

STUDYING THE FUNCTIONING OF INTERNATIONAL TRADE CHAINS FOR FAST-MOVING CONSUMER GOODS IN DIFFERENT MARKETS

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Abstract

The intensive development of the processes of internationalization and globalization has a direct impact on the economies of all countries around the world, including and the FMCG sector. In this regard, the expansion of international trade chains and their role as active participants in the value chain is considered. The main goal of the current research is to follow the implementation of the commercial policy of the international trade chain “Lidl”, and its operation in the markets of Bulgaria and Finland. To achieve this goal, the following research tasks are set: to make an integrative review of the literature on the nature of trade chains; to clarify the role and importance of the FMCG sector as the most dynamic and competitive; to compare and analyze empirical data of the achieved results in the two countries in question. The main methods used in the report are: observation, induction, deduction and comparison, and the research will find applicability in the field of international business. The conclusions show certain similarities, but also differences regarding the commercial policy implemented by “Lidl” in the markets of the two countries.

Key words: international trade chains, retail trade, fast moving goods.

JEL: F13, F14, F14, L81.

1. Introduction

The expansion of international FMCG retail chains has provoked increasing research activity related to retail modernization. In the conditions of a dynamic market environment, one should take into account the strong impact of the processes of internationalization and globalization, which are directly related to the economies of all countries, including and the FMCG sector. In this regard, the exponential growth of international retail trade is noted.

The main goal of the current development is to follow the implementation of the commercial policy of the international trade chain “Lidl”, operating in the markets

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of Bulgaria and Finland. The following research tasks are set for the achievement of the thus outlined goal:

- to make an integrative review of the literature on the essence of trade chains;
- to clarify the role and importance of the FMCG sector as the most dynamic and competitive;
- to compare and analysis empirical data on the achieved business results in the two countries under consideration.

The object of the present study is the commercial policy of the international trade chain “Lidl”. The analysis of the main financial and economic indicators covers the period 2020-2021. The main sources of data for the conducted empirical study are the annual reports on the activity of the trade chain in Bulgaria and Finland, as well as the official websites of the chain in both countries. The scientific methods used in the report are observation, induction, deduction and comparison.

The expected theoretical-empirical results observe and consider the specific and multicultural differences in terms of geographic region, shopping habits and consumer behavior in the two markets studied.

2. Theoretical foundations of international trade chains for fast moving goods

The evolution of trade on a global scale leads to the emergence of retail chains, and their successful establishment in different markets stems from the advantages they provide to consumers. The more important advantages of modern over traditional trade, and in particular of trade chains, can be mentioned: convenient location of the sites with adjacent free parking, a wide assortment of quality goods at low prices, including and goods with own brands, highly developed advertising and promotional trade policy, extended working hours, availability of POS devices and ATMs allowing payments with international cards, highly qualified staff, priority self-service method, pleasant atmosphere, additional services and others (Владиминова, et al., 2012).

In the scientific literature, there are many definitions clarifying the essence of trade chains. In Table. 1, a part of them is systematized:

Table 1: Definitions of trade chain

Authors	Definitions
US Federal Trade Commission	A retail organization that controls more than two businesses that offer similar products (US Federal Trade Commission;, 1932).
R. Alexander	A set of commercial establishments of the same type with similar activity and occupation, belonging to one company (Alexander, 1937).

M. Bozhinova	An independent organization located in different geographical territories, managed by highly qualified managers who, in accordance with modern management methods, under the influence of information and communication technologies, organize the numerous product assortment and implement the company's commercial policy (Божинова, 2012).
J. Fisk	A stable organizational structure dominating an urban urbanized trade where the bankruptcy rate is less compared to other types of trading business (Fisk, 2009).
Vi. Yolov	A commercial entity owned by one or more related companies identically managing two or more entities that have similar characteristics and are branded recognizable (Йолов, Вл., 2020).
M. Stoyanov	An organizational business structure composed of relatively independent entities that do not differ significantly from each other and function together (Стоянов, М., 2011).
S. Treezova	A form of retail trade with standardized management processes and centralized management, characterized by autonomy in decision-making in individual sites, due to the peculiarities of territorial distribution and differences in consumer habits and preferences (Трезова, С., 2003).

Source: Developed by the author.

The ones shown in Tab. 1 definitions of a trade chain allow the author's position to be expressed regarding the essence of the concept, namely: a trade chain is a formation owned by one company, which includes multiple retail outlets, with different geographical locations. It is distinguished by centralization in management and standardization in commercial policy, application of similar initiatives, principles and methods in all sites. The different territorial scope allows individual decision-making in the individual sites and minor deviations from the accepted commercial practices. The product range offered is characterized by relative uniformity, a large share of own brands and unified pricing. The objects are identified by the same commercial format, exterior and interior design and placement of product groups, which makes them recognizable in the minds of consumers.

Today's economic conditions and the highly competitive and saturated market environment present traders with serious challenges. Individual national economies are characterized by different degrees of development, due to the strong influence of the political environment, local culture, the purchasing power of the population, the degree of penetration of new technologies. The spread and imposition of

large retail chains in foreign markets is due to their enormous financial resources, stable business relations, managerial experience, and skills. The large volume and number of players in the international retail market forces companies to be flexible in adapting their strategies. The successful development of retail chains is highly dependent on the formation of the product mix and the promotion of international programs to reach a larger number of consumers and preserve their loyalty, considering the specific conditions of the specific country. Assortment variety offered to consumers is becoming one of the key conditions for the development of retailers' business activities in the digital era (Petrova, 2022).

International retail chains focus on both global branding and promoting goods from local producers. The main financial measure for the activity of any merchant is profitability. Successful retail chains consider the price sensitivity of consumers and due to the scale of their activities, the economies of scale they realize and the management of their own distribution network, they manage to achieve high turnover, profit and win a large market share.

In the context of the studied problem, the importance of the FMCG sector should be considered. As an invariable part of every individual's daily life, fast moving goods are characterized by high demand and high frequency of use. They satisfy the personal and collective vital and functional needs of the population of each country. High turnover and high sales levels compensate for low unit prices, resulting in high profit accumulation (Атанасов, Б., 2020). This attracts the entry of new traders into the sector and the expansion of the scope of the old ones.

The most common types of retail chains for fast moving goods are supermarkets and hypermarkets (Hino, H., 2014). One of their main tasks is to offer a wide assortment of food and non-food goods, tailored to the specific requirements of consumers and the ever-changing shopping habits. The imposition of own brands and the distribution of local brands complement the advantages that retail chains offer to consumers and contribute to the development of local businesses (Брестничка, Р., 2004). In addition, companies realize the interest of consumers and the growing interest in an ecological lifestyle and environmental protection and push numerous campaigns and initiatives in this direction.

Competition between retail chains for fast-moving goods is determined by the actions of retailers, whose main aspiration is to attract more consumers by using different management models and applying innovative marketing tools. In this way, the quality of goods, innovation, efficiency, and linkage with other sectors are stimulated, with which their strong economic and social influence can be concluded. In this regard, the importance of the FMCG sector in the economies of all countries is taken into consideration.

3. Empirical comparison of the trade policy of the trade chain “Lidl” in Bulgaria and Finland

The “Lidl” retail chain is part of the “Schwarz-Gruppe”, as a leading international retail company based in Neckarsulm, Germany. In 1973, the chain’s first discount store was opened in Ludwigshafen. It is establishing itself in the international market following its concept of offering quality goods at low prices. Every year, the retailer increases its expansion, and at the moment its sales outlets exceed 13,000 and are located on two continents in a total of 32 countries. The company shows social and financial responsibility in the activities and initiatives of all its stores and develops its commercial policy in this direction (Lidl 2023).

In 2010, the Lidl retail chain established itself on the Bulgarian market, opening its first 14 stores at the same time. In 2015, the company’s sites increased to 79, and in 2019 they became 99. The goals of the retail chain are related to managing a business model responsible for the environment, employees and society. The following core principles are based on simplicity, productivity and efficiency (Lidl 2023).

In view of the main research objective adopted in the present development, in the following presentation data on the business activity and the followed commercial policy of the trade chain “Lidl” operating on the markets of Bulgaria and Finland are presented.

The area of Bulgaria is almost 111,000 square km, and the population – 6,520,000 people (as of 2021). The eating habits of Bulgarian consumers are related to the consumption of meat and meat products, dairy products, pulses and pasta. Low prices, promotional offers and a wide variety of quality and fresh goods are the main drivers of consumer choice of FMCG in the country.

The Lidl retail chain entered the Finnish market in 2002 with the opening of the first 10 stores. Just two years later, the retail outlets increased to 50, and in 2006 they numbered 100. In 2016, the retail company’s stores grew to 150, and in 2022, the chain’s 200th store will open its doors. A large part of the company’s investments is related to the principles of the circular economy, as evidenced by responsible operations and environmental campaigns (Lidl 2023). In 2022, Lidl becomes the first carbon-neutral fast-food store in Finland ([lidl.fi](https://www.lidl.fi), 2023).

Finland covers an area of 303,963.28 sq. km. Its population is 5,541,000 people (as of 2021), making it the least populated country in Europe. Traditional Finnish cuisine is characterized by fish products, potatoes, rice, dairy products, oatmeal, black bread, butter, blueberries and apples. Finnish consumers do not show price sensitivity and are not influenced by promotional products, they bet on quality, prefer the native and stimulate its production. There is a change in the consumer basket of fast-moving food goods related to the change of seasons. In Finland, there is only one state-owned company that owns a chain of specialty stores that

has the right to sell hard alcohol. The sale of beer and soft drinks in commercial establishments is also subject to certain time limits.

The data from Tab. 2 help to illustrate the trends in the FMCG sector in Bulgaria and Finland and the place and role of the international trade chain “Lidl” in the respective national economy.

Table 2: Comparative business characteristics of retail chains
“Lidl Bulgaria” and “Lidl Finland” for 2021

Characteristics	„Lidl Bulgaria“	„Lidl Finland“
Founding	2010	2002
Number of stores	113	197
Number of Employees	over 3700	over 5500
Permanent assortment	over 2300	over 2550
Logistics base	2	3
Market share in the sector	second on the Bulgarian market	third in the Finnish market
Taxes paid to the country	BGN 42.3 million	EUR 227 million
Guidelines of sustainable development and social responsibility	<ul style="list-style-type: none"> - environment; - active lifestyle; - education; - culture and historical heritage. 	<ul style="list-style-type: none"> - climate protection; - preserving the diversity of nature; - protection of natural resources; - healthy choices, etc.

Source: adapted from <https://www.capital.bg> and <https://www.epressi.com/>

One of the leading reasons for the almost double number of “Lidl” stores in Finland compared to those in Bulgaria is the year the company entered the market in the respective country. As a result of this numerical superiority, the smaller number of: employees employed by the company should also be taken into account; the scale of commercial activities and logistics processes. Despite the larger number of outlets in Finland, the market share accounted for by the retail chain is lower compared to that in Bulgaria, which can be explained by the presence of other leading competitive chains in the sector.

The studies carried out allow to ascertain the following similarities regarding the commercial policy of the company:

- favorable impact on the development of national economies in terms of investments made and taxes paid;
- sustainable business model and management related to demonstrated corporate social responsibility;

- maintaining a large number of food and non-food goods and generating a large volume of sales.

Based on the conducted empirical research, it is established the presence of a similar assortment made up of fast-moving food and non-food goods, distributed in separate product groups, except for alcoholic beverages with more than 4.8% ABV, which are absent in “Lidl Finland” due to national laws and restrictions. The location of the product groups and their display in the sales halls of the stores are different in the two countries - Bulgaria and Finland. There is a similarity in the variety of goods offered with international brands included in the temporary assortment during the themed weeks in “Lidl Bulgaria” and “Lidl Finland”. The chain’s seasonal assortment sections in the two countries are not the same, which is related to differences in culinary traditions and taste preferences.

In Table. 3, the proprietary trademarks of some of the main commodity categories included in the composition of fast-moving goods are presented, as follows:

Table 3: Goods with own brands offered in “Lidl Bulgaria” and “Lidl Finland”

Product groups	„Lidl Bulgaria“	„Lidl Finland“
Meat and meat products	Rodna stryaxa (Bulgarian) Baroni, Dulano, Pikok (International)	Kartanon, Kanamestari, Reilu (Finnish) Dulano, Bergmann (International)
Fish and fish products	Ocean Sea Nautica, Nixe (International)	Isokari (Finnish), Ocean Sea Nautica, Vitakrone, Nixe (International)
Dairy products	Rodna stryaxa, Pilos (Bulgarian) Milbona (International)	Pohjolan Meijer, Apetina (Finnish)

Source: Developed by the author.

Based on the data given in Tab. 3., the larger number of Lidl Finland’s own meat brands should be considered, which is due to the reached higher level of company culture, expressed in the economic and social benefits of their use in the chain’s operations.

The permanent assortment offered by the retail chain in Finland is made up of 60% local brands, while in Bulgaria the share of goods with local brands is significantly smaller. This is a prerequisite for the realization of greater exports of “Lidl Finland” in the sites of the retailer in other countries. The highest compliance with FMCG own brands is found in non-food products: Cien (face, body and

hair cosmetics), Lupilu (children's clothing, accessories, diapers), W5 (cleaning preparations) and others. Packaged fast-moving goods of world-renowned brands: sweets, snacks, ice cream, soft drinks, cosmetics and others find a place on the shelves in the chain's facilities in both countries.

The management teams of "Lidl Bulgaria" and "Lidl Finland" guide their decisions in shaping the product mix according to trends in consumer behavior and sales values in their various locations. They determine the ratio of the assortment offered in the chain by using flexible economic approaches and stimulating local producers in search of opportunities for sales growth. In this direction, the following important summaries should be made:

- The applied approaches regarding the commercial assortment in "Lidl Bulgaria" and "Lidl Finland" are related to precise analyses and evaluations of the achieved results of the supply of food and non-food fast-moving goods, trends in consumer behavior, opportunities for providing promotional and advertising activities.

- The sales outlets of the company "Lidl Bulgaria" and "Lidl Finland" develop a product mix suitable for each of the markets, taking into account the peculiarities of the climate, the geographical region and the welfare of the country.

The indicators given in the following table cover the period 2020-2021 and enable a financial and economic analysis of the business activity of the investigated chain in both countries: see Table 4.

Table 4: Financial and economic data for trade chains
"Lidl Bulgaria" and "Lidl Finland" in 2020-2021.

Trade chain	Income from sales		Profit		Profitability of revenues (in %)		Profit growth rate (2021/2020)
	2020	2021	2020	2021	2020	2021	
„Lidl Bulgaria“	BGN 1.355 billion	BGN 1.569 billion	BGN 65.7 million	BGN 74.2 million	4,85	4,73	1,13
„Lidl Finland“	EUR 1.784 billion	EUR 1.863 billion	EUR 78.7 million	EUR 95.7 million	4,41	5,14	1,22

Source: <https://www.capital.bg> and <https://www.epressi.com/>

Those presented data in Tab. 4. Data provide grounds for reporting positive financial and economic results and an increasing growth rate of the chain's profit in Bulgaria and Finland. This affects the dynamics of the economy and in particular the FMCG sector in both countries. The better financial and economic values of "Lidl Finland" are linked to the higher level of GDP in the country and the greater

purchasing power of the population. The change in the reported indices affects profitability based on sales revenue as follows:

- trade chain “Lidl Bulgaria” - in 2020, with BGN 100 sales revenue, a profit of BGN 4.85 is formed, and in 2021, a decrease in profit by BGN 0.12 is observed;
- retail chain “Lidl Finland” - in 2020 with 100 euros of sales revenue, the generated profit amounts to 4.41 euros, which increases by 0.73 euros in 2021.

The established results presuppose to draw the conclusion that the objects of the trade chain in Finland achieve a higher effective management of sales revenue compared to those in Bulgaria.

4. Conclusion

The versatility and dynamic of the FMCG sector limit the research approach in the present study, on the basis of which business data on the international trade chain “Lidl” and its policy are presented in only two geographical regions - Bulgaria and Finland, taking into consideration local characteristics and consumer preferences and the degree of development of economies.

The researcher’s position is confirmed regarding the fact that international FMCG companies are a global business, but management and assortment composition are strongly influenced and tailored to multicultural and country-specific requirements.

Based on the theoretical and empirical review, the following more important generalizing conclusions can be formulated:

- International FMCG chains are identified as significant types of retail formats because they facilitate the implementation of a wide range of sustainable measures to address global issues in their outlets. This type of commercial formats benefits from the advantages of their huge financial resources, stable business relationships, managerial experience and skills.

- The achieved high annual turnovers and investments show the significance and the role of “Lidl” retail chain both in the fast-moving consumer goods sector and in the economy of the countries of the research - Bulgaria and Finland. The Lidl retail chain maintains a constant assortment of goods with international own brands, but also stimulates the development and distribution of regional own brands.

- The successful business model of the international trade chain “Lidl” in Bulgaria and Finland is due to the flexibility of the management teams and the applied adaptive practices in relation to the international market and the specific features of the respective domestic markets. To optimize costs, the evaluated retailers - “Lidl Bulgaria” and “Lidl Finland” implement schemes to stimulate regular customers, maintain stable business relations with local and international suppliers and expand the scope of their investments.

The theoretical and empirical evidence presented in this way regarding the trade policy followed by the “Lidl” trade chain become a significant condition for the

expansion of business activity on the markets of Bulgaria and Finland, as well as for the rediscovery of new opportunities for increasing the created economic utility.

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