

Peculiarities of Small Trade Enterprises in Latvia and Solutions for Performance Enhancement

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Abstract. The aim of this paper is to present the results prepared by author with aim to find the new ways of implementation of management tools in order to insure the performance enhancement for trade enterprises. Management theory literature content analysis in combination with survey held beside the managers of trade enterprises in Latvia finalized the importance of category management as an important management tool for trade enterprise. The use of classic strategic planning and well known popular management principles are not enough in today's changing world. Today's executives have to assess customer requirements. The use Category Management tools became necessary supplementation in today's business in order to enhance the competitiveness of trade enterprise.

Keywords: Category Management, Management Tools, Coordination, Interaction, Trade Enterprises

1. Introduction

The aim of the following paper is to reflect on some conclusions the author received within the doctoral research. In the fundamentals of authors research was put a statistical data analysis that presented the major trends in grocery trade industry over the last years in Latvia and as a projection for the next couple of years. It is concluded that the sales turnover of grocery retail shops is increasing together with the trend of turnover growth in whole grocery retail industry. Surely the economies crises negatively influenced also the retail turnover growth, however still we can observe rather confident trend of growth in this industry.

At the same time the number of suppliers' to retail industry is rapidly diminishing due to the mergers and acquisitions between the grocery wholesalers and manufacturing companies and on the other hand due to the substitution of home purchases from local wholesalers to the direct import purchases from the foreign manufactures.

In order to survive in the mentioned conditions the suppliers ought to find the possibilities to increase the competitiveness of the company. Strategic management, knowledge of internal environment and efficient use of internal resources can insure successful management of business processes in organisation. Today, trade enterprise is implementing its management strategy based on the classic methods of management and marketing theory. Marketing basics is focused on buyer's satisfaction and creation of customer, meaning buyer's value (Kotler, 1994). Strategic planning requires assessing buyer's needs and preferences (Cravens, David 1997). However the implementation of classic management tools still is already not enough in today's changed environment.

Completed the research that was held beside the managers of retail and wholesale organizations helped the author to find the possible solutions for trade enterprises still to develop in the mentioned conditions. The aim of the research was to define the awareness of managers about the management tools that help to increase the competitiveness of the organization. Within the research the awareness of 23 different management tools were tested. And the answers of suppliers (wholesalers) and retailers were compared.

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The category management tool lies in the most interest of the author as a specific management tool for trade organizations. It appeared that the Category management technique is helpful management tool to increase the competitiveness of small wholesale enterprise. Some summarized results and observations of the research as well as attained conclusions are presented by author onward.

2. Characteristics of small trade enterprises

2.1. Market trends for small retailers

It is a huge number of small and medium size companies in Latvia. Nevertheless trade organizations usually are faced by big number of employees still small and medium size companies are very popular also beside trade organizations in Baltic States. It were registered a little bit more than 13,5 thousand retail organizations in Latvia according to data provided by Central Statistical Bureau of Latvia. However beside rather big number of companies in retail industry only 10% of them have more than 10 employees. More than 12 thousands of these registered companies in retail business have up to 9 employees.

On the other hand analysing the distribution of turnover beside the retail companies according to number of employees it is obvious that more than 66% of turnover is generated by companies with more than 50 employees. 10% of companies with the number of workers more than 9 generate 84% of turnover. And 90% of companies with the number of workers up to 9 generate only 16% of total retail turnover. Beside registered more than 13 thousand companies only 22% are operating in grocery retail. At the same time these 22% of companies employ 42% of employees in retail industry.

It is important to point out that the division between food and non-food stores has a rapid change within this analysed period. The distribution between food store and non-food stores changed dramatically from share of 53% of grocery shops dropped 28%. The analyses could be explained by total globalization process in retail industry and the development of retail chains.

At the same time the development of retail chains lead to increase of average sales area of retailers growing from average of 90-100 square meters of sales area to 177. Analysing the detailed data it is visible that particularly high increase in number of shops was beside the shops with high sales area. While increase of shops with area more than 400 m² and 1000 m² counted more than 300%, there were no any visible change (growth of 3%) beside number of shops with sales area 50 - 400 m² and a dramatic decrease of 60% was beside the shops with sales area up to 50 m², from 3474 shops in the year 1999 to only 1383 in the year 2008. The change in number of shops according to area of sales premises for non-grocery shops is show at the Figure 1.

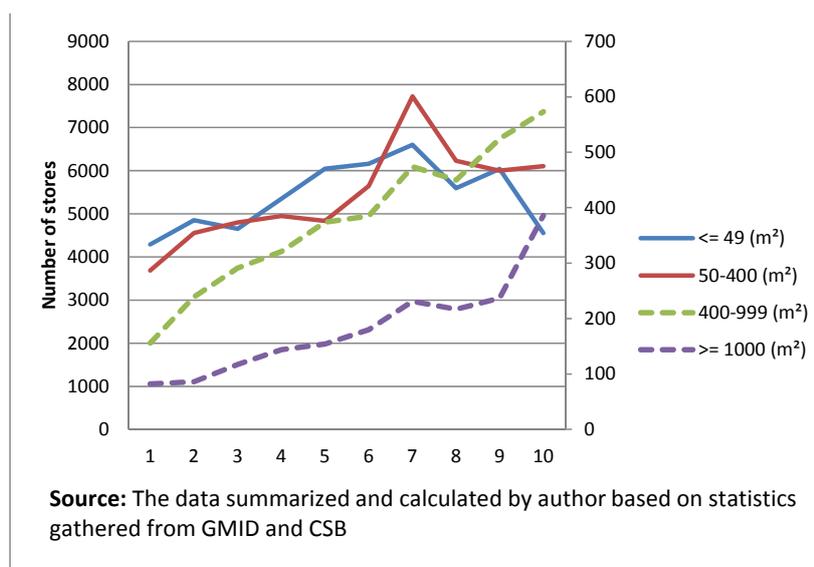


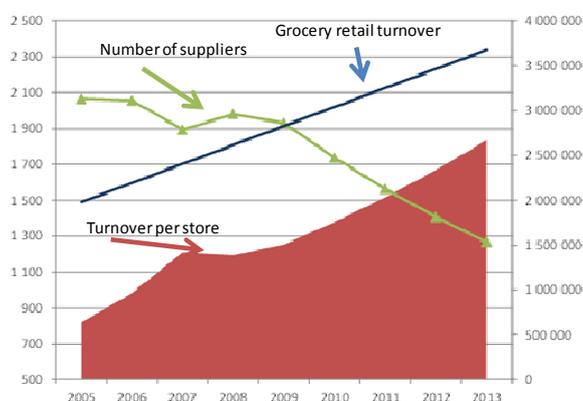
Fig. 1: Number of non - grocery shops according to sales area.

2.2. The peculiarities of wholesale organizations in Latvia

Due to market concentration while biggest retailers start to buy more and more directly from producers or import themselves from biggest world wholesalers, for most of the wholesale companies in the Baltic

Countries the question of improvement of coordination of interaction processes is more essential than several years ago. It is necessary to create or increase competitive advantage of small size trade companies. The concentration on the wholesale market allowed the biggest wholesalers to concentrate most of grocery assortment of goods and deliver it for small retailers, while two biggest retailers who concentrate almost 50% of grocery retail trade already enjoyed the import directly from biggest world producers and wholesalers thus acquiring the best purchases conditions and diminishing the possibilities of small companies to compete on this dangerous retail market.

Figure 2 reflects further trends in trade industry in Latvia. While turnover of retail and retail turnover per one store will continue to grow, the number of wholesale companies will continue decrease and concentration on the wholesale market will increase. At the same time almost 60% of the retail turnover the wholesalers are able to supply goods are controlled by tuff procurement strategy of the leading retail chains. There are also still rivals of potential entrants from side of the leading world retailers as well. One of the leading Europe retailers Lidl already tried to enter the Latvian market in 2003 but in 2006 rejected the idea. In 2011 the company again published plans to conquer the Baltic market (DienasBizness, 2011). Also the retailer from Lithuania Norfa and Estonian based retailer Selver similarly declared their wishes to expand to the neighbour retail market.



Source: Author prepared summary of previously presented analysis

Fig. 2: Further trends in wholesale and retail trade.

Such rivalry requires from both local smaller retailers who would like to survive on the market and small and middle size wholesales who would like to keep business activities well structures strategic decisions and effective collaboration in order to help to stay in business.

In order to keep and develop the position on the consumer market today it is very important for the wholesaler to develop the company's competitiveness to make the organization able to compete successfully with its commercial rivals. To compete on the market the wholesales ought to find the ways to stay in business and still to compete in today's changed conditions. By mean of competitive strategy (strategy that strongly positions a company against competitors and gives that company the strongest possible strategic advantage (Law, 2006) and increase of the company's controllability the wholesaler has a possibility still to keep and enlarger the current market share.

Strategic management, knowledge of internal environment and efficient use of internal resources can insure ability to control business processes in organisation. Today the wholesale company is implementing its management strategy based on the classic methods of management and marketing theory. Marketing basics is focused on buyer's satisfaction and creation of customer, meaning buyer's value (Kotler, 1994). Strategic planning requires assessing buyer's needs and preferences. While strategy is a plan of action designed to achieve a long-term or overall aim. Competitive strategy is a strategy that strongly positions a company against competitors and gives that company the strongest possible strategic advantage.

According to Fel the Effective Consumer Response (ECR) is a comprehensive management concept for retailing and manufacturing based on a value-adding partnership between the participants. Until now, there

was no openness between manufacturers (suppliers) and trade – no relevant consumer data were exchanged. There was no shared marketing understanding. In the past decades push and pull activities of manufacturer and trade were scarcely synchronized, which resulted in inefficient realization of market opportunities. This led to unnecessary stock-keeping-costs, logistics problems, delayed product launches etc. In the world of increasing competitive challenges, declining margins and saturated markets a completely new approach had to be developed – ECR was an answer (Fel, 2004).

The author analysed the coordination of interaction process of trade enterprises. During the expert interviews experts operating in retail industry informed that they realise that wholesalers often do not want to create supply contracts with small retailers. The experts operating in wholesale industry approved that they really choose to work firstly with biggest retail chains. Small retailers usually presented by shops with small turnover that usually make rather small order. The cost of delivery of small order to the shop is almost the same as the delivery cost to big super and hyper markets. In addition biggest grocery shops are concentrated in big towns that are located on the main roads of the country, while small shops usually are situated in small suburbs far from main road and requires for deliveries much more kilometres routes neither for deliveries to the biggest shops.

In comparison for the reason of negotiation with biggest retail chain it is enough to have 1 contract, agreement about standardized deliveries. The wholesaler receives only one order for all the shops which is necessary to accomplish and often there is only one delivery to distribution centre. As a result the efficiency from one contract and accomplishing of one order it is possible to get up to more than 20% of the market share that is surely more efficiently for the wholesaler and cheaper neither the cooperation with small retailers. The analyses of results of author hold survey about coordination of interaction process highlight brought the same.

3. Effective Practices of Category Management implementation

In order to improve the interaction process within the cooperation between wholesaler and retailer the implementation Category Management appeared as a helpful management tool. During the casual buyer – supplier cooperation process the wholesaler's agent, thanks to a good vendor selling skills, manages to bring goods into the retailer's assortment, the wholesaler is satisfied with the results obtained and holds the position of observation, when the retailer ordered. However, in practice it can be seen that significantly better results can be obtained only if the wholesaler after the agreement still continues to take care of products. One of the key solutions in this situation is to deal with group of products or categories of goods as the strategic business units.

Category management principles in the company's marketing strategy allows the wholesaler to systematize the sales process and the impact of their production for sale to the buyer - the retailer - thus ensuring the company's successful achievement of the objective - profit and turnover increases. Category management is the assortment management process in which each category of goods is examined as an independent business unit. In the process of "category" is referred to clearly identifiable and manageable group, which can identify and manage. This group of products the consumer is perceived as related and / or a set of interchangeable products that meet their needs (ECR Baltic, 2008).

Based on the above definition and understanding of the process, can be used to supplement the following definition: category management is a formalized process under which cooperate together manufacturers and retailers to manage business categories as strategic business units to improve business results by focusing on understanding consumer needs and satisfaction (ECR Baltic, 2005, p. 2).

Consequently, global marketing theory development more and more attention is paid to consumer behaviour. The study of consumer behaviour became as a necessity for trade organizations. However, consumers are still being considered as one of the factors which must be taken into account when planning a marketing strategy rather than as a key element.

Category management process began with a strategy for the management (Karolefski& Heller, Consumer Centric Category Management, 2006, p. 33).

Thus for the management of wholesaler is important:

- to define its strategy
- to meet with his direct client need - retailer's strategy

While the U.S. states and several European countries in the category management process was initiated by retailers, the first of which was a Wal Mart, the world's largest retail network of Latvian retailers were not so active. Only twenty-first century category management principles rather actively began to promote the direct manufacturers especially tries to implement category management with Procter & Gamble Company, which by that time already tried all the advantages of this tool in other countries (Walton, 2003). Based on the fact that this process is the collaborative process, usually the retailer chooses the most one key partners who trust the retailer. This partner is a company which after the retailer's beliefs are properly resourced, as well as the knowledge and skills to stimulate and achieve growth category. This company is called a "category captain" (Karolefski& Heller, Consumer Centric Category Management, 2006, p. 26).

Beside the tactical usage of category management principles in management processes of organization the special attention should be put on measurement of the results reached by the implementation of techniques. The author calls this part of a process – rational implementation. The retailer's dilemma in the process of choice of cooperation beside well-known brand that is required by customers ether less popular but more profitable serves as a solution of cooperation by use of category management approach. Following the category management principles not only mutual cooperation but also decision making profit is very important exactly for the wholesaler. The retailer driven by the wish to maximize profit would chose to cooperate and to give the shelve space for the wholesale who would be able to maximize profit in the category.

The wholesaler in such a case should propose for the retailer the most competitive profit, that would press the retailer to enlarge the shelve space of the product. As a result of such an activity this action will increase the product turnover share within the chain. Furthermore the changes in turnover chain will influence the total product turnover share in category on a market. As a result the increase in turnover in a market will press the other chains to increase the shelve space of the product as well.

4. Conclusions

As a result the research some valuable conclusions were made. The market situation brings to the continuous decrease of wholesale companies and tough concentration on a wholesale market. Concentration on the trade market of strong retail chains and biggest wholesalers lead to loose of competitiveness of smallest wholesalers and retailers. Contemporary executives of trade enterprises suffer because of lack of knowledge about available management tools for the competitiveness enhancement. Wholesalers are more ready to work with retailers with higher market share and do not wish to make an investments in cooperation with small retailers. Finally, Category management is an important management tool that enhances the competitiveness of organization.

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