

The New Cultures of Food

Marketing Opportunities from Ethnic,
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6 *Retail Internationalization as a Driver of Global Developments: The Example of Central and Eastern Europe*

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Abstract

Increasingly globalized markets and internationalization have initiated various structural changes in the food retail business. Formerly nationally-oriented retailers have suddenly become global. In the retail sector this process also affects new structures across agribusiness, most notably as general retailers export their business models. A comparison of the development and impact of globalization in the retail sectors of different Central and Eastern European countries reveals varied opportunities and threats for participants in agribusiness.

Introduction

Because growth possibilities in their domestic markets are largely exhausted, Western retailers are expanding internationally. In most cases, retailers export their entire business model. The CIES (International Committee of Food Retail Chains) Food Business Forum

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surveys top managers from the food industry about which economic topic is most likely to dominate professional discussions; according to almost 70 per cent of these managerial respondents, the answer is “the internationalization of food retail business”. If most businesspeople in the food industry agree that the internationalization of the retailing system is a critical topic for discussion and reflection, it seems logical to assume that firm managers similarly believe that development in this context must entail either a dangerous and general threat or a great and promising opportunity.

The aim of this chapter is threefold. First, using different theories of internationalization, we determine why the retailers internationalize. For the actual degree of internationalization, we rely on an analysis of secondary data and recognize that exhausted growth possibilities in domestic markets, at least with respect to growth through merger and acquisition, certainly drive internationalization. However, the effects of internationalization go beyond further growth of leading retail firms to offer new or improved opportunities for food retail corporations. These new opportunities apply to both the demand side and the supply side.

Second, using theories of new institutional economics and strategic management, we elaborate on the consequences of internationalization for participants in the agrifood business.

Third, we discuss the contributions of internationalization to the development in Central and Eastern Europe (CEE), including a detailed analysis of the current situation and an outlook for future developments in general, with particular reference to different CEE countries.

Internationalization of Food Retailers

As early as 1905 the Swiss food processor Nestlé owned production sites in Germany, France, the UK and the USA. By 1908 the German food-processing firm Dr Oetker had established its first foreign base; by 1924 the company had production plants in seven countries. Unilever had operations in more than 40 countries in 1930. However, less than 20 years ago, almost all the world’s retail firms remained pure national firms with a negligible share in foreign markets. Wal-Mart opened its first retail outlet outside the USA in Mexico City in 1991, Carrefour started its international business in Taiwan in 1989 and Rewe began its internationalization with the acquisition of Billa in 1996.¹ That scenario has changed dramatically. Among the top 200 global retailers, almost all the players except those in the USA operate in numerous countries, having established noteworthy business capacities in foreign markets.² For example, Metro increased its foreign sales volume from 5 per cent in 1997 to 39 per cent in 1999; today the share is approximately 55 per cent. In general, retail firms start with a geographical expansion across their national borders but shortly thereafter move into more distant countries.³

The most important reason for internationalization remains stagnating domestic food markets and the resulting enforced competition.^{4,‡} Such internationalization

‡ Because further national-level concentration through mergers and acquisitions appeared impossible considering the already realized degree of concentration, a jump over the border seemed the easiest way to avoid legal persecution by the Monopolies and Merger Commission.⁷ In the first half of the 1990s the national market share of the largest three retailers in almost all Western European countries clearly surpassed 50 per cent, but if Western Europe represents a single market, the aggregated market share of the five biggest retail firms did not exceed 15 per cent. In many cases,

has been effective in almost all Western countries, although remarkable differences occur in the degree of market saturation and exhaustion of food demand among countries. The internationalization of companies did not include a synchronized concentration process across different national systems, so these factors could not be solely responsible for the simultaneous and explosive internationalization of retailing in several countries.

Rather, the international retail market penetration also depends on at least four pull factors:

- Financially strong retailers can disrupt the structure of any foreign market and successfully install their own business ideas in new market environments, as did Wal-Mart in the UK and Lidl in France.⁵
- The collapse of the socialist central planning system in Central and East Europe left behind an economic vacuum that offered the unique opportunity to establish an entirely new retail system modelled on Western ideas. Western retail firms took this opportunity and established subsidiaries in various countries.⁶
- An additional investment possibility arose from the financial crises in South-east Asia. In particular, French and German retail firms took advantage of the temporary shortage in money that afflicted Asian countries, in the hope of taking advantage of this presence when China began opening its markets.⁸
- The international retail sector profits from considerable progress in WTO negotiations regarding quality and safety standards that facilitate the trade of intermediate and convenience food products across borders.⁹

However, internationalization is not without dangers. Some retail firms have already begun to rearrange their spheres of influence by building regional clusters.¹⁰ The most prominent example is Wal-Mart, which has withdrawn from several foreign markets after suffering high financial losses. Retailers often do not adopt their business system to the new business environment at all.¹¹ Furthermore, increasing profits are not guaranteed with an expansion into a new market, but may be attained through adequate adjustment to country characteristics and positive synergy effects. Such synergetic effects are more likely if emerging trends in retail business strategies intensify through globalization. Three such development tendencies offer outstanding opportunities for more efficient retailing use in combination with globalization: enhancement of global sourcing,[§] sophisticated usage of supply chain management[¶] and augmented use of retail brands.^{**}

the foreign retailer was really a newcomer in the entered market, so that antitrust departments had no reason to prevent acquisitions.

§ Global sourcing means that the process of recruiting production factors and trade goods takes into consideration available global products.

¶ Supply chain management refers to the management of materials, information and financial flows in a network that consists of suppliers, manufacturers, distributors and customers.

** The surge of retail branding is characterized by not only an increased number of brands and market share, but also a considerable augmentation of standard quality.

Consequences of Retail Internationalization on the Processing Industry

These organizational and strategic changes in the retail sector, to be expected with ongoing internationalization, have effects both upstream and downstream. However, we confine our analysis to the expected impacts on the food-processing industry. To facilitate this discussion, we subdivide the food-processing industry into five firm categories. This categorization is somewhat crude and imprecise but sufficient for our purposes:^{††}

- very large multinational food-processing firms that traditionally maintain many subsidiary companies, distributed throughout the world, and are engaged in many different food branches;
- firms that are more or less strictly concentrated on their core competences but also produce and supply globally.¹² These firms possess remarkable market power based not on their size but on consumers' appreciation;
- medium-sized firms that produce diverse food for a national or regional market. Most of their products are marketed as retail brands or no-name products;
- small and medium-sized, specialized food processors that mainly produce according to orders from retail firms;
- all small food-processing firms that serve local markets or provide special niches in regional or national markets.

If retail procurement alternates between predominantly national sourcing and global sourcing, and if retail firms internationally centralize and reorganize their supply chain network, serious consequences will result for food-processing industries. Such changes notably increase the competitive pressure on suppliers, because each firm must compete with not only its national antagonists, but also firms from several countries. If we consider the different firm categories, we note remarkable differences within the food-processing industry. Firms of the first category are only marginally affected by the concentration of retail procurement, because multinationals distribute strong brands in almost all relevant national markets, so increasing their international retail procurement will not cause a substantial effect on the quantity of their sales. Hence, their relative position also does not change significantly.

Firms of the second category also retain more or less the same status. The volume of their sales is probably not seriously affected by the international pooling of retail procurement, assuming that they adjust their sales organization appropriately.

The most important effects of the change in retail procurement will probably ensue in the third category. Some food-processing firms will achieve success in the altered situation, but many firms will suffer drastically. We first address those firms that represent national cost leaders and lack strong producer brands. If national retail procurement systems prevail, their strong cost leadership protects these firms from competitive threats, because they possess the necessary experience and know-how to undercut competitors' cost levels and counter any price wars. In contrast, if the retailers unify their national

^{††} The purpose of this discussion is to demonstrate that the consequences of retail internationalization affect different types of suppliers differently. Thus, we must discuss the results for each type separately; we orient this discussion according to Hanf's and Hanf's (2004) categorization.¹³

procurement divisions and form a multinational division, national processors with cost leadership will lose control over the competition, because they must confront cost leaders from other countries with the same skills. As a result, the market power and the price margin of national cost leaders radically shrink, and at least some of these former national cost leaders will be forced out of the market. The survivors retain a relatively positive situation: although they have forfeited some market power, in return, they win sales and turnover victories. The situation differs significantly, though, if we consider processing firms that use product differentiation to compete with their business rivals on the national market. In a unified international procurement market, the number of competitors increases with the number of countries involved, but very few, if any, of them represent direct substitutes because they have rather similar products. In the event that the product differentiation is narrowly based on national consumer habits and preferences, there is no reason to assume that any fundamental and abrupt displacements in demand will arise from changing the procurement process.

Small and medium-sized food processors in the fourth category that produce retail brands by contract with a retailer usually benefit from the internationalization of the retail firm. Every time the retail firm invades a new country or expands its engagement in a country, it needs additional quantities of the retail branded products, which it purchases from the primary supplier. For example, when Lidl entered the Swedish market in 2003 it was importing milk from Germany. Hanf and Maurer argue that this advantage becomes particularly important when the retailer enters economically and politically unstable regions.¹⁴ This context allows food processors to follow the growth path of the retailer, without making any of their own investments in market development.

Finally, the small firms within the last category have little concern about the mode of procurement. Regardless of whether retail procurement is internationally bundled or predominately organized nationally, a certain share of retail supply must be of local origin and locally purchased.^{‡‡} The same is true for regional and national niche products. However, in some cases, a niche may become larger through retail internationalization, in which case the small processor can use this larger niche in a piggyback process with the retail firm. In other cases, a foreign competitor gets introduced into a niche through the same piggyback process.

A forced introduction of supply management tools also should result from retail internationalization. This development trend absolutely favours large, globalized firms within our first and second categories. The installation of necessary coordination instruments, such as efficient consumer response (ECR) and collaborative planning, forecasting and replenishment (CPFR) systems, are expensive and require significant organizational expenditures. Small and medium-sized firms (category 5) are usually not willing, and perhaps not able, to raise the necessary money,¹⁵ especially because most of the costs are fixed and the investment in human capital is indivisible and has a sunk-cost character.

Because the installation of such a coordination instrument also implies fixed costs on the retail side of the system, the retail firm should do as much business as possible with

‡‡ Consumers demand local food; a number of smaller but independent retailers still function under the umbrella of cooperative retail chains such as Edeka, Rewe and the purchasing association, Spar.

partners that have installed the same coordination system or that are willing to do so.^{§§} Such close and trusting relations may arise from a multitude of successful transactions over a long time. Multinational food producers with a broad product portfolios (category 1) and global specialists with a worldwide reputation (category 2) are natural candidates that are likely to be preferred by retailers. Food processors that produce retail brands under contract (category 4) are more or less obliged to introduce such a supply management system if required by the retailer. The investment costs thereby incurred are relatively small, because most firms produce a very limited range of products for a single retailer. The same is true for knowledge of IT. However, many smaller contracting producers will have considerable difficulties fulfilling the increasing logistical demands that result from the implementation of the supply management system and the regional enlargement of the delivery duties in several countries.

Food processors of category 3 are among the likely losers of the increased supply management requirements incurred by retail internationalization: They are unlikely to be able to afford the additional financial obligations, and they lack a large enough labour force with sufficient training. In addition, they may have difficulties persuading retailers of their trustworthiness, their capability to innovate and their flexibility to respond to sudden changes in demand. Particularly significant difficulties may occur if a domestic supplier must negotiate with a globally-oriented bulk purchaser.

Retail Internationalization in CEEC

Having outlined the coherence between retail internationalization and its impact on suppliers in general, we now draw attention to a more concrete setting. Because many recent studies of management consultancies highlight the potentials for retailers in the former states of the Soviet Union, we address this geographical area. For example, analysing variables such as country risk, market attractiveness, market saturation and time pressure, the consultancy A.T. Kearney states that five of the most attractive countries for retailers are Central and Eastern European countries (CEEC).¹⁶ Using slightly different variables, KPMG developed a similar picture. In both studies, Russia represents the second most attractive country.^{17,¶¶}

In the context of retail internationalization, verticalization can be a major force that drives structural change. Swinnen shows that vertical coordination in agrifood chains is an important and growing phenomenon in transitional countries in Europe and Central Asia. He also indicates that, in these countries, vertical coordination is even more widespread in scope and complexity than it is in Western economies.¹⁸ Verticalization enables private contractual initiatives to form, and thereby overcome, supply disruptions. Traders, agribusinesses and food companies have contracted with farms and provided input and assistance in return for guaranteed and high-quality supplies.¹⁹ Quality probably provides the main catalyst for this development.²⁰ Reardon further states that retailers and foreign

§§ This competitive advantage becomes stronger because ECR and CPFR systems require close and trusting relations between food suppliers and retailers.

¶¶ KPMG points out that hypermarkets have particularly great potential. For example, within the first year of operations, the southern Moscow outlet of the German retailer AVA, valued at €40 million, attracted 120,000 customers per week and earned an annual sales volume of €55 million, reaching break-even point almost immediately.

direct investments provide more powerful impetuses of structural changes in transitional countries than do the World Trade Organization or trade policies.²¹

Noting differences in the degree of verticalization in transition countries, Dries et al.²² refer to the concept of retail waves. They characterize “first-wave” countries as those whose supermarket sector went from a tiny niche of around 5 per cent of total food retailing in the mid-1990s to 40–50 per cent by the mid-2000s; examples include Hungary, Poland and the Czech Republic. In the “second-wave” countries, such as Bulgaria and Croatia, the sector grew to a share of 20–30 per cent. Finally, in “third-wave” countries, the share remained steady as a luxury niche of 5 per cent, such as in Russia.

The transition process of the retail sector from state-run retail shops, cooperatives and farmers’ markets to Western-style, large-format retailers occurred along with heavy foreign investments and therefore with changes in the procurement systems. Six major shifts are key:²³

- from local store-by-store procurement to (nationally centralized) large and modern distribution centres;
- to regionalization of procurement across countries;
- from traditional brokers to specialized wholesalers;
- towards increasing use of global logistic firms;
- to preferred-supplier systems;
- towards higher private standards of quality and safety.

Four of these general trends are associated with retail internationalization and are applicable to the CEEC. Because of the significant differences between first- and third-wave countries, we analyse and focus on the consequences of these changes in the procurement systems in individual countries.

First-wave Countries

In the context of first wave countries, we focus on Hungary, because it has modernized its retail sector, starting from the 1990s, faster and more successfully than any other CEECs. Today, Hungary is home to one of the best developed retail sectors among CEEC.²⁴ As Table 6.1 reveals, in 2002, modern retail formats already had gained an approximately 50 per cent market share.

The rapid development of modern retailers was accompanied by heavy investments by Western retailers in Hungary. In 2005 foreign retailers dominated the Hungarian retail market, as Table 6.2 shows.

However, not only are the major players are foreign-owned, but the first round of consolidation is also taking place. Table 6.6 in the Appendix to this chapter indicates a similar development in Poland. Due to its heterogeneous market and loosely structured retail landscape, first movers such as the German Dohle Group succeeded in Poland with hypermarkets. However, despite its strong market position, Dohle decided to sell the business to Tesco due to intense competition demanding higher financial expenditures.²⁵

Because the big players in first-wave retail markets are more or less identical to those in Western Europe, we posit that there are no significant differences with regard to

Table 6.1 Number of retail formats in Hungary

Retail format	2000	2001	2002
Hypermarket	13	17	19
Supermarket	15	14	14
Discount store	16	16	15
Supretten	35	35	36
Market and street vendors	5	4	5
Other	16	14	11
Total	100	100	100

Source: BBE (2006).

Table 6.2 Sales volume in billion Euro: Different retail formats in Hungary

Rank	Company	Sales 2005 in billion Euro	Number of outlets
1	Tesco-Global Aruhazak Rt.	1.89	89
2	Metspa Supply and Trade Co. Ltd.	1.83	181
3	CO-OP Hungary Rt.	1.50	4970
4	Reál Hungária Élelmiszer Rt.	1.10	2290
5	Provera	0.80	213
6	Auchun Magyarország Kft.	0.70	10
7	PennyMarket Kft.	0.50	148
8	Plus Élelmiszer Diszkont Kft.	0.40	165
9	Honiker Kft.	0.23	1970
10	Interfruct Kft.	0.20	22

Source: LZ online (2006).

procurement systems and quality demands, and thereby vertical coordination, between these markets.

Assuming that the general implications for the food sector are applicable without major modifications, we note several other points that demand some discussion, notably the Pan-European competition of cost leaders and the integration of farmers into vertically coordinated chains. According to several interviews, German product managers of retail brands are beginning to include food processors from first-wave countries in their tenders for retail branded products, such as pasta and sausages. As long as the food quality meets their demands, retailers will give the bid to the most cost-competitive processors. In turn, the cost structures for basic products that do not demand high-quality requirements give the advantage to processors from CEEC.

The agricultural sector in CEECs remains a mixture of small-scale – even household – production and large-scale farming. Retailers and processors favour large-scale production to reduce the complexity of their supply chains, yet Dries and Swinnen²⁶ show that small-scale farmers can find a place in vertically coordinated chains. Nevertheless, several international retailers indicate that they require small-scale farmers to build horizontal cooperation to provide products that meet their qualitative and quantitative demands. If they cannot meet these demands, the farmers get excluded from the procurement systems.

Second-wave Countries

Bulgaria, a second-wave country, is about five to six years behind Hungary. Modern retail formats have been introduced but mainly by small local retail chains. Furthermore, the vast majority (97 per cent) of the 102 000 stores consist of less than 120 m² and only 0.2 per cent have more than 1000 m².²⁷ In the course of its EU accession, international retailers have made inroads into Bulgaria, including Metro, the largest foreign retailer, as well as other international retailers. The increasing attractiveness of the Bulgarian retail sector is represented by Bulgaria's ranking (13) on the AT Kearney Global Retail Development Index.²⁸ However, most foreign investments in Bulgaria go to the capital city, Sofia. International retailers locate mainly in urban areas, although local retail chains exist in rural areas.

Third-wave Countries

Because of its economic importance, we have selected Russia as an example of third-wave countries. The weight of organized retail is increasing, but street vendors, small shops and markets still dominate the sector. Supra-regional and regional chains may be slightly gaining in importance, yet, as Table 6.3 shows, in comparison with other CEECs the percentage in Russia remains rather low.

Table 6.3 Comparison of the importance of different retail formats: Russia versus Hungary

Retail format	Russia %	Hungary %
Hypermarkets	1	21
Supermarkets	6	14
Discounters	6	15
Cash & CArry	1	4
Small shops	26	34
Street vendors/markets	32	4
Other	28	8

Source: BBE (2006).

In Moscow retail chains constitute 16–17 per cent of the market, and in St Petersburg they account for 18–20 per cent.²⁹ No retail chains operate throughout Russia, although some of the larger Moscow and St Petersburg chains are expanding to other regions; some are even moving into neighbouring countries such as Ukraine. The development of organized retail also has intensified since international retailers, including Metro, Auchan and Rewe, entered Russia in 2000; Carrefour, Wal-Mart and even some German discounters are expected to enter soon. Thus, even though Metro remains the top retailer in Russia, as Table 6.4 shows, Russian retailers continue to make the majority of sales. This situation, in which modern retail formats constitute only a small portion of the Russian retail sector, leaves space for the expansion of all retailers, even in metropolitan areas. However, we assume that competition among the retailers will increase and that retailers will therefore seek to differentiate from one another.

Russian retailers will probably continue to improve the quality and lower the prices of their goods. Changes in retailer–supplier relationships are already emerging: for example, in the past, Russian suppliers dictated the rules of the exchange to domestic retailers³⁰ and these suppliers were so powerful that they could afford to keep retailers waiting 72 hours for goods that they ordered.³¹ However, Western retailers demand that suppliers accommodate their original business models when entering a new market.³² By applying global sourcing strategies and providing interesting new markets, international retailers have been able to gain market power.³³ As a result, retailers expect suppliers to meet their global requirements for food quality, safety and delivery. For example, since entering the country five years ago, the Metro Group Russia has already installed Metro Asset Management, Metro Buying Group, Metro Advertising, Metro Group Logistics and Metro Group IT.

The 140 000 items carried by the 26 cash and carry markets and the three supercentres come from 2500 suppliers. Only 5 per cent are foreign manufacturers, and 20 per cent of the items are specific to the region. Thus, the Metro group has a strong influence on the Russian agrifood business in general, particularly in the Moscow region where most markets are located. This example shows that different quality and process management styles and requirements are applied in the short and medium term. In the long run,

Table 6.4 Ranking of food retailers in Russia according to turnover in 2005

Rank	Name of retailer	Format	Turnover, \$ mio Euro
1	Metro Cash & Carry	Cash & Carry	1815
2	Magnit	Discounter	1553
3	Payaterochka	Discounter	1359
4	Auchen	Hypermarket	1350
5	Perekrestok	Multi-format	1015
6	Diksi, Megamart	Multi-format	860
7	Sedmoy Kontinent	Multi-format	713
8	Lenta	Hypermarket	649
9	Kopeyka	Multi-format	646
10	Viktoria C & C	Multi-format	608

Source: S. Malkov (2005).

however, suppliers must meet the retailers' home-country standards. Meeting these requirements moves competition away from a one-way street; suppliers can enlarge their sales volumes by exporting goods in old member states.

Consequences for the Different Waves

From this review of the scenarios it becomes evident that modifications are necessary among first-, second- and third-wave countries. With regard to global sourcing and retail branding,^{***} we differentiate between suppliers from the home country and suppliers of second- and third-wave countries. Retailers often take their suppliers into new markets. For example, when Metro entered Russia, Hochland AG followed and has built a dairy plant near Moscow. In its early years it received competitive protection, but over time local producers improved their quality and process management standards to equal those of Hochland AG and now compete effectively with the company.

As outlined previously, suppliers (both branded and retail brand suppliers) can grow through retail internationalization. A well-known German retailer has recently begun to consider retail brand suppliers on a grand scale. When the retailer began its internationalization, it used country-specific retail brands to differentiate itself from its retail competitors. Today, the German retailer has changed from regional retail brands to a single (the former German) retail brand, which enables it to apply a single global food quality and safety standard. Thus, every supplier must meet the same process and product standards, and German suppliers may be exchanged for foreign ones, or vice versa. However, in the medium term we anticipate that processors from second- and third-wave countries will begin to compete with processors in first-wave countries, because production costs will increase in these countries while the quality standards will remain slightly lower than in Western European countries. Nevertheless, in the long term the quest for global cost leadership is underway.^{†††}

These examples indicate that the consequences are rather mixed. Multinationals (category 1) likely will expand their sales because, with rising discretionary income, consumers are willing to spend more money on well-known "Western" brands, forcing retailers to carry them. Furthermore, multinationals' stronger knowledge of SCM and ECR offers a further argument to list them. Big processors that produce nationwide brands (category 2) experience pressure from global brands and due to the rising quality standards set by the retail brands. Thus, we posit that major structural changes are forthcoming.

Firms in category 3 face fierce competition from other cost leaders, but their favourable cost structures give them good chances to win in this cost-cutting game. We predict that innovative and modern cost leaders will prosper, while those that fail to emphasize adequate food quality and safety standards or efficient production processes will fall out of competition. The same applies to firms of category 4. However, due to their small structure, they risk losing control over firm growth.^{‡‡‡} Niche suppliers and speciality

^{***} Although we separate these aspects, we combine them in this more applied discussion, because the most important question regarding retail brands pertains to securing a supply of goods of comparable quality to that in home countries.

^{†††} Because logistic/distribution costs are very important in the context of food products, all supply decisions allow for them. Thus, quests generally focus on pan-European cost leadership rather than global leadership.

^{‡‡‡} In Germany, the bottled-water supplier of a well-known southern German discounter grew enormously as a result of the vast German and global expansion of the discounter. However, because of the investments required, the supplier

suppliers are generally not affected; retailers may use them in their home countries to complete a particular category. For example, Real (the hypermarket subsidiary of Metro Group) carries a “Russian category” in Germany that consists mainly of major Russian brands, but provides some shelf space for niche products and Russian specialties.

Conclusions

The retail industry has been undergoing immense structural changes for approximately two decades. Formerly nationally-oriented players have suddenly become global players. In many cases, these global giants still act like agglomerates of national tycoons, but that status is likely to change drastically in the near future. Some organizational adjustments are already visible, although most of the organizational measures are yet to be implemented. For example, the structural development of the food-processing industry will respond to the ongoing globalization process of the retail sector. The distinct firm groups will experience very different effects. Large multinational food producers with wide supply portfolios and worldwide and specialized premium food processors can easily adjust to the changing requirements of globalized retailers. Of course, individual winners and losers will emerge, but the group as a whole will not be affected seriously. The large group of national and regional food-processing firms will experience the most significant impact. A few firms will profit from the international retail development, perhaps by asserting themselves as multinational cost leaders. Others will survive by becoming accepted as differentiated brand producers in one or several national markets. However, the majority of firms in this category will eventually vanish.

Some small and medium-sized contract processors will disappear because they cannot extend their delivery adequately to foreign countries. However, most of these firms will evolve along with the international growth of their contract-granting retail firm. In the future more, rather than fewer, of these firms are likely to be required, because retail brands will gain additional market share. Hence, the competitive situation of specialized food contractors appears rather promising, assuming that the firms are capable of adjusting to changing business obligations. Finally, small producers that deliver to local or niche markets should not be directly affected by retail internationalization. Demand for local and niche products requires that they be offered, regardless of whether the retailer is nationally or internationally positioned.

Since the structures of the agrifood business first began to undergo dramatic changes at the beginning of the 1990s the impact of retailers’ internationalization has been even more striking. Rapid changes have taken place in the retail markets themselves, as well as in the supplier structures. However, it is becoming obvious that Western retailers are exporting their business models, such that the structure of the agrifood business is becoming comparable to those in old member states.

In addition to these general findings, we distinguish among different developing stages of the retail sectors in the different countries. A three-wave model introduced in previous literature and applied to CEECs makes these differences even more obvious. We use three countries to exemplify these differences: Hungary as a first-wave country; Bulgaria as a second-wave country; and Russia as a third-wave country. In Hungary most

eventually ran out of equity and cash, and the discounter had to take over the supplier in order to secure its supply.

of the general implications apply, but in the other two countries modern retail has not yet made such inroads, particularly in rural areas.

Two particular findings are crucial. First, we argue that national cost leaders will face much stronger (global) competition due to retail internationalization. Second, farmers from around the world should form horizontal collaborations to satisfy the qualitative and quantitative demands of international retailers.

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Appendix

Table 6.5 Degree of internationalization of German retailers

Retailer	Netto-sales 2003 in billion Euro	Percentage of sales in foreign countries	Countries of operation
Metro-Group	53.6	47.2	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep., Denmark, France, Germany, Greece, Hungary, Italy, Japan, Luxembourg, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Switzerland, Turkey, UK, Vietnam
Aldi	39.3	33.3	Australia, Austria, Belgium, Luxembourg, Netherlands, Rep. of Ireland, Spain, UK, US
Rewe	39.2	25.6	Austria, Bulgaria, Croatia, Czech Rep., France, Germany, Hungary, Italy, Poland, Romania, Slovakia, Ukraine
Edeka	31.3	5.3	Austria, Czech Rep., Denmark, France, Germany, Poland
Schwarz-Group (Lidl, Kaufland)	24.7	34.8	Austria, Belgium, Croatia, Czech Rep., Finland, France, Germany, Greece, Rep. of Ireland, Italy, Netherlands, Poland, Portugal, Slovakia, Spain
Tengelmann	24.1	52.1	Austria, Canada, China, Czech Rep., Germany, Hungary, Italy, Poland, Portugal, Slovakia, Slovenia, Spain, Switzerland, US

Source: Deloitte (2004).

Table 6.6 Retail market in Poland

Rank	Company	Sales 2005 in billion Euro	Formats
1	Metro Polska S.A.	2.9	Makro Cash & Carry, Real, Media Markt, Satum
2	Jerónimo Martins Dvstrvbucia Polska S.A.	1.3	Biedronki
3	Tesco Polska Sp.z.o.o.	1.3	Tesco, Savia
4	Carrefour Polska Sp.z.o.o.	1.2	Carrefour, Champion
5	Auchan Polska Sp.z.o.o.	1.1	Auchan, Schiever, Elea
6	Ruch S.A.	1.0	Ruch
7	Géant Polska Sp.z.o.o.	0.9	Geant, Leader Price
8	Eurocash S.A.	0.8	Eurocash, KDWT
9	Schwarz-Gruppe	0.7	Lidl, Kaufland
10	Rewe Sp.z.o.o.	0.7	Minimal, Selgros

Source: LZ online (2006).