Internationalization of retailing in Poland: some comments after 15 years of experiences

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Abstract

Internationalisation became an important aspect of organisational transformation in Polish retailing. The sector has experienced a significant inflow of foreign capital since 1990.
Over the last decade international retailers became the most active foreign investors in Poland. The significant value of FDI came from German, UK and French operators. The total value of investments of multinational retailers and wholesalers reached 5 billion USD.

The motivations underlying the strategy to internationalise in retailing have often been explained as relating to saturation, namely that retailers in developed markets are forced to move into new markets due to limited opportunities at home. The trend is observed in Poland, and most of top 10 European retailers operate in the country.

The analysis of international investments in retailing indicates that they are driven into sectors and distribution channels with significant absorptive power of the market: super and hypermarket store chains, DIY market, petrol stations, shopping centres and cash&carry wholesales.

Foreign retailers and wholesalers in Poland have created new standards in sales techniques. They were the first who applied modern sales techniques and management in retailing and the mentioned improvements became the key factors of their competitive power. At the moment we could observe the process of implementation of the mentioned innovations by national retailers, as market followers' strategy predicts.

The aim of the paper is to analyse and to sum up 15 years of experiences of foreign investments in retailing. The broad analysis of Polish market will be presented in the following aspects:
- organisational transformation
- know-how transfer
- quality standards

On the basis of presented experiences some conclusions concerning future development of retail sector will be presented.

<u>Keywords:</u> Retailing, internationalisation of retailing, transformation, FDI

Internationalisation of retailing – theoretical comments

Retailing has traditionally been restricted to national boundaries particularly in the food sector, often characterised as reactive (McGoldrick and Fryer (1993), in view of the type of services involved and the high level of investment needed to set up in another country, especially the case when it has to be financed by organic or internal growth in corporate funds.

In industrial concerns internationalisation is easier to achieve through activities such as exportation, which does not require a physical presence in other countries. In addition, many such operations are increasingly subject to the phenomenon of relocation of production, when advantages are sought by moves to countries with lower wage and structural costs.

From the late 1980s onwards, the new wave of international commercial activity that had begun to build in the early to mid-1980s has developed into an area of considerable research activity. At the beginning of the twenty-first century, international activity has become a commonplace of retailing and this is mirrored by a considerable effort in research activity and output.

The research activity was focused on the direction of expansion and the advantages retail operations sought in global markets. The growth of international activity by retailers based in Europe was the precursor to considerable academic interest and activity from the 1980s onwards (Martenson, 1981; Burt, 1991). The literature reflected the changing nature of international opportunities. As the geopolitical and economic changes of the late 1980s were to redefine the world order in the 1990s, so they were to redefine the international ambitions of retailers and the opportunities available to them. The collapse of communism in Eastern Europe led to the consideration of these markets and new opportunities which did or did not exist therein. International retail activity in the Far East generated a body of research into international retailing in what was considered for most of the 1990s to be a highly attractive emerging global-regional market

The increased visibility of international moves by retailers has stimulated a vast array of academic work in Europe since the mid-1980s. Akehurst and Alexander (1995a) refer to the "torrent" of the late 1980s and the "flood" of the 1990s. From this literature a number of common themes emerge, namely the motives for retail internationalisation (e.g. Alexander, 1990); the geographical flows of investment - including studies of specific flows (e.g. Kacker, 1985; Mitton, 1987; Hamill and Crosbie, 1990; Davies and Fergusson, 1995; Alexander, 1995; Sternquist, 1997), the temporal dimensions of investment (e.g. Treadgold, 1990/91; Burt, 1991; 1995) and case histories of individual firms (e.g. Kaynak, 1980; Martenson, 1981; 1988; Truitt, 1984; Laulajainen, 1991; Treadgold, 1991; Johnson and Allen, 1994; Takahashi, 1994; Wrigley, 1997); the impact of internationalisation, particularly of "new" retail concepts on less developed retail environments (e.g. Kaynak, 1985; Alawi, 1986; Ho and Sin, 1987); and methods and typologies of investment (e.g. Kacker, 1988; Treadgold, 1988; Dawson, 1994; Bailey *et al.*, 1995; Simpson and Thorpe, 1995). These studies have taken various perspectives ranging from studies of whole retail sectors, to specific store formats and, in particular, the activities of individual retail firms.

One study, which attempts to tackle the question as to how retail companies might internationalise, is that of Salmon and Tordjman (1989). The two main approaches to the internationalisation of retail operations identified by these authors - the global and the multinational approach - focus attention upon attitudes towards a number of management functions within the retail business. As the nomenclature suggests, the global approach requires a high degree of standardisation of management functions, whilst the multinational approach allows for a greater degree of response to host market conditions. While endless debate can take place as to the exact degree of standardisation or adaptation within management functions, and which retail companies conform to which "model", there appears to be a tacit acknowledgement in much of the literature that some form of adaptation in management practices and approach is required in most non-domestic markets (e.g. Brown and Burt, 1992; Dawson, 1993; McGoldrick and Blair, 1995).

Retail analysts have cited a variety of potential determinants of retail internationalisation, both macroeconomic and microeconomic. Microeconomic in focus is the observation that increasing organisational capabilities have enabled companies to support moves abroad. With the high visibility of EPOS and other information systems in contemporary retailing, this point has received particular emphasis in attempts to explain the 1980s upsurge in cross-border retailing (CIG, 1994; Alexander, 1997; Cooper *et al.*, 1994).
Macroeconomic explanations turn on the importance of a development gradient, a difference in the degree of economic development in home and host economies. In general terms, this gradient suggests that retail innovations (new products or new processes) diffuse from more- to less-developed economies. (Godley and Fletcher 2000)

The more rapid growth rates of less-developed economies accounted for another oft-expressed idea, that slowing growth prospects in home markets led companies to look abroad for growth. This idea was in effect a restatement of the "wheel of retailing" idea and of Raymond Vernon's product-cycle model.

Another macroeconomic factor cited has been the increasingly liberal international business environment, with falling barriers to trade and financial flows. This has proceeded in parallel with steep falls in transport and communications costs. Often cited as a key outcome of these factors has been a global convergence of consumer preferences, which has eased the task firms face in producing and distributing internationally. The difficulties which varying international markets pose have long been cited in support of the notion that firms are most likely to expand internationally into areas of cultural similarity or geographical proximity to the home market

It might be supposed that internationalisation would only be undertaken when national markets have become so saturated that possibilities for growth within them are very limited. However, on occasions the paradox arises of a business being present in another country without being established everywhere in its country of origin. This is not strange in Europe, since countries with a shared border, such as France and Belgium or Germany, Switzerland and Austria, often share the same language and socio-economic characteristics. This implies a new shade of meaning for internationalisation, as regions along the border of contiguous countries may have more in common with each other than with distant regions of their own countries.
However, Myers (1996) demonstrated, in research carried out in Germany, France, Italy and the UK, that managers of large food retailers felt that, although with a tendency to decline, there still are significant differences between European countries with regard to features such as national frontiers and cultural divergence. On the other hand, they see differences between regions of any single country as of negligible importance.

Transformation of retailing 1990-2005

Before 1989 retailing in Poland was highly monopolised and unified through the dominance of the public sector. At the end of 1989, public sector in retailing accounts for 80% of market share and generated 90% of the turnover of the whole sector (Pokorska, Maleszyk 2002).
The public structure of retailing created the in-out conditions of the sector before the liberalisation in 1989. After liberalisation of the economy in 1990, the public sector in retailing was fully replaced by private entities.

An analysis of the development of retailing has to focus on the setting-up of new retail outlets. In this respect the increase in the number of new shops and the corresponding expansion of the sales area is very impressive. But the nature of the process caused some problems for the future of the sector.
General statistics on retailing show Poland to belong to that group of countries were a structure of small family-owned and operated business countries to hold sway. The high number of shops per head of population, the low number of employees per enterprise and the high proportion of self-employed are three measures, which reflect a system of commercial distribution far different in character from that which has developed in most Northern Europe (see: Table 1 and Table 2).
The structure of retailing in Poland is quite similar to retailing in Greece, Portugal, Italy and Spain and far different from concentrated retailing in UK, Germany and France.

Table 1 Number of shops in Poland: 1990-2003 (as of 31.XII)

	1990	1995	2000	2002	2003
Shops (in thounsands)	237,4	425,6	432,0	450,4	447,9
Population per: 1 retail sale outlet 1 shop	81 161	43 91	45 89	44 86	46 85
Sales floor per head in sq.m.	0,29	0,52	0,7	0,8	0,84

Source: Rocznik statystyczny 2002, GUS, Warszawa 2002; Rocznik statystyczny 2003, GUS, Warszawa 2003; Rynek wewnętrzny w 2001r, GUS, Warszawa 2002, pp. 39-90; Rocznik Statystyczny 2002, GUS, Warszawa 2002, pp. 425-427

Table 2 Shops and petrol stations by organization forms

Specification a - share of shops and petrol stations in % b - share of sale space in %		Private sector	of which: private domestic ownership	of which: foreign ownership
Total Shops	a	99,7	98,6	0,9
	b	99,6	88,6	10,6
Departament stores.....	a	98,0	79,4	15,7
	b	96,2	66,2	28,8

Trade stores a	98,1	72,0	24,2
b	98,6	70,1	25,5
Supermarkets a	99,9	50,0	49,7
b	99,9	47,7	52,1
Hipermarkets a	100,0	17,1	81,9
b	100,0	14,0	85,5
Other shops a	99,7	98,9	0,6
b	99,6	96,8	2,4
Petrol stations a	95,8	76,1	6,0

Source: Rocznik statystyczny 2004, GUS, Warszawa 2004

The economists classify retailing in Poland as being of low concentration. According to the latest surveys, by 2003 retail multiples controlled ca. 22 per cent of the Polish market. In comparison with Czech Republic (60%) and Hungary (56%) the data for Poland are far behind other Central European countries. In Slovakia, 8 Top retailers generate 53% of total turnover.

FDI in Poland

International investors play a major role in the Polish retail and wholesale market. The great enthusiasm for consumerism that appeared after 1990, combined with surprisingly robust growth of the economy during the 1990s at 5 or even 7 % annually, was soon noted by international retailers. In spite of the depleted and antiquated infrastructure, Poland offered relatively stable growth, and reasonably reliable legal and regulatory environments, and most importantly, increasingly affluent and enthusiastically pro-Western consumers.

The important role of international retailers for Polish economy could be presented on the basis of their share in total FDI. Investments made by international retailers' account for 30% of total FDI in Poland in 2001, 17% of total FDI in 2002 and 13% in 2003.

At the moment, the determinant role of multinational retailers in Poland is not the number of stores but their turnover. In 1992 total turnover of multinational retailers accounted for 0,06% of the market, in 1999 the multinationals generated 12,4% of market turnover, in 2000 – 13,1% (Rynek wewnętrzny, 2002); in 2002 multinationals with ownership of 1% of stores number reached over 14,5% of total turnover of the sector.

International retailers and wholesalers in Poland have created new standards in sales, customer care, operating stores and management skills.

They were the first who applied modern sales techniques and management in retailing and the mentioned improvements became the key factors of their competitive power. At the moment we could observe the process of implementation of the mentioned innovations by national retailers, as market followers' strategy predicts.
Looking at the structure of retail sector, modern distribution channels – large format stores and discount stores, have been created by international operators. And they continue to hold the leading position in the mentioned areas.
International retailers are the monopolists in hypermarket and discount stores segments and hold very strong position in supermarket segment.
In the segment of supermarket stores, the proportion of domestic to international operators is balanced. Both international and domestic operators are active in opening new stores.

Table 3 Examples of European retailers in Poland

Retailer	Home country	Trading name / shops format	Turnover in 2005*	Comments
Metro Group	Germany	Real (hypermarket), Praktiker, Media Markt, Makro Cash and Carry		
Tesco	UK	Tesco	5,3 mld PLN	
Jeronimo Martins Dystrybucja	Portugal	Biedronka (discount stores)	5,4 mld PLN	60% market share in discount stores segment (805 discount stores)
Carrefour	France	Carrefour, Chapion	4,7 mld PLN	
Auchan	France		4,18 mld PLN	
Casino	France	Geant Lider Price		Lider Price – 228 discount stores
Ahold	Holland	Hypernowa, Albert		
Leclerc	France	E.Leclerc (hipermarket)		
Kingfisher	UK	Castorama		35 DIY hipermarkets
Intermarche and Bricomarche	France			
Leroy Marlin	France			
Tangelmann	Germany	Plus	1,4 mld	183 discount stores
Kaufland	Germany			
Netto	Denmark		1,02	100 discount stores
Lidl	Germany	Lidl	1,25 mld	200 discount stores

* Turnover data on the basis of "Supermarket News" 2006
Source: The Author

International retailers in Poland – some experiences

The role of international retailers in Poland cannot be overrated. In general terms, international retailers hold market leaders' position in terms of innovations, attractiveness for customers, scope of format development both in value and volume terms.
The wide scope of international retailers' dominance in Poland has been developed owing to liberal legislation and customers' acceptance for foreign investments.

As the market analysis shows, the first operators who entered Polish market came from national markets at saturated life cycle that possibilities for growth within them were very limited (German and French markets).

Propitious macroeconomic environment (GDP increase, liberal legislation both in terms of opening new stores and shops opening hours) and microeconomic factors contributed to dynamic development of international retailers presence in Polish retail sector.
Modern distribution channel has been developed in the country solely owing to international investors. The first hypermarket was opened in Poland in 1994 (under Hit brand – German operator Dohle), in 1997 there were 20 and in 2003 – 186 hypermarkets and only one of them with Polish capital, the remaining majority came from international retailers.
The growing development of discount stores (ca. 1500 stores over the last decade) have been occurred through investments of international retailers (Biedronka – Portuguese Jeronimo Martins, Netto, Lidl, Plus, Lider Price etc.; Table 3).
The only segment of retailing with significant Polish origin companies' share is supermarket sector (Table 3).

In 1990 there were 237 th. shops in the country and the number was double during the next decade (Table 1). However it is important to notice that volume increase in number of shops mainly consist of growth in the number of small, family owned, national capital, entities those created very traditional structure of the sector. Large format retail outlets constitute less then 1% of total number of retail outlets and less then 1% of total sales floor in Poland.

The transformation of Polish retail sector that has occurred over the last 15 years and the following construction of modern retail sector could not happen without involvement of international retailers.
To sum up the experiences transferred to Poland by international operators the following should be mentioned:

- Development of wide range of new store formats (supermarkets, hypermarkets, discount stores, food specialists chains, non-food specialist, large format operators, shops in petrol stations etc.),
- modern sales techniques and customers care techniques,
- improvements in merchandising techniques (store layout, taking advantage from using appropriate lighting, voice and smell, etc.),
- increasing qualifications of sales forces and improvements in employees attitudes towards customers and work,
- tremendous modernisation of stores equipment,
- dynamic development of sales information systems,
- growing share and importance of pre- and after sales services.

However, after 15 years experiences, some failure cases could be mentioned as well.
There have been some high-profile examples of European retailer withdrawal from Polish market, involving well-established brand names and companies

who have developed highly successful operations in the domestic market over many years. In 2003 and 2004 Ahold withdraw from Poland with Hypernova format (15 large format stores took over Carrefour); in 2003 – Norway Rema 1000 closed their Polish operations; in 2002 the first international large scale retailer – German Dohle announced withdrawal from Poland (13 stores took over Tesco); and in 2006 Casino decided to close its Polish operations (hypermarkets Geant were bought by Real/Metro and discount stores Lider Price by Tesco).
The above mention examples show the Polish market has become more saturated, the competition has increased.

There are also increasing pressure in Poland for reducing the liberal legislation in retailing. The important and broad public discussion covers the aspects of the new store openings (small Polish retailers protest against openings new stores by foreign retailers), Sunday shopping (at the moment Sunday shopping is allowed), development of private brands (small producers protest against growing power of multinational retailers in the area of private brands), employment issues (large format retailers are accused by public opinion on unfair advantages of employees).

As the market life cycle follows and Polish retail market is far behind spectacular growth from 90s, market attractiveness for international retailers will be dropping. According to latest survey by A.T. Kearney (Global Retail Development Index; the most attractive markets for international retailers), the most attractive market in Europe is Russia; in global rank, Poland holds 27 position, behind Russia, India, China, Slovenia., Latvia, Vietnam, Thailand etc.

Development of retailing – beyond 2006

In the future we could expect the growing importance of international retailers in Poland. The onward concentration of retailing is expected as well.
The new hypermarkets will continue to open in Poland, however, the pace of their expansion as well as their average sales area will be much lower than was the case for those built in the second half of the 1990s.
The trend towards opening smaller formats is clearly visible in the growth dynamics of other segments, especially hard-discounters and convenience stores as well as in the developments strategies of the largest hypermarket operators. The latter seem to focus most of their attention nowadays on developing smaller format chains and on increasing consumer loyalty, cutting costs and increasing profitability.
Discount stores have very ambitious expansion plans and the increasing market share from this sector could be expected. The take over of Lider Price by Tesco could bring to conclusion that discount stores would be of great importance for international retailers in Poland in the near future.

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