

# Cutting-edge methods of establishing strategic alliances between the food producers and nation-wide retail chains in Russia and Spain

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**Abstract**—This is an analysis of a disproportionate development logic in the modern-day supply chains (from manufacturers to consumers) illustrated by the nation-wide retail chains in Russia. We studied the Mercadona chain as an example of a successful practice of strategic alliances in Spain. Our research allowed us to work out the possible modernization for the logistics chain through settling between the consumers', trade's and manufacturers' interest. We propose a cutting-edge approach based on establishing strategic alliances between the food producers and manufacturers, and the nation-wide retail chains.

**Keywords**—strategic alliances, nation-wide retail chains, supply chains, food producers.

## I. INTRODUCTION

The modern Russian food consumer market situation is difficult. Consumers apply a policy of economy and saving. Food-related costs take 38.2% of the total income, on average [1, pp. 11-12]. Twenty percent of Russians expect their employers to go down. Seventy percent of businessmen consider the national economic policy, in general, a problematic one [2]. There is also a dangerous trend for consistent decrease in average spend [3, 4], which leads to producers' trying to cut the production costs by any means possible.

It is obvious that the sinking demand of the high quality food products is a cause for concern not only for the market, but also for the industry. The producers lose their profits both due to low prices and decreasing sales volume, and to continuous marketing campaigns at the retail chains. It is worth noting that pursuit of a higher quality is a world-wide food industry tendency [5]. Naturally, the situation demands an objective analysis of the disproportionate development logic in the modern-day supply chains (from manufacturers to consumers) that would define the methods for their modernization in view of the latest challenges through settling between the consumers', trade's and manufacturers' interest. This issue is continuously studied and reviewed in academic circles. M. Kneafsey, L. Venn, U. Schmutz et al. [6], J. Gustavsson, C. Cederberg, U. Sonesson et al. [7], D. Dolalah [8], A. ter Braak, B. Deleersnyder, I. Geyskens et al. [9], A. N. Khatskelevich, O. A. Timofeeva, Yu. M. Moskovskaya [10], A. Ja. Antoni [11], E. M. Akhmetshin, [16], R. I. Sharafutdinov [17], among other researchers, studied various aspects of modernizing the food supply chains from manufacturers to consumers.

A vicious circle of modern-day supply chain crisis affect the economic state of the producers and the chain retailing in general, which, eventually, is bound to affect the consumers as well. Providing the country with food is a crucial national objective. In order to fulfill it, an interaction model must be in place involving all of the participants of the food supply chain and providing for a steady growth and development.

The producers consider the following to be the vicious circle of producers - retail chains interaction: 1. Retail chains acting as a wholesaler for entities; 2. Campaigns that significantly reduce the producer prices; 3. The retail chain shelf prices are made competitive at the producers' expense; 4. Strict market conditions make suppliers operate with zero profit; 5. Promotional campaigns are inefficient; 6. Investments in innovations decrease; 7. Products quality lowers due to the use of substitutes; 8. Infrastructure projects development halts; 9. The business margins decrease.

We propose a cutting-edge approach based on establishing strategic alliances between the food producers and manufacturers, and the nation-wide retail chains.

## II. METHODS

We follow the results of the issue-specific studies aimed at the large Russian and foreign retail chains that review their interaction with the food producers. All of the data used were published in field-specific academic and information sources.

We carried out a comprehensive deep analysis of the interaction methods applied in order to identify the issues that result in the end consumers' negative reaction and, therefore, the decrease in sales.

## III. RESULTS AND DISCUSSION

The problems that the producers face when dealing with nation-wide retail chains are both damaging to the producers businesses and detrimental to the market and trade development itself. By establishing the cause and effect relationship we come to the following conclusions:

1. Inefficient and expensive marketing, including the campaigns in the retail chains that involve a significant reduction of the producer prices, as well as unreasonably strict commercial conditions that make the suppliers operate with zero profit result in a rapid decrease in producers' business margins. This, in turn, hinders the development of infrastructure projects aimed at reduction of production cost, and limits the investment opportunities in the field of production modernization and innovations (including the

healthy diet segment). Eventually such a position on the part of the producers makes their products noncompetitive, including in view of export programs.

2. The nation-wide retail chains create wholesale departments for trade entities and, thus, form a direct competition for the producers' distribution chains. They take the major part of their margin from the producers' distribution chains, covering the economic costs from inexpedient cooperation with the nation-wide retail chains.

Thus, the retail chains not only form strict commercial conditions for trade, but damage the entire producers business.

3. Competitive shelf prices at the nation-wide retail chains are due to the products low purchase price from the producers. As a result of this unreasonable voluntary approach to pricing, a set of negative consequences exists: the products quality falls due to the use of substitutes that lower the production cost, which, in turn, results in the damage to the health of the general population; the life expectancy also decreases due to diseases caused by an unhealthy low-quality food.

It is also worth mentioning that when the nation-wide retail chains go too far in their alleged protection of the consumers interest and 'blackmail' the producers by setting low prices, they inadvertently damage their own competitiveness, as well as the producers'. They propel the lowering of food quality, which poses a threat to the nation's health, and damages the human capital assets of the country and the national economy in general.

The nation-wide retail chains consider the following to be the vicious circle of producers - retail chains interaction: 1. Negative development tendencies in the market decrease the gross revenue; 2. The retail market stagnates; 3. The state tightens the regulations and control; 4. The search for promotional campaigns and products, known as promohunting, becomes a habit with the consumers; 5. The consumers are always trying to economize; 6. The business margins decrease; 7. The innovations investments decrease; 8. The territory where the market share falls down to the lower threshold expands; 9. Infrastructure projects development halts.

Pricing pressure is due to adverse tendencies of decreasing gross revenue for the business, when the leading retailers' net income fell down to three percent. It leads to stagnation of the retail market: on the one hand, as the nation-wide retail chains take over the regional market players; on the other hand, due to the asset consolidations through merger, as illustrated by examples of Dixy, Krasnoe I Beloe, etc. In this environment, the consumer tends to economize, thus creating an 'army of promohunters' who only buy goods when there are relevant promotional campaigns.

The producers complain about the pressure caused by the nation-wide retail chains and an unfair (in their opinion) profit distribution inside the supply chain. It causes the government to tighten the regulation and control, particularly in order to promote the national export food policy, since the retail chains and the producers are incapable of negotiating and settling their differences themselves. In this aspect, the nation-wide chains (suffering from lowering margins and,

therefore, hindering the investments into development) cause the market to hit the antimonopoly threshold in many regions. This is why the retail chains look for solutions by improving the management system, compromising with the producers and establishing efficient alliances with them. These might resolve the conflicts and bring better synergic effects from the interaction and convergence of businesses.

Issues analysis shows the conflicts affect both the producers and the nation-wide retail chain.

Only a new approach to interaction between the producers and the retail industry based on strategic partnership system may break the vicious circles. Reference [12] studies the relevance and the basic theoretic approaches to creating intercompany innovative projects.

Strategic alliances in various fields and areas began to appear in the 1980s. The history of Mercadona, the most popular and creative Spanish retail chain, is worth exploring with regards to this aspect. We selected Mercadona as an example for a reason. Over the years they have proven they are capable of finding ambitious innovative solutions, such as introducing and implementing their own quality management system, Total QualityManagement, TQM [13], among others [14, 15].

Between 1998 and 2016 the Mercadona's supply chain was based on the community of counterparties also known as Interproviders, so called integrated food providers. The retailers relied on those providers, and the alliance was deeply integrated in both the production and commercial processes. Thus the Interproviders established a strategic alliance with the retailer to produce a range of products recommended by Mercadona. By 2015 the retailer had two thousand suppliers and providers forming 125 integrated groups with a total aggregate turnover of EUR 20381 mn. Mercadona formed a unique basket of goods for their customers creating grounds for their Totaler business model. A contract for 15 to 25 years set the common goals and aims of the strategic alliance implementing the business model and established a guaranteed standard for business interaction. Subject to the contract, an Interprovider assumes all the obligations to produce the goods within the Totaler program, and the retailer guarantees the minimum approved scope of supply and transparent retail margin controlled over the entire period of cooperation. In other words, the Interprovider had guarantees that its production facilities and counterparties would not be idle, and that the supply price would be favorable.

An unprecedented level of trust and communication between the partners, as well as full transparency of the information made this alliance possible. It provided for a joint planning process and immediate delivery of goods from the production facilities to the stores.

Establishing the joint innovation centers that developed new products based on mutual ideas was a crucial part of the alliance. The centers served the purpose of anticipating the consumers' needs. It created additional obligations for the Interproviders: constant modernization of the facilities, and purchase of new production lines for new products. The retailer, in turn, founded a testing platform for the joint innovation center including a dozen of strategic stores developing the joint concept for the new goods. Then the

pilot stores tested the goods, which, after a final revision and adjustment, were distributed to all Mercadona stores.

This strategic alliance model has been constantly improved for the 30 years that it exists. New specialized suppliers join the retail chain alongside the Interproviders. It makes the supply system steady, and the product range diverse. As a rule, the specialized suppliers develop specific products for a concept-based product line. Starting in 2019, Mercadona evolves into a mixed alliance of Interproviders and specialized suppliers. Heineken, for example, became a specialized supplier of non-alcohol beer.

The retailer tightened its requirements to the Interproviders due to their inability to fulfill their obligations volume- and range-wise. The Interproviders fail to follow the changes in the consumers' tastes and choices, which creates loss of goodwill for the chain. Risk of loss of the competitive edge arises for Mercadona. They manage it by introducing the specialized suppliers system. In 2019 it included 1300 producers. These actions by the retailer speak of a further improvement and expansion of the Interproviders system and inclusion of additional competitive incentives for them to develop.

#### IV. CONCLUSION

If we use the Mercadona experience of implementing strategic partnerships between the providers and the retailer in our national food industry market, we can most certainly create an efficient system of food supply to the consumers by introducing the main features of a strategic partnership between the producers and a nation-wide retail chain:

1. Developing an integrated business process involving every step from the production to the store.

2. Creating formulas for determining the fair market value in view of the quality, innovative nature, brand cost, and healing properties of the food products. All these aspects are valuable to the consumers and shall be taken into account when forming the supply prices and delivering the application properties.

3. Creating joint innovation and infrastructure projects like Mercadona technology centers for cooperation in development with the producers of new goods.

4. Creating a project management office to carry out joint measures to lower the costs and introduce new technology in order to increase the participants profits step-by-step (particularly based on making the quality goods delivery to the consumers available and accessible, and improving it).

The project management office may involve the following business aspects:

- long-term business planning, including preparation of an approved pricing and revenue management model, estimating the sales volume growth, control of the joint annual operation plan, development of brands in view of the retail chain development strategy, improvement of the production facilities in line with the retailer tasks

- management of the categories and a range portfolio in view of the market diversification (including benchmarking, joint surveys and research, creating unique goods)

- joint development and introduction of marketing retail campaigns (including shopper marketing, increasing the efficiency of the promotional campaigns, merchandising, joint improvement of the shelf space efficiency)

- joint introduction of cutting-edge supply arrangement methods

- creation of a joint information platform in order to enhance and tailor the innovation and business processes, improve the managerial decisions by segregating the modern supply chain knowledge areas, study the consumer and competitor behavior tendencies, as well as share the information on all aspects of the joint business process.

5. Deepening the integration based on cooperation and partnership principles in order to lower the government control pressure.

6. Creating a joint center for training the managers in the project management office instruments and cooperation as part of strategic alliances.

7. Creating a consolidated procurement center in order to reduce the costs by enlargement the goods batches and lots and by enhancing the partners' market position.

An integrated project management office system expedites the sale and realization of goods and reduces the costs related to introduction of projects by twenty percent, on average.

Naturally, although these strategic alliances have obvious advantages in terms of efficiency, the project implementation requires the business owners to be ready to integrate in order to grow. An informal cooperation with respect to an efficient management of the food supply chain is often seen as pioneer and innovative, and managers turn these opportunities down because they contradict the established traditional incentive systems used by the partners. It is crucial to develop such a method for establishing strategic alliances that would explain the algorithms of the complex integration of the management systems into a single project office as fully as possible. It is worth mentioning that every alliance has its own specific structure based on the declared goals scope; however, the management system being the foundation for cooperation is rather universal and algorithm-based.

Mercadona's experience in managing the strategic partnerships with the food producers shows agility and deep integration between the members of the alliance based on the established contractual rules aimed at the enhanced development and keeping the financial interest of the partners in balance.

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