

Intangible Assets and Competitive Advantage in Retail: Case Study from Russia

Gennady Ivanov¹ & Elena Mayorova¹

¹ Plekhanov Russian University of Economics, Moscow, Russian Federation

Correspondence: Elena Mayorova, Department of Trade Policy, Plekhanov Russian University of Economics, Stremyanny per. 36, Moscow, 117997, Russian Federation. E-mail: e_mayorova@mail.ru

Received: September 24, 2014 Accepted: January 26, 2015 Online Published: April 30, 2015

doi:10.5539/ass.v11n12p38

URL: <http://dx.doi.org/10.5539/ass.v11n12p38>

Abstract

The article focuses on the ways effective intangible assets management helps the leading Russian food retailers derive ancillary competitive advantages. Analysis and assessment of intangible assets effectiveness (which is considered to be a source of retailer competitive advantages) include analysis of intangible assets as a part of company assets, analysis of intangible assets effectiveness using conventional indicators, valuation of intangible assets and business, analysis of private labels, and analysis of intangible assets franchising. As a result we have formulated characteristic features of formation of Russian retailers competitive advantages when using intangible assets in the process of operating activities (including the management of private labels), in franchising, as well as in the intangible assets accounting policy and management of the market value of the business. The findings of this research can be employed by retailers in actual practice of intangible assets management to achieve and maintain a high level of competitiveness.

Keywords: competitive advantage, efficiency, intangible assets, retail, Russia

1. Introduction

Russian retail trade at its modern stage of development is distinguished by a high level of competition (Bortnikova, 2012; Platonova, 2013; Seleznyova, 2011). Russia's admission into WTO, active growth of both domestic (Dixy, O'Key, Lenta, etc.) and foreign (Auchan, Spar, Douglas, IKEA, etc.) retail companies will facilitate more intensified competitive struggle. As things currently stand, creating of sustainable competitive advantages becomes a sine qua non condition for commercial success of any business engaged in retail trading.

Presently, Russian retailers compete primarily in location of stores, pricing, quality, assortment and service (Magnit, 2012), i.e. conventional factors that can be quite quickly replicated. Modern retail development trends require new instruments that are more effective. At the stage, intangible assets (IA) management seem to be the most promising source of ancillary competitive advantages for retailers. At the same time, studies show that at large Russian companies feature extremely low process of asset intellectualization (Seliverstov, 2013). Retail trade is not an exception, as IA share in total amount of companies' assets is less than 1% (First Independent Rating Agency [FIRA], 2013). IAs significance and simultaneously lack of their active use by retailers substantiate actual relevance of the issue in question.

In this article we will inquire into the ways effective use of IA helps retailing ancillary competitive advantages to emerge through the example of leading Russian food retailers Magnit and X5 Retail Group.

2. Literature Review

Some researchers in Russia have already noted IA importance as a source of retailer competitive advantages. For instance, Kafiatulova (2010) in the article dedicated to competitive advantages in retail trade distinguishes between tangible and intangible resources, referring branding, reputation, and skills to the latter. Selyukov, Schalygina and Savenkova (2011) qualify information, intellectual and technological potential as intangible factors of retail organization competitive advantages. Khalezov (2013) addresses the issues of competitive advantages for small retail enterprises in the context of innovation potential. Paramonova and Krasnyuk (2010), Logunov (2006) reckon private label as the element of retailer competitiveness. Gorba (2012) calls creation of private label a complex competitive advantage of retail chains. Some authors take into account brand (Bogdanov, 2012) and business reputation (Nikolaeva & Yalunina, 2006) to assess retail enterprise competitiveness.

Therefore, the authors mark out relevance of IA to competitiveness of a company and make a detailed research into their specific types, while no study targeting the full aggregate of IAs as an instrument to obtain competitive advantages on Russian retail market has been undertaken so far.

Besides, a large importance is attached to scientific materials that analyze and assess IA effectiveness (Loseva, 2010; Nikitochkina, 2010; Palamarchuk & Tsareva, 2010; Sheremet, Saifulin, & Negashev, 2000), IA commercialization (Fakhrutdinova, Kolesnikova, Yur'eva, & Kamasheva, 2013), IA utilization to enhance competitiveness of organizations (belonging to spheres other than retail) (Ambrusevich & Kudashov, 2011; Sorokina, Zakharov, & Boronnikov, 2011), address issues of retailer competitiveness (Bukhtiyarova & Tashkinova, 2012; Dikanov, 2011; Dubrovin, 2010) and effectiveness (Emelianova, 2004; Nikulina, 2013; Solomatin, 2009). Retailer IA functioning studies also touched upon intellectual property (Bazhenov, 2013), business reputation (Ivanov & Mayorova, 2014; Roggeveen, Goodstein, & Grewal, 2014), private labels (Kumar, Steenkamp, 2007; Plotnikov, Ponosova, & V'jyugova, 2013; Zhang, 2010), innovation (Kavtaradze, 2010; Popenkova, 2014), franchising (Vasil'eva & Vakhitov, 2012), image and brand (Abdullah et al., 2012; Ene & Özkaya, 2014), etc.

3. Methods

Scoring ancillary competitive advantages by Russian retailers as a result of more effective IA management is scrutinized through the examples of Magnit and X5 Retail Group companies. For the purposes of the work we use materials accessible at official web-sites of the companies (annual reports, presentations, etc.) and other publicly available online information.

Analysis and assessment of IA effectiveness (which is considered to be a source of retailer competitive advantages) were conducted in compliance with methodology, which includes the following areas of concern:

3.1 Analysis of IA as a Part of Company Assets

(Analysis of IA share in company assets, analysis of IA scope and its dynamics, analysis of IA structure etc.). Despite such analysis incorporates no effectiveness criterion and does not make it possible to evaluate IA influence on resulting company performance, it is deemed obligatory, as it helps form an comprehensive notion of IAs work principles, their positions and roles in organization and surface common trends of their development.

3.2 Analysis of IA Effectiveness Using Conventional Indicators

This area of concern complies with traditional approach to estimation of effectiveness (effectiveness as ratio of gained results to resources and costs necessary therefor) and helps assess IA in terms of results obtained by making use of them. Primary IA effectiveness indicators will be IA profitability calculated using a generally recognized formula as ratio of profit to IA cost average within the period considered, and return to IA, which resulting calculated indicator shall be commodity turnover.

3.3 Evaluation of IA and Business

This approach considers primarily market value of IA (or the whole business) calculated by expert methods and company capitalization and its relation to net asset book value as effectiveness indicators. Use of cost as IA effectiveness indicator helps escape shortcomings of balance sheet data and link IA effectiveness assessment to company as a whole through cost-based approach that brings business value growth to the forefront.

3.4 Analysis of Private Labels

Necessity to make such analysis is stipulated by substantial private label's impact upon retailer profitability, stable growth of their share in both number of commodity items and sales volume. Private label analysis includes scrutinizing such indicators as number of commodity private label names, private label commodity sales revenue, its share in company total revenue and others. Apart from that, a comprehensive research into private label management strategy is stressed, including that in its correlation with business standing.

3.5 Analysis of IA Franchising

Franchising may have a significant both positive and negative impact upon end performance and competitiveness of retailers. Franchising analysis shall not only allow for quantitative indicators (including amount of revenue from franchise services, share of franchise services in company total revenue, total number of franchises) but also its qualitative effect on retail enterprise business reputation.

4. Results

Enjoying leading positions on Russian food retail market, Magnit and X5 Retail Group are immediate competitors (Table 1).

Table 1. Leading food retailers in Russia (X5 Retail Group, 2013)

#	Company name	Net retail sales 2013, USD mln	Percentage share in top ten	Percentage share of total food market
1	Magnit	17 824	24.8%	5.8%
2	X5 Retail Group	16 726	23.3%	5.5%
3	Auchan	11 911	16.6%	3.9%
4	Metro	5768	8.0%	1.9%
5	Dixy	5617	7.8%	1.8%
6	Lenta	4530	6.3%	1.5%
7	O'Key	4323	6.0%	1.4%
8	Seventh Continent	1852	2.6%	0.6%
9	Monetka	1677	2.3%	0.5%
10	Maria-Ra	1633	2.3%	0.5%

4.1 Analysis of IA as a Part of Company Assets

Table 2 shows that IAs feature among the assets of both retailers in question. Absolute book value of IA and share of IA in X5 Retail Group's assets is substantially higher than in those of Magnit, with both the indicators of the former, however, tending to decrease. Volume and share of IA in property of Magnit, on the contrary, show an upward trend. IA balance value growth brings about the following advantages: higher total balance sheet value of the company and, consequently, enhanced investment potential; growth of net asset value which in its turn is indicator of company financial sustainability; growth of depreciation fund of the organization resulting in substitution of IA with real monetary funds; lower profits tax due to IA depreciation. On the other hand, we should keep in mind that recording a higher value of IA may bear both positively and negatively (balance structure degradation, current liquidity ratio deterioration, and aggregate capital turnover slowdown, etc.) upon operation of companies and thus shall not be their ultimate goal.

Table 2. Intangible Assets of Magnit and X5 Retail Group

Company name	2007	2008	2009	2010	2011	2012	2013
Intangible assets, USD thousand							
Magnit	1103	1776	3718	6283	8845	17 223	22 619
X5 Retail Group	523 535	499 188	496 111	718 854	601 026	503 483	427 124
Intangible assets growth rate, %							
Magnit	118.99	161.02	209.35	168.99	140.78	194.72	131.33
X5 Retail Group	106.35	95.35	99.38	144.90	83.61	83.77	84.83
Intangible assets share in company assets, %							
Magnit	0.07	0.10	0.15	0.17	0.16	0.24	0.28
X5 Retail Group	8.03	8.82	8.03	8.21	6.82	5.25	4.63
Intangible assets share growth rate, %							
Magnit	65.38	141.45	152.68	115.83	95.34	146.09	116.37
X5 Retail Group	83.04	109.86	91.04	102.25	83.11	77.02	88.13

Magnit's IAs are represented by licenses, lease rights, software, trademarks and other IAs, with the value of each separate type of assets increasing over time. Software is the permanent leader in absolute value and, correspondingly, in share in the aggregate of Magnit's IAs (Figure 1). Software facilitates the labor productivity growth, enables the company to increase the quality of services and cut expense by automation of certain processes. X5 Retail Group's IAs include brand and private labels, franchising agreements, lease rights, software

etc. (Figure 2). The largest influence on the amount and dynamics of IAs is made by brand and private labels that constitute more than half of the retailer’s aggregate IA. Presently, brand is one of irreplaceable competitive advantages, as it appeals to customer on emotional level, guaranteeing quality of services and thus spurring demand and reducing costs. Private label’s afford a differentiation opportunity, provide full control over pricing process, help lower promotion expenses, enhance customer loyalty etc., which is sure to have a positive influence on competitiveness of the company. Besides, as opposed to Magnit, X5 Retail Group holds franchise agreements that represent right to additional profits in the form of royalty.

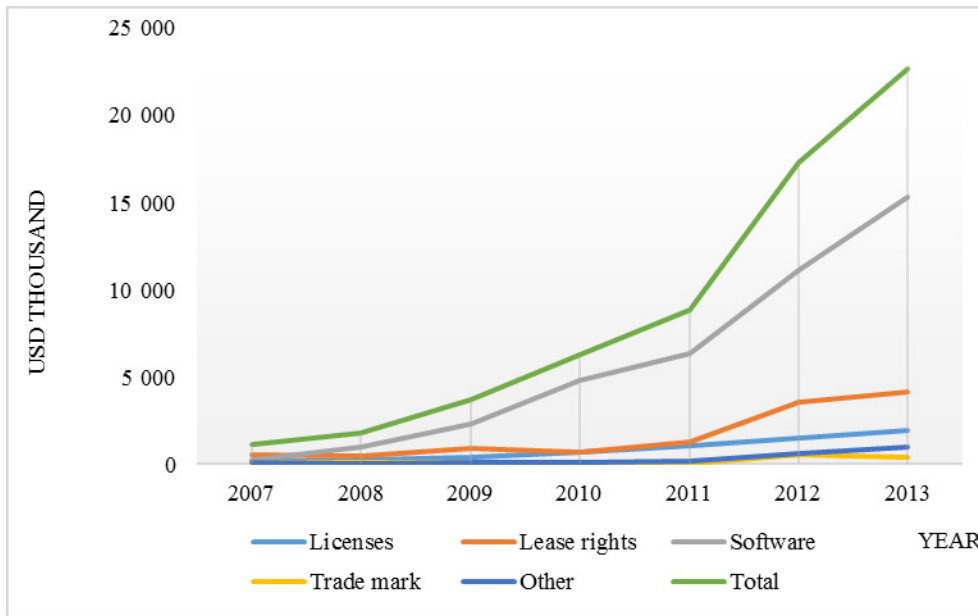


Figure 1. Intangible Assets of Magnit

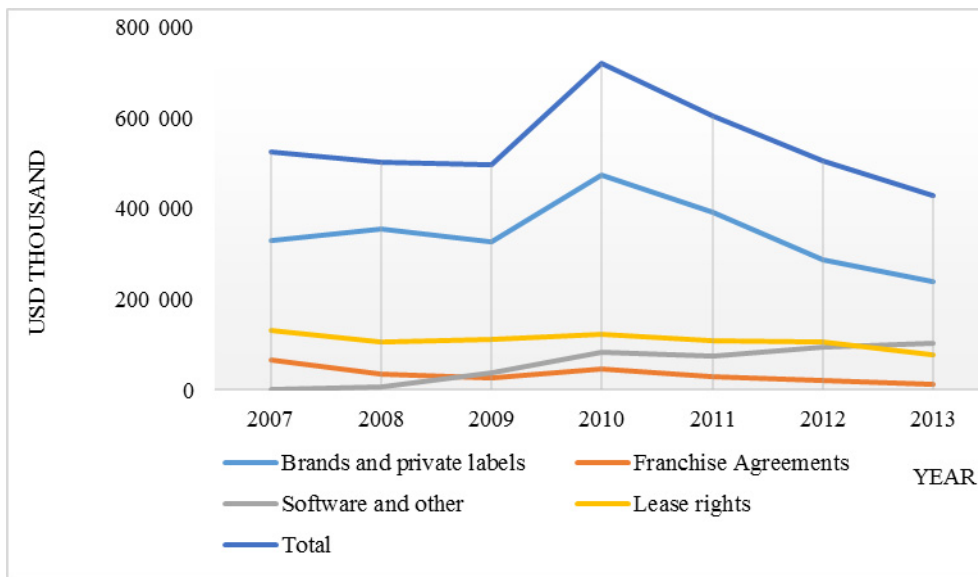


Figure 2. Intangible Assets of X5 Retail Group

4.2 Analysis of IA Effectiveness Using Conventional Indicators

Magnit’s IA return and profitability indicators are considerably higher than those of X5 Retail Group (table 3). Therefore, IA value unit of Magnit correspond to larger sales and profits volumes, which sets the retailer apart from the rival company. At the same time dynamic analysis of IA in its correlation with key financial results shows that Magnit’s IAs growth rate usually exceeds that of its turnover and revenue, resulting in reduction of their return and profitability. On the whole, X5 Retail Group is distinguished by increase in turnover and net

profits growth rates over growth rates of IA average values, which can be seen as a positive trend in terms of their effectiveness.

Table 3. Intangible assets return and profitability indicators

Company name	2007	2008	2009	2010	2011	2012	2013
Return on Intangible Assets, USD							
Magnit	3622.23	3715.04	1949.21	1555.33	1510.21	1107.08	913.71
X5 Retail Group	10.48	17.39	17.52	18.57	23.42	28.60	36.07
Intangible Assets Profitability, %							
Magnit	9595.07	13 054.19	10 016.53	6673.25	5535.11	6197.71	5614.42
X5 Retail Group	28.30	23.22	33.23	44.65	45.79	-22.91	74.12

4.3 Assessment of IA and Business Value

Both capitalization and ratio of capitalization to net asset value of Magnit stand head and shoulders above X5 Retail Group's market figures (table 4). In addition, Magnit is the only Russian retailer that is included into Brand Finance Global 500 (The World's Most Valuable Brands). Higher market value and positive expert appraisal of Magnit bias for better business reputation, creditworthiness and investment potential of the company, thus providing ancillary advantages over its competitors.

Table 4. Market Value of Intangible Assets of Magnit and X5 Retail Group (Brand Finance, 2013)

Indicator	Magnit	X5 Retail Group
Capitalization, USD Mln	23 277.2	4,790.6
Capitalization/Net assets	7.1	2.2
Enterprise Value, USD Mln	14 609	-
Brand Value, USD Mln	3413	-

4.4 Analysis of Private Labels

X5 Retail Group is considered to be the first Russian retailer to include private label goods in its assortment (in 2001), while Magnit started to develop private label as early as in 2002. At present, X5 Retail Group sell about 2000 private label commodity items, Magnit – 681, with private label share, however, in revenue of the companies in question differing insignificantly (15.1% –Magnit, 13% – X5 Retail Group).

The companies reveal qualitative differences in private label management. For instance, the retailers take different approaches to market private label, offering private label commodities in different price brackets. Magnit primarily lures its customers by low cost (with acceptable quality), whereas X5 Retail Group offers private label goods in three tiers at once – low-range, mid-range (mainstream) and premium tier. Such contract is largely attributable to formats of the stores. Private label commodity sale in low price segment enables company to obtain economy of scale, while markup is stressed in high end (premium) segment. Apart from that, private label exclusive premiums may serve as an instrument to stimulate customer retention, which can also be seen as ancillary competitive advantage.

4.5 Analysis of IA Franchising

At present, Magnit does not practice franchising, as management of the company has not taken risks of providing franchises to Russian entrepreneurs, instead preferring to control the whole operation on centralized basis. Advantage of such approach is no risk of the franchisor's business reputation deterioration as may be caused by franchisee's actions, as lower service quality or noncompliance with the company standards by a separate store tells adversely upon customer perception of the retailer as a whole. X5 Retail Group, to the contrary, promotes franchising actively, while being the only company in Russia to employ reverse franchising model, when franchisor enjoy full control over partner's stores and pays a portion of its revenue to franchisee (which helps minimize the risks of reputational losses). Besides, in 2012 Pyatyorchka store chain belonging to X5 Retail Group won the nomination Franchisor 2012 in National Franchising Award "Golden Brand". Although revenue

from franchise services and its share in total revenue of X5 Retail Group are insignificant at the present (less than 1%), active use of franchising serves as an efficient instrument to drive the business forward.

5. Limitation of Study

Analysis of the findings shall allow for certain restriction. First, the research is based on data made publicly available by the retailer in question. Reluctance of Russian companies to indicate and specify information of results of their intellectual activities restricts the input data and thus the results obtained. Second, study of IA effectiveness and corresponding competitive advantages of the companies targeted mainly the identifiable part of IA, while no analysis of business reputation (in terms of public perception of a company), which is qualified as an IA according to Russian principles of accounting, and its components was undertaken.

6. Conclusions

Currently, Russian retailers (as well as companies from other industries of Russian economy) use IA is underused. In this article we looked at the ways effective IA management helps the leading Russian food retailers – Magnit and X5 Retail Group – derive ancillary competitive advantages. The research revealed that IAs hold significant promise for enhancing of retail company competitiveness.

In summary, the use of IA and its benefits for retailers in Russia can be concluded as follows:

- 1) Various types of IA in operating activities allows the retailer increasing the labour productivity, reducing costs (including personnel cost), attracting and retaining customers by providing unique supply or a higher quality of service. The inability to reproduce the IA keeps the created advantages in the long run.
- 2) Private labels are now becoming one of the most promising IA for Russian retailers to create competitive advantages. Effective management of private label contributes to the optimization of assortment and price formation, imaging and reputation, it can serve as a tool for emotional involvement and increase customer loyalty, as well as the differentiation of the company. Special significance of private label for Russian retailers is their rather recent appearance in Russia and their beginning to develop.
- 3) An important use of IA in retail is franchising. Despite the recognized franchising benefits of business development, a specifics of the Russian market is the increased risk of deterioration of the franchisor business reputation by the fraud of the franchisees, which makes reverse franchising reasonable in Russia.
- 4) IA form a significant part of the company's capitalization. Higher business value helps improve its creditworthiness and investment attraction that certainly is for the retailer's most important competitive advantage.
- 5) The carrying value of IA, to be included in the accounting records of retailer, has an impact on its financial stability, liquidity, taxable base for income taxes, and amortization. The international as well as the Russian accounting standards suppose the management of IA in accounting policy of the organization, which can result in increased efficiency and competitiveness of the retailer.

Thus, we have formulated a general direction and specifics of IA application by retailers in Russia. Each of these directions requires further detailed study with a view to developing precise ways of creating additional competitive advantages for retailers accounting the specifics of the Russian market.

References

- Ambrusevich, T. E., & Kudashov, V. I. (2011). Intangible assets as a source of competitive advantage of organizations. *Economics and Management*, 2, 41-46.
- Andullah, R. B., Ismail, N. B., Rahman, A. F. B. A., Suhaimin, M. B. M., Safie, S. K. B., Tajuddin, M. T. H. M., ... Nair, G. K. S. (2012). The relationship between store brand and customer loyalty in retailing in Malaysia. *Asian Social Science*, 8(2). <http://dx.doi.org/10.5539/ass.v8n2p171>
- Bazhenov, Yu. K. (2013). Economic and legal aspects of intellectual property of retailers. In *Retail in Russia* (pp. 112-158). Moscow: Infra-M.
- Bogdanov, M. S. (2012). Evaluation of chain retailer's competitiveness. *Theory and Practice of Social Development*, 8, 350-353.
- Bortnikova, O. S. (2012). Problems and trends of the development of the domestic chain retail service market. *New Technologies*, 3, 201-204.
- Brand Finance. (2013). *Global 500: The most valuable brands*. Retrieved from http://brandirectory.com/league_tables/table/global-500-2014

- Bukhtiyarova, T. I., & Tashkinova, T. V. (2012). Ensuring the competitiveness of retailers. *Modern Problems of Science and Education*, 6, 423-431.
- Dikanov, M. Yu. (2011). Retailment competitive position. *Bulletin of Don State Technical University*, 4, 525-529.
- Dubrovin, S. V. (2010). Management of retail enterprise competitiveness. *Bulletin of Michurinsk State Agrarian University*, 1, 155-157.
- Emelianova, O. N. (2004). *Modern approaches to the assessment of retail enterprises performance* (Unpublished doctoral dissertation). Krasnoyarsk State Institute of Trade and Economics, Krasnoyarsk, Russia.
- Ene, S., & Özkaya, B. (2014). A study on corporate image, customer satisfaction and brand loyalty in the context of retail stores. *Asian Social Science*, 10(14). <http://dx.doi.org/10.5539/ass.v10n14p52>
- Fakhrutdinova, E., Kolesnikova, J., Yurieva, O., & Kamasheva, A. (2013). The commercialization of intangible assets in the information society. *World Applied Sciences Journal*, 27(Economics, Management and Finance), 82-86. <http://dx.doi.org/10.5829/idosi.wasj.2013.27.emf.17>
- First Independent Rating Agency FIRA. Retrieved September 7, 2014, from <http://www.fira.ru>
- Gorba, L. K. (2012). Strategic priorities of strengthening competitiveness of network retail operator of the hypermarket format. *Problems of Modern Economics*, 1(41), 226-228.
- Ivanov, G. G., & Mayorova, E. A. (2014). Business reputation and trade efficiency. *Economic Annals-XXI*, 1-2(1), 54-57.
- Kafiatulova, E. M. (2010). Sustainable competitive advantage in retailing. *Economics and Management: New Challenges and Perspectives*, 1, 270-274.
- Kavtatadze, L. S. (2010). Innovations in modern retail. *Economy and Entrepreneurship*, 3, 171-173.
- Khalezov, V. N. (2013). Creating sustainable competitive advantage of small trading enterprise based on formation of innovative potential. *Management of Economic Systems*, 51(3), 3-9.
- Kumar, N., & Steenkamp, J. B. (2007). *Private label strategy: How to meet the store brand challenge*. Harvard Business School Press.
- Logunov, S. V. (2006). *Use of private labels in competitive struggle on the FMCG market* (Unpublished doctoral dissertation). State University of Management, Moscow, Russia.
- Loseva, O. S. (2010). *Efficiency of incorporating intangible component into the system of economic entities relations* (Unpublished doctoral dissertation). Saint-Petersburg State Forest Technical Academy, Saint Petersburg, Russia.
- Magnit. (2012). *Annual Report 2011*. Retrieved from <http://magnit-info.ru/upload/iblock/611/611a2c7abfc2e0ce3ac849bb80612816.pdf>
- Nikitochkina, T. V. (2010). *Mechanism of intangible assets management in innovative activity of economic systems* (Unpublished doctoral dissertation). Russian State University of Intellectual Property, Moscow, Russia.
- Nikolaeva, T. A., & Yalunina, E. N. (2006). Research and systematic approach to the evaluation of the competitiveness of trade organization. *Bulletin of USUE*, 4(16), 75-84.
- Nikulina, T. A. (2013). Analysis of methodologies for assessing the efficiency of the retail chains. *Economy and Entrepreneurship*, 9(38), 712-716.
- Palamarchuk, A. S., & Tsareva, N. A. (2010). Methods of analysis and calculation of the efficiency of intangible assets and intellectual property. *Economy and Entrepreneurship*, 5, 46-52.
- Paramonova, T. N., & Krasnyuk, I. N. (2010). *Competitiveness of retail enterprises*. Moscow: Kronus.
- Platonova, Yu. O. (2013). Determinants of world and domestic retail trade development. *Bulletin of Samara State University of Economics*, 100, 91-96.
- Plotnikov, A. V., Ponosova, E. V., & V'jyugova, E. L. (2013). Assortment policy of retail trade networks – private label creation. *World Applied Sciences Journal*, 27(10), 1248-1252. <http://dx.doi.org/10.5829/idosi.wasj.2013.27.10.13610>
- Popenkova, D. K. (2014). Innovations in retail industry. *Economy and Entrepreneurship*, 4-1, 755-758.

- Roggeveen, A. L., Goodstein, R. C., & Grewal, D. (2014). Improving the effect of guarantees: the role of a retailer's reputation. *Journal of Retailing*, 90(1), 27-39. <http://dx.doi.org/10.1016/j.jretai.2013.11.003>
- Seleznyova, E. K. (2011). Retail: problems, trends and perspectives. *Bulletin of Russian State University for Humanities*, 10, 254-260.
- Seliverstov, Yu. I. (2013). The analysis of intellectual property use in the economic turnover of Russian enterprises. *World Applied Sciences Journal*, 25(12), 1763-1769. <http://dx.doi.org/10.5829/idosi.wasj.2013.27.emf.15>
- Selyukov, M. V., Shalygina, N. P., & Savenkova, I. V. (2011). Toolkit of search of sources of competitive advantages of trading organizations. *Modern Problems of Science and Education*, 5, 123-129.
- Sheremet, A. D., Saifulin, R. S., & Negashev, E. V. (2000). *Financial analysis methodology*. Moscow: Infra-M.
- Solomatin, A. N. (2009). *Economy, analysis and planning in retail*. Saint Petersburg: Piter.
- Sorokina, G. P., Zakharov, A. V., & Boronnikov, D. A. (2011). *Intangible components of competitiveness*. Moscow: MAMI.
- Vasil'eva, O., & Vakhitov, D. (2012). Strategy development for franchising in retail under regional diversification. *Risk*, 1, 268-273.
- X5 Retail Group. (2013). *Focusing on retail basics: Annual report and accounts*. Retrieved from http://www.x5.ru/common/img/uploaded/files/annual_reports/X5_AR13.pdf
- Zhang, J. (2010). Research on the own brand marketing strategy of retail enterprises in China. *Asian Social Science*, 6(9). <http://dx.doi.org/10.5539/ass.v6n9p22>

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/3.0/>).