RETAIL FORMATS IN REGIONAL SUPPLY CHAINS

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Abstract

The starting point for this paper is the concept of retail store format and its importance in the contemporary value chain (supply chain) with respect to the vertical, horizontal and multi-channel marketing systems and opportunities provided by contemporary information and communication technologies. Furtherly, it analyzes the importance of supply chains (especially the importance of retail supply chains) and their international expansion on the one hand, and regional, short and green supply chains on the other. Since the trade is connected to other participants in the value creation chain, new business models are being developed in e-retail, as well as a new perception of concepts for explanation of retail formats’ development. Retail store formats in new business models are particularly important in regional and short supply chains, given the need for faster economic development of rural regions. Therefore, the analysis of the needs and opportunities for the development of regional and short supply chains is especially important in the Republic of Croatia.

Key words: retail format, global supply chains, regional supply chains, short supply chains, Republic of Croatia

1. INTRODUCTION

Retail has a major impact on economic development. Therefore, in the development policy of certain regions, one should pay attention to the retail development, both from the point of view of stores’ locations and from the point of view of supply chains that end up in these stores. Also, one of the major impacts of the economic crisis in last decade was the changing of end markets and regionalization of value chains (Gereffi & Lee, 2012). This paper analyses new developments in the retail store formats and supply chains and emphasizes the importance of their new forms in regional development.

In this regard, short supply chains in the fast-moving consumer goods sector (FMCG) are particularly analysed. The retail structure indicators (shares of certain store formats) of the Republic of Croatia are compared with the same indicators in the selected
European countries (Bulgaria - BG, Romania - RO, Poland - PL, Czech Republic - CZ and Austria - A). Based on the findings, conclusions are reached on the need for a new approach to retail formats development in the function of regional and short supply chains.

2. RETAIL FORMATS

Since large retail companies in contemporary market economies also perform wholesale trade functions, it can be firstly argued about the features of the trade formats.

The trade format is the scope of actual occurrences of trade patterns that are similar in one or more features and may thus differ from other formats (Kenning, 2018). As features to distinguish the trade formats (especially retail formats), one could take:

a) customer circle (retail or wholesale);
b) basic strategies (supply or trade of experiences);
c) field of action (internal or external trade)
d) location (city or green meadow);
e) the product range (universal or specialized)
f) offer (serving, self-service or catalogue)
g) prices (discounter or high-priced);
h) payment (automatized stores or personal billing);
i) distance overcoming (stationary trade, ambulance trade);
j) customer circle (trade for company employees - specially manufactured or purchased, trade for everybody);
k) integration into agglomeration (trade center);
l) organizational form (cooperative and concentration forms of trade);
m) number of sales points (branch business unit, individual company);
n) the size of the business unit (turnover, sales area, workers, number of commodity groups and needs, etc.).

The combination of these features of trade formats is an expression of their marketing concept and thus they are profiling. For retail formats these features could be supplemented by the features of online retailing, in which is essential to integrate certain functions into channels (information, communication, payments, etc.).

The classification into retail formats has its significance in regional retail planning when comparing business units, exploring competition and market shares, and simplifying market delimitation in comparison with point of competition. The aforementioned features of retail formats in today's conditions could be further complemented, especially taking into account the contemporary development of concentration, cooperation and the opportunities offered by modern information technology. In such classification, e-retail formats are important.
2.1. Retail Formats in Concentration and Cooperative Forms of Trade

In concentration processes, large retail companies (retail chains) were formed, which could also take over the wholesale trade functions. Due to market power ("power of demand"), large international retail chains have come to the position to determine prices to manufacturing companies.

Since distribution channel participants can connect by merging functions, various forms of integrated distribution channels, i.e. vertical marketing systems are developed. Such systems emerged as a result of competition and concentration movements, in which some business systems expanded by taking over functions from other channel participants. Common vertical marketing systems are: corporate, contract and administrative marketing systems (Kotler et al., 2006, pp. 863 - 868). However, besides concentration, other factors affect retail company’s “power of demand” as well, such as the ability to close the market for a manufacturing company (in some cases, even a smaller retail chain can close the market for a potential supplier in a certain region), internationalization, retailer’s private labels, retail regulation, consumer behaviour, special investment, etc. The importance of retail concentration can be seen in the fact that only large retail companies and cooperative enterprises can invest more seriously in new technologies and at that base realize development. Because of this, retail concentration is not only a result of its current development, but also a condition for future development.

Retail concentrations are most often analysed according to the market shares of large retail companies and their business groups. In addition, retail concentration is also evident in the development of large sales space stores (Segetlija, 2011). In such retail concentration processes, retail private labels are also being developed.

In contemporary distribution channels, retail is being developed not only within vertical marketing systems, but also within horizontal and multichannel marketing systems. In that sense, online retail formats and their connection with retail stores in the physical sense are important for multichannel retailing.

Within the contemporary conditions of the large companies, management of marketing channels has been expanded to the supply chain management (SCM). In this regard, different concepts of cooperation and associations of companies have developed, relating to the whole economic flows, from the manufacturers of the first raw material, across all levels of production and distribution, to consumption (value creation chains). Therefore, the entire supply chain, which consists of "upstream" and "downstream" partners, is important for today's company (either manufacturing or trading). It includes both suppliers and intermediates, even intermediates' clients, and the so-called value delivery networks are being created (Kotler et al., 2006, pp. 857-859).

The starting point is that market success can be achieved only by creating the entire value networks, not just downstream part – by distribution channels. Hence, large companies or groups now manage their value creation chains. For such management, it is essential to use modern information technology, re-engineering processes and a new way of thinking in the company.

Large retail companies are becoming increasingly important nowadays exactly because of their role in supply chain management, taking this role due to their size.
and strength. Since in today's supply chains, especially in the grocery sector, retail chains have the largest power (Dujak, 2012), the term "retail supply chain" is used very often.

Many retail partners are involved in value creation in the retail supply chain (Wellbrock & Traumann, 2012), but retailers present the efforts of all participants in the overall supply chain because they are in direct contact with consumers. Other members of the supply chain are manufacturers, their suppliers and logistics service companies. Because they have concentrated their functions, international retail chains are in advantage in relation to smaller domicile companies in certain countries they are entering. Also, due to the global expansion of international retail chains, retail is particularly important for countries where the companies’ headquarters are as the owners of these chains, as major strategic decisions are made at these locations.

The retail format is the integrator of various value creation chains, i.e. supply chains, because the retailer has an assortment that consists different products and services. Various products are purchased from different manufacturers. Likewise, services can be outsourced and, together with products, integrate into the value creation chain (logistics services, banking services, internet services, etc.).

### 2.2. Retail Format and E-Retailing

A special feature of retail format is "serving, self-service, catalogue sales". It is about the way of serving (and establishing contact with consumers), and also about the sales space. Of course, in the online retailing, the retail format does not use the sales space, but there are various combinations in which online retailing appears.

Following are the forms of electronic retail (Gittenberger et al., 2013, p. 12):

- pure player,
- bricks & clicks,
- clicks & sheets,
- clicks & bricks & sheets.

In addition, teleshopping and m-commerce are still being used as forms of retail formats without a sales space.

Therefore, retail companies can develop multichannel retail, when along with retail formats with physical location, they run parallel e-retailing. Multichannel retailing refers to the forms of complete electronic (Internet) retailing (different channels for contacts, payments, etc. can be used) or only to enrich some variables of the existing retail mix in a retailer's system that has physical stores. But if internet retailing is integrated with the store in the physical sense and with the catalogue retail, the cross-channel retail is created (Groß et al., 2014, p. 347). This creates new combinations of instruments within the retail mix, i.e. new, enriched forms of retail formats.

Electronic business enables a retail company to apply multiple channels of communication, sales and logistics in the functioning of retail formats in the supply chain. By integrating the communication channels, occurs the omnichannel retail, which emerged from the evolution of multichannel retail. Hence, full channel integration is defined as "omnichannel", through which consumers can buy any product anytime and anywhere, simultaneously including all existing channels. For
"omni-consumers", recognition of the retailer's brand is very important. Mobile phone devices, especially smartphones, have a major role in this (Segetlija & Dujak, 2013, pp. 135 and 136).

This channel integration has provided consumers with information about the goods in physical store itself, but also on the website, in printed catalogues, through television programs and special sales exhibitions. They can buy products locally or order online, by phone or fax. In addition to shopping websites, usual retail formats have customized websites for consumers’ mobile devices (for smartphone or tablet purchases).

In physical stores, cashless payment using EC cards and credit cards are very usual. However, other online payment systems are being tested and already used by online retailers. Delivery of the goods can be done at the consumer's address, at a physical store or at another location. All in all, to offer consumers a choice of options related to the sales platform, billing, delivery, rebate, additional services, etc., retail companies increasingly integrate various communication, sales and logistics channels. In this way, inter-channel retailing allows retailers planned and co-ordinated communication to consumers. Also, consumers are given the opportunity to inform themselves about different sales channels and offerings and to connect and verify this information with their other information channels (e.g. via social networks) and thus make a final purchase decision.

In the design of a retail format, the retailer's personality features that are reflected in the created "business model" are very important nowadays. Business models relate to the application of contemporary information and communication technologies in interaction with business partner (Bosilj-Vukšić & Kovačić, 2004, p. 2) and thus business models change business processes. This means that the competitive advantages of a retail company are achieved not only because of their size (large sales space stores, branch companies, etc.), but also because of the successful process management, i.e. value creation chains. The so-called digital supply chains are developing. This gives the trade new functions in terms of contacts. By adjusting to individual consumers, a new form of retail format becomes a personalized business unit. Because of that kind of integration of trade with other participants in the value creation chain and the development of new business models in e-retailing, new aspects of concepts for explanation of retail formats’ development have emerged. "Trade value chain" could serve as the starting point for "trade connection in the value creation chain" (Peters et al., 2008).

In this context, fresh food products are particularly interesting because their quality depends not only on the technological distribution requirements but also on the distribution timeframe, so accelerating these processes is an important factor in the quality of distribution.

The changes that are expected in retail in the future are disturbing. In this regard, the following forecasts can be specified (Die Zukunft des Einzelhandels, 2017, pp. 13 - 33):

- omnipresent trade (consumer becomes an integral part of the campaign);
- networked inventories (the retailer can integrate in its offer the offer of other complementary retailers);
- personalized products and services;
content marketing and social media (consumers get the chance to make the content of the message itself);

- individual consumers identification and contextualization (based on recording, analysis and use of customer data);
- current availability of products;
- bonding consumers based on comfort (e.g. concierge services, subscription models, etc.);
- super-experience at a physical store (consumers experience the brand with the help of digital technology);
- cash registers removals (payment process becomes an integral part of shopping experience);
- approaching and maintaining contact with consumers (new market players force retailers to prepare new business models themselves or to network with others);
- transparency and automation of the value chain (with the help of, for example, smart tags, consumers can get information on the overall supply chain, especially those on product origin).

3. THE IMPORTANCE OF THE SUPPLY CHAIN MANAGEMENT ON THE GLOBAL, REGIONAL AND LOCAL LEVELS

The importance of supply chain management derives from their function of optimizing value creation chains. In this regard, it is worth pointing out that supply chain management is defined as "design, maintenance and operation of supply chain - process, including those for base and extended products, for satisfaction of end-user needs" (Ayers & Odegaard, 2008, p.10). In contemporary economies, the importance of international and global value creation chains is particularly increasing. However, the importance of regional and short, local supply chains has also been noted recently.

3.1. International and Global Value Creation Chains

The importance of international and global value creation chains is best seen from the increase in import and export share of the intermediary products and previous services, which represent a large share in international trade. Exports of intermediate products in the European Union countries accounted for 57.7% of total exports in 2011, while finished products accounted for 42.3% of exports (Scherk et al., 2017, p. 37).

In the food industry, large food manufacturers, as well as large retail chains in the grocery sector, have become the integrators of international value creation chains so developing countries only through them can include in the global economy (Stamm, 2004, p. 18). Still, a number of products from these countries can not be comprehensively covered (Stamm, 2004, pp. 19-20), which can be a problem for developing countries. These are, for example, ecologically produced products and non-traditional agricultural products. However, intensified global competition between industrial and trading companies and their interest in handling large
quantities of high-quality goods from developing countries can improve the negotiating position of special suppliers from these countries.

3.2. Regional and Short Value Creation Chains

To understand regional supply chains, regional value creation will be defined firstly.

As a regional value creation, one should understand the economic, ecological and quality of life values that arise when one regional need, e.g. for energy, is organized through a bid in the region, i.e. one associated process of creating value - from planning to permanent insurance of activity (George, 2012, p. 14). In regional value chains, regional actors are connected, creating logistical and competitive advantages for the region (Regional Wertschöpfung in nachhaltigen Landmanagement, 2014, p.7). Therefore, regional value creation can be understood as the totality of the effects of regional enterprises as well as the benefits produced for the community after deducting the effects of the benefits obtained from others.

Regional value creation networks are needed for regional value creation. In these networks there are many regional interrelations that relate to (Regionale Wertschöpfung in nachhaltigen Landmanagement, 2014, p.20):

a) one level of value chain
b) value chain levels following one after another.

The regional supply chain of value creation is considered to be the supply of a predominant value chain activities from the region so that in the region remains the predominant part of value creation. In order to realize this concept, regional partnerships are needed, and their goal is to develop, strengthen or build regional value creation chains (Schubert & Bühler, 2008., p. 6). There are different areas within which regional supply chains are created. Such areas could be the following (Schubert & Bühler, 2008, p. 13): tourism, umbrella (regional) brands, food, bioenergy, forestry and wood industry, environmental protection and nature, crafts and construction, etc.

For example, the research that included various large companies in North America showed that companies with regional supply chain focus have increased market value (Rugman et al., 2009). Although this region is quite different from smaller regions, it could be indicative for smaller regions and food industry.

In the food sector, e.g. in Germany, there are two developmental paths (Ludwig-Ohm & Dirksmeyer, 2013, p.222). These are, on the one hand, shorter value creation chains, even up to two partners (bypassing inter-trade and thus more cost effective). Co-operation partners can accelerate innovation through direct contact and reduce risk. On the other hand, starting from the future increased demand for suitable products and pre-produced products, occur more and more complex value creation chains in which many actors from production and processing are included. However, if one company can no longer introduce a new development itself, occurs co-operation between value chains and networks, e.g. to serve more large customers with one standardized product line.

Short supply chains nowadays play a key role in new food supply networks that are considered as an alternative to a dominant diet system (short food supply chain – SFSC) (SFSC, 2013, p.1). It is well known that characteristics of short supply chains
are a limited number of members engaged in co-operation, local economic development and very close relationships, in the geographical and social sense, between producers, companies - other participants in that process - and consumers. In terms of EU regulations, supply chains are "short" when between manufacturers and consumers no more than one actor is included, e.g. a retailer or other participant in that process, who, when buying a product from farmers, obtains control of the product (Zusammenarbeit im Rahmen kurzer Versorgungsketten und lokalen Märkte, 2018).

Short supply chains have been established in parallel with conventional supply chains, and the term SFSC refers to both traditional and newer alternative forms of production, processing, distribution and consumption of food products (SFSC, 2013, p.1).

The interest of researchers and strategic decision makers for short supply chains has been driven by their multiplicity, their peculiarity and their contribution to the development of the economy, environmental protection and nature.

Based on the existing research, local systems of food products and short supply chains can be divided into three groups (Lokale Lebensmittel und kurze Versorgungsketten, 2012, p.5; Chiffoleau et al., 2016):

a) direct sales of individual producers;
b) direct sales to the collective;
c) partnership.

Direct sales refer to: manufacturer's store, for sale on own fields of harvest or at other sales outlets on own facility. This allows consumers to buy products at the manufacturer's facilities. Furthermore, the manufacturer can sell his products both outside his facilities, e.g. at a weekly fair or expand his sales point and sell products of other farmers. In the urban areas or in the peripheries of the town, there are possibly bio-boxes (ger. Biokiste) in which the farmer sends directly to the consumers previously ordered quantities. By direct sales on the Internet manufacturer can serve a lot of consumers, but there is no direct consumer and manufacturer communication. Also, in order to maintain this special relationship, manufacturers must take care of product characteristics data and their shopping experience based on well-structured web sites, many good photos, videos, and more.

In the sale of their products, manufacturers can cooperate and jointly sell larger quantities to procurement groups, sell it in their plants or through special collective sales outlets that organize such sales. However, such manufacturers are also engaged in setting up joint web sites, through which more manufacturers from some region offer their products. At local events, manufacturers have the opportunity to publicly present their products, offer them for degustation and jointly sell their products. Such events can celebrate the common aspects of a certain area. Local specialties can be offered and connected to other areas of rural tourism.

Local food products can also be sold through intermediaries. These can be public kitchens, schools, hospitals etc. In such cases a cooperative of manufacturers is established which supplies these customers. In order to bring local products closer to consumers, the “Ecken” supermarkets are being established more and more. Manufacturers’ cooperative or one intermediary offer products from different manufacturers that are directly delivered to the supermarket, where their origin is identified.
When it comes to partnerships between manufacturers and consumers of food products, consumers are more actively engaged in building and assisting local food supply systems and building shorter supply chains. In such cases, consumers bear the risks and advantages of such production with manufacturers. It is about written arrangement of direct sale of certain products. Such systems exist in solidarity agriculture, where consumers bear a part of the production costs and are usually given a certain amount of products. Of course, in some regions, such partnerships may include further participants, as the public sector etc.

It is accepted nowadays that short supply chains serve as market niches for manufacturers and consumers who do not accept the usual agricultural and food system and who aspire to higher ethical values. Direct contact between manufacturers and consumers of food products is developing a better understanding and value evaluation of the product and its origin, its production and consumption, etc. Since relationships go much further than the ordinary exchange of products, manufacturers and consumers are also better acquainted and mutually valued.

4. SHORT SUPPLY CHAINS AND GROCERY RETAIL FORMATS IN THE REPUBLIC OF CROATIA

Short supply chains in the food sector are in the function of rural development of certain regions. Their shaping in some regions in the Republic of Croatia is even more needed as Croatian agriculture, compared to EU agriculture, achieves very modest results (Jurišić, 2014, p. 208). Therefore, an assessment can be made of the great problems in Croatian agriculture, but also of the great potential for the development of agriculture (especially ecological agriculture) (Tomić, 2014).

Of course, as a member of the European Union, the Republic of Croatia is developing in accordance with the adopted guidelines and programs. The European Commission approved on May 25, 2015 the Rural Development Programme of the Republic of Croatia for the Period 2014 – 2020 (Program ruralnog razvoja 2014. – 2020. godine, 2015). The program defines 16 measures aimed at increasing the competitiveness of Croatian agriculture, forestry and processing industries, as well as improving living and working conditions in rural areas (Program ruralnog razvoja Republike Hrvatske – Europski strukturni i investicijski fondovi, 2015). In particular, the selected measure 11 ("Ecological breeding"), as well as measure 16, sub-measure 16.4, may be highlighted, which reads as follows: “Support for horizontal and vertical co-operation of supply chain members in the establishment and development of short supply chains and local markets, and to promote activities in the local context related to the development of short supply chains and local markets”.

In regard with the development of short supply chains in the Republic of Croatia, particularly interesting is the project "Establishment of short supply chains and competitive agricultural sector in the cross-border area through institutional cooperation" (abbreviated as Agroshort) (Agroshort, 2018). The leading partner in this project is the Regional Development Agency Međimurje (REDEA ltd.) and the project partners are:

(1) PORA Regional Development Agency of Koprivnica Križevci County;
The existing retail structure in the Republic of Croatia for now is not yet enough in the function of the development of regional, short and green supply chains. This can be recognized even based on data on the negative balance of the foreign trade balance of food, beverages and tobacco (SLJH 2017, p. 392). Based on data on areas under organic farming (Graph 1), one can see the lag of the Republic of Croatia in ecological food production.

**Graph 1. Area under organic farming in the Republic of Croatia and selected European countries in 2016**

![Graph 1](image)

Source: Eurostat (2018a); Area under organic farming 2016.

In the Republic of Croatia, in the grocery retail, predominantly food, beverages and hygiene products, ten largest companies held about 80% of the market share in 2016 (AZTN, 2017). The store formats in the FMCG sector in the Republic of Croatia and the selected European Union countries in 2015 are shown in graph 2.

**Graph 2. Value shares of store formats in FMCG - sector in selected European countries in 2015**

![Graph 2](image)

Annotation: as forms of modern format are taken: hypermarkets, supermarkets, discount stores and wholesale and retail cash and carry stores.

FMCG sector in the Republic of Croatia has relatively high shares of small and specialized stores. These capacities could be used in shaping short supply chains. However, for the creating of contemporary short supply chains, e-retailing would be highly necessary. By the share of e-retail in the total retail trade, the Republic of Croatia is currently significantly behind the other European countries (graph 3).

**Graph 3.** Shares of turnover via mail order houses or via Internet in the total retail trade* in selected European countries in 2015.


5. INSTEAD OF CONCLUSION

Retail development in a certain country should be seen in its function of supply chain development. Only in this way one can recognize what its importance is for the economic development of the country. Regional, short and green supply chains are becoming increasingly important because they can be developed in terms of regional development and ecological production.

In the Republic of Croatia, the idea of developing short and regional supply chains for now has not been particularly affirmed, although there are needs and opportunities for faster economic development of particular regions (especially agricultural ones).

Future research are necessary in order to contribute to development of economically less developed regions, but with great potentials. Since consumers are more engaged in building short supply chains, especially in food sector, it would be recommendable to include them into further research and to get clear picture how they are ready to participate and make regional supply chains more successful and long-term sustainable.

6. REFERENCES

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