ABSTRACT

RETAIL INDUSTRY CRISIS RESPONSE: FROM GLOBAL TO LOCAL PERSPECTIVE

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Internationalization and globalization process in past decades bounded countries, economies and businesses through infrastructure, communication systems, trade and investment links. On the other hand financial crisis that began in Unlighted States in 2008 quickly spread to the rest of the world through financial and trade channels, having harmful impact on trade and production side of nearly all economies all over the world. Today different countries are at their different stage of stabilization, therefore different actions for post-crisis recovery could be undertaken by local enterprises and notably in retail sector as emphasised in this article. Besides world crisis, other events that represent a threat to the business operations arise locally at country's level. Key features of what can be called crisis, and including the one that can arise on local level is given is this article, as well as synthesis of all global risks of highest concern in 2014. Besides the state of 250 global retailers, the analysis of Ukrainian modern retail market is made in this article, with emphasis of current political and economic situation influence.

Key words: risk, crisis, marketing strategies, retail.

The economic and financial crisis affected all the economic sectors, spreading all over the world. The retail sector had to adapt to their customers ´preferences and needs, which according to Ang, Leong & Kotler (2000) change in times of financial crisis. The purpose of this paper was to examine how Romanian retailers adapt their marketing strategies to the changing consumer buying behavior during the financial crisis. A qualitative method was chosen for this research, and the empirical data was gathered from two companies in the Romanian retail sector: Real Hypermarket and Carrefour. Both companies observed some changes in the behavior and preferences of their customers, so they implemented some marketing strategies during the crisis. The research may be useful for companies being in a similar situation, in order to see how the crisis can be managed.

Risk is an essential part of business. By its definitions economic activity commits presents recourses to un uncertain future as it was explained by Peter Drucker in 70's. For the one thing that is certain about the future, is its uncertainty that from managerial and strategic point of view can entail possible risks. Therefore the essence of economic activity is to take the risk. History has shown that businesses gain more economic performance only through greater uncertainty (Drucker 1977). According to some authors it is not possible to create a business that does not take risk (boulton et al.2000). Businesses must be able to choose rationally among risk taking courses of actions.

Simple Tools and Techniques for Enterprise Risk Management/Robert J. Chapman, Copyright © 2006, John Wiley & Sons Ltd, England/ISBN-13: 978-0-470-01466-0; ISBN-10:0-470-01466-0

In order to reach organization's objectives companies are searching for viable fit between their skills and resources and changing market opportunities and threats represented by actors and forces of business environment. Over the past decades the elements business environment, that contain major risks has changed in a series of dramatic ways.

The appearance of "new consumer" and "new competition" are amongst some of the most signifi cant of these changes This new consumer is typically far more demanding, far more discriminating, much less brand loyal, and far more willing to complain than in the past, whilst the new competition is frequently far less predictable and often more desperate than previously. At the same time, we have seen the ever-faster pace of technological change and the emergence of new delivery systems, as electronic commerce. Within the environment as a whole, we have seen and been affected by a series of unpredictable events, including the bombing of the twin towers in New York, the unprecedented rise – and then fall – in oil prices in 2008 –2009. (Colin Gilligan and Richard M. S. Wilson "Strategic Marketing Planning" - Second edition 2009, Butterworth-Heinemann is an imprint of Elsevier, ISBN: 978-1-85617-617-0)

High risks are represented by financial crisis of recent decades for their unpredictability and harmful effect but the most of them tended to remain regional in scope (for example, Asia in 1997 and South America in 2002). The recent crisis of 2008-2009 merits a special place. Major trade and financial imbalances, and liquididty problem, and collapse of demand in the United States quickly spread to the rest of the world through financial and trade channels, resulting in global showdown of unprecedented scale. This crisis was felt globally (rather than in just some regions), and it spread as the result of the globalized nature of financial markets. But this is also true for the trade and production side of the economy (Global value chains in a postcrisis word: a development perspective/Olivier Cattaneo, Gary Gereffi, and Cornelia Staritz, editors. © 2010 The International Bank for Reconstruction and Development/The World Bank/ISBN: 978-0-8213-8499-2, eISBN: 978-0-8213-8503-6.)

In the circumstances of a crisis, the important idea to hold in the forefront of one's mind is that the crisis is over things will have changed to the degree that you can not return to where you were before. This is what distinguishes a crisis from a really bad day in the office (General Sir Rupert Smith KCB DSO OBE QGM, 2012).

There are many definitions of crisis. There are a lot of debates how world "crisis" has to be defined and when the term crisis, incident, critical event must be used. One of the options to use the word crisis is "abnormal, unstable and complex situation that represents a threat to the operations, strategic objectives, reputation or survival of an organization" (Crisis Management. Key themes for success. I. The Cornerstones of Crisis Management/Dominic Cockram, Dr. Claudia van den Heuvel. © 2012 Steelhenge Consulting Ltd. In other words, a crisis represents something serious for organisation that goes beyond the normal and demand decisive action at strategic level to minimise its impact.

Crisis can have different origins, causes and manifestation but all of them have particular key features. The relative mix of these features may vary but when brought together they create the complex, sensitive and high –risk situation that demands extraordinary management. After D. Cockram and Dr.C. van den Heuvel these features are:

- Unpredictability, that results from a lack of anticipation, planning or due to the scale and intensity of the event overwhelming an organization plans;
- Dynamic or Volatile Threat, introduces by crises that have the potential impact on organization’s priority goals and create negative outcomes;
- Urgency/Pressure of response that is requires by crises. Timeframes are often very short and organization is limited in time to implement decisions and actions.
- Accountability which is expressed in potential for incorrect decisions;
- Uncertainty results from significant decisions needing to be made in the face of incomplete, erroneous or ambiguous information;
- Lack of boundaries that is explained in entire organization disruption and trespassing of organizations, geographic and economis boundaries;
- Media Scrutiny provoked by public and media interest to crisis; information spreads rapidly and facts are not always checked before they are distributed;
- Complexity of crises, characterised by multiple stakeholders, event-feedback loops and goals, with decisions resulting in inter-dependent impact or consequences.

Не изменено Much discussed within the theory of “globalization” and “internationalisation” the interdependence of the world economy was revealed during the global economic crisis of 2008-2009. Trade, along with the finance, was one of the main vectors of transmission of the crisis. One of the lessons of this crisis is that world economies are increasily integrated, interdependent and specialized: when the largest supermarkets in the world or other large companies have sudden and severe declines in sales, foreign suppliers have to close down factories, and these shocks are transmitted throughout entire regions (Global value chains in a postcrisis word: a development perspective/Olivier Cattaneo, Gary Gereffi, and Cornelia Staritz, editors. © 2010 The International Bank for Reconstruction and Development/The World Bank/ISBN: 978-0-8213-8499-2, eISBN: 978-0-8213-8503-6.)

Interconnections among economic, geopolitical, social, cultural and technological environements from one side represent great opportunities, that is seen from the results generated by TNC and other international economic institutions, but also entail superiour systemic risks. Businesses, governments and civil societies face growing importance of understanding and managing emerging global risks which, by definition, respect no national boundaries.

“Global Risks Edition” which is published by the World Economic Forum aims to enhance understanding of how a comprehensive set of global risks is evolving, how their interaction can lead to unexpected and often systemic impacts, and the trade-offs involved in managing them. (Global Risks 2014, Ninth Edition, Copyright © 2014 By the World Economic Forum ISBN-13: 92-95044-60-6, ISBN-10: 978-92-95044-60-9)

Thus, a *global risk* is defined as *an occurrence that causes significant negative impact for several countries and industries* over a time frame of up to 10 years. A key characteristic of global risks is their potential systemic nature – they have the potential to affect an entire system, as opposed to individual parts and components.

Systemic risk is the risk of “breakdowns in an entire system, as opposed to breakdowns in individual parts and components”. Systemic risks are characterized by:

– modest tipping points combining indirectly to produce large failures
– risk-sharing or contagion, as one loss triggers a chain of others
– “hysteresis”, or systems being unable to recover equilibrium after a shock

Economic, societal and environmental risks dominate the list of global risks, with fiscal crises emerging as the top issue (Table 1).

Table 1. Ten Global Risks of Highest Concern in 2014

No.	Global Risk
1	Fiscal crises in key economies
2	Structurally high unemployment/underemployment
3	Water crises
4	Severe income disparity
5	Failure of climate change mitigation and adaptation
6	Greater incidence of extreme weather events (e.g. floods, storms, fires)
7	Global governance failure
8	Food crises
9	Failure of a major financial mechanism/institution
10	Profound political and social instability

Source: Global Risks Perception Survey 2013-2014.
Note: From a list of 31 risks, survey respondents were asked to identify the five they are most concerned about.

Taking into account the experience of the global economic crisis, today companies are much more aware of how interdependencies can affect them in unexpected ways. For instance, historically a crisis of a competitor might have been regarded principally as an opportunity to gain market share; today, there is an awareness of the possibility of knock-on consequences, such as governments responding with hasty and ill-considered regulatory changes affecting the entire industry. (Global Risks 2014, Ninth Edition, Copyright © 2014 By the World Economic Forum ISBN-13: 92-95044-60-6, ISBN-10: 978-92-95044-60-9)

Firms have been working post-crisis to remake their risk governance frameworks and the largest shift during these past years is a renewed focus on risk culture and risk managments.

Many believe that the crisis is now reaching its decisive phase. However the phase of stabilization is still difficult for some countries and regions to achieve. As a result of prolonged uncertainty, investment as a share of GDP has declined sharply, investment in some countries is now at the same level as in the mid-1990s. Unemployment continues at record levels, and private consumption is withering. (The euro crisis and the retail sector, Stefan Niemeier, Eckart Windhagen Copyright © 2013 McKinsey & Company. All rights reserved.)

Regarding that different countries are at different stage of stabilization, the actions that enterprises should take for stabilization—will vary considerably from one country to another. And notably in retail sector. In the countries most affected by the crisis, retailers must find a new economic model, as lost revenues cannot be countered adequately by cuts in operating expense: rents are fixed in the medium term, and stores need a minimum number of workers to operate. Given these conditions, retailers face some serious questions:

- Should a multicountry retailer pull out, difficult though this might be because of long-term leases?
- Should it perhaps sell a majority stake to a local entrepreneur, with options to later sell the rest or buy it back?
- If it chooses to stay, what can it do to benefit from the “down trading” that pinched customers now practice?
- Can it attract those customers by changing its assortment mix or by expanding its private-label offerings in lower price points?
- Can it selectively downsize the store network and shift sales from the shuttered stores to its online channel?

Less affected countries face a long but more assured path to recovery. But consumer spending may not drive top-line growth in the near future. In these circumstances, retailers must consider questions such as:

- How to win in a stagnating market while contending with the ongoing shift from physical to online retail.
- To what extent should they redirect capital expenditure away from expansion or refurbishment of the physical store network to digital channels?
- Do they have the right balance of capital expenditure (that is, long-term bets) and operating expenditure (which provides shorter-term agility)?

In every eurozone country, two concerns are paramount. First, consider the risks associated with the supply chain. Nonfood retailers source a significant part of their goods from outside the eurozone and thus are exposed to significant exchange-rate risks. Second, this uncertainty and the current volatility in exchange rates call for a clear strategy on whether and how to hedge this risk. (The euro crisis and the retail sector, Stefan Niemeier, Eckart Windhagen Copyright © 2013 McKinsey & Company. All rights reserved.)

Multicunltry retailers should take into account that the global economic crisis has been accompanied by an increase in the global use of import-restricting trade remedies as a protectionist response. While the data suggest that there has been an increase, the scale of the use of these particular policy instruments has been limited. The most intensive use has been in developing countries. (Effective Crisis Response and Openness: Implications for the Trading System *Edited by:* **SIMON J. EVENETT, BERNARD M. HOEKMAN, AND OLIVIER CATTANEO**, © December 2009 Centre for Economic Policy Research, ISBN: 978-1-907142-01-7).

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The crisis in retail entails to emphasis following perspectives and mesures on the industrial level both from the side of tenants and landlords (**CRISIS IN THE RETAIL MARKET – FROM BOTH PERSPECTIVES/** Marie Hunt, Executive Director, Head of Research CB Richard Ellis/ http://www.cbre.ie/ie_en/news_events/news_detail?p_id=4451
:

- taking into account the retail sales volume and value decrease, and low loyalty of consumers retailers are under huge pressure and struggling to maintain margins and ensure the survival of their businesses;
- rent rates, fixed in the signed leases for several years are now unsustainable considering the extent to which retail business has declined;
- Landlords are being approached by their retail tenants looking for rent reductions or temporary solutions to enable the retailers to remain in business. Most of these requests are genuine but there are other retailers who are taking advantage of the market conditions to put pressure on their landlords, who themselves are under huge financial strain and in many cases cannot afford to reduce rents considering their own borrowing commitments;
- High rents are only one of the costs putting pressure on retailers in the current environment. High labour costs, insurance costs, energy costs and rates are also playing a part;
- Rents have fallen since the peak and most tenants are now insisting on turnover-related deals, short leases or rent reviews linked to CPI.

Accroding to DTTL 17th annual Global Powers of Retailing report (Global Powers of Retailing 2014, Retail Beyond begins/Ira Kalish DTTL Chief Global Economist ikalish@deloitte.com, Scott Bearse Deloitte Consulting LLP sbearse@deloitte.com/© 2014 Deloitte LLP. All rights reserved), despite difficult economy throughout 2012, the world’s leading retailers continued to grow, building on the rebound that began in 2010. Sales-weighted, currency-adjusted retail revenue increased 4.9 percent in 2012 for the Top 250 Global Powers of Retailing, following a 5.1 percent gain in 2011 and 5.3 percent growth in 2010. Nearly 80 percent of the Top 250 (199 companies) posted an increase in retail revenue.

A shakeup occurred among the world's 10 largest retailers in 2012, mostly the result of a spate of divestments. While Wal-Mart increased its lead, Carrefour—formerly the world's second-largest retailer—fell to fourth place following back-to-back years of declining sales primarily attributable to the spinoff of the Dia hard discount chain in July 2011. Tesco, which assumed second place in the ranking, was also impacted by discontinued operations, having decided to shutter its Fresh & Easy operations in the United States. It was also a year of transformation for Metro Group. No longer Germany's largest retailer, Metro sold its Makro Cash & Carry U.K. unit to Booker and its Real Eastern Europe operations (excluding Turkey) to Auchan. As a result of these and other changes, Metro dropped from fourth to seventh place.

In mentioned above Report For purposes of geographical analysis, companies are assigned to a region based on their headquarters location, which may not always coincide with the geography from which they derive the majority of their sales.

In 2012, nearly one-quarter (24.3 percent) of Top 250 revenue was generated from foreign markets, up slightly from 23.8 percent in 2011 and 23.4 percent in 2010. Top 250 retailers operated in an average of 10 countries, compared with 9 in 2011 and 8.2 in 2010. As another indicator of increasing globalization, the share of Top 250 retailers that operated only within their domestic borders continues to decline: 36.8 percent in 2012, down from 38 percent in 2011 and 40.4 percent in 2010. While these statistics are not strictly comparable, as the composition of the Top 250 retailers fluctuates from year to year, the overall trend toward increasing globalization is clear.

Product Sector Profiles, 2012

	# companies	Average retail revenue (US$mil)	Share of Top 250 Companies	Share of Top 250 Revenue
Top 250	250	$17,150	100.0%	100.0%
Fashion Goods	42	$9,013	16.8%	8.8%
Fast-moving Consumer Goods	137	$21,360	54.8%	68.3%
Hardlines & Leisure Goods	52	$12,322	20.8%	14.9%
Diversified	19	$18,001	7.6%	8.0%

Source: Published company data and Planet Retail

Sales growth and profitability by product sector* (%)

FMCG sector continues to outpace specialty retailers Retailers of Fast-moving Consumer Goods (FMCG) outpaced the other product sectors in 2012 just as they did in 2011, with 5.3 percent composite retail revenue growth. This group also enjoyed the strongest growth over the longer term, with a composite compound annual growth rate of 5.3 percent from 2007 through 2012. This is not surprising given that food and other consumer packaged goods tend to be more recession-proof than other product sectors. FMCG is by far the largest product sector, both in number and size of companies: In 2012, it accounted for more than half of all Top 250 companies and more than two-thirds of total Top 250 retail revenue. The average size of the 137 retailers in this group was more than $21 billion. Fashion Goods retailers have historically been the most profitable sector, and 2012 was no exception. The group posted a composite net profit margin of 7.4 percent—more than double the profitability of the Top 250 as a whole—and realized an 8.4

percent return on assets. The 42 Fashion Goods retailers averaged $9 billion in retail revenue, considerably smaller in size than the other product sectors. With Apple excluded from the profitability ratios (see discussion of methodology change on page G19), Hardlines & Leisure Goods retailers produced a 3.2 percent composite net profit margin in 2012. This overall result disguises the difficulty faced by the sector's consumer electronics and entertainment media retailers, half which operated at a loss in 2012. Struggles with declining categories and increasingly saturated markets created a challenging operating environment. Diversified retailers—those thDiversified retailers—those that did not derive a majority of sales from any of the three specific product sectors—remained the weakest across all four performance measures tracked. Operating multiple formats or concepts results in increased operational and marketing complexity and may detract management attention, commitment and sustained investment from the core business.

Fashion Goods retailers have biggest global footprint The level of globalization by product sector shows that Fashion Goods retailers continue to adopt a more international profile. On average, their operations spanned 22.2 countries in 2012— more than twice the average for the Top 250 group as a whole. More than three-quarters of the retailers in this sector operated internationally, and foreign markets accounted for nearly 30 percent of the sector's total retail revenue. As a group, retailers of Fast-moving Consumer Goods were the least global: Nearly 45 percent of Top 250 FMCG retailers were single-country operators in 2012. These retailers also operated in the fewest number of countries. Nevertheless, FMCG retailers that have expanded internationally—including most of the largest companies—have made their presence felt, as foreign operations accounted for a relatively sizeable 23.3 percent of the sector's total revenue.

Level of globalization by product sector, 2012

	% retail revenue from foreign operations	Average # countries	% single-country operators
Top 250	24.3%	10.0	36.8%
Fashion Goods	29.8%	22.2	23.8%
Fast-moving Consumer Goods	23.3%	5.1	44.5%
Hardlines & Leisure Goods	26.6%	13.1	26.9%
Diversified	22.6%	10.3	36.8%

Source: Published company data and Planet Retail