

Retailing to Foreign National Consumers in the Border
Zone: The Impact of Currency Devaluation
and Cross-Border Competition

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Purpose of the Study

- To investigate the factors that affect how retailers in a border zone manage the elements of the retail mix with foreign nationals in mind.
 - Currency devaluation
 - Competition from foreign retailers

Border Retailing

- Little, if any, empirical research has been conducted to examine (1) why consumers cross borders to shop and (2) what retailers are actually doing to attract consumers from across the border.
- Types of retailers in the border zone:
 - Those that cater exclusively to consumers from the home country (local strategy - safe)
 - Those that target consumers from both the home country and neighboring country (cross-border strategy - hopeful)
 - Those that do business exclusively with foreign nationals (foreign strategy – risky)

Retailing Fundamentals

- Controllable elements of the retail mix:
 - Store location
 - Merchandise management
 - Pricing
 - Promotion
 - Etc.
- Uncontrollable elements:
 - General economic conditions
 - Competition
 - Consumers
 - Technology

Border Zone Retailing

- Estimates vary about the impact of cross-border retailing
 - in some cases up to 90% of retail business in border zone cities' CBDs relies on foreign nationals (Gilbreath and Hurlbut 1992).
- Clark (1994) suggested that
 - pricing decisions at the border are impacted directly by “cross-boundary” competitors
 - Merchandising decisions can be affected by preference gaps

Why Do Consumers Cross the Border to Shop?

- Lower prices
- Availability of merchandise
- Variety
- Assortment
- Quality
- Customer Service
- Retail Atmospherics or Ambiance

Transfer costs & Price differentials

Impact of Devaluation

- Concern over foreign exchange fluctuations (e.g., devaluations) should have a direct impact on:
 - retailers' design of the retail mix with foreign nationals in mind
 - Retailers' performance (success) expectations with cross-border consumers in mind

Impact of Cross-Border Competition

- Retailers who are concerned with cross-border competition are more likely to
 - Design their retail mix with foreign nationals in mind
 - Measure their performance (success) with foreign nationals in mind

Description of Study

- Sample: 200 retailers from the El Paso area
 - 176 actual respondents (84% response rate)
 - All were owners/top managers
 - 70% reported significant retail experience
 - 55% represented independent retailers
 - 54.5% of respondents indicated that they did 50% or more of their business with Mexican nationals

Results – Peso Devaluation

- Retailers who are concerned with exchange rate fluctuations (Peso devaluation) are more likely
 - to design their
 - store atmosphere, promotion, service, and convenience features with Mexican nationals in mind
 - No significant differences for price and merchandise
 - to indicate that
 - Mexican customers are satisfied with their stores
 - sales to Mexican nationals are an important part of their business
 - Peso devaluations influence their competitiveness
 - Peso devaluations do not affect their performance

Results – Cross-Border Competition

- Retailers who are concerned with cross-border competition are more likely to plan the ambiance and convenience elements of their retail mix with Mexican nationals in mind.
 - No support for the other elements of the retail mix (promotion, merchandise, price, service)
- Concerned retailers also indicated that cross-border competition affects their competitiveness and consider sales to Mexican nationals as important, but there was no difference with regard to performance and satisfaction

Conclusion

- Although devaluation influences the design of the retail mix and retailers' perceptions of their performance, cross-border competition has little impact.
- Follow-up study: 43 retailers from the initial respondent pool asked to indicate the reasons why they overlook cross-border competition.

Why El Paso Retailers Ignore their Mexican Counterparts

