

## RETAIL BUSINESS DEVELOPMENT: INTERNATIONALIZATION IN CROATIA, LITHUANIA AND POLAND

Blaženka Knežević<sup>1</sup>, Marek Szarucki<sup>2</sup>

<sup>1</sup>*University of Zagreb, Trg J. F. Kennedyja 6, 10000 Zagreb, Croatia  
Email: bknezevic@efzg.hr*

<sup>2</sup>*Cracow University of Economics, Rakowicka 27, 31-510 Krakow, Poland  
Higher School of Economics and Computer Science in Krakow, Św. Filipa 17 str. 31-150 Krakow, Poland  
Email: saruckim@uek.krakow.pl; mszarucki@wsei.edu.pl*

**Abstract.** An increasing number of retail companies are experiencing accelerated internationalization. Many global retailers are seeking to enter and explore new foreign markets. New market conditions after the transformation from the centrally planned to market economy in the countries of Eastern and Central Europe led large retailers from the developed economies to reconsider their international strategies and to include these potential markets into their business strategy. The post-communist economies are of interest for global retailers, despite the challenges they may face on these attractive markets. This paper aims at exploring main development trends of business internationalization in the area of retail in Croatia, Lithuania and Poland. Based on the critical literature review and using a comparative analysis the internationalization of retail in the selected countries is analysed. The initial results suggest that the internationalization process in retail is accelerating at all three markets. This tendency causes new challenges to domestic economies and is regarded a good subject for future research.

**Keywords:** retail, retail internationalization, level of internationalization, Croatia, Lithuania, Poland.

**Jel classification:** F2, F23, L8, L80, L81

### 1. Introduction

While retail undergoes significant restructuring processes (Dawson 2006) it is still considered an important industry of national economies and important source of employment in the countries of European Union (Knezevic, Renko, Knego 2011). Since 1990s retailing is quickly changing from domestically-oriented towards internationally-oriented industry (Alexander 1990; Alexander 1996; Dawson 2001; Sandberg 2010; Tordjman 1995). Therefore, a growing number of retail companies are facing accelerated internationalization. A lot of global retailers are seeking to enter and explore new foreign markets.

Countries of Eastern and Central Europe, after the transformation from the centrally planned to market economy; have experienced novel market conditions that have led large retailers from the developed economies to reconsider their international strategies and to include these potential markets into their business strategy. The post-communist economies are of interest for global retailers, despite the challenges they may face on these attractive markets. Several academic studies immediately explored and explained process of

retail internationalization and consequential changes of retail structure at emerging markets in Eastern Europe (Bernatonyte, Normantiene 2009; Drtina 1995; Fulop 1991; Myers, Alexander 1997; Zitkiene, Sekliuckiene 2004).

In this paper we concentrate on the internationalization as an element of retail business development. Based on the research object the main goal of the paper is to explore current level and expected trend of the retail internationalization in Croatia, Lithuania and Poland. Using the method of critical literature review and comparative analysis, we explore the internationalization of retail in the selected countries.

Second section of the paper provides a theoretical background for retail internationalization. Next, on the basis of previously conducted studies, the brief historical overview of the analysed countries is presented. Finally, the state of the art of retail internationalization process in Croatia, Lithuania and Poland is discussed, providing conclusions and suggestions for future research.

## 2. Theoretical aspects of retail internationalization

It is hardly possible to find precise definition of the retail internationalization in contemporary literature. In very broad sense retail internationalization is defined as the movement of a retailer from a domestic to a global market (Alexander, Myers 2000). Thus, retail internationalization could be understood as a process observed in two dimensions:

- internationalization of retail activities such as sourcing and logistics,
- internationalization of retail formats or outlets in order to approach customers at non-domestic markets.

Internationalization of retail operations is a relatively new phenomenon that has been especially intensified since the mid 1990s. Many researchers deal with factors that motivate or demotivate inter-nationalization within retail industry. Based on the literature, there can be found three general classifications of retail motivators and impediments that are:

- push and pull factors (Alexander 1995),
- proactive and reactive motivators (Wrigley *et al.* 2005),
- internal and external drivers (Vida, Fairhurst 1998).

Among the push factors there can be found saturation of domestic market or legal restrictions that are forcing retailer to search for new markets. These factors drive retailer to take action in a reactive manner. On the other hand, pull factors are stimulating retailer to take new opportunities offered by a new market i.e. to be proactive in taking new chances. Both groups of push and pull factors can be further divided into internal and external drivers. External drivers are all factors situated outside the company, while internal drivers are embedded within the company.

McGlodrick (1995) and Alexander (1995) presented some examples of external push factors such as: market saturation, strong competition, and low population growth, unstable political and economic situation. The examples of internal push factors are: costs of start up, costs of logistics, operating costs and lack of international experience. On the other hand, some examples of external pull factors are: lower political and economic barriers, stable political and economic conditions, market size and high population growth and increasing economic prosperity. Internal pull factors are: international image and experience, innovative retail culture and company culture oriented towards international relations.

Evans *et al.* (2008) emphasised the reactive approach that generally concentrates on the push factors of retail internationalization. This approach suggests that international expansion of retailers is taking place only when all growth opportunities are exhausted at the domestic market.

In the past two decades focus shifted towards proactive approach which is predominantly concentrated on pull factors of retail internationalization. Studies of Alexander (1990), Quinn (1999), Vida *et al.* (2000), Wrigley *et al.* (2005) and Evans *et al.* (2008) indentified several reasons of retail internationalization:

- targeted market size (an excellent profit growth opportunity),
- retailer's size,
- retailer's comparative advantage in international experience,
- level of economic prosperity at targeted market,
- uniqueness of retail offer and brand desirability,
- niche opportunities,
- recent changes of geopolitical rebalancing (for instance expansion of EU or increased economic strength of China),
- internationalization of direct competitors.

Of course, the aforementioned factors may be also perceived as challenges that have to be overcome in order to succeed on new foreign markets. This is in line with Evans *et al.* (2008) who argue that some factors can be reconsidered both as drivers and inhibitors, those are: distance and perception of differences of domestic and targeted markets because there is a trend to shift from mature and saturated markets towards less developed markets, which are not proximate to domestic market. For instance, French retailer is not entering Swiss or Austrian markets which are closer and more similar to its originating location, but instead it chooses to enter Poland or Lithuania.

Furthermore, several barriers or impediments of retail internationalization are observed by Salmon and Tordjman (1989), Hutchinson *et al.* (2006) and Burt *et al.* (2003), those are:

- lack of resources, knowledge and foreign market connections,
- top management negative attitude towards internationalization per se,
- perception of risks associated with retail internationalization,
- government regulation,
- economic and political instability,
- cultural differences,
- exchange rate fluctuations,
- instability or saturation of targeted market,
- cost of international process.

In addition, Palmer and Quinn (2003) argue that financial institutions can broaden or constrain the expansion activities of the retailers, thus their support can be considered both as a driver or inhibitor of retail internationalization.

### 3. Croatia, Lithuania and Poland as prospective markets for large international retailers

Till 1990s, economies of Croatia, Lithuania and Poland were planned and controlled by central authorities in accordance to communistic society based on Marx and Lenin principles (Knezevic 2003; Michalak 2001). In such environment the entry of international companies was not legally allowed and there was a unique central plan which established the hierarchy of social needs but also investments and retailing usually was at the bottom of investment priorities. The main purpose of retail was merely to distribute goods at prices determined in the five year plan (Werwicki 1992). The consequences of such approach were:

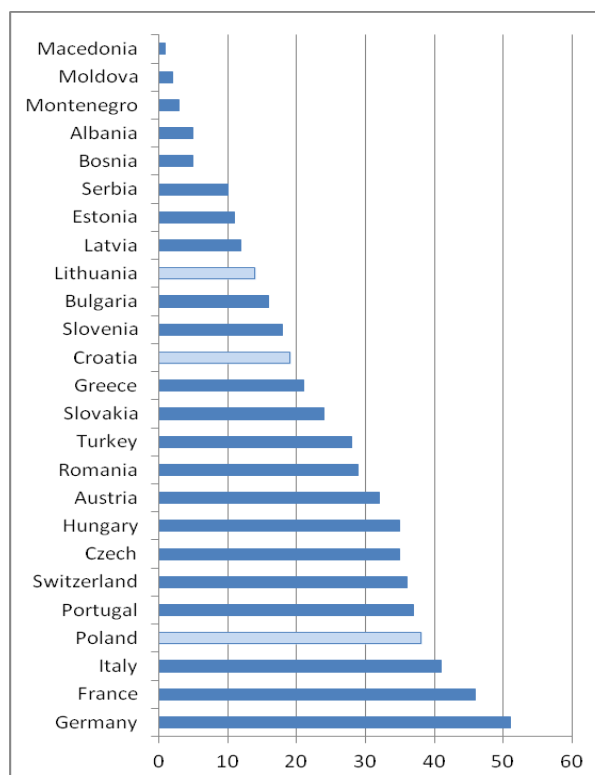
- undeveloped retail structure,
- low level of outlet interior design,
- low level of retail service,
- lack of modern outlet formats,
- frequent scarcity of available goods in retail outlets,
- illegal cross-border retail traffic.

Underdeveloped retail structure and unsaturated markets of given countries, together with a growing purchasing power of inhabitants were perceived as pull internationalization factors by large European retailers. Thus, first investments in retailing sector in Poland were made in 1990 by IKEA and Rossman KG. In Croatia, due to the war, the process of the retail internationalization started in 1999. Lithuanian experience in retail internationalization started with takeover of Ekovalda company in 1999 by Swedish ICA AB (partnership with Royal Ahold) and in the next year launched first Rimi supermarket in Lithuania (Ahold 2002; Langviniene, Sekliuckiene 2011).

Karasiewicz and Nowak (2010) pointed out three phases of post-communist retail development in Poland: 1) privatization and decentralization (early 1990s), 2) intensive internationalization (late 1990s), and 3) concentration and consolidation of retail trade (in 2000s). In addition, they highlighted a fourth development stage, being on the horizon, described as that of innovation and modernization of retailing. Croatia and Lithuania underwent similar developments processes, but with a certain time lag.

### 4. Contemporary level of retail internationalization in Croatia, Lithuania and Poland

The process of retail internationalization has been accelerating in Croatia, Lithuania and Poland since 1999. The contemporary level of the retail internationalization can be assessed with a slightly modified methodology developed by Dawson (2007). First, we will estimate the number of the largest global retailers having their stores at Central and Eastern European Countries. Second, the trend of their entrance into the Croatian, Lithuanian and Polish market will be explored and finally, the countries of their origin will be analysed.



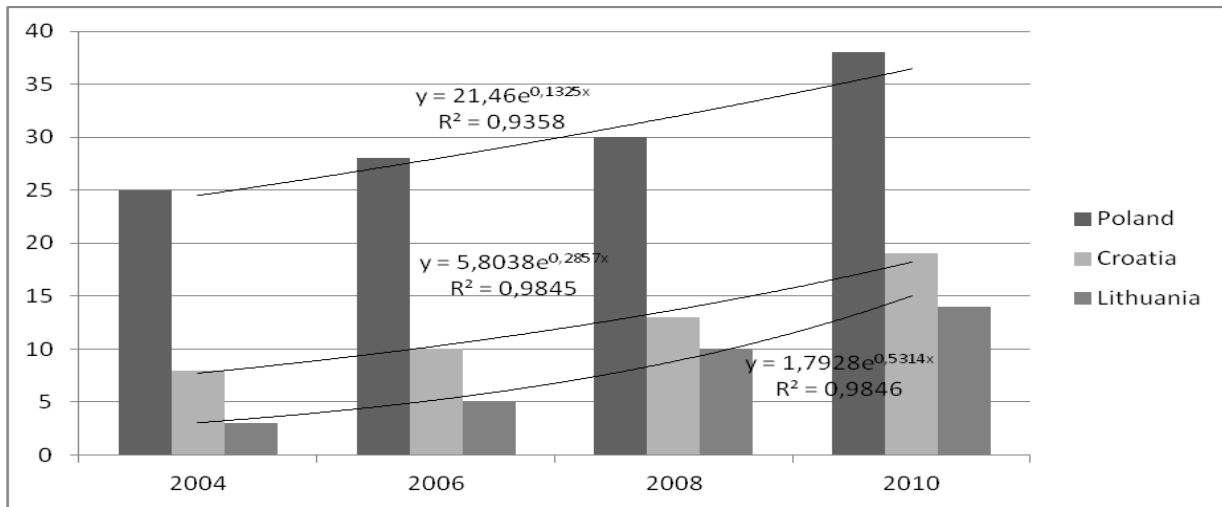
**Fig.1.** Absolute frequency of Top 250 retailers present at markets in chosen European countries (Source: own compilation according to data in Delloite (2010): Global Powers of Retailing)

Based on the data included in the annual report Global Powers of Retailing (Delloite 2010) Poland was considered the most attractive market for the largest global retailers compared to all newer EU member countries. It is noticeable, that out of the 250 top global retailers, 38 are present on the Polish market. On the other hand, 19 of them entered Croatian market and 14 Lithuanian markets so far (Fig. 1). It is important to stress that Polish market is almost nine times larger than Croatian and more than eleven times larger than Lithuanian in terms of the number of inhabitants. Therefore, it is logical to have smaller penetration of large retail

chains at a smaller market. But, it is quite surprising that if we look at Croatia and Lithuania together it is a marketplace of 7.7 millions people i.e. 5 times smaller market than Poland, yet the number of the international retailers at Croatian and Lithuanian market is almost similar (33) compared to Poland (38). Besides that, we have to point out that till 2010 Croatia was the most attractive market at Western Balkans region i.e. compared to other ex-Yugoslavia countries (i.e. Bosnia and Herzegovina, Montenegro, Macedonia and Slovenia, Fig. 1).

Similar situation is observable in Lithuania, which seems to be the most attractive market among the Baltic States (compared to Latvia and Estonia).

Since 2004 the process of internationalization is accelerating, but all three countries are still considered as receptive, opening markets from the perspective of the largest global retailers. Figure below presents changes in number of Top 250 retailers present Croatia, Lithuania and Poland in the period 2004–2010. Moreover, for all three markets there is maintained a steady growing tendency that can be exemplified with the exponential trend curves (Fig. 2). While in 2004 in Croatia 8 top global retailers had their stores, as mentioned, earlier, in 2010 their number climbed up to 19. In Lithuania the number grew from 4 in 2004 to 14 in 2009, while in Poland increased from 25 in 2004 to 38 in 2010.



**Fig.2.** Changes in number of Top 250 retailers present in Croatia, Lithuania and Poland (Source: own compilation according to data in: Deloitte (2004, 2006, 2008, 2010): Global Powers of Retailing)

In Table 1 the origin of international retailers at Croatian, Lithuanian and Polish markets is given. In the mentioned countries the highest penetration of German retailers is noticed. Yet French retailers showed a greater interest in Polish than Croatian or Lithuanian market and 10 of them made large investments in Poland.

Also, in Poland some global players such as Staples (US), Office Depot (US), and Tesco (UK) are operating for a longer time, which is not the case for Croatia and Lithuania. Just recently Swedish large players have opened their first stores (H&M) or investigated investment opportunities in Croatia (for instance IKEA). However, some regional stores operate at Croatian market and they originate from Slovenia and Austria. On the other hand, Lithuanian market was interesting to retailers originating from Scandinavia (Sweden and Finland, Table 1).

**Table 1.** Originating countries of Top 250 retailers present at Croatian, Lithuanian and Polish market (Source: own compilation according to Deloitte (2010))

Originate country	Croatia	Lithuania	Poland
Germany	9	2	11
France	3	2	10
UK	1	2	5
US	1	1	4
Sweden	0	1	2
Portugal	0	0	1
Denmark	0	0	1
Hong Kong SAR	0	1	1
Belgium/Germany	1	0	1
Spain	1	1	1
Netherlands	1	1	1
Slovenia	1	0	0
Austria	1	0	0
Finland	0	2	0
Lithuania	0	1	0
<b>Total</b>	<b>19</b>	<b>14</b>	<b>38</b>

There are only 7 top retailers that entered to all observed markets till 2010. Those 7 retailers are shown in Table 2. We can observe that their level of internationalization is rather high because some of them are operating in more than 20 different countries around the globe. Those retailers are not from the area of fast moving consumer goods, but from the area of luxury goods (cosmetics/perfumes) or footwear/apparel retail.

As it can be noticed, there are companies from Top 250 retailers that selected one, two or all three of the analysed countries. Of course, it is largely dependable on their internationalization strategies that are based on the expected incomes from po-

tential markets. For example, if we take Croatia where some are regional players with international strategies oriented towards South Eastern Europe, and therefore, for those players it is not likely to expect to enter Polish or Lithuanian market in the near future and vice versa.

However, we could expect those retailers, which are at the moment present on Polish market to enter Croatian or Lithuanian market in a very near future. For example, German discount chain Lidl plans to re-enter Lithuanian market in the near future (Gineika 2011). Expected challenges for global retailers in new markets may be a major concern about their potential entrance.

**Table 2.** Companies representing Top 250 retailers at Croatian, Lithuanian and Polish market (Source: own compilation according data in: Deloitte (2010): Global Powers of Retailing)

Company	Country of Origin	2009 retail sales (US \$mil)	Dominant Format	Number of Countries of Operation
PPR S.A.	France	\$18,714	Other Specialty	84
Inditex S.A.	Spain	\$15,424	Apparel/Footwear Specialty	74
Marks & Spencer Group Plc	UK	\$15,224	Department Store	39
Limited Brands, Inc.	US	\$8,632	Apparel/Footwear Specialty	45
Douglas Holding AG	Germany	\$4,332	Other Specialty	22
Deichmann SE	Germany	\$4,044	Apparel/Footwear Specialty	19
Groupe Vivarte	France	\$4,020	Apparel/Footwear Specialty	66

## 5. Conclusions

Large European retailers recognized Croatia, Lithuania and Poland as attractive receptive markets and continuing to enter since 1990s. At the moment there are 38 large retailers present on Polish, 19 at Croatian and 14 at Lithuanian market.

The retailers that entered all three markets are in the field of luxury goods and footwear/apparel retail and have extremely large level of retail internationalization i.e. they are present in 20 or more countries. On the other hand, we can observe that, in the case of Croatia and Lithuania, some regional players proliferated. While the main difference in the case of Poland is a large proportion of French originated retailers.

The retail internationalization is accelerating at all three markets and the process of the retail internationalization is bringing new challenges to domestic economies in general. Consequences of the retail internationalization can be: increased market concentration and competition, higher importance of international retailers in generated value in the sector, polarization of the retail structure and so on. Thus, future research should concentrate on the effects of internationalization at given markets.

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