

TENDENCIES OF INTERNATIONALIZATION IN RETAILING

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Manufacturing companies took advantage of internationalization as early as in the seventies and eighties of the last century, whereas retail companies have used these chances not before the last few years in order to improve access to resources, to increase sales and to extend activities to external markets. Once a retail company has decided to penetrate a foreign market they must be aware of the unfamiliar working of external environment that they cannot control. Even the world's leading retailers make mistakes when approaching markets they do not understand properly.

Key words: retailing; internationalization; elements of external environment; behavioural polyvalence; consumers' orientation

1. Introduction – The Marketing Environment of Companies

Literature has defined the market environment of manufacturing and retailing companies in different ways. So, it represents “the assembly of elements and forces that come out under the instant control of the company (manufacturing or retailing) and influence the maintenance or the development of their relation with gainful clients” (1, p.76). Alternatively the market environment comprises all entities and “external forces of the company capable to influence the way in that it develops and maintains satisfying exchanges with the target market” (8, p.178). Companies need know their environment for two main reasons, first to fully use the chances the market offers, second to avoid uncertainty in an aleatory, undetermined or antagonistic universe. (17, p 73).

2. Economic Aspects

Nowadays retailers see themselves with a host of economic changes confronted both on a micro and a macro level as well concerning intra- and inter-organizational management. (16, p. 59).

Retailers are exposed to a continuous change all over the world with a steadily harder growing competition and an increasing saturation of their home markets since the nineties. (2, p 186). These circumstances contributed essentially to the movement outside the national borders. Most retailers think that internationalization is the best strategy to raise sales, and to conquer new markets. To solve the connected problems a different approach of retailer as well as wholesalers is required (29, p.226). The extent of such a process is illustrated by Fig. 1 for the case of the Metro Company.

In 1992 the first 30 retailers that have gone abroad were present in less than five countries. Today some of them realize even more than 50% of their total turnover on foreign markets. Some of the retailers penetrated up to 30 external markets (31, p.77). Usually, only powerful retailers manage to penetrate foreign markets. They can easier bear the consequences of a possible mistake when attacking a new market (see the case of Wal-Mart in Germany). Wholesale trade is only to a lower degree internationalized. It rather concentrates on local and regional expansion. There is, however, one important exception: Those wholesale traders that practice international trade by export and import.

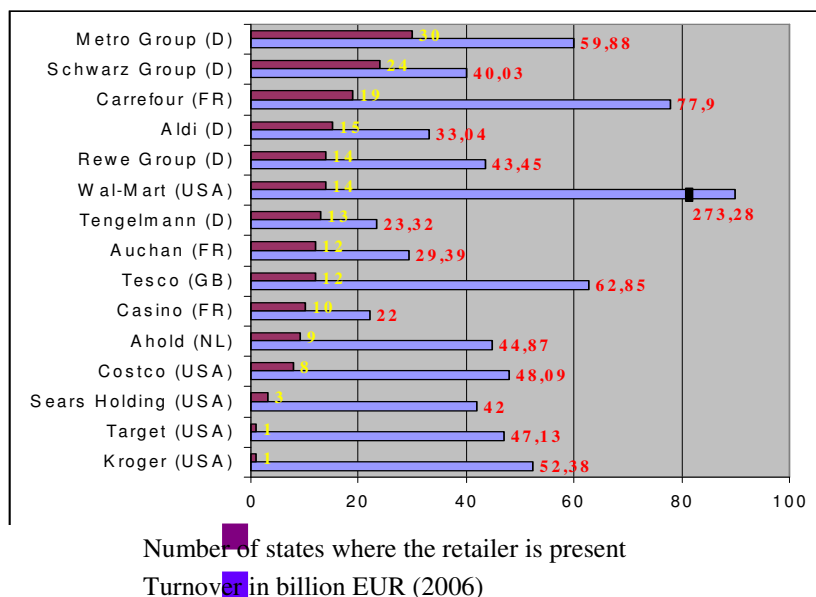


Figure 1: Comparison: number of penetrated countries versus the total turnover on global scale (for 2006 in 1000 million Euro) (31, pp. 76-89)

The present movement of internationalization of retail trade started off in the nineties and follows a trail set by pioneer manufacturers during the seventies and eighties (12, p.233). A comparative view is illustrated in table one.

Years	Manufacturers		Traders
	70 – 80	90 – 00	90 – 00
International situation	Pioneers / “early starter”	Internationalized, but among many others	International situation
International competition	weak	strong	International competition
Importance of international strategies	reduced	high	Importance of international strategies
Spatial orientation	Neighbour countries	Worldwide	Spatial orientation
Entry form, respectively market approach way	Export; agencies	New foundation; cooperation	Entry form, respectively market approach way
Main lines of internationalization	Distribution activities	Creation of value; co-ordination of activities	Main lines of internationalization
Speed of internationalization	medium	high	Speed of internationalization

Table 1. Central features that determine manufacturers’ internationalization, European traders respectively (20, p.166)

Most of European retailers (19, pp.500-502) – Carrefour, Metro, Ahold, Tesco, Rewe, ITM Enterprises, Edeka, Schwarz, Auchan, Spar International – derive their sales basically from the food sector. Some of them do understand the necessity for globalizing activities and the need of “reactive extension” to Central and Eastern Europe (28, p.244). Such an extension is a fundamental option of strategic diversification (5,

pp.196-212), a concept which is not properly understood by most retailers. This lack is aggravated by their inability of fast transfer of resources to new markets, and insufficient flexibility with respect to cultural, political, juridical aspects or simply to proper understanding of consumers.

The largest retailer of the world, Wal-Mart, with an estimated turnover of 350 billion USD in 2007, entered in the middle of the nineties the German market. After investing initially 1.6 billion USD and loosing over 3 billion Euro during their activities, due to the strong competition of the discounters Aldi and Lidl / Schwarz (Kaufland), the company failed to develop a favourable image in both consumers' and employees' minds. At the same time, local competitors boomed considerably. Therefore, in July 2006 the management of Wal-Mart decided to sell the German branch with 85 stores to the Metro Group. The buyer announced that he will shut down 13 of them.

3. Political – Legal Factors

Liberalization of world commerce according to the rules established by the World Trade Organisation (Eastern Europe, Asia) and opening of new markets are among the most important factors of internationalization (12, p.343). Agreements like GATT, GATS, TRIPS (33) that create a favourable framework for free trade and lead to a global integration of world trade (28, pp.4-11) concerning manufacturing, agricultural, services and intellectual property rights. They aim at establishing rules that are reliable (32).

The role of behavioural rules for retailers on external markets is underlined by literature (23, pp.410-436):

- Foundation and development of subsidiaries on external markets – an approach designated as “subsidiary strategy” and considered as “the most successful way of internationalisation” in retailing (29, p.343).
- Acquisition of local retailers (“acquisition strategy”) or of local commerce networks. This is an easier way to penetrate foreign markets, due the fact that a local retailer has adapted himself to the local market. Much time can be saved, too, and possible juridical complications can be avoided (29, p.344). The acquisition of local or national retailers can also be regarded as an economic globalization phenomenon (27, pp.75-90).
- Cooperation with local retailers (“cooperation strategy”) on the base of “franchising” or “Joint Venture”: Such decisions may be the result of legal restrictions that do exclude foundations of subsidiaries or alternatively may bestow a better access through a local partner to resources. The shares can than later be sold to them or to third parties. Metro, the second European retailer (31, p.65) used this type of expansion in China, by establishing a Joint Venture in 1996 with the Chinese group Jinjiang. Nowadays Metro China has more than twenty locations 30, p.12).

Proper entrance means the decision of finding the right moment of entering a new market. It also means choosing the right number of locations and size of stores (regarding assortment variety and surface) (5, p.198), but also the two learning dimensions – the intra-organisational learning (given by the own experience of internationalisation) and the inter- organisational learning (seen from the point of view of the competition, which already exists on the market) (15, p.96).

4. Technological and Natural Factors

There is a large concentration of retailers on an international level, which means also an increase of financial, human and technical resources. Commerce and especially retail commerce is not considered any more as a simple distributor for producers, but it becomes a special dimension, a partner (24, pp.1-4). Such a professionalization of commerce was also possible by modern technical systems (14, p.83).

This makes it easier to access final consumers. There are even more new possibilities of obtaining relevant information from consumers and their behaviour, for e.g. by automatic cash registers with scanning devices. Such machines do not only contribute to increase the efficiency of paying processes but also of gathering the necessary information concerning a basket of consumers' commodities. Further examples are consumer cards (7, pp.104-107), which can provide necessary personalized data concerning buying behaviour. Through such loyalty programs, retailers have the possibility of observation consumers' buying behaviour. Furthermore he can observe everything what was bought. Retailers also can compare buying baskets and correlate these data with the socio-demographic characteristics of card owners (14, pp.83-84).

Retail succeeds to be perceived, due to information technology, more easily and faster by consumers, practically to “access” him and to induce him an affection that leads once more to accepting retailing firms. The non – stationary of e-commerce, but mainly the provided comfort (customers does not have to go anymore to retailers and to buy products, but the entire acquisition process is carried out from any computer) represents at least theoretically, a proper alternative for retail, if not even a future threat (26, pp.687-706).

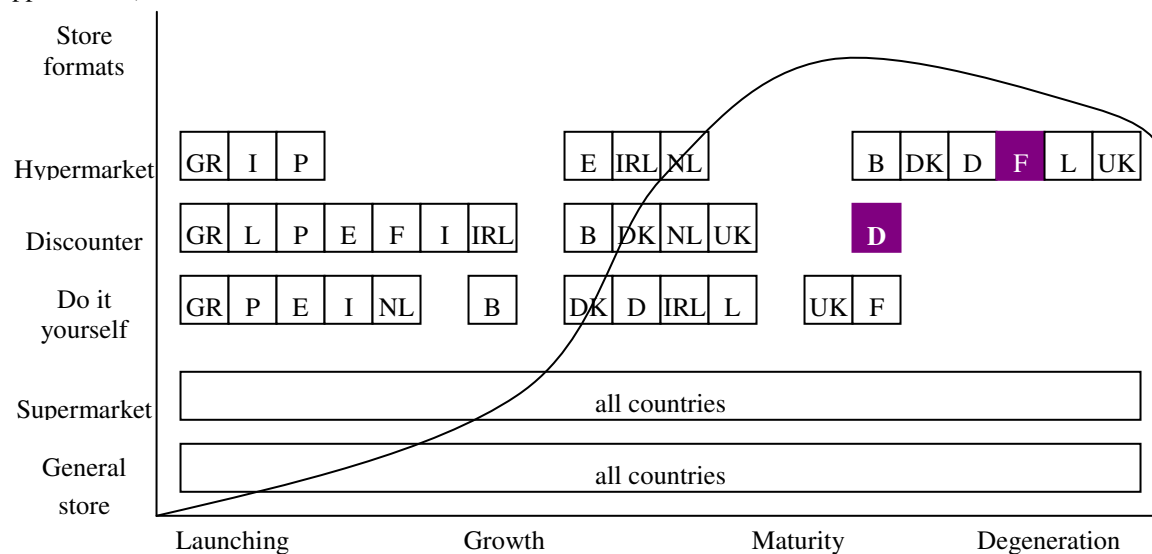


Figure 2. Phases of the life-cycle of some selected European retail stores (29, p.518)

Internet is used as a distribution channel which contributes to the growth of their awareness (25, pp.168-177). From some empirical studies (18, p.36) we see, that consumers rely on names when buying in internet. This means that such names are perceived as brands (14, pp.84-86). Just those retailers who succeed in positioning themselves in consumers’ minds as strong retail brands will have the chance of being recognized adequately by them (25, pp.168-177).

For different foreign markets there are also distinctive types of stores. For Germany the specific store are run under the designation of “discount”. In France we find the “hypermarkets” are the most specific format. Some studies (4, p.133) have “succeeded” in integrating retail stores in the life-cycle model, as shown in figure 2 (3, p.44).

Information overcharge must not be neglected by the media (22, pp.19-38). Literature also states that consumers are overfed by commercials. Other sources report that the total time spent on TV commercials is of at least 40 hours per day (6). As a consequence, consumers are not able to process that much information. This means that commercials must reach the attention of consumers in a very short. This becomes more and more difficult (6, p.13).

5. Socio-Demographic and Socio-Cultural Factors

Worldwide acting retailers must take care about various socio-economical and socio-demographic characteristics of consumers. Some behavioural tendencies are present even in different regions. This is regarded as a behavioural polyvalence, also known as the dynamic of consumer’s behaviour (11, pp.133-136). On this base, we distinguish the following kinds of consumers in retailing:

- The “consistent” consumer: He behaves in a constant way, and is easy to include in a category. He always keeps his buying characteristics and causes no problems when being approached by retailers. His principle is: “I am what I own”;
- The “hybrid” consumer: He is known to have a bipolar behaviour because he is inclined to invest a lot of money in a shopping situation. In another one he will try to dramatically reduce the spent amount of money. He is actually the type of individual who buys both from exclusive stores and from discounters, his principle being “I am the way I live”;

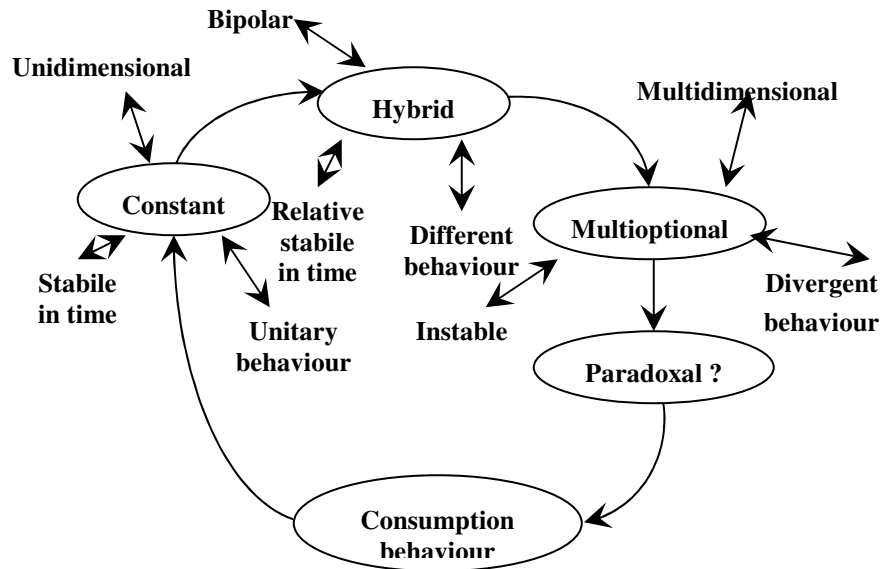


Figure 2. Evolution of consumers behaviour (10, pp.37-54)

- The “multi-optional” consumer: He starts off from hybrid stage and adopts different roles. He actually belongs to several types of consumer groups. The instability of consumption, the fact that he lives exactly how he is at a specific moment makes him always keep some options open. He represents a real challenge for both retailers and their assortment variety;
- The “paradox” consumer: He is the future transposition of a present consumer which flies between various traditional groups and swings between an “inside” and an “outside perspective”. Figure 3 shows the evolution of consumer’s behaviour in retail.

Among the “basic orientations” under that a retailer can be regarded as a “brand” the following approaches can be noted (26, pp.24-29):

- *Orientation towards “adventure / spare time / action / fun”*: This orientation does not only suggest a way of spending spare time by consumers, but also refers to the way in which a retailer succeeds to differentiate himself from competitors.
- *Convenience orientation*: Several factors contribute to this new orientation, such as the fast growing number of individual households, the fact that women try to successfully combine career and family, but also the tendency of optimizing time and space. For example, a convenience buyer is the one who shops and refuels at a gasoline station.
- *Attitude towards brands*: It contradicts price orientation; it is more likely a trend of the younger generation. This orientation is sometimes combined with the one for organic products. Here, the brand is regarded as a safety element and a warrant of quality and trust of the products origin (11, pg. 137).
- *Price orientation*: Is a new trend in retailing, which tends to offer products at lower price level that can supplement typical brands without any lack in quality.

Price orientation is typical for discounters (14, pg.88). A corresponding strategy does not mean buying low quality products. It stands for a professionalization of shopping. Although consumers are price sensitive they try to buy products above a minimum level of quality. Such consumers are regarded by literature as “Smart Shoppers” (11, pg.137). The main orientations of consumers are shown in figure 4.

- *Orientation towards organic products*: This orientation is also directed towards nourishment that is good for health (13, pg.189). This can be regarded as the newest challenge of retailing.

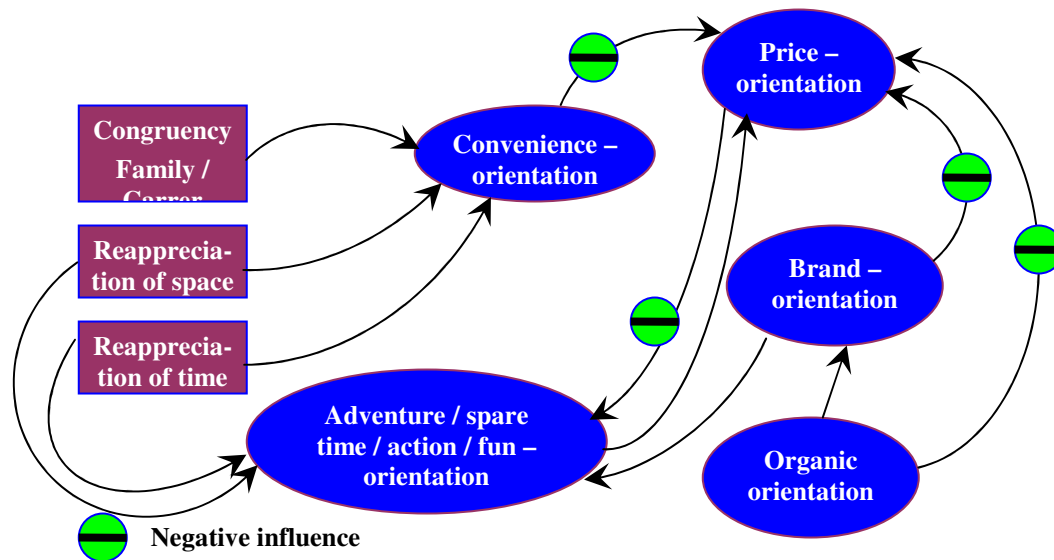


Figure no. 4. Relevant consumer's orientations in retailing (26, pp.27-29)

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