

***SUPPLIER-RETAILER
RELATIONSHIPS IN THE STRATEGY
OF INTERNATIONAL RETAILERS:
evidence from Russia
(work-in-progress paper)***

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- Introduction
- Current research context
- Russian retail market
- Findings from previous research
- Further research proposal
- Conclusions

Rank	Company	Headquarters	Number of Countries	Countries of Operation
1	WAL-MART STORES	U.S.	15	Argentina, Brazil, Canada, China, Chile, Costa Rica, El Salvador, Guatemala, Honduras, India, Japan, Mexico, Nicaragua, Puerto Rico, United Kingdom, United States
2	CARREFOUR	France	35	Argentina, Bahrain, Belgium, Brazil, China, Colombia, Cyprus, Dominican Republic, Egypt, France, French Polynesia, Greece, Guadeloupe, Indonesia, Italy, Jordan, Kuwait, Malaysia, Martinique, Morocco, New Caledonia, Oman, Poland, Portugal, Qatar, Reunion, Romania, Russia, Saudi Arabia, Singapore, Spain, Taiwan, Thailand, Tunisia, Turkey, UAE
3	TESCO	U.K.	14	China, Czech Republic, France, Hungary, Ireland, Japan, Malaysia, Poland, Slovakia, South Korea, Thailand, Turkey, United Kingdom, United States
4	METRO GROUP	Germany	33	Austria, Belgium, Bulgaria, China, Croatia, Czech Republic, Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Kasachstan, Luxembourg, Moldova, Morocco, Netherlands, Pakistan, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, Vietnam
5	KROGER	U.S.	1	United States
6	SCHWARZ GROUP	Germany	over 25	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway (withdrawal in 2008), Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom
7	REWE	Germany	16	Austria, Bulgaria, Croatia, Czech Republic, France, Germany, Hungary, Italy, Lithuania, Latvia, Poland, Romania, Russia, Slovakia, Switzerland, Ukraine
8	COSTCO	U.S.	8 + Puerto Rico	Australia, Canada, Japan, Mexico, South Korea, Taiwan, United Kingdom, United States
9	ALDI	Germany	15	Australia, Austria, Belgium, Denmark, France, Germany, Great Britain, Greece, Hungary, Ireland, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Switzerland, United States
10	AUCHAN	France	13	China, Dubai, France, Hungary, Luxembourg, Portugal, Romania, Spain, Romania, Russia, Italy, Poland, Taiwan, Ukraine

Background and motivation:

- Internationalization: one of the most important trends in retailing
- CIES (International Committee of Food Retail Chains) Food Business Forum has questioned top managers of the food industry about this economic topic, which will probably dominate the professional discussions. The prevailing answer with almost 70% was “the internationalization of retail business”
- Retail internationalization is not new, however has accelerated in the last two decades (Zentes et al 2007)

Background and motivation:

- **Drivers of retail internationalization:** saturated markets in Western Europe, transition period and increasing purchasing power in CEE and Asia
- **Many of the top retailers operate in several countries** (e.g. in CEE)
- **Some companies earn the majority of their sales abroad**
- **Western retailers dominate**
- **International retailers:** export of business models and requirements -> essential impact on the agri food business
- **Understand the impact of international retailers on local suppliers**
- **No comprehensive picture in the literature**

- Retail internationalization: relative **new phenomenon**
- Several theories, but **no consistent picture**
- Research of relational aspect underdeveloped

Main messages:

- **Direction of internationalization:** psychic distance vs. market opportunity
- **Process of internationalization:** learning and experience
- **Market behaviour:** standardization vs. Adaptation
- **Enablers of internationalization:** firm specific advantages and imperfect markets

market imperfection (Hymer, 1976),

resource advantage (Hunt, Morgen,, 1996; Hunt, 2002)

eclectic (Dunning, 1980, 1981, 1988) theories argue that firms should possess internationally-exploitable, firm-specific advantages in order to compete in foreign countries

Rugman and Verbeke (1993) distinguish between **location-bound** and **non-location-bound, firm-specific** advantages:

location-bound advantages can be used mainly in a specific location , require significant adaptation in order to be used in other locations (Rugman, Verbeke, 1993).

non-location-bound, firm-specific advantages (can easily be taken into new markets; hence they can be exploited globally without substantial adaptation):

asset specific (ownership of specific assets such as financial capital, brand name)

transaction specific as a result of multi-nationality, e.g. the ability of a multinational enterprise to decrease the transaction costs compared to their competitors and external markets) (Dunning, 1981, 1988).

Firms internationalize if they can exploit their non-location-bound advantages.

Market specific:

- Underdeveloped retail sector
- Market liberalization
- Growing demand for well known brand

Retail specific:

- Concept (cash and carry, discount)
- Supply chain management
- Retail brand
- Supplier relationships

export of business model

Retailer specific	Market specific
Strategy	Market liberalization
Management/marketing : Supply chain management Relationships	Demand for high quality goods Need for fast and flexible response to individual consumer preferences
Synergy	Demand for well known brands
Brands	Retail structure

- Strategies between the extremes of global, international and multinational companies
- According to the degree of global standardization, integration and local adjustment international firms develop multinational, international, global or glocal strategies.
- Retailers try to establish their home business model when the infrastructure and the quality of the suppliers make it possible.
- The procurement strategy is a deciding factor; companies who have more decentralized procurement are more likely to enter developing countries, where the infrastructure does not make centralized procurement possible. In contrast, the resource-based retailers tend to enter mature market, where the infrastructure is developed, and where there is an efficient supplier base; there they can exploit their firm specific advantages, without substantial adaptation.

Valuable resource for retail internationalization.

In case of existing long-term and efficient cooperation retailers bring key suppliers in new markets.

offer good prices and differentiated products

no need to invest much in new supplier relationships.

Co-ordination and control are needed between buyer and seller, for instance, for efficient handling of flows of goods, services, information and payments; for effective innovative behaviour; and for reduction of uncertainty (Salmi, 2004)

Coordination can be considered as a key to achieving the main marketing goal: creating superior value for customers (Shrivastava, Sudhir, 2003; Vargo, Lush, 2004).

Customer value is created more and more through integrating various functional areas (Jüttner, Christopher, Baker, 2007; Snow, Miles, Coleman, 1992).

Long-term relationships leading to better coordination may determine competitive advantage and are often crucial to achieve the goal of creating superior value for customers (Piercy, 2002; Jaworski, Kohli, 1993).

Supply Chain Management (SCM) synergy is widely acknowledged (cf. Oliver, Webber, 1982; Christopher, 2004; Ellinger, 2000; Martin, Grbac, 2003; Svensson, 2002).

Demand Chain Management (DCM) emerges as a new theoretical base to explain demand-supply coordination. DCM's starting point is not a supplier/producer and activities to promote its goods and services through the supply chain, but certain customer demands, which are to be satisfied through a chain of relationships (Heikkilä, 2002).

- H1: Foreign retailers coming into Russia have different strategies and therefore it is possible to identify the different strategic groups of foreign retailers.
- H2: The non-location-bound firm-specific advantages being the most important enablers of internationalization correlate with the way retailers design and develop relationships with foreign and local suppliers.
- H3: Supplier-retailer relationships are now of growing importance in the Russian retail sector.
- H4: The level of supplier-retailer relationships depends on the strategy of dominating partner; coordination scope and intensity differ across the market segments.
- H5: DCM model is not yet accepted not only by local but also by foreign retailers in Russia.

One of the most attractive in the world. Second place in the 2009 Global Retail Development Index of the A.T. Kearney

The main features of the modern Russian retailing are as follows (Radaev, 2003, 2008; Roberts, 2006; Sheresheva, 2005; Tretyak, Sheresheva, 2003):

- relatively immature and under-consolidated
- increasing share of retail chains,
- increasing number of specialized retail chains,
- growing power of foreign retail chains,
- major retail chains moving into the regions
- personal relationships with regional authorities needed.

Data collected from 500 managers of retailing chains and their suppliers in five Russia's cities including Moscow, S.-Petersburg, Yekaterinburg, Novosibirsk, and Tyumen in autumn 2007 (Radaev, 2008)

The sample included transnational companies and Russian firms operating in food and electronic sectors of the consumer market

- On the retailers' side: global and Russian retail chains of different size
- On the suppliers' side: companies of different size and profile. One half of them work as distributors while the other half is presented by producers arranging direct supplies to retail outlets.
- On average 50 retailers and 50 suppliers were interviewed in each city area
- Respondents were asked if their firms have different forms of social ties with the competitors. Almost 20 percent of managers took a 'hard to say' option. These cases were dropped out, sample reduced to 402 respondents including 192 retailers and 210 suppliers.

Two groups of factors were attracted:

1. *positional parameters* indicate the place of a given firm in the organizational field of the market.

2. *relational parameters* describe contractual and non-contractual relations of a given firm with the other firms including both direct competitors and exchange partners.

These parameters are as follows:

- Firm's position in supply chain
- Market sector in which a given firm operates
- Firm's market position
- Firm's market power
- Market competition among firms

- **Market sector not important.** Attribution of firms to the food or electronic sector appeared not to affect the scope and intensity of their social coordination.
- **Firms' size does not matter.** The smaller companies' activity in their social coordination turned out not much to differ from that of larger organizations.
- **Suppliers' position in the chain is more vulnerable.** Vulnerability of suppliers originates from the development of the buyer-driven commodity chains, in which retailers (the buyers) normally have an upper hand (Gereffi, Korzeniewicz 1994).
- **Market power of retailers stimulates coordination of suppliers.** The higher the pressure from the dominant exchange partners is, the greater additional incentives competitors have for consolidation.

In-depth interviews with managers of international retailers and retail experts conducted in 2008-2009. The managers were involved in strategic decisions.

To get an independent view we also interviewed retail experts. They include journalists, scientific researchers and management consultants.

Most respondents asked that they be kept anonymous

To improve the quality of the analysis, all the secondary data available were used to verify the general market situation and some questionable statements of the respondents.

- Some trends common to retail internationalization all over the world. Foreign retailers are intended to apply the same supply chain management concept in each market, and it is so in Russia. The differences are mostly a result of the underdeveloped infrastructure and supplier base of the country. However, if the conditions improve, the managers say, the preferable way would be to use their original business model.
- Retailers with centralized procurement list more international products, while their counterparts with decentralized buying units have more national and regional food.

- The enablers of retail internationalization are both market and retail specific. The market specific enablers are mainly related to the retail structure; the important retail specific enablers of retail internationalization are the advanced management and marketing skills, experience, knowledge transfer, and brands.
- As in other markets, multinational retailers try import their private brands. Hence, private brands are important assets which enable successful internationalization.
- Foreign retailers have well-known manufacturer brands, in transition countries sometimes they are the only source of them. As was told by one manager, when they entered Russia, consumers went to them to buy products like Nescafe or Nutella, because they were the only source.

Concerning supplier-retailer relationships, long-term inter-organizational relationships are regarded now as one of the main factors of success.

Almost all interview partners stated that the management, especially the supply chain management skills are among the main enablers of retail internationalization.

So, in retail sector in Russia there is now an obvious trend toward greater integration of supply chains, but mainly in terms of supply management.

New approach of Demand Chain Management (DCM) is not familiar to respondents.

- To identify the different strategic groups of international retailers. The main attention will be paid to the recent changes in supplier-retailer relationships in Russian retailing and their role in the international retailers' strategy.
- To start with the case of the Metro Group, a German-based retail conglomerate.
- To use additional opportunities for empirical studies, i.e.:
 - more interviews with expert and representatives of retail companies operating in different regions of Russia
 - our own set of questions in the regular Russian economic barometer panel survey
 - survey in several Russian regions (regions) with support of the Network of Excellence members and research partners in HSE regional branches (St. Petersburg, Perm, Nizhny Novgorod)

- From our point of view, the main role of **power and market domination** should be stressed and investigated profoundly. Power relationships are embedded in market relationships, they structure transactions and domination appeared to be one of the most typical strategies on the modern markets.
- There are a couple of relevant research questions, most of them being interconnected:
 - Who and why is the holder of mechanisms to control the whole chain? And how are these mechanisms functioning?
 - How and why does retailer (e.g. IKEA, Metro etc) control the value chain?
 - What is the role of trust and fairness in establishing such long-term interconnections within the value chain?
 - How does the degree of the network's customer orientation depend on the power distribution between partners?.. on the dominant firm's position in the value chain?.. on the dominant firm's degree of customer orientation?

- Business model and management are the essential firm specific advantages. Retailers are intended to stick on business model in new country and to adapt only in operational issues. The differences are mostly a result of the underdeveloped infrastructure and supplier base of the country. Since the strategy is their main advantage, they try to replicate it without modification.
- Internationalization strategy is part of the overall strategy of a retailer. Therefore, first we have to know the retail strategies and business models in order to understand retail internationalization. This strategy defines how the business model of a retailer can be internationalized.
- Foreign retailers coming into Russia have different strategies. Still, further research and gathering more data is needed to identify the different strategic groups of foreign retailers.

- Combination of theories can give useful insights into retail internationalization. However the theories have to be compared to the practice. Some theories are not applicable today as a result of social, technological and political conditions.
- Supplier-retailer relationships are now of growing importance in the Russian retail sector.
- Critical questions for foreign retailers on the Russian market are where to find strategic business partners and how to establish relations with them, since the suppliers demonstrate much less readiness to long-term win-win collaboration.
- Nevertheless, there is already some positive experience of gaining additional advantages from such collaboration in Russia.



Thank you for your attention!

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