

The Impact of Restructuring and Changes in the Managerial Processes of the European Retail Organizational Structures

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Abstract

Since the early 1990s there has been a substantial restructuring of retailing in Europe. The implications extended beyond Europe but they have had primary impact within European markets. The restructuring involves not only changes in horizontal competitive relationships amongst retailers but also involves new forms of relationship with suppliers and an extension of the activities of West European retailers into Central and Eastern Europe. The restructuring has occurred alongside substantive changes in strategies, relationships and operations. These changes have encouraged the emergence of an alternative perspective of the role of retailing that places this sector as the initiator of added value activities in the economy rather than in its traditionally more passive role of building on the value being added in manufacturing. The new role places retailing in a global framework of international store operations, international sourcing of products, international flows of management and managerial know-how, and international retailer brands.

Keywords: *Restructuring, Managerial Processes, Organizational Structures, Value Chains, Market Concentration, Competitive Power*

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Introduction

Restructuring into a global context is the most recent stage of a half a century of change in European retailing that can be seen as comprising three major phases. The first phase occurred during the years after 1945 when the priority for the retail sector was the reconstruction of both the organisational and physical structures of retailing. There was a strong American influence in managerial developments, for example in the introduction of self-service into the food sector. A number of American firms, for example JC Penney, entered Europe.. The development of the 'Common Market' in Western Europe and the subsequent development into a more integrated European Union marks a second phase. The retail markets across Europe started to consolidate and substantial growth of a different type occurred. Marketing became accepted as a key activity for retailers with different types of retailing being designed to satisfy different consumer needs. As market segmentation developed, retailers explored new formats. Consumers, during this second phase, wanted different products and better quality products rather than simply more products. The third phase is characterized by a restructuring of retailing with new roles and functions becoming evident.

The convergence of information and communication technologies, the use of new materials, and other applications of technology, such as RFID, across the value chain are enabling retailing to take on more forceful roles within the economy. Economies of scale of organisations associated with global sourcing and international operation of stores are allowing retailers to become some of the largest firms within Europe. In establishing the new distinctive role for retailing, the leading firms have developed a distinctive European model of retailing and

distribution. This European model, now emerging, is different from that of the USA. It is a model that is internationalist, not domestic; compare for example the international scope of METRO Group and Tesco with Kroger and Target being limited to USA. The opening of Central Europe to investment from West European retailers was a stimulus to the internationalist view. The European model also is structured around an integrated demand chain, not a supply chain. And, it has market innovation, not copying, at its core.

Changes in managerial processes in the retail sector

Managerial processes in the retail sector are changing within the overall restructuring. Four changes are particularly apparent.

1) *The Large Firms Are Growing Faster than the Sector as a Whole.* Despite low growth in the European economies in recent years large firms have been able to increase their output through entering new markets, diversifying their retail offer, acquisition and, importantly, like-for-like sales growth. In most cases for European firms the growth is above the general level of growth in the sector. Leading companies in other more specialist sectors show even strong growth.

2) *A More Strategic Approach to Managerial Decision Making.* Across the sector in the large and medium sized firms a strategic approach to management has been adopted more consistently. Strategies vary considerably but there is a wider presence of a general business strategy that is then made operational through functional strategies for marketing, merchandising, buying, branding, logistics, employees, finance, etc. Private and publicly quoted firms exhibit this trend. Whilst short-term opportunistic development and reactive competitive moves remain, these occur within a broader, formalised, strategic framework involving a mission, market positioning and formalised approach to channel relationships.

3) *Increased Complexity of Organisational Structures.* With the new role of retailing and the increased size of firm, organisational structures have become more complex. The expansion of international operations, for example, has required retailers to develop a structure of country 'vice-presidents' and in several cases an international Board of Directors. At store level the international moves have required different organisational structures in different countries in order to respond to the different consumer cultures. It is not only international operations that require a more complex organisational structure to the firm. International sourcing centres have to be accommodated in organisations. The outsourcing of many previously in-sourced functions also changes organisations. The diversification of retailers into financial and leisure services provides further organisational complexities.

4) *Moves Towards Retailer Co-ordinated Value Chains.* In recent years the nature of the value chain within the successful retailers has changed substantially. Retailers have become increasingly involved in co-ordinating the relationships between retailers and suppliers. Thus value is created at a variety of places in the value chain, not simply at the point of final sale to the customer. In taking costs out of the channel of distribution there is a redistribution of the locus of value generation. An example of this is in the terms of trade that exist between retailers and suppliers such that a retailer's inventory is financed by suppliers. By providing a longer number of credit days than the inventory turn of the retailer, the retailer operates with negative working capital.

These four changes illustrate the nature of the changes taking place in European retailing during this third and current phase of major restructuring. They are clearly inter-related with the focus on strategy underpinning the rapid growth of the large firms and the change in financial relationships with suppliers. The four changes are illustrative of the totality of change and other

changes could be highlighted. Nonetheless the conclusion that can be drawn is that the current phase of re-structuring is resulting in an increase in the complexity of the sector, a quickening in the rate of development and a more global perspective being adopted by management.

The Implications of the Changes

There are many implications of the changes in the role and structure of the retail sector across Europe. A major implication is an increased level of governmental intervention in retailing. Four particular aspects of change give rise to governmental intervention at various levels across Europe:

The Increase in Market Concentration. With the continuing growth of already large firms and their acquisition activity, the competition agencies in individual European countries and in the European Commission have become more active in reviewing levels of market concentration.

The Decrease in the Number of Small and Micro Firms. An aspect of long term structural change has been the decline of small firms in retailing across Europe. This loss of small firms has become more acute in recent years such that governments have been exploring ways to provide support to smaller firms through different types of policy initiative. These include limiting the local competition from large firms by restricting the establishment of new shops, providing direct financial help to the small firms to encourage investment and training, reducing the tax burdens on small firms, encouraging co-operative behavior amongst small firms, and providing special protection to particular sub-sectors, for example pharmacists and small firms in rural areas and in the lowest income parts of cities. Governmental intervention in the market in these cases is aimed at protecting smaller firms from the full rigour of the market.

The Change in the Balance of Competitive Power Between Retailers and Their Suppliers. An implication of the changes in retailing is the growth of channel power of retailers at the expense of their suppliers. Governments have sought to intervene in the market to regulate the behaviour of the participants in the channel. This has involved policies on the nature of the contracts between retailers and suppliers, the number of credit days allowed, the types of discount that can be used, the ability of retailers to re-sell products at below cost, etc.

The Increased International Activity of Retailers. In some European countries, notably those in central Europe that attracted large amounts of foreign direct investment into retailing after 1989, the governments have been adopting policies to limit foreign ownership of retailing. The rationale for such policies is to protect local retailers and suppliers from the business practices used by the foreign, often

large, firms. Those foreign retailers that have a presence in the market, having entered early, are in effect protected from peer-group competition and so may benefit from the policies aimed at limiting them. The extent of and types of intervention of governments in the retail markets is generally increasing in Europe. The rationale for intervention is generally to ameliorate, in some way, the consequences of the structural changes in the sector. In many cases the policies are instituted without a clear understanding by government of the nature of the causes of the structural changes that generate the 'undesirable' change but there is growing awareness of the complexity of the distributive trade in respect of the vertical relationships involved.

The reasons for the structural adjustments in this current phase of major change in European retailing can be presented as a process linking changes in the environment to responses by retail managers. Retailing, as an activity linking consumers to goods and services, operates in local markets. As such many of the managerial decisions are a response to both the local culture of the consumers and the local culture of consumption. Within Europe these local **cultures** are subject to considerable social, economic, political and technological changes. This dynamic cultural environment requires responses from retailers that seek success through the close

matching of their operations to consumer requirements. These responses underpin the **strategies** of retailers. The strategies are executed through the **formats and formulae** that the retailer creates. In creating these formats and formulae the retailer enters into **relationships** with other groups, for example suppliers, finance groups, consumers, etc. In the current context of activity in Europe all four of these attributes of the retail sector – **cultures, strategies, formats & formulae**, and **relationships** – are undergoing substantial change as they inter-act. It is the changes in these attributes that provide the reasons why retailing is changing in the ways that it is.

Culture. The changes in consumer culture in Europe after 1989 have been considerable. The emergence of market economies in central Europe meant widespread privatisation of retailing. Perhaps of greater importance in terms of consumer culture, however, has been the increased demand for products and services from consumers in the former communist countries. Steady increases in consumer wealth

after the initial periods of high inflation have meant that from the mid-1990s consumers have expected a more extensive range of price-quality combinations in the retailing. In clothing for example distinct markets in street fashion, work clothes, high fashion, discount apparel, etc emerged quickly to parallel the market structures that have been developed, more gradually, in West Europe.

Across much of Western Europe consumer cultures show apparent contradictory trends of standardisation and fragmentation. The fragmentation of demand is evident in many ways with ever smaller segments of consumers having specific patterns of demand. Consumers have translated their values into demands for goods and services such that there are differing values, for example the ecologically responsive groups, vegetarian groups, designer brand groups, sport obsessed groups, etc. These are in addition to the longer established groups associated with age, educational level, income, etc. This fragmentation has been encouraged by specialist media. The fragmentation has been extended even further with consumer demands varying on a temporal dimension – by time of day or day of the week. The consumer can no longer be considered as one person but has to be viewed as many different ‘people’.

In apparent contradiction to this fragmentation is a Europeanisation of some aspects of consumer demand. With the wider and faster availability of information through satellite communication, the rapid diffusion of fashion, in clothes and music particularly, has generated European-wide patterns of demand. The movement of people through Europe particularly for leisure and tourism similarly has generated a diffusion of cultures, often in food items, with consumers in Northern Europe becoming familiar with foods from the South and vice-versa. The availability of international manufacturer brands, in electrical items, food, grocery, toys, etc. stimulates this move to ‘sameness’ or ‘Europeanisation’. The euro-integration of consumer infrastructures is often facilitated by common technologies in the home or mobile ‘close to body’ technologies (mobile phones, pocket computers, hand-held games machines, etc.). The driving force for much of this integration is a combination of the aspirations European politicians and multi-national manufacturers. Many European politicians have a vision of the future as a single and more standardised European market. Multinational manufacturers wish to exploit economies of scale by producing goods for a large market, but often consumers have a more local perspective.

Strategy. The approach adopted to address the strategic dilemma resulting from the changes in culture is to move away from the traditional approach to strategy that contrasted either low cost or high service. Retailers have approached strategy by having a wider perspective that considers co-operation and competition both in a vertical dimension through the distribution channel and horizontally with other retailers. There is a presumption of vertical co-ordination to increase horizontal competitive ability but this basic model is subject to detailed interpretations by firms. A greater emphasis is placed on innovation and the generation of knowledge as key

inputs into the development of strategy such that firms reject the idea of a 'generic' strategy and seek ones that are appropriate to their own knowledge base and are flexible enough to accommodate the localization-standardisation dilemma. There are several results of this new approach. Four serve to illustrate the point:

- Branding has become controlled by the retailer. The stores have become brands, for example IKEA, Zara, Dia, Pimkie, Aldi and B&Q. Alongside the branding of the store the retailers have also taken control of the branding of merchandise. Individual firms have adopted different strategies to the branding of merchandise. Some use the name of the firm, some have developed different brands for different merchandise categories and others have developed different brands for different market positions. Although the implementation varies from firm to firm the rationale for the strategy is similar. By controlling the brand offering inside the store it is possible to co-ordinate the merchandise brand with the store brand to make the total marketing effort more effective.

- A wider perspective on productivity. A more integrated view of the productivity of assets emerged in the new strategic approaches. The traditional view was of productivity being related to employees and floorspace with sales per employee and sales per square metre being the key metrics. In the new strategic approaches not only are these traditional measures disaggregated, for example profit of checkout employee per hour, shelf-space sales per cubic metre, but new assets are considered. The 'productivity' of customers, of suppliers, of in-store services for example in-store bakeries, and coffee shops, of promotions, and of brands, are now considered and attempts made to develop a more integrated view of productivity of the firm.

- Identification of the profit sources in the value chain. With a more strategic approach to considerations of productivity so there has been greater awareness of the nature of the value chain in retailing. This has resulted in shifts in the balance between out-sourced and in-sourced functions. Retailers have evaluated the functions they undertake and established which generate value added to the retailer in respect of specific knowledge owned by the retailer. These they have retained as in-sourced. Thus for example, merchandising has been concentrated inside retailers. Where value added is less in relation to the retailer's knowledge then the functions have been outsourced with contracts made with specialist groups.

- Consideration of new markets. The ability to respond to the new cultures of consumption has encouraged European retailers to move into new markets.

Conclusion

It has been argued in this article that the retail sector in Europe has been undergoing, since the mid 1990s, a period of intense restructuring. The reasons for this restructuring lie in the changes in the culture of consumption in Europe, in the resulting strategies of the retail firms, in the formats and formulae that have been developed and in the relationships that the retailers have generated with various other agents in the distribution channel. Retailers have been attempting to compete by changing their operations. Innovation has been critical to retailer success in this regard. Retailers have moved from traditional forms of innovation to undertake 'experience' innovation. The key importance of experience innovation is in acting as a catalyst for growth in mature economies with little increase in consumer spending. The innovation enables the growth in productivity that retailers then use as the basis for obtaining more control over activity in the channel and also undertaking marketing initiatives to provide better experiences for customers. Both routes facilitate increases in sales at a rate greater than growth in the overall economy.

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