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Retailers' competitiveness on global markets

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Abstract:

The aim of the chapter is to show that now retail trade is a global sector but because of its specificity new strategies are necessary if global retailers want to sustain their advantage. The concept of globalization is discussed and then referenced to the retail sector. The process of retail internationalization which resulted in the globalization of retail sector is analysed. It is assumed that the retailers were motivated by the goal of sustaining their competitive advantage. So some ideas of the main theoretical views of developing sustainable competitive advantage (SCA): Environmental View and Resource Based View, referring to the process of internationalization as well as Yip's description of globalization process are presented. On the examples of some companies, leading the process of retail fast internationalization in XX century, like Ikea, Benetton, Carrefour, Wal-Mart, it is shown how the resources they developed and external environment contributed to their globalization process. It is found out that there were two stages of the globalization of retail sector: first, in which non-food companies develop on international market and second, when the mass merchandisers offering food and other Fast Moving Consumer Goods (FMCG) were involved. The fact that after fast internationalization representatives of both groups face problems leads to the conclusion that to be successful in the contemporary global retail market new capabilities should be developed.

Keywords: globalization, sustainable competitive advantage, resource based theory, retailing

JEL codes: F610, M21, L210, L81

1. INTRODUCTION

The notion of globalization is used in different senses resulting from different spheres, that may affect spreading of certain norms, standards, unifying patterns of activity on the global scale. The most important of them include spheres such as: political, legal, ethical, scientific, media, technology, and finally economic (Oczkowska, 2013). They affect each other, but also the process of interaction between the most general level of globalization analysis and the next level – the globalization of markets / sectors and the most basic – globalization of enterprises. Globalization in the economic sphere of markets / sectors applies not only to goods, but consequently to services, labor and technology. This process is stimulated by com-

panies operating in these markets / in these sectors that internationalizes their marketing, purchasing, sales and financial strategies. The aim of these companies is to achieve economies of scale and scope, thus reduce costs and achieve competitive advantage in the market for a particular product without spatial boundaries.

Although in nineties last century, it was an opinion that retail is not global sector (Hout *et al.*, 2001) it seems that nowadays trade sector is also a global industry, which is the result of internationalization processes of trade companies. Yet retailers who rapidly developed into foreign markets in the seventies of the last century, and their dynamics was accelerated in the eighties and nineties, are increasingly beginning to encounter problems of development, hence the questions arise what strategies they should undertake to continue growing or they may even have already reached the limits of growth. The article presents the internationalization processes, which resulted in the globalization of the retail industry, theory about development of competitive advantage on global markets, which sought to refer to the retail sector and the problems faced by temporary global retailers. These problems are reflected in the decrease of the growth rate of many of them, including the largest ones like Carrefour and Wal-Mart.

2. GLOBALIZATION – THE ESSENCE, FACTORS, STRATEGIES

In recent years, the most important phenomenon in the world economy is a tendency to globalize markets and sectors and a related necessity to globalize management. Globalization is a very broad and complex process which progresses both in the economic, socio-cultural and political sphere. As an economic process, it takes place at three levels simultaneously: the level of firms, markets/sectors and the world economy. The fundamental attribute of globalization is the integration of activities, processes and entities into the worldwide (global) system functioning at one of the three levels but linked to the others.

Globalization is variously defined in the literature, mainly by specifying its causes or factors influencing the globalization process. In most general terms, we can say that globalization is a worldwide, that is global, perspective for specific strategic decisions and the forms of the activeness of businesses participating in the international division of labor, functioning, in various forms, on the arena of the world market (Gelbrich, Müller, 2011, p. 537; Pierścioneck, 2003, p. 307).

Dunning (1992, p. 8) observes gradual formation of the global economy in which economically leading countries are closely interdependent in terms of trade, investments and cooperation of firms. According to Narula and Dunning (1998), globalization means the mutual dependence, the convergence of consumption patterns and technologies in different countries, increasing internationalization of production via branch office chains, and the shortening of technological cycles. Yip (1996, pp. 21-29) considers globalization as the process of mutual adaptation and coordination on various levels of activities of the world economy entities by means of worldwide and multi-factorial integrated competitive strategies.. The European Commission defines globalization as a process in

which markets and production in different countries become more and more interdependent due to the dynamics of the exchange of goods and services, the flow of capital and technologies (Annual Economic Report, 1998).

Zorska (1998, p. 20), using elements of numerous definitions, defines globalization as “a long-term process taking place in the world, of integrating a bigger and bigger number of national economies beyond their borders, owing to the extension and intensification of mutual links (investment, production, trade, cooperation ones), as a result of which a worldwide economic system emerges, with great interdependence and significant repercussions of activities undertaken/pending even in distant countries”.

It is assumed that the major institutional participants of the globalization process are the World Bank, the International Monetary Fund and the World Trade Organization (Marzęda, 2006). The institutions associate the majority of the countries of the world (the World Bank and IMF – 184 member states, GATT/WTO – 146), and the scope of their competences is so broad that they perform a dominant role in the formation of international economic relationships.

The globalization process includes an increase in the freedom of the flow of capital, goods, factors of production among countries. Thus, we can talk about gradual disappearance of economic borders and the qualitative leap into the mobility of the factors of production. From this point of view, a new market and a new economy have emerged (Szymański, 2001, p. 15). The new economy is also an effect of information revolution which has brought about the occurrence of many new sectors and new methods of operations and management in economy. The development of the new economy means the dissemination of new information technologies in management, which leads to a major growth of the management effectiveness, the acceleration of the innovation rate, the reduction of expenditure and an increase in the use of resources.

To sum up the above discussion, we can claim that the abolition of border barriers for the flow of capital and other factors of production and the abolition of barriers for locating production, globalization has opened a path to the network-based economy. On the firm level, globalization is a specific concept of firm management, namely management in the global environment, that is oriented to the world markets, global competition and based on global factors of production (Kutschker, Schmidt, 2011, p. 165). According to this approach, globalization is a strategy of a firm strongly dependent on the international economic environment and the world economic situation.

With regard to the quoted definitions of globalization, we can indicate certain features characterizing this process (Zorska, 1998, p. 16-18; Marzęda, 2006, p. 23-25):

- The range – globalization is characterized by a broad international range or activities on a worldwide scale.
- Many-sidedness – globalization progresses simultaneously in several areas of social life: economy, politics, culture.

- Intensity – consists in the intensification of cooperation, mutual links and interdependencies among countries and societies constituting the worldwide community.
- Interdependence – mutual and close international cooperation of entities on various levels (international level and the level of individual economies, sectors/markets, firms).
- Integration – combining the activities of entities, conducted to the international scale on different levels.
- Compression of time and space – “shrinking” of the world, participation in events on all continents, great mobility of people, the offer of goods from all over the world.

Numerous works and studies devoted to globalization emphasize the significance of substantial changes in the global environment, shaped by a lot of factors and determining the international expansion of firms. Among them we should mention the following factors: political and legal ones determining the level of the liberalization of political and economic relations, of scientific and technical progress (the development of technologies, the growth of the significance of intellectual capital), economic ones, of international competition in particular, social ones (the unification of consumer tastes, education).

Globalization processes concern the world economy, sectors/markets and firms. It becomes important to indicate the essence of the globalization of markets and sectors, as each of those globalization forms entails different consequences for various aspects of strategies and activities of firms. Markets are defined by consumers and their needs, thus, the globalization of markets focuses on consumer needs. The extent to which a market is global depends on the extent to which consumer needs with regard to a given product are similar all over the world. The globalization of sectors concentrates on the ability of firms to configure and coordinate their production activities and those aiming at an increase in the added value in a global way, beyond state borders. Globalized sectors are characterized by the world competition, opportunities arising from the economics of scale and scope, fast technological changes, unified technical standards and beneficial trade conditions. Therefore, the evolution of firms' activities includes an increasing geographical range, more intense and complementary use of various forms of international expansion (export, foreign direct investments, alliances), as well as greater configuration and coordination of research, production or trade activities.

Factors which are particularly important in stimulating globalization processes are political and legal factors, as they decide about the internationalization level of international economic exchange. The factors, being a result of specific political decisions of parliaments and governments of individual countries, are of fundamental significance for the internationalization and dynamics of economic cooperation to the global scale. However, it should be remembered that previously those countries introduced trade barriers which protected national markets against foreign products and firms. As the development opportunities based on national

resources and markets were gradually coming to an end, they started to reduce the barriers, inclining to undertake exports and open their own markets.

Among scientific and technical factors shaping the globalization process the development of new technologies, especially information technologies, exerting a stimulating impact on the process of international expansion of firms is particularly important. The development of modern means of transport and telecommunications has enabled a decrease in distance and time separating producers, suppliers and consumers all over the world. Based on new technologies, fast and relatively cheap processing and flows of information enable efficient coordination of activities to the international scale. As a result of faster and faster changes in the environment time is becoming a very important resource whose value keeps growing.

Rapid technical and technological development is closely related to the globalization process. The phenomenon is particularly characteristic for high-tech industries: IT, electronics, biotechnology, telecommunications. In those industries, manufacturing a new product is so expensive that even a firm which is a market leader cannot incur all the costs connected with the development of the new product on its own, but tries to spread the risk onto a bigger number of partners.

According to Omaha (1990) the direct cause of the growth of technology costs is the shortening of product lifecycle and the phenomenon of the dispersion of technology. The phenomenon of the dispersion of technology consists in a faster than before dissemination of new, critical technologies and an inability to maintain competitive advantage rooted in the technology invented by the firm for long (Zembura, 2000, p. 11-16). Fast penetration of inventions and new technologies, accompanied by a shorter and shorter technological cycle result in a fast decline in the value of new technologies and a necessity to accelerate works on new generations of goods. The dispersion of technology causes the loss of the effects of the experiences of leaders in the sectors and the acceleration of the research and development race. High costs incurred on new technologies can be compensated for by fast product commercialization. Joint efforts of a few firms can ensure the implementation of such a strategy. Owing to technology diffusion, the equalization of technological abilities of firms located in various countries takes place, defined as technological parity (technological convergence on the level of countries).

As it arises from empirical analyses, in the first half of the 20th century the average lifecycle of the majority of consumer goods exceeded 20 years, and in dynamic sectors – 10 years. In the 1980s, the lifecycle of many products did not exceed 2 years, and now in the semiconductor industry it is shorter than half a year (Szymański, 2001, p. 58; Rymarczyk, 2012, p. 38).

Under the influence of the liberalization of international trade, the unification and liberalization of capital markets, integration processes, unification of consumption patterns, as well technical progress, to great extent also economic transformations are shaping, particularly in international competition. Important changes in demand, supply and in the conditions of the activity of firms on the international market are taking place. Transformations in demand concern mainly the unification and standardization

of lifestyles, consumption patterns and needs, among others under the influence of the circulation of information and modern information technologies.

In the opinion of the precursors of the globalization concept, Levitt (1983) the world has become “a common market” on which people, regardless of their place of residence, buy the same products and seek a similar quality of life. The unification of customer tastes and lifestyles was defined as the “the Californiaization of need”. Hence, firms operating globally should focus their attention on meeting universal needs and forget about differences dividing individual countries and nations. The thesis about the deepening unification of consumer needs worldwide finds its empirical confirmation, but at the same time there is a distinct tendency for the individual customer approach.

Changes in supply refer to various aspects of production and trade. Changes are taking place in the characteristics of products, which are more and more modern and tailored to the needs of specific groups of customers. What has become a critical element of the new strategy ensuring success in the face of global competition is reaching possibly broadest group of recipients with a proper product in proper time.

3. COMPETITION AND COMPETIVENESS ON GLOBAL MARKETS

Competition is considered as the basic mechanism of the market economy whereas the process of developing a competitive advantage as the main goal of the company. This notation is widely discussed in the literature (Wach, 2014). Here the focus is on the problem of global competitiveness and development of the competitive advantage by the retailers facing so called hyper-competition. Hyper – competition started at the turn of 20th and 21st century and its main characteristic features are intensifying globalization of economies, the escalation of deregulation and privatization, the intensification of technological progress and the revival of the consumer sovereignty. The question is how the retailers which got their position on global markets should compete and how to choose their competitive strategies.

The observed changes in competition are both the effect and the condition of globalization. The structure and the level of the fierceness of competitive struggle directly influence international development strategies adopted by firms. Global competition creates new systems of links, a new quality of technical progress, new methods of achieving competitive advantage. New organizational models, different methods of configuring activities and new ways of cooperation with the environment are needed. Firms have to be flexible enough to be able to quickly adjust to the changing environment, anticipate, and most of all be ahead of the occurring changes.

Competing to the global scale is possible owing to innovations focused on creating competitive advantages. The concept of a multi-faceted innovation model was presented by Drucker (1992, p. 44), who indicated the following sources of innovation: new knowledge, changes in perception, moods, values, demographics, innovations arising from the needs of the process, as well as entrepreneurship (Śmigielska, 2007, p. 45-47). Its essence, as Drucker (1992, p. 44) writes, consists in the interdependence of entrepreneurial and innovative activities by means of which success is

pursued. In this way, he refers to the concept created by J. Schumpeter who believes that the nature of entrepreneurship is expressed precisely by the elements of novelty and innovation. It is not only about the creation of novelty but also the conceptualization of all forces operating in the environment (Nowak-Far, 2000, p. 19). Firms have to develop capacity for fast, strategic responses to changes in the environment. They should, according to Bettis and Hitt (1995), master three skills: of sensing changes in the environment, of fast conceptualization of the reaction to those changes, of reallocating the resources for the implementation of this response.

In Cushman and King's (1993) opinion, High Speed Management serves to achieve competitive advantage. It is characterized by:

- Innovativeness – a capacity for product and process innovations, but also structural innovations and innovations in the sphere of management methods.
- Adaptability – an ability to adjust to changes in the attitudes of employees, tastes of buyers, expectations of investors, law regulations, availability of resources and strategies of competitors.
- Flexibility – an ability to increase and decrease the size of the organization, change the directions for the activities and strategies, assimilate acquired firms fast, implement joint ventures, create coalitions and eliminate ineffective or less effective entities.
- Effectiveness – an ability to maintain permanent advantage over competitors with respect to products, efficiency, dividends for investors, job satisfaction, customer loyalty, quality of products.
- Speed – an ability to respond to changes in the environment faster than competitors (Grudzewski, Hejduk, 2001).

The globalization process is contributing to the fast flow of goods, services and capital, migration of people and rapid expansion of transnational corporations. Corporations are introducing the principles of strategic planning and optimization of production to the global scale, and moving production to countries and regions of the world with low manufacturing costs (low-cost economies). The new phase of globalization associates with the relocation of workplaces, production and service provision. It is a reaction to changes in the business environment. The emergence of global markets of production, services, capital, labor and knowledge has resulted in the emergence of the globalized society.

Companies competing on a global scale implement the multinational strategy, where the management of the respective markets is treated independently or global when it is integrated in the international dimension. The basis for the global strategy is cost advantage (the activities are focused on the specific product, product group or segment of buyers), and it is reflected in the market strategy which stresses the low price when at the same time the standard level of technological quality is maintained. Enterprises which are multinational also try to keep costs at low level, however, at the same time they differentiate the product, what transfers to adopt the strategy of quality and price preferences at the assumed competitive price level (Żabiński 2000, p.51).

The globalization of strategy means the introduction of the integrated management of the firm's worldwide resources and its competitive advantage. A. Zorska (1998, p. 21-34) defines global strategy as an attempt of coordination and standardization in order to integrate activities, both in the systems of products and in domestic or regional markets. It is of a multidimensional character. It strives for the maximization of worldwide results by divisions and integration. Pierścionek (2003) claims that global strategy consists in the formulation of goals and the methods of their implementation in the global conditions, and belongs to the international expansion strategies.

The globalization of strategy aims at managing organizations in an integrated way on the worldwide level. Participation in the market, global products, global location of activities and global marketing are the instruments of global strategy. The application of global strategy ensures the economies of scale, economies of scope and the effects of the optimum product allocation. It also enables to implement the global strategy of competition.

Explanations of the sources of cost advantage which global enterprises have over the multinational ones are provided by the concept of Porters' value added chain (Hout *et al.*, 2001). The effectiveness of the company is then converted into benefits for buyers. Levitt (1983), from the marketing point of view, commented on the global strategy as follow: "if the company lowers costs and prices at the same time increasing the quality and reliability of products – maintaining reasonable concern for meeting the needs – then consumers will prefer products standardized on a global scale". Although he stressed the superiority of standardized marketing policy does not mean that he negated adapting elements of the marketing mix to meet local needs, but only if it is necessary to achieve the objectives set for foreign markets.

Enterprises seeking sustainable competitive advantage have crucial role in the creation of global markets for products, by making strategic investments-initiating global competition where they recognize such a possibility (Hout *et al.*, 2001). Capital expenditures, however, must be preceded by an analysis of opportunities to gain and maintain a competitive advantage by answering the following questions (Hout *et al.*, 2001, p. 364):

- Is the firm in the best position to implement a global strategy and defend its benefits among other competitors?
- What kind of resources does it need and for how long it will need them to acquire a key position.

He also draws attention to other factors necessary to compete effectively in the global market, such as the time distance separating the innovator and the followers, and whether the benefits of spending on new technologies, distribution and promotion, create the entry barriers (Hout *et al.*, 2001, p. 375-379).

The next important aspect of globalization process is to take a strategic position on the market for the products, so as the company may acquire a dominant position with the suppliers lowering costs of purchase of products thus contributing heavily to an increase in effectiveness.

The representatives of Environmental View of development of the sustainable competitive advantage (SCA) state that choosing the strategy should start from the analysis of changes in the environment while the representatives of the mainstream of the resource RBV are in the position that is determined by the available resources. They claim that companies' resources are heterogeneous and imperfectly mobile which could result in developing the sustainable competitive advantage. Hunt and Morgan (1995), emphasize that the company's specific advantages as enablers of internationalization. Companies enter new markets when they can exploit their resources and develop there a sustainable competitive advantage (Andersen, 1997). For companies competing on a global scale representatives of the mainstream of RBV try to identify the resource group that can be the source of SCA and key competencies in the global market. Fahy (2002) showed, among other things, that in the global environment:

- Enterprise resources are much more important for the development of SCA than exogenous factors (such as, e.g., lower labor costs), as they are more difficult to copy.
- Capabilities are more important in the development of competitive advantage than assets.

Theorists of RBV also try to indicate the key, specific resources for developing the SCA in the global market (Stonehouse *et al.*, 2009). Elements of both approaches to develop the SCA can be found in Yip (1996, p. 24-25) who distinguishes three stages of a globalization process:

1. Developing the core strategy, allowing the company to achieve the competitive advantage on its home market.
2. Internationalization of this strategy, namely its implementation on foreign markets, which may need its adaptation to the specifics of these markets.
3. Globalization of international strategy by introducing trans-national integration mechanisms.

Yip (1996) takes the view that at the stage of strategy globalization, namely the introduction of integrated management of the global resources of the company and its competitive advantage, the two groups of factors, i.e. both those defining the position and company resources and factors of globalization of the sector which are equally important (see. Figure 1).

The development of the core strategy is the foundation of the permanence of competitive advantage. Usually in the first phase it is a strategy used in the activities on the domestic market. The basic task is to define the area of enterprise activities, namely to determine the target market and the products offered. The core strategy should include the following elements:

- Type of products offered.
- Market in the geographical sense (spatial range of the market).
- Functional strategies for the most important activities within the value chain.
- Competitive position.

- Investment strategy.

When a firm goes outside its domestic market, its core strategy should be internationalized. The first and most important step is to choose foreign markets. It requires to identify the attractiveness of a market, potential competitors and the way of adaptation to the local conditionings and skills to manage a firm operating in a bigger area.

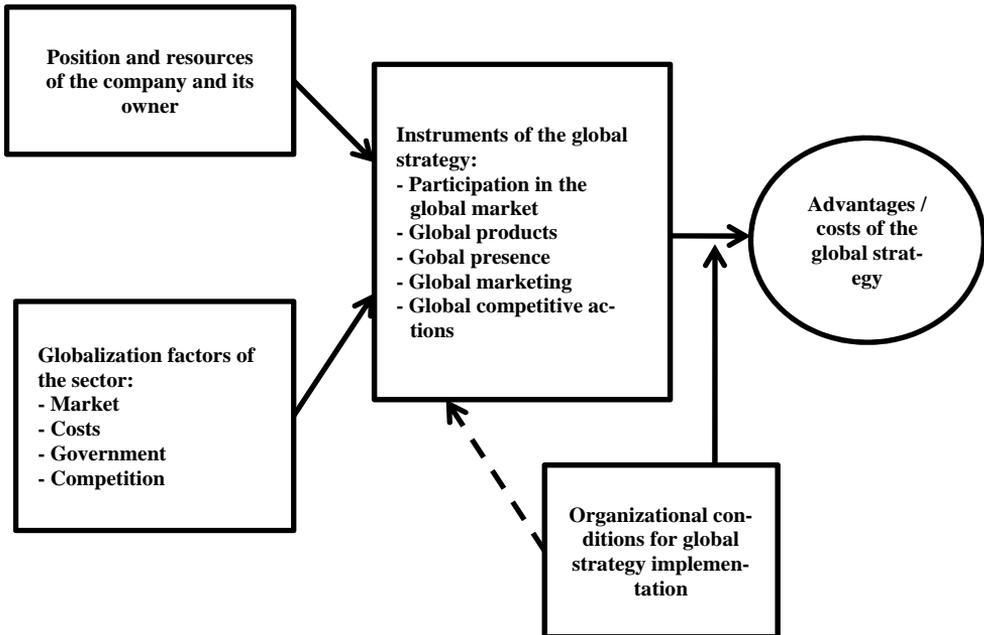


Figure 1. The Framework of global strategy

Source: Yip (1996, p. 28).

The global strategy development requires the introduction of the integrated management of the firm's worldwide resources and its competitive advantage. In order to achieve benefits from global strategy, a firm should define the instruments of its global strategy. Yip (1996, p. 46) indicates five of them:

1. Participation in the market – the choice of domestic markets, engagement level, market share.
2. Products and services – the level of standardization or diversification on various markets.
3. Location of activities – the arrangement of cells of the added value chain on foreign markets.
4. Marketing – the scope of the standardization and adaptation of marketing activities.
5. Competitive moves – the level of subordinating competition strategy on individual markets to the global strategy of competition.

An enterprise implementing a global strategy should fully participate in the global market, that is, possess a majority interest in the "Triad" market, offer global products, global location, global marketing and global competitive moves. Not all of them are possible to achieve in case of retailing due to the fact that it is service activity.

4. GLOBALIZATION PROCESSES IN RETAIL TRADE IN THE CONTEXT OF THEIR INTERNAL AND EXTERNAL CONDITIONS

The globalization of retail sector is the result of the process of internationalization, within which retailers successful on home market entered foreign markets. Due to the essential function of the trade – purchase for resale at a profit – it covers two spheres (Knezevic, Szarucki, 2013):

- Internationalization of activities such as procurement and logistics.
- Internationalization of formats or stores, in order to pursue sales abroad.

Yet, this process is influenced by a number of external and internal conditions. External factors could be grouped into: scientific-technical, social, economic, political and legal (Katzen, 1993). The fundamental, internal conditions include: the specificity of a sector and its maturity, corporate strategies of companies within it, including their resources necessary for the development on foreign markets.

The specificity of the retail sector is expressed by the fact that the majority of retailers are brick & mortar retailers, therefore in the process of internationalization one is forced to (Incandela *et al.*, 1999):

- Find suitable locations for the stores abroad.
- Organize the supply of these stores.
- Grapple with many problems associated with the local regulations of economic activity.
- Have a sound knowledge of local tastes and customs.
- Effectively manage employees belonging to different cultures.

For many years, this specificity had been the factor limiting growth opportunities in foreign markets. As a result, although the process of internationalization of trade began at the end of the nineteenth century and intensified after World War II, yet the beginnings of globalization must be considered at the late seventies of the last century.

This can be divided into two stages:

1. The development of non-food retailers implementing global marketing strategy that is offering a standardized product, which took place in the seventies and the eighties of the last century.
2. The development of food retailers implementing the multilocal strategy (due to the nature of the product), operators of hypermarkets, supermarkets, discount stores and convenience stores since mid-eighties of the last century.

Some non-food retailers started develop very fast on foreign markets after World War II. They were successful by offering a standardized product, often own brand, at low prices.

In the mid of eighties last century the retailers offering FMCG started to follow them. An important factor in their success became the information and communication technologies (ICT) that enabled the collection and processing of information from the buyers and efficient management of supply chain based on demand. These innovations allowed retailers to differentiate themselves from competitors by the assortment and reduce logistics costs. ICT were effective in the large-scale operations that also contributed to globalization processes. Wrigley (2000, p. 506) commented as follows: “global retailing is characterized in the mid-to late 1990s then by the efforts of an elite group of companies that leverage their increasing core market scale and the free cash flow for expansionary investment those markets provided, in order to secure the long term higher growth opportunities offered by emerging markets”.

Table 1. The largest global retailers in the world, according to the volume of sales on foreign markets in 2008

	Country of origin	The volume of sales on foreign markets (In million dollars)	The share of sales on foreign markets to total sales (in%)	Number of countries
Wal-Mart	US	113,020	26	18
Carrefour	France	91,763	57	33
Metro	Germany	70,724	61	32
Ahold	The Netherlands	49,440	76	9
Schwarz Grp.	Germany	43,931	51	24
Auchan	France	38,924	53	11
Aldi	Germany	35,269	48	15
Tesco	UK	32,717	30	13
IKEA	Sweden	29,763	94	37
Rewe	Germany	25,955	33	14

Source: Wrigley, Lowe (2014).

So in the nineties there was a change in the factors stimulating processes of internationalization – traditional *push* motives were replaced by the *pull*. *Push motives*, associated with the lack of growth opportunities on the home market, include, among others, perceived/imminent saturation in domestic markets, spreading of risk, consolidation of buying power, public policy constrains, economic conditions and format maturity (Nicholas, 1995, p. 77-79). They were particularly important at the beginning of retail internationalization process. Later, *push factors* often were replaced by the *pull* motives, encouraging retailers to enter foreign market. They include *inter alia* the possibilities of development on a given market e.g. the absence of a specific type (format) of stores, small competition, existence of a market segment that could become a target market, the possibilities of achieving the economics of scale.

As a result, at the end of the first decade of the twentieth century, most worlds' largest retailers, operated outside home countries, and a few even in dozens of countries (Table 1). As seen in Table 1, the highest sales on foreign markets were achieved by FMCG retailers. This was the result of their dynamic development, which began with the end of the eighties and mastery of the large markets. The only

retailer in this group, from another industry, was Ikea, which dominated the global market of home furnishings goods – in 2008 and was already present in 37 countries around the world. Retail internationalization, leading to the sector globalization, looked differently in case of non-food and food retailers.

5. DEVELOPMENT OF RETAILERS ON INTERNATIONAL MARKETS

Development of global, non-food retailers

In the seventies and the eighties., when the globalization process was taking place in many industries, retail companies offering rather cheap, non- food products e.g. Ikea, Benetton, Body Shop Inc., Toys'R'Us, Marks and Spencer decided to internationalize their activities (Śmigielska, 2008). They entered foreign markets mostly immediately after establishing the core strategies on a home market without trying the other possibilities to differentiate (M&S was the only exception). It was due to favorable environmental conditions encouraging fast internationalization.

Their core strategy was based on the unique retail format (e.g. Toys'R'Us) or unique assortment of an own brand merchandise differentiated them from the competitors (like in the case of Benetton). Due to fast internationalization they got the economics of scale in sourcing, logistics and economics of scope in advertising that discouraged competitors from imitating their strategy.

The core strategies of these retailers, determining the success on home markets, were copied on the foreign markets they entered. It means that they rather found outside the home country consumers for their offer than analyzing foreign consumer needs and tried to satisfy them. Using marketing tools (competing mostly on price and advertising heavily) they created the demand for their product and finally have created the “global market segment and the global position they become to occupy” (Goldman, 1993).

For example Toys 'R'Us has increased the demand for toys by making the customers aware of toys importance for overall child education and – at the same time – making the wide choice of toys available for them in big stores (Tordjman, 1996). As far as Ikea is concerned, significant contribution to its success on foreign markets was made by an advertising campaign developed when Ikea entered the Swiss market, which was copied on the other foreign markets later on (Terpstra, Sarathy, 1994, p. 11). Benetton's international advertising campaign “United Colors of Benetton” launched in 1989 “was so successful that worldwide franchisees had to swap the basic Benetton sign above their doors for the green logo featured in the campaign” (Vignali *et al.*, 1993).

The retailers mentioned above are said to shape the demand to fit their capabilities and strategies. Their fast development on foreign markets was due to factors related to the companies' as well as to the external (environmental) changes. The most important internal factors necessary to be mentioned are:

- Marketing capabilities which enable to create international retailer's corporate identity and global brand.

- Economics of scale in the process of procurement.
- Effectiveness of the supply chain management as a result of co-ordination of retailer's activities on a global scale.

These factors were assisted by the process of creating global consumers, forming the Common European Market and abolition of many barriers to invest in Asia and Eastern Europe.

Economics of scale and scope achieved by global retailers let them to offer a standard product at a competitive price which was the source of competitive advantage over the retailers in the host countries. It was regardless of the fact if retailers had their own brand (label) merchandise in the assortment (M&S and Benetton) or not (Toys'R'Us). Product image created by the retail format, assortment, kind and level of services offered to clients was reflected in the retail brand. A well-known brand and position had become an important competitive asset in the global market.

So global retailers offering standardized product won competitive war at the first stage of their development. But it seems that since the mid of the nineties the next stage has proceeded. Since that time some thriving retailers (e.g. Toys'R'Us, M&S, Benetton), started to have problems what was reflected in their decreasing profits; for example In 1995 Toys'R'Us total profits dropped from \$532 million to \$148 million (Domański, 2001, p. 90).

They were caused mainly by growing competition, differentiation of consumers' needs, new and cheaper sources of supply (China). Thus the third stage of globalization which is coordination of all operations on the global scale was found to be the most difficult in practice because of different consumer preferences and conditions in foreign markets. It was the case of Toys'R'Us which stores turned out to be too big for European markets or M&S which was so occupied by the process of internationalization that it failed to satisfy British consumers, which was its biggest market.

The sources of these problems rooted both internally and externally to a company could be classified in three basic groups:

- The weakening of the basis for the creation of advantage – organizations' strengths.
- Depreciation of the value of the previously used strategies as a result of changing environmental conditions.
- The growing competition both in the home and in foreign markets from companies which offer was better adapted to the needs of buyers.

Sometimes environmental changes challenge the core strategy and cause sweeping changes as it was in the case of Benetton (Camuffo *et al.*, 2001). Benetton core capability had been created by the archetype networks including supplies from more than 100 small producers in Italy. This system had to be changed due to the competition from fashion retailers like Hennes & Mauritz AB Sweden (H&M) and Zara owned Spanish Inditex SA, which cooperated with the suppliers from the countries in which the cost of production was lower. It meant a big change in Benetton's strategy because it had to find new suppliers and organize the supply chain from the beginning. The three-year plan was drafted in 2003. It was aimed

at restoring the distinctive position of the company primarily through increasing price competitiveness as a result of reducing employment, transfer of production to China and increased cost control. At the same time the company is intended to take action to improve the quality of our products and launch new outlets. In spite of these changes, profit's and share prices of the companies in the years 2002-2005 showed a downward trend (Clark, Rohwedder, 2003).

The globalization the FMCG retailers

FMCG sector includes both food products and non-food items. Global competitors are running chains of supermarkets, hypermarkets, discount stores and convenience stores, where food accounts for at least 50% in the turnover and operate on a world-wide scale . However, when analyzing the process of internationalization of the sector we refer to the precursors of food retailers such as Julius Meinl. He founded the company in Vienna in 1862, which in 1932 had already stores in Poland, Hungary, Yugoslavia, Romania and Italy (Dawson, 1994, p. 267-282).

But the spectacular development of FMCG retailers has been only since the mid-eighties when they developed their core strategy allowing them to benefit from the scale of operations. It involved the implementation of information technology (ICT). ICT also enabled them coordination and control of operations located in various countries. On the other hand the unit cost of the technology decreased with the increase of the scope of activities. Fast internationalization processes involved such companies as inter alia operators of hypermarkets (Auchan, Carrefour, Promodes) and discount stores (Aldi and Lidl & Schwarz).

An important factor in the development of FMCG chains in the nineties was the fact that the new possibilities to invest in Asia and Eastern Europe became opened for them. These big, not saturated markets with fragmented retail structures, lacking innovative retail formats like hypermarkets, favorable law and consumers' sensitiveness to branded product had encouraged the international retailers to open their stores there. To stay competitive they had to invest in the saturated markets of old EU and US as well as in the emerging (not saturated markets) in Asia, Eastern Europe and Africa. As a result of exploiting internal resources and external opportunities of entering new, foreign markets, after less than twenty years of internationalization (in the late nineties), some retailers had their activities in many countries, for example in 1999 Toys'R'Us had 1565 stores in 27 countries.

As the result of rapid internationalization process of retail companies the globalization of the sector took place. The global nature of trade sector is testified by the strategies implemented by companies competing on the global scale:

- Investing in the market in which direct competitor operates. An example is the internationalization of Wal-Mart, which was not due to the push factors or motivated by the possibilities of gaining higher profits in overseas markets, but was primarily the response to the investment of European businesses in the United States (Śmigielska, Figiel, 2001).
- Investing in the same markets as the main foreign competitor, which was attended e.g. by Tesco and Sainsbury (Aleksander, 1995).

- Investing in the markets of the triad, which include North America, Asia and the countries of the EU, often not paying attention to profitability of such an investment, as evidenced by some of the investments of retailers in China and India.

As a result of the pressure of constant growth and the imperative to participate in global competition, many companies started to invest in more and more remote regions and industries and sometimes they were not necessarily the best possible options to use their resources, as for example was the case of Wal-Mart in the Chinese, German or British markets. For example Wal-Mart's decision to invest in China was closely connected to the fact that global competitors had already operated there (Śmigielska, 2003).

FMCG companies, which rapid development in foreign markets began later than non-food retailers, at the beginning of the twenty-first century were in the phase of growth in the global market. It does not mean that they did not face any problems. Royal Ahold – a company with a high degree of internationalization – in 2001 was already present in 27 countries and its share of foreign sales in total sales reached 86.5% – has had difficulties since 2003, when the scandal of inflating the company's profits was revealed (Śmigielska, 2007, p. 181). Since that time, in order to achieve a stable financial position, Royal Ahold has sold a number of foreign investments, including Argentine subsidiary – Disco SA, its shares in the Spanish market, G. Barbosa and Bombrero chain in Brazil, and BI-LO and Brunos chains in US. The consequence of these problems and the low exchange rate of the dollar (revenue from the US market accounted for approximately 70% of total revenues of the company) was the decline in profitability in the first quarter of 2005 by 55% compared to the same period the year before. In this way, Ahold, the retailer having one of the strongest positions in the global FMCG market (next to Wal-Mart, Carrefour), lost it to the booming Tesco. FMCG companies have begun to face the problems of development, not only in new markets abroad but also in the home countries, which often remained the leading markets. Thus, for example, Wal-Mart and Tesco became the subject of harsh criticism and Carrefour was faced with the loss of an image of the company offering goods at low prices in France, where price plays a decisive role in the consumers' choices on FMCG market. In 2004 Carrefour faced also problems in foreign markets.

The company was founded in France in 1959 but it started to develop very fast in 1963 due to introducing the innovative format – hypermarket. Carrefour successful core strategy was based on discount prices, decentralization of power (a lot of freedom was given to the store managers), reduced emphasis on aesthetics, modest equipment, and accelerated rotation of stock. This store was unique in its size which let the consumers meet all their shopping needs under one roof (Lal *et al.*, 2004). Hypermarket concept was attributed not only to convenience but also to price. The target markets for hypermarkets were “young people and new suburban dwellers as well as the budget-conscious consumers affected by the high inflation rates in the 1960s.”(Carrefour SA, 2016).

It was pushed to internationalize in 1969, due to the legal restriction on opening big stores. First, it expanded to Belgium, then to Spain and in 1975 to

the other continent – Latin America, to such countries as Brazil and Argentina. In Asia it started operating in the late eighties by expanding to Taiwan. Yet the boost of conquering new markets came in the nineties. In Europe Carrefour entered Portugal, Italy, Greece, Turkey and Eastern European countries like the Czech Republic, Slovakia and Poland, in Latin America – Columbia and Chile and in Asia: Malaysia, Singapore, Indonesia, Taiwan, China, Japan and South Korea (Bilińska-Reformat, 2015).

Carrefour, which after the merger with Promodés, has become the second largest FMCG retail company, despite a significant presence in 30 countries and a systematic increase in sales, announced in 2004, a 15% decline in net profits (Śmigielska, 2007, p. 181). It was largely a consequence of losses in Japan. Despite the pressure on the continuous growth of this retailer there was also a withdrawal from a number of markets in which it had failed to succeed, among the others, in 2003, from the UK and Chile, in 2005, Japan, Mexico, Norway and Slovakia, in 2006, from Czech Republic and South Korea, in 2007 and 2009, from Switzerland, Algeria and Russia. The main reason for withdrawing from these markets is primarily the lack of achieving intended objectives because of unsuitable offer or too strong competition.

Multinational FMCG companies having a distinctive position on the global market, at the beginning of the twenty-first century thus began to meet similar problems as global retailers and finding the strategy to solve them was not easy. On the one hand, increasing global market share is essential for them because they could effectively implement new technologies and grasp the benefits of the position reached. On the other hand, to satisfy consumers they have to adapt marketing strategies to the needs of very diverse local markets. As the scale of operations and achieved position is crucial for the effectiveness of FMCG retailers so sometimes they “race” to enter the new foreign markets, without assessing the chances to be successful. It often caused problems.

6. PROBLEMS AND STRATEGIES OF CONTEMPORARY RETAILERS COMPETING ON GLOBAL SCALE

Due to the growing pressure to enter the new markets, retailers competing on a global scale started to open their stores in a more and more distant markets. Apparel/footwear retailers, which were the forerunners of globalization such as Benetton, although in 2014 operated on many foreign markets (Benetton in 120 countries), were not the biggest global retailers in the terms of sales. They have been overtaken by competitors better responding to the changing environment. The leading group includes retailers such as H & M and Inditex SA (the main brand of that retailer is Zara) which sales were several times higher than that of Benetton (Lahouasnia, 2010). Thus it is not the number of markets in which a chain operates but its strategy determines the dynamic growth of sales in the global market. The fastest growing apparel retailers keep the costs at low level and at the same time adapt their strategy not only to the changing environment but also to the preferences of the markets on which they operate. An excellent example of this type of strategy is

provided by Zara, known for flexible management of supply chain as well as positioning and differentiation depending on a foreign market.

Among retailers of FMCG, a dominant position on the global market for many years has been occupied by Wal-Mart operating in 28 countries around the world but it should be noticed that still the majority of revenue is coming from the US market. The number of countries where the retailer operates has grown over the years 2008-2014 by 10; from 18 to 28. But even the world's biggest retailer, is affected by troubles in a global market. As a consequence Wal-Mart withdrew from Germany and last time decided to close 269 unprofitable stores in the US and Brazil (D'Innocenzio, 2016).

Also other European operators managing many formats hypermarkets, discount stores, supermarkets, superstores etc. face problems. Since 2008, the number of countries where the leaders of globalization process Carrefour, Metro and Schwarz group almost haven't changed, and in the case of Ahold, there was even a decline – in 2014 when the company operated only in 6 countries. It should therefore be concluded that these companies focus on strengthening their position on the domestic and foreign markets, yet not all of them has been successful. For example, Tesco (operating in 13 countries reported drop in sales in 2014 compared to 2013 and reached the value of the index retail revenue CAGR of 1.8%. Its close competitor on the global market – Carrefour reported sales growth, while the CAGR for this company was negative and amounted to -2.8% (Global Powers of Retailing, 2016). More successful have been smaller retailers but with more focus strategies like Auchan Group or Casino.

Contemporary trend in retail globalization is concentration on the large, fragmented markets, having the rapid pace of retail sales growth, such as China, India, Russia and Brazil. Competing in these markets, however, is extremely difficult and requires expertise in adapting to the expectations of buyers. Global retailers should take into account that on these markets they will not only compete with other global companies but also with fast learning local competitors.

The examples presented in the paper show that for effective competition in the global market occupying the market position as well as having the recognized brand is not enough to compete successfully. On global market effective management of value chain is crucial. In this value chain some elements must be standardized and the others must remain flexible, so that the company could respond effectively to the environmental changes and sustain its competitive advantage. Difficulties in maintaining standardized marketing strategy resulting e.g. from the need for continuous improvement of a service level by retailers, according to the growing expectations of customers; hence the problems of M & S, Tesco or Carrefour on their home markets. Another important reason is growing diversity of the markets as the globalization process progressed. Adapting the offer to the needs of buyers may cause negative consequences – in addition to reducing economies of scale related to standardization, the company may also lose a clear image, as it happened in the case of Benetton (Camuffo, *et al.*, 2001).

7. DISCUSSION

The issue of retail internationalization and globalization is a widely discussed (Yeng, Yazdanifard, 2015; Páll, Hanf, 2013; Lahouasnia, 2010; Coe, Wrigley, 2009). Vida and Fairhurst (1998) developed the model of retail internationalization in which they discussed the antecedents, the process and its outcome. They have found out that international retailers have advanced strategies, management and marketing expertise. Their findings as well as findings of the other Authors dealing with the problems of retail internationalization are generally similar to what has been presented in this paper. Novelty is the use of the Yip's model combined with the theories of sustainable competitive advantage development which give strong background for the research as well as separation of two branches food and non-food (or more generally FMCG) retailers and non-food retailers.

The limitation of the research is that it does not give the clear answer to the question on limits of growth. Although some global retailers have problems with further development the others are boosting. For sure e-commerce will change the rules of competition but now it is difficult to predict the results.

8. CONCLUSIONS

General theory of globalization processes, Yip's model as well as the theories of sustainable competitive advantage development could be applied successfully to analyze the process of the retail sector globalization. Yet, in the case of retailing there were two waves of it: development of enterprises implementing a global marketing strategy (non-food retailers) and the development of FMCG retailers. Internal factors of this process include development of necessary resources (capabilities and competencies) which enable the successful internationalization. External factors include progress in technology and networking characteristic for the knowledge-based economy, opening up many, non-saturated markets in which the core strategies could be implemented.

Regardless of the branch (food or non-food), represented by a company operating on the global market, a key role in the success will have the resources allowing them to coordinate spread operations: capacities in supply chain management (IT and logistics) and marketing management, developed on the basis of their core competencies. However, they must adopt a new formula, corresponding to the current competitive environment, emerging at the beginning of the twenty-first century and becoming increasingly fierce.

It seems that food retailer have followed the same path as non-food retailers so now some of them are facing problems with sustaining the growth rate. At this point they should decide on their key resources and key markets to develop new competitive strategies.

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