

IMPORTANCE OF CRAFTS IN DISTRIBUTIVE TRADE OF THE REPUBLIC OF CROATIA

NIKOLA KNEGO¹

ABSTRACT. Distributive trade of the Republic of Croatia is an important segment of the Croatian economy. This can be confirmed by the share of distributive trade in the creation of GDP, by the share of employed persons, by the share of the number of registered enterprises and by the share of the number of active enterprises. Crafts are a manifestation of the Croatian distributive trade which, to a certain extent, contributes to the overall increase in its importance, as shown by the mentioned indicators. Crafts form part of small enterprises. Their business position is extremely unfavorable. What makes the position of crafts in the segment of distributive trade even harder is the intensified process of its expansion and concentration, with one consequence being the increased importance of a limited, small number of biggest enterprises. Tradesmen in the segment of distributive trade are mainly small independent merchants who, as a rule, own one business unit such as a shop or a repair shop. The inadequate size of such a business unit prevents the introduction of a basic sales technology on which all contemporary sales formats from supermarkets to electronic sales are based. This basic sales technology includes self-selection and self-service which contribute to the rationalization of business costs, primarily by lowering operating costs and by increasing efficiency through the possibility of increase in permeability of shops. The economic status of merchants is significantly determined by the technological basis of sales. The fragmentation of sales capacities and their technological backwardness are important factors that determine the economic strength of small independent merchants as a whole, as well as the segment of tradesmen. As a rule, tradesmen operate small shops and do not have a diversified sales structure as regards shop formats. This paper looks into the importance of crafts in the distributive trade of the Republic of Croatia.

Key words: craft, tradesmen, distributive trade, the Republic of Croatia.

JEL classification: L81

1. INTRODUCTION

Distributive trade of the Republic of Croatia is an important segment of the Croatian economy. This can be confirmed by the share of distributive trade in the creation of GDP (on the second place right behind the manufacturing industry), by the share of employed persons (on the second place right behind the manufacturing

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industry), by the share of the number of registered enterprises (first place) and by the share of the number of active enterprises (first place). Crafts are a manifestation of the Croatian distributive trade which, to a certain extent, contributes to the overall increase in its importance, as shown by the mentioned indicators. Crafts form part of small enterprises. Their business position is extremely unfavorable. What makes the position of crafts in the segment of distributive trade even harder is the intensified process of its expansion and concentration, with one consequence being the increased importance of a limited, small number of biggest enterprises. Tradesman in the segment of distributive trade, are mainly small independent merchant who, as a rule, own one business unit such as a shop or a repair shop. The inadequate size of such a business unit prevents the introduction of a basic sales technology on which all contemporary sales formats from supermarkets to electronic sales are based. This basic sales technology includes self-selection and self-service which contribute to the rationalization of business costs, primarily by lowering operating costs and by increasing efficiency through the possibility of increase in permeability of shops. This results in ability to serve more people in the same unit of time. Attempts of implementation already mentioned sales technology in small stores, as a consequence has significantly lower assortment capacity. The economic status of merchants is significantly determined by the technological basis of sales. This can be confirmed with findings that formats of sale such as supermarkets, hypermarkets and hard discounts enlarge market share and cause greater scale of sales in the markets of European countries. The fragmentation of sales capacities and their technological backwardness are important factors that determine the economic strength of small independent merchants as a whole, as well as the segment of tradesmen. Research done on the subject of share value with different formats of stores in turnover, show that on the Croatian market, share of small independent tradesmen is continuously decreasing. Their share has decreased from 53% in 2001 to 35% in 2007. As a rule, tradesmen operate small shops and do not have a diversified sales structure as regards shop formats.

2. TRADESMEN IN CROATIAN DISTRIBUTIVE TRADE

Trades in Croatia represent significant part of Croatian distributive trade. This can be confirmed with the share of tradesmen in parameters such as; share of total trades in the total number of business subjects (55.7%), share of trades and crafts in the total number of business units such as outlets (48.2%) and the number of employed people in distributive trade compared to the total workforce which is one fifth or 20.9%. There is significant divergence between stated shares and achieved revenue of the mentioned tradesmen and total sales business revenue. In fact the share of tradesmen in the total turnover of Croatian distributive trade was only 5.8% in 2006. Look at the table 1 and graphs 1, 2, and 3.

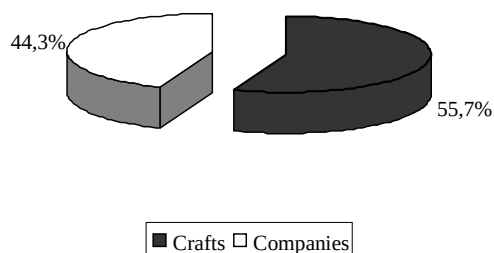
IMPORTANCE OF CRAFTS IN DISTRIBUTIVE TRADE OF THE REPUBLIC OF CROATIA

Table 1: Importance of tradesmen in Croatian distributive trade in 2006

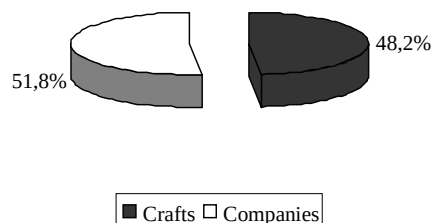
Republic of Croatia	Total	Outlets	Employed persons	Turnover including VAT in thousands EUR
Tradesmen	19 091	20 727	45 349	1 926 893
Companies	15 173	22 284	171 333	31 535 968
Total:	34 264	43 011	216 682	33 462 861
Percentage share of tradesmen in total number	55,7	48,2	20,9	5,8
Per craft	-	1,09	2,40	101
Per company	-	1,47	11,30	2 078
Total (crafts and companies):	-	1,26	6,32	977

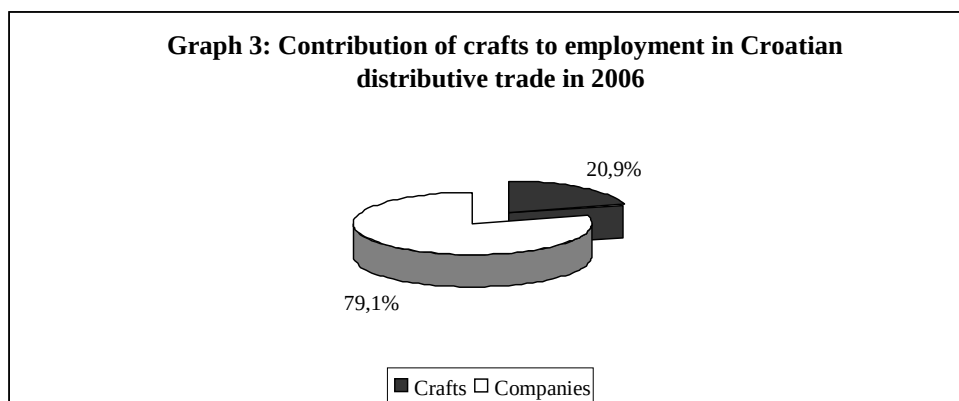
Source: Statistical Yearbook of the Republic of Croatia - 2007, p. 409 and p. 691. **Note:** Personal computation.

Graph 1: Share of crafts in Croatian distributive trade in 2006



Graph 2: Share of crafts in outlets in Croatian distributive trade in 2006





Crafts sale has very low level of labor productivity per employee. This is why turnover per employee in outlets was 5.6 times greater than in outlets of craftsmen. The profit margin is also lower per employee. Low turnover per worker and low profit margin per worker represent key elements of weak economic position of average craftsmen and tradesmen. It also shows limited possibilities of improvement of business through investment in sale surface, modernization and implementation of new sale technology.

Everything above outlines position of crafts trade in Croatian sale structure, in which around 44.4% of all towns (around 3000) is without any type of outlet, with no possibility of supplying people in their close proximity. This is mostly in the towns with very low and old population, with limited needs compared to assortment of goods, which is also conditioned with their buying power. Example from Switzerland a country with higher standard suggests that people have a need to consume assortment of trading goods for daily and weekly use in approximately five minutes walking radius from their house.

Tradesmen and craftsmen with 48.2% share in total number of outlets contributed significantly to width and thickness of Croatian retail structure. With that they contributed to the increased quality of living to those who could use their services, this was especially important in the places where big supermarkets don't show interest. It would be logical to assume that more detailed investigations would confirm the significance of tradesmen share in the total working surface is lower than the significance of the number of outlets they have. This is acknowledged when we talk about quality of two main factors of development of retail structure in a certain location. First factor which is based on idea that shops are business units which are linked with population obscure the real picture of development. Store as a business unit assumes that consumer can buy only what is in the inventory of the store. However there is a great difference between kiosks and supermarkets. Second factor of development of retail structure is shown by the size of the sale surface per person. This factor takes into account the type of outlets and their size. Indicator

such as sale surface per person is clearer in comparison with the indicator of outlet per person. Both mentioned indicators of development of retail structure are used in commercial urbanism.

3. PRIME ACTIVITY OF CRAFTSMEN IN DISTRIBUTIVE TRADE

Information about outlets do not give answers on the questions about prime activity of crafts in distributive trade through territorial constitution. Detailed research on this subject among other factors, could give an answer on everything that affects the size of turnover per different crafts and how certain craft affect turnover. Divergences in turnovers among different crafts are significant; this is visible by the contents of paragraph 4 in this paper.

Table 2: Crafts in distributive trade through prime activity in 2006

Prime activity of crafts in distributive trade	Business entities		Outlets		Employees	
	Number	%	Number	%	Number	%
Total	19 091	100,0	20 727	100,0	45 349	100,0
G-50	2 837	14,9	2 909	14,0	6 404	14,1
G-51	894	4,7	957	4,6	2 336	5,2
G-52	15 360	80,4	16 861	81,4	36 609	80,7
Note: G 50 Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel G 51 Wholesale trade and commission trade, except of motor vehicles and motorcycles G 52 Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods						

Source: Statistical Yearbook of the Republic of Croatia - 2007, p. 409. **Note:** Personal computation

4. REALIZED TURNOVER PER TRADESMAN

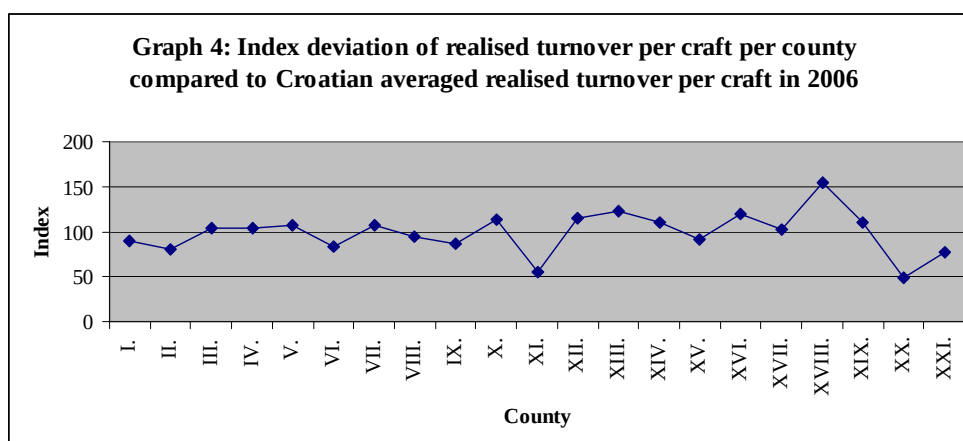
Tradesmen on average realized turnover of EUR 101,0 thousands in 2006. There are significant oscillations of their average turnover depending where they are located. Ranges of tradesmen per outlet were 1:3.18. The lowest turnover average was in County of Međimurje, and the highest turnover average was in County of Istria. Tradesmen located in other counties are situated in different ranges. The first five counties by tradesmen turnover follow as County of Istria, County of Zadar, County of Vukovar-Sirmium, County of Virovitica-Podravina and County of Dubrovnik-Neretva. Detailed picture about turnover can be seen by deviation of realized turnover per trade compared to counties average in Republic of Croatia; this can be seen in table 3. It is necessary to do more detailed research in order to discover what causes the deviation of turnover. How did the sales capacities of large supermarket chains affect, the growth of inhabitants (tourism), differences in buying power of population or something else?

Table 3: Realized average turnover per trade and index deviation of realized turnover per trade compared to the Croatian average.

Counties	Turnover including VAT in thousands EUR	Index deviation of realized turnover per trade compared to the Croatian average
County of Zagreb	91,3	90,4
County of Krapina-Zagorje	80,5	79,8
County of Sisak-Moslavina	105,7	104,7
County of Karlovac	104,4	103,5
County of Varaždin	108,9	107,8
County of Koprivnica-Križevci	83,5	82,7
County of Bjelovar-Bilogora	107,7	106,6
County of Primorje-Gorski kotar	95,2	94,3
County of Lika-Senj	88,0	87,2
County of Virovitica-Podravina	113,7	112,6
County of Požega-Slavonia	55,1	54,6
County of Sl. Brod- Posavina	115,7	114,7
County of Zadar	124,0	122,9
County of Osijek-Baranja	110,8	109,8
County of Šibenik-Knin	92,8	91,9
County of Vukovar-Sirmium	120,5	119,4
County of Split-Dalmatia	102,7	101,7
County of Istria	156,0	154,6
County of Dubrovnik-Neretva	111,1	110,0
County of Međimurje	49,0	48,6
City of Zagreb	74,7	76,8
The Republic of Croatia	101,0	100,0

Note: Personal computation data from Statistical Yearbook of the Republic of Croatia - 2007, p. 409 and p. 691.

Graph 4 is showing index deviation per trade compared to Croatian average. Counties are marked with roman numerals in order from the table 2.



5. OUTLINING THE POSSIBLE ECONOMIC STRENGTH OF TRADES IN DISTRIBUTIVE TRADE

Prime activity per trade in distributive trade is retail trade in section G-52. Here are some projections of possible strengths in economy of trades.

Main presumptions:

- Croatian average turnover per trade is taken from table 3;
- Subtraction of VAT (22%) gives turnover without VAT. Croatia has 0 percent VAT on products such as bread, milk and lower VAT on products such as newspapers. It would be necessary to investigate detailed turnover structure from the aspect of sale shares compared to the differentiated rates of VAT;
- The supply value of goods traded is used from the research of shares of values in selling structure of purchased goods, in Croatian distributive trade as a whole, in 2000 and 2004. Small tradesmen do not have advantages of using concentrated supply because of small sale capacity; this is why it would be logical to assume that they achieve less efficient economies of scale compared to big supermarket chains. The purchase price will range from 77-81.3% of the final price of goods;
- The gross margin is based on yearly level;
- The gross margin divided by 12 gives the monthly level;
- The last step is divided by the average number of workers per one trade(store) in order to receive average gross margin per employee;
- Look at the elements of budget in table 4.

Table 4: Budget of average economic strength of trade showed with realized turnover in distributive trade in Croatia in 2006.

Elements	EUR
Turnover with VAT	100 956
- VAT (22%)	22 210
=Turnover without VAT	78 746
-Purchase price of goods (81,3%) or 77%	64 020 (77%= 60 634)
=Gross Margin	14 726 (18 112)

Note: Based on the data from Statistical Yearbook of the Republic of Croatia – 2007 reflecting on period 31 December 2006

Gross margin (some indicators)

- Total annual level: EUR 14 726 (EUR 18 112)
- Average monthly gross margin: EUR 1 227 (EUR 1 509)
- Average monthly gross margin per employee (2,4 employees): EUR 511 (EUR 628)

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- d) Gross margin serves in covering costs (material, amortizations, cost of labor, others) and for realizing profit which could serve in improvement of business

Open questions:

- a) What level of costs of labor can be endured by average gross margin per employee?
b) Taking in consideration statement a) and adding other elements covered by of gross margin what is the possible level of profit in our example?

6. INDICATIONS OF POSSIBLE BUDGET OF ECONOMIC STRENGTH OF LEGAL ENTITIES IN DISTRIBUTIVE TRADE

Main assumptions are same as the ones in point five of this paper, but applied on data from legal entities (corporations) in distributive trade in the Republic of Croatia in 2006.

Table 5: Budget of average economic strength of legal entities achieved by their turnover in distributive trade in the Republic of Croatia in 2006

Elements	EUR
Turnover with VAT	2 078 415
- VAT (22%)	457 251
=Turnover without VAT	1 621 164
-Purchase price of goods (81,3%) or 77%	1 318 006 (77%=1 248 296)
=Gross margin	303 158 (372 868)

Note: Based on the data from Statistical Yearbook of the Republic of Croatia – 2007 reflecting on period 31 December 2006

Gross margin (some indicators)

- a) Total annual level: EUR 303 158 (EUR 372 868)
b) Average monthly gross margin: EUR 25 263 (EUR 31 072)
c) Average monthly gross margin per employee (11,3 employees): EUR 2 236 (EUR 2 750)

EUR 2 236 (EUR 2 750)

Budget of turnover per craft outlet in 2006 in EUR

	Annually	Monthly
Turnover with VAT per outlet:	92 965	7 747
VAT per outlet:	20 508	1 709
Turnover without VAT per outlet:	72 457	6 038

Budget of turnover per employee in craft outlet in 2006 in EUR

Turnover with VAT per employee:	42 490	3 540
VAT per employee:	9 348	779
Turnover without VAT per employee:	3 142	2 761

Note: Some indications of turnover per employee in craft outlets in comparison with turnover in company outlets

Turnover per employee in companies: EUR 184 062 (annually) or EUR 15 339 monthly.

Note: Productivity of labor is significant problem in crafts in Croatian distributive trade. Turnover per employee in outlets of companies was 5,6 times greater than in capacities of craft outlets

7. LEVEL OF PRICES: KEY OF MARKET UNCOMPETITIVENESS FOR SMALL MERCHANTS

7.1. Level of Prices

Research confirms that five key factors affect consumer decisions where to buy and what to buy. The key five factors are: price, quality, service, location and assortment. Price exhibits leading influence on consumer's decisions, where and what to buy, in societies which are far more developed than Croatian society: considering only the level of GDP per capita.

In the next step we will try to examine the accustomed price by collecting the price data of ten articles which are frequently bought in the six big supermarket chains (Konzum, Ipercoop, Getro, Billa, Lidl, Mercator) and the price-data of the same articles in three convenience stores from which two are located close to supermarkets and one is located somewhat further.

Table 6: Price of the ten articles

	Article	Stores								
		Kon-zum	Iper-coop	Getro	Billa	Lidl	Mer-cator	M1	M2	M3
1.	Dukat milk, 3,2% PET	5,69	5,68	4,75	5,79	5,69	5,67	6,2	5,8	7,0
2.	Coca Cola 2l	12,49	12,49	12,49	11,99	12,49	12,49	13,0	13,0	15,5
3.	Sugar, 1kg	5,65	5,99	5,76-5,97	5,59	5,59	5,77	6,5	6,5	7,0
4.	Table salt	3,59	3,99	4,00	3,69	3,69	3,67	3,50	4,0	4,0
5.	Hard flour, T-400	5,15	5,99	4,99	4,99	4,89	5,97	7,0	6,0	6,3
6.	Soft Flour, T-550	4,09	4,99	4,12	3,99	3,89	3,67	6,5	7,0	5,5
7.	Vegeta(spice mix), 250 g.	12,69	12,69	12,69	12,99	12,69	12,69	12,0	12,0	15,5
8.	Sunflower Oil, Zvijezda, 1l.	12,99	12,99	12,99	12,99	12,99	14,79	14,0	13,5	14,9
9.	Rice, 1kg, long grain, nylon pack	5,29	8,99	9,46	5,19	4,99	4,97	5,50	7,0	5,7

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	Article	Stores								
		Kon-zum	Iper-coop	Getro	Billa	Lidl	Mercator	M1	M2	M3
10.	Franck coffee, jubilama Vacuumed, 250 g.	15,99	15,99	15,99	15,99	15,99	15,99	17,0	17,0	<u>19,9</u>
Total:		83,62	89,79	87,24	83,31	<i>82,90</i>	86,09	91,2	91,8	<u>101,3</u>
Index Price deviation compared to the most affordable		100,9	108,3	105,2	100,5	<i>100,00</i>	103,8	110,0	110,7	<u>122,2</u>
Order of the most affordable		3	6	5	2	1	4	7	8	9
	Index Price deviation compared to the most affordable		100,9	108,3	105,2	100,5	<i>100,00</i>	103,8	<u>Average</u> <u>114,4</u>	

Notice: a) data collection was done on 20 April 2008.; b) M1, M2 and M3 are small convenience shops picked at random; c) bold italic= lowest price d) bold underline=highest price.

Table 7: Index Price deviation compared to the most affordable by products

	Article	Stores								
		Konzum	Ipercoop	Getro	Billa	Lidl	Mercator	M1	M2	M3
1.	Dukat milk, 3,2% PET	119,8	119,6	<i>100,00</i>	121,9	119,8	119,4	130,5	122,1	<u>147,4</u>
									<u>133,3</u>	
2.	Coca Cola 2l	104,2	104,2	104,2	<i>100,00</i>	104,2	104,2	108,4	108,4	<u>129,3</u>
									<u>115,4</u>	
3.	Sugar, 1kg	101,1	107,2	103,0	<i>100,00</i>	<i>100,00</i>	103,2	116,3	116,3	<u>125,2</u>
									<u>119,3</u>	
4.	Table salt	102,6	114,0	<u>114,3</u>	105,4	105,4	104,9	<i>100,00</i>	<u>114,3</u>	<u>114,3</u>
									<u>109,5</u>	
5.	Hard flour, T-400	105,3	122,5	102,0	102,0	<i>100,00</i>	122,1	<u>143,1</u>	122,7	128,8
									<u>131,6</u>	
6.	Soft Flour, T-550	111,4	136,0	112,3	108,7	106,0	<i>100,00</i>	177,1	<u>190,7</u>	150,0
									<u>172,6</u>	
7.	Vegeta(spice mix), 250 g.	105,8	105,8	105,8	108,3	105,8	105,8	<i>100,0</i>	<i>100,0</i>	<u>129,7</u>
									<u>109,7</u>	
8.	Sunflower Oil, Zvijezda, 1l.	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	113,9	107,8	103,9	<u>114,7</u>
									108,8	
9.	Rice, 1kg, long grain, nylon pack	106,4	180,1	<u>190,3</u>	104,4	100,4	<i>100,0</i>	110,7	140,8	114,7
									<u>122,1</u>	
10.	Franck coffee, jubilama Vacuumed, 250 g.	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	106,3	106,3	<u>124,4</u>
									<u>112,4</u>	
Index Price deviation compared to the most affordable		103,3	108,3	106,4	100,5	<i>100,00</i>	103,8	110,0	110,7	<u>122,2</u>

Note: Personal computation of data from table 6

Products such as sugar, rice and flour in packing of one kilo, are also produced by market chains such as Getro, Konzum and Billa. This causes that their generic brands can be bought cheaper than established market brands. Here, in order to compare generic and market brands we compared products from the same distributor. This was possible with products as sugar in packing of one kilo. With flour we compared packing T-400 and T-550. With rice, due to many different choices, we decided to compare long grain rice in nylon packing with most affordable price.

Other six products (Dukat milk 3,2% PET, Coca-Cola 2l, Table salt-Pag, Vegeta (spice mix) 250 g, Sunflower Oil Zvijezda 1l, Franck coffee jubilarna Vacuumed 250 g) are products delivered by similar distributors.

All of the six big supermarket chains had the same selling price for already mentioned coffee, but only on the shelves of Mercator there was a sign “**Permanently Low Price**”.

7.2. Supply: The Key Reason of increased Price in Convenient Stores

Small tradesmen (our example) had a drastically higher price in the total product mix, compared to other supermarket chains. Their product mix was 14.4% more expensive from the most affordable product mix. The small tradesmen or the convenient stores generated higher prices which ranged from 10% to 22.2% from the most affordable, for a detailed examination look at table 1.

More detailed analysis of price deviation, per single article, is given in table 2. Index deviations of prices per article are enormous. They range from 9.7% to 90.3%.

Our little research was in function to confirm or reject hypothesis that small tradesmen and independent tradesmen can handle price differences with respect to prices of same articles sold in big super-market chains.

The difference of selling prices is the key reason why people go to buy groceries in convenient stores only when they have to. High prices of the same articles in inventory capacities of the small tradesmen are mostly due to ineffectiveness in supply of the goods. The hypothesis is that merchants which win the supply “war” have a chance of long-term success. With continuous improvements, reduced costs and rationalization of supply of goods helps the success in the long-term.

Note that, share of purchase price in the structure of final price (without VAT) in Croatian distributive trade is 4/5 (81.3 %)

Small tradesmen did not use their possibility to interconnect, in order to create parameters for more affordable purchase price of goods from the producers. Few explanations hold why this does not happen: a) late timing; b) if they don’t interconnect significant number of small tradesmen to constitute significant buying power; c) bad understanding of what small tradesmen get if they interconnect.

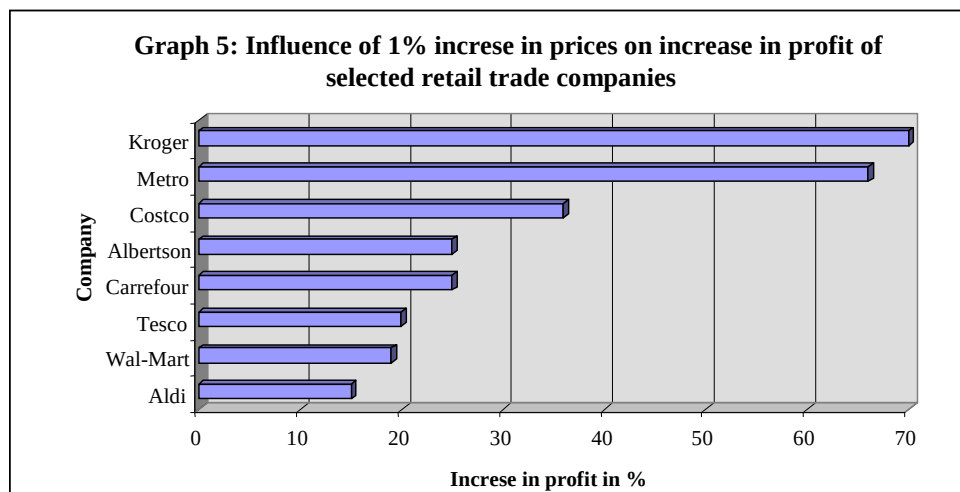
The example of world leading corporation (Wal-Mart) which rationalizes supply, which in turn has consequences of continuous decrease in percentage purchase price in the sale of goods. The percentage decrease was 0.97% in the interval 2004-2007; Wal-Mart approximately saved 3.4 \$ billion dollars.

Rationalization of supply is one of the key segments in the merchandise politics (required price and assortment politics of goods). Rationalization of supply is the long-run outcome of merchandise politics. This can be seen from analysis of data from longer time intervals. For example the share of purchase price in the final price was lowered by 1.41% in the six year interval from 2002-2007. If we apply this number to Wal-Mart net sales in 2007 we can conclude saving around \$4.9 billion.

7.3. The influence of change in level of prices on business results on tradesmen

Big supermarket chains tend to practice already known selling systems to achieve advantage in the distribution and supply of goods, or to slow down the increase in costs of goods sold. These systems function on principles of: reducing complexity of services, depersonalization of sales with use of the cutting edge technology and with concentrated and wise use of economies of scale.

In Table 3 of singular prices of products in METRO, Cash & Carry, Zagreb, prices of oil and coffee are similar to other six supermarket chains. However, overall level of ten examined products is 5.5% lower in Metro, than the next first supermarket.



Source: Krafft, M. & Mantrala, M.K. (editors), *Retailing in the 21st Century-Current and Future Trends*, Springer, Berlin, 2006, p. 271

Next first supermarket had overall level of prices 5.5% higher than the level of prices in Metro. Level of prices with small tradesmen was in percentages higher respectively: 16% (M1), 16.8% (M2) and 28.9% (M3). The already mentioned level of prices is possible only if consumer accepts commercial packing of flour T-400 and T-550 of total ten kilograms (1kg x 10).

The mentioned sales system is originally whole sale which serves small tradesmen, where they get membership cards, where without them they couldn't buy in bulks. Great deal of buying is done by physical people, because membership cards are easy to get.

Some buyers are ready to accept and pay the products at a higher rate, with condition of down payments. In Metro this is not possible because they stopped accepting credit cards.

Small tradesmen do not have possibilities of using the advantages of already sales systems. Research also confirms that it is getting harder and harder to cut costs in the already existing sales systems. However; investments in the cutting edge sales technology create presumptions of the future cost cutting.

Table 8: Prices of chosen products in METRO, Cash & Carry, Zagreb

	Product	METRO Cash & Carry
1.	Dukat milk, 3,2% PET	5,69
2.	Coca Cola 2l	11,94
3.	Sugar, 1kg	5,48
4.	Table salt	3,32
5.	Hard flour, T-400	2,87
6.	Soft Flour, T-550	2,35
7.	Vegeta(spice mix), 250 g.	12,36
8.	Sunflower Oil,Zvijezda, 1l.	12,99
9.	Rice, 1kg, long grain, nylon pack	5,60
10.	Franck coffee, jubilarna Vacuumed, 250 g.	15,99
Total:		78,59

Note: Data collection was done on 10 April 2008.

7.4. Processes in the retail sale which endanger the position of small tradesmen

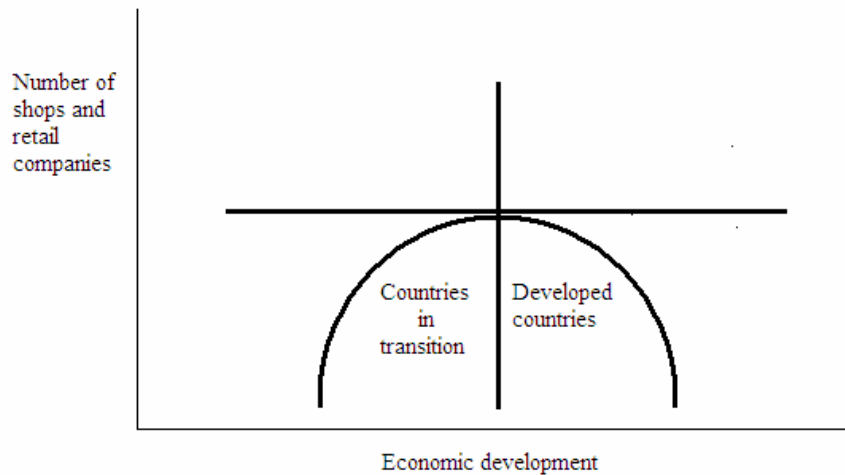
Processes in present European retail sale can be summarized²:

- a) Slower growth, more segmentation;
- b) Less national tradesmen, more international tradesmen;
- c) Less stores, more selling surface;
- d) Less supplies, more consumer services;
- e) Less independent, more filial tradesmen;
- f) Lower revenue per square meter of sale surface, higher profit margins.

² Group of authors (1995): International Retailing – Trends and Strategies, Pitman Publishing, London, p. 45

All of this is present in Croatian retail market; however with a lesser intensity. Processes b, c, and f significantly endanger market position of small independent tradesmen. Process c can be represented graphically as shown in Graph 6.

Graph 6: Influence of economic development on number of stores and retail companies



7.5. What to do and what's perspective of small tradesmen?

It is necessary to unite small independent tradesmen into alliances or organizations, while at the same time preserving economic independence and achieving advantages in business functions, firstly supply.

We think in organizing economic alliances or unions of small tradesmen, where tradesmen can enter or leave them freely, and where membership of one union doesn't exclude membership in second or third union.

Having in mind already mentioned processes and extreme disconnection of small tradesmen in Croatia, perspective of most of them is quite worrying. This can be confirmed by experiences of developed European countries where in certain time intervals tens of thousands of small stores vanished, however; at the same time the selling surface and quality of retail service increased. Such an intensive process of somewhat purging Croatian retail scene just remains to occur, where the hardest hit will be taken by small tradesmen which offer mixed assortment of goods.

8. CONCLUSION

Everything that was mentioned leads to a conclusion that there is significant divergence of physical data and the significance of crafts trade and its financial contribution to results of Croatian distributive trade. Weak financial strength disables possibilities of modernization and technological innovations of crafts shops and its sales formats.

It can be stated that there are oscillations in the number of tradesmen in the number of available business units that are types of outlets, with the mutual low increase in average number of employees per store or shop. Tradesmen sale per unit of turnover employs significantly higher number of labor than the trading corporations. This is the consequences of lower technological development of smaller stores in the segment of tradesmen sale, this at the same time it gives less ability of substituting human labor with cutting edge technology used in most modern formats of supermarkets.

Physical strength of the segments of distributive trade such as tradesmen sale, which comes out their number, is not recognized, primarily from the side of the tradesmen themselves. They could use this fact as an argument for starting the process of their interconnection. It is necessary in every process of concentrated trade which manifests itself in decreasing the number of tradesmen and increasing their market shares in segments of trade using the advantages of economies of scale.

No recognition of the need for business integration primarily comes from the less educated tradesmen in the activities in the segment of crafts trade. This is no exception compared to the total Croatian retail economy. There is a need of continuous work on the education of how we could anticipate market trends.

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