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STRUCTURAL CHANGES IN THE RETAILING SECTOR - Development Repositioning, Consequences and Expectations - - THE CASE OF CROATIA -

The paper deals with structural changes the Croatian retail sector has been facing in the period of 1998 - 2001. Although the general trends have been more or less anticipated, the question is what has been happening within the retail sector in regard to the effectiveness and the speed of changes.

A descriptive comparative analysis of statistical data is used. It was the base for the authors' calculation of different significant indicators including relative numbers, indices and correlation coefficients.

The results of analysis support the hypotheses that the Croatian retail market has been characterised by very dynamic changes and growth in effectiveness. The ongoing changes have been generating a new retail structure tending to those prevailing in the EU countries.

The analytical results provide an important implication for the retail strategy that should consider both benefits and costs of the retail development. The major set of actions includes an insistence on high-quality management, improvement of knowledge, efficient divisions of labour and integrated information system. A long-term partnership with producers is the main precondition for building an efficient value added chain and reduction of business risk.

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Introduction

Since 1998 the retail structure has been changing dramatically in Croatia¹. The competition has become fiercer. Mass retailers have been growing very fast. The result of this process has been the serious detriment to the traditional retailing. Although these general trends have been more or less anticipated,² the question is what has been happening within the retail sector with regard to the effectiveness and the speed of changes.

The starting hypothesis is that the Croatian retail market has been facing fast structural changes due to foreign trade companies that have been penetrating the market. The dominance of foreign retailers is evident. The financial strength is not their single comparative advantage, but the defined development strategy with precise models of its implementation as well. These changes generate a new retail structure that has been approaching those prevailing in the EU countries.

Following the hypothesis, selected data is chosen in order to analyse changes the Croatian retail trade has been characterised by. Official statistical data, data collected from financial statements of companies³ and available comparative statistics are used for the illustrative quantitative analysis. The data covers the retail trade sector (section G 52 of the NACE classification) within the period of 1998 - 2001.⁴ Databases are combined in order to calculate comparative indicators that are the base for the qualitative interpretations and conclusions summarised in SWOT analysis and log frame matrix.

The first section of the paper consists of an overview of main economic indicators and trends in the Croatian retail trade. This overview is followed by the analysis of foreign retailers entering the market. The major impacts of foreign retailers on the Croatian retail trade are examined in the third section. That helps to conceptualise the retail strategy. The final section focuses on conclusions derived from the analysis.

¹ The retail structure is a complex of different outlets/organisations through which goods and services move to the consumer. It can be classified according to the type of ownership, merchandise carried, store type, location and the size of trade area (Mason, J. B., Mayer, M. L., 1990; Hasty R., Reardon, J., 1997).

² See Davies, R.D., 1995; Clarke, R., Davies, S., Dobson, P., Waterson, M., 2002; Eurostat, European Commission, 1998.

³ The data of Croatian chamber of economy are used. Although these data are not completely comparable with the data of Croatian Bureau of Statistics (CBS) due to the difference in the coverage of reporting units, they are useful for additional insight into the financial performance of small, medium and large trade companies.

⁴ Since there is no available data suitable for the consistent comparative analysis, the data related to G 52 and analytical period of 1998-2001 is used.

The Main Characteristics of Economic Environment

The distributive trade is an important economic sector in Croatia. It generates 8.6% of GDP, participates with 15.1% in the total employment and 43.1% in the total number of enterprises. (See table 1). Despite of the mentioned importance there is still a significant lag between Croatia and EU in the magnitude of corresponding indicators - 13%, 16% and 30%.⁵

Table 1.

SOME INDICATORS OF DISTRIBUTIVE TRADE IN THE CROATIAN ECONOMY

- in %

Indicator/Year	1998	1999	2000	2001
1. GDP at current prices	10.0	8.4	8.6	-
2. Number of trade companies	45.2	44.4	43.9	43.1
3. Employment in trade companies	14.6	14.5	14.6	15.1

Note: Crafts not included

Source: CBS, Statistical yearbook of Croatia 1999, 2000, 2001 and 2002.

The data in table 2 provides an additional insight into the situation the distributive trade in Croatia has been characterised by.

⁵ CBS, 2001.

Table 2.

SELECTED INDICATORS OF DISTRIBUTIVE
AND RETAIL TRADE IN CROATIA

- Current prices
- 1998 = 100

Indicator/Year	1998	1999	2000	2001	Growth rate
1. GDP	100.0	102.9	110.8	118.4	5.8
2. Distributive trade turnover	100.0	96.2	105.9	102.0	0.7
3. Retail trade turnover, G 52	100.0	96.0	105.7	115.2	4.8
4. Retail trade turnover by prevailing activity of business entity	100.0	99.4	114.3	127.7	8.5
5. Net wages and salaries in legal entities	100.0	112.6	122.0	130.2	9.1
6. Households consumption	100.0	100.6	110.6	120.6	6.4
7. Shopping abroad	100.0	52.00	60.02	49.28	-21.01
8. Travel and tourist expenditures abroad	100.0	139.93	123.21	132.46	9.82
9. Travel and tourist receipts in Croatia	100.0	101.98	131.36	159.99	16.96
10. Foreigners' shopping in Croatia	100.0	162.58	278.45	191.94	24.28
11. Retail prices	100.0	104.2	110.7	116.1	5.1
12. Cost of living	100.0	103.5	109.0	114.2	4.5
13. Total number of unemployed persons	100.0	111.9	124.4	132.1	9.7

Source: CBS, Statistical yearbooks of Croatia, CNB Bulletin no 77, 2002 and authors' calculation.

During the period 1998 – 2001, the average annual growth rate of retail turnover was 8.5 %, while the household consumption was 6.4 %. It may be concluded that some retail turnover came from the foreigners' shopping in Croatia. At the same time, a dramatic drop in the shopping abroad occurred. These changes implicitly indicate that the competitiveness of the Croatian trade has been improving both in terms of quantity and quality of goods offered and the level of prices as well.

The growth rate of unemployment (9.7%) combined with the growth in retail prices (5.1%) and cost of living (4.5%) limited faster retail growth and development. However, since net wages and salaries in legal entities grew by 9.1%, some income may be still spent abroad.

The economic crisis has significantly affected the customers' behaviour and their preferences. Retail prices and big shopping have become important factors in choosing an outlet.⁶ The change in the consumers' behaviour has intensified the price competition. The result of this process has been the fast development of large-scale retail shops as well as the consolidation of medium and small retailers.

Low wages and salaries determine the structure of household consumption. Although declining from very high 38.2% in 1998, food and non-alcoholic beverages have been still the major item in the total household consumption comprising 33.7% of it (See table 3).

Table 3.

THE STRUCTURE OF HOUSEHOLD CONSUMPTION

- in %

Category/Year	1998	1999	2000	2001	Growth rate
1. Food and non-alcoholic beverages	38.2	38.0	32.2	33.7	-4.09
2. Alcoholic beverages and tobacco	4.6	4.6	3.9	4.1	-3.76
3. Clothing and footwear	6.3	7.5	10.1	9.1	13.04
4. Housing and energy consumption	10.8	13.3	13.3	13.4	7.46
5. Furnishing, household equipment and routine maintenance	6.3	5.9	4.9	5.6	-3.85
6. Health services	1.7	1.8	2.1	2.0	5.57
7. Transport	13.4	11.0	12.2	11.5	-4.97
8. Communications	1.9	2.1	2.8	3.5	22.59
9. Recreation and culture	5.1	5.7	6.7	5.9	4.98
10. Education	0.6	0.7	0.7	0.8	10.06
11. Hotel and restaurant services	3.1	2.7	3.7	3.0	-1.09
12. Miscellaneous goods and services	8.1	6.9	7.5	7.5	-2.53
13. Total	100.0	100.0	100.0	100.0	-

Source: CBS, The household budget survey, First release 13.2.1, 2002.

⁶ According to Croatian consumer survey in 2000, 64 % of households did big shopping, mostly in supermarkets (60%). The most important factors in choosing outlets were price level (68%) and depth of assortment (59%). Daily shopping did 44% of households, mostly in small food shops (85%). The most important factors in choosing outlets are a proximity to home (71%) and price level (32%) (Kondić, L., 2000).

Even though these changes might be small, they correlate with the growth of income and shift in household consumption toward non-food items, such as communications with a very high annual growth rate of 22.59%. The structure of household consumption has positively affected the retail turnover structure (See table 4).

Table 4.

THE TURNOVER STRUCTURE IN RETAIL TRADE
BY TRADE ACTIVITY

- in %

Activity/Year	1998	1999	2000	2001	Growth rate
1. Motor vehicles, motorcycles and related parts and accessories (50.10.2 + 50.30.2 + 50.40.2)	5.1	5.8	6.6	5.1	0.00
2. Automotive fuels (50.50)	11.4	14.1	28.1	25.2	30.27
3. Non-specialised stores with food, beverages or tobacco predominating (52.11)	29.3	24.8	27.9	29.1	-0.23
4. Other non-specialised stores (52.12)	14.2	19.9	7.2	9.7	-11.93
5. Specialised stores with food, beverages and tobacco (52.2)	6.9	5.2	5.0	4.3	-14.58
6. Pharmaceutical, cosmetic, toilet and similar articles (52.3)	4.1	4.9	4.9	4.2	0.81
7. Textiles, clothing, footwear (52.41+52.42+52.43)	6.1	5.6	4.0	3.6	-16.12
8. Household articles, appliances, hardware and similar (52.44+52.45+52.46)	11.0	9.7	6.9	6.4	-16.52
9. Other specialised stores (52.47+52.48+52.50)	9.2	8.0	7.8	10.4	4.17
10. Retail sale not in stores	2.7	2.0	1.6	2.0	-9.52
11. Total	100.0	100.0	100.0	100.0	-

Source: CBS, *Statistical yearbook of Croatia 2002*.

Although far from the EU,⁷ the structure of retail turnover by activity in Croatia has been comparably tending to it. The decreased share in the food retailing from 36.2% in 1998 to 33.4% in 2001 is an indicator of the mentioned trend.

⁷ For instance, in 1996 in Germany the share of food retailing was 11,7 %, Stensrud, J., 1999.

Market Characteristics and Changes in Retail Trade

A large number of small companies are the major feature of retail trade in Croatia. As table 4 indicates, in 2001 one retailer had 1.43 outlets, 4.7 persons employed and a turnover of 2,577,373 HRK on the average (See table 5).

Table 5.

MAIN INDICATORS OF DISTRIBUTIVE AND RETAIL TRADE IN CROATIA

Indicator/Year	1998			1999			2000			2001		
	Trade Co.	Crafts	Total	Trade Co.	Crafts	Total	Trade Co.	Crafts	Total	Trade Co.	Crafts	Total
1. Business entities												
1.1. Trade	21166	17094	38260	19890	16326	36216	19972	15676	35648	19061	15341	34402
1.2. Retail trade,52	5996	14410	20406	5544	13678	19222	5772	13044	18816	5527	12743	18270
2. Outlets												
2.1. Trade	24006	17900	41906	23590	17227	40817	23805	16890	40695	23714	16784	40498
2.2. Retail trade,52	11851	15191	27042	11414	14541	25955	12116	14143	26259	12052	14070	26122
3. Outlets per company												
3.1. Trade	1.13	1.05	1.10	1.19	1.06	1.13	1.19	1.08	1.14	1.24	1.09	1.18
3.2. Retail trade,52	1.98	1.05	1.33	2.06	1.06	1.35	2.10	1.08	1.40	2.18	1.10	1.43
4. Employment												
4.1. Trade	150290	29493	179783	146648	32138	178786	146298	31341	177639	145988	32599	178587
4.2. Retail trade,52	56888	24820	81708	56955	24545	81500	58587	25640	84227	58739	26905	85644
5. Turnover (mill HRK)												
5.1. Trade	139240,6	11170,5	150411,0	134284,7	10457,1	144741,9	148186,3	11113,0	159299,3	141910,1	11528,6	153438,6
5.2. Retail trade,52	31090,1	9778,4	40868,5	30027,1	9188,0	39215,1	33704,9	9477,9	43182,9	37364,4	9724,2	47088,6
6. Employees per enterprise												
6.1. Trade	7.1	1.7	4.7	7.4	2.0	4.9	7.3	2.0	5.0	7.7	2.1	5.2
6.2. Retail trade,52	9.5	1.7	4.0	10.3	1.8	4.2	10.2	2.0	4.5	10.6	2.1	4.7
7. Turnover per business entity (HRK)												
7.1. Trade	6578503	653475	3931286	6751368	640518	3996629	7419703	708918	4468674	7445050	751489	4460165
7.2. Retail trade,52	5185140	678584	2002769	5416144	671736	2040116	5839380	726610	2295010	6760340	763101	2577373
8. Turnover per employee (HRK)												
8.1. Trade	926479	378751	836625	915694	325381	809582	1012907	354583	896759	972067	353649	859181
8.2. Retail trade,52	546514	393973	500177	527207	374333	481167	575297	369653	512697	636109	361427	549818

Notes: Turnover includes VAT; Employment, business entities and outlets dated on December 31.
Source: CBS, Statistical yearbook of Croatia 2001 and 2002; Authors' calculation.

During the period 1998 – 2001, the number of companies and outlets in retail trade decreased at the average annual rate of 3.62% and 1.15% respectively, while employment and employees per enterprise grew by 1.58 % and 5.52% respectively. At the same time, an average annual growth in the turnover per company was 8.77 %, while the turnover per employee rose by 3.20 %. It is evident that the average size of retailers grew during the analysed period. Although the number of retailers decreased, an increase in total turnover was higher due the growth of trade companies and large companies, particularly. Indicators given in table 6 and graph 1 additionally illustrate the process of strengthening the market position of large companies.

Table 6.

INDICATORS OF STRUCTURAL CHANGES IN CROATIAN
RETAIL TRADE - G 52

- in %

Indicator/Year	1998	1999	2000	2001	Growth rate
1. Number of companies	100.00	100.00	100.00	100.00	-
1.1. Small companies	97.52	97.00	96.65	96.36	-0.40
1.2. Medium companies	1.85	2.15	2.46	2.57	11.66
1.3. Large companies	0.63	0.85	0.89	1.07	19.43
1.3.1. Top ten companies	0.13	0.13	0.14	0.15	5.76
1.3.2. Other large companies	0.50	0.71	0.75	0.92	22.39
2. Employment	100.00	100.00	100.00	100.00	-
2.1. Small companies	44.85	45.19	43.12	41.03	-2.92
2.2. Medium companies	22.49	17.23	19.97	13.69	-15.25
2.3. Large companies	32.66	37.58	36.91	45.28	11.50
2.3.1. Top ten companies	15.45	10.22	10.85	18.50	6.20
2.3.2. Other large companies	17.21	27.36	26.06	26.78	15.87
3. Total sales	100.00	100.00	100.00	100.00	-
3.1. Small companies	45.09	40.63	36.46	32.08	-10.73
3.2. Medium companies	22.92	19.07	19.39	17.14	-9.24
3.3. Large companies	31.99	40.30	44.15	50.78	16.66
3.3.1. Top ten companies	18.18	16.78	18.21	22.89	7.99
3.3.2. Other large companies	13.81	23.51	25.94	27.89	26.40

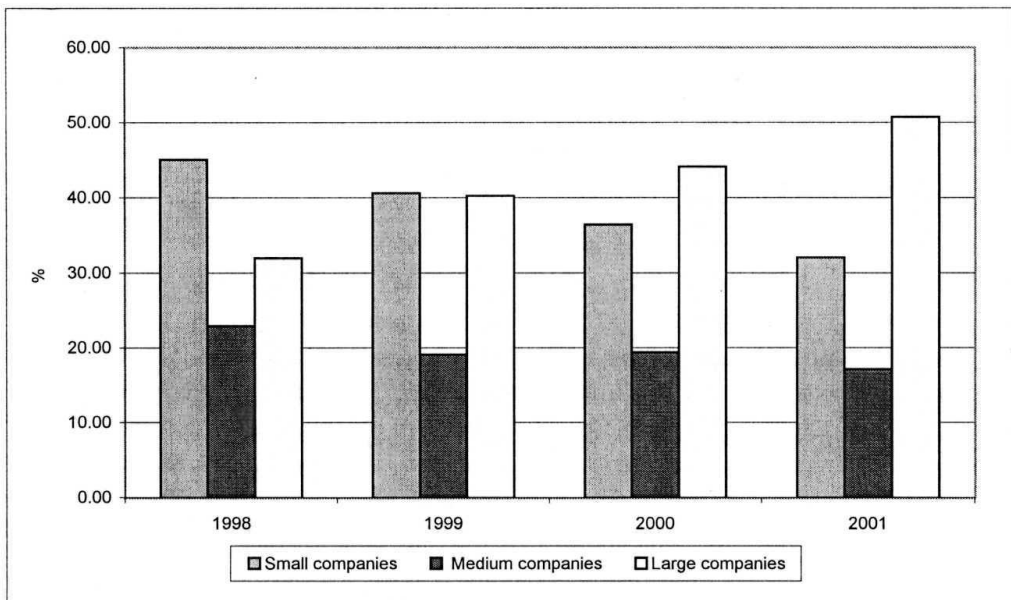
Notes: Craft not included; Total sales exclude VAT

Source: Croatian Chamber of Economy and authors' calculation.

During the period 1998 – 2001, large companies increased their share in total number of companies by 19.43 %, in employment by 11.50 % and in total sales by 16.66 %. It is interesting to note that the share of top ten companies in total sales grew at a lower rate (7.99%). Despite the general perception, it may be concluded that the concentration process has been rather slower in the Croatian trade.

An overview of market characteristics in Croatia and the EU is shown in table 7. The Croatian retail trade is around the EU average according to the number of employees per enterprise. However, Croatia lags behind the EU in terms of GDP per capita, turnover per capita and turnover per enterprise. Although there are positive trends in performance of the Croatian retail trade, the mentioned changes are still slow. It takes time to reach the EU average.

Graph 1.



Notes: Crafts not included

Source: Croatian Chamber of Economy and authors' calculation.

Table 7.

RETAIL TRADE STATISTICS (SECTION G 52) IN THE EU
AND CROATIA IN 1999

- Current prices

- in USD

Country/Indicator	GDP per capita	Turnover per capita	Turnover per enterprise	Turnover per employee	Employees per enterprise
1. Belgium	24554	4968	620699	177191	3.5
2. Denmark	33117	5274	885283	144244	6.1
3. Spain	15287	3515	261095	95661	2.7
4. France	23917	5040	782280	197291	4.0
5. Ireland	25333	4451	712726	106132	6.7
6. Italy	20478	3673	284140	130261	2.2
7. Luxembourg	45091	6936	1041187	172946	6.0
8. Netherlands	25189	4349	754386	103894	7.3
9. Austria	25898	4583	1081060	139399	7.8
10. Portugal	11543	3530	257753	83234	3.1
11. Finland	24859	4484	949736	203921	4.7
12. Sweden	27381	4472	679421	165968	4.1
13. EU average	24316	4250	445038	137003	3.2
14. Croatia, 1999	4399	1032	235193	55471	4.2
15. Croatia, 2000	-	976	227193	50754	4.5
16. Croatia, 2001	-	1056	253309	54037	4.7

Notes: Turnover excludes VAT; Exchange rates in Croatia: 1 USD = 7.11 HRK in 1999, 8.28 HRK in 2000 and 8.34 HRK in 2001; Exchange rates for EU countries - 1 Euro = 1.0658 USD; data not available for Germany, Greece and UK.

Source: CBS, Statistical yearbook of Croatia 2000 and 2002, Eurostat, 9/2002, 24/1999 and authors' calculation

The correlation analysis expectedly indicates that the level of retail turnover per capita is strongly correlated with GDP per capita (0.9431), and somewhat less with turnover per enterprise (0.7486) and turnover per employee (0.7214). However, the correlation between the retail turnover per capita and employment per enterprise is not significant (0.3637). It is simply to conclude that the growth in GDP per capita is of much greater importance for the growth in turnover per capita than the market concentration.

Main Characteristics of Foreign Retailers in Croatia

During the period 1998 – 2001, Foreign Direct Investment (FDI) in Croatia rose at the annual rate of 37.97%. The expansion of foreign trade companies in Croatia has been particularly strong since 2001. The total FDI amounted to 629,24 million USD in 2001 (See table 8).

Table 8.

FDI INFLOWS IN TRADE SECTOR IN CROATIA

- in 000 USD

Indicator/Year	1998	1999	2000	2001	Annual	Total	Structure
1. FDI inflows	97599,66	120486,95	154838,40	256318,41	37.97	629243,42	100.00
1.1. Equity investments	56334,25	18281,67	25669,93	79563,94	12.20	179849,79	28.58
1.2. Other investments	41265,41	102205,28	129168,47	176754,47	62.40	449393,63	71.42

Notes: The sample includes 142 companies; other investments include reinvested earnings, debt securities and other capital.

Source: Croatian National Bank and authors' calculation

Equity investments amounted to 28.58 % and other investments to 71.42% of the total FDI. The structure of FDI may be evaluated as the favourable one for Croatia. It indicates that foreign investors have optimistic approach to the Croatian market. Practically accepted high financial leverage simply means that the expected return on their investments ought to be higher than the corresponding financial costs.

Foreign trade companies have been entering Croatian market via investments in sales network, acquisitions and franchising particularly in non-food retailing. Greenfield investments are the major part of equity investments (83.16%) which is in accordance with a higher risk such investments are characterised by.

As the data indicate, foreign investors prefer the debt financing for buying out domestic companies and investing in the existing retail network. Due to the market value of assets, cheaper labour force and attractive locations of outlets, they have rationally expected lower risk in acquisitions than in the greenfield projects. It simply means that foreigners have found the Croatian retail sector as a promising investment.

They have been quick, organised and financially able to penetrate the market. The data given in table 9 and table 10 illustrate some features the Croatian retail trade and top ten foreign retailers are characterised by.

Table 9.

SELECTED INDICATORS OF CROATIAN RETAIL TRADE
AND TOP TEN FOREIGN RETAILERS

Indicator/Year	1998	1999	2000	2001	Growth rate
1. Croatian retail trade					
1.1. Number of companies	7957	7568	7105	6727	-5.44
1.2. Employment	62420	58351	60127	61368	-0.56
1.3. Total sales (mill HRK)	27371	26631	29701	35142	8.69
1.4. Employment per enterprise	7.845	7.710	8.463	9.123	5.16
1.5. Sales per company (mill HRK)	3,440	3,519	4,180	5,224	14.95
1.6. Sales per employee (mill HRK)	0,438	0,456	0,494	0,573	9.31
2. Large companies					
2.1. Number of companies	50	64	63	72	12.92
2.2. Employment	20387	21929	22193	27787	10.87
2.3. Total sales (mill HRK)	8755	10731	13112	17846	26.79
2.4. Employment per enterprise	407.740	342.641	352.270	385.931	-1.82
2.5. Sales per company (mill HRK)	175,106	167,677	208,134	247,857	12.28
2.6. Sales per employee (mill HRK)	0,429	0,489	0,591	0,642	14.36
3. Top 10 foreign retailers					
3.1. Number of companies	6	9	9	10	18.56
3.2. Employment	132	896	1307	1862	141.62
3.3. Total sales (mill HRK)	136,83	387,94	1328,08	2071,60	147.39
3.4. Employment per enterprise	22.00	99.56	145.22	186.20	103.79
3.5. Sales per company (mill HRK)	22,81	43,10	147,56	207,16	108.65
3.6. Sales per employee (mill HRK)	1,037	0,433	1,016	1,113	2.39
3.7. Market share (%)	0.50	1.46	4.47	5.89	127.54

Notes: Crafts not included in the market share

- The data for top ten foreign retailers (100% foreign ownership) is comprised of the biggest retailers according to the total revenue in 2001 (Section G 52 of the NACE classification). Following companies are included: Dm-Drogerie Markt d.o.o., Oriflame Kozmetika Croatia d.o.o., Billa d.o.o., Spimir moda d.o.o., Avon kozmetika d.o.o, HT Troplast d.o.o. Fliba d.o.o.

Neckermann d.o.o., Mercator-H d.o.o. and Amway d.o.o. Although the sample of companies that are 100% owned by foreigners is small, it is the illustrative one. Their direct influence is not so strong as their pure presence in the market may tell.

Source: Croatian Chamber of Economy and authors' calculation.

During the period 1998 – 2001, top ten foreign retailers grew at a very high rate. The annual growth rate of sales was 147.38 % and total employment 141.62%. From the negligible market share in 1998, they came to about 6% in 2001. Their productivity expressed in sales per employee is considerably higher than in the Croatian retail trade.

However, there have been some interesting structural changes foreign retailers have been going through. Their gross profit margin decreased. The changes in relative prices are a logical explanation of mentioned trend. The competition has forced them to decrease their retail prices, while costs have not been manageable (See table 11).

Table 10.

THE RATIOS OF THE FINANCIAL PERFORMANCE IN CROATIAN RETAIL TRADE

Indicator/Year	1998	1999	2000	2001	Growth rate
1. Croatian trade					
1.1. Gross profit margin	0.020	0.020	0.023	0.024	5.18
1.2. Current ratio	0.877	0.870	0.860	0.796	-3.19
1.3. Net worth position	3.236	2.468	2.714	3.231	-0.05
1.4. Financial leverage ratio	4.468	3.321	3.578	3.983	-3.76
1.5. Rate of stock turnover	7.588	7.411	7.716	-	-
1.6. Rate of return on assets	0.027	0.028	0.035	0.037	11.28
1.7. Rate of return on equity	0.121	0.094	0.126	0.149	7.10
2. Large companies					
2.1. Gross profit margin	0.008	0.010	0.013	0.014	17.21
2.2. Current ratio	0.790	0.801	0.855	0.689	-4.42
2.3. Net worth position	1.944	2.045	2.440	3.620	23.03
2.4. Financial leverage ratio	2.921	2.989	3.394	4.379	14.46
2.5. Rate of stock turnover	8.619	8.620	8.660	-	-

2.6. Rate of return on assets	0.009	0.015	0.023	0.023	36.84
2.7. Rate of return on equity	0.026	0.044	0.079	0.099	56.63
3. Foreign retailers					
3.1. Gross profit margin	0.040	0.022	0.015	0.023	-16.42
3.2. Current ratio	0.515	0.483	0.515	0.614	6.00
3.3. Net worth position	27.297	10.256	6.633	2.683	-53.85
3.4. Financial leverage ratio	28.319	10.714	7.287	3.590	-49.77
3.5. Rate of stock turnover	6.672	3.109	6.994	-	-
3.6. Rate of return on assets	0.039	0.015	0.020	0.035	-3.93
3.7. Rate of return on equity	1.107	0.157	0.147	0.124	-51.74

Notes: *Craft is not included*

Source: Croatian Chamber of Economy and authors' calculation.

Table 11.

AVERAGE RETAIL PRICES IN GROCERY SECTOR

- in HRK

Type and origin of retailer	Sum of prices in April 2001	Sum of prices in November 2002	Indices 2002/2001
1. Foreign retailers	289.8	286.3	98.8
2. Domestic Retailers			
2.1. Large retailers	295.5	273.7	92.6
2.2. Small independent retailer	373.8	346.3	92.6
3. Competition abroad	277.5	304.8	110.2

Notes:

- Basket categories are the same brand, quality and the same pack size. Following products are included: bread, sugar, salt, margarine, butter, mayonnaise, oil, milk, chocolate, coffee, flour, raisin, cedevita, vegeta, rice, cheese, tinned fish in oil, coca cola, banana, orange, grapefruit, biscuits, chocolate cream, cocoa cream, cream spray, Whiskas, detergent, skincare product and soap.
- The stratified sample used for the illustration consists of the following companies: a) foreign retailers in Croatia: Fliba (Coop in 2002) and Billa; b) domestic retailers: Getro, Konzum and independent small retailer; competition abroad is Billa (Austria), Mercator (Slovenia).

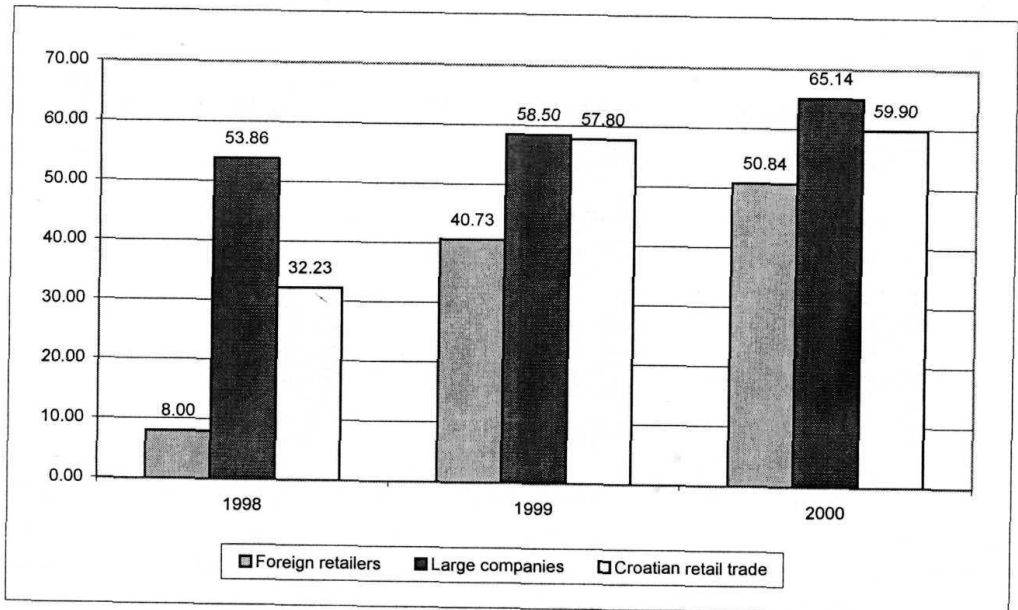
Source: Authors' research

A general drop in prices is evident from the comparative data given in table 11 due to the fierce price competition. It must be noted that selected domestic retailers decreased their prices more than the foreign ones. At the same time, small independent retailers have kept with higher prices because of higher costs.

Large companies have higher rates of stock turnover, while the Croatian trade has higher rates than foreign retailers do. Supposing that the free market competition has existed, lower rate of turnover is due to the size of stocks. Larger stocks are in line with economies of scale, but they generate higher financial costs. The question is either that the foreign retailers have maintained to decrease cost of capital or they have succeeded to pass those costs on suppliers.

Current ratios have generally decreased in the retail trade, mostly in large companies. It is evident that all companies have been financing their stocks by debt. In the structure of current liabilities, account payable has very large share. (See graph 2). The pressure on suppliers has become stronger. They have been presumably cheaper source of financing stocks for retailers. Neglecting slight differences that have existed among companies, the process of convergence in the behaviour of all retailers in Croatia has become evident.

Graph 2.

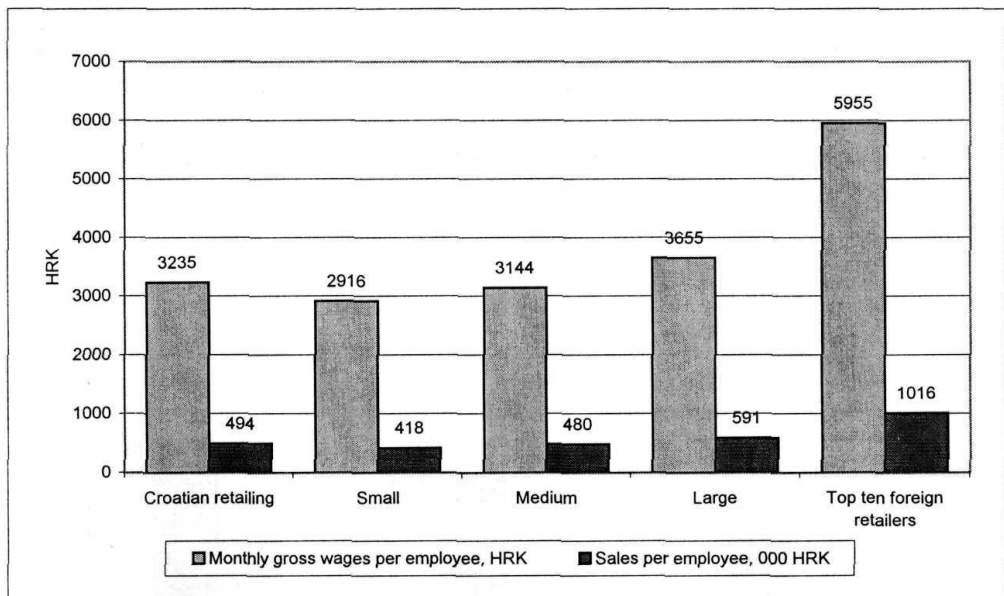


Source: Croatian Chamber of Economy and authors' calculation.

Financial leverage ratios indicate that all companies have heavily funded their business by debt. Due to the price competition on one hand and the market stability on the other hand, companies have used financial leverage to increase their rates of return on equity. That is in line with the structure of current liabilities and mentioned pressure retailers have put on suppliers.

However, there are significant differences among companies related to their employee productivity and average wages (See graph 3).

Graph 3.



Source: Croatian Chamber of Economy and authors' calculation.

The graph shows that there is a positive correlation between average wage and sale per employee. As the comparable data indicate, the average wage in foreign retailers is 63% higher than in large retailers, while the employee productivity is 72% higher. Although there are many factors that influence the employee productivity, it may be concluded that it depends to a large extent on wages.

As the newcomers in the market, foreign companies have some advantages. They have not been burdened by existing behaviour, structure of employees and

business policy as the domestic retailers have been exposed to. In addition to this, the domestic retailers have been late in the restructuring of their business and the foreign retailers have taken advantage of it.

Impacts of Structural Changes in the Croatian Retail Trade

There have been both advantages and disadvantages of structural changes in the Croatian retail market. The most important ones are summarised in table 12.

Table 12.

ADVANTAGES AND DISADVANTAGES OF STRUCTURAL CHANGES IN THE CROATIAN RETAIL TRADE

Advantages	Disadvantages
1. fiercer competition	1. market concentration
2. market concentration	2. additional unemployment
3. employee productivity	3. decreasing number of small retailers
4. growth in retail turnover	4. escalation of price competition
5. convergence of retailers' behaviour	5. worsening producers' terms of sale

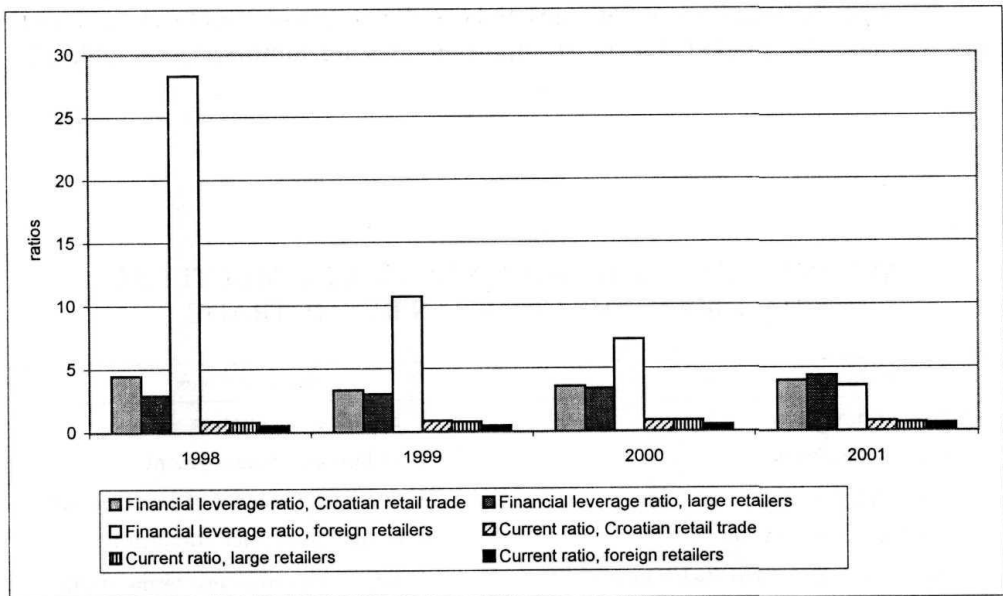
Source: Authors' research.

The mentioned advantages and disadvantages have been the result of different endogenous factors. However, there have been also exogenous ones driven by foreign retailers. One of the major advantages is their strong impact on the competition. They have been imposing high business standards and thereby creating a competitive environment. In turn, domestic companies are encouraged to increase their efficiency in order to become more competitive targeting comparable business standards.

At the macro level, the restructuring of retail trade sector leads to the growing market concentration and supply of wider range of goods at competitive retail prices. The increased turnover could not have happened if prices did not decrease. Besides that, the inevitable sources of turnover growth have been a significant decrease in the shopping abroad and an increase in the shopping of foreigners in Croatia.

The convergence of financial performance of Croatian retailers is another result of the growing competitive environment. That is an indicator of standardisation of business practices on one hand and developing market infrastructure on the other hand (See graph 4).

Graph 4.



Source: Croatian Chamber of Economy and authors' calculation.

Negative impacts of foreign retailers on the Croatian retail trade are a decrease in the number of business entities and employment in trade companies. Although large companies increased the employment in line with their growth, total employment in trade companies decreased during the period of 1998-2001. This means that a growth of large companies does not compensate a decrease in the employment within the small and medium companies (See table 13).⁸

⁸ The data for crafts are not included. However, crafts can not be of a significant importance in greater employment. It is rather likely that their market share will decrease in the future.

Table 13.

CHANGES IN EMPLOYMENT

Indicator/Year	1998	1999	2000	2001
1. Annual changes				
1.1. Small companies	-	-1625	-440	-749
1.2. Medium companies	-	-3986	1952	-3604
1.3. Large companies	-	1542	264	5594
1.4. Foreign trade companies	-	764	411	555
1.5. Total retail trade	-	-4069	1776	1241
2. Cumulative values				
2.1. Small companies	-	-1625	-2065	-2814
2.2. Medium companies	-	-3986	-2034	-5638
2.3. Large companies	-	1542	1806	7400
2.4. Foreign trade companies	-	764	1175	1730
2.5. Total retail trade	-	-4069	-2293	-1052

Notes: Crafts not included.

Source: Croatian Chamber of Economy and author's calculation

In the short-run, the negative consequence of market concentration is a declining competition on certain locations. The direct result is the decrease in the number of companies that weakens competitive forces on them. That may cause negative market effects with respect to prices, output, innovations, variety and quality of products.⁹ This may become a problem when the market approaches to its maturity and appear as the obstacle to faster development. Finally, the dominant retailers intend to increase their market power and dictate terms to producers.

By summarising the results of the structural changes in the Croatian retail trade it may be concluded that advantages are greater than disadvantages. The faster growth in turnover, employee productivity and convergence of financial performance as well as the decrease in retail prices overwhelm negative impacts on the decrease in employment.

⁹ European Commission, C291, 2000.

Retailing Strategies for Croatian Retail Trade

The growth and development of the Croatian retail trade depends on its competitiveness and adaptation to dynamic environment. A SWOT analysis (See table 14) summarises strengths and weaknesses of the Croatian retail trade and opportunities and threats as well. It is a starting point to rise some strategic issues and expectations related to further development.

Table 14.

SWOT ANALYSIS OF THE CROATIAN RETAIL TRADE

Strengths	Weaknesses	Opportunities	Threats
1. gross profit margin	1. high retail prices	1. growth in consumption	1. low growth rate of GDP
2. current ratio	2. high costs of goods sold	2. shopping of foreigners	2. low wages and salaries
3. return on net worth	3. low employee productivity	3. small shopping	3. changes in consumer preferences
4. retail network	4. low wages	4. trade liberalisation	4. big shopping
5. attractive locations	5. poor organisation	5. partnership	5. price competition
	6. delay in restructuring	6. co-operation within value added chain	6. poor control over protection of competition
			7. lack of policy measures

Source: authors' research

The Croatian retail trade has strengths in its adaptability, retail network and attractive locations. High prices and high costs of goods sold are their main weaknesses that in turn decreases their sales. The growth in consumption and small shopping are opportunities for faster development. On the other hand, strong price competition and changing consumers' preferences are identified as major threat to small and medium enterprises.

The retail policy is an opportunity and threat to retail development. Liberalisation and harmonisation of the trade policy create the competitive environment, but there are some limitations as well. An unstable macroeconomic environment can not facilitate long-term oriented behaviour. Any instability will worsen the financial performance of the Croatian retail trade, since their policy is based on high financial leverage ratios.

Any specific regulation regarding siting of commercial premises and urban planning regulation may restricts competition on certain locations, which benefits incumbent firms and in some cases helps them to increase or maintain the dominant position.

In order to use identified opportunities, an appropriate strategy is to be carried out. A log frame matrix may be of some help (See table 15).

If the mission is to be achieved, it is vital to improve the competitive environment and the competitiveness of domestic retail trade. The retail policy should be market oriented, because the sector works the best if individual market initiatives are stimulated. However, the strategy must consider the costs and benefits of retail development.

In this respect it is particularly important to ensure the conditions for fair competition. Among key issues and preconditions the most important to emphasise are high-quality management, improvement of knowledge, efficient division of labour, and integrated information system.

Table 15.

STRATEGY MATRIX OF RETAIL DEVELOPMENT IN CROATIA

Mission and objectives	Results	Programmes	Activities	Assumptions
<p><i>Mission</i></p> <ul style="list-style-type: none"> Retail structure is competitive generating high performance <p><i>Goals</i></p> <ol style="list-style-type: none"> Apply the EU standards in retail business practice Plan the retail development more effectively Improve the competitiveness of small and medium enterprises. 	<ol style="list-style-type: none"> Accelerated growth is achieved. Competitiveness is improved. Fair competition is the practice Developed market infrastructure in rural areas Harmonised retail policy 	<ol style="list-style-type: none"> Application of new technology Training programmes Modernisation of retailers in rural areas Improvement of competition policy Improvement of consumer protection policy Specific measures in favour of small and medium retailers. 	<p><i>At company level</i></p> <ul style="list-style-type: none"> Reduce prices by co-operation Reduce operating costs Increase the expenditure in R&D <p><i>Retail policy</i></p> <ul style="list-style-type: none"> Application of the EU and WTO standards Enhance the quality of education 	<ol style="list-style-type: none"> Macroeconomic environment remains stable Contracts with the EU and WTO are completely in force Policy and decision makers co-operate with companies

Source: authors' research

The retail policy should apply the EU and WTO standards. It must exercise control over competition and consumer protection. Efforts must be made to improve the competitiveness of small and medium retailers. It is crucial to enhance the quality of education. In the process of decentralisation, local authorities should carry out more effectively rules related to the creation of enterprises, opening hours, siting and rental of commercial premises and urban planning.

Domestic retailers should engage in a long-term partnership with other retailers to develop co-operatives, franchise systems, voluntary chains, and purchasing groups in order to obtain better conditions from manufacturers and achieve economies of scale.

In a long-term partnership with producers, domestic retailers may build an efficient value added chain in order to maximise the use of domestic resources, decrease investment in working capital and initiate the creativity of small and medium sized enterprises.

Small and medium retailers should be oriented toward the specialisation based on identified specific market segments using profitable merchandise line and shopping services.

Conclusion

The analysis supports the hypotheses that the Croatian retail trade faces very fast structural changes with foreign retailers as the major factor in them. They have facilitated the building of the retail structure approaching the situation prevailing in the EU.

The first indicator of fast structural changes is a growing average size of a retailer that may lead to the market concentration. Large companies increased their share in the number of companies by 19.43 %, in employment by 11.50 % and in total sales by 16.66 %. They did it at the expenses of small and medium retailers. In spite of evident changes, the Croatian retail trade has been still fragmented.

A decrease in the market share of the food retail trade is the second indicator of changes. It shows that the Croatian retail trade has become more comparable to the situation prevailing in the EU countries. However, the Croatian retail trade is still underdeveloped and lags behind the EU in their performance.

A sharp drop in the shopping abroad indicates that the competitiveness of the Croatian retail trade has been improving both in terms of quantity and quality of goods offered and the level of prices as well. This is the third indicator of structural changes in Croatia.

During the period 1998 – 2001, foreign retailers recorded very high growth in terms of total employment and total sales. Their market share grew at an annual rate of 127.54 %. Behind that growth are their advantages over local competitors, among which competitive prices and high employee productivity are the most representative ones.

The importance of foreign trade companies lie in the fact that they have been increasing competition and market concentration. These processes have been positively correlated with a rising retail turnover. A convergence of financial performance in the Croatian retail trade is another positive impact of foreign competition targeting EU standards.

Foreign retailers have generated some negative impacts on the Croatian retail trade too. The most representative ones are a decrease in the number of business entities and a decline in employment in the retail trade companies. However, positive impacts have overwhelmed the negative ones.

The analytical results provide an important implication for the retail strategy. The retail policy should be market oriented. It should consider both benefits and costs of retail development. It has to ensure the conditions for fair competition. The major set of actions includes an insistence on high-quality management, improvement of knowledge, efficient divisions of labour and integrated information system.

A long-term partnership with producers is the main precondition for building an efficient value added chain and reduction of business risk. Small and medium retailers should bear the prime responsibility for their competitiveness. It should be based on the co-operation with other companies in order to obtain better conditions from manufacturers and achieve economies of scale.

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STRUKTURNE PROMJENE U MALOPRODAJI REPUBLIKE HRVATSKE - Razvojno repozicioniranje, posljedice i očekivanja -

Sažetak

Autori u radu analiziraju strukturne promjene u hrvatskoj maloprodaji u razdoblju od godine 1998. do 2001. Iako su opći trendovi više ili manje poznati, ostaje pitanje učinkovitosti i brzine promjena.

Autori su se u ovome radu koristili komparativnom analizom statističkih podataka kao osnovicom za izračunavanje različitih indikatora, relativnih pokazatelja, indeksa i koeficijentna korelacije.

Zaključci potvrđuju hipotezu da hrvatsku maloprodaju karakteriziraju brze strukturne promjene i rast učinkovitosti. Te promjene stvaraju novu strukturu koja se približava razvijenim zemljama EU.

Rezultati istraživanja imaju važne implikacije za strategiju razvitka maloprodaje, koja bi morala uzeti u obzir koristi i troškove procesa razvitka maloprodaje. U tome valja ustrajati na kvaliteti menadžmenta, na obrazovanju, na organizaciji i na informacijskom sustavu. Partnerstvo s proizvođačima glavna je pretpostavka za stvaranje učinkovitog lanca dodane vrijednosti i za smanjenje poslovnog rizika.