

NEW RETAIL BUSINESS UNITS' FORMS IN VALUE CHAINS

Prof. Zdenko Segetlija, Ph. D.

Josip Juraj Strossmayer University of Osijek

Faculty of Economics in Osijek

Phone: +385 21 224-400; Fax: +385 31 211-604

E-mail: seget@efos.hr

Abstract

The formal features of a retail business unit are subject to permanent changes. Starting from the detected regularities therein, this paper's objective is to enrich an informational basis for a detection of new, more adequate forms.

The paper initially analyzes the formal features of retail business units and their changeability. Furthermore, it also specially emphasizes the changeability of environmental factors pertaining to a retail business unit (market and competition technology, institutional conditions, and the like). The meaning of retail business units' form is discussed from the point of view of certain companies and/or economic activities, as well as from the point of view of an overall economy in certain country. Namely, the forms of retail business units, integrated in value chains, exert a significant influence on overall economic trends in the aforesaid country.

Thus, a responsibility for retail business units' formation is born not only by the retailing companies but also by the institutional factors.

In the Republic of Croatia (as well as in most transitional countries), the problems in the formation of retail business units are quantitatively observed in a discrepancy between sale areas and a level of overall economic development, as well as in an unsatisfactory retail structure (concerning the forms of retail business units) and an unsatisfactory level of vertical interconnection between retail business units.

Keywords: retail business unit's form, value chain, retailing concentration, business internationalization, business globalization

1. INTRODUCTION

Based upon an accessible literature, the paper initially analyzes the features of a business unit's form (type) while emphasizing its changeability, conditioned by the changeability of environmental factors.

Subsequently analyzed is the creation of new forms of retail business units in a retail company's strategy. Separately analyzed is a value chain concept and a diffusion of successful forms of retail business units from one country to the other in contemporary retail internationalization processes. Namely, thus are the international value chains being formed, which have a major influence on an individualized national economy, since a competition of entire chains is being developed.

The economy of the Republic of Croatia is taken as an example demonstrating the importance of new retail business units' forms. Based upon analyses conducted, the

problems of development of retail business units' forms are being emphasized quantitatively (capacity) and qualitatively (retail structure pursuant to the retail business units' forms and their vertical interconnection in value chains).

2. CHANGEABILITY OF RETAIL BUSINESS UNIT'S FEATURES

Since retail is developed in various phenomenal forms, important is the notion of a "retail business unit's form" as to encompass multiple categorization features.

In German literature, widespread is the expression of an "enterprise" (German *Betrieb*), signifying one or more retail business units of the same type pertaining to a company.² That could correspond to the features of a "strategic business unit" (e.g., the one consisting of one or more company stores of the same type).

A phenomenal image created upon a market (marketing) strategy could be opined of as the form of a retail business unit. Similar business units could be grouped (cf. Müller-Hagedorn, 2005, p. 81).

Actually, the expression "retail business unit form" could denote a general combination of "merchandise/service" pertaining to the retail strategic business units and being relevant to more than one company; however, if it is concretized to a single company, one may speak of a "strategic business unit type" (cf. Ahlert and Kenning, 2007, p. 111).

The following can be assumed as the most frequent criteria for systematization of business unit types in retailing (cf. *Betriebstypen des Handels*, 2013): (a) assortment strategy, (b) strategic business unit size, (c) service principle, (d) payment type (merchandise transition), (e) distance conquest (purchase upon arrival and merchandise-oriented cash-and-carry and/or a purchase implying a delivered merchandise receipt), (f) price strategy, (g) purchaser cycle, (h) agglomerative integration (location strategy) (i) integration (legal binding).

Similar to this notion is the one of a "retail format." Nonetheless, the "retail format" pertains more to the retail mix variables (see Fernie et al., 2003, p. 128; Dunne and Lusch, 2008, p. 53; Hasty and Reardon, 1997, p. 255), less to an integration in the sense of a vertical retail business unit's interconnection.

The adduced features of a retail business unit form are very changeable. In that sense, we have emphasized the importance of a permanent concentration development (which is connected to the development of internationalization and business globalization) and an increase in market transparency enabled by ICTs (Segetlija, 2011a). Furthermore, the new business concepts, e.g., the ones within an "efficient consumer response" (ECR), provide for a new quality to certain marketing variables in retail business units due to cooperation between retail, production, and other companies within an overall value chain (Segetlija, 2009). Retail is actually observed as a value chain constituent (Segetlija, 2010), and contemporary technologies also facilitate the creation of new retail business unit forms.

A speciality in retail business units' formation lies in the creation of an environment by legislative and administrative organs (especially pertaining to zoning and lot allocation). Thus, the so-called "specialized marketplace" in Germany (German *Fachmarkt*) was also partially created as a reaction to the new post-1977 construction legislation (Blotevogel, 2003). Subsequent to the municipal and regional obtainance of an effective instrument for

² Cf. there about: Behrens, K. Chr: Standortbestimmungslehre, Band I, Ed. K. Ch. Behrens, Köln – Opladen, 1961, p. 40, qtd. in Ruppmann, 1968, p. 17.

the management of a large-sized retail development and the beginning of its restrictive deployment, investors partially reacted while separating the self-service department stores in stores having a single commercial vocation, i.e., while expanding the principle of a “consumer marketplace” (German *Verbrauchermarkt*)³ to the commercial vocations in the non-foodstuff domain, mostly pursuant to a discount principle. Additionally, specialized marketplaces are being increasingly widespread within the “wild” shopping centers while offering a part of the assortment essential to the municipal downtown areas.

Therefore, the forms of retail business units should be observed as constituents of a retail company (in a horizontal concentration sense), i.e., as a mall constituents (in the sense of spatial concentration), but also as value (supply) chain constituents in a vertical sense. One should consequently take environmental changeability (due to a market and competition effect, new technology, institutional conditions, legislation, zoning, economic policy measures, infrastructural investment incentives and the like) into account while analyzing the development of certain forms of retail business units.

3. CREATION OF NEW RETAIL BUSINESS UNITS' TYPES

Starting from a supposition that retail companies develop certain types of their business units as to gain competitive advantages, we will mention that the following is nowadays taken into account as the approaches for a selection of main orientation in a retail company strategy (Müller-Hagedorn, 2005, pp. 38 – 49): (a) generic Porter's strategies, (b) Ansoff's matrix, (c) Abell's scheme, (d) value chain creation concept.

The following is significant in Porter's strategies: (a) cost-oriented leadership strategy (demarcated as a “discount strategy” in commerce), (b) differentiation strategy (offer of a stronger service), and (c) segmentation strategy (orientation to market segments).

The application of the Ansoff matrix as the main retailer orientation relates to the following (a) market penetration, whereby the purchaser segments may be the same and/or different on the same markets or on the expanded markets (regional, international), (b) product development (merchandise assortment), (c) service and business unit type development, (d) diversification with new services on the same and/or expanded markets.

The Abell scheme pertains to a 3D depiction wherein the following is taken into account when selecting a retailer orientation: customer groups (segments), categories of needs (regarding functions, i.e., assortment and services), and new technologies (market contacts and all other business processes).

A value chain creation concept is important due to the fact that competitive advantages can actually be created out of multiple partial activities (value-creative activities), e.g., supply, logistics, or informatics.

Each retail company also starts from the selection of its specific “value chain” while creating a strategy of its own (Müller-Hagedorn, 2005, pp. 46 – 49).

In that sense one should observe his/her organizational structure and flows and processes of a company. For a definition of a value chain within a company, one should firstly analyze its primary and then its ancillary activities. Further analyzed is a position of the aforesaid retail company within an overall value chain in a strategic orientation heretofore. Essential is a high-quality analysis (a quality estimation of individual value

³ A consumer marketplace (German *Verbrauchermarkt*) and a self-service department store (German *Selbstbedienungswarenhaus*) represent German specifics and are mostly similar to the hypermarkets.

chain members, e.g., collaborational capacity, punctuality, and the like) or a quantitative analysis (a relative share of certain value chain activities within an overall consumption of resources, i.e., in an overall corporate value creation).

Naturally, in that respect one should also reconstruct the structure of a competitor's value chain. The conclusions on what proper value-creative activities could elevate a company above its competition should be derived based upon such an analysis.

In any case, significant is this step of searching and assuring proper permanent competitive advantages. While comparing with competitors and their value-creative modalities in (internal and external) value chains, one may discover proper advantages and disadvantages.

In a cost-oriented advantage strategy, first is the behavior of costs related to certain value-creative activities, while the characteristics of effects and services are something that differentiates a company from its competition. According to a basic strategy, here from result different meanings and forms of certain activities within a value chain.

For a success in search for competitive advantages, decisive is to harmonize a proper value chain of an observed company with receiver's demands. Of course, one should recognize the decisive customer criteria when purchasing and their ranking in a defined market area. A value chain should be adjusted to certain purchasing criteria (e.g., as an objective to achieve low prices). This adjustment is subsequently formulated within a strategy in the sense of certain activity harmonization in an in-company value chain, as well as with the companies "upstream" (merchandise and service suppliers). In that aspect, a proper market position of a retail company can be enforced via strategic cooperation and alliances, as special features of its retail business unit types.

The development of new retail business unit types pertains to two basic forms (Ahlerlert and Kenning, 2007, pp. 137f): (a) innovations, (b) imitations.

In innovations, we speak of the development of completely new combinations between merchandise and service factors, while the new forms of retail business units based upon successful predecessors and an excellent benchmarking are essential for an imitation. This phenomenon is correlated with retail internationalization and the so-called "diffusion processes" (see Segetlija, 2012c, pp. 105 – 107). Innovations can be proactive (management of a retail company develops new concepts without an external pressure) or reactive (a new type of retail business unit is being created as a reaction to a changing environment, e.g., due to the development of new technologies).

This diffusion phenomenon regarding successful forms of retail business units from one country into the other is especially significant in contemporary retail internationalization processes, for that is how international value chains are formed, exerting a major influence on an individual national economy since an overall chain competition is being developed.

According to the adduced authors, various methods for the development of new retail business unit types are placed at our disposal (but they most frequently have a mere heuristic importance). One of the simplest could consist of connecting the known forms of retail business units with the new assortment areas, whereby the ideas for new combinations could be obtained.

4. CERTAIN REMARKS ON PROBLEMS PERTAINING TO THE FORMATION OF RETAIL BUSINESS UNITS IN THE REPUBLIC OF CROATIA

Since the retail business unit forms can be observed from the point of view of economic functions executed thereby, from the point of view of marketing instruments combined in a strategic management of a retail company, as well as from the point of view concerning a combination of business process factors activated therein (Lerchenmüller, 2003, p. 248), its significance can be observed both from the point of view of individual companies and/or economic activities and from the point of view of an overall economy in certain state.

In that aspect, one should emphasize that an alteration of functions does not only mean an encompassment of retail economization procedures, but a process of exclusion pertaining to certain forms of retail business units is also ensuing there from (Barth et al., 2002, p. 33). In a retail business unit, investment in marketing instruments is connected to an investment in the labor process factors (e.g., a merchandise assortment, as a marketing variable, is connected to the amount of stocks as a logistic element).

The analyses for the Republic of Croatia have especially detected the following:

(a) a disproportion between the level of general economic development and that of retail capacities;

(b) inadequate structure in the sense of modern retail business unit forms (an exaggerated share of small-sized stores, lack of discount stores, insufficient multichannel retailing, insufficient vertical interconnection).

Analyses conducted in the grocery sector have demonstrated that a discrepancy between the level of general economic development and that of retail capacities may (quantitatively) result in a weaker retail efficacy. Namely, due to a rapid increase in sale areas in the Republic of Croatia, disproportions have been manifested regarding an overall economic development level, as well as in most transitional countries (Segetlija, 2012d). This overemphasized development of sale areas is greatly conditioned by the erection of suburban malls (Segetlija, 2011b).

A diminished efficacy of retailing in the Republic of Croatia has been manifested especially in large-area stores, e.g., hypermarkets, whereby a pronouncedly lower sale area productivity than that in FR Germany was realized in 2009 (Segetlija, 2012b).

Qualitatively, a retail structure pursuant to the business unit forms has been significantly changed in the Republic of Croatia with regard to that some 20-odd years ago, but a quality enjoyed by the market-developed countries has not been reached yet: a share of small-sized stores is relatively high, and the Internet-based, i.e., a multichannel retail, is slightly less developed (Segetlija, 2012b, p. 106; idem, 2012d).

An over-proportional development of retail capacities in certain transitional countries is a result of weak retail efficacy in GDP creation, so we may conclude that such a retailing development does not significantly contribute to their overall economic development (Segetlija, 2012d), i.e., that the forms of their retail business units are not sufficiently vertically interconnected.

Value chains end on their retail markets, pertaining to the following: (a) domestic producers and retailers, (b) foreign producers and domestic retailers, (c) foreign producers and foreign retailers, (d) domestic producers and foreign retailers.

While analyzing a distributive trade within the structure of Croatian economy, it has been established that the retailing importers (cases (b) and (c)) evicted domestic production

from their value chains (e.g., in foodstuff sector) due to favorable prices abroad, having thus elevated a negative foreign trade balance (Segetlija, 2011c, p. 462; idem, 2012a, p. 57).

Furthermore, a degree of retail concentration in the Republic of Croatia does not provide for a developmental potential as in other market-developed countries because the market is significantly smaller. In that sense, the largest retail chain in the Republic of Croatia cannot be competitive to international retail chains widespread in several countries, based on its economy of scale. Therefore, their types of retail business units also have other quality of execution regarding marketing and logistic functions (concerning their size and external organization, group affiliation, and value chain management).

In that respect, we may emphasize that only two out of five leading retail chains in grocery sector implement central distribution as a predominant distribution type and use the so-called “cross-docking,” according to a 2011 research (Dujak, 2012, p. 271).

For these reasons, the tasks pertaining to the development of new, more rational forms of retail business units, and new business models could be posted before the retail economic entities in the Republic of Croatia in the observed sector, based both on further horizontal connection between economic entities in this activity (with a possible international expansion) and on a vertical connection to the producers and consumers (Segetlija, 2012b, p. 109).

5. CONCLUSION

By virtue of a concentration process development, retailing in a value chain becomes dominant, especially in a grocery sector, whereby a high integration degree in value chains becomes a significant characteristic of a retail business unit type.

The features of retail business unit forms are being changed due to the changes in environmental factors. The environmental factors are modified based on the development of technology, market relations, and institutional factors in the sense of economic and social life regulation.

Analyzing the forms of retail business unit types in the Republic of Croatia as well as in other transitional countries, one could establish that their capacities and their structure are inadequate to the level of general economic development. Unobserved is a possible influence and responsibility of institutional factors upon a harmonious economic development.

In that respect, we may raise a question whether an insufficient size-based efficacy can be substituted in the observed transitional and other economically weaker countries while more rapidly introducing technological innovations and interconnecting it vertically.

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