



# Trends and drivers of change in the European commerce sector: Mapping report

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## Introduction

The commerce sector in Europe faces several challenges, including increased competition, complex supply chains, changing demographics, increased migration, changing consumer and media trends as well as its ability to attract skilled labour. Additionally, the rise of economies in Asia and continued economic out-performance by the United States pose significant external challenges to the European Union. While these challenges do threaten the competitiveness and survival of some companies in the sector in the different EU countries, they also represent an opportunity for expansion and growth for others. In direct response to these new challenges, the European retail and wholesale companies are boosting their competitiveness through acquisitions and mergers, the introduction of new technologies, restructuring processes, new products, and innovations in personnel management.

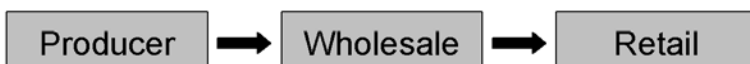
These changes in the commerce sector severely impact on the overall structure of the sector and on local communities where stores are located, when new product lines are developed and put on the market. Retail and wholesale establishments operate in a socioeconomic context, in which their strategic choices affect the welfare of many Europeans and increasingly also societies in countries outside of Europe as the internationalisation of trade continues.

This mapping report is part of a study on the commerce sector which also features four company case studies and two cluster studies, as well as four possible future scenarios. It is the aim of this mapping report to provide a concise overview of the commerce sector and to identify the main trends and key drivers of change in the sector. Furthermore, the mapping report should enable the reader to locate the company case studies in relation to these drivers.

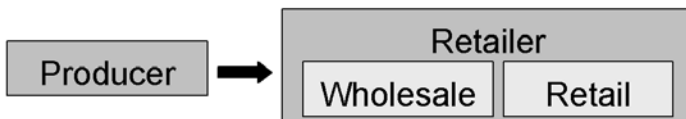
This study focuses on trends and drivers of change in relation to car sales, repair and maintenance, and wholesale and retail trade in general (NACE 50, 51 and 52). The report is based on official national and European publications from a wide range of sources.

Figure 1: *Value chain in commerce sector (NACE G)*

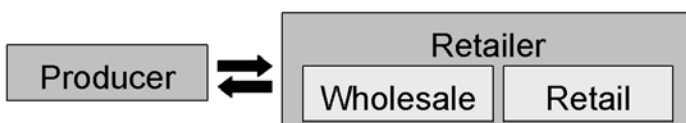
Traditional value-chain:



Integration of value-chain:



Retailer brands:



## **Overview of the sector**

The commerce sector as defined by NACE G covers the service activities of the motor trade, wholesale trade and retail trade:

- NACE 50 – sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel;
- NACE 51 – wholesale trade and commission trade, except of motor vehicles and motorcycles;
- NACE 52 – retail trade, except of personal and household goods.

This overview will focus on these three subsectors which make up the commerce sector (NACE G). Moreover, it will compare the commerce sector with other sectors of economic activity. Since the main focus of this study is the retail trade sector, the analysis will also provide an overview of the retail trade subsectors.

The main source of information for this overview is data from Eurostat, which has been complemented with the authors' own calculations. Some of the information is available for all 27 Member States of the European Union (EU27), while certain other indicators are available for the 25 Member States of the European Union (EU25) after the May 2004 enlargement, and others only for some of the EU countries.

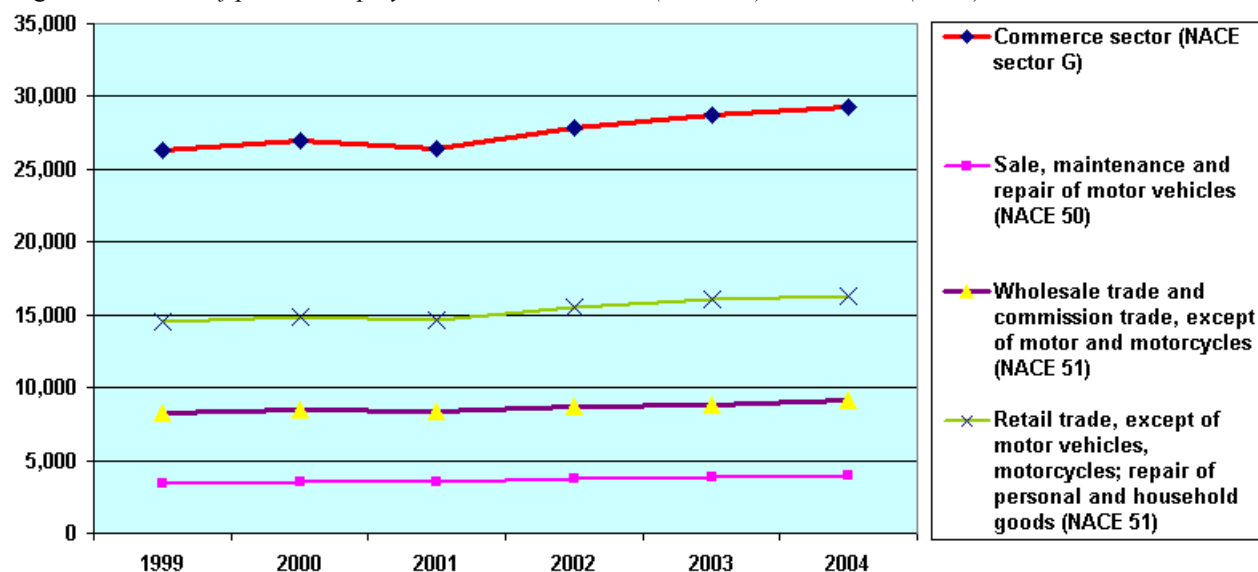
### **Importance to the European economy**

The commerce sector represents a significant sector of economic activity in the EU, employing 24.5% of the total number of employed persons in the non-financial sectors of the economy and producing 19.3% of the added value in these sectors.

Almost 30 million people were employed in the commerce sector in 2004. The largest proportion of workers was employed in the retail sector (NACE 52), totalling more than 16 million people, the equivalent of 55.5% of the workers in the commerce sector.

Employment in the sector has increased in motor vehicle, wholesale and retail trade. In 2004, the number of persons employed in the commerce sector as a whole was 11.5% higher than five years before.

Figure 2: Number of persons employed in commerce sector (NACE G), 1999–2004 ('000s)



Note: Number of persons employed refers to the total number of persons who work in the observation unit (employees receiving remuneration, working proprietors and unpaid family workers) as well as outside working persons who belong to the unit and are paid by it.

Source: Eurostat, Distributive trade data

In 2003, the added value derived from the commerce sector in the EU25 amounted to €932 billion. When comparing the commerce sector with other sectors of the economy, Table 1 shows that the commerce sector created 19.3% of the added value in the non-financial business economy and employed 24.5% of the non-financial business economy workforce in 2003. The relatively high proportion of employment compared with the added value implies that the commerce sector has a lower labour productivity than the non-financial business economy in general.

Table 1: Value added and employment, by sector, EU25, 2003

Sector	Value added		Number of persons employed	
	€ million	% of non-financial business economy	Thousands	% of non-financial business economy
Food, beverages and tobacco <sup>1</sup>	192,000	4.0	4,490	3.8
Textiles, clothing, leather and footwear <sup>1</sup>	66,000	1.4	3,000	2.6
Wood and paper <sup>1</sup>	75,000	1.6	1,910	1.6
Chemicals, rubber and plastics <sup>1</sup>	241,000	5.0	3,560	3.0
Other non-metallic mineral products <sup>1</sup>	69,100	1.4	1,520	1.3
Metals and metal products <sup>1</sup>	190,000	4.0	4,800	4.1
Machinery and equipment	163,515	3.4	3,475	3.0
Electrical machinery and optical equipment	180,396	3.8	3,611	3.1
Transport equipment	172,088	3.6	2,998	2.6
Furniture and other manufacturing activities <sup>2</sup>	48,984	1.0	1,760	1.5
Non-energy mining and quarrying <sup>3</sup>	13,000	0.3	248	0.2

Table 1: Value added and employment, by sector, EU25, 2003 (cont'd)

Sector	Value added		Number of persons employed	
	€ million	% of non-financial business economy	Thousands	% of non-financial business economy
Energy <sup>2</sup>	215,067	4.5	1,600	1.4
Water supply, sewerage and waste management <sup>1</sup>	24,000	0.5	400	0.3
Construction	414,489	8.5	12,377	10.6
Motor trade	141,175	2.9	3,812	3.3
Wholesale trade	423,792	8.8	8,788	7.5
Retail trade	366,852	7.6	16,021	13.7
Hotels and restaurants	154,171	3.2	8,228	7.0
Transport services <sup>1</sup>	334,000	6.9	8,000	7.0
Communications and media <sup>1</sup>	321,000	6.7	4,810	4.1
Business services <sup>1</sup>	703,000	14.6	18,100	15.5
Real estate, renting, and research and development (R&D)	290,000	6.0	3,300	2.8

Notes: 1 Rounded estimate; 2 number of persons employed and related share, rounded estimates; 3 value added and related share, rounded estimates. All estimates based on non-confidential data.

Source: Eurostat, 2006

The difference between the share of value added and the number of persons employed is largest in the retail trade; this subsector accounts for 7.5% of the added value in the non-financial business and 13.7% of the non-financial business economy workforce. The motor vehicle trade produces 2.9% of the added value and employs 3.3% of the workforce. In contrast, wholesale trade generates 8.8% of the added value and employs 7.5% of the workforce. Compared with the retail sector and the non-financial business as a whole, wholesale trade is less labour-force intensive.

Table 2 illustrates the diversity between the countries. The wholesale trade creates the largest proportion of the added value in the commerce sector in all countries bar two: in France, wholesale and retail have the same proportion of the added value and in Cyprus, retail trade exceeds the added value of wholesale trade by one percentage point. The countries with the greatest proportion of added value from wholesale trade are Slovakia (65%) and Latvia (62%), while for countries like Cyprus, Germany and the United Kingdom, only 42% of the added value in the commerce sector comes from within their wholesale sectors.

France (44%), Ireland (43%) and Cyprus (43%) are the countries with the largest proportion of added value in the commerce sector which comes from the retail trade, while Hungary (25%) and Slovakia (26%) have the lowest proportions.

Table 2: Share of value added in commerce, by subsector (based on NACE classification), 2004

	Commerce sector (NACE G) (€ million)	Sale, maintenance and repair of motor vehicles (NACE 50)	Wholesale trade and commission trade, except of motor vehicles and motorcycles (NACE 51)	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods (NACE 52)
<b>EU25</b>	991,912.6	-	-	-
<b>BE</b>	29,900.8	14%	54%	32%
<b>BG</b>	1,348.2	16%	55%	28%
<b>CY</b>	1,496.8	16%	42%	43%
<b>CZ</b>	8,957.2	12%	55%	33%
<b>DE</b>	185,078.9	19%	42%	38%
<b>DK</b>	20,019.7	13%	57%	30%
<b>EE</b>	1,147.5	14%	59%	27%
<b>EL</b>	23,694.9	11%	50%	39%
<b>ES</b>	93,427.4	14%	47%	39%
<b>FI</b>	12,524.9	16%	47%	38%
<b>FR</b>	143,082.2	12%	44%	44%
<b>HU</b>	5,431.2	18%	56%	25%
<b>IE</b>	12,163.3	10%	47%	43%
<b>IT</b>	102,928.0	14%	47%	39%
<b>LT</b>	1,584.7	15%	52%	33%
<b>LU</b>	-	-	-	-
<b>LV</b>	1,594.5	11%	62%	27%
<b>MT</b>	-	-	-	-
<b>NL</b>	53,182.0	12%	57%	31%
<b>PL</b>	20,477.3	11%	56%	33%
<b>PT</b>	15,507.6	15%	49%	35%
<b>RO</b>	3,786.3	17%	54%	29%
<b>SE</b>	26,958.7	15%	53%	33%
<b>SI</b>	2,658.8	19%	49%	33%
<b>SK</b>	2,258.9	10%	65%	26%
<b>UK</b>	200,810.9	17%	42%	41%

Source: Eurostat, Distributive trade data (authors' calculations)

When considering the number of employed persons in the commerce sector, the distribution differs from that of the value added. This is due to the fact that the retail trade sector employs the largest proportion of the total number of employed persons in all 27 Member States. The difference in proportions between the countries is less pronounced than the difference in relation to the added value which is illustrated in Table 2.

Table 3: *Employment and labour productivity in commerce, by subsector, EU27, 2004*

	Number of persons employed in commerce sector (NACE G)	Sale, maintenance and repair of motor vehicles (NACE 50)	Wholesale trade and commission trade, except of motor vehicles and motorcycles (NACE 51)	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods (NACE 52)
AT	598,002	14%	32%	53%
BE	606,114	13%	38%	48%
BG	442,279	11%	32%	57%
CY	55,934	15%	33%	52%
CZ	709,064	13%	33%	53%
DE	4,464,166	15%	27%	58%
DK	429,678	15%	38%	47%
EE	92,531	13%	42%	45%
EL	891,542	11%	35%	54%
ES	3,207,619	12%	35%	53%
FI	252,930	15%	33%	52%
FR	3,255,133	14%	32%	53%
HU	525,110	15%	32%	53%
IE	279,629	14%	28%	58%
IT	3,328,862	14%	32%	53%
LT	223,697	18%	32%	50%
LU	-	-	-	-
LV	171,325	12%	30%	58%
MT	-	-	-	-
NL	1,326,279	11%	35%	53%
PL	2,126,208	12%	32%	56%
PT	799,771	17%	34%	49%
RO	841,375	11%	37%	52%
SE	571,565	15%	39%	46%
SI	106,233	15%	40%	45%
SK	163,589	9%	48%	43%
UK	4,988,693	12%	24%	64%

Source: Eurostat, *Distributive trade data*

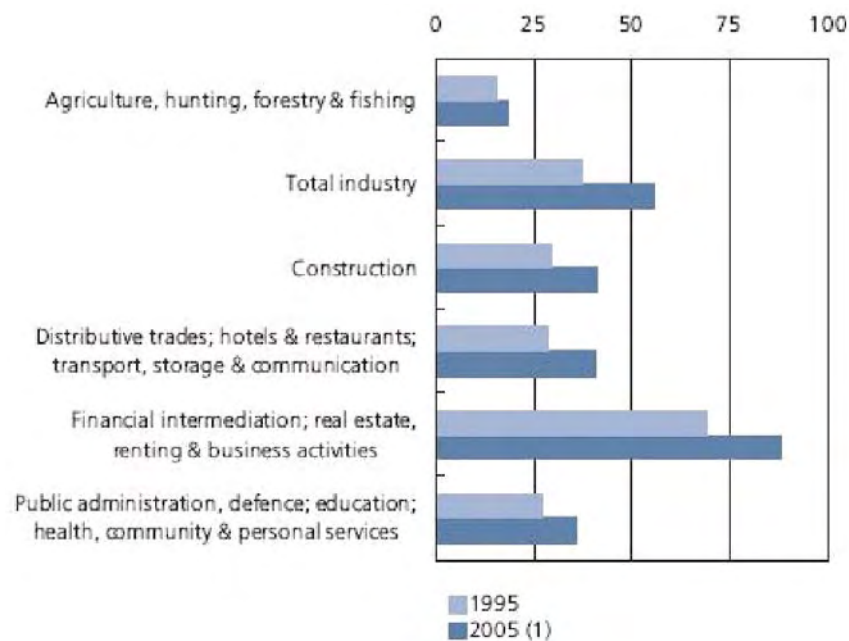
The situation in the retail trade sector with a relatively low proportion of added value and a high proportion of employed persons indicates a low labour productivity in retail compared with the wholesale trade.

### Productivity

Labour productivity is an indicator of workforce productivity of a national economy and is useful in terms of cross-country comparisons. Measuring labour productivity per person employed represents an alternative to the measure as gross domestic product (GDP) per hour worked. The former is calculated by taking gross value added and dividing it by the number of people employed. The indicator provides information on the most capital- and labour-intensive sectors of the EU.

Figure 3 shows that, in the EU25, sectors such as distributive trade (NACE G), hotels and restaurants (NACE H), and transport, storage and communication (NACE I) have a relatively low productivity (€40,000 per person employed) when compared with other sectors of the economy, such as financial intermediation (NACE J), real estate, renting and business activities (NACE K), and total industry (NACE C–E). The latter sectors show productivity rates ranging between €53,000 and €86,000 per person employed. Labour productivity per person employed in distributive trades, hotels and restaurants, and transport, storage and communication is almost identical to that of the construction sector (€41,000), but it is higher than productivity measured in the agriculture, hunting, forestry and fishing sectors (NACE A and B) (€19,000).

Figure 3: Labour productivity per person employed, EU25 (€ thousand)



Note: (1) Forecasts  
 Source: Eurostat, 2006a

Table 4 indicates significant differences in labour productivity in the commerce sector across the EU25. Looking at the commerce sector as a whole (NACE G), the average productivity level stands at €33,900 per person employed. The countries with the highest labour productivity per person employed are Finland (€49,500), Belgium (€49,300) and Denmark (€46,600), while the countries with the lowest productivity are Bulgaria (€3,000), Romania (€4,500) and Lithuania (€7,100).



Table 4: Labour productivity per person employed in commerce, by subsector, 2004 (€ thousand)

	Commerce sector (NACE G)	Sale, maintenance and repair of motor vehicles (NACE 50)	Wholesale trade and commission trade, except of motor vehicles and motorcycles (NACE 51)	Retail trade, except of motor vehicles, motorcycles; repair of personal and household goods (NACE 52)
EU25	33.9	38.1	50.5	23.5
AT	40.7	40.6	62.9	27.3
BE	49.3	51.6	69.6	32.5
BG	3.0	4.5	5.2	1.5
CY	26.8	27.4	34.2	21.9
CZ	12.6	11.4	20.9	7.8
DE	41.5	53.3	65.0	27.4
DK	46.6	42.3	69.6	29.2
EE	12.4	13.4	17.4	7.5
EL	26.6	27.0	37.9	19.1
ES	29.1	32.7	39.4	21.5
FI	49.5	50.2	71.0	35.9
FR	44.0	38.5	59.1	36.2
HU	10.3	12.5	18.1	5.8
IE	43.5	32.4	71.7	32.3
IT	30.9	29.7	45.1	22.6
LT	9.3	9.0	18.9	4.3
LU	7.1	6.0	11.7	4.6
LV	-	-	-	-
MT	-	-	-	-
NL	40.1	41.4	65.2	23.2
PL	9.6	9.4	16.9	5.6
PT	19.4	17.5	28.0	14.0
RO	4.5	7.0	6.6	2.5
SE	47.2	46.4	64.4	33.1
SI	25.0	31.6	30.7	18.0
SK	13.8	15.4	18.6	8.2
UK	-	-	-	-

Source: Eurostat, *Distributive trade data*

The wholesale sector of the EU25 has, on average, the highest labour productivity (€50,500 per person employed) in the commerce sector, while the retail sector has the lowest (€23,500 per person employed). This clearly shows that the productivity rate in the retail sector is less than half of that in the wholesale sector. Labour productivity of the motor vehicle sector lies in between the other two sectors, with €38,100 per person employed. The wholesale sector is characterised by high volume and high value contracts, while the retail sector is mostly characterised by large numbers of much smaller transactions making the sector more labour intensive. The motor vehicle retail sector falls between the two other sectors because the products are high-value products compared with traditional retail products.

### Structure of commerce sector

Total turnover of the commerce sector amounts to €7,227,264 million, according to rounded estimates by Eurostat. In most of the countries, the largest proportion of the turnover is generated in wholesale trade; for instance, in Bulgaria 73% of the turnover is generated in the wholesale trade. In contrast, in Cyprus only 43% of the turnover is generated in the wholesale trade. Instead Cyprus has the highest proportional turnover in retail trade. An explanation could be that the sheer size of the market in Cyprus makes it less viable to open up a wholesale unit within the country.

Table 5: *Turnover in commerce, by subsector, EU27, 2004*

	Commerce sector (NACE G) Total (€ million)	Sale, maintenance and repair of motor vehicles (NACE 50) % of total	Wholesale trade and commission trade, except of motor vehicles and motorcycles (NACE 51) % of total	Retail trade, except of motor vehicles, motorcycles; repair of personal and household goods (NACE 52) % of total
AT	163,226.6	16%	58%	27%
BE	301,353.8	22%	58%	20%
BG	22,829.2	11%	73%	16%
CY	9,152.2	18%	42%	40%
CZ	81,141.2	14%	60%	26%
DE	1,176,148.9	15%	56%	30%
DK	155,794.2	21%	58%	21%
EE	11,187.4	16%	60%	24%
EL	124,900.6	14%	52%	34%
ES	635,790	17%	54%	29%
FI	95,662.6	18%	53%	28%
FR	1,091,995	14%	53%	33%
HU	61,652.5	21%	58%	21%
IE	84,377.3	18%	55%	27%
IT	801,260.5	19%	50%	30%
LT	13,986.4	16%	56%	28%
LU	-	-	-	-
LV	12,045.3	11%	63%	25%
MT	-	-	-	-
NL	422,831.9	15%	66%	18%
PL	183,476.5	12%	61%	27%
PT	122,018.9	20%	52%	28%
RO	43,344.2	13%	63%	25%
SE	179,211.8	18%	54%	27%
SI	19,365.6	26%	46%	28%
SK	20,560.2	15%	60%	25%
UK	1,276,634.8	18%	52%	30%

Source: Eurostat, *Distributive trade data (authors' calculations)*

The commerce sector consists of more than six million companies. In general, retail is the biggest sector with approximately 60% of the enterprises. The wholesale trade accounts for 27% of the enterprises and the motor vehicle trade for 13%, according to rounded estimates by Eurostat.

Retail is the largest subsector of the commerce sector in almost all of the European Member States – except in Estonia, Slovenia and Slovakia where wholesale is the largest subsector. Table 6 outlines the share of enterprises in the automotive retail, wholesale and retail sectors in relation to the number of enterprises in the whole commerce sector in the various countries. In terms of the number of companies, the share of the retail sector varies from 75% in Bulgaria to 30% in Estonia.

Table 6: *Number and share of enterprises in commerce, by subsector, EU27, 2004*

	Commerce sector (NACE G)	Sale, maintenance and repair of motor vehicles (NACE 50) % of total	Wholesale trade and commission trade, except of motor vehicles and motorcycles (NACE 51) % of total	Retail trade, except of motor vehicles, motorcycles; repair of personal and household goods (NACE 52) % of total
AT	76,943	13%	33%	54%
BE	134,787	14%	32%	54%
BG	125,500	7%	18%	75%
CY	19,662	17%	12%	71%
CZ	227,419	14%	27%	59%
DE	444,780	17%	21%	62%
DK	48,694	17%	33%	50%
EE	13,650	12%	58%	30%
EL	305,380	11%	25%	64%
ES	809,079	9%	25%	66%
FI	46,362	20%	33%	48%
FR	694,509	12%	26%	62%
HU	161,000	12%	21%	67%
IE	30,816	19%	23%	58%
IT	1,260,067	12%	32%	56%
LT	23,811	18%	28%	54%
LU	-	-	-	-
LV	22,215	12%	29%	59%
MT	-	-	-	-
NL	158,310	14%	37%	50%
PL	610,977	12%	20%	68%
PT	235,203	13%	25%	62%
RO	191,196	7%	27%	66%
SE	121,294	17%	36%	47%
SI	22,210	17%	51%	32%
SK	13,872	7%	60%	33%
UK	382,106	18%	29%	53%

Source: Eurostat, *Distributive trade data (own calculations)*

When looking at the company structure of the European commerce sector, it can be seen that it mainly consists of small enterprises (Table 7). In the EU25, more than half of the enterprises only employ one person, while 42% of the companies employ between two and nine people. Only 7% of the sector's companies employ 10 or more people.

Table 7: *Enterprises in commerce (NACE G), by company size, 2004*

	Total number of enterprises	Company size (% of total)					
		1 employee	Between 2 and 9 employees	Between 10 and 19 employees	Between 20 and 49 employees	Between 50 and 249 employees	250 or more employees
<b>EU25</b>	5,882,702	52%	42%	4%	2%	1%	0%
<b>AT</b>	76,943	33%	55%	7%	3%	1%	0%
<b>BE</b>	134,787	56%	37%	4%	2%	1%	0%
<b>BG</b>	125,500	50%	45%	4%	2%	0%	0%
<b>CY</b>	19,662	57%	39%	3%	1%	1%	0%
<b>CZ</b>	227,419	70%	26%	3%	1%	0%	0%
<b>DE</b>	444,780	23%	62%	10%	4%	2%	0%
<b>DK</b>	48,694	44%	41%	9%	5%	2%	0%
<b>EE</b>	13,650	36%	51%	8%	4%	1%	0%
<b>EL</b>	305,380	40%	58%	2%	1%	0%	0%
<b>ES</b>	809,079	51%	44%	3%	1%	0%	0%
<b>FI</b>	46,362	68%	25%	4%	2%	1%	0%
<b>FR</b>	694,509	61%	33%	3%	2%	1%	0%
<b>HU</b>	161,000	58%	37%	3%	1%	1%	0%
<b>IE</b>	30,816	24%	61%	9%	4%	2%	0%
<b>IT</b>	1,260,067	60%	37%	2%	1%	0%	0%
<b>LT</b>	23,811	21%	60%	11%	5%	2%	0%
<b>LU</b>	-	-	-	-	-	-	0%
<b>LV</b>	22,215	27%	58%	9%	4%	2%	0%
<b>MT</b>	-	-	-	-	-	-	0%
<b>NL</b>	158,310	37%	53%	6%	3%	1%	0%
<b>PL</b>	610,977	59%	38%	1%	1%	0%	0%
<b>PT</b>	235,203	63%	32%	3%	1%	0%	0%
<b>RO</b>	191,196	54%	38%	5%	2%	1%	0%
<b>SE</b>	121,294	70%	25%	3%	2%	1%	0%
<b>SI</b>	22,210	58%	36%	3%	2%	1%	0%
<b>SK</b>	13,872	32%	48%	14%	3%	2%	0%
<b>UK</b>	382,106	31%	56%	8%	3%	1%	0%

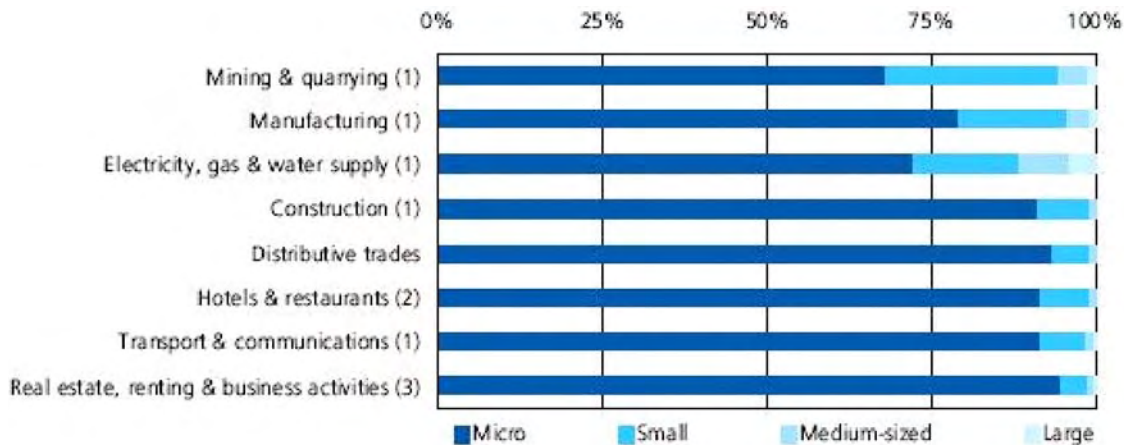
Source: Eurostat, *Distributive trade data (own calculations)*

Table 7 also shows that the distribution of the size of the companies varies considerably among the European countries. Countries with the largest proportion of very small enterprises – those employing just one person – are the Czech Republic (70%), France (61%) and Italy (60%), while countries with the smallest proportion of very small enterprises are Lithuania (21%), Germany (23%) and Ireland (24%).

When comparing the commerce sector with other sectors of the economy, it is noticeable that the commerce sector (distributive trades) is one of the sectors with the largest proportion of micro-enterprises. Other sectors with a high proportion of micro-enterprises are real estate, renting and business activities, transport and communications, hotels and

restaurants, and construction. Those sectors with a smaller proportion of micro-enterprises are manufacturing, mining and quarrying, and electricity, gas and water supply.

Figure 4: Share of companies, by sector, EU25, 2003



Notes: 1 Rounded estimates; 2 rounded estimates for medium-sized and large companies; 3 rounded estimates for small and large enterprises; all estimates based on non-confidential data.

Source: Eurostat, 2006

### Profile of retail subsectors

Based on NACE definitions, the retail trade sector (NACE 52) embraces seven subsectors (see Box 1).

#### Box 1: Activities within NACE group 52

<b>52</b>	Retail trade, except motor vehicles and motorcycles; repair of personal and household goods
<b>52.1</b>	Retail sale in non-specialised stores
<b>52.2</b>	Retail sale of food, beverages and tobacco in specialised stores
<b>52.3</b>	Retail sale of pharmaceuticals and medical goods, cosmetics and toiletries
<b>52.4</b>	Other retail sale of new goods in specialised stores
<b>52.5</b>	Retail sale of second-hand goods in stores
<b>52.6</b>	Retail sale not in stores
<b>52.7</b>	Repair of personal and household goods

The total turnover of retail trade amounts to €2,038,052 million in the EU27. In terms of turnover, retail sale in non-specialised stores and other retail sale of new goods in specialised stores represent the biggest subsectors of the retail trade sector as a whole. The countries with the highest proportion of non-specialised stores are Slovenia (64%), Lithuania (57%), Estonia (55%) and Finland (55%). Spain (13%) and Greece (12%) are the countries with the highest proportion of food, beverages and tobacco sales in specialised stores. In sharp contrast, the country with the lowest proportion of food, beverages and tobacco sales in specialised stores is Lithuania (1%).

Table 8: Turnover in retail trade, by subsector (based on NACE classification), EU27, 2004

	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods (NACE 52) Total (€ million)	Retail sale in non-specialised stores (NACE 52.1) % of total	Retail sale of food, beverages and tobacco in specialised stores (NACE 52.2) % of total	Retail sale of pharmaceuticals, medical goods and cosmetics (NACE 52.3) % of total	Other retail sale of new goods in specialised stores (NACE 52.4) % of total	Retail sale of second-hand goods in stores (NACE 52.5) % of total	Retail sale not in stores (NACE 52.6) % of total	Repair of personal and household goods (NACE 52.7) % of total
<b>EU25</b>	2,038,052.2	-	6%	9%	-	0%	5%	1%
<b>AT</b>	43,582	33%	8%	10%	45%	0%	4%	0%
<b>BE</b>	60,535.6	40%	7%	9%	40%	0%	2%	0%
<b>BG</b>	3,616.7	32%	7%	10%	48%	0%	3%	1%
<b>CY</b>	3,632.7	39%	7%	3%	47%	0%	3%	1%
<b>CZ</b>	21,442.2	49%	5%	8%	34%	0%	3%	1%
<b>DE</b>	348,145.5	41%	4%	13%	34%	0%	8%	1%
<b>DK</b>	32,182.3	52%	3%	6%	37%	0%	1%	1%
<b>EE</b>	2,637	55%	2%	6%	33%	0%	3%	0%
<b>EL</b>	23,051.7	46%	6%	7%	37%	0%	3%	0%
<b>ES</b>	42,111.6	27%	12%	6%	45%	0%	8%	3%
<b>FI</b>	183,464	37%	13%	9%	38%	0%	3%	1%
<b>FR</b>	27,200.6	55%	5%	7%	30%	0%	2%	1%
<b>HU</b>	358,324.8	51%	4%	10%	30%	1%	4%	0%
<b>IE</b>	18,638.9	47%	4%	11%	33%	1%	3%	1%
<b>IT</b>	244,035.1	36%	7%	11%	41%	0%	4%	1%
<b>LT</b>	3,953.9	57%	1%	10%	29%	1%	2%	0%
<b>LU</b>	-	-	-	-	-	-	-	-
<b>LV</b>	3,062.2	49%	2%	7%	35%	0%	6%	0%
<b>MT</b>	-	-	-	-	-	-	-	-
<b>NL</b>	77,977.5	:	6%	10%	:	1%	5%	1%
<b>PL</b>	49,733.1	43%	9%	10%	32%	0%	6%	0%
<b>PT</b>	33,936.9	37%	8%	9%	43%	0%	2%	0%
<b>RO</b>	10,671.8	49%	6%	8%	32%	0%	4%	0%
<b>SE</b>	48,720.1	39%	7%	8%	41%	0%	4%	1%
<b>SI</b>	5,379.9	64%	3%	2%	27%	0%	3%	1%
<b>SK</b>	5,039.7	49%	4%	6%	37%	0%	3%	0%
<b>UK</b>	382,562.3	47%	5%	4%	38%	1%	4%	1%

Source: Eurostat, Distributive trade data (authors' calculations)

In 2004, almost 17 million people were employed in the retail trade sector in the EU27, of whom 36% were employed in non-specialised stores, 9% in retail sale of food, beverages and tobacco in specialised stores and 41% in other retail sale of new goods in specialised stores.

Similar to the turnover, the distribution of employment varies between the countries, but not to the same degree as the variation in the turnover. The countries with the highest proportion of persons employed in retail sale in non-specialised

stores are Slovenia (60%), Slovakia (58%) and Lithuania (53%), while the countries with the lowest proportion are Greece (21%), Italy (25%), Spain (26%) and Portugal (26%).

Table 9: *Employment in retail trade, by subsectors, EU27, 2004*

	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods (NACE 52) Total	Retail sale in non-specialised stores (NACE 52.1) % of total	Retail sale of food, beverages and tobacco in specialised stores (NACE 52.2) % of total	Retail sale of pharmaceuticals, medical goods and cosmetics (NACE 52.3) % of total	Other retail sale of new goods in specialised stores (NACE 52.4) % of total	Retail sale of second-hand goods in stores (NACE 52.5) % of total	Retail sale not in stores (NACE 52.6) % of total	Repair of personal and household goods (NACE 52.7) % of total
<b>EU27</b>	16,970,000	36%	9%	7%	41%	1%	6%	2%
<b>EU25</b>	16,279,100	35%	9%	7%	42%	1%	6%	2%
<b>AT</b>	319,604	28%	8%	10%	50%	1%	3%	1%
<b>BE</b>	291,998	31%	11%	8%	45%	1%	3%	1%
<b>BG</b>	251,305	38%	8%	7%	35%	1%	8%	2%
<b>CY</b>	29,181	27%	6%	2%	58%	0%	4%	3%
<b>CZ</b>	377,245	44%	6%	7%	36%	2%	3%	2%
<b>DE</b>	2,590,069	33%	6%	12%	41%	0%	5%	1%
<b>DK</b>	202,569	45%	6%	4%	42%	0%	1%	1%
<b>EE</b>	41,809	49%	3%	5%	37%	1%	4%	1%
<b>EL</b>	478,987	21%	14%	6%	47%	0%	9%	3%
<b>ES</b>	1,697,741	26%	16%	6%	46%	0%	5%	2%
<b>FI</b>	131,497	52%	3%	7%	35%	1%	1%	1%
<b>FR</b>	1,736,175	37%	6%	10%	40%	1%	5%	2%
<b>HU</b>	341,161	40%	6%	6%	35%	2%	8%	4%
<b>IE</b>	162,415	45%	7%	6%	39%	1%	1%	1%
<b>IT</b>	1,780,197	25%	12%	7%	46%	0%	9%	2%
<b>LT</b>	112,544	53%	1%	8%	29%	3%	5%	1%
<b>LU</b>	-	-	-	-	-	-	-	-
<b>LV</b>	99,231	44%	2%	6%	31%	2%	14%	2%
<b>MT</b>	-	-	-	-	-	-	-	-
<b>NL</b>	707,176	33%	8%	7%	44%	1%	5%	1%
<b>PL</b>	1,197,077	40%	9%	6%	29%	1%	12%	2%
<b>PT</b>	391,964	26%	11%	5%	54%	0%	3%	2%
<b>RO</b>	439,563	56%	7%	6%	24%	1%	4%	2%
<b>SE</b>	265,226	34%	6%	5%	49%	0%	3%	2%
<b>SI</b>	48,246	60%	3%	2%	29%	0%	3%	2%
<b>SK</b>	70,584	58%	4%	5%	29%	0%	3%	0%
<b>UK</b>	3,176,110	43%	7%	4%	41%	1%	3%	1%

Source: Eurostat, *Distributive trade data (own calculations)*

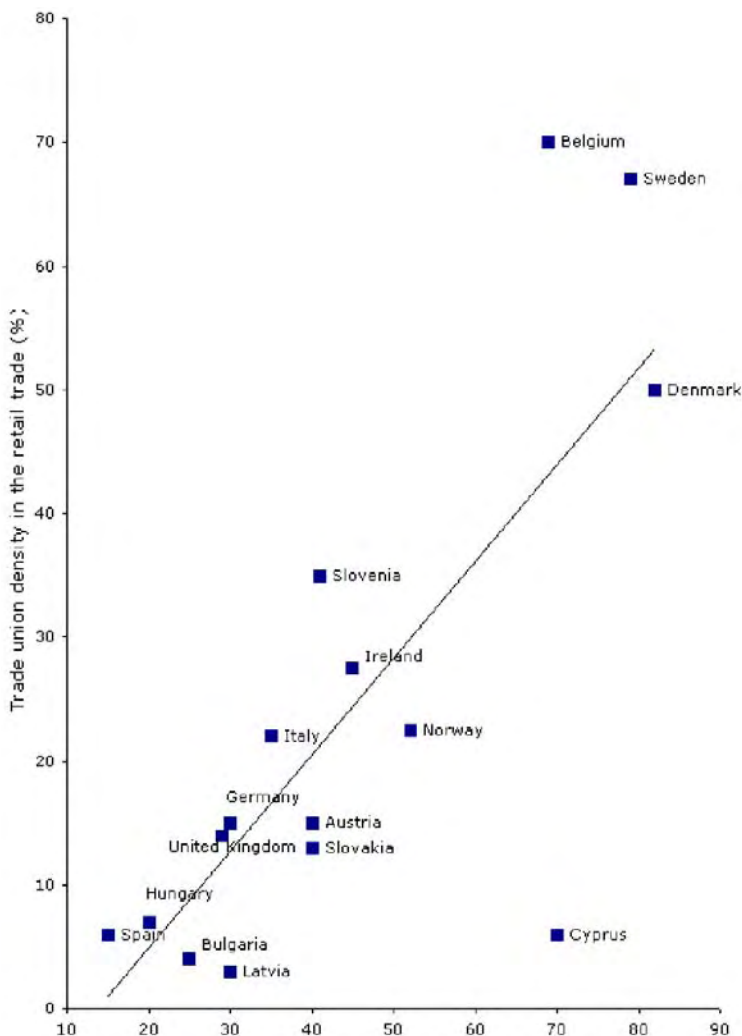
#### Trade union density

The retail sector is characterised by a relatively low trade union density, which is measured in terms of trade union membership as a percentage of all employment. Almost all the countries where data is available show a significantly

lower trade union density in the retail sector when compared with the economy as a whole. Only in Belgium, is the level of trade union density similar to that found in other sectors of the economy. When comparing the trade union density in the retail sector with other sectors, it is evident that a close relationship exists between the union density in a country as a whole and the density in the retail sector. In this instance, only Cyprus is a clear exception, with a high general rate of trade union density but a very low union density in retail.

The level of trade union density in the retail sector varies greatly among the European countries. Figure 5 illustrates this variation between the 14 European countries where data is available. Countries like Belgium and Sweden have a very high trade union density rate of more than 60% in the retail sector. In contrast, countries like Cyprus, Hungary, Latvia and Spain show a very low trade union density in retail with rates below 10%.

Figure 5: Trade union density rates in retail sector and entire economy



Notes: Data on the entire economy extracted from the EIRO study on **Industrial relations in the EU Member States and candidate countries**<sup>1</sup> with the following exceptions: Bulgaria (Trade union membership 1993–2003) and Norway (Industrial relations in the automotive sector). The EIRO national centres gathered the data on the retail sector for this study; where no official or research data were available, they provided their own estimates.

Source: Caprile, EIRO, July 2004

<sup>1</sup> <http://eurofound.europa.eu/eiro/2004/07/study/tn0407101s.html>

<sup>2</sup> <http://www.eurofound.europa.eu/eiro/2003/12/study/tn0312101s.html>



### Research and development investments

Although the commerce sector is relatively large in Europe, most of the countries show a fairly limited investment, ranging between 0% and 3%, in the field of research and development.

Table 10: *Research and development investment in retail and manufacturing sectors, EU27, 2003 and 2004*

	Total: All NACE branches (€ millions)		Commerce sector (NACE G) % of total		Manufacturing (NACE D) % of total	
	2003	2004	2003	2004	2003	2004
AT	-	3,556,479	-	2%	-	72%
BE	3,607,892	3,714,255	1%	-	79%	-
BG	17,721	-	-	2%	48%	-
CY	8.8	9,955	0%	0%	40%	35%
CZ	617,595	700,647	3%	2%	0%	61%
DE	38,029	38,611	0%	-	91%	91%
DK	-	3,331,819	-	1%	-	65%
EE	22,657	32,224	0%	0%	42%	40%
EL	313,49	-	1%	-	64%	-
ES	4,443,438	-	2%	-	0%	-
FI	3,527,926	3,683,468	0%	0%	0%	80%
FR	21,646,182	-	-	-	85%	-
HU	254,576	296,596	0%	9%	77%	80%
IE	1,075.6	1,150	0%	0%	62%	61%
IT	6,979	7,293	3%	3%	-	-
LT	23,228	29,338	0%	0%	59%	77%
LU	379.4	393	3%	-	47%	-
LV	12,952	20,782	0%	0%	29%	44%
MT	3.52	19,393	-	-	-	-
NL	4,804	5,039	4%	4%	78%	77%
PL	284,049	326,655	-	3%	68%	64%
PT	338,038	384.23	5%	-	45%	-
RO	118,072	130,092	0%	0%	0%	62%
SE	7,885,952	-	0%	-	80%	-
SI	209,375	254,141	0%	0%	85%	81%
SK	-	85,603	-	-	-	38%
UK	19,778,425	-	-	-	-	-

Source: Eurostat, Research and development data (authors' calculations)

### Trade

Deloitte Stores has reported on the 250 largest retailers in the world, which geographically are spread over 27 countries. Table 11 shows the ranking of the top 10 retailers in the world. US-based retailers dominate the world's ranking with 36% of the top 250 retailers and 44.3% of the sales volume. The main European players, France, Germany and the UK,

also account for a significant number of retailers with respectively 4.8%, 7.2% and 9.6% of the top 250 retailers in the world and 9.9%, 11.4% and 8.6% of the total sales volume in the top 250 retailers worldwide.

Table 11: *Top 10 retailers in the world, by 2004 sales*

World ranking	Country of origin	Name of company	Type of shops	2004 retail sales (US\$ million)
1	US	Wal-Mart Stores Inc.	Cash and Carry, Warehouse Club; Discount Department Store; Hypermarket, Supercentre, Superstore, Supermarket	285,222
2	France	Carrefour S.A.	Cash and Carry, Warehouse Club; Convenience or forecourt Store; Discount store; Hypermarket, Supercentre, Superstore, Supermarket	89,568
3	US	The Home Depot Inc.	Home improvement	73,094
4	Germany	Metro AG	Cash and Carry, Warehouse Club; Department store; Electronics specialty; Home improvement; Hypermarket, Supercentre, Superstore; Other specialty; Supermarket	69,781
5	UK	Tesco plc	Convenience or forecourt store; Hypermarket, Supercentre, Superstore, Supermarket	62,505
6	US	Kroger	Convenience or forecourt store; Hypermarket, Supercentre, Superstore, Supermarket	56,434
7	US	Costco Wholesale Corp.	Cash and Carry, Warehouse Club	47,146
8	US	Target Corp.	Discount Department Store; Hypermarket, Supercentre, Superstore	45,682
9	Netherlands	Koninklijke Ahold N.V.	Cash and Carry, Warehouse Club; Convenience or forecourt store, Discount store; Drug store, Pharmacy; Hypermarket, Supercentre, Superstore; Other specialty, Supermarket	44,793
10	Germany	Aldi GmbH and Co oHG	Discount store, Supermarket	42,906

Source: *Deloitte, January 2006*

Table 12 highlights the 10 biggest retailers in Europe, which rank between the 2nd largest retailer in the world and the 21st largest. The predominant operational types of shops in both the world and Europe are food and grocery related, but consumer electronics, home improvement products and services, and home furnishings are also markedly evident in the top 250.

Table 12: Top 10 retailers in Europe, by 2004 sales

World ranking	Country of origin	Name of company	Type of shops	2004 retail sales (US\$ million)
2	France	Carrefour S.A.	Cash and Carry, Warehouse Club; Convenience or forecourt store; Discount store; Hypermarket, Supercentre, Superstore, Supermarket	89,568
4	Germany	Metro AG	Cash and Carry, Warehouse Club; Department Store; Electronics specialty; Home improvement; Hypermarket, Supercentre, Superstore; Other specialty; Supermarket	69,781
5	UK	Tesco plc	Convenience or forecourt store; Hypermarket, Supercentre, Superstore, Supermarket	62,505
9	Netherlands	Koninklijke Ahold N.V	Cash and Carry, Warehouse Club; Convenience or forecourt store; Discount store; Drug store, Pharmacy; Hypermarket, Supercentre, Superstore; Other specialty; Supermarket	44,793
10	Germany	Aldi GmbH & Co oHG	Discount store; Supermarket	42,906
11	Germany	Schwarz Unternehmens Treuhand KG	Discount store; Hypermarket, Supercentre, Superstore	42,793
12	Germany	Rewe-Zentral AG	Apparel and footwear specialty; Cash and Carry, Warehouse Club; Convenience or forecourt store; Discount store; Home improvement; Other specialty; Supermarket	42,782
13	France	ITM Développement International (aka Intermarché)	Apparel and footwear specialty; Convenience or forecourt store; Discount store; Home improvement; Other specialty; Supermarket	41,721
16	France	Groupe Auchan S.A	Convenience or forecourt store; Hypermarket, Supercentre, Superstore, Supermarket	37,373
21	France	Centres Distributeurs E. Leclerc	Convenience or forecourt store; Hypermarket, Supercentre, Superstore, Supermarket	34,828

Source: Deloitte Stores, January 2006

Focusing on external trade, the top 250 retailers at this time were doing business in 118 different countries. According to Deloitte Stores, ‘although international sales are becoming increasingly important to many large retailers’ growth strategies, foreign operations still generate a relatively small share of overall sales and profits for most of these companies’ (Deloitte Stores, 2006, p. 13). Deloitte’s analysis of the 250 global retailers shows that 104 of the top 250 retailers do not have any international operations.

## Trends and drivers of change

Since the early 1990s a substantial restructuring of the commerce sector has taken place in Europe. The restructuring involves not only changes in horizontal competitive relationships among retailers, but also new forms of relationships between suppliers, wholesalers and retailers and an expansion of the activities of western European operators into central Europe.

The restructuring has occurred alongside substantial changes in strategies, relationships and operations.

In the years following World War II, the priority of the commerce sector in western Europe was the reconstruction of both the organisational and physical infrastructure of commerce and distributive trades. At that time, the American influence was strong concerning managerial developments, such as the introduction of self-service in the food sector,

and a number of American companies entered the European market. Consumers were seeking more products and better choice after several years of scarcity and the retailers provided additional floor space to meet these needs.

With the development of the 'common market' in western Europe, the retail markets across Europe started to consolidate and a substantial growth of different types of operators occurred. Marketing became accepted as a key activity for actors in commerce with different types of retailing being designed to satisfy different consumer needs. Retailers explored new types of shops – for example grocery stores, drugstores and mass merchandisers. The large self-service single-level superstore format, often located out-of-town, was developed through the 1970s and early 1980s in several sectors, notably the hypermarket for general merchandise and superstores for food, furniture and electrical goods. During this phase, consumers wanted variety and better quality rather than just simply more products.

At present, restructuring of the commerce sector involves new roles and functions. The convergence of information and communication technologies (ICT), as well as the application of new materials and new technologies such as radio frequency identification (RFID) across the value chain has enabled commerce to take a more forceful role within the economy. Increased consolidation and economies of scale of organisations combined with global sourcing and the international operation of wholesaling and chains of stores are leading to operators like Ikea, Carrefour, Tesco, Sainsbury's and Metro, which are becoming the largest companies in Europe.

Consumers nowadays are offered a large variety of products; at the same time, consumer needs and behaviours are changing.

The leading companies in the commerce sector have established a distinctive role for the distributive trades in Europe. It is clearly an international business model and not a domestic one. The opening of central Europe to investment from west European operators has become a driver for an international approach. Moreover, the European model is structured around an integrated demand chain and not a supply chain. And, it has market innovation, not copying, at its core (Dawson, 2005, p. 44).

In his analysis, Dawson (2005) outlines the following key changes that can be observed in the market.

- Large companies are growing faster than the sector as a whole. Despite a low growth rate in the European economies in recent years, large companies have been able to increase their output through entering new markets, diversifying their offer, acquisition and like-for-like sales growth.
- A more strategic approach to managerial decision making: a general business strategy is made operational through functional strategies in terms of marketing, merchandising, buying, branding, logistics, employees and finance.
- Increased complexity of organisational structures: with the new role of operators and increased company sizes, organisational structures have become more complex – for example, retailers have had to develop a structure of 'country vice-presidents' and in several cases an international board of directors. International sourcing centres have to be accommodated in distributive trade organisations. The outsourcing of many previously in-sourced functions has also changed organisations, evident in the outsourcing of ICT and logistics.
- Moves towards retailer coordinated value chains: the nature of the value chain within successful retailers has changed substantially. Retailers have become increasingly involved in coordinating the relationships between retailers and their suppliers and, as costs are taken out of the distribution chain, value generation has been redistributed – for instance, as in the trade that exists between retailers and their suppliers where the latter actually finance the inventory of the former. By providing a greater number of credit days than the inventory turnaround of the retailer, the retailer operates with negative working capital.

It is therefore interesting to look at the reasons why the commerce sector is changing. Within Europe, the local cultures of consumers and of consumption are subject to considerable social, economical, political and technological changes. The strategies of the actors in distributive trades are executed through the different trade models adopted by these actors.

In terms of consumer culture, the steady increases in consumer wealth in central Europe after the initial periods of high inflation have meant that from the mid 1990s consumers have expected a more extensive range of price–quality combinations in retailing. In many cases, the retailers of the 1990s have created the nature of consumer cultures in the central European countries. In western Europe, a fragmentation of demand is evident as ever-smaller segments of consumers have specific patterns of demand. At the same time, however, a certain standardisation emerges – a ‘Europeanisation’ of some aspects of consumer demand – with the wider and faster availability of information through internet communication, cultural exchange and tourism. For example, Europe just like North America is experiencing a rapid diffusion of fashion which generates European-wide patterns of demand.

With regard to business strategy, retail culture changes because there is a move away from the traditional strategies of either low-cost or high-service schemes. Retailers have approached strategy by having a wider perspective that considers cooperation and competition both in a vertical dimension through the distribution channel and horizontally with other retailers and service providers. This new approach places a greater emphasis on innovation and the generation of knowledge as an input into the development of strategy. Companies in retail thus reject the idea of a ‘generic’ business strategy and seek strategies that are appropriate to their own knowledge base and are flexible enough to accommodate the localisation and standardisation dilemma.

The increased focus on branding and private labels is a good example of this strategy, with retailers using their knowledge base to develop and promote their own labels.

Retailers are also introducing a wider perspective on productivity. This has been extended to include the ‘productivity’ of customers, suppliers, in-store services such as bakeries and coffee shops, promotions and brands. All of these are now taken into consideration and attempts are being made to develop a more integrated view of the productivity of the company.

Retailer or wholesale operators are increasingly evaluating the functions they undertake in the value chain. They seek to identify those functions that generate most in terms of value added in respect of specific knowledge owned by them. Those functions adding most value will be insourced; for instance, merchandising is a key function kept within retailers. Where the value added has a lower impact in relation to the operator’s knowledge, such functions are often outsourced to specialists groups, such as logistics activities.

Wholesale and particularly retailer operators are also developing different key relationships to optimise the value chain and seek innovation. According to Dawson (2005, p.49–55), examples of such types of relationship building include:

- customer loyalty and reward systems;
- supplier links through global sourcing arrangements;
- cooperative brand development with suppliers;
- team-based performance-related pay for workers, often associated with a distinction between knowledge workers and sales workers in the company;
- joint initiatives with government to increase productivity in retailing.

Innovation has been critical to the success of companies in commerce. For example, retailers have moved from traditional forms of innovation to undertake ‘experience’ innovation. Experience innovation means not to improve a product or service, but to enable the creation of an environment in which personalised experiences are the goal, and products and services become a means to that end. Profitable company growth will then result from individual consumers attributing their own unique value to the products and services. This has implications in terms of knowledge, suppliers, customer experience and market concentration.

- Knowledge – the organisational structure, practices and culture of the retail company, which facilitate the harnessing of the company’s knowledge, draw on the knowledge that exists within the company. As a consequence, different companies will have different impacts on the societies into which they move, and when non-European retailers enter Europe they transfer certain knowledge to Europe.
- Suppliers – as the major retailers increase their sourcing from outside Europe, local European-based suppliers will have to change the service package they offer if they are to remain competitive suppliers.
- Customer experience – retailers will explore the ideas of ‘experience space’ and ‘experience innovation’. The view of customers as being agents for transactions and exploitation will not be appropriate for the retailers of the future. Retailers are likely to involve consumers much more in the shopping ‘experience’, which is already evident in the ‘future’ store of Germany’s largest retailer Metro.
- Market concentration – in all subsectors, it is likely that an increased market concentration at national, regional and local levels will be seen. The economies of scale of large operators in commerce, particularly when it comes to global sourcing, will drive prices down.

### Changes in productivity

For decades, retail and wholesale trade productivity in Europe has lagged behind the US. The gaps in productivity performance between the US and Europe relate to three distinct factors.

In Europe, regulation is more stringent in terms of location and size of retail units, opening hours; in many cases, regulation also protects smaller outlets in the centre of towns which leads to a larger share of smaller retailers in European countries (see France–US comparison in McKinsey, October 2002).

The scale of operation in US-based retail and wholesale operators is, on average, greater than the scale of operation in the EU. Stores are smaller in Europe mainly because they are on more expensive real estate concentrated in inner cities. Furthermore, the Wal-Mart factor of large-scale retail and procurement plays a role when it comes to the scale of operations.

In terms of lean-retailing technological innovation, European operators have been slower to take up new retailing methods and strategies than their US counterparts.

Although there is evidence of a greater concentration of wholesale and retail operators, alongside an increased introduction of new technologies, real improvements to productivity in Europe will require a rethink of regulations.

### Economic developments

The economic development and its impact on the commerce sector are related to a number of factors.

- Oil prices: although oil prices have significantly increased in the past few years, in Europe the rise in oil prices has not had that much of an impact on retail and wholesale growth. This is largely due to the fact that for most people and businesses in Europe, apart from the transport sector, oil represents but a small part of the overall expenditure.
- Increases in interest rates: there have been increases in interest rates aimed at limiting inflation, but so far this has only had a minor effect on consumer spending. If interest rates continue to rise, however, it is expected that this will limit growth in the retail sector.
- US dollar: the fall in the value of the US dollar has meant that oil purchases have been less expensive in local currencies in Europe. The low dollar is forcing European wholesale companies operating internationally to seek alternative export markets other than the US.
- Growth of the Indian, Chinese and other Asian economies: this has had a major impact on the sourcing and purchasing of products by European retailers and wholesalers. Companies are gaining access to low cost products such as textiles, furniture, toys, cars and consumer electronics, while this situation is also creating challenges in terms of increased complexity and ethical and quality issues.
- Slow economic growth in EU: until 2006, growth had been slow in the larger European economies, most notably in France and Germany. However, some signs of increased growth recently emerged in Germany. Whether growth will continue in these countries will depend on future labour-market reforms. Many of the largest operators in the commerce sector are based in France and Germany, and therefore the economic development in these countries will influence the growth capacity of companies such as Aldi, Carrefour and Metro.
- Growth of the economies in eastern and central European countries: economic growth in east and central European countries, led by Russia, is a significant driver when it comes to the expansion of western European retailers and wholesalers. The largest groups of retailers and wholesalers have acquired significant shares of retail operations in the new Member States and in Russia, even if the legalities and the protection of property rights remain uncertain in Russia. In the central European countries, an increase in the number of consumers with purchasing power is expected.

### Political developments

#### *Eurozone*

The euro was first introduced in January 2002 and the euro banknotes and coins have now become an accepted part of life for the citizens of the 12 Member States which were the first to introduce the euro. The euro is also used outside the eurozone, notably in neighbouring countries and regions, as well as in tourist destinations all over the world; it has established itself as a major international currency (European Economy news, 2007)

A WHU-INSEAD shopper research study examined the impact of the euro four months after its introduction (Huchzermeier and Van der Heyden, 2002). It showed that over 67 % of consumers believe retail prices had increased, with 63% claiming that they had become more price sensitive. In addition, 40% of consumers said they bought more products on promotion, 33% shopped around more than before and 24% bought more store-own label products, which tend to be less expensive than other brands.

Customers in the eurozone are becoming smarter about the choice of different type of stores as well as of the value offered by store-label goods compared with branded goods (Huchzermeier and Iyer, 2006, p. 331).

### *EU enlargement*

Large parts of central and eastern Europe are already dominated by cash-rich retail groups from western Europe, and Wal-Mart. Many of the acquisitions had taken place before EU enlargement, but this has been an ongoing trend. Only a few exceptions exist to the dominance of western European players; for example, in countries like Hungary and Poland, a small number of modernised retail players have retained a sizeable share of the market.

Some of the western European retail players are still making losses in the central European countries, and this could continue for some time. Poland, which accounts for half of the population of the new Member States, was a prime target for western European companies following EU enlargement in May 2004. However, several players that set up businesses in Poland pulled out not long after, unable to cope with the start-up costs, while other western European players have taken over and are continuing to increase their market shares.

Retailers have been faced with substantial costs as they expand eastwards. The low standard of living in these countries has meant that it has taken companies a lot longer to recoup investments than was originally planned. For those companies which can sustain the initial losses, the opportunities in the long term will be substantial. Incomes are increasing substantially in the major cities of central European countries, and this is also where the main retail outlets are concentrated. As a result, food prices are now not that much lower in some eastern European cities than in western European cities.

In the eastern European countries, large-size shop formats, such as cash and carries, hypermarkets and superstores, dominate; this is mainly due to the fact that retailers focus on major urban centres. However, a significant lobby for small stores has meant that this is likely to change in the future. Poland, for instance, adopted laws which make it much more difficult to open hypermarkets. Legislation stipulates that stores of more than 2,000 square metres in cities with a population of over 20,000 people must get official authorisation from local planners. Such permission is rarely granted.

As a result, supermarkets and discount stores are becoming increasingly popular and are expected to play a much more important role in the retail market in the central European countries over the coming years. Poland, with its low population density, is likely to lead the way in this regard. Retailers are looking for smaller cities in more rural areas where supermarkets and discounters will most likely be the preferred format of choice. Such a development is the beginning of a major reduction in the number of the traditional, independent food shops which still have a dominant share of the market in rural areas of Poland.

### **Research and development**

Research and development (R&D) expenditure in the commerce sector is lower than in most other sectors, and the level of expenditure is not likely to change much in the future. Those seen to invest most in R&D are mainly the larger operators in the market. R&D expenditure is mainly focused on researching consumer trends and on developing new services to address emerging needs. In addition, some of the larger actors are participating in R&D activities in relation to new technological developments such as RFID and new automated check-out systems. In April 2003, the German Metro Group opened its first 'future' store<sup>3</sup> in Rheinberg near Duisburg in North Rhine-Westphalia where consumers are able to experience the shopping of tomorrow. At this store, Metro's cooperating information technology (IT) partner, as well as other business partners, test new technologies for warehouse management and the sales floor under real conditions. The goal of R&D activities in real conditions is to reduce costs and provide services tailored to the customer needs.

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<sup>3</sup> See <http://www.future-store.org>.



Also in 2005, the large French distribution group Carrefour experimented with self check-out counters at three stores in France as well as in stores in Belgium and Italy. The testing continued in 2006 and developments will continue in the future.

Much of retailers' research is dedicated to analysing the shopping habits of the consumer. Internet retailing and the emergence of many different formats of retailing is likely to continue to influence consumers' shopping behaviour. It is anticipated that the 'hybrid customer' will play an ever more dominant role and many retail organisations with the capital to invest in research are dedicating resources to assess the impact of these trends on their business and to investigate possible new offerings (Ahlert, Blut and Evanschitzky, 2006, p. 307).

A growing consumer market segment due to the general ageing of the European population is that of so-called 'third age shoppers'. This market segment already represents significant purchasing power in many of the western European countries and is likely to grow significantly in numbers over the coming years. Substantial research interest exists in this field and more will be directed towards this market segment in the future. According to the British Council of Shopping Centres (BCSC, 2006), the following aspects will have to be understood to further development within the commerce sector.

- How will demand for specific brands and product categories, such as coffee shops, be affected by ageing consumers?
- What are the major influences of an ageing population on consumer behaviour in terms of lifestyles and aspirations? How are spending patterns likely to change?
- Will the current 'pensions' crisis' have a significant impact on consumers' retail spending potential? What is the potential impact of people working past the current retirement age?
- What access to and within city centres and shopping centres, location and car parking will be needed in future?
- How long and when do 'silver' consumers shop?
- What are the best ways to attract these consumers? For example, what kind of specialist events and promotions are needed? Or is there a need for special designs?
- How can changing consumer needs and expectations be accommodated within future shopping places? How will the ageing population affect the way shopping places should be marketed and promoted? Will they affect the location of shopping places?

In addition, growing research interest emerges in the following fields:

- retail business models and their implications for property, including analyses of cost structures, supply chain dynamics and potential growth trends;
- the future of brands and their importance in the retail and wholesale landscape, including brand trends, the disappearance of brands and post-materialist consumers;
- how much shopping space the national markets are able to absorb, looking at whether Europe is over or under-shopped in terms of square meters, and whether growth will take place in-town or out-of-town. The review of changing planning policies is another important research topic;

- transport modes and the possible scenario of using at least two modes of transport in every trip in 10–20 years' time (based on current trends such as road pricing, car parking, congestion charging, increased car ownership, changes in transport policy, road building and intermodal transport). Specifically, it is of interest as to how all of this will affect commerce trade;
- the role of architecture and design in the type of future shopping places and the cost implications of changing shop formats, as well as the incorporation of technology and building for sustainability.

## Technological change and innovation

### *Computerisation and the advent of the internet*

The advent of new possibilities driven by computerisation in the late 1970s led to the introduction of IT-supported working practices in the commerce sector. Led by the capital-rich players in the sector, commerce companies began digitalising processes for controlling, distribution, payroll and accounting, as well as the management of goods in the early 1980s. Furthermore, significant investments in IT enabled the implementation of electronic data exchange (EDI), scanning and barcoding. These were introduced in an effort to lower running costs and increase accuracy levels (Merkel et al, 2006, p. 213).

The new millennium and the virtual market place of the internet led to the establishment of new actors in the commerce sector. Many of these new players were dependent on a very optimistic investment strategy of risk capital investors and, when the bubble burst in 2000–2001, the majority of these players did not survive due to a lack of revenue. Although the internet continues to provide opportunities for entrepreneurs, in the commerce sector it is primarily used by traditional operators as a tool, complementing their store and catalogue offerings, for growing revenues and providing greater value to their customers. For the majority of actors in the commerce sector, the internet represents a facilitating rather than a transformational technology (Weitz, 2006, p. 209).

Still, the internet has led to many new actors in the commerce sector. The emergence of new actors is particularly visible in the areas of consumer electronics, computer products, books, clothes, accessories and high value foods. The most well-known example is Amazon.

Retailers without stores do well as either 'efficiency machines' or 'niche leaders'. The first approach is best for sellers of relatively low-margin products like CDs, books or computers, because the internet offers the global reach that these companies require for achieving economy of scale. Efficiency machines – such as Amazon and Dell – invest heavily in brand marketing, innovative websites, and highly efficient sourcing and fulfilment processes.

Niche leaders, such as L.L. Bean and Ross-Simons, and Skagen Food, sell higher-priced, higher-margin products like food, apparel or jewellery. They primarily sell their goods through catalogues and over the internet. Niche leaders build up a loyal customer base by offering quality goods and exceptional service, or both. The ability to acquire and retain customers is crucial.

Large scale, store-based retailers with low margins most often succeed as internet traffic drivers. These companies, such as Co-op and Tesco, use the internet to draw customers to their physical stores and to offer consumers a wider selection of goods and greater convenience.

'Triple-play' retailers, use stores, catalogues and the internet to maximise their share of customer spending. They sell relatively high-margin products, for example home goods or apparel, while striving to tailor their sale's channels to complement one another fully. The challenge for triple play retailers is to understand how customers use each of these sale's channels (Grosso, C. et al, 2005).

### *Key technologies in supply chain management*

The German Metro Group runs its future store initiative as a tightly controlled experiment. The opening of the store has had a strong impact on the application of new technologies throughout the sector since Metro has shared the results with the industry and its suppliers, as well as with its IT and logistics providers.

RFID – a method of remote storage and retrieval of data using tags – will shape the evolution of the commerce sector and future business models. An RFID tag is a small object that can be placed on a product or packaging. RFID tags allow a product to be tracked individually as it moves from one location to another up to the point where it is in the consumer's hand. RFID may help retailers and wholesalers to reduce logistics costs. It may also be used to replace cashiers with an automatic system that needs no barcode scanning. Due to its logistical significance, discounters may profit from this innovation (Ahlert et al, 2006).

One of Europe's largest shoe companies, the German-based Reno GmbH, recently announced that it was planning to embed wireless chips – that is, an RFID tag – in shoes sold at its stores across Europe. This RFID tag and shoe tagging system would allow Reno to curb theft. Up to now, the company has used RFID technology to track product shipments from its factories to its stores but tracking each pair of shoes is a first.

RFID offers enormous potential for efficiency gains in process management and warehousing. Estimates suggest that medium-sized distribution centres can save up to €500,000 a year from improved pallet management (Heng, 20 November 2006). At the retail end, greater efficiency will result in fewer items being out of stock and less theft. The market for RFID tags is likely to grow at a fast rate in the coming years. From 300,000 RFID tags sold in the EU15 in 2003, it is set to rise to 2.5 million tags in 2008, and given the power of retailers, they are in a position to force the suppliers to provide their products with RFID tags.

### **International competition and globalisation**

According to research by Deloitte on consumer business, globalisation among the world's biggest retailing companies seems to be accelerating following a slowdown at the beginning of the millennium. In 2004, the top 250 companies were doing business in a total of 118 countries, with an average of 5.5 countries per company.

European countries represent slightly over 40% of sales of the world's top 250 retailing companies and more than 35% of retailers. Some 18 of these companies are based in Germany, 24 in the UK and 12 in France while 34 of the biggest 250 companies are based in other European countries.

Although international sales are becoming increasingly important to many large retailing companies, retail outlets in foreign markets still represent a relatively small share of overall sales and profits for most of these companies. Of the 250 largest retail companies, 104 do not operate internationally at all. The Spanish retailer Inditex is the most international one of these retail companies, with stores in 56 countries worldwide, followed by the French retailer Carrefour with stores in 35 countries and the Swedish furniture retailer IKEA with stores in 33 countries. In other words, the most globally active retailers seem to be those based in relatively small markets with limited expansion opportunities. Nevertheless, it is worth noting that French and German retailers are also among the most internationally oriented companies. Weak consumer spending, intense competition, as well as a tough regulatory environment have forced European retailers to look beyond their domestic markets for growth. Big emerging markets like Russia, India and China are attracting large investments from those retail groups that have the greatest capital; however, restrictions and regulative hurdles, such as property ownership and infrastructure, are hampering growth strategies.

Overall, food retailers dominate the list of the 250 largest retailing companies in the world, while about half of the listed companies operate speciality-retailing concepts within home goods categories, such as consumer electronics, home furnishings, and home improvement products and services.

As already discussed, it is not just Russia, India and China that provide opportunities. New markets and new locations for commerce are also emerging within the EU and through the future expansion of the European Union.

In terms of international trade with regard to the sourcing of products, the retailers, wholesalers and their customers benefit from the free movement of goods across countries. In recent years, however, political support for free trade has evaporated in the world's major markets; for example, the World Trade Organisation (WTO) mandated the end of quotas in apparel and textiles trade which should have vastly benefited consumers. This move has been eclipsed by European and US demands that China restrain exports of these products, in order to protect a small number of workers in Europe and the US. In other product areas, similar developments have taken place which has led to the situation where retailers and wholesalers find it difficult to source the volume of products required to meet consumer demand. In the context of the political realities of trade liberalisation, European retailers will continue to create hubs of efficient sourcing in the large emerging markets of China, India and Brazil, as well as of the central European Member States. As a result, supply chains will become more complex and fragmented.

### Market developments

The retail sector has experienced a significant consolidation and concentration period lasting several decades. The concentration of the retail sector has led to the greater bargaining power of the retail operators in the market. In the UK, for example, about 450 companies employ two million out of the three million employees in the retail sector. By definition, these are the big players while the small and medium-sized retailers account for almost 200,000 companies, which employ the remaining 1 million employees. In other words, on average five employees work in a small and medium-sized retailer (SSDA, July 2004).

#### *Retail formats*

A retail format is comprised of stores that offer the same, or almost the same, variety of product categories. Retail formats that have emerged in recent years are the mass retailers and the supercentres, which include a mass merchandise store and supermarket under one roof. Warehouse clubs and the US dollar stores are collectively known as non-traditional retail formats. Shops with a longer history, such as grocery, drug, and department stores, are more traditional retail formats (Fox and Sethuraman, 2006, p. 193).

Ahlert et al (2006) classify stores into the following categories of retail formats:

- cash and carry stores, and warehouse clubs – these stores are usually based on cash payment of goods at the checkout, which differentiates these stores from a wholesale supplier; an example is the German retailer Metro;
- convenience and forecourt stores – these types of stores are often tied to petrol stations and rely heavily on customers who have forgotten to buy essentials during their regular weekly shopping;
- discount stores – these stores are an efficient background system offering a limited range of assortment; they operate at a high turnover speed and are often run in less than 1,000 square metres. Hard discounters often sell own brands exclusively, while soft discounters offer a mix of manufacturers' and own brands in their assortment; examples are 7Eleven and Lidl.

- hypermarket and superstore operators – hypermarkets occupy a retail surface greater than 5,000 square metres while superstores have a surface of between 2,500 and 5,000 square metres;
- supermarket and neighbourhood store operators – supermarkets generally occupy a retail surface of between 400 and 2,500 square metres while neighbourhood stores are small food stores with less than 400 square metres.

In terms of new retail formats, the authors claim that their emergence can be explained by the following three factors:

1. changing demand patterns of consumers may lead to different formats; for example, value-oriented and price-oriented consumers, as well as convenience consumers, cause the retail industry to consider new store formats;
2. retailers may decide to develop a certain format that best fits their business' strengths;
3. the changing role of the manufacturing industry, where excess product supply can force prices down, which in turn may lead retailers to purchase opportunistically.

With regard to retail competition, Fox and Sethuraman (2006) determine four key dimensions, namely:

- price – prices of items within and across categories may vary from week to week as a result of promotions; different store types price their goods at various levels or offer frequent promotional discounts while some store types maintain low prices all the time.
- variety – the range or number of goods' categories typically carried by the outlet;
- assortment – depth or number of items within a category;
- store location – how the store location affects the cost of shopping for the consumers.

A trend emerges towards increased price competition between different retail formats and sometimes even within the same retail group, mainly in terms of groceries. This trend is further strengthened as mass retailers will keep prices low and enjoy a widening price advantage, while small-store formats are also becoming more cost efficient and are offering lower prices.

A large proportion of a retailer's revenue comes from selling national brands. Since most of any retailer's competitors also sell the same brands, finding a way of differentiating itself from the competition is particularly challenging. One possible response to this challenge is the introduction of own brands. Another answer could be retail brand equity, which means that the retailer's own brand is accepted as one to which consumers respond more favourably than to those offered by competing retailers.

The rise of retailer-specific brands is one of the most important trends in retailing. Several issues are important to consider for both retailers and suppliers, who rely on retailers to sell their own branded merchandise; these include understanding the image of the retailer as a brand and how brands affect the image of a retailer, which ultimately impacts on customer loyalty and profitability. Therefore, it can be anticipated that the market share for retailers' brands will increase, and larger retailers will position themselves even stronger as retail brands in the market in the future (Ahlert et al, 2006).

## Consumer trends

To remain competitive in the market, retailers need to research and be aware of consumer sensitivities in a number of key areas:

- environmental concerns – organic food, garden products, such as timber from sustainable sources and not from endangered rain forest trees, and recyclable items. Although there is evidence of shorter product lifecycles in many product areas like consumer electronics, second-hand markets appear to be flourishing in mobile telephones, furniture, as well as books and clothes;
- ethical and fair trade issues – awareness of the use of child labour and dangerous working conditions, for example in the production of fireworks, clothes and footwear;
- health issues and healthy living – irradiated and genetic modification of foods and use of dangerous chemicals, such as the use of phthalates in plastics and cosmetics. This requires stringent new testing, labelling and quality control practices;
- dietary concerns – allergies, suitability for vegetarians and compatibility with particular diets;
- animal welfare – free range products and cosmetics not tested on animals;
- pricing – with the euro, price comparisons have become easier; this also includes many of the countries that have not yet introduced the euro, but where stores now accept the currency, such as the UK. This development particularly affects car retailers, as prices in different countries are available on the internet and are sometimes used as a bargaining tool by the consumers.

Shopping behaviour has become more complex as the consumer markets break up into ever smaller and more diverse groups. Changing lifestyles are altering the consumers' shopping habits in relation to food, clothes and other consumer goods. More health conscious consumers want to know that the products they are consuming or using are safe, and free from harmful chemicals and allergens. The trend towards healthier and more convenient products, such as heat-and-eat and grab-and-go food, means that products are also becoming more complex to manage.

Shopping convenience has several aspects, from spatial convenience to transactional convenience to one-stop-shopping convenience. One-stop shopping allows consumers to save time by buying everything they need from a single store. A survey conducted by Information Resources in 2002 found that 54% of consumers preferred one-stop shopping (Fox and Sethuraman, 2006, p. 199). Due to time preferences or geographical location, some consumers order all of their weekly shopping on-line and have it delivered directly to their doorstep. Research shows that, on average at any given time, consumers have completely run out of almost 10% of the products they normally purchase (McGoldrick and Barton, March 2007). It is estimated that fast-moving consumer goods manufacturers in the UK alone are losing approximately €7.5 billion a year owing to the poor job consumers are doing in keeping their stocks replenished. Metro has addressed this problem by providing personal shopping assistants (PSAs) in its 'future store' in Rheinberg. These small laptops clip on to the shopping trolley. Once the consumer swipes their loyalty card, they are greeted by name and are offered personalised shopping lists and promotions that complement their up-to-date transaction profile.

## Regulatory framework

Europe compared with the US has a higher unemployment rate, standing at 7.3% and 4.4% in March 2007, respectively, and for many researchers this is mainly due to strict regulations and rules. For instance, planning regulations lead to smaller and less productive stores, and regulations make the hiring and firing of workers difficult and costly to commerce companies. European commerce employers are therefore eager to find other ways of increasing output without having to employ more people. As a result, France for example has a very high level of labour productivity, but also a high level

of unemployment. Countries like Germany and France are still struggling with the slow economic growth that comes from maintaining a status quo, and with the deregulation required to generate stronger growth.

The clear link between regulation and competitiveness has been highlighted in numerous independent studies. The European Commission's **Better Regulation programme**<sup>4</sup> as part of its Lisbon strategy for growth and jobs explicitly recognises this fact (European Commission, February 2005). A McKinsey study estimates that the impact of regulation accounts for about 40% to 60% of the productivity gap between Europe and the US. Restricting a company's flexibility also reduces the choice for employees.

New animal feed and food safety requirements have been introduced for commerce operators and their suppliers. In Europe, **EU Regulation 178/2002**<sup>5</sup> lays down the general principles and requirements of food law and establishes the European Food Agency; it stipulates the tracking of food products or batches from their original source right through the purchasing, production and distribution processes. Commerce traders are required to have product withdrawal systems and must maintain records of what, when and whom they have purchased in terms of raw materials.

The regulatory framework for the commerce sector requires end-to-end visibility in the supply chain, and it is thus vital for the industry to introduce the right technologies, collaborative business processes and the analytical tools to constantly improve the entire supply chain.

The European Commission set a 2002 deadline for implementing Council **Directive 99/44/EC**<sup>6</sup> on certain aspects of the sale of consumer goods and associated guarantees, with an aim to ensure consumer protection and strengthen consumer confidence in cross-border shopping. The directive, which is of 25 May 1999, lays down a common set of minimum rules valid no matter where the goods are purchased.

With the continuing growth of large companies and their acquisition activities, the competition agencies in EU Member States and that of the European Commission have become more active in reviewing levels of market concentration in the commerce sector and its subsectors.

The number of small companies has fallen in wholesaling and retailing across Europe, which has led governments to explore ways to provide support to smaller wholesalers and retailers through different types of policy initiatives; these include: limiting local competition from large operators by restricting the establishment of new shops; providing direct financial help to small companies to encourage investment and training; reducing the tax burdens on small enterprises; encouraging cooperative behaviour among small companies; and providing special protection to particular subsectors, for example pharmacists. At the beginning of the new millennium, the French government, for example, introduced tighter legislation concerning the construction of large-area hypermarkets, so that the financially strongest French retailers have switched increasingly to convenience and discount stores. In 1999, the market share of convenience stores stood at 6% compared with 7% in 2003 while the number of discount outlets amounted to 8,259 stores in 1999 and increased to 12,375 shops in 2003 (Ahlert et al, 2006, p. 290–293).

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<sup>4</sup> [http://ec.europa.eu/governance/better\\_regulation/index\\_en.htm](http://ec.europa.eu/governance/better_regulation/index_en.htm)

<sup>5</sup> [http://europa.eu.int/eur-lex/pri/en/oj/dat/2002/l\\_031/l\\_03120020201en00010024.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2002/l_031/l_03120020201en00010024.pdf)

<sup>6</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31999L0044:EN:HTML>

The increasing power that retailers hold over the various sales channels at the expense of their suppliers strongly impacts on the market. Governments have sought to intervene by regulating the behaviour of the various participants in the sales channels. This has involved policies on the nature of the contracts between retailers and suppliers, the number of credit days allowed, the types of discounts that can be used and the ability of retailers to resell products at below cost prices (Dawson, 2006, p.47–48).

As mentioned earlier, central European countries have been attracting large amounts of foreign direct investment into retailing since 1989, and the governments have been adopting policies to limit foreign ownership of retailing in order to protect local retailers and suppliers. Those foreign retailers that did gain a presence in the market, having entered the central European market early on, are in effect protected from peer-group competition and so may benefit from the policies aimed at limiting them (*ibid*).

As out-of-town retail centres emerged around western European cities several decades ago, governments developed tools to regulate the emergence and functioning of these centres with varying degrees of success. Today, hypermarkets and malls are being rapidly developed in many transitional economies and developing countries as the policies and regulations to manage this trend are often not yet in place (Baar, 2002).

In terms of opening hours, the regulations vary substantially from one country to another. Some countries like France, Norway and the UK have no restrictions at all in terms of opening hours on weekdays and Saturdays, and even on Sundays. In France however, workers are not allowed to work on Sundays, although certain exceptions exist to this rule. In the UK, opening hours depend on store size. Other countries like Ireland have no restrictions on weekdays and Saturdays but do restrict the hours when the sale of alcohol is allowed. Countries like Latvia, Slovakia and Sweden have no restrictions at all. Other countries restrict shop opening hours during the week, namely Finland and Greece. For retail companies looking at opening stores in different countries, it is important to consider the various regulations in relation to planning logistics and personnel.

### **Sustainable development**

Several initiatives have been taken in the commerce sector with regard to sustainability. A lot of European retailers are involved in either environmental or social responsibility areas. Companies and their departments show varying levels of commitment, ranging from providing recycling facilities to the more involved supply chain management. An increasing number of retailers publish sustainability reports in addition to annual reports.

One area where commerce operators can make a real environmental impact is on energy saving in terms of lighting, air-conditioning and refrigeration. Energy costs in terms of electricity and oil prices affect the cost of retailing and logistics in wholesale and retail. These costs, however, represent a low percentage of turnover in the sector, typically 1%. On the other hand, capital costs of energy efficiency improvements are perceived to have long-term returns, and most retailers and wholesalers do not record or analyse energy statistics.

The systems in the retail and wholesale subsectors are not efficient unless they are effective: from lighting to refrigeration to air conditioning, much can be done to improve the performance of these systems without compromising the operation of the business. Case studies in these sectors have shown that between 30%–50% of electricity used for lighting could be saved by investing in energy efficient lighting systems. In many cases, such investments are not only profitable, but they also maintain or improve lighting quality. Greenlight is an ongoing European voluntary programme where private and public organisations commit to upgrading their existing lighting systems and designing new installations that adopt energy saving methods and systems. Several European commerce operators have joined this programme.



Several other areas that are of importance for commerce actors in contributing to sustainable development include:

- improving recycling facilities to help workers and customers increase the amount of recycling facilities at stores and warehouses;
- encouraging customers to reuse carrier bags by offering loyalty card points to customers who bring their own;
- ensuring that stores and warehouses are good neighbours by reviewing noise levels, delivery schedules and shop-front designs.

A list of existing best practices and various initiatives from commerce companies and organisations has been issued on the [EuroCommerce website](#)<sup>7</sup>.

### Social developments and demographic change

Dealing with different demographic developments in different markets, for example an ageing workforce in western Europe and a predominantly young, inexperienced and unskilled workforce in other areas of the world, such as Asia and the Middle East, will certainly challenge the human resource (HR) departments of multinational retailers or wholesalers. HR departments will have to work hard on maintaining a well-balanced age structure of the workforce in retail and wholesale, in addition to building up a working environment that enables workers of all ages, cultures and habits to buy into the company vision and show suitable results.

For most EU countries, unemployment statistics show that young people in the labour market are twice as likely to be unemployed compared with older cohorts. Individuals who left school early and therefore lack basic qualifications are at particular risk among young unemployed people, and in many cases effective policy measures are not yet in place to increase the labour market participation of this group. Moreover, there is a need to increase the rate of employment among certain population groups such as women, disabled people, immigrants and older citizens. However, it is worth noting that employment rates, in particular among workers aged between 55 and 64 years, have increased since the launch of the Lisbon strategy in 2000 to reach an overall employment level of 63% in the EU25 in 2003 (Labour Force Survey, 2003).

Furthermore, the ageing of the population varies from one country to another, and so do the policies on labour market activation measures and lifelong learning which are required for ensuring that older workers stay longer in the labour market (Leney et al, 2004). In France, the percentage of those aged 65 years or over has increased by two percentage points in just a little over a decade, from 14% to 16%. In terms of demographic forecasts, Spain and Italy are likely to have the same proportion of people aged 60 years and over as in the 15–59 age group by 2040. Some 28% of the German population will be older than 65 years by 2030, and 19 million people in the UK will be over 60 years. The ageing trend will continue for several decades as people live longer and birth rates have decreased or continue to fall. In addition, the ageing problem is compounded by the fact that people in many European countries are leaving the workforce at a younger age: the average retirement age in Europe fell from 66.2 years in 1950 to 59.8 years in 2000, according to Eurostat. At the current pace of change, it is therefore important to prepare more citizens to enter the labour market and stay longer in employment; this will require a significant and ongoing learning effort.

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<sup>7</sup> <http://www.eurocommerce.be/content.aspx?PageId=40646&lang=EN>

Moreover, all cultures have their own unique practices and behaviours, some of which are obvious while others are more subtle and harder to detect. In international settings, individuals need both a common language and intercultural sensitivity. The critical resource of most businesses is no longer financial capital, but rather their employees (Merkel et al, 2006, p.216–217).

Traditionally, retail companies have not targeted the over-50s age group. Today, however, retailers are increasingly targeting people of this group when hiring new staff, in particular in areas where it is difficult to attract a sufficient number of young people, and commerce-educated and trained candidates. The UK do-it-yourself (DIY) chain B&Q has been encouraging the employment of older workers over 50 years of age for several years; in 2006–2007, 25% of their workers were aged over 50 years, which is a significantly higher proportion of older workers than the Kingfisher Group which employed, on average, 13% of workers of this age group over the same period. Other European retail companies sponsored projects aimed at integrating senior citizens into the labour market, such as the German shoe retailer Görtz. Consumers of this age group will increase in numbers and will have considerable purchasing power in the future. As a result, retailers will have to review how they position and advertise their goods to capture this growing consumer section of the market (McLoghlin, 2006). Workers are getting older, so are the consumers, and changing lifestyles are reflected in changing consumer and worker demands.

The integration of ethnic minorities in most European countries and the migration of people from developing countries as a potential solution to the reduction in the workforce in western European countries will also lead to the emergence of new consumer market segments with special product requirements.

New shopping habits see more and more people using the internet in their shopping activities. Online shopping already represents 7% of the total retail sales in the UK, and the market segment of online shopping is expected to continue to grow rapidly in the future. It should be noted, however, that the UK is the most developed online shopping market in Europe; markets in other European countries have not yet gained the same level of maturity although these markets are also expected to develop quite quickly.

### **Labour market and gender issues**

Although differences exist between European countries, the commerce sector and particularly the retail subsector show a high proportion of female workers; for example, in the UK, over 60% of workers in retail are women and over 40% of all workers in the sector are women who work part time. This means the sector is to a large extent characterised by part-time female employees, and in the UK, this pattern looks set to continue.

Furthermore, the gender pay gap remains in these sectors: women working in retail full time still earn, on average, 25% less an hour than men do. When it comes to part-time work in retail, women's hourly earnings are 46% less than those of men who work full time. In the UK, only 12% of women in the sector work at managerial levels compared with 28% of men, although women account for over 60% of the workforce (data from the [National Guidance Research Forum](http://www.guidance-research.org/future-trends/retail/printAll?lang=en)<sup>8</sup>, 2002 and 2003).

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<sup>8</sup> <http://www.guidance-research.org/future-trends/retail/printAll?lang=en>

According to a report on employment effects submitted by the ILO in 2003, consolidation in commerce has not necessarily led to job cuts directly in the merging companies. Employment in commerce, especially in the retail trade, continues to grow in tandem with the internationalisation of trade. Nevertheless, consolidation of the sector has, in some countries, had a negative impact on jobs in small and medium-sized enterprises (SMEs) as they get ‘squeezed out of the market’ by their bigger and better-resourced multinational competitors. Although job gains inevitably exist in multinational operators, the ILO report states that these are usually insufficient to offset losses incurred in smaller commerce operators.

The retail sector has typically relied on young people to meet employment demands. However, demographic change – that is, the ageing of the population – combined with the increasing number of those entering higher education means this pool of potential workers is shrinking. According to research, young people have negative perceptions of the commerce sector. As a consequence, many employers in the sector offer interesting training packages and flexible job opportunities and have actively started to recruit mature workers. In the UK, as indicated, B&Q has been a pioneer in this area, and ASDA has introduced policies such as ‘grandparent leave’ for its employees. Large retailers, such as IKEA, are also targeting mature and older workers to solve recruitment problems.

In March 2002, the social partners at European level in the commerce sector agreed a set of voluntary guidelines on promoting age diversity at the workplace.<sup>9</sup> The guidelines focus on non-discrimination, equal access to training and adaptability of working time arrangements in order to allow older workers to carry on participating actively in the labour force. As the ageing of the workforce evolves, these guidelines are likely to become more and more important. The European-level agreement on telework and part-time work also contributes to allow for a flexible working life, making it easier for people to stay longer in their job.

In most of the European countries, the commerce sector is set to grow in terms of employment in the coming years. The developing business areas where labour demand will increase are online retailing, customer research and new store establishments. The introduction of new technologies such as RFID is not expected to lead to reductions in employment levels. For example, the UK employment in the retail sector is expected to grow by almost 10% between 2004 and 2012. Similar growth rates are expected in other western European countries while central European countries could experience even bigger growth rates in the coming years subject to economic conditions staying favourable for continuous expansion.

### **Restructuring and human resource strategy**

With the globalisation of sourcing of products, it has become imperative for retail and wholesale organisations to develop special strategies to enable the workforce in the headquarters to be aware of international processes, markets and competitors (Merkel et al, 2006, p. 214). A major task of the international HR organisation is therefore to provide expertise in terms of interpretations of the local laws and working practices, so as to offer practical steps for the successful operation of the international retailing or wholesaling organisation (*ibid*, p. 215).

Some of the leading global retailers, such as H&M and Carrefour, have signed global agreements with the Union Network International (UNI) indicating their support of ILO conventions 87–98 and 135, which promote the right of employees to join a trade union of their choice, the right to collective bargaining and the protection of employees and their representatives against any act of discrimination tending to infringe on union freedom. The German Metro group also promotes principles on social partnership that are based on ‘open communication between employers and employees, as well as constructive cooperation based on responsibility with the authorised employee representatives’.

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<sup>9</sup> For guidelines, see <http://www.eurocommerce.be/content.aspx?PageId=40106&lang=EN>.

Furthermore, European works councils (EWCs) can be a useful tool. Social partners are in the best position to assess the continued development of EWCs. The experience with respect to EWCs has shown that they differ widely in the topics they address and the mechanisms they have established to ensure workers' information and consultation. This diversity should be maintained and any European initiative to increase the dynamism of the functioning of EWCs should be based on the principle that social partners at enterprise level need a maximum of flexibility to agree solutions which best suit their own circumstances.

For retail or wholesale organisations, the key future challenge will be to leverage the workforce. Price, selection and location are not the only parameters that organisations need to adjust to add value for the customers. In the future, differentiating the customer experience will be the key to increased profitability and this cannot happen on price and selection alone. Therefore, the workforce will be the most strategic asset of wholesale and retail organisation in the future.

A future trend of demand-driven workforce management (Deloitte Stores, 2006) suggests that store managers must have greater visibility when it comes to the demands on operations and the performance of the workforce, in order to make better business decisions. In other words, commerce businesses will seek to eliminate budget inconsistencies between the corporate and decentralised store level, by using customer demand data to provide store level service precisely where and when it is needed. In addition, they will allow workers to request preferred working week scenarios for total hours scheduled, in order to avoid both under and over-scheduling of labour resources at individual store or unit level. Such strategies will have to harmonise with the growing trend of flexibility and the 'extensification' of work characterised by flexible working times, part-time work, temporary work, shift work and work which extends into workers' private lives. This would involve increasing responsibility in terms of time for the delivery of services to customers and being able to accommodate different life cycles of workers, for example parents with young children or mature workers with teenage children.

With many retail organisations expected to grow in the future, the sector will need to recruit increasing numbers of new workers from a shrinking talent pool. Moreover, in emerging markets such as in central European countries and in developing countries like India and China, the current supply of skilled workers is already insufficient. As a result, the retail and wholesale operators will face the increasing costs and difficulty of hiring and retaining skilled labour.

Given the economics of retailing and wholesaling, salary compensation in the commerce sector is relatively low. In the future, for the sector to compete on an even basis, compensation will have to increase and to make that financially feasible, productivity will also have to rise. In addition, the sector will have to offer its workforce greater influence when it comes to the day-to-day decision-making at store level, in order for new recruits to find the sector attractive to work in.

In 2003, UNI-Europa Commerce and EuroCommerce issued a joint statement on corporate social responsibility (CSR) in the commerce sector. The statement highlighted the global nature of trade and how corporate decisions and actions have repercussions on global markets, the environment and the population. It emphasises, that the European social partners in the commerce sector endeavour to promote quality services, and that in order to fulfil customer expectations it is essential to have well-qualified and engaged personnel. In this regard, CSR has repeatedly proved that it can make a positive contribution.

## Skills gaps and training issues

### *Management level*

Larger retail and wholesale organisations offer graduate traineeships for new recruits. Key job openings at graduate level are usually offered in head offices and for store management positions. Typically, graduate trainees will start in store, department or warehouse management, gaining experience in several departments and achieving an assistant management position. They are likely to spend time in a head office and their career path might lead either to a position there or further progression within management. Some organisations recruit graduates for positions in their head office. Apprenticeship programmes or training schemes generally take between one and three years.

Some graduates enter retail management through less formal routes, for example, sales assistants could be promoted to management roles. Internet, catalogue and TV retailing companies have jobs in purchasing, marketing, merchandising, IT (information technology) and distribution and visual promotion.

### *General skills requirements*

The commerce sector is an attractive sector for students. It affords them the opportunity to combine studies with a job and gain some extra experience and income. Many of those seeking a career in retailing or wholesaling will have developed an interest through part-time work. This is a useful introduction to the sector, but employers will also be requiring other skills and qualities, including:

- a strong customer focus;
- good communication and interpersonal skills;
- a good level of numeracy and IT skills;
- negotiation and persuading skills;
- evidence of leadership and management qualities;
- drive and enthusiasm;
- good risk assessment skills;
- a well-developed commercial awareness;
- a flair for creativity;
- the ability to work under pressure and to tight deadlines.

The largest wholesale and retail companies in Europe are also among the most successful companies in Europe. Those retailers and wholesalers which are at the leading edge of technology have well-developed training centres and a significant level of recruitment activity. At the other end of the scale, a large number of smaller employers exist that are less able to train their workers and struggle to attract staff with the required customer service and communication skills. Lack of communication and customer service skills as well as personal attributes are indicated as key skills shortages and major obstacles to competitiveness.

EuroCommerce and UNI-Europa Commerce, in conjunction with the two major German retailers Metro and REWE, and the German training schools (Berufskolleg), support young people in finding their first job. Through a Europe-wide vocational training and certification system, these young people will have an easier way to document their skills when seeking employment in their own countries or abroad. Other leading commerce companies have indicated their interest

in joining the programme. The initial project (BeQuaWe) was funded by the European Commission's Leonardo programme and actively involved seven Member States. Through the support of the sectoral social partners for commerce, this initiative is based on an online and/or CD-ROM vocational training programme of six modules which includes a standardised test and certification system. The objective is to further promote the initiative in other EU Member States. This project will be extremely useful for SMEs, for which it will be a reliable resource of training material.

### Training supply

Large companies in the retail and wholesale subsectors train their workers in their in-house training department. The practical skills are of more added value to the company than are formal qualifications. There is evidence of good practice in the form of in-house training activities.

Some of the SMEs in the sector may encounter certain barriers such as time, cost and lack of availability of training; however, this does not prevent the retail sector from offering jobs and being one of the main job creators. Retailers offer jobs to all skills levels including poorly skilled people.

## SWOT analysis of the commerce sector

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• establishment of private label products;</li> <li>• efficient operation of processes and logistics;</li> <li>• centralisation of the negotiation power in relation to suppliers.</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• polarised market, many small operators and only few very large operators;</li> <li>• low profitability and labour productivity, and low compensation levels;</li> <li>• poor representation among the younger workforce.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• innovations in operations through the introduction of new technologies, in sourcing, branding and products;</li> <li>• new consumer trends which reflect a more fragmented market and which provide market potential for early adopters;</li> <li>• internet, home and television shopping;</li> <li>• customisation could be on the increase, such as personalised jeans;</li> <li>• addressing the needs of the ageing population and other emerging consumer segments.</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• demographic changes leading to competition in the job market;</li> <li>• long distance supply chains – extended lead times and increased risk;</li> <li>• violation of human rights in supply chain which can lead to bad publicity;</li> <li>• currency fluctuations;</li> <li>• sudden political changes;</li> <li>• terrorism;</li> <li>• regulation and over-regulation of the market.</li> </ul>

## Conclusions

The commerce sector represents a significant sector of economic activity in the EU, employing 24.5% of all employed persons in the non-financial sectors of the economy and producing 19.3% of the added value in these sectors. This indicates that the commerce sector has a lower labour productivity than the non-financial business economy in general. In 2004, almost 30 million persons were employed in the commerce sector; the largest proportion of these workers, more than 16 million, was employed within retail.

When compared with other sectors of the economy, the commerce sector has one of the greatest shares of micro-enterprises; in fact, more than 90% of all enterprises in this sector are micro-enterprises.

The retail subsector is characterised by a relatively weak trade union presence; trade union density, however, varies greatly among the European countries. In this regard, countries such as Belgium and Sweden rank very high with a trade union density rate of more than 60%. In contrast, countries like Cyprus, Hungary, Latvia and Spain show a very low trade union density in retail, with rates below 10%.

Considering the European players, France, Germany and the UK hold a significant share of retailers with respectively 4.8%, 7.2% and 9.6% of the top 250 retailers in the world and accounting respectively for 9.9%, 11.4% and 8.6% of the total sales volume in the top 250 retailers worldwide.

Commerce itself is subject to a number of drivers of change, which affect the environment within which commerce operates. These drivers of change can be broadly summarised as concentration, price and cost pressures, and complexity. Concentration emerges in the sense of business concentration as the larger retailers continue to expand and the various European countries and commerce operators engage more fully in the global commerce economy. Concentration is also evident in relation to certain key retail locations, that is, spatial concentration, driven by restrictive land-use planning and a desire for high-quality locations. Price and cost pressures are inevitable, given the operating parameters of wholesaling and retailing and their need for a variety of inputs. Being efficient in use and operation is one response, but seeking out the best sources of supply is another. Complexity results from the fragmentation of consumers and their volatility. This, in turn, puts pressure on the distributive trades to be rapid in their response.

These drivers for change will impact on the structure of the commerce sector. The sector can be characterised as expanding, polarised, innovative and open. The sector itself is expanding in both horizontal and vertical dimensions as retailers take on more activities and develop broader business strategies. As these are successful, polarisation in the sector increases since the biggest companies continue to grow in scale and operate a larger range of store types. Innovation has thus been critical to development and has occurred with regard to the type of stores, operations, products and branding levels. Finally, the European market is open, allowing overseas retailers easy entry and thus increasing competition, while European retailers have begun to expand overseas both within and outside the EU to seek out new markets and to exploit advantages.

The drivers of change active in the commerce sector also influence the methods by which retailing is carried out and the activities undertaken by companies in the sector, thereby altering the scope of retailing. Retailers have become very good at managing all aspects of their business and developing their own business systems, approaches and practices. They have done so in terms of their own operations, outsourced or partnered activities, and by exploiting their scale, data and reach. However, this process has perhaps made them less attractive as employers just as their need for high-quality labour has increased. As a result, the industry may need to re-engage with the people and their needs, in order to better promote commerce as a sector in which to work.

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## Annex

### Country abbreviations

EU25 = 25 EU Member States (post May 2004)

EU27 = 27 EU Member States (post January 2007)

### Country codes

Country code	Country name	Country code	Country name	Country code	Country name
AT	Austria	ES	Spain	MT	Malta
BE	Belgium	FI	Finland	NL	Netherlands
BG	Bulgaria	FR	France	PL	Poland
CY	Cyprus	HU	Hungary	PT	Portugal
CZ	Czech Republic	IE	Ireland	RO	Romania
DE	Germany	IT	Italy	SE	Sweden
DK	Denmark	LT	Lithuania	SI	Slovenia
EE	Estonia	LU	Luxembourg	SK	Slovakia
EL	Greece	LV	Latvia	UK	United Kingdom