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## CHANGES IN RETAIL INDUSTRY IN THE EU

**Blazenka Knezevic<sup>1</sup>, Sanda Renko<sup>2</sup>, Nikola Knego<sup>3</sup>**

*University of Zagreb, Trg. J. F. Kennedy 6, HR-10000 Zagreb, Croatia*

*E-mails: <sup>1</sup>bknezevic@efzg.hr (corresponding author);*

*<sup>2</sup>srenko@efzg.hr; <sup>3</sup>nknego@efzg.hr*

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**Abstract.** Retail is an important industry of each national economy. In the EU, it is an important source of employment and significantly contributes to the GDP creation. Moreover, almost one fifth of all companies are registered in retail industry. In the past decade, retail industry is changing from applying domestically oriented towards internationally oriented business strategies. The importance of large companies in this industry is growing, too. Retail trade concentration process is recognized in all EU countries. In this paper, some of prevailing trends in retail industry are analyzed and explained. The analysis includes EU countries and Croatia as EU candidate country.

**Keywords:** retail, distributive trade, EU, concentration, internationalization.

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### 1. Introduction

The retail industry comprehends all of the business activities relating to selling goods and services directly to ultimate consumers (Kent, Omar 2003: 8). It occupies a pre-eminent position in the economies of all modern societies. Namely, the competitive advantage of the enterprise; which is obtained at the level of goods distribution, determines the future success in the market (Gudonaviciene, Alijosiene 2008).

Retail companies use different channels such as: store outlets, supermarkets, web shops and door-to-door selling to sell goods and services for personal or household use, i.e. not to be resold to others.

Retail industry is specialized in intermediating between producers, wholesalers and consumers in order to add value to consumers by offering right merchandise, creating a good shopping atmosphere, decreasing the risk of shopping, making shopping convenient and by reducing prices throughout cost control (Kent, Omar 2003: 14–17).

While in history, retailing started as a market and workshop, today there is a variety of retail formats from outdoor market selling, supermarkets, chain stores to the selling via automates or Internet. Gilbert (2003: 2) points out that “even as recently as the 1960s, retailing was predominantly seen as having a smaller and significantly less important role than other industries such as manufacturing.” However, he states that the retail sector is increasingly being viewed as an important activity in the economy which has got great impact on the society due to a large proportion of the workforce and its contribution to GDP.

Since 1990s, retailing is rapidly changing form domestic oriented towards international oriented industry. Bernatonyte and Normantiene (2009) talk about global trade environment, which has changed in three major ways in recent decades: (1) international trade which has grown rapidly in value and volume; (2) the composition of trade which has altered significantly; and (3) trade flows which have been extensively liberalized.

While Alexander (1996) pointed out intra and interregional aspects of the retail development, Dawson (2001) and Sandberg (2010) pointed out the accelerating trend of the retail internationalization, they stressed out that there is a rapid increase in various international activities of EU retailers. Mentioned changes consequently affected several trends taking place in the retail industry. Dawson (2006) suggests that there are several key restructuring processes, those are:

1. The large firms are growing faster than the retail industry.
2. There is a more strategic approach applied to managerial decision making.
3. Organizational structures are growing in their complexity.
4. Value chains are more and more controlled by retailers (not producers as it used to be before).

Moreover, Dawson (2006) stresses out implications of those processes on overall retail industry. He claims that there is an obvious increase in the retail market concentration, that the number of small and micro firms is in the rapid decline, that retailers are getting more power comparing to their suppliers, and that there is increase in international activities among retailers.

The retail trade has been characterized by a consolidation of outlets, while at the same time the square footage of the average outlet has been increasing dramatically. During the 1980s, large retailers were expanding their number of locations through takeovers and internal expansion, whereas many smaller retailers were leaving the marketplace. Concurrently, retailers were rediscovering the benefits of large stores in terms of the economies of scope they offered to the customer (one-stop shopping, enhanced assortments of products), as well as economies of scale (lower labor costs, licensing fees per square foot). These factors led to fewer retail firms that in turn command a larger share of the market (Zerrillo, Iacobucci 1995).

Tordjman (1995) analyzed differences between EU countries and concluded that there are different levels of concentration and internationalization among countries.

He divided EU countries into four groups according to the reached retailing development measured throughout the company size, retail density and reached productivity level. Those groups are countries with: (1) traditional retail structure such as Greece and Portugal; (2) intermediary retail structure such as Italy and Spain; (3) structured retailing such as Denmark, Netherlands and France, and (4) countries with advanced retail structure such as: Germany and United Kingdom. Countries with traditional retail structure have predominant micro and small enterprises with low turnover rates per employee; while countries with advanced retail structure have predominantly larger retail companies, which have high productivity measured as turnover per employee and the density of a retail network is also high (measured in number of enterprises per 10 000 inhabitants).

Similarly to Dawson (2006), Tjordman (1995) observed several trends in the retail industry that are to be continued for a longer time period, those are:

1. Less growth, more segmentation of retail formats.
2. Fewer national, more international operators.
3. Fewer shops, more sales area.
4. Less stock, more customer service.
5. Fewer independent retailers, more affiliations.
6. Lower turnover per square meter, greater margin differentials.

In order to see if mentioned trends of the retail restructuring are continuing, in this paper we will analyze data given in official European statistical databases and compare the situation in the retail industry among EU countries. In addition, Croatian official statistics will be analyzed in order to make statement on reached level of the retail development in comparison to EU averages and chosen EU transitional economies. In order to make a conclusion on current trends, data for 2003 and 2007 will be taken into account.

## **2. Retail industry as a segment of the distributive trades**

In EU official statistics, Retail is observed as an industry within a Distributive Trades sector; field G (NACE Rev. 1.1, NACE Rev. 2). Therefore, firstly, we will give some data on Distributive Trades, and after that on the Retail industry.

According to data of 2007, distributive trade employs almost one quarter of total employee number in nonfinancial business sector in the EU. Trade enterprises comprise more than 30% of total enterprise number and they generate almost 20% of total gross value added in nonfinancial sector in the EU (Key figures on European Business 2010: 33; EU-27 data). In comparison, before the global recession, developed countries had the distributive trade share of GDP between 15–20% (Renko 2004).

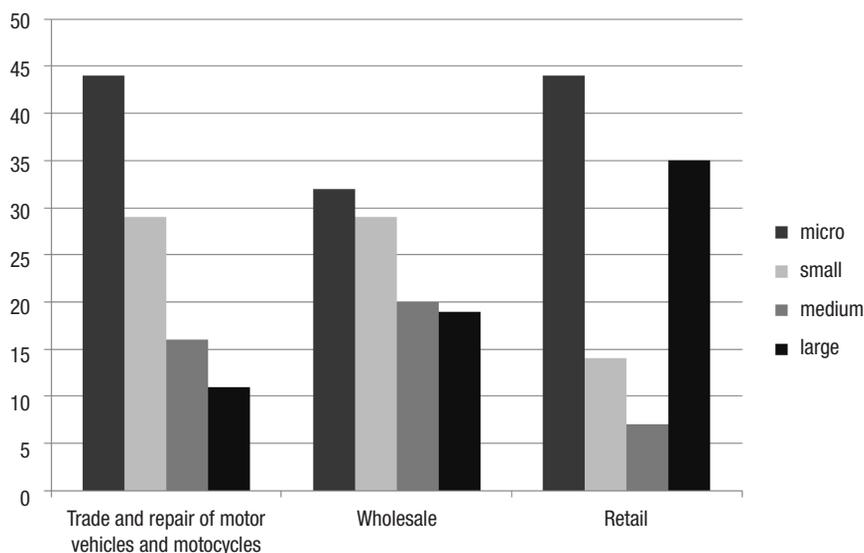
The retail industry is the most important part of the distributive trades sector in the EU because 60% of all trade enterprises are retail enterprises and 60% of all employees in distributive trades are employed within the retail companies. But, according to

distributive trades turnover, the retail industry is at the second place and generating almost 30% of distributive trades turnover (Table 1).

**Table 1.** Distributive trades’ structure (EU-27; 2004) (Source: Knezevic 2007)

Industry	Employees	Enterprises	Turnover
Trade and repair of motor vehicles and motorcycles	13%	13%	17%
Wholesale	27%	27 %	55%
Retail	60%	60%	28%
Total %	100%	100%	100%
Total number EU-27 Distributive trades (G)	30526200 persons	6199404 enterprises	7133796.80 mil. EUR

Enterprises in distributive trades sectors are mostly small and medium enterprises (SMEs), but in the retail industry there is a polarization on micro and large enterprises (Fig. 1), which is not the case in other industries in distributive trades sector.



**Fig. 1.** Structure of distributive trades industries according to the enterprise size (%), EU-27, 2006 (Source: own graph according to data in European business – Facts and Figures, 2010, EUROSTAT, p. 47)

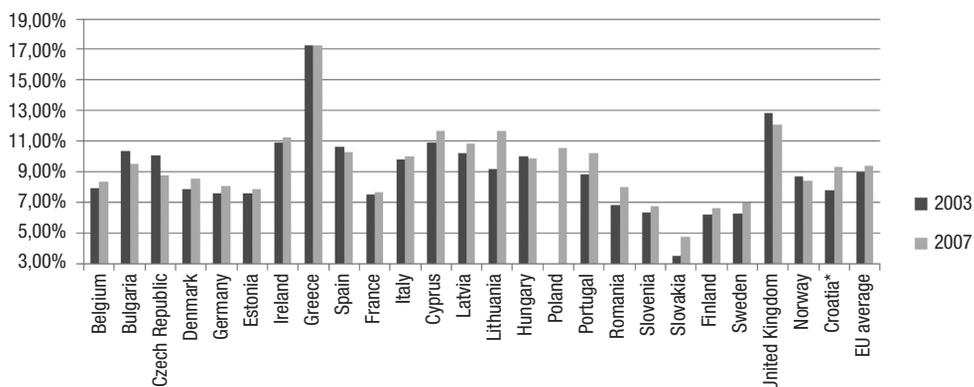
In the following chapters, we discuss the importance of retail in employment in national economies in the EU. Moreover, the contribution of retail industry to the creation of GDP on the example of EU countries is presented. In order to investigate the

difference in retail industry between some EU countries, the retail productivity and the structure of distributive trade industry according to average size of enterprises is discussed.

### 3. Importance of retail as the source of employment

The important role that retailers play in today's society is reflected through their status as employers. They employ a significant proportion of the overall workforce, and they are particular important employers of some groups as in the case of female employers because it is estimated that more than two-thirds of the retail labour force are female (Gilbert 2003: 3)

There are great differences when we measure the ratio of retail industry in the overall number of employed persons in European countries. Figure 2 shows the percentage of the retail in total employees among EU countries.



**Fig. 2.** Percentage of retail industry in total number of employees

(Source: own calculation according to data in EUROSTAT database extracts: sbs\_sc\_3ctrn and nama\_aux\_pem; CSYB 2006 and 2008, tables 22-3; Notes: for: Austria, Luxembourg, Malta and Netherlands data is not available, for Croatia only data on legal entities, i.e. enterprises is used)

In Slovakia, the retail industry has the lowest importance in total employment (it employs less than 5% of the total workforce), but there is a significant growth rate comparing to other EU member countries. On the other hand, in Greece, the retail industry employs more than 17% of the total workforce, but as there is no significant growth rate of the proportion, we can conclude that the retail industry in Greece reached a mature phase according to this indicator.

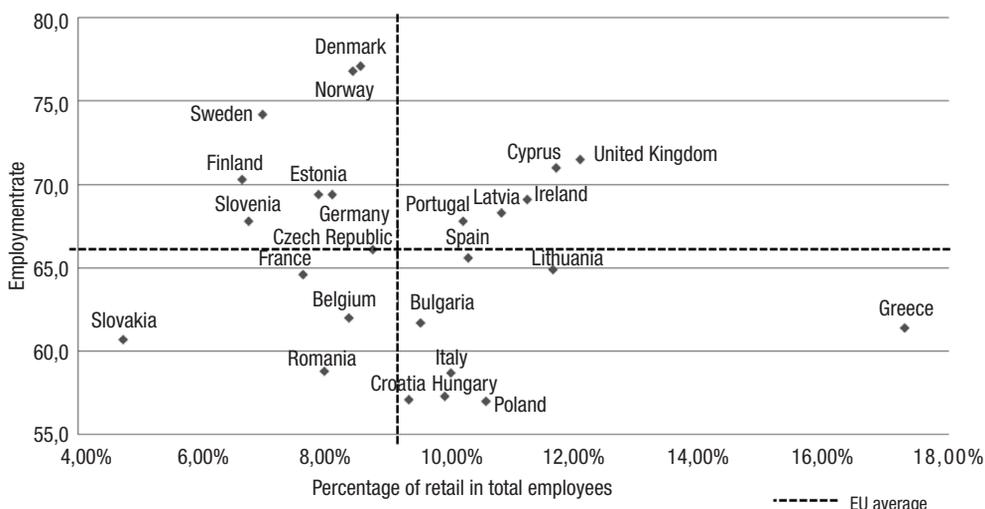
On the average, in the given period, the retail industry in the EU grew for 0.45% and reached 9.41% of the total workforce in 2007. Only in six analyzed countries, the importance of the retail is in decline, those are: Czech Republic, Bulgaria, Spain, UK, Hungary

and Norway. But there are several countries to be indicated examples of the above average growth of the retail importance in the total employment, those are: Lithuania, Portugal, Slovakia and a candidate country Croatia. However, large socio-economic inequalities between some EU countries (Ciegis *et. al.* 2008) should be considered because that can lead to completely different explanation of the market situation. For example, for Lithuania, export is substantial in sustaining growth and vitality (Saboniene 2009) and has contributed significantly in terms of capital inflows, employment, expansion of industry and widening the production base. In such a way, export has allowed domestic industries to achieve some economies of scale, which otherwise would not have been possible due to the limited domestic market size. Moreover, export is increasing business and household incomes despite a substantial number of workers leaving the country (Brock, Urbonavicius 2008). On the other hand, a candidate country Croatia has experienced the decline in export, but its existence of defined strategy is the most important economic problem. Negative GDP, inflation growth and the decreasing of household consumption are the key problems, which will affect the situation in retailing consequently. Nevertheless, Vojinovic and Oplotnik (2008) observed that the poorer new EU members grew faster than the richer new EU members in terms of GDP per capita in the period 1995–2006, which to some extent shrunk the observed inequality gap between the new EU member states.

If we analyze countries that have this indicator above the EU average, we can conclude that there are three types of countries with great importance of the retail industry measured by its impact on employment: (1) northern developed economies with advanced retail network such as UK and Ireland; (2) northern transitional economies such as: Poland, Latvia and Lithuania; (3) Mediterranean countries with traditional retailing, such as: Greece, Spain, Cyprus, Italy and Portugal.

On one hand, the great importance of the retail in the national economy can be the result of a high development of the retail network, but, on the other hand, it can be the outcome of the underdeveloped national economy. In the later case, the countries can have low employment rate in other sectors of national economies and in that case the higher importance of the retail is (measured by percentage in the total workforce), the retail is more developed comparing to the other industries. Therefore, it is necessary to analyze this indicator towards the average employment rate or towards achieved GDP per capita in order to be sure if there is unproportional development of retail in comparison to the overall economy.

For illustration, Figure 3 shows importance of retail in the total number of employees in comparison to employment rate in EU countries in 2007. We can observe that, according to this relation, there are five EU countries, in which high importance in employment is the result of developed retail network, which is developed in accordance to total economy, those are: Portugal, Latvia, Cyprus, Ireland and United Kingdom (see upper right part of the graph). But this finding should be approved by analyzing the level of manufacturing and other industries development. Also, in further studies it is necessary to relate it to the GDP per capita.



**Fig. 3.** Importance of the retail in employment comparing to employment rate, 2007  
 (Source: own calculation and presentation according to data in EUROSTAT database extracts: sbs\_sc\_3ctrm, tsiem110 and nama\_aux\_pem; CSYB 2008, table 22-3; Notes: for: Austria, Luxembourg, Malta and Netherlands data is not available, for Croatia only data on legal entities, i.e. enterprises is used)

#### 4. Importance of retail in GDP creation

In Table 2, the share of retail in GDP among EU countries and Croatia is shown. This indicator shows that retail was forming 4.09% of the GDP in EU-27 in 2003 and that the indicator dropped to 3.77% in 2007. The largest proportion of the GDP is created by retail in Latvia and Lithuania, while in Finland and Luxembourg, retail created less than 3% of the GDP in 2007. It is obvious that the ratio is lowering in the majority of countries, but the decline is not dramatic.

**Table 2.** Percentage of GDP created by retail industry (Source: own calculation according to EUROSTAT database, extract: nama\_nace60; for several EU countries data is not available for given years; for Croatia own estimation according to data on legal entities in CSYB, 2009, table. 11-3; Statistical information 2010, p. 44; CBS First release 4.1.2/4., 25th March 2008 and CBS First Release 4.1.2/4, 25th March 2005)

Country	2003	2007	Change
Ireland	3.72%	n/a	n/a
Latvia	7.15%	7.05%	-0.11%
Lithuania	6.46%	6.16%	-0.29%
Slovakia	5.54%	5.56%	0.02%
Cyprus	4.91%	5.28%	0.37%

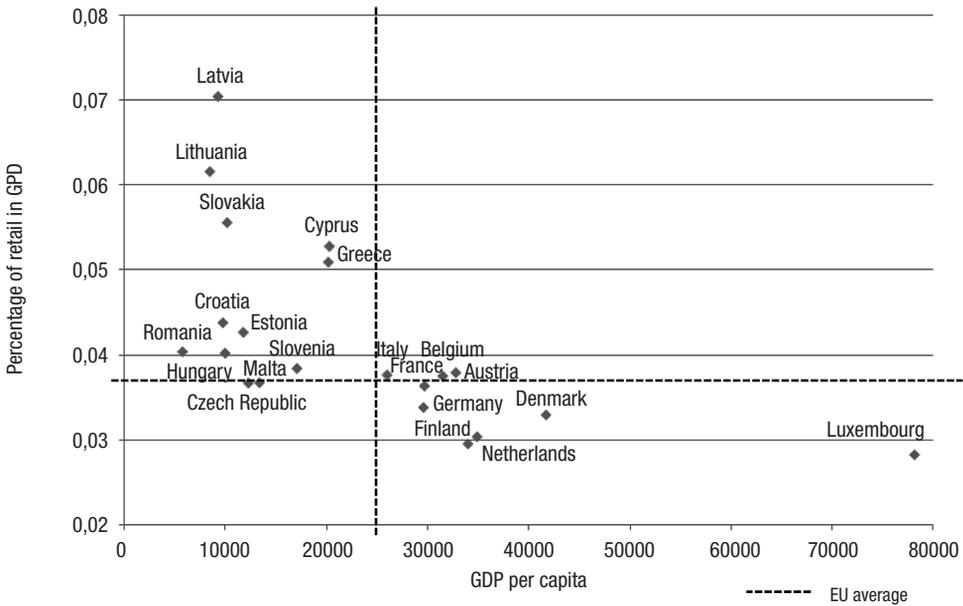
*Continued Table 2*

Country	2003	2007	Change
Greece	6.40%	5.09%	–1.31%
Croatia*	3.05%	4.38%	1.33%
Estonia	4.02%	4.27%	0.25%
Romania	3.72%	4.04%	0.32%
Hungary	4.07%	4.02%	–0.05%
Slovenia	3.94%	3.84%	–0.10%
Austria	4.12%	3.79%	–0.33%
EU-27	4.09%	3.77%	–0.32%
Italy	4.18 %	3.76%	–0.41%
Belgium	3.78%	3.75%	–0.03%
Malta	n/a	3.67%	n/a
Czech Republic	4.09%	3.67%	–0.42%
France	4.04%	3.63%	–0.41%
Germany	3.86%	3.38%	–0.47%
Denmark	3.20%	3.29%	0.09%
Netherlands	3.54%	3.04%	–0.50%
Finland	3.02%	2.95%	–0.07%
Luxembourg	3.16%	2.82%	–0.34%

In only four countries this indicator grew in the given period, those are: Romania, Estonia, Slovakia and Cyprus. In Croatia, there was also the increase in retail share in the GDP (for 1.33%).

At Figure 4, the indicator of retail contribution to the GDP is related to GDP per capita in 2007. According to the graph, three clusters of EU countries have to be pointed out:

1. Northern transitional EU members with the GDP per capita below the EU average and contribution of retail to GDP creation significantly above the EU average (see: Latvia, Slovakia, and Lithuania). In the political sense, those countries have already exited from the transitional status, but will stay for a while in this status because of transitioning in values and because of the low value-added industries domination (according to the example of Lithuania at Abromaityte-Sereikiene 2008 and Saboniene 2009).
2. Other transitional EU countries (and Croatia) with the GDP per capita below the EU average and contribution of retail to GDP creation near the EU average (see: Czech Republic and Slovenia).
3. Developed economies with the GDP per capita above or near the EU average and contribution of retail to the GDP near the EU average (see: Italy, France, Germany, Austria, Belgium).



**Fig. 4.** Importance of retail in GDP creation comparing to the GDP per capita, 2007 (Source: same as Table 2)

On the basis of Figure 4, one can assume that the higher is the GDP per capita, the lower is importance of retail in GDP creation. But this hypothesis has to be tested by using statistical tools.

### 5. The average size of retail companies

In the study about distributive trade in the EU for the period of 1999 (Hubertus 2002), the difference between the southern and northern EU member states was found. The study showed that the northern members had high concentration of trade companies (the average number of companies per 1000 inhabitants was higher than the EU average). However, he also concluded that trade companies in the south were smaller than companies in the north (the average number of employees in distributive trade was smaller than the EU average number).

Accordingly, there were more than 20 trade companies per 1000 inhabitants and, on the average, companies had three or less than three employees in Italy, Portugal and Spain in 1999. At the same time, UK, Germany, Denmark Austria and Ireland had approximately five companies per 1000 inhabitants and, on the average; companies had 9 or more employees per company (Hubertus 2002). Also, the study concluded that in all distributive trade industries there are predominantly small companies.

In order to summarize the importance of trade in the EU economy and to position the Republic of Croatia among other members, we conducted an analysis of the available

EUROSTAT data and calculated the indicator on the basis of data in official statistics in Croatia. Table 3 shows data about average size of trade companies for the whole distributive sector, and for the retail industry particularly.

Comparing the situation in 2004 with the situation in 2007, it is obvious that the 2004's trend with smaller average size of southern EU member states companies (in comparison with the northern member states) continued in 2007. However, there are extreme examples of Italy (with 2.8 employees per enterprise), and UK (with 13.2 employees per enterprise).

Moreover, micro enterprises (with less than 10 employees) are still dominating in all distributive trade sectors. We can also find exceptions in some northern EU countries where companies have more than 10 employees on average. However, there is no country and no distributive trade sector where companies exceed 20 employees per company on the average.

However, we have to point out the increase of the company size in the majority of European countries, with exception of Lithuania, Slovakia, France and Portugal. Also, we have to stress out that in the UK, Ireland, Norway and Estonia there is significant growth of the average size of retail companies. The growth of the average size is indicating ongoing trend of concentration in retail industry.

**Table 3.** Structure of distributive trades industries according to average enterprise size (Source: EUROSTAT database, extract: sbs\_sc\_3ctrn\_tr and CSYB 2005 and 2008, tables 22-6 and 22-7)

Country	2004		2007	
	Distributive trade	Retail	Distributive trade	Retail
Belgium	4.5	4.0	4.7	4.3
Bulgaria	4.0	3.0	4.0	3.0
Czech Republic	3.0	3.0	3.0	3.0
Denmark	8.8	8.4	9.5	9.3
Germany	10.0	9.4	10.3	9.7
Estonia	7.0	10.0	7.0	12.0
Ireland	9.1	9.1	10.8	11.8
Greece	2.9	2.4	3.2	2.8
Spain	4.0	3.2	4.2	3.5
France	4.7	4.1	4.6	3.9
Italy	2.6	2.5	2.8	2.8
Cyprus	3.0	3.0	4.0	3.0
Latvia	8.0	8.0	8.0	8.0
Lithuania	9.0	9.0	5.0	4.0
Hungary	4.0	3.0	4.0	3.0
Austria	7.8	7.7	7.8	7.8

*Continued Table 3*

Country	2004		2007	
	Distributive trade	Retail	Distributive trade	Retail
Poland	:	:	4.0	3.0
Portugal	3.4	2.7	2.9	2.5
Romania	4.0	3.0	5.0	4.0
Slovenia	5.0	7.0	5.0	8.0
Slovakia	12.0	16.0	9.0	11.0
Finland	5.5	5.9	5.5	6.3
Sweden	4.7	4.6	5.0	5.0
UK	13.2	15.8	13.2	16.2
Norway	6.1	6.3	6.7	7.2
Croatia *	9.6	13.3	11.5	18.0
Croatia **	5.3	4.8	6.5	5.7
EU-27	6.1	6.3	6.0	6.6
EU-15	6.2	6.1	6.5	6.6

Notes: \* data for legal entities; \*\* data for legal entities and tradesmen (craftsmen); own calculation according to data in CSYB

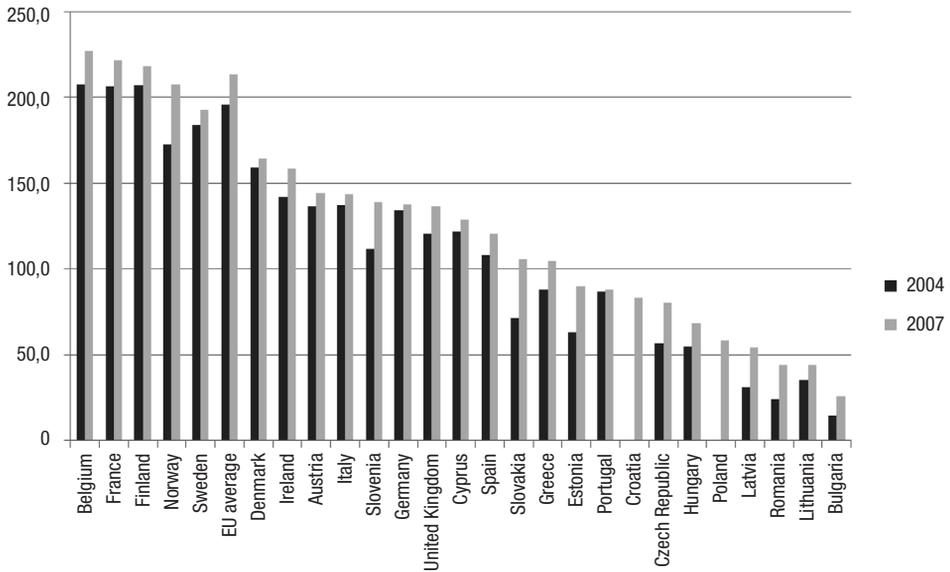
Distributive trade holds a significant place in the Croatian economy (Croatian Chamber of Commerce 2010) with the special attention paid to retail sector due to its share in the workforce and to the number of business entities and outlets (Segetlija 2005). In the case of Croatia, data differs a lot if we take legal entities into account comparing to data with tradespeople included. In the first case (with legal entities only), average size of a retail company in Croatia can be compared to UK, only. It is interesting to know that the Croatian retail average is higher than UK average size. However, taking craftspeople (tradespeople) into consideration, the structure will be considerably different (Table 3).

Comparing to other EU member states, the average size of retail companies in Croatia had the largest increase in the period 2004–2007. In such a way, we can conclude that intense concentration process in the Croatian retailing is an ongoing trend.

## 6. Change in retail productivity

Retail productivity in this paper is measured as turnover per employee. Previous studies (Knego 2009; Higon *et al.* 2010; Leung *et al.* 2008) have showed that the productivity in retail industry is correlated with the size of the retail company.

In Figure 5, European countries are ranked according to achieved retail productivity in 2007, starting from country with the highest productivity (Belgium) to the country with the lowest retail productivity (Bulgaria).



**Fig. 5.** Retail productivity (Turnover per employee, 000 EUR)

(Source: own presentation according to data in EUROSTAT database, extract: scc\_sc\_3ctrn\_tr and CSYB 2008 and 2005, tables 22-3 and 22-5)

In all European countries in given period, there was a growth of the retail productivity. The largest growth rates are achieved in transitional countries (Slovenia, Slovakia, Estonia, and Latvia) and Norway. On the other hand, in several countries, there was a slower productivity growth (Portugal, Italy, Cyprus, Germany and others).

In the previous part, we concluded that, on the average, companies are growing in size. There is a question if there is a correlation between the size and retail productivity. One can assume that there is a positive correlation. In order to make the statement on this problem, Pearson coefficient of correlation is calculated. On the given data, it showed that there is no correlation between productivity and the average company's size (Pearson coefficient = 0.19). But, here is necessary to mention that there are several obstacles that have to be reconsidered prior to final decision whether to accept the finding or not, for instance there is a lack of data for several EU member countries, and, in Table 3, there are rounded data and therefore not precise.

## 7. Conclusive remarks

As Gilbert (2003) pointed out, retail industry has a great socio-economic impact on a national economy, which is confirmed with its share in the workforce and in the GDP created by a national economy. In the given period (2003–2007), the retail share in the total number of employees was around 9% and retail formed around 4% of the GDP

in the EU. However, two slight changes were observed in the majority of EU member countries:

1. Growth of retail importance in the structure of employees.
2. Decrease of retail importance in GDP creation.

Dawson (2006), Zerrillo, Iacobucci (1995) suggested that there is an ongoing process of the accelerated growth of large enterprises within the retail industry. In the analyzed period, the average size of companies in the EU reached 6.6, which means that SMEs are dominant in the structure of European retailing. But, scrutinized analysis shows that, in fact, there is a polarization of the retail structure on micro and large enterprises.

In addition, there is a growth of the average size of enterprises, which means that large enterprises are, indeed, growing faster than others in the industry. This can be further explained by analyzing the level of retail concentration in EU member countries.

Also, there is a growth in retail productivity observed in all EU countries in the given period. But, the further research should be done to explain if larger companies are more productive than others as some previous studies suggested.

Tjordman (1995) and Hubertus (2002) stated that there are significant differences in retail structure development in different countries and they classified countries according to the retail structure and reached level of retail development. In given period (2003–2007), we can observe that there are several groups of countries that have to be pointed out, those are:

1. Southern, Mediterranean, countries with the lowest average company's size (for instance: Italy, Cyprus, Portugal and Greece).
2. Northern transitional countries with retail industry that is more developed than the national economy (for instance: Latvia, Lithuania and Slovakia).
3. Other transitional countries where there is a necessity of further growth of retail importance in overall national economy (such as: Romania and Bulgaria).
4. Developed countries with advanced retail structure (such as UK, Norway, Germany and Austria).

In Croatia, share of retail in the total number of employee increased in the given period with the growth rate above the EU average. Also, as the opposite to the decline of the EU average, retail share in the GDP increased significantly. Also, the average size of retail companies grew rapidly and legal entities (i.e. enterprises) reached the size similar to the developed Northern European countries. But, data is significantly different when tradespeople (craftspeople) are taken into account.

Therefore, we can say that due to the emphasized concentration process, Croatian retailing has become similar to the northern EU member states in the given period. However, the cultural and historical tradition where Croatian retailing is more like retailing of some southern EU member states, should be taken into consideration in the further strategic analysis and economic policy creation.

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## **MAŽMENINĖS PREKYBOS SEKTORIAUS POKYČIAI EUROPOS SĄJUNGOJE**

**B. Knezevic, S. Renko, N. Knego**

Santrauka

Mažmeninė prekyba yra svarbi pramonės šaka kiekvienos šalies ekonomikoje. ES tai yra svarbus darbo vietų šaltinis ir daug prisideda prie BVP kūrimo. Beveik penktadalis visų įmonių registruotos mažmeninės prekybos sektoriuje. Per pastarąjį dešimtmetį mažmeninės prekybos sektoriuje keitėsi iš vidaus į tarptautinę rinką orientuotos verslo strategijos. Šiame sektoriuje taip pat didėja ir didelių įmonių svarba. Mažmeninės prekybos koncentracijos procesas pripažįstamas visose ES šalyse. Šiame straipsnyje yra analizuojamos ir pateikiamos vyraujančios mažmeninės prekybos tendencijos, įtraukiant ES šalis ir Kroatiją kaip ES šalių kandidatę.

**Reikšminiai žodžiai:** mažmeninė prekyba, paskirstymas, ES, koncentracija, internacionalizavimas.

**Blazenka KNEZEVIC** is an assistant professor at the Department of Trade of the Faculty of Economics and Business at the University of Zagreb, Croatia. Her research interests are: distributive trade, retail information systems, procurement management and e-commerce. She is a coauthor of several books and she published papers in academic journals such as *British Food Journal*, *Journal of Cases on Information Technology*, *Business Excellence*, *WSEAS Transactions on Systems* etc. She has actively participated at more than 20 scientific conferences and she is a member of the scientific or organizational committee at several conferences. She has participated at several scientific research projects funded by Croatian Ministry of Science.

**Sanda RENKO** is an associate professor at the Department of Trade of the Faculty of Economics and Business at the University of Zagreb, Croatia. She has carried out research on topics such as retailing and wholesaling, category management, logistics, channels of distribution, etc. She was the guest editor in journals such as the *British Food Journal*, *Journal of Food Products Marketing*, *World Journal of Retail Business Management*. She has presented papers at several conferences such as *CIRCLE*, *EUROMED*, *International Retailing Conference*, etc. She is involved in FP7 EU Project “Focus Balkans”.

**Nikola KNEGO** is a full professor at the Department of Trade of the Faculty of Economics and Business at the University of Zagreb, Croatia. His research interests are: distributive trade trends and strategies, relationship between trade and tourism, procurement and supply chain management. He is a coauthor of several books and he published papers in several international academic journals. He is the Editor of the *Business Excellence (Poslovna izvrsnost)* academic journal. He has actively participated at a lot of international scientific conferences in Croatia, SEE region and worldwide. He was a researcher at several scientific and professional research projects.