

DEVELOPMENT OF RETAIL MARKET IN SERBIA

GORDANA RADOSAVLJEVIĆ,
LJILJANA MAKSIMOVIĆ,
KATARINA BORISAVLJEVIĆ

Faculty of Economics, Kragujevac, Serbia

JEL Classifications: L81, F23

Key words: Trade, retail, competitiveness, trade chains, transition.

Abstract: The aim of this paper is to analyze retail development in Serbia under the conditions of globalization and internationalization in business. The starting point is in current trends in trade in both EU and transitional countries. Macro environmental factors affecting trade development have been investigated as well as indicators related to the number of trade companies, real turnover, employment rate, etc. On the basis of the indicators outlined, the present state of trade in Serbia has been observed and prospect trends have been pointed out. Some assumptions about future successful development along with the increasing competitiveness of Serbian trade have also been made.

ISSN: 1804-0527 (online) 1804-0519 (print)

Vol.9 (3), PP. 48-52

Introduction

Trade sector is a significant part of the nation's economy. Its significance in economic progress reflects in incentive for production and dynamic job creation.

The end of the last century brought intensive structural changes in trade. A completely new trade structure was developed and it affected both global market structure and relationships among economic entities in the market. (Lindblom and Rimstedt, 2004). There was a strengthening of the role of large retail chains and weakening of the role of small and medium-sized commercial firms in the market. As a result, small and medium-sized enterprises were forced to cooperate at both horizontal and vertical level in order to compete with large retail chains.

Over the past decade the EU experienced considerable changes in the retail industry reflected in the development of new retail formats, development of new services, increasing competition, higher efficiency, the pursuit of loyal customers, etc. (Alexander, 1996; Colla and Dupuis, 2002).

The process of transition in Serbian trade began much later than in neighboring countries. The paper analyzes changes in the structure of trade and commercial networks in Serbia, as well as the factors that influenced these changes. In addition, some problems the trade in Serbia faces with and assumptions for its enhanced competitiveness have also been analyzed.

Global trends in modern retail

Trade is now characterized by a high concentration of capital, so that trading companies often play a leading role in marketing channels (Nordas, 2008). Market power of retailers has increased dramatically, so both producers and consumers should be

protected, because retailers often dictate terms even to the world's largest producers (Dawson, 2007).

Large retailers are becoming even greater. It is a fact that the total turnover of 250 global retailers amounted to 3,760 billion dollars in 2009, which is slightly lower if compared to the year of crisis - 2008 (3,820 billion). All indicators show that retail business is dominated by large and powerful companies which successfully take on the leading role in marketing channels (Deloitte, 2010).

However, we should not neglect the importance of small companies and independent retailers that survive in the market, although their share is decreasing. The number of small companies in the EU (with fewer than 10 employees) dropped by 3.7% in the period between 2004 and 2009 (European Commission, 2010).

The retail sector is affected by the process of globalization and internationalization of capital. Internationalization is an important stage in the development of retail. It is considerably eased due to information and communication technologies enabling the management of large network of retailers (Dawson, 2007).

Due to the increasing concentration and competition in the domestic market, retailers have got to be more oriented to integration beyond the local market. A high level of concentration along with a small number of dominant retailers may slow the pace of structural change in the EU (Wrigley, 2002). From the customers' standpoint it is important to emphasize demographic changes and a growing share of elderly in the consumption, as well as the increase in consumer awareness of products and information exchange between consumers.

In addition, retailers are expanding beyond the domestic market using the opportunities of horizontal and vertical integration in order to reduce the risk and uncertainty in the supply chain (Lindblom and Rimstedt, 2004). Retail

integration occurs in the form of mergers, acquisitions, joint ventures, etc. (Perkins, 2001).

World retailers are internationally oriented - more than 1/3 of total sales in 2009 made by the largest retailers among the Top 250 came from outside of their home countries. More than 40% of total sales reported by the retailers based in Germany and France came outside of the domestic market. Table 1 presents the top 10 global retailers, most common retail formats,

and the number of countries in which they operate.

The analysis of major retailers in the global market has shown the growing share of the 250 largest retailers that also geographically spread fast (top 20 retailers are from the USA). Table 1 presents great differences in the structure of retail network in particular countries. The differences resulted from numerous factors, such as cultural, legal, demographic, sociological and economic factors.

TABLE 1. 10 LARGEST GLOBAL RETAILERS IN 2009

Rang	Company	Country	Sale (мил\$)	Dominant retail formats	Number of countries	% change in sale 2004-2009
1	Wal-Mart Stores, Inc.	SAD	405.046	Hypermarket, Supercenter, Superstore	16	7,3
2	Carrefour S.A.	France	119.887	Hypermarket, Supercenter, Superstore	36	3,4
3	Metro AG	Germany	90.850	Cash&Carry, Warehouse Club	33	3,0
4	Tesco plc	U.K.	90.435	Hypermarket, Supercenter, Superstore	13	10,9
5	Schwarz	Germany	77.221	Discount Store	25	9,8
6	The Kroger Co	SAD	76.733	Supermarket	1	6,3
7	Costco Wholesale Corp.	SAD	69.889	Cash&Carry, Warehouse Club	9	8,2
8	Aldi	Germany	67.709	Discount Store	18	6,3
9	The Home depot, inc	SAD	66.176	Home improvement	5	-2,0
10	Target Corp.	SAD	63.435	Discount Stores	1	6,8

Source: Deloitte (2010).

Around 1.7 million wholesalers with about 9.9 million employees and about 3.7 million retailers with around 17.4 million employees (Eurostat, 2009) are active in the EU market. Their participation in total employment in EU is about 20%. Trade participation in GDP in EU countries is approximately 13%. Food retailers have about 32% share in the total number of retailers. Small and medium-sized enterprises in the EU have an important role in the trade sector, and their participation in the total number of retail companies is around 99%, with about 16 million employees (Coca-Stefaniak, Parker, and Rees, 2010).

The investigation of operational efficiency of the retail sector in the UK (Yu and Ramanathan, 2008) showed that the efficiency of hypermarkets and supermarkets was higher in comparison with other formats; that large retail chains appeared more efficient than smaller trading companies; that the national chains were more efficient than the regional ones; that sales volume, market share and location played an important role in business; and that legislation might adversely affect the efficiency of retail companies.

Internationalization processes of the developed countries occurred due to highly competitive and somewhat saturated market in these countries, so that commercial companies

have explored new areas of growth through the expansion of their network beyond their local market.

Quinn, (1999) distinguishes between commercial motives of internationalization, related to profit growth and increasing profitability, and non-commercial motives, related to social, political, personal and ethical factors, or factors that cannot be controlled. Guy (2001) pointed out that the strategy of retailers entering new markets largely depends on the institutional constraints imposed on the markets.

Economic factors may adversely affect the retail business, as it happened in 2007. Uncertainty on economic growth, problems in financial markets, rising energy costs, and higher food prices have led to a slowdown in the process of internationalization.

Transitional trade in Eastern Europe

Generally, the trade sector in Eastern Europe was in the process of intensive transition, which after twenty-year period led to a change in the structure of trade and market structure. Before the transition, trade in these countries had some common characteristics. The trade sector consisted of a small number of state-owned enterprises using planning-oriented method to

supply the population, rather than meet the needs and desires of consumers. Trade network was made up of smaller shops, a small number of department stores, warehouses and wholesale depots. Foreign trade was monopolized by authorized companies.

Changes in trade, along with the transformation of economic system and privatization of state-owned and socially owned enterprises, were in two directions: strengthening of competition and changes in the structure of trade sector. The impact of liberalization on business conditions brought an increase in imports, the entry of new competitors, the increase in turnover and so on. Trade became the largest business during the nineties. There was an increase in the number of commercial enterprises, trade facilities and turnover.

The globalization of retailing has a major impact on market structure in transition and developing countries, as indicated by the analysis dealing with the global strategies of transnational companies (Currah and Wrigley, 2004; Wrigley et al., 2005). Large international retailers significantly affect changes in the macroeconomy. International retailers operate more effectively if compared with retailers targeting domestic market; they adopt the innovations in business processes more quickly and increase their productivity. Some empirical studies (Dawson, 2007) have shown that the key processes of internationalization include four aspects:

- transfer of the total culture and business model of the firm
- transfer of the capability to adapt to the market
- transfer of operational techniques of retailing
- transfer of consumer values and expectations.

The entry of international retail chains in transitional markets has influenced the

development of trade in these countries, their industry and consumers. Through internationalization, retailers export retail technology, management techniques and tools, ideas, forms of promotion, store design innovations, information technology, customer service manner and the like (Lewison, 1994).

Domestic trade responded to new demands through the introduction of new technologies, information systems and shopping centers. Under pressure from foreign companies, EAN (barcode) technology, information systems in logistics and retail, customer database and the like have been introduced in many countries.

The latest phase in the transition of Eastern European systems is in horizontal and vertical linkage between domestic trading companies, resulted from their desire to successfully compete with foreign companies.

Transformation in Serbian retail

Trade in Serbia was in a very disadvantaged position in period 1990-2000. The position of trade was affected by many factors, such as general economic instability, recession, sanctions, low living standards, inflation, exchange rate instability, low level of implementation of new technologies in trade, underdeveloped financial markets, grey economy, corruption, financial indiscipline, low quality of service and others. Trade was developed in an irrational and uncoordinated manner, without a clear concept, with trends that were contradictory with those in developed countries.

The processes of transformation of Serbian economy are most obviously manifested in the field of trade, reflecting the economy and economic and market systems. The data in Table 2 present the share of trade in Serbian GDP. This figure gradually increased and amounted to 11.6% in 2008.

TABLE 2. THE SHARE OF SERBIA'S TRADE IN GDP

	2001	2002	2003	2004	2005	2006	2007	2008
Trade / GDP (%)	7,0	7,5	8,4	8,0	9,8	10,3	11,5	11,6

Source: Statistical Yearbook, Office for National Statistics, 2008; 2010.

In recent years, the concentration of capital in trade has been growing. Significant growth of some domestic enterprises, as well as the arrival of foreign competition, have both influenced the trade. However, Serbia has not yet completed the transition toward an institutional and functional market economy. Although particular results have been achieved, the development of a modern market structure and trade in goods and services has been slow. Two adverse facts should be pointed out: the slow adoption of appropriate institutional framework for

competition and trade and the lack of adequate information and statistical digest allowing optimal and timely decisions regarding markets and competition to be made.

Retail in Serbia is determined by a few powerful processes occurring simultaneously and outlining the future development. The entry of foreign retailers has not been completed; there are also processes of concentration, connection with the manufacturing sector, changes in consumption structure, changes in

consumer behavior, and increasing consumer protection.

Key variables indicating the level of development of the distribution network in the country are related to the number of retail companies, the volume of retail sales, number of outlets, number of employees and the like.

According to the Office for National Statistics and the Business Registers Agency, the trading companies represent around 43.8%

of total enterprises in Serbia. The ownership transformation has changed the structure of trade to a large extent. The fragmentation of trade has been reflected in the number of 35,567 commercial firms in Serbia. The diversity of commercial firms in terms of size (Table 3) comes out in favour of micro, small and medium-sized enterprises that make up 99.6% of trading companies, while large companies represent the remaining 0.4%.

TABLE 3. TOTAL NUMBER AND SIZE STRUCTURE OF TRADING COMPANIES IN SERBIA IN 2009

	Total	Company size in terms of number of employees			
		Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250 or more)
Serbia (total)	81 567	69 235	9 423	2 372	537
Trade (total)	35 761	32 140	3 095	458	68
Wholesale trade	25 995	23 558	2 128	274	35
Retail trade	6 272	5 563	550	134	25
Vehicle retail & repair	3 494	3 019	417	50	8

Source: Statistical Yearbook, Office for National Statistics, 2010.

TABLE 4. NUMBER OF STORES IN SERBIA IN PERIOD 1990-2009

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of stores	52.943	86.987	86.291	95.996	95.800	103.657	109.232	105.061	99.362	103.601	101.627

Source: Statistical Yearbooks, Office for National Statistics, 2001, 2003, 2010.

The number of stores almost doubled in period 1990-2000 -from 52,943 to 86,987 - while in 2009 it amounted to 101,627. Since in the year 2005 there were 109,232 stores, a slight decline in the number of retail outlets occurred, which is unavoidable during the process of modernization of the trade network (Table 4).

The entry of large retail chains in the retail network in Serbia was among the main reasons for reduction in the number of smaller shops. The strategy of retail chains is in their combined retail network with smaller stores (usually up to 400 m²), supermarkets (400-2000 m²), hypermarkets (over 2000 m²) and Cash & Carry systems.

Retail in the Republic of Serbia is still fragmented and underdeveloped if compared with European countries. The transition process has influenced the change in the structure of retail, especially in the last few years. Modern retail formats appeared and have led to a further merging of retail structures and reducing the role of wholesale in distribution channels.

In spite of the growing share of supermarkets and hypermarkets and reduced participation of small shops, retail stores (traditional stores) still dominate in distribution channels.

Transforming the supply chain with the entry of large retailers in a market involves two questions. First, whether the major retailers will evolve into large distribution centers preferred

by large suppliers, and second, the extent to which small suppliers will be easily integrated into large retailers' supply (Humphrey, 2007). The above questions are important when it comes to the development of the trade sector in Serbia, but also to the development of the manufacturing sector because of their possible involvement in the supply of foreign retailers entering the Serbian market.

Overall employment in the retail and wholesale trade in Serbia has been steadily rising as indicated by official statistics. The number of employees in retail increased from 225,403 in 1999 to 378,461 in 2009. Trade sector participated in the total number of employees with 10.5% in 1999 and with 20.0% in 2009.

Modernization and intensive structural transformation of trade are among the conditions of economic development of Serbia. The efficiency of diverting the economy to market economy largely depends on the development of trade, the volume of capital and available workforce skills. Trading in Serbia is facing a further period of intensive transformation of business and organization. In that process, both commercial enterprises and trade policy-makers will have major task issues to deal with.

Conclusion

Transformation of trade in Serbia has been approached from a narrow sectoral perspective, without a clear set of framework solutions. In this sense, it is necessary to build an integrated approach to the development of trade, which would establish the limitations and rules of conduct. Key settings to start with are: extensive trade liberalization and strengthening competition; designing a new trade structure and distribution network; greater concentration of trade; development of modern trade formats; the promotion of informatization and internationalization of trade. The recovery of trade depends on the recovery of the entire economy. In this sense, the state should provide stable business conditions, encouraging efficiency of a simple tax system, and legal requirements for markets and free competition.

References

- Alexander, N., 1996. "International retail expansion within the EU and NAFTA," *European Business Review*, 95 (3), pp.23-35
- Coca-Stefaniak, J., Parker, C., Rees, P., 2010. "Localisation as a marketing strategy for small retailers," *International Journal of Retail & Distribution Management*, Vol.38(9), pp.677-97
- Colla, E., Dupuis, M., 2002. "Research and managerial issues on global retail competition: Carrefour/Wal-Mart," *International Journal of Retail & Distribution Management*, Vol.30 (2), pp.103-11
- Currah, A., Wrigley, N., 2004. "Networks of organisational learning and adaptation in retail TNCs," *Global Networks*, Vol.4, Issue 1, pp.1-23
- Dawson, A. 2007. "Scoping and conceptualising retailer internalisation," *Journal of Economic Geography*, Vol.7, pp.373-97
- Guy, C., 2001. "Internationalization of large - format retailers and leisure providers in western Europe: planning and property impacts," *International Journal of Retail & Distribution Management*, Vol.29(10), pp.452-61
- Humphrey, J., 2007. "The supermarket revolution in developing countries: tidal wave or tough competitive struggle?" *Journal of Economic Geography*, Vol.7, pp.433-450
- Lewison, D., 1994. *Retailing*, Macmillan College Pub Co
- Lindblom, T. and Rimstedt, A., 2004. "Retail intergration strategies in the EU: Scandinavian grocery retailing," *International Review of Retail, Distribution and Consumer Research*, Vol.14 (2), pp.171-97
- Nordas, H., 2008. "Gatekeepers to consumer markets: The role of retailers international trade," *The International Review of Retail, Distribution and Consumer Research*, Vol.18 (5), pp.449-72
- Perkins, B., 2001. "The European retail grocery market overview," *British Food Journal*, Vol.103(10), pp.744-748
- Quinn, B., 1999. "The temporal context of UK retailers motives for international expansion," *Service Industries Journal* Vol.19(2), pp.101-16
- Wrigley, N., 2002. "The landscape of pan-European food retail consolidation," *International Journal of Retail & Distribution Management*, Vol.30(2), pp.81-91
- Wrigley, N., Coe, N., Currah, A., 2005. "Globalization retail: conceptualizing the distribution-based transnational corporation (TNC)," *Progress in Human Geography*, Vol.29(4), pp.437-57
- Yu, W. and Ramanathan, R., 2008. "An assesment of operational efficiencies in the UK retail sector," *International Journal of Retail & Distribution Management*, Vol.36(11), pp.861-81
- Deloitte, 2010 *Global powers of retailing*, https://www.deloitte.com/assets/DcomGlobal/Local%20Assets/Documents/Consumer%20Business/GlobPowDELOITTE_14%20Jan.pdf
- European Commission, 2010. "Towards more efficient and fairer retail services in the internal market for 2020", *Retail market monitoring report*, http://ec.europa.eu/internal_market/retail/docs/monitoring_report_en.pdf355
- Eurostat, 2009. *European Business: Facts and figures-2009 edition*, Chapter 18: Wholesale trade, Chapter 19: Retail trade and repair
- Statistical Yearbook, 2001, 2003, 2008, 2010. Office for National Statistics