

Innovative activity of retail companies as a factor of economic growth

Valeeva, Yu S.^a, Sharafutdinova N.S.^b

^a Russian University of Cooperation, Kazan Cooperation Institute (Branch), Kazan, Russian Federation

^b Kazan Federal University, Institute of Management, Economics and Finance, Kazan, Russian Federation

Abstract

The article is devoted to topical questions of introduction of innovations in trade company management to increase the level of competitiveness. Innovative activity of trade companies directly depends on effective management and implementation of organizational and managerial innovations. The proposed algorithm of innovative activity management based on the indicators of intensive development will allow achievement of economic growth of retail companies.

© 2015 Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license

(<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Selection and/or peer-review under responsibility of the Organizing Committee of ICOAE 2015.

Keywords: Keywords: innovation, economic growth, trade company, development factors.

1. Main text

Relevance of the study. Service is the most important part of national economy, which includes a set of services different in purpose, nature, application and properties. Currently, the most important type of services in Russia is trade (18% of GDP).

Since 1999 to 2014 retail sales in Russia were increased 7.5 times, from 73 to 548 bln. dollars, employment in this sector was increased by 140%. The vector of direction of trading industry development is set by retail networks, share of which in the structure of the industry was increased from 10% to 40%. The retail networks perform important economic and social functions (for the state, consumers, producers) by attraction of foreign investments in economy, development of trade infrastructure, meeting the needs of consumers by improving the quality of trade services, development of business relations.

So far, the economic growth of most retail networks was carried out at the expense of extensive factors. In post-crisis period, due to changes in consumer preferences regarding the process of shopping, growth of competition, increasing globalization and informatization, the reorientation of trade networks for development occurs due to intensive factors, including innovation.

Experience in international trade networks testifies that implementation of innovations allows us to increase revenue by 20% annually, due to possibility of minimizing the expenditures and improving the quality of trade services. Analysis of use of innovations by Russian trade networks showed that innovation implementation occurs not systematically and is based only on the current needs of trade companies [2].

Meanwhile today, this aspect in scientific researches is not enough worked out, existing methodological approaches of evaluation of innovative activity are designed for enterprises in the sphere of material production and focused mainly on assessment of effectiveness of innovation strategy and innovation potential, efficiency of R & D that does not fully meet the specifics of trade activity [5].

All this causes the urgency of developing the methodological framework for assessment of innovative activity of retail networks and its management model.

Degree of readiness of the problem. Study of the problem of innovative activity management of different retail networks has led to the analysis of theoretical and methodological literature. Significant contribution to the study of

innovation processes was made by such authors as I. Ansoff, G. Bailey, J. Galbraith, P. Drucker, F. Kotler, M. Porter, G. Saymon, D. Stonehouse, M. Thomas, O. Williamson, D. Hodgeson, E. Hargadon, J. Harrington.

The issues related to innovation activities management in trade were considered by such scholars as Yu. Avanesov, R. Ackoff, V. Borovkova, L. Utkin, O. Chkalova, A. Shpakova.

However, many issues related to innovation activity management of retail networks are remained scantily explored. The aim of the research is development of theoretical propositions and improvement of innovation activity management of retail companies based on its evaluation.

In order to achieve this goal, it is necessary to solve the following problems: to examine and clarify the theoretical foundations of innovative activity of retail companies; to analyze the conceptual approaches to assessment of innovation activity of companies, including retail networks; to develop and test the methodology for evaluating innovative activity of retail networks; to develop a typology of strategies for innovation implementation in commercial activity of retail networks; to offer the model of innovative activity management of retail companies.

The processes of innovative development of retail companies are the object of the research. The organizational and economic relations that arise in evaluation and management of innovative activity of retail companies are the subject of the research.

The scientific novelty of the research results is as follows:

- the existing approaches to content characteristics of concepts relevant to the study of the chosen theme are clarified: concept of "innovation" in relation to service industry of retail trade is treated as innovation introduced with the aim of improving the quality of commercial activity, and "innovative activity of enterprises in retail services" as purposeful activity of retail networks to ensure their economic growth through intensive factors (innovations);

- classification of innovations in relation to service industries of retail trade has been generalized. According to this classification two criteria were identified: in terms of "market novelty" (external and internal innovations) and "scope of application" (marketing, technical and technological, organizational and managerial).

- indicators characterizing the innovative activity of retail service enterprises from the perspective of economic growth theory are based. In contrast to existing approaches, innovations are considered as a factor of intensification and are reflected in the growth of labor productivity, capital productivity, revenue per square meter of retail space, increasing expenditure return and turnover of working capital. Integral assessment of these indicators shows the innovative activity of the trading network;

- rating methodology for evaluating the innovative activity of retail networks has been adapted, which is based on a set of indicators of intensive development;

The typology of strategies of innovation implementation in commercial activity in retail trade networks is proposed: strategy of radical advance (high level of innovation activity), strategy of conservation of innovative positions (middle level of innovation activity), strategy of innovation simulation (low level of innovation activity). The basis of the proposed typology is grounded on classical strategies of introduction of innovations, corrected for the specifics of the process of innovation activities in retail networks;

The algorithm for innovative activity management represented by stages of innovation implementation strategies in commercial activity of retail networks has been offered.

Theory

Study of the concept of "innovation activity" in the works of Russian and foreign authors showed that the essence of this definition most often is reduced to complex characteristics of innovation activities of the company and characterized by such indicators as intensity, efficiency, effectiveness, etc. [1]

The complexity of adaptation of classic definition of "innovation activity" to the service industries of retail trade is caused by the specifics of their activities, which is in the fact that trading companies perform the distribution function in the process of bringing the goods to the end consumer, therefore, innovation activities of enterprises of trading industry is changing. Introduction of innovations is carried out by use of marketing tools. [4]

In this connection, it is inappropriate to consider the classic stages of innovative activity of industrial enterprises in relation to trade enterprises.

The implementation of innovations in commercial activities of trade enterprises is carried out according to the following stages: initiation of ideas, selection of ideas, decision making on introduction of a certain kind of innovation and its development, introduction of innovations. Introduction of innovations leads to greater efficiency in their use, cost savings or creation of conditions for getting more profit. [3]

Implementation of innovations in commercial activities of trade enterprises provides them with high-quality economic growth and supposes improving the efficiency of commercial activities by updating the fixed assets, improving the organization of trading activities (new structure of economic relations, management, marketing, cooperation), improving the use of revolving funds and optimization of distribution costs, permanent growth of qualification of

workforce, etc. [7] Based on the abovementioned, innovative activity is purposeful activity of retail networks to ensure their economic growth through intensive factors (innovation).

Classification of innovations is represented by many scientific studies on innovatics, but different authors have their own approaches to classifying the innovations. In the study, such kind of innovations is particularly actualized, as organizational and managerial, use of which allows the company to reorient trade enterprises for ensuring their economic growth through intensive factors.

According to this classification two criteria are identified:

- as to the level of market novelty: external (new to the trading industry) and internal (new to trade enterprise);
- as to scope of application: marketing (the result of innovations relating to the constituent elements of the marketing mix of trade organization); technical and technological (technical, related to introduction of new types of equipment, appliances, tools, as well as technical and technological methods of work in the service, information and technological innovations;
- technological, associated with new types of services, more efficient forms of service); organizational and management (focused on improving the internal and external connections of organization through the use of more efficient labor standards).

Economic growth of trade enterprise may have extensive and intensive nature. Intensive development indicators are measures of qualitative use of resources of trade enterprise.

Innovations as a factor of intensification are reflected in the growth of labor productivity, capital productivity, revenue per square meter of retail space, increasing expenditures return and turnover of working capital. As a result, these indicators can testify about innovative activity of trade enterprises. Indicator calculation is based on turnover data in comparable prices, i.e. obtained due to changing the physical volume of products and costs, excluding impact of inflation processes.

In general, the algorithm of rating evaluation of innovation activity of retail network can be represented as a sequence of the following stages:

Step 1. Substantiation and choice of indicators, their calculation. On the basis of study of indicators characterizing economic growth of retail networks due to intensive factors, the system of economic indicators for evaluation of innovative activity of retail network was formed: growth rate of labor productivity due to intensive factors; rate of growth of capital productivity due to intensive factors;

growth rate of turnover of working capital due to intensive factors; growth rate of expenditure return due to intensive factors; rate of change in revenue per square meter due to intensive factors.

Step 2. Presentation of indicators in the form of matrix.

Step 3. For each indicator the maximum value is determined and recorded in the column of conditional reference trading enterprise (max).

Step 4. Initial indicators of matrix, are standardized with respect to corresponding indicator of standard retail network by the formula:

Step 5: For each of the analyzed retail network its rated value is determined by the formula:

$$K = 0,18 X_{1j} + 0,23, X_{2j} + 0,24, X_{3j} + 0,19, X_{4j} + 0,16, X_{5j}, \quad (1),$$

where R_j - ranking score for j retail network; $X_{1j}, X_{2j}, \dots, X_{nj}$ - standardized indicators of j retail network.

Retail networks are ordered (ranked) in descending order of magnitude of rating. The highest rating has the company with the lowest value of R .

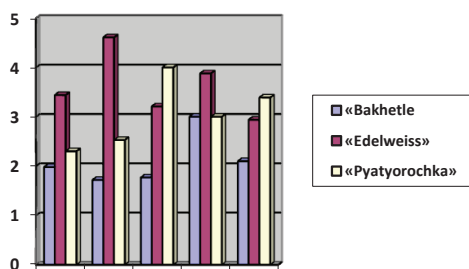


Figure 1 Results of rating of innovation activity

In this case, the assessment of innovative activity serves as the starting phase of the process of developing the innovative strategy of individual retail network.

This technique has been tested on the example of retail networks of the Republic of Tatarstan.

According to the methodology of rating and data of table it was found that "Bakhetle-1" LLC company of trade network "Bakhetle" in 2013 was the most innovatively-active, since the value of integrated assessment had the lowest value. Strategic approach to innovation implementation provides choice / change of strategy in accordance with the value of indicator of innovative activity of retail network

Development of types of innovation implementation strategies was carried out taking into account interrelation between innovation activity and types of innovation.

The typology of strategies of innovation implementation in commercial activity of trading network is proposed:

- Strategy of radical advance (in the structure of implemented innovations mostly external innovations dominate). The essence of the strategy is that the actions of retail network are reduced in an attempt of mastering the innovations first in the industry in federal, regional or municipal market.

- Strategy for conservation of innovative positions - in the structure of implemented innovations are present both internal and external innovations. This strategy is characteristic for networks of retailers who hold strong competitive positions, but for definite reasons at some stages of their development experience severe and unexpected pressure of competitors and are not able to make the necessary investments in innovations. It can not be successful in the long run. [2] strategy of innovative simulation is reduced to ensure that the retail network borrows (duplicates) innovative introductions from the side. This strategy can be effective in cases, where trade company lags far behind its competitors in terms of technology or masters a new retail format.

Implementation of measures for selection and introducing the strategy of innovation implementation is possible only if originally to target the commercial establishment on implementation and use of organizational and managerial innovations.

In view of strategic management of innovative activity of retail networks of RT it was suggested to introduce the conditional intervals of level of innovation activity by taking the maximum value of integral indicator of rating of 100%. Scale of intervals of indicators of innovation activity. Strategy of radical , Strategy of conservation and Strategy of innovation

According to the obtained intervals of trading network "Bakhetle" it is necessary to adhere to conservation strategy of innovative positions and trading networks "Edelweiss" and "Pyatyorchka" – to strategy of innovation simulation. As tactical measures within the mentioned strategies and on the basis of calculated indicators of intensive development for the trading networks can be recommended certain types of innovation presented in Table 1.

Table 1 - Strategic and tactical directions of increasing innovation activity of retail networks of RT.

Trading Network	Strategy of innovation implementation	Type of innovation	Directions
"Bakhetle"	Strategy of conservation of innovation positions	External	Implementation of technology, self-checkout
		Internal	development and promotion of goods under their own brands (private label), sensory marketing - audio - visual components (light and animation designs, electronic tablet PCs, pos -materials etc.), use of shop-windows, development of e-commerce and so on.
1. Edelweiss", "Pyatyorchka"	Strategy of innovative simulation	Internal innovations	Energy-saving technological equipment, antitheft systems, loyalty programs, implementing the training programs and personnel motivation

Implementation of the above innovations is associated with costs that have impact on financial performance of the given trading network. In connection with this, we constructed the correlation - regression model describing the effect of intensive (cost of innovations) and extensive factors (sales area and the number of employees) on the growth of turnover:

$$Y = -47,96 + 0,90X_1 + 24,4X_2 + 15,6X_3 + 0,07X_4 + 0,1X_5, \text{ where}$$

X_1 – cost of marketing innovations, X_2 - cost of organizational and managerial innovations, X_3 – cost of technical and technological innovations, X_4 – the number of sales personnel, X_5 – shopping area.

Determinacy coefficient of this model is 95 %, indicating high degree of correlation of the resulting model with actual turnover figures of the given trade network.

We used the model for the forecast of change in turnover of trade network "Bakhetle" for 2014-2015.

The innovative activity management process of retail network is invariant algorithm consisting of a sequence of stages, the implementation of which is aimed at increasing economic growth of trading network through the use of intensive factors (innovations). The innovative activity management algorithm of trading networks consists of the following stages:

1. Purpose of trade enterprise is ensuring the economic growth at the expense of intensive factors
2. Evaluation of innovative activity of retail network
3. Choosing a strategy of innovation activity in retail network
4. Identification of innovation types on the basis of indicators of intensive development
5. Organizing the process of innovation implementation
6. Monitoring the implementation of tactical activities within the chosen strategy
7. Analysis of values of economic growth of retail networks provided by introduction of innovations.

It should be noted that effective implementation of innovative activity management algorithm of retail networks is possible with active implementation of organizational and managerial innovations. The retail network management center and direct management of individual shops of trading network are the subjects of management in centralized management structure of retail network. Functions are implemented directly within the algorithm for each stage of innovative activity management. Managing this direction of activity of trading network supposes the use of methods of organizational - economic nature.

The majority of retail networks have a centralized management system. Cost reduction and efficiency of use of administrative staff in its concentration in single center is obvious and significant. This model has the effect, when all business processes are strictly regulated and standardized, and management is carried out in continuous manner, including in relation to areas of innovations [3].

Let us describe the main areas of innovative activity management of "Bakhetle" trade network. The functional structure of the given trade network is represented by the following departments: sales department; development department; finance department; department of procurement; of the own production; personnel department.

Employees of the management main unit of the given trade network on the basis of evaluation of innovative activity and within the framework of corresponding strategy should develop guidelines for innovation implementation to the heads of departments and directors of hypermarkets in the field. Directly at each department and store the managers of middle management carry out the work towards initiating the ideas of innovation among sales staff by methods of brainstorm, free associations, inversion, checking questions. In such a way, ideas of innovation are sought within the trading network.

At the same time marketing researches of external environment of marketing must be carried out in order to study consumer preferences, which in turn, can serve as ideas for innovative implementations. Work on selection of ideas of innovations is carried out by Directorate of the trade network, the selection is based on possibility of practical realization of innovations, availability of financing funds and taking into account the strategies of innovation implementation. For example, at the moment according to the conservation strategy of innovative positions and values of indicators of intensive development of "Bakhetle" trade network the attention should be given to introduction of innovations that will improve the indicators, such as labor productivity - technical and technological, organizational and managerial innovations, revenue per square meter - marketing innovations.

Development and innovation implementation are performed by departments, the competence of which includes implementation of measures improving the commercial activities within relevant strategy - sales department (marketing innovation), department of development - technological and organizational and management of individual shops. Tactical monitoring of realization of innovation activities is delegated to managers and heads of departments of central management unit [6].

The implementation of this model of innovative activity management makes it necessary to clarify and even revise a number of managerial doctrines.[7] Managing innovation implementation in activities of retail network is a special kind of activity focused on purposeful coordination of actions of participants of joint labor activity. The success of retail network is largely determined by effective management decisions within the designated strategy of innovative activity improvement.

Conclusions and suggestions:

1. On the basis of theoretical approaches to interpretation of the concept of "innovation activity" and taking into account the specifics of service industries of retail trade, which involves the distribution function, the definition of "innovation activity of retail network" has been formulated, which is proposed to be understood as purposeful activity of trading networks in ensuring their economic growth through intensive factors (innovations). In this context, "innovation" with respect to the subjects of trading industry is innovation introduced in order to improve the quality of business.

2. It is suggested that assessment of innovative activity of trading networks should be carried out on the basis of indicators of intensive development, to which, according to the theory of economic growth, it is advisable to relate labor productivity, capital productivity, return on assets, working capital turnover, expenditure return and revenue per square meter of retail space, since innovations, as a factor of intensification, are reflected in the growth of these indicators.

3. To evaluate the innovation activities of retail networks the ranking methodology has been adapted based on a set of indicators of intensive development. The advantage of the rating method is that the base of reference are not subjective judgments of experts or suggestions on dynamics of individual indicators, but are the highest rates of innovation activity obtained by one of the retail networks. The proposed method has been tested using the example of retail networks of RT.

4. On the basis of classic strategies of innovation implementation the typology of strategies of innovation activities in retail has been developed, which is based on variation of types of innovation. Choosing a strategy of innovation activities in retail networks is based on indicators of innovation activity.

5. The algorithm for innovative activity management of retail networks presented by a set of subsequent stages of innovation implementation strategies was developed. Management of innovative activity of retail networks according to the steps of the algorithm makes it possible by increasing innovation activities to contribute to their economic growth.

REFERENCES

- [1] Antonchenko, N.G., Kalenskaya, N.V. (2014). Developing a methodology for assessing the efficacy of managerial decisions in entrepreneurial establishments. *Life Science Journal* (11) , Issue SPEC. ISSUE 7, 365-369
- [2] Bekova, R. (2012) Distribution of new organizational forms and formation of competitive strategies of retail networks at Kazakhstan's food market. *Actual Problems of Economics* 135 (9), 238-244
- [3] Valeeva, J., Sharafutdinova, N., Kulkova V. (2014). Quality management system's role in operation of retail trade networks// *Life Science Journal* 11(5), 555-558
- [4] Schoenfeld C. *Publicity Media and Methods*. —N.Y., 1963. — P. 22
- [5] Innovations in Retail Pricing and Promotions / D. Grewal, K. Ailawadi, D. Gauri [et al.] *Journal of Retailing*.— 2011.— № 1.— Pp. 43-52.
- [6] Strategic Role of Retailer Bundling in a Distribution Channel / Qingning Cao, Xianjun Geng, Jun Zhang. *Journal of Retailing*.— 2015.— Vol. 91.— № 1.— Pp. 50-67
- [7] Low Prices Are Just the Beginning: Price Image in Retail Management / Ryan Hamilton and Alexander Chernev. *Journal of Marketing*.— 2013.— Vol. 77.— № 6.— Pp. 1-20.