meaning for the Australian customer.

Customer Concessions

To be a member of Costco required a change in shopping habits for the Australian customer. Several institutional norm violations were identified: customer payment of membership fee (normative); a relatively remote and inconvenient location (normative); and purchasing in bulk (cultural cognitive). Australian customers were willing to make concessions on all of these apparent violations of institutional norms because the benefits

derived outweigh the violation. Specifically, they conceded to the payment of a membership fee because they perceived an ability to recoup this payment from the savings after their first shopping trip. Related to this, customers are willing to tolerate the bureaucracy of enrolling as a Costco member because the membership card confers a sense of 'belongingness' to an exclusive group.

Australian customers conceded to two inconveniences. They demonstrated a willingness to travel to a relatively inconvenient location because of the value and shopping enjoyment derived. They also adapted their shopping habits to embrace bulk purchasing because that is where the ultimate savings/value lies. These concessions reveal the 'give and take' necessary for both Costco and its Australian customers to make this new relationship work. It also points to the fact that violating some institutional norms is acceptable, as long as the norms violated are not 'deal breakers' and that something is gained from these norm violations.

At this time Costco does not offer internet shopping in Australia. This channel strategy is consistent with its international business model, as online shopping is not a part of Costco's strategy for its stores outside of North America (e.g., UK, Japan, and Taiwan). The retailer may need to reconsider this decision if an Australian retailer is able to offer online bulk purchase at keen prices. The mutual concessions evident in the case study cannot be seen as static. As the economy, the society and the retail industry change, the negotiations will change and adapt, leading to new shopping habits, and the rejection or adaptation of existing habits.

Conclusions

Drawing on retail internationalization and institutional theories, the objective of this research was to examine how Australian Costco customers responded to the standardized business model and how Costco adhered to Australian shopping norms or attempted to change them.

In particular, we looked at how the retailer and the customer both adapted to each other. We have identified the elements of institutionalization at play in the case study and how they have contributed to the company success and customer satisfaction.

Previous research on retail internationalization has focussed predominantly on retailer international performance from the firm's perspective. The findings of this study provide contributions to the international retailing literature by examining the entry of US retailer Costco to the Australian market from the perspective of the local consumer. Alexander et al. (2010) suggested that consumer responses (or receptiveness) can be affected by host market factors such as consumer culture and behaviour, as well as factors related to the incoming foreign firm, such as product offering or adequate adaptation. Our findings lend insights into customer receptiveness of a new business model as seen through the lens of institutional theory.

Second, this paper contributes to theory by confirming that 'newness', rather than being a 'liability' (Aldrich and Fiol 1994), can be a great asset in a market that experiences a high degree of homogeneity in its retail offer. The Costco offer was refreshingly different from the routine weekly visit to a Coles or a Woolworth's store.

Third, a key contribution of this paper is the identification of the mutual concessions required when entering a new market. The retailer must be clear as to what elements of its business are so critical to business success that there can be no negotiation, as is the case with the Costco membership fee. In Australia, Costco has adapted its business practices to conform to some local and social norms, particularly in the establishment of a family shopping environment, and the inclusion of more Australian brands. Further, it has demonstrated flexibility as it has eliminated some practices that violated established norms (coupons). On the other hand, Costco has maintained its regulative elements in the membership model fees for business and domestic customers, without apparent violation of Australian institutional norms.

For the practitioner, this case study provides a means of analyzing the shopper base

that can reveal new insights into the nature of the institutions that drive the retail environment. For example, a retailer can use an understanding of institutions to enhance known demographic and psychographic data. Prior to the opening of Costco in Australia, the press and analysts predicted that Australian retail customers would not accept a membership fee for shopping. These predictions were proved to be wrong. Costco's experience in Australia has demonstrated that it is the customers who will evaluate what is and what is not important to them in the shopping experience, and that the retailers who are alert to the nuances of responses will enhance their chances of success. Costco has experienced extraordinary success in its first year of operation in Australia and this success is exemplified by rapid growth in store patronage and sales. It remains to be seen whether that success will continue. It will be interesting to see how Costco responds to the issues of store location, parking and bulk purchases as identified by its customers, and whether its success will continue as it expands to other locations.

Limitations

The study is limited to one foreign entrant into the Australian retail market. Further, the case is limited to one location in one Australian state, which limits the generalisability of our findings. We sought interviewees in the very early days of Costco's entry and it was very difficult to locate members of the new store. The small sample size is a consequence of that difficulty. On several occasions we approached Costco Australia seeking interviews with their country manager or store manager. Each time our requests were politely declined so we can only speculate about the decision-making of the Costco Australia management team.

Further Research

There are opportunities for further research into the post-entry performance of a foreign retailer, particularly when the customer perspective is paramount in the investigation. Future research should investigate consumers who are resistant to a new business model to elicit reasons for rejecting a new entrant; for example, does country of origin influence consumer receptiveness to a new retail entrant? Such a line of inquiry could examine whether adjustments to a business model might result in greater receptiveness. The customer focus is of value to practitioners and scholars alike. Further studies may reveal more about the mutual concessions that take place between the retailer and the customer.

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