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Connection between retail internationalization and management strategies**

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ABSTRACT

In past ten years the world of retailing has changed dramatically due to changes to consumer consumption, product saturation and most of all to technology improvements. Retailers have to operate in environment that fluctuates among different challenges that global economy puts on their way of doing business. Also global economy and internationalization of business reduced dependence on home markets and mood swing of domestic consumers. Needless to say attractiveness of foreign-new markets and its possibilities of growth. But unfamiliar and unpredictable territory has its treats and risk. In our paper we are focused on analysis of the strategies that retailers have as option when their wont to internationalize their business. Analysis of theoretical aspects of retail internationalization, and also of motives that shift retailers operations and attention from domestic toward unfamiliar markets are also given. The question for new analysis or research is put is there the best entry strategy for retailers or is it a mix of skill, experience and luck?

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1. INTRODUCTION

The world of retailing is changing dramatically in past ten years. Changes in consumer behaviour, rapid technology improvements, new media, society networking, and products saturation lead to seeking new markets that can sustain costs of keeping up with competition. Also many retailers perceive global expansion as a crucial indicator of their growth. But global expansion or internationalization must have base in management strategy or be the strategy itself. If it is a part of management strategy then must be incorporated or involved with aim to obtain globally sustainable competitive advantage. If it is a strategy itself than can also be attempt of overall market survival. Today most successful retailers see global expansion as a crucial platform for growth. (A.T. Kearney, 2013)

Many scholars see retail internationalization and its performance as an important area of their research. (Chan, et al., 2011.) But despite their attempts international retailing with all his advantages and disadvantages is still under-researched. According to Alexander and Myers (2000) the choice of an appropriate internationalization strategy is crucial for retailers in sense of resource commitment, expansion and future performance and for most for maintaining the company's own image. Also internationalization and new markets open new prospects for growth that are for various reasons limited on home market. It is noted that is very important the first country that retailers choose for their growth ie first country influences the future performance and internationalization due to its learning opportunities. First market entry shapes future operations because it reflects retailer's ability for moving and adapting its management team and financial resources to new environment.

Economic attractiveness is considered as an important motivation for internationalization and element for country analysis. Economic state of country reflects on its retail market development and shapes its growth prospects and opportunities for profit.

It is also noted, that retailers when choosing country reflect between the market size and its growth potential and countries with larger population. (Chan, at al., 2011)

Decision to go global, to move from domestic market where everything is known and "comfortable" lead to disruptive elements beyond the management control. Globalization adds complexity to every aspect of doing business and creating greater risk exposure. (Deloitte, 2013). Specific nature of retail industry that is directed to satisfy the needs of end customers imposes nothing easy in global expansion strategy. Needless to emphasize that every market is unique and imposes different challenges i.e. requires unique strategy.

Merchandising, marketing, store operations, real estate, human resources, reporting requirements, tax-policy all must be re-evaluated in light of a new consumer culture. (Deloitte, 2013). Also macroeconomic aspects like currency fluctuations or political instability add uncertainty in success of foreign market expansion. Therefore it is crucial that managers decide what role global expansion will have in their overall strategy and performance.

2. INTERNATIONALIZATION OF RETAIL

Retail trade companies traditionally focused on the domestic (local) market. In the early eighties of the last century in the practice of retailers entered the term internationalization of business. The entry of foreign retailers into the country enriches the offer, but in it, and creates additional competition. In this way, local retailers are encouraged to improve their market performance. Internationalization as one of the strongest trends in retail industry can take two directions: internationalization of supply and internationalization of sale. (Knezevic, 2007) The internationalization of supply means procurement from foreign markets, to establish own procurement centers abroad or establishing different partner's agreements with domestic companies.

Internationalization sale marks the opening of retail units abroad. The degree of internationalization is measured by the number of operating countries and percentage of retail revenue from foreign operations. Significance of internationalization for retailers is evident from Table 1.

Table 1: Top Ten Retailers World Wide, 2011

Top 250 Rank	Name of company	Country of origin	Number Country of operations	% Retail revenue from foreign operations
1	Wall-Mart	USA	28	28,4
2	Carrefour	France	33	56,7
3	Tesco	UK	13	34,5
4	Metro	Germany	33	61,1
5	Kroger	USA	1	0,0
6	Costco	USA	9	27,0
7	Schwartz	Germany	26	55,8
8	Aldi	Germany	17	57,1
9	Walgreen	USA	2	1,5
10	The Home Depot	USA	5	11,4

Source: Deloitte, 2013

As if can been seen from the Table 1 European retail companies operate in much more countries than USA companies except Wall-Mart which has so sophisticated logistics and supply chain established that costs operating abroad do not burden its gross margin.

According to annual Deloitte analysis of Global powers of retailing in 2011 the worlds 10 largest retailers operate in the 16,7 (average) countries, and top 250 retailers are operating in 9,0 (Deloitte, 2013). Revenue from foreign operations accounted for nearly one-third of total top 10 retail revenue. And also European retailers are more operating abroad than USA companies. That is partly due to the fact that USA retail market is much larger and it is easier to obtain cost reduction of economy of scale in logistics, distribution, also number of consumer is bigger so retail margins can be much lower.

2.1. Purpose of going global

There can be defined goals and motives of retail internationalization. Goals of operating abroad are: increasing of market share, conquest of new consumers and economy of scale i.e. question of volume which always in center of every retailer's attention (in order to cut costs especially the procurement costs). Motives for international expansion are: saturation of domestic market – impossibility for retailers for further expansion that pushes them out from domestic toward foreign markets i.e. PUSH factors. PUSH factor are in center of retailers so called PUSH strategy. The second motive is foreign markets potential which attracts retails or pulls them from domestic toward foreign retail market and consumers. That is known as PULL factors of retailers PULL strategy. (Knezevic, 2007). PUSH and PULL factors are shown in Table 2.

Table 2: Motives for international expansion

PUSH factors	PULL factors
Terms and conditions (legal framework, the state of economy, competition) on the domestic market	Terms and conditions (stable government and economy, infrastructure, demographic structure) on the international market
Domestic market saturation (receptive power in decline)	Market size
Trade forms saturation	Competition level
Pressure on margins	Greater margins
New business technologies	New business technologies
Universal products	Economy of scale

Source: Knezevic, 2007

Many scholars agree that location is key factor for retailers' success, ie selecting location involves choice of markets. Due to that selection a location is also motive for retailers' abroad expansion. Market selection is under influence of: cultural proximity, geographical proximity and the stage of development of retailing. (Siebers, 2012) Logic for choosing a store location is the same when considering international expansion. Consideration of political, economic, social and cultural factors is in collision with customer characteristics, accessibility, competition, prestige and cost of retail evaluation when internationalizing.

Retail internationalization is also shaped by firms' characteristics. Firms' characteristics include international experience, resource commitment and competitive advantages. Key driver for retail internationalization is knowledge specially collected previous experience or retailers know how which include management perception of foreign operations and also attitudes, behavior, educational background and experience. (Siebers, 2012)

Psychic distance is more and more related with retailers' internationalization as a factor developed in recent scholars' studies. It is noted that psychic distance is correlated with cultural and business distance. It is also noted that perceived distance between home and foreign market has more influence on retailers' performance than real psychic distance. (Siebers, 2012) Example for that statement is Carrefour's bad performance in the USA and their success on the Taiwan market. Also organizational changes, leadership, and innovative ideas may be important for successful retail internationalization. (Siebers, 2012) Understanding of any kind of distances, cultural, organizational, operational, psychic, improves the outcome of internationalization, and as firms enters more and more foreign markets and learns from that experience and collects it knowledge the performance will be more successful.

Table 3. shows that the world's most successful retailers are the one with strong self-brand or/and are selling strong product brand (like Starbucks and Ikea) or have extremely low margins ie prices which is best seen in fast moving consumer goods category (Wall-Mart, Carrefour). (Levy, Weitz, 2004).

Table 3: Core competitive advantages for global retailers

Core advantage	Global retailer
Low cost, efficient operations	Wal-Mart, Carrefour
Strong private brands	Royal Ahold, Ikea, Starbucks
Fashion reputation	The Gap, Zara, H&M
Category dominance	Office Depot, Home Depot
Image	Disney, Warner Brothers

Source: Levy, Weitz, 2004

Global market success those retailers owe to:

- Globally sustainable competitive advantage,
- Adaptability,
- Global Culture,
- Deep pockets.

These four characteristics are common to all retailers who have successfully exploited international growth opportunities. Globally sustainable competitive advantage provides foundation that can be easily transferred into non domestic market and new consumers Adaptability supplements globally sustainable competitive advantage and allows recognition of cultural differences and adaptation of their core strategy to the needs of local markets.

Global culture is a potential not just to adapt to new situations but to truly thing globally and organize and encourage rapid development of local management structure toward its globality. No venture is cheap entering or going global needs time and money and also is very hard for retailers to generate short-term profits. (Levy, Weitz, 2004)

Globally successful retailers have also a potential for:

- Applying latest technology trends in inventory management,
- Logistics costs at global level while satisfying all local markets specificities,
- Enjoy economy of scale due to global procurement,
- Standardizing and unifying packaging thus facilities business control. (Segetlija, 2008)

Committed retailers trough their internationalization process make four major transfers to the host market, like transfers of the firms' business culture and business model, and its operational techniques. (Dawson, 2007)

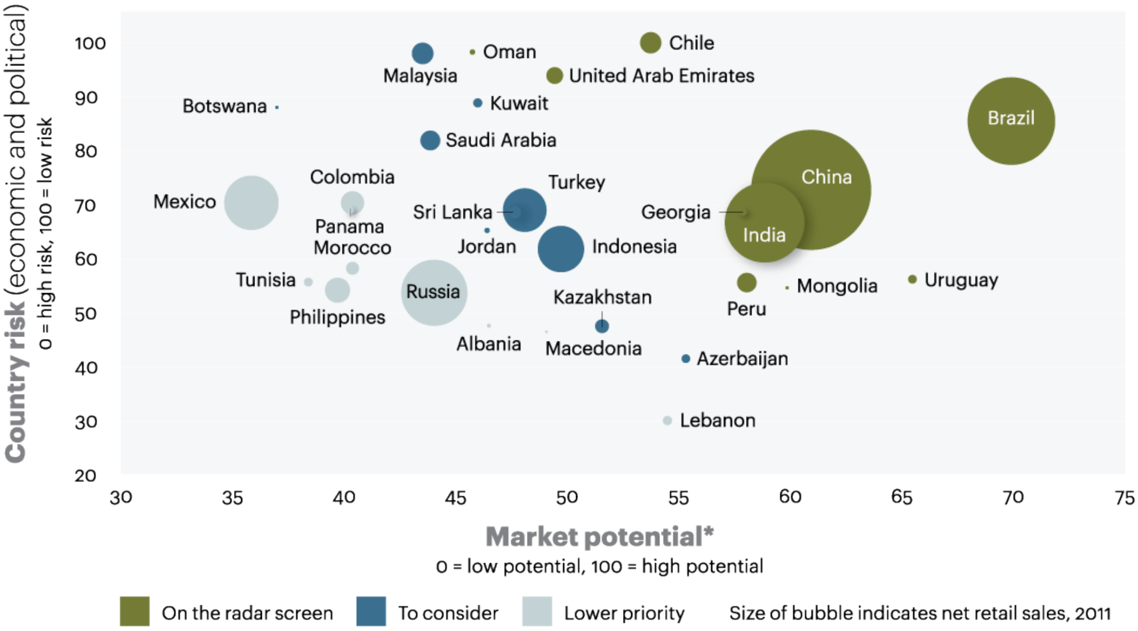
3. MANAGEMENT STRATEGIES AND RETAIL INTERNATIONALIZATION

Retailers have to decide what method or strategy is required to succeed on non domestic market ie what will allow them to best adapt to new/local market conditions and consumer expatiations. Consultant company A.T. Kearney developed the Global Retail Development Index (GRDI). GRDI ranks annually top 30 development countries for retail investment. (A.T. Kearney, 2013). It can be seen on Picture 1, the idea of GRDI is to rank countries on a 0-to-100-point scale—the higher the ranking, the more urgency there is to enter a country.

Figure 1: GRDI country attractiveness

Figure 2

2012 GRDI country attractiveness



*Based on weighted score of market attractiveness, market saturation, and time pressure of top 30 countries

Source: Planet Retail, Economist Intelligence Unit; A.T. Kearney analysis

Source: entirely taken from A.T. Kearney, 2013

GRDI for 2012 showed that countries known as BRIC nations (Brazil, Russia, India, China) are still in pick of retailer attractiveness also new markets have emerged. This new pulling markets are Georgia, Oman, Azerbaijan and Mongolia who owe their attractiveness to concentration of wealth so retailers of luxury and specialty goods are targeting them.

It is needed to point out that retailers who want to go global must in their operations and communication with consumer include multi channeling. Modern retail or global retail players have to take in consideration that today's consumer shop not only in physical stores but trough different media, e-commerce and mobile commerce. An effective entering strategy should align these elements while maintaining the operational and organizational flexibility of receptive market.

All this imposes that retail entrepreneurs must consider several key issues that could block successful globalization (Deloitte, 2012):

- Payback expectations,
- Ensuring brand integrity,
- Capability assessment,

- The growing power of local competitors,
- The need for strategic localization,
- No perfect entry strategy,
- Market potential.

No market is the same, no return effects are the same, in some cases it will take some time before positive results follow as expected. Entering a new country can move focus from retailer as brand due to the new value chain activities. Retailers also have to unite their internal capabilities and resources with operations in new environment ie have to asses their corporate global leadership capabilities. Local competitors are in advantage because they have know-how of domestic markets but also develop and adapt fastly to new formats and product categories, so new entree must estimate. If they don't adapt to local consumer culture, traditions, habits and only focus on demographic aspects of new market retailers could fail to succeed on going global. The choice of entry strategy is combination of variables: speed/control and risk/reward. When entering a new market retailers can choose among: strategic alliances, acquisitions, licensing, franchising, joint ventures. Estimating market potentional has to include several elements like size and economic growth of a country, legal restrictions etc. or can be taken into consideration different developed Indexes like mentioned GRDI.

3.1. Management planning in a global retail environment

Mangers involved in retail industry must shift their “field of battle” from traditional bricks-and-mortar retail store to the increasing number of channels available for connection with customers. As earlier mentioned increasing number of channels impose several factor that have to be considered when going global (Berman, Evans, 2010):

- Institutional factors,
- Consumer factors,
- Store location factors,
- Operations factors,
- Merchandising factors,
- Pricing factors,
- Image and promotion factors.

New types of retailing have emerged from all countries this encourages retailers to seek new market segments, make adjustments in their retail mix and adopt multi segment strategies. (Dunne, Lusch, 2005)

4. CONCLUSION

Growing number of retailers, mainly in developed countries, try to reduce their dependence on domestic market and behaviour of domestic consumer and move to less saturated or attractive foreign markets. Never the less, must be pointed out that internationalization can gain significant benefits for retailer like less saturated market and more spending consumers but also can be often risky and requires investment of resources, time and money.

When the firm has made decision to enter international market there are variety of options. These options vary with cost, risk and the degree of control which can be exercised over them.
Management strategies when entering the global retail are numerous and imply a varying degree of risk and of commitment from international firm. The implementation of international strategy is a process achieved in several steps. Entering international market is a challenge for every company. The management strategy is a summary of how the company will achieve its goals, meet the expectations of its customers, and sustain a competitive advantage in the marketplace.

We can say that retailers will be successful in operating abroad if they don't enter absolutely unfamiliar markets which include unfamiliar ways of doing business that require new retail forms and structures incompatible with the set strategy. When retailers seek to enter new markets they transfer their comparative advantages and incorporated it into foreign market trends. Retailers that record global business successes are the ones who successfully transfer their core strengths into new cultures and new markets.

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