Internacionalizace litevského maloobchodu: charakteristiky a perspektivy

Lithuanian Retail Internationalization: Features and Prospects

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Abstract:
Purpose of the article: To distinguish and describe Lithuanian retail internationalization of the peculiarities in the last twenty-four years and bases on the changes in the future.
Methodology/methods: The retail internationalization literature explores the theories, concepts, experiences in different countries is the methodological basis for the assessment of the process and the prospect of these process changes in Lithuania. Lithuanian retail internationalization progress of the investigation from the beginning, development and future prospects is divided into three phases. From a methodological point of view, this is a difficult research because even after twenty years.
Scientific aim: To analyse retail internationalization process in Lithuania – features and prospects.
Findings: Investigate and evaluate three Lithuanian retail internationalization stages showed that each of them has distinct features. A survey of retailers allowed to set retail internationalization level in 2013.
Conclusions: The retail trade internationalisation process in Lithuania, which started immediately after the destruction of the socialist economy and proceeded as the foundation for market economy was being laid, was particular in the sense that famous foreign retail trade companies did not immediately enter the Lithuanian retail market. The characteristic feature of the process in Lithuania was the establishment of joint capital companies, while individual foreign businessmen often started their business in the country by opening their first store. Research limitations: no interest of retailers to be in contact regarding research and wide theme was as serious limitations to find out and explore the Lithuanian retail internationalization features. This is the original article, exploring the small market of retail internationalization process characteristics from its beginning until 2014.

Keywords: retail internationalisation, features, prospects, stages in Lithuania

JEL classification: M21
Introduction

On March 11th 1990 – posted the Independence Act did not mean that Lithuania has become an independent sovereign state. Formally, this has become, but, first of all industry was built in the Soviet Union. Second, the first period of Independent (1991–1995 year) was an important because of independence act admit by world countries. Third, in Lithuania was a Soviet army. Fourth – the Soviet Union start blockade of economic in the summer. Fifth – rublis continues to circulate as currency. Sixth – disrupted trade monetary relations. Seventh – lack of converted currency. Eighth – Moscow putsch. Ninth – the Soviet Union’s collapse. Tenth – inflation spikes. Eleventh – there was no market economy model created.

The following factors were important in the first, second and third year of independence. Mentioned just the most important environmental factors that affect the development of the new state peripeties in all its areas of operations. Strategic lack of provision, lack of experience the importance of parties interests before the state, desovietization law enactment almost without radical changes took place in restructuring of state institutions to the independent state institutions. As the fundamentals of the national market economy were developed by a “shock therapy” method, i.e. privatisation of State-owned stores and the adaptation of then unused space for trade purposes was a relatively fast and not always a transparent process. The development and establishment of private trade in the market were taking place in a complicated and challenging environment. Foreign businesses could also freely participate in and be part of the processes. The overall preconditions and background for retail internationalisation in Lithuania were entirely different from those in countries with a highly-developed economy, or even in Poland that under socialism had many small private shops. The level of business risk was very high, while any profit could be projected for the future only. Furthermore, the Lithuanian market was quite small, and the overall complicated operating conditions were not acceptable for large foreign retail trade companies. Certain retail internationalisation processes in Lithuania were simultaneous with privatisation of State-owned trade facilities and the emerging private trade sector. Those may be described as individual cases that have never been researched or examined in the retail internationalisation theory; however, as instances they have been referred to in the books and articles by Holander (1970), Treadgold (1988), Salmon and Tordjman (1989), Dawson (1994), Alexander (1990a), Alexander, Myers (2000) and other authors.

The retail internationalisation processes in Lithuania acquired a number of specific features since from the very outset they were progressing in non-conventional ways that were affected by a number of different factors. Such affecting factors included the complexity of the external environment, the peculiarity of the emerging market economy, the small scale of the market, the low purchasing power of residents, the initiative of the local business community in creating and developing the private trade sector, etc. Lithuanian capital-based companies, which were emerging and gaining strength gradually, from 2000 started their entry and expansion to the markets of neighbouring countries. Concurrently, the retail internationalisation processes were in progress and gaining pace in Lithuania. A substantiation of the prospects of retail internationalisation processes in Lithuania requires identifying and generalising the features of such processes in individual periods, and their comparison with global trends. It is justifiable to assume that the retail internationalisation processes in Lithuania will continue to have some peculiar features that they have acquired in the preceding periods.

Theoretical foundation of the present article are to identify and describe the features of the retail internationalisation processes in Lithuania, and substantiate the assumptions for the development of these processes in the future. The following tasks have been defined for the above purpose:

- Methodology for the identification of the periods of retail internationalisation.
- Description of the features of the retail internationalisation periods.
- Future developments of retail internationalisation.

The subject of the present paper is an unconventional case study of Lithuania developing its market economy. The theoretical basis for the present paper is market economy laws, articles and books where the object of research is the internationalisation of retail trade, its constituting processes, and the case studies of individual East and Middle European countries practice experience.

1. Overview of references

The internationalisation of retail trade actually started concurrently with the appearance and development of retail trade itself. The internationalisation process was progressing at a slow pace and was closely interrelated with practical activities. The actual research of the phenomenon started simultaneously
with the emerging interest on the part of retailers to invest in foreign markets, given that the transactional costs were very diverse. According to the eclectic paradigm of international production, or the OLI model, offered by P. Dunning in 1950, the production of goods on an international scale is a product of three interrelated factors inherent to a foreign market, i.e. the ownership advantages, the location advantages and the internationalisation advantages in a foreign market (Alexander, Quinn, 2002). It was with a reference to those specific market advantages that the decisions to invest into markets with a more favourable environment were taken. Thus, the object of interest in relation to the initial and further research in retail internationalisation was retail trade companies themselves. The findings by the research Holander (1970) were his proposal of five forms of retail trade companies whereby traders enter foreign markets. Those would include general merchandise dealer, trading companies, specialised chains, direct selling and automatic vending. The classification of retail trade companies proposed by Holander built a valuable basis for further research exercise, i.e. helped more precisely define a retail trade company as the business subject and the forms in which such companies may expand to foreign markets. Starting from the mid-1980s, the analysis (political, legal, economic and cultural) of external environment factors sought to determine the manner in which such factors affected the investment of foreign retail trade companies. Special attention to the issue was devoted by Kacker (1985). Treadgold (1988) continued to investigate the issues of retail internationalisation not only from a trade company’s, but also from the market’s viewpoint. Treadgold compiled a taxonomy of retail trade companies. The typology was based on the interdependence between the costs related to the expansion of the company’s operations to foreign markets and the supply control. Based on this criterion, Treadgold classified trade companies entering foreign markets into four groups, i.e. cautious development, incentivised to develop, aggressive strategy and global influence. This classification of retail trade companies helped answering the question as to in what direction and how such companies were expanding.

Salmon and Trodjman (1989) classified trading companies according to their strategies. Salmon and Trodjman proposed three principal strategies of retail companies (global, multinational and investment), depending on the area in which the retail company was operating.

Pellegrini (1991) supplemented the OLI model, i.e. further to FDI (foreign direct investment), he included other internal corporate and market environment elements, such as organisational innovativeness, strength of the trade mark, market size, competitive environment, etc. Pellegrini sought to closer examine the causes for the trade internationalization processes, and classified the motives according to the OLI model.

Other authors, for instance, Burt (1993), in his survey of retail companies in Great Britain established a chronological sequence of internationalisation on a company level, while Simpson and Thorpe (1995) developed the PLIN (Product, Lifestyle, Image, Niche) model and identified stages for the internationalisation of a retail company.

After 1990 opened up new markets in Central and Eastern European countries as well as the possibilities to entrench there was analysed by Fulop (1991), Loker, Good, Huddleston (1994), Drtina (1995), Lorentz, Hakkinen and Hilmola (2006), Horska, Ubreziova (2007). Alexander and Myer (2000) proposed a dual approach towards retail trade internationalisation, i.e. an operational internationalisation more focused on the internationalisation processes from the company’s viewpoint, and market internationalisation that emphasised the distribution of companies in markets. The authors merged the motives of a retail company and the market into one single matrix.

Each stage of retail internationalisation – goods (product) – company – market – has been addressed by various authors who have developed different theories for of each of them. The complexity of the process lay in its basis, i.e. goods – companies, or rather companies – markets, which led to the appearance of new theories that now may be applied by different countries retail internationalization process.

1.1 Research methodology

Lithuania has chosen an open market economy model with the so-called “shock therapy”. Large-scale inflation in the first three years there was difficult to discern the operation of market forces. Were collected available data from Department of Statistics, Government issue regulations, comments in the press, Vilnius University and other research material which allowed for the assessment of the country’s retail internationalization of the peculiarities of the different phases. Survey in 2013 – Lithuania’s largest trading companies – allowed methodically assess its level of internationalization.

The purpose of the research in this area is to methodically identify stages of the national retail internationalisation and their features, as this exercise will provide a better insight in the prospects of the process. For the purpose of the present paper, stages of retail internationalisation will be determined following market economy laws, theoretical provisions of retail trade internationalisation and practical examples, also programmes of the Government of the Republic of Lithuania.

2. Methodology/Design Methodology

Lithuanian retail internationalization progress of the investigation from the beginning, development and future prospects is divided into three phases. From a methodological point of view, this is a difficult research because even after twenty years, Alexander, Rhodes and Myers (2011) noted that the Eastern European markets for Western Europe was not known with specific peculiarities and new opportunities.


In the third stage, in addition to the previously mentioned methods of investigation was made research of 34 biggest Lithuanian and foreign retail companies. Data of this research helped to determine the Lithuanian retail trade internationalisation level.

3. Preconditions for internationalisation of retail trade

The preconditions for retail trade in Lithuania need to be addressed separately as they emerged only after the Law on Privatisation of State-Owned Property was passed in 1991, and after the launch of privatisation of state trade enterprises. Legalisation of private property is an important foundation for the development of market economy. According to the Law on Privatisation of State-Owned Property, foreign legal and natural persons were also authorised to participate in auctions. Thus an important precondition for retail trade internationalisation was present from the very outset of building market economy.

Other important preconditions were the size of the market, level of the national economy and the state policy. The size of a market operates as a magnet, i.e. the attraction of a large market is strong; thus the largest global retail trade companies draw up plans to enter such markets and seek to implement the plans as soon as favourable conditions become available. The size of a market is an allure, while a small market has to wait for its turn. The level of a country’s economy is an important precondition of retail internationalisation, since a higher level of economy ensures a lower level of business risk. The size of the market, however, remains a more important factor. The state’s policy may facilitate the advent of foreign retail traders, or, on the contrary, it may aggravate the conditions for such entry. Being a small country, Lithuania opted for an open economy policy, and the retail internationalisation process does not require any specific conditions.

A significant obstacle for retail trade internationalisation in a country that has started developing its market economy is a relatively high level of business risk A possible frequent change of governments, lack of economic stability, high level of corruption and other threats impede the advent of foreign businessmen or trade companies into the country.

Competition, as a “driving force” of a market economy, is one of the determinant preconditions for the entry of foreign retail trade companies into a country. Also a national trade market may have no
niches left as all sectors had been occupied by local trade companies that compete to strengthen their positions in the market. Another possible scenario is that other national retail trade companies of a similar type already operate in the national market. No less important is the competition policy implemented by the Government or other public authorities, i.e. where it is equal for all companies operating in a country’s territory, or favours domestic companies. Retail trade internationalisation may progress not only by entry into a national market of retail trade companies of other states, but also indirectly, e.g. through wholesale trading, distribution of trademarks, lease, etc. Such retail internationalisation methods are inherent mostly for markets of small countries that are not that attractive for large foreign retail traders.

Neighbours of a country. This precondition is of special relevance for countries that have just started developing their market economy. Economically strong neighbours, irrespective of their territory and population, may materially affect the national economy and thus the retail trade internationalisation process.

All of the preconditions referred to earlier manifested themselves, to a greater or lesser extent, in the individual stages of the Lithuanian retail trade internationalisation.

4. Stages of retail internationalisation and their features

The retail trade internationalisation launched only in the 1990s in a country that had just started developing its market economy had a huge potential as the theoretical provisions and the experience of other countries were clear and well known. The largest impact upon the course of a country’s retail trade internationalisation is produced by the entry into the market of foreign trade companies. Having entered the national market, the company may develop its trade network. However, in case no large foreign retailer that could essentially change the situation in one or another merchandise market enters the national market during the first years, the identification of stages of internationalisation should be related with the developments in the national economy. A growing national economy is attractive to foreign investors that in the period of crisis or stagnation may acquire companies verging on bankruptcy. Having regard to the methods as described earlier and the size of the Lithuanian economy in the early stages of its market development, three stages of retail internationalisation in Lithuania could be distinguished: Stage 1 (1990–1999) or the developing market economy stage, Stage 2 (2000–2009) or the stage of the establishment of market economy, and Stage 3 (from 2010), or the stage of changes.

Stage 1. The first stage of the Lithuanian retail market internationalisation could be conditionally divided into two periods. 1991–1995 was the period of privatisation of the state trade sector. Essentially, it was in this period that the private trade sector was established (see Figure 1).

Although in 1991–1995, prior to the introduction of the litas (1993/06/01), the national economy was suffering from high inflation, the shortage of merchandise, high unemployment and weak economy, both legal and natural foreign persons were allowed to acquire privatised state-owned trade objects or other unused premises or to build new stores. The investment risk was rather high and there were not many foreign investors that took advantage of that possibility. In 1992, some brothers Ortiz from Belgium opened their first grocery store on Antakalnio Street in Vilnius. In 2012, Iki celebrated its 20th anniversary as the second largest trade network in Lithuania that also runs a chain of stores in Latvia and Estonia. The course of developing a trade network that starts with the opening of a new store is obviously different from the arrangement where an investor buys an already operating trade network. In the first case the store network is expanded gradually and concurrently with growth of the economy, and such a network becomes very own and familiar to buyers, similarly to a Lithuanian-capital trade network. While purchasing an operating trade network only changes the owners of the acquired company, and thus the company may establish itself relatively easy in the market. Lithuanian capital based trade chains networks were established and developing similarly
The high level of internationalisation of retail trade may be viewed from different viewpoints. First, that impeded the enhancement of local industrial companies that encountered difficulties in realising their produce since goods of the same nature were imported from abroad. Second, in the first years of state-owned property privatisation, in view of the overall shortage of goods such import of goods was inevitable. In that period (1991–1995) the largest impact upon the internationalisation of retail trade was produced by the import of goods, rather than foreign capital trade companies; a certain role was also played by distributors of trademarks and traders in imported goods at open market places.

In generalising the results of the retail internationalisation in that period, the following features may be distinguished:
- In view of the small size of the market and an extensive risk, large foreign retail trade companies did not enter the Lithuanian retail trade market.
- The most frequent arrangement was the establishment of joint ventures with foreign capital-based retail trade companies.
- Individual foreign businessmen started their business in Lithuania from opening a new store.
- A significant role was played by the import of goods and the trading at open market places.

The second period of Stage 1 of retail trade internationalisation (1996–1999) could be described as the establishment of private trade and the competition for market sharing, also attracting foreign capital to the trade sector.

The market was witnessing a gradual amalgamation of companies which was proceeding not only through construction of new stores or reconstruction of existing ones, but also through integrating smaller companies, i.e. taking them over. The qualitative and quantitative developments in the national retail trade network became the background for the formation and development of some large foodstuff retail chains as Maxima, Iki, UAB Ekovalda, and some in the non-food trading sector, such as Senukai, Apranga, etc. However, not all trade companies had sufficient capital for further development and were looking for ways to attract funding from abroad. In 1999, UAB Ekovalda sold 50% of its shares to a Swedish company that, having later purchased the remaining interest, established the Rimi retail chain in 2002. Until 2000, the Lithuanian retail trade network was dominated by Lithuanian capital-based trade companies. On the other hand, a large part of the turnover in such companies was represented by imported goods (see Table 1).

The data for four years show the dynamics of the general retail trade internationalisation in Lithuania,
and of individual large merchandise groups; such data largely reflect the developments in the national economy. As a positive development it should be noted that more than half of the total retail goods turnover, except motor vehicles, was represented by goods of Lithuanian origin, and that this share was on the rise. However, having in mind that before 1990 Lithuania had highly developed food, clothing, textile and furniture manufacturing sectors, the share of 55% that Lithuanian manufactured merchandise accounted for in the overall turnover in 2001 was not large enough. That actually meant that not all industry branches succeeded in establishing themselves under the market economy conditions. The low internationalisation level of retail sale in non-specialised stores with food, beverages or tobacco predominating could be assessed as a positive phenomenon. Meanwhile the level of internationalisation in trading sectors 52.12, 52.4 and 52.44 was rather high, since the furniture, clothing and textile production sectors encountered difficulties in terms of sector growth.

The principal features of the second period of Stage 1 of the retail trade internationalisation were the following:

- acceleration of amalgamation of Lithuanian-capital companies, and market sharing;
- more than half of the total retail goods turnover was represented by goods of Lithuanian origin;
- some Lithuanian-capital trade companies started searching for strategic investors.

The retail trade internationalisation at that stage included complex processes, displaying certain features characteristic of a small country that had just started creating the foundations of its market economy.

The second stage of the Lithuanian retail trade internationalisation (2000–2009) is characterised by the gradual recovery of the Lithuanian economy after the Russian crisis, and the years of the economic prosperity until the very outbreak of the global economic and financial crisis.

Concurrently in Lithuania the retail internationalisation processes were accelerating. In 2004, the Finnish trading company Kesko acquired the outstanding 50% interest of UAB Senukai. In 2000, ICA AB acquired the remaining 50% interest in UAB Ekovalda. In 2008, the Ortiz brothers completed the transaction of the sale of the UAB Palink retail chain.

### Table 1. Distribution of the retail trade turnover by the origin of goods in 1998–2001 (%).

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<tr>
<th>NACE Activities</th>
<th>Total goods manufactured and sold</th>
<th>Change (2001 vs 1998)</th>
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<td>In Lithuania (%)</td>
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<td>50</td>
<td>40.9</td>
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<td>50.10</td>
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<td>50.50</td>
<td>82.2</td>
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<td>52</td>
<td>52.3</td>
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to Copernic, an independent alliance of trade companies. These instances demonstrated some essential changes taking place in the Lithuanian retail trade internationalisation processes. Foreign retail trade companies were purchasing well established retail chains holding a market share. As some of these chains were Lithuanian capital based, and UAB Palink had been developing and expanding gradually since 1992, customers actually did not notice the change of the owners, i.e. they were visiting the same stores without seeing any essential changes. In the autumn of 2008, UAB Akropolis Group sold the premises of Kauno Akropolis (area in excess of 80,000 sq. m) to the German company Deka Immobilien GmbH. The purchasing of well-functioning retail chains and trade centres by foreign investors evidences a high level of saturation of the national market, meaning that entering into the market or developing a new retail chain there would be a complex exercise, and would be hardly justifiable from the economic viewpoint.

In the period of economic growth and prosperity with the purchasing power of residents increasing, a number of new trading outlets were opened not only by large national trade networks, but also by smaller foreign and Lithuanian capital trading companies. In other words, it was the time of occupying the still remaining, yet less profitable market niches. Part of foreign retail trade companies enter the Lithuanian market indirectly, though their intermediaries, also using franchise or other indirect methods for this purpose.

It can be say, that Lithuanian retail internationalization processes in the second stage are more and more closer by theoretical aspects and practice.

The principal features of this period of retail trade internationalisation were the following:

- Foreign trade companies started purchasing large food and non-food retail chains and shopping centres based on Lithuanian and foreign capital.
- The national trade market was getting increasingly globalised.

Apparently, in the times of economic prosperity, the retail trade internationalisation level was increasing.

Stage 3 started simultaneously with the beginning of the global economic and financial crisis. The withdrawal from the crisis became a protracted process, and in 2012 the national retail trade turnover did not yet reach the pre-crisis volumes of 2008. In the years of the economic crisis, not only smaller but also large retail chains closed part of their loss-making stores. Therefore, the entry into the Lithuanian retail trade market was practically possible only by acquiring an operating retail chain, or by leasing premises in the major national trade centres. The Lithuanian retail trade market is oversaturated and until the residents’ purchasing power starts growing new investors can hardly be expected to seek entering the market. The only exception perhaps is large international trade companies, such as IKEA or H&M (Hennes&Mauritz). IKEA has already started at 2013 of August construction of its trade centre in Vilnius and expects to attract buyers from Latvia, Poland, Belarus and other neighbouring countries. In September 2013, H&M established a network company H&M Hennes&Mauritz in Lithuania, and opened retail space in the shopping centres Akropolis in Vilnius and Kaunas. In 2014 H&M opened two new shops in different shopping centers – Panorama and Gedimino 9. The retail trade company H&M does not intend to build a new apparel trade centre or chain in Lithuania, but rather leases trading space in large shopping centres with large flows of buyers. Apparently, the company will meet competition from the Lithuanian capital trade company Apranga that has brought such trademarks as Zara, Stradivarius, Mexx and others to the market, but H&M seems ready to take the challenge.

It is evident that during Stage 3 the retail trade market internationalisation processes were continuing and involving globally-known retail trade companies. Such processes may be assessed in two ways. Residents of the country will undoubtedly benefit from such developments by being offered a larger assortment of merchandise and not having to look for some famous trademarks in other countries. However, Lithuanian or joint capital medium-sized trade companies might be losers as they find it increasingly difficult to compete with stronger and better known counterparts. The consequences of globalisation processes are apparent.

Stage 3 may be defined as a stage of the Lithuanian retail internationalisation at the highest level. Some time ago nobody could expect that IKEA would decide to build its brand trade centre in Vilnius or H&M would enter the market with its trademark merchandise. Therefore, in the future also other globally famous brands can be expected to enter the Lithuanian market in one form or another. Other way is to buy present Lithuanian capital-based companies or retail chain as Norfa or Maxima.

Interviewed the biggest Lithuanian retail companies (16 food retailers and 18 non-food retailers). The turnover of these retailers are 65.8% of 2012 total retail trade volume (retail trade, except of motor vehicles). Lithuania manufactured goods accounted for an average of 53.5% of the total retail turnover.

Interviewed the biggest Lithuanian retail companies (16 food retailers and 18 non-food retailers). The turnover of these retailers are 65.8% of 2012 total retail trade volume (retail trade, except of motor vehicles). Lithuania manufactured goods accounted for an average of 53.5% of the total retail turnover.
in 2012. In 2012 compared to 2001 in all retail trade turnover of goods produced in Lithuania level was 1.5 points lower. We can see that the increasing processes of retail internationalization in Lithuania greater impact on retail internationalization don’t have.

Conclusions

The retail trade internationalisation process in Lithuania, which started immediately after the destruction of the socialist economy and proceeded as the foundation for market economy was being laid, was particular in the sense that famous foreign retail trade companies did not immediately enter the Lithuanian retail market. The characteristic feature of the process in Lithuania was the establishment of joint capital companies, while individual foreign businessmen often started their business in the country by opening their first store.

Although the process of privatization of state-owned trade outlets was rather fast and chaotic, both Lithuanian and local businessmen were allowed to participate in it. Until 2000, the principal method of internationalisation of the national retail trade sector was the establishment of joint ventures, part of which further established proprietary, though often quite small, retail chains; also an important role at the time was played by the import of merchandise and the trade at open market places.

Starting with 2000, Lithuanian capital-based trade networks started looking for strategic investors, and a number of well-known and established European retail trade companies entered the Lithuanian market. In the end of Stage 2, there was possible to find similarities with world retail internationalization processes.

In the Stage 3 was the same similarities with retail internationalization processes. Here was opened big center by IKEA, H&M opened 3 shops already in shopping centres. And one of possibilities is to buy Lithuanian capital-based companies.

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