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RESOURCE POTENTIAL OF TRADE ORGANIZATIONS

Study Guide



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The study guide analyses current problems of acquisition and management of the resource potential of a trade organization. Special focus is given to intangible resources and the effectiveness of their use in trade. Designed for undergraduate and graduate students pursuing degree in Business, Economics, Management.

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TOPIC 1. METHODOLOGY OF TRADE ORGANIZATION RESOURCE POTENTIAL MANAGEMENT

Learning objectives:

- Learn to describe the evolution of approaches to the definition of the concepts of resources and resource potential;
- Learn to describe the goal and objectives, mechanisms for resource management and resource potential;
- Understand the role of resources and their potential capabilities in the successful implementation of the development strategy of a trade organization;
- Learn the approaches to the resources classification and the main components of the resources of the organization;
- Learn the approaches to assessing the resource potential usage effectiveness;
- Learn to assess the resource potential usage effectiveness, including its main components.

1.1. RESOURCES AND RESOURCE POTENTIAL OF A TRADE ORGANIZATION: CONCEPT, PURPOSE AND TASKS OF MANAGEMENT

In order to ensure the sustainable development of the enterprise in an ever and rapidly changing external environment, it is necessary to acquire and mobilize all types of its resources

for sustainable pace of development. Resources of an enterprise and resource potential are fundamental terms in the theory of sustainable development of enterprise and are considered as one of the drivers for its development.

There are several approaches to the definition of the concept of resources. One of them is a resource approach: it defines *resources* in the broadest sense of the word – as all that ensures the functioning of an enterprise. It is widely considered, that the enterprise resources theory originates in the work of E. Penrose. There, the firm is perceived as a complex set of resources that are controlled by the management. One of the fundamental principles of the resource theory is that all resources are limited and have different potential effectiveness. According to Daft, *resources* of the firm are assets, abilities, organizational processes, information, knowledge, and other attributes of a firm, allowing it to determine and implement strategies to improve its target and resource efficiency. Another approach considers resources as means, reserves, opportunities, sources of something. Point of interest of this approach is the consideration of resources of the enterprise as sources of its development. Enterprise receives all of its resources for its functioning from the external environment, and also acquires as a result of its activities.

The resource potential of a trade organization is the foundation for its economic growth and effective development. Modern definition of the *potential resources* describes them as the totality of all the resources of an enterprise, providing the possibility of obtaining the maximum effect at a given point in time and developing the system in a given direction. The implication is that the resource potential depends on the ability to effectively implement the chosen organization strategy.

It allows the organization to focus efforts and organizational resources on key aspects that lead the organization to achieve economic, market and financial goals. The limited resources and the reduction of their real value make it problematic to develop any organization in the future.

The purpose of resource and resource potential management of the organization is to ensure the sustainable development of the trade organization at a given rate. ***Resource management tasks*** are solved at all stages of their production. *At the stage of resource acquisition* it is necessary to ensure the sufficient level of resources to achieve the goals of trade organization. Principally, this refers to the assessment of financial resources as sources of the development of the organization. *At the stage of resource allocation*, the most important are the tasks of resource management and the tasks of resource control aimed at the effective implementation of the development strategy and market and financial success. The tasks of resource management include the use of such mechanisms as priority mechanisms, competitive mechanisms, etc. The second group of tasks is aimed at identifying key directions of resource concentration, determining their optimal structure. *At the stage of resource usage*, the objectives of organization are to assess the effectiveness and usage rate of selected resource types and resource total based on existing methods and models.

The basic principles of resource management are:

- ensuring balance of resources;
- ensuring the reproduction of resources;
- adaptation of resources to environmental conditions.

Overtime, resources can change due to changes in environment. This aspect of resources may lead to a change in the

strategic position of the organization, its scale of business, reflected in the number of markets served, its share in the market, even the status of the company in the external environment may change, for example, an organization may lose its position as a market leader.

The main purpose of resources lies in ensuring the successful realization of the competitive advantages of the organization, which is reflected in a competitive strategy. This means that resources must meet *four basic criteria* [17]:

1. *Resource value*: that is created within the company, not available outside of it. For example, unique knowledge and skills of the employee, unique business processes created within the organization that lead to the creation of the consumer value of the market offer, which exceeds the value of the competitors offer. The resource value is a universal measure of efficiency, it is determined for a specific time, for a specific situation.

2. *Resource rarity*: this criterion is closely tied to the first criterion. Examples of resources that meet this criterion can be: the good location of the enterprise; human resources (people with high cognitive abilities are rare). The talent pool is not limitless, and many employers have difficulty finding the talent they need.

3. *Resource inimitably*: it is difficult for competitors to duplicate the competitive advantages of a company created by unique resources. Inimitable resources create long-term competitive advantages of the company.

4. *Resource irreplaceability*: many types of resources are difficult to replace with new types of resources. For example, many types of innovative resources, technologies for organizing business processes are difficult to replace with others at least in a short time period; long-term work is necessary.

REVIEW QUESTIONS

1. Define the concepts of resources and resource potential of the organization. Explain how the views on these concepts have evolved?

2. Explain the main tasks of resource potential management of a trade organization by the stages of their reproduction. Give examples of the tasks of financial resources management of an enterprise at the stages of their reproduction.

3. List the basic mechanisms for the allocation of limited resources and describe each of them.

4. Explain the role of resources and their potential in the successful implementation of the chosen strategy of development of the trade organization.

5. List the main criteria that must be met by the resources to achieve competitive advantages for the trade organization. Give examples of resources that can meet these criteria.

1.2. APPROACHES TO THE RESOURCES OF THE TRADE ORGANIZATION CLASSIFICATION

To mobilize resources for sustainable development of a trade organization it is necessary to fully understand of their composition and reproduction opportunities. Resources classifications may help to develop it.

1. By their relation to the trade organization:

– *external resources* are the resources that the organization receives as a result of the exchange with the external environment (for example, technology, information, fixed and current assets, etc.). These resources are acquired when trade organization is formed and are renewed during the entire life cycle of its existence.

– *internal resources* are resources that the organization itself produces: abilities, knowledge and skills of people (for example, if human resources come from the external environment, then employees can acquire professional skills and competences in the company itself; borrowed capital comes from outside, and its effective use is determined by professional skills of manager). The organization is able to form unique resources in the form of organizational culture, company reputation, brand popularity, etc.

2. By the accumulated potential:

– input resources are basically, these are resources received by the organization from the external environment (intellectual, labour, physical, etc.);

– accumulated internal resources, which together with the input resources constitute the competitive potential of the organization;

– output resources are the result of the conversion of input resources.

Depending on the resource scope used for the successful implementation of the chosen organization development strategy, the following ***approaches to resources classification*** can be distinguished:

– *traditional approach*: resources are considered, on the one hand, as sources providing the production process, and on the other hand, as the economic potential of the organization;

– *modern approach*: based on the traditional approach, but at the same time includes in the resource scope new types of resources that allow companies to achieve competitive advantages, meet the requirements of modern business and ideas about the successful implementation of the business model of the trade organization.

The traditional approach divides resources into the following main categories: natural (land value and climatic conditions); labour (people and their ability to produce goods and services); production (money and means of production); entrepreneurial skills (ability to make effective management decisions, introduce innovations, accountability for the economic consequences of decisions made); scientific and technical; informational. The key elements in the system of economic resources are fixed capital, material costs (current assets), and labour resources.

Fixed capital is considered physical resources and in the accounting records it is registered as non-current assets. On the basis of liquidity they are considered illiquid assets.

Fixed capital is physical resources and in the accounting records are registered as non-current assets. They are illiquid assets. The main purpose of fixed assets is to serve the process of production, operations and sales of goods. The potential use of these resources is in increasing their productive use (reflecting the capacity utilization rate). It is important for a trading enterprise to understand whether there is enough fixed capital to provide the required level of quality customer service. Assessment of the effectiveness of the use of these types of resources is determined by renewal ratio, depreciation ratio, capital (fixed assets) retirement, capital/output ratio, capital/labour ratio.

Material costs (current assets) include inventory, cash, bills receivables, short-term investments, etc. To harness the potential use of this type of resources it is necessary to determine their optimal structure, speed up the turnover of current assets and their main components (number of turnovers, reducing the turnover period). Solving this task allows freeing up cur-

rent assets from turnover, which means that the organization has the opportunity to reduce the size of current assets, reduce the amount of borrowed sources of financing.

Labour resources (manpower) are people with their abilities to produce goods and services. These resources are estimated by the number of employees, work time expenditures (man-hours, man-days) and in money – the cost of maintaining staff (wages, insurance fees, reskilling, labour protection, training, etc.). The effectiveness of their use is determined by labour productivity. The most universal indicator of labour productivity is the man efficiency (ME), which is defined as the quotient from dividing the turnover (T) by the average number of employees (ANoE). Increasing labour productivity largely depends not only on workers, but also on the organization of trading technological processes, the entrepreneurial abilities of managers, the competence of managers, etc.

Entrepreneurial skills imply initiative, management decision-making, innovation implementation, accountability for the economic consequences of decisions. There is a belief that, that these skills require a level of education, qualifications, and abilities of people. It is necessary that the environment provides the conditions for the implementation of these opportunities (the regulatory environment). It is important how an entrepreneur acquires resources, manages resources, finds new markets, introduces innovations.

Information resources is a new resource category that is a vital for the organization. In the post-industrial society, information and intellectual resources are the main types of enterprise resources. Information has become a commodity in the modern world, it has a price and is sold on the information market.

Information resources are the basis for the informational promotion of goods, as well as the provision of information services [9]. Each trade organization uses different quantities of incoming information necessary for making operational and strategic decisions. Necessary information requirements are timeliness, reliability, accuracy and completeness.

Intellectual resources. Presently, knowledge is becoming the most important resource of the organization [5]. Information that comes from the external sources and is formed within the organization should be transformed. This function is carried out by labour resources, which transform information – new knowledge – so that it becomes a resource with real value (unique value). Obviously, this value depends on the qualifications, experience and other qualities of people who transform information into a system resource.

Human capital – as well as human resources – is by definition an intellectual resource. This is an asset of the company, people with their intellect, abilities, with high learning aptitude and an adequate self-esteem, communicative, sociable, with ability to build trusting relationships. The concept of “human capital” was introduced in the 60s (T. Schultz, Becker and their followers). Human potential is the possibility for human development, growth of human abilities.

Technological resources are represented by modern sales technologies, logistic operations, capable to start a mechanism for creating consumer value of the market offer, which forces the consumer to pay a higher price for goods and services of a trading enterprise. Main trends in retail trade business include the complexity of introducing online and offline sales due to the development of mobile technologies. It

is important for the assessment of the technological resource potential of a trade organization to understand its innovative potential. Representatives of the integral approach define the innovation potential as the set of production and technological, labour, financial, organizational, management and intellectual potentials. *Innovative potential* demonstrates the effective management possibilities of the innovative activity of a trading enterprise. Strategic innovative potential uses the developed innovative strategy as the basis for its formation. Technological resources that participate in the creation of a unique market offer allow trade enterprises to reach a quality trade service that competitors have difficulty copying or it takes quite a long time for them to do so. As an example, in order to attract customers, reduce the number of personnel and increase the turnover in Moscow, the “Perekrestok. The store of the future” was established, that has no sellers and cashiers. All products are marked with unique radio-frequency identification tags (RFID). This automatic identification technology tracks products from the manufacturer to the warehouse, from the warehouse to the sales area, controls expiration dates, instantly provides information about the availability of goods on store shelves [14]. RFID tagging allows direct scanning of the purchase information in the shopping carts, the electronic receipt is generated within 10 seconds regardless of the quantity of goods. Other trading organizations have implemented this technology.

Financial resources are important as a means of replacing one resource for another, given their current value. Financial resources as monetary assets are used to convert to other types of resources in order to ensure the next cycle of the

organization functioning and development; for accumulation for future use (potential financial resources). Financial resources are not a product, but are a means of supporting business.

Spatial resources and consumption are the geographic boundaries of organization service provision, radius of attraction, the density and size of the population, the number of the working-age population, its socio-demographic parameters (for example, level of income, age and gender composition, etc.). These elements of these resource categories determine the coverage of targeted public, and hence the potential opportunities of a trading enterprise market. The trading enterprise availability for buyers and its convenient location are the two fundamental factors that determine the preferable place of purchase for buyers [4]. When choosing a location for an enterprise, trade organizations primarily focus on spatial resources, which often lead to high competition in the selected market. Understanding the geographical boundaries of the market and the socio-demographic parameters of targeted public based on product-market segmentation allows the managers of a trading enterprise to choose their product market that allows for later target market and leave the direct competition (if possible). The expansion of the market geographical boundaries consolidates the strategic position of an enterprise. Transformation of spatial resources into consumer capital and creating intangible assets of the enterprise, ensure the success of retail chains operating in the retail market. (for example, such retail chains as Walmart in the USA and Magnit in Russia). Consumer capital growth by searching for the main source of value for the buyer, increasing the

perceived consumer value of the market supply. In turn, the higher the perceived offer value, the greater the opportunity for an enterprise to attract, satisfy, retain customers, and consequently, increase sales and profits in both the short and long term [21].

Marketing resources are intangible assets of a trade organization. The main marketing resource is the market, customers, and competitors information. This information is used by marketers to develop pricing strategies and tactics, assortment building strategies, and communication strategies. *Marketing resource potential* of a trade organization is considered as an integral part of its resource potential. The main types of marketing resources, according to the authors, are information resources obtained through marketing research, human resources (such as knowledge of the market, customer behaviour, etc.), and consumer value of the market offer created through the use of marketing Information. Marketing potential is external, internal, and transformed resources that are able to maximize yield if the following conditions are met: key areas of information provision that is necessary to maintain the financial and other resources are defined; the need for the amount of financial resources for marketing activities is justified. Existing resource allocation mechanisms are based on an assessment of the effective indicators of marketing activities. The marketing information resources can be divided into the following groups [23]:

- information support of strategic marketing decisions (strategic analysis): market environment research, market analysis, target markets research, selection of basic competitive strategies;

- information support for creating and maintaining sustainable competitive advantages (studying the competitive environment appeal, studying the influence of the competitive environment on the possibility of achieving and/or retaining competitive advantages);
- information support of business strategy goals achievement (assessment of the potential capacity of the market, consumer awareness of the products, etc.);
- information support for the development of a market offer, which involves the definition of a benefit set for target buyers in the 4P model;
- information support to assess the validity of the distribution of marketing costs in order to maintain the competitive position of the enterprise;
- information support to assess the effectiveness of the use of the marketing resource potential of the enterprise.

Marketing activities results in increase of perceived product quality, quality of service, brand strength, loyal customers, customer satisfaction, company reputation growth, etc. The main condition for increasing the cost of this resource is the compliance with consumer needs, demands, satisfying quality of goods, price, quality of trade services [18]. Modern tendencies show that the quality and service culture become an essential condition for the formation of customer satisfaction which dictates the preferences of the customers when choosing the trading organization. The potential use of these resources is determined in the process of developing a marketing strategy, business strategy [22].

The organization converts input resources into output resources. The output resource of the trade organization is the

offer value. The input resources and the accumulated internal resources of the enterprise constitute the *resource competitive potential of the organization*, which is used in the current functioning of the organization in order to create the customer offer value, its development, and internal needs. The internal potential of resources must be greater than the created offer value (in the form of a product offer and the quality of service corresponding to the targeted public). Since the external environment is changing dynamically, an organization can maintain its equilibrium only through dynamic development. A trade organization diverts a part of its resource potential for development, while a part of resources remains within the organization itself. Such a diversion of resources is a necessary condition for the existence of the organization [19]. The stagnation in enterprise development leads to decreased product demand on the market, limitation and stop of external resources inflow, and, as a result, the organization will cease to exist.

REVIEW QUESTIONS

1. What are the main approaches to the resources of a trade organization classification?
2. Give the resources of a trade organization classification in accordance with the studied approaches.
3. Describe the main resources of the trade organization.
4. Describe the main components of the economic potential of the trade organization.
5. Describe the main components of the marketing resource potential as a strategic asset of a trade organization. Give examples of indicators of control of marketing potential, used to predict the strategic position of the organization.

1.3. ASSESSMENT OF THE RESOURCE POTENTIAL USAGE EFFECTIVENESS OF A TRADE ORGANIZATION

Assessment of the resource potential usage effectiveness of a trade organization can be carried out in several directions. These may include: assessment of the aggregate resources usage effectiveness; assessment of the economic resources use intensity; assessment of the individual resources usage effectiveness of the trade organization (for example, innovative resources, financial resources, human resources, marketing resources, etc.). Approaches to the assessment of marketing resources are specified in [23].

The following methods are used for resource usage effectiveness assessment:

- ratio analysis methods: assess the usage effectiveness of both combined and individual components of the resources (for example, resource productivity, capital productivity, ROI, etc.);
- judgemental methods: are used in analysing situations where it is impossible to quantify results or where it is necessary to analyse qualitative factors (for example, the Delphi method);
- integral methods: are used when it is necessary to assess several types of resources at the same time (for example, innovative, intellectual, human, etc.);
- matrix models: are based on the choice of basic parameters and their streamlining as a set of studied parameters. The parameters can be divided into three groups on the basis of resource potential use: performance parameters, cost (charges) parameters, resource acquisition sources parameters.

1. *Assessment of the total assets (resources) effectiveness of the organization* is carried out using the financial reporting informa-

tion: Form No. 1 “Statement of Financial Position” and Form No. 2 “Statement of Financial Results” using the formula (1):

$$ROTA = P/TA \times 100\% \quad (1)$$

ROTA – return on total assets;

P – profit (gross or total);

TA – total assets.

The total assets of the trade organization include: fixed assets average; average balances of revolving funds and funds circulation; labour costs and social benefits. By comparing the profit with each type of assets a system of return indicators of the each asset is created: fixed assets return, working capital return, living labour costs return [6]. *Assessment of current costs effectiveness* is carried out by dividing the profit by the total costs of circulation for a certain time period.

2. *Assessment of economic resources usage effectiveness* of the trade organization.

Economic resources of organization are viewed as the drivers of its economic growth. Economic resources are described as all kinds of resources used in the process of trading. When analysing the activities of the organization, economic resources are divided into fixed assets; material costs (current assets), labour resources. The most important indicators of the economic resources usage effectiveness are: *resource productivity* and *cost recovery ratio*. These ratios are calculated by the formulas (2, 3):

$$RP = ITr \text{ base.}/RCI \text{ base.} \quad (2)$$

$$CRr = ITr \text{ rep.}/RCI \text{ rep.} \quad (3)$$

RP – resource productivity;

ITr base. – inventory turnover ratio for the prices of the base period;

RCI base. – resource cost index in the base period prices;

CRr – cost recovery ratio;

ITr rep. – inventory turnover ratio in the prices of the reporting period;

RCI rep. – resource cost index in prices of the reporting period.

3. *Assessment of financial resources usage effectiveness* of the trade organization.

As indicators characterizing financial resources usage effectiveness, it is possible to use *the financial leverage effect, return on net assets*.

The return on net assets is a generalizing indicator of the financial resources system functioning. The efficiency of the financial resources system determines the type of its financial growth.

It is possible to determine the *financial growth type* by:

comparing profit growth rates with cost growth rates. *Intensive growth* is characterized by the rate of profit growth that exceeds the rate of cost growth. *Extensive growth* is observed when the costs growth rate exceeds the rate of profit growth and it indicates a narrowing of reproducible resources that can be used for profit.

The indicator of abundance of owned resources, the possibility of trade organization operations expanding is the sustainability and prospects of economic development, as well as the possibility of expanding its operating activities, is the *sustainable growth rate* (SGR). This rate demonstrates how much of the reinvested profit (used for the development of the organization) is used in equity. This rate is calculated by the following formula (4):

$$SGR = NP - Div./EQ \times 100\% \quad (4)$$

NP – net profit that remains at the disposal of the organization;
Div. – dividends paid to shareholders;
NP – Div. – reinvested profit;
EQ – equity of the organization.

REVIEW QUESTIONS

1. Describe the main indicators for assessing of economic resources usage effectiveness. Explain what enterprise development reserves can be identified by the analysis of these indicators.

2. Define the main indicators for assessing of financial resources usage effectiveness of the enterprise and practical significance.

3. Give the formula for “financial leverage effect” calculation. Explain the value of this indicator for assessing the risks of trade and business activities and the possibility of reproduction of your own resources.

4. Describe the indicators characterizing the financial resources system effectiveness.

TOPIC 2. INTANGIBLE RESOURCES AND THEIR USAGE EFFECTIVENESS IN TRADE

Learning objectives:

- Learn the concepts of “intangible resources of a trade organization” and “intangible assets of a trade organization”;
- Develop understanding of the composition and classification of intangible resources of trade organizations;
- Learn to describe the economic and social potential of the intangible resources usage in trade;
- Learn to describe the methodological approaches to the analysis and assessment of the intangible resources usage effectiveness in trade;
- Learn to analyse and assess the effectiveness of the use of intangible resources by a trade organization.

2.1. CONCEPT, COMPOSITION AND CLASSIFICATION OF INTANGIBLE RESOURCES OF A TRADE ORGANIZATION

In the modern economic environment – often described as new, innovative, informational, knowledge economy – the intangible resources value is increasing as part of trade organizations.

Intangible resources of the trade organization are immaterial, non-economic objects that are used or can be used in its activities to obtain economic benefits.

A feature of intangible resources is the absence of a real (material, physical) form. Difference from financial resources, which

may also not be materialized, is the low liquidity (or its lack) and the complexity of the valuation of intangible resources.

The structure of intangible resources of a trade organization includes:

- intangible assets;
- internal intangible resources:
 - organizational;
 - informational;
- external intangible resources:
 - partnership;
 - consumer;
- individual intangible resources:
 - personal;
 - intellectual.

Assets are resources that are controlled by an organization as a result of past events [3]. **Intangible assets of a trade organization** are immaterial, non-economic objects, as a result of which the trade organization expects to receive economic benefits controlled by it through the exercise of rights to receive such benefits and restrict access to them by others [16].

Intangible assets used in trade include intellectual property (trademarks, inventions, industrial designs, databases, computer programs, know-how, etc.), business reputation, franchises, and licenses. Own trademarks of trade organizations are becoming more widespread [8].

Internal intangible resources of a trade organization are formed in its internal environment and are divided into organizational and informational. Organizational intangible resources are represented by organizational structure, corporate culture, sales and service methods, current rules, methods, etc.

Informational intangible resources include the results of market research and other information about the environment of the organization, working documentation, secrets of appealing to customers and stimulating them, etc.

External intangible resources are based on the interaction of the trade organization with the external environment, primarily consumers and partners. Consumer intangible resources include image, trademark, customer loyalty, etc. Partnership intangible resources include well-established systems of interaction with suppliers, creditors, consulting companies, as well as with the media, government and public structures, etc.

Individual intangible resources are tied to individual employees of the trade organization and are divided into personal and intellectual. Personal intangible resources include social skills and abilities, leadership qualities, social responsibility, etc. Intellectual intangible resources are education, qualifications, knowledge, skills, and experience of the employees.

All intangible resources components of the trade organization are interrelated and interdependent. For example, stable business relationships with suppliers are largely shaped by the individual qualities and skills of employees. The personal and intellectual characteristics of employees are in turn influenced by corporate culture and corporate training. Information resources, including information on counterparties, are necessary to create long-term partnerships with them. In way, the imbalances in the composition of intangible resources significantly limit the potential of their use. In this regard, the elements of intangible resources of the trade organization should be balanced.

The intangible resources of trade organizations is are classified by [15]:

- 1) scale of use:
 - universal, used in various sectors of the economy, including trade;
 - industrial, that is, used only in the trade industry (for example, its own trademarks);
- 2) possibility of state registration:
 - subject to state registration;
 - not subject to state registration;
- 3) type of legal protection:
 - copyrighted;
 - protected by patent law;
 - protected by information law;
 - protected by other branches of law;
- 4) possibility of accounting:
 - accountable;
 - non-accountable
- 5) terms of use:
 - limited period of use;
 - unlimited period of use;
- 6) depreciation:
 - depreciable;
 - non-depreciable;
- 7) liquidity:
 - liquid;
 - illiquid;
- 8) alienation (possibility of separation from a trade organization):
 - alienable;

- non-alienable;
- 9) number of users:
- used by one business entity;
 - used simultaneously by several business entities;
- 10) origin:
- created by the trade organization;
 - purchased.

The classification of intangible resources in accordance with the specified indicators allows us to characterize them and use in the context of individual properties and features, which is necessary for making informed management decisions.

REVIEW QUESTIONS

1. Give the definitions of the concepts “intangible resources of a trade organization” and “intangible assets of a trade organization”.
2. What are the differences of intangible resources from other types of resources of trade organizations?
3. Describe the individual components of the intangible resources of trade organizations.
4. How do imbalances in the structure of intangible resources affect the efficiency of their use?
5. List the parameters of classification of intangible resources of trade organizations.

2.2. POTENTIAL USE OF INTANGIBLE RESOURCES IN TRADE

In modern environment, intangible resources are becoming one of the key factors shaping the economic efficiency and competitiveness of trading organizations [10; 11; 13]. The

economic potential of intangible resources in trade is realized in two main directions:

1. usage of intangible resources in its own operating activities;
2. temporary granting the right to use intangible resources to third parties.

The first direction means that the intangible resources are used by a trade organization directly in its activities. It is the main and most popular direction. It considers that intangible resources can be used both in the management process and in the sales.

The use of intangible resources potentially improves many economic outcomes of a trading organization. For example, a well-known trademark, high quality of service, provided with intangible resources, contribute to an increase in sales volumes, as well as income. The presence of intangible resources can reduce costs, including labour costs, and increase depreciation. Changes in income and expenses, in turn, lead to changes in profits, as well as profitability. The positive qualities and skills of the sales staff, well-known trademarks, and business reputation make it possible to speed up the turnover. Intangible resources are the main factor in the formation of the market value (market capitalization) of the trading business, which is often considered the key criterion for its effectiveness. The carrying value of intangible resources affects certain financial parameters, including liquidity and financial stability, as well as the total amount of property of a trading organization. Therefore the use of intangible resources in the current activities of the trade organization allows influencing different aspects of its economic efficiency.

The second direction – which realizes the potential of using intangible resources in trade – is the temporary granting rights to them to third parties. In trade, the temporary transfer of rights

to intangible resources to other persons is carried out by the means of franchising. In Russian law, relations arising through franchising agreement are governed by a contract of commercial concession, according to which a partial transfer of a set of property rights is made, namely rights to a trademark, service mark, know-how and other objects of exclusive rights, as well as rights to business experience and business reputation [2].

Franchising brings additional income to the franchisor through lump-sum fees (initial one-off payments) and royalties (regular payments) from the franchisee, and also allows merchants to develop new regions and increase the number of stores with minimal investment. In growing markets, franchising is the fastest and low-cost way to extensively develop trading organizations [7]. On the other hand, franchising brings a threat of deterioration in the business reputation of the entire franchise due to the non-compliance with accepted quality standards by the franchisee, as well as the possibility of franchisee competition with stores of the franchisor, which may adversely affect the economic results of the latter.

Situations are possible when the use of an intangible resource in the activities of a trade organization, as well as its temporary transfer to third parties, is not advisable. Also, the possibilities of *alienation* or *liquidation* of an intangible resource should be considered. Alienation involves the complete transfer of rights to the resource to another person with economic benefits. With regard to intellectual property, which constitutes an important part of the intangible resources of a trade organization, an agreement is provided for the alienation of exclusive rights [1]. Unlike alienation, liquidation implies the termination of the use of any intangible resource due to its

unprofitability or uselessness. However, some intangible resources, such as business reputation, origin of origin, certain types of licenses, etc., cannot be liquidated or alienated. The alienation or liquidation of intangible resources allows a trade organization to eliminate losses caused by their use (if any), to obtain a one-time financial benefit from the sale, to change the market value and financial sustainability.

The use of intangible resources in the activities of trade organizations has not only economic but also **social potential**. The social significance of trade lies in meeting the needs of the population in goods and trade services, providing employment, and participating in the formation of the state budget through paying taxes. A new direction for Russian business in general and for trade in particular is the introduction of the concept of corporate social responsibility.

The social effect of trade is influenced by intangible resources. For example, the means of individualization are a symbol and a guarantee of quality for consumers. They increase the likelihood of goods and services to meet consumer expectations and thereby contribute to meeting the demand of the population and improving the quality of trade services. The results of intellectual activity allow the trade organization to offer customers unique additional services, reduce service time, etc., which also contributes to its quality.

On the other hand, intangible resources improve the conditions for the activities of employees, including the reduction of physical labour and the acceleration of individual operations. In addition, the use of intangible resources created by its employees in the work of a trade organization contributes to their development and self-realization.

Business reputation also has a great influence on the social effect of trade. Trade organizations are interested in creating a stable positive business reputation, which stimulates them to maximize customer satisfaction, ensure comfortable working conditions for employees, and strictly comply with legal requirements.

Both the economic and social potential of intangible resources in trade is realized only in the presence of adequate physical, labour and financial resources [12]. Intangible resources cannot function in isolation: they are in constant interaction with other resources and together with them ensure the effective operation of the trade organization.

REVIEW QUESTIONS

1. How intangible resources affect the economic results of trade?
2. Explain the possibilities of using intangible resources in the operating activities of a trade organization.
3. What are the advantages of temporary granting rights to use intangible resources to third parties?
4. Give examples of the impact of intangible resources on the social effect of trade.
5. What is the social significance of the business reputation of a trade organization?

2.3. ANALYSIS AND ASSESSMENT OF THE INTANGIBLE RESOURCES USAGE EFFECTIVENESS IN TRADE

Analysis and assessment the intangible resources usage effectiveness in trade has two main approaches.

The first approach involves assessing the market value of intangible resources and trading business. The use of market value as a criterion for the effectiveness of intangible resources is explained by the fact that not all of them can be accepted for accounting, and if adopted, they are reflected in the accounting documentation at an underestimated cost that does not correspond to real value.

The assessment of the market value of intangible resources is carried out on the basis of methods that are classified in cost, comparative (market) and income approaches. The most common in assessing intangible resources are income methods. Cost methods characterize the costs incurred due to the creation or acquisition of an intangible resource, and do not reflect the benefits expected from its use. The use of comparative (market) methods in relation to intangible resources is difficult due to the lack of their active market.

The second approach involves the use of carrying value and is applicable in the analysis and assessment of the intangible assets usage effectiveness, which are the main part of intangible resources. In this case, the analysis includes three steps.

At the first stage, the analysis of the dynamics and structure of intangible assets, the analysis of intangible assets as part of the property of a trade organization, as well as the analysis of the status and movement of intangible assets are carried out. The following indicators are used:

1. indicators of the intangible assets dynamics:
 - absolute change in the value of intangible assets,
 - growth rate of intangible assets,
 - growth rate of intangible assets,
 - average growth rate of intangible assets;
2. indicators of the ratio of intangible assets to other assets:

- share of intangible assets in non-current assets;
 - share of intangible assets in the property;
 - ratio of intangible assets to fixed assets;
3. indicators of the intangible assets structure:
- share of individual intangible assets to their total value,
 - growth rate of the share of certain types of intangible assets to their total value;
4. indicators of the intangible assets status:
- depreciation ratio of intangible assets;
 - suitability ratio of intangible assets;
5. indicators of the movement of intangible assets:
- acquisition ratio of intangible assets;
 - disposal ratio of intangible assets;
 - replacement ratio intangible assets.

At the second stage, direct indicators of the effectiveness of the use of intangible assets – return and profitability – are calculated. Return is the ratio of turnover and the average value of intangible assets used to obtain it. Profitability is calculated as the ratio of profit and the average value of intangible assets necessary to obtain it, multiplied by one hundred.

At the third stage, deterministic multiplicative factor models are used, which are characterized by:

- dependence of the profitability of intangible assets on the return of intangible assets and profitability of sales;
- dependence of the profitability of intangible assets on the return of any particular intangible asset, its share in the total value of intangible assets and profitability of sales;
- dependence of the return on intangible assets on the profitability of intangible assets, as well as the return and profitability of a particular intangible asset.

The listed factor models can be supplemented with models that allow assessing the impact of intangible assets on the effect and effectiveness of the trading organization. These models reflect:

- dependence of turnover on the cost and return of intangible assets;
- dependence of profit on the cost and profitability of intangible assets;
- dependence of profits on the value and return of intangible assets, as well as profitability of sales;
- dependence of the return on assets on the return of intangible assets and the share of intangible assets in the value of the property;
- dependence of the profitability of assets on the profitability of intangible assets and the share of intangible assets in the value of the property;
- dependence of labour productivity on the return of intangible assets and the value of intangible assets per employee.

Along with the approaches discussed above, when analysing and assessing the effectiveness of the use of intangible resources, the balanced scorecard of R. Kaplan and D. Norton, “Intangible Assets Monitor” of K. E. Sveiby, the “Scandia Navigator” model by L. Edwinsson, etc. are used. The analysis and assessment of the effectiveness of certain types of intangible resources have their own characteristics. For example, in the study of business reputation, which is a stable opinion about the trade organization of individuals interacting with it, along with quantitative methods, public opinion polls, interviews, and expert assessments are widely used [20].

Combined, the presented approaches and indicators allow trade organizations to comprehensively analyse and assess the intangible resources usage effectiveness, as well as identify the reserves for its improvement.

REVIEW QUESTIONS

1. Describe the main approaches to the analysis and assessment of the intangible resources usage effectiveness in trade.
2. What are the advantages of market value as a criterion for the efficient use of intangible resources?
3. What indicators are used in the analysis and assessment of the effectiveness of the use of intangible resources by trade organizations?
4. List the factor models that characterize the dependence of the indicators of the effect and efficiency of the trade organization on intangible assets.
5. What are the special aspects of the analysis and assessment of the business reputation of a trade organization?

COMPUTATIONAL AND ANALYTICAL TASKS. CASE PROBLEMS

Computational and analytical task 1.

Economic indicators for the calculation of resource productivity, in the prices of the base period, mln. RUB.

Indicators	Base period	Reporting period	Dynamics, %
1. Sales proceeds	69.3	71.4	?
2. Costs of labour	16.8	17.2	?
3. Material expenses	44.8	41.5	?
4. Depreciation deductions	2.0	1.8	?

Task questions:

1. Define the concept of “economic potential of a trading enterprise”.

2. Determine the dynamics of the main economic indicators of the organization and comment on the results. 3. Calculate the resource productivity for each indicator. Draw conclusions on the results of calculations.

3. What indicators characterizing the efficiency of resource use, would you recommend to use in addition to this analysis to obtain objective information to assess the intensity of resource use.

Computational and analytical task 2.

Trade organization determines the price of borrowed funding sources.

1. Bank loan in the amount of 60 million roubles under 18% per annum. The tax rate on profits is 20%. No additional costs for registration of the loan.

Task questions: 1. Determine the price of each source of funding. Explain practical bearing of this indicator.

2. Give the formula for weighted average cost of capital (WACC) calculation. Explain practical bearing of this indicator.

Case problem 1.

An organization chooses the optimal asset financing structure. 6 alternatives are considered:

Indicator	1	2	3	4	5	6
Equity, %	100	90	80	70	60	50
Leverage, %	0	10	15	20	30	30
External funds, %	0	0	5	10	10	20
Weighted average cost of capital (WACC)	12	11.2	10.3	8.4	9.3	8.9

Task.

1. What is the best financing option? Justify the answer.
2. Explain what the weighted average cost of capital (WACC) is and write the formula for calculating it.
3. List the long-term sources of funding and explain what role they play in the activities of the organization?

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