

**SOCIO-ECONOMIC FRAMEWORK FOR TRADE INTERNATIONALIZATION
ON THE SERBIAN MARKET***

SRETEN CUZOVIC¹
SVETLANA SOKOLOV MLADENOVIC²

Abstract

One of the current trends, in developed market-economy countries and ours alike, is the internationalization of trade. The difference is found only in the achieved level of the international expansion of trade companies. However, we can certainly regard trade as the activity followed by the epithet "international". The process of internationalization is inherent in large trade chains, which in this manner find new market areas and new sources of profit generating. For trading companies, the internationalization represents a strategy of business growth and development. However, gaining access to a particular market implies knowledge of the framework or factors that have a huge impact on the choice of a particular market. First of all, it is the effect of economic, political, demographic, socio-cultural and institutional factors. The aim of this paper is to highlight all relevant assumptions, that is, factors that influence the selection of target markets by the international trade chains. The starting hypothesis is that the Serbian market has recently become very attractive to certain international trade chains, which has added significance to the analysis of the framework or factors for the application of internationalization strategies. A separate part of the paper spotlights the comparative experience of Romania and Bulgaria in the implementation of the strategy of trade internationalization, from which Serbia can draw useful lessons.

Key words: trade internationalization, influence factors, trade, Serbia, Romania, Bulgaria.

JEL Classification: F 23; M 81;

Review

Received: April 02, 2012

Accepted: November 06, 2012

1. Introduction

The trends of trade development in the first half of the 90s of the last century draw attention of analysts and economists to the phenomenon of internationalization. In current circumstances, internationalization is one of the key features of modern trade. It marks the business expansion of trade companies beyond their national markets (Alexander, Doherty, 2010, p. 930; Burt, Davies, 2010, p. 870; Elms, Canning, Kervenoael, Whysall, Hallsworth, 2010, p. 820). Although it has a historical dimension, its intensive use started by the end of the last and beginning of this century. In this context, it becomes typical for large trade chains, which will be the subject of particular analysis in this paper.

Observing the internationalization of trade in this manner, the key issue that opens, over which the scientific and professional circles have been polemicizing, relates to the factors that may have supportive or restrictive effect on the expansion of business in specific markets. In recent years, the Serbian market has become attractive for certain foreign trade chains. Therefore, they analyze all the factors of influence, that is, the framework for their business expansion in

*This paper is a part of the research within the Project No. 179081, financed by the Ministry of Education and Science of the Republic of Serbia.

¹ Professor, University of Niš, Faculty of Economics, Serbia, e-mail: otishop@ptt.rs

² Assistant Professor, University of Niš, Faculty of Economics, Serbia, e-mail: svetlana.sokolov@ekfak.ni.ac.rs

our market, which are listed in the abstract, and will be discussed below. Based on these assumptions, foreign trade chains enter the Serbian market by using certain models, having their own specific offer "package" and defined relationships with customers and suppliers. The former allows for a comparative analysis of their business operations, which will be especially emphasized in the paper. Taking the above stated facts into account, this paper analyzes: a) the internationalization of trade in general, or its condition and prospects; b) the framework of trade internationalization in the market of Serbia; and c) the experience of Bulgaria and Romania in the process of trade internationalization, which may be instructive for our country. The final part of the paper is concentrated on the prospects and possible directions of the development of trade internationalization in the Serbian market.

2. Trade internationalization – status and perspectives

Along with the trade concentration, embodied in the creation of large areas of shops, stands their process of internationalization. Given that national markets have a high degree of saturation, trade companies decide to seek sources of generating revenue in foreign markets. In this sense, internationalization becomes the legality of the large trade companies. In support of research results are going to publish annually an American consulting firm *Deloitte*. It follows a list of 250 largest trade companies in the world (observed by sales volume), where you can see that for large trade companies characterized the process of internationalization of their business. Due to limited space, we show a list of the five largest trade companies in the world, with an overview of the countries in which they operate and the resulting sales volume in 2010 (Table 1).

Table 1: The five largest trade companies-holders of internationalization process in the world in 2010

Trade sale rank	Name of company	Country of origin	Dominant operational format	Country of operation	2010 trade sale (U.S. \$ mil.)
1.	Wal-Mart	U.S.	Hypermarket/ Supercenter/Superstore	16	418,952
2.	Carrefour	France	Hypermarket/ Supercenter/Superstore	33	119,642
3.	Tesco	U.K.	Hypermarket/ Supercenter/Superstore	13	92,171
4.	Metro	Germany	Cash&Carry/ Warehouse club	33	88,931
5.	Schwarz Unternehmens Treuhand KG	Germany	Discount store	26	79,119

Source: www.deloitte.com/consumerbusiness

Results of research consulting firm *Deloitte* shows that the trade internationalization continuously gaining in importance. In 2010, the 250 largest trading companies operated in 8.2 countries on the average, which is an increase as compared to the average of 2009 that amounted to 7.7 countries and to 2008, when the average was 6.9 countries. In addition, these companies made on average 23.4% of the total volume of sales outside their national markets, that is, through international expansion, which is an increase as compared to the average of 2009 that amounted to 22.2% of total volume of sale outside.

Apart from previous indicators, the current physiognomy of trade internationalization can also be perceived through the level of international expansion of trade companies from different regions of the world, as shown in the Table 2.

The table shows that European and African/Middle Eastern trading companies dominate in terms of the achieved level of international expansion. Thus, in 2010, European trading companies were present in 14,9 countries on the average, generating 38.9% in the volume of sales. Among European traders, France and Germany occupy the leading position in the sphere of internationalization. In this respect, 13 French trading companies from the list of the Top 250 were

averagely present in 30,3 countries, having generated 44,6 % of sales, while 19 German trading companies were present in 13,6 countries on the average, having achieved the sales volume of 42,6% in these markets.

Table 2: The level of internationalization observed across the world regions, 2010

Region	Number of companies	Average 2010. trade sale (U.S. \$mil)	Average number of countries	% trade sale from foreign operations
Africa/Middle East	8	5,713	9,8	15
Asia/Pacific	53	10,527	3,3	10,4
Japan	38	9,090	2,6	6,7
Europe	88	17,296	14,9	38,9
France	13	28,783	30,3	44,6
Germany	19	22,969	13,6	42,6
U.K.	15	16,980	16,6	24,1
Latin America	10	7,107	2,1	19,3
North America	91	19,165	7	14,3
U.S.	81	20,266	7,6	14,3

Source: www.deloitte.com/consumerbusiness

In contrast to the European, American trade companies have not yet become major actors in international expansion. This is confirmed by the fact that, 81 U.S. trade companies were operating in averagely 7,6 foreign countries in 2010, generating in this way only 14,33% of the total sales volume.

In terms of the degree of international expansion, the most backward trade companies come from Asia/Pacific (particularly Japan) and Latin America. Thus, 38 Japanese trade companies, from the Top 250 list, were present in only 2,6 countries in 2010, generating in this way 6,7% of the total sales, while Latin American companies were present in the fewest number of countries, only in 2,1.

Based on the above presented level of the international expansion of trade companies, these activities can be expected to continue in the future, as well. In this, tradee companies will focus more on the markets of Latin America, Asia/Pacific and Africa, due to a high degree of saturation of the markets in Europe and North America. This is evidenced by the so-called GRDI (Global Trade Development Index), which points to the most attractive markets for the entry of trade companies.

3. Prerequisites for entry of international trade companies on the Serbian market

Entering on the target market, foreign trade company is considering a number of factors. In the literature, these factors are seen as push or pull (Coupey-Picot, 2006, p. 219; Yu, Ramathan, 2012, p. 222). For the purposes of our analysis, we will put emphasis on the propulsive factors (demographic, economic, institutional, political and socio-cultural) as prerequisites for entry of foreign trade companies in Serbia.

3.1 Demographic conditions

Demographic analysis is an important prerequisite in order to reflect the size of the market to which the appearance and size Serbian market. The purpose of this opinion considers the population and its age and sex structure, geographical distribution of population and distribution by region and ethnic structure. In this way, creates a picture of market potential and market niches, as well as the basis for further segmentation of consumers, which, on the other hand, the basis for creating a marketing mix instruments of foreign trade companies.

According to available statistics, the total population of Serbia is 7.5 million, with the number of geographically distributed across regions. Total population points to the fact that Serbia has significant market potential, which is the signal for the arrival of foreign trading compani-

es in our market. However, by examining the geographic distribution, regional disparities and the dominance of Belgrade in the total population can be observed. This may explain why the first foreign trade company decided to market Belgrade, and later to other regions of Serbia (Statistički godišnjak Republike Srbije, 2011, pp. 62-70).

3.2 Economic conditions

Analysis of economic factors or preconditions is a key element in assessing the "health" of an economy, in our case the economy of Serbia. For this reason, foreign trade companies analyze the economic environment in order to identify changes, trends and their strategic implications. The economic environment points to the nature and direction of the economy in which companies, both domestic and foreign, compete. It is perceived on the basis of numerous factors, primarily of gross domestic product (GDP), inflation rate, trade balance, budget deficit or surplus and interest rates (lending and deposit). In the following work is a review of these indicators for the economy of Serbia. Movements of GDP, as general indicator "strength" of the economy of Serbia, can be seen from Table 3.

Table 3: GDP 2003-2011

	Previous year=100								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
BDP, p. c.in €	2.313,4	2.549,4	2.729,0	3.144,4	3.899,5	4.546,5	4.304	3.966	4.288
BDP, real growth, in %	2,4	8,3	5,6	5,2	6,9	5,5	-3,0	1,0	1,6

Source: Izveštaj o stanju u finansijskom sistemu, 2012, pp. 13-15.

From the table we see a tendency to increase in GDP in this period. However, there is the fall of Serbia's GDP in 2009 and 2010 compared to the previous, as a result of the effects of the global financial crisis, a foreign trade company that should be taken into consideration when creating a strategy and policy in Serbia. Inflation in Serbia, as an important indicator of the economic environment, it can be seen from Table 4.

Table 4. Inflation in Serbia 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Consumer prices	-	-	-	-	11,0	8,6	6,6	10,3	7,0
Cost of living	9,9	11,4	16,2	11,7	7,0	13,5	8,6	6,8	-

Source: Izveštaj o inflaciji, 2012, pp. 11-15

We see a tendency to increase inflation, which in turn signal the adverse macroeconomic situation in our country. Hence, we see decreasing of inflation in 2011.

In addition to the previous ones, as indicators of the economic environment in our country, they are used and the trade balance, budget surplus or deficit and the movement of interest rates, which can be seen from Table 5, 6, 7 and 8.

Table 5: Foreign trade of Serbia 2003-2011. godine (in mil. EUR)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	2.442	2.832	3.608	5.103	6.432	7.428	5.962	7.393	8.439
Import	6.589	8.623	8.439	10.463	13.507	15.495	11.157	12.622	14.450
Trade deficit	-4.147	-5.792	-4.831	-5.360	-7.075	-8.066	-5.196	-5.229	-6.010

Source: Osnovni indikatori makroekonomskih kretanja, 2012, pp. 23-25.

From the table we can see the trade deficit of Serbia with foreign countries.

Table 6: Budget of Serbia (in mil. RSD)

Year	Budget receipts	Expenditure budget	Budget surplus-deficit
2004	261.914,7	304.805,8	-42.891,2
2005	333.566,8	355.923,0	-22.356,3
2006	418.455,1	391.606,9	26.848,2
2007	499.106,0	468.804,8	30.301,2
2008	580.390,0	567.715,1	12.674,9
2009	653.055,1	701.405,5	-48.350,4
2010	651.195,1	746.452,0	-95.256,9
2011	661.964,6	769.700,2	-107.735,6

Source: Osnovni indikatori makroekonomskih kretanja, 2012, pp. 23-25.

From the table we see the budget deficit in 2009, 2010 and 2011 year, which again points to the adverse economic situation in Serbia.

Table 7: Average weighted interest rates of banks (in% per annum - average)

	2006	2007	2008	2009	2010	2011
On deposits	0,15	0,18	0,22	0,20	0,21	0,21

Source: Osnovni indikatori makroekonomskih kretanja, 2012, str. 23-25.

Table 8: Average weighted lending interest rates (in% per annum - average)

	2006	2007	2008	2009	2010	2011
Short-term loans	1,41	0,99	1,26	1,18	1,20	1,20
Long-terms loans	0,86	0,85	1,17	1,31	1,35	1,35

Source: Osnovni indikatori makroekonomskih kretanja, 2012, pp. 23-25.

Previously viewed macroeconomic indicators indicate an unfavorable economic climate in our country. This is certainly the global economic crisis, and economic problems accumulated from the past. Given the gradual stabilization of the global financial markets and the positive trends that are expected, we believe that these aspects should be analyzed by foreign trade companies on the serbian market.

3.3 Institutional conditions

The development of the trade sector of an economy, including ours, can't be imagined without an adequate institutional environment. It should serve the purpose of creating and maintaining competitive advantage of trade. Under the institutional environment or the assumptions, in this case, we mean the entire social and economic environment in which to place the development of the trade sector of our country (Ćuzović, Ivanović, 2010, p. 174). In this sense, significant activities of state institutions: Ministry of Trade, the Competition Commission, consumer organizations and the Serbian Chamber of Commerce or Board of Trade as its segment, and legal legislation that tangential area of trade (Ćuzović, Sokolov-Mladenović, 2008, p. 283).

The existing statutory and legal regulations in the field of trade is relatively outdated, which is discussed and its contents and non-compliance with EU regulations (Ćuzović, Sokolov-Mladenović, 2008, p. 284). The enormous progress in the legislative and legal regulations in trade has been made by making a set of laws: on trade, on protection of competition, consumer protection and advertising, which to a large extent harmonized with EU legislation. A positive example is the adoption of a set of laws in the field of Quality (Standardization Law, the Law on Accreditation, Metrology Act and the Act on technical requirements for products and conformity assessment in accordance with technical requirements), which defines the standardization of products closer to the performance of the manufacturing process and transport.

What lies ahead in the coming period is the adoption of the announced legislation (Law on Commodity Reserves Act and the commodity markets) and by-laws that define the performance of trading activities. This will contribute to improving the institutional environment in which operates both domestic and foreign trading companies.

3.4 Political conditions

Entering on Serbian market, foreign trade companies perceive political conditions. In this context, it analyzes the political and legal system of Serbia, the political situation, the activities of Government and National Assembly, as well as foreign policy and regional cooperation. The fact is that the last decade of the past and the beginning of this century, shook the Serbian political "earthquake" followed by wars and sanctions, which greatly contributed to creating a bad image in international relations and world. However, that time is behind us, so that today the Republic of Serbia independent and sovereign state. Republic of Serbia is a democratic state in the composed of the autonomous provinces, Vojvodina and Kosovo and Metohija, while the territorial organization of 194 municipalities, 29 districts and 61,671 village.

3.5 Socio-cultural conditions

Socio-cultural environment is an important dimension of foreign trading companies operating in Serbia. Together with the previously analyzed factors, socio-cultural dimension of Serbia creates a complete picture of the characteristics of our market. Each of these factors forgetfulness has negative impact on the business of foreign trade companies. This is because socio-cultural factors determine how the consumer market. In this sense their analysis is important for the final decision on the performance of our market strategy for the choice and design of marketing mix instruments. Thus, according to official statistics there is a dominant share of food, alcoholic and non alcoholic beverages for personal consumption overall structure of the Serbian population (Statistički godišnjak Republike Srbije, 2011, p. 67). This suggests the existence of an adequate market potential for further growth and development-oriented trading company to sell food products.

4. Trade internationalization on the Serbian market

Moving to the concept of open and modern market economy in late 2000, the Serbian market is becoming attractive for foreign trade companies. Arrival of the first foreign trade company registered in 2002, and subsequently a more intense period of entering of foreign trade chains on the Serbian market. Currently doing business in Serbia following the foreign trade chains: Mercator (Slovenia), Merkur (Slovenia), Tuš (Slovenia), Metro Cash & Carry (Germany), Veropoulos (Greece), Pevec (Croatia), Interex - Intermarché (France), Idea (Croatia), Mr. Bricolage (France) and Delhaize (Belgia). Based on their business strategy, time of arrival at our market and expanding trade network, subject to the following analysis will refer to the following companies: Metro Cash & Carry (Germany), Mercator (Slovenia), Interex - Intermarché (France), and Idea (Croatia). Using relevant methods of scientific research and reasoning, through a comparative analysis will be suggested to the key characteristics of these companies, operating in the Serbian market, their strategy internationalization, composition, instruments of marketing mix and competitive advantage. On the theoretical and empirical aspects, first we analyze the strategy of internationalization, which can be used on the Serbian market.

In the theory and practice of trade and trade management, several strategies of internationalization have been identified (Alexander, Doherty 2009, p. 252; Dawson, Larke, Mukoyama, 2006, p. 61; Lovreta, 2009, p. 263): a) export, b) licensing, c) franchising, d) joint ventures, e) mergers and acquisitions and f) wholly owned subsidiaries.

Export is applied in situations when the trade company has its own product brand or trademark. The model of entering foreign markets through export has nowadays generally been applied by trade companies that sell their goods via Internet, as in the case of the biggest online bookstore in the world *Amazon.com*. *Licensing* as a model of entering on foreign markets is rat-

her infrequently applied in the trade internationalization. *Franchising* is a strategy of internationalisation which has recorded expansion in the last few years, because this is the very fast way extends business (Čuzović, Sokolov-Mladenović, 2007, p. 295). *Joint venture* is becoming a very important aspect of the trade internationalization, but the main problem in the implementation of this model reflects in finding a sufficiently capable local partner. *Mergers and acquisitions* have been widely used in many trade companies. This model has been applied very often by the greatest trade company in the world the American *Wal-Mart*. Strategy of acquisition on Serbian market is applied by Mercator and Idea. *Building and opening of wholly owned subsidiaries* is a strategy of internationalization with the great benefits to the country and population, reflecting in the foreign direct investment inflow, opening of new jobs, keener competition among tradeers, inclusion of domestic producers and tradeers, as well as in many other indirect or direct advantages. In recent years, this model has been applied by companies expanding their business operations in former socialist countries. This strategy on Serbian market is applied by Metro, Mercator and Interex.

Starting from theoretical views of trade internationalization and their factors and strategies, we performed an analysis of selected foreign trade chains, we have already pointed out. Analysis of their activities, as well as insight into their internal documents and financial statements, we can point out the similarities and differences in their business in our market, (the companies data were obtained using in-depth interviews conducted with representatives of the companies, but also through the official website www.mercator-s.com, www.metro.rs, www.idea.rs, www.interex.rs):

- Metro Cash & Carry has appeared on Serbian market 2004, Mercator 2002, Interex 2004, while Idea is present since 2005. This indicates that their operations on the Serbian market, Mercator expanded first and later also other trading companies. Among them is the only Metro Cash & Carry in the list of the ten most successful trading companies in the world, seen in volume sales.
 - Current number of employees by companies is analyzed as follows: Metro Cash & Carry has 1500 employees, Mercator 3700, Interex 200, Idea 2000. This indicates the fact that currently offline trade chain Mercator provides the largest contribution to solving the unemployment problem in Serbia.
 - The business portfolio company Metro Cash & Carry sales are objects of type Cash & Carry (self-service wholesale), a total of 5 buildings. Business Mercator's portfolio consists of commercial centers, supermarkets, hypermarkets, superstores, convenience shops, cash & carry, a total of 108 objects. Business portfolio consists of Interex supermarket, a total of 7 buildings, while the business portfolio consists of Idea supermarkets, hypermarkets, super centers and wholesale, 120th overall These data suggest to us the fact that the characteristic size of business diversification for the company Mercator, while the number of buildings the company has a leading position in Idea. Diversification, spatial and numeric expansion of business format is the trends that have brought these companies to our market.
 - Market share of foreign companies is: Metro Cash & Carry 8%, Mercator 9%, Interex 5%, Idea 8,3%. These data indicate that foreign trade companies have roughly the same market share.
 - All the company had analyzed the detailed analysis of market conditions and opportunities in Serbia, which were made in the investment studies. As part of this analysis is estimated that Serbia has a market potential for entry of foreign trade companies. It had a comparative advantage and the Idea of the company Mercator, because of linguistic, cultural, geographic and demographic similarities between the domestic and the Serbian market.
 - Total assets of the companies so far invested in the Serbian market are: Metro Cash & Carry 97 million euros, 80 million Mercator, Interex 50 million, Idea 40 million. This indicates the fact that the company Metro Cash & Carry is leading in terms of total assets invested in the Serbian market.
-

-
-
- METRO Cash & Carry, Mercator and Idea entered on the market of Serbia, after the first of Belgrade. The company first decided to Interex for central and southern Serbia, given that land prices cheaper than in Belgrade.
 - Overseas company analyzed the different bases to create and maintain a competitive edge in the market of Serbia. Metro Cash & Carry is developing partnerships with customers and suppliers, developing trademarks and service a specific market segment (professional consumers). Mercator has a diversified portfolio of business formats, developing trademarks, there are ordinary shares, price reductions, developing loyalty card and is characterized by socially responsible behavior. Interex is developing the concept of supply of products at low prices ("to be the cheapest on the market") and offers products under the trade mark. Idea puts a special emphasis on services, selected range of products, quality, trademark, human resources management and environmental policy. These are also the trends which have brought the company mentioned in the Serbian market, so the challenge of putting the domestic trading companies.
 - Basics of creating competitive advantages suggest the use of different strategies. Strategy of differentiation or differentiated advantages applies company Metro, Mercator, and Idea, while the company implemented a strategy Interex cost advantages.
 - All analyzed foreign companies "bundle" deals adjust the terms of the Serbian market, with the company's Idea of a "package" deals partly standardized.
 - The range of the analyzed structure is dominated by the participation of domestic companies compared to foreign products. Percentage of local products in the total range of the analyzed companies is: Metro Cash & Carry 80%, 50% of Mercator, Interex 60%, Idea 70%.
 - All companies have analyzed their own trade mark for the manufacture of which engage Serbian producers, who at the time were encouraged to export to markets where these companies are present. Thus, Metro Cash & Carry works with 10 producers who exported at the same time. With the same number of manufacturers cooperate and Mercator, and with 20 Serbian producers cooperate Interex and Idea.
 - Assortment structure (share of domestic products in total), as well as sales of products with commercial brand (manufactured by domestic producers) suggests that foreign companies analyzed have developed relations with the Serbian producers.
 - All the analyzed companies have developed the concept of long-term customer relationships through loyalty cards and permanent research needs and consumer demands. In developing the loyalty card has gone furthest Mercator for its consumers who issued Mercator Pika Card.
 - All the analyzed companies are trying to have a policy of lowest price in the market. In this segment, in particular that stands out Interex strives to offer products at low prices, under the slogan "be the cheapest on the market."
 - All the analyzed companies have a permanent policy of promotion through various means (printed catalogs, television, press, advertising, publicity, etc.).
 - The plans are all analyzed companies to continue business expansion in the Serbian market using the same strategy as for the first entry into the Serbian market.

Previous analysis shows the characteristics of trade companies and also trade internationalization in Serbia. Arrival of these companies has started a new stage in developing trade sector of Serbia. Processes and basic tendencies of modern trade flows begin to be implemented in trade sector of Serbia. From the stage of obsolescence, trade gradually moves to phase concentration and the gradual modernization. Domestic consumers change consumption habits, sharpen their needs and requirements and gradually accept the concept of "large" purchases and purchases in hypermarkets and shopping malls, and which often comes with crossing a geographical distance. For example, numerous studies have been conducted in the Serbian market, and the results illustrate that the Serbian consumers shopping habits change, with progressively oriented in the weekly and monthly "big" purchase. These surveys are regularly conducted by GfK Marketing Agencies and the results are published on the official site, as well as in magazines that

touch the area of trade, trade and consumer behavior (magazines Market, Progressive Magazine, Naša radnja). (www.gfk.rs).

On the other hand, changing the habits of domestic consumers is the result of innovation in the business of being a foreign trade company analyzed. First of all, it is the introduction of new business format, adjusting the "package" supply the local market requirements, offering a diverse assortment (width and depth), the policy of low prices, the development of trademarks, long-term relationships with suppliers and customers, loyalty programs and the like, which we have already spoken.

5. The experience of Bulgaria and Romania in implementing the strategy of trade internationalization

As the subject of the following analysis will serve us examples of countries connected a new EU member states, mainly former communist countries, whose experience may be useful in intensifying the process of internationalization on the Serbian market. We chose the example of Bulgaria and Romania for several reasons. First, these are countries that, for now, the last received into the membership of the EU (January 2007 year). Second, to the former socialist countries that are by their former social and economic environment was very similar to our country. Third, cultural and social opportunities are one of the points of contact with our country. Fourth, the trade sector of Romania and Bulgaria has functioned in a similar socio-economic environment and retail sector in Serbia and former Yugoslavia. Fifth, the experience in restructuring the trade sector can serve our country to chart the future directions of development, bearing in mind the strategic orientation of our country for EU accession. Sixth, the Bulgarian and Romanian market in recent years become attractive for foreign trade companies, which can serve as an example to our traders in creating and maintaining long-term competitive advantage.

5.1 Case study of Bulgaria

The structure of the trade sector of Bulgaria, before the introduction of market reforms 1989th, was quite fragmented, inefficient and outdated. Contrary to some Eastern European countries (eg Hungary and Poland), where private initiative in the trade sector was present, and the trade of Bulgaria was entirely state-controlled. In the shops there was a limited range of products with a dominant share of local products, irregular supply from a supplier which caused long lines of customers waiting in front of shops. Dominating business formats included department stores, supermarkets, specialty shops and markets, which were typical of rural areas.

The introduction of market reforms in Bulgaria 1989th in turn led to significant changes in the trade sector. The restitution of property rights in the beginning of 1992 has led to the closure of a large number of state stores. In addition, the trade sector was one of the first was privatized. Bulgaria Official statistics indicate the fact that in 1998. 95.3% of the trade outlets of Bulgaria have been in private ownership. However, despite the rapid privatization of the trade sector, its modernization has been slow. Until the 21st century in the trade sector of Bulgaria was dominated by small commercial buildings. Thus, despite the tendency of declining participation of small traders in the total sales volume, since 2000 year, in 2007 year recorded their share of 51,8% of the total sales volume of trade sector in Bulgaria.

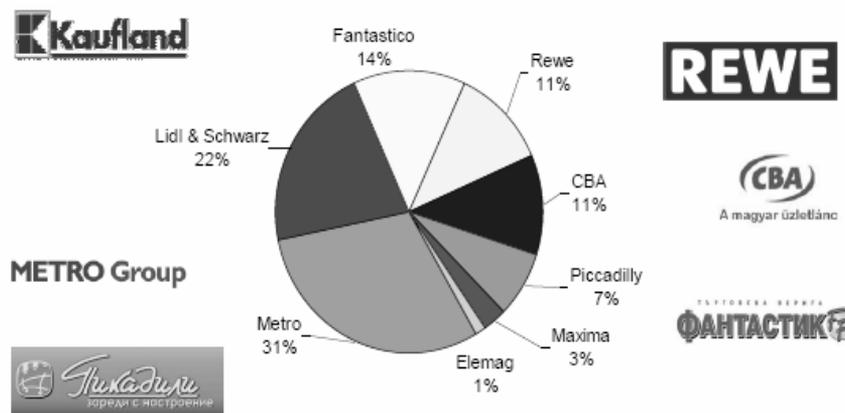
Several factors influenced the slow modernization of Bulgaria's trade sector following the introduction of market reforms, such as: delay of structural reforms as a result of the economic climate in the country, the unstable political environment, changes in legal disputes and legal regulations, low purchasing power of consumers, the domestic currency instability and underdeveloped infrastructure. These limiting factors are looked at foreign investors and contributed to the high fragmentation and inefficiency of the trade sector. The situation has changed significantly since 1998 when the Bulgarian economy recorded a GDP growth of 4.1%. The tendency of growth of GDP was recorded in 2004, 2005, 2006, 2007 and 2008 year, while the effects of the global economic crisis in 2009 year saw a drop of 3.5% (IMF, 2009). For the assessment of the economic climate in Bulgaria are important and other macroeconomic indicators.

Thus, according to official statistics, in 2009 year inflation rate stood at 4.9%, the rate of growth of foreign direct investment was 1.9%, the average interest rate of 3.39%, the trade balance had a negative rate of 3%, 6.9% unemployment rate and average monthly earnings amounted to 296 euros (National Statistical Institute, 2010).

With the growth of average incomes of the population, improving the economic climate and Bulgaria joining the EU January 2007, the increased attractiveness of the Bulgarian market for foreign investors. In addition, fragmented trade sector, the availability of attractive sites at affordable prices and the lack of intense competition additional acted to the several foreign trade companies to start their business in Bulgaria.

Although the population of Bulgaria is not as great as in other European countries, 7,6 million inhabitants, of whom 70.7% of urban population makes this market attractive for foreign trade companies. According to research by the Bulgarian market in 2009, after its market share, the top two places were occupied by foreign trade companies (Metro, Lidl & Schwarz), third national chain Fantastico and fourth German chain Rewe, other companies are local, you can see from Figure 1.

Figure 1: Market share of foreign and domestic trade companies in Bulgaria



Source: www.igd.com

The visible presence of local trade companies on the Bulgarian market is the result of late entry of foreign trade companies that have enabled local companies to provide financial power and provide adequate expertise. The first company to enter the Bulgarian market was the German company Metro 1999th year, then Bill (as part of the Rewe Group) 2000 year, Kaufland (Schwarz Group as part of) 2006 years. Only one foreign trade company left the Bulgarian market, Turkish Ramstore, which opened its first hypermarket 2,001th in Sofia, the market left to 2007th year. There are indications that the trade companies left the Bulgarian market for the upcoming competition that offered the same products at lower prices (Markova, 2007). Leading domestic trade companies in Bulgaria are Fantastico, CBA, Picadilly, Maxima and Elemag. Thus, the market leader in Bulgaria is the German Metro with 31% market share. Starting since 1999 year to date has invested 94, 7 million euros, of which 1, 5 million in existing facilities in order to improve the range of sales. The company serves approximately one million consumers, the wholesale segment and small commercial buildings, with an average sales volume of 357, 3 million euros.

After Metro, the second largest market share takes the German Kaufland, which is entering the Bulgarian market 2006th opened seven stores that fall into the category of the supermarket. On the Bulgarian market the company entered through direct investment, 5.2 million euros. The plan of the company is to continue investing in the Bulgarian market. Third place in market share in Bulgaria occupies a local trade chain Fantastico which is a good example of that

small trade facilities still have a significant market share. Beginning from 1991 when it was founded, the company noted a tendency of rapid growth. With a total of 27 supermarket companies is present only in Sofia, with a plan that in the years to expand its business in other cities of Bulgaria. In recent years, company has focuses on opening stores in new shopping malls in Sofia. Fourth place in market share in Bulgaria occupies the company of Bill, as part of the German Rewe group. Since entering the Bulgarian market 2000th until today, has opened 21 hypermarkets and a short time built up a distinctive trade mark. The company plans to open in the forthcoming period a hypermarket in all major cities of Bulgaria. However, the limiting factor for further internationalization of business is the inability to open a store in Varna, where the leading national trade chain Piccadilly, which has strong support from local governments. There have been attempts by companies Bill to buy land in Varna, but were met with the disapproval of the city government. In this way the company is deprived of the opportunity to be present in one of the largest cities in Bulgaria.

As a result of economic growth, increasing purchasing power and the arrival of foreign trade companies increased sales volume in the trade of Bulgaria. Uprkoj economic crisis, sales volume continued to grow but at a lower rate than in previous years, as can be seen in the example of foreign and domestic trade in the example of a company. All above mentioned leads us to conclude that foreign competition is fostered domestic trading companies. As the figure 1 shows, the domestic trade companies have maintained a visible presence on the local market scene. Then, they are oriented to the introduction and modernization of business formats such as hypermarkets, supermarkets and specialized stores, as indicated by the results of research conducted by consulting firm GfK Bulgaria. Specifically, this research shows that 45% of the purchase is made at supermarkets, domestic and foreign trading companies, 24% in hypermarkets and 31% in other stores (www.gfk.bg).

Further development of Bulgaria's trade sector should be carried out in several directions. *First*, despite the global economic crisis, it is expected to further increase the trade sector, as a result of (Regal, 2010): a) business opportunities fragmented and under-saturated the Bulgarian market, b) increasing investment of foreign trade and domestic companies, c) increasing demand due to rising purchasing power and d) offer attractive locations at reasonable prices. *Second*, we expect increased participation of certain business formats in the volume of traffic the trade sector in Bulgaria. First of all, these are hypermarkets, electronic stores, supermarkets and shopping malls. *Thirdly*, the continuous growth of foreign and domestic trade companies, the development of hard diskonts and other business formats, as well as the expansion of shopping centers will stimulate the consolidation of the Bulgarian market. Under question is the further development and survival of small tradeers' facilities that are offered as an alternative to entering into cooperative arrangements with larger trade companies. *Fourth*, as the market of larger cities becomes saturated, trade companies as an alternative to further growth and development imposes on business in the rural areas of Bulgaria. *Fifth*, the Bulgarian consumers will continue to change their habits in the future. Oriented themselves on quality products and services, consumers are placing emphasis on ease and convenience when shopping. Previous trends indicate the direction of further development of Bulgaria's trade, which remained open to foreign trade company.

5.2 Case study of Romania

Romania is the seventh largest country in the group of EU member states, with a total of 21.5 million inhabitants. More than half of the total population (55%) lives in urban areas. According to macroeconomic indicators of recent years, Romania is characterized by stability and growth. In fact, over the last few years Romania has made significant economic reforms. By joining the European Union on 1 January 2007, Romania was harmonizing its legislation and offered good opportunities for foreign investors. In order to evaluate the economic climate in Romania, it is important to monitor the key macroeconomic indicators. Thus, the gross domestic product (GDP) in the period since 2002 by 2008 years had a positive growth rate, while the 2009th year saw a drop of 7.5% as the global economic crisis. Foreign direct investment fell by 43% in

2009 compared to 2008 year. The unemployment rate in 2009 amounted to 6.9%, a significant increase in comparison to 2008 when it was 3.9%. The average inflation rate in 2009 amounted to 4.94% (www.insse.ro).

Given the previous macroeconomic indicators many foreign trade companies have decided to expand its business into the Romanian market. In addition, a favorable climate in the trade sector makes this market attractive for foreign companies. Until the late 90's of last century, Romania was in the shadows of Central European countries like Poland, the Czech Republic and Hungary, which had a favorable macroeconomic climate for foreign investment. As these markets eventually begin to show signs of saturation, Romania becomes attractive for foreign trade companies. It is only in 2006 year saw the entry of three large trade chains (Auchan, Real, and Spar). With the arrival of foreign companies Romanian trade sector has undergone significant changes, in the sense that it is characterized by the introduction of modern business formats (hypermarkets, supermarkets, hard discount stores, cash & carry, shopping centers), increased market share of private label and changing buying habits of consumers. Romania currently operates 14 international trade companies, whose sales volume and market share can be seen from Table 9.

Table 9: The sales volume and market share of foreign trade companies in Romania

<i>The name of company and business format</i>	<i>Country</i>	<i>The sale volume in mil. \$ 2009</i>	<i>The number of store</i>	<i>Market share</i>
METRO Cash&Carry	Germany	2,005	24	7,66
CAREFOUR Hipermarket	France	1,267	22	4,84
SELGROS Cash&Carry	Germany	1,054	18	4,03
KAUFLAND Hipermarket	Germany	955	45	3,65
REAL Hipermarket	Germany	881	24	3,37
CORA Hipermarket	Belgia	490	4	1,87
PENNY Diskont	Germany	419	93	1,60
BILLA Supermarket	Germany	397	45	1,52
AUCHAN Hipermarket	France	342	7	1,31
PLUS Diskont	Germany	340	96	1,30
MEGA IMAGE Supermarket	Belgia	162	48	0,62
PROFI Diskont	Belgia	147	67	0,56
CARREFOUR Supermarket	France	128	25	0,49
INTEREX Supermarket	France	118	12	0,45
<i>Ukupno</i>	-	27.873	-	33,27

Source: www.magazinluprogresiv.ro

From the table we see that the German trade chain Metro Cash & Carry has a leading role in the group of foreign trade companies. Entered the Romanian market in 1996 and it has expanded its network to 24 stores. This trade chain is on the Romanian market known for its strategy of long-term partnerships with local suppliers. French trade chain Carrefour entered the Romanian market in 2001 opening its first hypermarket in Bucharest. In a very short time has achieved a significant increase in sales volume, so it is in 2009 totaled \$ 1.3 million. After hypermarkets, the company began with the opening of the supermarket strategy.

German trade chain Selgros entered the Romanian market in 2001 year. Currently has 18 stores cash and carry type and price of land is the only limiting factor for the company to continue expanding the business in this country. Kaufland, as part of the German group Schwarz, on the Romanian market is present since 2005. For several years it has expanded its network to 45 stores, hypermarket type. The original target area was cities with over 40,000 inhabitants. However, given the upcoming competition Kaufland starts to get oriented and market areas with fewer than 25,000 inhabitants, giving her the title of the first foreign trade company that focuses on cities with smaller populations. Real hypermarkets, as part of the German Metro group, enter

the Romanian market 2006th and the end of 2009 the spread its sales network to a total of 24 outlets, with plans to spread the business in this country continue in the future.

As Table 9 shows other foreign trade companies have smaller market shares than the previous five, with a total market share of foreign trade companies in Romania amounted to 33.27%. The market share of 66.73% related to domestic trade company, mainly those in the structure of a small area stores. This brings us to the conclusion that the domestic trading companies maintain their competitive position as measured by market share. However, given the small size of the domestic trade companies, their strategy of building and maintaining long-term competitive advantage is challenged. Therefore, the expansion of foreign trade companies in the Romanian market for domestic companies represents both opportunities and dangers. On the one hand, the subsequent entry of foreign trade chains in comparison to other CEE countries has left opportunities for domestic companies to consolidate their capacity and prepare to face the foreign competition. On the other hand, many local trading companies have begun to modernize their operations once they are faced with foreign competition.

Starting from the previous fact, we find slow modernization of Romanian retail sector (Prada, 2008, p. 170). It is evident improvement stores in Romania compared to the period from the 90-ies. Number of new types of trade outlets has been growing, especially with the arrival of foreign trade companies. Further development of Romanian trade sector will be carried out within the overall macroeconomic environment, as in the past few years have seen an increase in purchasing power and changing spending habits. This image was created largely by foreign trade chains, resulting in domestic companies should focus on the different structure of business formats. Many of the foreign trade companies are interested to expand business on the Romanian market, which will further contribute to the modernization of the trade sector, a local company to put the challenge to preserve existing competitive position.

6. Instructions for Serbia

Despite the presence of foreign trade chains in the Serbian market, the process of trade internationalization lags behind the market-developed countries. Foreign trade chains are here in the initial stages of internationalization, as they have been operating in Serbia for only a few years. For the time being, there have been no cases of withdrawal or exit from the Serbian market.

If we assume that the presence of foreign trade companies encourages competition, which ultimately reflects in the lowering of prices and in high consumer satisfaction, we believe that every arrival of foreign trade companies in our market is positive and that in future we should endeavor to create more favorable conditions for the presence of foreign competition. Further development of trade internationalization in Serbia should be moving in this direction. In our opinion, it should be based on the following activities:

- Improving the overall macroeconomic environment, including serious involvement of the Serbian Government and official government institutions (Ministry of Finance, Ministry of Economy and Regional Development, Ministry of International Economic Relations, National Bank of Serbia);
 - Implementation of the National Strategy for Economic Development of Serbia and the Government Strategy for Overcoming Actual Economic Crisis;
 - Improving the political environment, the image of Serbia in Europe and the world, in the context of attracting foreign trade companies;
 - Further realization of the activities of the Ministry of Trade related to the plan of implementation of the Trade Development Strategy and Policy for the Republic of Serbia, with an emphasis on improving the activities of the Trade Development Center;
 - Further improvement of the policy of attracting foreign direct investment through tax and other relief measures;
 - Tax relief to foreign trade companies (especially in the first years of operation);
-

- Tax incentives for foreign trade companies that are expanding their operations across Serbia, with the aim of balanced regional development;
- Providing favorable locations to foreign trade companies;
- Prevention of the policy of protectionism and the occurrence of barriers to entry;
- Facilitating the procedures for issuing building permits and business licenses;
- Further improvement and updating of statutory and legal regulations in the field of trade;
- Support to local producers who cooperate with foreign trade companies to provide high quality of products, especially those with a trade mark;
- Inspiring domestic producers to focus on export activities as well, in dealing with foreign trade companies;
- Preparation of domestic trade companies for dealing with foreign competition, in order not to allow foreign trade companies to overtake the market share;
- Support to domestic traders in the implementation of the strategy for the development of private label;
- Encouraging foreign trade companies to a closer cooperation with local traders, especially small traders;
- Backup to foreign trade companies in organizing open consultations in order to specify the expectations and demands of domestic producers;
- Stimulating domestic producers to introduce innovations and business practices that should satisfy the requirements of modern trade;
- Impetus to small traders for entering cooperative arrangements, where a special place would belong to franchising as a strategy for creating and maintaining competitive advantages;
- Stimulating the formation of purchasing groups that would include both domestic and foreign trade companies;
- More intensive and closer networking of domestic and foreign trade companies that should work together in the interest of the Serbian economy and a more exhaustive application of the concept of open and modern market economy.

Beside the realization of previously listed activities, it is important for trade of Serbia to move toward the trends dictated by modern business practices, especially in times of economic recession, which has mainly affected the business operations of foreign trade companies. Appreciation of these trends offers a possibility to intensify the arrival of foreign trade companies, enable strong competition among domestic and foreign companies, as well as strengthen the domestic trade. In brief, these trends include the following:

- continuous monitoring of the behavior of consumers,
- introduction of institutional, functional and technological innovations,
- continuous introduction of modern business formats,
- further trade mark strengthening,
- product range rationalization,
- reduction of costs,
- multi-channel orientation,
- development of the Internet, EDI and electronic commerce,
- redesigning the supply chain,
- higher degree of networking of domestic and foreign companies.

Integrated application of the defined activities and monitoring of the trends provide positive conditions and a positive economic climate necessary to attract and retain foreign trade companies, primarily those that have already announced their arrival to the market of Serbia. On the other hand, this should not discourage the domestic trade, since the presence of healthy

competition is conferring benefits both to the economy and to the trade sector and ultimate consumers. Foreign competitors must give an additional stimulus to domestic trade companies in the direction of building and maintaining long-term competitive advantage and achieving positive business performance.

7. Conclusion

The internationalization of trade is a relatively new business strategy, but also a new area of research. In late 80s and early 90s of the previous century, research of the trade internationalization phenomenon began to occur extensively in American and English literature. The study of this phenomenon is closely associated with the appearance of the internationalization of trade in a particular market or region.

The analysis of activities of selected international retail chains in Serbia has confirmed the starting hypothesis. It pointed to the key similarities and differences in their business operations, where it was observed that the initial phase of their operations was characterized by the analysis of trade internationalization factors.

Although the macroeconomic indicators of Serbia were unsatisfactory, some international retail chains have realized beforehand the market potential of Serbia that was appropriate for growing their businesses. Therefore, they functionally adjusted their performance regarding the corresponding part of the "package" offer, the strategy of creating and maintaining competitive advantage and the long-term strategy of relations with manufacturers and consumers. Their arrival marked a new stage in the development of the trade sector in Serbia.

In the future we can expect more intensive implementation of the internationalization strategy in the Serbian market, by carrying out the activities highlighted in this paper. However, it should be noted that countries in transition, such as Serbia, faced this "market phenomenon" at the turn of the 20th and 21st centuries. This is a relatively short period for the economic objectivization of trade internationalization in the Serbian market. Therefore, the objective of this research was realized in terms of consideration of socio-economic conditions and prospects of its further development in our country. It is shown that the experience of Bulgaria and Romania may be applied in part to overcome all identified economic and political constraints.

Based on the presented analysis and research, it can be concluded that the activities highlighted in this paper should exert a guiding impact on future trade policy makers in Serbia, but also on managers of retail chains in the process of expanding their business operations beyond the national market. Since the theory and practice suggest that the internationalization of trade is a dynamic and multidimensional process, often contradictory as well, evaluation of the research results should be rechecked after an appropriate period of time. It is through this prism that we should consider the justification for the conclusions to which we have come in the paper, especially that one referring to the expected intense competition in the market of Serbia, which will follow as a consequence of the internationalization of trade. All other effects of the internationalization of trade imply a certain lapse of time, which opens the door to future research.

8. References

- Alexander, N., Doherty, A.M. (2009), *International retailing*, Blackwell Publishers Ltd, USA.
- Alexander, N., Doherty, A.M. (2010), „International retail research: focus, methodology and contextual development“, *International Journal of Retail & Distribution Management* Vol, 38, Iss. 11, pp. 928-942.
- Burt, S., Davies, K. (2010), „From the retail brand to the retail as a brand: themes and issues in retail branding research“, *International Journal of Retail & Distribution Management* Vol. 38, Iss. 11, pp. 865-878.
- Ćuzović, S., Ivanović, P. (2010), *Inovacije u trgovinskom menadžmentu*, drugo izmenjeno i dopunjeno izdanje, Ekonomski fakultet, Niš.
- Ćuzović, S., Sokolov-Mladenović, S. (2008), „Institucionalne pretpostavke razvoja trgovinskog sektora Srbije u funkciji konkurentne prednosti“, in: *Tematski zbornik Razvijanje konkurentne prednosti preduzeća u Srbiji u uslovima evropskih integracija*, Stanković, Lj. (ur.), Ekonomski fakultet, Niš, str. 281-297.
-

Ćuzović, S., Sokolov-Mladenović, S. (2007), „Prednosti i izazovi razvoja franšizinga u Srbiji“, in: *Zbornik radova sa Naučne konferencije Izazovi ekonomske nauke i prakse u procesu pridruživanja EU*, Stanković, Lj. (ur.), Ekonomski fakultet, Niš, str. 291-302.

Dawson, J., Larke, R., Mukoyama, M. (2006), *Strategic Issues in International Retailing*, Routledge, London and New York.

Elms, J., Canning, C., Kervenoael, R., Whysall, P., Hallsworth, A. (2010), “30 years of retail change: where (and how) do you shop”, *International Journal of Retail & Distribution Management* Vol. 38, Iss. 11, pp. 817-827.

IGD Analysis Country Presentation Bulgaria, available at: www.igd.com (accessed 12 December 2011).

IMF World Economic and financial Surveys, World Economic Outlook Database, October 2009, available at: www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx (accessed 10 December 2011).

Izveštaj o inflaciji (2012), Narodna banka Srbije, Beograd.

Izveštaj o stanju u finansijskom sistemu (2012) Narodna banka Srbije, Beograd.

Lovreta, S. (2009) *Trgovinski menadžment*, Ekonomski fakultet, Beograd.

Markova, Z., „Oxford Business Group: Bulgarian Retailing Marks a Considerable Growth“, available at: www.dnevnik.bg (accessed 12 February 2012).

National Institute for Statistics, *Romanian Statistical Yearbook 2009*, Bucharest, 2009, available at: www.insse.ro (accessed 10 March 2012).

National Statistical Institute, *Statistical Yearbook*, 2010, available at: www.nsi.bg (accessed 10 March 2012).

Osnovni indikatori makroekonomskih kretanja (2012) Ministarstvo finansija, Beograd.

Picot-Coupey, K. (2006), „Determinants of international retail operation moce choice: towards a conceptual framework based on evidence from French specialiset retail chins“, *International Review of Retail, Distribution and Consumer Research* Vol. 16, No. 20, pp. 215-237.

Prada, S. (2008), „Evolution of retail in Romania“, *Management&Marketing*, Craiova, Issue 1, p. 169-174.

Regal, „Nine Prognosis for 2010“, available at: <http://regal.bg/print.php> (accessed 10 March 2012).

Statistički godišnjak Republike Srbije, (2011) Republički zavod za statistiku, Beograd.

www.deloitte.com/consumerbusiness (accessed 30 January 2012).

www.gfk.bg (accessed 12 february 2012).

www.gfk.rs (accessed 13 January 2012).

www.idea.rs (accessed 25 January 2012).

www.interex.rs (accessed 25 January 2012).

Piata publication, Ministry of finance, National Statistics Institute, FAS, available at: www.magazinulprogresiv.ro (accessed 25 January 2012).

www.mercator-s.com (accessed 25 January 2012).

www.metro.rs (accessed 25 January 2012).

Yu, W., Ramanathan, R. (2012), „Effects of business environment on international retail operations: case study from China“, *International Journal of Retail & Distribution Management* Vol. 40, Iss. 3, pp. 278-234.