

# Determining factors of retailers' assortment supply

Simeonka Petrova<sup>1\*</sup>

<sup>1</sup>Department of Commerce, Faculty of Industry and Commerce, D. A. Tsenov Academy of Economics, Svishtov, Bulgaria

**Abstract.** Modern retailers' assortment supply is determined by various factors, taking into account the developed business point-of-sale concepts and formats, the chosen organizational and legal form, the characteristics of the consumer segments and the specifics of the current competitors' market policy. The main aim of the present study is to make a theoretical and empirical interpretation of the essential nature of the factors for determining the assortment supply and on this basis to provide successful examples from the Bulgarian retail practice taking into account the achieved economic outcomes. The outlined research problems presuppose conducting a review of the specialized literature. Conceptual views and opinions on the process of determining assortment supply are presented. The scientific research methods, which are applied, include: factor analysis and synthesis, comparison, generalization, induction and deduction, illustration. The research outcomes are synthesized in the formulated conclusions and are related to assessing the impact of the studied factors on retailers' assortment supply.

## 1 Introduction

Today's retailers design and develop innovative and effective concepts and formats for offering an assortment sought by consumers. Conceptually, retail solutions aim to boost sales, increase revenues, improve business profitability, strengthen market positions and achieve more complete satisfaction of consumer expectations and choices. The main aim of the present study is to make a theoretical and empirical interpretation of the essential nature of the assortment supply determining factors and, on this basis, to provide successful examples from the Bulgarian retail practice taking into account the achieved economic outcomes.

The impact of some highlighted factors on the process of determining and forming retailers' assortment supply is studied by analyzing an appropriate resource of theoretical and empirical data. In order to achieve the research aim, some specific tasks are set: defining and systematizing basic theoretical formulations for the potential factors that determine the retailers' assortment supply; studying the manifestations of the impact of the factors determining the retailers' assortment supply; formulating more significant conclusions from the conducted theoretical and empirical research.

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\* Corresponding author: [s.petrova@uni-svishtov.bg](mailto:s.petrova@uni-svishtov.bg)

In the thematic area thus outlined, appropriate research is carried out in the specialized theory and practice. Research outcomes are presented in a descriptive way regarding the potential factors determining the assortment supply in the retail sector following the example of two large retail chains operating on the Bulgarian market – Lidl Bulgaria and Kaufland Bulgaria. The use of an appropriate empirical resource for retailers of food and non-food fast-moving consumer goods allows to outline and highlight some significant factors for determining the assortment. Clarifying their essential nature helps to identify the effects and impacts on the assortment supply at the point-of-sale level.

The scientific methods of theoretical and empirical research that are used are: factor analysis and synthesis, comparison, generalization, induction and deduction, illustration. The findings of the study are the basis for formulating generalizations and conclusions regarding the applied business concepts of retailers for cost-effective assortment supply.

## **2 Theoretical framework of presenting potential factors determining the assortment supply**

Offering an assortment size and composition is among the significant and first priority business activities of retailers. The formed assortment of commodity units has a significant impact on consumer purchasing decisions, on the amount of sales and the profit margin of retailers. In the specialized economic literature, a number of researchers, including R. Briesch, E. Fox and P. Chintagunta, adhere to the concepts of presenting and ranking the tasks of assortment planning, providing and variability as strategic for retailers and their business [1].

Most of the published studies focus on the problems of determining the assortment composition, and with relative ambiguity go into the issues of varying of the assortment size within a retail chain or points of sale. A significant part of the authors' papers are aimed at shedding light on certain factors determining the assortment supply [2].

Observing the opinions of a number of researchers, including A. Kok M., Fisher R. Vaidyanathan, helps to deduce that there is a scarcity and incompleteness in the empirical information on how assortment planning is implemented in retailing practice [3]. This issue is relevant to studying the manifestations of the impact of the factors determining the assortment supply, as well as to retailers achieving a more complete service of the consumer segments. Adducing basic theoretical and empirical opinions and findings in this area is of research interest.

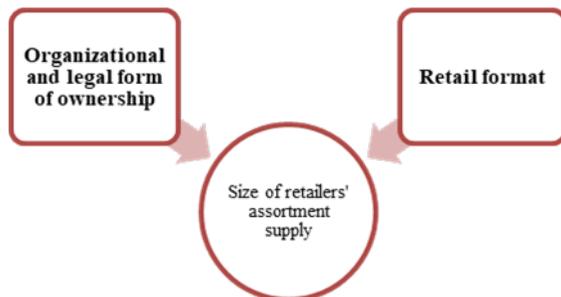
The review of the specialized literature shows that a part of the authors' studies are focused on identifying the approaches applied in the retail practice for the formation and planning of assortment size and composition. Retailers' activities and operations are systematized regarding the overall management of the offered assortment. According to some theoreticians, such as M. Levy, M. Mantrala, E. Fox, B. Kahn, P. Gaidarev, D. Shah and B. Dankworth, retailers locate a certain size and composition of an assortment of commodity units in order to best meet consumers' diverse requirements [4].

In the present study, the analysis of the assortment offered by retailers is performed through the prism of the manifested impact of specific factors. The empirical data resource is provided on the basis of retailers' business activity of a different type of retail format – supermarket and hypermarket. In its essence, the analysis is systematized in a preset sequence:

- essential presentation of specifically selected factors, determining retailers' assortment supply with presenting theoretical and empirical data;

- analysis of the manifesting influence of the differentiated factors on retailers' assortment supply.

The analytical approach thus adopted is brought to assessing the impact of specific factors on the studied size of assortment supply. The following two can be highlighted as such factors: see Fig. 1.



**Fig. 1.** Basic factors, determining the size of retailers' assortment supply

As shown in Fig. 1, the basic factor determining the size of the assortment supply is the chosen organizational and legal form of ownership. The impact of this factor can manifest itself in the different types of retailers in different ways, according to the property they manage. For example, when within a given retail chain economies of scale of activity are achieved, then favorable premises and conditions may arise for: forming higher trade discounts from the selling prices of the offered items included in the assortment; determining quantity discounts in sales; realizing more effective management of the expenses and revenues for the activity. These internal economies of scale at the retail chain level are facilitated by the creation of lasting and sustainable relationships with suppliers and other business partners.

Retailers' corporate ownership has a certain strength of impact on the level of homogeneity or heterogeneity and variability of the offered assortment. The advantages of forming and maintaining an assortment with a certain size and composition, degree of distinctiveness, assortment diversity should be taken into account. In their works, researchers such as A. Kok, M. Fisher and R. Vaidyanathan argue that the assortment offered should be diverse and better and more fully responsive to the constantly varying and changing consumer preferences [3].

In his studies I. Blank substantiates that among the factors predetermining the choice of organizational and legal form, the following are highlighted and distinguished: the scale of the performed retail activity; the amount of the start-up capital of the entrepreneur and the capital security for functioning in a given market segment; the individual motivation to choose forms of entrepreneurial activity and predisposition to individual (independent) or partnership form of business organization; forecasted and planned rates of business development in a strategic perspective; propensity and attitude to entrepreneurial business and financial risk, as well as to bearing responsibility with one's property; features of the legal and normative regulation of business, etc. [5].

According to the current Commercial Law, any able-bodied natural person may be registered as a sole trader [6]. In their essence, trading companies are legal entities. Their property is formed by the contributions of the partners or shareholders, whose contributions can be both monetary and non-monetary. Trading companies are personal or capital. Personal trading companies, such as general partnerships and limited partnerships, in the part of unlimited liability partners, carry out mainly small- and medium-size business. Capital trading companies include limited liability companies, joint stock companies and limited partnerships with shares.

According to the responsibilities and obligations they assume, the differentiated alternatives of organizational and legal forms have their advantages and disadvantages. The latter reflect on the potential and capabilities of retailers to form and offer an assortment of a certain size, composition and variety.

The analytical approach adopted in the present study requires that the subsequent statement be linked to another basic factor, determining the size of the assortment supply. Such a factor is the retail format with its essential definition and typologization. Retailers' business activity adds a certain value to the offered assortment items and facilitates manufacturers in the selling and consumers in the buying [7-11]. Retailers provide services that reduce the risk of buying goods, as well as create a store atmosphere to increase the pleasure of shopping [12]. The retail outlets ensure a suitable shopping area for consumers. In traditional retail outlets, buying and selling is focused on the assortment items themselves, whereas in innovative retailing, the emphasis is on the setting and personalized experience while shopping.

Special attention should be paid to the issues of determining the retail format, distinguishing the types of retail formats, identifying the profiles of the different retail formats and their role in the organizational system of retailing. In this research area S. Kostova claims that retail format is a combination of different product factors and the environment, which form the retail strategy along with the method of retail service, type and size of the outlet presented by retailers in a "package" to consumers [13].

In terms of economy, the retail format is defined as the formula adopted by the retailer for the sale of goods, which influences the choice of the consumer of a store and meets their requirements and expectations.

Consumers visit different store formats to buy the goods they need. The choice of retail format is determined by the impact of a large number of factors. Consumer behavior is different when the desire is to buy one or several items, and when their demand is aimed at a larger number of items offered in similar retail outlets. Therefore, the variety of shopping situations predetermines the consumer's choice of a retail format for searching and purchasing items. The level of purchase and consumption frequency of certain items also model certain effects on the concept of creating a retail format.

From a research point of view, it is important to interpret the reasons that predetermine the consumer's choice of retail format in shopping situations under the conditions of increasing competition. The specialized theory assumes that the retail format is a place for buying and selling, where the specific retail policy determines the commodity profile, location and size of the outlet, pricing strategy, additional services offered and a number of other aspects of the retailing business [14].

Therefore, the following can be determined as key retail solutions for developing and constructing retail format concepts:

- planning the point-of-sale location;
- designing the point-of-sale;
- creating a database for assessing consumer behavior;
- managing retail communications;
- providing a certain level of retail customer service.

There are a wide variety of factors that determine the choice of retail format. This diversity arises from the adopted classification criterion. For its part, the classification should be linked to the main aspects of the business activity of the commercial enterprise, the volume of activity, the assortment offered, the consumer segments served, the target market niche and some other factors. It is necessary to take into account the current trends and changes in consumer behavior, including those caused by the changes in the environment and climate [15].

### **3 Empirical framework of presenting the impact of corporate ownership and selected type of retail format on the assortment supply**

The present study uses an empirical data resource provided by the official websites of two retail chains – Lidl Bulgaria and Kaufland Bulgaria, as well as by their published data from annual activity reports. The research interest is focused on the information about the main economic outcomes reported by the retail chains. The data of the National Statistical Institute, prepared on the basis of the annual accounting and other reporting of retailers of food and non-food fast moving consumer goods, are also used in this study. In a specific sectoral aspect, these data refer to enterprises classified in sector G “Trade; repair of motor vehicles and motorcycles” according to the adopted Classification of Economic Activities. The formed set of data on the activity of retailers of food and non-food fast moving consumer goods helps to carry out the research and to obtain appropriate empirical results presenting the impact of specific factors on the assortment supply.

The object of study in this paper are two of the fastest-growing retail chains occupying leading positions in the retail sector of Bulgaria. The corporate policy of the analyzed retail chain is aimed at forming a rich and diverse assortment of food and non-food fast moving consumer goods. The set business goals involve a sustainable assortment supply while preserving the most sought-after items and expanding the portfolio of commodity units to satisfy specific consumer tastes in a particular and higher category.

Lidl Bulgaria retail chain entered the Bulgarian market in 2010 with one logistics base in the village of Ravno pole and 14 retail outlets. In 2017, the chain opened a second logistics base in the village of Kabile. In 2019, the company’s retail outlets reached a total of 99 and are located in 48 cities across the country. In Bulgaria, Lidl won recognition as a smart discounter, the chosen type of retail format being a supermarket. The construction of a third logistics base is envisaged. The total number of employees is over 2,700 people.

The history of the Lidl retail company began with a German family. This family created not only Lidl, but also another very successful European brand in the retail industry – Kaufland. Thus, the two retail chains, which are competing per se, are part of the German group Schwarz-Gruppe, owned by the German Schwarz family. Lidl is headquartered in Neckarsulm, Germany.

The assortment variety of goods offered by Lidl for daily and weekly shopping includes over 2,300 items, of which over 1,700 items are under its own brand and more than 600 items are Bulgarian and world brands.

The Lidl retail chain operates in over 30 countries and is constantly increasing its presence in Europe. The company has stores in the UK, Switzerland and the US. Its management plans envisage entering the Japanese market. Globally, the chain has nearly 10,500 stores and employs more than 315,000 people [16].

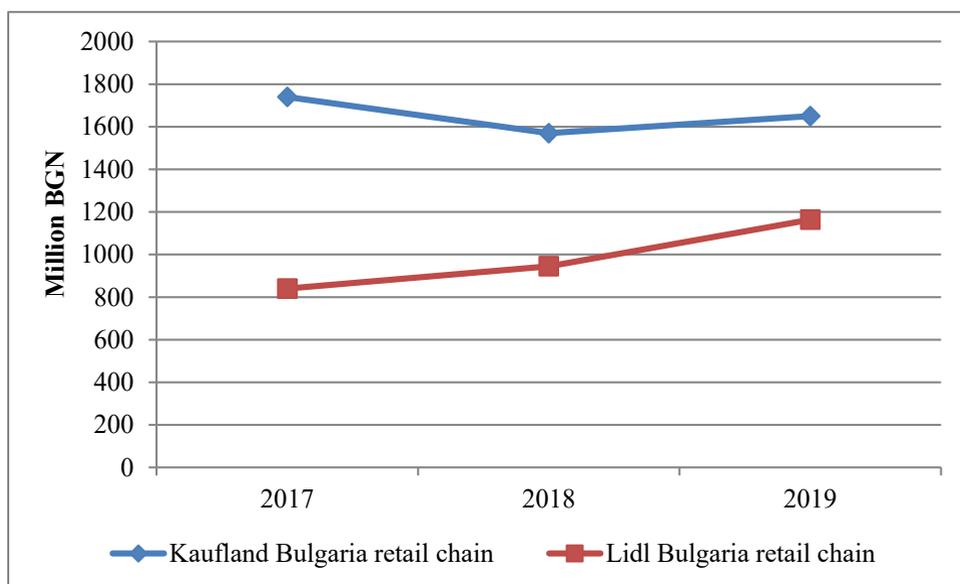
The second retail chain examined in this paper is Kaufland. Since 2006, this chain has been on the Bulgarian market and has become a significant factor for the development of the national retail sector with investments of over BGN 1.4 billion. According to data from its official website, the company has built a total of 60 hypermarkets in 34 cities across the country. The stores have an average commercial area of 3,200 sq.m. The assortment offered in the company’s largest outlets exceeds 20,000 items [17]. In 2019, Kaufland employed more than 6,300 people. Internationally, the retail chain ranks among the leading retail companies with over 1,300 hypermarkets and nearly 132,000 employees in eight European countries.

The data presented on the two studied retail chains – Lidl Bulgaria and Kaufland Bulgaria, enable us to make the hypothetical assumption that the factors – corporate ownership and the chosen type of retail format, have a certain impact on both the positions on the food and non-

food fast-moving consumer goods market, as well as on the level of diversity and variability of the offered assortment. The advantages of forming and maintaining an assortment of a certain size should be taken into account, which reflects on the values of the sales revenue realized by the studied chains.

According to summarized data of the National Statistical Institute and based on information from the official websites of the analyzed retail companies in 2019 the Lidl Bulgaria retail chain contributed 2.48% to the total sales in the entire retail sector. In the same year, the competitive retail chain – Kaufland Bulgaria, formed 3.51% of the sales in the surveyed sector. The reported results place the two retail chains among the largest companies occupying leading positions in the retail sector of Bulgaria.

In 2019, the total relative weight of the sales revenues of the competing retail chains – Lidl Bulgaria and Kaufland Bulgaria, is nearly 6.00% at a total assessment of the retail market of over BGN 47 billion [18]. During the period 2017-2019, the revenues of the two compared retail companies in absolute value marked a moderate change: see Fig. 2.



**Fig. 2.** Dynamics of sales revenues of Lidl Bulgaria retail chain and Kaufland Bulgaria retail chain during the period 2017-2019. Source: <https://www.capital.bg>

The analysis of the growth rate of the sales revenues of the two competing retail chains enables us to state that the Lidl Bulgaria retail chain recorded a favourable increase in the measured value. The average growth rate of this retail chain amounts to over 17.80% and is higher than that of Kaufland Bulgaria. In the retail chain, corporate property of Kaufland Bulgaria, the average rate of development of sales revenues is influenced by a slight decrease in their value in the second year of the studied period. Therefore, in the coming years, the forecasts for sales revenue growth should probably be more even and taking into account the impact of economic factors on the retail business.

The two studied retail companies use flexible economic approaches to find additional sales growth opportunities. These approaches are associated with precise analyses and evaluations of the results achieved by offering an assortment of food and non-food fast-moving consumer goods, the trends in consumer behavior, opportunities to provide promotional and advertising activities, etc.

## 4 Conclusion

The conducted theoretical and empirical study and analysis of the impact on the assortment supply of the factors – organizational and legal form of ownership and a selected type of retail format, is the basis for formulating the following more important conclusions:

First. Based on the review of the specialized literature, prerequisites are created for outlining the potential factors determining the size of the offered assortment with a certain size, degree of distinctiveness and variability.

Second. Observing the conceptual ideas and views of theoreticians and specialists working in the field of assortment management helps to present the essential nature of basic factors determining the size of retailers' assortment supply.

Third. The adopted analytical approach and the used empirical data resource on the business activity of two competing retail chains operating on the Bulgarian market enable us to highlight the fact that corporate ownership and the chosen type of retail format have a significant impact both on the positions they occupy on the market of food and non-food fast-moving consumer goods, and on the level of diversity and variability of the offered assortment of commodity units.

In the context of the studied problems, the corporate policy pursued by retailers should ensure the formation of a rich and diverse assortment of food and non-food fast moving consumer goods, focusing on maintaining and increasing the attractiveness of the points of sale and improving customer satisfaction and expectations.

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