

# Retail Development under the Conditions of Globalization

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**Abstract**—Globalization of economic processes requires the study of the patterns of trade development in the world's business space. The purpose of this research is to study the trends in the development of retail trade chains, giving evidence of globalization processes in retail. The object of research are international retail trade chains, included in TOP-250, according to Deloitte. It identifies the trends, issues and prospects of development of the largest retail chains and estimates the level of global activity of retail chains based on the scale of their operations in international markets: the number of countries present, revenue from international operations, the development of private labels. A more detailed research is carried out on the example of the Russian market of retail trade chains.

**Index Terms**—Globalization, retail chains, retail market, retail revenue.

## I. INTRODUCTION

Globalization processes are an important trend in the modern world, which affects all business sectors, including retail [1]-[3]. For a long time retail was seen just as a technological structure ensuring that manufacturers' goods reach the consumer, and the globalization processes did not have any impact on it. For instance, in 1997 there were no retail companies in the list of 200 biggest companies in Russia, and in the US among 100 biggest companies there were only 3 retail companies. As retail chains started to develop, the situation has changed dramatically [4]-[6]. Retail has become one of the leading business sectors. So, retail contribution to GDP in many countries is bigger than that of other business sectors: in the US it accounts for 27% of GDP, in Russia – for 19,7%. Today retail, due to a range of peculiarities, connected with the development of retail chains, is in the center of globalization processes. The purpose of this research is to identify the peculiarities of development of retail chains providing evidence of globalization processes in retail.

## II. LITERATURE REVIEW

The main characteristic feature of the development of world economy at the end of the 20th and the beginning of the 21st century is the increasing globalization process, the essence of which is demonstrated by the transnationalization of international economic relations [7], [8]. Theodore Levitt, an American scientist, is considered the founder of the globalization theory after the publishing of his book called

“The Globalization of Markets” in 1983 [7]. A specific peculiarity of the phenomenon of globalization is that it is a many-sided process, which is reflected in the definition of globalization as an ideological, economic and social issue [9]. The globalization process embraces nearly all business sectors, but has unprecedented influence on retail in the first place. The main initiators and the result of retail development under the conditions of globalization are retail trade chains [10]-[13].

The development of retail trade chains under the conditions of globalization is reflected in the growing scale of business, larger enterprises, blurred territorial borders for business while preserving national identity, transnational operations based on the use of networking technologies, which goes in line with the establishment of a new world economy [14,15].

Modern globalization processes are unfolding with a different degree of intensity in different regions of the world and between different groups of countries. The most active development of these processes is taking place in Europe. Today there is also a growing global activity of retail trade chains from developing continents – Africa and the Middle East, Latin America, Asia-Pacific regions [16].

## III. RESEARCH METHODOLOGY

The methodological basis of this research comprises the reports of a British consulting and audit company «Deloitte Touche Tohmatsu Limited" (DTTL), analytics agencies and consulting companies A.T.Kearney, A.C.Nielsen, INFOline, RBK, Hybris, KPMG, Grinderr.

## IV. ANALYSIS OF RESEARCH RESULTS OR SCIENTIFIC PROBLEM

In 2013 the retail market in European countries was valued at 3,1 trillion euros, in the US – at 3 trillion euros. Here are the top three European countries according to the volume of retail trade: 1<sup>st</sup> place – Russia (465 billion euros), 2<sup>nd</sup> – France (417 billion euros), 3<sup>rd</sup> – Germany (412 billion euros).

The main peculiarity of development of the largest retail trade chains under the conditions of globalization is the increasing scale of their business activities. In 2013, 250 world's largest retailers included in the rating of Global Powers of Retailing by an international consulting company Deloitte had a revenue of about 4,355 trillion dollars, 10 largest retailers - 1,295 trillion dollars, or nearly 30% of the total revenue. The downward trend in the growth rate of net retail revenue of top 250 retailers which started in 2011, continued in 2013.

Despite the continuing downward trend in the growth rate, approximately 80% of the companies under consideration (199 out of 250) showed a rise of retail revenue in the

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financial year 2013. 10% of all the revenue belongs to the largest retail leader in the world – Wal-Mart (Table I).

The table shows that out of the world's top 10 largest retailers, 5 are American retail chains (Wal-Mart Stores, Costco Wholesale Corporation, The Kroger Co, The Home

Depot, Target Corporation), 3 are German retailers (Schwarz Unternehmens Treuhand KG, Metro AG, Aldi Einkauf GmbH & Co), 1 is from France (Carrefour S.A) and 1 from U.K (Tesco PLC). The most successful large retail chains in 2013 were companies which belong to the FMCG Sector.

TABLE I: TOP 10 RETAILERS WORLDWIDE, 2013\*

Retail revenue rank 2013/2012.	Name of company	Country of origin	2013 net retail revenue (US\$m)	2013 group net income (US\$m)	2008-2013 retail revenue CAGR,%	Countries of operation
1/1	Wal-Mart Stores	U.S.	476,294	16,695	3,3	28
2/3	Costco Wholesale Corporation	U.S.	105,156	2,061	7,7	9
3/4	Carrefour S.A	France	101,844	1,812	-3,3	33
4/5	Schwarz Unternehmens Treuhand KG	Germany	98,662	n/a	6,5	26
5/6	Tesco PLC	U.K.	100,213	1,529	2,9	13
6/5	The Kroger Co	U.S.	98,375	1,531	5,3	1
7/7	Metro AG	Germany	86,393	588	-0,9	32
8/9	Aldi Einkauf GmbH & Co	Germany	81,090	n/a	5,5	17
9/8	The Home Depot	U.S.	78,812	5,385	2,0	4
10/10	Target Corporation	U.S.	72,596	1,971	2,9	2
	TOP 10		1294,698	2,8%	3,0	16,5
	TOP 250		4354,562	3,4%	4,2	10,2

Source: Official website of Deloitte (www.deloitte.com/about) n/a- not available

TABLE II: INDICATORS OF WORLDWIDE RETAIL, 2006-2013\*

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Retail revenue, (US\$tril)	3,246	3,619	3,818	3,763	3,940	4,271	4,287	4,355
Average retail revenue of Top 250 company, (US\$mil)	12,96	14,87	15,29	15,05	15,76	17,08	17,15	17,42
Composite net profit margin, %	3,6	3,7	2,4	3,1	3,8	3,8	3,1	3,4

\*Source: Official website of Deloitte (www.deloitte.com/about)

The grand scale of business of transnational retail trade chains can be judged by the principal performance indicators of 250 world's largest retail trade chains, published by DTTL (Table II).

Active globalization of retail and its entrance to new markets is a very important area of focus for transnational retail corporations and a leading trend in their development in the modern world, which by and large signifies the intensification of the globalization process in the world's economy. The average number of countries presence in TOP-10 is 16,5, in TOP-250 – 10,2. The expansion of geographical presence of worldwide retail chains is confirmed by the increased average number of countries of operation, which has grown from 2006 till 2013 by 4 countries and accounted for 10,2 in 2013 (Fig. 1).

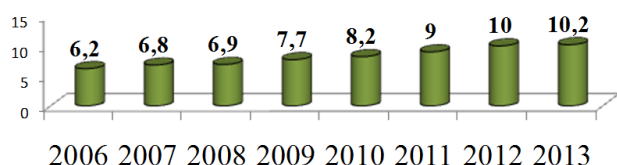


Fig. 1. Average number of countries of operation of the largest retail chains from 2006 till 2013.

Global expansion gives opportunities to large transnational retail chains to increase the volume of retail sales in developing countries and create large-scale controlled global regional supply chains.

Territorial expansion has led to an increase in revenue of the largest retail chains coming from international operations.

Thus, about 40% of retail revenue of European retail chains during the period under consideration has come from operations outside national borders. (Table III).

TABLE III: LEVEL OF GLOBALIZATION BY REGION / COUNTRY, 2009/2013\*

Region/country	Average of countries		% retail revenue from foreign operations	
	2009	2013	2009	2013
Top -250	6,8	10,2	21,3	24,2
Africa/Middle East	9,0	12,1	12,5	25,1
Asia/Pacific	3,7	5,4	12,3	14,0
Japan	2,8	3,9	10,0	9,4
Europe	11,1	16,2	35,1	38,6
France	18,9	28,6	35,6	43,6
Germany	13,8	15,4	41,8	45,4
U.K	10,0	16,1	19,0	21,5
Latin America	1,6	2,3	9,9	22,9
North America	3,9	7,8	11,8	14,7
U.S.	5,1	8,5	11,7	15,4

\* Source: developed by authors

The analysis of research results shows that the US has the largest number of retail trade chains, represented in TOP-250 – 79 retailers. The company share in TOP-250 accounts for 31,6 %, the revenue share – for 41,9 %. High global activity is demonstrated by European companies. 90 largest retail trade chains of European origin are represented in the TOP-250 rating. There has been a growing trend in the global activity of retail trade chains from countries of developing continents – Africa and the Middle East, Latin America, Asia-Pacific regions (Table IV).

TABLE IV: REGION / COUNTRY PROFILES, TOP-250, 2013\*

Region	Companies	Average retail revenue (US\$mil)	Share of TOP 250 Companies, %	Share of TOP 250 Revenue, %
TOP 250	250	17,418	100,0	100,0
Africa/Middle East	7	6,384	2,8	1,0
Asia/Pacific	55	11,121	22,0	14,0
Japan	31	9,835	12,4	7,0
Other Asia/Pacific	24	12,782	9,6	7,0
Europe	90	18,840	36,0	38,9
France	14	29,279	5,6	9,4
Germany	17	27,060	6,8	10,6
U.K.	14	19,391	5,6	6,2
Other Europe	45	12,316	18,0	17,7
Latin America	10	7,757	4,0	1,8
North America	88	21,875	35,2	44,2
U.S.	79	23,108	31,6	41,9
Canada	9	11,052	3,6	2,3

\* Official website of Deloitte (<http://www.deloitte.com/about>)

As for the peculiarities of development of Russian retail chains, which appeared on the market twenty years ago have gone a difficult way from establishing to the opportunity of becoming competitive in the global economy. The six largest chains of Russia – Magnit, X5 Retail Group (Pyatyorochka, Perekryostok, Karusel chains), Dixy, M.Video, O'key, Lenta – have been present in the Global Powers of Retailing rating by DTTL for a few years now. Every year these chains are developing more and more effectively: thus, Magnit has moved from the 124<sup>th</sup> place in 2010 to the 55<sup>th</sup> in 2013, X5 Retail Group occupied the 83<sup>rd</sup> place in 2010, and in 2013 it was the 58<sup>th</sup>. In 2012 Dixie entered the list of largest world's retailers, occupying the 192<sup>th</sup> place. In 2013 it moved to the 166<sup>th</sup> place. Two companies, O'key and Lenta in 2013 were first represented in this rating (their positions accordingly – the 196<sup>th</sup> and the 206<sup>th</sup>) (Table V).

TABLE V: POSITIONS OF DOMESTIC RETAIL CHAINS IN THE WORLD RANKING TOP-250, 2013\*

TOP- 250 Rank		Name of company	Indicators for the 2013 fiscal year ending June 2014 (US\$mil)	
2013	2012		Revenue	Net profit
55	65	Open Joint Stock Company Magnit	18197	1118
58	58	X5 Retail Group N.V.	16785	345
166	192	OJSC Dixy Group	5628	96
192	211	OJSC «Company M.Video»	4657	180
196	–	Lenta Group	4539	223
206	–	O'Key Group S.A.	4387	157

\* Source: Official website of Deloitte ([www.deloitte.com/about](http://www.deloitte.com/about))–Access mode:<http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer -Business/dttl-CB-GPR14STORES.pdf>

The six retail chains mentioned are among the TOP-50 fastest developing companies of the world, a rating presented by DTTL every year. The selection criterion is the growth rate

of average annual revenue (Table VI).

TABLE VI: POSITIONS OF DOMESTIC RETAIL CHAINS IN THE WORLD RANKING TOP - 50, DELOITTE, 2008 – 2013, %\*

Top-50 Rank	Name of company	Retail revenue CAGR	Retail revenue growth	Net profit margin
9	OJSC Dixy Group	30,2	22,8	1,7
12	Open Joint Stock Company Magnit	27,9	26,2	6,1
16	Lenta Group	23,2	31,3	4,9
20	O'Key Group S.A.	22,3	18,8	3,6
31	OJSC «Company M.Video»	16,8	10,8	3,9
35	X5 Retail Group	15,0	6,3	2,1

\* Source: Official website of Deloitte ([www.deloitte.com/about](http://www.deloitte.com/about))–Access mode:<http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/dttl-CB-GPR14STORES.pdf>

Dixy retail chain has demonstrated the highest growth rate among the national companies: it has occupied the 9<sup>th</sup> place in that list, its average annual revenue increase from 2008 till 2013 being 30,2%.

Growth and consolidation of retail business is not only taking place within the national economy, but is also acquiring a global nature in the worldwide economic business space. The share of four-five largest retail chains in Great Britain and France accounts for about 80% of sales. In Norway the concentration ratios of five largest chains reaches approximately 95% of consumer market. On average, in the countries with developed market economy, retail trade chains control 60-90 % of the consumer market. On the consumer markets of eastern European countries (now members of the EU) the level of consolidation is lower compared to the average European level, due to the fact that small specialized stores have retained their position. The degree of consolidation in Russia has not yet reached such levels, but it has been growing steadily. By the end of 2014, the degree of consolidation on the Russian FMCG market of 8 largest retail trade chains accounted for 20,8% (Table VII).

The analysis of performance of eight largest Russian retail chains shows that there is no absolute market leader for FMCG yet. There is fierce competition for leadership between two largest retailers, Magnit and X5 Retail Group. Since it was established in 2006 and up to 2013, X5 Retail Group was overtaking Magnit in retail revenue. In the first quarter of 2013 Magnit's retail revenue increased by 30,44%, whereas that of X5 Retail Group rose only by 8,1%, which allowed Magnit to overtake the competitor. This has been a continuous trend. Magnit's retail revenue CAGR 2014/2013 was 31,6%, that of X5 Retail Group - 18,6%. Market share: Magnit - 6,2%, X5 Retail Group - 5,1%.

According to another important indicator, shopping capacity, Magnit overtakes X5 Retail Group, just like in 2011. By the beginning of 2012, Magnit's shopping capacity reached 1,97 million square metres, whereas its competitor had 1,73 million square metres. In 2012 Magnit's shopping capacity already reached 2,55 million square metres, increasing the gap between the competitors. The average

growth rate of Magnit's shopping capacity during the years 2010-2014 accounted for nearly 158%, while X5 Retail Group increased its shopping capacity by 121,8%. The gap between the retailers is even larger in terms of capitalization: the investors of the London Stock Exchange rate Magnit five times higher than X5 Retail Group - \$30,12 billion and \$5,9 billion accordingly. Although the retailers mentioned above are competitors, they have diametrically opposed development strategies. Magnit prefers organic growth in the

form of opening its own convenience stores and hypermarkets. This retail chain develops in all regions, particularly in medium-size cities. This retailer is rather conservative about debt load and enthusiastically involves its stock on the stock exchange in order to maintain the amount of debt on an acceptable level. X5 Retail Group mostly develops in large cities (Moscow, St. Petersburg and the Central Region), particularly in an inorganic way through merges and takeovers.

TABLE VII: INDICATORS OF ECONOMIC CONSOLIDATION FMCG RETAIL CHAINS IN RUSSIA\*

Retail revenue rank	Retailer	Retail revenue 2014 (bln RUB)	Retail revenue CAGR 2014/2013, %	Share of turnover among top 8 players	Market share, %
1	Magnit, PAO	762,7	31,6	29,1	6,2
2	X5 Retail Group N.V.	631,9	18,6	24,1	5,1
3	Auchan Group	391	36	15	2,9
4	OJSC Dixy Group, GK	227,1	26,9	8,7	1,8
5	Metro Group	201,24	9,8	7,7	1,6
6	Lenta Group, LTD	194	34,4	7,4	1,57
7	O'Key Group S.A., GK	151,87	8,9	5,8	1,2
8	Maria-Ra, GK	57,6	14,3	2,2	0,46

\*Source: developed by authors

Another reason for Magnit's success is a well-built logistics system: from investing into distribution centres and vehicle park to direct import operations. Magnit has the biggest vehicle park among competition – 3906 vehicles (X5 Retail Group has 1300 vehicles), which allows to decrease transport costs and nearly eliminate losses during transportation. A lot of attention is paid to cooperation with local producers and suppliers, which allows to quickly deal with the issues connected with providing store chains with fresh goods of local produce.

The leading retail chains organize their own manufacturing of private labels, perform direct supplies of goods from the markets of developing countries and open their own production facilities in these countries, which allows world's leading retailers to maintain reasonable prices for their products and stay in price competition with specialized retailers. A trend towards private label manufacturing demonstrates that international supplies are acquiring a more and more intra-firm nature of trade between different divisions of transnational corporations in different countries, and their activities are gradually turning the world economy into a single market of products, services, capital and knowledge. According to Nielsen Agency, the growth rate of product sales under private labels is on average twice higher than the growth rate of independent manufacturers' product sales. In the sales turnover of the largest chains, the share of sales of private label products fluctuates from 12 to 98%. Thus, in the turnover of the Auchan chain the private labels' share reaches 25%, for Carrefour that is 33%, for Wall-Mart – 40%, for Tesco – 45%, for Sainsbury – 60%, for Aldi – 98%.

According to the marketing agency Grinderr, the top private labels in Russia are X5 Retail Group (17% retail revenue), Maria-Ra (16%), Magnit (11%), and Dixy Group (10,5%). The most efficient company in terms of private labels development is Maria-Ra. Under 31 private label, the chain sells more than 700 goods in various food and non-food

segments. This kind of development strategy allows this retail chain to compete successfully with other companies and to occupy the 8<sup>th</sup> place among the top Russian retailers in a short period of time.

The peculiarities of development of the largest retail chains which have been identified outline the general trends in retail development under the conditions of globalization.

## V. CONCLUSIONS AND FURTHER RESEARCH

The development of trade under the conditions of globalization is connected with creating retail trade chains, working outside their "ethnic" motherland. For instance, out of 250 largest retail trade chains in 2013, 195 companies, or 65,2 %, operated in more than one country of the world. The share of international operations is 24,3 % of the total revenue from retail sales. In 2013, the average number of countries where the largest retail trade corporations operated was 10,2.

Global expansion gives large transnational retail chains an opportunity to increase the amount of chain retailing in developing countries, create large-scale controlled global regional supply chains. As a result, leading retail trade chains' operations have a great impact on the forming of world and national markets, define the level of competition on them and have a wide geographic span.

At the same time, the development of large retail trade chains has a negative impact on small businesses. Under the conditions of consolidation of the retail sector, small businesses cannot compete with large chains and have to withdraw from the market. Thus, as seen from the overall pattern of business types in Russia in 2013, there was a decrease in the number of small businesses in retail from 39,3% in 2012 to 36,6%.

Taking into account the social and economic importance of small businesses in the retail sector, in various countries of the world the development of small businesses in competition

with retail trade chains is regulated.

Studying these issues, finding a compromise for the development of large retail chains and small retailers should become a primary focus of scientific research.

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