A MULTI-PERSPECTIVE ANALYSIS OF FOOD RETAIL INTERNATIONALIZATION - INSIGHTS FROM FOREIGN RETAILERS ON THE DEVELOPMENT OF THE HUNGARIAN AND EASTERN EUROPEAN MARKETS

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Abstract. *Internationalization is one of the dominant trends in retailing today. When going abroad retailers often export their business models and require their suppliers to adjust to them. Therefore, retail internationalization has a strong impact on the food supply chain. In this context our article aims to analyse the characteristics, enablers, direction and process of retail internationalization as well as the market behaviour of food international retailers. To meet our aim we reviewed the relevant literature and conducted interviews with managers of international retailers and retail experts in Hungary. Our results show that international retailers should possess specific advantages to compete in new markets. Furthermore, the country selection and the extent of adjustment are dependent on the strategy of the retailer.*

Keywords: retail internationalization, food supply chain, strategy, Central and Eastern European (CEE) countries, Hungary.

1. Internationalization in the food retail industry

It was less than 30 years ago that almost all of the world's retail firms were pure national firms with a negligible share in foreign markets. However, today the opposite is true. The ranking of the world's largest retailers by Deloitte (2006; 2013) reveals that almost all players operate in numerous countries having established a noteworthy business capacity in foreign markets. Even if the process is still a rather new one, it is easy to foresee without the great gift of prophecy that the process will proceed even further, but probably not in such a turbulent way like in the last decades (Coe and Hess, 2005; Dawson, 2007).

In the context of retail internationalization it is observable that Western retailers are taking their business models known from their home countries into the newly entered markets (Hanf and Dautzenberg, 2009). Thus, one can say modern management concepts are being exported, and the following example of Metro Group Russia underlines this point. After entering the country five years ago, the Metro Group Russia has already installed the Metro Asset Management, Metro Buying Group, Metro Advertising, Metro Group Logistics as well as Metro Group IT. The 140,000 listed articles of the twenty-six cash & carry markets and the three super centers are delivered by 2500 suppliers. Only five percent of them are foreign manufacturers while 20% of the articles are region-specific. Thus, the Metro Group exerts a strong influence on the Russian agribusiness in general and on the local agri-food sector because the markets are located mostly in the Moscow region. This example supports the allegation that, being in their fledgling stages, Western enterprises try to impose their procurement and logistic business concepts on the local suppliers (Hanf and Belaya, 2008). According to Reardon's (cited in Swinnen, 2005) statement, retailers and foreign direct investments are a more powerful source of structural changes in the Central and Eastern European Countries (CEE) than WTO and trade policy. In the CEE, the transition process of the retail sector from state-run retail shops, retail co-operatives and farmer markets to Western style large format retailers was accompanied by heavy foreign investments and therefore also by changes in the procurement systems (Hanf et al., 2009).

It is fundamental to understand why international retailers are successful in foreign markets. Logically, the answer is that the firm's success comes from the characteristics of the entrant and those of the international markets. On the one hand, international firms have to be more efficient or differentiate from their rivals. This can be the result of unique competitive advantages, advantages related to the business model, management, or technology of the firms. On the other hand, international retailers can exploit their core competencies as a result of market conditions. The underdeveloped retail structure, increasing demand for Western brands, and market liberalization all facilitate the global dominance of international retailers. Thus, the direction of retail internationalization, the selection of countries retailers choose to expand their markets, is dependent on strategy (AT Kearney, 2013; Hanf and Hanf, 2004; Lahouasnia, 2012). Retailers who are more market based prefer emerging countries while their price competitor, resource-based rivals, tend to internationalize on mature markets. The market behaviour of international firms is a central topic. The degree of adaptation is influenced by the competitive strategy of retailers. However retailers often export their business model to new countries.

Our aim is to discuss certain substantial aspects of retail internationalization, namely the characteristics, enablers, direction and process of retail internationalization as well as the market behavior of international retailers. To meet our aim we proceed as follows. First we investigate what we can derive from the existing theories about the different aspects of retail internationalization. Theories contribute to the understanding because they explain the connections between observations. They discover the general features of a process. But theories are necessarily narrow in their scope. They interpret only a small slice of the reality. Consequently they often exclude decisive aspects. However, to proceed with an investigation of a phenomenon, we need to see the whole picture. Therefore the combination of theories gives us useful insights. In the third section we discuss what we have observed from the retail practice. For this purpose we analyze journal articles, business newspapers and consultant studies. Afterwards we analyze the interviews we have conducted with managers of international retailers and retail experts in Hungary focusing on the relationships between the theoretical framework and the empirical observations. In the final section we provide managerial and scientific implications, explain the limitations of our paper and provide a short summary.

2. Dimensions of internationalisation

In retailing, market-seeking internationalization is expressed through international store operation, while resource-seeking internationalization is represented by international sourcing (Dawson and Mulkoyama, 2006). Retail internationalization has been inward oriented for a long time, while outward internationalization became widespread only in the last decades (Mulhern, 1997; Vida et al., 2007). For instance, Wal-Mart has been sourcing from international markets since it was founded, but it started to operate in foreign countries only in the last two decades (Sternquist, 1997). The motivation of international sourcing is to buy cheaper, better quality or new products. Also, companies who operate only in their core market source internationally (Zentes et al., 2007). For instance the German retailer Edeka is active only in Germany, but sources fruit and vegetable from many countries (e.g. Spain, Latin America). The company procures often directly from the producers, who should meet the private standards of the retailer. Therefore, Edeka has a substantial impact on the fruit and vegetable supply chain in these countries (Hanf et al., 2009).

International store operation is the more visible and newer phenomenon. Its motivation is to serve a market. It is the dominant trend; the leading companies of the world operate internationally with very few exceptions (Treadgold, 1991; Wrigley et al., 2005). The enablers of retail internationalization can be grouped as market specific and retailer specific factors. The market specific factors are, for example the market liberalization, underdeveloped retail structure, and demand for well known brands (Treadgold, 1988). The retailer specific factors are the internationally exploitable strategy, advanced management and marketing skills, brands, financial resources and experience (Lahouasnia, 2012; Vida and Fairhurst, 1998).

Table 1

Enablers of retail internationalization

Retailer specific	Market specific
Strategy	Market saturation in the homeland, market liberalization, high growth rate in CEE
Vertical integration	Local knowledge
Management/marketing: Supply chain management	Demand for high quality food
Synergy	Demand for well known brands
Brands	Retail structure

Source: authors' own research.

The retail specific factors are firm-specific competitive advantages: concepts, supplier relationships brands, and experience (Wrigley et al., 2005). The concepts are their business model and the knowledge of how to internationalize. International retailers have advanced strategies, management and marketing expertise (Vida et al., 2007). They have concepts which are internationally transferable. Examples are the advanced cash and carry concept by Metro, or the hypermarket format by Carrefour. Aldi and Lidl base their internationalization on the strict application of the discount concept. The management skills are also an essential source of competitive advantage. Their advanced supply chain management enable them to procure high quality products at very competitive prices. Through their efficient store management, they can reduce costs significantly (Hanf and Gagalyuk, 2009). Another enabler is the knowledge to internationalize. After years of experience, some companies have made plans for internationalization. This plan consists of all phases, from country selection to store operation. They have learned how they can build supply chains and establish their core concepts in emerging countries (Reardon et al., 2007). The supplier relationships are also valuable resources for retail internationalization. Companies bring some key suppliers in new markets and the existing long-term and efficient cooperation enables retailers to offer very good prices and differentiated products and they do not have to invest much in new supplier relationships; for example, when Metro considers entering a new country, the company talks with its key suppliers with regards to their expansion (Belaya and Hanf, 2010). Big international companies also have more financial resources compared to the domestic retailers. They are able to buy larger volumes and therefore bargain for better prices.

3. Observations on food retail internationalization

3.1. The direction of retail internationalization for food retailers

In the 1960s/1970s, retailers first entered psychologically close countries, where the culture, politics, and socio-economic conditions were similar (Burt et al., 2008; Coe and Hess, 2005; Hollander, 1970). For example, the German retailer Metro started its expansion in the Netherlands followed by Belgium, United Kingdom, France, Austria and Denmark before going to Central and Eastern Europe and Asia. The French company Carrefour, entered Belgium (1969), Italy (1969), Switzerland (1970), UK

(1972), Spain (1973), Brazil (1975), Austria (1976), and Germany (1977) which supports the process model. However the later moves of Carrefour are more random: Argentina (1982), Taiwan (1989), and Greece (1991). For discount retailers, the internationalization process model is especially valid; they enter countries which are similar to their home markets (Zentes et al., 2007). The German discounter Aldi expanded first into Austria, Netherlands, Belgium and Denmark and the United States. Lidl was active only in European markets such as France, United Kingdom, Italy, and Spain. They entered Central Europe only when the market conditions became similar to those in Germany.

Later, in the 1990s, retailers entered distanced countries without first going into neighbouring countries or before experienced international retailers showed a dispersed internationalization process (Coe and Hess, 2005; Fernie et al., 2006). For example, the British retailer Tesco started its internationalization in Central Europe and established a leading position followed by a move into Asia. Carrefour continued its expansion in China (1995), Thailand (1996), Poland (1997) and Slovakia (1997). This new process can be explained by the change in the technological, political and socio-economic environment. The easier access to knowledge, advanced information systems, and the development of the market economy in Central and Eastern Europe and Asia, as well as the increasing purchasing power of consumers, offered a unique market opportunity. This market opportunity particularly stimulated companies to take more risk.

Considering the different strategies, we can argue that companies who are market-oriented are also more likely to move into developing markets. Their competitive advantage is the ability to adapt to the local taste and position themselves as market-responsive, quality retailers. They also learn how to operate in developing countries. However, the experience shows that 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 decisive factor; companies who have more decentralized procurement (e.g., Carrefour) are more likely to enter developing countries, where the infrastructure does not make centralized procurement possible. In contrast, 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’s specific advantages without substantial adaptation. The market infrastructure is already developed and the consumers are used to modern retailing in mature markets. Therefore, a second advantage is that these late-comer retailers do not have to invest too much in these areas.

However this can change in the future. As discounters go into countries with different conditions from their core market, such as Aldi in the US and United Kingdom, and learn how to deal with very different market features and how to adapt their concepts, one can expect further expansion in more distanced countries. We think that in the future these companies will increasingly go into developing markets.

The examples show that companies have different attitudes towards globalization and adaptation; however every company has to adjust to the local conditions to some extent. The discount retailer Aldi had to increase the number of its product lines in France by 25% and reposition itself as a quality retailer, carrying premium retail brands and leading manufacturer brands in the UK (Zentes et al., 2007). However, its main competitive advantage remained the cost control based on standardization and efficient integration. The other leading discounter, Lidl, also concentrates mainly on the cost based advantages of globalization; the retailer applies a strictly hierarchic management system, and focuses mainly on cost reduction. In contrast, Carrefour applies a multi-format strategy, owning hypermarkets, supermarkets, discounters, convenience shops and cash and carry businesses. It enters a country with the appropriate format, adapting it to some extent to the local demands (Burt et al., 2008).

3.2. The characteristics of retail internationalization in CEE

The collapse of the socialistic planning system in Central and Eastern Europe offered a unique opportunity for Western retailers: the underdeveloped retail structure did not impose strong competition (Dries et al., 2004; Belaya et al., 2012). The modern formats were nearly absent and the national retailers did not operate efficiently. Modern retailers brought new concepts, a new way of doing business. Therefore these firms were able to become key players in these markets (Belaya and Hanf, 2010; Stange, 2010). Another enabler of retail internationalization was the rising demand for well-known brands and overall quality food products (Reardon et al., 2007). In this context, (food) quality and thereby food safety are considered, without exception, to be of the highest priority. Several studies on the effects of foreign direct investments in Central and East-European countries show that foreign retailers exert significant efforts to raise the level of quality of their food suppliers in order to meet their own global quality requirements (Dries and Swinnen, 2004; Gorton et al., 2003; Gorton et al., 2006; Swinnen, 2005). As a consequence, procurement systems experience rapid modernization with implications for local market institutions and trade (Coe and Hess, 2005; Glaser-Segura, 2010; Pelău, 2008). The following six changes are named as the major ones (Dries et al., 2004): i) a shift from local store-by-store procurement to (nationally centralized) large and modern distribution centers; ii) a shift to regionalization of procurement over countries; iii) a shift from traditional brokers to new specialized wholesalers; iv) increasing use of global logistic firms; v) a shift to preferred supplier systems; and vi) a shift to high private standards of quality and safety. As a result of these changes, vertical coordination in agri-food chains is seen as an important and growing phenomenon in the countries of Eastern Europe and Central Asia (Belaya and Hanf, 2013). Swinnen (2005) indicates that in these countries vertical coordination is even more widespread in scope and complexity than in Western economies. The extent of such implications differs with the degree of progress in retail internationalization in a particular country (Gagalyuk and Hanf, 2009).

Alongside the differences in the degree of vertical coordination, large differences can also be detected in the development of modern Western style retail structures. Specifically, these differences can be followed by separately analyzing the “three waves” of internationalization in the CEE. Dries et al. (2004) describe the process of retail internationalization in the CEE by referring to the concept of “retail waves” that gradually “cover” a group of several countries. They characterize the “first-wave” countries as those where the supermarket sector went from a tiny niche of around 5% of food retail in the mid 1990's to 40-50% by mid 2000's. Examples are Hungary, Poland, and the Czech Republic. As the "second-wave" countries, they define countries where the sector grew to a share of 20-30%. Examples are Bulgaria and Croatia. The "third-wave" countries are those where the share was still at a "luxury" niche of 5% in the mid 2000's. Examples are Russia and Ukraine. The "first-wave" countries have faster and more successfully than other CEE started to modernize the retail sector in the 1990's. Today one can assume that the "first-wave" countries dispose of the best developed retail sector in Central and Eastern Europe (BBE, 2006). The rapid development of modern retailers was accompanied by the heavy investments of Western retailers and nowadays many major players are foreign-owned. In addition, the first round of consolidation is taking place (KPMG, 2004). Because the "big players" on the retail markets of the "first-wave" countries are more or less identical with those in Western Europe, we believe that today no significant differences with regard to procurement systems and quality demands and thereby vertical coordination can be found between them.

4. Results of the interviews

Here we introduce our empirical results. We have conducted ten telephone semi-structured in-depth interviews with managers of international retailers and retail experts in Hungary. Based on our theoretical review we concentrated on the market and specific enablers. We asked about the role of the market structure and the proximity of countries. Furthermore, we discussed the importance of the internationalisation strategy, management techniques and brands (particularly the importance of retail brands). As the retail internationalisation is not unique for Hungary the answers also included the experiences of our respondents from other CEE markets. We made a thorough selection of the interviewees which were chosen according to their leading positions in order to effectively gather relevant information (Blankertz, 1998; Merkens 2000; Patton, 1990). Specifically, we employed an expert (concentration) sampling (Fritsch, 2007; Patton, 1990). The interviewees were first informed about the interviews via email. After receiving their consent, the calls were given at the time appointed by the interviewees. We deliberately have chosen Hungry since many foreign companies have invested during the first wave in this competitive market (Dries et al., 2004). Among the interviewees were the following types of respondent: managers of foreign owned retailers (4), Hungarian retailer experts (3), foreign retail expert (1) and Hungarian academics (2). The interviews lasted between 20 to 45 minutes.

Our interviews confirmed that the enablers of retail internationalization are both market and retail specific. The interviews showed that market conditions are vital enablers of retail internationalization. In accordance to Machek (2012) our interviewees stated that international retailers dominate the retail business in Central and Eastern Europe because the region had an underdeveloped retail sector. In countries where the market economy has a longer tradition, national retailers are also efficient and competitive. As a result, international companies as a new entrant cannot get a high market share. As a manager told us, when they entered Central and Eastern Europe there was almost no modern retail and they had an advantage. 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. However, as pointed out by Tatoglu et al. (2003) and Simová (2010) these enablers apply to all CEE. The interviews showed that foreign retailers have to import a new concept e.g. supply chain management, category management or financial management in a country in order to be successful in the long run. Examples show that retailers which no longer had a unique competitive advantage left the country. For instance, due to its heterogeneous market in Poland and thereof resulting loosely structured retail landscape, first movers such as the German Dohle Group were able to succeed with hypermarkets. However, despite the fact that they had a strong market position, they decided to sell their business to Tesco because the competition was getting very intensive and required high financial spending (KPMG, 2004). The interviewees argued that foreign retailers were able to gain a leading position in Hungary because they posses more advanced management skills. Due to their efficient supply chain and store management, they are able to provide better quality at better prices at the same time. The modern marketing concepts enable foreign retailers to segment the market, find a better position and to build consumer loyalty. Managers told us that the experience in modern retailing and in market economy facilitates internationalization in transition countries. Western retailers have years of experience in modern retailing in a market economy and this gives them a clear advantage in transition countries. These countries are expected to converge to a Western Europe type of economy in the future, and, therefore, international retailers who already operate in Western markets have a strategic advantage.

Our respondents confirmed the findings of Brown and Burt (1992, p. 81) that the transfer of a retail brand, with its associated image for consumers, across national borders is a critical success factor. This finding was also acknowledged by Burt and Carralero-Encinas (1997). One retail manager pointed out that retailers are able to attract real (product) innovations for international retail brands which corroborates the findings of Burt (1994) and Moore et al (2000). Furthermore, as multinational retailers import their private brands to several countries they can buy higher quantities of these private branded products and sell them at much better prices. One retail expert mentioned that buying huge quantities retails do not only receive attractive conditions and prizes but also often comparable good qualities. Hence, private brands are important assets which enable successful internationalization. Moreover, foreign retailers provide consumers with access to well-known manufacturer brands, and in countries in transition they sometimes are the only source for these types of products. As one manager told us, when they entered Russia, consumers went to them to buy products like Nutella, because they were the only source.

The interviews showed that the main direction factor of retail internationalization is the attractiveness of the country. Managers told us that their companies take advantage of the knowledge and experience of internationalization and today can go into very different countries. However, when they have to choose between markets with the same potential, they consider proximity in culture and socio-economic conditions. According to the experts, the collapse of the socialistic economies in Central and Eastern Europe and the liberalization in China offered new opportunities and opened a new age in retail internationalization. However, discount retailers prefer mature markets, where the socio-economic conditions are similar and they can export their business model without major modification; they will leave countries where they have to adjust too much.

Regarding the market behaviour (standardization versus adjustment) the interviews identified an interesting phenomenon. International retailers have a strategic concept and they apply it in all countries. A good example is the German Metro Group which runs cash & carry markets or under the Real label hypermarkets that are similarly designed and managed worldwide. Another example is its German competitor Schwarz-Group that runs hypermarkets and discount stores successfully under its label Kaufland and under its label Lidl throughout Europe. These examples show that the retail concepts might vary between different retailers, but a substantial trend can be observed: the product categories are the same in every country. There are standard product categories: national, regional and local. They list strong national and regional brands in order to be accepted as market-responsive retailers. There are slight differences in the categories: for example in Bavaria, retailers list more beer while in France they have a bigger variety of cheese. As a manager told us, the adjustment in the assortment is approximately 20%, which consists of national and regional food products. Therefore, the degree of adjustment is almost predefined.

Moreover, our respondents confirmed the findings of Accenture (2010) that retailers also apply the same supply chain management concept in each market. Hence the perspective that the way business is done is the same, only the actual products and suppliers vary between countries. The country managers who are responsible for strategic decisions are often foreigners, and the operative managers are locals, which confirms our arguments. The differences are often a result of the underdeveloped infrastructure and supplier base of the country. However, if the conditions improve, the retailers use their original business model. For example, when foreign retailers entered Central Europe in the mid 1990s, they were constrained by the underdeveloped infrastructure and the local suppliers were not able to meet their requirements in terms of quality, quantity and management. Therefore, they had to change their procurement and, at the same time, they provided assistance to their suppliers. However the suppliers improved and today, the procurement of international retailers is very similar to Western Europe. Our interviews also showed that retailers in mature markets tend to position more and focus on their core market segment. The competition is much more intensive and retailers must differentiate. Therefore, many retailers apply a life cycle model. They have different business models for developing, consolidating and mature markets with different marketing, procurement and supply chain management. Our interviews showed that retailers with centralized procurement list more international products, while their counterparts with decentralized buying units have more national and regional food. This reveals that the sourcing of national products is not always the result of market adjustment, but often it is motivated by the nature of the procurement type. Retailers who compete on prices focus on standardization, while the differentiator counterparts adjust more to the market. This is the result of their core competencies: the price competition is achieved by efficient management, standardization. In contrast the differentiation strategy aims to meet the complex demand of the consumers. Therefore, it has to adjust to the local demand. However it can be shown that the consumer segments are often not according to nationalities, but rather, other variables. For example, there are consumers of organic foods in many countries, who demand similar products. Therefore, differentiation can be according to these groups and not their nationalities and an international-applicable differentiation strategy can be developed.

5. Conclusions

Despite the effect of different business environments, the entry of foreign retailers can be considered as an important driver of structural changes in the agribusiness sector in transition countries. In this context, we have addressed the role of foreign retailers for the agribusiness of Hungary as the "first-wave" country of the retail internationalization process.

In order to be successful foreign investors have to bring something new to these markets. The business model and management are the essential firm specific advantages. These advantages can be exploited as a result of market imperfections. The direction of retail internationalization has changed in the last decades. Retailers have learned how to internationalize; therefore they can go into very different countries without operating in psychologically close countries. Therefore, growth opportunities are the main factors of the direction of retail internationalization. Country selection is also influenced by market characteristics and the business model of the retailer. Retailers who compete with a differentiation strategy often choose emerging markets, while price competitors are more likely to operate in mature markets. Retailers apply their business model in new countries and they adapt only in regards to operational issues. This phenomenon is stronger in our observations than in the literature. As we showed, the firm specific advantages enable internationalization. Therefore retailers have to stick to their business model in new countries.

Our article highlighted that there is an interrelationship between the competitive strategy of the retailer, the core competencies, the direction of internationalization, and the extent and nature of adjustment. The strategy defines the core competencies and business model that the retailer develops, which in turn determines the country selection of the retailer. The business model also impacts the adjustment to the individual markets. Since the strategy is their main advantage, they try to replicate it without extensive modification. Resource-based retailers, who compete on prices, try to export their business model without major modification, while their market-based rivals adjust more to the special conditions, as it is their core competency. We can conclude that 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.

Managers of food suppliers in Central and Eastern European countries can derive valuable implications. As we argued, retailers tend to export their concepts and in the long run, international retailers will operate as in their home markets. Therefore, managers studying procurement strategy and supply chain management of international retailers in more developed countries can prepare for the changes that will happen in their country. They can develop an answer strategy and profit from these changes. Food companies who adjust better to the business model of their retailers will get a larger market share in return. Suppliers who are able to meet the high demand of retailers can supply other countries. This form of internationalization is more and more important. It is a promising growth option since by cooperating with retailers suppliers can secure their market in foreign countries. Furthermore we showed that retailers are different. The consequence of retail internationalization reflects the different retail strategies. Suppliers have to decide which retailer strategy is the closest and they should adjust their strategy.

Retailers, who are in the beginning of internationalization, can choose between different internationalization strategies. However, they have to balance standardization versus adaptation according to the core business model of their company. Furthermore we highlight that differentiation is not only adjusting to the local culture and specific demands. Differentiation can be according to specific consumer groups which are similar in all countries. Also we would like to highlight that international retailer do not have to develop new strategies for all countries. Indeed, they have to use an international strategy which gives guidelines for the operation in all countries. The operationalization of the strategy can reflect the country characteristics.

The combination of theories can give useful insights into retail internationalization. However theories have to be tested against practice. Some theories are not applicable today as a result of social, technological and political conditions. We argued that retailers export their business model into new markets. Further research needs to be done on these business models. We interviewed managers of international retailers. Due to the concentration and consolidation, only seven international retailers can be found in Hungary; we were able to interview four of them.

As a summary we found that retail internationalization has a strong impact on the agri-food business. Therefore, in order to understand the changes, first we must understand retail internationalization. The non-location-bound, firm-specific advantages and imperfect markets proved to be key enabler of retail internationalization. The direction of retail internationalization changed as a result of political, technological and socio-economic conditions. International retailers often export their strategy into the new markets.

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