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“Nowadays people know the price of everything and
the value of nothing.”

A Study of the Structural Changes in the Swedish Bookstore
Industry

Abstract: The purpose of this study is to understand how a growing share of e-commerce affects the Swedish bookstore industry. The focus lies on determining the changes in market structure and market conduct and the interrelatedness of the two constructs. Using a mixed methods approach, the evolution of bookstores is analyzed by combining industry data with in depth interviews. The results show that market concentration has increased. Chain stores perform better than independent stores, with the exception of independent niche stores, that can attract customers from larger geographical areas.

Keywords: Digitalization, E-commerce, Industrial organization, SCP, Book industry

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Definitions

Bookstore: An actor that mainly sells books and states this as the main intention. The distribution between books and other products is not a qualifier/disqualifier.

Online bookstore: A store which main activities lies online. Might have an offline presence but the main activity is online.

Offline bookstore: A store which main activity regards the physical store space. Might have a smaller online revenue, but competes primarily through physical presence and location. Is used interchangeably with physical store.

E-market share: Online stores market share.

Omnichannel: Integration of sales channels to create a seamless customer experience.

Bricks and clicks retailers: Retailer combining online and offline strategies and channels. An evolution of the concept bricks and mortar as a synonym to physical stores.

1. Introduction

This chapter will explain the background and problematization that has led up to the thesis subject. The purpose and research question of the study will be presented, as well as the expected theoretical and managerial contribution.

1.1 Background

Digitalization is one of those buzzwords that have been around for a while now. There is a spectrum of aspects related to the concept that shape our everyday lives. Online banking has almost eliminated the need for bank offices, not to speak about the lessening of cash flow. Smart phones have brought technology to the streets, who would survive without the GPS-function? Not to mention the constant access to entertainment and information that comes with perpetual internet connection. The world is changing and so are our living conditions.

1.1.1 The growth of online retailing

Where do you buy your socks? The odds are increasingly large that the answer will be online. More and more consumers are moving their purchases online, a behaviour fundamentally changing the rules for existent dominant retail actors. Having an online presence is increasingly necessary in order to stay relevant. In 2016, the European online retail industry grew by 15.6 percent, the estimated increase for 2017 being 14.8 percent (Center for retail research, 2017). To put the numbers in perspective, the total retail growth rate, including both online and offline retailing, amount to something between from 1.5 up to 3-5 percent. In Sweden, online retail amounted to 7.7 percent of the total retail market and 13.6 percent of durables (E-barometern, 2016). The discrepancies between online and offline growth, combined with future prognosis, indicates that the online impact will play a heavier role within the retail industry forth.

The concept of online retailing embodies more than just the addition of a new sales channel, retail digitalization brings a new way of doing business (Hagberg, Sundstrom & Egels-Zandén, 2016). The lines between product and services will blur, as will the retail setting, including store atmospheric and channel choice. Those that want to compete in the future need to relate to these new conditions, as old strategies will prove unsatisfactory to retain customers.

1.1.2 Book sellers were successful pioneers in e-commerce

Amazon, the American online retailer, is number five on Interbrand's list of the best global brands 2017. On Forbes' list over the most valuable brands 2017 Amazon ranks number six, compared to the world's largest offline retailer Walmart, that reaches spot number 24. Amazon's journey started more than 20 years ago, by offering books online and has since then grown to include an assortment ranging from clothes to electronics to groceries. By being frontrunners in logistics capabilities, have they expanded to a global presence and a dominant position. Books, the starting point of Amazons success, might potentially be the ideal product for online purchasing, as they are standardized products only differing in format. As an example, the new Dan Brown novel will look exactly the same and be identical, no matter whether it is bought in a bookstore or a grocery store. Those characteristics makes it easy for customers to dare to order something online that they have not seen yet. Additionally, books are easy to store and ship. Books cannot go bad the same way as groceries and requires less effort to transport than furniture. Neither are there fitting issues as might be barriers for purchasing clothing online.

The Swedish equivalent to Amazons book department, Adlibris have not expanded to the same extent, by expanding into nearly all consumer product categories. However, Adlibris has been leading the transformation of the Swedish book industry to the point where 45 percent of book sales were made online 2016 (Wikberg, 2017). The impact of digitalization and online practices on book retailing was a subject for speculation early in the 90's, and anticipated even before Adlibris was founded 1997.

"[...] Cyberspace also offers the possibility for stores to sell through new channels. This might be a chance to regain parts of the book market lost to book clubs, as internet sales is a kind of catalogue sales, with all its pros and cons."

This quote comes from the Swedish study *Att handla med böcker*, (To trade with books) by Polesie and Strid (1997), that was published simultaneously with the launch of Adlibris. Their predictions regarding a redistribution of sales from book clubs to online sales have proven to be true. What they did not predict were the vast effects that online operations would have on physical store performance. Internet was predicted to be an opportunity for bookstores to fortify their position towards publishers that had started to integrate vertically by the direct selling through book clubs.

Under the above described circumstances, the questions of how traditional retailers should adapt their operations becomes crucial. The basis for competition will change, as all retailers, one way or another need to relate their operations to new conditions of competition.

1.2 Purpose & Research question

The purpose of this study is to examine the structural market change that has occurred in the traditional bookstore industry under the influence of a growing e-commerce share of the market. The paper aims to identify and understand how structural changes have transformed competition in the industry and the consecutive effects. The study aims to answer the question:

How does an increasing e-market share affect the offline book retail market?

In order to answer the research question, it has been broken down into the following three sub questions:

RQ1: How does increased e-market share affect offline book retail market structure?

RQ2: How does increased e-market share affect offline book retail market conduct?

RQ3: How does increased e-market share affect the interdependence of offline book retail market structure and market conduct?

1.3 Expected contribution

This study aims to contribute to existing research in industrial organization. It is intended to provide an illustration of online retailing's impact on market structure and conduct in the case of the book industry. The emergence of the online channel is expected to have a huge impact on retail within a close future, wherefore an analysis of an industry that has already undergone large structural changes is of interest. The study is relevant for those interested in understanding retail practices as retailers are adapting operations to a new environment. The results will also be of interest for practitioners as they provide a potential outline past changes and indicates possible future changes in related industries.

1.4 Delimitations

While the hope is that this study will be helpful in generalizing retail digitalization, the findings are limited to the bookstore industry. Particularities of the industry might affect the result compared to other retail sectors. Further, this study focuses on the Swedish market, delimiting results to the cultural context of Sweden, in an industry where cultural values are important for industry performance.

Books are distributed through a multitude of channels, including actors whose main activities lies elsewhere, such as grocery stores or department stores. This study is limited to the relationship between online and offline bookstores. Overall book sales will be taken into account, but are not the focus of this paper. Thus, some book sales will be excluded while other non-book product categories, such as paper/pens etc., will have an impact on the results.

The focus of the analysis and discussion will further be delimited to B2C sales, the interaction of the bookstores with regards to consumers. Important to note is that the profitability is affected by not only B2C commerce, but also that previous important clients in terms of organizations such as schools and libraries have to a large extent moved their purchases online as well as private consumers are. The decrease of revenues from the public sector has played a part in the profitability changes for local bookstores.

1.5 Research outline

The study will address the changes that have occurred in the bookstore industry during the past 15 years. The research is designed as a mixed method study, combining quantitative and qualitative data. A deductive approach will be used, applying empirical data to existing theory to draw conclusions. The structure of the theoretical framework and correlated hypotheses are presented in the second chapter. The following sections of results and discussion will follow the same structure as the one that is presented in the framework. The thesis is concluded with a summary of the main findings in the final section.

2. Literature review

This chapter will describe previous studies within the chosen field. The first part describes studies made on the book trade and reading practices in the Swedish market. The second part consists of a synthesis of relevant studies within an online retail context.

2.1 The Swedish book industry

The concept of reading has long been part of public debate. The cultural value of reading is reflected in the governments' position, which in the context of bookstores, was previously implemented through assortment grants. These were intended to help smaller bookstores with lower margins to stay afloat. Today, these grants have been revoked, and bookstores can instead apply to the Swedish art council's *Litteraturfrämjande åtgärder*, in order to finance activities to promote reading for example arrange events and activities. Additional efforts of the government include an ongoing larger campaign, investing in activities targeting children and young adults, *Hela Sverige läser med barnen* (All of Sweden reads with the children). There is a fear that reading comprehension is decreasing, where reading, and that the consumption of books is believed to be important at a population level as well as the individual level. An investigation was made 2012, on behalf of the ministry of cultural affairs (Litteraturutredningen, 2012). The investigation assessed reading habits as well as the book distribution through retail and libraries, detailing measures that should be taken under consideration to promote reading, including for example international exchanges of literature and a new revenue model for libraries.

2.1.2 Industry reports

Swedish book sales are regularly followed up by the Swedish Publishing association (*Svenska förläggarföreningen*). Between the years 2006 and 2013, HUI Research produced an index of book sales per channel and year. Since 2013, Erik Wikberg writes an analysis over the past years trends and book sales specified per sales channel, genre and format, named Boken. Both the book index and the report Boken 2017 are based on statistics provided by retailers, and covers about two thirds of total sales.

Leif Olsson has written *En studie av allmänbokhandeln* (A study of general bookstores) (2012; 2015). He presents the distribution of stores over counties and municipalities, divided by size and chains. Among other findings, is the difference in assortment allocation between stores in rural and urban

areas. Bookstores in municipalities where population density is low also have a lower proportion of sales attributed to books. As a general conclusion, the number of municipalities with a bookstore are decreasing.

2.1.3 Reading practices in an economic context

Reading practices in Sweden have been studied in the doctoral thesis *Bookonomy* (Schultz Nybacka, 2011). She intervenes the economic and cultural concepts of books with the stance that the two cannot be separated. The consumption of a book is a value creating activity, thus the economy around books are not steamed from a scarcity allocation perspective but one of surplus to surplus. Reading practices creates a consumer surplus throughout the value chain by the gatherings and exchanges. This blurry line between the economic product and the cultural product is part of why some markets have seen it as important to keep the price regulation. Main findings from the report *Books – at what price?* (Rønning et al., 2012) are that the choice of pricing system does not affect the volume of sold books, but it does have an effect on the type of books that are sold. A free-pricing system leads to augmented sales of bestsellers. Average price levels are not affected by either system, and it is not possible to say that a free-pricing system leads to lower prices. Neither is the pricing system seen to have an effect on concentration or integration in the industry.

2.2 Literature on e-commerce

Previous research in online retailing has mostly focused on specifics of the online market, and only somewhat about discrepancies in relation to the offline market. Of interest is that since book selling early reached a high stage of maturity, a large number of studies in online retailing are based on empirical data from book sellers. Studies applied on the retail book industry will thus make up a large part of the following studies, complemented with general studies on retailing and digitalization. The studies are grouped together in two research streams, first relating the perception of the internet channel to lower prices. The second will summarize studies on convince with regards to location and delivery.

2.2.1 Price related studies

In the early days of e-commerce, it was said that internet was a representation of perfect competition regarding transparency. Consumers would have unlimited access to all available options as well as unrestricted possibilities to compare different alternatives. Researchers defined this concept to be a lowering of search costs, where search costs are defined as the costs for the consumer to acquire information about the products and the price of the product (Bakos, 1997). Decreased search costs would in turn result in lower prices as consumers can make more informed decisions and increased price competition based in increased transparency. Empirical studies find that while search costs and price levels do have an effect on the customer decision process, other factors might contribute just as much.

Search costs

Several internet tools, such as search motors, price comparison sites and consumer reviews all play a part in lower search costs (Bakos, 2001). Lower search costs will promote price competition, especially for homogenous goods where retail substitutability is low. Search costs also have an effect on the characteristics of the product. Popular products with a high demand are more likely to be found, and thus bought offline (Clay et al., 2002; Brynjolfsson & Smith, 2001). Popular products, defined as being carried in a large number of stores, are more probable of being found than niche products. The search costs for popular products are therefore lower offline than for niche products as there are less risk involved with taking the costs of visiting a store. As a consequence, online retailers will sell more niche products. For offline retailers, the range of the assortment is limited by available shelf space in the store, limited the stores square meters. An online retailer on the other hand, is not limited by shelf space and can carry a much larger number of stock keeping units (SKU). When niche product versus popular product was tested on books, it was found that popular titles had a lower price elasticity in addition to lower search costs, hence that competition is equal between online and offline retailers. The assumption of perfect competition is also rebutted by Santos, Hortacsu & Wildenbeest (2017). Their study showed that consumers use a fixed sample size when searching online, resulting in the being more likely to research certain stores and leave other out of the sample. Customers will thus not be able to make a decision based on all possible price alternatives.

Another study that uses search cost as a starting point is Jin & Kato (2007), who looked at the sports cards industry at the time when internet became a viable sales channel. Isolating changes due to the introduction of internet, excluding a shifting demand, the market saw structural changes.

A larger portion of sales moved online, having the effect of physical stores closing down, due to facilitation of reaching sellers online. Goldmanis et al. (2009) received similar results when looking into shifts in consumer behaviour due to e-commerce. Their results show that an increased internet penetration and subsequent increase in purchases online leads to exits among smaller stores and a concentration of market share to low-cost firms offline. They compared this in three industries, car dealer, travel agencies and bookstores and found that the impact on local market was high for both car dealers and bookstores but less for travel agencies. Total number of bookstores decreased, primarily among stores with fewer than 20 employees, while nation-wide chain stores were largely unaffected as their growth was not tied to a local market (as well as having extensive online operations). The consolidation effect to larger chains is also supported by Hortacsu & Syversen (2015).

Price dispersion

An effect of lower search costs is greater price transparency which logically should lead to lower prices. However, early studies into internet prices suggests the opposite. Prices on the internet were higher than those in offline stores Bailey (1998), although most studies contest his findings. Brynjolfsson, Hu and Smith, (2003) have shown that prices online are up to 9-16 percent lower online than offline depending on category. They mean that market maturity is a factor for the price level, and that prices will lower as the market mature which would explain the discrepancy.

An alternative explanation is proposed by Bock, Lee and Li (2007), separated into two research areas. The first one builds on the concept of perfect competition, that leads to more transparent pricing and lower prices. The other stream, means that lower search costs concerns non-price information as much as price levels. Higher access to information will in turn lead to lower price sensitivity and higher prices. In addition, they believe that with enhanced loyalty, the price will become less salient, supporting Zhao & Cao (2004) that price competition is not viable long term. Online retailers that are able to differentiate themselves on aspects other than price, will also have the ability of charging higher prices online (Clay et al., 2002). The same authors also state that since online prices are not the same among online retailers despite the price transparency, and that they were on average the same as offline prices. However, price dispersion was higher online, most apparent seen by the price premium charged by Amazon.

Latcovitch & Smith (2001) also looked at prices within the book industry. They found that consumers respond to advertising and website spending rather than low prices. Their explanation

is that since concentration levels are higher online than offline, that offsets the perfect competition and activities targeted to win customers more important. They also explained online retailers lack of profitability with this concept, as gross margins were the same, but online actors had higher costs due to larger advertising spending.

A recent study into consumer electronics (Brown et al., 2017) found that while prices were not lower online per say, the total costs amounted to lower from the consumers perspective accounting for those seeing the internet channel as more convenient than offline stores. In the same study, they also found that while internet sales cannibalized on the offline market, total product sales increased. That non-price related costs affects the purchase decision is confirmed by Li, Lu and Talebian (2015). They observed that when delivery costs were high and customers impatient, the customers preferred offline stores. If they were price conscious, and quick delivery was offered, customers preferred the online alternative.

Research has also shown variations among categories. Clay et al. (2002) found that that books belonging to a high demand category had the lowest average price, but also the highest price dispersion. This indicates that the pricing strategy will differ depending on the retailers positioning, online as well as offline. This is in line with Chevalier & Goolsbee's (2003) findings that books have high price elasticity. Further, they proved a difference in price elasticity between online and offline bookstore. Offline bookstores have higher price elasticity, while online customers are more price sensitive.

Omnichannel practices

While the growth of e-commerce is large, a transformation toward a digitalized retail industry has not yet occurred, as e-commerce in total numbers still is small (Hortacsu & Syverson, 2015). The authors compare the development of the online format with that of the warehouse store format. As of then, sales through warehouses were in the US larger than the combined e-sales from all retail industries together. Because of the popularity for the warehouse store format in combination with still lower e-sales across retail categories, they see the immediate future for e-commerce in the bricks and clicks format. That is, at least until the drugs, health and beauty categories, as well as grocery industries, reaches a higher e-market share. These two categories constitute the bulk of retail sales while at the same time being the two industries that are lagging the most in terms of e-commerce evolution and e-share of product sales.

A large stream of research has focused on the benefits of multi- or omnichannel retailing, concepts describing retailers that sell through more than one channel and in that operations between the channels used are more or less integrated. The complementary effects of being active in both online and offline channel have proved to be beneficial (Wang & Goldfarb, 2017). This type of retailer, also described as bricks and clicks retailers, that are active both online and offline, possess a higher market share and higher market efficiency than those that only operated in one channel (Min & Wolfinbager). Offline retailers have previously been afraid of the cannibalization effect coming of online expansion, fears that have proven wrong, and that channel integration rather leads to channel synergies (Herhausen et al., 2015). Newer research is also interested in how to combine stores with technological advances, creating experiences in store promoting a showrooming behaviour.

While most research looks at how the opening of an online store can complement the physical stores, there are some studies that have looked into the opposite development, that of an online store opening a physical store. Opening a local store can be a complement in marketing communications, but depends on the brands current presence in the local market (Wang & Goldfarb, 2017). If the online brand has a strong presence, the opening of an offline store will lead to cannibalization on online sales, while a weaker presence will increase online searches and purchases. Other positive communication effects are that offline stores can function as a billboard, and having the same intentions as flagship stores, be a part of advertising just as much as a sales channel.

2.2.2 Studies related to convenience

Competition

Physical location of the store has long been a key element to success in retailing (Ring & Tigert, 1995). However, the introduction of the internet channel has changed the competitive landscape. Guo & Lai (2017) found that when an online retailer enters a market, their presence links all other retailers active in the market. This confirms earlier studies that online and offline cannot be easily separated into two markets, as analysis of cross-price elasticities suggested that online and offline is in fact one market (Goolsbee, 2001). This means that in the long run, offline retailers with high costs will shut down. The offline store will serve urban areas while online actors will serve less densely populated rural areas (Guo & Lai, 2017; Goldmanis et al., 2009; Hortacsu & Syverson, 2015). This is consistent with Tiroles' (1998) research that an increase of actors leads to intensified

competition and subsequent drops in individual firms' market share, thus leading to exits from the market. Balasubramanian (1998) provides further evidence that the entrance of an online retailer on the local market affects the competition. He finds that when internet penetration is high, each offline retailer competes against the online retailer rather than the neighbouring offline store.

The current economic, and predicted future, impact of online and offline sales channels in relation to each other was analyzed by Hortacsu & Syverson (2015). They conclude that while e-commerce commonly is described as being the future of retailing, the offline formats of warehouse stores and supercenters are still the dominating concepts. The two formats alone account for more than 50 percent of all online sales combined in the US 2015. They mean that retail as a whole will not see a structural change in behaviour until the lagging categories grocery and beauty, increase their market shares.

Local market concentration

It has also been shown that when a firm, active both online and offline, opens an offline store, customers substitute away from the online channel (Forman, Ghose & Goldfarb, 2009). This is, as earlier discussed, depending on product type. Substitution occurs when the trade-off between offline transportation costs and online disutility costs are positive, the results attributed to the popularity of the product. For popular products, the transportation costs will be lower than online disutility costs, explaining why popular products to a larger extent are sold offline (Brynjolfsson, Hu & Rahman, 2009). Online price discounts can also be tempered by the opening of local stores. Another study looking into total costs of a purchase is Bell et al. (1998). They compared everyday low prices (EDLP) and high-low pricing (HiLo) strategies in grocery stores, dividing the costs into fixed and variable, comparing those into convenience versus distance to the store. The variable costs (convenience) were seen to have a higher impact on total costs than distance. Reduced transportation cost is one of the driving forces of shopping at online is also confirmed by Pozzi (2013).

Catering to the local market

A recently released extended abstract (Raffaelli, 2017), has looked at the resurgence of independent bookstores in the US. He concludes that the independent bookstore industry has managed to reinvent itself under the technological change by focusing on community, curation and convening. The explanation for the recent growth in the number of independent bookstores is attributed to the ability of speaking to customers' connection to their local market, and the will to support local business'. Secondly, a local bookstore can help individualize the shopping experience, helping

customers to broaden their views and discover new titles. Finally, they developed a role as a convener, the organizer of events such as readings and book signings.

2.2.3 Theoretical research gap

Reviewing previous research, no studies were found within industrial organization that analyzed the effects of online retailing on market structure. Most previous studies related to online retailing has researched different issues of large existing actors' adaption of the online channel. Few have analyzed what happens to an industry when e-share grows and subsequent effects on 1) the conduct of offline stores and 2) the combined market structure of online and offline.

3. Theoretical Framework

This chapter explain the theories that will be used for the analysis. A background on the research stream of Industrial organization is provided after where the different parts of the SCP-model are described more in depth. The second section describes a framework for analysing retail profitability strategies. Last, the two models are combined and applied to the book industry.

3.1 Industrial Organization

Methods for measuring and analysing market structures have developed within the field of industrial organization. Industrial economists are concerned with the dynamic processes that explains causal factors behind cumulative growth processes in firms (Antonelli, 1997). What this means is that those engaged in research on industrial organizations want to describe how firms interact and why, as well as how the firms' actions explain their profitability.

Industrial organization has its roots in neoclassic economy, and the concept of perfect competition. Perfect competition, was constructed by Frank Knight in the 20's and consist of five criteria; 1) All firms sell the same product, 2) All firms are exempt to market prices, 3) All firms have a small market share, 4) Buyers have complete information about products and process and 5) There is freedom of exit and entry. While this ideal state does not exist in the empirical world, industrial economists dispute the presumption of equal market share and consumer conformity, as they argue that the market competition is contingent on the market concentration of the concerned industry.

One commonly used model used to describe the relationship between actors in the world of industrial economists, that maps the structural effects on an industry based on the types and number of firms that engage in the market, is the SCP-model. The Structure – Conduct – Performance - paradigm (SCP) is a model developed by Edward Mason and later furthered by Joe Bain, based on empirical studies at industry level. The model suggests a causal relationship between the market structure, market conduct and market performance. The basic premise of the model is that the market structure will affect the behaviour of the firms in the industry, namely the market conduct. The market conduct in turn affects the firm's financial performance. The relationship is often described as a linear relationship illustrated below.



Figure 1 - Illustration of the SCP-Paradigm.

3.1.1 Defining an industry

A large issue in industrial organizational research is how to define an industry (Porter, 1979a). Who is competing with who? Competition can be defined at a product level, e.g. milk, but also at a purpose level, e.g. beverages. The industry definition used in this thesis is described under the methodology section in Chapter 4.

3.1.2 Market Structure

Market structure in the SCP-framework according to Porter (1979a), is described as the configuration of strategic groups, their mobility barriers, composition, strategic distance and market interdependence relative each other. According to these conditions, a highly competitive behaviour will retaliate on those that immerses in rivalrous ways, and be of detriment to all. Firms should therefore engage in creating barriers to meet various threats. Porter identifies five forces able to affect competition (Porter, 1979b). These are; the ongoing competition of existing players in the market, threats of new entrants or of new product substitutes, as well as the bargaining power of suppliers and customers. Disruptive forces lowering entry barriers, will therefore result in a competitive change towards a perfect competition, especially if the product is homogenous and the customer base is large. If entry barriers stand, an oligopoly or monopoly is enhanced, concentrating the market power to a few number of influential firms.

The notion of competitiveness as being destructive was challenged by Ilinitch, D'Aveni & Lewin (1996). They argue that firstly, rivalrous firms increase market performance, and second, that alliances do not lead to quasi collusive behaviour. According to them, the concept of hyper competition is more fitting to the competitive landscape. As competition becomes more standardized, industry competition will escalate towards a state of perfect competition until someone rewrites the rules. As it is beneficial for highly competitive firms to operate in a non-perfect market they will actively strive towards interrupting changes in that direction. Thus, firm

performance will be polarized under hyper competition, those that thrive under hyper competitive circumstances will increase their profits, while underperforming firms will lose. As this shift is beneficial for some, entry barriers will not be enough to guard against the move to hyper competition.

Concentration level

Common concepts used to assess market structure are measures of concentration. The market's concentration level can be measured in two ways, either by concentration ratios or Herfindahl-Hirschman index (HHI). Concentration ratio is generally seen as a good indicator of market power, while HHI has proven a better predictor of profitability (Sleuwaegen & Dehandschutter, 1986). Two advantages of HHI is that larger firms are allocated a greater weight than smaller firms, and that all firms in the market are accounted for.

Concentration ratio is most commonly calculated for the four largest firms in the market based on sales, but ratios of eight or twelve are often used as well. A C4 level above 50 percent is generally seen as a competitive market. The calculation of concentration ratio is done according to the formula:

$$C_n = \sum_{i=1}^n s_i$$

where n is the number of firms and s_i respective firms market share.

HHI equals;

$$HHI = \sum_{i=1}^n s_i^2$$

where n is the number of firms and s_i respective firms squared market share.

A HHI closer to 0 indicates equal market power, and 10 000 equals monopoly. A HHI between 1000 – 2000 is considered moderately concentrated, and highly concentrated if above 2000 (Official Journal of European Commission, 2004).

3.1.3 Market Conduct

The market conduct describes how the individual firms behave in relation to each other, for example, in terms of advertising, costs, pricing, integration. One way of measuring and illustrating a firm's market conduct is to use the notions in the marketing mix (such as the four P's, product, place, promotion and price).

Narver & Slater (1990) expands on Porters ideas on market orientation as conduct to increase profitability. They summarize market orientation into three categories; customer orientation, competitor orientation and inter-functional orientation. Customer orientation as the understanding of one's customers enables the firm to create continuous value, while being aware of short and long-term strength and weaknesses of current and potential competitors. Competitor orientation as the actions targeting other forms, and inter-functional orientation relates to the internal efficiencies. This model is one used to quantify firm behaviour related to market conduct and thus useful in quantitative analysis.

3.1.4 Market performance

The final stage of the SCP-model is performance. The concept measures the profitability and efficiency of the firms in the industry. In order to evaluate a firm, a combination of key ratios is necessary, for example, to put net result in perspective of effectiveness. As the research questions are limited to the structure and conduct construct of the model, the performance will not be described in more detail.

3.1.5 Criticism of model linearity

Later views have taken care to develop models that can isolate and measure a one-way relationship between structure and performance. Sutton (1991) furthered the theory by develop game theoretical models, a research area called new empirical industrial organization. He introduced game theoretical models of free entry equilibrium, or in other words, the dependence of minimum viable levels of seller concentration on market size, set up and other factors. Sutton's findings have been verified, by among others Schmalensee (1992). This area has a number of advantages on the old theory, mainly regarding issues on heterogeneity.

The criticism regarding causality and problem with heterogeneity lead to further work (Wirth & Bloch 1995; Kadiyari, Sudhir & Rao, 2001) who concur that the structure-conduct-performance relationship is two-ways directional. In order to fully grasp the industry performance, accounts must be taken for firm's strategies to compete. Actions at firm micro level might affect the macro structure of the market speaking against the linearity of the relationship. Keeping these objections in mind, industry structure and firm interaction will be affected by market conduct just as well as they are affected by market structure. Competitive decisions, such as consolidations and M&As changes the structure.

3.1.6 Future of retail profitability

While there are multiple models to be found on retailer strategies related to market conduct (Ring & Tigert, 1995; Hernant, 2009). Kumar, Anand and Song (2017) has developed a framework taking globalization and technological advancement into account, wherefore this framework is deemed to be the most relevant to assess modern retail operations. This is done by a categorization of retailing strategies on four levels, market level, firm level, store level and customer level. By identifying implemented strategies at each level were they able to determine sources of profitability.

Market level strategies

The conditions for market level strategies are the same as described in section 3.1.2 on market structure. Kumar, Anand and Song, allocates the most importance to the competition between firms and the number of firms' active in the marketplace. Historically has it been believed that large *market share* automatically brings higher profitability. The trade-off of achieving a high market share is however, that larger market share based on price reduction might imply lower quality. It is suggested that retailers targeting niche groups should focus on fulfilling customer expectations while only those targeting the mass market should be concerned with market share. Regarding

advertising is it suggested to focus on real-time location advertising, in stores, and creative campaigns on social media.

A discussion of *market pricing* is concluded by a recommendation that neither retailers nor manufacturers should exploit their market power towards each other, but cooperate for mutual growth. The last concept at the market level is *expansion*. Retailers should have a long-term strategy for expanding with new store formats, products and channels.

Strategies at firm level

By firm level strategies, do Kumar, Anand and Song refer to strategies on M&A (Mergers and Acquisitions), alliances, store brands and multichannel marketing. They believe that firms should *merge* where customer overlap is low, and create *alliances* for mutual loyalty programs in order to better share customer information. If a firm sell *store brands*, they should be expanded to premium categories. *Multichannel marketing* should be used to bring showrooming and web rooming to an equilibrium, since customer shopping in multiple channels are valuable (Kumar, Shah & Venkatesan, 2006).

Store level strategies

Store strategies are unique to each store in a chain, depending on differences in the local markets. Here, the importance of *geographical location* has lessened, and it is recommended to focus on *store atmospherics* to drive people to the store. One recommended strategy is an extension of the alliance concept, combining dining and shopping. A future with less inventory is also foreseen, where goods are shipped directly to the customer, a ramification of showrooming/web rooming behaviour. With regards to the *marketing mix*, to have a breadth of the assortment will be crucial as well as a unique set of SKUs. Real time pricing based on product availability will spread among categories (Grewal et al., 2011).

Customer level strategies

Firms should focus on targeting the store *experience* to the corresponding demographic segment that constitute the customer group. Bringing online elements offline will become more important for younger segments. Effort should be applied towards creating better online experiences. Increased customer *satisfaction* can be reached by increasing the service level at each touchpoint. *Loyalty* programs, data driven analysis of customer *profitability* are equally important, along with *engagement* in terms of activities and events.

3.2 Application of the theoretical framework in the bookstore industry

E-commerce and digitalization is a manifestation of a disruptive practice. It is hypothesized that internet will change the market structure to become closer to perfect competition as 1) search costs are lowered 2) prices become more transparent 3) consumers are free to choose from an unlimited array of firms (see section 3.2.1 on search costs). If this is true, market concentration should decrease, a notion that seems unlikely based on empirical evidence towards a retail structure where chain stores increase in power.

Low cost entrants price strategies changing market conditions will affect most likely affect conduct in terms of the marketing mix. New consumer preferences will play part in how strategies are implemented. Previous studies show that increased internet penetration leads to the closing of local stores in rural areas (Goldmanis et al., 2010). This suggests that the remaining store population will be centered in urban areas.

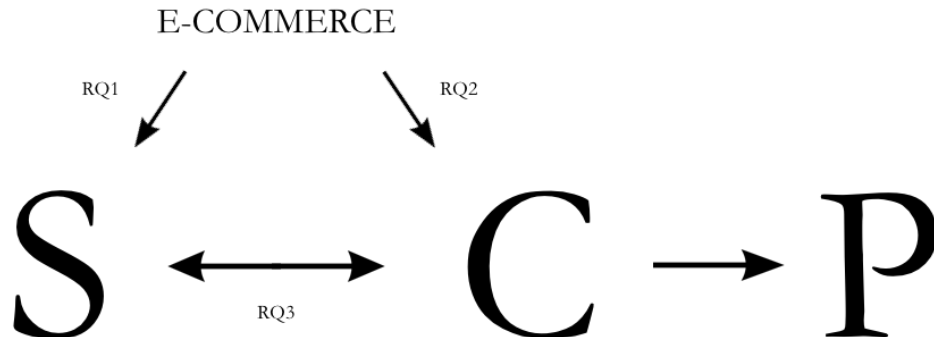


Figure 2 - Illustration of the theoretical framework

4. Methodology

This chapter explains the methodological decisions of the study. Described is also the data sources used and the method according to the data was processed. Further is the quality of data discussed in relation to reliability and validity concerns.

4.1 Research approach

The goal of the study is to examine the development of the retail book industry and its evolution over the past years. In order to best describe the changes that have occurred, a case study combining quantitative and qualitative data was deemed the most appropriate. Quantitative data is most commonly used in industrial organization studies, as the aim is to describe the market structure at the industry level. The quantitative data will therefore mainly be used to analyse market structure in the framework and provide an answer to RQ1. When studies have used quantitative data to model market conduct (Kadiyali, Sudhir & Rao, 2001), the empirical emphasis on market conduct in this paper will be qualitative data. With a basis in quantitative data, interviews were deemed to be the most illustrative way of describing market conduct due to the discrepancies in firm requisites (Hammersley, 1996; Hurmerinta & Nummela, 2006). The quantitative and qualitative studies will thus complement each other in order to provide the reader will a comprehensive picture (Brewer & Hunter, 1989).

4.1.1 Mixed methods approach

A study combining two or more types of data follows a mixed method approach. A mixed methods study can be combined in different ways depending on used sources and approach, often called triangulation (Bryman & Bell, 2002). Morgan (1998) differentiates between the priority decision and the sequence decision. A sequential approach has the advantage of the ability to understand the mechanisms behind emerged associations (Small, 2011). The original intention was to let quantitative data be principal, however, during the process the weight shifted to become equally distributed between the two methods. This study will use the mixed method approach as a complementarity approach, to dovetail different aspects of the phenomenon (Hammersley, 1996).

The value of mixed methods research has been debated. According to Bryman and Bell (2002), the critique against mixed methods can be summarized in two arguments. The first, the embedded methods argument, reflects that mixing methods is not feasible due to each method committing to an epistemological position. The paradigm argument sees the two methods as incommensurable,

the integration is happening on a superficial level under either one of the paradigms. Those opposing these arguments mean that these stands cannot be proven in business research.

4.2 Industry definition

To define a bookstore might seem easy at first glance. However, when delving further into it, it becomes harder to draw a line. A store that sells books is intuitively a bookstore. Are thus all stores that sell books a bookstore? Grocery stores and department stores sell books, as do convenience stores, however, they are objectively not seen as bookstores by the public. Questions are raised if grocery stores are a direct competition of a bookstore, and thus should be included in a competitive market analysis. For this thesis, a distinction is made between the market of bookstores and the market of book sales. I have chosen to look at bookstores as are defined by the Swedish business registry code Bookstore, limited to firms that have applied bookstore as primary occupation. Using industry codes to describe an industry is a common practice (Mackay & Gordon, 2005).

4.2.1 Description of actors

As described in the literature review, the book store market has undergone structural changes before, resulting in different constellations of market actors. Under the scope of this study, five actors are of interest. The study differentiates between stores that are centrally owned, those connected to a chain by a franchise or purchase agreement and those that are independent. The chain actor's active under the time period are further described below.

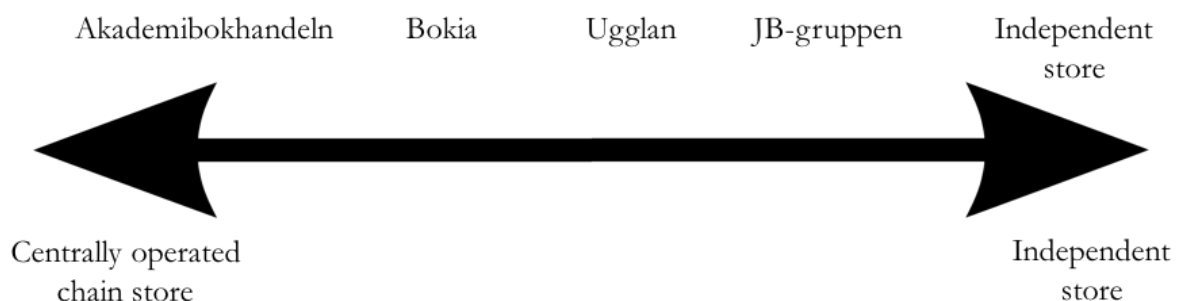


Figure 3 - Illustration of degree of freedom of operations at store level.

Offline actors

Akademibokhandeln

Akademibokhandeln started as a centrally owned chain, with roots in university cities. Akademibokhandeln merged with Bokia in 2012, and has since then been the dominating actor of the market. Since 2015, they added akademibokhandeln.se, an online store under the same name. The turnover for akademibokhandeln.se is included in Akademibokhandeln in the results as they not declared separately.

Bokia

Bokia started out as independently owned store cooperating around purchases, internal systems and marketing. The chain changed strategies 2006, and started buying stores moving in the direction of a centrally owned chain. During the merger with Akademibokhandeln, some of the remaining franchisees followed into Akademibokhandeln while others switched to either JB or Ugglan.

JB

JB is a purchase collaboration, where store owners operate independently but cooperate regarding purchases and catalogues. All stores are branded under their own names; thus, the cooperation is not evident to the customers.

Ugglan

Ugglan is a chain of stores, operating primarily in smaller cities. The stores are run by independent owners that cooperate around purchases. The stores communicate under both their own name and as a part of Ugglan, but the individual positioning is stronger.

Pocket shop

A fifth chain, Pocket shop, specializes in paperbacks. The profile is different from the above described general bookstores with regards to their focus on paperbacks. The stores are primarily found in larger cities and at airports and train stations. Pocket shop is owned by one of the large publishing houses, Bonnier.

Independent stores

Independent stores do not have any collaboration with other stores. Included in this group are both those firms that operate a single store and those that have multiple stores but stand outside an agreement with any of the above actors.

Online actors

Adlibris

Adlibris started in 1997, and has grown to be the largest online bookstore today. They complemented their online store with an offline store 2015, and recently in 2017 a second one. Adlibris is today owned by Bonnier.

Bokus

Bokus started the same year as Akademibokhandeln and is the second large online actor. Bokus is owned by Akademibokhandeln.

4.3 Data collection

The data collection was divided into two parts, one quantitative and one qualitative. First explained is the type of data and how it was processed. Secondly, the method used for the interviews is described in detail.

4.3.1 Quantitative data collection

The quantitative data is based on two main sources; lists of bookstores registered each year from SCB and corresponding financial data for the firms accessed from Retriever database.

Compilation of bookstores

The data of the number of stores each year is based on Swedish Statistics corporate register (SCBs företagsregister). The register is based on self-reported classification of the business' business area, as stated when the company was registered. As mentioned in previous chapter, the object of the study was to look at the development of physical stores in relation to e-commerce. It was chosen to define the bookstore industry as businesses registered according to the industry classification system, in Sweden SNI 47610, equivalent to NAICS 451211 *Bookstores*. In a first screening, all organizations not fitting the criteria of selling books through a physical outlet was filtered out. Organizations were excluded if they belonged to any of the following categories 1) *publishing house*

2) *antique store* 3) *wholesaler* 4) *purely B2B transactions* 5) *paper stores* 6) *no longer active within the industry but has not changed classification*. The remaining data sample included the number of stores active any given year of the sample under the condition that the company registered each store as a separate entity.

This data was made available between the years 2000-2016. During this time two reclassifications of the industry classification system was made, 2002 and 2007. The main shift happened 2007 when the classification Book and Paper stores was split into two codes. This means that the data might not be entirely consistent because of these changes, however the intention is that all paper stores should be excluded. Difficulties in separated the two are mainly attributed to limited information regarding private firms.

On average, 80 percent of the stores each year was kept for analysis. All included stores are identified by a unique number, a CFAR-code connected to the physical work space "*arbetsställe*". The business area related to each work space are a bookstore according to the definition of 1) primarily selling books 2) advertises as a bookstore. There is no hard limit on the percentage of SKUs that needs to belong to book titles, the stores can to a large extent carry other types of products as well.

Effort has been made to be as precise as possible. However, comparable data from similar studies differ in some cases (see Olsson, 2012;2015). The reader should be aware that the differences might provide slightly different results. This is most likely due to differences in sample limitations, enforcing the difficulties to overcome when delimiting an industry.

Financial data

Key figures and ratios were matched to each active store each year. This data was available for all business in the corporate form "*aktiebolag*". The corporate forms "*enskild firma*" and "*handelsbolag*" are not demanded to declare their annual reports separately, and thus are not publically available. Nevertheless, based on net turn-over intervals these organizations collected market share was estimated to be approximately 2% of the total market each year. In order to ensure the highest consistency throughout the time series, these were excluded from the calculations as their market share was deemed to have a small impact on the total sample.

4.3.2 Qualitative data collection

In order to capture variations in market conduct not mirrored in the quantitative data, a number of interviews were conducted. Interview questions were formed based on the preliminary quantitative analysis, focusing on relevant areas to complement the findings in order to provide a better explanation. Interviewees chosen were store owners, store managers or employees, all expected to have a certain depth in knowledge about the store's strategy and historical development. Stores were chosen so as all chains as well as independent stores were covered. Also interviewed were people knowledgeable of the industry, able to offer an industry perspective on the issues. The total number of interviews amounted to ten. Interviews followed the guidelines of a semi-structured interview, with a set of questions that could be asked in any given order and where the interviewees had a high degree of freedom in their responses (Bryman & Bell, 2007). The interview guide can be found in Appendix 1. Eight interviews were conducted face to face, and two over phone. The face to face interviews were all conducted in the interviewees work environment under similar settings. The respondent's answers were coded and sorted in relation to the themes of the theoretical framework. It was thus possible to discern synergies and differences among the respondents.

4.4 Data quality

Data quality can be measured in terms of reliability, validity and replicability. The three concepts in relation to this study are assessed in the following section.

4.4.1 Reliability

Bryman & Bell (2002) describes reliability as whether the results of a study are consistent and repeatable. Reliability is determined based on the concepts of stability, internal reliability and inter-observer consistency and most relevant in quantitative studies.

Stability refers to the measurements stability over time or if it has a tendency to fluctuate. The data used for this study would, if the same sample is used, it results in the same conclusion if replicated. Differences might occur based on the delimitation of firms, the process of which is described previously. Inter-observer consistency refers to when data is categorized by the observer and the categorization might suffer from inconsistencies. The results from the interviews were put together according to corresponding question in order to limit possible interpretation.

4.4.2 Validity

Validity refers to the integrity of the findings of the research (Bryman & Bell, 2002). When assessing validity, a distinction is made between measurement validity, ecological validity, external validity and internal validity.

A high measurement validity is related to the measurement quality of applied concepts, more precisely, does the concept measure what it is set out to measure. Measurement validity is primarily relevant in quantitative research. The quantitative analysis in this study is based on commonly used measurements (CR and HHI) and is therefore seen as sufficient.

External validity is generally weaker in a case study as the results cannot be transferred to other contexts. The generalisability of this study is limited since it is limited to one industry. However, the book industry has been established as having high validity for internet retailing research, valid for generalization to other industries (Bailey & Rabinovitch) making possible a discussion across industries.

Internal validity is connected to the causality of the relationships. As discussed in the theory chapter, the causality relationship in the SCP-paradigm has been questioned. Ecological validity relates the findings to their natural habitat and whether the findings are representative of the real world. The interviewees in this study should be seen as experts within their field and with a practical working knowledge, grounded in the reality.

4.4.3 Replicability

It is of importance that a study is possible to replicate by other researchers (Bryman & Bell, 2002). In order to ensure the replicability of this study, the method of data collection and analysis has been documented. The measurements used have been previously tested, thus validated to withstand replicability.

5. Results and analysis

This chapter presents the empirical results of the two studies. The first section focuses on RQ1, and the second part on RQ2. Each section first presents the relevant data and is then summarized in a first analysis.

RQ1: How does increased e-market share affect offline book retail market structure?

RQ2: How does increased e-market share affect offline book retail market conduct?

RQ3: How does increased e-market share affect the interdependence of offline book retail market structure and market conduct?

5.1 Impact on market structure

This section presents the empirical results that will answer RQ1. Firstly, a description of the quantitative data is provided, after what follows an analysis of market concentration and empirics related to market prices.

5.1.2 General description of the book industry's evolution

The number of bookstores

The total number of bookstores has been fairly consistent since the year 2000. The number of bookstores increased until 2006, after which the number of stores have decreased steadily. In 2015, the total numbers of stores amount to 376.

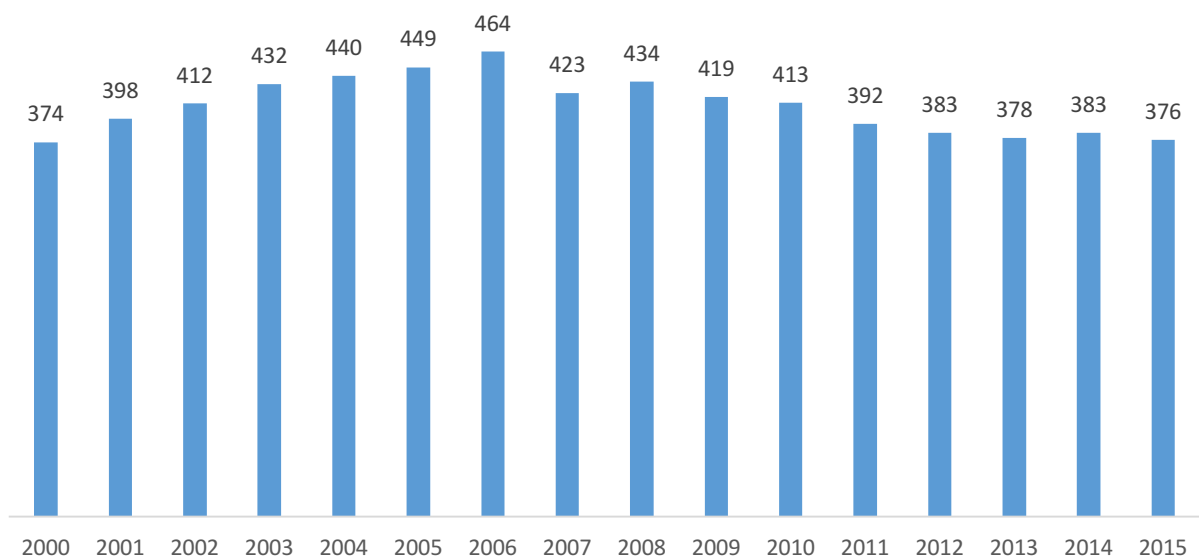


Figure 4 - Number of bookstores

Independent bookstores have been much more exposed than chain stores. The number of independent stores have decreased by 22 percent, while the number of chain stores is similar to that of the year 2000.

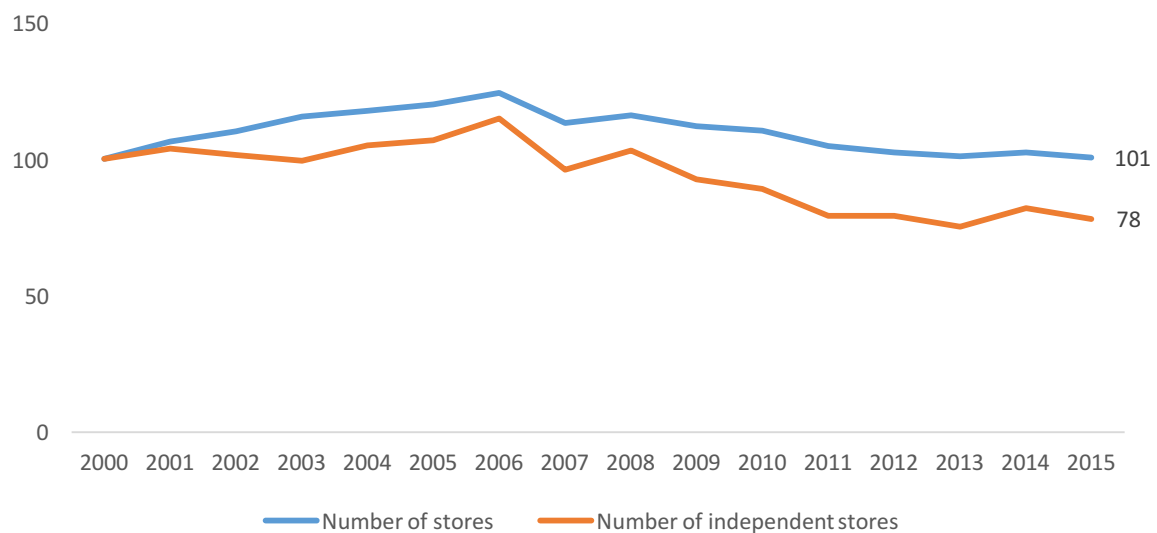


Figure 5 - Index, number of stores

A consequence of the diminishing of stores is decreased competition for remaining actors. Either, by being the sole actor in the local market, or by the remaining actors targeting different customer groups, as described by two testimonies:

“We don’t have a competitor, it is Adlibris. Of course, we compete indirectly with everyone. But we don’t really compete about the same customers.”

- Independent store 2

and

“Before, there were a bookshop in each corner. Now we are the only ones left.”

- Independent store 4

Worth noting is that two independent store owners said that this development has been undergoing since the eighties, particularly the wiping out of smaller shops. The small store of the type hole-in-the-wall has died out as the owners have retired.

Online market share

The sales difference between the online and offline channel are decreasing. The e-market share has increased from 24 percent 2007 to 39 percent 2015.

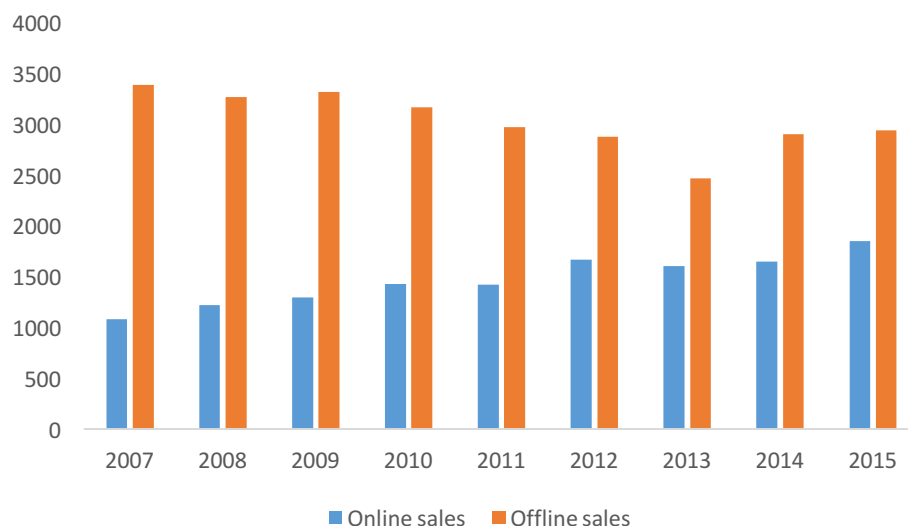


Figure 6 - Total sales divided by online and offline channel

The e-market share has increased by 70 percent since 2007. Offline sales were decreasing until 2013 and has since then stabilized.

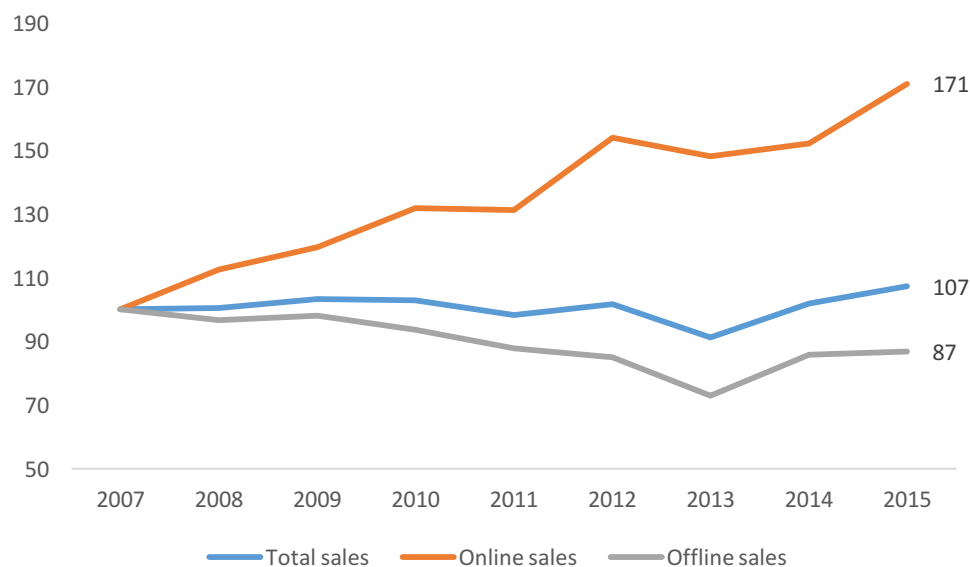


Figure 7 - Index sales growth per channel.

5.1.3 Market concentration

Calculating HHI, the results show that the market has become more concentrated. The book industry was moderately concentrated 2007 and highly concentrated 2015.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
HHI	1513	1752	1419	1429	1492	1629	2045	2281	2297

Table 1 - HHI 2007-2015.

The increased market concentration is largely an effect of the merger between Akademibokhandeln and Bokus. The market shares of the remaining chains have been fairly constant. Independent bookstores have decreased in market share while Adlibris has increased their share.

Actor	2007	2008	2009	2010	2011	2012	2013	2014	2015
Adlibris	15%	18%	19%	21%	23%	27%	28%	25%	28%
Bokus	9%	9%	9%	10%	10%	10%	12%	11%	11%
Akademibokhandeln	25%	23%	23%	22%	23%	23%	33%	38%	37%
Pocket shop	2%	3%	3%	3%	3%	3%	4%	3%	3%
JB	7%	6%	6%	6%	6%	6%	6%	5%	5%
Ugglan	2%	2%	2%	3%	3%	4%	4%	4%	4%
Bokia	22%	22%	20%	18%	18%	15%			
Independent	16%	17%	18%	17%	15%	13%	14%	13%	12%

Table 2 - Total market, including online and offline actors.

The top actors increase their market shares

In order to study the inter-chain competition, C1-C4 and C7 ratios were calculated.

CR	2007	2008	2009	2010	2011	2012	2013	2014	2015
C1	25%	23%	23%	22%	23%	27%	33%	38%	37%
C2	47%	45%	43%	44%	45%	50%	60%	63%	64%
C3	63%	63%	62%	62%	63%	65%	72%	75%	75%
C4	72%	72%	71%	71%	73%	75%	78%	80%	81%
C7	84%	83%	82%	83%	85%	87%	86%	87%	88%

Table 3 - Concentration ratios 2007-2015¹

The chains combined market share has been fairly constant since 2001. The largest differences can be seen for C1 and C2 ratios, where the largest and second largest actors lost market share until 2011. During the years since then, their market shares have increased along with C3 and C4.

¹ Respective ratios were calculated by adding the market share for the largest actors each year, e.g. C1 corresponds to the market share of the largest actor, C2 corresponds to the sum of the two largest actors market share etc.

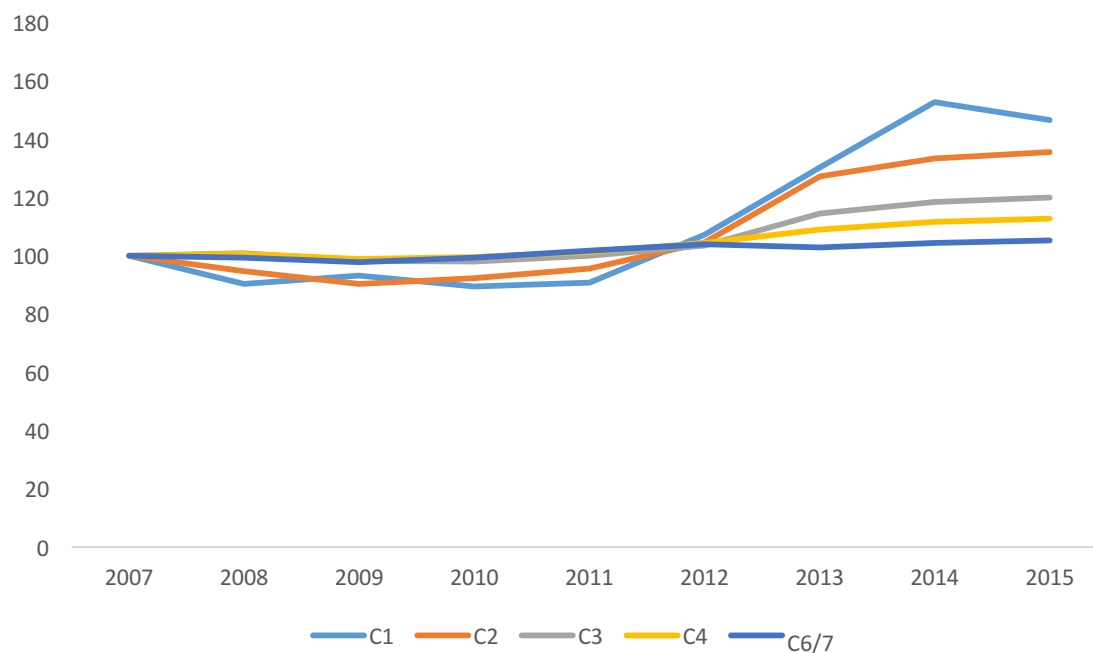


Figure 8 - Index of concentration ratios

As could be expected, did the merger of Akademibokhandeln and Bokus affect the concentration ratios.

5.1.4 Geographical distribution of stores

The number of stores in the three largest municipalities, Stockholm, Göteborg and Malmö has increased by 40 percent since 2000. The year 2000, the three municipalities accounted for 20 percent of all stores, 2015 for 27 percent.

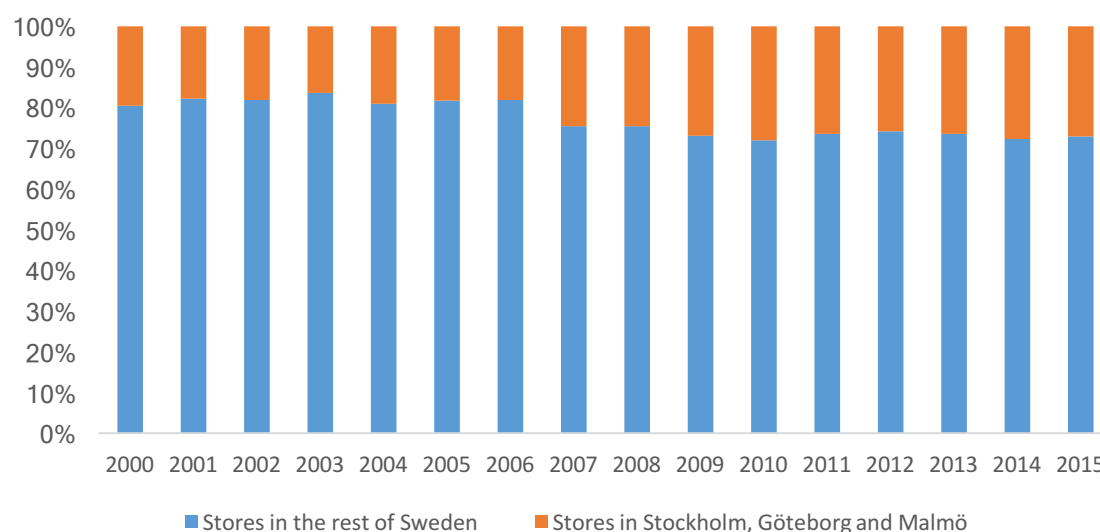


Figure 9 - Share of stores between the larger cities and remaining Sweden

5.1.5 Pricing

The market pricing levels have been one of the most transparent changes differentiating online and offline stores.

“Prices were dumped.”

- Independent store 4

Was a given response to the question of which effects online actors entrance on the market brought about. All interviewees agree that the online entrants decreased customer price expectations when they entered the market. According to one of the independent stores, price sensitive customers moved online early and have already been lost for years.

“Those customers only focusing on price, we have already lost them. There is no point in trying to compete about them.”

- Independent store 1

As time has passed, consumers have gotten used to the differences in pricing between online and offline and the discrepancies are less of an issue according to three of the respondents. One says that online stores have started increasing the prices closer to the level of physical store, even though that observation is contested by others. The perception of how consumers behave, with regards to the price differences between online and offline, differs between the respondents. Some mean that consumers are prepared to pay the offline premium.

“If you buy two books a year, it doesn’t really matter whether it costs 229 or 199 SEK. The price is not that different.”

- Chain store 1

There is however, a limit to how much more customers are willing to pay. One respondent estimates the price elasticity to be up to 50 percent offline.

“It’s rough when we sell it for double the price as online. It burns. [...] Absolutely, people come in here and look then go home and order online.”

- Independent store 4

Although, especially those niche actors focusing on the breadth of the assortment, can see tendencies of showrooming behaviour, this is not an issue for generalists. A contending opinion is that people have gotten used to cheaper prices, but that the price level for books is too low in general. Prices have been brought down so low, that in independent stores, some titles are sold at a loss while still being more expensive than online or in a chain store. An issue highlighted, from the perspective of the independent store, between chains and independent stores is the treatment by publishers.

“It’s not fair. The publishers give them better deals, only taking volume into account, not the breadth of titles that we order.”

- Independent store 3

A last perspective on prices are that of category differences. One respondent perceives children’s books to be less price sensitive:

“Children’s books are generally cheaper than adult literature. The price difference in crowns between us and Adlibris is less for children’s books compared to adult books.”

- Chain store 2

This view was confirmed in one other interview, while the rest of the respondents did not see a difference regarding children’s books. They did however, agree that non-fiction categories were less price sensitive than fiction.

5.1.6 Comment on market structure

In the book industry, online actors established themselves quickly as a low-price alternative. It is clear that the merger of Akademibokhandeln and Bokia affected the market structure. An obvious consequence is the increase in concentration ratio and HHI. Akademibokhandeln possess a unique position on the market, close to having monopoly as a general bookstore. Akademibokhandeln is the sole chain that can reap full benefits from economies of scale of total integration. The value of belonging to a chain is seen as most of the closed stores were independent actors. The hardship for independent stores are also explained by a higher percentage located in less populated areas.

The experienced price sensitivity between online and offline is consistent with that of what Chevalier & Goolsbee (2009) found in previous studies. During the early years of e-commerce

growth, did consumer start to compare prices more closely. That behaviour is no longer evident in all stores, indicating that an equilibrium might have stabilized.

5.2 Market conduct

This section reports findings related to the market conduct of firms. The empirics correspond to RQ2: *How does increased e-market share affect offline book retail market conduct?* and RQ3: *How does increased e-market share affect the interdependence of offline book retail market structure and market conduct?*

5.2.1 Firm level strategies

Bookstores operate under one of three different structures, centrally by a chain, as part of a chain or independently. The desired degree of freedom is a large determiner of which strategy that is chosen.

Cooperative alliances

Among smaller firms, there is a divide between those that prefer belonging to a chain and those that value independence. None of the independent owners interviewed would consider joining a chain, and would rather close down than continue the business under someone else's direction. Firms affiliated to a chain sees the advantages of shared IT-systems and the price reduction of larger orders. After the merger between Akademibokhandeln and Bokia, Bokia's franchisees had the choice of joining the new Akademibokhandeln, another chain or become independent. 60 percent initially chose to stay, but more has left since. Most recently in 2017 did ten stores decide to leave the chain due to a stricter franchise agreement for those wanting to stay.

Unique SKUs

Books are by definition, as has been previously described, a heterogenous product. There is no space to produce own titles or creating brand loyalties as in other industries. Respondents states that the selection of the assortment corresponds to individual profiling. Further empirical data will be presented in the next section.

5.2.2 Store level strategies

Location

The geographical place of the store affects the sales in two ways. Firstly, because a large proportion of customers live in the neighbouring areas.

“Most of our customers live in the neighborhood. And the people that are working in this building.

- Chain store 1

The majority of the bookstores customers live or work in the area close to the store. The local inhabitants are most valuable for general stores, as those stores with a niche profile are able to attract people from further away. The placement is also important due to the potential traffic flow. Goings on in the areas are given as an important explanatory factor for how many people enters the store both positively and negatively.

“More people walk in when there are larger events in the area. They stroll through the galleria before.

There are less larger events in the area now compared to two years ago. That has definitely affected us.”

- Chain store 3

“If there is construction work going on, we lose customers.”

- Independent store 4

Everyone agrees that store traffic is among the most important factors generating sales. There is a rapid decrease in earnings when the traffic flow is interrupted, whether it be construction work or less attractions and events in the adjacent area.

“We are good at selling to those entering the store. But fewer comes in.”

- Chain store 4

Independent store 3 says that people are choosing to sponsor the local bookstore, as they like having one close by. Stores located in city receives less of this positive effect. City stores on the other hand, receive increased revenues from tourists, both tourist that happen to come by, but also from those that chooses a certain store as a destination store.

“Some people always come here when visiting Stockholm.”

- Independent store 2

There are both recurring tourist's segments, both foreign and Swedish that has a bookstore as a destination when visiting Stockholm.

Niche strategy

The headline summarizes both speciality stores such as student literature shops as well as stores that have a differentiation strategy that divert from a general bookstore. A general store offers a shallower number of titles and have a higher percentage of sales based on bestsellers.

“Adlibris is our main competitor. The rests of us are more like colleagues, recommending customers to other stores if they are interested in a specific book or genre. Everyone has their own orientation.”

- Independent store 1

The relative limited number of stores narrows the competition. In large areas are there only one available store which leaves little choice. Moreover, as stated above the competition in larger cities is also limited to online actors. In the case of a chain store and an independent store situated almost next to each other was stated that there was some competition between them, but not to a large extent. Independent store 2 reasoned that this was due to different target groups.

Assortment allocation

Non-book assortment versus books

The majority of the interviewees say that they have increased the non-book assortment. A common non-book category are office products, papers, pens and agendas, products that generally are well associated with bookstores. Other popular categories are greeting cards and puzzles.

“10 years ago, 80 percent of the assortment were books. Today, the paper assortment constitutes 35 percent. [...] Paper agendas are having a revival and that is not something you buy online”

- Chain store 3

One strategy is thus to complement the assortment with products whose sales has not yet moved online. Another is to use the complementary items to enforce the stores positioning.

“Books stands for about 50 percent of the assortment, [...] the other half is products that we want to sell. They complement the books. We chose products that we are interested in, and they contribute to the atmosphere of the store.”

- Independent store 2

Three of the interviewed stores, as well as one chain store (Pocket shop) have an assortment of more than 90 percent books. They see no point in diversifying the assortment, meaning that they should focus on what they can best. One of the independent stores says that:

“It might also be due to the store space, it is lagom and allows us to only sell books.”

Smaller store spaces are also in line with the trend noted by Expert 2. He said that fewer and fewer stores have the option of sustaining large store spaces, and as a consequence either close down or have to move to new premises.

Book category allocation

What type of titles that are presented varies between the stores. Some titles, are a must have even though the owner would prefer not to.

“You need to have the bestsellers, even though the margin is low, since customers expects it.”

- Independent store 4

Bestsellers are still more expensive in offline bookstores than they are in other channels, which means that those customer that are the most price conscious will not buy the book in a bookstore anyway. At the same time, the owner says that she cannot set a higher price. Independent actors sometimes also lose when a title that sells well wins an award.

“It’s sad when a book that previously sold well wins the August prize, and other stores start selling it much cheaper. We have worked with the book earlier and it sold well, and suddenly others sell it much cheaper and our price looks bad.”

- Independent store 2

Although generally, the Nobel prize winners and similar are important revenues. A difference in outside influence of what is demanded is the impact from newspapers. One interviewee said that

she previously could see a direct correlation between a review in Svenska Dagbladet and subsequent sales of the same title. Nowadays, the reviews do not have nearly the same effects anymore.

Digital book formats

The being or non-being of digital formats has been debated, as has the question of whether Sweden will take after the US with regards to e-books.

“It’s been written so much that e-books will take over, it’s almost as the media creates a crisis.”

- Chain store 4

The respondents are not worried by the threat of e-books right now. They are unified in the opinion that swedes this far have not picked up e-reading as a habit.

“There is the feeling and smell of an actual book. I think consumers still appreciate that.”

- Independent store 4

Audiobooks are by most seen as a complementary product to paper books. The respondents see audiobooks as filling a different need, rather than as a substitution to actual books. It was mentioned that there is talk about audiobooks affecting the sales of paperbacks. However, this was not something the respondents had noted yet. In case of one store, the interviewee said that they had cut down on their romance novel assortment, where the sales decrease was attributed to audiobooks. The interviewee meant that romance novels are still a guilty pleasure that one might not want to advertise reading.

Publishers as suppliers

As touched upon in section 5.5.1, the relationship between publishers and bookstores are of a special nature. Chains often has a repurchase agreement in order to lessen the risk for the store while publishers are able to print large editions. Online actors are operating under a different continuous replenishing model, where they order the title when it is purchased by a customer. Some offline stores operate under similar requisites.

“We don’t have any stock except what’s on the shelves. [...] We need to take responsibility for our own purchases.”

- Independent store 3

5.2.3 Customer level strategies

Events and activities

Most of the respondents arrange events to different extents. The type of event ranges from author signings to conversation on current topics. The organization is done on a purely lust filled basis. They are held as often as the owners want and are inspired. The majority of stores have increased the frequency of the events. The effects of the events differ between subject and type of store.

“Large authors bring in a lot of people.”

- Independent store 1

A lot of people at the events are appreciated, but most are happy with a smaller crowd as well. For some, bestselling authors work best with regards to the customers, for others less popular authors are to be preferred.

“Narrow authors work best for us [...] It’s hard to say no when someone asks, but sometimes we have to say no. Large author here can receive less audience than a much narrower one.”

- Independent store 2

What works best is typically related to the overall strategy of the store.

Other activities

Some stores are cooperating with a café or sell coffee in order to provide an experience.

“It was easy to find someone when we wanted to open a café in the new store.”

- Chain store 1

One chain store sees synergies in having the café in the store. Others dismiss the notion of trying something similar as ridiculous, once more enforcing that they sell books and nothing else.

Customer experience

The expertise

What customers most appreciate in the store is the service. The sellers in book stores have a knowledge that is appreciated. Salespeople can also recommend books based on what the customer like, and provide help and offer suggestions in a different way than online.

“You can read about books online, but that is not the same thing as having a discussion with someone.”

- Independent store 2

Most are happy to share what they know with those entering the store, not caring overmuch if half the purchases later are made somewhere else if one buys something.

“We don’t want to charge for knowledge. Most people buy at least one novel here and maybe orders a second recommendation online but that’s okay.”

- Independent bookstore 3

Except for the service, people appreciate the environment of the bookstore. Independent store 2 says that:

“People come in here for the calm. [...] Those coming in should have the chance to look around without anyone trying to sell something on them. They should be able to browse in their own pace.”

Some has created great customer loyalty to the extent that they know the names of the 100 most profitable customers and receive gifts from them.

“We get Christmas gifts by customer every year.”

- Independent store 3

The people working in the stores know returning customers to the extent that they know what the customer will ask for.

“We have a lot of returning customers, and does often know who is going to buy a certain title when we purchase it.”

- Independent store 4

5.2.4 Comments on market conduct

The conduct has changed during the past years. Mats Ahlstrom chairman of the Swedish bookseller association means that the biggest change in conduct occurred during the deregulation in the 70'. His position is that the bookstores were far behind the rest of the retail industry at the time of deregulation. Today, the opposite is true. Akademibokhandeln won the prize as best retail chain 2017, and most stores have come far in both the presentation of store atmospherics and in efficiency activities. Geographical location is still important due to bookstores inability of attracting customers by themselves. However, factoring here are environmental aspects that the store cannot control.

Akademibokhandeln, having a basis in scale, and by being a nationwide chain, can offer an omnichannel experience in way that is harder for independent actors. They are the only ones able to offer a seamless experience, and they have stated that it should be up to the customers how they want to shop. Akademibokhandeln should not steer them in any one direction, but offer the opportunity of shopping however they want. This line of thinking agrees with literature and is probably a factor for Akademibokhandel's ameliorated profitability. Differences between Akademibokhandeln and independent niche bookstores are that they have a both wider and deeper assortment. Since they do not sell as many copies and have a much lower volume can they stock in a different way.

6. Discussion

This section will discuss the results in a wider perspective not restricted to the research questions. This part will discuss how the industry has changed, and other currents in society affecting firm practices.

6.1 What happened?

The trend to be seen is that e-share is growing on behalf of traditional stores, and stands for the main growth in the industry. E-commerce globalizes local markets, changing the competitive landscape as they are able to overcome previous entry barriers, exposing markets for new threats. In this case, the early effects were a decreased profitability among smaller stores, subsequently followed by exits from the market.

The main effects that this evolution has been seen to have on the structure of the physical stores is seen by a wipe-out of smaller stores in mainly rural areas. This impacts the community where the store was located, and will affect the local inhabitants' behaviour. When looking at market competition at the industry level however, these actors are so small that their disappearance do not have an impact on the market structure level. The implications are bad for the attractiveness of the communities where the stores were located, as the inhabitants will only have access to books online, or as a small selection of titles in grocery stores or similar. The effects for reading practices in a town that loses their bookshop is an interesting area for future studies. The structural effects that could be measured happen when the two largest chain stores merged in 2012, after which Akademibokhandeln is the only nationwide chain. The largeness of Akademibokhandeln means that the offline industry as a whole right now stands and falls with one firm.

As previously discussed, many economists believed internet to be a market place close to the ideal of perfect competition. Studies have proven them wrong, as the online market is divided between larger and smaller firms, just as the offline market is allocated. But, if increased e-commerce leads to increased concentration among physical stores, does that not imply a move towards monopoly? A lot points in a direction where Adlibris and Akademibokhandeln can set the terms for the market. Effects on for example price levels remains to be seen. Nothing indicates that e-market share will decrease, rather the opposite. Two of the interviewees believe that we will see a second wave of e-commerce, as the online market as a whole matures. Customers do not yet have the habits of shopping everything online, although that might change. Hortacsu and Syversen (2015) believes

this to be when groceries e-share substantially increases, something that might not be far off in Sweden now.

6.2 The Netflix effect?

A general conclusion is that more books are being bought. However, whether they are read or not remains an unanswered question. The empirics suggests that people might buy books with the intention to read while in the end never reaching that goal. Discussion can be had whether people are actually reading them or not, or if books rather have become interior design objects. Noted during the interviews were the recurring comment regarding the number of people reading books on trains and buses. Book reading as commuting activity is almost eradicated, substituted by smartphones. Since e-books sales still remain low in volume is it improbable that all those previously reading have replaced the physical book with an electronic version.

Other forms of entertainment are also more easily accessible today and take more and more of our attention and free time. In opposition, according to Mediebarometern (2016) is the time we spend reading each day constant at the same level where it has been since 2005. The worry of substitution thus seems to be overrated, although that cannot be proven here. Debated though, is the division between “qualitative” literature and easy reads. If people would read less, which type of book would still be purchased? Generalising, high volume readers, read more of everything and are most likely to keep having a high consumption. Low volume readers, that decrease their literature consumption reads a higher share of more accessible literature. Thus, bestsellers might in the long run become a more important category.

6.3 Globalisation

The perspective taken in this study is that the competition has moved from the local market to a global one. However, the market analyzed is limited to Swedish actors and does only take sales from these companies into account. In reality, the market is much more global than that. When shopping online, customers are not limited to Swedish actors, and can just as easily make their purchases from abroad. The proportions of these sales are not known today. Language and transportation barriers are still a hindrance to freely purchase from abroad, although they are lessening more and more in importance. On the other hand, as one of the interviewees suggested, what happens if Amazon enters the market? It is speculated that a new large entrant will not affect

the offline but online market. Amazon is such a strong brand, combining most consumer sectors in one store, that a switch for online habituated customers will switch without further thought if they offer the same products.

6.4 Niche behaviour in larger markets

Studies have shown that niche products are thriving in online, while mass market products do better offline. However, the results indicate that some niche offline bookstores are doing fairly well. Might it be that if offline loses sales of bestseller products, the revenue at a market level will be regained by specialists? This is highly speculative, and an area for future investigation. If shopping moves even further in the direction of becoming more of an experience than a chore, the inspirational role of the expert provider might add a new purpose to the store, especially when combined with activities and events.

6.5 Bookstores selective function

A retailer does not produce anything, the value adding activities made by the retailer, are providing products to the end consumer. An important part in this is the assortment mix, in other words, which products that are made available. The results suggest that value creating activities in terms of the breadth and depth of the assortment is becoming more and more important for offline stores. Since all possible titles are available online, the offline store's role as a filter, or reviewer of quality, increase as competitive advantage. One store owner spoke about how a bookstore offers consumers the chance to browse, and be inspired by titles and covers, an experience not offered online. For those consumers that are not highly knowledgeable, short on time or that do not know what they are looking for, bookstores offer a selection of what to choose from as well as inspiration.

6.6 Prices importance

One of the main advantages from a consumer perspective of e-commerce are lower prices. E-commerce does not require the advantageous location of a store front, neither does it require as many employees (Detaljhandelsskiftet, 2016), resulting in lower costs and the ability to keep prices down. Price elasticity is significant both online and online, but higher offline. Among respondents in the interviewed sample are the opinions divided. Some argues that prices are still the one most

important factor when customer make the purchase decision, others that other factors are just as important. In relation to e-commerce, is the delivery aspects of great importance. If price is not an issue, then convenience will affect the behaviour to a larger extent. Today, convenience factors are either the value of receiving the book immediately (offline) or not having to visit a store (online). If, however, online actors offer faster, and smoother deliveries the time gap will be overcome and the offline store lose one of its competitive advantages.

7. Conclusion and contributions

This last part summarizes the findings of this study and its managerial and theoretical implications. The final section offers suggestions for future research.

7.1 Conclusion

The object of this study was to find an answer to the question; *How does an increasing e-market share affect the offline book retail industry?*

The short answer is, in many ways. The impact can be seen both on a macro level and a micro level, on society at large and for individual actors, firms as well as consumers. The focus of this thesis has been to examine the effects of e-share on market structure and market conduct and their interrelatedness. Three sub-research questions were formulated in order to provide specific answers to the overreaching question. A brief analysis was provided in relation to the empirics of each research question and later discussed further in a larger context.

The market structure has undergone large changes. The market power of the biggest actors has increased. Adlibris and Akademibokhandeln together account for 65% of the market 2015. The derived thesis in this study is that e-commerce entered as a low priced and convenient way for customer to purchase books. With this followed that the general price level decreased in order for physical store to compete with the online actors. E-commerce growth increased the concentration level in terms of HHI, but it was not until firms had to change their strategies due to the new conditions that the effect could be measured. Smaller actors exited the market due to low profitability, larger actors merged in order to try and find a way of staying profitable. Two firm's choices to merge then affected in turn the market structure, as they already were the two largest actors.

Effects on market conduct is seen as increased pressure for stores to offer something in addition to the book in hand. Store strategies that work for independent bookstores in this sample, is to focus on their niche, then adding value by guaranteeing quality. All store owners in this study have showed to be meticulous with regard to the assortment, being both consistent and selective in what they offer the customers. Independent stores could benefit by presenting the assortment online, as a complementary display window, but will not be able to compete with the larger actors regarding the operation of an online store. Physical stores should increase the hedonistic aspects of a store

visit. The atmosphere in a bookstore is one a lot of people still appreciate and are prepared to sponsor, an attitude that might be unique for books. As an organizer of events, the bookstore might be able to fulfill a larger role than only that of a distributor, in addition to increase traffic and knowledge about the store.

Results of this study are consistent with those of Raffaelli (2017), in that independent bookstores still have a role to play in the community, and is an appreciated function. Population density might still factor, but many stores already uses strategies regarding a focus on the value of putting together an assortment, and engaging in conversations around of that and our community. The practices of reading, constantly being under scrutiny due to political opinions. There will probably be a future for the physical bookstore in some form – how widespread and in which format is yet to be seen.

“What I say is, a town isn’t a town without a bookstore. It may call itself a town, but unless it’s got a bookstore, it knows it’s not foolin’ a soul.”

- Neal Gaiman, American gods

7.2 Theoretical contribution and Managerial implication

This study contributes to the body of work of industrial organization by analyzing how e-commerce affects the market structure of an industry. Using empirical data of the Swedish bookstore industry, the study follows concentration levels over time as the e-market share of the industry grows, combined with interviews with actors that have lived through the changes. Results confirm the relationship of the SCP-framework with notion of interdependencies between structure and performance. This study also adds to retail research on digitalization by describing how the market structure changes when competition moves outside the local market.

The results indicate profitable strategies for bookstores to adapt if they have not already done so. In addition, actors within other retail industries with less online maturity, can learn from an industry that has come further. Local retailers should preserve their relationships in the local market, creating incentives to support the local community.

7.3 Limitations

Conducting this type of analysis retroactively is difficult. Ensuring the validity of the data becomes harder the further back on attempts to go. The data processing was consequent throughout the studied time, however there are discrepancies when comparing particular numbers with other studies. This is most likely due to a different qualification process of included firms.

This study is limited to the retail sector, whereas the book industry as a whole is highly dependent on all parties in the value chain. Although touched upon, the relationship between authors, publishers and sellers are not included in this study. Vertical integration might be an important factor to consider when determining market conduct. In relation, authors are no longer dependant on a publishing house and a retailer for distribution. Direct selling, or self-publishing, a popular practice within the computer industry, is easily accomplished for authors. This might in the future change the relationships in the supply chain, carrying effects to the retailers.

The results provide an insight in how bookstores have adapted to e-commerce competition. In order to deepen the analysis, it would have been beneficial to collect a survey from a larger sample of bookstores, in order to quantify the market conduct aspect. This would have made it possible to create a complete model of the factor weighing in on store profitability, as was the original intention of this study.

7.5 Future research

Future studies should consider understanding whether the results in this study are generalizable to other industries. While this study aims to provide insights in the shift towards digitalization, the specifics of the industry should be considered. A similar approach would be interesting to compare how the structure changes within other product categories are the same.

Of interest is also that few studies research SMEs reasons to adopt an online channel. Studies points to the benefit that smaller niche actors online have, by reaching a larger customer base than would otherwise be possible. This study indicates that niche stores offline might have a future if online actors take a more prominent role.

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Appendices

Appendix 1. Interview guide

Interview guide

1. Would you say that the market has changed during the past years? How?
2. How have you adapted to the perceived changes?
3. Who do you see as your biggest competitor?
4. How has the competition changed?
5. How do you perceive e-commerce?
6. Who are your customers?
7. Have you made changes in the assortment?
8. What do the customers appreciate most in the store?
9. Do you organize event etc.? What is the outcome?

Appendix 2. Interview overview

	Interviewee	Position	Interview type
1	Independent store 1	Owner	Face-to-face
2	Independent store 2	Owner	Face-to-face
3	Independent store 3	Owner	Face-to-face
4	Independent store 4	Employee	Face-to-face
5	Chain store 1	Sales manager	Face-to-face
6	Chain store 2	CEO	Face-to-face
7	Chain store 3	Owner	Face-to-face
8	Chain store 4	Owner	Phone
9	Expert 1	Expert	Phone
10	Expert 2	Expert	Face-to-face