Russian Retail Chains vs. Foreign Retailers: Changes within the Industry and Supplier-Retailer Relationships

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Summary

In recent years there has been major growth in the retail sector in Russia. The Russian retail market has undergone numerous changes, with retail chains becoming increasingly powerful. This process was clearly accelerated by recent arrival of foreign retail "heavyweights" known for their aggressive marketing strategy and the successful implementation of modern business practices. Challenged by the prospect of fast arising foreign competition, Russian retailers actively seek for adequate response trying to gain additional advantages. In this paper we look at the changes that have recently happened in the Russian retailing and what the impact, if any, has been on supplier-retailer relationships.

Key words: supply chain, relationships, retailers

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Introduction

In this paper we look at the changes that have recently happened in the Russian retailing and what the impact, if any, has been on supplier-retailer relationships.

Over the past decade, the Russian retail market has undergone numerous changes, with retail chains becoming increasingly powerful. This process was clearly accelerated by recent arrival of foreign retail "heavyweights" (Spar, Auchan, Marktkauf et al.) well known for their aggressive marketing strategy and the successful implementation of modern business practices. Challenged by the prospect of fast arising foreign competition, Russian retailers were actively seeking for adequate response. The process was of the more interest since it appeared to be an organic part of new market creation: the Russian transition process into a market economy.

Our opinion is that the overall trend is towards the industry being dominated by a few large corporations, but it will take them a certain amount of time to get visible results not only in Moscow but in Russia as a whole. We witness now a complex and slow process, which can be investigated and better understood by using the tools of the network view.

Over the past two decades, the literature has increasingly moved to consider inter-firm networks as an integral part of the economic and social reality. Network approaches vary significantly being numerous and diverse but having all together formed foundation for the development of a new paradigm (Rumyantseva and Tretyak, 2003). This paper takes network paradigm as a main basis of investigation looking at the development of Russian retailing mainly under the of the IMP research tradition. In line with this tradition, the market can be described as networks of multidimensional exchange relationships between business actors. These actors control heterogeneous, interdependent resources and conduct inter-linked activities. Collaborative relationship management and procurement practices are of crucial importance (see, for example, Gadde and Håkansson, 2001; Gattorna and Walters, 1996; Gemünden *et al.*, 1997; Johanson, Mattsson, 1987; Lindgreen, Beverland, 2004, Saunders, 1994). An attempt to analyse interaction processes and changing connections of business relationships within the context of Russian retailing form the mainframe of this work-in-progress paper.

The Main Topics Discussed

We organize the paper around the following topics. Firstly, we give a brief overview of the developments in the Russian retailing pointing out the main differences in the competitive positions of the local retailers vs. multinational retailers. We then investigate recent changes in supplier-retailer relationships paying the main attention to logistical and IT initiatives and developments in this sector and their possible effects on power and mutuality in supplier-retailer relationships. In particular, we look at the changes that have recently happened in the Russian fresh fruits supply chain. The problem is examined in this study using secondary data available, including relevant empirical studies (Kuznetsov, Simatchev, 2001; Linz, 2002; Radaev, 2003; Salmi, 2004) as well as in-depth interviews with participants from the Russian fresh produce supply chain. Finally, we make an attempt to give a cross-cultural comparison using data gathered by academic researchers while investigating changes in the UK fresh produce supply chain (Bedford, 2000; Blundel, Hingley, 2001; Fearne, Hughes, 2000; Hughes, 2000; Hingley, 2001; Hingley, Lindgreen, 2002; Hingley, Lindgreen, 2004).

The Recent Developments of the Russian Retailing

The main features of the modern Russian retailing are as follows (Radaev, 2003; Sheresheva, 2005):

- increasing share of retail chains,
- increasing number of specialised retail chains,
- growing power of foreign retail chains,
- regional (territorial) expansion of retail chains aiming to overstep the limits of Moscow and St.Petersburg markets.

Our findings coincide with the view that relational exchange requires facilitation through use of technology. Advanced ICT, including electronic data interchange via Internet, is one of the main competitive advantages of the big foreign retail chains (Spar, Auchan, Marktkauf et al.) as compared with the local ones. Another real competitive advantage of foreign retail "heavyweights" is their aggressive marketing strategy and the successful implementation of modern business practices including logistical initiatives. Still, both foreign and local retail chains run into the same obstacles while trying to establish their supply chains. These obstacles are the lack of trust and the lack of professionalism, especially in logistic issues. That's why not only Russian but also foreign chains fail in using network effect of ICT to extend their supply networks with collaborative, interorganizational *information infrastructures* empowering buyer-seller relationships (Nøkkentved, 2004). In the purchasing-side of the firm, such information infrastructures are realized by Internet-enabled applications also called *eProcurement* or recently *Supplier Relationship Management*. Information technology is evolving quickly in Russian retailing, still using of ICT remains fragmentary and mechanistic. There is no basis for understanding that successful implementation of SRM practices will require information infrastructures that reflect buying processes and the complexion of relationships that an enterprise maintains with its trading partners. In other words, there is no up-to-day implementing of ICT presuming creation of *information infrastructures* as *socio-technical* systems. Moreover, some Russian retail chains declare reduction of ICT expenditures considering these expenditures as accessory and seeing no competitive advantage in developing information infrastructure (Sheresheva, 2005). As a result, retail chains in Russia don't have not only a SRM-system but even a full-fledged SCM- system which could serve as a pier to information infreastructure.

The problems mentioned above were pointed out using secondary data available, including relevant empirical studies (Kuznetsov, Simatchev, 2001; Linz, 2002; Radaev, 2003; Salmi, 2004; Sheresheva, 2005). To proceed the study, we aimed to examine a number of players in the Russian fresh fruits supply chain. To that end, we carried out in-depth interviews with a number of relevant companies working on the Russian market.

Primarily Data Collection: Research Methodology

While collecting data we used semi-structured, personal interviews that allowed access to respondents' thoughts, opinions, attitudes, and motivational ideas. So, the emphasis was on the qualitative methods which are the most appropriate if

understanding and explanation are the main target of research. This is an approach that has been employed in UK fresh produce supply chain research by Hingley and Lindgreen (Hingley, 2001; Hingley, Lindgreen, 2002; Hingley, Lindgreen, 2004), which made it possible to give compare some data gathered.
A sample of suppliers included the main wholesalers and importers working on the Russian market and an amount of small and medium suppliers selected for reasons of being typical examples of organisations. Utilising a *snowball* approach information was obtained on retailers with whom the suppliers had dealt with, and contact with these suppliers was established. All the interview respondents asked that they be kept anonymous in the research. The interviews with the suppliers helped to give a general idea of suppliers' thoughts and visions, as well as views on partnerships with retailers. The interview guide was prepared which helped to discuss all the needed topics with every respondent and still to allow respondent as much freedom in their answers as possible. All interviews were first taped and later transcribed to allow for a detailed analysis. The interpretative reports were returned to the respondents for their comments. To improve the quality of the analysis, all the secondary data available were used to verify the general market situation and some questionable statements of the respondents.

Developments in the Russian Fresh Fruits Supply Chain

We have gained a lot of primarily information, some information is still to be analysed. Some of the results are to be reflected in this work-in-progress paper.

The main role in the fresh fruit supply chain in Russia belongs to wholesalers. They are the leading suppliers of retail chains. (Fig.1).

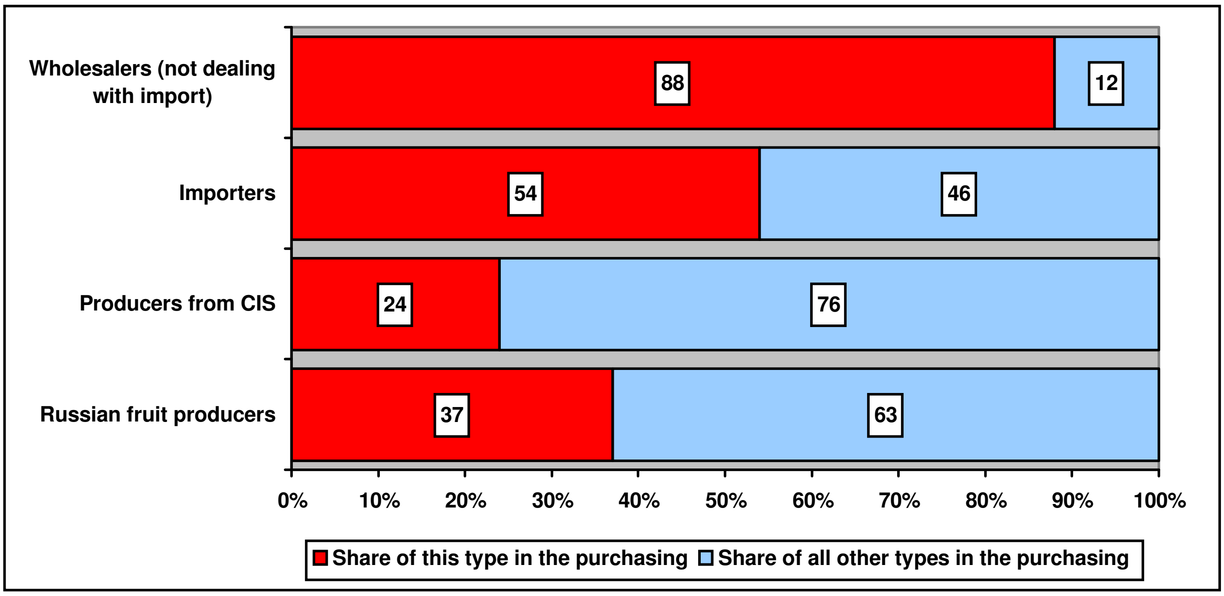

Fig.1. Share of different suppliers in purchasing structure

The main factors defining fresh fruit supplier choice in Russia are mainly transaction-oriented (Fig.2): many Russian retail and wholesale companies are still ready to change their suppliers.

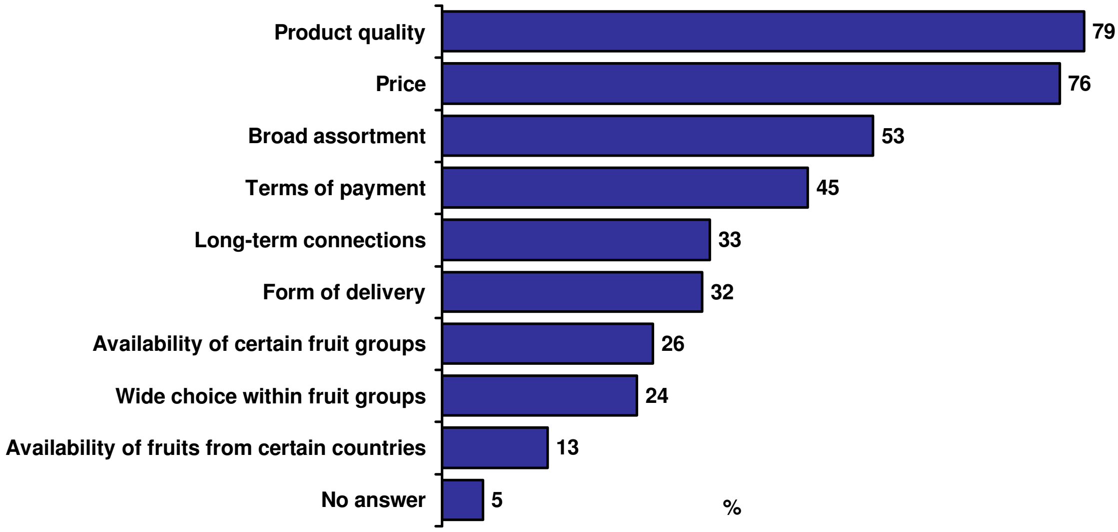

Fig.2. Criteria of fresh fruit supplier choice in Russian fresh fruit supply chain (n=100)

The relationship duration is obviously not the main criterion in Russia, but at the same time this factor is gaining real importance. Moreover, the analysis of the interviews gives a good reason to claim that the long-term connections now prevail which was not the case ten years ago (Fig.3). In spite of the fact that the data collected are qualitative and therefore not representative, the tendency is quite obvious.

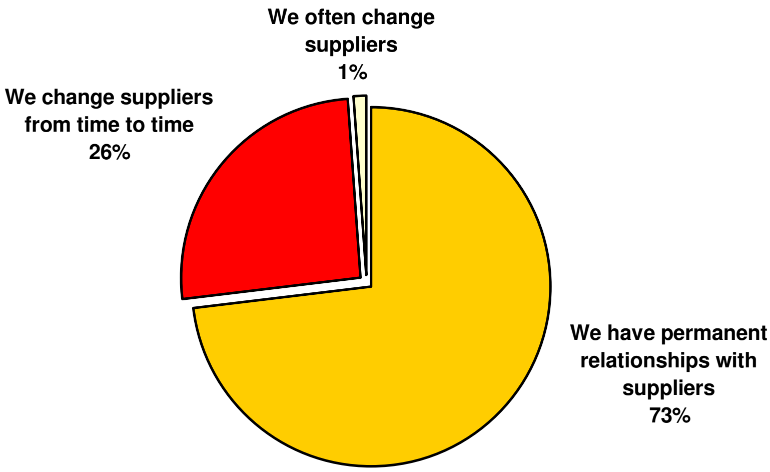

Fig.3. Share of long-term supplier-retailer connections in Russian fresh produce industry

As an additional support of the conclusion we may consider the fact that the main information channel for retail companies in Russia are their suppliers. Still, the flow of information is far from easy. Our findings show that the main barriers to developing relationships in Russia are the lack of trust and the lack of professionalism. Many respondents underline the fact that they often regard the information from their partners as something needed additional analysis and examination.

Finally, we are going to use the results gained from interviews making an attempt of a cross-cultural comparison.

Comparison with UK Fresh Produce Supply Chain.

As compared with UK, the Russian fresh produce industry is on the quite different stage of development.. The UK fresh produce industry is characterised by over-supply and stagnant annual growth, retailers are driven by the need to improve supply chain integrity, to provide greater consistency in the quality of fresh produce (Hingley, Lindgreen, 2004). In Russia, on the contrary, there is an impressive growth caused by unsatisfied demand in the most fresh produce industry segments, and there is no real need to provide consistency in the quality of fresh produce. Still there are also some similar trends including the need to reduce costs through economies of scale and, which is highly remarkable, the Russian companies are also looking for fewer and larger suppliers who can work with them in partnership. Though such partnerships in Russia are not yet adequately elaborated, there is already a visible trend towards supply chain concentration, a process that could have a possible deep impact on the relationships, networks, and interactions between sellers and buyers.

In addition, Russian supermarkets as well as UK ones, receive a considerable amount of criticism with regard to fair dealings with suppliers. Unfortunately, there is no sign of any code of practice in Russia which could bear resemblance to code of practice drawn up by the Director General of Fair Trading in the UK, to which most leading UK food retailers have agreed to comply. The relations between major networks of supermarkets and their suppliers in Russia are developing spontaneously. Against this background of apparent unrest over supplier-retailer relationships it is of interest to identify experiences from those engaged in close-partnering relationships.

Conclusion

Our main conclusions are as follows. Most local companies in the Russian retailing still consider selling firms as adversaries, not collaborators, and therefore prefer to emphasize on optimizing single transactions instead of creating win-win situations and building long-term connections. Few local managers really understand the role of intangible assets, and relational assets in particular, as an essential factor of their competitiveness and profit-generating capacity. On the other hand, Russian companies are now facing the new reality. They have to struggle with foreign competitors (multinational retail chains) coming to the local market and bringing modern organisational ideas which help them to beat local actors. Thus, Russian chains are strategically committed to building long-term exchange relationships with their customers and suppliers. Recent IT initiatives and developments in this sector step up as one of the catalysts of the process. Critical questions are where to find strategic business partners and how to establish relations with them, since the suppliers demonstrate much less readiness to long-term win-win collaboration. Nevertheless, there is already some positive experience of gaining additional advantages from such collaboration in Russia.

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