Global production networks in retailing: supply chain implications for East Asia and Eastern Europe.

GPN Working Paper 9

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Introduction.

Retailing is a very different sector from those considered in previous working papers. It represents the end point – or more accurately the consumption interface – of literally thousands of different GPNs. For example, automobiles, mobile phones and computer games are all delivered to the final customer through a variety of retail formats. On the one hand, retailing is of interest because of the way that it 'crosscuts', and is an integral part of, a huge variety of GPNs. On the other hand, retailers can usefully be conceptualised as GPNs in their own right. Although international retailing has a long history (Alexander, 1997), the processes of internationalisation have accelerated dramatically over the last two decades (Wrigley, 2000). Largely unnoticed in much of the literature on economic globalization, a small group of elite transnational retailers have rapidly expanded their overseas store operations beyond the core markets of North America and Western Europe through sustained merger and acquisition activity, enabling them to assume dominant market positions in many countries across East Asia, Eastern Europe and Latin America. At the same time, these leading retailers have been expanding the scale and geographical scope of their sourcing operations, putting in place regional and global buying networks to source a variety of goods for both home and overseas markets, reflecting their increased capitalisation and buying power, improvements in distribution and logistics systems, and lower barriers to trade for many commodities. It is these two inter-linked and overlapping dimensions of internationalisation – stores and sourcing – that makes retailing such a fertile area for GPN research (Coe, 2004).

Table 1 lists the leading retail TNCs in terms of their overall international sales. The table reveals a number of significant features of these retailers. First, it gives some sense of the *scale* of international retail operations, with 14 retailers deriving over $10bn of sales each from foreign markets in 2003. Second, it gives a sense of the *scope* of international retailing, with many of the leading players having store operations in 15-30 countries, a degree of internationalisation comparable with many manufacturing sectors. Third, it reveals that the vast majority of the leading retail transnationals – with the notable exception of Wal-Mart – are Western European. Fourth, it shows that the leading transnational retailers tend to be food retailers or general merchandisers, rather than speciality providers. Rapid growth since the late 1990's has seen the emergence of a select group of what Currah and Wrigley (2004) term 'proto-global' retail TNC's, firmly committed to international expansion: in particular Wal-Mart, Ahold, Carrefour and Metro, although Tesco is often included in the list due to its aggressive international expansion strategy. A final point to bear in mind at this stage, however, is that most retailers still rely to a high degree on home revenues. Of the retailers listed in Table 1, only five – IKEA, Ahold, Delhaize, Tengelmann and Pinault – derived over 50 percent of their sales from foreign markets. By contrast, Wal-Mart, the largest retailer in the world by far, accrued just 21 percent of sales from foreign countries.

Table 1: Leading transnational retailers, by international sales, 2003*

Rank	Name of company	Country of origin	Key format(s)	International sales (US$m)	International sales as % of total	No. of countries of operation
1	Wal-Mart	US	Superstore, discount, warehouse	53,573	20.9	11
2	Ahold	Netherlands	Supermarket, convenience, hypermarket	53,320	84.2	27
3	Carrefour	France	Hypermarket, discount/convenience, supermarket	39,247	49.3	32
4	Metro	Germany	Cash & Carry, department, DIY, hypermarket, specialty, superstore	28,511	47.1	26
5	Delhaize	Belgium	Supermarkets	18,319	79.9	10
6	Pinault	France	Department, mail order, specialty	16,376	54.7	16
7	Aldi	Germany	Discount	15,174	37.0	12
8	Tengelmann	Germany	Supermarkets	14,110	50.9	14
9	Auchun	France	Hypermarkets	13,779	42.5	15
10	Rewe	Germany	Supermarkets	12,656	28.6	12
11	Lidl & Schwarz	Germany	Supermarkets	11,274	33.8	16
12	IKEA	Sweden	Specialty	11,224	92.0	43
13	Intermarche	France	Supermarkets	10,487	27.8	7
14	Tesco	UK	Superstore, hypermarket, supermarket, convenience	10,015	19.9	12
15	Ito Yokado	Japan	Superstores with food	8,002	26.2	18

Source: www.planetretail.net

* There are difficulties when comparing annual revenues for retailers due to their different financial years. While Ahold and Carrefour complete their accounts at the end of December, Wal-Mart reports at the end of January, and Tesco at the end of February, for example. The figures quoted above, therefore, may not correspond exactly with the calendar year 2003. Such issues are important given the extremely rapid growth of these retailers over the last few years.

The international expansion of retail store and sourcing networks is having many profound developmental implications in the economies of Eastern Europe and East Asia that form the focus of this project. Following Dawson (2003) and Coe (2004) we can delimit four broad areas of impact:

- *Retail competitiveness*: foreign retailers have brought with them new formats and pricing structures, improved information management processes, new marketing and merchandising methods, and high levels of investment capital, thereby dramatically altering the retailing landscape. The rapid acquisition of market share by foreign retailers has squeezed many local retailers out, and created a pressure towards consolidation for the large retailers that remain (Toktali and Boyaci, 1998). More specifically, local independent stores, department stores and fresh markets have been adversely affected by loss of market share to foreign-owned or controlled supermarkets and hypermarkets.

- *Consumption practices*: transnational retailers have become a constituent part of processes of socio-cultural change in host markets with respect to shopping and consumption patterns. These have been altered dramatically by the arrival of new retail formats described above. Initially, new formats such as convenience stores and hypermarkets occupied a small niche in major cities, serving the rich and middle class, but they are now spreading further both socially and spatially – albeit highly unevenly (Reardon *et al.*, 2003).
- *Regulatory frameworks:* the competitive success of foreign retailers has impacted on the regulatory frameworks in host countries, which have either become tighter or more relaxed. Areas of particular significance for retailers are restrictions on the amount and type of inward investment, format controls, planning legislation, competition policy, and import restrictions (see, for example, Guy, 2001).
- *Supply network dynamics:* there have been significant impacts on local supply networks from the purchasing activities of transnational retailers. These are two aspects to this (some suppliers may be involved in both). First, local firms may supply foreign retailers within their own national or regional context. Second, local firms may become enrolled into the global sourcing activities of transnational retailers, supplying products for their home/core markets. In both instances, the purchasing decisions and supply network requirements of foreign retailers are leading to rapid and dramatic consolidation in the distribution, wholesale and manufacturing/agricultural production sectors of host economies. While well-capitalised firms are profiting, many smaller firms are being displaced by these new competitive pressures (Reardon and Berdegué, 2002).

Compared to the other sectors we have considered in this project, the research agenda on these topics in retailing is in its infancy. Moreover, it would be impossible to do justice to all these aspects in this working paper. Hence, our analysis focuses on the last aspect identified above, namely the supply network implications of the internationalisation of retailing. The paper is organized into four main sections. First, we explore the changing configurations of power between retailers and their suppliers. Second, we outline the activities of transnational retailers in the two regions of Eastern Europe and East Asia. Third, we present initial evidence on how the power relations identified in the first section are playing out 'on the ground' in these two emerging regions. Finally, we consider the developmental implications of these supply network transformations.

Changing power dynamics within retail supply networks.

> 'International mergers and acquisitions and aggressive pricing strategies have concentrated market power in the hands of a few major retailers, now building international empires. These companies have tremendous power in their negotiations with producers and they use that power to push the costs and risks of business down the supply chain. Their business model, focused on maximising returns for shareholders, demands increasing flexibility through just-in-time delivery, but tighter control over inputs and standards, and ever-lower prices' (Oxfam, 2004: 6).

The analysis of global production networks in retailing needs to be seen in the context of ongoing power shifts between retailers and suppliers, shifts that are most readily observable in the mature, relatively consolidated retail markets of Western Europe. For example, since the early 1990s, much research has been done on the grocery market in the UK (see, for example: Wrigley, 1993; Burt and Sparks, 1994; Bowlby and Foord, 1995; Doel, 1996; Hughes, 1999). Here the power shift from suppliers to retailers has arguably been more pronounced than in any segment of any national retail market. The central story is that in the 1980's and early 1990s, concentration and growth in the major food retailers overtook that of manufacturers. Through both organic growth and mergers and acquisitions, and facilitated by a permissive regulatory environment, a handful of national supermarket chains – most importantly Tesco, Sainsburys, Safeway and Asda – grew to dominate food retailing in the UK (a trend which has continued to the current day). The resulting oligopsony saw the relations of inter-firm dependency tilted decisively away from food suppliers and manufacturers in favour of retailers. For example, whilst a large retailer may account for 10-20 percent of total sales for a manufacturer, that same manufacturer might only account for 1-2 percent of the retailer's sales.

In general terms, the bargaining strength of the large food retailers is derived from a number of sources (Wrigley and Lowe, 2002). First, they are able to deny (or threaten to deny) manufacturers access to retail markets that are crucial for their branded products. This could occur through 'delisting' (i.e. no longer selling) a particular product, or reducing the shelf space allocated to it. Second, due the volume of goods being purchased, retailers are able to demand price discounts that may be 'discriminatory' in nature in that they go beyond what might simply be justified by order size. Third, increased capitalisation has allowed retailers to take control of their own distribution and logistics systems. A key impact of this has been reduced retailer inventories, with the costs associated with unsold stock being passed back to suppliers. Fourth, their scale of operations has allowed them to generate vast amounts of customer information that can create significant knowledge asymmetries within the supply network. Finally, as a result of their strong position, retailers have been able to introduce and then rapidly expand the sourcing of own label goods over which they have an extremely high degree of supply network control. As Wrigley and Lowe (2002) note, the dynamics described here have also depended on continued rivalry and competition between manufacturers preventing effective price or output coordination strategies emerging to challenge retailer dominance.

While there is clearly a great deal of truth in this account, in reality the picture is far more complex and differentiated. The analysis needs to be complicated in four important respects in order to be of wider relevance. First, as Ogbonna and Wilkinson (1998) argue, the nature of the supplier-retailer relationship will play out differently depending on the relative concentration of both the retailing and manufacturing sectors concerned. Following Foord *et al.* (1996), the bargaining power of a retailer with respect to a particular supplier depends on: the relative size and position of the retailer within its own sector; the total size of a retailer's product purchase; the size and significance of the product area in the retailer's portfolio; and the balance between own-label and branded products in the retailer's purchasing portfolio. Hence, huge supermarket chains that purchase thousands of product lines in bulk, and have a wide variety of own-label goods, will clearly have considerable bargaining power with respect to many suppliers. However, Foord *et al.* also illustrate how manufacturers can derive bargaining strength from: the relative size and position of the supplying firm within its own sector; the size of the product area in the supplying firm's range; competitive dynamics within the sector; resources derived from a wider corporate group; the balance of own-label to branded goods in the supplying firm's portfolio; and the geographical reach of the supplier. Thus, large competitive manufacturers offering a range of products to a number of retailers with some strong brands may be in a relatively strong position to bargain with large retail chains. Equally, small firms that are producers of unique or high value-added products, or that are dominant in particular geographically localised markets, may also have relatively strong negotiating positions.

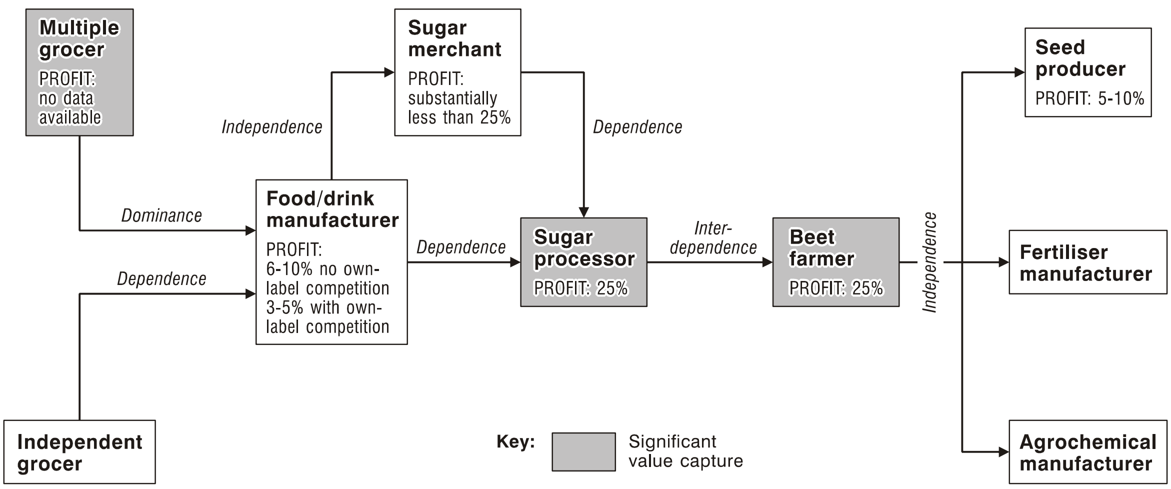
Hence there is clearly a need to qualify the notion of a simple shift from supplier-driven to buyer-driven supply networks. In their qualitative analysis, for example, Ogbonna and Wilkinson (1998) identified several different kinds of manufacturer-retailer relationship, which in turn exhibited different power dynamics and potential for cooperative relations:

- *Major brand manufacturers and the top retailers*: here the power of retailers was kept in check by the countervailing power of the brand franchise, backed up by possible recourse to competition regulators. Partnerships were found to be unlikely in this setting.
- *Large manufacturers and small/medium sized retailers*: here there were fairly balanced relations between manufacturers seeking to maintain their brand franchise and retailers with little or no own brand lines. Productive partnerships were seen to be a possibility in this form of relationship.
- *Large retailers and secondary manufacturers:* here retailers were seeking to develop strategic alliances with medium and small sized suppliers of secondary brands as a way of counteracting the power of the major manufacturers.

- *Retailers and own label suppliers:* these tended to be highly dependent relationships, but with more open sharing of customer information. However, as Doel (1996) noted, even within the own-brand segment there is great variability: relationships may range from short-term price sensitive ones to more continuous, interactive and innovative forms.

There are then, a great variety of different forms of manufacturer-retailer relationship, even in highly concentrated markets such as UK grocery retailer. Generalised accounts of trends in manufacturer–retailer power relations need to be augmented with more nuanced analyses of the competitive dynamics in different sectors. Relatedly, the rise of 'retailer power' does not mean that the retailer itself is the only actor able to capture value from the various supply networks in which it is involved. The work of Cox *et al.* (2002) on the industrial beet sugar value chain/power regime serves to illustrate this point (see Figure 1). Their analysis highlights the range of different actors involved in the production of this particular commodity, and the power relations between these actors at each stage of the production process. As Figure 1 shows, retailers are not the only party able to capture value (through what they term 'super' profits) in this particular supply network, with sugar processors and beet farmers also maintaining healthy levels of profitability. While the food and drink manufacturers in this example are seeing their margins squeezed – particularly in the own-label context – and thereby conforming to the general model introduced above, it is important to consider the supply network in its totality to understand the processes of value creation, enhancement and capture for a product.

Figure 1: The industrial beet sugar power regime.



Source: adapted from Cox *et al.*, 2002, Figure 5.2

Second, it is important to de-stabilise notions of linearity with respect to supply 'chains', hence our preferred use of the 'network' metaphor. On one level, simple notions of vertical competition between different levels of the distribution system (e.g. retailer and supplier) may be complicated by cross cutting patterns of ownership, as for example in the instance where a manufacturer owns a retail chain but also sells its products through other retailers. On another level, the dynamics of interaction and competition between independent operators may be extremely complex. Harvey *et al.*'s (2002) study of the tomato is illustrative here. They describe an ongoing 'clash of configurations' between branded manufacturer-retailer relations and own-label manufacturer-retailer relations for a range of tomato-based products. Of most interest here is emergent regime of 'multiple monopsony' relations between retailers and own-label manufacturers. Own-label manufacturers have become huge concerns in their own right. Hazlewoods, for example, has over 10000 staff and plants stretched across Europe making ready meals, sandwiches, pizzas, cooking sauces and cakes. Many own-label manufacturers are divided into units supplying different retailers with different products. Exclusivity works in the other direction too, however. An own-label manufacturer may have virtually a monopoly on supply of a product across all the leading retailers. 'There are thus *multiple mutual and criss-crossing exclusivities* with retailers, with plants dedicated to supplying exclusively one retailer, and a retailer exclusively getting a particular product or product category from one particular own-label manufacturer' (p.182: original emphasis). Retailers try to avoid dependence on one manufacturer for a complete product range, and suppliers diversify sales across a number of clients. Overall, the relationships are characterised simultaneously by both by power asymmetries and by mutual dependency. What this example serves to illustrate is that retail supply systems are best characterised as complex and shifting *networks* of inter-firm relations rather than simple linear *chain* formations.

Third, the nature of power relations between retailers and suppliers will also vary between social and spatial contexts. It is important to recognise that buyer-supplier linkages are inherently *social* relations shaped by wider social, political and institutional systems in which they are embedded. As Hughes (1999) notes, many accounts 'have a tendency to under-theorise the social and cultural energies which drive many of the changes taking place at the retailer-supplier interface'. Duke (1998), for example, identifies eight factors that might potentially affect buyer-supplier relations in the retail context. Two of these have already been mentioned, namely the power relations involved, and how these vary between retailers and suppliers in different kinds of product markets. Duke also presents evidence, however, that the nature of relations may be affected by: personal factors such as the individual personality and psychological characteristics of the negotiators involved; organisational factors to with corporate culture; the coalescence, or not, of supplier and retailer corporate objectives; ambient social pressure from neutral outsiders, e.g. notions of ethical trading; pressures from government, consumers and lobby groups; and the quality of intra- and inter-firm communication for the firms involved. These factors can usefully be brought together into two groups.

On the one hand, supply networks will clearly be affected by both formal and informal external regulatory influences. This results in national (and by inference, sub-national) variations in supply network practices. Wrigley (1992), for example, illustrated how different 'retailer-regulatory state' relations in the US and the UK have shaped very different grocery retailing sectors. While tight and strongly enforced anti-trust legislation in the post-war decades in the US served to protect small local retailers and inhibited concentration, a regulatory environment emerged in Britain which was 'lenient, pragmatic and benign' in the face of increasing concentration and retailer power (p.747) (see also Wrigley 1993; 1998). As a result, UK food retailers, due to their large market share, can exert more oligopsonistic buying power over their suppliers than their US counterparts. By comparison, US food retailers are less able to pass back the costs of holding inventory holding to suppliers than their UK counterparts. As a result of the more balanced power relations between retailers and manufacturers in the US, levels of own-brand production are much lower than in the UK, as revealed by Hughes (1996). In other contexts characterised by vertically integrated business groups involved in both manufacturing and retailing (e.g. Japan, South Korea), manufacturers remain in a dominant position.

On the other hand, at a more grounded level, there are clearly a number of factors concerning the corporate cultures of particular firms, and how these shape the attitudes and actions of individuals involved. Hughes (1996) characterises this variation in terms of different emergent 'organisational cultures' (see also Shackleton, 1996; 1998). As she describes, 'it seems that the cultures of retailer-manufacturer relations range from the collaborative, long-term relationships of UK own-label supply relationships to the arms-length, adversarial character of some US supply relationships which incorporate the use of brokers as a third-party organizational element' (Hughes, 1996: 111-2). Elsewhere she argues that 'it is the continual interpretation by middle management of particular corporate strategies which shapes the material practices of buying and selling' (Hughes, 1999:??). In short, the inherent variability in retailer-supplier relations described previously also intersects in complex ways with national differences in institutional and regulatory structures, and corporate level variations in strategy and culture.

Fourth, while much of the empirical work carried out thus far in this area has looked at supply network relations within a particular national context, with the rapid internationalisation of retailing operations over the last decade, retailer supplier relations are increasingly being constructed at the international scale, and thereby across different institutional and political contexts. There are two dimensions here. First, leading transnational retailers are increasingly sourcing certain commodities for their home and core markets through macro-regional or global sourcing operations. There is now a small but growing range of studies in this area (e.g. Barrett *et al.* (1999), Dolan and Humphrey (2001; 2004), Kaplan and Kaplinsky (1999), and Oxfam (2004) on fruit and vegetables: Gereffi (1994), Gibbon (2001), Schmitz and Knorringa (2001), and Oxfam (2004) on clothing and footwear). Much of this work has used the concept of buyer-driven global commodity chains derived from the work of Gereffi and associates (Gereffi and Korzeniewicz, 1994). Others, however, have used notions of commodity and knowledge circuits to explore these issues (e.g. Cook (1994; 1995) on tropical fruits; Hughes (2000) on cut flowers). Some accounts are ambivalent about the impacts of such sourcing international operations on producers and suppliers, arguing that there are both winners and losers depending on the nature of the product and the supply network concerned (e.g. Schmitz and Knorringa, 2001). Other studies are almost entirely negative. Oxfam (2004), for example, describe a new supply system model which is driven by retailers and brand owners in core markets through their control of market access, and their power to determine price, quality, delivery, and labour conditions within the chain. They describe how supply networks are segmented into high and low profit steps, with the latter – such as raw material sourcing, production and assembly, finishing and packaging – being are outsourced to suppliers and low-cost producers world-wide. Retailers are able to capture the lion's share of value in such supply networks, with studies suggesting, for example, that the retailer commonly retains around 40 percent of the retail price for a range of horticultural commodities (Blythman, 2004; Oxfam, 2004). Second, and more strikingly, there is almost no work on the *local* supply chain impacts of the recent entry of leading transnational retailers into a variety of 'emerging' markets (although see Hitoshi (2003) on Taiwan, Toktali and Boyaci (2001) on Turkey, and Tosonboon (2003) on Thailand). As Toktali and Boyaci (2002: 219) lament, 'the question of how power is shared by manufacturers and retailers elsewhere [outside the UK], especially in emerging economies, has been neglected by researchers'. We shall return to this issue in the latter part of the paper.

But in what ways can power be exercised within retail supply networks? Munson *et al.* (1999) delimit several broad areas of interaction:

- *Pricing control*: for example, large retailers may expect lower prices and/or quantity discounts, whereas suppliers simply cannot afford to not sell to a large customer base. However, power does not always reside with the largest firm. In some circumstances, a small firm may be a major customer for certain suppliers. Equally, certain small suppliers may have unique knowledge about a particular product, and other may join together to increase their bargaining power. Control over who sets final retail prices is often significant, and varies between products and different national contexts. While the general trend has been to increased retailer control in this area, for some products manufacturers will not allow retailers to discount beyond certain levels, and in some countries – such as Japan – strong manufacturers are able to impose suggested retail prices. In some retail systems, middlemen such as wholesalers may have pricing power.

- *Inventory control and Just-In-Time (JIT) production systems*: depending on the relative power of the retailer and manufacturer, the retailer may be able to demand JIT delivery, or may have to pay extra to receive it. Other mechanisms may include consignment shipments, where the goods remain the property of the supplier until they are sold, and demands about shipment sizes and customised packaging.
- *Operations control*: strong retailers may impose a wide range of operational requirements on suppliers through manipulating shelf space allocation and the number of competing product lines that they choose to offer. Many retailers are increasingly making demands in terms of quality, specifying exactly what they want, and when and how it is produced. In some instances, retailers may also exert control over the nature of product advertising, and may ask suppliers to help fund in-store fixtures and sales promotions.
- *Channel structure control*: power in also manifested in retail supply networks through the extent to which different firms are able to shape channel structure. There are three inter-connected elements here. First, such control may concern *ownership* of the supply network. Both large retailers and manufacturers may seek to pursue strategies of vertical integration or disintegration (e.g. manufacturers opening up their own retail outlets). Second, it may concern seeking to shape the *length* and *breadth* of the networks (e.g. retailers missing out wholesalers to bargain direct with manufacturers, and retailers seeking multiple suppliers for particular products). Third, there is a geographical component, in the sense that firms may seek to shape how these organisational forms are structured in different regions and/or countries. In the extreme, these kinds of strategies may represent attempts to monopolise the chain at exclusion of competitors.
- *Information control*: finally, power can also be derived from information about what is occurring at all or many points on the supply network. Most importantly, powerful members of supply networks can exert pressure on other firms to use Electronic Data Interchange (EDI) and inventory management systems.

Table 2: Mechanisms for value capture employed by UK supermarkets.

No.	Mechanism
1	Required or requested payments from suppliers as condition for stocking/displaying products, or a pre-condition for being on list of suppliers
2	Required or requested payments from suppliers for better positioning of products within stores
3	Required or requested an improvement of terms from suppliers in return for increasing range or depth of distribution of products
4	Required to requested a financial contribution for a promotion from suppliers ('pay to play'), in some cases in excess of cost to supermarket
5	Required or requested suppliers to make a financial contribution if promotion did not meet targets
6	Required suppliers to bear costs of surplus special packaging for promotion
7	Instigated product promotion without agreement of supplier and requested supplier retrospectively to fund promotion
8	Required or requested suppliers to contribute to the supermarkets' costs of buyer visits to new or prospective suppliers, artwork and packaging design, consumer panels/market research and hospitality for buyers
9	Required or requested suppliers to contribute to costs of store refurbishment or opening of a new store
10	Required suppliers to meet majority of costs of 'buy one get one free' promotions
11	Required or requested suppliers to make financial contribution to costs of bar-code changes or reduced-price-marked packs
12	Invited suppliers to make contributions to charitable organisations
13	Discriminated between suppliers in length of credit period
14	Delisted suppliers or caused a supplier to reduce prices under threat of delisting
15	Required sole supply of own brand products
16	Sought retrospective discounts from suppliers
17	Required or requested compensation from a supplier when the profits were less than the supermarket expected
18	Required suppliers to maintain a low wholesale price when volume of order subsequently goes down
19	Sought support from a supplier to match a low retail price of a competing retailer
20	Required or requested suppliers to make payments to cover product wastage
21	Required or requested suppliers to buy back unsold items
22	Failed to compensate suppliers for costs caused through forecasting errors or order changes
23	Delayed payments to suppliers outside agreed contractual period
24	Changed quantities or specifications of a product previously agreed with a supplier at short notice without compensation
25	Over-ordered goods at a promotional price from suppliers, and then subsequent sells goods at higher retail price
26	Asking suppliers to reduce a previously agreed price to support a new marketing initiative
27	Introduced a change to supply chain procedures that increases costs for supplier with compensation
28	Required suppliers to purchase goods or services from designated companies such as hauliers or packaging companies.

Source: UK Competition Commission (2000), reported in Blythman (2004).

Recent research has done much to reveal the specific mechanisms through which retailers exert power over suppliers (see Blythman, 2004; Lawrence, 2004). An investigation by the UK's Competition Commission in 2000 revealed a wide range of practices used by supermarkets which distorted competition and in many cases were deemed to operate against the public interest (see Table 2). While the supermarkets claimed that many of the listed practices were simply 'requests' to suppliers, the Commission concluded that they were in effect 'requirements' given the extent of buyer power. In the language of Munson *et al.*, the list reveals extensive use of price, inventory and operations control, with the ultimate threat of channel structure controls (i.e. delisting). In terms of the framework introduced in Working Paper 1, these mechanisms serve to capture value for the retailer within the supply network, at the expense of suppliers. As described by Blythman (2004: 149), 'supermarkets have developed a number of practices which, in one way or another, have the net effect of improving the supermarkets' margins at the expense of the supplier, pushing what should be the retailers' costs back down the supply chain to the producer or manufacturer'. As a footnote to this account, it is worth remembering that the extent to which retailers are willing and able to implement such mechanisms will very from product to product, from firm to firm, and from country to country.

Retail internationalisation 'on the ground' in Eastern Europe and East Asia.

> 'The name of the game is to make an early entry into emerging markets and rapidly establish a major, preferably leading presence in key locations, like twenty-first-century retail conquistadors' (Blythman, 2004: 232).

We can now move on to look in more detail at the patterns of geographic expansion described in the Introduction to this paper. Figures 2a and 2b provide starting points for this analysis, depicting the store distributions of two of the major transnational retailers in 2003, as well as the geographic distribution of their revenues. Carrefour's operations (Figure 2a) span Europe, the Americas, East and Southeast Asia, in addition to a sprinkling of stores in the Middle East and Africa, while Tesco (Figure 2b) has stores in five markets in both Eastern Europe and East Asia in addition to the UK and Ireland. Other leading retail transnationals have a similarly 'global' span of operations: Ahold has a store network that encompasses operations in Western and Eastern Europe, North, Central and South America, and Southeast Asia, while Wal-Mart has stores in the Americas, Western Europe and East Asia (see also Table 1). What these snapshots show, most importantly, is that investment is not just occurring within and between the 'core' regions of North America, Western Europe and Japan, but is also encompassing a wide variety of countries in so-called 'emerging' regions, namely Latin and Central America, East Asia and Eastern Europe. Moving below this top strata of retailers, other major retail TNCs – including Auchun, Casino, Costco, Delhaize, Kingfisher, Makro and Metro – are also expanding their operations into Eastern Europe and East Asia in particular. Leading Asian retailers such as Aeon, Dairy Farm and Seiyu are also extending their operations across the Asia-Pacific.

Figure 2a: The global distribution of Carrefour stores, 2003.

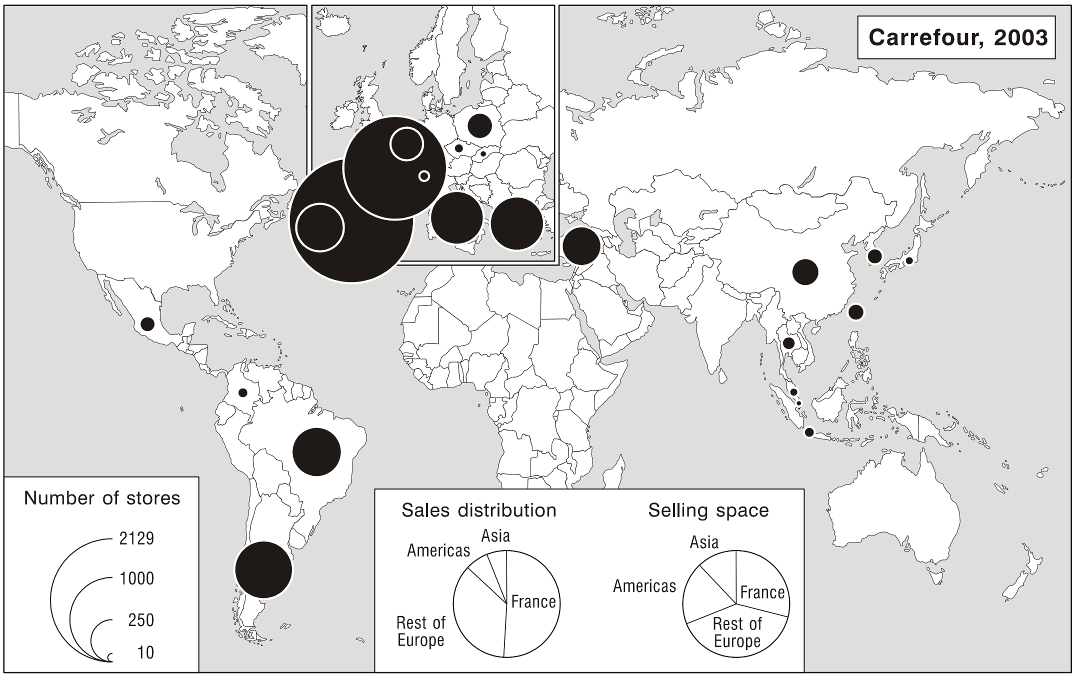
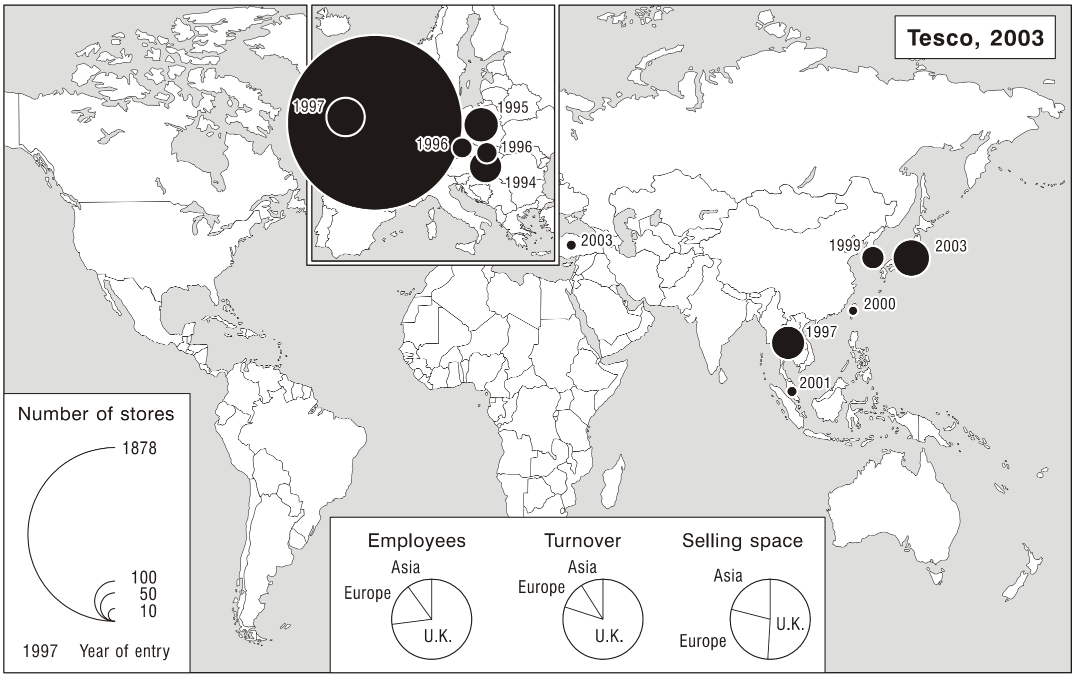


Figure 2b: The global distribution of Tesco stores, 2003.



Source: company reports

Wrigley (2000) offers a cogent analysis of the forces driving these growth processes. He describes how international expansion since the late 1990s has not simply been a defensive reaction to over-dependence on the home market, but is also fuelled by the retailers' need to sustain earnings growth (and therefore equity valuations) by using their free cash flow to secure revenue growth. The emerging markets offer several important opportunities in this respect: potentially rapid economic development and rising levels of affluence, consumer spending and retail sales, in combination with low levels of penetration of Western forms of large store retailing and associated distribution systems. Prior to investment, the majority of retail sales in these markets were usually in the hands of small independent retailers or informal retail channels. Leading international retailers have been able to use their scale, lower costs of capital, and advanced distribution and logistics systems to obtain rapid revenue growth and high returns on their investment – up to 25-30 percent in the case of Carrefour's early forays overseas in the late 1980s and early 1990s. Rapid organic growth has proved possible in these markets as licences have been relatively easy to obtain, the costs of site acquisition and store construction are low, and existing retailers are often inefficient. In sum, as Wrigley (2000: 506) recounts: 'global retailing was characterised in the mid-to-late 1990s then by the efforts of an elite group of firms to leverage their increasing core-market scale and the free cash flow for expansionary investment which those markets provided, in order to secure the longer-term higher growth opportunities offered by the emerging markets'.

As Wrigley's account suggests, investment is not entering these emerging regions evenly, but is, of course, targeted at specific national markets. In Eastern Europe, much of the inward investment has been directed to Poland, Hungary, the Czech Republic and to a lesser extent Slovakia, and in East Asia to Malaysia, South Korea, Taiwan, Thailand, and increasingly, China. This emerging geography is shown by Table 3, which illustrates the top 20 retail markets in terms of the number of foreign grocery retailers present. Ten of the listed countries are accounted for by Western Europe and the US, illustrating patterns of cross investment between the leading economies, much of which dates to the 1970s and 1980s. The remaining ten are largely made up of the Eastern European and East Asian economies identified above (along with Brazil). No fewer than 13 of the world's top 30 grocery retailers had a presence in Poland by 2002. There is overlap and interaction between this geography of retail outlets and the establishment and development of international sourcing operations. Much less is known about these operations, which are far more complex to map. It is recognised, however, that many of the leading retailers now have buying offices in Hong Kong to tap into the Chinese and East Asian markets for a wide range of non-perishable products, and that European retailers are increasingly using Eastern European suppliers to serve Western European markets. IKEA, for example, sources 18 percent of its products by value from China, and 12 percent from Poland (www.ikea.com).

Table 3: The top 20 most 'internationalised' grocery markets, 2002.

Country	No. of top 30 international food retailers present
France	14
Poland	13
Spain	12
Germany	11
USA	11
Belgium	11
UK	10
Thailand	10
Taiwan	10
China	10
Portugal	10
Czech Republic	10
Denmark	8
The Netherlands	7
Italy	7
South Korea	7
Brazil	7
Hungary	7
Malaysia	7
Slovakia	7

Source: www.planetretail.net

In addition to these geographical patterns, three further characteristics distinguish the latest 'global' phase of retail expansion from those that preceded it. First, its sheer *rapidity* is startling. In 1990 Ahold was present in the Netherlands and USA, Carrefour was to be found in five countries outside France, and Wal-Mart and Tesco were only present in their home markets. By 2003, Ahold was present in 27 countries, Carrefour in 31, Wal-Mart in eleven, and Tesco in twelve. Figure 2b, which indicates the year of entry for Tesco's foreign markets, shows that, in fact, eleven markets were entered in just a nine year period from 1994-2003. The rapid pace of expansion is being achieved through aggressive merger and acquisition (M&A) activity (Wrigley, 2000). Data on cross border M&A activity in retailing in the late 1990s reveals a dramatic increase in both the number of deals and their value (Economist, 19 June 1999). Second, the *scale* of investment currently being undertaken is unprecedented. While Figures 2a-b give some sense of the number of stores being built or acquired in foreign markets, such static 'snapshots' many not give a real sense of the scale of the phenomenon. The projected expansion data for Tesco is pertinent here. Tesco hopes to leap from having no presence in early 1998 to having 15m square feet of operating space or 28 percent of the global total by 2006/7. Globally, its expansion plans should see its operating space outside the UK rise from 8 to 50 percent of its total over the same period.

Third, the *impacts* of this expansion on the retail structures of the host countries are unparalleled. The degree of market penetration is most pronounced in the key markets of Eastern Europe – namely Hungary, Poland, the Czech Republic and Slovakia – where rapid liberalisation since the early 1990s has paved the way for foreign firms to expand rapidly, usually through acquisition and subsequent organic expansion. Table 4a profiles Poland's retail structure in 2002, and reveals that after less than a decade of inward investment, the top ten retailers are all foreign, or more specifically Western European, owned. The picture is somewhat more differentiated in East Asia, due to more variable, and generally tighter, regulatory practices, although in several countries the Asian economic crisis of 1997-1998 accelerated the general trend towards deregulation. In Thailand, for example, Tesco has become the clear market leader since its entry in 1997, with its investments accounting for over 5 percent of inward FDI since 1998. In this instance, a key regulatory change was the post-crisis Alien Business Operations Act of 1999 which allowed foreign retailers to operate in all kinds of retail/wholesale markets, to own a controlling share, and to buy land and rent property. Allied with strong market potential and a lack of indigenous competitors, this has allowed foreign firms such as Tesco (Makro, Casino, Carrefour and Ahold are other leading players) to claim large market shares (Tosonboon, 2003). Outside of Thailand, transnational retailers have made steadier progress. The case of South Korea is a case in point here (Table 4b), and illustrates two key points. First, due to regulatory controls (and in some cases greater cultural 'distance' from home markets), retailers have tended to pursue joint ventures, a situation repeated in other East Asian markets such as China, Japan and Taiwan. Second, they have come up against stiffer domestic competition than was found in Thailand (and Eastern Europe).

Table 4a: Top retailers in Poland, 2002

Company	Ownership	Format	No. of outlets (June 2003)	2002 sales, (US$ m)
Metro	Germany	Hypermarkets, cash & carry, specialty	78	2679
Jeronimo Martins	Portugal	Discount, cash & carry	718	1256
Carrefour	France	Hypermarkets, supermarkets	73	893
Auchun	France	Hypermarkets, supermarkets	29	888
Casino	France	Hypermarkets, discount	122	858
Tesco	UK	Hypermarkets, supermarkets	67	758
Rewe	Germany	Supermarkets, cash & carry	35	593
Tengelmann	Germany	Discount, specialty	153	537
Ahold	Netherlands	Hypermarkets, supermarkets	191	536
E. Leclerc	France	Hypermarkets	11	391

Source: www.retailpoland.com
Exchange rate used: 1 PLN = US$0.255

Table 4b: Top retailers in South Korea, 2001.

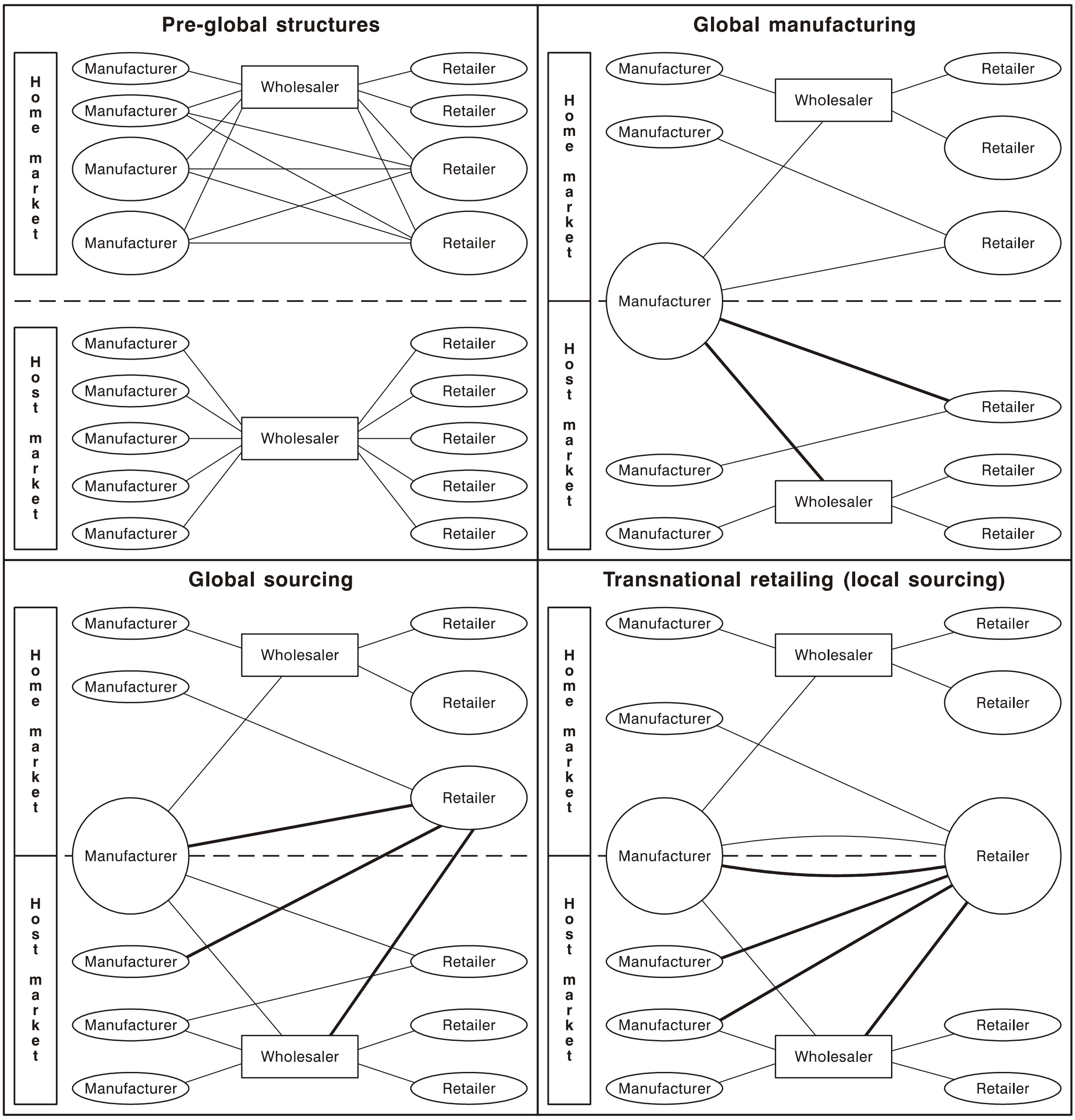
Company	Ownership	Formats	2001 Sales (US$bn)
Lotte	South Korea	Department store, discount store, convenience store	4.94
Shinsegae	South Korea	Department store, discount store	4.12
LG	South Korea	Supermarket, convenience store, discount store, home shopping	2.48
Hyundai	South Korea	Department store, home shopping	2.45
Samsung Tesco	South Korea/UK	Discount store	1.04
Hanwha Stores	South Korea	Department store, discount store, supermarket	1.00
Carrefour Korea	France	Discount store	0.92
New Core	South Korea	Department store, discount store	0.84
The National Agricultural Co-op	South Korea	Discount store, supermarket	0.80
CJ39	South Korea	Home shopping	0.65
Wal-mart Korea	USA	Discount store	0.47

Source: PWC, 2002.
Exchange rate used: 1 US$ = 1202.6 KRW

Supply chain impacts of retail internationalisation in Eastern Europe and East Asia.

Having mapped the broad contours of the activities of retail transnationals in Eastern Europe and East Asia, we now move on to look in more detail at the supply chain implications of these dynamics. In essence, a wide range of suppliers in these emerging regions is being enrolled into the broadly buyer-driven networks of the leading transnational retailers. This is happening in a number of different ways, and is being overlain on previous rounds of international investment, as the four cells in Figure 3 illustrate. The top-left cell shows the different basic structures in a typical 'home' and 'host' market prior to the formation of significant transnational connections. While the former is characterised by the presence of large and well-capitalised manufacturers/suppliers and retailers (as described earlier), the structures in many of the emerging markets have historically been relatively fragmented. The top-right cell recognises that, prior to the activities of the transnational retailers, many manufacturers had already moved production facilities to emerging markets to serve both local and regional markets. The supply network implications of these processes are much under-researched. In one of the few studies in this area, Toktali and Boyaci (2002) describe how the arrival of foreign-owned food manufacturers in Turkey from the 1970s onwards initiated processes of rationalisation in the wholesaling and distribution industries (later exacerbated by the arrival of foreign retailers) as manufacturers awarded exclusive distributorships for specific products and territories. While well capitalised wholesalers and distributors that attracted distributorships prospered, smaller operations excluded from these new relationships found the competitive conditions extremely tough.

Figure 3: Transnational retailers and emerging markets supply chains.



Source: adapted from Alexander, 1997, Figures 4.1-4.4

As the bottom two cells of Figure 3 illustrate, the development of transnational retailing has affected supply networks in two interrelated ways. On the one hand, as indicated in the bottom-left cell, transnational retailers have increased levels of global sourcing for their home markets. East Asia and Eastern Europe have become increasingly important source regions for non-food retailers such as IKEA and Kingfisher (which sources an estimated 15 percent of its products for B&Q in the UK through their Hong Kong buying office) and for non-food lines (e.g. consumer electronics, clothing) for the giant food retailers. This sourcing can occur direct from suppliers, from agents or wholesalers, of from the foreign subsidiaries of transnational manufacturers. On the other hand, and more significantly perhaps, there are the supply chain impacts that result from the retailers establishing store operations within the various markets in the two regions (the bottom-right cell). As noted earlier, this is dramatically under-researched in comparison to work on global sourcing, a surprising situation given the stubbornly local nature of food sourcing in particular. The foreign subsidiaries of retailers such as Tesco, Ahold and Carrefour commonly source over 90 percent of products from within the country – and in some cases the figures is as high as 95-98 percent (although products sourced from a multi-national supplier within a particular country may have originated elsewhere). Interestingly, contra accounts of the continuing rise of global sourcing, local sourcing may actually *increase* over time as the supply base develops and retailers therefore import fewer products:

> 'When you first enter and you haven't got the scale there tends to be quite a bit of imported product from other countries from where we're operating because you just haven't got the ability. But we will very quickly start to arrange supply conferences and you get potential new suppliers together and …we'll start to talk to them and build this relationship and very quickly you start to find suppliers who come up to our standards in safety and quality. So within two years probably up to around ninety percent of products are locally produced' (Interview, March 2002).

These dynamics of global and local sourcing can – depending on the product and the particular context – occur independently, or there may be a functional connection between the two. In the latter case, the influence can run in either direction:

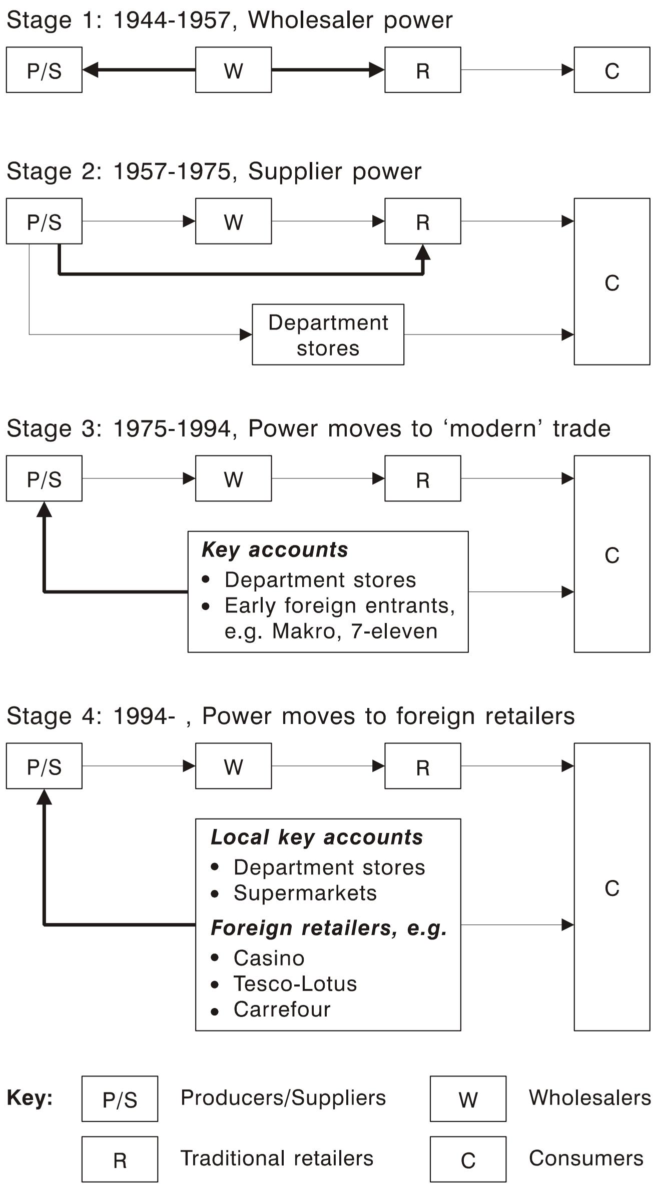
> 'We have an interest in seeing these economies in East Asia grow … we look at these countries as the next wave of growth for our business. It's a kind of mixed relationship …not only to get the presence and to increase our position, but at the same time we go there to maximise our ability to source more products' (Interview, September 2001.)

On the one hand, contacts made during the establishment of overseas sourcing operations may be used to facilitate market entry and thereby leading to the 'local' supply of products to a transnational retailer (e.g. B&Q's new retail operations in China developing on the back of the more longstanding sourcing operations based in Hong Kong). On the other hand, as retail transnational corporations develop their local supply base in foreign markets, certain suppliers may develop into regional, or in some cases global, sources for certain products:

> 'When we go in, we use as much local sourcing as possible to start off with … and then when we understand which suppliers are the really good ones we can start to build strategic partnerships, to actually then use them… worldwide. And we're at the very beginning of that stage' (Interview, December 2001).

It is estimated, for example, that inward investment by Tesco into Thailand and subsequent supply chain developments have paved the way for exports of Thai products – currently worth £40 million per annum – to the UK market. While there is emerging evidence of retailers such as Ahold and Carrefour developing regional sourcing systems in Latin America (Reardon and Berdegué, 2002), such systems appear to be in their relative infancy within East Asia and Eastern Europe where these 'export' dynamics are marginal to the predominantly 'local' nature of food sourcing.

Figure 4: The four stages of distribution in Thailand.



Source: adapted from Tosonboon, 2003, Figure 5.1

The case of Thailand can be used to illustrate how the arrival of foreign retailers has altered pre-existing distribution systems in general terms (see Figure 4). Tosonboon (2003) describes a four stage evolution, starting with a postwar period (1944-1957) during which American funds fuelled the expansion of a consumer economy and foreign manufacturers/suppliers started to invest in Thailand. Wholesalers held a pivotal role at this stage due to the fragmented nature of the retail market (hawker stalls and, increasingly, independent grocery stores). The opening of the first department store in 1956 heralded a second phase (1957-1975), during which suppliers were able to increase their influence by dealing directly this growing retail segment. During the third stage (1975-1994) a new wave of local retailers (e.g. Robinson's and The Mall department stores) created the scale and market presence to tip the balance of power in their favour. Suppliers, in turn, established 'key account' teams to deal with these major retail customers. Towards the end of this period, early foreign entrants including Makro helped fuel the power shift towards 'modern' retail formats. In the final stage (1994 onwards, but particularly since post-Asian economic crisis deregulation in 1998/99), the extremely rapid growth of foreign-owned supermarket and hypermarket chains such as Tesco-Lotus, Big C (Casino) and Food Lion (Delhaize) has accelerated the shift towards a Western-style retailer-dominated system. While this story in part reflects the particularities of recent Thai history, in essence, what has occurred in Thailand, and other economies in East Asia and Eastern Europe, is the rapid establishment of the general model of supply network governance found in the UK and other established markets. The rapidity of change has been particularly pronounced in Eastern Europe, where the dynamics described here in the Thai case did not really start occurring until the early 1990s when rapid regulation occurred.

We now move on to consider in more detail some of the specific supply network practices being transferred to these new contexts (using a typology from Reardon *et al.,* 2003), before concluding with some reflections on the developmental impacts of these processes. Given the complexity of retailer supply networks and the embryonic stage of research in this area, what follows is indicative of general tendencies rather than a comprehensive analysis.

1. *Centralisation of procurement, and displacement of value-adding activity*

There are rapid trends towards the centralisation of procurement. This generally involves the replacement of a per-store procurement system with the distribution centre (DC) model used in established markets. Each DC may have responsibility for a particular range of products, or a particular territory. For example, the Thai Ahold subsidiary, TOPS, has two DC's in the Bangkok area, one for 'fresh' goods (meat, vegetables) and one for 'dry' goods (pre-processed and packaged products). Centralisation increases the efficiency of the distribution system, and reduces the administrative support required:

> 'Before, everything was direct store… the stores were set up to operate totally from the supplier to the store – so big back rooms, a lot of storage space – and that was the model of the business in both fresh and dry. We might have got 400 deliveries a day. So we had whole stacks of accounting people, whole accounting departments, every store was its own free standing little business' (Interview, January 2002).

Often, the move to a DC system has two corollaries. First, it is part of a general strategy of moving various value-adding activities back down the supply network. In fresh goods, for example, retailers often look to transfer cleaning, processing, packaging and labelling activities to suppliers. The DC then simply becomes a 'cross-docking' facility whereby goods are delivered by suppliers, and then sorted and batched for delivery to stores. These new systems are often imposed on supply networks extremely rapidly:

> 'Now about 90% of our dry groceries are shipped through our DC … First we processed everything ourselves in the fresh DC. So we processed the vegetables, cut and processed the meat, cut and wrapped everything, baked all the bread centrally. That quite frankly didn't last as long as we thought it would last because we were very quickly able to outsource that to suppliers. So whereas when we started up our fresh DC it was about 60% processing and 40% receiving and shipping. Now it's about 80% receiving and shipping and 20%, maybe even less than 20% actual processing. It's now being processed off site' (Interview, January 2002).
>
> 'One of the things that we thought it would take somewhere between five and ten years before we would able to convert our Fresh Distribution Centre processing to cross docking and it took eighteen months' (Interview, January 2002).

Second, it often results in a rationalisation of the supply base, favouring those suppliers that can provide the requisite volume and quality of goods to the retailer's specifications:

> 'When we built our fresh distribution centre, we said what we want is reduce the numbers of suppliers and employ warehouses. So what we did was search for suppliers that could supply the amount we needed for our stores, we searched for suppliers would let us have some input into the production and we searched for suppliers that could pass our Quality Assurance standards' (Interview, January 2002).

Boselie (2002: 23), for example, describes the outcome of a fresh goods supply chain upgrading programme undertaken in Thailand by TOPS with 250 suppliers initially:

> 'Gradually a network of 60 main suppliers was developed. Continuous benchmarking of the performance of these suppliers kept them 'sharp' and alert. Main supplier positions were no long-term guarantee and occasionally there was a re-shuffle of suppliers'.

2. Upgrading of logistical systems

The consolidation of procurement is usually accompanied by the adoption of sophisticated or 'best-practice' logistical technologies. Systems that are now standard in established markets – such as electronic data interchange (EDI), vendor managed inventory and category management – have been applied, again often quite rapidly, to supply networks.

> 'Over the course of two years basically I always say we went through the whole alphabet … we implemented every modern innovation in the course of two years across the multinationals' (Interview, January 2002).
>
> 'At any rate at this point … everybody uses pallets, 60% of our transactions are EDI, 15-20% of our transactions are vendor-managed inventory. We took a huge amount of day supply out of system: our stores used to have about sixty or sixty five days supply and now they're down to about fourteen. That's a huge productivity saving' (Interview, January 2002).

The application of these technologies proceeds at different rates for different kinds of suppliers, however. In particular in may be possible to link up with large multinational suppliers (often of dry goods) more rapidly than smaller, local suppliers (often of wet goods):

> ‘On the dry grocery side, it’s easier because when you work with the multinationals, you make known what you need. They typically have resources they can bring in from outside the country that can get things done, and they have the IT resources, people resources, all of those kinds of resources. For the Thai, the local Thai guys, for instance, when we wanted to do category management, we actually provided training for our suppliers…’ (Interview, January 2002).

> ‘Basically it’s still a problem for the Thai organisations that don't have connections to multinationals. You know, they can't find people here to explain what is EDI, put together a system, to work switches, to work out full truck dynamics, to deal with deliveries every day, to deal with all kinds of stuff that has to do with warehousing… The Thai people were left behind in reality’ (Interview, January 2002).

Retailer and suppliers are not the only parties involved in the transfer of these technologies, however. Firstly, although retailers undertake some training themselves, management consultancies (usually large multinationals) have been involved in training suppliers and transferring particular forms of knowledge. Secondly, retailers often outsource their logistical and wholesale distribution function to third party providers. These may be local firms, companies affiliated to the retail group, or independent multinational providers such as Exel (Reardon *et al.*, 2003).

> ‘And then the people who really make a hell of a lot of money are the consultants, so they always say that in Asia ECR [Efficient Consumer Response] is Every Consultant’s Retirement! …If you look at Price Waterhouse, they just racked in the cash because basically they were the real educational source and they saw it as a business opportunity and it was’ (Interview, January 2002).

3. Intermediaries and supply chain length

The arrival of foreign retailers in emerging markets has also impacted on the length and constitution of supply networks. The general trend has been for the traditional wholesale system to be either ‘sidestepped or transformed’ (Reardon *et al.*, 2003). One tendency, as indicated in Figure 4, has been for retailers to deal directly with manufacturers and suppliers, removing ‘middlemen’ from the network in situations where they do not create any added value:

> ‘We're just in the process of going direct to the factories via our Hong Kong office - still using agents where we need to or where they add value. But what we're trying to do is unpick where they're not adding value so that we can take those out of the loop and then concentrate on getting the product at better prices and obviously the customer then benefits from that’ (Interview, December 2001).

Whilst in some product segments large retailers have for a long time been ‘key accounts’ for producers in direct relationships, in other areas where wholesalers and distributors have maintained a role (e.g. fresh produce), these changes represent a significant altering or ‘shortening’ of the supply network structure. Establishing direct relations is also seen as a crucial way of securing greater control over products and their specifications, and subsequent product innovations:

> ‘It’s all about scale … if you’re going to the hammer supplier, happens to be India, but if he or she is supplying a wholesaler in the UK, that’s one customer total volume. Now what they might not understand or even realise is that 80-90% of that volume is actually going to [retailer name] and that our competitors are actually benefiting off that volume… So the most important part for us is persuade those factories that… it wouldn't actually affect them if we grew a closer

> partnership. We might be able to develop other products …let's get the middleman out of the way!' (Interview, December 2001).

The second tendency has been for retailers to seek to develop relationships with specialised wholesalers that perform a specific function in the value creation process. As Reardon *et al.* (2003: 1145) describe, 'these specialised wholesalers cut transaction and search costs, and enforce private standards and contracts on behalf of the supermarkets'.

> 'They could be adding value in terms of multi-sourcing products, which we wouldn't have the skill set to deal with at the moment. They could be adding value in terms of packaging … which we wouldn't have the facility to do, they could add value in terms of the end store service or after sales service …. We used to have an added value in terms of Quality Assurance but we've got that in house now so that's no longer an added value…' (Interview, December 2001).

In some cases, intermediaries remain a necessity for regulatory reasons. For example, import/export agents still perform an important role in many supply networks that cross national boundaries. In some cases, this might even be a mandatory requirement:

> 'In China, it's sometimes not possible to deal directly with factories because they do not have an import/export license but this is going to change when China formally gets into the WTO. So right now we still need to use what we call import/export corporations who are experts in doing international trade and who hold an import/export authority. Therefore, they can deal with the US dollar and as we are a representative office we cannot use foreign currencies to buy directly from factories' (Interview, February 2002).

Whilst general tendencies can be identified, as described earlier in the paper, it is important to recognise the sheer range and complexity of supply network structures that co-exist. Whether intermediaries continue to be used will depend on the volumes required and the consistency of demand, local regulatory conditions, and the extent to which they can provide knowledge and value-adding activity.

4. Quasi-formal contracts and price controls

Many of the price and contractual controls described in Table 2 are now being applied within host markets. While commentators in the UK context lament the informal nature of many retailer-supplier contracts (e.g. Blythman, 2004), the arrival of foreign retailers in extremely informal segments of developing markets (e.g. fresh produce) may represent a relative *formalisation* of procedures. Contracts are used as an incentive to suppliers to make improvements and develop their products in line with the buyer's specifications, which in many instances may mean investing in equipment and/or training (Reardon *et al.*, 2003). At the same time, there is emerging evidence that the various charges being levied by retailers in their home markets are now being applied in host markets. Clearly, the extent to which these practices are used will vary from retailer to retailer, and country to country. However, the work of Hitoshi (2003) on Carrefour's operations in Taiwan is revealing. Carrefour opened its first store in Taiwan in 1989, and by 2001 had 26 stores and 6000 employees. One of factors behind Carrefour's expansion was that the local distribution system was traditionally characterised by direct links between small manufacturers and small retailers, and so the retailer was able to purchase directly from suppliers without challenging this existing model. Hitoshi suggests that over time, Carrefour has become more aggressive in dealing with local small and medium-sized manufacturers, issuing 12 page contracts, with suppliers having to pay various costs, including ongoing 'slotting costs' dependent on number of items and number of stores, rebates of 1-6 percent of monthly or annual sales to maintain the business, promotion fees and a range of other contributions (e.g. for advertising, new store openings, store remodelling etc.). He estimates that in the mid-1990s a medium-sized firm might have to pay 44 percent of its total deal with Carrefour as additional fees (26 percent transparent, 18 percent hidden expenses), and in addition, would often sell its products at a loss. Manufacturers therefore had to secure profits through dealings with smaller retailers and established wholesalers. However, small and medium-sized retailers are starting to be weeded out through competition with larger formats. As a result, disputes between Carrefour and its suppliers occurred in the late 1990s, with seemingly only large global brands such as Procter & Gamble able to meet Carrefour on an even footing. While Carrefour's activities have attracted the attention of Taiwan's Fair Trade Commission, Hitoshi concludes that anti-trust legislation is relatively weak compared to developed countries.

The imposition of these quasi-formal contracts on local suppliers does not necessary provide the basis for stability and long-term relations with retailers, with supplier 'churn' becoming an emerging characteristic of supply networks:

> 'We need to be aware of the changes in the market place and the vendor we are working with might not be… I mean, after a year or two years, if we only work with one vendor, if we only talk with one vendor, we will be out of touch with the marketplace. So we need constantly to research the marketplace and to look at the different opportunities to see whether we are buying from the best vendor, to see if we are getting the best price and the best quality' (Interview, February 2002).

> 'We don't really encourage any long-term contracts, we used to. But for both sides it doesn't work… We have entered into longer term things, but it's very much the exception' (Interview, December 2001).

5. Implementation of private standards

Finally, while retailing in many of the host markets previously often operated in an informal and largely unregulated fashion, with little or no use of standards and certification, the arrival of foreign buyers and retailers has led to the increasing implementation of private, rather than government, standards. This has often involved retailers applying international standards to their operations. In Thailand, for example, Ahold has secured GMP (Good Manufacturing Practice) and HACCP (Hazard Analysis and Critical Control Point) certification for their fresh food operations. The application of such standards involves the entire supply network – i.e. going back to basic producers

– even when intermediaries are used. As with the implementation of logistics upgrading, guidance and consultancy is provided by both in-house and external experts, and from both local and overseas sources:

> 'So we inspect the factory, we look at the product and see whether it is a safe product and see whether all the necessary documentation is available and that is the first bit. When that bit is done, then we can place an order. And after the order is placed, we've got inspectors; quality control inspectors to go the factory to look at the production. We can look while they are producing, and when they finish the production but before they ship…' (Interview, February 2002).

> 'We've got a technical department which is UK based and come out here and oversee, and all formulations are approved by the UK in terms of safety and user trials, all of the formulations have to satisfy EU regulations. So the same stringent rules and regulations are applied regardless as to where it's developed. So we got a team that come out here and audit our factories two or three times a year' (Interview, January 2002).

> 'The very early stage might involve speaking to suppliers and thinking you potentially have a product we want but you are nowhere near the standards of safety and quality that we need. So we start looking at organisations like BESO [British Executive Services Overseas], who are highly skilled and have experienced volunteers from other countries. And we can put them in touch with them and say "this person will help you get to square one and then our food technologist will get you from two to ten". So we work with them in that way. And again its part of the series of supplier conferences, supplier workshops, bringing in experts either external or our own, and then improving the capability' (Interview, March 2002).

These quality procedures serve a number of purposes for the retailers (Reardon *et al.*, 2003). Firstly, they help coordinate supply chains by standardising product requirements across suppliers. By harmonising the product and deliver specifications, they can promote efficiency gains and reduce costs. Secondly, they may be used to ensure that certain minimum standards are adhered to in all the markets in which the retailer is in operation. Thirdly, they can act as a competitive barrier to entry against the informal sector or competitor products, allowing the retailer to assert that certain goods do not meet certain 'certified' quality levels. Inability to meet these standards will almost certainly lead to delisting.

Conclusion: a complex map of winners and losers.

This paper began by describing the wide range of supply network formations that complicate generalised accounts of the rise of retailer power. On one level, this complexity and variability makes it hard to make general statements about the developmental impacts of the global and local sourcing of products by transnational retailers from economies in East Asia and Eastern Europe. However, as the subsequent analysis has shown, there are some inexorable tendencies at work, albeit impacting unevenly across different product markets and territories. What is clear is that the model of extreme buyer power being refined by retailers in the home markets of Western Europe and the USA is increasingly being brought to bear on manufacturers and suppliers in various emerging markets. As in the home markets, the system is effective in ensuring that the retailers capture a large share of the value in many product markets. Equally, it is clear that these processes are largely occurring beyond the purview of regulatory bodies.

The impacts of these developments on supply networks are varied and multifarious, and in many cases, still being worked through. The likely outcome can best described as a complex map of winners and losers. The inevitable result will be rationalisation and consolidation at all stages of the supply networks – manufacturers/suppliers, wholesalers, distributors and import/export agents – as they rapidly adapt to meet the needs of a small number of extremely powerful, bulk buyers. But which firms will succeed? A neglected aspect in retailer discourses on supply chain upgrading is who actually pays for the ongoing changes: in nearly all cases, of course, the cost is born by suppliers. Many of the processes described above (e.g. increased volumes of production, new packaging/labelling facilities, new IT systems, training etc.) require substantial capital investment. The impacts on the suppliers excluded from supplying transnational retailers are exacerbated by the sheer speed of change. While many of changes described above have occurred over many years, even decades, here they are being implemented over much shorter time spans in emerging markets. As such, it is likely that a polarisation of the supply system will result. On the one hand, there will be a relatively small number of well capitalised firms able to invest heavily and benefit from the opportunities offered by transnational retailers (e.g. increased sales, access to overseas markets). On the other hand, there will be a plethora of smaller enterprises effectively excluded from this market and selling to a declining domestically-owned retail sector (Toktali and Boyaci, 2002). As the quotation below describes, all will only be well if a supplier has the required 'capacity':

> 'The only stumbling block is if they haven't got the capacity but we want a partnership with them so how can we build that together? It's very much about creating supply partnerships. To get all that started though, they have to be able deliver x, y and z…, and show a serious intention to move forward' (Interview, December 2001).

For thousands of suppliers and wholesalers in the countries of East Asia and Eastern Europe that cannot meet these requirements, the future is far from certain. The policy agenda in this area – if indeed there is one – needs to move rapidly to considering a retail system dominated by a small number of large corporations.

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