

CROATIAN RETAILING IN TRANSITION TOWARDS EUROPEAN RETAILING - Differences, Convergence and Perspectives -

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Abstract

This paper examines the development of retail market in Croatia in the context of a globalisation of the retail activity. It aims to discover the similarities and differences between retail sectors in Croatia and other European countries. The analysis considers changes in the retail environment and highlights their importance for retailing strategies and the retail trade regulation. Collected data are used as the base for calculating different indicators, including indices and correlation coefficients. Research results indicate that Croatian retailing is going through a rapid change along the familiar lines found in other European countries. General tendencies towards concentration, modernisation, diversification, standardisation and internationalisation have been evident. New formats, organisational structures and management practices are being implemented rapidly. There are rational expectations that the convergence of retail development will continue within Europe. Croatia is no exception. According to its legal environment, Croatia is on the way. However, some differences will persist due to new standards of behaviour that are not so easy to implement. It will take time for Croatian retailing to reach those standards.

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1

INTRODUCTION

After social changes in early 1990s, the Croatian trade sector was liberalised and companies entered the process of privatisation. Lower entry barriers stimulated small firms in particular to enter the market quickly and cheaply. Retailing was mainly perceived as a new business opportunity, a source of income and method of self-employment. At the same time, many large companies simply delayed restructuring because they had a monopolistic position in their market area while lacking necessary restructuring strategies.

Additional market liberalisation toward the end of 1990s stimulated foreign retailers to enter the Croatian market in greater numbers. Large international chains increased competition in the market and forced large local companies to change their behaviour and employ modern retail management practices. Since 1998, the structure of Croatian retailing has changed considerably. There has been a general tendency towards the development of large stores and non-food retailing.

It seems that the Croatian retail sector has developed along the familiar lines found in other European countries. A considerable number of articles concerning the structural changes and the retail environment in European markets have been published in the last decade (see Tordjman (1994); Lyle (1995); Bennison and Boutsouki (1995); Davies (1995) and others). Those works suggest that there have been convergent trends in retail development among European countries, although substantial differences among individual markets still exist.

This paper examines the development of the Croatian retail sector in the context of the development of European retailing and the globalisation of retail activity in general. It reviews the changes within the retail sectors through the consideration of three characteristic issues: What are the differences and the similarities in retail development between Croatia and other European countries? What are the major factors that have influenced changes in retail industries? How may the Croatian retailing change in the future?

The analysis focuses on structural changes in the retail trade sector and retail environment in Croatia and EU countries. It contains data on the number of retail companies and their size, retail sales, number of retail outlets,

number of persons employed, retail prices, financial performance and investments.¹ Data are used as the base for the calculation of different indicators, including indices and correlation coefficients.

The first section of this study gives an overview of recent changes in Croatian retailing and compares them with the changes in European countries. The second section examines the impacts of main drivers for changes in retailing. A comparative analysis of financial performance follows in the third section. Finally, major findings of this study are given in conclusions.

2 CHANGES IN THE STRUCTURE OF RETAILING

Croatian retailing is an emerging industry with a relatively short operating history. In recent years, the retail trade sector has seen a growth in retail sales, employment and number of retail companies. During the 1998-2002 period, retail sales expanded 6.4%, employment 4.5% and the number of business entities 2.7% (see Table 1). In particular, it was enhanced competitiveness of retail companies that stimulated this growth and contributed to the creation of additional employment in the sector.

Market consolidation has been an evident trend in the Croatian retailing. Data² presented in Table 2 illustrate the development of Croatian retailing between 1998 and 2002. The number of business entities and outlets shrank, while the average size of retail companies increased during the period under consideration. It is interesting that the number of retail companies and outlets rose in 2002. The favourable macroeconomic environment that facilitated liberalisation and stimulated new entrepreneurs to enter the market, as well as better coverage of the reporting statistical units may explain this changing trend. The growth in retail sales and changing structure of the retail sector were real factors that prompted changes. Stronger demand led to more firms in the market trying to meet the consumers' needs, in the sales of non-food items in particular. This contributed to the expansion of non-food retailing.

¹ Data on retail trade correspond to section G 52 of the National Classification of Economic Activities. They were taken from the Central Bureau of Statistics, Eurostat, the Croatian Chamber of Economy and Croatian National Bank databases.

² In 1998, all statistical research in the field of domestic trade was revised entirely in order to harmonise it with the international standards as well as to achieve higher data quality and better coverage of the reporting units (see CBS, *Statistical Yearbook of Croatia*, 2002). Therefore, it is not possible to provide an uninterrupted data series with detailed information for the years prior to 1998.

Table 1

CHANGES IN CROATIAN RETAILING, SECTION G 52, 1998-2002

Indicator/Year	1998	1999	2000	2001	2002	Annual growth rate (1998-2002)
1. Business entities	20,406	19,222	18,816	18,270	22,698	2.70
2. Number of outlets	27,042	25,955	26,259	26,122	29,874	2.52
3. Employment	81,708	81,500	84,227	85,644	97,305	4.46
4. Sales (mln HRK)	40,868.5	39,215.1	43,182.9	47,088.6	52,459.3	6.44
5. Outlets per company	1.33	1.35	1.40	1.43	1.32	- 0.19
6. Employees per enterprise	4.0	4.2	4.5	4.7	4.3	1.82
7. Sales per business entity (HRK)	2002769	2040116	2295010	2577373	2311187	3.65
8. Sales per employee (HRK)	500,177	481,167	512,697	549,818	539,123	1.89

Source: CBS, *Statistical Yearbook of Croatia 2001 and 2002*; CBS, *First release, No. 4.1.2/4., 2003 and authors' calculation.*
Notes: Sales include VAT; Employment, business entities and outlets as on December 31.

Table 2

DEVELOPMENT OF RETAIL TRADE COMPANIES AND CRAFTSMEN IN CROATIA, SECTION G 52, 1998 - 2002

Indicator/Year	1998	1999	2000	2001	2002	Annual growth rate (1998-2002)
1. Trade companies						
1.1. Business entities	5,996	5,544	5,772	5,527	5,903	- 0.39
1.2. Number of outlets	11,851	11,414	12,116	12,052	11,484	- 0.78
1.3. Outlets per company	1.98	2.06	2.10	2.18	1.95	- 0.77
1.4. Employment	56,888	56,955	58,587	58,739	61,458	1.95
1.5. Sales (mln HRK)	31,090.1	30,027.1	33,704.9	37,364.4	42,490.1	8.12
1.6. Employees per enterprise	9.5	10.3	10.2	10.6	10.4	2.29
1.7. Sales per business entity (HRK)	5185140	5416144	5839380	6760340	7198055	8.55
1.8. Sales per employee (HRK)	546,514	527,207	575,297	636,109	691,368	6.05
1.9. Market share (in %)	76.08	76.57	78.05	79.35	81.00	1.58
2. Craft sector						
2.1. Business entities	14,410	13,678	13,044	12,743	16,795	3.90
2.2. Number of outlets	15,191	14,541	14,143	14,070	18,390	4.89
2.3. Outlets per company	1.05	1.06	1.08	1.10	2.13	2.28
2.4. Employment	24,820	24,545	25,640	26,905	35,847	9.63
2.5. Sales (mln HRK)	9,778.4	9,188.0	9,477.9	9,724.2	9,969.2	0.48
2.6. Employees per enterprise	1.7	1.8	2.0	2.1	2.13	5.80
2.7. Sales per business entity (HRK)	678,584	671,736	726,610	763,101	593,581	- 3.29
2.8. Sales per employee (HRK)	393,973	374,333	369,653	361,427	278,104	- 8.34
2.9. Market share (in %)	23.93	23.43	21.95	20.65	19.00	- 5.60

Source: CBS, Statistical Yearbook of Croatia 2001 and 2002; CBS, First Release No. 4.1.2/4., 2003 and authors' calculation.

Notes: Sales include VAT; Employment, business entities and outlets as on December 31.

As data in Table 3 indicates, the number of business entities and outlets as well as the market share of food retailing in the total retail sales decreased. An extremely high growth in sales was achieved in the retail trade outside stores (28%), repair of personal and household goods (17%), sales of food in specialised stores (11%) and retail trade in non-specialised stores (10%).

The process of market consolidation continues. This can be illustrated by the growth of trade companies at the expense of the craft sector. During the 1998-2002 period, trade companies boosted their sales per business entity by 8.6% and market share by 1.6%. In the structure of the retail sector by size of retailers, large companies have in recent years been growing very fast at the expense of small and medium companies. The growth of large companies between 1998 and 2001 provides very good illustration for this. Their share in the total number of companies increased 19.4%, in employment 11.5% and in total sales 16.7%. As Figure 1 indicates, large companies bolstered their share in total sales from 32% in 1998 to 50.8% in 2001. The expansion of large companies has been based on the development of modern and large retail shops (super- and hypermarkets, discount stores and shopping centres), the economies of scale and standardisation of business practices.

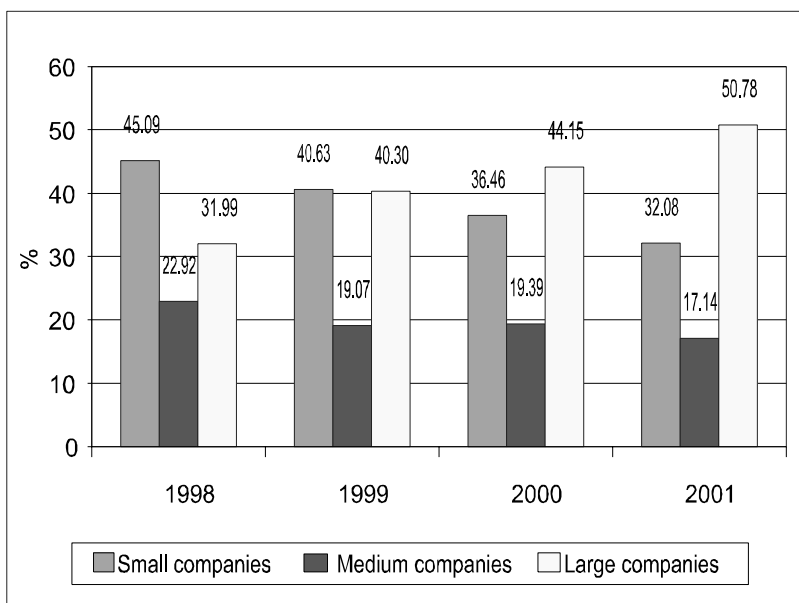


Figure 1

**THE
STRUCTURE
OF MARKET
SHARE IN
CROATIAN
RETAILING,
SECTION
G 52,
1998 - 2001,
IN %**

Source: Croatian Chamber of Economy and author's calculation.

Notes: Crafts not included.

Table 3

CROATIAN RETAILING CLASSIFIED BY THE MAIN SECTOR OF ACTIVITY, SECTION G52, 1998 - 2002

Activity/Year	1998	1999	2000	2001	2002	Annual growth rate (1998-2002)
1. Food retailing						
1.1. Business entities	6,584	6,100	6,131	5,777	6,453	- 0.50
1.2. Outlets	10,129	9,674	9,957	9,512	9,785	- 0.86
1.3. Persons employed	36,109	35,025	36,159	35,617	37,447	0.91
1.4. Sales (mln HRK)	17,326.3	17,917.3	18,274.1	19,955.3	21,584.6	5.65
1.5. Market share (in %)	43.94	45.69	42.32	42.38	41.15	- 1.63
2. Non-food retailing						
2.1. Business entities	13,822	13,122	12,685	12,493	16,245	4.12
2.2. Outlets	16,913	16,281	16,302	16,610	20,089	4.40
2.3. Persons employed	45,599	46,475	48,068	50,027	59,858	7.04
2.4. Sales (mln HRK)	22,109.1	21,297.8	24,908.7	27,133.3	30,874.8	8.71
2.5. Market share (in %)	56.06	54.31	57.68	57.62	58.85	1.22

Source: CBS, Statistical Yearbook of Croatia 2001 and 2002; CBS, First Release, No. 4.1.2/4., 2003 and authors' calculation.

Notes: According to the National Classification of Economic Activities in the EU (NACE Rev. 1), food retailing includes sections G 52.11 and G 52.2, whereas non-food retailing includes the following sections: G 52.12, G 52.3, G 52.4, G 52.5, G 52.6 and G 52.7.

Changes taking place in Croatian retailing are similar to those in other European countries. The main difference is in the level of concentration in the retail industry and the level of retail development. Concentration is still lower in Croatia, although it has been heightening thanks to the expansion of large companies. There are some differences among European countries in the level of retail concentration. A fragmentation of the retail sector is still the principal characteristic in Italy, Greece, Portugal, Spain and European countries in transition, despite the concerted efforts of large European retailers to penetrate these markets (see European Commission and Eurostat (1998); OECD, (2000 b)).

In the EU on average, trade sector generates 13% of GDP, participates with 16% in total employment and 30% in total number of enterprises (see CBS, 2001). By contrast, the Croatian trade sector is fragmented with many small companies generating lower GDP value. According to official statistical data, it participates with 43% in the total number of enterprises and generates 9% of GDP. The Croatian trade sector is around the EU average in terms of the share of employment in total employment (15%). Table 4 provides an insight into the structure and performance of Croatian retailing compared with the EU countries.

The Croatian retail trade is around the EU average in the number of employees per enterprise, whereas there is a substantial difference between Croatian retailing and the EU in performance. In 1999, the average per capita sales in the EU were four times higher than in Croatia. Although this value has increased in Croatia over the last four years, the difference is still large.

The correlation coefficients indicate that the most important factors contributing to higher per capita retail sales are the growth in GDP and higher concentration of enterprises. In 1999, there was a high correlation (0.943) between GDP per capita and sales per capita for EU 12 countries and Croatia. A link between sales per enterprise and sales per capita was also strong, as the correlation coefficient (0.753) suggests.

Table 4

THE STRUCTURE AND PERFORMANCE IN EUROPEAN AND CROATIAN RETAILING, SECTION G 52, 1999, CURRENT PRICES, IN USD

Country	GDP per capita	Sales per capita	Sales per enterprise	Sales per employee	Employees per enterprise	Enterprises per 1,000 inhabitants
1. Belgium	24,554	4,968	620,699	177,191	3.5	8.00
2. Denmark	33,117	5,274	885,283	144,244	6.1	5.96
3. Spain	15,287	3,515	261,095	95,661	2.7	13.46
4. France	23,917	5,040	782,280	197,291	4.0	6.44
5. Ireland	25,333	4,451	712,726	106,132	6.7	6.24
6. Italy	20,478	3,673	284,140	130,261	2.2	12.93
7. Luxembourg	45,091	6,936	1,041,187	172,946	6.0	6.66
8. Netherlands	25,189	4,349	754,386	103,894	7.3	5.77
9. Austria	25,898	4,583	1,081,060	139,399	7.8	4.24
10. Portugal	11,543	3,530	257,753	83,234	3.1	13.69
11. Finland	24,859	4,484	949,736	203,921	4.7	4.72
12. Sweden	27,381	4,472	679,421	165,968	4.1	6.58
13. EU 12	25,221	4,250	445,038	137,003	4.9	9.55
14. Croatia, 1999	4,371	1,019	235,194	55,471	4.2	4.33
15. Croatia, 2000	4,206	963	227,193	50,754	4.5	4.24
16. Croatia, 2001	4,403	1,043	253,309	54,037	4.7	4.12
17. Croatia, 2002	5,057	1,233	241,020	56,222	4.3	5.12

Source: CBS, Statistical year-book of Croatia 2000 and 2002; Eurostat - statistics; Hubertus (2002); Croatian National Bank and authors' calculation

Notes: For UK, Germany and Greece a complete dataset is not available; sales exclude VAT; exchange rates in Croatia: 1 USD = 7.11 HRK in 1999, 8.28 HRK in 2000 and 8.34 HRK in 2001; 7.86 in 2002; Exchange rates for EU countries (1999) - 1 Euro = 1.07 USD; data not available for Germany, Greece and UK; Crafts sector included in Croatian retailing.

3

THE CHANGING RETAIL ENVIRONMENT

There are several factors that interact to generate changes in Croatian retailing, with the following factors being the major ones: 1) factors in macroeconomic environment; 2) liberalisation and 3) growing competition.

3.1 Macroeconomic environment

A growth in income and household consumption boosted retail sales. The official statistical data show that GDP grew 5.8%, household consumption 6.4% and retail sales 4.8% during between 1998 and 2001 (see Table 5).

A significant decrease in shopping abroad (21%) was another factor that stimulated the growth in domestic retail sales. This would not have happened if the competitiveness of Croatian retailing had not increased in terms of quantity and quality of goods offered and the level of prices as well. On the other hand, the growth in unemployment (9.7%) combined with a growth in retail prices (5.1%) and cost of living (4.5%) to curb faster growth in retail sales. Moreover, some income has still been spent abroad in cross-border shopping.

Low purchasing power has affected Croatian consumer behaviour in two ways. Firstly, consumers have become highly price-sensitive. According to one survey (see Kondić (2000)), the prices and a broad selection of goods were considered to be the most important factors influencing the choice of stores in "big household shopping", whereas convenient locations and retail prices were the most important factors in choosing the outlets for "daily shopping" activities. A highly price elastic demand in the Croatian market has led to an expansion of mass retailers.

Secondly, food and non-alcoholic beverages are the major items in the total household consumption. Their share in the total household consumption in Croatia in 2002 was 32.2% (see Table 6). This value is still high, although it shrank between 1998 and 2002.

Table 5

**MAIN ECONOMIC INDICATORS IN CROATIA,
1998-2001, IN CURRENT PRICES**

1998=100

Indicators	1998	1999	2000	2001	Annual growth rate (1998-2002)
1. GDP	100.0	102.9	110.8	118.4	5.8
2. Net wages and salaries in legal entities	100.0	112.6	122.0	130.2	9.1
3. Households consumption	100.0	100.6	110.6	120.6	6.4
4. Retail sales, section G 52	100.0	96.0	105.7	115.2	4.8
5. Total number of unemployed persons	100.0	111.9	124.4	132.1	9.7
6. Retail prices	100.0	104.2	110.7	116.1	5.1
7. Cost of living	100.0	103.5	109.0	114.2	4.5
8. Shopping abroad	100.0	52.0	60.0	49.3	- 21.0
9. Travel and tourist expenditures abroad	100.0	139.9	123.2	132.5	9.8
10. Travel and tourist receipts in Croatia	100.0	102.0	131.4	160.0	17.0
11. Foreigners' shopping in Croatia	100.0	162.6	278.5	191.9	24.3

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

The changes in the structure of household consumption have had a positive impact on the structure of retail sales. A decreasing share of food in the structure of household consumption corresponds with the declining share of food retailing in total retail sales. As the 1998-2002 data suggest, the market share of food retailing decreased by an annual 1.6% and the share of food consumption by 4.2%. The correlation coefficient between these two variables is 0.897. Even though these changes might be small, they have been converging towards the situation in the EU countries.

The situation among European countries varies due to differences in the level of economic development and consumer preferences. In countries with a lower income per inhabitant (Portugal, Spain, Greece and European countries in transition) food consumption is still substantial in comparison with the consumption of non-food goods. The importance of non-food (services) as a proportion of total consumption is greater in more developed countries (see Davies (1995); European Commission and Eurostat (1998); Karsai and Laszlo (1998); Olbrich (2000)). Accordingly, we can expect to see higher growth in non-food consumption with the faster economic growth in Croatia.

Table 6

**CHANGES IN HOUSEHOLD CONSUMPTION IN CROATIA
CLASSIFIED BY CATEGORY, 1998-2002, IN %**

Category/Year	1998	1999	2000	2001	2002	Annual growth rate (1998-2002)
1. Food and non-alcoholic beverages	38.2	38.0	32.2	33.7	32.2	- 4.18
2. Alcoholic beverages and tobacco	4.6	4.6	3.9	4.1	4.0	- 3.43
3. Clothing and footwear	6.3	7.5	10.1	9.1	8.9	9.02
4. Housing and energy consumption	10.8	13.3	13.3	13.4	13.7	6.13
5. Furnishing, household equipment and routine maintenance	6.3	5.9	4.9	5.6	5.5	- 3.34
6. Health services	1.7	1.8	2.1	2.0	2.2	6.66
7. Transport	13.4	11.0	12.2	11.5	11.1	- 4.60
8. Communications	1.9	2.1	2.8	3.5	4.8	26.07
9. Recreation and culture	5.1	5.7	6.7	5.9	6.4	5.84
10. Education	0.6	0.7	0.7	0.8	0.7	3.93
11. Hotel and restaurant services	3.1	2.7	3.7	3.0	3.2	0.80
12. Miscellaneous goods and services	8.1	6.9	7.5	7.5	7.4	- 2.23
13. Total	100.0	100.0	100.0	100.0	100.0	-

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

3.2 Public policy towards retailing

The liberalisation and the harmonisation of laws with the EU legislation have facilitated changes in Croatian retailing. Since Croatia became a full member of the WTO in 2000 and signed the Stabilisation and Association Agreement with the EU, import duties have fallen with the inflation rate remaining low. The foreign exchange rate has been stabilised and the tax system simplified and becoming more transparent. Croatia has introduced the EU competition and consumer protection policies. New trading environment has encouraged entrepreneurs to enter the market and expand their businesses in the Croatian market.

From the normative point of view, in comparison with legislation in a number of other European countries, the Croatian legislation is liberal. However, some restrictions were imposed on large stores particularly with regard to opening hours due to concerns that large international companies that are entering the market might drive local companies out of business. The Croatian legislation lags behind the EU in the application of a harmonised institutional framework. This is particularly related to the competition policy and consumer protection policy, as well as legal environments with regard to the development of small and medium retailers, food standards, transport policy, environment policy and rural development policies.

Among OECD member countries, France, Greece and Austria have the most stringent regulation whereas the Czech Republic is a country with the most liberal trading environment. Generally speaking, the retail trade sector is subject to regulations relating to the requirements for setting up a business, as well as the establishment, extension and location of commercial premises, specific operations and products, the existence of local monopolies and shop opening hours (OECD (2000 a)). The regulations concerning commercial real estate and zoning pose the greatest barrier to the development of retail industries in the OECD countries. It has been recognised that the regulation of large stores has slowed down consolidation and modernisation of the sector and may speed up tendencies towards concentration at the national level. However, there are several studies suggesting that liberalisation has had a positive impact on retailing (see OECD (2000 a)).

3.3 Competitive environment

The third of the key drivers of changes in Croatian retailing is the emergence of new competitors and new types of competition. The implementation of free-market policies coupled with the modernisation of large national companies and the entry of foreign retailers has produced an environment where modern retail formats and organisations are rapidly expanding and modern approaches to retail management are being adopted.

Foreign competition has had a profound impact on Croatian retailing. The first generation of foreign retailers entered the Croatian market in early 1990s. Since the end of 1999, a new wave of trade operations has started with green-field investments in food retailing. During the 1998-2001 period, the annual average growth rate of green-field investment was 42.6% and it amounted to HRK 641 million in 2001 (see Table 7).

Table 7

FOREIGN DIRECT INVESTMENT, GROSS FIXED CAPITAL FORMATION AND GROSS VALUE ADDED IN THE TRADE SECTOR IN CROATIA, 1998-2001, IN MILLION HRK

Indicator/Year	1998	1999	2000	2001	Annual growth rate (1998-2002)
1. Foreign green-field investment	221	104	192	641	42.5
2. Gross fixed capital formation*	1,992	2,718	3,023	4,738	33.4
3. Gross value added	13,787	11,891	13,159	15,427	3.8

Notes: * Crafts not included; Gross fixed capital formation represents the value of physical materialised construction, produced or procured fixed assets throughout a year. Exchange rates: USD 1 = HRK 6.36 in 1998; HRK 7.11 in 1999; HRK 8.28 in 2000 and HRK 8.34 in 2001.

Source: Croatian National Bank; CBS, Statistical Yearbook of Croatia and authors' calculations.

The influence of FDIs and foreign competition in the Croatian retail sector has been mainly positive. The growth in green-field investment has contributed to the growth in total gross fixed capital formation and value added in the trade sector. Foreign companies have increased competition in the sector and stimulated dynamic structural changes. As the newcomers in the market, foreign companies have some advantages over local companies. They are not constrained by established behaviour, structure of employees and business policy that the domestic

retailers have been exposed to. Furthermore, they know very well what the corporate entrepreneurship really means. The performance of leading foreign retailers between 1998 and 2001 was impressive, as data in Table 8 indicate. Leading foreign retailers expanded retail sales by 147% and total employment by 142%.

Table 8

PERFORMANCE OF LEADING FOREIGN RETAILERS IN CROATIA, 1998-2001

Indicator/Year	1998	1999	2000	2001	Annual growth rate (1998-2001)
1. Number of companies	6	9	9	10	18.5
2. Employment	132	896	1307	1862	141.6
3. Total sales (mln HRK)	136	387	1,328	2,071	147.3
4. Employment per enterprise	22	100	145	186	103.7
5. Sales per company (mln HRK)	22	43	147	207	108.6
6. Sales per employee (mln HRK)	1.037	0.433	1.016	1.113	2.3
7. Market share (%)	0.50	1.46	4.47	5.89	127.5

Notes: The data for top ten foreign retailers (100% foreign ownership) comprises the biggest retailers according to the total revenue in 2001. Following companies are included: Dm-drogerie markt, Oriflame Kozmetika Croatia, Billa, Spamir moda, Avon kozmetika, HT Troplast, Fliba, Neckermann, Mercator-H and Amway.

Source: Croatian Chamber of Economy and authors' calculation.

Large successful domestic companies have been trying to compete on an equal footing with foreign multinationals. In particular, they have invested in the expansion of their distribution network and construction of modern large retail stores. As a result, gross fixed capital formation in the Croatian trade sector increased. Foreign competition forced domestic companies to employ modern retail management practices. Although there are some players in Croatia such as Konzum and Getro that have the ambition to innovate, local retailers have for the most part been imitating modern retailing management practices of highly-developed economies. According to the results of interviews with their management, specialised retailing consultants and training courses have played an important role in their attempt to introduce new concepts, new shop formulas and organisational innovations.

On the other hand, there are a number of companies³ - large and small companies alike that were not successful in adjusting their businesses to a new competitive environment. As a consequence, they had financial problems, were taken over or went into bankruptcy. In general, high costs and retail prices, low quality of management and poor customer services were among the reasons why those companies failed. Large domestic companies simply delayed restructuring. In the privatisation process of large companies, most new owners acquired companies at low prices. They did not assume the vital role of entrepreneurs nor did they know what it meant. Their primary interest was to collect "windfall gain" and sell the assets. They did not engage in business or restructure their companies. Already decreasing profit was spent on repaying bank loans. Eventually, companies were left without any chance of surviving in the marketplace.

The impact of foreign competition in the Croatian market might have been expected, according to changes within the retail sectors in other European countries. As the literature suggests, multinationals have played a leading role in the retail evolution in those countries. They accelerated the transformation and modernisation of retailing by bringing new capital, technology, modern business practices and a new level of services (see Eurohandels institut (1997); Karsai and Laszlo (1998); Waters (1999); OECD (2000a); Esbjerg (2002); Kieleyte (2002)). Large international chains expanded their network, increased their size and market share and eventually dominated the markets in European countries in transition. In 2000, large international chains were in the lead in the grocery sectors in Poland, Czech Republic and Hungary (see www.lz-net.de).

4

FINANCIAL PERFORMANCE AND RETAILING STRATEGIES

The selected indicators of financial performance provide additional illustration of the structural changes the Croatian retailing has been going through (see Table 9). If we neglect slight differences that existed among companies, the process of convergence in the behaviour of all retailers in Croatia is evident. It is characterised by debt financing, pressure on suppliers and price competition. This behaviour has largely been influenced by foreign competition.

³ For example Zagrepčanka, Koteks, Jadranketstil, Univerzal, OTP Karlovac, Astra, Vama, Diona, Tisak.

Table 9

**FINANCIAL PERFORMANCE IN CROATIAN RETAILING,
SECTION G 52, 1998-2001**

Indicator/Year	1998	1999	2000	2001	Growth rate
1. Croatian trade					
1.1. Gross profit margin	0.020	0.020	0.023	0.024	5.1
1.2. Current ratio	0.877	0.870	0.860	0.796	- 3.1
1.3. Financial leverage ratio	4.468	3.321	3.578	3.983	- 3.7
1.4. Rate of stock sales	7.588	7.411	7.716	-	-
2. Large companies					
2.1. Gross profit margin	0.008	0.010	0.013	0.014	17.2
2.2. Current ratio	0.790	0.801	0.855	0.689	- 4.4
2.3. Financial leverage ratio	2.921	2.989	3.394	4.379	14.4
2.4. Rate of stock sales	8.619	8.620	8.660	-	-
3. Leading foreign retailers					
3.1. Gross profit margin	0.040	0.022	0.015	0.023	- 16.4
3.2. Current ratio	0.515	0.483	0.515	0.614	6.0
3.3. Financial leverage ratio	28.319	10.714	7.287	3.590	- 49.7
3.4. Rate of stock sales	6.672	3.109	6.994	-	-

Notes: Craft not included; data were taken from the balance sheet and profit and loss accounts of Croatian retail trade, large companies and leading foreign retailers; gross profit margin = profit before tax/total sales; current ratio = current assets/current liabilities; financial leverage ratio = total assets/net worth; rate of stock sales = total sales/inventory.

Source: Croatian Chamber of Economy and authors' calculation.

A well-known benchmark suggests that retail companies usually make a 2-3% profit per dollar of net sales (Hasty and Reardon (1997)). The available data suggest that the average gross profit margin in the Croatian retailing was around the mentioned benchmark level. On average, it increased and decreased in the group of foreign retailers. The changes in relative prices may be a logical explanation of these trends. The competition has forced retailers to reduce their retail prices, while costs have not been manageable.

Price competition has stimulated retail companies to reduce their operating and procurement costs. This has been achieved mostly by increasing the average floor space of the retail outlets and the size of companies, expanding the assortment or range of goods offered and diversifying it. It has been recognised that retail firms need to be large to achieve economies of scale and scope, obtain better conditions from manufacturers and capture new market share. Smaller companies have attempted to reduce their procurement costs by associating with other enterprises into buying groups, voluntary groups and co-operatives.

During the 1998-2001 period, current ratios generally decreased in the retail trade, mostly in large companies. It is evident that all companies financed their stocks by debt. The pressure on suppliers grew stronger. Because of the increasing size, retail chains had more control of the value-added chain. Suppliers were a presumably cheaper source of financing stocks for retailers than bank loans.

Financial leverage ratios additionally indicate that all companies heavily funded their business by debt during the period under consideration. Due to the price competition on the one hand and the market stability on the other hand, companies used financial leverage to increase their rates of return on equity. That is in line with the structure of current liabilities and the pressure retailers have put on suppliers. Large companies had higher rates of stock sales, while the Croatian retailing had higher rates than foreign retailers. Supposing that the free market competition existed, lower rate of sales is due to the size of stocks. Larger stocks are in line with the economies of scale, but they generate higher financial costs.

5 CONCLUSIONS

Many of the observations made above indicate that Croatian retailing has been developing along the familiar lines found in other EU member states and European countries in transition. In Croatia, as well as in other European countries, there have been strong tendencies towards concentration, modernisation, diversification and the standardisation of business practices. New formats, organisational structures and management practices are being implemented rapidly. As large companies have expanded fast, traditional retailing has been slowly replaced by modern and better-organised distribution. However, Croatian retailing still lags behind the EU in the level of retail development. The majority of Croatian retailers are small and not fully prepared for the incoming competition of large multinationals.

An analysis of the retail environment suggests that different factors have affected retail development in Croatia and the EU countries. In many European countries regulation relating to commerce is rigid, while in Croatia the implementation of free-market policies combined with tougher competition to produce an environment in which modern retail formats and organisations are expanding rapidly and modern approaches to retail management are being adopted. The influence of foreign competition on Croatian retailing is very important and positive. Large international chains accelerated the process of structural changes

within the retail sector and stimulated domestic companies to enhance their competitiveness. Consequently, gross fixed capital and value added in the sector increased. Furthermore, economic environment is not the same in Croatia and the EU countries. Sales per capita and sales per enterprise in Croatia lag behind the EU average considerably due to lower GDP and fragmented retailing. Because of lower income the share of food consumption and food retailing in total values is higher in Croatia than in developed EU countries.

There are rational expectations that the convergence of retail development will continue within Europe. However, the likelihood of the total convergence of retailing structures and systems across the EU is still remote (see Lyle (1995)). Croatia is no exception. That is so because of various differences across countries pertaining to cultural heritage, language, consumer habits and the legislation relating to commerce as well as regional differences in the level of development and income. The single European market is not uniform but localised, and there is no standard Euro-consumer or standardised Euro-retailing (see Davies (1995)).

The ongoing trends in retailing have some implications for retail managers and the regulation relating to commerce. The best short-term strategy for the Croatian retail market is still the cost-based competitive advantage which simply means: sell items at lower retail prices than competitors and cut costs as much as possible at the same time. The implementation of this strategy requires different forms of co-operation among companies. Specifically, small and medium retailers should be oriented toward the specialisation based on identified specific market segments, using profitable merchandise line and shopping services. A long-term partnership with producers is the main precondition for building an efficient value added chain and reducing business risk.

The differentiation-based competitive advantage and innovations are recommended to secure a sustainable competitive advantage in the long term. This simply means that retailers should examine carefully how to use the retail marketing mix variables (location, merchandise, price, service, and communications) in various combinations to differentiate their company from its competitors while meeting the consumers' expectations. The legislation relating to commerce should be market-oriented. However, it should consider both the benefits and costs of retail development and ensure there are conditions for a fair competition.

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Hrvatska maloprodaja u tranziciji prema strukturi maloprodaje u Europskoj uniji - Razlike, približavanje i očekivanja -

Sažetak

Rad analizira razvoj maloprodaje u Republici Hrvatskoj u kontekstu globalizacije i internacionalizacije trgovine. Cilj rada je identificirati sličnosti i razlike koje postoje između sektora maloprodaje u Hrvatskoj i drugim zemljama u Europi. Analiza vodi računa o promjenama u okruženju i ističe njihovo značenje za strategije maloprodavača i regulativu u području trgovine. Podaci se koriste kao baza za izračun različitih indikatora, uključujući indeksa i koeficijenta korelacije. Rezultati istraživanja pokazuju da je hrvatska maloprodaja u procesu dubokih promjena, što je u skladu sa razvojnim trendovima u većini zemalja u okruženju. Radi se o općem trendu prema koncentraciji, modernizaciji, diverzifikaciji, standardizaciji i internacionalizaciji. Brzo se uvode i primjenjuju novi maloprodajni oblici i organizacijske strukture kao i moderan management u maloprodaji. Racionalno je očekivati da će se proces konvergencije u pogledu razvoja maloprodaje nastaviti kako u Europi tako i u Hrvatskoj. S obzirom na zakonodavstvo Hrvatska se približava Europskoj uniji. Međutim, određene razlike će i dalje postojati zbog različitih standarda koje nije moguće lako primijeniti u praksi. Proći će dosta vremena dok hrvatska maloprodaja ne dostigne navedene standarde.