

## DEVELOPING A COMPETITIVE ADVANTAGE BY CASH&CARRY WHOLESALERS ON EMERGING MARKETS THE CASE OF POLAND

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**Purpose:** The idea of the paper came from the observation that small wholesaler managed by Portuguese – Eurocash has been able to capture most of the segment of “mom-and-pop” and middle-sized Polish stores. Its sales have been growing when at the same time the global company MAKRO Cash & Carry, which as a first mover was very successful, is losing the market. So, the attempt has been made to analyze Eurocash success in the framework of existing theories of developing competitive advantage on international markets.

**Design/methodology/approach:** The concepts of dynamic capabilities and entrepreneurship theory are shortly described due to the fact that they were found out as the most appropriate to discuss the issue of gaining competitive advantage on Polish wholesale market. The longitudinal case study, in which international strategies of MAKRO Cash & Carry and Eurocash are compared, is presented

**Findings:** Dynamic capabilities are path dependent so when the company wants to sustain advantage on the foreign market characterized by a different structure than is prevailing in its other international markets it could face problems. Such a market is the chance for the entrepreneur which sees the market opportunities and could size them.

**Originality/value:** Paper contributes to the theory of international entrepreneurship showing that that entrepreneurs could be successful on foreign emerging markets using knowledge learned when their domestic markets were exposed to similar changes. It shows how wholesalers and small shops could successfully compete on FMCG market in contemporary economy, characterized by the growing role of networks.

**Keywords:** retailing, wholesaling, dynamic capabilities, international entrepreneurship, Poland.

**Category of the paper:** Conceptual paper.

## 1. Introduction

In our contemporary economy, characterized by the third wave of globalization, the growing role of networks as well as information and communication technologies (ICT), the problems of development competitive advantage take on new dimensions (Verzola, 1998; Naisbitt, 1993). It seems that concepts of sustainable competitive advantage (SCA) founded by Porter in 80s. of the last century (Porter, 1980, 1985), so called environmental view, and the later views stressing the role of companies' resources – resource based view (RBV), proposed by the Wernerfelt (1984), Barney (1991), Hall (1993), Hamel and Prahalad (1999) in some cases do not fit to the fast changing competitive arena. Theoreticians seek to develop new models which will better explain why some companies exercise successes in the global market when others fail. It has resulted in the further development of the concept of dynamic capabilities which could be applied in the internationalization process as well as international entrepreneurship.

In this paper it is shown that in contemporary economy new opportunities are created by environmental changes which could be exploited by the entrepreneurs. It is not only in the sector of new technologies but also in services like distribution. A good example of such a success is Eurocash – the wholesaler originated in Portugal, which has been able to get the leadership position in the cash&carry wholesale market in Poland by the development of its own franchise retail system on FMCG market and by the acquisition of existing franchise systems and wholesalers. As a result, the small and medium sized retail enterprises belonging to its franchise system still exist in the market in spite of intensive competition from foreign mass merchandisers. It raises the question if Eurocash success could be described in the framework of existing theories of developing competitive advantage on foreign markets mentioned above.

The paper is structured as follow. First the issue of the concentration and globalization of retailing is very shortly characterized to explain contemporary position of wholesalers on national and global markets and its determinants. In this section also some research on the problems of development competitive advantage by wholesalers are presented. Finally, the situation in Poland – the subject of this research is described. The next section is devoted to the research methodology. Then some theoretical views explaining business success in foreign markets namely dynamic capabilities and international entrepreneurship are presented. They have been chosen due to their applicability to search problems of development competitive advantage in international markets and the interactions between them.

In the practical part of this paper the longitudinal, interpretative case study of Eurocash and MAKRO Cash & Carry development in Poland is presented. This method is used because the empirical studies on dynamic capabilities have been primarily addressed firm-or industry – specific processes pertinent to dynamic capabilities based on case studies (Wang, Ahmed, 2007). Taking this approach the research is limited to the one industry, but it gives deeper insights because it also involves industry specific factors of sustainable competitive advantage

development. For instance, in the FMCG retailing the location of the stores still matters and also the speed of company development due to the fact that economies of scale and scope of activities could become the important factors of protecting a company's position, if the competitors do not implement a better strategy (Śmigielska, 2007). In the end of the paper there is discussion in which the results are shown in the broader context, some limitations of the papers are indicated as well as the directions for further research.

This paper somehow challenges the theory of dynamic capabilities as being "path dependent" what limits its use for the purpose of analysis new strategies; it is proposed that in some cases the concept of international entrepreneurship better suits to explain the success of the new ventures in a global environment. It also contributes to the learning theory showing that what is learned from foreign global investors in a domestic market could be applied successfully in emerging markets which are not their key markets. Finally, it has been found out that the system of distribution involving a cash&carry wholesaler as a captain of FMCG distribution channel based on franchising (network model) introduced in Poland has been the disruptive innovation which has changed the market structure, so the other players began to adjust to it. Maybe this model could also be applied in other countries with a market structure, similar to Poland, which will improve the wholesaler's competitive position in the global market and at the same time the small domestic entrepreneurs who benefit from it by staying in their businesses.

## **2. Retailers and wholesalers in the global market**

The globalization process refers not only to manufacturing companies but also to trade companies, mainly retailers. Traditionally, for many years, retailing, had been considered as "local" and still it has some characteristics of local industry. But, on the other hand, in the last forty years the tremendous growth of retail companies investing in foreign markets has been noticed. As a consequence, today retailing is considered to be a global industry. The biggest global company is Wal-Mart followed by Carrefour and Metro Group (Wrigley, Lowe, 2014).

Development of large scale retailing, since the mid. of the XIX century has gradually diminished the role of wholesalers (Engle, 1949). The situation became worse when the retail model developed by Wal-Mart, based on long term relationships with the suppliers, incorporation of logistics operations, and the heavy use of ICT to coordinate and control supply chains within the company, turned out to be very successful. It had been copied by the other FMCG mass merchandisers and as a consequence retailer who benefit from higher productivity have been able to grasp more and more of the market, leaving only small room for the wholesalers. Wholesalers, to survive, had to specialize in serving market niches or limit their

services. As a result, new types of wholesalers, which replaced traditional ones, started to develop inter alia the cash&carry format.

Cash & carry wholesalers became successful on the FMCG market. Their survival and competitiveness depend on the survival of their clients – independent mom-and-pop grocery stores and the so called “horeca” segment formed by the hotels, restaurants and cafes which they serve. Independent mom-and-pop stores, unlike large retail chains, are too small to buy direct from producers whereas food service operators cater to consumers who do not eat at home. In well developed countries there is the growing trend of eating out so the segment of “horeca” is growing whereas the segment of independent groceries is shrinking. It should be noticed that FMCG cash&carry wholesalers have to compete not only with the other cash&carry wholesalers (intratype competition), but also with traditional wholesalers (intertype competition) and big merchandisers vertical competition.

Due to the significant changes in market structure, described above, the wholesale market became fragmented so for many years there has not been a big interest in wholesale trade in contrast to the growing number of publications dealing with retailing. Contemporary publications mainly focus on the national markets. Some authors try to investigate changes in wholesale trade in the markets which are in transition e.g. Ćuzović and Sokolov-Mladenović (2011) indicated the growing role of wholesalers in Serbian market, Tajer (2016), Wasilik and Kłosiewicz-Górecka (2014), Strojny and Chromińska (2016) showed the changes in the wholesale market in Poland. There are also some attempts to investigate the possibilities of achieving competitive advantage by wholesalers in these markets e.g. Berisha Qehaja and Kutllovci (2013) analyzed the role of human resources in the development of SCA and tried to find out if they really matter for the wholesalers of food and not food product in Kosovo but their research was very limited, Soroka and Ivashkin (2013) focused on identifying the factors of achieving competitive advantage development by wholesalers in Russia.

Referring to the problems of gaining competitive advantage in the wholesale market the paper of Castrillo et al. (2003) should be mentioned. In this paper Authors present the wholesale structure in four European countries – France, Germany, Italy and Spain and try to show that big retailers could succeed in the cash&carry format because they have the resources which enable them to achieve the competitive advantage in this market which is very profitable. So, they suggest diversification into wholesaling.

As far as the internationalization process of wholesalers is concerned, some interest has been shown in relation to entering the Asian food markets by the cash&carry operators. This market seems to be very promising due to the fact that it is still fragmented and with a big potential. Marin-Anglada et al. (2014) found out that in the period 2008-2011 the wholesale business in China was characterized by much higher profitability than the wholesale business in Spain. Very active on this market were MAKRO Cash & Carry (Schmekel, 2005; Franz, 2012) and Costco which charges a fee to professionals but also to private clients (Minahan et al., 2012).

The foreign cash&carry companies also develop their businesses in Poland. The biggest of them include MAKRO Cash & Carry belonging to global company Metro, Selgros, which belongs to international company Transgourmet Group, and Eurocash. Eurocash, was founded in Poland by Jerónimo Martins which did not have international presence before entering Poland and later was taken over by the group of managers which developed it. Since 2003, the company has been able to grasp about 30% of the market of so called “big distribution”. It has defeated such competitors as MAKRO Cash & Carry and Selgros which have wide international presence. It raises the question on its success factors as well as why MAKRO was not able to sustain the advantage initially achieved in the Polish market.

### 3. Research methodology

Research methodology involved two steps. First the theoretical research were conveyed on studies describing the problems of development competitive advantage on foreign markets. It turned out that many scientists refer to the theories of dynamic capabilities and international entrepreneurs as the one which could explain gaining competitive edge. The most significant for this paper ideas of these research are presented in the next section.

Then the case study in which the strategies of MAKRO Cash & Carry and Eurocash were compared was developed. Case study is qualitative research method which „an empirical inquiry that investigates a contemporary phenomenon within the real life context; when the boundaries between phenomenon and the context are not clearly evident; and in which multiply sources of evidence are used” Yin (1984, p. 23).

The methodology of the case was based on the steps proposed by Eisenhardt (1989). First the research questions were defined as:

1. Finding how nowadays market position of cash&carry wholesalers in Poland could be explained in the framework of the concepts of dynamic capabilities and international entrepreneurship.
2. Identifying the main sources of cash&carry wholesalers’ success in Poland.
3. Explaining still big share of small stores in Polish FMCG market structure.

In the next stage the causes of MAKRO Cash & Carry and Eurocash were selected. Both companies target the same market of mom-and-pop stores and small supermarkets. MAKRO Cash & Carry is German company global wholesaler, leader of cash&carry market which as a first mover was very successful and has been losing its position on Polish market. Eurocash is rather small company, which had belonged to Jerónimo Martins and was taken over by the managers led by Luis Amaral and from this time its market share in wholesale market in Poland is growing. They have been chosen because they are theoretically useful causes the first company have capabilities developed for years in managing cash&carry business, also in

foreign market; the second – the newcomer, managed by the entrepreneur with some experiences on managing supply chains on FMCG, which has been able to exploit market opportunity.

Then the data on development of both chains were collected from different sources: scientific books and papers, articles in the magazines and Internet sources. Some information was obtained directly from the Eurocash managers. It allowed to compare strategies implemented by analyzed companies and answer the case study questions. This process involved three steps:

1. Analyzing the changes in Polish FMCG market after the socio-political reforms in 1989 to depict case study context.
2. Describing strategies implemented by MAKRO Cash & Carry and Eurocash, wherein in the case of MAKRO Cash & Carry it involves internationalization process to show its position on global market while in case of Eurocash the focus is in Poland as a new venture of the company.
3. Conclusion in which the case study questions are answered.

This case study has the character of two level longitudinal case study in which changes in competitiveness in the industry (FMCG distribution) as well as in the firms are characterized. It could be classified as interpretative case (Pettigrew, 1990, p. 280) because it is an attempt not only to show what has happened in wholesale sector in Poland but also to link what happened with the theoretical concepts and emerging new conceptual ideas.

It allows to confirm some theoretical views as well as draw attention to the new models of development the competitive advantage on global market which could be search deeply in the future.

#### **4. Dynamic capabilities and international entrepreneurship in the process of development of sustainable competitive advantage in international markets**

One of the main streams to search the problems of competitive advantage development is the Resource Based View (RBV) which now often is referred as Resource Based Theory (RBT) (Kozlenkova et al., 2014). The essence of the RBV, as it was seen by its first representatives Penrose (1959), Wernerfelt (1984), Barney (1991), is the emphasis on resource and capabilities as the sources of sustainable competitive advantage. The main assumption is that valuable, rare, inimitable and non – substitutable company resources indicate the direction of its development to sustain advantage. The research in the framework of resource-based view focuses on identifying the core resource of the firm. More and more attention is paid to the market-based resources which are defined as subset of the firm's assets and capabilities that related to

marketing activities such as building brands, relationships, innovation, and knowledge (Kozlenkova et al., 2014, p. 4).

New technologies, globalization processes, networks development characteristics for contemporary economy and relentless competition since the 1990 “has driven firms constantly to adopt, renew, reconfigure and re-create their resources and capabilities in line with the competitive environment” (Wang, Ahmed, 2007, p. 31). It focused the attention on the notion of dynamic capabilities which led companies to react to the changing environment. Although many representatives of RBV inter alia Prahalad and Hamel (1994). Hayes and Wheelwright (1984), Dierickx and Cool (1989) had contributed to the development of this concept it was finally conceptualized by Teece, Pisano and Shuen in 1997. Further it was developed inter alia by the scientists dealing with the problems of knowledge management (Winter, 2003; Zollo, Winter, 2002). They focused on the learning process and development of routines which change the existing routines whereas the later works of Teece related those dynamic capabilities to the entrepreneurial actions (Teece, 2012, 2016).

Teece defined dynamic capabilities as ‘higher level competences that determine the firm’s ability to integrate, build, and reconfigure internal and external resource/competences to address, and possibly shape, a rapidly changing business environment’ (Teece, 2012, p. 31). They should enable the companies to match the requirements and opportunities of a business environment to generate sustained supernormal profits and growth. As important characteristics of dynamic capabilities Teece (2012) indicates that they led the company assessing when and how the enterprise ought to form alliances with other organizations. In this way he stresses the importance of strategic alliances in a contemporary economy and by the same token the importance of dynamic network capabilities. They involve network development as well as the management of the network in such a way that the customer, being at the end of the network, will be satisfied by the value which is delivered to him. Dynamic capabilities are rooted less firmly in the routines than ordinary capabilities and there are more built on individual managerial skills. They could be clustered in the three groups: 1. Identification and assessment of the opportunity (sensing); 2. Mobilization of resources to address an opportunity and to capture value from doing so (seizing); 3. Continued renewal (transforming). The concept of dynamic capabilities stresses that the resources to become the source of sustainable competitive advantage in a contemporary economy should enable a company to have a fast reaction to changes in the environment.

To sum up, according to Teece (2016, p. 210) ordinary capabilities are about doing the right thing and can be measured against the requirements of specific tasks, such as labor productivity, inventory turns, and time to completion so they could be benchmarked internally or externally to industry best practices. Dynamic capabilities are about doing right things, at the right time. It requires a prescient assessment of the business environment and technological opportunities, complex managerial orchestration, and the building of a change-oriented organizational culture.

They are critical to success, especially when the company wants to enter the new market or introduce the new product, so they are crucial for a successful internationalization process.

Another view of capabilities necessary in the process of company internationalization was presented by Tallman and Fladmoe-Lindquist (2002). The analysis of a few works in which authors tried to apply the resource-based view to explain the strategies of multinational corporations inter alia Hamel and Prahalad (1985) and Collis (1991) led him to the conclusion that they have a lot of limitations. So, he proposed his own model which was built on the basic assumption of RBV that competitive advantage of the firm's results from the possession of unique internal resources and capabilities and its ability to apply these resources in the marketplace to earn superior profits (Tallman, Fladmoe-Lindquist, 2002, p. 118). He identified two general types of resources particularly relevant to strategy internationalization involving business  $\square$  level components and corporate level architectural capabilities. The components of business's knowledge involve "various complex but identifiable skills and activities needed to operate the business and constitute the bundles of strategic resources and capabilities that are unique to the firm" (Tallman, Fladmoe-Lindquist, 2002, p. 118). Corporate level architectural capabilities he defined as "organization- wide routines for integrating the components of the organization to productive purposes" (Tallman, Fladmoe-Lindquist, 2002, p. 119). These capabilities in case of a multinational context are related to identifying, replicating, integrating and managing assets globally. Authors also explain two processes: capability leveraging and capability building which contribute to achieve competitive advantage by the international company.

It should be noticed that the concept of dynamic capabilities is closely related to the Schumpeter theory and his concept of creative destruction (Teece et al., 1997, p. 509) which laid the foundation for entrepreneurship theory. Entrepreneurship theory refers to the identification or creation opportunities, their evaluation and exploitation. It deals inter alia with the problem how, by whom, and with what effect opportunities to create future goods and services are discovered, evaluated, and exploited (Venkataraman, 1997). Entrepreneurship could be also defined as an act of new entry which can be either in a new market or existing with the new product or service (Narayanan, 2017). In the economy, characterized by the development of networks, and heavy use of advanced and communication technologies which interact with globalization processes, success in foreign markets is not restricted to companies with well-known brands but it is also said that entrepreneurs without them could exploit the opportunities of globalization.

Entrepreneurial opportunities are situations in which new goods, services, raw materials, and organizational methods can be introduced and sold at greater price than their cost of production (Casson, 1982). Drucker (2002) proposed seven categories of opportunities; some existing within a particular company or industry as (1) unexpected occurrences; (2) incongruities; (3) process needs; (4) industry and market changes, and some in the broader social and economic environment like (5) demographic; (6) changes in perception;



(7) new knowledge. If it happens on foreign markets it is the subject of international entrepreneurship (IE). IE could be defined as “behavioral processes associated with the creation and exchange of value through the identification and exploitation of opportunities that cross national borders” (Li, 2013; Styles, Seymour, 2006, p. 134). The result of international entrepreneurship is the creation of new organizations and the internationalization of new venture companies (Katz, Gartner, 1988) but also internationalization itself could be considered as an innovative act (Knight, Cavusgil, 2004).

International entrepreneurship could be a cross functional study of entrepreneurship and international business (McDougall-Covin et al., 2014), but also it could involve concepts related to strategic management (Wach, 2015; Zucchella, Magnani, 2016; Narayanan, 2017). From this perspective the internationalization process starts from the recognition of opportunities, the next step is the acquisition of international resources, followed by the development of dynamic capabilities which results in growth and profitability. Entrepreneurship theory, in terms of making use of entrepreneurial and innovation process (stimulating the firm-level internationalization), constitutes a new and blooming research domain for international entrepreneurship. Covin and Slevin (1991) suggested that internationalization requires entrepreneurial capabilities.

Both dynamic capabilities as specified by Teece et al. (1997) and international entrepreneurship as described by Wach (2015), Zucchella and Magnani (2016) indicate the role of entrepreneurship and dynamic capabilities in a company’s success in the international market. But entrepreneurship in the RBV is “path dependent” and constrained by the existing strategy whereas in IE there are not such limitations and dynamic capabilities should be developed to sustain the advantage gained by introducing innovation. How it works in practice is shown in the case study below.

## **5. Development of competitive advantage in FMCG distribution through managing franchise systems**

### **5.1. Tendencies in retail and wholesale markets development in Poland and their role in the economy – case study context**

After the socio-political reforms in 1989 the retail market in Poland turned out to be not saturated (Śmigielska, 2007). The existing stores were not able to distribute the merchandise so the demand for retail service on FMCG was not satisfied (Śmigielska, Orzeł, 2015). Thus, there was an opportunity to catch up by individual entrepreneurs who set up many outlets, stalls and kiosks. At the same time retail co-operatives and companies belonging to the state had no idea how to compete successfully in the new conditions so many of them were dissolved.

As a result the number of retail outlets grew rapidly so that the total number exceeded 940 000 in 1994 and the market became very fragmented.

As the Polish market opened to foreign investment international retail companies became interested in it. They discovered a lot of opportunities because (Murphy, 1997):

- the retail structure was underdeveloped; there were no modern retail institutions e.g. discount stores, hypermarkets, malls and category killers,
- there was a big potential market,
- there was no legal framework regulating activity of mass merchandisers and protecting small shops,
- producers were very weak, and they did not have a lot of practice in negotiating,
- tax regulations which were favorable for direct foreign investors.

Foreign companies started to invest in Poland by the introduction of new retail formats – hypermarkets, supermarkets, discount stores, category killers, convenience stores and so on as well as wholesale institutions in the form of cash&carry. The first hypermarket, called Hit, was opened in 1994. It was very successful so the other mass merchandisers chains like: Carrefour, Tesco and Auchan entered Poland. As a result, since 2002, mainly hypermarkets were opened whereas later on, when the market for their service became saturated, discount stores and supermarkets started their fast growth. The big foreign merchandisers mainly competed on price. At the same time, small shops tried to defend their position not only by pressing on introducing the laws favoring them, but also using their strengths like personal selling, offering quality fresh products, and location for acquiring loyal consumers. But, because on the FMCG most consumers compare prices, many small retailers which had been successful at the beginning of the reforms, for obvious reasons, were not able to survive and went bankrupt. The sources of market advantage of foreign retailers were as follows (Kłosiewicz-Górecka, 1996):

- wide assortment,
- aggressive price policy, which in practice meant advertising low prices and intensive use of sales promotion instruments,
- store arrangement, according to the rules of merchandising,
- using marketing-mix instruments to position the retail chain, mostly on low prices.

The first decade of the twenty first century was characterized by an increasing concentration and market saturation with hypermarkets in the cities (Kłosiewicz-Górecka, 2009). But there was also a considerable wave of integration of small shops offering FMCG under franchise systems, mostly operated by wholesalers (Orzeł, 2014). Some Polish retailers were able to differentiate from mass merchandisers and became successful by offering a wide assortment of good quality products in the format called “delikatesy”, e.g. the Alma chain. It drew the attention of foreign mass merchandisers to the market segment which was neglected – the consumer looking for good quality, fresh foods and ready to pay for it. Foreign FMCG retailers who became market leaders, like Carrefour, Tesco, Biedronka (discount chain operated

by Jerónimo Martins) were trying to answer environmental changes by introducing new marketing strategies addressed to the new market segments. At that time Carrefour started franchise chain under the brand Carrefour Express. The beginning of the next decade could be described as a fight for market share not only in the big cities but also in the smaller cities and villages where the foreign retailers opened their stores – smaller hypermarkets – so called compact, supermarkets and discounts stores. It has created a threat to the small stores and wholesalers supplying them so the integration processes intensified (Kłosiewicz-Górecka, 2014).

Changes in the structure of the distributive sector has been stimulated on one hand by the foreign investments and on the other by the reaction of Polish entrepreneurs to it. This reaction has involved different types of cooperation including the franchise systems, which has developed very fast, also in FMCG market, which is not common phenomena. Such a competitive structure has contributed to the high productivity in the trade sector and its significance in the economy.

It was shown *inter alia* by Segetlija et al. (2015) who made a comparison of trade significance in several European countries. Their research reveals that the share of employment in distributive trade in overall employment in Poland is rather low (10.2%) compared with e.g. Netherlands (15.4%) or Croatia (14.8) whereas the share of enterprises dealing with trade in total number of enterprises in Poland is the highest (34.5%) of all European countries being investigated; for Netherlands this figure is 24.3% and for Croatia – 27.2%. It should also be noticed that Poland recorded the highest distributive trade share in the gross value-added (GDP) of all countries listed by NACE (statistical classification of economic activities in EC). In such a competitive arena MAKRO Cash & Carry and Eurocash have worked out their strategies.

## **5.2. MAKRO Cash & Carry and Eurocash in Poland – strategy comparison**

MAKRO Cash & Carry (originally Metro C & C) as a pure self-service wholesale business concept was designed and launched in Germany in 1964 (Schmekel, 2005). Its focus was on professional retailers, restaurant owners, canteen chefs and so on but also businesspeople shopped frequently to get access to a wide assortment at low prices. Due to the self-service concept as well as cutting out some services typically offered by the wholesalers like crediting customers and transporting goods, MAKRO Cash & Carry could offer a wide assortment of food and nonfood products at low prices. Implementing ICT allowed processing the information from a membership card and Point of Sales (POS) to better satisfy customer needs and target the promotional offers.

MAKRO Cash & Carry started its internationalization process very early – in 1968. Krafft and Mantrala (2010, p. 34) identified two waves of it. The first wave started in 1968 by entering the Netherlands through a partnership with the Dutch business group SHV. Then, by the 1970s it expanded into Belgium, France, UK, Spain, Austria, Denmark and Italy. So, the next wave

was related to the process of UE extension. In this wave, started in the 1990s MAKRO Cash & Carry first founded its operations in Portugal, Turkey, Greece, Morocco progressing into Eastern European countries Hungary, Czech Republic and Poland. Makro philosophy was to be in the markets “where Euro is still to come” (Kraft, Mantrala, 2010, p. 34). In 2008 MAKRO Cash & Carry was present in 29 foreign markets, including big, emerging markets like China (38 outlets) and Russia (48 outlets). In total, the company had 529 outlets in foreign countries – the biggest number was in France 91 compared to 126 operating in Germany, its domestic market. So, in 2008 it was a true global company generating most sales from international operations.

The Company focused on Asian markets where consumers are used to shop in small shops and the retail market was very fragmented (Schmekel, 2005) whereas in Western Europe and US the market for cash&carry services was very small due to the fact that it was dominated by the big mass merchandisers. So, in Asia there was a chance to grow fast but Makro had to manage cultural and law differences and adjust its business model. For example, in India it had to impose minimum purchase quantities across categories. In this country it faced a resistance that influenced its ability to develop a modern supply network (Franz, 2012) whereas in Japan it added some services like transport provided and charged by external partners and promotional activities – demonstration and gifts to the customer.

When entering a new foreign market MAKRO Cash & Carry implemented routines to minimize the risk of foreign operations. They included: environmental and market analysis, feasibility study, entry management, recruitment of qualified local personnel and training. The country management team was responsible for market entry, so it looked for real estate, selected the supplies and managed the personnel requirement process. It also had to set up merchandising, pricing and purchasing policy.

MAKRO Cash & Carry entered Poland in 1994 by founding the first warehouse in the capital of Poland – Warsaw. From that time, for a few years the company noticed dynamic growth opening new warehouse halls in other cities in different parts of Poland. Demand for its services was created by the small shops, which dominated FMCG market, restaurants, bars, but also from the individual consumers. Although officially the entry was restricted to the business owners which was confirmed by card, other consumers looking for a wide assortment at low prices found their way to shop in MAKRO. It was very attractive for individual shoppers because the process of concentration had just started and the competition from mass merchandisers was very small. On the one hand the company’s sales were growing fast but on the other the company suffered from high costs due to the low, average volume of the basket bought by the one customer. In 1997 MAKRO Cash & Carry operated 13 warehouse centers in Poland. The important step in company development was made in 1998 when it got direct access to the retail FMCG market through METRO’s hypermarkets Real. The next step to get better access to the retail market was made in 2002 when the Program “Sklepy Aro” (Programm “Shops Aro”) was launched. The idea of this initiative was to promote Metros’ own label “Aro”

in the small shops. In the next years the company continued its strategy focusing on image development, introducing new technologies and opening new halls. Its main target was small shops, which is proved by the founding in 2009 of a new format MAKRO PUNKT targeting them. But it became more and more obvious that the company was losing its share of the market to Eurocash and other wholesalers developing the franchise systems. So, in 2011 Metro established the franchise chain Odido - the chain of convenience stores which in 2016 reached 2000 outlets. This number is very small if we compare it for example with more than 10 000 stores linked to the Portuguese wholesaler Eurocash. The fact that 54 Real hypermarkets were sold to the French group Auchan in 2014 contributed to this loss. The fact that MAKRO lost its leadership position to Eurocash became obvious.

The story of Eurocash could be traced to 1995, when the process in trade internationalization in Poland started. The Portuguese company Jerónimo Martins then acquired the wholesale chain of the Polish company called Elekromis Group. Along with the wholesaling operations they started the franchise system “abc po sąsiedzku” (“Shops nearby”) (Sławińska, 2005, p. 164). The shops belonging to this chain had a very characteristic system of visual identification. Their owners benefit from price promotions and discounts. They could also negotiate terms of the buying contract. Twice a month a newsletter with sales promotions (loss leaders) was issued. In this way clients of the stores belonging to the “abc” franchise got many similar benefits to those of the clients of mass merchandisers. Due to the fact that they were owned by Poles it was said that the chain supports the local business people.

In the years 2000-2002 in Poland the economic situation worsened so Jerónimo Martins focused on the development of its second division - retail discount chain “Biedronka”. As a result “Biedronka” became very successful but at the same time Eurocash without proper management made losses. In 2003 it was sold to a group of managers led by Luis Amaral, who worked for Jerónimo Martins. They continued the strategy of franchise development and in 2004 under “abc” brand operated 1768 shops. The next important step in Eurocash development was the takeover of “Delikatesy Centrum” – Polish franchise FMCG supermarket chain in 2006. Then the company acquired several wholesalers and retail franchise systems - in this way developing the fully controlled supply chains. One of the most important was the takeover of its very close competitor – the Polish wholesaler Emperia Group in 2011, which controlled part of the supermarket chain Lewiatan. Eurocash strategy could be described as development of the procurement policy along with the development of distribution networks by the franchise systems which in 2015 included several chains operated under different names: Lewiatan, Delikatesy Centrum, abc, Eurosklep, Groszek, Gama (Komunikat, 2015). In 2016 it expanded its distribution system by adding 253 new outlets operating under the brands Eko and Ledi which had belonged to EKO Holding (Morawski, 2016). It should be stressed that Eurocash has focused on operational efficiency and at the same time has developed a strategy aimed at protecting its final market along with dragging competitors into its own structure.

This strategy has been successful because the individual shops and even franchise systems developed by Poles has had problems with survival due to recession and growing competition from foreign mass merchandisers. They have been led mostly by the entrepreneurs who have neither capital resources nor knowledge to get economies of scale and efficient logistics which are the key success factors in highly competitive FMCG market. That opportunity has been identified and exploited by the managers of Eurocash. Their leader Luis Amaral has learned how to get the economies of scale in FMCG working for Jerónimo Martins. He also has had some experience as far as organizing franchise systems is concerned due to the fact that they are also very common in his home in Portugal (Cachinho, 1998; Mota, 2016).

He has, therefore, been able to organize very effective supply chains and although the competitors implement similar rules Luis Amaral, due to the acquisition of existing wholesalers and FMCG franchise systems, has got economies of scale and scope very fast which allowed him to compete successfully on price. Changes in consumer preferences have also contributed to its success. According to the research conveyed in 2011 Poles prefer smaller shops due to their proximity, saving time because of limited offer, and not spending too much money on one basket which was especially important for older people on pension (Słaby, Dąbrowska, 2011). Of all European nations they are the most frequent shoppers. (Bednarz, 2016). The operational model implemented by Eurocash involved: heavy use of ICT to coordinate and control the operations within the supply chains, own brand, loss leaders and image development.

Eurocash success encouraged MAKRO Cash & Carry to tighten its relationship with the retailers and develop its own franchise system. But because its model does not include the acquisitions of existing systems and because it was introduced later MAKRO, as previously noted, most of its market share has been lost. Now, both competing wholesalers Eurocash and MAKRO Cash & Carry support small retailers with their know-how, offer them attractive terms of contract and strive towards development of long-term partnership relations with the retailers because only in that way are they able to compete successfully (Kłosiewicz-Górecka, 2014). Both foreign operators try to develop an image of companies supporting small and medium size Polish companies, but it seems that Amaral is more successful in this (Dębek, 2010). The company gives the owners of the shops belonging to the network the package of marketing assets, ICT, and supports them with the opening of the stores. As a consequence of better strategy Eurocash from the market position of challenger in the wholesaler market has become its leader. In 2005 its sales were 400 mln EURO whereas in 2009 it dropped to 1557 mln EURO and it was lagging behind Makro about 460 mln Euro (Dębek, 2010) to get 30% of the market whereas Makro has only 6% in 2017.

The key success factor of Eurocash was its strategic focus (see Tab. 1).

**Table 1.***Comparison of MAKRO Cash & Carry and Eurocash strategy*

	<b>MAKRO Cash &amp; Carry</b>	<b>Eurocash</b>
Strategy goal	Serving the market of mom-and-pop stores and small supermarkets	Market development, satisfying end-consumers
Led by	Market entry and marketing routine related to the goal	Entrepreneurial vision. Exploiting the opportunities coming from industry and market changes
Type of capabilities	Ordinary not dynamic capabilities; Development of routine in serving the clients	Networking capabilities. Development of marketing strategy focused on consumer

Source: developed by Authors.

The strategic focus of Eurocash has been Poland. Its managers saw the market niche coming from industry changes – growing number of FMCG franchise systems, use their knowledge to master the system to achieve efficiency in supply chain so the small shops are able to compete on price with mass merchandisers. But the key success factor was networking which allowed them to achieve economic of scale. On contrary MAKRO Cash & Carry, competed on global market by implementing routines. The Company lacked the dynamic networking capabilities which were considered by Teece (2012) as very important and focused rather on development corporate level architectural capabilities. So, it missed the opportunity on Polish market and will have difficulties in regaining the former market position. MAKRO Cash & Carry owned by the Metro Group, operates two main banners, Makro and Odido. Makro operates 28 cash-and-carry outlets in Poland and generated €1.45 billion in turnover in 2022. Elsewhere, its network of franchised Odido stores encompasses an estimated 2,200 outlets (Top 10..., 2024).

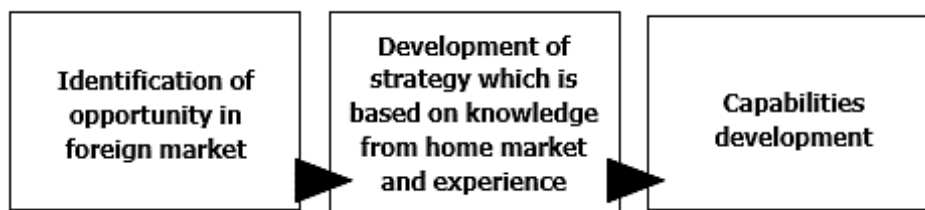
Eurocash success contributed to the contemporary structure of FMCG in Poland. According to the GFK in Poland about 40% of small shops on the FMCG belong to franchise systems in 2015 (Raport GFK, 2016). Most of them are the franchise systems operated by Eurocash (Tajer, 2016). Their number grew almost 3 times since 2008 reaching 13 687 outlets in the year 2015, supplied from 12 regional centers. According to Kabus (2022), the company owned in 2020 - 180 Cash & Carry wholesalers that organised wholesale trade for the abc partner shop chain, which included 9137 local grocery shops. In addition, the distribution of 5251 shops in franchise and partner chains cooperated with Eurocash. In the retail chain, there were 1573 small supermarkets, including 1545 shops operating under the name of Delikatesy Centrum and 432 Inmedio press shops. Eurocash boasts 16,342 outlets in Poland under a myriad of banners including abc, Arhelan, Delikatesy Centrum, Euro Sklep, Eurocash, Frisco.pl, Groszek, Lewiatan, and Mila. In 2022, Eurocash generated €4.44 billion in turnover (Top 10..., 2024).

### 5.3. Conclusion

Changes in competitive situation in wholesale market in Poland could be explained if the holistic approach is adopted. MAKRO Cash & Carry in early stages of his entry was very successful due to the fact that the company, according to the RBV, has chosen the market where it could apply its strategy and use its capabilities. But as a time was passing the market structure

has changed – more and more independent stores joined franchise system which became very successful in Poland and MAKRO Cash & Carry was not able to exploit this opportunity. Its dynamic capabilities were “path dependent” (rooted in the strategy) so the company did not react to market changes on time. As a global company it rather focused on development corporate level architectural capabilities.

Initial success of Eurocash could be explained in the framework of international entrepreneurship. The Company led by the entrepreneur caught up opportunity coming from the industry changes and exploit it. Process of developing competitive advantage by Eurocash is schematically presented on Fig. 1.



**Figure 1.** Developing competitive advantage on foreign market through learning from home market and entrepreneurial activity.

Source: developed by Authors.

At the beginning the company possessed mainly entrepreneurial spirit as well as resources related to knowledge and experiences of its managers. Because its network has been growing very fast on very competitive market it proves that it has developed networking as well as marketing capabilities. Further development of the company depends on the development dynamic capabilities.

Eurocash did not introduce the innovation (franchise systems with the wholesaler as an captain on FMCG market) but mastered it and made so significant to become disruptive it is why the company could be called innovator. Striving to fulfill the goal of the strategy the company provides the franchisees with the tools to implement competitive marketing strategy. This strategy combines benefits coming from mass distribution (competitive prices, loss leaders) with the benefits of small stores (proximity location, personal service). It has turned out to be very successful on Polish FMCG market. The Eurocash success has been fostered by the growing role of networks in our contemporary economy, the shift in consumer preferences as well as the character of competition.

Achieving competitive advantage by Eurocash and coping its strategy by the other wholesales inter alia MAKRO Cash & Carry as well as big mass merchandisers resulted in the FMCG market structure in which small and medium sized retail companies belonging to the franchise systems has quite strong position. It makes the FMCG market structure in Poland different from the other European countries where the mass merchandisers were able to grasp much more market share.



## 6. Discussion, results and limitation of the paper

To examine the problems of development competitive advantage on cash&carry wholesale market two theoretical views has been applied, namely RBV and entrepreneurship theory. Below, the short discussion showing the some overlaps as well as differences between these two theoretical approaches is provided. Then the model which further develops international entrepreneurship theory, based on analyzing Eurocash success (see Fig. 1) is compared with the strategy model of global-born companies.

The discussion about how entrepreneurship could be examined within the resource-based view has got long tradition. It was tackled inter alia by E. Penrose in chapter III “The Productive Opportunity of the Firm and the Entrepreneur” of her book “The Theory of the Growth of the Firm” which is said to give the foundation for resource-based theory. There it was noticed that entrepreneurship is difficult concept to work into formal economics, due to its association with the personal qualities of individuals so it does not fit exactly to the framework of resource-based view which focuses on organizational not individual competences. But then the concept of organizational entrepreneurship has been developed. It refers to different types of entrepreneurial behavior in existing large organizations (corporations) aimed at achieving – through encouraging innovations – competitive advantage at all levels: corporate, divisional, business units, business functions and project teams (Burns, 2011, p. 471). If corporate entrepreneurship is deeply rooted in organizational culture, it could become the valuable resource and the source of competitive advantage.

This concept, developed in the framework of entrepreneurship theory is close related to the idea of dynamic capabilities. Dynamic capabilities discuss the issue how corporations should react to fast changing environment. As is has been said there are skills, processes, routines, organizational structures, and disciplines that enable firms to build, employ, and orchestrate intangible assets relevant to satisfying consumer needs (Teece, 2009). It is said that enterprises with strong dynamic capabilities are intensely entrepreneurial.

Entrepreneurship theory as well dynamic capabilities concept stress the need of introducing innovation to achieve competitive advantage. The significant difference between them, coming from the basic assumptions of both concepts, is that the in first one innovations are driven by the demand whereas in the second one by the supply side. It became the limitations of capabilities of global companies which are said to be rigid, path dependent, characterized by structural inertia and commitment (Andreeva, Ritala, 2016). Global companies by implementing global strategies and developing dynamic capabilities to serve big markets leave the niches for the smaller competitors. These is why two concepts, which examine problems of competitive advantage development on foreign markets from different perspectives, are applied to explain the situation in Polish wholesale market.

Most research on internationalization focus on the problem “How the companies which are successful in domestic markets could sustain their advantage by internationalization process” (Keen, Wu, 2011) and this issue is analyzed in the framework of environmental or resource views of development sustainable competitive advantage. But “in the economy, characterized by the development of networks, and heavy use of advanced and communication technologies which interact with globalization processes, success in foreign markets is not restricted to companies with well-known brands but it is also said that entrepreneurs without them could exploit the opportunities of globalization”. As a result the theory of IE has been developed. In the framework of it more and more attention is paid to the born globals (BGs) which expand into foreign market and capture the new ones, from or near to their founding (Knight, Cavusgil, 2004). These companies target the global market and develop capabilities necessary to gain competitive edge on it. When comparing strategy of Eurocash (see Fig. 1) and BGs, its strategy is developed for foreign not for global market like in case of born globals. The similarities involve that the new venture is characterized by rather scarce financial, human and tangible resources, and that the networks are important for SCA development.

In the discussed case Eurocash has been able to achieve competitive advantage on wholesale market in Poland. But in the close future the company could face problems of sustaining it due to the fast expansion of discount chains which compete more and more successful in the locations so far dominated by Eurocash. Its future position on international market will depend on choosing the right markets to exploit the resources and then developing dynamic capabilities to sustain the advantage on international market.

As a consequence of applied methods, a holistic view of structural changes in wholesale sector which determine structure of retail sector in Poland has been made as well as the general sources of competitiveness like developing own or taking over existing franchise systems has been identified. The model of development competitive advantage in emerging markets (Fig. 1) has some novel elements.

The research presented in this paper contributed to the theoretical discussion on the role of dynamic capabilities and international entrepreneurship in companies' success on foreign market as well the one devoted to the wholesale market and opportunities for wholesales created on new, emerging markets in which the retail market is very fragmented. It was found out that if it is captured by the big retailers there will be only the small room left for the wholesalers. But as it was shown it could be also captured by the wholesalers. So, the paper could be also useful for the entrepreneurs because it shows them that market changes create opportunities which could be exploit in the countries where the markets are less developed and where they could use their knowledge. Finally, the case study developed here could be useful for the purpose of teaching strategic management, problems of competitive advantage development, and so on.

The method of case study used here has shortcomings often mentioned in the literature but also many advantages inter alia: 1. Showing the specificity of the problem in associations with the environment 2. Usefulness of the results for practitioners 3. Novelty as far as theories built on it is concerned 4. Usefulness in teaching (Eisenhardt, 1989; Grzegorzczak, 2015). Referring to what Noor (2008) has said it could be stated that presented case study has enabled to capture the emergent and immanent properties of changes in wholesale branch in Poland as well as successful strategies. Secondary sources of data let to identify how the companies' have been changing their position and explain why it has happened like that.

The idea of the paper has been to draw attention to the problems of development competitive advantage by cash&carry wholesales on emerging markets and by the same token to the problems of survival small and medium sized retailers. In the future the primary research on developing dynamic capabilities by Eurocash using the qualitative, longitudinal participant-observation design (Tallott, Hilliard, 2016) would be very interesting but very difficult to convey. The company is still at early stage of its development and does not want to reveal organizational secrets what also become the barrier for this research. The other direction of the research could be to involve in third big wholesaler – Selgros which competes with MAKRO Cash & Carry in HoReCa segment. More general research could aim at founding if the Eurocash model (Fig. 1) is also implemented in other industries.

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