

# DEVELOPMENT STAGE OF RETAIL TRADE IN THE EUROPEAN UNION

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*According to Karel De Gucht, Trade Commissioner from the European Commission, trade is working for Europe's economic recovery by ensuring growth and jobs. The European renewed trade strategy will open markets and connect Europe to the main sources and regis of global growth. The aim is to ensure that European business gets a fair deal and that countries' rights are respected so that all can enjoy the benefits of trade.*

*Thanks to the ease of modern transport and communications, it is now easier to produce, buy and sell goods around the world which gives European companies of every size the potential to trade outside Europe.*

*This paper's objective is to analyse the development stage of the European Union's retail, and its member countries. The study is based on the research taken in the project of PhD research with the theme: The impacts of Economic Integration on Romanian Retail. For my research I used data from Eurostat, National Statistical Institute, European Union official website*

*In the past 10 years, the volume of retail trade in EU member states has increased, but the extent of the changes varies substantially from one country to another.*

*Key words: commerce, development, transformation*

## **1. Introduction**

In Europe, in the past 50 years, retailing has evolved differently from one region to another, the result of this process focusing on the commercial development of heterogeneous systems (different) from one country to another. Retail trade owes in each country its own configuration and influences originated in the culture, tradition, economic context and the legislative, climate or religion. Regardless the geographic location the essential merit in the realised structural changes is mainly the responsibility of economic operators may they be producers or traders. (European Commission, 2011).

## **2. Characteristics of retail trade in European Union**

In the last decades, retail activity was marked by numerous evolutionary trends that have led to a number of changes including the following (Patriche, 2000, p):

- concentration, reflects the increases of the number of big operators and vertical connections that are established between producers and middlemen;
- transformations due to the differences between countries, the deceleration of the increase rate of hypermarkets in developed countries, the franchise expansion and the development of distance selling;
- the diversification of the activity through its involvement in other service sectors;
- internalization, by orienting towards consumer goods markets of other countries;

Activity's diversification manifests in the manner in which producers conduct retail operations, or offer to retailers certain consumer services: consulting, financing, product tastings, demonstrations, transport on the doorstep etc.

Internationalization begins by approaching the areas close to the member states because of cultural similarities. Consumption patterns become similar and thus the euro-consumer's profile is shaped.

Concentration is especially evident in developed countries, being accompanied by the rationalization of the direct retail sector, and also by the appearance of buying groups and voluntary chains, that offer the advantage of economies of scale. Wholesale operators, are often considered to be remnants of the past and are removed, either due to the manufacturer's desire to control himself the distribution process of commodities, as a consequence to retail companies practices to expand inside marketing channels. (Patriche, 2000, p.62).

Retailers have rapidly become multinational forces. There can be observed the dominance of a growing minority of traders in this market. Each and every one of them fights for market shares as large as they can get in order to dominate the market.

For example, in several member states of the European Union, five main retailers represent over 70% of the agri-food products: Finland - 90%, Sweden - 82%, Slovenia - 82%, Ireland - 81%, Estonia - 79%, Austria - 79%, Germany and France - by 70% (Global Retail Concentration, Planet Retail, 2006).

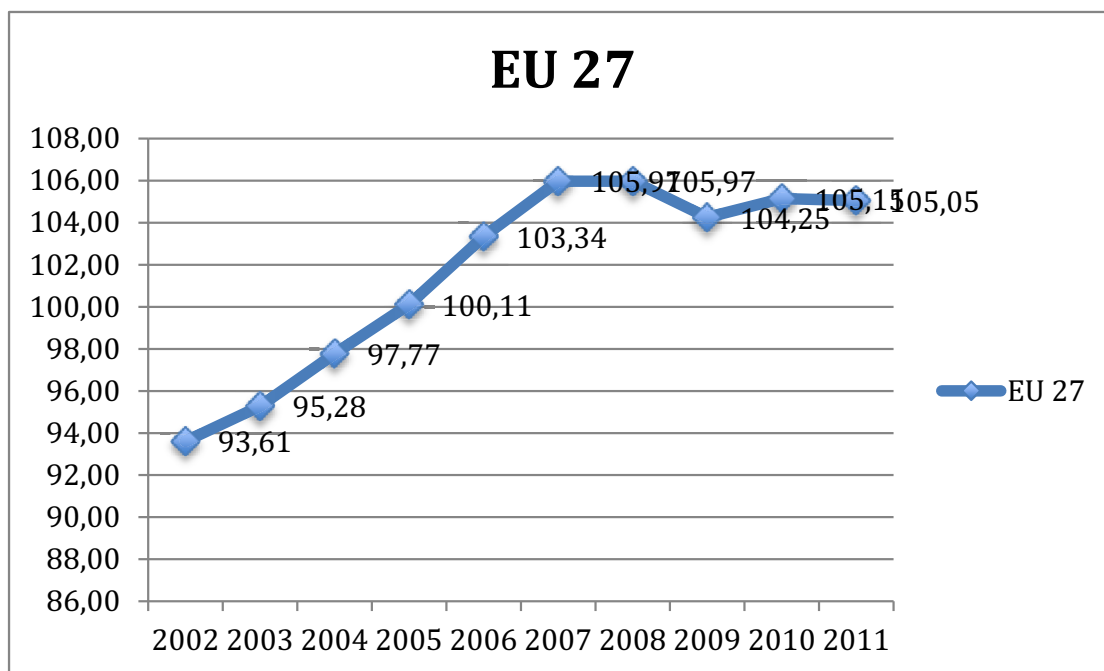
Naturally, the concentration of power is not indictable unless it slides towards abuse of dominant position. The development of European purchasing groups itself where the supermarkets of different countries join forces to take over suppliers, contributed to the increase of the buying power of retailers, thus increasing the possibility that they may resort to restrictive and confidential agreements with competitors, by exchanging information that exceed national borders of the member states. In 2005, of the eight largest retailers - Carrefour (France), Metro Group (Germany), Tesco (Great Britain), Rewe, Schwarz Group, Edeka (Germany), Auchan (France), Aldi (Germany) - seven were operating both in Central and Eastern Europe and Western Europe. Edeka is the exception. The first four retailers mentioned above are the largest chain stores as market share in both regions. (A. Vass, 2008).

Large units of retail are multiplying considerably.

### 3. Retail development in the European Union in the last decade

Since 2000 retail trade in the European Union grew steadily and reached its peak in early 2008. The ascending trend of retail activity was interrupted by the economic crisis that caused a decline in the evolution of this activity, which lasted until mid-2009. Since then, retail trade increased again, and after a year it reached the value recorded for 2007.

**Figure no.1. Retail developments' evolution in the European Union between 2002 and 2011**



Source: Created by author based on data taken from Eurostat

Figure no. 1 shows the evolution of the value of retail trade in the European Union, during December 2010 and up to November in 2011.

During this period, growth was stopped and the volume of retail trade remained almost unchanged.

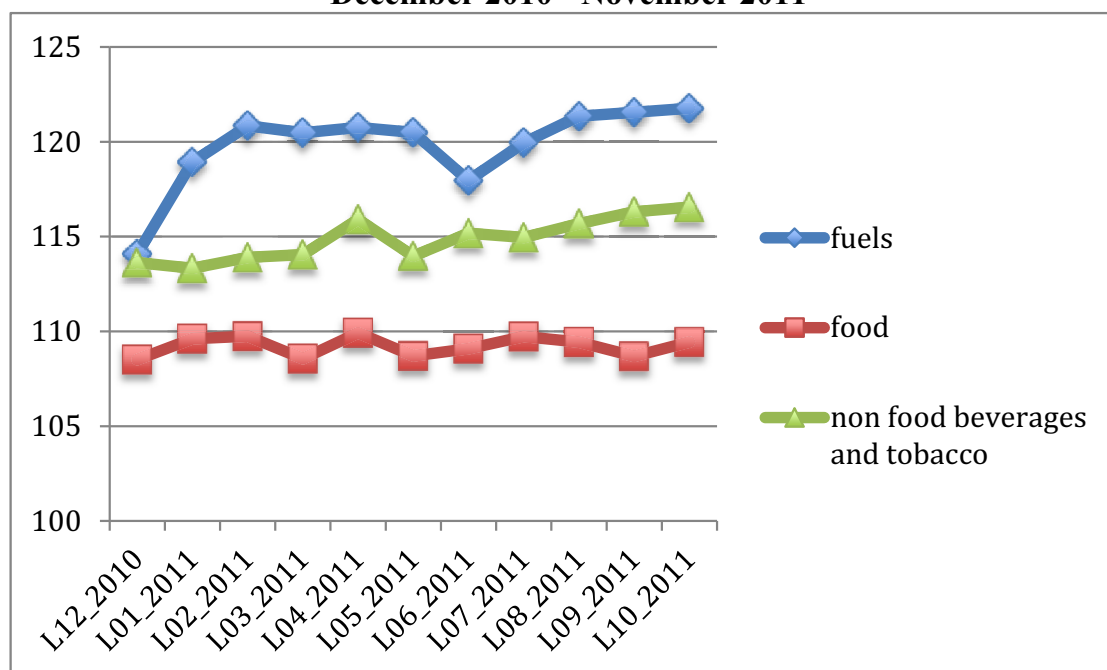
In recent decades, household consumption has seen many changes (Pop Coșuț I, 2004, after Didier M, 1998, p.33), passing from the concerns for buying products strictly for maintenance of life - food, clothing, housing - to goods and services to follow and embellish life. These changes were caused by:

- mass production's expansion,
- the occurrence and perfection of means and communication systems,
- the continuous increase of the level of education of the population,
- the revenue increase;
- the increase of leisure time etc.

In this context, the study of family budgets revealed some clear trends of consumption's restructuring. Among these concerns are those of the German economist Engel, who noted that comparing the evolution of different consumptions with the evolution of the national revenue, others more slowly, while others, have the same rhythm. These observations were the basis for his laws regarding consumption. Engel's laws reveal the existence of a hierarchy of needs:

- in the situation in which the standard of living is lower, the most urgent needs are the first to be satisfied: food, clothing, housing;
- the increase of the standard of living primarily is reflected in the goods that aren't indispensable, as: leisure time, transportation, vacations (health care expenses represent a special case because they are supported mainly by social security);
- a consequence of this law is that the part of the budget intended for relatively useless goods increases when the income increases. Therefore, some have considered that due to this law, rich companies will tend, more and more, to transform themselves into services company, these being part of luxury goods.

**Figure no.2. Retail evolution on groups of goods in the European Union during December 2010 - November 2011**

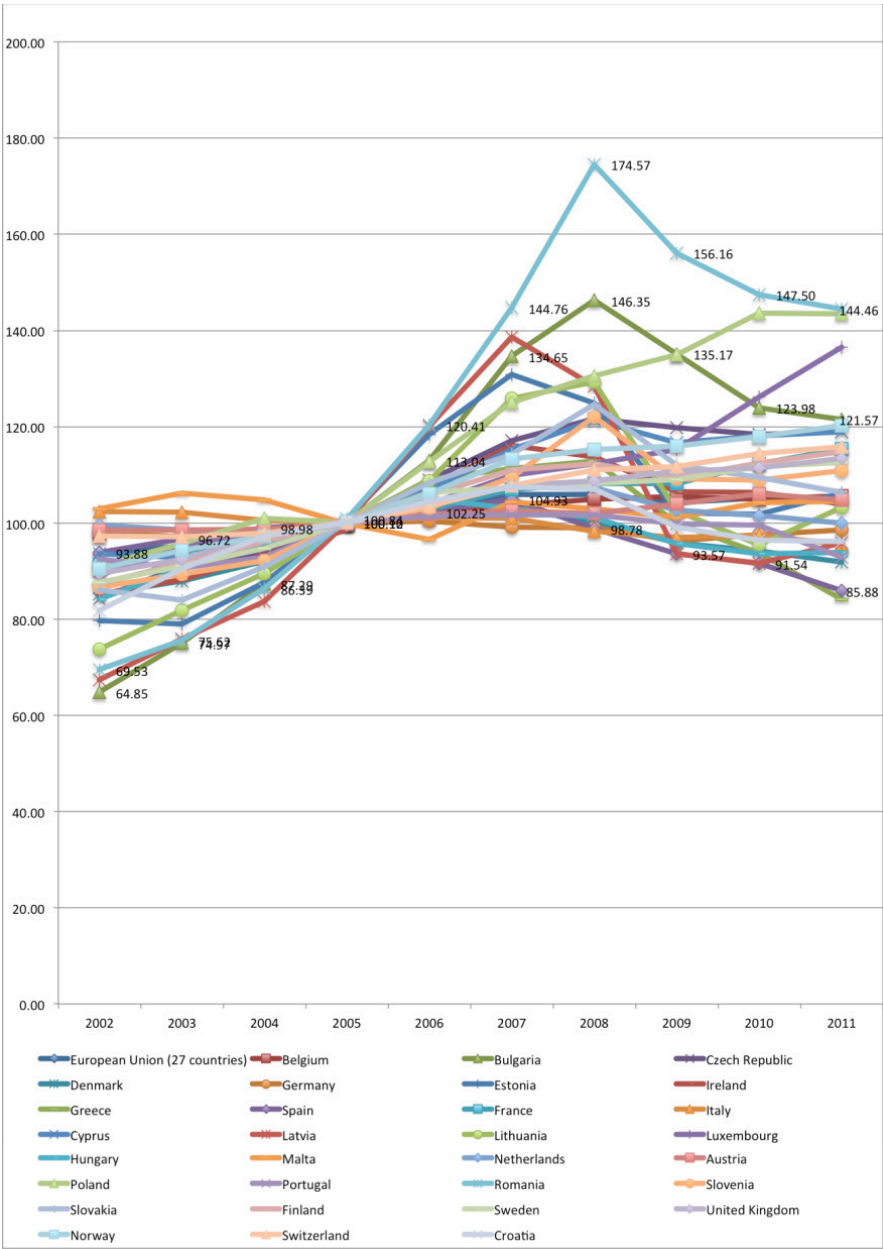


Source: Created by author based on data taken from Eurostat

Figure No. 2 represents the evolution of trade in different product categories, depending on the distribution of the expenses regarding on commodity groups: food, beverages and tobacco, non-food products, motor fuel, as the analyzed period was between December 2010 and November 2011. Of the three product groups, the largest sales were recorded by fuel, followed by food and non-food products. The highest sales are for fuel, these figures being recorded due to high prices of these categories. It can be seen that non-food products have registered higher values than food products, and according to Engel's law it can be stated that the buying power of European citizens has increased and therefore the available income meant to satisfy superior or luxury need has increased.

Retail volume of food products (plus beverages and tobacco) reacted stronger during the time of the economic and financial crisis than the volume of trade with non-food products. However both groups of products developed in ways largely comparable. Retail volume of fuel (sold in specialized stores, of filling and certain stations) followed a less clear tendency since 2000, with higher sales in 2003, 2006 and the beginning of 2008 and a constant decline since then.

**Figure no.3. Retail trade evolution in the European Union countries during 2001 and 2010**



Source: Created by author based on data taken from Eurostat

Figure No. 3 shows that the volume of retail trade in the member states of European Union, generally increased in the last decade, but the magnitude of the changes differ substantially. Between 2000 and 2007, retail trade volume has doubled in Romania and Bulgaria, Estonia, Latvia and Lithuania. Between 2001 and 2006, can be observed increases of 50% or higher in Slovakia, Slovenia, Czech Republic and Ireland.

In all these countries, development stopped between 2006 and 2008 when the retail trade volume dropped significantly. However, the general development in the last 10 years for these countries is still positive and the increases of the total retail volume is still higher than for the rest of the European Union.

Retail trade had a similar development pattern in other countries, where it had registered increases of 30% or greater in: Cyprus, Hungary, Denmark, Greece and Spain.

An exceptional development of retail trade was in Poland and Luxembourg, which were not affected at all by the economic crisis. Retail trade increased between 2011-2010 with more than 50%.

Positive evolutions with no significant effects during the crisis could also be seen in the United Kingdom, France, Sweden and Finland (in these countries the decrease due to the crisis in 2009 was compensated a year later).

In countries like, Malta, Germany and Italy, retail volume declined between 2001 and 2010. In these countries, the crisis was perceptible and retail declines were felt since the middle of the last decade.

In practice two forms of retail can be identified, that is modern trade represented by stores with large areas for sales and traditional trade, which incorporates shops located in neighbourhoods with small lots. Since the emergence of the first large stores the weight of modern trade in the total value of commerce is growing at the expense of traditional, its share reaching values up to 50% in developing countries and up to 70-80% in developed countries.

#### **4. Conclusions**

From the analysis of retail in the European Union, we can draw the following conclusions:

Now, the retail trade in the European Union has the following characteristics:

- concentration, reflected in the increase of the number to big operators;
- the deceleration of growth rhythm of hypermarkets in developed countries,
- the diversification of the activity through its involvement in other service sectors,
- internalization, by orienting towards consumer goods markets of other countries.

The volume of retail trade in the member states of the European Union, generally increased in the last decade, but the magnitude of the changes differ substantially from one country to another. The ascending trend of retail activity was interrupted by the economic crisis that caused a decline in the evolution of this activity, which lasted until mid-2009. Since then, retail trade increased again, and after a year it reached the value recorded for 2007.

The highest sales, according to products' category were fuels, followed by non-food goods, and food, beverages and tobacco. This fact is due to higher fuel prices, in all EU countries. It can be observed that non-food products are better sold than food products, because due to the increase of the standard of living the allocated sums for services of the disposable income, are rising.

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