

## IMPACT OF GLOBAL RETAILERS ON REGIONAL MARKET PARTICIPANTS<sup>1</sup>

*The given article is focused on a topical subject of global trade networks and the current trends of their development on a regional retail market. The authors believe that deep integration of international networks in the regions significantly increases the competition among network operators in the trade sector and creates a certain challenge for Russian retailers, and require introduction of innovative management techniques, automation of operational processes, expansion of assortment, better service, lower prices, etc. Research and assessment of the parameters given in the article help verifying an effect of international networks on the development process of regional market participants.*

Economic institutions of network format play a significant role in the market development process at every level. Networks and chains lead to evolution of modern economic systems, open new income resources, and require adequate mechanisms of their

usage to be social and state friendly. Globalization and informatization in business, build up of strategic alliances, networks of companies bring to higher productivity. Companies build networks to use specific market opportunities which are unavailable for single companies. Today chains exist in different spheres of consumer market: retail and wholesale trade, goods and services production, etc.

Local chains were the pioneers of the network form of business on a regional market and they determined the development of regional retail trade to a great extent.

Effectiveness of retail chains on a local level stimulated consumer market quality growth and became a tool for attracting federal and international trading structures to invest their capital.

National retail market undergoes significant structural changes, more international players integrate in the market, federal operators expand to the regions, sales volume of network companies grows. Consumer market remains the most fast-developing segment of regional economics. Its characteristics are high entrepreneurial and investment activity, positive dynamics of social and economic parameters.

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Table 1  
Appearance of Global Retail Chains in Russia in 2000–2008

2000	IKEA
2001	Metro Cash and Carry, Spar
2002	Auchan, Douglas
2003	Sephora, OBI, Marktkauf, Villeroy and Bosch
2004	Leroy Merlin, Zara, Monsoon Baby, Fauchon, Rewe
2005	Real, Kingfisher, Kesko, Intersport
2008	Mediamarkt
2009	Carrefour

Western retailers are actively investing in the Russian market. The starting point for that were the early 2000's, after IKEA entered the Moscow market in 2000, many others followed, namely, Metro Cash and Carry, Spar (2001), Auchan, Douglas (2002), Sephora, OBI, Marktkauf, Villeroy and Bosch (2003), Leroy Merlin, Zara, Monsoon Baby, Fauchon, Rewe (2004), Real, Kingfisher, Kesko, Intersport (2005). High interest in the Russian market is easy to explain: in 2003–2004 Russia took the first position among the countries with developing economies according to the AT Kearney Global Retail Development Index. This is due to the boom in the consumer market, lack of saturation, relatively low level of competition. In 2005–2007 the first place moved to India, but the gap between the two countries was minimal. Jones Lang Lasalle, one of the leading companies in commercial real estate and consulting, estimated Russia as the third biggest market for foreign investment in retail development in 2007.

IKEA and Metro Group, the pioneers among foreign retailers on the Russian market, are actively expanding to the regions. Together with the development of major operators IKEA and OBI often housed “under one roof” at shopping malls MEGA come small stores The Body Shop, H and M, Marks and Spencer, etc. Table 1 shows the largest global retailers and chronology of their appearance in the Russian market.

Network forms of economic system organization bring additional advantages: economies of scale, reducing costs through centralized management, rapid development of new markets, expanding pool of customers, opportunities to develop long-term relationships with customers, further brand promotion and awareness, building standards that determine high entry barriers on the market, etc. Obviously, the global and federal commercial networks increase their competitiveness and profitability at the expense of these advantages. Simultaneously, global trading networks contribute

significantly to the integration of economic entities in the regions. Let us consider the impact of global trade networks on the development of regional market participants.

We have developed a model of the global retail chain impact on the socio-economic development of a region (fig. 1). We distinguish eight stakeholder groups: consumers, regional authorities, local producers, banking and financial institutions, regional market trading services, a regional labor market, regional infrastructure and other participants. Interaction of global trade networks with participants of the regional market may have the following effects:

*Consumers* have access to a higher level of trade-related services: big range of goods, world standard quality of products, additional services (buying through the Internet, delivery, individual selection of goods, dry-cleaner's), time-saving search and purchase opportunities. In general, we see a higher level of customer satisfaction, which has a positive effect on the image and reputation of the region. Global networks influence price reduction due to the total supply increase (economies of scale) and possibility to regulate supplies through the global logistics network, and due to growth of competition in the industry. Thus, trade networks are instrumental in improving the trade culture and service quality in the regional trading services market, which results in enhanced quality of life and consumption at the territory.

*Regional budgets* received additional income from tax revenues due to growth in turnover, increase in local production, transport sector service and other stakeholders (e.g. advertising, consulting services, etc.) and consequently due to employment growth in the region.

*Banking and financial sectors* benefit from an increased number of transactions, including international transactions, involvement of additional credits and large amounts of insurance. Active functioning of networks in the regions attracts new foreign participants to follow their example.

*Regional infrastructure.* Due to the fact that lack of retail space of appropriate level remains one of the main factors hampering the development of trade in Russia, global retailers typically start active construction of commercial property. Moreover, transport infrastructure develops, big logistics centers appear, and attractiveness of the region increases.

Networks contribute to production volume growth of consumer goods by *local producers*, and create their own brands that define a higher standard of quality for their products. And ideally (with

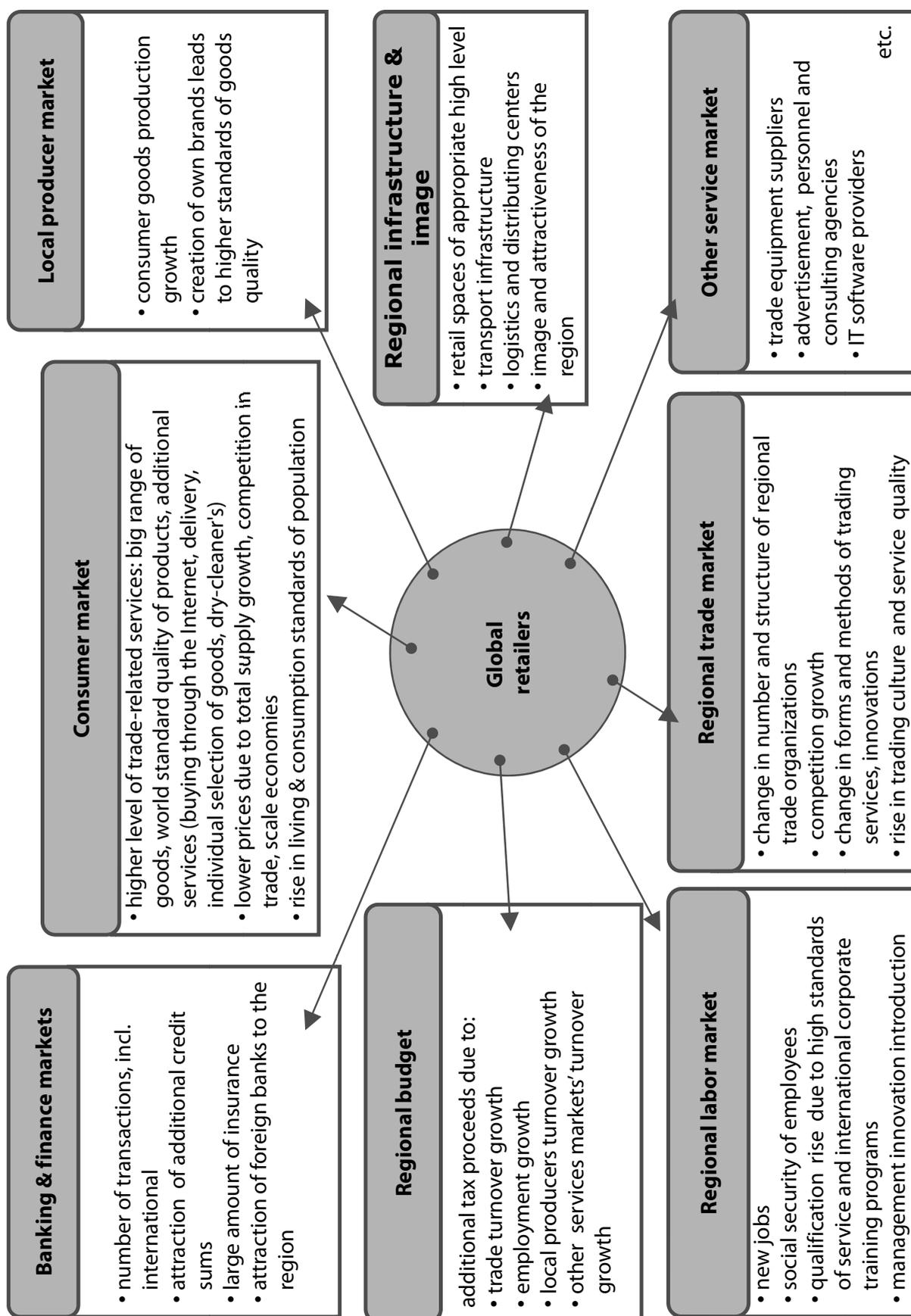


Fig. 1. The model of global retail chain impact on the regional socio-economic development

Indicators of global network performance and their impact on the socio-economic development of the region

Group	Performance
<b>Consumer market</b>	
higher level of trade-related services	Number of trading units in the range of Global retail chains (GRCs), number of additional services provided by a GRC (dry cleaning, buying through the Internet, delivery, individual selection of goods, etc.), quality of goods in comparison with Russian retail chains
lower prices	The price level of GRCs (cross-section of product categories / comparison with Russian retail chains)
standard of living and consumption	Time of single visit to a GRC, frequency of visits per month, volume of purchases (% of customers income)
<b>Regional budget</b>	
employment growth	The dynamics of employment in the retail sector, the total number of GRC employees
additional revenues of the regional budget	tax proceeds from sales and employment of GRCs
<b>Regional labor market</b>	
number of new jobs	Number of jobs in GRCs (absolute, in % to the total volume of the labor market), fluctuation of personnel (by staff categories), average duration of «working period»
social security of employees	The level of wages in GRCs (medium, by staff categories), expenses by a GRC on social programs for employees (absolute, % of profit per employee), benefits for employees (% of wage), directions of social programs, loyalty and employee satisfaction in a GRC
higher qualification through high standards of service and international corporate training	Expenses by a GRC for training and staff development (absolute, % of income per employee), number of programs, quality and usefulness of training, career prospects
introduction of management innovations	Corporate culture of GRCs, management model, business process automation, number of managerial innovations per year
<b>Regional trade market</b>	
change in number and structure of regional trade organizations	Number and structure dynamics of regional trade enterprises and of a GRC, market share occupied by the GRC, the GRC turnover, the GRC revenue per square meter
The degree of competition increases	Number, composition and structure dynamics of the regional trade enterprises and of the GRC, market share occupied by the GRC
change in forms and methods of trading services, innovations	Customer satisfaction service quality, the degree of automation of trade in the MTS and Russian networks
rise in trading culture and service quality	Sociological and marketing research at the head office of the GRC, a survey among buyers of the GRC
<b>Regional infrastructure and image</b>	
retail spaces of appropriate high level	Volume of total retail space, number of square meters per 1000 people
transport infrastructure	Length of new roads, number of public transport lines
logistics and distribution centers	Number of logistics centers, dynamics of their construction
attractiveness of the region	Rating of the region attractiveness for investors, expert opinions
<b>Banking and Finance market</b>	
volume of transactions, including international transactions	% of foreign companies (retailers) in the customers pool of a bank
additional credits	GRC international deals volume
large volumes of insurance	GRC insurance volume
foreign banks involvement in the region	Appearance of foreign banks in the region in 2000-2010
<b>Local producer market</b>	
increase in production of consumer goods	Volume of goods produced for retailers, volume of goods produced for a GRC, % of a GRC's own brands from the total volume of goods manufactured for a GRC
creation of a GRC's own brands determines higher quality standards of products	ISO standards used by a GRC (difference with Russian retail chains)

all the required standards provided) volumes of local production can greatly exceed local demand, global supply, and the distribution chain of retail networks makes it easier for its participants to enter new regional or overseas markets as it significantly reduces the costs needed for their development because of the well-functioning supply chain and broad experience in the given field.

Quality changes could be observed on *the regional labor market*: new jobs appear, social tension reduces and social security of employees is ensured, there is an increase of qualification level of employees due to the high standards of service, international corporate training, introduction of management innovations, which in turn leads to the presence of educational institutions and centers of vocational training.

We should also highlight the presence of other parties in the model: suppliers of trading equipment, advertising, personnel and consulting agencies, IT software providers, etc.

Certainly, apart from the positive impact on the development of regional market participants, we can observe deterrent effect, but we will analyze that issue in our further papers.

In order to evaluate the impact of retail networks, we need to develop indicators referred to dynamics that can be traced. We suggest the indicators presented in table 2. We differentiate them according to the regional groups of market participants: consumers, manufacturers, banks, etc. To assess the qualitative and quantitative parameters, we apply methods of market and sociological research, statistical data analysis for the period of 2000-2010. It is clear that tracing direct impact of international trade networks on each factor in the context of regional trade development is quite difficult. However, the study of quantitative indicators of factors, trends and dynamics of their development, seems to be a necessary complement for solving the problem posed in our study.

For the past five years the situation in the retail trade in Russia continues to improve, and even despite the crisis, this sector is one of the fastest growing in the Russian economy. As substantial structural changes appear, old and new retail formats are developing actively. Retail chains and shops of

a modern format overtake an increasing share of consumer market in the Russian regions, including the Ural Federal District. Competition in this industry is currently very tough, so any serious failure of company infrastructure (trading equipment, communication channels, service quality, etc.) may result in significant losses for a retailer and customer loyalty reduction.

Our working hypothesis is that appearance of global retailers in the region contributes to the socio-economic development throughout the region, since it significantly increases competition among all retail industry participants and creates a particular challenge for them, requiring them to implement innovative management techniques, automation operational processes, to expand the range of quality products and services, to lower prices, etc. Further research and evaluation of the selected indicators will help us to check how integration of Global retail chains in the region's economy influences the level and quality of living in the region, its innovation and investment attractiveness, and image that also contributes to socio-economic development of the region.

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