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## MARKETING INNOVATIONS IN THE INTERNATIONAL RETAILERS' ACTIVITY

The theoretical approaches to the definition of the terms «innovation» and «marketing innovations» are studied. The scientific views on classification of innovations in the field of international retail trade are summarized. The practice of marketing innovation adoption by international FMCG retailers on the grocery market in Ukraine is analyzed. The social significance of technological innovations on the international retail trade chains is defined.

**Key words:** innovation, marketing innovations, retail trade, international FMCG retailers, marketing innovative strategies, technological innovations.

**Statement of the problem.** The intensification of globalization in the world economy contributed to the rapid development of retail and wholesale trade networks and to their access to international markets. Having achieved significant scale of expansionary policy, international trade networks are gradually occupying leading positions in the domestic markets of Central and Eastern Europe, including Ukraine, creating a threat to the success of local operators.

Although national chains on the Ukrainian food market still hold leading positions, in many countries of Central and Eastern Europe an anteriority belongs to foreign retailers for a long time. For example, on the Hungary's retail market the share of the foreign retailers increased to 65% during 2001-2009. At the end of 2009, major retail chains of the Polish market were also foreign: Real (Metro, Germany), Biedronka (Jeronimo Martins, Portugal), Geant (Geant, France), Auchan (Auchan, France), etc. [1]. Gradually, the importance of foreign retailers is increasing and international experience of some countries shows the effectiveness of their functioning [2, p. 135 ], particularly through access to large investments that offer to them wider opportunities for innovative development that local operators do.

Through international giants' entering into Ukrainian market, retail and wholesale chains experience the introduction of innovative marketing approaches in the enterprises' shop networks. Moreover, in their daily work progressive Western retailers are using a number of interesting technologies and their implementation for the most national networks are currently problematic or resides at an early stage.

**Analysis of recent research and publications.** The issue of innovation within a particular economic sector has been overlooked by foreign and domestic scholars, including works of such scholars as Karl Bahvel, Rami G., D. Spilber, M. Doms, R. Yarmin, S. Col. Klimek, L. Kuznetsova, T. Korotkov, S. Markin, N. Tolmachev, S. Illyashenko, L. Hawtin and others, that are studying the problems and peculiarities of the implementation of innovative processes in the retail trade, focusing on the theoretical aspects of the concept

of innovative marketing and highlighting the importance of marketing technologies in the enterprise sector trade.

**Excretion of the unsolved aspects of the problem.** Given the important role that the representatives of international business are playing in the investment into the economy of Ukraine, there is a lack of attention that should be paid to the analysis of the implementation of marketing innovations to the activities of international retailers on the grocery market of Ukraine (FMCG), that generally improves competitiveness of international retailers and poses threats to the functioning of domestic business.

**Purpose of the article.** The purpose of this paper is to examine and summarize scientific views on the economic substance of the concepts of “innovation” and “marketing innovation”, as well as to analyze and determine the value of innovation in strategic marketing international FMCG-retail networks as an effective tool to strengthen the competitive positions in comparison with domestic retail.

**Results.** Trade is one of the most promising areas for innovation. This statement was proved by the survey conducted in France, during which the French were proposed to outline the innovations that have the most significant impact on their daily lives. Most respondents determined the appearance of hypermarkets as the most weighty innovation [3].

In this context, we consider as appropriate to start a study of innovation in strategic marketing retailers by considering the essence of concepts of “innovation” and “Marketing Innovation”. In a broad meaning, the term “innovation” means the profitable use of novations that emerged in the form of new technologies, products and services, organizational, technical and socio-economic decisions of industrial, financial, commercial, marketing, administrative or other. Innovation is the end result of creative activity, which is embodied in the form of new or improved products sold on the market, or a new or improved process, that is being practiced [4].

Innovation in the retail trade can be divided into several types. There are radical, step by step, social, technical, revolutionary, local and architectural types of innovation [3]. One of the most important things in this classification is radical innovations that significantly alter the view of the entire industry. They are often associated with changes in technologies and, therefore, as an example, include the creation of online retailers that changed the view on trade. Social innovations are considered as less significant changes, however, they induce an active consumer response. These innovations are primarily used to make customers feel comfortable. An example of this is the establishing day-and-night stores and other. Their distinguishing characteristic is that they do not require significant technological change and they are more in line with the rhythm of modern life. These also include the assessment of the level of customer service in stores based on a specially designed questionnaire international networks known as “mystery shopping”. For example, a network “Metro Cash & Carry” regularly carries out such research in order to improve service in their stores.

Revolutionary innovations include an introduction of advanced technology of electronic data exchange between suppliers and retailers, for example,

once a revolutionary innovation in the relationship between these two links of the distribution channel was just the introduction of the electronic data interchange EDI particularly via the Internet, which has revolutionized the information exchange; implementation of the supply chain technology RFID (Radio Frequency Identification), that is able to read the information about various assembly and product groups simultaneously and gradually replaces bar-coding that is usual for the most companies. Both innovations were not enough distributed to local networks because of the lack of technology's maturity in retail. However, the efficiency of these innovations is supported by foreign companies, including the company «Wal-Mart» that forced all its suppliers to move to EDI and RFID system, as well as did the international companies operating in Ukraine: «Auchan», «Metro» and others.

The next type of innovation is a local innovation (within niche), that is affecting commercial relations without the implementation of special technologies like own brands retailers. Architectural innovations involve changes both in technology and in the commercial component of the trade. This applies to the storage of goods, but the most important thing that the goods are being represented to a potential buyer. Modern warehouse equipment, shelving for the allocation of the goods on the trading floor are changing every day. This allows to use various "know-how" to minimize costs of the store, increasing at the same time its revenue and profitability [5].

Foreign researcher F. Jansen [6] proposes different approach to the classification of innovation. The scientist developed the so-called model of "Tamo", which consists of the following components:

- Technological "T" involves the introduction of new technologies. By adapting the component "T" to the features of the retail trade, we can talk about the implementation of new business technologies, which improve efficiency of retailers, such as new technology sales, merchandising, inventory management and new approaches to pricing policies, as well as IT solutions for retailers and new sales channels;

- Applied component "A" includes the development of new products and services. In the activities of retailers it can be represented by the introduction of new retail channels, developing their own brands, introduction of automated purchases (Self Service), especially service in stores and innovations in packaging and transportation of goods;

- Market or marketing (logistics) "M" means the formation of new markets and introducing new products, services or technologies to the final consumer. In this regard, we distinguish marketing innovation as the segmentation of markets or customers, and use of new approaches in the context of each element of the marketing mix. Logistical component should be also highlighted, thanks to fact that logistical innovative solutions for goods are supplied to customers through special schemes of logistics chain, which facilitates the development of new marketing strategies. Thus, "M" component includes market innovations brought by innovative marketing strategies and logistics innovation;

- Organizational and managerial component "O" involves the introduction of new organizational forms. In this case it is advisable to declare about the

creation of new trading networks of the business units, such as their own centers for education and training of personnel, implementation of Category Management and responsibilities' allocation between departments of the company. These also include special forms of association retailers: mergers and acquisitions, strategic alliances and partnerships, etc.

In our view, the typology of innovation in retail suggested by the authors and discussed above is justified and appropriate. Using methodical approaches of innovative marketing concepts [7], we would like to outline classifications, types and mechanisms of innovation in marketing strategy of international corporate networks on Ukrainian FMCG market (Table 1).

Table 1

**Classification of international trade innovations  
of FMCG networks in Ukraine**

Type of innovation	Direction of development and implementation of the marketing innovations	Practical use of the retail marketing innovations
1. Radical	Using new formats of sales, channels and new pricing strategies	Opening online stores, introduction of self-service desks
2. Social	Changing conditions and working hours of shops; innovation in human resource management in order to improve its motivation, skills and productivity	Extending hours of work or introduction of day & night shops, questioning "mystery shopping" and creation of effective conditions of remuneration, bonuses, etc.
3. Revolutionary	Introduction of new technologies in the area of data exchange	Introduction of bar-coding systems, EDI, RFID and using other information technology (IT)
4. Local	Introduction of significant changes in product design and packaging	Developing own brand online; new developments in the field of image and brand of the company
5. Architectural	Changes in the technological characteristics of goods storage and presentation of goods to a potential buyer	Modern warehouse equipment, shelving for goods' allocation on the trading floor, display shops, new advertising concepts

*Source: designed by the author.*

It should be also noted that according to Ukrainian scholar L.V.Hawtin, by "marketing innovation" we understand the use of new techniques and marketing tools in the creation or distribution of certain products (technologies and services) to better meet the needs and demand of consumers and producers [8, p. 60]. S.M.Ilyashenko sections innovations in marketing, depending on the components of the marketing mix:

- Innovation in the «place», i.e. market research, segmentation, positioning,
- Innovation in the «product», i.e. a marketing commodity policy;
- Innovation in the «price», i.e. marketing pricing;
- Innovation in the «promotion», i.e. marketing policy communications;
- A combination of these components of marketing innovation [9, p. 40].

This approach can be extrapolated to the development of innovative marketing strategies, dividing them into innovative strategies within each component

of the marketing mix. In this context, we note that by innovative marketing strategy we mean an element of corporate strategic distribution network, that is a set of strategic decisions aimed to provide opportunities for continuous improvement of all components of the marketing mix in order to meet the needs and preferences of consumers more fully and optimize business relationships with partners, which in the end results in higher competitiveness and market value of the company.

Thus, as examples of innovative marketing strategies in terms of the marketing mix components in retailing we could include the following : introduction of significant changes in the design and packaging of products (own innovative brands), especially services; implementation of new marketing strategies focused on expansion of the customers or markets; use of new methods of promoting products (new advertising concept, image, brand, methods of individualization of marketing, etc.); use of new sales channels (buying products through online trading sites, self-service cashier, etc.); introduction of new concepts in product presentations (eg, display shops, websites, etc.); use of new pricing strategies in sales of product and services [10].

There are many examples of innovative marketing policies used in international retail that changed the understanding of trade and helped to conquer a market by making consumers feel valued, and thus added value to product. Some of these global companies worth mentioning: American company “Wal-Mart” that was a pioneer in establishing retail discount; American network “7-Eleven” known for its innovative synthesis of traditional and electronic commerce; Russian network “Platypus” that implemented pre-order retail system, including trade via the Internet and so on.

List of companies who have chosen design and innovation as strategic direction of the corporate development is not limited to aforementioned companies. Searching for innovations outside the usual framework towards the development of technological innovations is the priority of every big international retailer.

The relevance of innovation to trade, particularly technological innovation, is highlighted in the works of Bahvela K., G. Rami, D. Spilbera [11]. This authors note that the investment in technology allows retailers to occupy dominant position in the market, reduce operational costs, and control the prices strictly. Other scholars such as M. Doms, S. Yarmin and S. Klimek [12] assessed the effects of investments into innovation technologies on the work of companies and they found that almost all IT investments in retail trade made by large companies allowed them to increase productivity (productivity was estimated as the volume of sales per worker).

Russian scientist N.A.Tolmacheva also emphasizes the importance of IT for retail TNCs [13]. In the opinion of Tolmacheva, information technology in retail can improve business performance by changing the very nature of work, as it is in the case with the use of bar-codes for making the inventory, increase efficiency of assets and reduce logistics costs, such as costs of stockpiles, increase frequency of delivery and so on.

Studies show that consumer response to the introduction of technological innovation in retail is positive. As an example we could use the results of stud-

ies of the impact of technological developments in retail on consumers that were presented at the International Forum in Melbourne. Self-service check-out system appeared to be the most effective innovation for 20.1% of consumers, and opening of the online grocery chains encouraged 16.7% of consumers (see Table 2).

Table 2

**The most important technological innovations  
in retail assessed by consumers**

№ п/п	Innovation	Share of consumers, %
1	Self-service check-out system	20,1
2	Online retail facility	16,7
3	High-tech smart shopping cart	15
4	Hand-held PDA	14,2
5	In-store information kiosk	12,8
6	Internet coupon, bonus coupon	11,2
7	Advanced set-top box	7,5
8	ATM-machine	2,5

Source: [8]

In addition, in the report of M&M Planet Retail, dedicated to the trends and forecasts of the global retail market, it was outlined that five key trends will have a significant impact on the development of international retail chains. Competing for customers in terms of tough economy, world retail leaders will also focus on the innovative development of network formats, expansion of retail space, internationalization of e-commerce development and use of own brands, as well as on finding new ways to interact with customers through innovative technologies and media.

Searching for new and expansion of existing retail spaces causes certain difficulties related to places' compliance with the requirements of a particular network, as well as to the lack of available space and insignificant percentage of the new shopping centers' constructions. Politics of introduction of the innovative own brand experiences the increasing use of commercial networks, particularly wide application they experience in networks under the "discounter" format. For manufacturers, the STM is a tool for matching their interests with retail and a guide to future development.

For example, the share of own brands in Aldi (Germany) is 90-95%, Auchan (France) - 50 %, Tesco (UK) - 40 %, Wal-Mart (USA) - 40 % [ 14, p. 31]. Innovative STM are established by retailers to better meet the needs of consumers and innovators, who seek to diversify their purchases with products - novelties. Currently, the share of the goods sold under the STM through international retail chains in Ukraine lags behind the performance of these networks in Western and Central Europe, where the share of these products reaches the level around 18-25% [15], but the potential of STM market is significant and promising due to increased customer loyalty. It is assumed that in coming years the STM market will grow twice faster than the whole FMCG



market will do [16].

As it was already mentioned, use of Internet technologies is rising significantly, thus contributing to the establishment and spread of network economy. Nowadays retailers are trying to expand their areas of activity, focusing on different channels of products' selling and using websites for selling products as well as for informing customers about special offers and networking with them. Share of the online trade will grow rapidly in coming years, because most leading retailers will continue to develop their Internet-sales actively [17]. Studies show that 43% of retailers are planning to increase the share of goods sold through the Internet significantly, and 28% of retailers will expand the geography of sales. Before opening a store on new market some retailers first create an online store through which they are testing consumer market [18]. It is proved by the recent opening of online store retail FMCG - Network «Carrefour» (France) in Romania after three months of testing the market [19].

In addition, other various technologies are being successfully implemented by global networks. It is known, for example, that American company «Wal-Mart» tries to deserve trust of different groups of customers. Recently, it has developed special program for the owners of iPad and iPhone, to help them to compile the list of purchases in stores. Buyers receive information about the particular product and its location in the store, the price and the opportunity to buy it with discount.

**Conclusions and discussions.** Thus, the information considered above allows suggesting that trade sector is one of the most successful directions for innovation implementing. Given the access to investment resources, international retailers are paying more attention to innovations that provide them opportunities to become leaders more often compared with most local competitors, who do not have enough resources for innovation.

The research has shown that the development and implementation of marketing innovation as a completely new instrument of the retailers activity, is the most appropriate part of business practices for both international and domestic retailers. Marketing innovations in retailing never remain without the attention of consumers, and their successful application increases the efficiency of the network. Also it was found that the key factors of the dominance in the retail trade are a higher level of technological development and a wider openness to innovation. All major retailers focus their efforts on strategies to minimize transaction costs directly through the introduction of new marketing solutions, technical standards and IT. This requires manufacturers to meet the requirements of these retailers, that, on the one hand, is a kind of a catalyst for innovative development of the companies producing products that are sold through a network, but on the other hand, provokes using coercion and pressure on suppliers, that creates problems and conflicts between manufacturers and retailers. This fact requires a more detailed study of the issue in order to find consensual solutions and optimal models of cooperation.

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## **МАРКЕТИНГОВІ ІННОВАЦІЇ В ДІЯЛЬНОСТІ МІЖНАРОДНИХ РОЗДРІБНИХ МЕРЕЖ**

### **Резюме**

Розглянуто теоретичні підходи до визначення сутності понять «інновація» та «маркетингові інновації». Узагальнено наукові погляди на класифікацію інновацій у сфері міжнародної роздрібної торгівлі. Проаналізовано практику впровадження маркетингових інновацій міжнародними роздрібними FMCG-мережами на продуктовому ринку України. Визначено соціальну значимість технологічних інновацій у міжнародній роздрібній торговельній мережі.

**Ключові слова:** інновація, маркетингові інновації, роздрібна торгівля, міжнародні роздрібні FMCG-мережі, маркетингові інноваційні стратегії, технологічні інновації.

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## **МАРКЕТИНГОВЫЕ ИННОВАЦИИ В ДЕЯТЕЛЬНОСТИ МЕЖДУНАРОДНЫХ РОЗНИЧНЫХ СЕТЕЙ**

### **Резюме**

Рассмотрены теоретические подходы к определению сущности понятий «инновация» и «маркетинговые инновации». Обобщены научные взгляды на классификацию инноваций в сфере международной розничной торговли. Проанализирована практика внедрения маркетинговых инноваций международными розничными FMCG-сетями на продуктовом рынке Украины. Определена социальная значимость технологических инноваций в международной розничной торговой сети.

**Ключевые слова:** инновация, маркетинговые инновации, розничная торговля, международные розничные FMCG-сети, маркетинговые инновационные стратегии, технологические инновации.