THE EFFECTS OF CROSS-BORDER TOURIST PURCHASES ON RETAIL PERFORMANCE

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Abstract:

One of the major novelties in modern retail that is gaining more and more prominence is the concept of cross-border shopping. Factors affecting the rapid development of cross-border shopping are numerous, such as price differentiation, quality, convenience, demographic and social characteristics, good organizational structure developed in modern retail and many others. Among the influencing factors, the role of price differentiation of goods and services is very important and it is also affected by numerous factors. Those are: value added tax, profit margins, operating costs, exchange rates, inflation, differentiation of organizational structure in retail, the application of advanced information and communication technology and others. Cross-border shopping is, in itself, very important influential factor for the development of tourism, target retail market, performance of retail companies and living standard. Altogether, this has a positive effect on the overall performance of the national economy.

Key words:

price differentiation,
factors,
travel buyers,
performance.

INTRODUCTION

With all the foregoing in mind, the primary objective of this study is to survey the literature on the given subject and analyze all aspects of the empirical data relevant for understanding the impact of cross-border shopping on retail performance. This should provide the basis for global improvement of the overall performance of retail companies that also render a service to cross-border shoppers.

Cross-border shopping has recently become increasingly important as an economic category, which is quite understandable when one takes into account the fact that it affects the development of tourism, the conquest of new retail markets, tax revenues, the performance of retail companies and other economic sizes. For such reasons, the concept of cross-border purchases has been intensively researched in both theory and practice (Leal et al. 2009; Leal et al. 2010; Gopinath et al. 2011; Hsu, 2011; Patrick, 2011; Singh, 2011; Lukić, 2011).

Relying on the analysis of the relevant literature and empirical data, this paper seeks to envisage the complex problems of cross-border shopping; primarily, by observing the impact it has on the performance of retail companies that render a service to cross-border shoppers. This should represent a basis for more efficient performance management of cross-border purchases of goods and services, which is seen as a particular target segment of the retail market.

An abundant amount of *literature* is dedicated to studying the problems of efficiency of cross-border purchases. Namely, this issue can be examined by relying on different perspectives, such as cross-border shopping trend, factors that influence the development of cross-border shopping, cross-border shopping motives, marketing channels of cross-border shopping, the structure of cross-border purchases by countries, regions and product categories, the effects of cross-border purchases on tax revenue, cross-border trade as a factor of tourism development, etc.

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This paper examines all these aspects of the subject matter in the context of the impact cross-border shopping on retail performance.

The issue of cross-border purchases, considering the complexity, can be explored through a variety of *hypotheses*. Relying on the clearly defined objective, the hypothesis (H1) – that the cross-border shopping represents an increasingly important factor for the performance of retail companies, mostly due to the price differentiation and rising poverty of customers in many countries - is particularly tested in this paper. Related to this, the hypothesis (H2) is examined – the impact of the effective cross-border purchase management (general and online) on the performance of retail companies (Suchánek, 2010; The European Consumer Centers' Network, 2011).

Method that is primarily used to prove these hypotheses is review of relevant literature.

In order to verify them, original empirical *data* collected from various sources (articles, statistics, publications) are analyzed as well.

CROSS-BORDER SHOPPING: AN ANALYTICAL MODEL

Purchasing has recently become one of the major "enjoying" activities for many tourists. Moreover, we could say it represents the primary motive that triggers many tourists to visit some destinations.

There are various macro- and micro-analytical factors influencing the behavior of tourists. Market (macro-factors) and socio-economic, motivational, customer characteristics (micro factors) affect cross-border shopping. Figure 1 presents the analytical model of cross-border purchases.

The economic and cultural significance of cross-border shopping in tourism is immense. There are

Figure 1 - Cross-Border Shopping: An Analytical Model

Source: Lau et al. (2005)

Trip Duration:	Same day		Overnight	
Residence of Travellers:	U.S.	Canada	U.S.	Canada
Business Affairs	7.5	7.4	7.6	7.5
Visit friends / relatives	15.2	8.8	22.8	22.2
Pleasure or personal trip	43.1	53.2	62.3	64.6
Commuting to work	2.3	6.0	-	-
Other	21.1	15.4	7.2	5.5
Not stated	10.8	9.2	0.1	0.2
Total Respondents ('000s)	304	445	226	264

Table 1 - Reasons for Crossing the Border, 1990-2010 (percent)

Source: Chandra, A. (2011)

numerous reasons for cross-border shopping of tourists. They are illustrated in Table 1.

The study, relying on the example of cross-border purchases of US-Canada, found that the key motive for tourists was price differentiation; 10% exchange rate appreciation raises the average cross-border welfare by 2.1%. Distance greatly restricts cross-border shopping, with the assumed cost of \$ 0.9 per mile. If these costs are considerable they can deter tourists - customers from using the differentiated favorable prices, directing them towards other more favorable cross-border retail segments (Chandra, 2011).

FACTORS AFFECTING THE PURCHASE AS A MOTIVE FOR THE JOURNEY

Mass consumption and tourism are very essential factors of economic growth in many countries. This is demonstrated by a number of empirical studies conducted (Tömöri, 2010). Numerous factors - such as the motive for the journey - influence buying, as it can be seen from Figure 2.

Cross-border shopping represents one of the most significant factors for the development of tourism in certain foreign countries (Timothy and Butler, 1995). It is also the determinant of the in-

Figure 2 - Factors affecting the purchase as a motive for the journey

Source: Tömöri, M. (2010)

Segment	Turnover segment in retail commerce generated by tourists 2004 (Bill. €)	Touristic turnover in retail commerce 2010 (Bill. €)
One-day tourists in total (Customers coming from very far)	9.2	10.3 -11.0
... among which: German one-day-tourists	7.5	8.1 - 8.6
... among which: one-day foreign tourists	1.7	2.2 - 2.4
Visitors requesting accommodation total	3.3	4.1 - 4.6
... among which: Germans	2.5	3.0 - 3.4
... among which: Foreign tourists	0.8	1.1 - 1.2
Sum	12.5	14.4 - 15.6

Table 2 - Estimated retail sales potential of Germany on the basis of cross-border shopping, 2010.

Source: Friedrich and Sattler (2005)

creased retail sales. Data in Table 2 clearly point that, in the reporting period, sales generated by tourists increased in German retailing.

In principle, cross-border shopping can be seen as an economic or tourist activity, as described in Figure 3.

		Length of stay	
		one or more nights	same day returns
Reason / motivation for cross-border shopping	pleasure	1	3
	pleasure and economic	2	4
	economic	5	6

Figure 3 - A hypothetical model of cross-border customer

Source: Tömöri, M. (2010)

The meaning of certain fields on a given image is clear in itself. For instance, the field 1 represents cross-border customers who stay in a foreign country for at least one night and who are motivated by pleasure. The field 6 includes economic motives of cross-border buyers who return home the same day, which is why they cannot be treated as tourists belonging to this category. Analysis of the meaning of other fields in the table is similar.

During a visit to the United States, Chinese tourists are very interested in purchasing different products, from watches and jewellery to the footwear and healthy food. They believe that the American products have the same quality but lower prices compared to the similar products at home. Purchases done by the respective tourists are certainly facilitated by the acceptance of Chinese credit cards in American stores (Xu and McGehee, 2012).

In any case, the local buyers and foreign tourists as customers have different perceptions of values in the same country. It is confirmed by the results of the two customer groups - local and tourist shoppers in Hong Kong. It certainly has some implica-

tions on strategic operations of global retailers (Lloyd et al. 2011).

DUTY-FREE SHOPS

Foreign tourists make considerable purchases in duty-free shops located on the borders. Prices in those shops are much lower than in other shops. They, therefore record a significant increase in sales and financial performance. Thus, for example, the airport retailer Dubai Duty Free (one of the largest in the world) had an increase of 16.4% in sales in late September 2011 compared to the same period in 2010 (Peter and Anandkumar, 2011). Especially perfumes, jewellery and alcohol are sold in these stores (Table 3).

GROSS MARGIN

High gross margin is typical for duty-free shops as an indicator of profitability - performance, which covers operating expenses while the rest is profit.

Year Till Date Sep 2011		
Merchandise	AED Millions	Chare
Perfumes	548	14.5%
Gold	432	11.4%
Electronics	296	7.8%
Cosmetics	229	6.1%
Confectionery	284	7.5%
Others	1,991	52.7
Total	3,780	100.0%

Table 3 - Dubai Duty Free - Sales by Merchandise Category
Source: Peter and Anandkumar (2011)

Table 4 illustrates the rate of gross margin (gross profit) and net margin (net profit) for the leading retailer that renders a service to tourists - Dufry's HY.

	2011	2010
Gross profit	58.0%	57.0%
Net Earnings	4.8%	4.8%

Table 4 - Dufry Group HY- Gross Profit and Net Earnings
Source: Peter and Anandkumar (2011).

According to the market and financial characteristics, duty free shops are highly profitable. The data presented speak in favor of this: in the coming years, the estimated rate of net margin of the duty free business in Turkey of Net Holding company will be high: 2010 - 14.0% 2011 -14.0%, 2012 - 14.0%, 2013 - 13.0%, 2014 - 13.0 %, 2015 - 13.0%, 2020 - 13.0%, 2021 - 13.0% and 2024 - 13.0% (Net Holding, Oyak Securitea Estimates).

In principle, on the basis of all the characteristics, it can be concluded that the cross-border shopping is highly profitable, which is quite understandable when one takes into account the fact that foreign buyers - mostly tourists, purchase goods with high gross margin characteristics.

CONCLUSION

The dynamics of cross-border purchases is being more and more pronounced. It is increasingly treated as a separate target segment of the retail market. Determinants of cross-border purchases are various. In addition to price differentiation, the role of

the brand is also becoming more significant. These are the prerequisites for more efficient management of cross-border shopping as a determinant of the overall performance of global retailers.

Concerning the types of channels of cross-border shopping, it is the online channel that is becoming more and more important. This is quite understandable if we take into consideration a number of advantages it provides compared to other marketing channels of cross-border shopping (price transparency, shopping in any currency during the day and from anywhere, etc.). By keeping the potential customers fully informed, barriers to online cross-border shopping have been reduced to a great extent. Cross-border shopping is one of the multiple influential factors. It affects the development of retail formats structure, tourism, tax revenue, the living standards of cross-border customers and the performance of retail companies. Through effective management of cross-border shopping via the strong control of influential factors, the overall performance of retail companies that render a service to cross-border shoppers can be improved significantly.

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EFEKTI PREKOGRANIČNIH KUPOVINA TURISTA NA PERFORMANSE U MALOPRODAJI

Rezime:

Jedna od glavnih tvorevina u savremenoj maloprodaji koja postaje sve zastupljenija jeste koncept prekogranične kupovine. Faktori koji doprinose sve bržem razvoju prekogranične kupovine su brojni, poput diferenciranja cena, kvaliteta, pogodnosti, demografskih i socijalnih karakteristika, dobre organizacione strukture u modernoj maloprodaji kao i mnogih drugih. Među faktorima koji imaju uticaj, uloga diferenciranja cene robe i usluga je veoma bitna i na nju takođe utiču brojni faktori, poput poreza na dodatu vrednost, marže profita, operativnih troškova, inflacije, diferenciranja organizacione strukture u maloprodaji, primene naprednih informacionih i komunikacijskih tehnologija kao i mnogih drugih. Prekogranične kupovine same po sebi predstavljaju bitan faktor koji utiče na razvoj turizma, ciljano maloprodajno tržište, performanse maloprodajnih kompanija, i životni standard. Sve zajedno, to ima pozitivan uticaj na ukupne performanse nacionalne ekonomije.

Ključne reči:

diferenciranje cena, faktori, kupci-turisti, performance.

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