

What is modern retailing? – A conceptual model for retailer supply chain capability evaluation in emerging markets from the consumer good manufacturer point of view

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Abstract

The properties of the retail sector in emerging markets may present themselves as either obstacles or opportunities for the internationalising consumer good manufacturer. Modern and capable retail partner may be an essential cornerstone of success for the whole supply chain. This conceptual paper reviews the literature on modern retailing, retail development models and manufacturer's interest in terms of the downstream supply chain (distribution). As a result of our literature review we propose a conceptual model for retailer supply chain capability evaluation in emerging markets from the manufacturer point of view. We claim that the supply chain capability of a retailer is in fact a very good indicator of modernity, i.e. up-to-date, novel and good practice. Supply chain capability may be achieved through functional integration and development of advantages in two spheres, i.e. marketing and logistics. Opportunities for further research on the topic are suggested.

Keywords: supply chain management, retailing, distribution, logistics, retail marketing, emerging markets, modern, conceptual model, evaluation

Introduction

Modern retailing, which is often called organised trade, facilitates the access for international brand manufacturers to wider chain store based distribution in the target market. This is an essential cornerstone of success for the whole supply chain. Consequently, in emerging markets, the first set of questions put forth by managers is often of the following sort: “what is the share of modern retailing?” and “what are the leading modern retail actors and formats?” Definitional problems arise, as often managers have their own perceptions and ideas on what modern retailing might entail. Nevertheless, the fact is that modern retailing is a critical issue for all international brand manufacturers planning for entry or further expansion in emerging markets. Essentially, the properties of the retail sector in emerging markets may present themselves as either obstacles or opportunities for the internationalising consumer good manufacturer.

It is important to have a comprehensive set of criteria on an operational level, in order to properly evaluate retailers and their degree of modernity in running operations, as supply chain partners form the manufacturer point of view. This paper aims to contribute to the solving of the above mentioned issues, by addressing the following research aims:

1. To elaborate on the concept and implications of modern retailing, especially from the consumer good manufacturer point of view
2. To provide a conceptual model for retailer supply chain capability evaluation in emerging markets, supporting managerial decision making.

The paper is structured as follows. We first elaborate on the development of retailing in various markets, with focus on the major emerging ones. Literature review is then presented on retail development and modernisation. The review is finalised with the consideration of manufacturer's interests in terms of product distribution, i.e. downstream supply chain, with an aim of facilitating the later presentation of conceptual model for retailer evaluation in emerging markets. Finally conclusions and suggestions for further research are presented. The literature review covers retailing and modern retailing generally but conceptual model will be limited to the field of grocery retail only.

Development of retailing in selected markets

The stage and form of retail development varies from country to country making comparison challenging. Therefore, the advanced forms of the retail trade, like convenience or discounters are more descriptive of modernity, in comparison to the very generic concept of supermarket. Possible indicators of modern retailing activity in specific markets could be:

- the share of convenience or discounter sales but at emerging markets additionally hypermarket sales
- the number of outlets per 1000 inhabitants or number of inhabitants per outlet
- sales per outlet or sales per employee or sales per square meter

The following analysis is based on secondary data from Euromonitor (Retail Database). Some used indicators do not adequately describe the level of retail development, like share of supermarket sales or number of outlets per 1000 inhabitants. Density of outlets is dependent on retail formats as well as cultural habits rather than level of modernity in retailing. In the below depictions, it can be observed that the development takes place at various markets at different times which indicate that in similar markets the progress could be comparable over time. Modern retailing takes different forms in different markets.

The trend lines are linked with the framework of the retail life cycle (e.g. Davidson et al., 1976, p. 91; Dunne et al., 1999, p. 115). The cycle includes four distinct stages: introduction, growth, maturity and decline. The life cycle of the format has become constantly shorter. Major research companies classify outlets by size but may use additionally other indicators, like wideness of assortment and share of non-food items. Mark-up or margin are however not widely used (see Attachment B for Euromonitor definitions). Size driven classification emphasises the view point of developed markets, resulting in the undervaluation of formats in less wealthy emerging markets where purchasing power is lower as well as natural size of outlets is smaller and assortment relatively narrow.

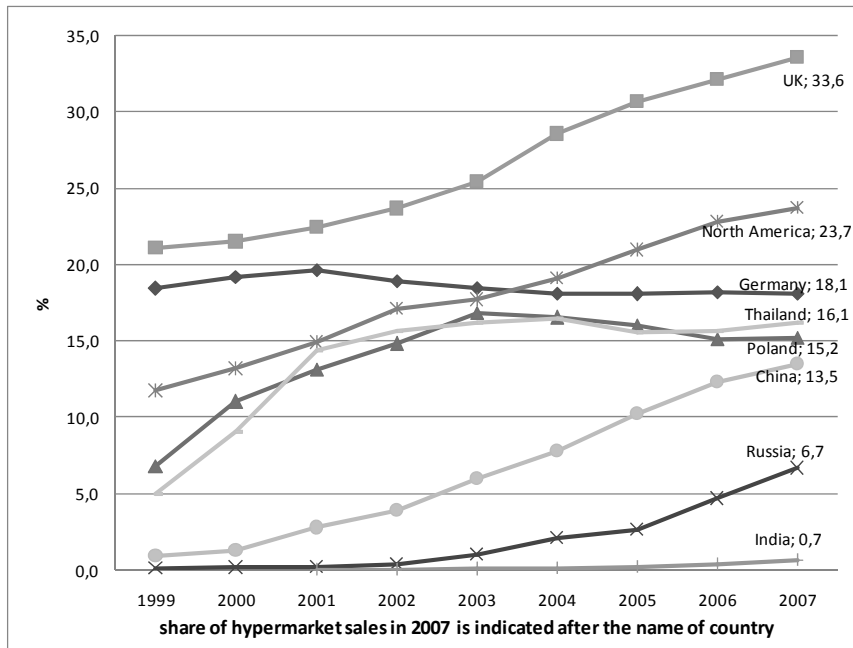


Figure 1 Development of the share in hypermarket sales in various markets (Euromonitor)

Share of hypermarket sales per capita of retail sales is indicative of modernity in certain markets, but in some other markets, the development of convenience or discounter sales could be even more descriptive indicator. The steepness of hypermarket share development trend line is parallel in Russia, China, North America and the United Kingdom, while the level of development is different (Figure 1). In some other countries, like Germany, Poland or Thailand, the share of hypermarkets is saturating but the development has taken place earlier. The level is still very low in India, but at the moment many international retailers are concentrating on India.

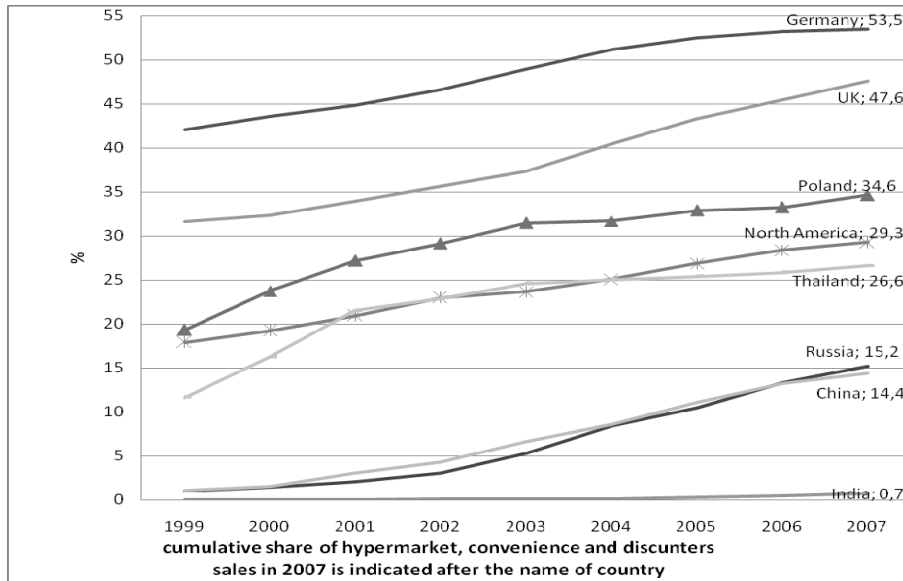


Figure 2 Aggregated shares of hypermarket, convenience and discounters in various markets (Euromonitor)

Figure 2 depicts the cumulated share of hypermarkets, convenience stores and discounters outlets, which may be considered to together constitute the most modern type of retail outlets. Compared to Figure 2 we can point that in China hypermarkets are well developed but other formats are relatively less developed. Russia seems to be ahead of China in other formats aside from hypermarkets. In Germany discounters business is booming, but in Thailand convenience stores and in Poland all small formats are growing. The development of certain format takes place in various markets at different times. Cultural characteristics determine the dominant formats in each market.

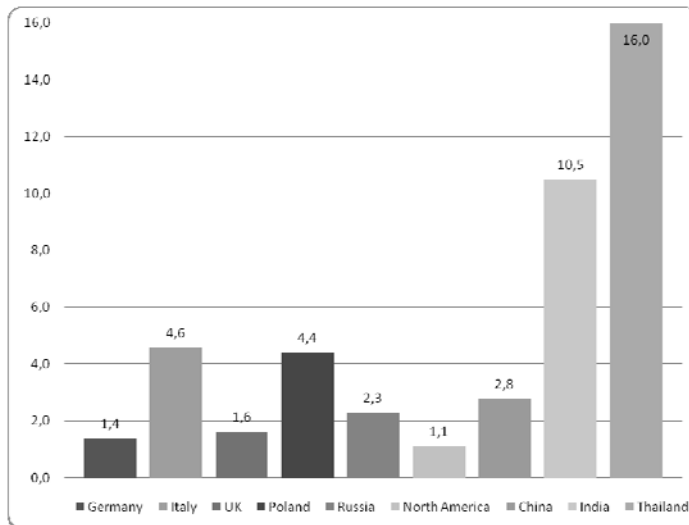


Figure 3 Number of retail outlets per 1000 inhabitants (Euromonitor)

As may be observed in Figure 3, the number of outlets per 1000 inhabitants does not seem to describe the level of development in retailing, but rather explains cultural differences between markets. For example, the profiles of United Kingdom and Italy, or China and Thailand are very different: in Italy and Thailand corner shops have strong tradition while in United Kingdom, Germany and China tradition is different, favouring larger stores.

To summarise, we may conclude that retailing is a very culture specific phenomenon, and that retail format life cycles vary significantly market by market. It is important for the international brand manufacturers to take a close look at the prevailing retail trends in specific markets, and make assessments whether one's strategy in terms of the demand chain fits in, or rather what kind of obstacles or opportunities the market offers due to its characteristics in the sphere of retailing. Further it is important to

examine retailer characteristics in detail, in order to fully understand the potential obstacles and their implications to one's own operations in detail.

Literature review on retail development and modernisation

In order to set the stage for the treatment of literature pertaining to modern retailing, a definition of modern is provided. Webster's Encyclopedic Dictionary defines *modern* as follows: *pertaining to present and recent time in contrast to ancient or remote. Sometimes has the connotation of up-to-date and, thus, good modern ideas. Recent may be separated from present when it is new, fresh and novel.*

There are number of elements which may intuitively be claimed to characterise modern retailing, for example self-service, store formats, wideness of assortment, technology and equipment, or the general degree of sophistication in running the business. However, the literature has neglected defining of the phenomenon unambiguously. The existence of modern retailing is dependent on the wider and complex business system including many aspects, like local legislation, distribution structures, consumer base, branding, internationalisation of retailing and manufacturers. In some practitioner oriented reports, modern retail is in emerging markets even a synonym for the share of aggregate hypermarket sales. Often, on the contrary, traditional retailing is more clearly described.

In Attachment A, a summary of interpretative definitions of modern retail in chronological order is provided. The earliest literature was typically linked with self-service, wideness of assortment and store-merchandising (Hollander, 1960; Regan, 1961;

Cundiff, 1965). In 1970s and 1980s focus was on cultural (Goldman, 1974) and evolutionary aspects focusing on gradual development and modernisation of retailing (Kaynak, 1982; Savitt, 1984). In 1990s distribution with connection to supply chain management (SCM) and formats (Tordjman, 1994; Feeny, 1996; Meyers, 1997) has dominated the literature on modern retailing. SCM was seen to facilitate more advanced and systematic retailing.

In Table 1, a summary is provided on the major focus areas in the literature that is seen to connect with the traditional or the modern retailing. These focus areas may be considered as a starting point on defining modern retailing.

Table 1 Focus areas of literature on traditional and modern retailing

SCOPE	FOCUS AREA
Traditional retail*	Small scale, wet markets Ethnic and cultural issues
Modern retail/modernization**	change in developing countries/ emerging markets Formats, self-service wheel of retailing, evolution of retailing Internationalization, competitive advantage, barriers
*including some issues of supply chain management (SCM)	
**including supply chain management (SCM) and category management (CM)	

Traditional retailing is typically small family business (D'Adrea et al., 2006; Sim, 1999; Bianchi, 2004) linked with local culture (Goldman, 1999) and non-organised distribution. A very recent article by Runyan et al. (2008) summarises research on small, independent retail. At the most developed markets, open air market places and halls for vegetables and fresh food can be counted as remnants of traditional retail. Wet and vegetable markets are one specific issue especially in South East Asia (Cadilhon et al., 2006; Goldman, 1999).

Goldman (1974) has studied ethnic issues, cultural aspects and retail formats. Self-service was in 50's the most innovative form of retailing making enable larger assortment, lower prices and mass-merchandising. Reduced costs and higher volumes for retailer along with consumer satisfaction for well-designed store layouts with freedom to select products made the solid base for further development. (Regan, 1959; 1960).

Regan's (1964) model of stages where development leads from simple to institutionally more complex format was continuum prior articles. Hollander's (1960) model of the wheel of retail was the earliest model on gradual change, modernising of retail trade. Hollander's model was rational and based on constant efficiency and profit seeking idea which worked at the most developed countries. Later the wheel was redefined and criticised by Kaynak (1979; 1982) and Savitt (1984) who were interested in the development of the least developed countries (LDC). The criticism was on the original idea of rational efficiency and profit seeking which didn't fit to developing markets. Both Kaynak and Savitt presented evolutionary models, which took into consideration local conditions and development of retailing. Developing countries were in focus in 1970s and 1980s, but in 1990s the focus turned into emerging counties in Latin America, East Asia and Central and Eastern Europe.

Internationalisation is an own field with literature from internationalization process starting from Johansson and Vahlne (1977). Internationalization process of retailing has got attention during past decade (e.g. Alexander et al., 2000; Akehurst et al., 1995; Burt et al., 1995; Myers et al., 1996) but there is some articles since late 70's when interest was on trends, dimension, motives and general issues of internationalization. During the past 15 years modern retailing has been described in case studies concerning

markets in South East Asia (Alexander et al., 1999; Davies, 1993), Latin America (Wrigley et al., 2003; D'Adrea et al., 2006), and Southern Europe (Bennison et al., 1995; Flavian et al., 1998). Retailing on socialist command economy markets has got only some focus: the earliest article of Goldman (1959) is an interesting description on Soviet Retailing and the first self-service outlets in mid-50's. Cervino's et al. (2005) on Cuban transition and dual system gives a practical crosscut on emerging chain retailing. At academic level was found only one recent article on trends of the modern retail market system (Panfilov et al., 2007). Some recent articles on competitive advantage at field of retailing give fruitful perspective for internationalisation and modernisation of retailing: Metro Group has changed contexts in a socially beneficial way to adapt locally (Khanna et al., 2005, p. 74). Retailers have lost in some countries their firm-specific advantage, like Wal-Mart in Germany (Cuervo-Cazurra et al., 2007).

Indicators related to modern retail are collected in Attachment A. These may be classified in different ways depending on the observer, taking for example the view point of the retailer, the manufacturer or the consumer. On the other hand, indicators may be classified as macro level, having general importance, or as micro level, having specific role for individual players. Some macro level indicators are dominating, like evolutionary view point, wheel of retailing or life cycle model which has been inspired since 60's till 80's when internationalization trend displaced the previous one. Also efficiency and economic aspects, but also store format and concept are mentioned quite often. Micro level indicators appear more often than macro level in the literature, while the used indicators are diverse. The most typical indicators are assortment, multi-line or self-service. Macro level indicators are more systematically used than micro level indicators

which appear to be incoherent and related with various aspects, like assortment, multi-line or cleanliness, which are mentioned only at few articles. Systematic use of micro level indicators could describe differences between various modern retail actors.

In summary we can claim that modern retailing is a complex issue that has avoided clear definition so far. Researches in the sphere of retail have touched upon various phenomena, such as evolution of store formats and retail internationalisation, all having impact on what may be considered as modern in retailing. Importantly, actors in the consumer good supply chain emphasise different aspects in considering what is up-to-date and good practice, or even fresh and novel in retailing. Additionally the preferred level of detail in observation varies, resulting in macro and micro, or strategic and operational level indicators of modernity in retailing. In this paper, the international brand manufacturer point of view is taken, with an aim on suggesting a conceptual model for retailer evaluation in terms of modernity. Structured approach on assessing retailers' degree of modernity, especially from the demand chain point of view should be useful for consumer good manufacturers with an international orientation.

Manufacturer's interests in terms of the downstream supply chain

In order to succeed as a brand manufacturer, it is important to create and maintain an efficient and effective supply chain all the way to consumer. In this section we argue that for the manufacturer, it is important to have retailer customers who are successful in the long term, and therefore it is vital that the retailer operates well in both (1) marketing and (2) logistics (SCM) spheres. The relevance of underlining these functions is elaborated in

the following, but intuitively it makes sense to ensure that all the components of the 4P function well in the customers operations. This facilitates the efficient satisfaction of consumer needs (Seifert, 2003, p. 3). As such, the basic 4P model of marketing (McCarthy, 1960), despite criticism and suggested improvements (e.g. van Waterschoot & van den Bulte, 1992), remains a valid marketing approach at least in the consumer packaged goods manufacturing industry (Grönroos, 1999).

As manufacturers seek to build and retain competitive advantage in the highly challenging markets, distribution channels and *logistics* may provide the most lucrative opportunity for stable competitive edge over rivals. This is mainly due to the long-term character, inclination to consistency in structure, and focus on people and relationships in the distribution channel. Ability to excel in this rather difficult to imitate area, which also involves supply chain management (SCM) issues, may compensate for inability to differentiate the product, to dictate pricing and margins, and to stand out from the masses of consumer advertising (Neves et al., 2001). In this vein, making sure that the channel functions properly all the way to the consumer is critical, as for example Corsten and Gruen (2003) have demonstrated the willingness of 20-37% of consumers, depending on the category, to switch brands in out-of-stock (OOS) situations.

The pursuit of excellence in the distribution channel requires the identification of aims and facilitating factors for success. In this vein, the classic work of Mallen (1970) provides a good starting point for analysis. A five-stage model on channel selection and structuring is presented, with a number of decisions to be made concerning the channel: directness, selectiveness, type of intermediation, number of channels employed, and the degree of cooperation in the channel. These decisions, that ultimately define the structure

of the channel, should be made within the framework of four guidelines or objectives: (1) maximise sales, (2) minimise cost, (3) maximise channel goodwill, and (4) maximise channel control. The first two directly affect the goal of profit maximisation, while the guidelines 3 and 4 make up the goal of motivation maximisation. Together these two goals contribute to the channel's long-run profit maximisation (Mallen, 1977).

Importantly, the channel decisions have direct effect to the achievement of the channel objectives. For example, Mallen's (1970) objective/decision -relationship matrix proposes that direct channels facilitate sales maximisation, while cost minimisation suffers. The manufacturer's sales force, that deals directly with for example the retailer, will potentially be more motivated and knowledgeable of brand and product specifics, therefore achieving higher sales. Mallen (1970) does not elaborate on the drivers of higher costs in direct distribution, but potentially these may be explained by for example the index of transactional efficiency (ITE). From the point of view of the manufacturer, ITE is *the ratio of the number of contacts required in direct distribution to that required in indirect distribution* (Mallen, 1977, 92). This effectively means that in the case of one manufacturer conducting transactions with five retailers (direct), and with the addition of one distributor to handle all the manufacturer's transactions, the manufacturer would be better off with the remaining single transaction relationship (indirect). Further, according to Mallen (1970) the maximum degree of co-operation in the channel facilitates sales maximisation, and again, has a detrimental effect on the cost minimisation objective. Various co-operative programmes (e.g. training, coordinated promotional campaigns) to support operations should, if successful, increase sales. However, investing into the development of relationships and joint-policies, involves expenditure.

The presented examples represent the short-term profit maximisation objective of the firm, as was stated previously. As one takes into consideration the advances in the research on supply chain management, one should perhaps consider referring more accurately to the *perceived* short-term profit maximisation, as in reality poor supply chain cost knowledge, for example in terms of serving particular customers, may inhibit correct decision making in terms of the cost-service balance (Norek & Pohlen, 2001).

Also, one of the challenges of SCM is the lack of demand visibility experienced by the members of the chain (Småros et al., 2003; Chen, 1998). Manufacturers may only be able to use factory shipments based on customer orders as the demand input data, which leads to the delayed and distorted picture of the actual demand at the end of the pipeline. The causes (forecast updating, order batching, price fluctuation, shortage gaming), effects (excessive inventories, poor customer service and sales, incorrect capacity plans, ineffective transportation, and long production lead times) and some of the remedies, are well known and identified in the bullwhip effect related literature (Lee et al., 1997; Metters, 1997; Fransoo & Wouters, 2000; Towill, 2005). Information sharing in the supply chain, may effectively reduce the bullwhip effect in the supply chain (Fiala, 2005), an activity that is enabled by information technology (Boubekri, 2001). Also lead-time reduction (Helo, 2004), and the reduction of the length of the chain (Ackere et al., 1993), may improve demand distortion problem considerably. Similarly, McCullen and Towill (2002) have pointed out that the remedies for bullwhip effect reduction require material flow considerations, such as the implementation of control systems, time compression, information transparency, and echelon elimination principles.

At this point it is concluded that the short-term cost side of direct and maximally co-operative channels should be examined from total systems perspective, and in the light of recent SCM research, in order to arrive at correct conclusions concerning optimal supply chain structures.

In terms of long-term competitiveness, one should take the supply chain point of view instead of the individual firm (Christopher, 1998), and concentrate on long-term profitability of the chain. Manufacturer's objectives should therefore be the maximisation of channel goodwill and control, achieved through direct, some what exclusive and maximally collaborative channels (Mallen, 1970). Collaborative manufacturer-retailer relationships should therefore result in favourable outcomes. Naturally, customer sales volumes and profitability determines the level of resources allocated to specific relationships.

Collaboration concepts, touching specifically the manufacturer-retailer interface, such as Efficient Consumer Response (ECR) have been implemented in the industry and have received wide research interest also. ECR is a grocery industry supply chain management strategy that aims to achieve increased competitiveness through strategic initiatives in improving the coordination and execution of product replenishment, store assortment, product development and introduction, as well as promotion (Kurnia & Johnston, 2003). In short, lower supply chain costs and increased responsiveness are the benefits sought after. Also demand management can be improved, placing forecasted demand on manufacturing capacity more effectively. According to Seifert (2003, p. 3), the objective of ECR is to achieve *efficient satisfaction of consumer needs*. This takes place via two components, namely SCM and category management (CM). Collaboration

in the sphere of logistics in the manufacturer-retailer interface facilitates optimal SCM, and more specifically, efficient replenishment, efficient administration, and efficient operating standards. Collaboration in marketing, on the other hand, facilitates successful category management, and more specifically, efficient store assortment, efficient promotion, and efficient product introduction. This approach is in line with our decision to evaluate retailers from marketing (CM) and logistics (SCM) point of view.

In the light of previously presented research, it is perhaps reasonable to conclude that ECR type of collaboration in the manufacturer-retailer interface contributes to long-term profitability, increased market share and competitive advantage of the manufacturer, as well as lower costs and higher revenue growth for the whole supply chain (Seifert, 2003). It may therefore perhaps be considered as the supply chain *modus operandi* of choice from the manufacturer point of view. Empirical evidence from the UK retailer-supplier partnerships is presented by Duffy and Fearne (2004), providing support to the idea that retail partnerships may help suppliers to improve their financial performance, and competitiveness.

A conceptual model for retailer supply chain capability evaluation in emerging markets

This section presents and elaborates on the conceptual model for retailer evaluation for supply chain capability. The model draws on the previously presented literature, and it is meant to take into consideration especially factors that pertain to emerging markets (for example some underlined emphasis on place and quality issues). As has been stated

previously, the evaluation of retailer from the manufacturer point of view, for the purpose of serving as the final leg in the supply chain prior to the goods reaching the consumers, is very important in order to reach sales and profitability goals. Poor retail partners may be considered as obstacles in this endeavour, while good capable partners may be seen as opportunities. Although in practice, customer's strong financial status and significant sales volume seem to be the most important factors in customer selection for the manufacturer, our model aids in developing a deeper understating on the long-term development potential of the relationship. The proposed conceptual model may be observed in Figure 4.

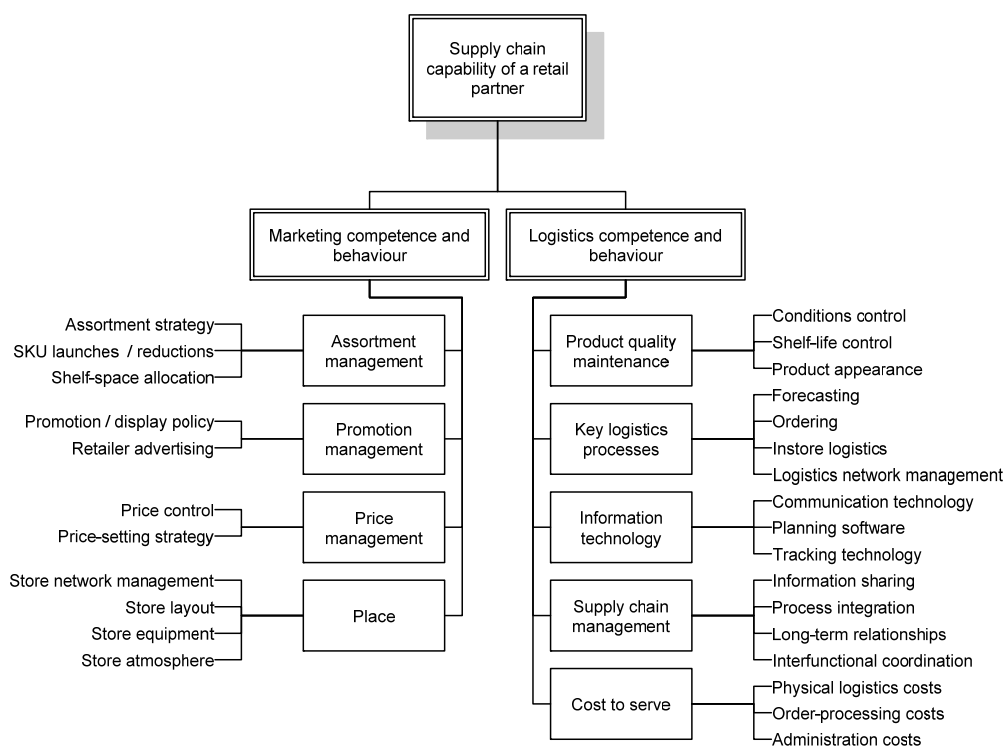


Figure 4 Conceptual model for retailer evaluation in terms of supply chain capability

The starting point in the model is the supply chain capability of the retail partner, which is then broken down hierarchically to its constituent parts, or criteria for evaluation. This particular model structure will support the later empirical work as will be explained later.

In the first level, supply chain capability is broken down to two criteria, namely marketing competence and behaviour and logistics competence and behaviour. The idea is that competencies and practices contribute to capability. We feel that the retailer being successful in these particular functions ensures the long-term success of the supply chain, assuming that the rest of the supply chain functions properly. This is in line with the work of Jüttner et al. (2007), who claim that successful customer orientated operations require the integration of marketing and supply chain management (logistics) functions. Advantages in both areas of marketing and SCM, enables the firm to become a “market winner”, and effectively differentiate both products and processes, and *satisfy different customer needs with differentiated supply chain capabilities*. Imbalance, i.e. advantage in either marketing or logistics, will potentially result in problems. These may be underdelivery, overdelivery, lost share of customer opportunities, excessive supply of costs of products for marketing specialists, while supply chain specialists may experience problems such as lack of product and service differentiation, ineffective product and service delivery, and suboptimal product development. Additionally, as was elaborated previously, the ECR components of CM and SCM according to Seifert (2003) also support the chosen focus on marketing and logistics as key competence areas for the retailer, from the supply chain perspective. Efficient satisfaction of consumer needs may be achieved with both functions working towards matching supply with consumer

demand. Effectively, the combination of marketing and logistics advantages contributes to the creation of a unique business system, able to create value for the customer (Kumar et al. 2000). We now consider each side of the model in turn.

First, the criteria for *marketing competence and behaviour* evaluation consist of elements related to the 4P model. Strong retail identities are coherent, with underlying strategic decisions ranging from store layout, product choice, and type and level of service. This gives legitimacy to their price, product and service selection and positioning. (Kapferer 1994, p. 53).

Suppliers are collaborating with retailers in the field of marketing with specific trade marketing activities focusing to promote sales at the point of purchase. Retailer is seeking through retail marketing higher demand by attracting consumers to increase purchases. Manufacturer may influence demand with a selected marketing strategy, but promotions, product placement and pricing have to be solved together with the retailer. As was mentioned previously, McCarthy's (1960) basic marketing model of 4P is a good starting point to analyse retail marketing activities. Service marketing mix adds three additional P's which are people (personnel), physical environment and process (Bitner et al., 1981). The extended marketing mix is able to clarify relationship between manufacturer and retailer by splitting functions and highlighting the role of service function (Rafiq et al., 1995).

There are number of elements to define and find positioning elements for retail outlets. Swinyard and Rinne (1994) have defined list of 22 relevant factors from universe of 200-items list for analyzing shop related decision making criteria. Arnold (2002) has summarized at his article the results of 42 surveys on reasons to select a retail outlet

mostly in North America between 1970 and 1997: the most important reasons for selection of retail outlet were location, price, assortment and quality.

Correct *product assortment* is crucial for success of retailer: the breadth and depth of product mix have to match to the needs of targeted consumers. Therefore, it is important to analyze both existing and desired assortment. The high cost of keeping large number of items pressure retailers to limit their assortment. On the other hand too large assortment may increase consumer's confusion. *Reduction* can be based on analysis of past sales taking into account promotions, sales and space allocation but it can be based on consumer behavioural surveys (e.g. Zhang et al., 2007). The main general issues are assortment strategy including launches and reductions as well as space management.

Shelf space allocation is a challenging field guided mainly by practical evidence. Space can be studied at many ways, one way is to reproduce planograms and analyze sales before and after the change. Location at shelf has a large impact on sales, whereas changes in number of facings has less impact. (Dreze et al., 1994). Typical questions for the retailer are what is optimal amount of space for the category or how many items should be included into the assortment. Space and its allocation may be a strategic issue for the retailer, like policy for private labels or brands part of building the retailer image (e.g. Kumar, 1997, p. 832). Desrochers and Nelson (2006) suggest to carry out consumer behaviour research as a supplement to scanner information. Placing is the issue at three levels: layout of outlet, space of the category at outlet and amount of facings items.

Retailers use large range of *promotional* elements to boost sales. Typically retail marketing activities pursue immediate sales when brand advertising is more often giving long-term effect. The main in-store promotion options are discount, feature advertising or

display. Promotion can consist on combination of one or several promotional tools for certain period of time. (Blattberg et al., 1989). Advertising and promotions are for retailer tactical tools which are typically supported by manufacturers.

Price is a key positioning factor and has an important strategic role. Pricing is a tactical tool or image maker for the retailer: active pricing options everyday low prices (EDPL) and high-low (Hi-Lo) which have been widely studied (e.g. Hoch et al., 1994). Optimal channel pricing, optimal product line pricing, game-theoretical pricing models or profit optimization have been on focus. For example during past six years only Journal of Retailing has published 164 articles related with pricing and promotions. Theoretical pricing models containing many limitations and assumptions are common but how those models fit to emerging markets or take into account consumer needs or undeveloped manufacturer-retailer collaboration. The general price management and price control are crucial basic elements.

Place is a multifaceted issue: *store network* and location strategies at macro level as well as *atmosphere, equipments and store layout* create together physical environment for premises. At emerging markets physical environment is differentiating factor between traditional and modern retail stores. From physical environment important in-store elements can be split to atmosphere, like cleanliness, temperature or smell, and to physical equipment, like shelves or check-outs (e.g. Swinyard et al., 1994; Arnold, 2002).

We now consider the criteria for *logistics competence and behaviour* related criteria. Proper logistics is the key in *maintaining product quality*. In grocery business, conditions control must be rigorous and consistent in terms of temperature and humidity. For example maintaining a full-proof cold chain up-to and within the point of sale is

crucial (Smith & Sparks, 2004). Shelf life should be controlled for and required product appearance maintained. This may be achieved with the help of collaboration in the sphere of packaging logistics (Sparks et al., 2006).

Certain logistics related *key logistics processes* should be evaluated, including forecasting (Chase, 1991), ordering (Corsten & Gruen, 2003), instore logistics (Kotzab & Teller, 2005), and logistics network management (Chopra, 2003). The skilful management of these processes reduce the possibility of OOS and contribute to the efficient and effective flow of products and information in the retail supply chain both within the retailers network of stores and warehouses, as well as within the individual stores, i.e. from back-room to the shelves (replenishment).

Information technology applications greatly facilitate supply chain management (Boubekri, 2001), with competencies and capacities in using communication (fax, e-mail, EDI etc.), planning (ERP software etc.), or tracking (bar code, RFID, GPS etc.) applications differing among incumbents.

Mentzer et al. (2001) have identified *supply chain management* to consist of such key elements as information sharing (also Kiely, 1999), process integration (also Frohlich & Westbrook, 2001), long-term relationships (also Lambert et al., 1996), and interfunctional coordination (also Min & Mentzer, 2000). Benefits may appear in the form of lower costs, improved customer value and satisfaction, and competitive advantage (Mentzer et al., 2001).

Finally, the behaviour of the retail partner, through its practices and policies, affects the *cost of serving* the retailer from the manufacturer point of view (Braithwaite & Samakh, 1998). Physical logistics costs result from order volumes in relation to full

pallets or truck loads, as well from lead time requirements. Order processing costs may be relatively lower when orders and order lines are high in value. Special treatment, fire-fighting and problem solving, may result in high administration costs.

Conclusions

As a result of our literature review and model development, we are able to draw some conclusions and suggest paths for further research. It seems that modern retailing has been a somewhat elusive concept, definition of which depends on one's view point and the desired level of observation. Our view is that as a well functioning retail sector and individual incumbents play a vital role in the success of international brand manufacturers in emerging markets, a very operational level of observation should be taken, one that emphasises supply chain management, i.e. the aim of achieving efficient satisfaction of consumer needs.

We therefore propose a certain kind model, based firmly on prior literature on retail marketing management and supply chain management, which is proposed to help in evaluating the supply chain capability of a retail partner from the manufacturer point of view. We claim that the supply chain capability of a retailer is in fact a very good indicator of modernity, i.e. up-to-date, novel and good practice. Supply chain capability may be achieved through functional integration and development of advantages in two spheres, i.e. marketing and logistics. Our model takes this as a starting point and details two levels of subcriteria in both areas.

Figure 5 aids in the classification of retail actors in terms of marketing and logistics competence. Both may range from low to high, providing a base for a crude classification scheme. Areas 1 and 3 hold incumbents which are either marketing or logistics specialists respectively, area 2 holds market losers, while area 4 holds market winners (Jüttner et al., 2007). If we think about possible development paths of aspiring modern retailers in emerging markets, balanced development oriented actors would carefully develop marketing and logistics in-sync, in order to achieve greater capability in their respective supply chain role. On the other hand development may be marketing driven or logistics driven. We feel intuitively that many emerging market retailers fall into areas 1, and perhaps also 3, while very few achieve positions in area 4. Some may perhaps have reached the bottom-left corner of area 4. For the sake of comparison Tesco and some other players from developed and mature markets would perhaps belong to the top-right corner of area 4.

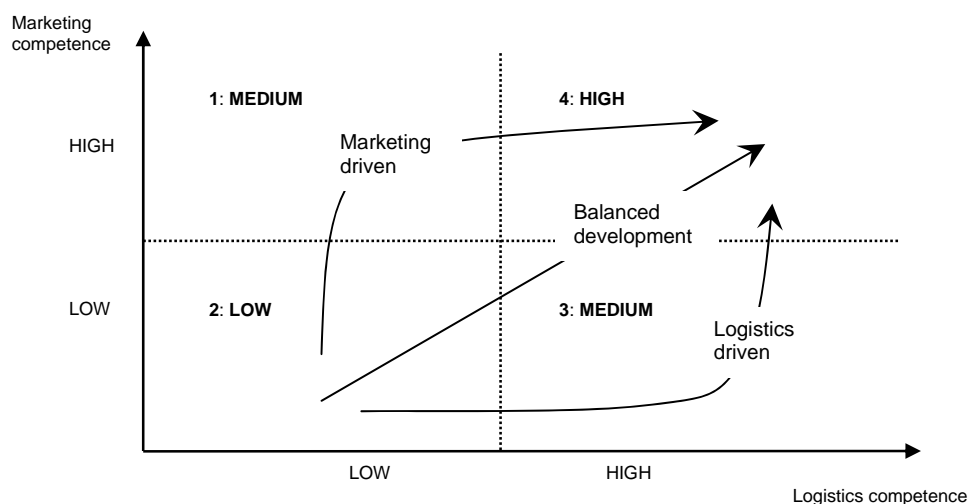


Figure 5 Supply chain capability matrix of retail partners

Needless to say, the presented ideas or propositions should be validated through empirical research. First of all, the presented model needs to be subjected to an empirical test, drawing on the opinions of manufacturing company managers familiar and struggling with consumer good distribution issues in emerging markets. It is expected that the model will experience revision in the process, as a result of a dialogue between drawn upon managerial opinion and existing academic literature.

For example, utilising the analytic hierarchy process (AHP) by Saaty (1980), it is possible to determine weights for the presented criteria in the evaluation model. Consequently, “modern retailers” in emerging markets may be evaluated, taking the viewpoint of different product segment manufacturers. Such a process needs to be carefully planned and executed, with detailed criteria operationalisations and respondent guidelines facilitating the process. It is for example important for the respondent to consider several aspects in evaluating retailers in terms of each criteria, such as the sophistication of the process/technology/target, the peoples’ competence level performing it and the control for consistency throughout the retail chain.

It is hoped that this kind of research will help in understanding the complexity in consumer good and grocery supply chain management in emerging markets. Our plan is to focus our future efforts on Russia, where the authors have a ready network of research targets. While having detailed information on the modernity, or supply chain capability of individual retailers, the described further research could also give a picture on the average level of development in the market. Such insight, especially when extracted in a longitudinal manner, would be quite interesting. Generally, research in this area not only enhances our ability to understand the obstacles for SCM in emerging markets, but

provides a way to turning the obstacles into opportunities, as increased understanding facilitates problem solving for innovative and proactive supply chain incumbents.

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APPENDIX A Summarised literature review on modern retailing

Era with major topics / Reference	Journal	Definition*	Approach	Indicators
1950s: earliest articles on retail development and self-service				
1960s: wheel of retailing, self-service, stages of development				
Hollander (1960)	JM	At mature stage of earlier phase it tend to replace by more efficient form of retailing	Wheel of Retail	price cut, efficiency, margin, high-markup assortment
Regan 1961	JM	efficient distribution and store-merchandising pushed self-service supermarkets with larger assortment to develop	self service	self service, merchandising, stages
Cundiff 1965	JM	Self-service was regarded as highly developed marketing system	self service	economic and non-economic factors
1970s: Least developed countries (LDC), efficiency, cultural and ethnic aspects, wheel of retailing				
Goldman 1974	JM	multi-line, larger general outlets – less retailers per capita at modern system		
Kaynak 1979/1982	EJM / JAMS	the level of development dependent on environment – critics towards traditional wheel of retail	Evolution of retailing	evolution (gradual adaptation & transformation), institutions, regulations, technology
1980s: redefined wheel of retail, evolutionary model, least developed countries (LDC)				
Goldman 1981	JR		Technology transfer	multi-line, large size, mass-merchandising, self-service, reduction in price, economies of scale in SCM
Savitt 1984	EJM	retail development is a wider historical evolutionary phenomena	Turn of the wheel	environmental factors, product life cycle, diffusion of innovation
1990s: internationalization, cases from Asia/Latin America (LA)				
Samice 1993	JBR	modernization and channels of distribution in developing countries differs in many point from the Western	channel consideration	environment, consumer, channel
Tordjman 1994	IJRDM	organized and concentrated distribution with larger and well-segmented outlets	modern life cycles	fixed concept; assortment/category management/self-service; supply chain/warehousing; routine/stock-up/fill-in/same-day/adventure;
Feeny 1996	IJRDM	7-11 is the modern version of traditional corner shop	case Thailand	format, assortment, life-style shopping
Trappey 1996	IJRDM	more developed non-personalized distribution with broader assortment and modern facilities	case Taiwan	retail trend, retail format
Myers et al 1997	EBR	new more competitive multi-line formats with broader assortment	CEE	multi-line, formats
Alexander 1999	EBR	formats which increase consumer demand for service, value and extended product ranges, and safe/clean/modern environment	relative advantage	demand for "service", value&extended product range, safety, cleanness, atmosphere

2000s: retail formats, small-scale, wet markets, competitive advantage, cases from Latin America/Asia/Emerging ex-socialist				
D'Adrea 2006	IJRDM	Modern outlets has developed techniques, improved formats and understanding of brand preferences for better assortment	advantages of small retailers	assortment/price/personal touch; sales per m/ cross margin/ markup; official business

Key: Journal of Marketing (JM), Journal of Retailing (JR), European Journal of Marketing (EJM), Journal of the Academy of Marketing Science (JAMS), Journal of Business Research (JBR), European Business Review (EBR), International Journal of Retail & Distribution Management (IJRDM)

ATTACHMENT B Euromonitor’s definitions of terminology on distribution channels

Supermarkets

The most widely used definition is that of a store with a selling area of between 400 and 2,500 square metres, selling at least 70% foodstuffs and everyday commodities.

Hypermarkets

Stores with a sales area of over 4,000 square metres, with at least 35% of selling space devoted to non-foods. Frequently on out-of-town sites or as the anchor store in a shopping centre.

Independent food stores

All food stores with selling space of less than 400 square metres, usually specialising in packaged groceries, where food accounts for at least 50% of total retail sales.

Will include independent local stores, multiple/chain stores (eg Tesco Metro), and symbol/cooperative stores (eg SPAR, Londis)

Discount stores

First introduced by Aldi in Germany, and also known as limited-line discounters. Stores are typically 300-900 sq m and stock less than 1,000 product lines, largely in packaged groceries. Goods are mainly own-label or budget brands. Examples include retailers such

as Aldi, Lidl, Eda, etc. (Authors note: In Russia many chains are claimed as discounters even the format is closer to small supermarket).

Convenience stores

Shop selling a wide range of goods with extended opening hours. Usually abbreviated to c-store. A good examples is 7-Eleven.

Other

Include any outlets selling confectionery. Examples are petrol stations, toy stores, department stores, cinemas, kiosks, mass-merchandisers, Internet and direct sales, etc.