

Internationalization of Retail

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The focus of the paper is on the development and positioning of the brands, based on international retail chains practice. The key terms in relation to branding aspect represent the starting point in the paper, as well as the identification of main values for successful brand positioning. Planning and implementation of marketing communication and analysis of brand performance have been discussed in the paper. Special attention has been paid to the analysis of the retail environment through the development of the model that defines the retail location, competition, customer and product aspects. The research focusing on the development of international retail chains and key elements for successful brand positioning and brand profitability has been presented. Building profitable retail brand is largely linked to the strategy that is chosen for the development and brand positioning.

1. Introduction

Retail internationalization is a complex process, increasingly widespread in recent years. This internalization process has an increasing impact upon corporate strategies as well as upon the development of the retail sector. The size, form and the function of the process have completely changed. The retail internationalization model has to include the process that permeates the whole retail firm, affects the activities of competition and changes the environment in which the firm and its competition do business. Viewed as a process, internationalization allows for the firm to exploit innovation, and hence to grow and develop.

The process framework can be hypothetically presented in such a way that it consists of numeric values. These values (dimensions) can refer to:¹

- The process content;
- The process outcomes; and
- The process framework.

The **process content** is characterised by three dimensions:

- The form of the internationalization process;
- Temporary phases or the order the process follows;
- Resources transformation and technology transfers within the process.

The dimension or value containing the **process outcomes** is:

- The process outcomes.

Three dimensions that can be discussed, and refer to the **process framework**, are:

- The value system on which the managerial decisions are based;
- The process scope;
- The prevailing environmental conditions and the situational circumstances.

These seven suggested dimensions of the process interact; however, it will be useful to take each into consideration and thus characterise the process better.

2. Dimensions of retail internationalization process contents

Form of retail internationalization process

There are four broad forms of international retail activities processes: functional, territorial, temporal and structural.

The functional form of the process refers to the functions affected by the internationalization activity. The dominant functional form of the process is the business operations of retail facilities – shops in the country which is not the country of origin of the firm (extrafirm, abroad). The other functional forms of the internationalization process include the use of other resources, provided by another country. Such resources are usually resale products, which may include items, services and labour employed in a retail firm. The search for the source of supply for the resale items at an international level has long been established and includes increasing volumes of goods, as international trade expands. The search for the sources of items supply the firm needs at an international level includes, for example, the computer equipment, the logistics equipment, packaging materials, vehicles, consulting services, etc. The use of internationally mobile labour force and of international capital are examples of other input resources representing different functional forms of the internationalization process.

The territorial form of the process includes the manner in which information flows across the geographical space, the nature of decisions as related to the territory, the expansion of knowledge across the territory, and the

¹ [1] Dawson J, Larke R, Mukoyama M: "Strategic Issues in International Retailing", Routledge, London, 2006.

manner in which information is distributed across that territory. The examples are: “the method“ in which the network of retail facilities is created so as to expand the retailer’s market power, “the method“ to spread information across the customer entity on “export“ markets as well as “the method“ of creating geographical networks of supply through regional distribution centres for a retail network. On the global level, this form of the process can be observed in the way the IKEA established its shops in 32 countries, in that it opened each shop through direct investments.

The temporal form of the process refers to its activity period, the speed at which the business is done and the scope to which it is cyclic, phase or repetitive in time. Some retailers go international for a long time (for example, C&A in Europe). Others have started working at an international level only recently, although the retailer has been active for already a long period (for example, “Marks & Spencer“ went through a market research process for a period a little longer than 20 years). The corporate learning activities (running-in) related to retail firms abroad are characterised by a clear time dimension with the firms that learn faster than others. “Carrefour“, for example, entered several markets and promptly learned whether a market had potential for future development; if that was not the case, they made a relatively fast withdrawal, as they did in the USA, in Great Britain, in Germany and in Japan. Within the firm, therefore, different time lines of development in different countries are charted, so a complex time form for the process is created.

The structural form of the process refers to the structure of the firm and its markets as well as to the changes related to the internationalization process. The structure is in this context the link between the relations among the the firm and its market defining variables. Hence the cost structure, the management process structure, the relations with the suppliers, the competition in the sector, etc. together make up the total structure. The changes in this structure are caused by the internationalization. An example of such a form of the process is the change in the relations with suppliers caused by “Promodes“ entering the Greek food-processing sector. “Promodes“ requires their Greek suppliers to grant them longer payment periods and lower prices; after they managed to obtain these, the Greek retailers themselves demanded similar conditions from the suppliers. All four aspects of the process contents exist simultaneously, they interact and hence help define a specific nature of a generic process which is connected with certain internationalization events.

Phases of retail networks internationalization process

The retail internationalization process can be hypothetically presented as a several phase process. The passage from one phase to another is characterized by a certain group of activities. One type of activators or catalysts will probably mark the movement of one phase into another. The key phases are the following:²

- Pre-entry
- Entry
- Post-entry development
- Assimilation
- Exit

The amount of time for each of the phases changes from one firm to another. Managerial activity also varies greatly in each phase. There is a lot of research on the aspects prior to entry and on being embedded into the market, especially on varied entry mechanisms, on the advantages and disadvantages of each of them. Such studies are useful, however, they show just one part of the overall internationalization process. The assimilation and the exit phases efficiently mark the different final phases of the internationalization process. Assimilation comes when the firm changes from an international into a national firm. The exit can be of many types, from a complete withdrawal, to the firm reducing its activities.

		PROCESS FORM			
		Functional	Territorial	Temporal	Structural
PROCESS PHASES	Pre-entry	Survey of knowledge, Market research	Local market research	Scope of previous experience	Strategy evaluation
	Entry	Formula project	Market selection	Entry timing	Method of entry, supplier relations
	Post-entry development	Retail brand development, Knowledge transfer to head office	Network development	Speed of expansion	Cost structure management, Competition activities
	Assimilation	Firm's social intelligence	-	Driver in creation of independent firm	Subsidiary creation
Exit	-	Closing sales facilities	-	Sales of business to another retailer	

Figure 1. The process form

² Burt S, Mellahi K, Jackson P, Sparks L: "Retail Internationalization and Retail Failure", International Review of Retail, Vol. 12, 2002.

Resource transformation and knowledge transfer within the retail network internationalization process

The internationalization process causes the resource transformation within a firm as the firm does business in export market. This transformation process often includes a certain form of knowledge transfer within the firm and from the firm which goes international on the export market.

The transformation occurs through various economic and social mechanisms that operate in an international context, as related to the national one. The examples of such mechanisms are the following:³

- Economies of scale, scope and imitation differ in speed and intensity from country to country. The economies of scale in purchasing refer to the size of the market and the supply sector structure, both of which vary significantly in every country.
- Social mechanisms of communication and decision-making in the firm vary from one country to another. The scope of local control varies both in the firm and from country to country within the firm. For example, “Lidl“, the retailer granting a discount for food produce, has a highly centralised managerial control, while “DM“, the retailer offering a discount for medical products, has a decentralized decision-making structure.
- The differences in transaction costs related to the decisions on alternative organizational structures, e.g., on franchising, subsidiaries or daughter firms in full ownership or mergers. In honouring different transaction costs, “Marks & Spencer“ implemented different organizational structures in different countries.
- Variations, within one country, in the social mechanisms of power relations that control the interaction with the customer environment, public policy agencies and firms. The Western retailers entering China encountered difficulties in adapting to the different nature of both social relations and power relations, even to the extent that some of them, especially “Ahold“ and “Obbies“, withdrew from the market.
- The differences in the managerial skills of a relevant capacity to do business in another country and to transfer organizational skills to the whole markets. The scope of the firm’s international perspective and international culture will precondition the nature of the perception of various countries and hence affect the mechanisms of managerial knowledge development and transfer that we know in practice. In this respect we can compare the “IKEA “ and the “Boots “. The “IKEA“ is strongly oriented towards internationalization, while the capacities are transferred in-

ternationally, regardless of the mutual qualities of the range of items in the shops. The “Boots“ have for years had a history of an unsuccessful international expansion due to their obvious incapability of doing business in other countries, and to an insufficient attention paid to export business.

This dimension of resources transformation is especially important as it deals with the nature of the retailer’s “product“ on an export market. The retailer will be experienced and will have the knowledge of the work format adjusted to the country he comes from; hence it will be his so-called “shop formula“. This is then transferred to a new market; the firm will have its own formula and will adjust it to the market to a certain extent. The formula will be further adjusted as the firm gains experience in the export markets.

The knowledge transfer will differ when the retailer sets up individual retail facilities, from which the retailer acquires the existing firm. This can be illustrated by the international business of the “Tesco“ hypermarkets. The “Tesco“ set their own hypermarket formula in Poland, in that they transferred the knowledge learned in Great Britain to the Polish market, as well as to the markets of other Central-European markets where they do business. Besides, “Tesco“ bought the “HIT“ hypermarket chain in 2002. In the acquisition of these “HIT shops“ and their change to the “Tesco“ formula, there is the knowledge transfer again, but affected by the formula devised by the previous owner.

The aspects to this resource transformation and knowledge transfer are various:⁴

- Transfers in the firm necessary in establishing a new formula on a new market – in individually developed as well as in acquired shops;
- Transfer of knowledge within the firm, gained from the experience on a new market;
- Transfers to other firms and from other firms that do business on the same market.

In terms of operational aspects of the firm, these three aspects of resources transformation and technology transfer operate on two levels:

The level of key or basic format and the relations that

³ [5] Dawson J: “Strategy and Opportunism in European Retail Internationalization, *British Journal of Management*, 12 (4), 2001.

⁴ [9] Dawson J, Larke R, Mukoyama M: “Strategic Issues in International Retailing”, Routledge, London, 2006.

define it, as well as its development, for example, the hypermarket, the shops offering facilities to customers, etc. Changes in format the firm effects in order to make it a formula of the firm on a given market.

3. Outcomes dimensions of retail network internationalization process

In addition to the issues of internal importance for the firm and certain decision activities within the firm, there is a number of issues to be dealt with in the internationalization process model in trade (retail activities), related to the process outcomes in its various phases. In analysing the internationalization impact, it is necessary to identify:⁵

- Impact types
- Impact processes and
- Impact intensity level.

4. Scope dimensions of retail network internationalization process

The factors of the retail internationalization process framework can be hypothetically shown as intermediary impacts that shape the process. These frame dimensions are present outside the internationalization process as well, however, they affect both the contents and the outcomes.

Managerial value systems

The internationalization process operation in retail business is affected by managerial cultures of both the country and the firm. Managerial styles differ as the response to historical and cultural factors which support the social value systems. This is especially the case in the retail business, where, as we pointed out above, the relationship between the managerial culture and the cus-

<i>Innovation affecting the sales channel structure</i> <i>New relations in the sales chain</i> <i>Behavioral changes within chain</i> <i>New functions introduced into the channel</i>			<i>Innovation in competition activity</i> <i>Additional investment</i> <i>Improved productivity of assets</i> <i>Sectoral restructuring catalyst</i> <i>New competitive behaviours</i>	
Changes in demand chain efficiency			Change in sectoral competitiveness	
<i>Loss of old values</i> <i>Culture transfer</i>	Changes in socio-cultural values	Impacts of retail internationalization	Reaction of public policy to National and international agencies	<i>Constraints as regards ownership</i> <i>Barrier to entry</i> <i>Constraints in corporate behaviour</i>
	Firm performance		Increased literacy of customers	
<i>New market profitability</i> <i>Cost function variable</i> <i>Profit is sent to head office</i> <i>New managerial knowledge</i> <i>Increase in business scope</i> <i>HRM opportunities for development (personnel)</i> <i>Status impacts</i>			<i>Customers' broader knowledge of product</i> <i>Better understanding of marketing</i> <i>New customer concepts</i> <i>Respect for cultural differences and diversities</i>	

Figure 2. Internationalization impacts

Each of these impact types has its allied processes; thus, for example, the trade management processes and the retail management are important in identifying the competition impacts, whereas the critical processes of the sales channels management and logistic, technology flow management and suppliers management are important for the changes in the demand chain efficiency. We have clear interactions between these outcomes and the internal aspects of the internationalization process, especially resource transformation and the knowledge transfer within the firm.

Customer culture is important. The context of national retail business is characterised by at least four main, but different managerial styles: North-American, European, Asian and Islamic.

These styles of managerial culture make a broad over-generalization of subtle effects of the culture upon managerial methods, while some cultural approaches in each of the styles differ significantly. Within the area of the European managerial culture it is, therefore, possible to identify the differences in both the managerial and the customer cultures. For example, different styles can be adequately differentiated in the firms on the macro-

⁵ [9] Dawson J, Larke R, Mukoyama M: "Strategic Issues in International Retailing", Routledge, London, 2006.

gional basis: the Mediterranean, the Scandinavian, the French and the Anglo-Saxon. Some experts argue that, for example, there is a French style hypermarket symbolised by “Carrefour“, or the Anglo-Saxon style represented by “Tesco“. This “game“ between the customer-market culture and the firm culture is a complex one.

As regards the retail internationalization, a relatively small number of European retailers can boast of being successful in business in North America, these being the retailers who adopted the American management style. The European retailers were more successful in their international business within Europe. Few American retailers proved to be successful in Europe if they remained consistent to their American managerial style. American retailers preferred the Canadian market. The Asian retailers, with only few exemptions, remained within the Asian region.

The managerial style is manifest in numerous areas of trade, including the business formula creation, the customer relations, interactions with clients, knowledge management and knowledge transfer, technology reactivity and the nature of innovation. The retail internationalization process is largely affected by the cultural style of the firm that goes international and the cultural values of the managerial structures.

Scope of the retail networks internationalization

Every retail internationalization process has to adapt to the scope factor. The firm’s size, the size of a retail facility and the size of the market, all affect the manner in which the process is conducted.

The international movement of firms inevitably reduce their income, however, larger firms are more capable of adapting to such reductions. The transfer of scarce managerial resources from home business to export business is easier in large companies. It is also more likely that the location acquisition process for smaller units on export market is easier and less expensive compared to the location acquisition for large shops. The size of the market, among other factors, affects the commitment level the firm may have on a new market as well as the level of resources it is willing to allocate on this market.

Prevailing environmental and situational conditions

The final relevant impact factor refers to the prevailing environmental conditions in new countries and in the country of origin. These affect the speed at which the process phase goes, the process outcomes, the response to managerial style, the process form as well as

the resource transformation and knowledge transfer mechanisms.

The level of customer wealth can be a significant factor in this respect. The wealth is not evenly allocated, therefore the territorial model or pattern of international retailer development will be conditioned by the differences in wealth and in consumer power by the territory. In the movement of Western European retailers to Central Europe in the nineties, the firms first came to capitals/major cities with the greatest concentration of consumers’ purchasing power. Several other aspects of consumer environment affect the internationalization process, for example, the household structure and family relationships, permanent and house ownership, availability of individual and personal living space, etc. A number of other aspects of the prevailing environment are also relevant. For example, the basic national culture will probably go through a long and deep internationalization process. Other environmental factors may be shorter-termed, for example, the logistic problems for foreign retailers on a given market. What is, however, important in all these cases, is the managerial perception of these aspects as they are. This managerial perception will be influenced by the firm’s managerial style.

5. Conclusion

In the last two decades of the twentieth century the retail chains internationalization has become an everyday affair, and an international aspect of retailers is evident in its many elements: the methods in which the shops work, the employment of labour force from other countries, the adoption and implementation of foreign ideas and the exploitation of foreign capital.

We have shown that the most evident proof of retail internationalization is the presence of foreign shops (brands) in a country and argued that the retail chains internationalization is a much broader concept. We have also studied the temporal and territorial aspects as essential in different cultures and environments and shown that they are the starting points of the analysis of an overall aspect of the retail internationalization.

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