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## Trends in development of wholesale trade in Ukraine

**Abstract.** The article focuses on the problems of the development of wholesale trade in Ukraine. Adapting the activities of wholesalers to the changes taking place in the wholesale market and the development of e-commerce in the conditions of globalisation and the integration of economic processes require the formation of new ways of interaction in supply chains and optimisation of business processes. The purpose of the research is to develop proposals regarding the development of wholesale trade in Ukraine, taking into account the experience of European countries. To do the study, the authors applied comparative analysis and empirical research (in 2017, thirty enterprises of wholesale trade were investigated).

Basing on the conducted research and taking into account the experience of the leading countries of the world, the following scenario of the development of wholesale trade in Ukraine is proposed.

1. On the basis of the conducted research it is proved that the wholesale turnover in Ukraine tends to decrease - 61.1% of the answers, however 52.8% of the respondents claim through that the wholesale turnover at wholesale enterprises where the respondents work will increase in the next three years. They foresee the development of the horizontal integration of wholesalers, since wholesale trade enterprises have advantages and fundamental differences associated with the period of turnover of funds. Also, such is the respondents' opinion regarding the vertical integration of wholesale enterprises in retail trade. Only a small number of the respondents agreed that wholesale companies would merge with retailers. Therefore, we can assume that this trend is decreasing, and there will be no significant changes in this area in the coming years.

2. The most effective way is the development of wholesale trade as a result of focusing on one of the functions (for example, specialisation in providing logistics services, provision of warehouse services or services to ensure the organisation of goods, the development of 3 PL (PL - provider of logistics services), provision of logistic services by 4 PL-providers with regard to storage, transportation and processing of orders). Such functions are often assumed by the former distribution companies. We consider this direction of wholesale trade to be the most possible. However, this can be achieved only in the presence of warehouses.

3. We have provided a conceptual framework for the development of wholesale trade in accordance with the implementation of the omni-channel strategy. The application of e-commerce in the activities by wholesalers (for B2B businesses) increases the level of customer service in the modern environment. The respondents acknowledge the tendency to create their own online stores at wholesale enterprises - 89%, which correlates with 97% of the respondents who will increase wholesale trade in e-commerce in the next three years.

The introduction of e-commerce in the activities of wholesalers (for B2B businesses) will contribute to the enhanced level of customer service in the modern environment. Yet, the effective use of the omni-channel strategy is a complex process that requires integration of advanced technology and transformation of outdated organisational structures and business processes.

**Keywords:** Wholesale Trade; E-commerce; Multi-channel; Omni-channel; Fulfillment

**JEL Classification:** F10; M21

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### Тенденції розвитку оптової торгівлі в Україні

**Анотація.** У статті приділено увагу проблемам розвитку оптової торгівлі в Україні. Проведено дослідження сучасних методів організації оптової торгівлі на вітчизняних підприємствах. Авторами запропоновано шляхи розвитку оптової торгівлі на основі проведення анкетного дослідження діяльності підприємств оптової торгівлі. Визначено концептуальні положення розвитку оптової торгівлі відповідно до впровадження омніканальної стратегії.

**Ключові слова:** оптова торгівля; електронна комерція; мультиканальність; омніканальність; фулфілмент.

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**Тенденции развития оптовой торговли в Украине**

**Аннотация.** В статье рассмотрены проблемы развития оптовой торговли в Украине. Проведено исследование современных методов организации оптовой торговли на отечественных предприятиях. Авторами предложены пути развития оптовой торговли на основе проведенного анкетного исследования деятельности предприятий оптовой торговли. Определены концептуальные положения развития оптовой торговли в контексте внедрения омниканальной стратегии.

**Ключевые слова:** оптовая торговля; электронная коммерция; мультиканальность; омниканальность; фулфилмент.

**1. Introduction**

Wholesale trade is one of the driving forces behind Ukraine's integration into the European Union market, thus it is vital to promote the development of Ukrainian enterprises and to bring them in line with the standards of the European wholesale trade industry.

**2. Brief Literature Review**

The formation and development of the wholesale market in Ukraine require intensive formation of its infrastructure, creation of a new information base, and provision of credit, financial and regulatory support. The formation of new business models correlates with scientific research of modern aspects of enterprise management and is in the vision of foreign and domestic scientists. However, some theoretical and practical issues relating to the development of wholesale trade remain understudied.

Ukrainian scientist T. Dubovyk has identified a set of factors that impact consumer decisions concerning the purchase of items online, chances to shop online, use of social networks for communication, data privacy controls, consumer awareness of the value of personal data with regard to their segmentation. The basic target segments of consumers are price hunters, stakeholders, finders, observers and others. The conclusions have been made concerning the possible use of Internet marketing communication components for the abovementioned segments of consumers (T. Dubovyk, 2014). Yet, their research is focused only on the B2C market and they don't consider consumer behaviour in the B2B market.

A. Mosquera, C. O. Pascual and E. J. Ayensa, 2017 consider that the omni-channel is one of the most important retail events of recent years. New technologies allow retailers to integrate all the information that today's emerging channels and touch-points provide.

Polish colleagues, Sz. Strojny and M. Chromińska, claim that a trend towards the transformation of supply chains has recently been observed in Poland (Strojny, Szymon; Chromińska, Maria, 2016). Due to constant changes in wholesale trade, it is necessary to continue conducting research in this market segment. We agree with those authors who state that there is only a limited amount of research available on wholesale trade. Additionally, the quantity of such studies is much smaller than in the case of retail trade. However, wholesale trade is an important part of the supply chain, which significantly affects its effectiveness. The authors assume that multichannel sales is one of possible solutions which should be implemented by wholesalers.

However, the issues which enterprises are facing while introducing the new form organization of wholesale trade to require further investigation.

**3. Purpose**

The purpose of the article is to work-out proposals on how to develop the wholesale trade in Ukraine.

**4. Results**

As wholesale trade remains an important element in the supply chain and influences the effectiveness of its creation, it is necessary to conduct research on the features of management and optimisation of business processes. The results of the empirical study cover both the analysis of the activities of independent wholesalers, as well as those involved in the organisation of the supply chain of goods in the Ukrainian market. The research is aimed at the integration processes taking place in

the wholesale market and the peculiarities of the implementation of business processes at the investigated enterprises.

As already mentioned, there are several different scientific approaches to the definition of the functions of wholesale trade - the transformation of large batches of goods into small ones. Wholesale trade is a connecting element between the producer and the consumer within the distribution channel between the manufacturer and the retail consumer enterprises, between the manufacturer and a group of consumers and even individual consumers. In nowadays conditions, there is another channel which is carried out on the basis of «indirect transmission», that is the transfer of goods directly from the supplier to consumers, bypassing warehouse storage. The process ends with the delivery of goods by own means of a wholesaler or under the conditions of outsourcing, while providing appropriate customer service.

In accordance with the functional features of the activities of wholesale trade enterprises, it is possible to divide them into two groups: those providing a wide range of services and those providing a limited range of services.

These two groups of wholesale companies are the subject of the empirical research. The sampling method was random; interviews were conducted using data collection methods, in-depth interviews using a questionnaire survey, an online survey and a direct interview.

The authors have analysed the data of the State Statistics Service of Ukraine on the activity of the wholesale trade enterprises by the type of economic activity «Wholesale and retail trade; repair of motor vehicles and motorcycles», which were relevant at the time of the research (2017). In order to obtain integral valid information, we conducted an analysis of the existing practice of providing services by wholesale enterprises, which was done on the basis of medium-sized and large enterprises.

In total, 30 enterprises of wholesale trade are investigated. The largest share in the overall structure of the sample is taken by wholesale trade enterprises specialising in the sale of food products - 22%, construction materials - 6.7% and household chemicals - 11.1% (Figure 1).

The structure of the enterprises by the sample group, namely the wholesale enterprises involved in the organisation of the supply chain of goods equals 15% and independent wholesale enterprises comprise 86.1%.

The first part of the research is to determine the concentration of processes occurring in the manufacturing sector, the

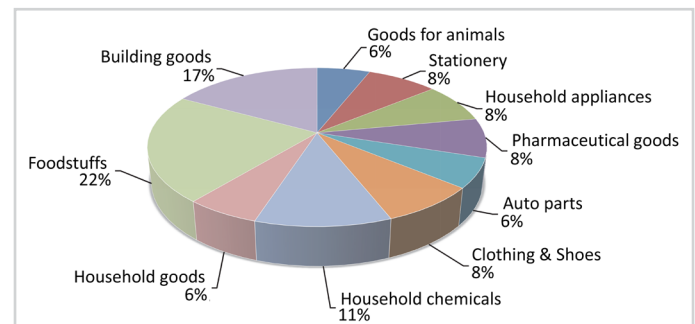


Fig. 1: Branch structure of the sample of enterprises, %  
Source: Compiled by the authors

relationship between producers and traders. Accordingly, the first group of processes under study is the process of concentration at the level of production enterprises, that is the horizontal concentration of production. This problem is an important part of Porter's five forces model. It is assumed that there is a relationship between the supplier and the consumer, the higher the level of concentration is, the greater their relevance to the tender procedure is, which manifests itself in the ability to establish special conditions during the negotiation process.

Thus, the research of the activity of manufacturing enterprises affects the organisation of the wholesale enterprise. The data of the surveys of managers of wholesale enterprises the trend of development of the industrial sector is shown in Figure 2.

According to the conducted research, 55.6% of the respondents believe that in the future manufacturers will create distribution centres and carry out the function of wholesale trade, while 40.1% of the respondents state that they do not notice the process of merger of producers. In this way, this phenomenon is positive for wholesale enterprises.

The experience of European countries regarding the development of horizontal and vertical marketing systems deserves attention because the combination of such enterprises is achieving a significant economic effect. According to foreign experience, the growth of volumes of wholesale trade of world companies is also due to the intensive development of Internet commerce, which promotes the search for new partners in other countries, the conclusion of contracts for the supply of goods with them, as well as conducting marketing research and research of business processes by leading enterprises from the countries of the world.

However, by investing in distribution channels and developing their own distribution centres, manufacturing companies will in some ways compete with wholesale enterprises. The process of reducing the distribution channels is determined by the decrease in the level of wholesale trade turnover, as well as the development of direct relations between producers and retail trade networks, which has been observed in recent years. This trend is due to the fact that manufacturers have full control over the sales channels. Reducing distribution channels is a positive moment for end users in the supply chain of goods. Reducing the functional costs of the business process is the result of the distribution channels reducing.

We have analysed the respondents' responses to the threats of wholesale trade development through the growth of the number of retail outlets (Figure 3).

According to our research, 45.4% of the respondents believe that the main threat to wholesale enterprises is the direct connection of manufacturers with retail trade, 40.1% indicated that the horizontal integration of retail enterprises could be another threat, and 36.1% of respondents noted that the number of supermarkets and hypermarkets in the next three years will increase. This trend will have a negative impact on the development of wholesale trade in Ukraine. At the same time, respondents do not expect that new supermarket chains will appear in the Ukrainian market and the majority of respondents believe the number of supermarkets will decrease.

Accordingly, 45.1% of the respondents indicate that the number of wholesale enterprises will decrease; 42.3% of the respondents consider that the horizontal integration of wholesale enterprises will take place in the near future, and 35.2% of the respondents note that retail trade networks will fulfil the wholesale trade function in the future. Thus, 71% of the respondents confirmed this idea of reducing the number of wholesale enterprises. At the same time, more than 60% of the

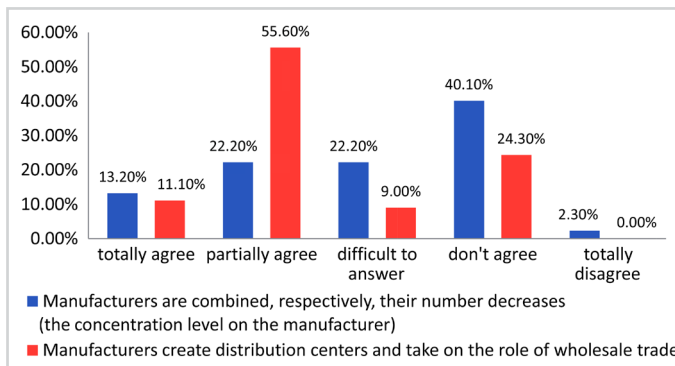


Fig. 2: The structure of responses of the respondents about the trend of development of horizontal concentration of production, %  
Source: Compiled by the authors

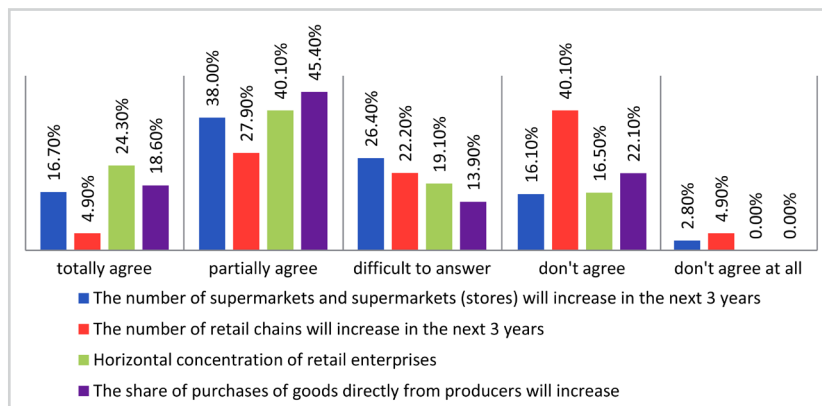


Fig. 3: The structure of responses of the respondents concerning retail development, %  
Source: Compiled by the authors

respondents acknowledge the horizontal concentration in the wholesale market in Ukraine, which is a combination of wholesale enterprises (Figure 4). We asked the respondents about the prospects for the development of the wholesale trade.

We can assume that such a merger is an answer to the current situation in this area. The process of the horizontal integration in wholesale trade can take different forms and ranges, from the purchase of a group of enterprises to the full integration of businesses.

However, there is no unambiguous opinion among the respondents regarding the vertical integration in retail trade. Only a small number of respondents agree that wholesale companies would merge with retailers. Such a process has been taking place over the last 10 years and has influenced the formation of several retail chains in Ukraine, consisting mostly of small retail



Fig. 4: The structure of responses to prospects for the development of wholesale trade enterprises, where respondents work, %  
Source: Compiled by the authors

outlets. We can assume that this trend is decreasing, and there will be no significant changes in this area in the coming years.

According to respondents, the wholesale turnover in Ukraine tends to decrease - 61.1% of the respondents, however 52.8% of the respondents claim that the wholesale turnover at wholesale enterprises where respondents work will increase in the next three years.

Respondents acknowledge the tendency to create their own online stores at wholesale enterprises - 89%, which is closely related to the response of 97% of the respondents who will increase wholesale trade in Internet commerce in the next three years (Figure 5).

Accordingly, this creates new challenges for wholesalers, since retail enterprises have the same trends. At the same time, online commerce allows Internet stores to compete with retailers in line with the established flexible pricing policy, due to a reduction in the price depending on the supply of goods and the development of the bonus system for consumers. But this requires wholesale companies to acquire new skills and to change the entire structure of business processes of the enterprise.

The research of the peculiarities of the introduction of the latest technologies in the organisation of sales of goods is based on the multi-channel and omni-channel strategies, which contributes to the increasing level of customer service of wholesale enterprises using information platforms. In modern conditions, there are several areas for research on the use of tools for omni-channel marketing, among which: the construction of conceptual models of multi-channel and omni-channel marketing using the experience of leading enterprises and experience of the countries of the world; the impact of multi-channel and omni-channel marketing on the financial and economic indicators and the effectiveness of the wholesale enterprise; management of the supply chain of goods and distribution systems during the transition to multi-channel sales (especially for wholesale enterprises that do not have warehouses); introduction of e-commerce at wholesale enterprises; the possibility of combining traditional and e-commerce during the organisation of commercial activity.

Ukrainian companies can learn a lot from the experience of both Alibaba and Amazon, if it is about the quality of customer service. Both sites have set a very high bar; the same is expected today from B2B suppliers. Cloud B2B e-commerce platforms have a potential close to that of Amazon in terms of ensuring the omniscience of the trading process and the possibility of interacting with the buyer from various devices and through different channels, but few of them can afford to invest enough money in personnel and competencies to enter such a same level of service. This factor is so significant that Gartner predicts a shift of the e-commerce market by 70% by the year 2019 from the models B2C and B2B towards individual interaction schemes with the client.

The Internet occupies the basic position among all information technologies, which leads to the need to promote products and services of trade companies, to search for information, customers and partners, and also to take advantage of the application of Internet technologies. B2B sellers are investing more and more in e-commerce technology, so that they can provide the same easy ordering and customer experience that online retailers enjoy. In 2018, wholesalers will be able to create stronger commerce ecosystems. Online wholesale stores will become increasingly discoverable through search engines; price negotiations could happen in real time, and the ordering process will take place virtually using online catalogues and payment gateways. As B2B businesses evolve to a more traditional retail approach, they will be able to offer wholesale customers the same sophisticated level of services that retailers have been taking advantage of for years. However, while multi-channel refers to having a presence on several channels that then work separately, in an omni-channel environment; the channels work together so that customers can use digital channels to research and experience the physical store in a single transaction process. Therefore, the omni-channel strategy refers to an ideal strategy that offers several channels in accordance with the latest technological developments and current consumer behaviour. The introduction of e-commerce in the activities of wholesale

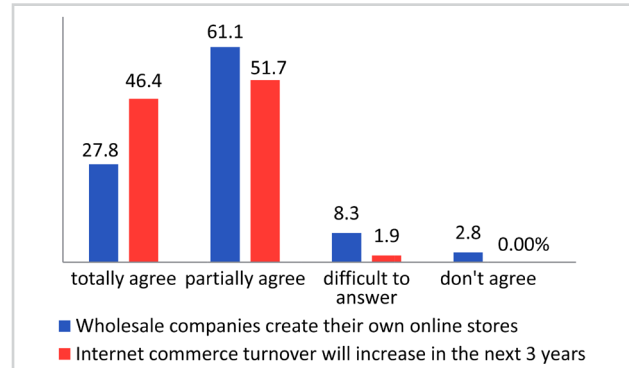


Fig. 5: The structure of responses of respondents about the prospects of Internet commerce development, %  
Source: Compiled by the authors

enterprises (for B2B business) promotes the level of customer service, but the use of omni-channel strategy is a complex process and requires the integration of world class technologies and the transformation of outdated organisational structures and business processes, as well as the transformation of supply chains. As a result of the many channels used today (social media, physical store and mobile applications), companies have a lot of consumer information. They must use it to customise and ensure the consistency of each customer relationship.

However, for those wholesale enterprises that have begun implementing omni-channel strategy, it is possible to create a powerful competitive advantage among others. For example, the experience of enterprises from European countries that implement the omni-channel strategy has shown that it is possible to carry out the process of purchasing goods in the on-line and off-line mode with a possibility of delivering goods on the day of the order or the next day.

We have conducted a research on the criteria for the importance of implementing this strategy when purchasing goods through online orders provided by B2B business representatives (Figure 6).

The wholesale enterprises (80%) believe that the important criteria for the purchase of goods by consumers is the delivery of goods the next day, providing of up-to-date information on the available stock of goods in real time - 78%, the possibility of self-service of account and order - 76%, the relevance of information about the availability of goods and price lists - 73%, as well as a convenient delivery schedule - 65%.

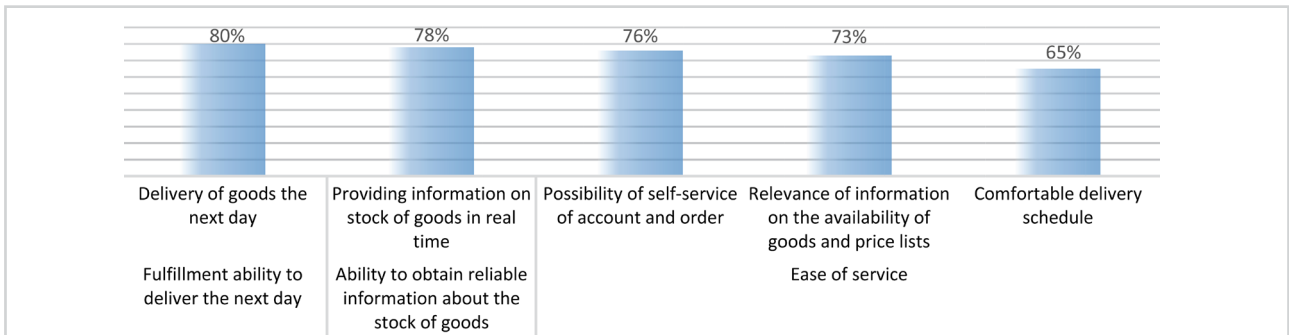
Further, we researched of the criteria of importance when purchasing goods through the Internet order, indicated by consumers, namely: clear information about the time of delivery of goods - 84%, the relevance of information about the availability of stock in real time - 79%, the possibility of self-service of account and ordering - 74%, the relevance of the order and the ability to track the shipment of goods from the warehouse - 69%, the ability to view their own profile and information on past purchases - 65% (Figure 7).

Thus, B2B consumers are no longer satisfied with fragmented, ineffective orders on the Internet and expect that the implementation of the omni-channel strategy will continue to evolve. Accordingly, B2B consumers will be able to receive reliable product information, analyse the history of orders, payment of bills and information on the volume and cost of delivery of goods, as well as return and exchange on all channels.

## 5. Conclusions

Basing on the conducted research and taking into account the experience of the leading countries of the world, the following scenario of the development of the wholesale trade in Ukraine is proposed:

1. The development of the horizontal integration of wholesalers, since wholesale trade enterprises have advantages and fundamental differences associated with the period of turnover of funds.
2. Specialisation in a separate product niche or market segment including the geographic ones: servicing corporate clients (or service stations), exclusive distribution of original goods. The benefits of narrow specialisation are



Note: *Fulfillment* is a complete complex of operational and warehouse processing of goods in the Internet trade: acceptance and address storage of goods in the warehouse, selection of goods according to the order, their complete set, shipment of the order for further delivery.

Fig. 6: The structure of responses of respondents regarding the criteria for according importance when purchasing goods via online orders, which were provided by respondents-representatives of business B2B, %  
Source: Compiled by the authors

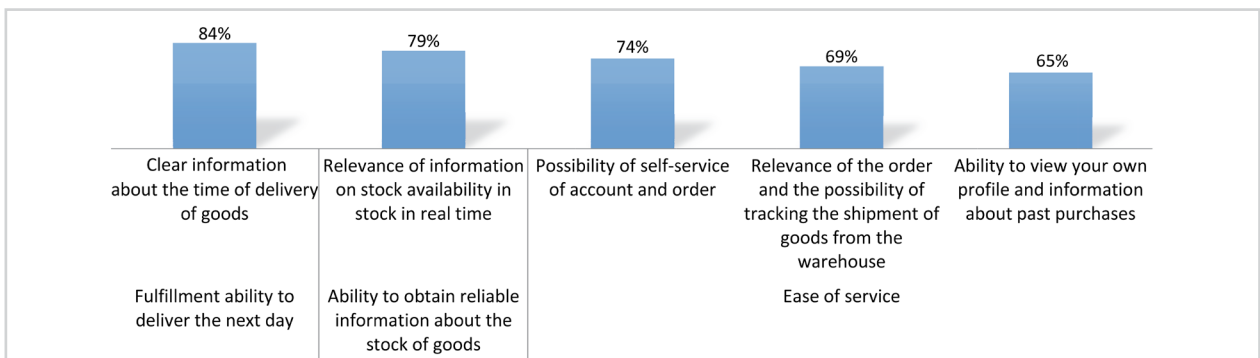


Fig. 7: The structure of responses of respondents-consumers regarding the criteria of importance when purchasing goods through an online order, %  
Source: Compiled by the authors

insignificant competition and, consequently, increased profits. At the same time, the same advantages pose potential threats to the development of wholesale trade, since the narrow segment of the market leads to the fact that wholesale companies will have to make titanic efforts to confront competitors who own branded products (brands). Therefore, in terms of the stability of the enterprise, long-term targeting on one narrow segment of the market can be dangerous.

3. The conceptual position for the development of wholesale trade in accordance with the implementation of the omni-channel strategy is determined. The introduction of e-commerce in the activities of wholesalers (for B2B businesses) contributes to the increasing level of customer service in the modern environment. Effective use of the omni-channel strategy is a complex process that requires integration of advanced technology and transformation of outdated organisational structures and business processes.

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