New dimension in retailing - retailer as focal company

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Abstract

Internationalisation of the retail firms is one of the main drivers of changes in the food industry in Central and Eastern Europe. The most important consequence of the retail internationalisation on the agri food business is the verticalization. Foreign retailers often import their original business model based on supply chain management. In Central and Eastern Europe growing share of retail brands is observed. This results in a new dimension for retailer. Retailer overtake the responsibility of the whole supply chain by the retail branded products. Therefore they have to change their behaviour and should coordinate the chain and cooperate with them.

Keywords: retail internationalisation, supply chain, focal company
1. Introduction

In the last decades the internationalisation and as a consequence the modernisation of the retail business in Central and Eastern Europe was observed and is an important topic of professional and scientific discussions. In countries such as Hungary the major retailers are foreign owned and the modern formats dominate the market. This process is accompanied by heavy foreign direct investments. Reardon argues that retailers and foreign direct investments are more powerful sources of structural changes in transition countries than WTO and Trade Policy (in Swinnen 2005). The most important consequence of the retail internationalisation on the agri food business is the verticalization (Swinnen 2005). Foreign retailers often import their original business model based on supply chain management. In supply chain network a central decision making authority, the focal company coordinates the other members in order to realise its strategic objectives (Hanf and Dautzenberg 2006). The focal company is identified by consumers as responsible for the product. By retail branded products the retailer is the focal company. This results in a new dimension for retailer, because in contrast to the past, when they selected their suppliers according to the price, they have to take the responsibility and manage the supply chain in order to guarantee quality and credence attributes to the consumers. It requires new management concepts for retailers.

In order to understand the retail business we have to know their management tools. Many studies deal with supply chain management, but we see some shortcomings regarding the focal company. In this context the aim of our article is to clarify the role and responsibility of the focal company and elaborate on the consequences on the example of the retail companies.

We pointed out that going abroad retailers often export their business model of supply chain networks. In order to discuss the role of the retailer and consequences on them, first we briefly introduce our understanding of supply chain.

2. Supply Chain Network

Today in the agri food business the competition is not between single companies rather between vertically cooperating networks. In order to guarantee the quality, attributes of the product and increase efficiency and value to consumers, companies have to cooperate. Supply chain network is the joint and cooperative behaviour and actions of companies who are related by vertical product and information flows in the supply chain in order to provide a product or service to the end consumer (Hanf and Dautzenberg 2006). According to other definition which concentrates on the production the supply chain is a linked set of resources and processes that begins with the sourcing of raw materials and extends through the delivery of end items to the final customer (Bridgefeld Group ERP/Supply Chain Glossary, 2004). Stevens (1989) calls a supply chain “a system whose constituent parts include material suppliers, production facilities, distribution services and customers, linked together via the feed-forward flow of materials and the feed-back of flow of information and financial capital”. Supply chains can not be described with a simple vertical structure, instead they have a very complex structure. The concept of a supply chain network, introduced by Harland (1999), tries to integrate the network and supply chain approach. She regards individual firm as a nexus with its own unique network of upstream and downstream partners.

Supply chain networks are commonly characterized as firms that are embedded within a complex network of horizontal (i.e. strategic alliances, joint-ventures) and vertical relationships (buyer and supplier relationships) (Lazzarini et al., 2001; Omta et al., 2001).

The objective of most of the supply chain networks is to produce higher quality and/or higher efficiency by co-operation rather than by full integration of the supply chain or by market transactions (Hanf and Kühl, 2002).
Supply chain networks in the food industry represent strictly coordinated food systems, consisting of a focal company, which is responsible for coordination and other elements, such as suppliers, consumers and logistic services.

Supply chain networks are characterised by the existence of a focal company, who coordinates the network on a hierarchic way in order to meet strategic objectives. In the following part we will have a closer look at the focal company.

3. Focal company

The focal firm is thereby in general that firm that is identified by the consumers as being ‘responsible’ for the specific food item, e.g. the producer in the case of a producer brand and the retail firm in the pyramidal-hierarchic case of private brand. Focal companies have a business idea and is expected to design and manage the system in order to realize the strategic objectives. The other network actors are more or less heavily dependent on the focal company because of (long lasting) explicit or implicit contracts (Hanf and Dautzenberg 2006). The focal company should be able to coordinate the information and product flows throughout the whole network. Such managerial coordination saves resources of all participating firms, creating a sustainable win-win situation. The win win situation occurs when the outcome for every members of the network is better in the network than outside.

The focal company can be also dependent upon the different resources that the suppliers can provide. The highly specialised equipments of the processing firms require agricultural inputs with continuously high specifications, so processors can not change quickly. (Hanf and Dautzenberg 2006)

Moreover, being the strategic centre, a focal company is responsible for value creation with its suppliers in the network, as well as being a leader, role setter and capacity builder (Lorenzi & Baden-Fuller, 1995). In this way, a focal company has a central role in material and information flows. One important decision a focal company has to take is to decide what and how to make and what to buy.

The competition in the business world today is not between single firms, rather between supply chains, therefore the focal company should improve the whole chain. In this context it is a vital role of the focal company to improve skills competencies of its suppliers, and to make a system with synergy effects from the independent companies. Focal firms transfer knowledge to some of their suppliers or help them to acquire new competencies from other sources. These knowledge resources are transferred by using different organizational tools, such as training systems, exchange of human resources between focal firm and suppliers, and diffusion of information systems that force the suppliers to use new managerial tools for design and communication. (Lorenzoni and Baden Fuller 1995)

Focal companies often involve their suppliers in the product design, contrast to the traditional supplier buyer relationship (Lorenzoni and Baden- Fuller 1995). Suppliers’ early involvement in new product creation has been signaled as a practice that enables knowledge transfer and creation among focal organizations and suppliers and can encourage innovation and shorten product life cycle. Focal firms are eager to invest in knowledge transfer and creation inside their suppliers, but they are ready to discard the partner that is not able to fit new requirements. Sometimes focal firms set up “learning races,” where suppliers are given goals and prizes (Lorenzoni and Baden-Fuller 1995). Some focal companies select out those suppliers not able to improve their delivery times or that are not able to certify the quality of their production (Hanf and Dautzenberg 2006).
It is a prominent role of the strategic centre to develop business ideas, share them in the whole network, structure and manage the network in order to fulfil the idea (Lorenzoni and Baden – Fuller 1995). The focal company’s role is to find the partners, form a network and to get work them in order to realize the collective aim. The business idea is for example by the German discount chain Aldi to provide high quality at low price. Therefore they buy products high volume from few suppliers. It is a dynamic process, new ideas are the prerequisite of the business development, they should be developed over time.

Focal companies have to design the whole network. Therefore one of the prominent roles is the partner selection. Here not only the resource and technological fit is important, rather the similarity in management culture and decision making process. (Lorenzoni and Baden- Fuller 1995).

The focal company should consider how to structure the suppliers in the most efficient way. Gadde and Håkansson (1993) suggest that a focal company can structure its supplier network in two different ways. One way is according to how the suppliers can be organised, and the other is according to the number of suppliers (Iskanius and Pikka 2004). A focal company can organise the suppliers into systems of suppliers, with suppliers on different tiers depending on their activities and resources. One of the goals with systems of suppliers is that the number of suppliers, which are in direct contact with the focal company, is reduced. Focal firms tend to foster multiclient relationships with their suppliers, with single-client relationships being rare and limited to very small firms (Iskanius and Pikka 2004). The use of system supplier has many advantages for the focal company: it shares the risk, makes easier the coordination, and enhances efficiency. The system supplier takes the responsibility for the specific product component, if there is any problem not the focal company is in charge any more. Using this management concept, fewer companies will be in direct contact with the focal company, therefore its coordination task will be easier and cheaper. System suppliers are companies who are significant knowledge and experience, they can produce the given good more efficient way. They produce the product not just for the focal company, therefore they can take advantage of the economy of scale.

As a summary we would like to highlight that focal company is identified as responsible for the food product and should structure and coordinate the network, help the knowledge transfer, improve skills of other members in order to realize strategic objectives.

4. Consequences on the retailers

The constant development and growing share of private or retail brands can be observed in Central and Eastern Europe. As we pointed out the retailer is identified as responsible for the product without limitation by the consumer in this case, therefore the retailer is focal company of the supply chain of private brands. Retailer should guarantee the quality and attributes of the products. Retailers have to accept this responsibility. In order to fulfil these requirements, retailer should structure and coordinate the network. This coordination is difficult as they have usually many supply chains, consisting of processors, wholesalers and farmers (figure 1)
Retailer is dependent on its supplier on behalf of the credence characteristics of food products (Hanf and Kühl 2002). In order to avoid opportunistic behaviour retail companies has to make a sustainable win win situation, where networking will result for each actor in a better outcome than outside. The incentives should be short (e.g. higher profit) and long lasting (higher profit or joint growth in the future), which can not be exceeded easily by competitors. Retailers should introduce supply management tools such as Efficient Consumer Response (ECR) and Collaborative Planning Forecasting and Replenishment. (CPFR) Retailers have often around 5000 retail branded food products. This means that they have to coordinate 5000 supply chains. This result in huge amount of information, therefore retailers have to install developed IT infrastructure.

Retailers overtake the responsibility of the whole supply chain by the retail branded products. Therefore they have to change their behaviour and should coordinate the chain and cooperate with them. It is important that every retailer understand that competition is not any more between single firms rather between networks. They have to ensure that every actor of the network is aware of it.

5. Summary

In Central and Eastern Europe retail internationalisation is one of the major drivers of structural change. Foreign companies dominate the market, increasing the competition and importing new retail concepts. The foreign retailers import their original business model based on supply chain network. Supply chain networks are coordinated by the focal company which is identified by the consumer as responsible for the food product. The focal company
should structure and coordinate the network in order to meet strategic objectives and guarantee quality and attributes to the consumers. Retailers have to know the new requirements and to change their behaviour. Retailers are focal companies of only retail branded products. They have to recognise their responsibility and to manage the network to provide high quality and security.

Being the focal company is not always an advantage. The network creation and coordination requires resources, and therefore is expensive. Focal companies are responsible for the product, any scandal can destroy the whole image of the company.
References


