University of Zagreb - Faculty of Economics and Business
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Ekonomski fakultet Sveučilišta u Zagrebu
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TRADE PERSPECTIVES 2017

Specialization and Customer Centered Retailing

PERSPEKTIVE TRGOVINE 2017.

Specijalizacija i prilagodba potrošačima u maloprodaji

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FOREWORD

This publication is the result of a scientific conference Trade Perspectives 2017 that took place at the Faculty of Economics, University of Zagreb, Croatia. The conference has continuum since 2010 and each year it puts into a focus some relevant topics in the field of distributive trade. This year the focus is on specialization and consumer-centric approach.

Specialization is a method where a business, area or economy focuses on the production of a limited scope of products or services to gain greater degrees of productive efficiency within an overall system (Investopedia, 2017). The specialization is the basis of global trade but also of retailing at local level. In distributive trade, specialization can be based on various factors starting from products and services via trade formats and channels, towards various means of infrastructure and technologies applied in communication with customers and suppliers.

On the other hand, the concept of consumer-centricity is defined as: "A strategy to fundamentally align a company's products and services with the wants and needs of its most valuable customers. This strategy has a specific aim: more profits for the long term." (Fader, 2012).

In fact, this strategy enables creation of a positive customer experience at the point of sale and post-sale. Therefore, this approach can add value to a company by enabling differentiation from competitors. Consequently, the differentiation will bring a narrow specialization in action. Therefore, we can tell that consumer centric strategy and specialization are, actually, two interrelated concepts when it comes to distributive trade.

In this contexts, several papers are dealing with changes in international trade, a couple of papers deal with specialization in sales channels, some of them are addressing specialization by assortment, while there is a bunch of papers explaining various aspects of electronic commerce, as a new retail specialization area.

The conference Trade Perspectives 2017 and this publication are supported by the Faculty of Economics, University of Zagreb; the Croatian Chamber of Economy and the Ministry of Science and Education of the Republic of Croatia. We thank them warmly for their moral and financial support.

Zagreb, 29th November 2017

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1. Investopedia (2017), Specialization definition, available at: https://www.investopedia.com/terms/s/specialization.asp#ixzz4ygqwAkXB (accessed on 17th November, 2017).
2. Fader, P. (2012), Customer Centricity, Wharton Digital Press, Philadelphia.

PREDGOVOR

Ova publikacija je rezultat znanstvene konferencije "Perspektive trgovine 2017" koja se održala na Ekonomskom fakultetu Sveučilišta u Zagrebu, Hrvatska. Konferencija ima kontinuitet od 2010. godine, a svake godine stavlja u fokus neke relevantne teme iz područja distributivne trgovine. Ove se godine usredotočuje na specijalizaciju i potpunu prilagodbu potrošačima.

Specijalizacija je metoda prema kojoj se poslovanje, neka djelatnost ili nacionalno gospodarstvo usredotočuje na proizvodnju ograničenog opsega proizvoda ili pružanje ograničenog spleta usluga kako bi se postigao veći stupanj učinkovitosti unutar cjelokupnog sustava (Investopedia, 2017). Specijalizacija je temelj globalne trgovine, ali i maloprodaje na lokalnoj razini. U distributivnoj trgovini, specijalizacija se može temeljiti na različitim čimbenicima počevši od proizvoda i usluga, preko trgovinskih formata i kanala, do različitih primjene različite infrastrukture i tehnologija za komunikaciju s kupcima i dobavljačima.

S druge strane, koncept potpune prilagodbe potrošaču (engl. consumer-centricity) definira se kao: "Strategija temeljena na cjelokupnom prilagođavanju proizvoda i usluga željama i potrebama najvrjednijih kupaca. Ova strategija ima specifičan cilj, a to je dugoročno veći profit."(Fader, 2012).

Zapravo, ova strategija omogućuje stvaranje pozitivnog iskustva kupca za vrijeme i nakon prodaje. Stoga, ovaj pristup može dodati vrijednost tvrtki omogućujući njenu diferencijaciju u odnosu na konkurente. Posljedično, diferencijacija donosi usku specijalizaciju u tržišnom nastupu. Stoga možemo reći da su ovo dva međusobno usko povezana koncepta kada govorimo o distributivnoj trgovini.

U tom kontekstu, nekoliko radova bavi se promjenama u međunarodnoj trgovini, nekoliko objašnjava specijalizaciju u prodajnim kanalima, neki se bave specijalizacijom prema prodajnom asortimanu, a donosi se i niz radova koji objašnjavaju različite aspekte elektroničke trgovine kao novog područja specijalizacije.

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Zagreb, 29. studenog 2017.

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CONTENTS / SADRŽAJ

THE IMPACT OF THE CETA ON POLISH AND OTHER CEEC EXPORTS TO CANADA
(Bożena Pera) 1

THE EXPORT COMPETITIVENESS OF THE EU 28 COUNTRIES
(Tomislav Galović, Petar Mišević & Lea Popović) 15

ANALYSIS OF FOREIGN TRADE BETWEEN BOSNIA AND HERZEGOVINA AND MONTENEGRO USING GRAVITATION MODEL
(Ferhat Ćejvanović, Dragovan Miličević & Adnan Kamerić) 31

IMPACT OF NEW CONSTRUCTION STYLES ON THE TRADE OF HOUSING CONTAINERS IN THE EU
(Josip Mihalić, Dubravko Kičić & Stjepan Mihalić) 45

RETHINKING HYPERMARKETS? THE RISE OF C-STORES
(Ivana Plazibat, Mario Dadic & Ivan Kekez) 55

SALES CHANNELS DEVELOPMENT IN SOFT DRINK INDUSTRY – CASE STUDY OF BRAND CEDEVITA
(Petar Ninić & Petra Škrobot) 65

EMPLOYMENT IN DISTRIBUTIVE TRADE – LOOKING BACKWARD AND LOOKING FORWARD
(Drago Pupavac) 81

THE IMPORTANCE OF CUSTOMER LOYALTY PROGRAMS IN FOOD RETAILING – CASE OF SERBIAN MARKET
(Sreten Ćuzović, Svetlana Sokolov Mladenović & Đorđe Ćuzović) 93

THE GROWING IMPORTANCE OF PETROL STATIONS AS CHANNELS FOR EXPANDING THE RETAIL SERVICES
(Petra Šafranić, Kristina Petljak & Dora Naletina) 109

SPORT FOOTWEAR TRADE-DIFFERENCES BETWEEN YOUNG CONSUMERS AND MIDDLE-AGED CONSUMERS
(Blaženka Knežević, Ivan Novak & Boris Šantić) 125

THE IMPACT OF PRODUCTIVE NEGOTIATION TECHNIQUES ON THE COMPETITIVENESS OF CROATIAN HAIRDRESSING PRODUCTS MARKET
(Tomislav Galović, Heri Bezić & Paula Lopac)..... 141

DO WE NEED A RIDE OR WHERE DOES THE UBER CASE LEAD US?
(Kosjenka Dumančić & Juraj Križanić) 159

USE OF SOCIAL MEDIA INFLUENCERS IN TOURISM
(Adi Alic, Almir Pestek & Amila Sadinlija)..... 177

THE SIGNIFICANCE AND IMPORTANCE OF DELIVERY IN ELECTRONIC COMMERCE
(Ivan Kovač, Dora Naletina & Andrea Kuvač)..... 191

THE PROBLEM OF COUNTERFEIT GOODS IN ONLINE MARKETPLACES
(Ana Rački Marinković & Dario Dunković)..... 207

DEVELOPMENT OF CUSTOMER RELATIONSHIP MANAGEMENT IN THE ELECTRONIC MARKETING CHANNELS
(Jelena Končar, Sonja Leković & Petrović Katai Zita) 225

THE IMPACT OF THE CETA ON POLISH AND OTHER CEEC EXPORTS TO CANADA

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Abstract

The aim of the article is to discuss the changes that may occur in the structure of Polish exports to Canada after the entry into force of the Comprehensive Economic and Trade Agreement (CETA) and to compare these exports with the exports from selected Central and Eastern European countries.

The article presents the theoretical view of regional trade agreements and presents the conditions for accessing EU goods to the Canadian market after the entry into force of CETA. The starting point for analyzing the impact of the agreement on export of goods is to determine the importance of Poland and the CEE countries in their mutual trade exchange. The study mainly focused on determining possible directions for the development of export of goods to the Canadian market, taking primarily into account the liberalization of customs duties. An attempt was also made to identify the impact of non-tariff instruments, which are barriers to trade exchange between the surveyed entities for export of key commodity groups to Canada.

Key words: CETA, Polish exports, CEECs, exchange of goods, Canada, free trade

1. INTRODUCTION

Since the 1990s, due to the difficulties of multilateral liberalization in the World Trade Organization (WTO) forum, regional trade agreements are an important instrument, on the one hand, facilitating the introduction of preferences among countries, and on the other hand, which can facilitate discrimination of the market access in case of other countries. The agreement between the European Union and Canada is part of a new generation of agreements, including the liberalization of trade in goods and services, as well as provisions that go beyond the competence of the WTO.

The purpose of this article is to discuss the changes in the structure of Polish exports to Canada after the entry into force of the CETA and to compare them with selected CEEC exports.

2. REGIONAL TRADE AGREEMENTS – THEORETICAL APPROACH AND RESEARCH REVIEW

Regional Trade Agreements (RTAs) are instruments in the implementation of a specific trade policy aimed at liberalizing trade barriers between a group of states that are not necessarily a cohesive region in terms of geographic location (Winters, 1999, 8) They should contribute to maximizing the effect of trade creation resulting from their inclusion and minimize the effect of trade diversion (Park & Park, 2011, 251). These agreements provide for the creation of a free trade area or customs union between the acceding countries. The free trade area is the simplest way to pursue free trade. Its creation leads to the complete elimination of all restrictions on trade between the countries acceding to it. This type of agreement enables the creation of a suboptimal area in relation to total global trade liberalization, with each of the member states of that suboptimal area retaining the right to conduct autonomous trade policies with regard to third countries (Misala 2005, 451). In the case of the customs union, member states not only liberalize their mutual trade, but also conduct a common commercial policy towards third countries. Such agreements allow for easier access to the market of goods produced by member states, lowering their price by at least the amount of duty abolished. At the same time, access to goods outside the grouping is often hampered, which often leads even to discriminatory trade between third countries. The customs union and free trade area contribute to increasing the scale of production, reducing unit costs and increasing the benefits of exchanges[1]. RTAs are also rated positively in the context of the globalization process. They can be treated as its continuation in a geographically limited territory. economic integration agreements, which may be included in RTAs, represent both a challenge and an opportunity for today's international trade system. With regard to third countries, they may have negative effects when multilateral trade negotiations within the WTO do not bring about the intended progress in reducing barriers through multilateral trade negotiations.

RTAs are an exception to the principle of non-discrimination, which applies to the member states of the WTO, and is expressed by the most-favored-nation clause (MFN). Under the terms of the MFN, entities cannot discriminate against trading partners and grant trade privileges to only one of them, as they are automatically transferred to other members of the organization. Free trade areas and customs unions are exceptions from the general WTO rules under art. XXIV of the General Agreement on Trade and Tariffs (GATT), the Agreement on the Interpretation of Article XXIV of the GATT (1994), the enabling clause and art. V of the General Agreement on Trade in Services (GATS). Article XXIV of the GATT regulates the creation of free trade areas and customs unions in the area of trade in goods[2] while art. V of the GATS refers to regulating

[1] The free trade area and customs union are the forms of international economic integration, including the liberalization of trade. The remaining institutional forms of integration go beyond the liberalization of trade. (Balassa, 1962, 1-5; Bożyk & Misala, 2003, 38; Bożyk, 2004, 20; Latoszek, 2007, 31).

[2] Art. XXIV GATT, from which it results that free trade areas and customs unions completely eliminate customs and non-tariff barriers in trade between member states for goods originating in member states. In addition, countries covered by preferential trade agreements should not apply higher levels of trade policy instruments to third countries than they had before the entry into force of the agreement. In the event of

the rules of regional agreements in the area of services[3]. The enabling clause introduced in 1979, allows the underdeveloped countries to conclude regional agreements on incomplete trade liberalization. The free trade areas and customs unions created by this group assume reciprocal tariff reductions, but allow circumvention of the provisions contained in art. XXIV of the GATT, allowing the abandonment of substantially all the trade liberalization and allowing for an increase in the average level of external protectionism. The exceptions to the WTO rules presented above are disputable and controversial because of the measurement and assessment of the conditions justifying the conclusion of a regional trade agreement, as the provisions in them are imprecise and ambiguous. (Mitchell & Lockhart 2009, 93-98; Davey 2011, 251; Śledziewska 2012, 31; Michalski 2014, 48-49). The problem is to define the "substantially all the trade" that sets the level of trade liberalization. During the first wave of regionalization (in the 1960s), liberalization accounted for around 70% of trade, and at present (in the third phase) the agreement should cover at least 90% of trade in goods. Quantitative tariff lines, which help to assess the degree of liberalization, should also include the number of tariff lines covered by the removal of trade barriers (Goode, 2005, 26).

The research on regional trade agreements allows for the assessment of the effects of such agreements between economically developed countries (north-north) as well as developing (south-south) (Mayda, Steinberg, 2009), or countries belonging to both groups (north - south) (Das, Ghosh, 2006), or from the point of view of a particular entity e.g. the European Union (Pera, 2011, 238-250; Kawecka-Wyrzykowska, 2015 7-16), Israel (Deltas, Desmet, Facchini, 2012), Poland (Pera, 2014, 334-338). The subject of these agreements goes beyond the traditional exchange of goods and covers not only the flow of services, capital but also investment protection, trade facilitation, sustainability issues, competition policy, often not covered by WTO rules. (Baldwin, 2011, 6; Pera, 2015, 63). Studies using econometric models concern revealing the effect of creation between countries introducing such preferences in mutual trade (Foster, Poeschl, Stehrer, 2011, Moelders, Volz, 2011). They also focus around not only the possibility of creation of trade, but also the effect of shifting and distortion (Martinez-Zarzoso, Nowak-Lehmenn, Horsewood, 2009; Urata & Okabe, 2010; Caporale, Rault, Sova & Sova, 2009; Medvedev, 2010; Siroen & Yucer, 2012). They also take into account the actions taken by countries belonging to regional trade agreements to trade partners outside the grouping (Missios, Saggi & Yildiz 2016). The subject matter of the research, although less frequent, is the impact of these agreements on the flows of trade exchange (Urata & Okabe, 2009; Ranilovic, 2017), structure of exports and imports, also taking into account the changes in inter-industry trade and intra-industry trade (Egger, Egger & Greenaway, 2008; Foster & Stehrer, 2011). They also include RTAs analysis for a selected group of goods (e.g. industrial, agro-food) (Devadoss, Kropf & Wahl, 1995). Research also includes the determinants of concluding new preferential trade agreements and accession to existing ones (Egger & Larch, 2008).

a deterioration in market access conditions, third countries have the right to compensation. (GATT 1994, Article XXIV).

[3] Art. V GATS states that these agreements are to have a significant sectoral scope. In addition, no discriminatory measures have existed or they have been abolished, or a prohibition on the introduction of new measures (GATS, Art. V).

The effectiveness of RTAs depends on the scope of regulation that is the subject of these agreements and the length of time enabling the full agreement to enter into force. It is assumed that these agreements should have beneficial effects on the trade of acceding countries and the world economy while minimizing or avoiding negative effects on non-member states (Park & Park, 2011, 253; Riezman, 1999; Xiaoyang Chen & Mattoo, 2008).

The performed analysis showed that research on various aspects of regional trade agreements was conducted. They deal with both agreements between countries of marginal importance in global trade as well as countries playing an important role in it. By restricting them only to the changes taking place in the commodity structure of trade, the results and effects of preferential trade agreements are relevant to the arrangements in question and relate to the specific entities forming, as well as entering into the given agreement.

3. CONDITIONS OF ACCESS OF THE EUROPEAN UNION GOODS TO THE CANADIAN MARKET AFTER THE ENTRY INTO FORCE OF CETA

CETA entered into force on 21st of September 2017, after 5 years of negotiations (2009-2014) and after almost two years of legal review of the final version of the agreement and one year after its signing. This is an agreement that goes beyond what the World Trade Organization can do. It covers, beyond the wide liberalization of trade in goods and services, regulation of access to the public procurement sector and mutual protection of investment. A free trade area between the European Union and Canada is established in accordance with art. XXIV of the GATT and art. V of the GATS. This is the first agreement negotiated by the European Union with a country being a member of the G7 and the second with a country belonging to North American Free Trade Agreement (NAFTA)[4].

During the legal review of the content of the agreement, there was a change in the CETA text on the dispute settlement system, which not only raised the possibility of a change, but also resulted in provisionally entry into force of provisions regulating issues from the scope of the EU's exclusive and shared competence (sustainable development, trade and work, commerce and the environment, some types of services). The CETA is a mixed agreement and therefore requires ratification by all member states and the European Parliament. Provisional use has been ruled out by the narrow scope of the member states' competence to protect investment and settle disputes between the investor and the state, administrative and redress procedures at the level of the member states, to introduce criminal sanctions for the illegal filming of films in cinema for the purpose of dissemination. The agreements regulating the trade in wines and spirits, mutual recognition of sanitary and phytosanitary measures have also been suspended. They were

[4] The European Union already has this kind of agreement with Mexico, valid until 2000, but with much less scope, as it regulates the conditions of access to goods and services (OJ EU, L 70, 12 March 2001).

replaced by the provisions of the CETA, enabling them to benefit from the preferences provided for in the agreement in the area of trade in goods and services, commercial aspects of intellectual property rights, cooperation in sanitary and phytosanitary matters.

As far as trading conditions are concerned, CETA assumes the removal of tariffs for 98.6% of tariff lines being exported from the European Union to Canada and 98.7% of tariff lines imported into the Single Market. Removal of 0.4% of Canadian tariff lines and 1% of EU tariff lines will be carried out within three, five or seven years after CETA comes into force. Customs duties on other goods classified by tariff lines were eliminated upon the entry into force of the agreement (CETA. 2016). Tariffs will be maintained only for a small percentage of tariff lines, which are the most sensitive for both partners (1.4% for Canada and 1.3% for the European Union respectively).

Table 1. Elimination of tariffs under CETA on trade between Canada and the European Union

Product areas	**European Union**		**Canada**	
	Elimination of tariffs upon entry into force of the agreement	Final elimination of tariffs	Elimination of tariffs upon entry into force of the agreement	Final elimination of tariffs
Industrial products	99.6	100.0	99.4	100.0
Agricultural products	92.2	93.8	90.9	91.7
Fisheries products	95.5	100.0	100.0	100.0

Source: CETA, 2016.

At the time of entry into force of the agreement, both sides - the European Union and Canada – liberalized almost fully the exchange of industrial products (Table 1). Customs duties on goods included in this group have already been substantially reduced during the subsequent rounds of the WTO. Both sides will reduce the tariffs on limited number of automotive products the longest. Canada will also introduce the greatest preferences for imported ships and vessels that it has so far introduced for its trading partners (CETA, 2016).

Agro-food commodities, which are the most sensitive products, will also be subject to significant levels of liberalization (Table 1). However, in this group some of the articles will be subject to tariff quotas (dairy, beef, pork, wheat, sweet corn in cans), while some will be excluded from the liberalization commitments (e.g. certain types of poultry meat). In the group of processed agricultural products, alcoholic beverages, wines and spirits, which are relatively often exported from the European Union to Canada, deserve attention. Tariffs elimination for this group of product is complemented by the removal of non-tariff barriers (CETA, 2016).

For fisheries products, Canada has fully eliminated the customs duty at the time of entry into force of the agreement. On the other hand the European Union has introduced transitional duty free tariff rate quotas (TRQs) (CETA, 2016).

The agreement also covers the protection of geographical indications and products according to a specific list proposed by the European Union, intellectual property

rights in trade, sanitary and phytosanitary protection, including regulations on genetically modified products, technical barriers and customs and trade facilitation (chap. 3., 4., 5., 6., 20. CETA). Another element, as in other regional trade agreements, are the rules of origin of goods, which allows the application of preferential tariffs (Protocol on rules of origin and origin procedures).

The entry into force of the Interim Agreement between the European Union and Canada has created new opportunities for the development of trade and introduced significant changes in the conditions for access of EU goods to the Canadian market.

4. EXPORTS OF POLAND AND OTHER CEE COUNTRIES TO CANADA – RESULTS OF THE STUDY

The entry into force of the agreement in September 2017 will allow for a real assessment of its effects at a later stage, so in this part of the study one will analyze the importance of exports of Poland and selected CEE countries to Canada in the last decade and changes in the structure of sales of goods to this market.

Although Canada is an important partner of the European Union, its share in both Polish exports and other CEE countries, including the European Union, was relatively low. During the period considered, frequent fluctuations in its size can be noted, which may indicate a lack of stable relations between these countries. In the CEECs, Canada was most closely linked to Estonia and Poland (Table 2).

Table 2. The importance of Canada in Polish exports against the background of the EU and selected CEE countries in the years 2007-2016 (in %)

EU and CEE countries	2007	2009	2013	2016
European Union	0.68	0.70	0.69	0.72
Bulgaria	0.41	0.27	0.34	0.15
Croatia	0.19	0.15	0.35	0.30
Czech Republic	0.13	0.13	0.17	0.15
Estonia	0.76	1.79	0.19	0.72
Hungary	0.19	0.26	0.29	0.24
Latvia	0.28	0.13	0.12	0.18
Lithuania	0.44	0.52	0.22	0.28
Poland	0.37	0.46	0.49	0.71
Romania	0.14	0.08	0.24	0.18
Slovakia	0.21	0.21	0.24	0.40
Slovenia	0.22	0.25	0.24	0.25

Source: ITC Trade Map and own calculation, accessed: 26 October 2017.

The following section focus on seven countries (Croatia, Estonia, Hungary, Lithuania, Poland, Slovakia and Slovenia), with the highest share in exports to Canada (above 0.2%), For this group an analysis of export structure by factors of production was conducted.

Table 3. Export structure of selected CEE countries in the years 2007-2016 by the intensity of the production factors based on HS Classification (in %)

Group of products/Country	Croatia				Estonia				Hungary				Lithuania			
	2007	2009	2013	2016	2007	2009	2013	2016	2007	2009	2013	2016	2007	2009	2013	2016
Resource-intensive products	15.65	31.57	11.88	12.40	84.63	93.48	44.83	74.43	1.97	1.56	4.31	8.64	69.40	85.36	48.45	55.46
Labor-intensive products	13.57	5.63	3.46	7.27	7.54	2.24	22.04	10.40	7.14	1.65	4.69	7.50	2.13	2.43	9.07	15.93
Capital-intensive products	20.54	22.26	13.18	13.05	4.80	0.64	6.59	5.58	7.22	10.69	22.52	46.26	15.79	10.16	24.73	22.36
Technology-intensive products, easy to imitate	26.02	23.56	44.44	39.39	0.00	1.49	2.14	1.34	8.15	17.36	7.24	6.83	10.41	0.80	16.38	4.14
Technology-intensive products, difficult to imitate	24.22	16.98	26.90	27.79	3.01	2.14	24.08	8.25	74.73	68.52	61.13	30.60	1.87	1.04	1.05	1.68

Group of products/Country	Poland				Slovakia				Slovenia			
	2007	2009	2013	2016	2007	2009	2013	2016	2007	2009	2013	2016
Resource-intensive products	9.13	5.91	7.83	6.14	0.33	0.41	1.43	0.79	1.98	1.23	1.65	1.40
Labor-intensive products	19.60	9.89	28.74	21.15	26.35	13.99	8.38	3.42	23.07	21.68	12.86	11.22
Capital-intensive products	8.87	18.68	5.72	17.48	58.81	70.04	75.72	77.87	10.39	5.45	7.37	9.76
Technology-intensive products, easy to imitate	1.11	1.08	3.78	1.98	2.43	2.65	1.66	0.59	16.51	25.96	37.40	39.73
Technology-intensive products, difficult to imitate	61.28	64.45	53.93	53.21	12.08	12.90	12.79	17.31	48.05	45.67	40.59	37.84

Source: ITC Trade Map and own calculation, accessed 28 October 2017.

The export structure of goods to Canada, developed according to the intensity of the production factors, varied greatly in the group of countries surveyed. In the case of Croatia, capital-intensive products and both groups of technology-intensive products were the most important (they accounted for more than 70% of the products sold by this country on the Canadian market). For Poland, Slovenia and Hungary, the most important group was technology-intensive products difficult to imitate. However, it should be borne in mind that this group is often qualified only for parts and components of final products that are produced by these countries. In the case of Hungary in 2016, a change in the importance of capital-intensive products may be noted. This group also dominated the export to Canada from Slovakia. In the Polish and Slovenian exports to Canada, the second most important group was labor-intensive products. On the other hand, Estonia and Lithuania had the highest share of resource-intensive products. The analysis of the export structure, however, at a high level of aggregation, showed a relatively low level of similarity between the sale of CEECs to the Canadian market. In the years 2007-2016, significant changes in the shares occurring at the level of the distinguished commodity groups of the analyzed countries should be noted, indicating the further development of trade links between Canada and CEECs (Table 3). This is also confirmed by the data in table 4.

Table 4. Number of tariff lines (according to the 6-digit HS code) exported to Canada by Poland and CEE countries surveyed in 2007-2015

EU and CEE countries	2007	2009	2013	2015
European Union	4090	4160	4174	4200
Croatia	188	180	265	312
Estonia	151	113	205	247
Hungary	448	360	685	710
Lithuania	209	254	361	380
Poland	1303	1256	1501	1693
Slovakia	288	386	419	466
Slovenia	398	385	436	478

Source: WITS, accessed 27 October, 2017.

In the years 2007-2016, there is an increase in the diversification of goods exported to Canada, but this is still a small number, showing very narrow specialization as compared to the European Union. Polish exports of products exported to the Canadian market against the background of other CEE countries showed the greatest variation in comparison to the European Union (Table 4). The analysis of the data makes it possible to pinpoint improving the situation of CEECs in the Canadian market, but these countries are still much weaker compared to the EU15.

A study will be carried out in the following section of the article showing the current burden of customs duties on goods exported by CEE countries to Canada. It included the 10 most important commodity groups (at the HS Chapter) and assigned to them the customs duties in force until the entry into force of CETA.

Table 5. The most important commodity groups in export from selected CEE countries to Canada in 2016 based on the HS Chapter[5]

Croatia			Estonia			Hungary			Lithuania		
HS Chapter	Share (%)	Duty rate (%)	HS Chapter	Share (%)	Duty rate (%)	HS Chapter	Share (%)	Duty rate (%)	HS Chapter	Share (%)	Duty rate (%)
30	31.13	**0.0**	**27**	66.25	**1.0**	**87**	37.74	**5.0**	**27**	52.92	**1.0**
85	15.08	**1.0**	**21**	6.99	**32.0**	**84**	20.63	**0.0**	**94**	19.18	**5.0**
76	10.44	**1.0**	**94**	5.77	**5.0**	**85**	7.00	**1.0**	**84**	7.03	**0.0**
29	7.98	**0.0**	**85**	4.50	**1.0**	**30**	4.65	**1.0**	**31**	3.78	**0.0**
90	7.85	**0.0**	**72**	4.09	**0.0**	**02**	4.52	**53.0**	**95**	2.18	**1.0**
94	4.61	**5.0**	**44**	2.74	**1.0**	**33**	3.19	**5.0**	**90**	2.14	**0.0**
84	4.56	**0.0**	**90**	2.46	**0.0**	**40**	3.17	**3.0**	**85**	1.68	**1.0**
21	3.11	**32.0**	**84**	1.29	**0.0**	**90**	2.96	**0.0**	**56**	1.42	**2.0**
19	2.66	**24.0**	**95**	1.12	**1.0**	**69**	2.39	**5.0**	**62**	1.35	**17.0**
20	2.29	**5.0**	**38**	0.91	**0.0**	**48**	1.44	**0.0**	**44**	1.10	**1.0**
Total	**89.71**		**Total**	**96.12**		**Total**	**87.69**		**Total**	**92.78**	

Poland			Slovakia			Slovenia		
HS Chapter	Share (%)	Duty rate (%)	HS Chapter	Share (%)	Duty rate (%)	HS Chapter	Share (%)	Duty rate (%)
84	43.13	**0.0**	**87**	72.88	**5.0**	**30**	35.53	**0.0**
43	13.55	**3.0**	**84**	12.95	**0.0**	**84**	16.95	**0.0**
89	9.71	**2.0**	**85**	4.22	**1.0**	**85**	16.33	**1.0**
94	5.19	**5.0**	**94**	1.85	**5.0**	**76**	4.93	**1.0**
88	4.20	**0.0**	**73**	1.51	**1.0**	**90**	4.02	**0.0**
90	3.46	**0.0**	**40**	1.46	**3.0**	**39**	2.89	**1.0**
40	3.13	**3.0**	**86**	0.73	**7.0**	**94**	2.77	**5.0**
85	2.41	**1.0**	**95**	0.62	**1.0**	**95**	2.60	**1.0**
73	1.75	**1.0**	**76**	0.53	**1.0**	**72**	1.40	**0.0**
02	1.33	**53**	**72**	0.51	**0.0**	**73**	1.39	**1.0**
Total	**87.86**		**Total**	**97.26**		**Total**	**88.81**	

Source: ITC Trade Map and own calculation, accessed 28 October 2017.

[5] HS Chapters notes in table 5: Ch. 02: Meat and edible meat offal; Ch. 19: Preparations of cereals, flour, starch or milk; pastrycooks' products; Ch. 20: Preparations of vegetables, fruit, nuts or other parts of plants; Ch. 21: Miscellaneous edible preparations; Ch. 27: Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes; Ch. 29: Organic chemicals; Ch. 30: Pharmaceutical products; Ch.31: Fertilizers; Ch. 33: Essential oils and resinoids; perfumery, cosmetic or toilet preparations; Ch. 38: Miscellaneous chemical products; Ch. 39: Plastics and articles thereof; Ch. 40: Rubber and articles thereof; Ch. 43: Furskins and artificial fur; manufactures thereof; Ch. 44: Wood and articles of wood; wood charcoal; Ch. 48: Paper and paperboard; articles of paper pulp, of paper or paperboard; Ch. 56: Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof; Ch. 62: Articles of apparel and clothing accessories, not knitted or crocheted; Ch. 69: Ceramic products; Ch. 72: Iron and steel; Ch. 73: Articles of iron or steel; Ch. 76: Aluminium and articles thereof; Ch. 84: Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof; Ch. 85: Electrical machinery and equipment and parts thereof; sound records and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles; Ch. 86: Railway or tramway locomotives, rolling stock and parts thereof; railway track fixtures and fittings and parts thereof; mechanical (including electromechanical) traffic signaling equipment of all kinds; Ch. 87: Vehicles other than railway or tramway rolling stock, and parts and accessories thereof; Ch. 88: Aircraft, spacecraft, and parts thereof; Ch. 89: Ships, boats and floating structures; Ch. 90: Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof; Ch. 94: Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated nameplates and the like; prefabricated buildings; Ch. 95: Toys, games and sports requisities; parts and accessories thereof.

In all the studied countries, ten top commodity groups accounted for about 90% of exports to Canada, which confirms a very high concentration of sales, mainly in the processing industry. The table indicates the commodity bundles, classified in the sections with an average customs duty rate of at least 5%. The applicable customs duties did not restrict the access of most Canadian goods to the Canadian market. Among the most protected industrial products were clothing articles, which were subject to export from Lithuania (17% customs duty rate). In the case of other groups of goods, the average customs duty rates for the whole department were at the level of 0.0% - 7.0%. According to a study carried out in the previous section, customs rates for most industrial goods exported from the EU to Canada were eliminated at the time of CETA's entry into force. For the most sensitive goods, which are automotive products (HS 87 chapter) and ships (HS 89 chapter), they will be eliminated within 3-7 years of the entry into force of the agreement. Access to agri-food products (chapters 1-24 in HS), often classified as sensitive, was significantly more limited than industrial goods. Among the 10 most important groups, the goods included in them were exported in Croatia (about 8% of the Croatian total exports), Estonia (about 7.0%), Hungary (4.5%), Poland (1.3%). Higher customs duties were applied to them (e.g. the average customs duty rate for the goods classified in Chapter 02 HS was 53% of products value) (Table 5). The conditions of access of goods to the market belonging to this group are to a relatively large extent not subject to any liberalization and will not change as a result of CETA's entry. It should also be noted that in the group of agri-food products the current tariff rate quotas will be introduced or extended, however, the customs duties applicable after they are exceeded will fully protect access to Canadian market. CETA does not contain any obligations related to the elimination or the provision of domestic agricultural and fisheries subsidies. In the case of sensitive goods, especially those classified as agri-food, after the entry into force of the CETA, one should also consider the occurrence of significant high peaks in the tariff. Eliminating customs duties for agri-food (mostly between 10% and 25% of the products value) should allow Poland and other CEECs to be more competitive on the Canadian market and further increase of export share to the analyzed country is expected.

In the context of modern trade, access to the market is significantly more limited by non-tariff barriers, which are of a regulatory nature. Differences in food standards, technical regulations, sanitary and veterinary assessment, including inspection and certification procedures, may continue to significantly hinder the access of CEEC goods to the Canadian market. Opportunities for export development may also be influenced by the cost of promoting goods in the Canadian market and the organization of distribution networks, often closely linked to American companies.

5. CONCLUSIONS

Nowadays, regional trade agreements, establishing free trade areas and customs unions, and introducing cooperation based on reciprocal preferences, play an important role in the liberalization of trade barriers between the countries concluding them. The studies, assessing their effects, show advantages and disadvantages, not only for coun-

tries belonging to them, but also for the multilateral trading system, the countries outside them, and the weaker partners joining them. One of the regional trade agreements concluded by the European Union is CETA, which determines the conditions for creating an in-depth free trade area with Canada and comprehensive economic cooperation. It introduced one of the largest tariff reductions ever achieved by the European Union in the context of regional free trade agreements. The entry into force of the agreement has created a new opportunity for trade development.

Canada is not an important recipient of goods sold by the CEECs, its share in the export of the studied group of countries was relatively low. Only Poland and Estonia had a slightly higher share, comparable to the EU average.

Exports from Poland and the CEE countries were characterized by a high concentration of commodity groups and relatively low customs duties before the entry into force of CETA. Only in case of Croatia, Estonia, Hungary and Poland among the most important groups there were agri-food products, with a much higher level of protection.

According to the analysis, the entry into force of CETA and the elimination of tariff barriers will improve the conditions for access to the Canadian market, particularly in the field of industrial products. In the case of about 10% of agri-food products, including mainly some meat products, which are subject to export from Poland and Hungary, these conditions will not change.

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THE EXPORT COMPETITIVENESS OF THE EU 28 COUNTRIES

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Abstract

The paper focuses on international trade characterized by trade indicators and more specifically, addresses international competitiveness of the 28 European Union Member countries, shown through said indicators. This allows for a further in-depth research which presents interconnectivity and interdependence of these factors which influence competitiveness among the EU countries and on a global level. The highlight is on exports, however, international competitiveness has been discussed as well. The basic aim of the paper is to measure international trade performance and the competitiveness among the EU 28 Member countries. The main results of the paper indicate international competitiveness detected by measuring, evaluation of the countries' GDP and trade openness, especially on foreign markets, recommendations and proposals in order to reach a higher level of international trade. The methodology of this research is based on the implementation of different trade performance indicators like intra-industry trade, balance of trade, export as a share of GDP and other important indicators. Results imply values which mainly grow as the years go by which are promising results, as even the least developed countries within the Union are increasing their international competitiveness. These positive results are the product of the initiatives the European Union is implementing but also the countries' own economic policies.

Key words: EU countries, export, import, international competitiveness

1. INTRODUCTION

Global financial crisis in 2009 significantly affected the international trade and different industries and sectors of the economy, ultimately affecting competitiveness of the EU countries as well. The effects of the crisis were felt years after it happened and some of the countries are still unable to get back on their feet and grab a share of the global market.

The EU represents one of the most open economies in the world which remains committed to free trade. One of the reasons consider the existence of average applied

tariff for goods imported into which is very low. Furthermore, the EU's services markets are highly open which is confirmed by the most open investment regime in the world. The EU has retained its capacity to conclude and implement trade agreements (European Comission, 2017).

One of the benefits of being an EU Member country is that even though the national productivity and trade may be in a difficult position, the EU is able to help its less developed countries with their initiatives as it is viewed as a single market, which some of the developed countries may find detrimental to their own economy. Nonetheless, it is evident from many different data that this boosts overall international competitiveness and better each country individually. That is why the trade indicators serve as a research tool to determine the solutions to the research problem, which is to determine how competitive the EU countries are with their exports and on an international level.

Within the framework of the defined research problem, the scientific hypothesis of the paper is set up, namely, that it is possible to project state of international trade performance of the EU Member countries by implementation of various international trade and competitiveness indicators.

In this relation, the basic objective of the research is to measure international competitiveness, mainly export competitiveness, objectively estimate international trade of the 28 EU Member countries, and to propose measures and activities for the improvement of international trade competitiveness in accordance with the results.

The paper consists of five systematically interrelated parts. After the Introduction, the second part of the paper presents research methodology. The third part includes analytical framework and results of international trade competitiveness based on the analysis of foreign trade activity and international competitiveness of the EU Member states. The final part comprises proposals, recommendations and conclusions.

2. METHODOLOGY

Analytical approach is based on scientific results of several indicators that measure the level of international trade competitiveness of the 28 EU countries. The aforementioned indicators, which have been frequently used in contemporary economic research, evaluate economy's structural strengths and weaknesses *via* the composition of international trade flows (Bezić and Galović, 2013). In other words, these indicators address the question of trade specialization and performance in international markets. The aim of implemented methodology also shows the importance of the foreign market for a country and what degree of domestic demand is satisfied by imports. Moreover, the most commonly used indicators, indices, and ratios that are to assess trade patterns, characteristics, and changes in them have been observed. Besides elementary and well-known indicators, this research uses basic indicators that are suggested by OECD Statistical Database (2014) and World Bank (2014). These indicators were used in previous studies (Bezić and Galović, 2013; Kandžija et.al, 2014, Bezić and Galović, 2014) of other European manufacturing sectors which have provided realistic, objective results of international trade performance.

Definitions of competitiveness provided by the Organization for Economic Cooperation and Development (OECD) and the Department of Trade and Industry (DTI) indicate the importance of technological factors in achieving competitiveness. The Department of Trade and Industry (DTI, 1994) defines a company's competitiveness as an ability to produce certain goods and services, at the right time and price. The definition of the Organization for Economic Cooperation and Development (OECD, 1992), from the micro aspect, includes competitiveness that refers to the company's ability to compete, maximize the profit and to achieve growth based on costs and prices by using technology, quality improvement and efficiency maximization of its products.

There are many scientists who research the relation between competitiveness and technological abilities. Scientists like Lall (2001) and Wignaraja (2003) and institutions like the Organization for Economic Cooperation and Development (OECD) have confronted attitudes of other scientists who are trying to define competitiveness only from the aspect of price factors by emphasizing non-price factors, like technology. The discussion has led towards the revision of traditional theories in the framework of intricacies involving competitiveness.

There are two different aspects that define the term competitiveness more closely. The general macroeconomic aspect shows international competitiveness in frameworks of price factors. The microeconomic aspect, on the other side, is trying to define competitiveness at company level with non-price factors with an emphasis on the research of rivalry between companies.

The macroeconomic aspect is accompanied by internal and external economic balance where a special focus is put on the effects of non-price factors on competition. The microeconomic aspect considers the internal company dynamics which has an impact on the company's strength.

The microeconomic aspect refers to competitiveness at company level. The perspective as such includes rivalry between companies and its strategies. In the last few years the microeconomic aspect has implied influence of technology and innovation as new dimensions. Lall (2001) criticizes the neoclassical theory whose assumptions are based on the thesis that technology is accessible to all companies and that they have the ability to use technology at a technically "high" level. However, it is a long-term learning process which starts with export of technology and proceeds to innovations.

Some analyses of factors influencing the success or failure of efforts to promote industrialization and growth conclude that a growing level of intra-industry trade plays an important positive role (World Bank, 2013). Intra-industry exchange yields extra gains from international trade over and above those associated with comparative advantage because it allows a country to take advantage of larger markets.

Intraindustry trade (IITR) represents the value of total trade remaining after subtraction of the absolute value of net exports or imports of a country. For comparison between countries and industries, the measures are expressed as a percentage of each industry's combined exports and imports. The index varies between 0 and 100. It represents the similarity between imported and exported products. The closer the value to 100 the more the products which are imported and exported belong to the same indus-

try. If a country exports and imports roughly equal quantities of a certain product, the index value is high. Whereas if trade is mainly one-way (whether exporting or importing), the index value is low. The equation for the said indicator is shown below.

$$\mathrm{IITR}_i = 1 - \left(1 - \frac{|expo_i - impo_i|}{expo_i + impo_i}\right) \times 100 \tag{1}$$

wherein:

$expo_i$ - export activity of sector "i"

$impo_i$ - import activity of sector "i"

Next indicator used is the trade balance or balance of trade (TBAL). It is the difference between the value of all goods and services a country exports and the goods and services a country imports. Therefore, this indicator is calculated in real numbers of national currencies and highlights the trade pattern of each industry. Trade balance is one of the macroeconomic indicators which are used to gauge the competitiveness of a sector at national level. When country's exports exceed imports it is said that it has a positive trade balance or trade surplus. When its imports exceed exports, it is said that the country has a negative trade balance or trade deficit. TBAL is calculated using the following formula:

$$\mathrm{TBAL}_i = expo_i - impo_i \tag{2}$$

wherein:

$expo_i$ - export activity of sector "i"

$impo_i$ - import activity of sector "i"

Another simple indicator used within this paper is the export-import ratio (EXIM) which indicates the ratio of export and import shown in percentage. It is calculated as export over imports, multiplied by a hundred. In order to calculate this indicator, the formula used is:

$$\mathrm{EXIM}_i = \frac{expo_i}{impo_i} \times 100 \tag{3}$$

wherein:

$expo_i$ - export activity of sector "i"

$impo_i$ - import activity of sector "i"

Furthermore, the trade openness indicator (TOI) is the ratio of trade over a country's GDP. The GDP of all 28 Member countries is presented following by the trade openness indicator. The calculation is made by dividing the sum of exports and imports of a country with its GDP which is the value of all final goods and services in an economy during a given period. The higher the index of trade openness, the larger the influence of trade on domestic activities, and the stronger that country's economy. The formula used is as follows:

$$\mathrm{TOI}_i = \frac{expo_i + impo_i}{GDP} \tag{4}$$

wherein:

$expo_i$ - export activity of sector "i"

$impo_i$ - import activity of sector "i"

GDP- a country's gross domestic product

Finally, the indicator called export as a share of GDP (EGDP) was used. It shows the amount of exports in a country's GDP and it is calculated as a country's total exports over its GDP. If the percentage is high it means that the GDP of a country is constituted of a lot of exports. The equation for this indicator is presented on the following page.

$$\mathrm{EGDP}_i = \frac{expo}{GDP} \tag{5}$$

wherein:

expo – total export activity of a country

GDP- a country's gross domestic product

3. RESULTS

In the analysis of the outlined problem, the starting point is the identification of international trade performance of the 28 EU member countries in the period between 2011 and 2015. Several indicators, which are based on export and import, can be used to measure the performance and competitiveness of a certain sector for each country. In a given year, the values of an indicator can differ between countries, which allow an international comparison. The value of an indicator may also differ between different years, within a different country. When evaluating Germany for example, one can examine the evolution of these values over recent history.

In this particular study, five indicators will be calculated for the 28 EU member countries: IITR, EXIM, TBAL, TOI and EGDP. The data is extracted from UNCTADstat and World Bank and tables and graphs have been made using the said data. The results for each indicator will be discussed in a group of seven countries at a time, for all the countries listed in the tables, accordingly.

The analysis comprehends all 28 countries of the European Union in alphabetical order: Austria, Bulgaria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

The indicators used for the analysis include exports and imports of goods and services in USD at current prices, trade balance in USD at current prices of goods and services, intra-industry trade indicator, export import ratio and trade openness. The period of analysis is from the year 2011 to the year 2015 and some of the graphs in the

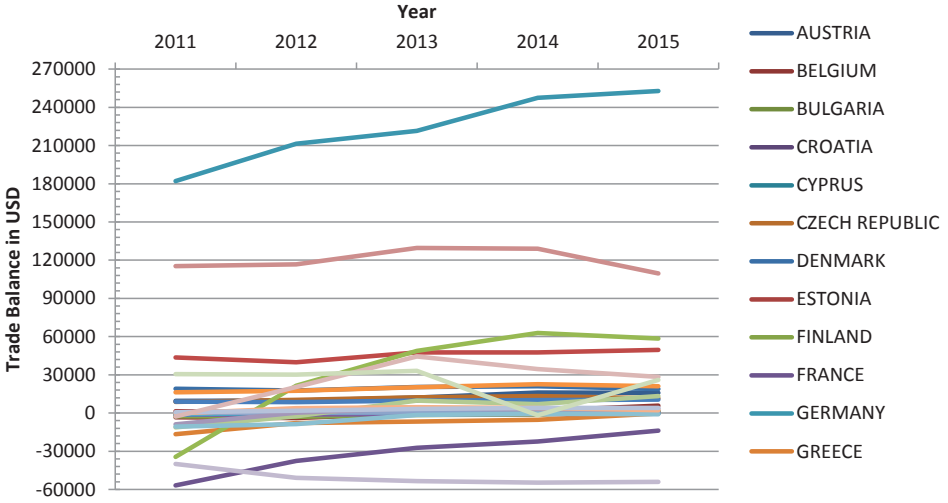
Appendices are shown in logarithmic scale with a base of 5 or 10 in order to show the results more precisely and neatly, but those will be indicated below the graph in question.

Starting with trade balance indicator (TBAL) and using data from UNCTADstat on import and export of the EU member countries, an analysis has been made. Given those values a graphical representation was made, visible in Figure 1, along with the actual values presented in the table in Appendix 1, given the indicator mentioned. The time period observed is 5 years, from 2011 to 2015, for all the 28 Member countries.

Given the values and observing the first seven countries in the table it is evident that Austria, Croatia, Czech Republic and Denmark have a positive trade balance throughout the years, while Belgium, Bulgaria and Cyprus experienced fluctuations.

Between 2011 and 2013 Belgium imported mostly mineral fuels, mineral oils and products of their distillation; bituminous substances, mineral waxes; vehicles other than railway or tramway rolling stock, and parts and accessories. Bulgaria mainly imported mineral fuels, mineral oils and products of their distillation; bituminous substances, mineral waxes; electrical machinery, equipment and different parts, sound recorders and reproducers, television; machinery, mechanical appliances, nuclear reactors, etc. Croatia exported mostly mineral fuels, mineral oils and products made from distillation; bituminous substances, mineral waxes; electrical machinery and equipment and parts thereof, sound recorders and reproducers, television; machinery, mechanical appliances, nuclear reactors, boilers and their respective parts.

Figure 1. Trade balance of the 28 EU countries



Data source: UNCTADstat, http://unctadstat.unctad.org

Of the next seven countries in the table, a trade surplus has been recorded in Germany, with the highest surplus amounting to 252 820$ in 2015 and the lowest standing at 182 046$ in 2011, with no trade deficit in any of the observed years. France experienced trade deficit throughout all the years. The highest one was in 2011 with -56 727$ and the lowest in 2015 with -13 913$. Following with the next seven countries, it is visible that only Luxembourg and the Netherlands had their balances in surplus throughout all the observed years. From a global perspective, the Netherlands has the seventh largest trade surplus in the trade of goods. The reason for this situation is the export increase of the country, during the last five years, which caused it to become the 7th largest exporter in the world, increasing its competitiveness on the EU and the global market. The most recent exports are led by Refined Petroleum which represents 11.1% of the total exports of the Netherlands.

On the other hand, Latvia is the only country which suffered a trade deficit during the period. When compared to its trade balance in the 90s, Latvia was in a much more favorable position, with a positive trade balance of 396 million dollars. From the last seven countries, only Slovenia has a positive trade balance, while Romania and the UK have experienced a negative trade balance throughout the years. The UK has a recorded deficit because imports exceed exports- values go from -39989 to -54044. Moreover, it has a decline in the exporting manufacturing sector as it struggled to compete with the developing countries.

In Portugal, exports exceed imports and the main exporting goods are pulp, machinery, and acrylic fibers. The next analyzed indicator is the intra-industry trade indicator (IITR) for which the table of values for all the 28 countries are shown below.

Among the first seven countries it is visible that only Austria had a lower index number in 2011. In that year, it mostly imported:

1. Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof
2. Vehicles other than railway or tramway rolling stock, and their parts and accessories.

Table 1. Intra-industry trade

	2011	2012	2013	2014	2015
AUSTRIA	78,56	97,74	97,26	96,44	95,91
BELGIUM	99,6	99,51	99,99	99,87	99,21
BULGARIA	99,59	97,68	97,15	99,56	98,64
CROATIA	99,71	99,15	99,53	97,82	97,24
CYPRUS	99,2	98,97	99,06	99,42	99,16
CZECH REPUBLIC	97,21	96,64	96,06	95,97	96,09
DENMARK	94,47	94,66	94,05	93,98	93,64
ESTONIA	96,55	99,48	98,71	97,92	97,43
FINLAND	98,85	98,61	99,25	99,41	99,18
FRANCE	96,66	97,69	98,39	98,67	99,08
GERMANY	94,28	93,04	93,03	92,42	91,19
GREECE	89,73	94,68	95,62	96,65	99,66
HUNGARY	96,23	95,94	95,67	95,74	95
IRELAND	90,23	91,03	89,74	90,95	90,63
ITALY	97,28	98,16	95,87	94,78	94,38
LATVIA	96,07	96,61	97,28	98,15	98,79
LITHUANIA	98,3	99,49	99,25	98,8	99,79
LUXEMBOURG	90,83	90,3	90,15	90,01	89,77
MALTA	99,21	98,79	98,53	97,23	97,52
NETHERLANDS	91,42	91,11	90,51	90,86	90,89
POLAND	97,55	99,42	97,96	98,62	97,09
PORTUGAL	95,02	99,87	97,74	98,57	97,84
ROMANIA	92,66	93,62	99,06	99,62	99,37
SLOVAKIA	99,74	97,74	97,43	97,83	98,67
SLOVENIA	99,16	97,22	95,21	94,56	93,47
SPAIN	99,69	97,43	94,66	96,02	96,29
SWEDEN	93,83	93,59	92,98	99,63	93,83
UK	97,57	96,93	96,83	96,88	96,67

Data source: UNCTADstat, http://unctadstat.unctad.org

As far as Croatia is concerned, in the period from 2011 to 2015, the most exported products were mineral fuels, mineral oils and products of their distillation; bituminous substances and mineral waxes. The second most imported commodities in the period from 2011 to 2012 were electrical machinery and their equipment and parts; sound recorders and reproducers, television, etc. And from the period from 2013 to 2015 the second most exported were machinery, mechanical appliances, nuclear reactors, boilers, parts thereof.

The most imported products in Croatia in the period from 2011 to 2015 were: mineral fuels, mineral oils and products of their distillation; bituminous substances, mineral waxes; machinery, mechanical appliances, nuclear reactors, boilers, parts thereof electrical machinery and equipment and parts thereof, sound recorders and reproducers, television, etc.

All of the following seven countries export and import almost the same kind of goods and products belonging to the same industry. For example, Germany with electrical machinery, other machinery and vehicles and France with the same commodities. For the following seven countries, all index values are high which means the countries' exports and imports roughly equal quantities of a certain product. Lithuania has the highest intra-industry trade index among these countries. Its main exported and imported commodities are: consumer goods, food, fuels, industrial supplies, machinery etc. For Luxembourg, intra-industry trade is at its lowest in 2015 and its most exported and imported goods are: minerals, metals, foodstuffs and quality consumer goods. The top exports of the Netherlands are refined and crude petroleum, petroleum gas and computers. Its top imports are crude and refined petroleum, computers, telephones and petroleum gas. Out of the last set of seven countries, UK has the most constant numbers. Slovakia has the number closest to 100 which means that the goods exported and imported are essentially similar.

Table 2. Export-import ratio

	2011	**2012**	**2013**	**2014**	**2015**
AUSTRIA	104,38	104,63	105,64	107,37	108,53
BELGIUM	99,21	99,03	99,98	100,4	101,59
BULGARIA	100,83	95,46	99,29	99,11	102,76
CROATIA	100,58	101,71	100,95	104,45	105,68
CYPRUS	94,37	97,97	101,89	101,16	98,34
CZECH REPUBLIC	105,74	106,96	108,2	108,39	108,14
DENMARK	111,71	111,27	112,64	112,81	113,58
ESTONIA	107,14	101,04	102,62	104,24	105,28
FINLAND	97,73	97,26	98,51	98,84	101,65
FRANCE	93,54	95,49	96,85	104,58	98,18
GERMANY	112,13	114,96	114,99	116,4	119,33
GREECE	81,37	89,9	91,61	93,52	99,33
HUNGARY	107,83	108,46	109,06	108,89	110,52
IRELAND	121,65	119,69	122,86	119,9	120,67
ITALY	94,73	103,75	108,62	111,06	111,9
LATVIA	92,44	93,45	94,7	96,37	97,62
LITHUANIA	96,66	101,02	101,51	102,43	99,59
LUXEMBOURG	120,2	121,48	121,86	122,19	122,79
MALTA	98,44	102,46	102,98	105,71	105,09
NETHERLANDS	118,77	119,52	120,96	120,12	120,05
POLAND	95,22	98,86	104,16	102,79	105,98
PORTUGAL	90,52	100,26	104,62	102,89	104,41
ROMANIA	86,33	87,99	98,13	99,25	98,74
SLOVAKIA	99,49	104,62	105,27	104,43	103,98
SLOVENIA	101,7	105,72	110,06	111,51	113,96
SPAIN	99,39	105,26	111,29	108,29	107,71
SWEDEN	113,15	113,69	115,11	112,43	113,14
UK	95,25	94,04	93,85	93,95	93,56

Data source: UNCTADstat, http://unctadstat.unctad.org

Export-import ratio (EXIM) of the first seven countries does not show any significant deviations from year to year. Denmark has the highest export-import ratio 2015 at 113.58, while Cyprus has the lowest at 94.37, recorded in 2011. These values are shown in Table 2 on the following pages.

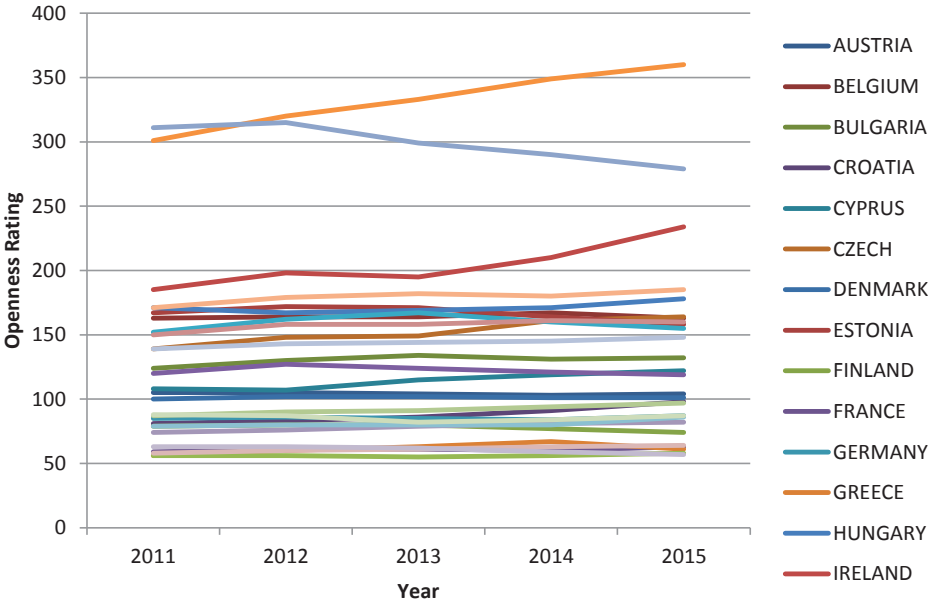
In the next group of countries Ireland continuously has the highest export to import ratio. The highest one was in 2013 at 122.86 and lowest was in 2012, which amounted to 119.69. Country with the significantly lowest export-import ratio is Greece, with highest being only 99.33 in 2015 and lowest 81.37 in 2011, which attests to how Greece is not prone to engaging in trade as much as the other countries, meaning it is not sufficiently competitive.

From the third group of countries, Latvia shows the lowest export to import ratio and the highest, Luxembourg. Latvia alone had the lowest ratio in 2011 (92,44) but over the course of a few years it rose up to 97.62; still incomparable to some of the other countries that trade on a global level. Same was for Luxembourg with its lowest ratio in 2011 (120,20) while in 2015 it was 122,79.

Among the final group of countries, the highest export-import ratio was recorded in Sweden in 2013 with the value of 115.11. Romania had the lowest index in 2011 with the amount of only 86.33. UK has the most constant numbers again, which do not surpass 100.

The next important indicator for this research is trade openness indicator (TOI), i.e. how much a country is willing to engage in trade and how much it is influenced by it.

Figure 2. Trade openness indicator



Data source: UNCTADstat, http://unctadstat.unctad.org

As mentioned before, the higher the index the larger the influence of trade on domestic activities, and the stronger the country's economy. The visual representation is shown in Figure 2 and the numerical values are shown in Appendix 2.

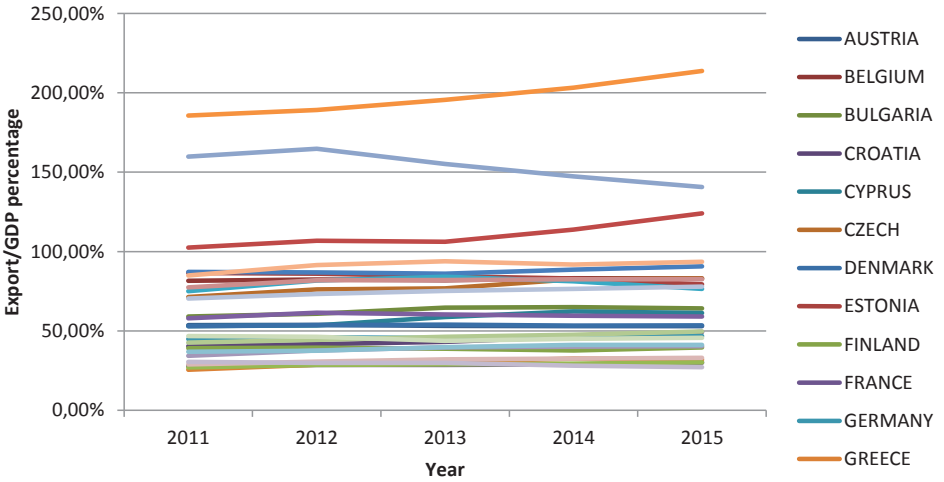
When comparing the first seven countries, it appears that Belgium has the highest trade openness indicator. With the high values of import and export of goods and services, we can conclude that the country has a high GDP and a developed economy. As far as Croatia is concerned, its trade indicator value confirms that its economy is not well-developed, as it is the case with Belgium, and with the amount of exports and imports its GDP and economy are not as strong either.

Among the following seven countries, the highest trade openness index country is Ireland, reaching its personal high in 2015 with the trade index number of 234. With the index number of 185, its lowest value was in 2011 which is still a quite a high number. The country least open to trade is Greece, which experienced its lowest value in 2011 at 67 and the highest in 2014 with the index number of 67. Furthermore, among the next seven countries, Luxembourg has shown the highest indexes and Italy the lowest. For both countries, however, the indexes increased over the years, reaching their highest in 2015. For Italy, it went from 56 in 2014 to 58 in 2015, and for Luxembourg from 301 in 2011 to 360 in 2015.

From the last seven countries in Appendix 4, UK has the lowest trade openness. Both its imports and exports are high, along with its high GDP level, therefore the trade openness is low.

The last indicator discussed in this paper is the export as a share of GDP (EGDP) and each country's values are presented in the table in Appendix 3 and graph in Figure 3. If the percentage is high, the country deals with a high amount of exports.

Figure 3. Export as a share of GDP



Data source: UNCTADstat, http://unctadstat.unctad.org

Once again, Belgium has the highest value among the first seven countries, meaning that the GDP of Belgium has a high share of exports while in Croatia, since it is an import oriented country, the value of exports as a share of GDP is much lower compared to Belgium.

Out of the second seven countries, Ireland has the highest share of GDP with exports, holding over 100 percent of it. Its personal high being in 2015 with 123.99 percent and the lowest in 2011 with 102.44 percent. France has the lowest export share in GDP, with the highest one in 2011 with 86,54 percent and the lowest in 2015 with 79.29 percent.

The highest export as a share of GDP among the following countries is recorded in Luxembourg and Malta, and the lowest in Italy with values rising over the years. Finally, among the last set of countries, UK once again, has the lowest exports as a share of GDP, while Slovakia and Slovenia have the highest percentages.

4. CONCLUSION

Trade has never been more important for the European Union's economy. In today's unfavorable economic circumstances, it has become an important source of achieving much needed growth and job creation without drawing from public finances. Despite the same trade policy, the same external conditions and, for many of them, the same currency, the trade performances of Member States are extremely diverse. Over the past five years, the trade balance of sixteen countries has worsened, while it has improved by comparable amounts in the other twelve. Some Member States have quickly lost market share in world trade while others have never been as strong as today.

All in all, we can conclude that among all EU members, Germany has the highest surplus in trade balance (252 820 million dollars, 2015) and UK the lowest trade deficit (-54 703 million dollars, 2014). For intra-industry trade, all countries have high and similar indexes close to 100. The highest is Belgium with industry trade index of 99.99 in 2013 and the lowest Austria, whose intra-industry trade indicator was 78.56 in 2011. Throughout given time period, from 2011 to 2015, highest export import ratio was Luxembourg and lowest was Greece.

Lastly, with trade openness and export as share of GDP, the highest value in level of export and import was recorded in Luxembourg which had relatively elevated levels of exports and imports, while also experiencing the strongest GDP and highest trade openness among the EU members. The values are lowest for Italy, when observing the same indicator.

Most developed countries within the EU are consistent in their positive values and growth. These countries also have a strong inclination towards development, expansion, and competitiveness and show no signs of stopping, given the positive trade balance.

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APPENDICES

Appendix 1. Trade Balance

	2011	2012	2013	2014	2015
AUSTRIA	9623	9648	12210	16012	15837
BELGIUM	-3407	-3982	-62	1776	5814
BULGARIA	292	-1619	-264	-327	874
CROATIA	145	397	235	1132	1312
CYPRUS	-848	-275	260	159	-196
CZECH REPUBLIC	8829	10309	12253	13287	11590
DENMARK	18971	17628	20500	20959	18794
ESTONIA	1338	205	560	904	908
FINLAND	-2479	-2864	-1589	-1220	1393
FRANCE	-56727	-37591	-27296	-22318	
GERMANY	182046	211352	221592	247480	252820
GREECE	-16576	-7848	-6677	-5322	-395
HUNGARY	9008	8620	9820	10088	10559
IRELAND	43592	39815	47572	47594	49494
ITALY	-34397	21462	48790	62770	58500
LATVIA	-1339	-1208	-1019	-702	-387
LITHUANIA	-1124	353	581	931	-129
LUXEMBOURG	16192	17398	20302	22608	21034
MALTA	-234	354	439	848	659
NETHERLANDS	115354	116785	129678	129090	109667
POLAND	-11306	-2586	9674	7028	13227
PORTUGAL	-8971	217	4010	2642	3473
ROMANIA	-10739	-8714	-1450	-622	-931
SLOVAKIA	-430	3758	4592	3905	2131
SLOVENIA	602	1833	3277	3909	4082
SPAIN	-2640	20541	44425	34434	28334
SWEDEN	30475	30154	33189	-1769	25891
UK	-39989	-50895	-53403	-54703	-54044

Data source: UNCTADstata, http://unctadstat.unctad.org

Appendix 2. Trade openness

	2011	2012	2013	2014	2015
AUSTRIA	105	105	104	103	104
BELGIUM	163	164	164	167	163
BULGARIA	124	130	134	131	132
CROATIA	81	83	86	91	98
CYPRUS	108	107	115	119	122
CZECH REPUBLIC	139	148	149	161	164
DENMARK	100	102	102	101	101
ESTONIA	167	172	171	164	158
FINLAND	79	80	80	77	74
FRANCE	59	61	61	60	63
GERMANY	85	86	85	84	87
GREECE	56	60	63	67	61
HUNGARY	171	167	169	171	178
IRELAND	185	198	195	210	234
ITALY	56	56	55	56	58
LATVIA	120	127	124	121	119
LITHUANIA	152	162	167	160	155
LUXEMBOURG	301	320	333	349	360
MALTA	311	315	299	290	279
NETHERLANDS	150	158	158	161	160
POLAND	87	90	91	94	97
PORTUGAL	74	76	79	81	82
ROMANIA	79	80	80	80	86
SLOVAKIA	171	179	182	180	185
SLOVENIA	139	143	144	145	148
SPAIN	58	60	61	63	64
SWEDEN	88	87	82	84	87
UK	63	63	62	59	57

Data source: UNCTADstata, http://unctadstat.unctad.org

Appendix 3. Export as a share of GDP

	2011	2012	2013	2014	2015
AUSTRIA	53,67%	53,80%	53,19%	53,02%	53,06%
BELGIUM	81,64%	82,31%	81,81%	83,20%	82,93%
BULGARIA	59,07%	60,80%	64,65%	65,01%	64,11%
CROATIA	40,41%	41,57%	43,03%	46,28%	49,38%
CYPRUS	52,93%	53,51%	58,72%	62,19%	61,22%
CZECH REPUBLIC	71,31%	76,17%	76,82%	82,55%	82,96%
DENMARK	52,94%	53,57%	53,90%	53,38%	53,42%
ESTONIA	86,54%	85,98%	84,46%	83,06%	79,29%
FINLAND	39,16%	39,48%	38,81%	37,68%	39,61%
FRANCE	27,80%	28,52%	28,60%	28,94%	30,03%
GERMANY	44,82%	45,98%	45,45%	45,65%	46,78%
GREECE	25,53%	28,68%	30,35%	32,50%	31,92%
HUNGARY	87,17%	86,76%	86,00%	88,65%	90,73%
IRELAND	102,44%	106,77%	106,09%	113,78%	123,99%
ITALY	27,00%	28,60%	28,90%	29,30%	30,10%
LATVIA	57,90%	61,40%	60,30%	59,60%	59,00%
LITHUANIA	75,00%	81,70%	84,10%	81,20%	76,50%
LUXEMBOURG	185,60%	189,20%	195,60%	203,30%	213,80%
MALTA	159,80%	164,80%	155,20%	147,30%	140,60%
NETHERLANDS	77,40%	81,90%	82,00%	82,60%	82,50%
POLAND	42,60%	44,40%	46,30%	47,60%	49,60%
PORTUGAL	34,30%	37,70%	39,50%	40,00%	40,30%
ROMANIA	36,80%	37,50%	39,70%	41,20%	41,10%
SLOVAKIA	85,00%	91,40%	93,85%	91,80%	93,50%
SLOVENIA	70,40%	73,30%	75,20%	76,40%	77,90%
SPAIN	28,90%	30,60%	32,00%	32,50%	33,10%
SWEDEN	46,70%	46,30%	43,80%	45,00%	45,60%
UK	30,50%	29,80%	29,80%	28,10%	27,20%

Data source: UNCTADstata, http://unctadstat.unctad.org

ANALYSIS OF FOREIGN TRADE BETWEEN BOSNIA AND HERZEGOVINA AND MONTENEGRO USING GRAVITATION MODEL

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Abstract

The analysis of foreign trade in today's global trading requires the usage of macro-analytical activities which are based on contemporary and classical evaluation methods and trading measurement and macroeconomic indicators of economic stability and growth. This paper starts from the idea and the need to evaluate the influence of foreign trade between Bosnia and Herzegovina using the gravitation model. Based on that idea the aim of this paper has been set, which is reflected in the advantages and disadvantages of using the gravitation model in evaluation of foreign trade between Bosnia and Herzegovina and Montenegro.

The gravitation method in foreign trade evaluates the potentials between some countries taking in the consideration the real trade value. Then it also takes in account the potential and costs of trading, as well as the distance of analyzed market. According to this, this paper starts from assumption that the usage of gravitation model can evaluate the potential of import and export between two countries and in that way make assumptions how to increase competitiveness between the trading companies. As results of a research, the potential of import and export from Bosnia and Herzegovina and Montenegro is being presented. Sources of the data used in this paper are first of all statistic publication of Bosnia and Herzegovina and Montenegro, as well as available data on the internet.

Key words: Foreign trade, gravitation model, evaluation, CEFTA agreement 2006, Economic growth

1. INTRODUCTION

In contemporary conditions which characterize the growing importance of foreign trade between countries, the relations of one country with the international surroundings have an important role for country's economic development. Model used in this paper is gravitation model, where it is important to point out that gravitation model does not contain essential data about import/export structure as well as the influence of

movement of the capital between countries, intro-industrial trade, the possibility for a company from a neighboring country or trading area country can have dependent companies in other countries where the trade between "mother" and "daughter" represents the trade of two countries which do not reflect the real state. Gravitation model allows avoiding some of the usual problems related to cross-section or panel specification of gravitation model. First of all, the differences in relative distance of countries from their trading partners affect the systematical bias which, while evaluating cross-section or panel method, depends on geographical position of every country (Brenton and Di Mauro, 1998). The problem of heterogeneity of the countries, which is related with cross-section and panel specifications, also can be soothed by using the equation of one country, which is why sometimes such specifications are used in literature (Brenton, Di Mauro and Lucke, 1999).

2. METHODOLOGY

In its beginnings the gravitation analysis of trading flows is presented as an approach without proper theoretical fundamentals. However, as shown later on, the idea of using the economic potentials and trading costs in the analysis trading flows was based more in theory than it was thought at the beginning.

The gravitation model in evaluation of foreign trade was made on the example of Isaac Newton law of physics, where the gravity force between bodies ***A*** and ***B***, with the masses ***Ma*** and ***Mb*** respectively, and with a distance ***Dab*** bewteen that two points is given by the formula:

F=cMaMb/D2a,b where the ***c*** is the constant

In the gravitational model of international trading the equivalent for force and range of trading between countries (e.g. total trading range, or for the components of import and export) between countries ***i*** and ***j*** (Tij), the mass is represented by the national income of the countries, GDP*i* and GDP*j* while the distance has kept its specification D*ab*:

$$\mathbf{Ti,j=CGDPj/Di,j} \qquad \mathbf{(1)}$$

Traditional approach in the usage of gravitation model historically lies far more on physical law than on the postulates of economic theory, and in the past twenty-thirty years huge steps have been made in "synchronization" economic theory with physical laws of nature.

A significant connection of economic theory with Newton laws has begun with the work of Tinbergen (1962) in order to get a more coherent form with Anderson (1979). After Tinbergen and Anderson there are more and more theoretical expanding which form and set gravitation models in the framework of economic theory. Due to disposition it will be presented briefly the idea which Anderson's classical work is based about initial connection between economic theory and gravitation physical laws.

Anderson (1979) has demonstrated the solution for the consumption, under the assumption that Cob-Douglas functions can have the form of Isaac Newton's gravitation equation.

Anderson's approach is basically simple and starts with the assumption of balanced trading between two countries. In the model Anderson simplifies the reality by reducing the world to two countries, and in addition Anderson also assumes that the proportion of domestic and foreign goods consumption is a constant and is independent from the level of income and tax policy. So, the proportion of the income that consumer of country **1** spends on the consumption of goods imported from country **2** is a constant, and the same relation applies vice versa – the proportion of income that consumer of country **2** spends on the consumption of goods imported from country **1** is a constant.

If the next notation is being adopted:

Xi is the export from the country ***i*** to country ***j***

Yi are country,s income ***i***

wj(i) proportion of the income that consumers of the country ***i*** spend on the consuming the products from the country ***j***

Ii export from country ***i*** to country **j**

Ti,j Trade land beween countries ***i*** and ***j***

Therefore;

Xi=wi(j)Yj,

Ii=wj(i)Yj,

Because of the assumption about balanced trading this has to be applied:

$$Ti,j=Xi+Ij=2wj(i)Yj=2wj(i)Yj \quad \textbf{(1)}$$

In addition the incomes of the country ***i*** have to, by definition, be equal to sum of spent income on consumption of domestic and foreign goods:

$$Yi=wiYi+wiYj=wi(Yi+Yj)$$

But if the Yi+Yj are a world's consumption in a simplified model than we introduce the notation:

$$Y\textit{of the worlds}=Ys=Yi+Yj \quad \textbf{(2)}$$

From **(1)** and **(2)** follows:

$$\text{I.e. } j=2YiYj/Yj \quad \textbf{(3)}$$

Equation (**3**) is a theoretical equation of (**1**) in simplified world without friction.

According to this tradition, and taking in consideration the specificity of data, trading between countries can be an econometrical model as a combination of time series with cross-sectional elements:

$$TRj,k,t=CGDPj,tGDPk,t/Dj,k \quad \textbf{(4)}$$

where:

TRj,k,t *is trading from country **J** to country **K** in year **t***

C *constant*

GDPj,t *Gross domestic product of country **J** in year **t***

GDPk,t *Gross domestic product of country **K** in year **t***

Dj,k *Distance between country **J** and country **K***

Data that enter the gravitation model from the time series of several years is taken from statistic publications on national as well as international level.

Parameters are set with panel analysis, which is considered more appropriate models than time leads to additional costs to prevent its occurrence. The basis for the realisation of income series (for export in most countries there are data for a long time period) and cross-sectional data which are static in time. Panel data provides a bigger number of observations than the time series and in the same time provide the insight in their changes in time. Due to large number of countries and observed time, every parameter of the model is rated with 168 observations. The model is evaluated with the low square method (OLS – ordinary least squares), parameters are determined by bringing in relations independent variable with the required appearance of – potential export, multiple regression method.

Most of the data about export and import are taken from the foreign trade statistic agencies, and it is also possible to download the data from international publications.

In estimates, the gravitation model mostly includes variables as GDP or GDP per capita of importing and exporting country, population number for both countries, distance between generating and receptive market, common border, preferential arrangements and other.

The most important task in gravitation model is to determine the parameters (coefficient) which correspond to given factors: β1, β2, β3, β4, β5, β6.

because they determine the extent of individual independent variable (country's GDP, distance, economical-political distance) affect the dependent variable (import-export). Coefficients show from which of the variables given are significant for import and export of one country and to what extent accordingly with that are going to be included in the model (equation).

In gravitation model the following variables have been tested:

Gross domestic product is marked for the most important import and export destinations considering the value of import and export. There it is included large number of countries of the biggest receptive markets for the country's products according to the ranking list of publications for one country statistics. The data is provided by the national agency for statistics, as well as the World Bank and sites www.trademap.org and www.intracen.org.

In the use of gravitation model the expected sign is positive, because the purchasing power in great deal sets the range of import. Equally often GDP per capita is used, but in this model the demand is largely determined by the total GDP. Namely, total GDP explains the size of the receptive market , which for export has bigger significance than purchasing power of individuals. Although the most common variable in gravitation model, GDP of receptive market shows relatively weak relation (small coefficient of correlation) with the country's export. Despite all of that, this variable is included in the model because it still shows statistical significance and because together with other factors contributes that the observed phenomena is explained.

GDP showed in the model a greater influence on the export than on the GDP of receptive markets. Connection between economic growth and the export growth has proved to be more direct and influential. In simple regression, this variable would have a coefficient of determination around 0,31; respectively it would explain almost the third of the change of export value.

Transport costs in export of any product have a significant influence on the demand. Transport costs are mostly used for the distance of the trade markets. The effects of trade reduction are the strongest in the transport-intensive activities – activities which are dependent on the import and export of semi-goods. Even when the transport and communicational costs are reduces in time; the distance continues to significantly affect the local income. The improvement of transport and communication (the development of channels, roads, internet, airport network, post office, telegraph, telephone) does not reduce the importance of the distances. New technologies, as well as liberalization of trading policy, can certainly resize some of the transport costs, but lot of their aspects still exist. Because of that the most significant trading partners are always the neighboring countries. However, export directions are by no means depleted in European countries. The model obtained in the manner described shows that the export significantly depends on geographical distance, which is in negative relation with the range of export. The influence of the distance on the export is so big that in simple regression, taken as the only factor of export, it would participate with the 57% of the export value.

The number of population is a common variable in the export gravitation model, because it leads to the connection the size of the mrket with the export value. Economic-political distance between two countries cannot be measured, so we use dummy, actually the artificial variable, evaluating it by zero or one economic relations and the institutional basis for their improvement. The data used for the evaluation of this variable, are taken mostly from country's Ministry of foreign affairs, which gives the detailed overview of bilateral contracts and agreements relating to regulations of econom-

ic cooperation, and an overview in the range and purpose of mutual investments, mutual projects of experts training, the presence from given companies and other. The artificial variable **P** takes the value **1** if there are certain preferential arrangements, agreements on trading convenience, significant volume of investment in the economy, presence of companies and other, and the value **0** if the economic cooperation is relatively underdeveloped and unregulated. This factor in the model of export has showed a big influence – in simple regression as an only factor would explain the 28% of changes in the export value.

This procedure calculates the value of a constant obtained by a multiple regression, as well as the parameters which correspond to the factors included in the regressive analysis. In addition to these values, which will be applied later in the model, every error of a constant and each parameter was given, as well as **P**-value which indicates on statistical probability each one of them. As in countries included in the model testing have a large number of observations, the obtained model and coefficients are not limited to any region, but they can be used for calculating the export potential to any country or region of the world.

The evaluation of model parameters applying the additional statistic-econometric equipment would significantly overcome the framework of this project and would not give the wanted result.

As an alternative of this model in practice it is often used the model of bilateral exchange based on evaluated model parameters by L.A. Winters and Z. K. Wang which is applied in this case.

The basic form of gravitation model of international trade is:

$$\ln X_{ij} = \alpha + \beta_1 \ln Y_i + \beta_2 \ln N_i + \beta_3 \ln Y_j + \beta_4 \ln N_j + \beta_5 \ln D_{ij} + \beta_6 \ln A_{ij} + \sum_k \gamma_k \ln P_{ijk} + u_{ij}$$

Where the:

α - constant

Xij - trade value which is instructed from country i to country j, Yi, Yj- GDP of the countries i and j,

Ni, Nj- total population of countries i and j,

Dij – distance between countries i and j,

Aij- dummy variable for representing the common border,

Pijk- dummy variable for the existence of the preferential arrangements or belong to the same economical grouping,

uij- random model error.

This model can be applied on one country's trading with every country that appears to be interesting for determining the potential export. The data about country's trading and GDP is usually expressed in US dollars, euros or other strong global currency. The experience shows that "trademap" and "intracen" data are very useful. The population is expressed in millions and the distance in kilometers.

The model has been rated with the method of OLS (ordinary least squares – OLS). The given results show that the coefficient ratings are statistically important and logical sign. Gravitation model is used for bilateral trading of one country with neighboring countries. The aim is to determine the potential range of export in each country in the region, and then to compare with the existing export. Simply said, the aim is to determine whether and how much more can the export of one country be increased into the analyzed countries. Table 1 shows the coefficients for the use of the gravitation model.

Table 1. Coefficient for application of gravitation models

lnXij	Koeficijent	St. greška	t	P>|t|
lnYi	0.930705	0.0310027	30.02	0.000
lnNi	0.0246654	0.0386548	0.64	0.524
lnYj	0.6829835	0.0310023	22.03	0.000
lnNj	0.0473422	0 .0386642	1.22	0.221
lnDij	-1.222391	0.0598855	-20.41	0.000
Aij	0.6401405	0.1234944	5.18	0.000
Pij	0.5789241	0.1033485	5.60	0.000
cons	-4.655665	0.5933937	-7.85	0.000

Source: Winters L.A., Wang, Z.K. Eastern Europe's international trade Manchester University Press, Manchester and New York, 1994.

According to gravity model formula, potential export from country *i* to country *j* is established by following:

- all known values – multi-annual average of GDP of exporting country,
- multi-annual average of GDP of importing country,
- population of importing and exporting country and
- distance between them is multiplied with appropriate parameters of Winters and Wang.

Artificial variables take the value **2**, in case the countries share the same border or belong to the same economic group or **1**, if this is not the case. They are, also, multiplied with appropriate parameters and then added to the sum. For cross-section models the characteristic problem is that of heteroscedasticity, because of the nature of the data itself and certain deficiencies of this model. On the one hand, there are large variations of data during just one year, and on the other hand, which is more importantly and characteristic for economic occurrences, it is impossible to explain the variations of the dependent variable, as much as we include them into the model. The unexplained factors are through the independent variables included in the model and accumulate in residues. With the variations of independent variables and variations of random error (i and j) they vary and are not equal, which is the assumption of the heteroscedasticity. The problem of removing the heteroscedasticity in cross-section models overcomes the possibilities of this paper. It is certain, that specific inconsistencies of a gravitation model exist, but they are accepted (and mostly removed), because the analytical value

of the multiple results is obtained and that is why the gravitation model is still used in empirical researches.

3. FOREIGN TRADE EVALUATION BETWEEN BOSNIA AND HERZEGOVINA BASED ON THE USE OF GRAVITATION MODEL

The export growth is the basis for the economic growth of each country and disputes over that get a special place, not just on the academic level, but in wider professional and public circles. The problem in identifying the possibility of export-oriented growth, i.e. which are the macroeconomic policy, directed on regional pre-orientation. In this connection, the analysis of foreign trade was carried out using the gravitation model between Bosnia and Herzegovina and Montenegro.

Table 2 shows the value of export from Montenegro to the world and Bosnia and Herzegovina. The presented data are the basis for application of gravitation model in foreign trade between Montenegro and Bosnia and Herzegovina.

Table 2. Export value from Montenegro into the world and Bosnia and Herezegovina (000 american dollars)

Export	Export value in 2006	Export value in 2007	Export value in 2008	Export value in 2009	Export value in 2010	Export value in 2011	Export value in 2012	Export value in 2013
World	556,459	629,289	616,616	387,540	436,575	627,532	468,788	494,376
Bosnia and Herzegovina	23,224	22,688	29,398	24,925	31,865	31145	35,217	24,395

Source: (2016) trademap.org

When it is discussed about main characteristics of Montenegro's export it can be concluded that the Montenegro's export one with the smallest share in export outside the Europe between the European countries. Among the European countries is the lowest of unit's value of exports. Montenegro's export has high share of small number of countries in the total of exports and most of them are the countries in close surroundings.

With these basic characteristics of Montenegro's export to Bosnia and Herzegovina, the usage of gravitation model can "highlight" the directions and export growth. Gravitation model, however, cannot give the answers why the state is as it is, i.e. the export sliced into a multitude of products, and highly concentrated on small number of countries, with low unit's value of placed goods.

3.1. Evaluation of gravitation model import from Montenegro to Bosnia and Herzegovina

In this part of the work it will be shown the import from Montenegro to Bosnia and Herzegovina, but because of the unification and uniformity of monitoring the statistical data in this part of the work the trading between Montenegro and Bosnia and Herzegovina will be shown in the value of US dollars.

During the evaluation of distance variable, data used are the data of distance between capital cities of the mentioned countries from Podgorica to Sarajevo in road traffic according to the data from the site www.udaljenost.com.

3.1.1. Evaluation of import from Montenegro to Bosnia and Herzegovina applying the gravitation model

Indicators and results of gravitation model import from Montenegro to Bosnia and Herzegovina are shown in Table 3.

Table 3. Results of gravity model import from Montenegro to Bosnia and Herzegovina

	Yi GDP of MonteNegro	**Ni** Population of MonteNegro	**Yj** GDP of Bosnia and Herzegovina	**N1** Population of Bosnia and Herzegovina	**Dij** Distance in kilometres	**Aij** Dummy Variable Border	**Pijk** Dummy variable trade groupation
	7,429	0,65	32,160	4,62	229	2	2
Ln	8.9131	-0.4308	10.3785	1.5304	5.4337	0.6931	0.6931
-4.655	0.9370	0.0240	0.6800	0.0470	-1.2220	0.6401	0.5789
Eva.par.	8.3516	-0,0103	7.0574	0.0719	-6.6400	0.4437	0.4013
		Potential export	**149.1858**				5.0205

Source: calculation of the author based on the data http://www.trademap.org/ (taken 20.11.2016)

In Bosnia and Herzegovina the potential of import from Montenegro is about 149 million dollars. Import to Bosnia and Herzegovina was about 30 million dollars in average for the analyzed period. Considering all the preconditions, Montenegro's economy has a possibility for a significant increase in trading with Bosnia and Herzegovina. Potentials based on the gravitation model are five times higher than the real import to Bosnia and Herzegovina from Montenegro.

3.1.2. Import from Montenegro to Bosnia and Herzegovina according to most common trade mark

Import from Montenegro to Bosnia and Herzegovina according to most common trade mark is explained in Table 4.

Table 4. Import from Montenegro to Bosnia and Herzegovina according to most common trade marks

Tarrif stance	Trade marks	Export from Montenegro to Bosnia and Herzegovina		
		Value in 2011	Value in 2012	Value in 2013
TOTAL	All products	31,145	35,217	24,395
'41	Raw hide (except fur)	4,641	4,442	4,732
'22	Drinks, alcohol and vinegar	8,546	5,152	3,749
'16	Meat, fish and seafood , other food products	2,913	2,470	2,343
'02	Meat and meat products	1,541	1,663	1,919
'27	Mineral fuels, oils, means for distillation	1,604	1,109	1,767
'84	Machines, nuclear reactors, boilers, etc.	1,814	944	1,288
'07	Vegetables and certain roots and grain	507	263	1,169
'26	Ore, slag and ash	291	234	1,098
'30	Pharmaceuticals products	1,204	1,627	1,001
'87	Vehicles, except railway, trams	357	144	809

Source http://www.trademap.org/ (taken 25.11.2016)

Import to Bosnia and Herzegovina from Montenegro is mainly concentrated on rawhide, drinks, fish and seafood.

Bosnia and Herzegovina imports from Montenegro mainly products of low added value (raw and labor intensive activities) which suggests on the extensiveness of imported offer conditioned by the low level of development of the economy itself.

Table 5 shows complementarity of Montenegro's export supply and Bosnia and Herzegovina's demand.

Table 5. Complementarity of Montenegro's export supply and Bosnia and Herzegovina's demand

Tariff stance	Trade marks	Export from Montenegro to Bosnia and Herzegovina			Import to Bosnia and Herzegovina from the world			Export from Montenegro to the world			
		Value in 2011	Value in 2012	Value in 2013	Value in 2011	Value in 2012	Value in 2013	Value in 2011	Value in 2012	Value in 2013	Percentage of participation
TOTAL	All products	31,145	35,217	24,395	11,050,575	10,019,077	10,294,930	627,532	468,788	494,376	4,95%
'41	Raw hide (except fur)	4,641	4,442	4,732	209,522	201,768	208,695	6,875	9,316	8,211	57,63%
'22	Drinks, alcohol and vinegar	8,546	5,152	3,749	221,460	212,343	212,702	31,551	29,881	24,784	15,13%
'16	Meat, fish and seafood, other food products	2,913	2,470	2,343	76,915	77,736	74,842	3,613	3,932	4,811	48,70%
'02	Meat and meat products	1,541	1,663	1,919	91,888	88,677	125,262	4,360	5,595	7,556	25,40%
'27	Mineral fuels, oils, means for distillation etc.	1,604	1,109	1,767	2,377,775	2,056,962	2,001,259	87,561	64,831	143,411	1,23%
'84	Machines, nuclear reactors, boilers etc.	1,814	944	1,288	782,259	732,514	740,846	21,279	20,375	19,901	6,47%
'07	Vegetables, and certain roots and grain	507	263	1,169	42,845	40,039	49,879	5,710	4,231	6,465	18,08%
'26	Ore, slag and ash	291	234	1,098	9,664	1,072	2,833	12,893	9,458	12,617	8,70%
'30	Pharmaceuticals products	1,204	1,627	1,001	320,007	314,662	321,669	10,817	12,176	8,350	11,99%
'87	Vehicles, except railway, tram	357	144	809	642,265	566,544	624,670	5,202	4,278	5,207	15,54%

Source http://www.trademap.org/ (taken 27.10.2016)

The potentials are significantly above the real indicators. However, it is important to point out that Montenegro has suboptimal export supply due to real potentials of neighboring countries demand in terms of exporting offer with Bosnia and Herzegovina.

3.2. Real terms of export from Bosnia and Herzegovina to Montenegro

Table 6. shows the real terms of export from Bosnia and Herzegovina to Montenegro

Table 6.. Real terms of export from Bosnia and Herzegovina to Montenegro (in 000 USD)

Tariff stence	Products	Export from Bosnia and Herzegovina to Montenegro		
		Value in 2011	Value in 2012	Value in 2013
TOTAL	All products	193,672	158,146	167,543
'28	Inorganic chemicals, precious metal compounds, isotopes	71,977	46,594	34,529
'72	Iron and steel	20,822	17,071	19,674
'04	Dairy products, eggs honey	4,974	5,683	17,605
'73	Products from iron and steel	13,676	14,624	12,552
'27	Mineral fuels, oil, distillation products, etc.	29,205	14,673	12,254
'39	Plastics and plastic products	3,890	3,564	5,565
'44	Wood and wooden products, wooden coal	3,491	3,108	4,267
'48	Paper and cardboard, cellulose and paper products	3,911	4,376	4,182
'76	Aluminum and aluminum products	3,462	3,997	4,171
'85	Electrical, electronical equipment	2,451	3,391	4,106

Source http://www.trademap.org/ (taken 20.10.2016)

Main export products from Bosnia and Herzegovina to Montenegro are various inorganic chemicals, iron and steel, as well as dairy products like eggs and honey. Also, electricity, fossil fuels, coke and etc. are exported from Bosnia and Herzegovina.

4. CONCLUSION

From international trade is expected to have positive effect on economic growth and development of one country, but in order that external economic factors are used in accordance with the plans of country's development. It is also important that social potentials exist so they could relatively decide on their own about all elements of economic development and cooperation with foreign countries.

The method of gravitation model trade has been used in this work. Gravitation model in trade is considered to be empirically among the best, and relatively well ex-

plains relations and changes in world's trade. Despite numerous critics, gravitation model can point out that positive relation with gross domestic product and negative with distance can be "cover" for many different economic assumptions.

The results of gravitation model show the imports potential as well as exports potential.

Gravitation model does not contain essential data of import and export's structure as well as the movement of the capital between countries. Also it is important to point out that in global world trading there are companies with the international reputation which own their own countries „daughters" where the trade between companies „mothers" and „daughters" manifested as a two countries trade, but actually that does not represent the actual trade and condition.

In the assessment, the gravitation model usually includes variables like GDP or GDP per capita of importing and exporting country, population number of both countries, distance between generrating and receptive market, common border, preferential arrangements and other.

The results of gravitation model show that import potential from Montenegro to Bosnia and Herzegovina applying the gravitation model is 149 million dollars, and export potential from Bosnia and Herzegovina to Montenegro is 207 million dollars.

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IMPACT OF NEW CONSTRUCTION STYLES ON THE TRADE OF HOUSING CONTAINERS IN THE EU

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Abstract

Trade has always had a special position in the economy of each country. It is a key factor in generating GDP, employing workers and the normal functioning of every economy. Life without trading is not possible and every day there are needs created for new products that become the subject of trade. This paper analyzes the impact of new construction styles on the trade of housing containers in the EU. The share of trade in GDP in the Republic of Croatia and the more developed countries of Europe is shown. Furthermore, the relationship between the trade of housing containers with new construction styles has been demonstrated, especially in more developed EU countries. All the advantages that the developed EU countries have from trade with the Republic of Croatia, and the benefits that the Republic of Croatia has from this trade, are outlined. The trade in housing containers began to take on a relatively large share in the trade of developed EU countries, and this trend is also apparent in Croatia. Trade between the Republic of Croatia and the developed countries of the EU is very good because higher quality levels of product is created, better business habits and generally the internationalization of business is always good if it is done with a country that is more developed.

Keywords: trade, GDP, EU, internationalization, housing container.

1. DEFINITION OF A HOUSING CONTAINER AND THE BENEFITS OF MODULAR WAY OF BUILDING

The housing container is in the simplest version used as a dormitory or office for workers on a construction site and as a sanitary space. Manufactured from steel structure and insulation (mineral wool or polyurethane). The more complex variants of the housing container are used as kindergartens, schools, offices, houses, ambulances, etc. These more complex variants have far more complexity and diversity of materials, and accordingly the price of the product is higher. Produced according customer's wishes and needs, the product is of the highest quality. Regardless of whether it is the most affordable housing option or the most expensive one - the quality must be in the first place.

Lazibat (2009) states that in the most definitions about quality the consumer takes a central place, also in the ASQ (American Society for Quality) that defines quality as a "subjective concept to which each person has their definition". In technical terms, quality has two meanings: (1) the characteristics of a product or service that have the ability to meet established or assumed needs and (2) a product or service without any disadvantages. Under the term "modular construction" is meant the construction of buildings from individual modules, ie. containers. Such a way of building is recognized in developed EU countries, and this trend of construction is beginning to appear in the Republic of Croatia. Modular construction has many advantages, the most significant one is the speed of building. At the same time while construction works (foundations) are being carried out at the construction site, modules are being built at the factory, which, when delivered to the construction site, are about ¾ finished. That means much less field work than the classic construction methods with brick or concrete. Therefore, construction costs are lower because the work on the field is much more expensive than the work in the production hall. Furthermore, one of the most important advantages is the independence from bad weather as the containers are manufactured in a production hall where no snow or rain can hinder the work. Another advantage is the possibility of building an interim facility that can be dismantled and put together after some time at another location and have another purpose. Developed counties such as Republic of Germany have accepted the modular way of building and realised that that is a new and in many aspects superior way of building new structures.

Bosilj-Vukšić and Kovačić (2004) state that in the conditions of global competition in the enterprise market the companies can only achieve competitive advantage by offering cheaper and better products and services, and efficient and innovative business processes are needed to achieve these goals. If we compare two products such as a concrete building and a modular building, then it is clear that the modular building meets the conditions for achieving competitive advantage in the market. This new modular construction style directly affects the trade of housing containers because, as bread is impossible to make without flour, so a modular building can not be build without a container.

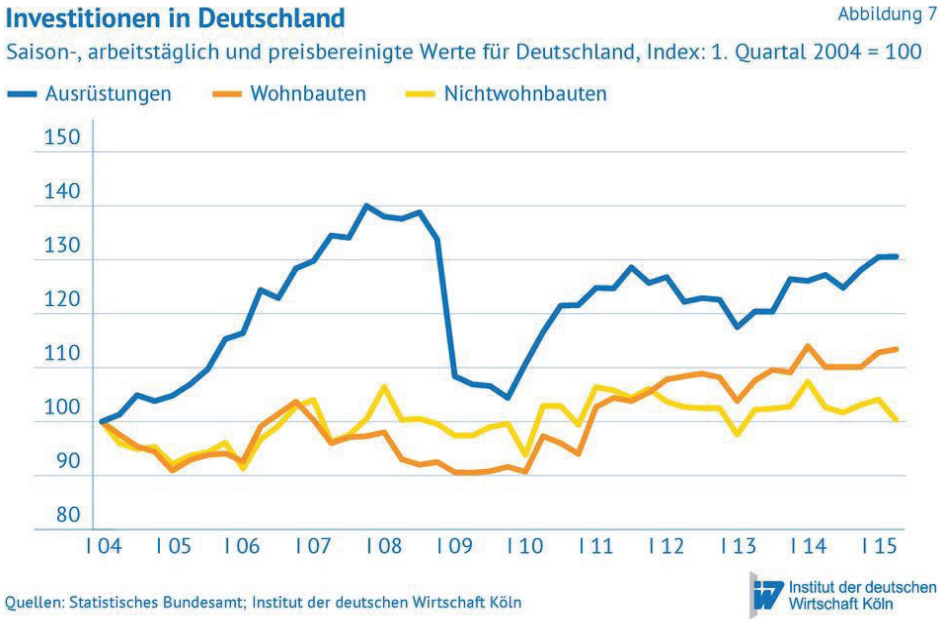
2. CONSTRUCTION INDUSTRY OF DEVELOPED COUNTRIES AND THE TRADE OF HOUSING CONTAINERS

Demand, ie. the need for fast, quality and favorable construction methods, has led to an increase in the share of modular construction in the entire construction industry. Therefore, trade of housing containers is growing in countries where modular construction is accepted. For the GDP of the Republic of Croatia, this is a very favorable position because there are several Croatian companies that produce housing containers, and some of these companies export most of their production. An example of such a company is "Jedinstvo Krapina d.o.o.", which independently exports its modular buildings to the market of the Republic of Germany and the Republic of Austria. Benefits of exchanges between lower income countries such as the Republic of Croatia and those with higher incomes such as Germany are two-way. The Republic of Croatia has

the benefit of employing its workers, these workers pay taxes, surtax and spend their wages and thus turn the wheel we call the economy. The Republic of Germany also benefits from buying a product that is more favorable (lower price) than it would have been if a German worker produced it and meets its need for new buildings that it can not satisfy with just domestic production. Lazibat (2005) says that goods are called all human labor products that meet their needs of any kind and at the same time are the subject of trade-exchange.Construction industry is a very good way to help the state emerge from the crisis. Germany does this very successfully, even if we consider that not only domestic companies are having the contracts, but also the foreign companies - the German economy benefits. Immediately after the appearence of the first serious signs of the crisis in the construction sector, many countries considered and adopted measures of economic policy aimed at mitigating and trying to stop negative tendencies. The reason for this is the recognition of the importance of this activity in the economic structure of the country, but also in the fact that the construction industry and the automotive industry were the worst affected by the recession. Therefore, additional and specific measures are targeted at these activities, in addition to those measures which have been attempted to affect all economic sectors. Thus, the construction industry was primarily trying to be helped by intensifying the investment activity, with the use of the effects of other measures primarily related to maintaining liquidity in payments, maintaining credit activity by lowering interest rates, labor and working time flexibility, and other monetary and fiscal stimulus which would lead to economic recovery.

Unfortunately, Croatia did not take sufficient measures during the crisis to slow down the decline of construction activity. This is primarily a result of the lack of fiscal space that would enable the public sector to employ part of the capacity of building operations through increased investment in infrastructure and at the same time encourage private sector investment. With a high budget deficit and unsustainable rapid growth of public debt, the attempt to boost the public sector investment was limited in scope and only implemented in the course of 2013. Therefore, construction companies shared the fate of the rest of the economy and the general measures that were taken, whereby part of the measures related to the improvement of the regulations in the field of construction and which enabled the acceleration of the construction permitting process only created better preconditions for future investment activity. The investment climate of a state is very important for the grow of construction works in that state. If the investors do not get any deductions on the investments that make, than there is a small interest in starting some kind of work. Also, for the existing construction company, it is very important that the government helps them with their measures in order to find work, to pay monthly salary and to export their products in foreign countries. It is very important for a country to have strong export because that is a way of receiving kapital for new investments. This investments will again bring some new value into the economy of one country and in many way improve the standard of living of their citizens and turn the „wheel of economy."

Graph 1. Investments in Germany



Source: Institute for German economy, Köln.

Index of the graph 1:

Investitionen in Deutschland - Investments in Gemany

Saison-, arbeitstäglich und preisbereinigte Werte für Deutschland, Index: 1. Quartal 2004 = 100 - Seasonally - on each working day price-adjusted values for Germany, index: 1st quarter 2004 = 100

Ausrüstungen - redesign

Wohnbauten - construction of residential buildings

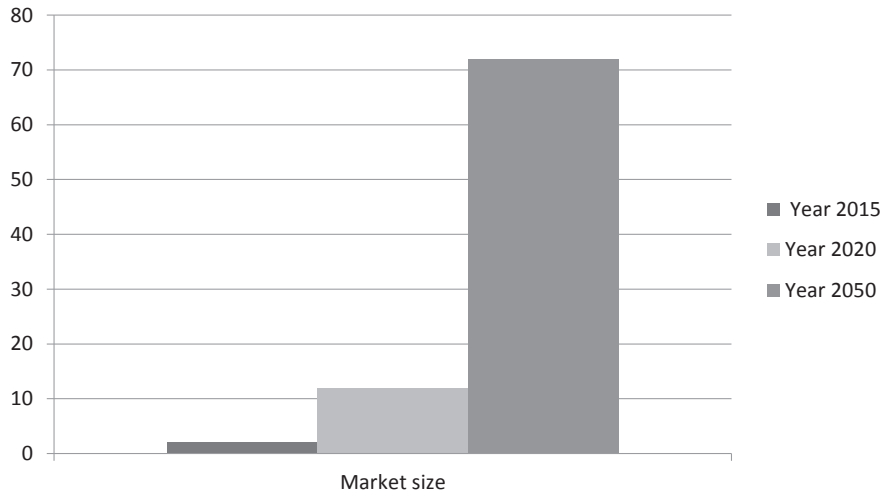
Nichtwohnbeuten - construction of non-residentail buildings

In graph 1 it is displayed how the investments in Germany were moving throught the years. The blue line represents redesign, orange construction of residential buildings, and yellow non-residential buildings. It can be clearly seen that the crisis has slightly weakened the investment and construction, primarily when it comes to redesigning construction objects, but newbuilding is not so much the case. And in times of crisis, the German state invested in the construction to provide jobs for its workers who, through taxes and current consumption, partly returned the money to the state and the economy was growing.

According to renowned German consultancy company "TCW", with an investment of 2.5 billion € Republic of Germany reached the figure of 1.5 million social houses in 2012. In order to fully cover the need for social housing, it is necessary to reach the

figure of 4 million homes. Through the market transformation from conventional construction to modular, it is assumed that a progressive increase in market size of 2 billion in 2015, up to 12 billion in 2020, ie. 72 billion in 2050. Such estimates are cheerful for domestic and foreign construction companies, and primarily container manufacturers.

Graph 2. Construction industry in billions of Euro.



Source: http://www.tcw.de/news/modularer-hausbaukasten-770

2.1. The situation in the construction of housing containers

The situation in the domestic market is better than in the previous years, but still insufficient for higher product placement on the domestic market. This is why all efforts are made to intensify sales activities on the foreign market. Customers for housing containers and modular facilities on the foreign market are small and medium-sized companies that deal with container rental and container sales. In a smaller number, customers are the end users of the product. Customers of larger modular facilities, such as schools and kindergartens, are state institutions or cities that announce public tenders for the procurement of such facilities. Because of the good quality and acceptable price, Jedinstvo Krapina d.o.o. positioned itself as a reliable and important manufacturer of housing containers and modular facilities. Due to its good position on the market, the company is having regular export business in the EU.

Jedinstvo Krapina d.o.o. does not have any significant competition in the producing of modular facilities on the domestic market, but here is still a tendency to classical or masonry construction. Modular construction has a number of advantages over classical construction and is expected to change the tendency towards this mode of construction. Apart from the faster placing of the facility in function and its completion, it is also an advantage in the cost of construction, which is today an important factor in making a decision on the investment.

In the foreign market, the situation is different, especially in EU countries, where the modular way of building has become a priority, especially for social and public buildings. There is even greater competition because there are companies that deal with the same or similar production, are constantly present in the market and also with the tradition of manufacturing modular facilities. The biggest competitors of the company Jedinstvo Krapina d.o.o. are multinational companies that are present on the global market and have a developed distribution network for the placement of their products on domestic and foreign markets.

Position and share of Jedinstvo Krapina d.o.o. in the foreign market increased in the period 2010-2017. Market share is not measured, and most of the jobs are obtained through public tenders by, institutions, cities, regions, state-owned companies or directly with the state.

Despite seasonal oscillations, they are significantly less than oscillations in construction when it comes to classical building construction. In the modular construction site, ready-made modular units are delivered as parts of the building, which are 80% completed in the factory. This is how winter constructions can be accessed in the winter months. It is expected that the continuous flow of deliveries will continue in the future as Jedinstvo Krapina d.o.o. is in the process of preparing a larger number of intermediate modular units with a certain degree of completion so that a larger number of such units can be delivered in short period. In that way, better quality and short delivery time can be achieved. Very often the delivery time plays a key role in getting a contract. Flexible companies have here an advantage because sometimes the short delivery period leads to higher costs because of overtime work or the third schift work. An flexible and good organized company can adapt without having some extra costs in the production.

In the Republic of Croatia, most significant container producers are the following:

- **Tehnix d.o.o**., Donji Kraljevec, manufactures ecological special containers, housing containers and modular facilities. Tehnix is more focused on specialized containers such as press containers, waste recycling machines, etc. More recently he has been engaged in the production of housing containers for the German market, primarily due to high demand.
- **Euromodul d.o.o**., Rijeka, is the leading manufacturer of urban equipment in Croatia but also present in the production of housing containers and simple form of modular buildings.
- **3. MAJ TIBO d.d**., Matulji, manufactures residential containers. It is a metal industry plant that manufactures various metal structures and products. It employs about 100 workers.
- **MAGRAD d.o.o**., Zagreb, manufactures residential containers, the company was founded in 1997. It deals with renting and servicing of the containers. The Company has 130 employees.
- **KOVA d.o.o**, Mraclin, Velika Gorica, produces single residential and sanitary containers and smaller containers. The company was founded in 1990, employs

50 people. It offers standardized products in the field of environmental protection equipment, playground equipment and parks, park bench and aluminum and steel construction according to customer requirements.

It is not easy to enter the German market independently and compete with renowned German producers. Apart from competitors within the Republic of Croatia, Jedinstvo Krapina d.o.o. has also got many competitors outside Croatia that are even greater competition from Croatian container manufacturers because of the fact that Jedinstvo Krapina d.o.o. sells more on the foreign market. In the German market, competition in the production of housing containers are companies from Republic of Slovenia, Republic of Austria and especially from Republic of Germany.

Container manufacturers and renters from the Republic of Austria are as followed:

- **Containex** - a serial production of individual housing and sanitary containers, is not very flexible in the wishes of customers, but offers large quantities of standard products at a low price. Sales outlets, container warehouses and the production sites are available throughout Europe.
- **Stugeba** - a company established in 1994, manufactures residential containers and modular container buildings, technical containers, provides a container rental service in Austria.

Manufacturers of housing containers from Republic of Slovenia are as followed below:

- **Container REM** - is a medium-sized Slovenian company with production in Trebnje and in Croatia has got a representative office that sells residential and sanitary containers.
- **ARCONT**, Gornja Radgona - manufactures residential and sanitary containers. Present on the market for 60 years. For the past 20 years, providing cutting services and welding of steel.
- **TRIMO Trebnje** - produces housing containers and modulary buildings, facades, roof steel sheet.

In Republic of Germany, a large number of companies are involved in the production of containers:

- **Kleusberg** - is one of the largest competitors in the field of modular buildings. Ownes 4 production plants in Germany. It has 400 employees, the headquarters of the company is in Wissen. The company was founded in 1948. and first produced furniture. He has got a certificate of RAL Gütezeichen which can only German companies can get. Kleusberg produces high-value facilities for offices, hotels, hospitals, kindergartens, laboratories, schools. Kleusberg has got more than 15000 housing containers just for the renting.
- **ALHO** – The Alho Group consists of Pro Contain and Fagsi. They produce containers and flat pack.
- **KB Container** - is a medium sized company in Germany and has been in the market since 1989. It produces residential containers, storage containers, wa-

rehouses, modular buildings, trades with used containers and provides rental services in all around of Germany.

- **SIKO** - a company founded in 1991. In 1996 he becomes a part of a French company Touax SA. Produces residential containers and facilities, provides transportation, rental and assembly services.
- **SÄBU** - manufactures high-value containers, individual housing and sanitary containers and rents containers. Säbu is in the market since 1924. Initially, wooden houses were produced.
- **PLATAL** - manufactures residential containers, modular buildings and construction for truck trailers.

Table 1. The price of an standard container from various producers

Producer	Price of a 20' housing container in €
Jedinstvo Krapina d.o.o.	3.850,00
REM d.o.o.	4.300,00
Stugeba GmbH	4.530,00
Containex	4.400,00
IPS GmbH	4.800,00
Fagus GmbH	5.416,00
Platal GmbH	7.500,00

Source: Internal information from company Jedinstvo Krapina d.o.o.

In Table 1 are presented the prices of standard 20 feet housing containers from various producers. At first sight, it is obvious that the price of the company Platal GmbH is almost twice as high as the price of Jedinstvo Krapina d.o.o.. The reason for this is that the labor cost in Croatia is considerably lower than in Germany and it can be assumed that Jedinstvo Krapina d.o.o. has got better quality planning in all production processes and therefore lower costs.

Jedinstvo Krapina d.o.o. has been able to impose on the German market with its flexibility, fast delivery time, quality and price. Since 2009, Jedinstvo Krapina d.o.o. is independently present and supplies containers and modular buildings to German customers over its subsidiary CMS Container Modul Systeme GmbH. In the past year approximately 20.000 square meters of modular buildings has been build for various purposes of use.

According to Levy and Weitz (2007) adding new benefits is an excellent approach to improving competitiveness. It is more and more present that the buyer wants to have everything from one supplier because that means that he has only one contact person, ie. One company with everything can be discussed. Talking about containers, if the buyer/client wants to buy a kindergarten, than it is easier and faster if a container producer can provide other things that are also needed in a kindergarten. That other things can be: chairs, desks, playing equipment, all the construction work that is needed before

and after mounting of containers. If one company (container producer) can provide all those things, than that producer has got an advantage because he is responsible for everything and the buyer can coordinate everything with one company. That producer that will deliver the containers and provide everything alse what is required, he must have good organisation skills and a good team that can coordinate with subcontructors all the work that is not his normal business activity. Also, he must have all the knowledge in order to supervise the work of the subcontractor because he is responsible in front of his customer for the work of his subcontractors. The customer will not send his complaints to the subcontractor, he will send it directly to his supplier because the contract ist between buyer and supplier.

2.2. Competitive advantage of Croatian companies

According to Porter, there are 3 generic strategies of companies in the market: 1. Low prices and low cost strategy, 2. Product differentiation strategy and 3. Segment strategy. In the company "Jedinstvo Krapina d.o.o.", all three strategies are present, in particular low price and low cost strategies and product differentiation.

The low cost strategy stems from the simple fact that a Croatian worker works for a lower wage than a German worker's wage, and in the production of a housing container that requires a lot of physical human labor - that's a big advantage. But not just physical work, even the cost of engineers is lower. One disadvantage by the production in Croatia is the distance between the end customer and the production plant. That disadvantage is the cost of transport. If a large container is transported, ie. that container is very valuable - in that case, the cost of transport is in relative terms much smaller than it would be if it a less valuable container is driven. Such high-quality containers are what "Jedinstvo Krapina d.o.o." wants, can and know how to produce. This high value indirectly leads to a differentiation strategy because everything that is special and different costs more. Many foreign container manufacturers do not want to bother with much discussion and comments with the buyer about the container's performance. Such manufacturers have a narrow market and can satisfy only those customers who want a standard product from the pricelist.

If the company is ready for a product differentiation strategy then it can satisfy all customers - depending on the degree to which it is ready to differentiate. Such a company can build schools, offices, kindergartens, residential facilities, but also produce simple single containers. By making the company flexible enough to meet many needs, it is able to choose contracts and optimize the production line. By optimizing the production line we come again to low prices and low cost. After all, that is what matters.

In addition to good quality, the price is a key factor in making the decision about buying or not buying a product. It it very likely that the low price is the decisive factor which has a major influence on the decision about purchasing something. By looking at a product in store, it is imposible to feel or see the quality of the product because it is most often in some kind of packaging – especially food products. Furthermore, if we talk about a product that is unknown to us, then the price aspect has even a greater

role. The price is sometning that is easy to compare, and tastes are different and harder to compare – to someone something is of good quality, but to someone that same product is not good. Price is more or less unified and an easy way to compare things in a short period of time. More and more present online sale also goes in to favour of low price as a crucial factor of decision making because over online sale it is impossible to feel the quality of the product. The assumption can be made that a cheaper product does not have the level of quality such as the expensive one, but that does not to be always like that. But not only the products in store. On public tenders the main goal is to find a contractor with the lowest price. In some special occasions the cheapest contractor is not the best one because of the lack of some document that prove his abilities to do the job right. But nevertheless, the first thing that is being considered is just the price – everything else comes later on.

3. CONCLUSION

The construction industry in the EU is experiencing a blossom whether it is a classic way of building or the modular way. The modular way of building more and more takes over and the developed countries of the European Union have seen all the advantages that the modular way of construction provides. The increase in the number of immigrants in developed countries contributes to an increase in demand for simple and cost-effective ways of building. High demand for residential space can not be met only with domestic production capacities of developed countries and they must import the products (containers) that can meet this demand. Studies show that the demand for accommodation will grow in the future with progressive rates, and that is precisely why the Croatian companies decide on export and specialization in the foreign market. Construction work is one way to open jobs and increase the GDP of the state. The Republic of Germany saw that and the old buildings are being crumbled and new buildings are beind made. They have found that it is good for their economy, even with the fact that a lot of money goes out of state when contractors are foreign companies. But even the foreign companies must buy gas, buy something to eat, buy some material in the foreign country. Maybe it does not look like much if it is seen individually, but as a sum of all those things that are bought (taxes payes), the country benefits. New construction styles that are faster and more cost-affective in regards to conventional ones, are directly affecting positively the trade of housing containers.

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RETHINKING HYPERMARKETS? THE RISE OF C-STORES

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Abstract

Changes in consumer patterns buying due to hectic life of accelerating changes in technology, social, economic, political background have pushed consumption to more convenient and easier store formats. Big boxes or European hypermarkets have become difficult for quick and ad hoc shopping that modern consumers' needs. Furthermore from 2007 financial crises so far known weekly purchasing have diminished. The time for taking-off of small size convenient stores that meet the needs of today's time-pressured shoppers has come. European retail markets are very familiar and have tradition of retail chains that only operate in format of convenient store. Convenient store is a specific format of store that has its inventory differences from traditionally grocery stores. The aim of this paper is to analyses the concept and strategy of convenient stores and the new modern approach of combining convenient stores as click and collect places for E-retail. Also we will try to answer why Croatian retail market is lacking of strong domestic retail chain representative and with analyzing recent professional and scientific literature to give guidelines for possible future changes.

Key words: convenient stores, Croatian retail market, store formats

1. INTRODUCTION

The retail industry has experienced more changes over the last several years than through its entire history of existence. By developing technology, appetites of customers have significantly increased and forced traders to introduce new technology solutions and significantly pressuring supply chains to be more flexible, effective and efficient. Today, technology is undoubtedly the most important retail segment. It is not just one of the segments of retail, but retailing can be fully recognized in all the benefits provided by information technology solutions. Technology has accelerated the way retail is run and adapted to a fast-paced lifestyle. At the same time, consumer behaviour and expectations evolved.

2. EUROPEAN RETAIL MARKET

Over the last couple years economy grew and unemployment fell in most European countries. The low interest rate made traditional saving less attractive, with the result that many consumers chose to spend their money, which benefited retail. An increasing propensity to spend is especially apparent in the Scandinavian and western European countries. These are regions with high purchasing power where subsistence needs are fully met and the additional money boost consumer mood. Indisputable purchasing power devided between Northern and Western Europe as well as between Eastern and Southern Europe are continually catching up (European retail in 2016, 2016).

The retail and wholesale sectors in Europe significantly contribute to the European economy. These combined sectors represent the second largest employer in the EU after manufacturing employing 13% of the European labour force. This accounts for 18.6 million people in retail and 10.4 million in wholesale. The retail sector, as well as wholesale sector, provide diverse forms of employment for all types of people. In European Union, retailers generate nearly €500 billion of gross value added, mostly generated by specialised stores focusing on particular product genre (Retail & Wholesale: Key Sectors for the European Economy, 2014).

The Eurozone economy is growing at a moderate pace. Yet despite an aggresive monetary policy by the European Central Bank, unemployment remains relatively high, despite falling unemployment rates. One of the biggest news items of the past years was Britain's vote to exit the European Union. Given that Britain has large external deficit and relies on such capital infusion, a cheaper pound is seen as boosting exports and suppressing imports, thereby reducing the external deficit. Retailers in United Kingdom could be significantly challenged by Brexit. Some retailers may choose to pass on the higher cost of goods to their consumers, while others may choose to absorb the cost rise within their supply chains (Retail trends: The art and science of customers, 2017).

In many areas, falling unemployment rates and a slight increase in income levels had a positive impact on consumers' wealth. In 2016, citizens of the EU-28 had an average of €16,153 available per person, which is a nominal purchasing power increase of +0.7% compared to the previous year. Central and eastern European nations had the highest per-capita purchasing power increases. Measured in euros, six of the 32 European countries evaluated by the study experienced decreases in purchasing power, although in most cases this was due to exchange rate devaluations. This was the case for Switzerland, the United Kingdom and Norway, whose respective inhabitants actually had more money available in their national currencies than in 2015. Psychological factors strongly influence consumers' willingness to spend. Thanks to good economic conditions, European consumers showed confidence for the most part, even in the face of uncertainties such as the repercussions of the Brexit vote and the rise of nationalist or in the very least populist tendencies in almost all European countries (European retail in 2017, 2017).

Europeans increasingly spend their spare cash in the health and gastronomy sectors, but also for online shopping purchases and living expenses. The low interest rates enticed many Europeans to purchase their own property. Rising rent levels in many areas also contribute to the fact that stationary retail in Europe is not growing to the

same degree as consumer expenditures. In this regard, the extent of the retail share of private consumption is related to the degree of market maturity in the various countries considered by the study. As a general rule, the maturer the economy, the lower the retail share of private consumption. But the retail share of private spending is also influenced by regional price differences in living, accommodation, lifestyles and consumer behavior (European retail in 2017, 2017).

3. TRENDS IN RETAIL

Once futuristic, technology became fundamendal in creating unique shopping experience. But alone, technology is not enough. Customers are seeking new and surprising products and experiences. Retailers are challenged to find many ways to delight their customers and strengthen loyalty. The evolution in consumer demand, combined with transfomative technological innovations, will continue to drive changes in retail. The key drivers of success will be centred on building a deep connection with the customer making them feel more empowered. Empowered by technology, the hyperconnected consumer is redefining value. The traditional measures of cost, choice and convenience are still relevant, but now control and experience becoming important. Consumers have access to more than one billion different products offered by a wide range of traditional competitors on different platforms, all experimenting with new business models. Task that retailers need to fulfill is embracing new technologies to meet high standards and expectations. However, they must do so with a realistic assessment of their costs and their benefits. Despite growth in e-commerce, the physical store will continue to be channel that contributes the most revenue for the majority of large multichannel retailers. Retailers will continue to innovate and embrace new digitally enabled business models. These new business models will need to predict behaviour and needs of individual consumers keeping up with the accelerating expectations.

Each new opportunity will be accompanied by new challenges that must be addresed if the industry's transformation is to be successful. They include (Shaping the Future of Retail for Consumer Industries, 2017):

- High cost and difficulty of implementing new technologies
- Slow pace of cultural change
- Limited public-private retail partnerships to address social implications directly.

As mentioned earlier, consumers are truly the epicentre of retail. Their life will be improved due to technlological advancements. Future equation of consumer value will include cost, choice, convenience, control and experience.

4. CONVENIENCE STORES

By definition (Webster's New World College Dictionary, Fifth Edition, 2014), convenience store is a small store, often franchised, offering a limited selection of food and household products and staying open for longer hours at a convenient location.

Table 1. Common Products Purchased Overnight at Convenience Stores in USA (multiple selections)

Buy a snack or meal	92%
Buy coffee	83%
Buy water or soda	83%
Purchase gasoline	81%
Use the bathroom	81%
Use the ATM	56%
Buy cold medicine	35%

Source: NACS, How convinience stores work and their contributions to communities, 2017

For convenience stores, the increase in customer traffic in stores doesn't necessarily correlate to more customers on the road-they are already on the road and visit a convenience store because it is on their way and convenient. Convenience stores seek out locations with a variety of favorable characteristics, including high traffic counts past the proposed site. In neighborhoods, convenience stores have the tightest shopping radius of any retail establishment. Some convenience store owners are experementing with larger footprint stores. Most of convenience stores have 24-hour worktime which makes them unique business that provide food, drinks, some of them gasoline at any time (How convinience stores work and their contributions to communities, 2017).

Despite new innovations, the convinience channel faced several challenges. Major products with high income sources (cigarettes) are facing their own challenges, including high prices, increased taxes, and changes in impact on consumer lifestyle (stricter cigarette packege rules). Cigarettes sales generated more than $52 billion in sales within the convenience store channel in calendar year 2012 (Convenience Stores: Keep the Core; Appeal to More, 2013).

The convenience sector is now worth £38bn, making it comparable in size to industries like oil and gas, defence and recruitment. Convenience store sales are forecast to increase to £40bn over the next year, and the amount invested by convenience stores is also rising, amounting to £858m over the past year (The Local Shop Report 2017, 2017). In Europe, convinience stores are outperforming in United Kingdom with estimated count of 27% grocery retail. Big retailers, including Tesco and Carrefour, are looking for alternative growth channels in the face of potential saturation of mature channels. In the United Kingdom especially, there has been a noticeable downturn in demand for big-store shopping as consumers have begun to split their shopping between different types of stores and the Internet (European Convenience Store Retailing, 2015).

In other countries in Europe consumers are also starting to seek out modern convenience stores, presenting notable opportunity for an array of retailers looking to benefit. As the discounter and modern convinience store landscape evolves, the five take-aways for retailers are (The Rise of the Modern Convenience Store in Europe, 2014):

- To increase shopper loyalty, retailers should develop smaller store formats.
- When shoppers chose stores, they think about their mission as well as location.
- Value for money and relevant promotions are must-haves that convinience store shoppers will respond to by visiting more often or by spending more each visit.
- The eat-in occasion is going to be important to brands present in convinience stores, just as the eat out-of-home occasion has been in the past.
- With aging populations, a community focus will become increasingly important to shoppers, making the modern convinience store choice of the future.

Graph 1. Convinience Store Sales Growth vs. Total Grocery Sales Growth vs. Food-Price Inflation, 2014

Source: Fung Business Intelligence Centre (2015). European Convenience Store Retailing.

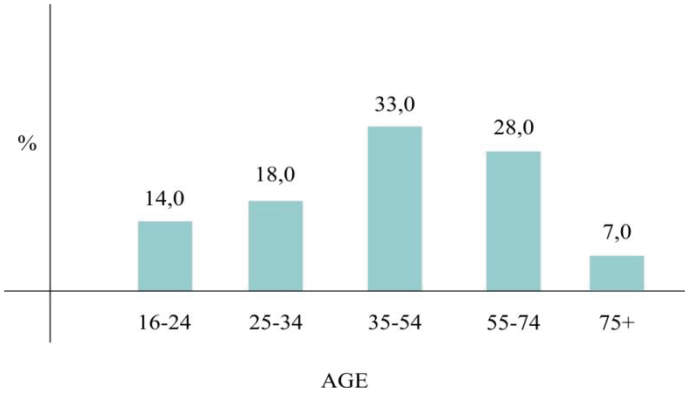
The convinience sector has consistntly outperfomed total grocery in the UK, with growth in 2014 of around 5%. Right now, convinience sector is a bright spot in a negative-growth grocery sector hit by intense price competition and consequent deflation. In UK there are approximately 50,000 convenience stores. The vast majority of shops in the convenience sector are owned and operated by small businesses. Together, independent retailers make up 74% of the convenience sector. Symbol groups are groups of independent retailers trading under a common customer facing brand – familiar symbol groups include brands such as Spar, Nisa Local, Premier, Best-One and Simply Fresh. The products that are offered in convenience stores across the UK differ significantly, from store to store, based on a number of factors including the location, features and size of the store in question. (The Local Shop Report 2017, 2017)

Table 2. Sales categories – United Kingdom

Chilled food	17,2%
Tobacco and E-cigarettes	15%
Alcohol	14,3%
Canned grocery	7,3%
Fruit & vegetables	6,4%
Soft drinks	5,9%
Other	33,9%

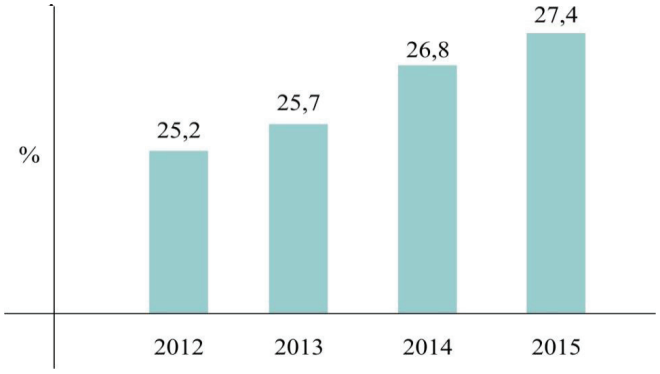
Source: The Association of Convenience Stores (2017). The Local Shop Report 2017.

Graph 2. Age profile of customers in convenience stores – United Kingdom



Source: The Association of Convenience Stores (2017). The Local Shop Report 2017.

Graph 3. UK: Convinience Store Sales as % of Total Grocery Sector Sales

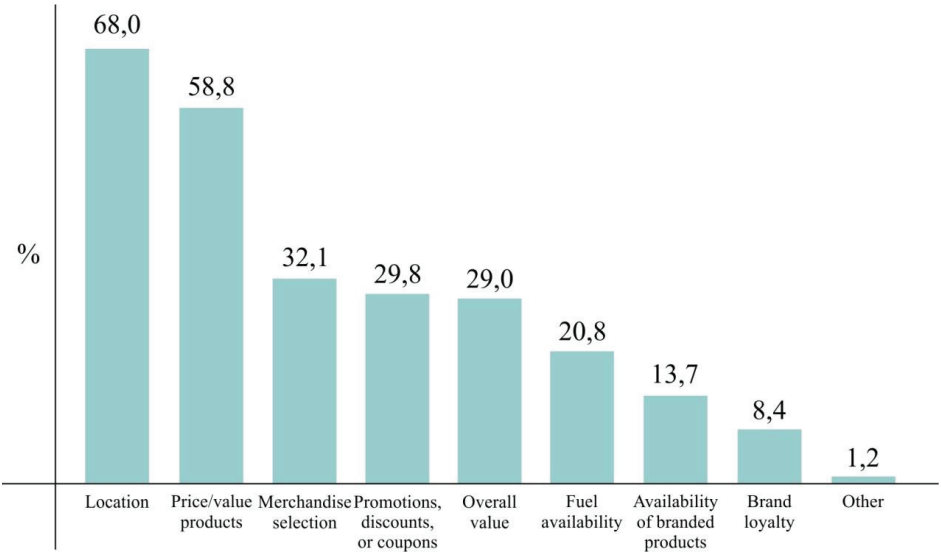


Source: Fung Business Intelligence Centre (2015). European Convenience Store Retailing.

While convinience stores of the past had a rather homogeneous look and feel, today's convinience is much more varied. Convenience stores tend to have the following characteristics (Convenience Stores: Keep the Core; Appeal to More, 2013):

- Footprint of less than 500,00 square meters.
- Off-street parking and/or convenient pedestrian access.
- Extended hours.
- A product mix of grocery items.

Graph 4. Most important factors in selecting convenience store (multiple responses)



Source: Dzwonczyk. E., Benson. J., Zarrilli. M. (2017). What convenience stores should know – and do – in 2017.

5. CLICK AND COLLECT

Click and collect is a shopping facility where a customer can buy or order goods from a store's website, often using smartphone or laptop, and collect them from a local branch. As of 2015, the proportion of retailers offering click and collect in Europe will vary markedly by country. With click and collect, retailer offer additional convenience to customers, while retailers avoid the cost of delivery to the home. (Click and collect booms in Europe, 2017). The Croatian retailers are slowly adopting world trends with the exception of the largest Croatian retail chain, Konzum, with its "KONZUM click" option. The other retailers severely lack in such services. As is witnessed at the global level, the digital transformation is not universally implemented. The retailers that have accepted it have already invested huge amounts, with a lot of options of potential digitization investments. In the case of "Click & Collect", this particular service intersects the e-commerce, supply chain and store, with the functions of marketing, planning and procurement.

6. CONCLUSION

The modern consumer is, on average, much more educated, experienced and informed, primarily seeking more value for the money spent. Therefore, the retail chains need to submit to the customers' preferences and habits, otherwise, they may quite easily face a losing battle and surrender their foothold to the competition. Hypermarkets and supermarkets, historically the largest market share holders, are decreasing and the retail companies are directed towards smaller formats as convenience stores. The price is no longer a primary purchasing factor, value and high quality are the subject of customer's need. The future of retail depends on both the effective and efficient use of all the available resources. The multi-channel formats, ones based on the digital transformation process and the creation of smaller formats have a greater probability of success in today's changing world. The changes required, with regard to the management of retail chains, should thus cover all the stages of the process, ranging from the procurement to the sales. The companies' unprepared or unwilling to undergo an operational shift will not be able to meet the demands of the existing marketplace.

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SALES CHANNELS DEVELOPMENT IN SOFT DRINK INDUSTRY – CASE STUDY OF BRAND CEDEVITA

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Abstract

Product distribution from producers to end-customers is one of the main factors in operational business of manufacturing companies. Today's customers want products at a certain time, at a specific place and at the expected quality level. For this reason distribution channels or sales channels are configured and integrated in a way that focuses on customer preference. The numbers and levels of sales channels is also a reflection of customers' needs and wants. For this reason, the sales channels management in contemporary business is extremely important. Companies brand managers must make decisions regarding sales channels. The decisions are related whether to stay in the old sales channels where the business is operating or to expand business to new sales channels, leaving the old channels down. That are just a few decisions that brand managers deal with in sales channels management. In business operations often are a situations in which company remains in the old sales channels, but also develops and enters new sales channels. These are decisions that are bind to channel management and to which managers need to pay close attention if they want to be competitive and if they want to achieve good results in their business. By entering into a new sales channels, companies gain a specific market segment in which they are struggling with other competitors. The main way how businesses are struggling with their competitors are innovations within sales channels which are based on customers need and wants. Good brand manager continuously monitors the market situation and the situation in a particular channel, continuously perceives the needs and wants of customers and dependes on this, manages innovations within a particular channel. Innovations are considered as a key element of success in a particular channel. Because of the all above-mentioned, main goals of this paper are to show the link between theory and practice related to sales channels and sales channel management within powdered beverage industry, and to emphasize the importance of entering into new sales channels. The aim is also to explain the importance of innovations as well as their impact on sales channels on a concrete example of Cedevita brand. The paper will give an overview of the relevant literature related to the topic and will present and analyze specific data related to the Cedevita brand which are obtained from internal sources of Atlantic Grupa.

Key words: sales channels configuration, sales channels integration, sales channel management, sales channels innovations, powdered beverage industry

1. INTRODUCTION

In the past there was very few distribution channels. During the time, because of market development, products development and increase of consumers needs and wants number of distribution channels drastically increased. Affected with that kind of market environment brand managers, if they want to be successful, if they want to gain higher and higher market share are pressed to continuously monitor their copmetition, situation in distribution channals and they have to try to be innovative in their field and market segment. That is very complex assignment, and manager should be very skilled to deal with. Decisions about number of channels, decision about developing new channels or leaving an old channels is especially tough task. Very often is multi-channel approach. What is very important to pointed out is that modern management put focus on consumers and their needs and wants and take that into consideration when they are making a decisions how to manage their distribution channels. Case of Cedevita will also show how such decisions are made in practice and which are the positive results of good distribution channel management and continuous innovation within the channels.

2. THEORETICAL FRAMEWORK

In this part of a paper some key terms connected with distribution of goods and distribution channels will be defined and explained. Distribution is one of the four elements of the marketing mix (McCarthy, 2016). It is a process of making a product or service available for the consumer or business user that needs it. This can be done directly by the producer or service provider, or using indirect channels with intermediaries (distributors, agents, wholesalers etc.)

The distribution has long been felt to be one of the areas in business where substantial improvements and cost savings can be made. Representing a substantial portion of total costs in a company, the distribution area has attracted considerable attention in terms of new concepts and techniques designed better to manage this important function. The management of distribution is now recognized as a key part of the strategic management of a company. In its broadest sense, distribution is concerned with all those activities required to move goods and materials into the factory, through the factory and to the final consumer. According to Renko (2010) distribution includes effective transfer of goods from production site to place of consumption with minimal cost and acceptable level of service to customers. Common for both of this definitions is that they are putting a focus both on goods transfer from producers to consumers and on satisfying level of service according their customers preferences. Another element connected with distibution process which should be explaind is distribution channel or sales channel.

Distribution channels (in literature known as marketing channels, sales routes or sales channels) are the link between production and consumption, which, by coordinated actions, the institution's set-up runs commodity from producer to consumer (Renko,2010). Kotler defined distribution channels as a series of mutually dependent

organizations involved in the production process of products or services available for use or consumption (Kotler, 2006). In this definitions focus is on institutions (organizations) which are forming a distribution channel.

Distribution channels involve two separate, yet closely connected, activities: logistics and channels of distribution. Historically, distribution was simple, with producers selling to their immediate neighbors, who often collected goods themselves. Modern-day manufacturing, more cosmopolitan consumers, better transportation and communications, and business specialization have meant that channel decisions are now quite complex. Distribution costs have risen relative to production. However, because of automation and computerization, production costs as a percentage of total cost are now considerably lower than they were only a few years ago (McCarthy, 2016).

As it allready mentioned, in literature are present difrenet terms for distribution channels. Some authors are using term distribution channels, other are using marketing channels, third are using a term sales channels but in their basics all of them have the same meaning.

If we are taking into consideration one more definition, it will be evident that this definition has a same meaning as previously mentioned definitions.

Sales channel is the route that goods take through the selling process from supplier to customer (Jobber and Lancaster, 2009). There are many sales channels of diferent types used by companies in order to make their products available to the market. As all channels are not adapted to all economic sectors, it is of interest to take into account the business activity of the sector studied as it explains the variety of options (Coelho and Easingwood, 2003). Since 1990s dominant is simultaneous use of several marketing channels by retailers (Zang et.al.,2010). It is important to point out that technology has also stimulated the development and expend the number of available channels.

When observing channels, it is neccessery to mentioned channel strategy. A channel strategy is a vendor's plan for moving a product or a service through the chain of commerce to the end customer (Jobber and Lancaster, 2009). Closely related is retail channel strategy.

A retail channel strategy refers to the way the offer is made available to the consumer. The choice of a retail channel strategy continues to challenge companies facing the pressure of developing a sustained competitive advantage and that meet the difficulty of preserving product differentiation. In this context, the sales' method becomes the most important factor of success rather than the product being sold (Rackham, 2000).

The strategy defines how to manage distribution channels, how to manipulate the goods on the way from the manufacturer to the ultimate customer, and how the company plans to achieve a competitive advantage. Along with the strategy, the configuration and integration of the distribution channel is linked.

The distribution channel configuration takes place in a few steps (Kotler et. al., 2006):

1. Analyze the level of service efficiency that customers want
2. Determine goals and limitations in the channel
3. Identify the main channel alternatives
4. Grading of the main channel alternatives.

The level of customer service analysis begins by discovering what they really want from the channel. Company develops its goals depending on the characteristics of products, intermediaries, competitors, companies and the environment. After defining the goals they want to achieve in the channel, the company needs to determine its main channel alternatives so that its products and services can be delivered more effectively to target customers.

The use of a many different types of distribution channels by one organization is becoming widespread (Frazier, 1999). Organisations which are growing, adding a new channels and communication methods and on that way they are providing an opportunity to extend market coverage cost effectively (Moriarty and Moran, 1990). Very often new channels are developed rather than replacing existing channels. Thus the question of successfull multi-channel approach management becomes even more significant (Durkin and Howcroft, 2003).

By adding a new channels, new areas of company contact and communication with their consumers is open. This causes a new challenges for employees of the company and company processes in interaction with their consumers. Channel integration is a strategic issue which potentially within organisation requires structural changes and changes in customers behaviour (Hughes, 2006).

Number and type of channels, i.e. the channel configuration (Sousa and Voss, 2006) are strategic because they are a source of competitive advantage and differentiation. It is evident that the single channel is no longer retailers' main choice of configuration. Chatterjee, (2010) claims that company brings products to their consumers throughout single retail channel, and just after develops other channels. When company adopt channel configuration they can choose between two opptions, dependence and independence.

Companies can consider the channels as independent entities with no communication between each other, or to integrate the various channels and enable different types of information and payment flows between the different channels (Chatterjee, 2010). After channel configuration, the retail channel strategy involves channel integration. Berman and Thelen, (2004) claims that channel integration is a key element in the retail channel strategy.

Table 1. Drivers for the adoption of new channels

Driver	Main factors involved
1) Cost savings and productivity gains	a) Lower overheads on new channels b) Amount of automation that can be built in c) Possibilities for moving administration/processing/ customer service globally to d) lower cost regions e) Customer willingness to use and access to lower cost channel f) Self-service by end customers or intermediaries g) Ability to use existing channels more productively
2) Potential for business expansion	a) Customer demand b) Pricing c) Type of product involved

Source: Hughes, 2006

Hughes (2006) defines drivers for the adoption of new channels. In table 1, can be seen a number of factors involved in successfully adopting new channels. Automation, self-service and remote service has worked effectively for simple products where the purchase decision is straightforward and price-driven according to a number of the respondents.

After explaining a process of distribution, sales channels, channel configuration, channel integration, and drivers for adoption of new channels it is also significantly to emphasize a importance of channel modification and why is modification necessary for particular channel within a company.

There are three levels of channel modification, (Kotler, 2001):

(1) Adding or dropping the number of members of a particular channel (it is necessary to analyze how business looks with or without some intermediaries)

(2) Adding or leaving individual distribution channels (it is necessary to analyze the realized sales quota, to reject those who do not achieve the planned)

(3) the development of a completely new way of selling in all markets (the toughest decision for a company because it requires reformulation of the overall channel creation strategy).

Distribution channel management or other called sales channel management is a process that includes a series of activities. After the manufacturer chooses for one of the alternatives (types) of the channel, it is necessary to choose individual collaborators, educate them, motivate them, evaluate them and, if necessary, modify them. So, all these activities include the process of distribution (sales) channel management (Renko,2010).

Research has shown that channel management is a key role of the sales manager (Metha,2000). This is a major responsibility, since for most manufacturers success or failure is partially determined by how efficiently and effectively their products are sold

through their marketing channel members (agents, wholesalers, distributors and retailers). The implication is that sales managers require training in how to deal with issues related to channel management (Anderson,1997). In some cases, it may be difficult to gain entry to the channel unless the product is differentiated by way of uniqueness or lower price from those products already established in the channel.

In the FMCG field, manufacturers have become increasingly involved in controlling distribution of their products and in merchandising activities to support their 'pull' marketing strategies. This has meant heavy advertising expenditures, and concurrent merchandising activity at point of sale has been necessary to ensure that goods are promoted in-store to back up national advertising. As a result, large manufacturers operating a 'pull' strategy have been able to exercise control over their distributive intermediaries; such intermediaries could only dismiss demand created through advertising and branding at the risk of losing custom. This control has meant lower margins for retailers, with manufacturers being able to dictate the in-store location of their particular products. The weight of advertising put behind major brands has given these manufacturers influence over their distributive outlets.

2.1. Sales channels segmentation in beverage industry

The data which are given below were obtained from the Atlantic Grupa internal sources and on the basis of interviews conducted with Cedevita brand manager.

The channels of the beverage industry may be broadly divided into two categories:

- Modern and traditional trade
- On premise or HORECA channel.

Modern trade refers to big retail chains in the form of hyper stores and malls. The big change to retail has come through multi-brand shops in malls and the way businesses are conducted; electronically on the net, with far less constraints of space and infrastructure. The marketing and supplying these electronic stores and big malls is very different from the demand and supply chain of the traditional markets.

Selling to multiples is more a matter of negotiation at higher levels whereby the buyer and the sales manager negotiate price and delivery and salespeople merely provide an after-sales service at individual outlets. Sometimes salespeople carry out merchandising activities such as building up shelf displays, providing window stickers and in-store advertising, although separate merchandiser teams may also carry out such duties. The growing importance of retailers is reflected in the formation of trade marketing teams to service their needs. A combination of key account management on the part of the salesforce and brand management's lack of appreciation of what retailers actually want has prompted many consumer goods companies to set up a trade marketing organization. A key role is to bridge the gap between key account management and the salesforce. Trade marketers focus on retailer needs (Jobber and Lancaster, 2009):

- the kinds of products they want; usually high rotation articles and category pillars

- in which sizes; average 30 days stock
- with which packaging; they prefer promotional packs like 3+1 gratis or added value packs with gifts
- at what prices; competitive prices compared to the market
- what kind of promotion: catalogue, displays, additional positioning.

Since the late 1960s we have witnessed the growth of large-scale retailing, including growth in the size of retail establishments, first to supermarkets, then to superstores, then hypermarkets and finally to megastores. Because of the large size of site required for such outlets, but also for customer convenience.

Patterns of shopping have changed, with shoppers for most goods prepared to dispense with the personal service of the shopkeeper, and self-service and self-selection readily accepted in the interests of lower overheads and prices that are more competitive. There has been a growth in mass marketing because improved standards of living have meant that products that were once luxury goods are now utility goods and required by the mass of the population. Because supply normally exceeds demand for consumer goods, there has been a large increase in advertising and other forms of promotion in an attempt to induce brand loyalty, with FMCGs being pre-sold to consumers by means of 'pull' promotional strategies. At the same time, retailers have encouraged shoppers to become 'store loyal' through the introduction of loyalty card schemes.

A view held by many organizers of price promotions is that the consumer, in economically difficult times, is more likely to be attracted by the opportunity to save money than by incidental free offers or competitions. FMCG producers, especially in the grocery trade, predominantly use price promotions. In that way in very short term, they can build volume.

On the other side, traditional trade refers to smaller and much less sophisticated stores than the glitter and technology of modern retailing. Traditional trade also includes roadside vendors and food stalls on highways, cities and villages. There are countless examples of people opening up shops in the garage, or in the front section of their homes to do retailing in the traditional manner.

The term HORECA refers to the distribution channel in the food and beverage service industry. It is the acronym formed by linking the words HOtel, REstaurant and CAtering. The HORECA channel in ex-Yugoslavia region is very fragmented, with more than 45.000 total points of sales (Atlantic Grupa internal data and interview, 2017). Main challenge in this channel is the high logistics costs because of the generally small size orders, frequent deliveries and a fragmented and geographically dispersed channel. It is estimated that these costs in the HORECA channel are four times greater than in large-scale retail.

HORECA presence gives status to a drink, and creates consumption habits. In addition, unlike multiple retailers (Spar, Konzum, Plodine, Lidl, Kaufland), which do not sell one brand exclusively, but their clients have the choice, HORECA customers do give exclusive rights, thereby granting a local monopoly to the brand. One condition of

this type of exclusive deal is that the supplier provides, and the outlet agrees to stock, its full portfolio of soft drink brands. The goal is to create a barrier to entry to any soft drink competitor.

2.2. Innovations within a channels

Today innovations are more than ever necessary: the brand needs them, the consumer wants them and the trade requires them. They re-create leadership, focus the market on value not on price, and give a goal to the organization, reminding it that brands are about progress once they are on the market. A brand's engagement is only proven by its actions, primarily the relentless flow of innovations and their capacity to delight the consumer, or the customer in B2B. All good innovations must provide value to the distributor and to the consumer.

Consumers are shoppers too. When they visit a store, online or bricks and mortar, they take the opportunity to see what is on promotion and to try new products if they see any. Visiting a store can also bring fun, if not pleasure: as a result, in saturated shelves that cannot be extended, store managers want variation, rotation and profitability. They are prone to substitute a new item for an old one with declining sales trends or not delivering enough profit. Innovations bring life to the shelf, as well as added margins. Both the trade and the brands need innovations to build the growth of their categories. Sales promotion does not do it: it is a quick fix only in short term. Often consumers try an innovation in addition to their regular product.

Innovation does not merely work for itself: it benefits the brand in terms of both image and sales. It is what is known as the spillover effect, that is, the effect that advertising for one product has on the sales of another product in the brand. This effect, which is well known to companies, has been confirmed by marketing research (Balachander and Ghose, 2003).

2.3. Powdered drinks and powdered drinks industry

Fruit powders a non-ready-to-drink (non-rtd) products in powder form (Canadean, 2016). Powdered drinks dilution ratio varies from brand to brand. Excludes powdered tea and coffee-based drinks (included in iced/rtd tea drinks and iced/rtd coffee drinks respectively) and powdered sports drinks and energy drinks (included in sports drinks and energy drinks respectively). Includes 'almost rtd (dosage)' products where a fruit powder portion is sold together with a water serving eg. Cedevita Go in East Europe.

Thanks to the success of lead brand Cedevita, fruit powders are a popular drink, and boosted by the hot sunny weather in the summer consumption grew by nearly 12% (Atlantic Grupa internal data and interview, 2017). Canadean, (2016) reports shows that according to segments, the low calorie segment grew by 77% in 2015, thanks to the introduction of a new Cedevita flavor, elderflower/lemon. The segment remains tiny however, with less than 1% market share. Orange remained the dominant flavor with 57% market share. Most flavors grew well, with grapefruit the sole flavor to decline, by 37%.

In this industry, there are few main players. With over 81% share, the Cedevita (Atlantic Grupa) brand shapes the category at all levels. It grew by 12% overall in 2015, backed up by a huge success in Horeca through upsized 19g single-serve packaging. The rebranding of Cedevita Go into umbrella brand Cedevita also aided growth, especially as it was implemented just before the summer peak. The company Podravka was the biggest loser in 2015, declining by 30% and dropping from 3% to 2% share. This was a result of Podravka discontinuing its brand Provita in early 2015. This came as a surprise to many players as the company had invested in the launch of its Provita brand only one year earlier, and volume had increased by 196% in 2015 to nearly 1 m liters. Private Label brands grew by 19%, taking some of the Provita consumers, but mostly benefiting from the warm weather. Provita leaving the market resulted in a 50% decline in 300g foil as only Provita was present in this pack type. The 19g sachet, unique to Cedevita, boomed with growth of 112% as 2015 was the first full year for this pack format. The share of 1000g and 500g sachets remained stable at 56% and 18% respectively as these two pack sizes offer the best value for money (Canadean, 2016).

Despite the popularity of Cedevita and the fact that Atlantic Grupa is investing heavily in the brand, fruit powders are expected to decline by just over 4% in 2016. The return to average weather will be a negative for the category, and with Provita having left the market, altogether volumes are expected to fall. It is also estimated that the upsized packaging in on-premise will no longer drive growth in 2016 (Atlantic Grupa internal data and interview, 2017).

3. CASE STUDY CEDEVITA

CEDEVITA Ltd. is a company that encompasses the development, production, quality control and sale of instant-drinks, teas and candy products intended for a healthy diet. (Atlantic Grupa internal data and interview, 2017). Cedevita has developed its range of products within a pharmaceutical company PLIVA Inc., of which it has been part until 1999. The production tradition of today's Cedevita assortment goes back to the 1920's. At the location of the company's present headquarters in Zagreb, the first factory for the production of dietary products in Croatia, a branch office of the Swiss company Dr. A. Wander, was built in 1929. Processing, production and preparation of teas began in 1947, when "Biljana", a factory for the processing of plants, was built in the city of Trogir, Croatia.

The production of food products that are currently part of Cedevita's assortment, has been taking place for over 45 years, as a combination of the tradition in the production of dietary products and the high quality criteria of the pharmaceutical industry. The company began to operate independently in 1999 when the Food Business Programme, which operated as part of PLIVA, became an independent legal entity.

In 2001. Cedevita became a member of the Atlantic Grupa, and nine years later Kalnicke vode with production of natural mineral and natural spring water became a part of Cedevita. From February 2012 Cedevita operates as a part of strategic business unit Beverages under the Atlantic Grupa. Atlantic Grupa is a multinational company

whose business activities incorporate the production, development, sale and distribution of fast moving consumer goods in the markets of Croatia, region, and Western Europe. It is one of the largest regional food industries, leading European producer of sports food, the largest regional producer of food supplements, a prominent producer of personal care products as well as the leading distributor of consumer goods in South-Eastern Europe. Atlantic Grupa is also the owner of the leading private chain of pharmacies. The headquarter of Atlantic Grupa is in Zagreb, production plants are in Croatia, Germany, Slovenia, Bosnia and Herzegovina, Serbia and Macedonia, and its products are exported into more than 30 markets. The company employs 4,300 people in 12 countries.

Cedevita has, become synonymous with a refreshing, healthy, and everyone's favorite beverage. During its 48 years of existence, many generations have grown up with Cedevita and customer loyalty has been confirmed through the most important quality systems such as ISO 9000 and 14000, HACCP and IFS and through Superbrands title and Trusted Brands titles that Cedevita keeps on winning year after year in the category of vitamin products.

Extending the range is a necessary step in the evolution of a brand through time. Just as living species only survive if they adapt through evolution to their environment and seek to extend their ecological realm, the brand, which historically is designated by a single product breaks up into sub-species (Kapferer, 2012). Range extension naturally follows the logic of marketing and of even finer segmentation to better adapt the offer to the specific needs of consumers, needs that never stop evolving.

Building distribution channels can be extremely tough for beverage manufacturer especially if they do not understand how to navigate the highly competitive beverage industry. They need to know how to get Their product to market, how to choose the right distributors, sales channels and how to persuade customers to carry your product. The success story of Cedevita is based on two main reasons (Atlantic Grupa internal data and interview, 2017):

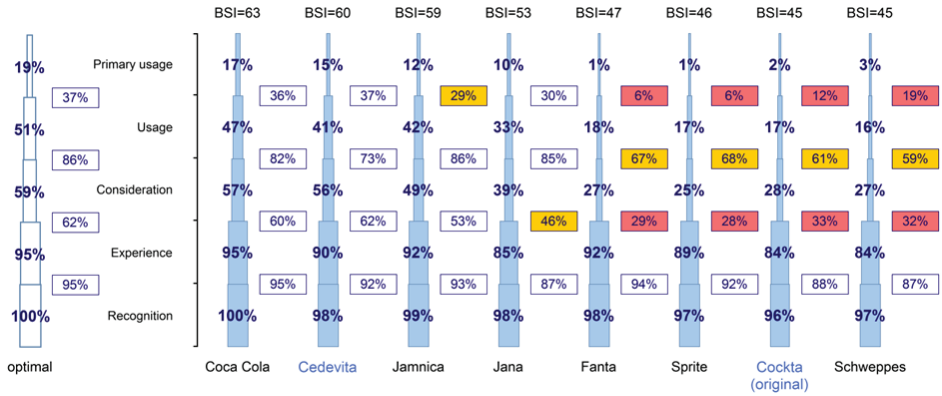
- Quality of product: refreshing taste, thirst quencher, stable vitamin formula and product rich in 9 vitamins
- Innovations in product packaging, new occasions and sales channels.

Figure 1. Development of Cedevita and entering a new sales channels

Source: Atlantic Grupa internal data, 2017.

As it shown on Figure 1, at the early beginning, Cedevita was distributed only in pharmaceutical channel and product packaging was in a glass jar. The first breakthrough was adjustment of recipe and packaging in plastic container and starting of distribution in retail stores. Later on, new packaging of 1 kilogram was introduced to market as demand grew. In 2001 Cedevita was acquire by Atlantic Grupa. At that time, business community claims that category of vitamin instant drink is declining and that has not room for growth. After seven years of acquisition, Cedevita doubled the sales results (Atlantic Grupa internal data and interview, 2017).

Figure 2. Brand strength indeks Horeca



Source: Valicon (2016), Brand Strenght and Image

Second significant breakthrough was in 2003 when Cedevita enter the HORECA sales channel. For a long time, the consumption of Cedevita was tied solely to house-

hold use. Today, Cedevita HORECA segment participates with 15% of total sales and Cedevita is relevant partner and supplier in HORECA business. After all, according to Valicon 2016 Cedvita (see Figure 2) is the second strongest brand in soft drink category in HORECA channel Croatia and Bosnia and Herzegovina. Innovations in this channel lead to tremendous growth in sales by 55%. In 2014, new packaging with unique serving was introduced (Valicon, 2016).

Latest major innovation took part in 2009 with introducing of Cedevita GO with its special cap. The main goal was to become available on new occasion – on the go. Today, Cedevita on the go participates with 9% of total sales. Innovation in this channel lead to growth in sales by 22% in 2016 compare to 2014. In 2015 Cedevita introduce the new packaging design which was more recognizable on shelfs (Atlantic Grupa internal data and interview, 2017).

Every product is consumed within a particular situation. The growth of a brand is thus often a matter of tackling new situations of use, knowing that these situations may well include the same customers, as it is possible for one person to consume the same product in several different situations. For many companies, the situation of use is now the one real criterion for segmentation, rather than the characteristics of the users themselves. A product is always consumed in a particular situation – and it is this situation that defines the brand's competitive set. The situation is the brand's true battleground. Each situation is associated not only with a different subset of competitors, but also with expectations, needs, volumes, and growth and profitability rates. It is understandable that brands should seek to grow by breaking into high-growth-rate consumption situations in which their attributes give them a high degree of relevance. Such a movement often requires the launch of a new product or line extension. To achieve growth, the market was segmented according to the situations of use.

Brand growth is about extending the penetration of the brand in its target market, building both the brand equity and the business. It involves all facets of the marketing mix: line extensions at the product level, price differentiation, retail or channel extension, communication, and creating relations rather than transactions only. It aims at making previous buyers repeat their purchases and remain loyal (Kapferer, 2012).

Cedevita managers therefore saw that range extension can reinforce the brand by widening its market and its customer base. A variety of formats has the same effect. In the world of soft drinks, the launch of a new format may be considered the same as launching a new soft drink. Indeed, each new format allows the brand to enter a new usage mode. In so doing, the brand recognizes the different expectations of the public and responds to them. It follows the evolution of consumers and changes with them. Range extension is a way of revitalizing many failing brands, by making sure they move closely to meet the expectations of today's customers.

Innovations within a channels in case of Cedevita are continuous. Managers are trying continuously to find new ways to expand market segment and to increase consumption of Cedevita. In connection with that in continuation two more Cedevita innovations will be described. Cedevita latest innovation which took place in 2017 was Chia Fresca (Atlantic Grupa internal data and interview, 2017).

The goals of the project were:

a) To develop a new category – snack drink in HORECA channel of sales: Chia Fresca by Cedevita. It is a snack drink product created as a combination of multivitamin grains with 20% fruit powder with lemon flavor and Chia seeds. It is like a lemonade with chia seeds, found it popular drink in South America, served in jars with Ice & lemon slices.

b) Be in line with the trends of healthy food (low sugar & high protein)

c) Attract new consumers who are looking for something different and value healthy food and are ready to pay more for this product.

In 2016, Cedevita had ambition to enter new channel of sales and give to their consumers new experience of Cedevita through their own Vending sales channel (Atlantic Grupa internal data and interview, 2017).

The result of this project should be:

a) Creation of uncontested market space for an Atlantic Grupa beverage brand

b) Create and capture new demand

c) Align firm's activities with a goal of differentiation and lowering costs

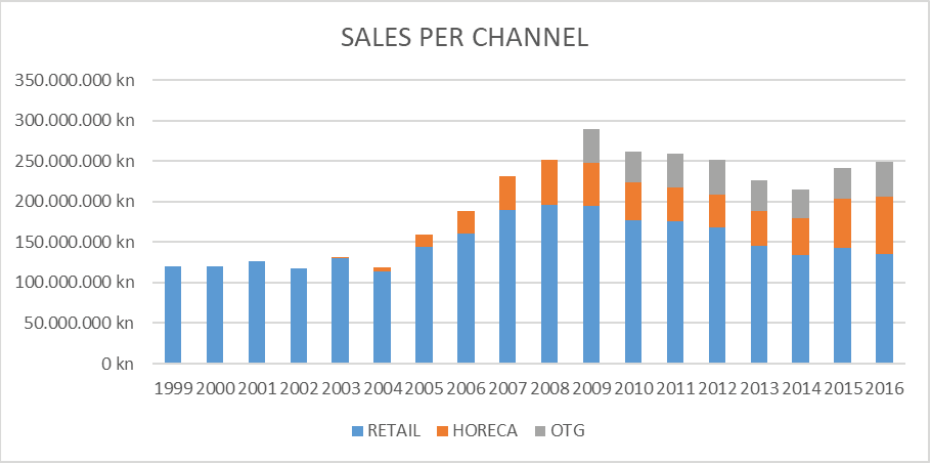
d) Clearly show what are new opportunities coming from innovation.

Cedevita set up an international team to create modern vending machine called Fresh Dose of Vitamins Point. They combined the great talent and unique design from the Barcelona agency responsible for the rebranding with the technology from one company in Salzburg, Austria to create a vending machine that allows you to order, share, personalise flavour intensity, and pay for it by smartphone. The strategic objective of the project was to improve the overall image of the brand through innovative product experience and gain of additional profit through new sales approach of vending channel of sales.

Innovative appearance and advanced payments via smartphones are features that provide a competitive advantage over other providers of vending on the market. The project was tested by buying 10 machine of which 8 was positioned in Croatia, 1 in Slovenia and last 1 in Austria. After the end of the year 2016 the analysis of the results was made and after that a decision was made about further continuation of the project and spreading it to other locations.

The project was unsuccessful due to machine was often in breakdown. In addition, Cedevita management overestimated sales and underestimate cost of logistics and maintenance. Key learning was that they should take more time to test machines before they put them into operation on locations (Atlantic Grupa internal data and interview, 2017).

Chart 1. Cedevita sales per channel



Source: Atlantic Grupa internal data

According to all previously mentioned, nowadays there are two main sales channels for Cedevita (see Chart 1); retail (modern and traditional) and HORECA. Between these two channels, there are significant differences, but the efforts of all manufacturers both in the retail and HORECA come to the same; competition for consumers. Methods that aims to achieve this are many and varied, depending on the sales channel. The retail has a focus on the shelf price, product visibility, share of shelf and amount of trade marketing activities. There is a strong relationship between market share and the number of facings. In the HORECA is primary battle over which producer will be present at menu. Another challenge is to achieve high quality visibility in the object in order to remind consumer for consumption. For this purpose, Cedevita use various means, from branded coolers, umbrellas, price lists, promotional flyers, mats and other catering equipment. In addition, difference is contoured in price sensitivity of the product and how much consumers are willing to pay for it. HORECA outlets are places where people are less price sensitive because they come, in certain way, to treat themselves. ATL campaigns are equally important for both channels, and for further attracting attention in each channel Cedevita use different mechanisms.

By entering to new markets, new sales channels and product innovations have led to steady growth in sales (see Chart 1). Since 2001 when Cedevita was acquired from Atlantic Grupa, sales have doubled to date. An unfavorable period followed after 2009 when sales began to fall. The main cause was unfavorable economic trends, the financial crisis, the entry of new competitors (Stanić beverages with Juicyvita brand) and the strengthening of private labels (especially in hard discounters like Lidl and Kaufland). For the last three years, Cedevita is growing and returning to positive sales trend. The causes are economic recovery but also innovations in packaging and design (Atlantic Grupa internal data and interview, 2017).

4. CONCLUSION

On highly competitive markets companies are dealing with strong competitors. They are using different ways and methods to gain market segment and to achieve competitive advantage. In this paper discussed was a role of sales channels and how to successfuly manage a sales channels within a company.

At the begining of a paper it was given a theoretical review about sales channels, sales channels configuration, sales channels integration, sales channels modification, and sales channels management. After giving a theoretical framework, two main channels within beverage industry was described. Pointed out was importance of continuous innovations within a single channel. Emphasized was general situation in powdered drinks industry. At the and of a paper the case of Cedevita company was presented.

The main goals of this paper were to show the link between theory and practice related to sales channels and sales channel management within powdered beverage industry, and to emphasize the importance of entering into new sales channels. The aim was also to explain the importance of innovations as well as their impact on sales channels on a concrete example of Cedevita brand. Based on the above mentioned, the goals of this paper are achieved.

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EMPLOYMENT IN DISTRIBUTIVE TRADE – LOOKING BACKWARD AND LOOKING FORWARD

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Abstract

The main goal of this research is to examine the relationship between the GDP (Gross Domestic Product), import, number of total employment and the number of distributive trade employees of the Republic of Croatia for periods 2000-2014. The methods of correlation and regression analyses are used to determine the possible contribution of distributive trade sector as an economic activity in solution of the unemployment problem in Croatia by 2030. The obtained insights could help trading companies and managers at all levels as a basis for calculating an estimated number of employees in the distributive trade.

Key words: employment, distributive trade, correlation and regression analyses

1. INTRODUCTION

Even now, several years after the onset of the economic crisis, it seems that European (and Croatian) labour market still faces one of the greatest challenges ever met resulted from its very slow recovery: the necessity to find short and long-term solutions in favour of the sustainable increasing of employment (Dimian, Begu, Jablonsky, 2017). In the period from 2009 to 2014. economic crisis is the main reason for loss numeruos jobs in almost all economic sectors in Croatia. In that period Republic of Croatia loss more than 200 000 jobs. In periods of economic crisis distributive trade shows greater sensitivity to market events (Pupavac, 2014), in a way that trade companies quickly reduce labour costs in order to maximize profits or minimize losses, because that is the easiest way to make cuts in the short term. After the cost of goods sold, labour costs represents one of the biggest cost incured in the distributive trade, accounting 7,8% of net turnover (European Central Bank, 2011). The economic crisis had a negative effect on the sector due to reduced demand. Compared to 2008, in 2014 the turnover in the sector was reduced by 12.4%. Consumers have become more prudent; they buy less and put more emphasis on the prices (Butković, et al., 2017). The reduction of salaries and/or downsizing them seems as an efficient solution so as to maintain market position of trade companies (Pupavac, 2015). Productivity isn't everything, but in the long run it is almost everything (Krugman, 1994). Accordingly, the objective of this paper is to evaluate the effects of the distributive trade and to point a solution of the unemployment problem in the post-crisis perpective. Such approach seems

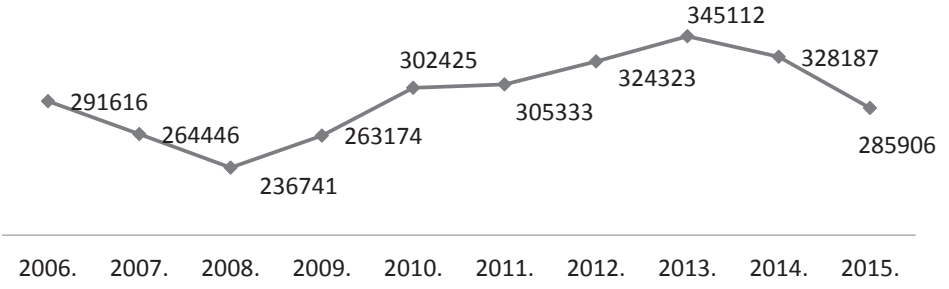
appropriate because distributive trade is a labor intensive activity and one of the most important sources of employment.

2. LITERATURE REVIEW

Unemployment is a central problem in modern societies. When unemployment is high, resources are wasted and people's income are depressed. According to Okun's Law, periods of high unemployment are times in which actual GDP is below its potential. Okun's Law states that for every 2 percent that GDP falls relative to potential GDP, the unemployment rate rises 1 percentage point (Samuelson, 1989). For example, in the Republic of Croatia, real GDP in 2015 decreased by 10.7% compared to 2008, while unemployment increased by 20.76% in the same period.

Unemployment in the Republic of Croatia for the period 2006 to 2015 is shown in the Graph 1.

Graph 1. Unemployment persons (000), 2006-2015.



Source: Author prepared according Statistical Yearbook 2016.

Based on the collected data, a brief descriptive analysis of unemployment in the Republic of Croatia for the period from 2006 to 2015 was prepared (cf. table 1).

Table 1. Descriptive statistics of unemployment

	Unemployment
MEAN case 1-10	294726
MEDIAN case 1-10	297020
SD case 1-10	33447
VALID_N case 1-10	10
SUM case 1-10	2947263
MIN case 1-10	236741
MAX case 1-10	345112
_25th% case 1-10	264446
_75th% case 1-10	324323

Average annual unemployment in the observed period was 294 726 (SD 33 447). The lowest average annual unemployment was 236 741 and was recorded in 2008, while the highest annual average unemployment was 345 112 and was recorded in 2013. The correlation between these two variables (cf. table 2) was calculated on the basis of the data collected on the movement of the unemployed and the GDP for the aforementioned period.

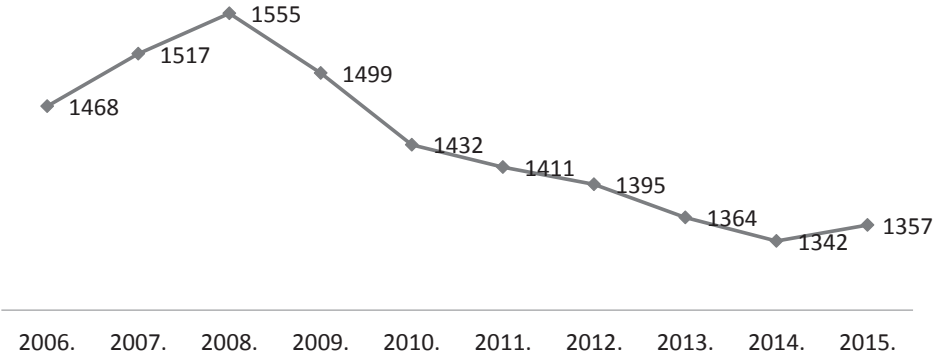
Table 2. Correlation analysis between unemployment and GDP

Correlations (Spreadsheet1) Marked correlations are significant at p < ,05000 N=10 (Casewise deletion of missing data)				
	Means	**Std.Dev.**	**Unemployment**	**GDP**
Unemployment	294726,3	33446,95	1,000000	**-0,888390**
GDP	304637,8	13365,13	**-0,888390**	1,000000

In addition to the unemployment problem, the Republic of Croatia faces two other major problems. One is a decrease in the number of employed, and another is decrease in working-age population.

The number of employed persons in the Republic of Croatia in 2015 has decreased by about 200,000 in comparison to 2008 (cf. Graph 2).

Graph 2. Persons in employment (000), 2006-2015.



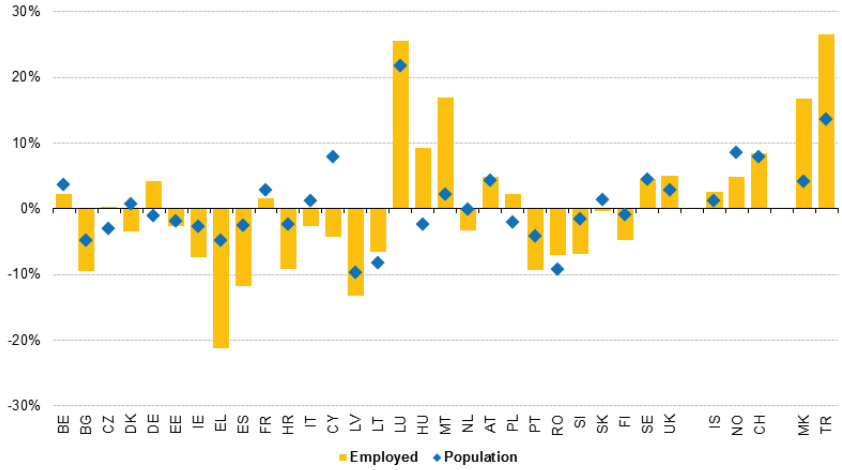
Source: Author prepared according Statistical Yearbook 2016.

Graph 2 shows in percentage the changes of the population (rhombuses) and employment (bars) in the 20 to 64 age group between 2008 and 2015 in the Member States.

Employment grew faster than population in several countries: the Czech Republic, Germany, Luxembourg, Hungary, Malta, Austria, Poland, Sweden and the United Kingdom. In Belgium and France, employment grew, but more slowly than the total working age population. In the remaining 17 Member States, employment fell; only in Lithuania and Romania did it do so at a slower pace than the population.

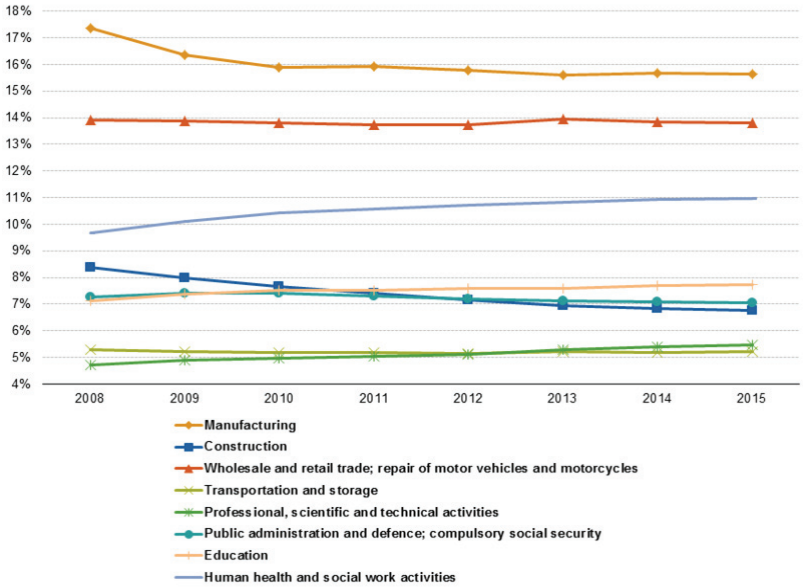
Negative economic trends had a negative effect on Croatian distributive trade sector. Reduction in real income and purchasing power had a negative impact on employment trends within the distributive trade sector. Drop in employment in distributive trade has been intensified since the beginning of crisis.

Graph 3. Population and employment 2015 as compared to 2008 - % changes



Source: EU – LFS

Graph 4. Weight in EU-28 employment of main NACE Rev 2 economic activities



Source: EU – LFS

According to NACE (Rev 2, 2008, p. 217) distributive trade includes wholesale and retail sale (i.e. sale without transformation) of any type of goods, and rendering services incidental to the sale of merchandise. Data from Eurostat (according to NACE, Rev 2, 2008) refer to total distributive trade (Section G – Wholesale and retail trade; repair of motor vehicles and motorcycles), and its components: Division 45 - Wholesale and retail trade and repair of motor vehicles and motorcycles; Division 46 - Wholesale trade, except of motor vehicles and motorcycles; Division 47 - Retail trade, except of motor vehicles and motorcycles.

Around three out of every five (57.8%) enterprises within the EU-28's distributive trades sector in 2014 were in the retail trade subsector; most of the remainder were in the wholesale trade subsector (29.0%), while the motor trades subsector had the smallest share (13.3%) of the enterprise population within the distributive trades sector. In terms of turnover, the relative size of the retail and wholesale trade subsectors was reversed, as retail trade generated 28.2% of distributive trades turnover, wholesale trade accounted for a 60.8% share, while motor trades contributed the remaining 11.1 %.

Distributive trade represents a significant economic activity within national economy (Knego, 2004). Its importance is commonly indicated by its contribution to the national GDP and labor force employment (Slabinac, 2014). Distributive trade is the second largest employer in EU-28, just after Manufacturing (cf. figure 4).

The importance od distributive trade in EU-28 is shown in table 3.

Table 3. The main indicators of distributive trade significance in EU-28

	Number of enterprises	Number of persons employed	Turnover	Value added	Personnel costs	Investment in tangible goods
	(thousands)		(EUR million)			
EU-28	6 266.8	32 680.6	9 925 420.6	1 242 562.0	764 854.5	127 915.8
Belgium	135.7	629.9	422 570.3	41 376.9	24 695.1	6 075.9
Bulgaria	138.0	500.0	50 497.3	4 361.5	2 046.7	923.3
Czech Republic	242.8	705.2	132 662.1	12 932.0	7 069.2	2 149.2
Denmark	42.0	417.8	160 592.2	24 463.7	17 036.6	1 859.9
Germany	593.5	6 139.6	1 909 206.7	269 148.6	168 251.6	20 630.3
Estonia	15.0	89.7	22 180.8	1 997.6	1 162.6	318.0
Ireland	45.6	336.9	133 152.6	18 049.3	11 241.9	1 910.4
Greece	251.7	782.1	118 818.9	14 772.3	8 764.9	1 369.8
Spain	705.3	2 862.2	656 526.5	92 505.9	60 575.8	8 547.7
France	802.3	3 455.2	1 392 992.7	168 435.4	130 572.6	17 550.5
Croatia	37.9	232.6	28 405.0	3 878.6	2 339.3	507.4
Italy	1 123.1	3 302.3	967 163.1	118 739.3	65 057.1	10 060.0
Cyprus	15.9	59.8	10 900.0	1 585.0	1 132.6	146.1
Latvia	27.5	159.4	24 908.1	2 281.0	1 215.4	299.3
Lithuania	60.8	251.6	30 827.4	3 689.8	1 859.5	529.0
Luxembourg	7.7	49.9	105 404.9	5 401.2	2 294.8	448.4
Hungary	132.8	552.0	80 684.4	8 269.8	4 667.8	1 379.4
Malta	9.0	30.4	6 873.1	802.3	354.9	72.4
Netherlands	240.7	1 446.7	577 251.4	72 274.3	40 767.2	5 309.9
Austria	78.1	651.4	244 166.7	32 602.3	22 097.7	2 840.0
Poland	497.6	2 183.0	339 562.2	35 522.7	16 406.9	5 233.5
Portugal	221.8	719.0	119 578.7	14 623.7	9 645.0	2 132.1
Romania	176.2	888.1	98 920.8	10 441.9	4 959.7	2 812.4
Slovenia	25.8	112.2	29 390.1	3 303.0	2 088.6	479.9
Slovakia	109.3	331.0	48 148.5	5 554.8	3 003.6	1 293.6
Finland	44.3	302.4	116 846.3	14 735.4	10 423.1	1 287.9
Sweden	127.7	653.1	267 938.7	39 699.4	28 150.8	2 934.8
United Kingdom	358.5	4 837.2	1 829 251.3	221 114.1	116 973.3	28 814.4
Norway	50.3	368.9	177 760.8	24 393.5	17 768.1	1 735.0
Switzerland	35.1	596.3	1 370 410.8	79 389.9	40 549.1	5 887.9

Source: Eurostat (online data code: sbs_na_dt_r2)

Number of employees in distributive trade in Croatia and the EU indicate that distributive trade is the leading and second largest employer (Dunković, 2014). According to the Central Bureau of Statistics, more than 15 % of all employees work in distributive trade, while in the EU that share is 13% or 29 million people (Raynolds & Cuthbertson. 2014). In comparison, in 1996 in the Republic of Croatia, trade was in the second place with a share of 16% in the creation of GDP, just behind industry and mining. With a share of 17.2% in total employment, distributive trade was the second largest employer in the economy and with a share of 45.2% in the total number of companies had the largest share in the total number of entrepreneurs (Anic, 1998). Over time, workers are displaced from sectors in which technological change has a pervasive impact, such as agriculture and manufacturing, to sectors where the influence of technology is more limited, such as distributive trade. There are going to be lots of jobs in the future in shops, bars and restaurants and caring for the young, old and sick (Manning, 2004).

Distributive trade is the most important economic activity measured by the number of enterprises and by the total turnover. Distributive trade is a significant source of employment in all EU countries(Pupavac, Pavlić, Skendžić, 2015). In OECD economies distributive trade activities account on average for about 15% of employment and 10% of GDP (Timmer & Inclaar, 2005). In 2012, in Croatia there was one shop for every 211 citizens, which is below the EU average of 150. Similarly, the productivity observed as gross added value on each employee was some 46% below the EU average in the same year (Butković, et al., 2016).

3. DATA

Data abouth international trade, total employmnet and number of employed in the distributive trade are from the Croatian Bureau of Statistics while the data abouth GDP in constant prices are the results of author calculations.

Table 4. Movement of GDP, import, total employment and the number of employed in the distributive trade from 2000 to 2014.

Year	GDP (mill. HRK)	International trade (mil. €)	Total employment (000)	Number of employed in the distributive trade
2000.	239,9	8597	1341	179000
2001.	250,4	10245	1348	179000
2002.	263,5	11327	1359	213895
2003.	274,8	12538	1393	226940
2004.	285,2	13354	1409	237768
2005.	297,5	14950	1420	240827
2006.	311,8	17105	1468	251155
2007.	329,8	18883	1517	264008
2008.	**344,1**	**20817**	**1555**	**269912**
2009.	324,1	15220	1499	243277
2010.	320,2	15137	1432	224980

Table 4 - continued

Year	GDP (mill. HRK)	International trade (mil. €)	Total employment (000)	Number of employed in the distributive trade
2011.	320,2	16281	1411	220633
2012.	314,4	16214	1395	216112
2013.	311,3	16527	1364	207153
2014.	310,1	17129	1342	205849

Source: Statistical Yearbook of the Republic of Croatia 2015., (online data at www.dzs.hr, PC-Axis) (access: 5/09/2017)

4. METHODOLOGY

In order to make an objective forecast the number of employees in distributive trade in Croatia, a theoretical model should be defined first. This study investigates the dependance of the number of employees in distributive trade (EDT) as the dependent variable and the number of total employees (TE), gross domestic product (GDP), international trade and time as the independent variables. Accordingly, a model to estimate the number of employees in distributive trade can be written as a function

$$EDT = f\,(GDP, IT, TE, t) \tag{1}$$

Where:

EDT – number of employees in distributive trade,
GDP – gross domestic product,
IT – international trade
TE – total employess
t – time (t=0,1,...)

Variable EDT is a dependent variable, while GDP, IT, TE and t (time) are independent or explanatory variables.

Supposing that the number of employees in distributive trade depends on the GDP, internationaol trade, the number of total emploees and time, its linear form would be as following:

$$EDT = b_0 + b_1GDP + b_2I + b_3TE + b_4t \tag{2}$$

b_i – (i=0,1,2,3,4) = model parameters

5. RESEARCH RESULTS

Based on data given in Table 4, correlation analysis was conducted (cf. Table 5). It shows a strong and positve interdependence between the number of employed in the distributive trade and GDP (r=0,73), between the number of employed in the distributive trade and international trade (r=0,62) and between the number of employed in the distributive trade and the total employment (r=0,90).

Table 5. Interdependence of the number of employed in the distributive trade, GDP, international trade and total employment

Correlations (Distributive_trade.sta) Marked correlations are significant at p < ,05000 N=15 (Casewise deletion of missing data)						
	Means	**Std.Dev.**	**GDP**	**TE**	**IT**	**EDT**
GDP	299,8	30,55	1,000000	0,736234	0,951209	0,735542
TE	1416,9	66,60	0,736234	1,000000	0,596498	0,907870
IT	22731,8	5052,24	0,951209	0,596498	1,000000	0,629067
EDT	225367,3	26873,73	0,735542	0,907870	0,629067	1,000000

Since there was a strong and positive interdependence between the number of employed in the distributive trade, GDP, international trade and total employment, regression analysis was also conducted using data from Table 1. While evaluating the value of the parameters of the function, which has a form (2), we could not find conclusive regression model. After many trial and errors procedures, simplier model has been developed for the forecast the number of employees in the distributive trade of the Republic of Croatia.

$$EDT = f\,(GDP, t) \tag{3}$$

Statistics and econometric atributes of the linear relationship between the number of the employed persons in the distributive sector of the Republic of Croatia and the GDP and time as the examined variables can be viewed as shown in Table 6.

Table 6. Regresssion analysis for the number of employees in the distributive trade

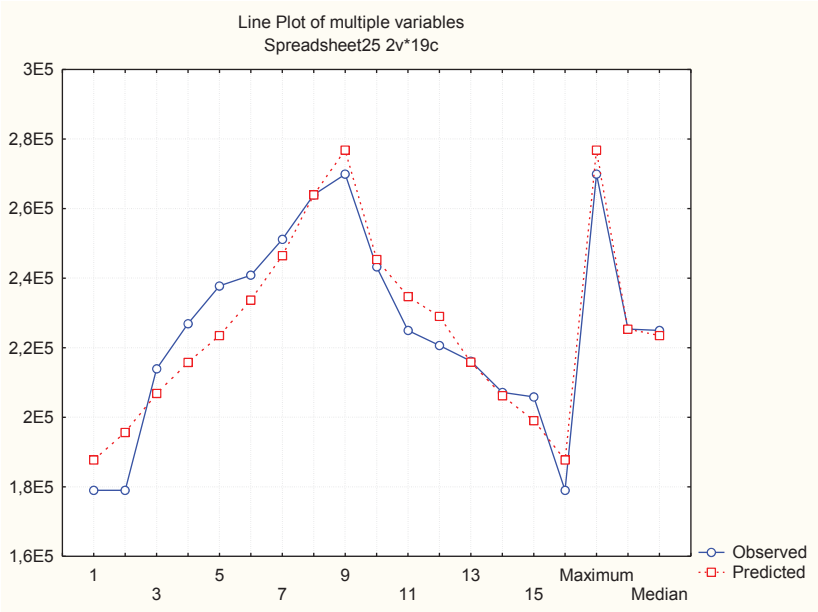
Regression Summary for Dependent Variable: EDT (Distributive_trade.sta) R= ,94576597 R2= ,89447326 Adjusted R2= ,87688547 F(2,12)=50,858 p						
	Beta	**Std.Err. - of Beta**	**B**	**Std.Err. - of B**	**t(12)**	**p-level**
Intercept			-121510	34629,55	-3,50886	0,004311
GDP	1,465611	0,148509	1289	130,62	9,86882	0,000000
Time	-0,941515	0,148509	-5658	892,41	-6,33977	0,000037

Regression analysis between the number of employed in the distributive trade (EDT), GDP and time (t) has resulted with the following model of multiple linear regression:

$$\mathbf{EDT = -121\,510 + 1289GDP - 5658t} \tag{3}$$

According to regression analysis (cf. Table 3), it can be concluded that there is a statistically significant correlation between the number of employed in the distributive trade, GDP and time ($R = 0{,}94$; $F\,(2{,}12) = 50{,}85$; $p < 0{,}01$). Application of the mentioned model for planning the movement of the number of employees is shown on Graph 5.

Graph 5. Comparison of results obtained by using econometric model and real data on the movement of the number of employed in the distributive trade in Croatia from 2000 and 2014



Based on the given model (3), an estimate of the number of employees in the Croatian distributive trade by 2030 was made. It seems appropriate to assume that the considered variable - the GDP - will increase in the coming period, so if we anticipate that the average growth rate of GDP will grow at an annual rate of 2% the number of employed in the Croatian distributive trade by 2030 will also be on the rise (as shown in Table 6). Assumptions on the average growth rates of GDP was made based on average growth rates in times preceding the recession.

Table 7. Estimate of the total number of employees in the Croatian distributive trade by 2030

Year	*Number of employees*
NE_{2017}	206488
NE_{2019}	212310
NE_{2021}	218823
NE_{2023}	226057
NE_{2025}	234040
NE_{2027}	242803
NE_{2029}	252377
NE_{2030}	257478

6. CONCLUSION

Due to the crisis the number of people employed in the distributive trade sector has decreased, while in the post-crises period have increased. The study shows that economic growth is the most appropriate solution both for reducing unemployment and for creating new jobs in distributive trade sector. Distributive trade will play a critical role in the future of Croatia's economy and prosperity. According to a multidimensional linear regression model and assuming the average annual growth rate of the total number of employed and the GDP, we can estimate that Croatia will not reach the 2008 number of employed in distributive trade till 2030. The main limitations of this study stems from the fact that employment in distributive trade is seen as a dependent variable of only two independent variables: GDP and time. In the future researches in the model for estimate the numbers of employees in distributive trade should be included the greater number of variables.

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THE IMPORTANCE OF CUSTOMER LOYALTY PROGRAMS IN FOOD RETAILING – CASE OF SERBIAN MARKET *

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Abstract

The research subject in this paper focuses on customer loyalty programs in food retailing, as the current marketing concept. The starting hypothesis is that building and maintaining long-term relationships with customers is a key factor for successful operations of modern food retailing companies. At the same time, retail, including food retail, with its characteristics and specificities, is a frequent research subject in works by domestic and foreign authors. There are several reasons for this. The key reason is that classic retailing operations have been transformed into modern marketing activity. Therefore, research on customer relationship management, as a segment of trade and retail marketing, is increasingly gaining theoreticians and practitioners' attention. With reference to theoretical and practical bases of the modern concept of loyalty and customer lifetime value, this paper aims to identify ways and methods of creating customer loyalty programs in food retailing. Based on the set research subject and objective, the paper will, from the theoretical and empirical point of view, make an attempt to answer questions imposed on retail and food retail in the process of maintaining customer loyalty. On the platform of such an established research objective, the paper will first point to theoretical aspects of customer loyalty concept and program in food retailing. Furthermore, with reference to modern theory and practice, the phases and implementation of customer loyalty programs in food retailing will be considered. Such an approach will enable comprehensive research into the creation of customer loyalty strategies, on the one hand, and will serve as a theoretical and empirical basis for the consideration of practical examples of loyalty programs in food retailing on the market of the Republic of Serbia, on the other.

Key words: retailing, food retailing, customers, loyalty programs, market

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1. INTRODUCTION

In modern business conditions, customer loyalty is the basis of the success of companies operating in different economic sectors. Rise in profitability is based on the ability to retain stable and profitable customers. Customer loyalty is the basis for increasing profit, based on a purchasing pattern that is repeated over and over, in contrast to classical sales, where communication with the customer is interrupted by payment or delivery of products or services. However, practice shows that customer loyalty is not easy to achieve because a satisfied customer does not mean a loyal customer. A permanent relationship with customers, tracking their demands, and then fulfilling them are major steps in creating loyal customers. Loyal customers are the ones who are loyal to a brand or a company. To this end, importance of loyalty programs is on the rise, and companies use them to attract customers and make them return, and they will reward them for that. A large number of retail chains, especially those dealing with food retailing, have a lot of similar loyalty programs that are implemented through the loyalty card system. Collecting points and creating a kind of customer club encourage loyalty. On the Serbian market, this is the most common form of loyalty program implemented in the last couple of years, and this is most often done by food retailers. In developed countries, this type of loyalty programs is already common, and the same customers participate in dozens of different loyalty programs. Bearing in mind the increasing importance of loyalty programs, this paper will, on the basis of empirical research, test hypotheses about the increasing importance of loyalty programs for food retailing on the Serbian market, as well as the impact of loyalty programs on the purchasing decision.

2. DEVELOPMENT OF THE CONCEPT OF CUSTOMER RELATIONSHIP MANAGEMENT AS THE BASIS FOR CUSTOMER LOYALTY

The concept of customer relationship management has been of interest for the academic and practical community for many years. Thus, the concept of customer relationship management can be said to have a long tradition in marketing, trade, and retailing, and thus in food retailing. By inspecting various theoretical and practical interpretations of this concept, it can be concluded that customer relationship management (CRM) is a synchronization of company's business strategies, organizational structure and culture, customer information, and information technology, with the goal of satisfying customer needs and achieving business benefits and profit in all contacts with customers (Cristopher, Payne and Ballantine, 1994). CRM can be understood as a set of business and customer relationship management tools, which allows for complete connectivity between customers and all processes taking place – from tracking orders, offers, and contracts to work tasks (Hennig-Thurau and Hansen, 2000). It also represents an integrated marketing, service, and sales strategy, which requires the joint operation of all company departments. This business strategy is based on the "customer is king" philosophy, i.e. the focus is on the customer.

In order to achieve a high degree of flexibility and innovation in product development and overall marketing, a large number of companies are forced to establish tighter relationships with their customers. This creates a new marketing paradigm, based on

the tight relationships with customers and other stakeholders. In that way, a network of relationships between a company and all of its stakeholders is established. In marketing today, there are two partial theories of long-term relationship marketing. The first one refers to market-based relationship marketing with final customers, and it is fully studied in customer relationship management (CRM), while the other marks network-based relationship marketing with business customers, and is studied in partner relationship management (PRM). Both of these theories rest on marketing. Marketing must be realized not only in customer relationship management, but also in partner relationship management (PRM), because the main constituents of marketing are customers, employees, marketing partners (channels, suppliers, distributors, agencies) and parts of the public interested in finance (shareholders, investors, analysts). Different definitions of customer relationship management can be seen in Table 1.

Practice shows that the concept of customer relationship management has reached its expansion with the development of the Internet and personalization of customer relationships through direct contact, database creation, and monitoring of their activities. Integrated marketing communications then reached full expression (Gilaninia et al., 2011). Some advanced and innovative companies have realized that it is not enough just to provide customers with additional, convenient services and facilitate a way to make a purchase decision and thus increase sales and profits, but must also establish robust, high-quality, and close relationships with them. The focus on relationships, with modern methods of integrated marketing communication, is a winning combination.

Successful business requires mutual trust and honesty in relationships between the seller and the buyer, although it is very difficult to achieve a complete "win-win" relationship, especially in the current system of global (crisis) economic destruction. Good relationships are built for years. Studies dealing with marketing often argue that the cost of attracting new customers is five (or more) times higher than the cost of retaining them. Modern market, characterized by the expressive turbulence of wider spectrum (especially the impact of the global economic crisis and increased competition), has new demands with a focus on customer relations in the new environment. Customer behavior becomes more complex. Advanced companies strive to integrate all the processes in the organization (processes of production, logistics, finance, sales, marketing, research and development, maintenance, IT, etc.) and direct them to customers, with enhanced interactivity, strongly supported by marketing communications. As there are continuous "dramatic" changes in the IT sector (globally), with new generations of CRM architecture emerging, companies must be cautious in the process of integrating customer services and communication.

Critical aspects of CRM architecture are contact points with buyers, i.e. customers (as sales services), such as: Internet (through the website), e-mail, call center, direct mail, POS, wireless communication, and personal sales (seller's engagement). Rise in the load on companies' contact points confirms market expansion, growth of customers' interest, and requires greater marketing management respect for the new design of work and dynamics of these contact points. Effective CRM software can provide powerful services for closest possible link between all contact points and marketing operations.

Table 1. Different CRM definitions

Source from which the definition was taken	Definition of customer relationship management (CRM)
PricewaterhouseCoopers (1999, p.12)	Customer relationship management is a business strategy that is supported by specific processes and systems. The goal is to build long-term relationships by understanding individual needs and preferences and thus adding value to the company and the customer.
Gummesson (2008, p. 7)	Customer relationship management means the values and strategies of marketing relationships with a particular focus on customer-provider relationships oriented towards the practical application and development of human activity and information technology.
Buttle (2001, pp. 52-55)	CRM refers to the development and maintenance of long-term, mutually beneficial relationships with strategically important customers.
Cristipher, Payne and Ballantyne (1991)	Customer relationship management means integration of customer service quality and marketing, focused on the dual focus of customer acquisition and retention.
Hobby (1999)	CRM is a management approach that enables the company to identify, attract, and increase the number of retained profitable customers by managing direct relationships with them.
Swift (2000)	CRM is an entrepreneurial approach to considering and influencing customer behavior through significant communication to increase the level of customer acquisition, retention, and improving their loyalty and profitability.
The Economist Intelligence Unit i Anderson Consulting in Wilson (2000, p. 57)	CRM involves identifying, attracting, and retaining the most valuable customers in order to support profitable growth.
Levy and Weitz (2009, p. 305)	CRM is a business philosophy and set of strategies, programs, and systems that retailers use to focus on identifying and building loyalty with the most valuable customers.

Source: Lovreta, S., Berman B., Petković G., Veljković S., Crnković. J, Bogetić Z. (2010), *Menadžment odnosa sa kupcima*, Datastatus, Beograd, p. 5.

In the final assessment of the CRM concept, it can be emphasized that this concept puts emphasis on the development of direct relationships between the company and its customers, both final and production customers. The exposed flows help to develop a new concept of management and marketing, richer in content (Lovreta et al., 2010).

3. CUSTOMER LOYALTY AND LOYALTY PROGRAMS

Customer loyalty can be defined in different ways. What is common to various interpretations of customer loyalty is that it represents adherence to a brand or a business entity, based on a strong positive attitude, and is reflected in re-purchase, highlighting two important dimensions on which loyalty is based, such as: attitude and be-

havior (Reinartz and Kumar, 2000). If a customer has a bad attitude and bad behavior towards buying a particular product brand, it is clear that they will not be loyal. Bad attitude means that the customer has no habit of buying a particular product, while bad behavior indicates that the customer performs sporadic purchases (Marinković, 2012). The true sincere customer loyalty arises in a situation where the customer has a strong attitude and strong behavior in terms of specific purchases. Customer loyalty in food retailing refers to the customer's willingness to visit the same store for a longer period of time (Maggioni, 2016). Loyal customers spend most of their money in selected stores, and are, therefore, the most important market segment. The basic marketing problem is how to retain existing loyal customers and increase their segment. Loyalty to a store varies depending on the type of store. Transformation of potential into actual customers takes place in a process that begins by determining customers interested in a product and their payment ability. Such potential customers are the basis for transformation into real customers. Companies invest financial and personnel efforts to translate potential into real customers who buy products.

Customer loyalty is everywhere recognizable as valuable on competitive markets (Srivastava et al., 1998). Loyalty management investment is particularly important if customers face a low price difference during a supplier change, as they are not bound by a contract. Customer strategies need to be designed to maintain high-value customers or high-growth customers, and to determine if customers with a negative value can turn to profitable customers. The process of creating loyalty can be divided into three evolutionary phases: introduction phase, in which the company needs to get to know the customer and their expectations, where there is still no loyalty and the relationship with customers is mainly based on product knowledge and prices; emotional phase, in which a company observes and analyzes customer behavior, and a loyalty phase, in which the relationship between the customer and the provider is crucial and personalized, and the prerequisite for this is high-level satisfaction (Filipea et al., 2017).

Modern marketing theory and practice give primacy to retaining customers in relation to winning new ones. Competitive pressures are intense, and winning new customers requires company's efforts in terms of time and investment. The priority task of modern management is continuous creation and delivery of superior value to customers by developing long-term, mutually beneficial relationships. The surest way to retain customers is to build strategies to reward and motivate both current and future customers. From the moment when the American airline company "American Airlines" introduced the frequent flying programs in the 1980s, customer loyalty programs have become omnipresent in almost every sector of the economy, including trade. Only in the USA, 70% of households have at least one payment card of a supermarket, which proves their loyalty to this kind of stores. The importance of loyalty programs has eventually grown bigger, and today they are used for the development of customer relations, stimulating purchase of products and services, as well as for customer retention (Ćuzović and Sokolov Mladenović, 2015).

In connection with loyalty programs, there are different interpretations. Some theorists and practitioners believe that loyalty programs increase customer retention, while others claim that they do not affect customer retention, but increase the participation of a specific company in the volume of consumption ("wallet") of customers, and

others (Bolton et al., 2000). It is especially noted that successful loyalty programs lead to imitation by competitors, which, in turn, increases company's costs. Numerous loyalty programs are based on rewards and discounts to customers, which is not enough to retain all customers. A positive attitude is not a guarantee of repeated purchase of a product brand if such a position is stronger towards the other brand. Long-term loyalty is the result of the intensity of the positive attitude of customers and strong differentiation of attitude towards other brands. It is a function of the delivered value to customers, whose individual perceptions are conditioned by the degree of involvement of customers in the purchase process and product performance (especially its uniqueness). In situations of low involvement of customers in the purchase process, loyalty is conditioned by tangible attributes and benefits. The situation is reverse in the event of significant involvement of customers in the decision-making process regarding purchase.

The success of the loyalty program is the function of its structure and design. It happens that similar programs have very different responses, due to the seemingly invisible changes in the design. For this reason, it is necessary to properly design a loyalty program. This, in turn, raises a whole range of questions (Wong and Sohal, 2003):

- How to design a loyalty program?
- Whether to offer cash or goods as a promotional prize?
- Whether to use luxury or consumer goods as a promotional prize?
- Should incentive systems be conditional ("if you buy a certain amount, you will have the possibility to win a great prize") or deterministic ("guaranteed prize provided that you agree to certain requirements")?
- Is it better to offer one or several products, and others.

While some companies offer prizes in cash, others focus on rewards in the form of goods. Numerous studies suggest that products and services, as promotional prizes, achieve much better effects than cash. In other words, even though cash has obvious benefits, rewards in the form of luxury goods are more valuable for customers because of the quality that customers evaluate in relation to their costs. In addition, regarding these rewards, customers invest much more effort because it often happens that flexible payment terms are offered for products in the specific range, which would otherwise be purchased in much smaller quantities. When it comes to choosing between luxury or some other consumer products, generally speaking, rewards in the form of luxury goods tend to be better because customers perceive them as something sudden. In addition, for this type of reward, customers will sacrifice more.

Loyalty programs can be very effective in attracting new customers, encouraging existing customers to frequent purchase, as well as preventing competition to take these customers. Pioneers in the development of programs aimed at rewarding loyalty were the airline companies. They developed the so-called "frequent flyer" programs, aimed at increasing loyalty, i.e. frequency of use of services of a certain airline company. At the beginning, it was more directed towards sales improvement than a long-term form of binding customers to the company. Initially, these programs did not distin-

guish between different categories of travelers, offering only financial benefits for a certain number of purchases, and were, therefore, focused on improving sales, rather than developing long-term relationships. Eventually, they realized that there were different categories of passengers with different values for the company. Therefore, the most profitable passengers received not only benefits, but also special treatment at the airport, during the flight, and in continuous communication. Later, the principle of collecting points began to be applied in hotels, supermarket chains, department stores, and different companies dealing with sales. As rewarding customers increasingly spread over time and became tempting for customers, companies realized that they could further increase the frequency of purchase. They started associating so that the collected points from one company could be used in the other and vice versa.

Every company, in accordance with its capabilities, should formulate a loyalty program that will increase the loyalty of existing and attract new customers, improve sales, and reward loyal customers. The marketing practice offers different ways to extend the loyalty programs. Berman developed an interesting example. According to B. Berman, loyalty programs can be divided into the following four types (Berman, 2006):

- Type 1 is the classic form of sales improvement (members receive a discount at the checkout when paying). In fact, all customers who have a specific card have the right to the same conditions, regardless of the value and frequency of purchase. This indicates that there is no adapted and targeted communication.
- Type 2 loyalty program basically rewards the frequency of purchases in a way that gives free shopping after a certain number of purchases (members receive a single unit free of charge when they purchase a certain number of units of a product/service). Each purchase is usually written on a card, and when the customer makes a certain number of purchases, they get one for free. There are many examples of this kind, and can be applied at car wash facilities, beauty salons, cafes that offer coffee to go, etc. This kind of loyalty program is easy to administer, as it does not require a developed database, and includes no key customer data. What is the problem is the fact that the subject of the prize is the same as the one which is normally bought (e.g. coffee), so the question is whether it is sufficiently motivating.
- Type 3 loyalty program is different from the previous two, where the rewarding is performed pursuant to the demonstrated loyalty, i.e. frequency of purchase (members collect certain points based on cumulative purchases). When a customer collects a certain number of points, they can use them to purchase the same or different products and services provided by the company or partner company. With this type of loyalty program, database is necessary, and, therefore, the offer can be adapted to customers.
- Type 4 loyalty program is the most developed loyalty program (members receive a customized offer and communication). Although based on points, these programs have a high degree of customization, communication, promotion, rewards, and the overall offer. Databases are extremely developed. Besides information on the frequency of purchase, the database contains information on customer preferences, lifestyle, and demographic data.

Research conducted at the beginning of 2009 by "Retail Info News" and "IHL Group", with the support of "SAP for Retail" and "ATG" showed in which direction companies need to develop customer loyalty programs to retain the market position and offer customers what they want, through channels that are mostly being used, under conditions that suit them best (http://www.balkanmagazin.net/finansije/cid135-30586/uspeh-prodaje-zavisi-od-programa-lojalnosti-klijenata).

4. RESEARCH METHODOLOGY

4.1. The growing importance of food retailing

With reference to previous theoretical explanations, the issue of the importance of loyalty and loyalty programs for retail chains specialized in the sale of food and other fast-moving consumer goods (FMCG) arises. The significance of this issue stems from the fact that food retailing is increasingly gaining in importance, i.e. has a greater share in total retailing in the world than other retail chains. This thesis finds its support in data on the 250 largest and most successful retail chains, published by Deloitte Touche consulting firm every year. Thus, if one looks at the structure of 250 biggest retailers, in the period from 2009 to 2015, one can notice the dominant share of food retailers in the total number of top 250 retailers (Ćuzović et al., 2017), both in terms of their number and their sales volume (Table 2).

Table 2. The share of food retailers in top 250 (2009-2015)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
The share of food retailers in top 250 (in terms of the number)	55.6%	53.2%	54%	54.8%	52.8%	50.4%	53.2%
The share of food retailers in top 250 (in terms of sales volume)	68%	66.6%	67.8%	68.3%	67.5%	66.7%	66.6%

Source: Own calculation based on Global Power of Retailing (2011- 2017), Global power of retailing (2011-2017). Available at: http://www2.deloitte.com/be/en/pages/consumer-business/articles/global-powers-of-retailing.html (accessed 2.09.2017.)

Table 3. The largest retail chains on the Serbian market, 2014.

No.	**Company**	**Business income in 2014 (in billion RSD)**
1.	Delhaize Serbia	76,8
2.	Mercator-s	63,4
3.	Idea	8,62
4.	Metro cash & carry doo	3,96
5.	Dis	2,73
6.	Univerexport doo	2,15
7.	Aman doo	1,17

Source: Authors' calculation based on Business Registers Agency, available at: http://pretraga2.apr.gov.rs/ObjedinjenePretrage/Search/Search, http://mtt.gov.rs/informacije/baza-trgovackih-preduzeca-i-preduzetnika/ (accessed 2.09. 2017.).

The significance of food retailing can also be seen on the Serbian market. In this regard, if one looks at largest and most successful retail chains, the presence of food retailers is evident only (Table 3).

All retailers in the table belong to the FMCG category of retailers, where food retailing takes a significant place.

4.2. Customer loyalty programs in food retailing on Serbian market

Successful customer loyalty programs are mostly present on foreign retail markets, with links between service quality, perceived value, customer satisfaction and loyalty most explored in the US and West European countries. Competition on the retail market in the Republic of Serbia, especially food retailing, contributed to the development and expansion of customer loyalty programs on the domestic market as well.

This research segment aims to explore the success of loyalty programs in food retailing, with a special focus on IDEA Super Card loyalty card. Specifically, in May 2013, "NIS" and "IDEA" introduced a joint multi-partner loyalty program called "Super Card", through which they provide additional benefits to their customers. "Super Card" is a unique reward program that allows customers to realize various benefits, special discounts, and savings. Each customer is offered a number of benefits that make shopping more affordable within a wide network of partners. This unique loyalty program is based on the cooperation of seven regional companies ("Merkator-S", "NIS Petrol", "Gazprom", "Sberbank", "DDOR Insurance", "Telenor", and "McDonalds") (https://www.superkartica.rs/o-programu#sta-je-super-kartica). Benefits for customers are constantly evolving, all in order to adapt to customers' needs and the modern way of life. Super Card is a reward program involving multiple partners, with each rewarding the purchase or use of their services. If a customer collects a sufficient number of points with one of the partners and exceeds the reward threshold, they receive cash vouchers and special partner offers, sent to their home address.

Therefore, upon analyzing the Serbian market in terms of customer loyalty programs with a focus on food retailing, it turns out that one of the most famous loyalty programs is the one introduced by IDEA, as has already been pointed out. Loyalty programs through loyalty cards with other food retailers are scarce (http://franchising.rs/moj-biznis/184/mi-verujes-ustedeces).

Bearing in mind this fact, empirical research focuses on a random sample of customers who were at a given moment in IDEA stores. The research was carried out by collecting primary data on the basis of the questionnaire. The research sample consisted of 100 respondents who were interviewed over a period from 1 July to 31 August 2017. The research was conducted with the aim of testing the following hypotheses:

H_1: Food retailing loyalty programs are based on loyalty cards.

H_2: Customer loyalty programs affect the purchase in a store issuing loyalty card.

H_3: Card benefits affect loyalty.

The questionnaire structure consisted of general and specific questions. General questions related to gender, age, education, status, sources of income, and monthly household income of the respondent. The second part of the questionnaire was made of specific questions on the basis of which it was possible to determine the use of loyalty card in IDEA stores, frequency of purchase before and after joining the loyalty program, assessment of benefits that the card provides, and the impact of these benefits on loyalty. Five-point Likert scale was used (1 – I completely disagree, 5 – I completely agree). On this basis, the respondents evaluated the benefits of the loyalty card in the stores where they buy. It should be noted in particular that a special group of questions tested the benefits of the Super Card, such as ease of use, value of points, possibility of savings, and other options offered. The description of the sample can be seen in Table 4.

Table 4. Structure and characteristics of the sample (n=100)

	Frequency %
Gender	
Male	45
Female	55
Age	
<20	11
21-30	43
31-40	13
41-50	14
51-60	12
>60	7
Education	
Primary	5
Secondary	65
Higher	30
Status	
Permanently employed	40
Temporarily employed	30
Unemployed	20
Pensioners	10

Source: Authors

Table 4 shows greater presence of women than men in the sample. In terms of age structure, there are almost all age groups, with a group of 21 to 30 years of age dominating (43%), and the smallest share of a group of over 60 years of age (7%). In terms of respondents' education, there is the highest participation of respondents with secondary level of education (65%). In terms of status, permanent employees (40%) have the largest share in the sample, while pensioners have the least share (10%).

4.3. Research results and discussion

The research shows that respondents in the random sample mostly have a Super Card (Table 5).

Table 5. Possession of the loyalty card by the respondents

	Number of respondents	Percentage
Yes	65	65
No	35	35

Source: Authors

Data in Table 5 shows that 65% of respondents own a Super Card. In addition, respondents do not have any other loyalty card within food retail loyalty programs. This confirms the first hypothesis, that loyalty programs are based on having a loyalty card. It is particularly interesting that the frequency of purchase by respondents was lower before entering the Super Card loyalty program, in relation to the frequency of purchase after entering the loyalty program (Table 6).

Table 6. Frequency of purchase before and after entering the Super Card loyalty program

Frequency of purchase in IDEA stores	Before entering the loyalty program	After entering the loyalty program
2-5 times a week	6	42
Once a week	20	42
1-2 times a month	74	16

Source: Authors

Data shows that the surveyed customers were more likely to purchase after entering the Super Card loyalty program, thus proving the second hypothesis about the impact of the loyalty program on purchasing decisions.

Using descriptive statistics (standard deviation and arithmetic mean), results for each variable, i.e. dimension of the Super Card loyalty program, were obtained (Table 7).

Table 7. Values of arithmetic mean and standard deviation for individual elements of Super Card loyalty program

Elements	M	Standard deviation
Ease of use	3,71	0,796
Value of points	4,48	0,793
Possibility of savings	4,28	0,771
Other options offered	3,32	1,573

Source: Authors

The results of arithmetic mean and standard deviation point to the highest value of value of points (M = 4.48). The lowest value was obtained with other options offered, where arithmetic mean is 3.32. This element also exhibited the highest heterogeneity of respondents' answers, i.e. the highest degree of disagreement (SD = 1,573). The lowest value of standard deviation was obtained with value of points (SD = 0.793), which points to the highest degree of agreement among the respondents with this variable. In other words, the surveyed customers stated that the value of points was the greatest benefit of Super Card.

Table 8. Correlation analysis

Variables	Ease of use	Value of points	Possibility of savings	Other options offered	Loyalty
Ease of use	1	0,293	0,383	0,441	0,418
Value of points	0,293	1	0,615	0,370	0,559
Possibility of savings	0,383	0,615	1	0,449	0,585
Other options offered	0,441	0,370	0,449	1	0,351
Loyalty	0,418	0,559	0,585	0,351	1

*Correlation is significant at the level of 0.01

Correlation and regression analysis should show whether and to what extent these benefits affect customer loyalty (Table 8 and Table 9).

A high degree of correlation exists between loyalty and the possibility of savings, which means that this variable affects loyalty, thus proving hypothesis 3. This is confirmed by the results of a simple regression analysis.

Table 9. Simple regression analysis (dependent variable is loyalty)

	β	t	Sig.	R^2
Ease of use	0,418	6,251	0,000	0,175
Value of points	0,559	8,612	0,000	0,313
Possibility of savings	0,585	9,798	0,000	0,371
Other options offered	0,351	5,873	0,000	0,343

Source: Authors

The analysis shows that all variables have an impact on customer loyalty, thus proving hypothesis number 3. In this case, the greatest impact comes from variables possibility of savings (β = 0.585, t = 9.798) and value of points (β = 0.559, t = 8.612), while the smallest impact comes from variable other options offered (β = 0.351, t = 5.873).

The conducted research and the obtained results make certain theoretical and practical contribution to the analysis of the importance of loyalty programs in food retailing, with a special focus on the Serbian market. Also, this research can be a good indicator to food retailers when introducing loyalty cards on the Serbian market. However, it has some limitations. First, the size of the sample, and, thus, the number of observations, is relatively small. Second, the research concerned only one loyalty card and

was carried out solely in one type of store (IDEA). Third, the obtained research results and confirmation of the hypotheses refer only to the observed research sample. Fourth, the survey viewed customers as a whole, without separate analysis of the impact of specific sample characteristics (gender, age, education) on the determinants of the loyalty program. The limitations defined can be the subject of further research.

5. CONCLUSION

The main feature of modern business is growing customer expectations and increasingly intense competition, where a food retailer can achieve success only if they manage the process of value delivery well. In other words, food retailers have to strive for customer loyalty because greater loyalty brings greater profitability. Thus, loyal customers will spend more and more often in certain stores. Theory and practice show that building customer loyalty is based on the introduction of the customer relationship management concept, which was discussed in the paper. On the other hand, creating and maintaining loyal customers, or their translation from the category of satisfied to the category of loyal ones, implies the introduction of different loyalty programs. This paper has paid special attention to different types of loyalty programs. Bearing in mind that food retailing is gaining in importance, the aim of the paper has been to understand the significance of loyalty programs in food retailing on the Serbian market. In this context, first, the share of food retailers in the total number of retailers in the world, observed by sales volume and the number of retail outlets, is presented. The significance of food retailing is illustrated by the data obtained from the Serbian market.

Upon analyzing various empirical studies, as well as data obtained from the Serbian market, the conclusion is that the Super Card loyalty program, for the time being, is the only loyalty program in the food retail sector. For this reason, empirical research focused on Super Card and a random sample of customers (n = 100) that purchased at IDEA stores. The obtained research results were used to test the hypotheses. Thus, the results confirmed the hypotheses that customer loyalty programs are largely based on loyalty cards, that they affect the frequency of purchase, and that different benefits affect customer loyalty. Despite the fact that the conducted research has its theoretical and practical benefits, it has its limitations that may be the subject of further research.

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THE GROWING IMPORTANCE OF PETROL STATIONS AS CHANNELS FOR EXPANDING THE RETAIL SERVICES

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Abstract

The purpose of this paper is to explain the growing importance and significance of petrol stations as channels for expanding retail services. As the popularity of petrol stations as a form of retail has been growing over the years, and due to the changed patterns of consumer behaviour, petrol stations are gaining the importance as channels for expansion of additional retail services, such as fast moving consumer goods shopping and fresh corners. The paper elaborates on the significance of retail at petrol stations, with focus on success factors of petrol stations, the importance of customer satisfaction, education and training of employees, technology advancement. We then illustrate and explain the development of traditional fuel retail at petrol stations with the trend of lowering costs through self-service and self-payment of the fuel, as well as with the differentiation of services. Our study focuses on the overview of the existing research on the importance of petrol stations and petrol retailing, with the conclusion that this niche of the research area is still quite an under-researched topic.

Key words: petrol retailing, petrol stations, retail services, fast moving consumer goods, fresh corner.

1. INTRODUCTION

The popularity of petrol stations as a form of retail has been growing over the years. The development of retail outside the retail stores and the campaign to gain customers on the market is very difficult due to fierce competition in the form of other retail channels. According to the *Ordinance on classification of shops and other retail units (NN 39/09)*, a petrol station is a retail unit whose basic activity is selling oil derivatives, and, at specially designated points , selling gas in gas bottles and selling car parts. The Ordinance also defines a shop at a petrol station as a specially furnished smaller retail unit, located at a petrol station, where various assortments of products in original packaging are offered.

Petrol stations are becoming more competitive for longer working hours, more products they offer and quick charge. In order for petrol stations retails to be successful,

the influence of numerous factors on their business has to be monitored continually. Therefore, an efficient strategy plays the extremely important role there based on additional services as the ground for attracting customers. By determining competitive strategy, the speed of the response to trends is increased, and their influence, products and services are adapted to the demand and market conditions. The growing demands of the customers and the changes in the way of living result in the changes in retail. By offering additional products, the customers who create the habit and, over time, the desire for new products, are attracted.

The retail outside the shops has been growing with the increase in the number of petrol stations, and then, with the expansion of the supply and additional services. The growing number of petrol stations is observed from the aspect of big companies that take over the smaller ones and therewith expand and increase the number of petrol stations. The last big move has resulted in the introduction of a new assortment and the change of the layout. Petrol stations are no longer directed at the retail of oil derivatives and basic services connected to the automobiles maintenance, as they were before. Retail units, which have coffee shops and terraces alongside the classical store at a petrol station, now offer a wide choice of fresh produce and warm and refreshing beverages. Technological development and following trends are the core characteristics crucial for the improvement of business activities, along with the continuous education of the employees, creation of organizational culture for better communication with the customers and of positive shopping experience.

The paper is structured as follows: in the next section we explain the significance of retail at petrol stations. Afterwards, the development of retail at petrol stations is explained, together with the new trends of retail development at petrol stations and the development perspective of small petrol stations. The core of the paper is the overview of existing research on the importance of petrol stations and petrol retailing. The paper ends with conclusion.

2. THE SIGNIFICANCE OF RETAIL AT PETROL STATIONS

2.1. Factors of successful business activities at petrol stations

The ever-increasing life dynamics, less and less time available, growing diversification of the consumers' needs, and more investments in the information systems and technologies, have had a strong impact on the retail sector *(*Brčić-Stipčević and Renko, 2007). Over the last years, petrol stations have been expanding their assortments of products and services, besides selling oil derivatives. Innovations are becoming the key components of all marketing variables in trade in general. The point is, principally, in the further innovations of the products and services assortments, promotional activities, and in the detection of new locations, presentations, settings etc. (Segetlija, 2011).

A shop at a petrol station is in the ripe phase of its life cycle. It operates in the environment that changes quickly and is filled with threats as well as opportunities. In order to be successful, the companies dealing with oil derivatives retail have to carefully choose the targeted segments and position themselves firmly. Customers' loyalty pro-

grams, like loyalty cards and other concepts of providing services, influence the capability of a society to win over and keep the customer. The intention of a company is to create and keep satisfied and profitable customers. Every company has its ways and tools for achieving successful business dealings, massing and keeping satisfied customers, for having an organizational culture which will stimulate employees to work in a way that is recognizable to customers and that will motivate them to shop again. By advancing technology and using tools for monitoring the satisfaction of the customers with the products the company offers, a higher level of efficiency aimed at achieving the desired success on the market is achieved. Retail development leads to the increase in the desires and needs of the customers, and therein, to the improvement of the provided service, which becomes an important factor while the purchase is being performed.

Sales assistants at petrol stations, alongside the knowledge connected with the selling of basic products, oil derivatives, have to possess considerable knowledge on retail sales at a petrol station, and necessary communication skills for relations and communication with the customers who frequent the place. Besides basic training programs that have until now been important for the work at a petrol station, the introduction of new assortments means additional training of the employees to better service the customers and communicate with them while they are provided with a service at the station. By creating positive atmosphere and organizational culture, a higher level of relationship with the customers is achieved, which can influence their decision on the repeated purchase and the choice of a retail place. The acceptance of the requirements made by the customers and the development of good relations stimulate the creation of unique and long-term relations. The leading role in the training of the employees holds the manager who motivates them. The manager has to ensure that employees know their products and that they have trust in those products value. The technologies in the store are necessary for the completion of its function and for meeting the demands of the chosen market segments. For every business subject, a petrol station likewise, it is of great importance to follow technological trends which facilitate, improve and accelerate business activities (Segetlija et al., 2011).

The entrance of new companies, as well as the consolidation of the existing companies on the market, undoubtedly influence the reduction in the number of small petrol stations, while at the same time, impact their competitiveness and sustainability on the market. It can be concluded that large petrol stations expand their business by taking over smaller stations, and the competitive advantage is achieved with the offer of additional products and contents. The differentiation among the petrol stations is set by the products which are not oil products, as well as by additional services provided, and one of the important advantages of the petrol stations are catering facilities at the petrol stations, and the service of parking while doing shopping. Besides that, they offer freshly prepared foods, desserts and a wide choice of different coffee flavours, like the petrol stations in the developed countries in Europe and America. If a petrol station offers a catering facility, then it is a resting point, and if it has enough parking spaces and a shop, then the customers see it as a mini-market, and not just as a place for selling oil derivatives (Vaško, 2012).

By broadening the assortment in the developed countries of Europe, the customers create a habit of buying fresh produce, coffee and other beverages at petrol stations

while refuelling or on the way to work. Moreover, a petrol station with all the available products, substitutes other retail forms, and the basic advantage is the speed of the service. Thereby, the population creates the habit of a quick living and dieting. The times are changing fast, so in the Croatian markets as well; oil companies are increasingly investing in their facilities, expanding retail capacities, opening catering facilities, car-washes and other additional contents.

Throughout the world, there are trends of large retail chains strongly entering the oil derivatives market which is complementary to their basic activity, because, in that way, they provide additional value and more reason to purchase in their facilities, while refuelling the tank. European trends say that fuel is no longer the key driver; rather, it is the selling of products in the shops and fast food service (Ja trgovac, 2016).

There have been many changes in retail relating to international expansion of the chains, optimizations of retail units and information technology. With the possibility of using the applications on smart phones for checking the best fuel prices on the market and according to the location, and Facebook pages which have become unavoidable today, better availability and information on the business dealings and products offered is achieved. Besides, with the advancement of technology and more rapid pace, consumers are prone to shop quickly, which makes a petrol station an ideal retail form. The prices which slightly differ from other retail forms become less important. One of the reasons is the educated modern society with higher living standard, and the other is the popular way of living distinctive of the western society.

2.2. Customers satisfaction

Measurements of customers' satisfaction, i.e. the consumers, are the key criteria for quality. Based on the feedback, the index of consumers satisfaction is calculated, which can show the problems in the area of quality before they begin to negatively influence the business results. A profitable customer is the one who generates income to the trader, and who with frequent purchases surpasses the costs generated by attracting, selling and servicing the customer. The customers are attracted and kept by satisfying their needs. The customers who are satisfied with the service not only will come back to the petrol station, but will also give others positive feedback on their satisfaction. A company's gain which is made by the purchase should be seen as the result of good business practice and not as the sole purpose of the company (Dunković, 2015).

Every company should build their own access to the customers' satisfaction. The satisfaction has to be provided at every interaction with the customers. In that way, customers get the feeling of loyalty, Satisfaction certainly motivates and influences the repeated purchase of a specific product and service. More satisfied customers create more profit. That is why it is necessary to create a basis of satisfied customers. The challenge of creating the complete customers satisfaction is in the creation of a company's culture where all its members strive to achieve customers' satisfaction. Satisfaction can be revealed and measured via a system of complaints and suggestions, questionnaires on the customers satisfaction (it is important for establishing intention for repeated purchase),

mystery shopping (evaluates the service, which can be conducted by the managers as well), analysis of the lost customers (how many and why they lose the customers).

With the aim to satisfy their customers, Tifon petrol stations in the Republic of Croatia have initiated the development and improvement of their services, and the enlargement of their assortment, following the example of other countries in Western Europe and America, where this form of sales has been present for the last fifty years. In America, like in many Western European countries, a customer can do the entire shopping at a petrol station, including having a coffee and lunch, and buying consumer products like sugar, salt and flour. The goal is, along the tank refuelling, to provide the customers with the place where they can shop for consumer goods, where they can take a break from driving, wash their vehicles etc. By introducing additional contents, they want to provide more satisfaction and give the possibility to choose a specific petrol station, not only for oil derivatives prices, but for additional services the petrol station provides as well. Since work and life habits have been increasing the life dynamics, this form of a petrol station, which provides the experience of the entire shopping at one place, gives the opportunity of fast and available services at one place, without wasting a lot of time.

Some American car retailers offer special services to their customers, many of whom are very surprised by them. When they buy a new vehicle, shops can promise free oil change during the cars life span, free towing service, free inspections, free car wash and the guarantee for the replacement of broken or defective parts as long as they possess the car, all without additional payments. The price of the vehicle is not too high in order to cover for the costs, but they see providing of the service as the cost of business, and more importantly, as the cost of winning customers loyalty. The profit grew by 10% in 2015, and the company has continued to expand. This has also stimulated the customers to service their cars at the authorized service, which they were reluctant to do before. Besides, they have begun to offer free beauty treatments on Wednesdays in all the shops, and after that, free male haircuts. In this way, the customers have created relationships with the retailers and the service providers (Chappell, 2016).

2.3. Education and training of the employees

For the successfulness of the retail, most attention is given to constant education and training of the employees – salespersons. They are the mirrors and the first contact a customer makes with a company. The behaviour of the sales staff towards the customers, and the relation of the manager with other employees represent one of the key components of the company's differentiation, which directly influence the final result – profit/loss. While the companies face not only local, but global competition as well, sales staff and managers should not just provide best service or product, but should also focus on the customers' satisfaction in order to boost their competitiveness (Butigan, 2012).

The education of the salespersons is very demanding, because the working cycles of 24 hours at petrol stations are diverse and complicated and are subject to many regulations. In order to respond to all the demands, the education of the employees is given

a lot of thought. Salespersons become advisors during the shopping of certain goods and they help satisfy needs and wishes of the customers. Salespersons have to possess formed characteristics in order to have certain competences for sales role: capability, expertise, theoretical and practical knowledge and other traits, and be familiar with the dangers and the measures of precaution, i.e. safety at the work place (Poljak Radović, 2005).

Salespersons at petrol stations, alongside the knowledge related to the selling of the basic product, oil derivatives, have to possess great knowledge of selling in retail at a petrol station and the necessary communication skills for relations and communication with the customers. Besides the basic training programs and education that have until now been significant for working at a petrol station, by introducing the Fresh Corner, it is crucial to additionally direct the employees for the servicing the customers while they are making the purchase.

With creating positive atmosphere and organizational culture, a higher level of relationship with the customers is achieved, which can influence their decision on the repeated purchase and the choice of the retail place. Accepting the demands made by the customers and developing good relations stimulates the development of unique and permanent relations. The leading role in the training of the employees holds the manager who motivates them for work. The managers have to be sure that the employees know their products and believe in their value. It is crucial that the managers understand the marketing, and the orientation towards the customers is important.

When people think about marketing, then they usually think of the efforts directed on the outside, towards the market, but the true marketing efforts should be directed on the inside, towards the employees. The outside marketing will draw customers, but will not achieve much if the employees do not perform as customers expect them to. Service provided by the employees is what brings the customers back (Kotler et al., 2010). As the inability to find the employees with the right skills, at the right place and at the right time, becomes an acute problem, following the drop in the world's economy, companies are risking to be left without skills necessary for performing their business strategy. The key is to recognize the employees who can be additionally trained and educated. The development and education are one of the key incentives of higher productivity of the employees and they build capabilities which can be used in the organization. Competent and capable employees are key factors for achieving success of any company operating in the oil and gas industry.

2.4. The advancement of technology

At petrol stations, this segment can be more expressed, so they, with top technology for selling oil derivatives, have to have standards which are specific to retail. Neglecting this part of business activity bears its consequences. Today, shops at petrol stations are mostly equipped with all the technology specific to typical shops. These shops offer everything classic shops do, and they follow all the technological trends. Scientific and technological advancement influence the development of trade as an eco-

nomic branch in two ways; on the one hand, they increase the productivity in itself and on the other, they change the setting of the store, thereby enabling the inclusion of the store in the modern trends. The technologies in trade are necessary in order to fulfil its functions and to satisfy the needs of the selected market segments. For every business subject, petrol stations included, it is extremely important to follow technological trends that facilitate, improve and accelerate the business dealings. Technological trends change quickly and there are often examples of those who do not react to changes on time and lose the market, profit etc. (Segetlija et al., 2011).

The changes are evident, not just in the information and communication sector, but in the sphere of production and consumption. Moreover, the progress is evident in the modernization of the buildings. Technology is the most important factor of the future development of the trade, because only with the development of the technology, trading functions can be further developed. New information technologies contribute to lowering of the transactional costs. By entering the global and the European oil derivatives market, petrol stations in Croatia are compelled to change and modernize and in that way comply with the developed world (Brajčić, 1994).

Every new technology changes the needs, habits, people's behaviour, dissolves old and creates new needs and interests, Technology directly influences the process of decision-making on doing the shopping. In the today's environment, in global conditions, innovations and knowledge become the basis for development and the key factors of a society. Today, the progress is possible for only those who value knowledge and innovations. Main characteristic of today's business activities in the global world is the development of the economy of knowledge. One of the key characteristic of the economy of knowledge is the development of information and communication technologies. Without the use of information and communication technologies one cannot be competitive, successful and efficient on the global market. Important role in this domain especially holds the emergence and development of the Internet and online marketing.

Innovations can be explained as the process of development of solutions in the form of a physical product or a service which gives the consumers new value. It begins with the identification, choice of the customers and the market, including the identification of possibility, and ends up when the desired outcome is achieved (*Ulwick, 2005).* Organizations exist because of the buyers, and not vice versa. Therefore, recognition and understanding of the needs and desires of the customers to upgrade their experience should be the focal point of a successful organization.

3. THE DEVELOPMENT OF RETAIL AT PETROL STATIONS

3.1. The trends of retail development at petrol stations

In the development of traditional fuel retail at petrol stations, two significant trends are evident:

1) Lowering of costs through self-service and self-payment of the fuel, petrol stations with pay at the pump service, which provide the service outside the

working hours, and the lowest costs have those petrol stations without sales assistants, which only have pay at the pump service, without shops, but provide selling of the fuel 24 hours a day even at less attractive locations;

2) Rise of the income and profit of petrol stations with the differentiation of the supply of the final production products, fast food and beverages and with providing services. Although the shop assistants are necessary, the profit is higher than the costs.

Today, the development of retail of consumer goods at petrol stations in the most part of the European market has reached great lunch. Companies with their own network of petrol stations can now compete not only with the traditional competition, but also with the new, strong competitors, like supermarkets and hypermarkets. Oil companies are no longer just wholesalers, but are strongly involved in all the aspects of retail. They are investing more time and money in the creation of the effective consumer offers and this effort must pay off. Now, they see the inclusion of their petrol stations in retail as a condition for long-term survival. With the ever-growing emphasis on the activities of the sales, final consumption and the supply of the goods, this becomes even more important.

The competition does not arise among the products petrol stations offer, but among that which oil companies in the network of petrol stations add to their products in the form of services, advertising, customer assistance, financial aid, delivery, and other forms of attention and affability customers appreciate. Today, customers need to be provided with something more than the guaranteed product quality, which is important because in that way, common goods transfer onto the level of special products. Whether a certain product will enjoy trust by the customers and eliminate any insecurity during the purchase or not, is up to additional services and the experts skills in retail. Today, it can be foreseen that the share of the service included in the price of the product will continually grow, alongside the growth of the population standard, where one of the most important factors for the product sale will be the time factor in the sense of time -saving and using it for other purposes. Modern trade develops in the technical and technological sense, as well as in the organizational sense. These developments are preconditions by the factors in the trade environment (Segetlija et al., 2011).

All the factors which influence the changes and the development of the trade are the factors from its environment, and they relate to:

a) Scientific achievements and technical and technological progress

b) Demographic and social movements

c) Changes in the personal and social standard

d) Variability of market structure and market mechanisms

e) Changes in the socio-economic system and economic policy

Demographic and social factors of the trade development relate to the population as the bearer of all the needs of the final consumption. Besides the total number of the population, its structure, the relation between the agricultural and non-agricultural

population, urban and rural population, urbanized and non-urbanized population is also important. With the change in the educational structure, habits, occupations, life style, comes the change in the structure of the consumption. It is mostly the case of the growth of income, and therein, the life standard. A special focal point is the age structure of the population. For the trade, the most interesting is the age group between 20 and 35, because then most people marry, form families, build, furnish their homes etc.

The level of mobility of the population is an important indicator of the demand in retail. The mobility relates to the migration from the country to towns and cities, populating new areas because of the employment in the specific industry or business areas, commute, tourist and other type of travel. The scope and the structure of the final consumption are also influenced by the level of education. Normally, higher level of education means higher personal standard, better taste etc.

In America, an owner of a petrol station has significantly changed the form of sales. He opened the first petrol station a hundred years ago, and it has changed completely until today. When the first station was opened, the price was only 27 cents a gallon, despite the inflation which was 6.39 $ a gallon in today's dollars; today he owns more than 152 thousand petrol stations all over the country, and 80% are the shops which profit most from selling food and beverages (Arnold, 2013).

Petrol stations look more and more like supermarkets. Every driver buys fuel, and then some other products, like a sandwich or a newspaper. The locals also use these stores to buy important products, like bread and milk. A completely furnished petrol station with hot food and hundreds of different beverages does not look like the first modern station which first time appeared a century ago. After those simple fuel stations, many stations were a combination of pumps with car gas and car service. Back then, the employees tanked gas, checked the glass liquid and charged for the fuel. Fifty years later, he still had a half of petrol stations dedicated to the full service for the cars. Until the 1960s, in America, there was the standard that employees provide tank fuelling service, In the 70s, this trend was abandoned, and self-service was introduced, which lowered the need for employees and thereby, lowered the costs.

At other stations in the country, the trend of providing tank refuelling service was continued. Every station had its own way to hold back the competition. Beside the station, there was a garage, where additional services for cars could be provided. The owner knew all the customers by their name and this was a special service. After that, there appeared the trend of selling fast food and beverages at the petrol stations. This model has expanded till today. The company sells millions of gallons of fuel annually, and also tries to compete with the shops and catering businesses. In their assortment today, they offer coffee, tea, barbecue, cold beverages and thousands of non-alcoholic drinks (Arnold, 2013).

During the 1980s and the 1990s, there existed two main movements in the retail of Great Britain. The first one was that the growing number of retailers who organized their geographically dispersed stations as franchise systems. It is estimated that, until 1997, about 19% of the retail in Great Britain was realized through franchise retail stores. The other reason was that a large number of retail chains, including Boots, Sainsbury,

IKEA, Body Shop, Next, Benetton and Tesco were becoming more and more recognized as strong brands. The strength of a brand results in added value and therein increases competitive advantage of the organizations in question. The simultaneous emergence of these two developing situations led to the fact that a series of retail chains tried to build their organizations into strong brands by renaming their retail places and introducing business formats as franchises for their management. There was the Shell Retail as well, a business unit of the oil giant Royal Dutch Shell, responsible for the management of the distribution and sales of the Shell motor fuels in Great Britain.

Over the last quarter of the century, a significant social change in Great Britain has stimulated a radical move in the structure and the pattern of the food trade. First, the rise of the life standard has led to the increased number of people owning cars, which has made the profitability of retail on the British production lines easier. The results of the research also suggest that the lack of time is the key factor for the increase of consumption in the food stores, because women have less time for cooking and household managing. Thus, retail at petrol stations has experienced a revolution, by expanding their small petrol stations into food stores.

Since the early 1980s, more and more petrol stations have transformed into stores. Self-service stores of 900 square meters offered in their assortments fresh foods and various finished and packaged products, detergents and toiletries. Shell reacted slowly to the changes, until 1991, when it began with the national program of transforming their stations into stores. By going retail, oil companies had to make a transformation from their traditional petrol stations into food stores. Most of them did that by adding the word "Shop" or "Mart" to their petrol brand. Shell Retail still wanted to expand its network by selling gasoline, which remained its business priority. The yellow Shell logo was added the word "Select" as the label for the store. The chain has accomplished great success and has become not only the fifth largest news agent in Great Britain, but the fifth largest sandwich retail (Boyle, 2002).

3.2. The development perspective of small petrol stations

Building of new retail units, the growth and the development of the existing ones and the entrance of new players into the market has been the trend in the last years on the oil industry market. The expansion of the existing large companies which spread their business by buying small petrol stations is also not negligible. Considering that there is a big struggle for winning over the customers, the companies with a smaller market share have to invest a lot more effort in the further development and progress. The adjustment speed, lower development costs, information availability and quality sales service are just some of the elements which are likely to influence the competitiveness and the survival of single subjects.

Table 1. Overview of the number of petrol stations in the period from 2000 to 2012

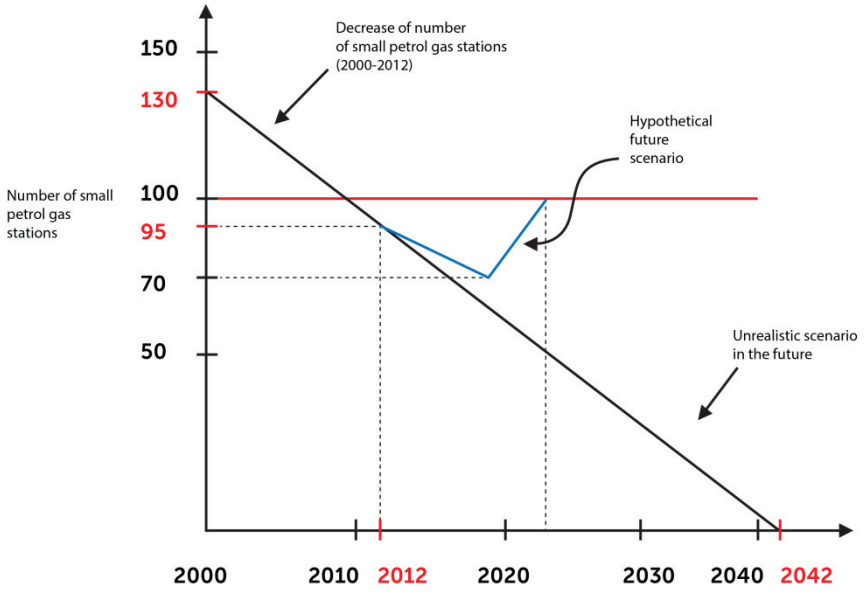
Name of the company	Number of petrol stations	
	2000	**2012**
LARGE	419	631
INA	394	393
OMW	21	62
PETROL	4	92
TIFON	0	43
LUKOIL	0	41
MIDDLE	28	42
SMALL	150	117
TOTAL	597	790

Source: Daraboš and Polić (2014)

In the period from the year 2000 to 2010, there was a significant rise of the number of petrol stations in the Republic of Croatia. It is evident in Table 1 that there was a change in the number of petrol stations of small companies in relation to large ones. The number of petrol stations of large companies increased by 51% while the medium-sized by 50%. On the other hand, the number of petrol stations owned by small companies decreased by 22%. The rise of the number of petrol stations owned by big and medium companies is connected with the drop of the number of small companies, because it is mainly the fact of their expansion and taking over the existing petrol stations on the market.

Entrance of new companies, as well as consolidation of the existing companies on the market, undoubtedly influence the decrease of the number of small petrol stations, while at the same time, influence their competitiveness and sustainability on the market (Graph 1). According to the presented results, it can be concluded that in the far future, small petrol stations will slowly disappear from the market a few big players will rule. Graph 1 shows that out of 130 petrol stations in 2000, in 2012 there were 95, which is on average drop of 3 stations a year. The linear trend could lead to the conclusion that in the year 2042, there will be no small petrol station left. Government can influence the survival of small petrol stations with its stimulations through favourable loans for modernization and employment subventions.

Graph 1. Display of the decrease of the number of small petrol stations in the period from 2000 to 2012



Source: Daraboš and Polić (2014)

4. THE OVERVIEW OF THE EXISTING RESEARCH ON THE IMPORTANCE OF PETROL STATIONS AND PETROL RETAILING

Daraboš and Polić (2014) conducted research on the perspectives of the survival of small petrol stations in the Republic of Croatia. The purpose of the research was to find key factors which influence the survival of small petrol stations. The key factors that were analysed in the research relate to the entrance of new competitors onto the market, the influence of the Government on the market competition and the influence of the location on the development and sustainability of small petrol stations. The data on the movement of the number of petrol stations over the observed period were collected, and they wanted to establish whether there is a possibility for the survival of small petrol stations in the middle of the economic crisis, the liberalization of the market and many other unpredictable factors in the domestic and, especially foreign environment, and, besides, the competition is constantly entering Croatian market by taking over small petrol stations. The state undoubtedly takes measures for improvement of competitiveness and business success of big companies, while small stations are often left alone. The location of a petrol station can have crucial influence on the business. The results show that small petrol stations have no perspective for the survival on the market, especially because of the environment, and there is a big gap between the small and the big, where the small will hardly survive.

Daidžić (2015) researched the impulsiveness of consumer products shopping at the AG TRADE j.d.o.o. petrol station in Slavonski Brod. 200 respondents participated in the research. It has shown that the buyers at petrol stations are prone to impulsively buy, under the influence of various factors, but they will not characterize themselves as frequent impulsive buyers, which means that they buy unplanned more often than they think they do. The results have shown that there is no significant difference between the genders in impulsive buying at petrol stations, i.e. that men and women equally often buy unplanned, but there is a difference in other socio-demographic characteristics, especially with age groups, i.e. persons till the age of 35 are more prone to impulsive buying than those older than 35. Working hours of a petrol station is the only statement with which most respondents agreed that it stimulates impulsive buying at petrol stations, and that they have impulsively bought something in the highest percentage in relation to other statements.

Boyle (2002) conducted a research on the failure of the Shell petrol stations. As the features of petrol stations began to change, Shell was the only one to claim that the profitability of those stores was lower than anticipated. Petrol stations faced two great challenges for their business since the 1970s. First, in 1974, the Tesco supermarket chain started selling petrol cheaper than the petrol retailers. Other supermarkets soon began to copy Tesco. Second, the government of Great Britain increased taxes on petrol, so that in 2000, the taxes were 75% of the costs of a gallon of petrol. Oil companies reacted by asking for other possibilities for creating money. Shells competitors started to open shops at the petrol stations in the 1980s, headed by the BP in 1983. Shell, however, did not start transforming petrol stations into shops until 1991, when it used a franchise as the business format. The reality was somewhat different. In front of the Shell Select brand, the items were redesigned and changed to look bigger, brighter and cleaner. It cost Shell on average 500.000 pounds for a petrol station. The franchises had to pay 32.000 pounds for a contract, plus 40.000 pounds for the initiation. Moreover, they had to pay a significant annual fee. A year after the initiative Shell Select reorganized 300 petrol stations. The sales in those stores increased by 20%, but 51% were already at loss. The franchises fought because of: high franchise implementation costs, lower than expected sales volume, the effects of recession in Great Britain. There were two main issues with the entire concept of the Shell Select: the costs of implementation were too high for the franchises and for Shell Retail, and the increase in profit was simply not enough to cover the costs of the franchises. The Shell competitors were by far better. None of them opted for franchise business. Instead, they changed the names of the shops. They kept their costs far lower than Shell and did not have the same level of annual fees for the franchises. As a result, they were not as dependent on the high profitability rise. Shell continued to reorganize the petrol stations, and until 1997, it transformed 850 stations. This overview is based on the "*Failure of franchise business of petrol stations in Great Britain which relates to the reorganization of the Shell Retail petrol stations company*".

5. CONCLUSION

Oil industry finds itself in the ripe phase of its life cycle. Retail on petrol stations is prone to many changes, and it has been a very interesting segment of retail in recent times. Besides the basic offer, the quality of the fuel, and the location which was crucial for the survival of a petrol station, there have been great changes in the way of conducting business and the struggle for survival on the market, so the companies have focused more on the consumer. Now, petrol stations, besides oil, oil derivatives and car equipment, offer consumer goods in the shops at the petrol stations as well. The number of petrol stations has not been significantly growing over the last years, big companies take over smaller ones which disappear from the markets, and the companies expand by increasing added value for the customer. In their assortment, petrol stations offer freshly prepared foods and various hot and refreshing beverages. In the developed countries, this type of service has existed for quite some time, and it is very well received. The population in the developed countries is used to the availability and consumption of all these products at the petrol stations due to the quick living dynamics.

In their developing phase, with constant adding of the new products and attracting the customers, petrol stations shows good results. A part of the customers still has a habit of drinking coffee at petrol stations, while the younger population takes coffee to go and consume food products offered on deals at promotional prices. The quality of the service is by far the most important component for which the customers choose a petrol station. Alongside service quality, the quality of the petrol, the proximity of the station and the atmosphere are the factors customers have evaluated as very important when choosing a petrol station. In order for petrol stations to operate and further develop successfully, it is crucial to attentively monitor the customers' behaviour as to satisfy their needs.

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SPORT FOOTWEAR TRADE- DIFFERENCES BETWEEN YOUNG CONSUMERS AND MIDDLE-AGED CONSUMERS

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Abstract

This paper, firstly, explains the strength and structure market of the sport footwear as a specific product group or retail category. Then, it presents the results of the primary research on the consumer attitudes towards purchase of sport footwear. The primary research was conducted by a survey method, with the aim of determining the main features of buying sport footwear such as the frequency of purchases, the location of purchase, the advantages of classic stores and the preferred features of sport footwear as a retail category. The differences in the attitudes of two age groups of consumers are examined: (a) younger consumers (18-39 years) and (b) middle-aged consumers (40-59 years). The study was conducted on a sample of a total of 202 respondents, of whom 110 are members of the young consumer group and 92 are members of the middle-aged group. Finally, conclusions were drawn about the differences in attitudes about sport footwear, the way of buying and purchasing locations between these two groups of respondents.

Key words: specialized stores, sports equipment, sport footwear, younger consumers, middle-aged consumers

1. INTRODUCTION

Through out the history, beside its basic use, the footwear has been produced for different purposes like protection (*sándalon, kóthornos*, *carbatina, calceus, solea,*), military purposes (*caligae*), hunt, class distinctions *(calceus senatorum, mulleus, luna)*, for house use women slippers (*soccus, calceoli*) etc (Croatian Encyclopedia, 2017). With the development of production and technology, especially with appears of shoemaker guilds and number of shoestores, the number of different kinds of footwear is rising. Therefore, it is very logical to assume that young consumers have different preferences in compare with middle-aged consumers.

Nowadays, leading world footwear manufacturers are the countries of East and Southeast Asia, where the development of footwear industry is based primarily on cheap labor. However, the profit and price are not the only elements that influence on business activities. Diversification i.e. the production of footwear with intended use is a driver of development and has a significant impact on the survival of many companies from the footwear manufacturing industry.

Sport footwear or some kind of shoes that can be assumed as sport shoes have aproximately 190 years old history. „It all began when a man by the name of Wait Webster of New York decided to attach rubber soles to shoe and boot uppers in 1832. The first rubber soled canvas shoe was manufactured in 1868. It was called a "croquet sandal" as the rich used to take them to their beach pavilions or the club for a quite game of tennis." (TFSociety, 2012) The sporting shoe market dominated, at its beginnings, in 19th century and at the beginning of 20th century, by several big companies such as Plimsolls, Boulton (now known as Reebok), Goodyear, Spalding etc. The whole sport footwear industry nowadays went in the direction of diversification according to basic purpose i.e. intended use.

At the begening sport footwear were produced in countries where the companies come from. However, Nike was the first company which started to collaborate with Japanese manufacturers, while Adidas and other companies were still producing their footwear in countries with higher production costs, such as the US and Germany. Thus, Japan in the 1960s was the world's leading footwear supplier at low prices (see Ujević et al, 2015, p. 119), mainly relating to sport footwear (eg Nike Sports). This "outsourcing" has enabled Nike to compete and gain a leading position in the world's footwear market (see more in Gupta, 2015, p. 125).

Due to the market diversity and complexity of choices modern customer has a wide variety of sport footwear at the disposal and a bunch of retail formats to utilize in order to purchase sport shoes. Therefore, in this paper we will pay attention to structure, drivers and trends of the sport footwear market. The market analysis will be based upon the secondary data. Afterwards, we will present the findings of the primary research conducted on consumers in Croatia. Special attention will be dedicated to differences between two age groups in sport footwear shopping

2. SPORT FOOTWEAR MARKET - STRUCTURE, DRIVERS AND TRENDS

Even though that there are many definitions of term market it is commonly accepted is"A market is a medium that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange." (Investopedia, 2017) Therefore, market is a regulatory mechanism with certain structure. In this paper the structure of footwear market covers: (1) Types of firms on the market which are covering all business operations connected to sport footwear industry in the supply chain; (2) Sourcing concepts; (3) Market structure according to added values and (3) Main markets.

Types of firms on the market, which are covering all business operations, connected to sport footwear industry in the supply chain, "hierarchically" involve produc-

tion sector, intermediaries, and retail sector. Production sector consists of producers/manufacturers and branded producers/manufacturers. Intermediaries consist of agents, mediators, brokers, marketers and branded marketers. Retail sector consist of retailers, branded retailers, multi-brand retailers, trading firms and vertical companies (Mattila, 2015).

"Strategic sourcing concept is the process of developing channels of supply at the lowest total cost, not just the lowest purchase price." (Parniangtong, 2016). Despite this point of view, sourcing concepts can also develop a business approach that focuses on the level of involved business and manufacturing operations that are provided to customers/buyers. This means that low-level business and production operations gain less income - for instance wage (lohn) kind of service. Mattila (2008) had presented five level source concepts – CM – cutting and manufacturing (Customer provide product specification and all (raw) materials including trimmings. Producer sell only labor force and equipment/operating funds.); CMT – cutting, manufacturing and trimmings (Customer provide product specification and main materials. Producer sell trimmings, labor force and equipment/operating funds.); Full Package (Customer designs products and supplies product specification. Producer buys all the materials and sells the product to the customer at full price.); Private label (Producer designs products jointly with customer or independently. Products are supplied under customer's label.); Own producer label (Producer designs and produces product and sells it under its own label.)

Market structure according to added values relies on sourcing concepts. Namely, range of price depends on level of skill and technology involved. That means that range of price depends on range of added values i.e. range of generated or required level of skill and technology. In other words, the lowest prices manufacturer achieves by selling the lowest level of sourcing concepts. CM and CMT definitely achieve the lowest prices. So, in case when producer sells only labor force and equipment/operating funds, it is not realistic to expect higher prices and the desired profit.

Main markets can be devided on main markets on the side of demand and main markets on the side of supply. China is the world's largest footwear manufacturer. It is estimated (Gupta, 2015, p. 125) that China over the ten year period (2002-2012) nearly doubled the production of footwear, from 6,9 billion pairs to 13,3 billion pairs of footwear. The increase in world footwear production can be confirmed by data that world footwear production in 2002 was 12,5 billion pairs, and in 2012 it reached 21 billion pairs, showing an increase of 68.4%. According to Statista (2017a), world's largest footwear consumers in 2016 were, by number of pairs, China (3,9 bn), United States (2,3 bn), India (2,2 bn), EU (1,4 bn in UK, Germany and France), Indonesia (0,8 bn) and Brasil (0,8 bn).

Of course, there are many other different approaches to the issue of deviding main markets. For instance, according to marketing segmentation principles, main markets can be detected by using demographic, geographic, psychographic and behavioral criteria. Main markets can be detected according to types, raw materials, by range of prices or simply by main purpose of footwear (see Ujević, 2015, p. 114) – formal, informal, evening, sport, protection, leasure, events, rain, sunny days, every day use etc.

Natural aspiration of each industry, as well as footwear industry, is to develop and grow. To reach that goal, each industry needs a consumer demand, an adequate developing policy, a political support and favorable general economic circumstances. Market drivers represent basic forces that will persuade consumers, in final step, to buy products and pay for it.

Pirolo (2013) states: "The cost configuration (labour, raw materials, energy, plant depreciation, intangible and industrial support services) often acts as an entry barrier for new competitors, but it also represents one of the main drivers affecting industry competition and the competitive advantage of some operators." Following that logic, it is possible to mention number of possible market drivers for high operating margin of sport footwear (see ReportBuyer, 2017): Four pillars of sustainable business operation (ecological, economical, technological and social pillars); Legal factors; Public sensitivity on child labor forces; Fashion; 4G access; Consumer demand; Sesonality of production; Ecologicaly sustainable materials; and so on.

Statista (2017b) claims: "The European footwear industry is diverse, with a wide variety of materials (textile, leather, plastic etc.) used for manufacturing, as well as distinctions between non-athletic and athletic footwear. In general, the footwear industry consists mainly of these three major components: manufacture, trade and retailers." Obviously, according to mentioned above, market drivers should be in connection with all those three major components. It is not likely that only retailers should use market drivers, because manufacturers and traders (intermediaries) need to contribute to efficiency of retail process in their own interests. Therefore, all three major components should be explained.

Manufacturing is a complex process and it includes, among many others, a production planning, an improving production efficiency and adequate labour wages in the required working time, indirectly providing added value. However, drivers of excessive working hours can be over-booking, poor production planning and inefficiencies in production, what generate poor profitability or unmatched break-even point. On the other hand, production driver is with an opposite-positive prefix – good production planning, good booking, improved production efficiency and well-paid labour.

Intermediaries/traders should provide efficient distribution of goods and services, contributing to the whole trade process. Finally, retailers should use those market drivers which will provide the sale using basic sales activities, elements, skills and forces that persuade consumers to buy products and pay for it at desireable level of price. Namely, it should not be forgotten that sales at discounted prices and lost sales have a significant negative impact on business and that they are certainly not market drivers at all.

Market trends analysis estimatee that the world market for sport footwear will grow somewhat slower than the growth of the global footwear market. However, sport footwear market has far exceeded this forecast. According to data presented in Ujević (2015, p. 131), the average annual growth rate of 1,8% has been surpassed for the period 2011-2018. The world market for sport footwear is expected to be worth 142,7 billion US$ in 2019. It would account for about 40% of the world's total footwear market. The largest market segment on the world footwear market is footwear that is not intended

for users who engage in various sporting activities. This segment represents 60% of the total world production of footwear. However, sport footwear market is larger than any other single footwear market segment. Estimates show that the segment of children's shoes will achieve the fastest growth by 2018. Estimated average annual growth rate (3,7%) is twice as high as the estimated growth rate for footwear in total (1,9%) or for sport footwear (1,8%).

According to Strategyr (2017), it is obvious that the greatest growth within the footwear industry is forecasted for everyday common footwear not intended for sports activities, while sport footwear is in the second place. In addition the same report (Strategyr, 2017) state that Top 5 leading players in the world's sports shoes market are - Nike, Adidas, Asics, New Balance and VF Corp. (Vans, Timberland).

Sport footwear has recently stopped to be seen through the prism of shoes intended exclusively for sporting purposes, and has become a fashionable option. Changing trends and companies must be not only ready to adapt, but be forecasters and creators of new consumer needs. It can be concluded that the creativity and the innovation are the keys to success in both segments that are essential for enterprise advancement: to meet the needs of sport footwear buyers, both professionals and non-professionals, while at the same time applying new technologies to the production process and innovations in whole business operations.

Footwear production is one of the most globalized industries. According to the World Footwear Yearbook (2016), in 2015 the worldwide production of footwear reached 23,0 billion pairs, a slight decrease of 0,4% from the previous year. The production of footwear is geographically highly concentrated production. This can be substantiated by the fact that with 87% of world production, Asia is the hub of the footwear industry, with 7 out of the 10 main footwear producers. At country level, China is the indisputable leader, producing almost 6 out of every 10 pairs of shoes sold in the world (see World Footwear Yearbook, 2016). According to Statista (2017c), retail sales value of sport footwear worldwide from 2009 to 2019 shows every year raising trend – from 62,7 billion U.S.$ in 2009, over 77,3 billion U.S.$ in 2012 to 98,7 billion U.S.$ in 2015. Forecast is from 120 billion U.S.$ in 2017 to 142,7 billion U.S.$ in 2019.

Although some estimates indicate that the world market footwear will grow financially at an average annual rate of 1,9% in the 2011-2018 period, the sport footwear market has far exceeded this forecast since it shows growth of 8% in 2011, 7,4% in 2012 7,7%, 8.8% in 2013 in 2014, 8,8% in 2015, and 9,4% in 2016. (see Statista 2017c) Forecasts for the sport footwear market for the period up to 2019 are even more optimistic - growth is expected from 11% in 2017, 8,9% in 2018 and 9,2% in 2019. Also, it is forecasted that the footwear manufacturers from Asia will retain the leading position measured in the worldwide revenue generated by the footwear production. It is expected that their share in the world's revenue from production of footwear will be around 30% (Gupta, 2015, p. 131).

On a global scale, according to MarketResearch (2017), several companies reached 1 billion US$ in sales of sport footwear, while only Nike. Inc. and Adidas AG succeed in achieving more than 5 billion US$.

Selling shoes in stores is the dominant sales channel. It was estimated that worldwide sales of shoes in stores were 173,6 billion US$ in 2011. What should be anticipated when it comes to shoe sale, it is an estimation of the growth in sales of footwear by stores by 2018. It is estimated that the average annual growth rate will be 6,9%. If this forecast is realized, it may be expected that the shoe sales in retail stores will increase significantly (see European Commission (2017). Therefore, in our primary research we will focus on sport footwear shopping in this particular channel.

3. RESULTS OF THE EMPIRICAL RESEARCH ON SPORT FOOTWEAR SHOPPING

The research was conducted during the first half of May 2017, and included two age groups: younger population (18-39 years old) and middle-aged population (40-59 years old). In this study, 202 respondents, of which 110 respondents of the younger age group and 92 respondents of the the middle-aged population. Of the 110 respondents of the younger population, 66 were females (60%), and 44 were males (40%). In the middle-aged population there were 92 respondents, 49 were females (53,3%), and 43 were males (46,7%).

The primary survey was conducted by using the survey questionnaire method and was carried out using the Google Forms, by social network sharing, and by emailing and filling in a survey in print format in order to cover a relevant number of respondents in both age groups. The questions of the closed type of multiple choice were used, and questions in the form of the Likert scale where several statements were pointed out and respondents were required to express the degree of agreement or importance, with 1 indicated a total disagreement or irrelevance, while 5 indicated total agreement or importance of the examined claim.

The survey questionnaire included 17 questions, of which the first 5 questions related to socio-demographic features, followed by 4 questions related to sport activities and the frequency and location of purchasing of sport footwear. In addition, the following four questions questioned the importance of some advantages, such as buying in traditional stores and via the Internet, then question on obstacles to online shopping, and the general preferences and priorities when purchasing sport footwear. The last four questions were about the Internet as a new channel of consumer communication and new shopping channel.

In this paper, we will focus on the results obtained through questions related to the purchase of sport footwear in classical stores. Results on the frequency of purchasing sport footwear and consumer preferences will be displayed from the perspective of traditional retail stores for this particular group of products. In the paper, 4 hypotheses will be tested:

($\mathbf{H_1}$) Consumers of different ages prefer different locations when buying sport footwear.

($\mathbf{H_2}$) Older consumers have more positive attitudes towards buying in classical stores than younger consumers.

(H_3) Quality, comfort and price are the most important features when buying sport footwear in stores.

(H_4) When purchasing sport footwear, Younger consumers pay greater importance to its functionality with the regard to the type of sport than older consumers.

Table 1. Socio-demographic characteristics of the sample

Characteristic	Relative frequencies younger respondents (N=110)	Relative frequencies middle-aged respondents (N=92)
GENDER		
Male	40%	46,7%
Female	60%	53,3%
EDUCATION LEVEL		
Elementary school	0,9%	1,1%
High school	32,7%	52,2%
Proffesional degree	12,7%	13%
Bachelor degree	43,6%	27,2%
Master degree	9,1%	6,5%
PhD	0,9%	0%
EMPLOYMENT		
Employed	26,4%	94,6%
Fully employed with student status	10%	0%
Student that works occasionally	31,8%	1,1%
Non-working student	26,4%	0%
Unemployed	5,5%	4,3%
AVERAGE MONTHLY AMOUNT AVAILABLE FOR CONSUMPTION		
0-1500 HRK*	37,3%	5,4%
1500-3000 HRK	30,9%	29,3%
3000-4500 HRK	10,9%	35,9%
4500-6000 HRK	12,7%	22,8%
More than 6000 HRK	8,2%	6,5%

Note: * 1 EUR = 7,5 HRK

Source: Own research

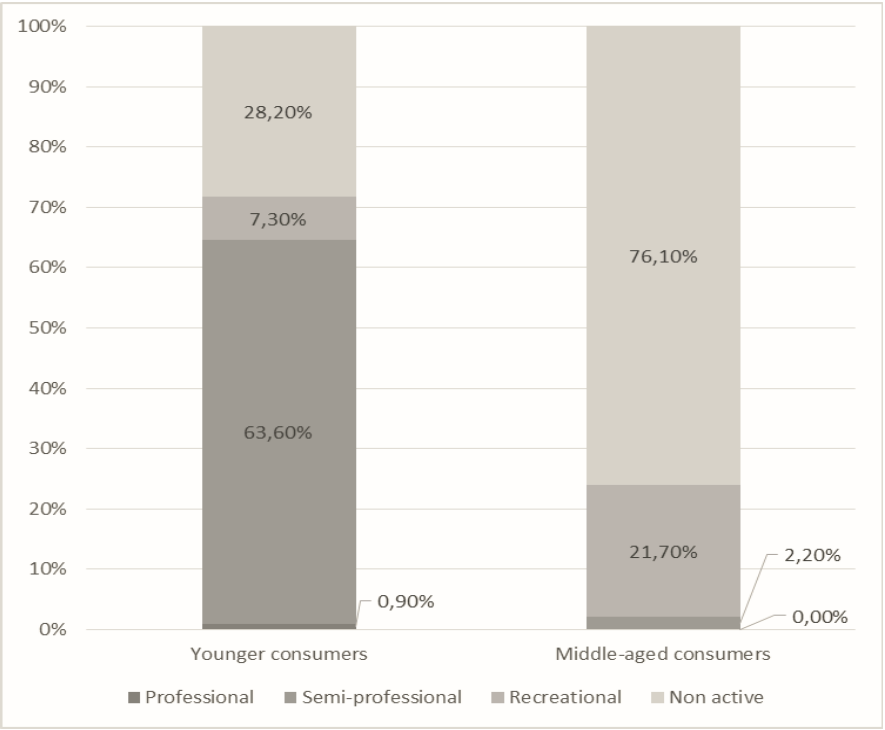
Firstly, Table 1 shows socio-demographic characteristics for each age group of respondents.

Out of 110 members of the younger respondents, 66 (60%) are female and 44 (40%) are male. Given the level of education, 48 (43,6%) of the respondents have a high level of education (bachelor degree), and 36 (32,7%) have a high school qualification.

While 14 (12,7%) have a higher level of professional education, 10 (9,1%) are hold master degree, only 1 respondent (0,9%) have a doctorate, and only 1 (0,9%) respondent has completed only elementary school. Furthermore, when it comes to working status, 35 (31,8%) of the respondents of the younger age group stated that they were studying and working occasionally. The number of those who are fully employees and those who only studied and did not work at all, is the same, namely 29 (26,4%). Subsequently, 11 (10%) of respondents are studying and working, while 6 (5,5%) are unemployed. The data on the average monthly amount available for consumption in this age group are as follows: 41 (37,3%) respondents have monthly 0-1500 kn, 34 (30,9%) have 1500-3000 kn, 14 (12,7%) respondents it has 4500-6000 kn, 12 (10,9%) from 3000 to 4500 kn, while 9 (8,2%) of the respondents of the younger population have more than 6000 kn a month.

Of the 92 middle-aged subjects, 49 (53,3%) were female and 43 (46,7%) were male. With regard to the level of education, 48 (52,2%) of respondents have a secondary education (high school), while 25 (27,2%) have a bachelor degree. There are 12 (13%) with higher professional education, 6 (6,5%), and 1 (1,1%) of respondents have completed only elementary school while noone holds a doctorate. When it comes to the working status, 87 (94,6%) of the middle age group respondents declared themselves as employed, then

Graph 1. Sport mode within age groups of respondents



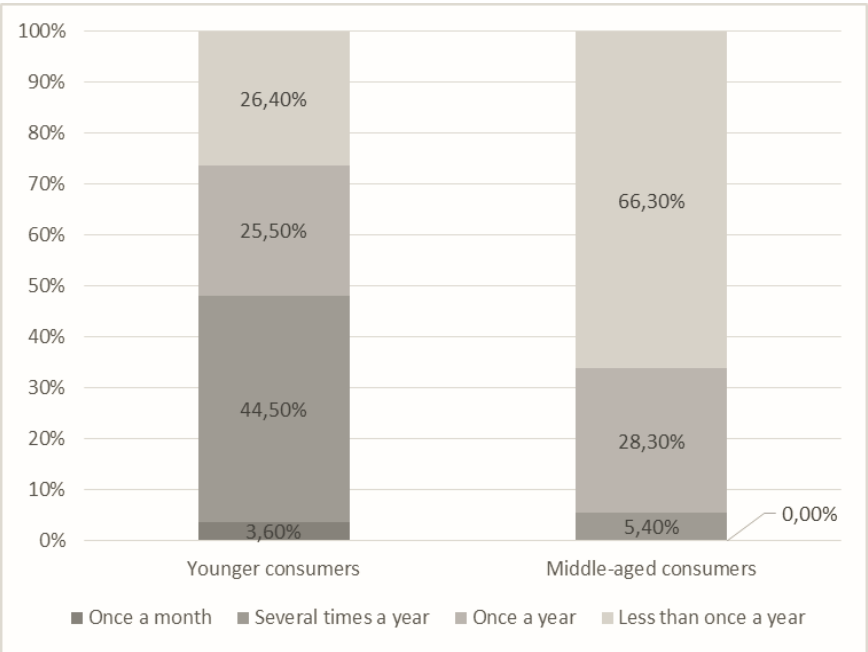
Source: Own research

4 (4,3%) as unemployed, while 1 (1,1%) said that study and occasionally works. Data on the average monthly amount available for consumption are as follows: 33 (35,9%) of the respondents have 3000-4500 kn, 27 (29,3%) have 1500-3000 kn, 21 (22,8%) respondents (6,5%) with an amount higher than 6,000 kn, while 5 (5,4%) of the surveyed middle-aged population members have a monthly amount between 0 and 1500 kn.

After the socio-demographic characteristics of the respondents, Graphs 1, 2 and 3 show the results for 3 questions related to the way of sporting activities and the purchase of their own sports shoes for each age group within the sample.

As shown in Graph 1, out of 110 respondents belonging to the younger population, 70 (63,6%) are engaged in sports recreation, 31 (28,2%) do not deal with sports at all, 8 (7,3%) are engagedin sports semi-professional, while only 1 person (0,9% sample) professionally deals with sports. Out of 92 respondents of middle age population, 70 (76,1%) do not deal with sports at all, 20 (21,7%) are engaged in sports recreationally, 2 (2,2%) are engaged in sport semi-professional, and no one is a professional athlete.

Graph 2. The frequency of footwear shopping



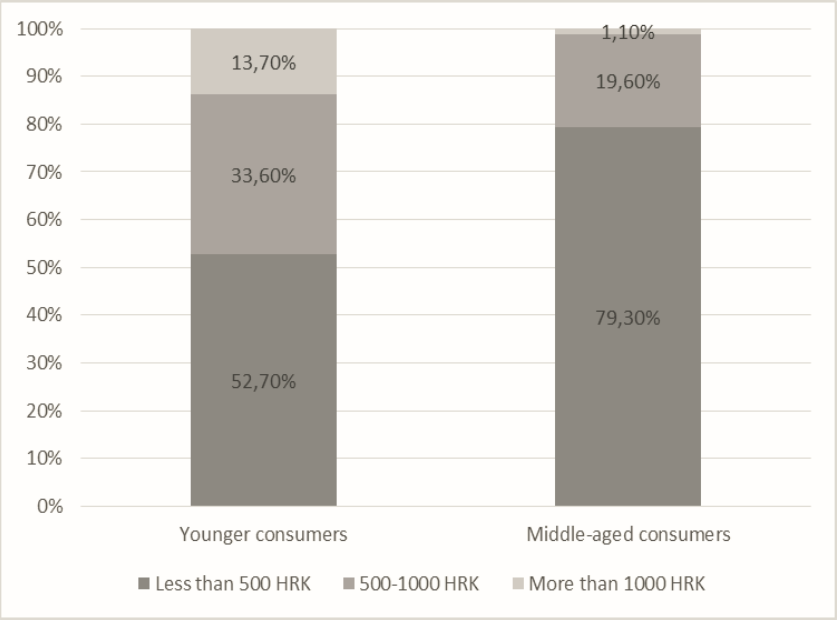
Source: Own research

The largest proportion of younger respondents (44,5%), state that they buy sport footwear several times a year (see Graph 2), which is logical as it is a younger population that generally has a higher affinity for frequent buying and changing existing clothing and shoes. Then, 26,4% buy sport footwear less than once a year, 25,5% buys once a year,

while 3,6% of the respondents buy sports shoes on monthly basis. On the other hand, middle-aged respondents mostly buy sports shoes less than once a year, 66,3% of them. Once per-year sport shoes are bought by 28,3%, while 5,4% buy them several times a year. It is obvious that this midlle-aged group rarely buys sport footwear, partly because they are more concerned about it and probably are buying products of higher quality, and, therefore, they have a lower need for change due to endurance of the footwear. On the other hand, the reason could be their lower engagement in sports activities as shown in Graph 1.

Approximately, a half of the respondents of the younger population, namely 52,7%, answered that they spend up to 500 HRK per year on their own sports shoes (Graph 3). One third (33,6%) of respodents spends 500-1000 HRK per year, while only 13,7% spend more than 1000 HRK per year. On the other hand, 79,3% of middle-aged respondents reported spending up to 500 HRK per year on sport footwear shopping, 19,6% spend between 500 and 1000 HRK per year, and only 1,1% of them spend more than 1000 HRK per year on their own sports shoes.

Graph 3. Annual spending on own sport footwear



Source: Own research

It is evident that, at both age groups, most of the respondents spend up to 500 HRK per year on sports shoes, but in the middle-aged population, this is reflected in a considerably higher percentage. The main reason for this lies in one of the previous questions where it turned out that the number of sportsmen, whether recreational, semi-professional or professional, was considerably higher in the younger group than in the middle-aged group.

Table 2. Shopping location for sport footwear

Shopping location	YOUNGER CONSUMERS		MIDDLE-AGED CONSUMERS		Chi squared p-value
	Average grade	Modal value	Average grade	Modal value	
Supermarkets/hypermarkets	1,463	1 – never (64,4%)	2,523	3 - ocassionally (35,9%)	0,00000
Specialized sports stores in town center	2,826	3 – occasionally (37,3%)	3,825.	4 – frequently (33,7%)	0,00000
Specialized sports stores in shopping centers	3,770	4 – frequently (32,7%)	3,283	3 - ocassionally (37%)	0,05883
Internet (web) shop	1,642	1 – never (60,9%)	1,011	1 – never (98,9%)	0,00000

Note: 1 – never; 2 – rarely; 3 – occasionally; 4 – frequently; 5 – very frequently

Source: own research

Table 2 shows the results for the question regarding frequency of purchases by types of locations i.e. retail formats. Based on the average grades and modal values presented together with the percentage of the population that has chosen given modal value, we can conclude that in both age groups the preferred place of sale is a specialized sports store. In younger group of consumers it is a specialized store in the shopping center (average grade 3,770), while in the middle-aged population it is a specialized store in the center of the city (average score 3,825). In additon, we can draw a few more conclusions: (1) medium-aged consumers are more likely to buy sport footwear in supermarkets and hypermarkets than young consumers (statistically significant at the level of 0,05); (2) middle-aged consumers buy sport footware in specialized stores in the city center more often than young consumers (statistically significant at 0,05); (3) younger consumers, more often than average middle-aged consumers, buy sport footwear in specialized stores in shopping centers (4) in both groups of consumers, electronic commerce in is rarely used, though, more often in the group of younger consumers (statistically significant at level 0,05).

Based on all mentioned, for majority of the examined variables, there are statistically significant differences between two groups of consumers regarding to the preferred location for buying sport footwear. Therefore, we can accept hypothesis H1.

Table 3. Advantages of purchasing sport footwear in classic stores compared to e-commerce

Advantage of a classical store	YOUNGER CONSUMERS		MIDDLE-AGED CONSUMERS		Chi squared p-value
	Average grade	Modal value	Average grade	Modal value	
Possibility to touch the product	4,288	4 – relevant (51,8%)	4,870	5 – completely relevant (87%)	0,00000
Possibility of product testing	4,680	5 – completely relevant (75,5%)	4,902	5 – completely relevant (92,4%)	0,52805
Possibility of consulting with sales staff	2,790	3 – neutral (30,9%)	2,761	3 – neutral (39,1%)	0,10486
A sense of security and safety	3,683	4 – relevant (50%)	4,815	5 – completely relevant (83,7%)	0,00000
Current availability of products	3,938	5 – completely relevant (37,3%)	4,575	5 – completely relevant(72,8%)	0,00000
There is no additional costs	3,576	4 – relevant (31,8%)	4,630	5 – completely relevant (75%)	0,00000

Note: 1 – completely irrelevant, 5 – completely relevant
Source: own research

Table 3 outlines ratings of the benefits of purchasing sport footwear in classic stores. Respondents were asked to evaluate claims on the importance of the particular advantage of a classical store with grades from 1 to 5. Where 1 meant that the advantage was completely irrelevant and 5 that the advantage is completely relevant. Based on the presented results, we can observe that middle-aged consumers, for all the stated advantages, show a higher degree of consistency than younger consumers do. Indeed, in almost all claims, except for the "probability of product testing" this difference is confirmed as a statistically significant at the level of 0,05. An exception to this rule is the only "possibility of consulting with sales staff" where the average grades are similar (2,790 and 2,761), and the performed chi-squared test showed that there was no statistically significant difference between these two groups of respondents (p-value is greater than 0,1). In additon, we can see that the two most important advantages for the younger and middle-aged group of respondents are "the possibility to touch products" and "the possibility of product testing ". In the younger group of consumers, at the third place is the "current availability of products", and in middle-aged group of consumers it is "a sense of security and safety".

From all of the abovementioned, we can accept H2 hypothesis that older consumers have more positive attitude towards purchasing in classical stores than younger consumers when considering sport footwear as a particular retail category.

When asked about the importance of a particular feature of sport footwear as a retail category, the results of the research for the younger age group show (see Table 4) that the most important ones are: quality and comfort (4,596), price (4,182), shoe functionality (4,148) and design (4,129). In the case of middle-aged consumers, the four most important features are: quality and comfort (4,728), price (4,652), design (3,814),

while other features have an average rating of less than 3. In addition, the following can be concluded: (a) quality and comfort are equally important in both groups (there is no statistically significant difference between the groups), (b) the price is more significant in the middle-aged group (statistically significant at the level of 0,05), (c) the younger population express a much higher importance when concerned functionality of sport footwear regarding the type of sports (statistically significant at 0,05); (d) although the average rating of design is higher in the younger population, this difference is not statistically significant, (e) the younger population pays greater attention to the design of sport footwear (statistically significant at the level of 0,05); (f) younger consumers pays greater attention to the shopping environment (statistically significant at level 0,05); (g) in younger population friends play greater role in shopping of sport footwear (statistically significant at 0,05 level), (h) although media ads have a low rating of importance in both populations (below 3), the average is somewhat higher in the young population and at significance level 0,10 we can accept the claim that younger consumers are more sensitive to media ads than is the case for middle-aged respondents.

Based on all mentioned, the hypothesis H3 is accepted as quality and comfort and the price are the most important features when purchasing sport footwear in classical stores. Similarly, the H4 hypothesis is accepted, as in the younger group of consumers functionality with regard to the type of sport is a more important feature when purchasing sport footwear than in the middle-aged population. This finding is directly related to the data presented in Graph 1 where a far greater share of sportsmen is within younger population, wihile in the middle-aged population there where 76,1% of respondents who claimed that they are not active in sports.

Table 4. Importance of the features of sport footwear when shopping at classical stores

Product characteristics	YOUNGER CONSUMERS		MIDDLE-AGED CONSUMERS		Chi squared p-value
	Average grade	Modal value	Average grade	Modal value	
Price	4,182	4 – relevant (59%)	4,652	5 – completely relevant (65%)	0,00001
Quality and confort	4,596	5 – completely relevant (65%)	4,728	5 – completely relevant (68%)	0,84872
Functionality regarding the type of sport	4,148	5 – completely relevant (45%)	2,924	1 – completely irelevant (34%)	0,00001
Design	4,129	4 – relevant (46%)	3,814	4 – relevant (58%)	0,01086
Brand	3,254	3 – neutral (39%)	2,27	1 – completely irrelevant (38%)	0,00002
Shopping environment	3,226	4 – relevant (37%)	2,988	3 – neutral (54%)	0,00001
Friends' recommendation	3,209	4 – relevant (48%)	2,717	3 – neutral (34%)	0,00001
Advertisements in media	2,3	3 – neutral (30%)	1,87	1 – completely irrelevant (42%)	0,09157

Note: 1 – completely irrelevant, 5 – completely relevant

Source: own research

4. CONCLUSIONS

Sport footwear has almost two centuries old history. Until nowadays, sport footwear industry and retailing went througr rapid development and diversification according to functionality and design, but also according to sales channels. Contemporary customer has a wide variety options for sport footwear shopping. Hovewer, traditional stores are still the dominant sales channel for sport fotwear. Therefore, in this paper consumers' attitudes toewards shopping sport footwear in traditional stores are empirically examined.

Based on the empirical research, a few conclusions emerge. The younger population is more active in sports than the middle-aged population. As a result, there are different behaviors and different attitudes towards purchasing sport footwear in stores. Younger consumers purchase sport footwear more often than middle-aged consumers do. Two-thirds of middle-aged consumer buy sport footwear less than once a year. In the younger group of consumers, the proportion of those who spend significant amounts on sport footwear on yearly basis is higher. Over 45% of younger consumers spends more than 500 HRK annually on sport footwear.

In this paper, we have presented and explained in detail the statistically significant differences in preferred purchasing locations for the sport footwear regarding the age of the consumer. It was found that both compared age groups are most likely to buy sports shoes at specialized stores, but younger consumers prefer stores in shopping centers and middle-aged consumers in the very city center. Furthermore, medium-aged consumers have more positive attitudes regarding purchasing in classical stores than younger consumers. Both groups express that the most important features of sport footwear are (a) quality and comfort, and (b) the price. The importance of price is more pronounced for middle-aged consumers. Due to the more intense activity in sports, the younger population emphasizes the stronger importance of functionality regarding the type of sport as a feature when shopping sport footwear.

Presented results are an empirical evidence of the existence of statistically significant differences between consumers per age for a particular type of products, i.e. retail product category. Therefore, the results can be applied in the theory and practice of retail marketing and management. Future research should be broadened by considering the role of electronic commerce as an additional channel for selling sport footwear. In addition, research could be conducted on a larger number of respondents and in different markets, thereby deepening the understanding of consumer attitudes in this particular type of product.

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THE IMPACT OF PRODUCTIVE NEGOTIATION TECHNIQUES ON THE COMPETITIVENESS OF CROATIAN HAIRDRESSING PRODUCTS MARKET

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Abstract

Research analyses negotiation techniques in hairdressing products market with special focus on professional hair cosmetics sales in Croatia. The main object of this research is the negotiation techniques that ensure the increased international competitiveness of products of the Croatian hairdressers' market. By using innovative negotiation techniques, an appropriate level of business activity is achieved which contributes to the active struggle against possible negative effects within the market. The recommendations and proposals are given based on the results of research.

Key words: negotiation techniques, competitiveness, hairdressing products, financial crisis

1. INTRODUCTION

Hairdressing cosmetics, more specifically, professional hair products, have been under the influence of the financial crisis that has begun in 2007. The last global economic crisis, from which many economies are still recovering, also hit the professional hair cosmetics market, both on a global scale and in the Republic of Croatia. Strong competition and an unstable market drive companies to overemphasise, that is, to use productive and innovative negotiation techniques to maintain a certain level of competitiveness on the professional hair products market. Here the research hypothesis posed is this: 'One can assume the importance of innovative negotiation techniques that influence the productivity and the competitiveness of companies in the Croatian hairdressing products market.

By specifying hairdressing cosmetics, or simply narrowing the hairdressing cosmetics to just professional hair products, a need to define such cosmetics emerges. Professional hair products are those that cannot be bought in supermarkets, shopping malls, and this market is limited solely on the sale of these products by educated staff to hairdressing salons or stores specialised in selling exclusively professional hairdressing cosmetics and equipment. Speaking of the current state of hairdressing cosmetics on

the market, a parallel line can be drawn with the hairdressing profession. Although the sale of hairdressing products is closely connected with the provision of hairdressing services, such a trade cannot, however, be classified under the same activity. Namely speaking, the hairdressing product has its own physical form which is the result of a production activity, and unlike the service it exists even after the production process has been completed. In accordance with the above, a definition is imposed which states that hairdressing is an activity that has its own price and is sold, and a professional hairdressing product is a consumable good that will most often be used up in several uses. What has to be unavoidably mentioned is that the economic crisis has increased the number of hairdressers who work outside the Croatian Labour Law, and offer their services on the 'black market', which creates disloyal competition (Zanetti, 2014). This reduces the number of visits to hairdressing salons, as well as the sales and purchase of professional hair products in hairdressing salons. This in turn creates a need for more extensive use of innovative negotiation techniques in the sales process of professional cosmetics. This situation is pronounced in the Republic of Croatia, while at the global level there are still some differences.

According to research by a well-known American magazine, it has been proven that, despite the global economic crisis, Americans have not given up their visits to hair salons or the purchase of hair care cosmetics. Furthermore, hair care in America is one of the few economic activities for hair that is predicted to grow in the next few years.

2. HAIRDRESSING PRODUCTS MARKET OF THE WORLD AND THE REPUBLIC OF CROATIA

2.1. The global financial crisis and world hairdressing products market

Looking at today's hairdressing market, it is necessary to go back a decade, more precisely to 2007, a year that marks the beginning of the global financial crisis, which still persists today. The crash in second-tier mortgage markets in the USA triggered the biggest economic crisis after WWII. This crisis has prevented the sustainable growth of the economy and caused a fall in the overall economic activity on a global scale, as well as a sudden drop in aggregate demand (Mlikotić, 2011: 89).

According to research, it has been proven that the financial crisis had a negative effect on the sales of hairdressing cosmetics, and in the case of shampoo sales, it encouraged consumers to choose cheaper products, from less-known brands. This way, the value of shampoo sales in the so-called 'big 5' which includes Germany, France, Italy, the United Kingdom and Spain has decreased or stagnated (SUSPROC, 2012). Hair care products are part of the beauty industry which also includes skin care products, oral care, cosmetics and the like. However, unlike other products mentioned, hair care cosmetics has shown a steady growth since 2013. There has been an increase in this part of the beauty industry with the introduction of new hairdressing products on the global market which meet the needs of different cultures and regions. Because of that, in the next five to six years, a demand for professional hair products is expected to increase by about 5% to 6% a year. Also, the professional hair care market is expected to

grow precisely because of the increased consumption in personal care products and an increased personal income in developing countries, as well as an increasing number of hair salons worldwide. However, the high price and lack of availability of professional hair care products make it difficult for this market to grow. Even though the professional cosmetics market has already reached a certain level of maturity, the future will bring the implementation of highly specialised hair care products including hair dyes. In any case, the consumers' desire to nourish and maintain their hair, suggests that the consumers will switch from using conventional to professional hair products. Furthermore, facilitating the availability of such products also leads to a growth in professional hair cosmetics worldwide (Futuremarketinginsights, 2017).

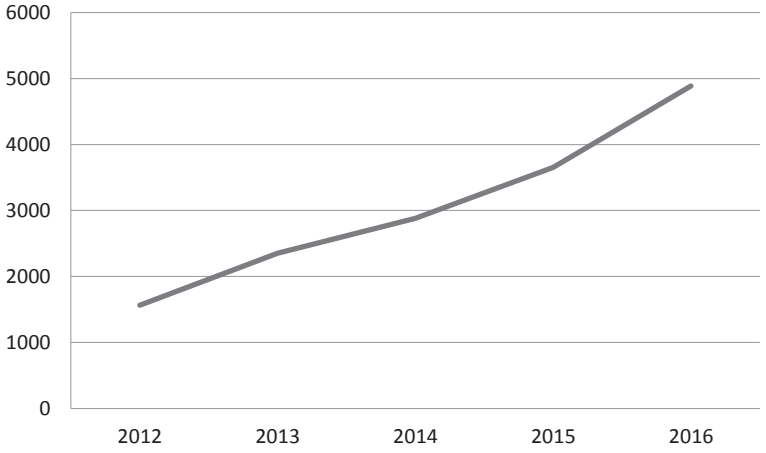
The global hairdressing cosmetics market in 2016 was estimated at 83.36 billion US dollars. Of course, this research includes all hair care products including the products sold in supermarkets, as well as professional hairdressing products. The hair care products market includes thousands of products, including shampoos, hair dyes, sprays and everything that is used in hair maintenance and care. The idea of a youthful appearance in today's world is represented by nourished and healthy hair which is a key factor that influences the purchasing decisions among the consumers . According to that, all the analyses and research, it is obvious that the growth of the hair care market is on the rise, and this trend is expected to continue, especially due to the upcoming trends that promote the importance of scalp health and encourage the need to use personal care products (Statista, 2017).

2.2. Analytical aspects of hairdressing cosmetics market in the Republic of Croatia

This part of paper analyses economical aspects of the wholesale of perfume and cosmetics sector. Wholesale of perfume and cosmetics sector can be found under the NACE Rev. 2 Classification under the code 4645. In the following part, group basic economic performance calculations will be presented. We used average operating revenue, average cost and average profit per employee, average number of employees as the indicators of economic performance of the wholesale of perfume and cosmetics sector. The group of 102 Croatian enterprises is included in this part of research. All of the measures are denominated in thousands of Euros. The observed period is from year 2012 to 2016. All the data is downloaded from the Amadeus database (https://amadeus.bvdinfo.com/).

Following Graph illustrates the average trend of operating revenue in Croatian wholesale of perfume and cosmetics sector within the period from 2012 to 2016.

Graph 1. Average operating revenue in Croatian wholesale of perfume and cosmetics sector (thousands of Euros)

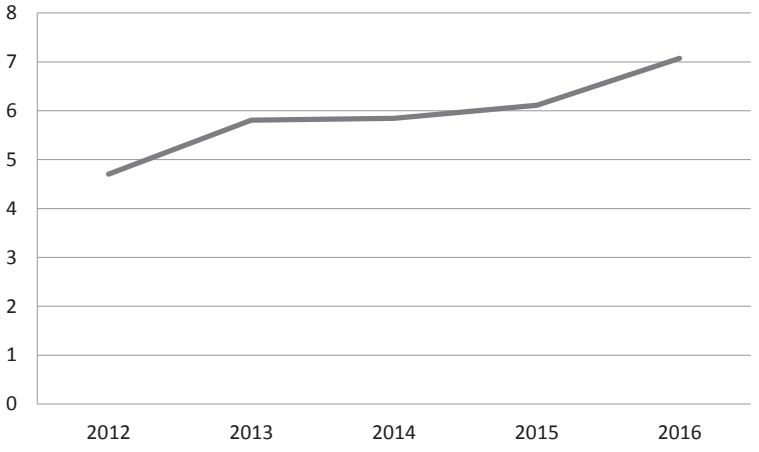


Source: Author's calculations from Amadeus Database (2017)

The estimated market value of beauty and personal It is relevant to point out upward trend of average operating revenue in Croatian wholesale of perfume and cosmetics sector. The recovery after global financial crisis boosted demand for products that has reflected on companies revenues.

Graph 2 shows average number employees of Croatian wholesale of perfume and cosmetics sector from year 2012 to year 2016.

Graph 2. Average number of employees in Croatian wholesale of perfume and cosmetics sector

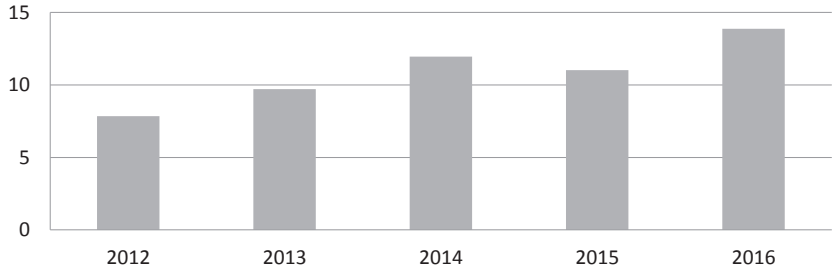


Source: Author's calculations from Amadeus Database (2017)

Growing increase of demand in the Croatian wholesale of perfume and cosmetics sector undoubtedly imply higher level of employment. It can be noted that the sharpest growth was recorded in year 2012 -2013 and year 2015-2016.

Next chart indicates average cost of empoyees of Croatian wholesale of perfume and cosmetics sector which is denominated in thousands of Euros.

Graph 3. Average cost of employees in Croatian wholesale of perfume and cosmetics sector (thousands of Euros)

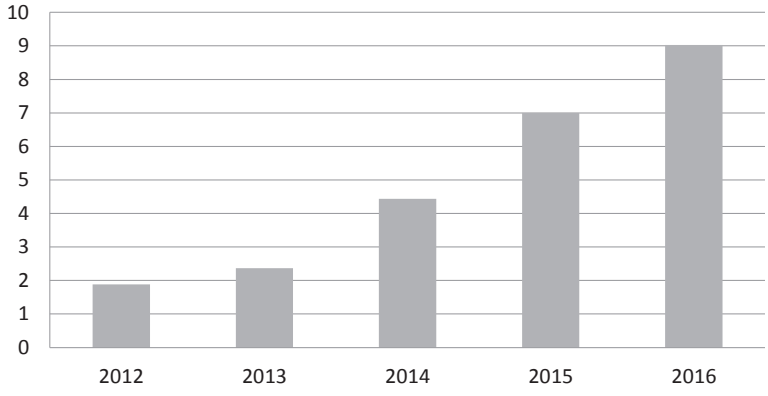


Source: Author's calculations from Amadeus Database (2017)

Graph 3 shows volatile trend of average costs of employees within the period from 2012 to 2016. The highest level of average costs of employees was recored in year 2016 and 2014. Bigger demand for Croatian wholesale of perfume and cosmetics sector implies higher wages and/or hiring new employees. This conclusion can be reflected on average cost of employees values.

Average profit per employee of Croatian wholesale of perfume and cosmetics sector is shown in following Graph 4.

Graph 4. Average profit per employee in Croatian wholesale of perfume and cosmetics sector (thousands of Euros)



Source: Author's calculations from Amadeus Database (2017)

Graph 4 summarizes all of previous conclusions from previous figures. Bigger demand for products of Croatian wholesale of perfume and cosmetics sector boosted higher costs, higher wages and or/level of employment and continuous growth of profit per employee. It can be stated that profit per employee in 2016 is minimum 4 times bigger than in year 2012.

3. METHODOLOGY

The aim of the conducted research was to determine the importance of innovative and productive negotiation techniques in the sales process of professional hair cosmetics. The results of the survey show different ways of negotiating by the buyers, that is, the changes in negotiating that arose after the financial crisis and the answer to negotiation techniques by those selling such cosmetics.

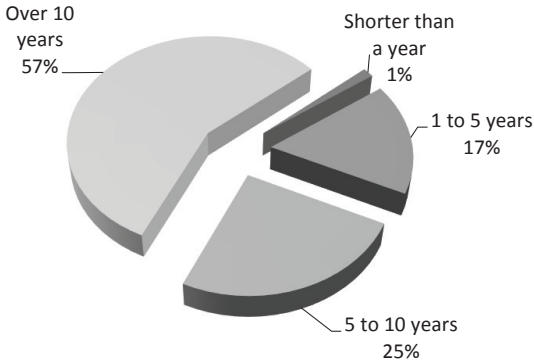
Around seventy people working in the hairdressing industry participated in the survey, who also offer retail sale of professional hairdressing products. So, data subjects were chosen to meet this requirement, which meant they had to deal with product sales. The age structure of the examinees in this survey is not necessary, but work experience is of greater importance precisely because of the business transactions comparison at the beginning and the end of the crisis.

The mentioned survey was conducted during July and August 2017. 72 Croatian examinees were included in this research. Most of the examinees responded electronically or by a telephone interview, while a few were interviewed face to face. Survey can be found within Appendix of this research.

4. RESULTS

The fourth part of this paper presents the views, opinions, and experiences on the use of productive and innovative negotiation techniques in enhancing the competitiveness of the hairdressing products market, as well as the professional hair cosmetics in the Republic of Croatia. The following results represent the work experience of examinees in the hairdressing profession, the frequency of participation of examinees in the negotiations during the sale of professional hair cosmetics, the ways in which the examinees gained negotiating skills, the time needed to prepare negotiations and the like. The mentioned results will be briefly clarified and shown through the pie charts below.

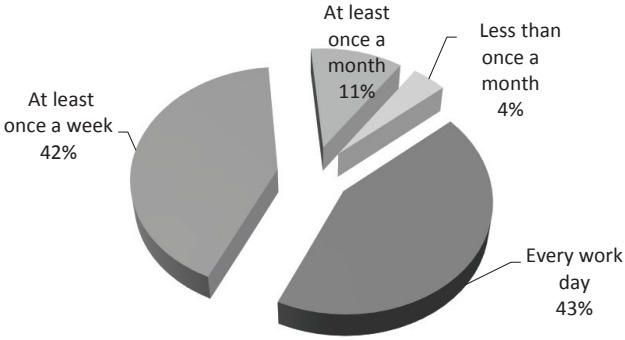
Graph 5. Work experience in the hairdressing profession



Source: Created by the author according to the results of the survey

According to work experience in the hairdressing profession, over half of the examinees are experienced hairdressers with over 10 years of experience (57%), while 25% of examinees have work experience in the profession lasting from 5 to 10 years, which is still considered a good model for more realistic results of this survey. Furthermore, 17% of the examinees have less than a year of experience. The previously mentioned results of the survey, especially the fact that 57% of examinees who took the survey, have over 10 years of experience in the hairdressing profession, certainly goes in favour of the survey and the results obtained. Hairdressers with more work experience are more proficient in hairdressing and professional hair product sales, and are familiar with the situation present in the profession before the crisis that began in 2008 as well as the current situation.

Graph 6. The frequency of encountering negotiations for the purpose of selling professional hairdressing equipment

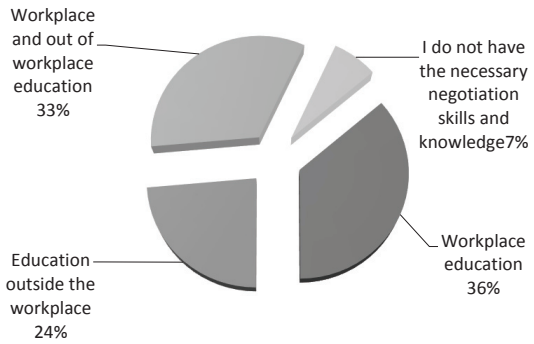


Source: Created by the author according to the results of the survey

The results of the survey show that the examinees frequently encounter negotiations for the purpose of selling professional hairdressing products. Of the over 70 people surveyed, 43% of them deal with negotiations on a daily basis, while 42% of them deal with negotiations at least once a week. At least once a month, 11% of the examinees

encounter negotiations for the purpose of selling professional hairdressing products, and only 4% encounter negotiations less than once a month. This result is expected considering that the examinees encounter potential buyers of professional hairdressing equipment on a daily basis.

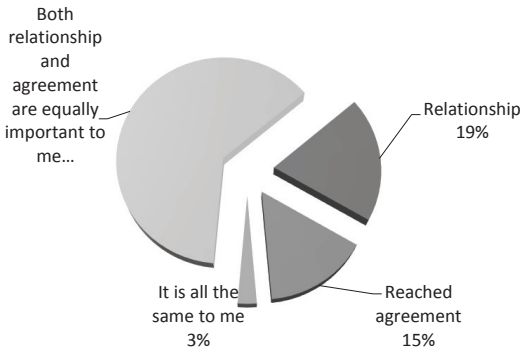
Graph 7. Ways of acquiring knowledge and negotiating skills



Source: Created by the author according to the results of the survey

Most examinees, 36% of them, acquired the negotiation knowledge and skills in the workplace, while 24% of the examinees acquired negotiation knowledge and skills outside the workplace. Furthermore, 33% of the examinees claim they acquired negotiation knowledge and skills both in the workplace and outside the workplace. At the same time, only 7% of the examinees claim they do not have the necessary negotiation knowledge and skills. This result indicates that people who encounter negotiations in the workplace on a daily basis and for the purpose of selling professional hairdressing cosmetics invest in their own education in the area of business negotiation.

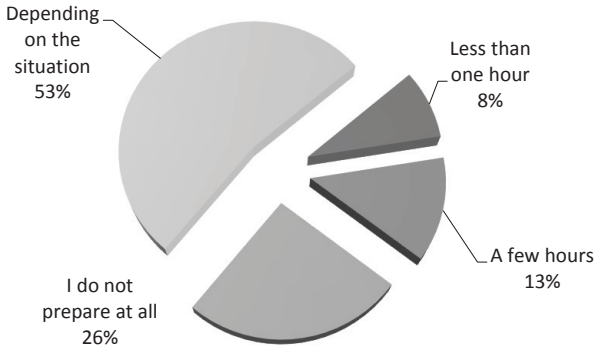
Graph 8. The importance of the relationship and the agreement reached from the viewpoint of the examinee



Source: Created by the author according to the results of the survey

As can be seen from the pie chart, most examinees (63%) have confirmed that in negotiations both the agreement reached and customer relationships are equally important. At the same time, 19% of the examinees believe that in negotiations the relationship is more important, while 15% believe that the agreement reached is still more important. A small percentage (3%) claim that it is all the same to them. According to the data above, it is concluded that most examinees understand the importance of business negotiation, that is, they understand that the customer relationship is one of the most important links in this process.

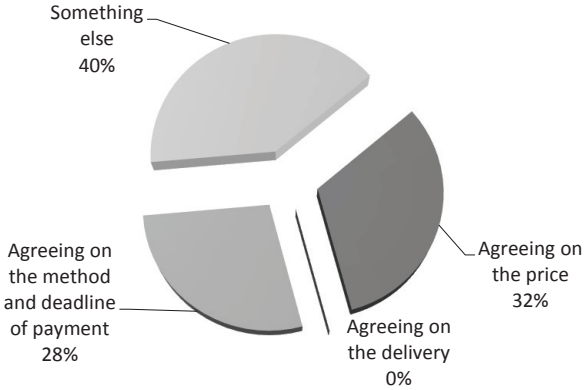
Graph 9. Length of preparation for customer negotiations



Source: Created by the author based on the analysis of the survey

For most examinees, the length of preparation for negotiations depends on the situation (53%), which is perhaps the most realistic answer. Each business negotiation process is a specific situation and requires different approaches to the other side of the negotiation process, in this case the customer. At the same time, 26% examinees do not prepare for negotiations at all. Likewise, 13% of the examinees prepare for negotiations for several hours and 8% of the examinees prepare for negotiations less than an hour.

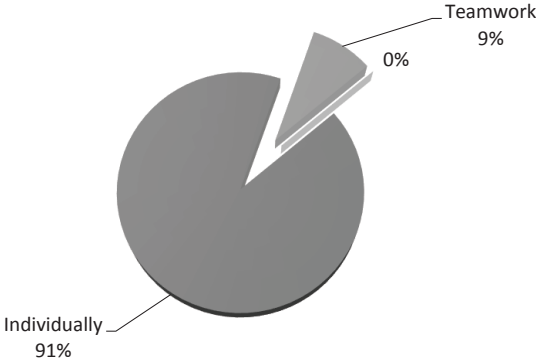
Graph 10. Difficulties the examinees encounter while negotiating product sales



Source: Created by the author based on the analysis of the survey

Based on the examinees' answers it is difficult to assess which problems in negotiating they mainly encounter since 40% of the examinees reported 'something else' as the most common difficulty. Concurrently, 32% of the examinees most often have problems with agreeing on the price, and 28% state that most problems arise around the arrangement of payment methods. Furthermore, not one examinee, according to their claims, has any problems with agreeing on the delivery deadlines. When all the answers are taken into account, it can be concluded that price almost always represents some form of problem in such sales or sales negotiations. Adding to the price problem, there is also the problem with the arrangement of the method and payment deadline, where it is assumed that the customers are likely to ask for credit card payments, and delayed payment or paying in instalments.

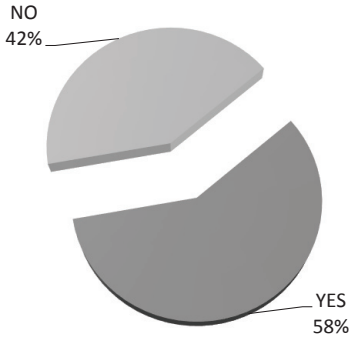
Graph 11. Negotiation methods



Source: Created by the author based on the analysis of the survey

Most examinees, 90% of them, negotiate in most cases individually, while only 9% negotiate in teams. Such a result is expected considering that the sales of professional hair cosmetics are most often performed directly between the seller and the buyer, so there is usually no room for a third party here. If it were a different type of negotiation or business negotiation between employees or between hairdressers and suppliers, team negotiating would be given an advantage in such a case.

Graph 12. Have the examinees felt the changes in the way they negotiate during the crisis?



Source: Created by the author based on the analysis of the survey

Customer opinions on changes in negotiation methods during the crisis are divided. So 58% of the examinees claim they have experienced the changes in customer negotiation, while 42% of the examinees claim that they have not experienced the mentioned changes. This result is difficult to comment precisely because it gives clear answers to posed questions. However, according to the survey conducted, it is obvious that the sellers, in this case, the hairdressers, have experienced changes in negotiation methods with their customers and buyers.

Table 1. Changes observed by customers during the crisis

CHANGES IN NEGOTIATION METHODS ON THE PART OF THE CUSTOMERS	
A stricter approach during negotiations	Too expensive a product
Customers are more demanding, they want more for their money	Customers want a lower price for services and products
Customers are less interested in the products, they buy less products	Customers buy bigger packaging but they want lower prices
It is harder to sell the product to the buyers than ever before	Many of the regular customers buy products less frequently
Decrease in consumer power.	Some regular customers no longer come every week, but rarely, and they buy the products less often.
Customers are less likely to buy the product and they ask for lower prices of the products they buy.	Some elderly customers of an average income cannot afford the more expensive products, and often ask for a discount when having their hair done
Finance	They buy cheaper products in stores
There are less quality buyers, those who buy, buy less.	It takes more effort and energy to sell something
Customers are more sensitive to the price of the product	New customers are harder to persuade to buy the products because the price is considerably higher than, for example, the supermarket products
Agreeing on the price of the product	Customers sometimes ask me to give them the product (for free)
Customers want the same service as before for less money; it is harder to persuade most of them to purchase the product.	Customers are more sensitive to the product, with the increase in the price of the product, there have been situations where the quality of the product came into question
They ask for a lower price for services and products.	Customers are less interested in the products and I have to work harder to offer and present the products
Customers buy bigger packaging but they want a lower price	Regular customers buy the product but less than usual… for example, they buy one product in 6 months
Many of the regular customers buy products less frequently	I felt a change in the purchasing power of the customer
Some frequent customers no longer come every week, but rarely, and they buy the products less often.	It is more difficult to persuade the customers into buying the products, and when they do, it is even harder to sell them another product, they are sceptical
It is difficult to say, but there is a decrease in the purchasing power of some customers, who rarely visit a salon and accordingly, they buy the product less often.	Bargaining

Source: Created by the author based on the analysis of the survey

As can be seen from the table, changes in negotiations during the crisis are mainly related to product prices. Such a situation was expected, considering that the global financial crisis had a significant impact on consumer power. Furthermore, customers are purchasing the products less and less and often want lower prices for the same products, including additional discounts.

Graph 13. Have the examinees themselves changed negotiation tactics?

Source: Created by the author according to the results of the survey

Table 2. Changes in negotiation methods with the customers

CHANGES IN NEGOTIATION METHODS ON THE PART OF THE EXAMINESS	
More effort invested, investing in education more than ever before	I had to introduce new negotiation tactics with new customers who do not know what the products are. I had to tell them more about the product and use the product on their hair in order the convince them of its quality.
I have tried more	I had to adapt to the market, sometimes give a cheaper service, offer special offers when selling the products.
Discounts on quantity and deferment of payment	Giving more discounts on the services and discounts on the amount of goods they purchase.
I am more dedicated to the customer, I have been better educated about the product I sell	Customers have to learn about the product and they have to know that it is a professional product worth buying in the long run.
I need to try harder to sell the product to the customer	Sometimes I give a discount or a free product on the amount of the products purchased.
Greater customer flexibility	We promise every fifth service to be free of charge to all first-time customers, to keep them and eventually offer them products.
I try to establish a friendly relationship with the customers so they would come more often	I have to work harder on the product presentations, I always have to offer new products coming for sale.
More frequent product educations	I have to offer each customer a product that best suits their hair, I have to convince the customer it is a quality product worth purchasing no matter how high the price.
More education on the products and services, a friendlier relationship with the customers	I have to give a lot more discounts.
Adjusting instalment payment	Increasing the offer with cheaper products.

Table 2 - Continued

CHANGES IN NEGOTIATION METHODS ON THE PART OF THE EXAMINESS	
More relaxed to customers' wishes	Educations in Croatia and abroad every month to inform the customers better about the products.
Customising to customers' wishes	Offer new customers one free product for every two purchased.
I try to meet the customers halfway by offering them discounts on the amount of products purchased, free products	Those were not big changes, just adapting to the needs of the market.
Better product marketing	Go to education courses in the hair salon as well as all over Croatia about the product we are selling to present it better to our customers.
We have procured products of lesser quality but also of lower prices	

Source: Created by the author according to the results of the survey

According to the survey conducted, most of the examinees, 59% of them, have changed their negotiation tactics during the past crisis, which was a necessary step for progress and in some cases to remain in business. There market participants recognised the need for changes in business negotiation, which was their response to the impact of the last financial crisis of 2008. The most frequent changes in business negotiation tactics with customers are presented in table 2.

According to the results of the questionnaire, it can be seen that the changes in negotiating for the examinees mainly relate to the need to invest more effort in the presentation of the products they sell. Also, examinees have recognised the needs of the market and the situation, and are adapting to them with additional discounts, special offers and free products as rewards for their regular customers.

Table 3. Characteristics of a successful negotiator based on the opinions of the examinees

CHARACTERISTICS OF A SUCCESSFUL NEGOTIATOR	
Product information, negotiation skills	Professionalism, the power of persuasion
Self-confidence, customer relationship, trust	Must know everything about their business, must have knowledge about the products sold
Adapting to a new (crisis) situation	Knowing your own brand, knowing how to offer the customer what best fits their hair; a friendly but still professional approach
Realisation of customer relations, friendly demeanour towards customers, trust	Knowing the product, self-confidence, faith in the product
Persistence, calmness, product information	The negotiator has to put himself in the customer's place; in addition to the necessary hairdressing knowledge, he has to know everything about the product he is selling
A good product	A successful negotiator needs to further educate himself, constantly learn about new products, do research himself, ask clients for their opinions, ideas and recommendations; leave a sense of professionalism and achieve customer trust

Table 3 - Continued

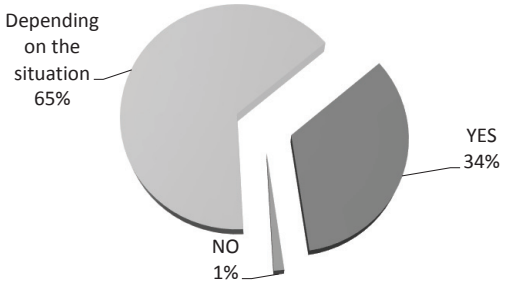
CHARACTERISTICS OF A SUCCESSFUL NEGOTIATOR	
Being informed about the customer's wishes, product information	Must not be annoying, he has to know what he is selling
Patience, customer awareness	Ability to persuade
Communication skills, being well-organised and well-informed	One who goes to education courses, who is current, one who is dedicated to his work and knows how to present to product
Power of persuasion	If you have a good product with a good price to sell, it is easy to negotiate
Experience	Informed and educated in his area
Communicative skills, good knowledge of customers' wishes; a friendly, but still professional relationship	Consults with colleagues, knows the value of the goods he is selling, knows how to sell the product, knows how to offer what the customer needs
Compassion, openness and sincerity	Competence, being well-informed, sales skills
Communicative skills, sales abilities	Self-confidence
Must know what the customer wants but also be willing to give up if the negotiation does not go in the desired direction set goals	Follow trends, knows about the product, is friendly

Source: Created by the author according to the results of the survey

Given the results above, it is to be expected that the examinees had a greater need for additional education during the crisis, in order to negotiate better with customers, as confirmed by 60% of the examinees. At the same time, 79% of the examinees claim they have had the opportunity to further educate themselves on negotiation skills with customers. Given the opportunity and additional education, 80% of the examinees believe they have improved their negotiation abilities, strengths and skills, and 97% of them consider themselves a successful negotiator when it comes to negotiating with buyers of professional hairdressing cosmetics. Furthermore, 60% of the examinees confirm that they select customers based on the success of the negotiations.

From table 3 it is noticeable that the examinees, when it comes to the characteristics of a successful negotiator, emphasise a good knowledge of the product, but also a good knowledge of the needs and wishes of the customers. It is also apparent that most examinees are familiar with the elements of the negotiating process, which means that they realise it is very important to understand the needs of the other party in the negotiating process, which is the needs of the customers. In addition, having a good knowledge about one's own products, investing in skills and knowledge, and following trends are key elements for a better realisation of the negotiation process.

Graph 14. Do the examinees think they come out of negotiations as winners?



Source: Created by the author based on the analysis of the survey

Most examinees claim that the success of their negotiations depends on the situation they are in (65%), while 34% of the examinees believe they come out of negotiations as winners. Only 1% of the examinees think they come out of negotiations as losers. Such result is to be expected considering that the sales of professional hair cosmetics is not the primary activity of the examinees / hairdressers and the sales of the products is carried out as a secondary service next to providing hairdressing services. Therefore, the examinees enter into sales negotiations only when they recognise an opportunity to make a sale.

4. CONCLUSION

The last financial crisis, which crossed the US mortgage market lines in 2008 and which spread very quickly worldwide, is the biggest economic crisis since WWII. The same crisis caused the collapse and prevented a sustainable growth of the economy, which suggests that there were great disruptions between the production, consumption, and exchange. However, it has left the greatest impact on the cash flow to the individual and their income(Mlikotić, 2011:83-84). Accordingly, domestic demand suddenly decreased, and not long after, unemployment increased on a large scale. The resulting consequences have caused many economies to undergo detailed changes and restrictive measures within the economic system. According to the above, it is logical to conclude that the decline in the total domestic demand has led to a decline in the use of hairdressing services, and a lesser demand for professional hair products, which in this crisis situation, are considered to be luxury products. This can be confirmed by analysing the above mentioned survey, where it is clear that the customers who visit hair salons ask for a lower, more affordable price for required services and products. As the crisis had a negative impact on almost all economic sectors, many in the hairdressing profession were forced to find ways to overcome this situation. The crisis prompted them to raise either their negotiation or sales skills to a much higher level.

As shown in the previous survey, it is concluded that most of the examinees, that is, those who provide hairdressing services and sell products, have noticed changes in the way customers negotiate, which forced them to change their own negotiation tactics. During the sales process of these products, both the customer and the seller enter a ne-

gotiation process in which they reach a certain co-dependence, which proves that each party has what the other one needs. On the one hand, the hairdresser offers a service and a product which will satisfy the customer's needs, while the customer owns money which brings the seller benefit and profit. It is inevitable that the last crisis made business more difficult and set new criteria for work, sales and market success.

As the survey shows, the vast majority of hairdressers were forced to refine and improve not only hairdressing but also sales skills. Attending business education in and outside the workplace, creating a more compact, stronger and a relationship of greater quality with their customers, adjusting prices to customers' abilities, setting a grace period on payments, introducing new more affordable prices for customers, customer availability, all these are methods used by hairdressing professionals to keep the services and products on the market. Many of them have succeeded in this intent, some have even risen above others, while a few have lost the battle. Therefore, as a conclusion, this entire research emphasises the importance to adapt to the market and its needs. As in all segments of life, it is clear that if you cannot adapt, you will not succeed. That does not mean that everybody should be equal when it comes to their offer, even more than ever, creativity is what ensures a better business in this case. Ultimately, an individual is not responsible for the emergence of global crises, or for their resolution, but contributes to their overall activity through their work.

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APPENDIX

Survey

1. Work experience in the hairdressing profession

   a) shorter than a year

   b) 1 to 5 years

   c) 5 to 10 years

   d) over 10 years

2. How often do You negotiate for the purpose of selling professional hairdressing equipment?

   a) at least once a month

   b) less than once a month

   c) at least once a week

   d) every work day

3. How You acquire negotiaton skills?

   a) I do not have necessary negotiation skills and knowledge

   b) workplace education

   c) education outside the workplace

   d) workplace and out of workplace education

4. Is it more important realized relationship or reached agreement for You?

   a) relationship

   b) reached agreement

   c) agreement and relationship are equally important to me

   d) it is all the same to me

5. How long do You prepare for negotiations with the customers?

   a) depending on the situation

   b) less than one hour

   c) a few hours

   d) I do not prepare at all

6. The difficulties encountered during negotiations

   a) agreeing on the price

   b) agreeing on the delivery

c) agreeing on the method and deadline of payment

d) something else.

7. How do You usually negotiate?

   a) teamwork

   b) individually.

8. Have You noticed a change in the method od negotiation during the crisis?

   a) YES

   b) NO

9. Have You changed the tactics of negotiation during the crisis?

   a) YES

   b) NO

10. Do You think that you come out of negotiations as a winner?

    a) YES

    b) NO

    c) depending on the stuation

DO WE NEED A RIDE OR WHERE DOES THE UBER CASE LEAD US?

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Abstract

Collaborative economy is the model in economy where the retail process of goods and services is enabled by the Internet platforms. One of the particularities of this model is that services are not provided only by the professionals but by individuals as well. Often the very definition of collaborative economy does not include the terms "trader", "professional" or "consumer" but "gig", "peer" or "provider" that may mislead from the essence of the relationship between the main actors. As collaborative economy is expanding rapidly, there is an increasing challenge for legislators who are not prepared for such a market model. This is the reason why numerous discussions about possible regulation in this area are raised. The emphasis will be on the analysis of legislative framework in the European Union and Republic of Croatia which regulates the market of collaborative economy and protection of its participants. The authors discuss the role of main actors in collaborative economy and analyze their mutual relationships. The analysis will be given on the Uber case and different service providers within transport services especially bearing in mind the last opinion of the Advocate General Szpunar in the case C-434/15 of the Court of the European Union.

Key words: collaborative economy, regulation, Uber case, transport service.

1. INTRODUCTION

Collaborative economy offers great benefits for providers of goods and services as for consumers. It efficiently uses limited resources and exploits existing goods that have so far been unused, which allow consumers to rent unused assets or resources and provide time-limited access to goods, skills and services from providers. Access to the market is simple and geographical reach and scope are increased. Many Internet platforms offer a type of self-regulation mechanisms through which consumers play an important role and decide on their own experience as they evaluate service providers. However, the fundamental question is whether this self-regulation mechanisms can be sufficient or is there a need for legislators to establish a legal framework to regulate the market. In order to answer this question, it is necessary to analyze current framework, especially related to collaborative economy. To determine the activities of the partici-

pants and to classify them in a particular market, there is a need to analyze their mutual relationship and roles. Since there is significant diversity among platform markets, it is necessary to assess their activity case-by-case. Finally, it is necessary to determine are the services of collaborative economy protected by the EU law for the freedom to provide information society services or under the national law of Member States (OECD Publishing, 2016).

2. THE EMERGENCE AND DEVELOPMENT OF COLLABORATIVE ECONOMY

The development of personal computers and mobile devices, with capabilities like geo-location and data sharing, enabled the expansion of new business models over the Internet. First forms of collaborative platforms were in trading goods (e.g. eBay, Craigslist), music and video (YouTube), knowledge (Wikipedia) and personal information (Facebook). They increased the geographical scope for consumers, lowered the barriers for providers to sell goods and services by giving them services as advertising and matching them with buyers, easy and convenient payment mechanisms and dispute resolution. Consumers were attracted by lower prices and wider selection, so they started to engage in transactions via Internet platforms with other individuals as a viable complement or alternative to traditional and online businesse, although sometimes the platforms facilitated short term rentals of assets (OECD Publishing, 2016). Today, platforms have emerged into newer types which allow consumers to rent unused assets and provide time-limited access to goods, skills and services from providers. These models of collaborative economy offer a wide range of services for consumers such as an option to rent a private car, rides and parking spaces, accommodation services, financial services, part-time jobs, meal services and many more. Although services such as renting, swapping, sharing, lending, exchanging and selling goods are traditional activities as old as civilisation, today's development of digital technology has enabled the abolition of barriers and borders and the expansion of the geographic area to operate within these activities (European Commission, 2017).

This business model offers great benefits for service providers who take advantage of unused assets and skills so that they can achieve basic or additional income under flexible conditions. Consumers are motivated by lower prices, wider selection, ease of use, personal experience and the idea of sustainable development and efficiency.

Platforms that connect consumers and service providers generate high revenues and control the participants with a rating and experience mechanisms. Such a rapid expansion and development of the collaborative economy has created preconditions for controlling this market, not just by companies owning the Internet platforms, but also by legal institutions and governments around the world to protect consumers in case of the detriment (OECD Publishing, 2016).

Table 1. Revenues and transaction values facilitated by collaborative economy platforms in Europe (€m, 2015)

Sector	Revenue 2015 (m)	Value 2015 (m)
P2P Accommodation	1,15	15,1
P2P Transportation	1,65	5,1
On-demand household services	0,45	1,95
On-demand professional services	0,1	0,75
Collaborative Finance	0,25	5,2
Total	3,6	28,1

Source: Deverio, R., Vaughan, R. (2016), *Assessing the size and presence of the collaborative economy in Europe*, PwC UK, [Available at: http://ec.europa.eu/DocsRoom/documents/16952/attachments/1/translations/en/renditions/native, Accessed: 28.08.2017.]

Table 1 highlights the value of transactions and revenues in 2015 facilitated in five key sectors of the collaborative economy in Europe. According to the research by PwC, the largest collaborative economy sector by revenue is the transportation sector, which includes ride-sharing, car sharing networks and driveway sharing models. However, the largest sector by total transaction value is the accommodation sector, which includes rental platforms and vacation rental platforms, as well as home swapping platforms. These data are not surprising, since the two largest and well known collaborative platforms, Uber and Airbnb are engaged in these sectors (Deverio and Vaughan, 2016).

2.1. Efficiency and sustainability

With the emergence of a collaborative economy it is visible that there is no longer an emphasis on consumerism and demonstration of power by buying more products, vehicles and assets than on savings, environmental concerns, pollution reduction and sustainable development. According to the scope of services provided in the collaborative economy, consumers are motivated by the simplicity and efficiency of that market. It is no longer necessary to own and use your vehicle every day, when we can efficiently travel through a collaborative economy model such as Uber, Spin city, BlaBlaCar or Nextbike (bicycle rental). All of these models achieve efficient use of resources, sustainable development and environmental care as there is less vehicles that pollute the environment when consumers share their transport. Similarly, models such as Spin City that mainly uses electric cars and the Nextbike, where instead of a car you cant rent a bicycle for a short-distance trip, which are a real example of efficiency and environmental concern (Rudenko, 2013).

2.2. Legal framework

Since collaborative economy is expanding rapidly, there is an issue of regulating this market and the existing legal frameworks are being challenged, so it is necessary to clearly define the extent to which the market for collaborative economy is regulated. In order to determine which legal frameworks affect a particular business, it is necessary to determine the nature of the business and mutual relationship between market

participants. The market of collaborative economy is not unique, it consists of several thousand different, decentralized markets. Each of them has certain differences in the way they business, in participants roles, mutual relationships, control and protection (OECD Publishing, 2016). The common feature of all the models in collaborative economy is the use of digital technologies, which is why we can classify them as a single digital market, but it is necessary to determine whether they belong to all the legal rights and freedoms pertaining to that market.

2.3. Mutual relationship and roles of the participants in collaborative economy

New opportunities for individuals in this modern business model put uncertainty into the standard relationships between consumers and providers, employees and self-employed, as well as professionals and non-professionals, so the collaborative economy challenges the application of existing legal frameworks (Horak et al., 2015). This may result in uncertainty over applicable rules, particularly when divergent regulatory approaches are adopted at national or local level, and the risk of regulatory gray zones being used to circumvent rules whose purpose is to preserve the public interest. In order to determine the legal framework for market regulation and protection of public interest and in particular for consumer protection, it is necessary to determine the roles and relations of market participants (Smorto, 2017).

Service providers may be professionals who have required qualifications for doing particular business activity, individuals or companies who are legally declared as traders and individuals who are not traders nor professionals. Professional provision of services is not regulated equally in all EU Member States, so the legislation at this level is not uniform but differs by sector at national level. According to EU legislation, the recognition of professional qualifications is regulated under the Directive 2005/36/EC in which professionals can o pursue a regulated profession in any Member State and the Directive 2013/55/EU which regulates the professions that include internships. It follows that Member States must accept professional qualifications acquired in another Member State. Member States will have to take into account the specifics of the model in question in order to create a legal framework for the purpose of protecting public interest, for example in terms of access, quality and safety (Dumančić, 2017).

The biggest challenge to regulate the market of collaborative economy is related to the massive provision of services by individuals who are not declared as professionals. Since there is no EU-wide regulatory framework for individuals who occasionally provide services, it is difficult to determine their legal obligations by participating in the market of collaborative economy. Since there is no fixed criteria to determine individuals from professionals, European Commission suggests some circumstances that may point into one direction or the opposite. For example, frequency of the services and level of turnover may all be considered as significant proxies for regarding the service provider as professional or individual. Accordingly, Member States are required to reassess the proportionality of restrictions for private individuals providing services on occasional basis, pointing towards a less restrictive legal discipline. While a lighter regime

for individuals is strongly desirable, at the same time there is an urgent need to simplify procedures and formalities for professionals (Smorto, 2017).

Collaboration platforms are mostly the companies that enable, organize and mediate interactions between service providers and consumers. Their role is most important in creating a collaborative marketplace. Their functions are also to provide customer support, such as search tools, connectivity, advertising, data analysis, evaluation and satisfaction mechanisms, and building trust (OECD Publishing, 2016). The European Commission defines the Internet platforms as an open market for the temporary use of goods and services. Similarly, most platforms state, in their terms of use, that they are as a „virtual marketplace" that connects users. For the legal framework, this description is of utmost importance because it can easily lead to the conclusion that only individuals are subject to legal obligations applicable to service providers and that they are directly responsible for secure and reliable services. It excludes the fact that the platform is part of the transaction and responsible in case of a consumer detriment. While in some cases this statement is true, the platform is only matching supply and demand, in most cases its role is much greater. That is precisely why responsibility can not be solely on service providers (European Commission, 2017).

In case the platform strictly monitors transactions, terms of service provision, property ownership or decide prices, its involvement and legal liability for consumer detriment may not be denied. Accordingly, some platforms may be considered as a virtual marketplace, some of them are employing workers and possessing assets so they may be considered as a service providers, while many others are considered as a firm-market-hybrids. In order to establish the legal responsibility of the platform and regulate their business, it is necessary to assess case-by-case, their involvement in the collaborative economy market (Dumančić, 2017).

3. DIGITAL SERVICES

Digital society has four specific features: the irrelevance of geographical location, the key role played by platforms, the importance of connectivity and the use of big data (Charrié and Janin, 2015). These features differentiate the digital market from the traditional, especially as a result of the transformation of the associated value chain (Valenduc and Vendramin, 2016). The importance of digital markets and information society services is undeniable nowadays since technology has advanced so that information and network technologies are no longer a separate sector but are the foundation of all modern economic sectors. It is the reason that the European Commission has published a Digital Single Market Strategy. The goal of the Digital Single Market Strategy is to create free movement of persons, services and capital and where the individuals and businesses can seamlessly access and exercise online activities under conditions of fair competition, and a high level of consumer and personal data protection, irrespective of their nationality or place of residence (European Commission, 2015).

Information Society service are defined in Article 1(2) of Directive 98/34/EC which provides: Information Society service is any service normally provided for remu-

neration, at a distance, by electronic means and at the individual request of a recipient of services. At a distance means that the service is provided without the participants being simultaneously present at the location. By electronic means that the service is sent initially and received at its destination by means of using electronic equipment for the processing and storage of data, and entirely transmitted, conveyed and received by wire, radio, optical means or by other electromagnetic means. At the individual request of a recipient of services means that the service is provided through the transmission of data on individual request (Opinion of the AG Szpunar in case C-434/15, 2017).

According to Directive 2000/31/EC on certain legal aspects of information society services in the internal market of EU, in particular e-commerce, any national measure on market access requirements should not be discriminatory. The equality of treatment not only prohibits open discrimination because of the nationality or the company seat, but also all the secret forms of discrimination which, by applying other differentiation criteria, give the same result. In addition, all measures that prohibit, impede or render the freedom of establishment are to be regarded as restrictions within the meaning of Article 49 of the Treaty on the Functioning of the European Union (Horak *et al.*, 2015).

The restriction on services is only permitted if it is equally applicable to nationals and foreign, justified by some legitimate aim of public interest and proportionate to that aim. The appropriateness, necessity, indispensability and proportionality of the measure, together with the priority for less restrictive measures, are elements that need to be considered in order to assess whether a national decision is justified restriction. In other words, Member States, in accordance with their domestic needs, remain free to determine the requirements of public policy and public security as grounds for deviating from the fundamental freedom, but must ensure that market access requirements are justified by the legitimate aim, necessary and proportionate scope of the operation, with clear, transparent and unduly complicated or expensive administrative procedures and formalities. Such requirements must be strictly interpreted so that their scope can not be determined unilaterally without any control by the institutions of the European Community. This conclusion implies that, under the existing EU law, service providers may be subject to market access requirements if such requirements are justified and proportionate, and such an assessment should take into account the specifics of the business model and innovative services rather than favoring one business model over the other (Smorto, 2017).

The main question is whether the collaborative economy is part of the information society services and, if so, whether such activities are protected under EU law to provide services freely or under the national law of a specific sector of the Member State in which they operate. For the decision on this issue, it is necessary to analyze the activity of the platform and the connection of the electronic and non-electronic elements of their business. In the case of composite services, services involving electronic and non-electronic elements, it can be considered that the service is entirely provided by electronic means when the supply which is not provided by electronic means is economically independent of the service provided by such means. This is particularly the case when the intermediary service provider facilitates commercial relations between users and independent service providers. An example of this case may be the platforms

for airline tickets or hotel reservation. In those cases, the intermediary service has real value added for the consumer and trader, but remains economically independent as the trader independently pursues out his business activity (Szpunar, 2017).

By contrast, when a provider of services provided by electronic means is also a service provider of the service not supplied with such means or when it affects the terms of the service so that both services make up an inseparable whole, it is necessary to establish the main component which gives it meaning in economic terms. In order for a service to qualify as an information society service, the main element must be performed by electronic means. For example, in the online sale of goods, the main elements of the transaction, making the offer and its acceptance by the customer, the conclusion of the contract and the payment, are carried out by electronic means and are covered by the definition of information society service. Delivery of purchased goods is only a fulfillment of the contractual obligation so that the provision on such delivery should not affect the provision of the principal service. In the case of composite services, consisting of an electronic and non-electronic element, the first element should be economically independent in relation to the other in order to be considered a information society service (Szpunar, 2017).

According to the European Union's legislation, platforms are exempted from liability for the information they are storing under certain circumstances. The applicability of this exemption will depend on legal and factual circumstances, and according to the Art. 14 of the EU E-Commerce Directive, platforms will be exempt from liability when providing hosting services. Hosting services are services whose activities are passive, technical and automatic, which implies that the information society service provider has neither knowledge of nor control over the information which is transmitted or stored. The Commission, at the same time, encourages responsible behavior and voluntary action by all types of online platforms, for example to help tackle the important issue of fake or misleading reviews. Such voluntary measures are taken to strengthen trust and to offer a more competitive services (European Commission, 2016).

4. UBER CASE

Uber is a technology platform. Their application is made for smart-phones and it works as an intermediarie between partner-drivers and users. According to the information available at the official web page Uber is spread in more than 600 cities all over the world. The prerequisite for the usage of Uber is to register at the platform. After the registration, user is able to order a taxi on a location-service basis and the nearest partner-driver should accept a ride and come to the exact location. The user application also displays information on partenr-driver, including the name, car brand and the number of registration table. Users and partner-drivers are able to communicate via text message or a phone call using provided phone numbers. The payment is due when a user is brought to a desired location. The method of payment should be stated in advance and it can not be changed during the ride. After the ride is over, both users and pertner-drivers are given the option to rate each other from one to five stars. The feedback system is created with one goal only, to create a community characterized by respect and responsibility

Uber has implemented strict rules when it comes to their rights and responsibilities toward partner-drivers based on the contractual agreement (more info about the Uber is available at: https://www.uber.com/legal/terms/hr/) that regulates terms of use, collection and use of personal dana. Uber concern itself as a service provider. Its service include a technology platform, an Uber smart-phone application, that serves as an intermediary that connects the users with independend Third parties, i.e. partner-drivers and enables them to plan and arrange a transport or logistic services. Unless stated othervise in the contractual agreement, Uber services are only available for personal, non-commercial use. It is explicitly stated in the contract agreement that Uber Technologies Inc. does not provide transport or logistic services and does not serve as any transport provider and that all services of transport or logistics are provided by an independend Third party who is not employed in Uber or its subsidiaries.

Regarding the payment for the service provided all fees are charged immediately and payments are simplified by Uber. Uber uses a method that a user chose in his or hers account, after which user receives a recepit by an e-mail.

Uber disclaims all warranties, those that are expressed, including those that are implied or that are under the rule of a law but are not strictly stated in the present terms and conditions. Disclaimer includes a warranties of merchantibility and the immovable provisions of any warranties of merchantibility, fitted for a particular purpose. Further more, Uber does not provide statements or warranties of reliability, quality, availability and in-time delivery of a service provided by a Third party. Users agree to bare the overall risk in a time of occurance, as long as it is within the law framework.

The Uber Technologies Inc. is not liable for indirect, incidental, special, exemplary, punitive or consequential damages, including lost profits, loss of data, personal injury or property damage relating to, in connection with or otherwise result of any use of the service, even if the Uber is warned about the possibility of such damages. Uber is not responsible for damage or losses arising from (i) user's taking or relying on a service or user's innability to use a service or (ii) any kind of transaction or relationship between a user and Third party, even if the Uber is warned about the possibility of such damages.

Users agree to indemnify and consider Uber and its officers, directors, employees and agents free of any claim, losses, accountability and costs (including attorney's fees) rosen from or in a connection with:

(i) user's use of srvice or services and goods derived from the use of Service,

(ii) user's violation of any Terms,

(iii) Uber's use of user's personal data,

(iv) user's violation of any Third party's right, including Third party.

Looking back at strict terms and conditions implies on Uber's policy of dissociating themselves off of any kind of responsibility when it comes to damages and losses made to users or Third parties. They consider their company to be purely technological, more preciesly Uber is a self-proclaimed technology platform which should probably be changed in the near future, if user's and Third parties are about to get protection from their side.

4.1. Legal uncertanties related to Uber

Uber is one of the most recognized services within the framework of collaborative economy. Main goals of their business are promotion, market research and public opinion polling. They also work on a promotion of foreign companies. Self proclaimed technology platform was established by Netherlands' enterprise; Uber International Holding BV. It became a synonym for technological innovation related to autotaxi transportation. What makes it even more popular is the fact that it promotes the collaborative economy. Uber operates in more than 160 cities all over the globe and it is very popular, especially among younger generations. Despite its huge popularity among users, other taxi-service providers were not that welcoming toward the new market competitor. In almost every country in which it operates, Uber had legal issues and other, traditional, taxi companies publicly protested against it (Paris, Torino, Milan, Genova, Napoli, London, Hong Kong, Johannesburg, Sao Paolo, Rio de Jaineiro, Zagreb…). The legal uncertanties of whether an Uber is only technology platform or auto taxi service European Court of Justice and regulatory bodies are keen on making this decision as soon as possible. The main problem is that Uber is considered to be an unfair competition, as in many countries, service was provided by an individual carrier, an Uber-partner, who was not required to posses any licences nor a permission that is legally required from traditional taxi service providers. When providers are not required to posses any licences it decrease their barriers to entry the market and enables them to set lower prices for customers. It is clear that Uber affected and it still does, the market segment in which it operates in high proportions. They became serious competition to traditional taxi-service providers who are not able to set low prices due to all conditions they have to satisfy in order to enter the market. This is the reason why, most of the EU Member States' national regulatory bodies prohibited Uber from cooperating with individual taxi drivers who do not have licences. Uber still provides its services of negotitation and realization of auto taxi transportation that is performed by licenced Uber-partners (service known as UberPop).

Regarding all issues that competitors in this market segment have with Uber and the way in which it operates it is not strange that Uber is currently facing several lawsuites in various contires. The two of them are still pending at the European Court of Justice (further in text: ECJ). These are: Case C-526/15 Uber Belgium BVA v Taxi Radio Bruxellois NV (ECLI:EU:C:2016:830) and C-434/15 Associacion Profesional Elite Taxi v Uber Systems Spain SL (ECLI:EU:C:2017:364).

4.2. Case C-434/15 Asociacion Profesional Elite Taxi v Uber Systems Spain, SL

In 2014 the Asociacion Profesional Elite Taxi which is a professional organization that represents taxi drivers in the city of Barcelona, Spain, brought an action before national court of the first instance (Juzgado de lo Mercantil n° 3 de Barcelona in front of the Commercial Court No 3) asking the court to impose penalties on the Spanish company Uber Systems Spain SL. This is the company that belongs to a group managing the Uber platform. Pentalties were aimed against the unfair competition toward Elite

Taxi's drivers. Elite Taxi maintained that Uber Spain is not entitled to provide UberPop, non-professional service in the city of Barcelona. Neither Uber Spain nor the owners or drivers of the vheicles concerned have the licence and authorisations required under the city of Barcelona's regulations on taxi services.

The questions reffered to the ECJ were:

- Given that the Article 2 (2) (d) of Directive 2006/123/EC (1) of the European Parliament and of the Council of 12 December 2006 on services in the internal market states that within the scope of mentioned Directive, transport services are exluded, there arises the question of whether the intermediary activity between vheicle owner and customer in one city, that the defendant performs by controlling IT tools which allow them to be connected („Smartphones and Technology Platform") for a fee can be considered as purely service-specific information society – in accordance with the definitions in Article 1 (2) of Directive 98/34/EC (2) of the European Parliament and of the Council of 22 June 1998 on the establishment of procedures for the provision of information in the field of technical standards and regulations as well as rules relating to information society services.
- Further on, what needed to be discussed was determination of the legal nature of the activity in question. Whether the activity can be regulated as a partial service of information society and in this case whether electronic intermediary services should be protected by the principle of Freedom to provide services under the conditions guaranteed under Community law – Article 56 of the UFEU and directives 2006/123/ EC and 2000/31/ EC. Commercial Court No 3, Barcelona, Spain, set two additional and conditional questions to European Court.
- Third question relates to the situation in which a service that is provided by UBER SYSTEMS SPAIN S.L. is not a transport service and thus is covered by the Directive 2006/123, whether the content of Article 15 of the Unfair Competition Law that is related to the ifringement of the competition rules, is contrary to Directive 2006/123 and more specifically to Article 9 which refers to the Freedom of establishment and the system of authorization. Given the fact that the Article 9 refers to national law and other regulations not taking into account that the system of obtaining licences, authorizations or permits can not be in any way limiting or disproportional. Thus, it should not unreasonably set limitationsto the principle of the Freedom of establishment.
- Forth question was also set conditionaly and it should be answered only if Directive 2006/123/EC is applicable to the service provided by Uber System Spain S.L. The exact question is whether certain limitations on Free provision of services via electronically from one Member State to another. Meaning that, in order for those service to be provided, authorisations and licences are required or if providing the service is prohibited on the basis of national rules on unfair competition. The measures taken by way of an exception to Article 3 (2) in accordance with Article 3 (4) of Directive 2000/31/EC.

The ECJ will undeniably have a great impact on determining the nature and definition of service that is provided by Uber and the way in which this kind of services should be regulated in the future. Decisions made by the ECJ on the previously asked questions will be of a great importance when it comes to the way in which legal arrangements will be made as well as the providing autotaxi services in the EU Member States.

In order to decide whether an Uber is solely a technology platform or a transport company it is needed to represent two different relationships. For the purpose of the analysis authors analyze the service provisions of Uber in Croatia:

a) **Relationship between Uber and transport service users**

To be able to understand any legal relationship it is important to analyse contractual terms; rigts and obligations of each party. Relationship between Uber and transport service user starts when a user downloads Uber application on a „smartphone", accepting terms and conditions set by Uber. In this case, Uber serves as an intermediray that connects users with potentional transport service providers, referred to as Third parties, nothing more than that. It is explicitly stated in the agreement that Uber Technologies Inc. does not provide transport or logistic services and does not serve as any transport provider and that all services of transport or logistics are provided by an independend Third party who is not employed in Uber or its subsidiaries. It is also important to state that, in the context of doing business at the territory of Republic of Croatia, potential user uses services from the party that does not belong to the Uber Croatia d.o.o. but Uber BV Netherdlands. Uber Croatia d.o.o is simply a representative of Uber BV Netherlands (Section 1. Contractual agreement and section 2. Services, Terms and Conditions of Uber BV, more at https://www.uber.com/en-PH/LEGAL/TERMS/HR/).

b) **Relationship between Uber and carrier of a vheicle (carrier-merchant or carrier employee)**

One of the advantages provided by an Uber to a Third party is certainly an ease of payment for transport service. Payment is due when a ride with Uber is over, when Third party drives customer to desired point. The Uber itself, states that it serves only as „ limited agent for payment to a Third party". In this way, payment of a fee is considered to be paid directly to a Third party. All fees are charged immediately and payments are simplified by Uber. Uber uses a method that a user chose in his or hers account, after which user receives a recepit by an e-mail (Section 4. Payment, Terms and Conditions of Uber BV, more at https://www.uber.com/en-PH/LEGAL/TERMS/HR/). Mentioned receipt is not given by an Uber but a Third party who carried a drive (User pays for a service directly to Uber BV Netherlands. The amount is decreased by 25%, which is the amount of provision for Uber in Republic of Croatia and the rest of a payment is paid to the account of a Third party in Republic of Croatia).

4.3. Advocate General's opinion in Case C-434/15

On May 11, 2017 the Advocate General Maciej Szpunar gave his opinion in the Case C-434/15. He explained that the most important question that should be answered in order to bring a valuable and legally correct decision is whether an Uber provides an information society services (in that case the Directive 98/34/EC of the European Parliament and of the Council of 22nd June 1998 laying down a procedure for the provision of information in the field of technical standards and regulations and rules on Information Society services, as amended by Directive 98/48/EC of the European Parliament and of the Council of 20th July 1998 it was replaced by Directive (EU) 2015/1535 of the European Parliament and of the Council of 9th September 2015 laying down a procedure for a provision of information in the field of technical regulations and of rules on Information Society services applys) which falls under the principle of the freedom to provide services or if it is a transport service (regulated by the Directive 2016/123EC of the European Parliament and of the Council of 12th December 2006 on services in the internal market) that is regulated by the national law.

In any case, certain legal uncertainties may occur. In the one hand, if the ECJ decides that Uber is an Information Society service provider, Barcelona's license and authorization requirements may contradict to the principle to provide services, while on the other hand, if ECJ decides that Uber is a transport service provider, each Member State would be free in regulating Uber's activity.

According to the definition that is set out in Article 1(2) of Directive 98/34 to which an Article 2(a) of Directive 2000/31/EC of the European Parliament and of the Council of 8th June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce) is that the „service" is any Information Society service, that is to say, any service normally provided for remuneration, at distance, by electronic means and at the individual request of the recipient of services.

Or, in other case, as a transport service or service in the field of transport for the purposes of Article 58(1) the Treaty on funcitoning of the European Union (further: TFEU) and Article 2(2)(d) of Directive 2006/123/EC „this Directive shall not apply to the following activities: (d) services in the field of transport. Including port services, falling within the scope of Title V of the Treaty".

As Uber makes it possible to locate a driver via smartphone application and serves as an intermediary between a driver who supplies urban service and consumer who demands it, it can be seen as a composite service. Composite service is a service whereas one part of it is provided by alectronic means, and the other one, by definition, is not. AG examined the Uber's activity in the light of the considerations related to the composite service to be able to bring the clear proposition in front of the Court. First question asked was about the nature of Uber's service. Can it be seen as a whole comprising, firstly, of a supply where consumers and providers are connected to each other via electronic platform and secondly, of a supply of transport in the strict sense, or these two supplies must be regarded as two separate services.

As AG state, Uber is certainly not a ride-sharing platform since ride sharing involves sharing a common journey, determined by the driver and not the passenger, in return for at the most, for the driver, reimbursement of part of the travel costs. In that situation contact between drivers and potential passengers is facilitated by online applications. It is therefore a sort of 'hitchhiking 2.0' and in any case, it is not a gainful activity. As drivers are compensated by consumers in the amount greater than the cost, thus, based on what was written before, they work for remuneration just as providers of a traditional transport service do. It does not simply match supply with demand, rather, it created the supply, set Terms and Conditions for doing business and the maximum level of price which is calculated based on the distance and duration of the trip and adjusted to the intensity of a demand. One of the rules of doing business by a Third Party is to own a vheicle and as well for a vheicle to satisfy certain conditions set by Uber which depend on a country and the city in which business is going on. Applications contains a raiting function as well and is able, if the raitings of a consumer or a provider are devastating, to exclude them from the platform. It is obvious that the level of contol that Uber has over this part of a service is high. General Advocate, so far, concluded that Uber's activity comprises a single supply of transport vheicle located and booked via electronic platform, and from economic point of view, the service is provided by Uber or on its behalf. He stated that it is wrong to compare Uber to intermediation platforms such as those used to make hotel bookings and flights. As in those cases, hotels and airline companies exist and operate independently of intermediary platforms and are making their own Terms and Conditions under which they operate (The fact that some platforms conclude rate parity agreements with hotels, under which hotels agree to refrain rom offering rates elsewhere which are lower than those offered on the platform in question, is immaterial. These agreements do not involve the setting of prices for the services by the platform.)

Further more, according to AG, Uber should not be refered to as an Information Society service as it does not operate independently from the transport service and transport services are not provided via electronic means. If Uber is to fall within the Article 2(a) of Directive 2000/31, it would mean that it serves as an intermediary that connects supply and demand, via mobile application, while all Terms and Conditions of performing transport service are set by the exact service provider. But, as it is stated before, Uber exercise high contol.

To conclude AG proposal to the Commercial Court No 3 of Barcelona Spain for a preliminary ruling is as follows:

(1) 'Article 2(a) of Directive 2000/31/EC of the European Parliament and of the Council
of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce'), read in conjuction with Article 1(2) of Directive 98/34/EC of the European Parliament and of the Council of 22 June 1998 laying down a procedure for the provision of information in the field of technical standards and regulations and of rules on Information Society services, as amended by Directive 98/48/EC of the European Parliament and of the Council of 20 July

1998, must be interpreted as meaning that a service that connects, by means of mobile telephone software, potential passengers with drivers offering individual urban transport on demand, where the provider of the service exerts control over the key conditions governing the supply of transport made within that context, in particular the price, does not constitute an information society service within the meaning of those provisions.'

(2) 'Article 58(1) TFEU and Article 2(2)(d) of Directive 2006/123/EC of the European

Parliament and of the Council of 12 December 2006 on services in the internal market must be interpreted as meaning that the service described in the preceding point constitutes a transport service for the purpose of those provisions.'

5. LEGISLATIVE FRAMEWORK IN THE REPUBLIC OF CROATIA

In the past few years, the emergence and development of the collaborative economy has occurred in Croatia. The world's largest Internet platforms, Uber and Airbnb, as well as the European BlaBlaCar, have entered the market. In addition to the now well-known platforms, domestic companies such as Nextbike (bicycle rental), Spin city (short-term car rentals) and many others started their business. As in many other European countries, the concern about unfair competition was raised. The biggest controversy in the public was caused by Uber, whose business model needs to be analyzed.

In Croatia, Uber operates as a company that rents a vehicle together with a driver, while drivers are employees of another company or self-employed individuals who have a partnership agreement with Uber. Such a form of activity is described in Article 60 of the Road Transport Act, which renders Taxi Services regulations not applicable to their business activity. Also, Uber states that it has only the intermediary role in connecting its partner-drivers with consumers, rather than performing taxi services. That is precisely the reason why the Croatian Chamber of Trades and Crafts (HOK) filed a lawsuit against Uber, they state that Uber provides taxi services without fulfilling regulatory requirements and adequate licenses (Vranković, 2017). The Ministry of the Sea, Transport and Infrastructure shared the opinion of the Chamber (Raknić, 2017).

Besides the lawsuit, some taxi drivers in Croatia protested against Uber by closing the road and offering free rides, because they consider Uber as unfair competition (Hina, 2017). Under the Article 56 of the Road Transport Act to provide taxi services in Croatia, there is an obligation to obtain a permit from the local authority by fulfilling this requirements:

- The Driver has a valid licence to provide taxi service,
- The Driver has passed the exam on cultural, economic, tourist, traffic and other significant facilities and sights in the according to Article 59 of this Act
- Taximeter is mandatory in vehicle, with a visible cost of transport which must be in accordance with the valid tariff set by the local authority.

The question remains, how will the court rule in the case against Uber. Should the court classify that Uber provides taxi services, Uber and its drivers will be a subject to mentioned regulatory measures and financial penalties for non-compliance (Mikolič *et al.*, 2017).

According to the Labour Act, a worker is a natural person who performs certain tasks for the employer. An employer is a natural or legal person who employs a worker and for whom a worker performs certain tasks. Article 10(2) of the Labour Act states: "Where an assignment contract with the worker concluded by the employer has the features of employment, due to the nature and type of work and the employer's authority, it shall be deemed that the employment contract has been concluded with the worker, unless the employer proves otherwise." The Croatian courts have not recognized the services of collaborative economy as a working relationship, but platforms are cautious on that matter. For example, Uber insists that its drivers are partners rather than employees, since it contracts only with companies employing drivers or self-employed drivers. Regardless of whether Uber is contracting with a self-employed individuals or an entrepreneur employing a driver, such a scheme could be a violation of above mentioned Article 10 of the Labour Act if the courts decide (Mikolič *et al.*, 2017).

There are still no special tax rules for collaborative business models in Croatia. However, tax authorities have published several guidelines regarding the tax treatment of the said market model (Mikolič *et al.*, 2017).

6. EXPECTATIONS AND FUTURE MARKET DEVELOPMENT

Many collaborative platforms have set up self-regulating mechanisms to reduce consumer detriment and build trust. Those mechanisms include reputation and rating system, guarantees and insurance, verification and pre-screening, payment protection and dispute resolution. Many of the mentioned regulations are accepted by the consumers, but legislators need much more evidence and analysis to ascertain effectiveness of these mechanisms. There are also reasons to doubt the objectivity and accuracy of some of the mechanisms, such as review and rating systems, which mostly present positive experiences (Byers *et al.*, 2015). It may also invite discrimination based on a negative review or personal data on nationality, gender, age, and race, or even blackmail with a corresponding loss of acquired social capital. In addition, it is visible that the regulatory mechanisms contribute to the protection of consumers and they rely on it, but there are also negative aspects of the mentioned mechanisms. This also shows the shift of the collaborative platforms in relation to traditional business models which rely on existing legal frameworks. All in all, it is necessary to further investigate and prove the full impact of self-regulation mechanisms in relation to the various consumer protection measures, their implementation in practice, their efficacy in preventing or addressing consumer detriment, as well as their effect on consumers choices and behaviour (Deloitte Access Economics, 2015).

The issue of legal framework that regulates the collaborative economy market, which regulatory methods should be used and how to implement them, is what creates

legal controversies with this business model. Thus, for example, the Uber and Airbnb platforms have been given the highest resistance because there is an opinion that they are not obligated to comply with existing rules that established industry participants have to fulfill, which gives them a significant advantage. The interest of legislators in encouraging innovation and investment in this modern business models is an important factor in creating legislative for collaborative economy market regulation, though the underlying objective of ensuring consumer protection should be a constant (OECD Publishing, 2016). EU legislation protects consumers in business relationships with traders, but who is actually a trader in a collaborative economy is difficult to determine. Efforts to determine the role of the trader are the frequency of the services and level of turnover, which makes it easier to classify the role of the service providers as well as their liability for consumer detriment (Dumančić, 2017).

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USE OF SOCIAL MEDIA INFLUENCERS IN TOURISM

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Abstract

Tourism industry has found an incredibly fertile soil for reaching potential customers with the rise of social media. With people's natural tendencies to share about their lives – and especially about their travels, social networks have become one of the strongest weapons for travel agencies, hotels or airlines to use to reach an overwhelming number of audiences ready to intake travel content directly from their personal profiles. As social media grew, the phenomenon of social media influencers brought in even more unexplored potential. The main purpose of this paper is to explore the ways social media influencers can be used in tourism for the highest benefits. It will focus on a research about the attitudes and opinions on social media and influencers in tourism in Bosnia and Herzegovina. Data were collected through a field survey and were analyzed using descriptive statistics. The sample consisted of 151 respondents. The research has shown a great potential of using social media influencers in travel marketing to B&H audience, especially millennials, whose high presence on social media and following of influencers on various social networks are in line with world standards and trends in that area.

Key words: social media influencers, social media, Bosnia and Herzegovina, tourism

1. INTRODUCTION

As a service-based industry, tourism industry has always had to overcome in different ways its main characteristic of intangibility. This inability to evaluate trips, vacations, flights or hotel stays in advance was one of the key reasons behind the fast development of the relationship between social media and tourism. Planning and organizing trips and vacations always required extensive research for available information and reliance on suggestions and promises presented mostly through one sided traditional media such as television, radio or newspaper advertising. With the emergence of digital marketing and social media opening up and connecting the world, allowing free flow of information among regular people, the manner in which tourism industry operated had to evidently change (Peštek and Čičić, 2010).

With people's natural tendencies to share about their lives – and especially about their travels, social networks have become one of the strongest weapons for travel agencies, hotels or airlines to use to reach an overwhelming number of audiences ready to intake travel content directly from their personal profiles. As social media grew, the phenomenon of social media influencers brought in even more unexplored potential. The power of regular people who started growing their following and started generating great influence and trust among it, soon became a strong source of capacity that could reach the targeted audience in a very credible and effective way.

This paper aims to explore the ways social media influencers can be used in tourism for the highest benefits. The process of successfully implementing influencers into marketing activities of tourism industry will carefully be examined, with advantages and disadvantages analyzed closely.

2. SOCIAL MEDIA AND TOURISM

The power of providing and controlling the information has switched from organizations to the users and a new type of tourism culture emerged – combination of physical travel, information and communication technology. Social networks worked as the perfect platform to share about personal experiences often accompanied by photo and video evidences which gave the sense of authenticity and credibility and made this style of user-generated content rather quickly embraced. Combining this new way of information circulation with the low cost of social media and its global reach, marketers started using those benefits for their own gain by integrating social media into their marketing strategies and stimulating the conversations between potential customers by themselves.

Social media today serves as a keystone tool for promotion of tourism and its important role in information search and informed decision making behavior stems from industry's heavy reliance on reputation, consumer opinion and positive word. Social networks such as Facebook, Instagram or Twitter work on principles of immediacy, where statuses, photos and videos are being shared in matter of seconds. Content created on a trip or vacation gets easily posted for everyone to see and generating buzz around it can have strong impact on people who see it. A lot of strength of that impact comes from informality of those posts and their more private and relaxed approach. Finding this type of content on social network feeds plays key role in the awareness stage of customer life cycle and ignites the desire in potential consumers for seeking out more about what they saw. The rise of social media connected through technical foundation of Web 2.0 tied with the customer-interactive nature of tourism industry followed to the expectation that tourism providers utilize the opportunities offered by social media (Alizadeh and Isa, 2015).

In their 2008 study, Miguéns, Baggio and Costa, did a case research specifically about Trip Advisor, which at that time was already a strong travel portal. Almost 10 years ago, their conclusions accurately predicted that tourism related topics will be of central importance for travel planning and that the changes it brings will lead to a new

way of competition and will favor the development of new business models for both hotels and destinations (Miguéns et al., 2008). Recent studies have found that 97% of millennials share photos and videos of their travels online and that 52% of them have been inspired by their friends' holiday photos posted on Facebook and Instagram (Carnoy, 2017). The same percentage of respondents also reported that they have changed their travel plans after researching their trip on social media (Bennett, 2012).

While the possibilities of using social media in tourism are plenty, the great question that comes within such relationship is measure of how successful the relationship really is. Whether the true and final goal has been achieved and whether social media has been utilized in the proper way may be deceiving. In some cases the attention that social media posts and reviews get online may be substantial but does not lead to actions expected to be made by seemingly interested customers. The marketers have to recognize this pattern early on in order not to waste the potential of such popular posts and make sure to properly strategize the use of social media networks which will actually boost the number of visits and turn into a success.

2.1. A social media influencer

With the growth of digital world, the relationships and connections people have the natural need for have progressed and extended beyond the physical contact. In this new environment where the web allowed the freedom for ordinary people to post about things they want, some of those ordinary people stuck out with their original, interesting content and started gaining attention and over time influence on people who followed their content.

A social media influencer can be defined as a user of social media who accumulated great following and established credibility and whose high reach and authenticity can lead to impact and persuasion in interaction with their following (De Veirman *et al*., 2017). The influence they have is earned through time and engagement in the relationship between the influencer and their followers. It is developed through a two-way communication that an influencer genuinely provides to people who are interested in what they post on their social media profiles.

Following how fast the technology and with it the social media developed, the concept of social media influencer grew substantially in the past 10 years. The early types have appeared with blogs, online diary platforms, where focus was more on elaborate written posts and communication came from counting traffic on the websites and comments left on below the posts. The appearance of so-called "instant" social networks like Facebook, Twitter and Instagram, as well as the invention of smartphones, opened up a whole new array of possibilities where sharing photos, videos could now be done in real time as the events were happening. These extension helped people to express themselves in their own way and with the global scope of social media, some of them have achieved reach beyond they could ever have imagined.

A social media influencer is seen in the eyes of their followers as someone approachable, natural and real. The informal tone of their content and friendly tone of

communication on their profiles makes them feel close and authentic and that makes it a massive source of their appeal.

Social media influencers have had great impact on how influencer marketing is being done today. The attraction and interest that popular social media profiles can achieve were very quickly recognized by marketers as a channel for reaching their target markets in a more genuine way. They are considered as a progression of much more distant celebrity endorsements, where celebrities' image and public appeal were just attached to a brand or a campaign. Social media influencers, on the other hand, provide a much closer and intimate approach to marketing. Their main characteristic is the fact that their content comes exclusively from them and that a lot of it comes from their own personality. Many followers consider influencers as friends, people who they truly know since they share so much of their real life with them. Such relationship can lead not only to positive reactions of potential customers among the followers of social media influencers, but a much faster move to those followers actually taking action.

One of the key parts behind the success of social media influencers comes from the approach that they have with their followers. While providing interesting and attention worthy content on one side for people to see, an influencer has to have a proper commitment and involvement with people they are providing the content for in order to earn their following. An uninterested or disregarding influencer can make a severe damage to the effects of their influence by not reaching to and respecting their audiences. The Altimeter report on the rise of digital influence identifies three pillars of influence (Solis and Webber, 2012): reach, relevance and resonance.

Reach is the starting pillar that deals with how far influencers' information travels across the communities at large and it is the measure of popularity, affinity and potential impact that content can have. At this point the state of how well liked, familiar and appreciated the influencer is plays the most important part of influence.

Relevance is the glue of the interest and the communities in focus of the content. In this pillar, the main points of influence are authority or respect gained from expertise and specialty or uniqueness, trust as the source of meaningful relationships and belief in reliability and truthfulness of an influencer and affinity or natural liking and sympathy for someone.

The last pillar, resonance, is the measure of the duration, rate and level of interactivity around topic or content coming from the influencer. Higher resonance is the best result of ensuring more people were affected by the posts.

There are different ways influencers connect with their followers. The cornerstone from the beginning of social media was the comment section of their profiles, where the followers react to the content and express their opinions. Paying attention to the voices in the comment section and reacting to it not only makes the audience feel listened to, but also serves as a great source of insight of where to lead the content in the future. As their popularity grows, it may become overwhelming for influencers to follow every activity on their profiles, but keeping a close eye on it is beneficial in so many ways.

Creating and nurturing relationship between social media influencer and their followers is one side of influencer marketing. The other side, as equally important, is the establishment of relationship between companies/organizations and social media influencers. The organizations who want to use the influencers in their own marketing strategies need to know that the personal approach a social media influencer has with their followers is a delicate matter and making deals and partnerships is not as formal as in the rest of the business world. Ed Schauweker, Principal of Agile Public Relations says: "The foundation to building an effective influencer relations program is fostering relationships. Communication has to be personal, authentic and two-way. You can't do that through automated distribution. Automated distribution is vapid at best and another form of spamming at worst. Think of it as dating. Because the best company-influencer relationships are just that, dating" (Torres, 2016).

3. USE OF SOCIAL MEDIA INFLUENCERS IN TOURISM

Deciding on who to enter the partnership with in the first place has to begin with the end goal. A travel marketer has to be sure in what results does he want for his campaign to achieve in order to know with what, or in this case with whom to achieve it. As with traditional marketing strategies, knowing your target audience is the key. In this strategy, the point is that the ideal tourist should be embodied in the profile of the social media influencer. The influencer is now the model based on the type of target audience the travel marketing wants to pursue. They have to be people whose profile complies with the message intended to be sent and promoted. Doing a background check is a sensible thing to do in order to protect yourselves from associating with problematic influencers.

A clear and measurable campaign objectives and the profile of the ideal tourist are the starting points of the process which next leads to decisions on which social networks to look for the perfect influencer. Each platform has their strengths but promotion of travel destinations works most effectively on the visual presentation which is why the most popular platforms for tourism promotion in the past years have become Instagram and YouTube especially, where video following of a trip or a vacations can bring out the experiences most detailed.

The important characteristics of an influencer who is proper for the collaboration start with the quality of their content. Someone who takes care about what and how they post on their profiles can be taken as a serious and responsible partner. It also implies their accountability. It is important that they are willing to commit themselves to deliver the content which will positively reflect the intended messages. The characteristics should also include approachability. An influencer who is easy to reach in any stage of the process can be reassuring in any case that something goes wrong with the campaign or that it just requires changes. Jessica Gow explains the key to the formation of good connection in this part of the process: "This is why a brand's relationship with an influencer is so important - it must be authentic, and marketers need to learn to hand over the reins when it comes to controlling the message they want to communicate" (Gow, 2016).

There is a question of how knowledgeable an influencer needs to be about the destination included in the collaboration. Some believe that a very effective way is if the influencer learns about the places they are visiting during the process discovering things together with the audience. The style of the influencer should match the one of the brand, as they are representing them.

One of the most important questions before approaching the influencer is how popular should the influencer you choose to work with be. While the most ideal answer is expected to be as popular as one can be, with millions and millions of followers or subscribers, the practice shows that it is not as simple as that.

The number of followers is not always the best indication of the success of the influencer. It is a tricky measure of influence when the reach is difficult to track. Engagement of followers is seen as a far better indicator of how much impact does a certain Instagramer or YouTuber have. And the engagement does not necessarily follow the logic of big number of followers. In fact, recent studies have shown that the mid-level influencer can hold more power than those of the bigger scale. The reason for this lies behind the fact that smaller following has stronger loyalty. They feel like a part of a closer community and take the content much closer to them. So a blogger who might have around 2,500 followers can get more people interested with a story about their vacations than someone whose popularity has gone so up that the familiarity with their audience has started missing. This phenomenon is referred to as the "Power middle" or "Magic middle" and can drive on average 16 times higher engagement rates than paid media and owned alternatives and naturally, at a much lower cost.[6] Disha Dinesh, a content writer for Godot Media, refers to this in her article "Why Micro-Influencers are Social Media Marketing Imperative for 2017"emphasizing the importance of human element in marketing today, where automation, bots and virtual reality are becoming more and more in use, the trust will still be taken most strongly coming from peer like influences (Dinesh, 2017).

This philosophy can be undertaken in travel marketing to work the best if particular travel agencies or airlines were paying for content. When a tourist office or organization of a particular destination is making a campaign to attract tourists, using powerful professional influencers may be the better way to go, as the way of getting to that destination is not conditioned. When the main goal is to increase the number of visitors they are most likely to be inspired on a larger scale through posts with bigger buzz on social media.

4. MATERIAL AND METHODS

The research was conducted to get data about the perception of social media influencers in tourism purposefully for this paper. The current study aims to offer answers on the following research questions:

[6] The Realtime Report (2013), "Power middle" Influencer Marketing Campaigns Drive 16x Engagement Of Paid Or Owned Media, available at: http://therealtimereport.com/2013/03/20/power-middle-influencer-marketing-campaigns-drive-16x-engagement-of-paid-or-owned-media/ (accessed 07.10. 2017)

RQ1: What is the customer perception of social media in tourism, in general?

RQ2: What is the customer perception of social media influencers in general, as well as their use in promotion of tourism?

To get better results, we have decided upon a quantitative method, an online questionnaire made through google forms. The research instrument - questionnaire was adopted from the works of Alizadeh and Isa (2015), Hays, Page and Buhalis (2012), and Zeng and Gerritsen (2014). It was divided into three main parts. The first part asked general questions about respondents' use of social media in tourism i.e. suggesting, planning and sharing travel destinations and information, the second part was constructed with the central topic of social media influencers and their impact on travel habits of their followers. The fourth and final part collected demographic data.

With an online questionnaire in use, convenience sampling was used, as the survey was shared mostly through social media such as Facebook, as well as direct e-mail and personal contacts. The number of collected samples in the end was 151.

Out of 151 respondents, the majority were women making 68.1% of respondents and only 31.9% were male. The age group was heavily dominated by 18-25 years old age group of young adults, making 59% of total respondents, followed by the 26-35 year olds who made 31.9%. Given the age group data of the survey, the education was in accordance and followed with the most respondents having finished bachelor's degree (45.1%) and high school (31.7%), however there was a strong presence of those with master's degrees (21%) as well.

5. RESULTS AND DISCUSSION

The first part of the questionnaire aimed to get into the general habits of using social media of the respondents as well as seeking out their opinion about the biggest strength of social media today.

Instagram came out as the most used social network among the sample with 121 (84.6%) people selecting it as their answer. A bit surprising to find out it has surpassed Facebook which came out at the second place collecting 117 (81.8%) responses.

YouTube came out as a strong contender with 99 (69.2%) respondents selecting it as a social media of their choice. However, it is important to notice the fact that YouTube does not function in the same way as other social networks from the list do and that by using YouTube it can simply imply video content search and not the sharing and connecting with other users aspects of social media. Also, YouTube is one of the most common set up applications on smartphones which may have added to the high results.

The least chosen social networks turned out to be Twitter (17.5%) and Snapchat (7.7%), with Pinterest, LinkedIn, Tumblr, Reddit and weheartit being added freely by the respondents.

The average time spent on social media per day, expressed in minutes turns out to be 112.2 minutes according to the data from our survey.[7] This average was taken from a range going from 10 to 440 minutes. The survey did not reach into details of how that time is allocated to each individual network, but with smartphones being almost constantly near us, it is not surprising that checking out multiple platforms in a day takes as much total time in the end. The chart below shows the relationship between the average time spent on social media by age group taken from our sample.

The number one reason for using social media turns out to be "connecting with friends" as 76.8% of respondents chose that answer. It even overpowered the following answer of "sharing about my life" which collected 59.9% of responses. "Following lives of others" (49.3%) and "connecting with other people of similar interests" (45.1%) appear to be of middle importance. "Keeping up with the events of the world" (27.5%) as well as "to get various information" (17.6%) did not seem to be particularly significant in our sample. However, the least chosen answer is actually the one most connected to the topic of the thesis. "Planning future purchases/travel" was chosen by only 7% of respondents.

5.1. Social media and tourism

We were interested to find out the opinions of our respondents when it comes to use of social media in tourism, i.e. suggesting, planning and sharing travel destinations and information. Seven statements were presented to them, giving the choice of 7 rankings of agreement, going from 1 being the lowest level and 7 being the highest. The results are presented in the table below (Table 1).

The majority of statements had tendencies to positive agreement. We can take from this part that social media is definitely considered valued when it comes to discovery, interest and inspiration used for making traveling decisions. The lowest result from statement about social media being a more trustworthy source than a travel agency does indicate that there is still not enough credibility given to it when compared to official travel representatives.

When asked to fill in the answer on question "What sorts of posts (Facebook, Twitter, etc.) do you think are the most effective? (e.g. do you think it helps to have a contest, ask a question, request photos, something general, advertising an event, etc.)", 69% of respondents provided their opinion. While some of the answers varied, a large majority seemed to have been influenced by the examples given in the brackets.

[7] Only reasonable and comprehensive data was taken into calculation, several responses had to be omitted.

Table 1. Use of social media in tourism

Statement	Mean
Social media is a great place to find out about new destinations	5.11
Seeing shared photos and videos make me want to visit the places I have never thought about before	5.10
I use social media to get inspired for my next travel	4.22
I actively search for travel tips and information on social media	4.37
I find travel posts on social media a better reference than a travel agency	3.92
Interactive posts about travels gain my attention more than other types of posts	4.21
I use hashtags to search for travel content on social media	4.10

Source: Own study

Table 2. Prefered Content

Goup of Answers	Statements	Answer Frequency % (# of times mentioned)
Photos	I believe requesting photos with a specific hastag is very effective.	18,1% (19)
	The posts that require engagement such as a photo, but are not too complicated to participate in.	
Contest	Yes, a contest is always a great way to get followers and attention.	14,29% (15)
	Having a contest.	
	Contest that allow participation that is easy to be achieved.	
Facebook Posts	Facebook posts are most effective.	8,57% (9)
	Facebook posts that are funny and colorful	
Humor	People like sunny posts.	4,76% (5)
	Funny word play with nice pictures.	

Source: Own study

Having a contest and requesting photographs has been mentioned most frequently. Another thing is humor, funny posts are always easy to get likes and shares and capture the attention without requiring too much work from the audience. The table below is comprised out of selected answers.

5.2. Social media Influencers and tourism

The main part of the survey was directed at finding out about the perception of social media influencers in general, as well as their use in promotion of tourism.

An overwhelming majority (79.2%) has answered affirmative on question "Do you follow any social media influencers?" A very positive indication of the popularity influencers are enjoying among the population of young adults.

Both Instagram and YouTube have equally been selected (60.8%) as the platform on which our respondents followed their favorite influencers. Facebook came into second place with 58.4% of respondents choosing it. Blogs seem to have lost quite a bit on their popularity, once considered the strongest platform for influencers to work on – only 15.2% people chose it as their answer.

So why do people follow the influencers. According to our results, the most popular reason is "because they share about things I'm interested about" (52.1%). It makes a lot of sense that things of interest attract us to such content. Inspiration they provide goes next, since 42.1% of answers were given to that option. "They are funny/entertaining" is also a popular option, as humor is easy to appeal to the masses and provides relaxation to the followers. A large number of respondents (34.7%) selected "because I like seeing how other people live their lives", as well as "they give great advice, ideas, tips or recommendation". The natural curiosity of seeing how other people, very often our own age live is a big factor in influencers appeal, while life hacks they may provide their followers with make the core for their credibility in the future content. The poorly chosen option of "because other people follow them" (1.7%) may indicate that peer pressure is not a large factor when following influencers, or more likely indicates that people would not admit something like that is a factor.

Table 3. Use of social media influencers

Statement	**Mean**
Seeing travel content posted by social media influencers makes me:	
…want to find out more about places/attractions in question	4.53
…want to visit the places I have never thought about before	4.45
…trust influencers' experience and recommendations better than travel agencies	4.11

Source: Own study

The results give positive inclination in social media influencer's travel content inspiring and attracting their followers. Concerning the influencing factors money wins as the main factor of influence in impulse travel, unlike location which surprisingly only collected 23.2% of responses. It is safe to assume that it is connected with the age group of our respondents, not being particularly situated.

Looking at the results presented in the previous sections, certain interesting findings can be concluded. Taking into account the demographics of the survey, with convenience sampling, the positive side was that the millennials were the most prevalent group of respondents as social media influencer do cater to that target group in most cases. Plenty of them were users of more than one social network, showing that the potential for wide reach on many different platforms is a great opportunity in this generation, with Instagram leading. The results seem to be in coherence of recent information showing Instagram growing faster than it ever has before and becoming more popular among teens and young adults compared to Facebook's aging demographics (Wagner, 2017). Instagram's recent, cleverly integrated updates seem to have attracted more interest among users, with Facebook struggling to do the same. It is the strongest

platform for posting photographs which in travel-related content works perhaps most effectively. While connection with friends may still stand as the strongest reason for using social media, it is evident form the results that more and more there is a shift in interest in the lives of other – one of the strongest focal points of social media influencers' rising popularity. However, another evident point comes that social media is not yet close to coming first to mind when it comes to planning purchases and travel, even though subconsciously it most likely is. This generation is also clearly aware of wide reach, influence and connectivity beyond any borders being the biggest strength of social media and is therefore more prepared to use that connection for their advantage.

When it comes to social media and tourism, this research gave plenty of conclusions that in most cases lead to positive connotations between the two. It is a place where one can easily get interested and inspired for their own travels and it seems to be quite positively accepted content on social media. Such results are a great news for correlation of social media and tourism, as the theoretic part of this thesis has discussed previously how strong and impactful travel content can be on people's news feeds. Relying on social media for travel is slowly changing classical approaches to searching locations, booking hotels and/or buying tickets.

It is evident that social media influencers are becoming very popular and having almost 80% of the sample following some kind of an influencer indicates a very strong reach potential. Sharing interests with them and creating that sense of familiarity with people online, without physical contact, considering influencers as friends are all strong factors building up credibility – one of the main sources of influence. The results of this research have shown that there is a very open road of possibilities for tourism industry to utilize influencers as such collaborations can bring so much in the future.

6. CONCLUSIONS

The use of social media influencers in tourism has been proven throughout this paper to be remarkably beneficial, powerful and effective way of capturing audiences in a very trustworthy and approachable way. Many examples of implementing such marketing activities have reported great success and are only to be increased in the future. Social media influencers bring new levels of engagement in tourism industry, and serve as a very strong connector to potential customers. The relationships that influencers create and nurture with their followers give travel marketers a plethora of opportunities to expose the experience of travel in a way it has never been before. With identifying the influencers with their target audiences, they have the ability to showcase what travel can bring to someone through the eyes of people they identify with.

The research has shown a great potential of using social media influencers in travel marketing to B&H audience, especially millennials, whose high presence on social media and following of influencers on various social networks are in line with world standards and trends in that area. Social media influencers represent a gateway into a wide array of possibilities in tourism industry and if used skillfully will bring even more success in the future.

There have been noted several limitations of the survey while analyzing it. The sample may be one of the first, since with the use of convenience sampling and uncontrolled sharing of the survey on social networks the sample may not have been the most representative one. Another issue that came across while the survey was active was low responsiveness at times, where it seemed that some of the people did not want to take their time to answer the survey which they had full right to. Not making answers required has proven to give a lot of freedom to respondents to dodge some questions. Any question that required fill-in answers recorded low level of responsiveness. Another noticed limitation in the analysis was the "middle-of-the-road" pattern that some respondents showed, with choosing only one level of agreement throughout the survey. The length of the survey may have been one of the limitations as well, since the survey was made in four parts and may have made some people to give up on the way.

Hopefully this research will have provide a good insight for the topic of using social media influencers in tourism. For further research on this topic, we propose it to be done in more detail, with employing other methods, both quantitative and qualitative, in order to get better quality results. The above mentioned limitations can serve as a warning to avoid in the future.

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THE SIGNIFICANCE AND IMPORTANCE OF DELIVERY IN ELECTRONIC COMMERCE

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Abstract

The importance and meaning of delivery in e-commerce is explained in the paper. It also tried to answer questions about the importance of factors that form final customer satisfaction when delivering products. The results of the analysis indicate that the ultimate satisfaction with delivery is formed from the recommendation (positive comments of other customers) and to the delivery of a particular package. The research has shown that buyers advance certain product delivery expectations and if there are discrepancies in the delivery process such as a deviation from the expected delivery time of the product, customers will negatively perceive ultimate satisfaction, regardless of whether the delivered product is authentic to the one it has ordered. Key factors that are analyzed are money and time savings, positive feedback from other customers, communications with the supplier, packet tracking, reclamation, delivery costs, delivery speed, and privacy. Based on the analysis it can be concluded that the most important are positive comments of other customers, speed, delivery costs and privacy, which does not mean that other factors are not essential.

Key words: electronic commerce, retail, delivery, customer satisfaction

1. INTRODUCTION

Electronic commerce represents a modern form of trade in the new digital age, for there are an increasing number of Internet users on a global scale. An important precondition for the Internet development, therein the e-commerce, has undoubtedly been a strong and fast development of its technological background (Smith, 2001). The emergence of virtual shops has enabled customers to buy online, which is today the fastest and cheapest way of purchasing products and services. E-commerce is considered a form of trade which bears highest profit, for its low costs and simplicity. It should be pointed out that, due to more intense competition that the Internet provides, customers are offered lower prices and more choice (Malkawi, 2007). Technological development has greatly enabled not just the possibility of buying via the Internet, but more efficient processes inside the business logistics system as well. Within this context, the importance and significance of new technologies in the supply chain framework should be highlighted, and they should be seen as a group of organizations and processes a product goes through from the start-

ing source to the final product delivered to the customer (Schoenfeldt, 2008). This suggest easier manoeuvring goods within the distribution (marketing) channel, easier communication between all the participants in the business logistics system and, finally, more efficient delivery, which is one of the key element to the customer.

For the final consumers, the delivery is important because most customers are not familiar with the whole process of distribution (marketing) channel, and see delivery as absolutely the most important item in the channel, for it represents the moment when the customer comes into contact with the desired product. Today, electronic commerce represents one of the fastest growing areas in the world, and its role in the total trade is becoming more and more important. Considering all the above, companies are compelled to constantly invest in all the aspects and processes involving e-commerce, including business logistics, i.e. the delivery of the products to the final consumers.

Consequently, the focus of this paper is the importance and significance of delivery in e-commerce, since distribution is one of the key elements in e-commerce. Therefore, the goal of this paper is to do research on customers attitudes on the importance and significance of delivery, and to determine the factors which influence the delivery and, subsequently, the final satisfaction of the customers who buy via e-commerce on the fast-moving consumer goods market (FMCG) in the Republic of Croatia. Besides that, the paper has tried to select the assortment of products customers most often buy and the factors which mostly influence the decisions when buying online.

2. ELECTRONIC COMMERCE AS THE MODERN FORM OF TRADE

Electronic commerce has emerged due to the development of the Internet as a global network which was used in the 1960s as a communication network between the four universities in the USA, and, afterwards, as an international network available to all the users. In the very beginning, e-commerce was considered to be a strategic weapon, but today, it is seen as a marketing tool (Piris et al., 2004). In the present day, exactly the same networking system in e-commerce is used, in order for the sellers who use online trade to find customers who need their product, and to satisfy the needs of the customers. The supply of goods and services via the Internet has represented the ever growing and one of the most important components in the trade of an economy, from the very beginning of e-commerce until today. The effective benefit of e-commerce to a company manifests itself in the availability of an additional trading network with the aim of creating organizational value. There is a positive correlation between a company's perception of the importance of e-commerce as a component of the corporative strategy and the very success of the company (Chang et al., 2003).

Since e-commerce is a relatively new term in the area of information sciences, it is extremely difficult to find a clear definition of the term. Panian has defined e-commerce as "the process of buying, selling or trading of products, services or information via an available computer network, the Internet, which offers a great deduction in cost and time" (Panian, 2013). OECD (Organisation for Economic Co-operation and Develop-

ment) provides a definition of e-commerce in a broad and in a narrow sense. In a broad sense, e-commerce means buying or selling goods between business subjects, households, individuals, governments and other public or private organizations via a computer network. The definition in a narrow sense is similar to the one in a broad sense, except here, the medium is the Internet, and not a computer network (OECD, 2001). Electronic commerce is mostly carried on via the Internet, so this type of commerce can be called Internet commerce. Electronic commerce can for its purposes use other computer networks, such as: Intranet, local networks (LAN), value-added networks (VAN), EDI network, GSM and other mobile networks, and GPRS and other satellite systems. For the functioning of e-commerce, it is extremely important to ensure the infrastructure in the sense of information-communication technology, and organization of the accompanying processes. The information-communication tools are very important in the e-commerce infrastructure, because they support business transactions and the activities inside the network, and ensure the quality of multimedia contents. Everyday use of the Internet and the increasing number of users has resulted in the positive growth of e-commerce. The very nfact that, in 2011, over two billion of the world population used the Internet with the aim to gain various information or make a purchase via this powerful global network indicates the potential and significance of the Internet as a medium today, and especially in the future (Terzi, 2011).

As all other forms of trading, e-commerce also has its advantages and disadvantages. With this type of commerce, the advantages can be divided into the advantages for the customers and the society, and the advantages for the sellers. The advantages for the customers are speed, practicality, safety and many conveniences. Bearing in mind that today, any product is available on the Internet, the user can via a search engine easily find the desired product and can choose the most convenient shop. One of the advantages of e-commerce, besides its practicality, is the fact that it saves time and money. By purchasing something online, the user does not have to waste time touring the shops, nor spend gasoline; the product is simply chosen and it comes to the home address. The products bought via the Internet are often cheaper because the company has no extra costs of distribution on the shelves etc. Shopping via the Internet is interactive and direct. In most cases, the customers in an e-shop can contact the supplier relating the product and track the product up to the point of the delivery. E-commerce also provides a broader assortment and a better supply, unlike a physical shop, which does not offer certain products because of storage costs etc. Good quality web sites mostly provide more information and in a more helpful way than they can be offered by the most capable shop assistant in a store. The simplicity is one more advantage of e-commerce, for the customers do not have to physically roam different stores comparing the product they want to buy; with e-commerce, all that is needed is to open a couple of Internet windows, compare the products, and easily choose the favourite (Kenneth et al., 2015).

E-shops work round the clock, even on holidays, so the customers do not have to wait for the stores to open, but rather shop at any time from the comfort of their home. However, as the case is with everything else, e-commerce as well has its disadvantages. They are evident to consumers in several segments. Most often, with this type of commerce, the consumers express disbelief in two segments: privacy and safety. This kind

of mistrust is triggered by various online frauds. Many other factors, like the reliability, have their roots in that concept (Mandić, 2009). A computer virus can be replicated and spread onto other files. Since it can be replicated, it can become a threat to many other files, and there is also a possibility of unauthorized access to computer systems. Furthermore, one of the disadvantages is the inability to touch the product before it is paid for and delivered. That is the reason why customers often prefer buying at a physical shop, since there, they can test and touch the product they are purchasing. Additional frustrations can arise from the wait for the delivery; this is not the case in classic shops, which is also one of the main focuses of this paper.

Like customers, sellers also find disadvantages in e-commerce. The biggest problem they face is the assurance of the transaction, since persons prone to electronic crime, are constantly trying to breech security of e-shops in any possible way and create more costs for the sellers. The conclusion can be drawn that, alongside all the disadvantages of e-commerce, there are many more advantages, and therefore, e-commerce has become the modern way to shop. Already fairly long time ago, the significance and importance of information-communication technology (ICT) was recognized as an important factor in the increase of work force and capital efficiency in the USA (Oliner, 2000). When talking about business activities of a company dealing with e-commerce (commerce via the Internet), certain questions arise related to exceptional development and popularity of e-commerce. The role of e-commerce is the key for accessing information on modern needs of the customers and enables electronic interaction and trade, while knowledge management is focused on the development of products and services for the customers (Helms et al., 2007.).

Electronic commerce, i.e. buying and selling via the Internet enables the customers and sellers (retail business subjects) trading on the best markets in the world, which in the end results in making profit and the scope for all the participants. Following this, from the macro-economic perspective, the growing trading activity contributes to the countries easier and faster exit out of the crises and reduction of their negative effects on the economy (Savrul, Kilic, 2011). The studies conducted a long time ago have foreseen that e-commerce, for example its B2B segment, will, in the long run, enhance the gross domestic product of some countries by 5% (Sachs, 2000). So, the importance and significance of electronic commerce, as well as its potential for specific national economies, was already realized way back in the past. Namely, the fact that those economic subjects that have the Internet access achieve more export in the total sale than those that do not have the access, was recognized a long time ago (Clark, 2001).

The choice of an electronic shop model is extremely important for a company to be successful. Trading houses that want to modernize their business use traditional online shops. Those types of trading houses open their own web site where they offer their products to the buyers. The ordering is made via telephone or e-mail, and the delivery is done in the traditional way. The role of electronic commerce is the key for accessing the information on the modern needs of the buyers and enables electronic interaction and trade, and, on the other hand, a successful knowledge management directed at the improvement of products and services for the customers (Helms et al., 2008).

The goal of electronic trading is the reduction of all the real elements. Electronic shops are not placed in the physical space, this type of a store does not have products in

stock and it is not necessary to employ sales personnel. A number of researches analyse key factors for the success of electronic stores. Huff mentions nine key factors for business subjects that deal in electronic trade (Huff et al., 2000). The first group are the factors like added value in the sense of more conveniences for the customers, the abundance of information, disintermediation, i.e. lesser mediators, reintermediation, or the appearance of new mediators, then, lower prices and more choice of products and services. Following that, the focus is on a specific market segment, maintaining flexibility, geographical segmentation, technological support, managing key factors, providing special services to the customers and creating effective relationships (Sung, 2006). The last group relates to understanding the specific culture which prevails on the Internet.

3. DISTRIBUTION AND ELECTRONIC COMMERCE

Today, when the consumers are more and more dependant on the Internet, e-commerce has definitely become a trend, since the number of users who shop via the Internet is growing day after day in Croatia as well.

The buyers who order products online expect the delivery to be made as quickly as possible and at as lower cost as possible. Therefore, it is necessary that the supply chain management (SCM) is run efficiently, i.e. every participant in the supply chain should aim at high efficiency. Over the last few years, its efficiency has grown on a large scale, primarily due to the significant role of the newest information and communication technologies which enable the direct relationship between the participants in the supply chain. The basic goal of the use of information technologies in the supply chain management is more accurate, faster and more encompassing exchange of information. Let us mention only the use of the RFID technology, which enables the exchange of information between the computer system and the produced goods, machines, tools, containers and transport vehicles without human intervention and, there is no need for the labelled product to be optically visible to the scanner in order to be scanned. This technology for the conversion of the analogue into the digital uses radio frequency waves for transmission of data between the movable object and the scanner in order to identify, track and locate the object (Devi, 2007).

The very supply chain management is a systemic, strategic coordination of traditional business functions inside the specific economic subject and through other economic subjects in the supply chain, with the aim of improving long-term performance of an individual economic subject and the supply chain in general (Mentzer et al., 2001). Supply chain management can also be seen as a process of planning, organizing and controlling the flow of materials (raw materials) and services from the supplier to the final users/consumers. The listed integral approach encompasses the suppliers, supply management, integral logistics and execution (Bloomberg et al., 2006).

The aim of supply chain management is, first of all, to achieve that the right product reaches the final buyer in the shortest time and at minimal costs. In line with that, the distribution of products bought via the Internet becomes an important factor in the customer's decision-making.

In the 21 century, technological progress is at a high level and this implies that the product will reach the buyer in the shortest time possible. With today's smart phones, computers and other technologies, the customers who is buying via the Internet can easily communicate with the seller and track their product from the moment of the order until the delivery. Likewise, the seller can via the Internet easily track every participant in the distribution channel, due to the continual communication technological progress. Due to the increasing number of users who opt for purchasing via the Internet, we can say that the distribution channel itself has to constantly adapt to the trends of e-commerce, which makes it more advanced and more modern than the traditional distribution channel. When talking about the very distribution of the products to the final customers, the retail can use different channels creating a distribution network inside the supply network. Levy and Weitz (2009) mention four types of retail channels: stores, catalogues, the Internet and the multichannel approach, i.e. some sort of combinations of the listed channels. As it was expected, the Internet, as the new medium, has led to a series of new phenomena in the supply chain. First, the disintermediation, i.e. drop in the number of mediators in the supply chain and then the multichannel approach. But, considering the disintermediation, a certain number of new Internet mediators have appeared, and they have created their place due to their specialization. Electronic channel of distribution forms a complicated system which is managed via the Internet. All begins at the moment when a customer starts using the computer network (the Internet). This type of business activity is quite simple for the customers, for they can track the goods at any moment since the actual order. There are four periods while providing this service: the period when a buyer searches the web site, the period of purchasing, the period of shipment and order completion, and the period of the delivery, i.e. the period of the receipt of the ordered goods or services (Zelenika et al., 2011).

In classical retail, we meet two levels of stock management; the level related to retail distribution centre and the one related to the retail store (Rushton et al., 2010). But, when talking about electronic distribution channel, then there is no stock management in retail stores. Customers who buy via the Internet often expect conveniences, such as: delivery cost included in the price, the possibility to return the goods, payment safety, lower prices than those in the physical stores, easy access to various information, fast delivery and the possibility of different post-buying services. Electronic distribution channel enables cost-effectiveness, which leads to lower prices for buyers on one hand, and, on the other hand, provides larger assortment of products in relation to classic stores. Namely, there are high costs related to stocks. The distribution of goods bought via the Internet lowers the price of the product considerably, and the electronically created contents are cheaper and more available. All the activities conducted in this type of a distribution channel have the goal of achieving better efficiency by maximizing the sales, with the satisfaction of customers and lowering of the costs, and being economic for all the participants. The modern information technology has enabled more effective systems of planning in the framework of distribution, which has then reduced the delivery time.

It is exceptionally important to find the balance in the delivery speed of the ordered goods and the delivery costs. The delivery is one of the key moments in the logis-

tics process, from the production of goods and services, to the key moment when goods or services are delivered to the final consumer, i.e. when the buyers finally receive the counter value for their money. The delivery, alongside receiving and processing orders, represents one of the most important parts of the distribution management. By purchasing via the Internet, the buyer can find reviews from other buyers (satisfaction with the product, delivery speed etc.) while choosing a product on the seller's web site. If the reviews are positive, it can additionally encourage the purchase.

E-commerce offers the great advantage to the consumers, for they can individually communicate with the supplier, via e-mail and similar forms of online communication. While communicating with the supplier, the customers can track their product up until the delivery, which diminishes the fear that the delivery will not take place at the agreed time. Unlike the traditional stores, where the customer physically enters and chooses the desired product, which disturbs privacy of choosing and buying a product, while buying online, this privacy is greatly assured. Relating to the very delivery costs, by ordering the product online, there is a possibility of ordering products with no delivery costs. Free delivery costs have a positive effect on the decision on the purchase, since the savings related to going to the classical store are then achieved (gasoline or public transport costs etc.)

4. EMPIRICAL RESEARCH ON THE IMPORTANCE AND SIGNIFICANCE OF DELIVERY IN E-COMMERECE IN THE REPUBLIC OF CROATIA

4.1. The sample

The sample consisted of 320 respondents, students, employed and unemployed individuals at the age from 16 to 72, out of which 65% were female (N=210), and 35% male (N=112). The respondents were asked about their age, so, according to the age distribution, the dominant age group was the one between 25 and 30 (37.30%), and the second between the ages of 20 and 25 (36,68%). The first three age groups made 79.62% out of the total age distribution of the respondents in the sample. The overview of the distribution frequency according to age is shown in Table 1.

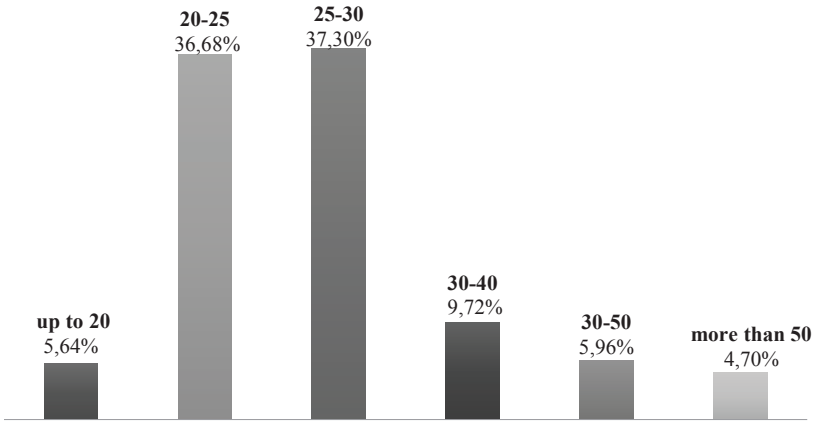
Table 1. Age structure of the respondents

Age	*Frequency*	*% Frequency*	*Accumulated series %*
up to 20	18	5.64%	5.64%
20-25	117	36.68%	42.32%
25-30	119	37.30%	79.62%
30-40	31	9.72%	89.34%
30-50	19	5.96%	95.30%
more than 50	15	4.70%	100.00%
Total	**319**	**100%**	

Source: Compiled by the author

Following the earlier notes, the representation of distribution of frequency according to age is shown in Chart 1, where it is evident that the distribution of the respondents according to age does not follow normal distribution, i.e. the distribution of extremes according to age can be detected at the left distribution end, i.e. the respondents older than 50 (4.70%).

Chart 1. Histogram of the respondents age structure (% frequency)



Source: Compiled by the author

The respondents were also asked about their education, and the results of the analysis suggest that the dominant group of the respondents have high expertise (N=119), i.e. 38.64%. The second most dominant group was the respondents with secondary education (N=76), 24.68%. Only 19.83% of the respondents in the sample had a masters or a doctorate degree (N=58).

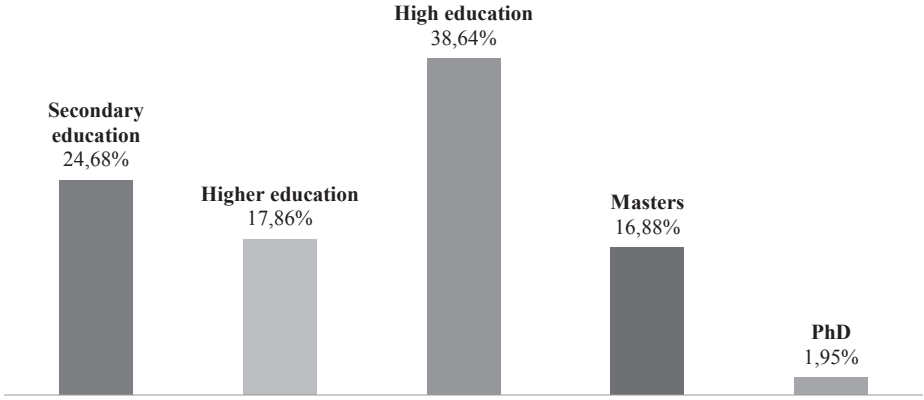
Table 2. Educational structure of the respondents

Category	Frequencies	% Frequencies	Accumulation %
secondary education	76	24.68%	24.68%
higher education	55	17.86%	42.53%
high education	119	38.64%	81.17%
masters	52	16.88%	98.05%
doctorate	6	1.95%	100.00%
Total	**308**	**100.00%**	

Source: Compiled by the author

The distribution of the respondents according to the level of education is represented on Chart 2, where it can be concluded that the distribution does not follow the form of normal (bell-like) curve. Moreover, the potential untypical distribution values of the respondents according to the level of education can be found in the category of the individuals with a doctorate degree (N=6), 1.95%.

Chart 2. Histogram of the respondents according to the level of education (% frequency)



Source: Compiled by the author

Furthermore, the respondents were asked about their work status. Most of the respondents are employed, and 35% of them declared to be students. Only 10% of the respondents in the sample said they were unemployed. The overview of the respondents' structure according to the current work status is shown in Picture 4. The respondents also answered the questions about their pay bracket. Most respondents are in the pay bracket of up to 3000kn (31.56%), while the next largest group is between 3000 and 5000kn (28.44%). It is evident that the higher the pay bracket, the number of the respondents is lowering, so the sample encompassed only 16.25% of the respondents with monthly salary of more than 7000kn. The results of the analysis are shown in Table 3.

Table 3. Structure of the respondents according to pay brackets

Pay brackets	Frequency	% frequency	Accumulation %
up to 3000kn	101	31.56%	31.56%
3000 - 5000kn	91	28.44%	60.00%
5000 - 7000kn	76	23.75%	83.75%
more than 7000kn	52	16.25%	100.00%
Sum	320	100.00%	

Source: Compiled by the author

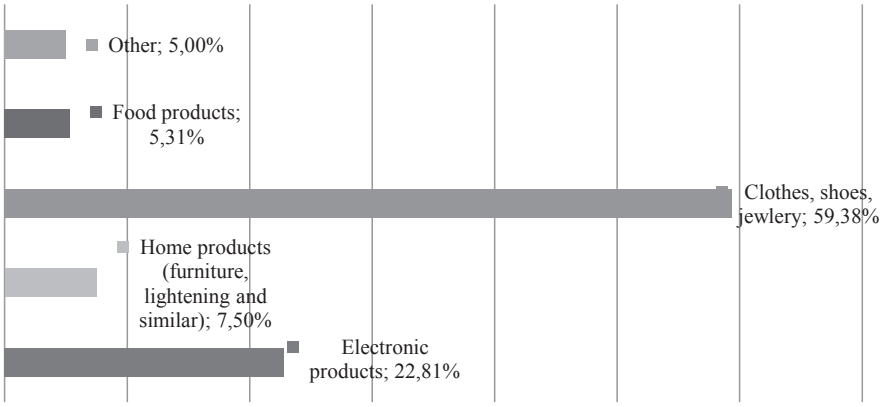
The respondents were asked about the type of goods they purchase over the Internet, and, as it was expected, most respondents buy clothes, shoes and jewellery (59.38%), and then electronic products (22.81%). A detailed structure of the goods the respondents buy via the Internet is shown in Table 4 and Chart 3.

Table 4. Structure of the respondents according to the type of goods they buy via the Internet

Type of goods	Frequency	% frequency	Accumulation %
Electronic products	73	22.81%	22.81%
Household products (furniture, light fixtures, dishware etc.)	24	7.50%	30.31%
Clothes, shoes, jewellery	190	59.38%	89.69%
Food products	17	5.31%	95.00%
Other	16	5.00%	100.00%
Total	320	100.00%	

Source: Compiled by the author

Chart 3. Bar chart distribution of the respondents according to the type of goods they buy



Source: Compiled by the author

4.2. Methodology of the research

In the research, data was collected on the respondents who purchase a certain percent of the products over the Internet. The data was collected in the period from 1 September to 10 September 2017, by means of an online questionnaire created with the *Google survey* application. The respondents were students, and employed and unemployed individuals who were asked about the significance of the delivery factors while purchasing via the Internet. The respondents were also asked about their socio-demographic characteristics, such as gender, age, education, monthly salary etc. At the beginning of the questionnaire, the respondents were given standard instruction where it is pointed out that the research deals with "The analysis of the significance of the delivery while buying over the Internet", and every instrument in particular had a specific instruction which explained what the respondents were asked to do.

4.3. Data analysis

Various statistical procedures were used in the research, in line with the set research problems. The initial analyses that deal with the description of the sample and the connection between the variables were made in the SPSS 21 program.

The questionnaires, for the purpose of this research, were translated into Croatian, and therefore, the metric characteristics of such translated scales are not known, yet the psychometric analysis of the variables was not conducted, which is certainly something for future researchers to take under advisement. The construct validity relates to the empirical conclusion on the question wether the scale measures the targeted construct, and, as a way of confirming this, factor analysis was used (Petz, 1981). Thereby, the homogeneous survey should be of a one-factor structure, while in a heterogeneous survey, there should be as many factors as there ate constructs, i.e. subscales. For the purpose of a detailed analysis of the sample characteristics and acquiring the data on gender differences, and the differences in the family background, a series of t-tests was conducted (for all of the observed variables).

Likewise, the variance analysis was conducted, in order to research whether there were discrepancies in the observed characteristics, depending on the area the respondents are studying in. For the purpose of gaining initial insight into the relation between the variables in the model, and testing of another aspect of the scales' validity (convergent validity), the regression analysis between the observed variables was also analysed.

4.4. The analysis of the empirical research

With the purpose of acquiring as concrete results as possible on the dynamics of the movement of the variables, the model of multiple linear regression was used, in order to analyse whether the delivery factors have statistical significance on the final satisfaction upon the delivery. The tested models will try to prove that the independent predictors can foresee the movement of the perceived grade of the customers' satisfaction with the delivery, i.e. that the satisfaction with the delivery will grow if the predictors used in the model grow. The results of the regression analysis are shown below.

Table 5. Summary of the regression model results

R	Determination coefficient	Corrected determination coefficient	Standard regression deviation		
				F	p
0.50	0.25	0.23	0.76	9.31	<0.01

Source: Compiled by the author

The initial results of the regression model of satisfaction with the delivery suggest that the model has explained 25% of the total deviations; however, although, based on the indicator of the determination coefficient, it can be concluded that the results of

the model are volatile (, the indicator is nevertheless statistically significant (F=9.31; p<0.05). Hence, different respondents perceive the factors that are important for them while buying online in a different way. The results of that are heterogeneous (dispersed) data and low determination coefficient. Furthermore, statistical significance of the entire regression model was analysed by means of an aggregated test, based on which conclusions can be made on the significance of at least one independent variable in the regression model. The results are presented in Table 6.

Table 6. Table of the variance analysis of delivery satisfaction model

Model		**Sum of quadrants**	**Liberty levels**	**Middle of the quadrant**	**F**	**p**
Model of customers' satisfaction with the delivery	Explained	59.161	11	5.378	9.311	<0.05
	Unexplained	175.016	303	0.578		
	Total	234.178	314			

Source: Compiled by the author

The results of the aggregated test indicate that at least one of the variables in the model is significant (F=9.31; p<0.05), and below, all individual influences of the variables in the model of satisfaction with the delivery will be tested separately. The results are shown in Table 7. This test tells us that, while shopping via the Internet, at least one of the observed factors will definitely be important to the respondents.

Table 7. Table of the coefficients in delivery satisfaction model

Model of customers' satisfaction with delivery	**Non-standardized coefficients**		**Standardized coefficients**	***t***	***p***
	ß	**SE**	ß		
Satisfaction	1.463	0.406		3.60	<0.05
Inability to shop online	-0.016	0.037	-0.024	-0.42	>0.05
Money savings	-0.025	0.042	-0.037	-0.59	>0.05
Delivery	-0.159	0.048	-0.241	-3.31	<0.05
Positive comentaries	0.295	0.047	0.418	6.12	<0.05
Time savings	0.055	0.051	0.084	1.17	>0.05
Communication with supplier	0.051	0.051	0.058	1.00	>0.05
Package tracking	0.025	0.051	0.029	0.49	>0.05
Reclamation	0.085	0.074	0.064	1.14	>0.05
Delivery costs	0.164	0.055	0.157	2.99	<0.05
Privacy	0.085	0.040	0.115	2.14	<0.05
Speed	0.159	0.060	0.143	2.64	<0.05

Source: Compiled by the author

Based on the results of regression analysis, it can be said that there is a significant number of factors which are deemed statistically significant by the users of electronic delivery. Following that, the construct of delivery will have a negative influence on the

final satisfaction of the customers (t=-3.31; p<0.05), i.e. at the moment of ordering a product, the user is forming certain expectations, and, based on the results of the analysis, the very delivery process from the point of the user will be negatively perceived, but statistically significant factor for the total final satisfaction. That is, when a buyer forms certain expectations while ordering a product, any deviation during the delivery process, like the prolonged time of the delivery (delivery speed), will have a negative effect on the final perception of satisfaction, regardless of the fact that the delivered product is authentic to the one the final user has ordered. Positive commentaries are also a statistically significant variable of the satisfaction with delivery model, i.e. the more positive commentaries on a specific product, the greater final satisfaction (t=6.12; p<0.05).

Another statistically significant factor of satisfaction is the construct of delivery costs, i.e., if a certain product is labelled free delivery costs, the final satisfaction of the consumers will rise (t=2.99; p<0.05).

The construct of privacy is also a statistically significant predictor of complete satisfaction model, so it can be concluded that, with the rise of the level of privacy, the level of total perceived satisfaction rises as well (t=2.14; p<0.05).

Delivery speed is also a statistically significant predictor of total satisfaction with buying online model; the faster the delivery, the greater the satisfaction of the customers (t=2.64; p<0.05).

To conclude, the users who order products via the Internet, do not deem every factor of delivery equally important, i.e., based on the results of the analysis, it can be concluded that the constructs of delivery (in general), positive commentaries, free delivery label, privacy and speed, are statistically significant predictors of total satisfaction model, while buying via the Internet, and all the predictors, besides delivery, positively influence the movement of total satisfaction, which are the results that were expected.

5. CONCLUSION

At the end of this paper, it can be concluded that the importance and significance of delivery in e-commerce is still an unexplored topic. From the overview of the available literature, it is evident that very little researchers have conducted research on this topic and most literature consists of expert opinions and case analyses. Although this literature is abundant, it does not offer a concrete answer to the main question of this paper, i.e. the importance and significance of delivery, and its influence on customers' decision-making related to e-commerce.

This research paper has tried to answer the question of the importance of delivery in e-commerce, i.e. to what extent delivery influences the decision to buy via the Internet. Besides that, the paper has tried to answer certain questions about the importance of the factors which form final consumers' satisfaction with the delivery of the product, and the results of the analysis point to several statistically significant factors, wherein it cannot be directly assumed that other factors are not important during the delivery. Final satisfaction with the delivery is formed at the very beginning, from

the recommendation (positive commentaries from other buyers), until the delivery of the specific package; in this process, the consumer goes through several phases, and it should be assumed that, to individuals, certain factors are more important than others. More specifically, the conducted research on the retail market in the Republic of Croatia, indicates that buyers form certain expectations on the delivery of the products upfront, and, if there are deviations in the process of delivery, like the postponed delivery, the customers will perceive the final satisfaction negatively, regardless of the fact that the delivered product is authentic to the one they have ordered. Important factors which are analysed are money savings, time savings, positive commentaries from other buyers, communication with the supplier, package tracking, reclamations, delivery costs, delivery speed and privacy. The results of the conducted research suggest that the most important factors are positive commentaries from other buyers, delivery speed, delivery costs and privacy. These results do not thereby imply that other factors (communication with the supplier, package tracking, reclamations etc.) are not of importance. Namely, they suggest that these factors, when we talk about buying online, are not most important among all the analysed factors. Future researches should focus on the theme of soft spots concerning the delivery in e-commerce. This would thoroughly define the factors that bother customers most during the delivery of products bought over the Internet. The aim would be to improve the delivery, and thereby, to boost the final satisfaction of the customers when the product arrives at the home address.

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THE PROBLEM OF COUNTERFEIT GOODS IN ONLINE MARKETPLACES

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Abstract

The paper looks at the rising trend of sale of counterfeited goods on online marketplaces, which seems to have become the key distribution channels for counterfeit goods and results in the rise of small shipments of counterfeited goods directly to the consumers which are hard to detect by the customs authorities. The problems connected with the enforcement of intellectual property rights when infringed in online environment and in the cross-border context are elaborated. The attractiveness of the online marketplaces for developing the business models used by counterfeiter is examined, explaining why online marketplaces are heavily infiltrated by the offer of counterfeited goods. The paper gives an overview of the legislative position of online marketplaces in terms of their liability for counterfeited goods offered through their services and discusses the risks and threats associated with the phenomena for the consumers when purchasing on online marketplaces since the consumer is not able to examine the product before buying it. Current legislative and practical efforts to address the problem of counterfeited goods on online marketplaces are discussed with a view of further measures to be taken by all stakeholders to minimize the offer of counterfeited goods on online marketplace which harms the interest of right holders, consumers as well as online marketplaces.

Key words: Intellectual property infringement, counterfeiting, online-marketplace

1. INTRODUCTION

Intellectual property rights are intended to protect results of human intellect, by providing rights over innovations and creative works to the person(s) behind them. The interests of innovators and creators are protected by law to enable them to be awarded suitably from what they invent or create with granting them exclusive rights to fully utilize these for a given period of time. In so far the protection of intellectual property rights encourages innovation and creativity and thereby economical, technological and cultural development of the human society as a whole.

A counterfeit product in the context of intellectual property rights is considered to be any product, including its packaging, marked with an equal or not substantially different trademark without authorization of the trademark holder thus infringing the holder's rights to this trademark. Counterfeiters seek to illegitimately gain benefits from reputation or popularity of a genuine product enjoyed with consumers by copying physical items and brands and thereby infringing intellectual property rights, mainly trademarks. According to Zhao et al (2016) the market for counterfeited products differs from the gray market where authentic products are distributed over an unauthorized distributor mostly underpriced.

One characteristic shared by all types of intellectual property rights is that they are essentially negative: they are rights to stop others doing certain things – to stop pirates, counterfeiters, imitators and even in some cases third parties who have independently reached the same idea, from exploiting them without the licence of the right-owner (Cornish & Llewelyn, 2003). From the perspective of the trademark law, provided the owner of the legitimate product has duly secured his rights in the trademark which is infringed by the counterfeit product the right invested in such trademark should allow the trademark holder to stop counterfeited products emerging and being sold in the market.

However, considering the recent study undertaken to map the economic impact of trade in counterfeit goods performed by OECD and EUIPO on Trade in Counterfeit and Pirated Goods (2016) estimates the international trade in counterfeit and pirated products to represent as much as 2.5% of world trade this doesn't seem to be as easy.

Counterfeiting in fact evolved in a global phenomenon for a number of reasons some of which can be attributed to the way the intellectual property protection system works in the first place. One has to bear in mind some of the basic principles of intellectual property systems result from the environment in which they were originally established way back in the 19th century and following the tradition already existing from even earlier in history. The principle of territoriality which underlies the intellectual property rights protection system establishes intellectual property rights with exclusive, monopoly effect only in the territory of the country in which the right is granted (Verona, 1978) and within the scope of protection afforded to such right by the national law of the country in question. In trademark protection context, this means that a sign has to be registered under the relevant law in a particular territory as a trademark to grant the owner an exclusive right of using the trademark and the right to enforce it against any unauthorized use, including against counterfeits.

Globalization of the trade on the one hand and territorial intellectual property protection systems on the other, proved to be quite favorable for counterfeiting. Since counterfeit goods are often created clandestinely and shipped from one country to another effective action against the international sale and shipment of counterfeits would however require an international approach (Lackert, 1988). OECD/EUIPO (2016) show that counterfeit and pirated products follow complex trading routs, including a set of intermediary transit points. Some transit points include economies with very weak governance and a strong presence of organized criminal networks reflecting the ability of

counterfeiters to quickly identify weak points, gaps and leverage opportunities for arbitrage.

Digital technology brought many problems to intellectual property owners. Copying things became much easier and faster. In copyright field it even changed the concept of an infringing act, giving the fact that copyright works can now be infringed without even a piece of physical good as a medium on which they are applied. Even though counterfeiting of goods still requires physical items which copy certain genuine product, technology development also had a great impact on the rise of counterfeits making them more sophisticated, almost perfect in the sense that it became more difficult to recognize a fake product then it used to be. The future will probably look even more complex for the trademark owners with 3D printing being just a perfect tool for counterfeiters.

Internet, with its global nature, challenges the basic principles of intellectual property protection and the territorial nature of intellectual property rights. As concluded by Phillips (2003) the Internet was not designed for the convenience of trademark owners. Apart from other instances of possible trademark infringement connected with the Internet, such as cybersquatting, unauthorized use of trademarks on websites or as meta-tags, Internet also changed a way in which counterfeits are offered and sold to consumers today, e-commerce being misused for counterfeiting purposes significantly. It has been argued that the Internet is the third largest market for the distribution of counterfeits today (Passariello, 2004). OECD/EUIPO (2016) highlights the role of on-line environment and e-commerce in the context of counterfeiting of physical goods. This is supported by findings of large volume of small shipments of counterfeit goods sent by post or express services delivery. The rising trend of small shipments of counterfeited goods, which currently account for around 43% of the total number of shipments, shows that the conventional trade in counterfeited goods, which had been connected with sales on physical marketplaces, is going to be substituted by e-commerce. With direct access to consumers worldwide, counterfeiters have been able to reduce mass shipments of fake goods to local distributors, instead opting for more frequent, but smaller consignments sent by mail. Unfortunately, this makes intercepting deliveries more difficult, as authorities struggle to check skyrocketing numbers of international shipments (NetNames, 2016).

There are several reasons why the internet and e-commerce have become major enablers for the distribution and sale of counterfeit goods as concluded by the 2015 Situation Report on Counterfeiting in the European Union (EUROPOL/OHIM, 2015). It enables counterfeiters to function across multiple jurisdictions, evading capture. It enables them to remain anonymous and hard to track due to the use of false identities to register domain names and the use of proxy servers across multiple jurisdictions and allows them to make additional profits apart from the sale of counterfeit goods in advertising revenues. In short, the counterfeiters have made use of the shortcomings in effective trademark enforcement on the internet giving that the global nature of internet collides with the concept of territoriality of trademark protection to expand trade in counterfeits in online environment.

Some efforts to overcome the weakness of the intellectual property protection systems when confronted with global issues and internet have been undertaken. To en-

able right holders to protect their intellectual property rights in multiple jurisdictions global protection systems have been established by international treaties which are administered by the World Intellectual Property Organization. International registration of different intellectual property rights enables right holders to ensure effect in any of the countries signatory of such international treaties. International registration system for trademarks called the Madrid system dates back as far as 1891. However, only with the vast globalization of trade and counterfeiting becoming a global problem has it become evident that international registration of intellectual property right can only have effective meaning if accompanied by adequate enforcement procedures harmonized on international level as well. The Trade-Related Aspects of Intellectual Property Rights, i.e. the TRIPS Agreement, which is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994 sets the international standards on the enforcement of intellectual property rights. However, the enforcement procedures still remain national and even though TRIPS does represent a significant improvement doesn't solve the problem entirely.

Attempting to solve the internet connected challenges of intellectual property enforcement countries have adopted in the framework of World Intellectual Property Organization Joint recommendation concerning provisions on the protection of marks and other industrial property rights in signs on the internet (WIPO, 2001). However, these joint recommendations do not constitute a self-contained industrial property law for the Internet, but aim to facilitate the application of territorial law regarding trademark and other industrial property rights to the use of signs in the internet. The main reach of these joint recommendation in making the national laws Internet-compatible are the provisions which establish national jurisdiction on trademark infringement on the Internet dependent on the commercial effect such use on the Internet has in a particular country.

2. COUNTERFEITS IN ON-LINE MARKETPLACES

Online platforms in general come in various shapes and sizes and cover a wide-ranging set of activities including online advertising platforms, marketplaces, search engines, social media and creative content outlets, application distribution platforms, communications services, payment systems, and platforms for the collaborative economy. Trademark infringement may occur in many of the above mentioned, with counterfeits significantly infiltrating the online marketplaces. The 2017 Situation Report on Counterfeiting in the European Union reveals that online marketplaces have increasingly become key distribution channels for counterfeit goods, with criminals attempting to copy the notable success of legal online business models (EUROPOL/EUIPO, 2017). The increased use of auction sites such as eBay, social networks like Facebook as well as Web-based sales sites such as Alibaba have become popular selling platforms for counterfeit products (Thaichon & Quach, 2016). Online platforms has expanded the market for counterfeiters and the costs of monitoring, deterring, and removing counterfeit merchandise from the marketplace are high (Berman, 2008).

Online marketplaces are defined in the documents issued by the European Commission (2016a) as online platforms on which direct transactions between sellers and

buyers of goods and/or services can take place. In Regulation 524/2013 on online dispute resolution for consumer disputes online marketplace is defined as a service provider which allows consumers and traders to conclude online sales and service contracts on the online marketplace's website. Online marketplaces can therefore be considered retail locations which facilitate shopping from many different sources enabling online sellers to get their offerings to the public i.e. buyers. As such their primary function is the provision of a single platform on which transactions between participating buyers and sellers can happen in exchange for a commission whereby the online marketplace usually does not own any inventory. Online marketplaces typically facilitate both professional and amateur retailers and can operate both on web sites and through software or applications (so called apps) being mobile, web or desktop type.

Online marketplaces as well as other on line platforms have been seen by the European Commission (2016a) to play a prominent role in the creation of 'digital value' that underpins future economic growth in the EU and consequently are of major importance to the effective functioning of the digital single market. In view of legal business, one must acknowledge the advantages online marketplaces bring giving the opportunity for retailers to access a vast consumer base at low cost. Especially start-up companies and SME's can benefit from selling their products on online marketplaces, since online they can reach such a number of consumers they could never have reached by using the conventional trading methods.

However, the benefit of reaching the consumer through online marketplaces as much as attracting legal business also attracts counterfeiters. Much what was said earlier in respect of attractiveness of the Internet to counterfeits is also applicable for online marketplaces. Most online marketplaces are relatively open with limited control over the type of offers with sellers simply obliged to register to be able to use the online marketplace. This enables counterfeits to remain anonymous and hard to track by using false identities to register at online marketplaces and by using proxy servers across multiple jurisdictions from which they access the online marketplace. They may register as sellers with online marketplaces in one jurisdiction, make their shipments of purchased counterfeit goods to the consumers from another jurisdiction and receive payment for such goods in a third jurisdiction which makes it difficult for enforcement authorities to capture them.

Further benefits arise from the fact that the counterfeiters can pretend to act as amateur retailers on online marketplaces raising no suspicion with the consumer that the product is in fact a counterfeit good. The exhaustion or first sale doctrine implemented in trademark legislation limits the right of a trademark owner. After a product has been sold by the trademark owner or by others with the consent of the owner, it is said to be exhausted which means that it can no longer be exercised by the owner. This means the trademark owner can't control any further trade or disposition of a product which was originally sold legitimately. However, in most jurisdictions this rule applies on in respect of the territory of first sale, thereby constituting the so called national exhaustion. However, it is not permitted to sell the product which might be legally purchased on the territory of a third country, but didn't enter the country of given jurisdiction with the approval of the trademark owner. Online marketplaces open up new

possibilities for consumers to obtain branded goods which have initially been marketed on foreign markets.

Most consumers would not question the fact of originality of a product sold by an amateur retailer presuming he is only trying to re-sale a product legitimately purchased which probably does not suit his needs for some reason. However, counterfeiters are often pretending to act as amateur retailers offering not a whole range of branded items for sale but only a single item to lure consumers into believing this. However, through investigation of a particular online marketplace it is not unusual to find one and the same product offered by what seem to be different sellers, probably identified by exactly the same picture of the product, price and other offer details. As becoming a seller requires only registration and doesn't incur cost in most cases counterfeiters may register as private retailers on a number of accounts operating in fact on a commercial sale and offering counterfeited goods to consumers in such a way.

The problem of recognizing counterfeit goods on online marketplaces is a further issue to be discussed. Counterfeited goods are usually of a lower quality and consumers in physical world retail are usually able to identifying them as fakes by noticing differences over the original products. Apart from those consumers willingly buying counterfeited goods, one has to bear in mind that average consumers when buying on online marketplaces may be more likely confused as to the originality of products sold as in the physical world. This is because the consumer is not able to examine the product before buying it. They are being presented to consumers with the information about products possibly being false. It is not unusual that counterfeiters use photographs and other information on the product from the web sites of the right holder. Therefore when looking at the offer on the online marketplace there is nothing indicating the product offered is a counterfeited good. The consumer is usually becoming aware he bought a counterfeit at the time of delivery when the products delivered don't correspond to the products disposed in the offer.

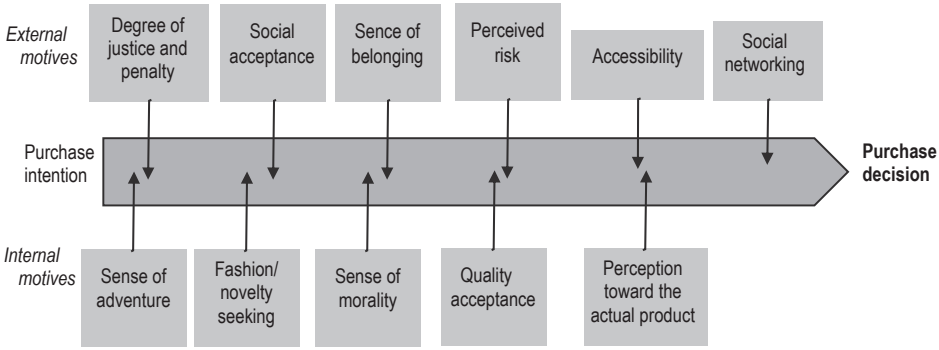
3. MOTIVES TO BUY COUNTERFEIT PRODUCT

Consumers face several motives that trigger them when want to purchase counterfeit product online. Figure 1 shows a purchase framework of external and internal motives that influence particular decision making process. At first, the consumer generates a prediction about the effect of the product on his social status and satisfaction. A research by Thaicon & Quach (2016) reveals that society considers counterfeiting as more and more acceptable phenomenon. Sense of belonging signifies that consumers are buying counterfeits hoping to become more important people, to be seen in public, and have a visa for being a part of certain social group, trend, fashion, and social class.

The consumer can face even higher risk of buying when becomes aware of the legal sanctions in case delivery interception by authority. The person then creates the concept of the risk that comes up against the purchase of counterfeit products. The other type of risk that a consumer encounters is an embarrassment if others find that the product is forged. If there is less difference between replica and original product, there

is less chance that others will discover the difference and the risk decreases. Accessibility for counterfeited products on online marketplaces becomes easier and faster to seek, and less effort is needed to order and buy. More recently, to make themselves more comfortable in decision making, without any doubt that it is definitely a risky decision, consumer are trying to search through social networks for other consumers' experiences with these or similar type of products.

Figure 1. Counterfeit purchase framework for customer decision making.



Source: Thaicon & Quach, 2016.

Among the internal motives first comes the sense of adventure because searching for and buying counterfeit products for part of customers is challenging event that excites them to such level. For them it is also challenging to encourage others to buy. For a large proportion of consumers, the motive for counterfeiting is a desire to be trendy because the new fashion brand is often very limited and rarely available, making them more searchable and appealing. Consumers prone to counterfeits are accustomed to the lower quality of those products and they become pleased with it but it should not be neglected the quality of the replica which is sometimes better than expected. Existing previous experience in buying fake products creates even greater consumer confidence and leads to an idea of repurchase.

4. LIABILITY OF ONLINE MARKETPLACES

Following the growth of counterfeit trade in online marketplaces and the challenges the trademark owners are facing to enforce their rights it has been apparent the trademark owners and the enforcement agencies have little if no means to stop the retail of counterfeited goods on online marketplaces. From there a question on the liability of online marketplaces and their role in the phenomena also began to be discussed.

From the perspective of the right owners the role of the online marketplaces is crucial. The online marketplaces alone have the ability to filter ads, take remedial actions against sellers and ultimately prevent trademark infringements from occurring on their sites and apps. This argument is bolstered by the fact they profit from all sales

conducted on the site, including sales of illegitimate goods (WIPO, 2010). Online marketplaces in the eyes of the right holders are on the one hand accomplices of the counterfeiters and on the other hand hold the key with which the access of the counterfeiters to their platforms could be closed and therefore could not reach the consumers as easily.

From the side of the online marketplaces however it is quite clear that they should not take over the burden of monitoring the use of trademarks on their sites and thereby enforce third parties rights since these undermine the whole business model they operate in the first place.

In this debate the manner in which online marketplaces in fact act in relation to infringing content seems to be crucial. It seems that the liability of the online marketplaces should only exist if the website actively verifies the offers made by seller and not in case when they merely provide a forum for retail by being passive as to the content itself.

The Directive 2000/31/EC of the European parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce) was adopted to foster the development of e-commerce having in mind employment opportunities, stimulating economic growth and investment in innovation and enhancing the competitiveness in the European Union. Under the provisions of this Directive the liability of an Internet service provider is excluded in cases where it act as mere conduit for the transmission of data, caches such data for the sole purpose of making its transmission more efficient or acts as a host for a website. Whether this so-called "safe harbour" on liability issues applies also to online marketplaces, depends on whether online marketplaces are also providing an information society service as defined broadly by the E-commerce directive. In C-324/09 L'Oréal and others vs eBay and others (ECJ, 2011) it was concluded by the European Court of Justice that the operation of an online marketplace which encompasses services provided at a distance by means of electronic equipment for the processing and storage of data at the individual request of a recipient of service and, normally, for remuneration, which clearly represents an information society service are to be considered Internet services providers. Moreover, the EU legislation regards online marketplaces as service providers by expressly stating this in the definitions in Regulation 524/2013 on online dispute resolution for consumer disputes.

There had been a number of court cases questioning the liability of online marketplaces and whether their acts can invoke the safe harbour exception as provided in the E-commerce directive. According to the report of WIPO (2010) apart from an early case in France (Louis Vuitton vs eBay) which had concluded the liability of an online marketplace "for serious tortuous acts consisting in abstention and negligence" claiming the online marketplace should have had "required sellers to authenticate their merchandise and permanently terminate infringing sellers account" the online marketplaces were in general not held liable. In the USA the courts have concluded (Tiffany v eBay) that the online marketplace can only be liable if it "continues to supply services to one whom it knows or has reason to know is engaging in trademark infringement, such knowledge however must be more than a general knowledge, but more a contemporary knowledge of exact listings which are infringing". Both in Belgium and according to re-

cent French decision online marketplaces were successful in asserting they were a mere host and therefore exempt from liability. German courts have attempted to strike a balance regarding the burden of monitoring for trademark infringement, obligating online marketplaces to prevent infringements on their sites by filtering and manual checks but only regarding easily identifiable infringements.

Definite guidance as to the issue in question was however given at least for the European Union by the ECJ in L'Oréal and others v eBay and others (2011). Considering the operation of an online marketplace it was concluded that it contributes to "hosting" within the meaning of the E-commerce directive the ruling. Further, the court concluded there is no liability of an online marketplace if it confines itself to providing the service neutrally by a merely technical and automatic processing of the data provided by its customers. The mere fact that the operator of an online marketplace stores offers for sale on its server, sets the terms of its service, is remunerated for that service and provides general information to its customers cannot have the effect of denying it the exemptions from liability. However, where it plays an active role of such a kind as to give it knowledge of, or control over, those data it can no longer invoke the exception and must be held liable. The court further gives examples of instance where it can be held that an online marketplace had played an active role and therefore can be held liable. It must be considered not to have taken a neutral position between the customer-seller concerned and potential buyers when it has provided assistance which entails, in particular, optimising the presentation of the offers for sale in question or promoting those offers.

Furthermore, the online market place that has not played an active role none the less cannot rely on the exemption from liability provided if it was aware of facts or circumstances on the basis of which a diligent economic operator should have realised that the offers for sale in question were unlawful and, in the event of it being so aware, failed to act expeditiously. Therefore the online marketplace must not be 'aware of facts or circumstances from which the illegal activity or information is apparent' and having obtained such knowledge or awareness, must acted expeditiously to remove, or disable access to, the information.

The situations thus covered include, in particular, that in which the operator of an online marketplace uncovers, as the result of an investigation undertaken on its own initiative, an illegal activity or illegal information, as well as a situation in which the operator is notified of the existence of such an activity or such information. In the second case, although such a notification admittedly cannot automatically preclude the exemption from liability, given that notifications of allegedly illegal activities or information may turn out to be insufficiently precise or inadequately substantiated, the fact remains that such notification represents, as a general rule, a factor of which the national court must take account when determining, in the light of the information so transmitted to the operator, whether the latter was actually aware of facts or circumstances on the basis of which a diligent economic operator should have identified the illegality.

Notwithstanding the liability issues, the online marketplace, just like the physical marketplace operators are classified as intermediaries within the scope of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on

the enforcement of intellectual property rights (Enforcement directive) and therefore the court can order the operator of an online marketplace to take measures which contribute, not only to bringing to an end infringements of those rights by users of that marketplace, but also to preventing further infringements of that kind. Those injunctions must be effective, proportionate, and dissuasive and must not create barriers to legitimate trade.

5. CONSUMER RELATED ISSUES

Online marketplaces have a large appeal on consumers since the range of products offered is much broader than the offer from single retailers. However, due to the overwhelming reach of the counterfeit goods on the online marketplaces consumer often end up purchasing counterfeits.

When consumers buy counterfeit goods, apart from the trademark owner losing revenue, there is obviously also an impact on the consumer regardless of whether a consumer was deceived into buying a counterfeit good or made a conscious choice to buy a fake. Potential safety concerns associated with the consumption of such goods is just one of it.

The specific position of the consumer in online sales has already been discussed above. The possibility of deceiving the consumer into believing he is buying an original product is much higher compared with the physical retail since the consumer becomes aware of the good itself only after the sale, at the moment of the delivery of the purchased good.

Goods likely to be of inferior quality then the ones ordered seem to be very common. Moreover, there are a number of cases reported when the purchased goods did not resemble the ordered goods and even those where the consumer didn't receive the good at all. At some point it seemed there is almost a trend of consumer receiving bricks or piles of carton instead of ordered mobile phone in boxes that resembled the original products boxes. After receiving such a delivery consumer of course realises he was a victim of a fraud and it becomes evident despite of some of the remedies available that he will not be able to rectify his loss.

The fact that the level of protection of consumer in the European Union is quite high is not enough to protect EU consumer from frauds on online marketplaces involving counterfeit goods. European Union legislation on the protection of consumer introduces many remedies available to consumers allowing for consumer rights to be observed in the e-commerce in the same manner they are protected in the physical world. The problems consumers frequently face when shopping online is how to enforce their rights. According to the Regulation 524/2013 on online dispute resolution for consumer disputes all online traders who sell goods, services or digital content to consumers including via online marketplaces must provide a link to the Platform introduced in the regulation on their website through which consumer complaints will be solved. In addition, all online traders must state their email address on their website and an online contact form that does not show the email address is not sufficient to meet this

requirement. However, justice for consumer may be limited in case of cross-border disputes and because of the fact that many online marketplaces are not subject to European legislation and therefore considerable different consumer protection models may apply instead. One has to bear in mind that an online marketplace active within the European Economic Area may not be always established under the European Union legislation and competence. Consumer therefore should be advised to use the online marketplaces which are under the jurisdiction of the European Union or of the countries which provide for the similar level of protection in the field of consumer rights.

Apart from the risk of being unable to enforce their consumer rights, consumers are the end purchasers of the counterfeit goods and as such may also be subject to the provisions under the Regulation (EU) No 608/2013 of the European parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights. This regulation has put in place a special procedure for the destruction of goods imported in small consignments when such goods infringe intellectual property rights. The small consignments procedure is a practical tool addressing internet sales of goods infringing IPRs. With this simplified procedure the counterfeit goods are destroyed without the obligation to establish the infringement by a court where the declarant or holder of the goods agrees, including in case of remaining silent. In such cases, the consumer, instead of being delivered the goods he has ordered receives a notification from the relevant customs authorities the goods he ordered are suspected to infringe intellectual property rights. Only then the consumer becomes aware of the fact he had in fact purchased counterfeit goods. The consumer in most cases has no argument to object the fact the goods are counterfeits and therefore should not engage in court proceedings which may result in high costs and further loss for the consumer. Moreover, even if the court costs can be avoided if the consumer doesn't object the destruction, the consumer ends up paying for the goods he had to give up for destruction and in some cases, depending on the disposition of the trademark right holder, may be held liable for the costs of the destruction itself. In the majority of cases trademark owners don't initiate actions for the reimbursement of such destruction costs against the individual consumers but have the possibility to do so.

In the end, the consumers may also be victims of some further misuse of the internet system as part of the business models developed by the counterfeiters. As the Report on the Online Business Models Infringing Intellectual Property Rights (EUIPO 2016) shows by researching illicit examples of marketing through Business-to-Business (B2B) and Business-to-Consumer (B2C) websites, online marketplaces and social media, intellectual property rights are often being used to disseminate malware, carry out illegal phishing and simple fraud to the detriment of society, businesses and the ordinary user of the internet.

Due to the limited reach of actions to be undertaken against the counterfeiters who often remain anonymous the consumer purchasing the counterfeited goods may seem the focal point to combat counterfeiting. Implementing and enforcing civil liability for end consumer may seem to be quite convenient since end consumer in the end may be the only ones easy to reach and punish. However, most jurisdictions have not implemented such harsh provisions and seem to regard the consumer mostly as being

the victim of the counterfeiting and not the ones that should be held liable. However, as consumers do play an active role in the counterfeiting phenomena consciously buying counterfeited goods it has been discussed whether putting laws in place to attach liability to consumers through heavy fines may act as a deterrent. Shifting the focal point of the fight against counterfeiting on internet against the consumer may be efficient, but doesn't seem to be the correct way forward. Consumers purchasing the counterfeited goods, especially if deceived as to the true origin of the goods, are still potential consumers of the original goods and because of that trademark owners would rather steam to re-establish their trust and loyalty into buying their trademarked goods then to regard the consumers as offenders and punish them instead of or together with the counterfeiters. Both the trademark owners as well as the policy makers around the world opt for the "follow the money" approach, which allows them to focus on depriving those engaging in commercial infringements of intellectual property rights of the revenue streams emanating from their illegal activities instead of deterring the end purchaser. The above mentioned policy principles are as well underlined by the European Commission (2014).

6. CONCEPT FOR SOLVING THE PROBLEM

Online marketplaces are exempt from liability for trademark infringement when hosting the illegal content provided they had not been aware of the illegal content and after having obtained such knowledge or awareness act expeditiously to remove or disable access to such illegal content. For that reason online marketplaces apply the enforcement scheme often called the 'notice and takedown' procedures. These procedures imply that a trademark owner, who finds that a listed product is infringing his rights, can file a complaint ('notice') to the provider and request the listing to be removed ('takedown'). It is a useful tool and online marketplaces are bound to react upon receiving such a notice expeditiously, with the complainant referring to the vendors account name and the identification tag of the specific listing which is then taken down. However the efficiency can be questioned since taking down one particular offer or a seller from the online marketplace doesn't prohibit the same counterfeiter to open a new account and continue with offering of counterfeited goods on the same marketplace under the new account. To make use of these procedures the right holder need to constantly monitor the online marketplaces for unauthorized use of their protected rights and to do so must invest in developing sophisticated technologies to search and detect infringements. Large companies being the right holders can perhaps make use of such procedures while SME's and start-up companies might be declined in exercising their rights in the above mention way due to costs and complexity thereof.

The current legal environment of limited liability of online marketplaces which offers burdensome and often inefficient possibility of taking down illegal listing to trademark holders results in overwhelming offer of counterfeited goods in online marketplaces. The end consumer as indicated earlier should obviously not be the focal point to combat counterfeit although efforts to educate the consumer and raise public awareness as to the risk of buying counterfeits can contribute to minimizing sales of counterfeited

by decreasing the demand side of this phenomena. The adequate and most efficient way to address the problem of counterfeits appearing on the online marketplaces therefore still needs to be found.

Attempts to shift the liability to internet services providers by means of legislative obligations seem to have failed so far. It should be recalled that the Anti-counterfeiting Trade Agreement so called ACTA did try to address the issue by obliging the countries signatories to the agreement on some specific issues in respect of the enforcement of intellectual property rights in the digital environment. These have been interpreted by the critics of the agreement as trying to eliminate legal safeguards that protect Internet Service Providers including online marketplaces from liability for the actions of their subscribers, in effect giving ISPs no option but to comply with privacy invasions. For that it was seen to facilitate privacy violations by trademark holders against private citizens suspected of infringement activities without any sort of legal due process (Shaw, 2008). Although it was heavily underlined by the supporters of the ACTA that it is about enforcing existing intellectual property rights and about acting against large-scale infringements often pursued by criminal organizations, and not about pursuing individual citizens, the agreement failed to come into force for this and many other reasons surrounded by the public protests against the agreement which resulted in the European Parliament declined to consent to it.

Failing any attempts to revise the legislation, which seems to be very sensitive and unpredictable, the problem was further addressed by stakeholders though voluntary and collaborative measures. In the end, the online marketplaces are also interested in minimising the offer of the counterfeited products since such offer also jeopardizes the business model they develop. Online marketplaces are trying to be recognized by consumers and sellers as being safe. Consumers are still to be convinced that online purchases are safe in order to optimize the possibilities of e-commerce. Consumers being surprised in receiving inadequate goods or not receiving them at all due to custom seizures draws suspicion as to the functioning of the system of an online marketplace as such. An online marketplace that becomes known for an increasing offer of counterfeits losses its goodwill and deters consumers not willing looking for counterfeits which then results in the loss of clients. Furthermore, legitimate sellers are by far more attractive clients of online marketplaces then counterfeiters and deterring them in using online marketplaces to sell their legitimate products would risk the operation of the online marketplace as well. In the end, a growing business which builds on its goodwill doesn't want to be associated with illegal and criminal activities since this would tarnish its reputation. Therefore the right holders and the online marketplace had found a common interest in solving the problem of counterfeited products and have engaged in creating mutually acceptable measures and activities to diminish the sale of such products without addressing the question of legal liability of online marketplaces. At the European Union level, this was done first in 2011, where a number of signatories including large right holders, trade associations as well as internet platforms regarded as internet service providers, including some of the largest online marketplaces, adhered to the Memorandum of understanding (European Commission, 2016c) on the sale of counterfeit goods via the internet. On June 21, 2016 a new Memorandum of understanding was open for

signature. It follows on from the previous version signed in 2011, but also includes 'Key Performance Indicators' to track its impact and to objectively measure its success.

As indicated in the Memorandum of Understanding the purpose is to establish a code of practice in the fight against the sale of counterfeit goods over the internet and to enhance collaboration between the signatories including and in addition to Notice and Take-Down procedures (MoU, 2016). The most important outcome is introduction of the so called pro-active and preventive measures which aim at enabling the attempt to sell counterfeited goods even before the offer has been available to the general public. Online marketplaces are not obliged to monitor the offers, but commit to take appropriate measures to prevent counterfeited goods being offered or sold through its services based on information received by the right holders who actively monitor such offers. Further on the path on introducing even more effective voluntary measures by the online marketplaces to address the global problem of counterfeiting is implementing due diligence checks to ensure a basic understanding of who is trading on their site and adopting appropriate, automated risk management tools to identify high-risk behaviours and potential red flags together with outlining clear "terms of service" prohibiting use of a site to sell or otherwise trade in counterfeited goods and stronger enforcing those "terms of service" (ICC/BASCAP, 2015).

The European Commission took a part in facilitating the aforementioned stakeholder dialogue seeing such agreements when applied as a rapid response mechanism to the IP infringement problem. From their point of view such memorandum should have well-embedded mechanisms for the protection of fundamental rights and a competitive environment, focusing in particular on preventing potential abuses and establishing practical solutions that are realistic, balanced, proportionate and fair for all concerned (European Commission, 2014).

However, the attempts to improve the existing system are still on-going since the problem still isn't adequately solved. In the context of the evaluation and modernisation of the enforcement of intellectual property rights the Commission announced in its recent Communication on Online Platforms and the Digital Single Market Opportunities and Challenges for Europe that it will assess the role intermediaries can play in the protection of intellectual property rights, including in relation to counterfeit goods, and will consider amending the specific legal framework for enforcement (European Commission, 2016a).

As regards IP enforcement, the Commission's objective is to fight against commercial scale IPR infringements that harm the EU economy with two parallel work streams, which are run concurrently. The first consists in establishing EU level dialogues between rights-holders and different types of intermediaries involved in the sourcing, promotion and distribution of IPR dependent products and content. These dialogues seek to achieve Memoranda of Understanding (MoUs) based on transparent principles that the parties can respectively commit to in order to reduce the level of commercial scale IPR infringing behaviour affecting the relevant IPR dependent product and content markets. The second seeks to modernise the existing civil redress framework in the EU such that all rights-holders of whatever size can seek effective redress against such IPR infringements. (European Commission, 2016b)

7. CONCLUSION

Online market places are heavily infiltrated by counterfeited goods. Counterfeiters have developed business models that use online marketplaces for the distribution of counterfeited goods because it enables them to easily reach consumers all over the world, with remaining anonymous and hard to track. Delivering products ordered directly to the end consumer makes it even harder for the customs authorities to detect counterfeits, with low risks and loss for the counterfeiters. Counterfeiters take advantage of the existing legislative framework which is limited in reach in cross-border and online environment.

Sale of counterfeits on online marketplaces harms the interest of the right holders, but also the consumers who are being deceived into buying the original product. This further undermines the trust of consumers in using the services of online marketplace and therefore poses a threat to the business model developed by the online marketplaces as well. However, leaving the counterfeits out of reach the battle against counterfeits on online marketplaces leaves the consumers, the right holder and the online marketplaces shifting the liability and burden of active involvement in such a fight one to the other. In fact, the way forward and the adequate reaction to the problem should however be accomplished in a manner that does not impede innovation or competition, undermine existing intellectual property rights limitations and personal data protection, restrict the free flow of information or unduly burden legitimate trade. In so far, the solution to the problem has to balance the interests of each stakeholder involved and asks for a balanced and adequate approach from each of the mentioned angles.

The problem of trading counterfeited goods is becoming more and more serious because these products are easy to obtain not just through online trading platforms but also through social networks which also add fuel on the purchase decision. Online marketplaces allow retailers easy access to customers of these goods but there are also external motives coming from other group members where consumer wants to take an important place. Effects of counterfeit trade can be alleviated by educating customers about the importance of intellectual property and on that way reduce their desire for these fake branded products and make them less attractive.

The right holders have to invest actively in pursuing online counterfeiters by monitoring online marketplaces, developing technology which allows them to detect infringements, and taking proactive actions and globally exercising their intellectual property rights. Online marketplaces also need to take proactive measures in particular know your customer/client practices to help combat counterfeiters. Most importantly the right holders and the online marketplaces should engage further in collaboration and developing voluntary best practices to reach better results in the fight against counterfeiting. Consumers as the end purchaser should realise the risk of purchasing counterfeited goods and more consciously and with greater care involve in online sales to diminish the possibility of confusion into buying counterfeits. Policy makers need to develop legislative proposal which will address the vulnerabilities of the enforcement of intellectual property rights infringement performed on online marketplaces and thereby complement the efforts by the stakeholders with a view to stop the commercial scale

infringement. Complementary efforts have to be undertaken to raise awareness among all stakeholders, in particular consumers of the common treat that counterfeiting represents to each of them including the economy at large and thereby assure their involvement in the common goal.

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DEVELOPMENT OF CUSTOMER RELATIONSHIP MANAGEMENT IN THE ELECTRONIC MARKETING CHANNELS

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Abstract:

Customer Relationship Management includes strategic approach to building and maintaining long-term relationships with customers. Technological applications are a key element of two-way communications that are focused on identifying and building loyalty with leading customers in the electronic marketing channels. The development of the management of relationships with customers enabled the creation of the profile of each customer. The customer relationship management system creates the conditions for identifying and winning profitable customers, while constantly improving and retaining loyal customers. Thanks to internet marketing strategies, there is a rich interactive communication between participants in the electronic marketing channels, and this is one of the biggest challenges in the era of interactivity. Differentiation of products and services to the needs of individual customers is enabled on the point of contact with customers. Using the technology of digital communications, electronic customer relationship management e-CRM, with the help of the Internet, Web-browsers or other electronic contact points, tailored content to the requirements of each individual is made thanks to the information provided. Interactive communication makes it a central aspect of the relationship with customers in the digital evolution, where the mobile management of relationships with customers through mobile media builds and maintains relationships with customers. Attracting, retaining and improving relationships with customers, during evolution, takes place in an increasing degree by interactive communication with individual consumers by use of new technologies in the global electronic market. The basic research problem refers to the long-term directions of development of electronic, mobile and interactive concept of customer relationship management. The high level of integration of markets and globalization with a higher concentration plays a crucial role in further strengthening of the electronic, mobile and interactive customer relationship management in the electronic marketing channels.

Key words: electronic marketing channels, CRM, eCRM, mCRM, ICRM

1. INTRODUCTION

By establishing long-term relationships between a larger number of participants in the global electronic market, there is an effective creation of value for customers. By developing information communication technologies, customers become well informed and able to create and define their purchasing needs. Thanks to the good knowledge and ability to participate in making creative solutions in the purchase of products and services, customers get an active role in electronic marketing channels. The evolution of customer relationship management emphasizes deeper links with customers that will be based on building long-term and sustainable relationships with them. Key elements in customer relationship management are being created thanks to new technological applications.

Customer relationship management has different forms, where the basic strategy of evolution is related to identifying and managing relationships with customers. Long-term interactive relationships between all participants in marketing channels create a new approach in the conditions of globalization. Marketing 1:1 enables the creation of profiles of each individual customer in the global electronic market. By defining a customer profile, the CRM system creates conditions for identifying profitable customers, with the aim of retaining loyal customers. eCRM, mCRM and iCRM represent innovative concepts of active customer involvement in identifying, developing and retaining customer loyalty. The evolution of customer relationship management imposes and raises the following fundamental questions:

- How does the globalization of electronic marketing channels affect the evolution of customer relationship management?
- What are the competitive advantages of electronic, mobile and interactive customer relationship management?

Answers to these questions should indicate the evolution of customer relationship management, which must include new technologies of electronic, mobile and interactive management. The evolution of customer relationship management is focused on the set goals of the global electronic market.

2. ELECTRONIC MARKETING CHANNELS ON THE GLOBAL MARKET

The development of customer relationship management in electronic marketing channels is under the influence of strengthening the position of participants in the electronic market. Successful implementation of customer relationship management is an indispensable requirement for success in the electronic market. The state of the development of electronic marketing channels can be analysed from the point of view of the largest retailers by sales revenue and their implementation of elecronic retailing, the impact of internationalization on retailers that function on the global electronic market, the amount of revenues from the sale of the largest "pure play" electronic retailers, and the Internet retailer.

Table 1 contains the list of the biggest "click and brick" retailers by sales revenue, with the listed rank in the group of the largest electronic retailers. The share of electronic

retailing in retail sales ranges from 1.8% to 8.1%. It can be concluded that retailers successfully implement electronic retailing, as indicated by the high growth rates of retail sales revenues for these retailers. If we compare the growth rates of sales revenue in electronic retailing and the growth in retail sales in general, the rates are higher following the individual retailer level. The same indicator is higher if we follow all major retailers.

Increasing the degree of concentration and strengthening the power of large electronic retailers such as Amazon.com, AppleInc.com, JD.com, and others that lead to a change in power relations in marketing channels affect the management and functioning of the electronic market. Strengthening retailers' power is conditioned by an ever-increasing degree of retail concentration, technological development of the retail sector, and modern management and marketing strategies, such as technologically driven customer relationship management. One of the most important retail trends is technological innovation (Dunne, Lusch, Carver, 2014). The emergence and development of electronic retailing and the increasingly intensified globalization of retail activities lead to a new position in the modern market conditions. Large retail chains are increasingly developing and becoming dominant in the global electronic market. Strengthening market position of retailers intensifies changes in the development of electronic retail formats.

Table 1. The state of implementation of electronic retailing by the largest retailers by retail revenue in 2015

Rank among the largest e-retailers	Rank among the largest retailers	Company	Country of origin	Participation of electronic retailing in total retail sale	Growth of Electronic Retail Sales in 2015	Growth of electronic retail sales since 2011-2015.	Growth in sales revenue 2010-2015.
1	4	Wal-Mart Stores Inc	USA	2.8%	12.3%	21.0%	2.7%
7	9	Tesco PLC	United Kingdom	8.1%	9%	12.9%	-2.3%
9	41	Groupe Auchan SA	France	2.2%	1.7%	11.3%	6.2%
11	6	The Home Depot Inc.	USA	5.3%	25.4%	38.2%	5.4%
13	19	Casino Guichard-Perrachon S.A.	France	7.3%	-2.4%	11%	10.1%
14	2	Costco Wholesale Corporation	USA	3.0%	17.6%	16.1%	8.3%
30	13	Metro Ag	Germany	3.2%	26.0%	48.6%	-2.5%
46	7	Carrefour S.A.	France	1.8%	7.8%	9.2%	-3.1%
Average				3.5%	21.11%	25.1%	4.21%
Average of 250 largest retailers				13.2%	19.7%	22.0%	4.9%

Source: according to data Deloitte, 2017.

Table 2. Internationalization of retailers in the global electronic market

Rank among the largest e-retailers	Rank among the largest retailers	Company	Country of origin	Electronic retail sale in 2015	Percentage of sales revenue from electronic retailing in total turnover	Number of countries of operation
1	10	Amazon.com	USA	79,268	100.00%	14
2	36	JD.com.	China	26,991	100.00%	2
3	33	Apple	USA	24,368	46.5%	19
4	1	Wal-Mart	USA	13,700	2.8%	30
5	46	Suning Commerce	China	8,095	37.1%	2
6	76	Otto	Germany	7,181	68%	1
7	9	Tesco	UK	6,539	8.1%	10
8	157	Vipshop Holdings Limited	China	6,084	100.00%	1
9	97	Liberty Interactive Corporation	USA	5,146	51.5%	10
10	35	Macy's	USA	4,850	17.9%	3

Source: according to data Deloitte, 2017.

Growth of global "pure play" electronic retailers influences the rise in productivity and profitability in the retail phase of electronic marketing channels positively. Strengthening the power of electronic retailers and raising the level of concentration contributes to creating new values for consumers. All this generally leads to a higher level of concentration of retail and changes in the relations of competitors in the global electronic market.

The development of the top ten internationalized retailers in the global electronic market (Table 2) with the introduction of electronic retail sales growth in 2011-2015 marks the next ranking of the world's largest retailers. All major electronic retailers are among the retailers with the highest sales revenue in general. In the group of ten largest electronic retailers, there are three "pure play" electronic retailers.

Wall Mart as the world's largest retailer in the group of the largest electronic retailers is ranked as 3rd, while Amazon.com is on the top of the list, and each year shows growth in ranking on the list of largest retailers unlike traditional retailers who stagnate in ranking. The participation of electronic retailers in retail revenue is gaining an increasingly significant share, indicating that electronic marketing channels are gaining importance in retailers' business. Only two electronic retailers have no business in more than one market, which indicates interantionalization of global electronic market.

Table 3. The largest global "pure play" electronic retailers by retail revenue in 2015

Rank among the largest e-retailers	Rank among the largest retailers	Company	Country of origin	Retail revenu of electronic retailing in USA $	Growth of electrnic retail revenu in 2015	Growth of electrnic retail revenue from 2011-2015
1	10	Amazon.com	USA	79.268	13.1%	17.2%
2	36	JD.com	China	16.991	54.5%	68.3%
3	157	Vipshop Holdings Limited	China	3.084	64.4%	127.7%
4	-	Zalango AG	Germany	3.286	33.6%	55.2%
20	-	Shop Direct Group	United Kingdom	2.763	25.8%	10.4%
29	-	vente-privee.com	France	2.222	17.6%	16.1%
32	-	Wayfair Inc.	USA	2.040	85.2%	80.1%
40	-	ASOS Plc	United Kingdom	1.579	26.7%	25.6%
5	20	Newegg Inc.	USA	2.800	3.7%	1.6%
6	28	Vente.privee.com	Francia	2.311	8.0%	17.5%
7	39	ASOS Plc	United Kingdom	1.740	17.2%	23.5%
Average of largest e-retailers					19.6%	22.0%

Source: according to data Deloitte, 2017.

The largest global "pure play" electronic retailers are originally from the market-developed countries that have a developed electronic market. Growth indicators for electronic retailers show higher growth rates for "pure play" electronic retailers. The growth in the revenue of these electronic retailers is also higher than the growth of "click-and-brick" electronic retailers.

Table 4. The largest global Internet retailers

Rank among the largest e-retailers	Rank among the largest retailers	Company	Country of origin	Type of electronic retailing	Retail revenue	Percentage of sales revenue from electronic retailimng in total turnover	Growth of electronic retailing
1	10	Amazon.com, Inc	USA	"pure play"	79,268	100.0%	13.1%
2	36	JD.com, Inc	China	"pure play"	26,991	100.0%	54.5%
3	33	Apple, Inc.	USA	"brick and click"	24,368	46.5%	18.2%
4	1	Wal-Mart Stores, Inc.	USA	"brick and click"	13,700	2.8%	12.3%
5	46	Suning Commerce Group Co., Ltd.	China		8.095	37.1%	95.0%
6	92	Otto (GmbH &CoKG)	Germany	Multichannel	7,181	68.0%	0.5%
7	9	Tesco PLC	United Kingdom	"brick and click"	6. 539	8.1%	9.0%

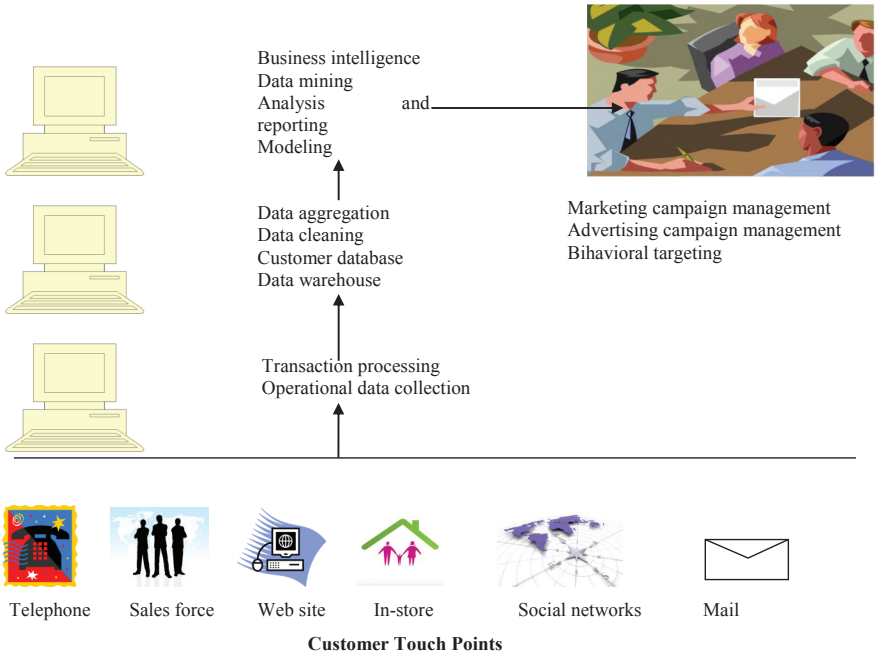
Source: according to data Deloitte, 2017.

The emergence of Internet retailing has not led to an increase in consumer demand, but has led to a redirection of purchasing power into a new channel, which gives consumers the ability to buy the same product often under more favourable conditions in new marketing channels. In this way, Internet retailing has increased the purchasing power of consumers. By that, customer relationship management became important part of marketing and management strategy in contemporary business and global market. In such circumstances consumers migrate during a purchasing process from one marketing channel to another, and retailers that use the Internet have a redirection of sales in their marketing channels. Retailers apply Internet retailing under the influence of environment, technological advancement, following competition and consumer demand.

3. DEVELOPMENT OF CUSTOMER RELATIONSHIP MANAGEMENT IN ELECTRONIC MARKETING CHANNELS

The development of communications and technology allows customers to actively participate in the creation of the value they want (Lovreta, Končar, Petković, 2013). The concept of long-term customer relationship management leads to identifying customer needs and adjusting product offerings to the requirements of each individual customer. Communication connectivity in customer relationship management comes through the "customer touch points". The next figure number 1 indicates the CRM system and its contact points with customers.

Figure 1. A Customer Relationship Management System



Source: Laudon K. C., Traver, C. G. (2017), p. 437.

Through the "customer touch points" (eg. via the Web, telephone exchanges, sales representatives, automated voice answering systems, vending machines and kiosks, POS terminals of retail stores and mobile devices), communication links are made (Končar, 2015). Thanks to touch points, customers have created opportunities to differentiate products and services according to the requirements and needs of each individual customer. By defining a customer profile, the development of customer relationship management in electronic marketing channels creates conditions for acquiring and identifying profitable customers, with the aim of retaining loyal customers. Customer Relationship Management collects information from every point of contact with customers and stores them in a large database.

In touch-based applications, retailers have used CRM systems that was not based on technology. In contemporary period of time retailers use the Internet, the Web and other electronic touch points to manage customer relationships. Unlike applications that deal with users, where customers contact retailer directly, customers are in direct contact with technology based applications. Those applications are electronic CRM (e-CRM) applications.

Conventional customer touch points implies traditional media and physical interaction with customers when they visit a store. Technology has changed user points, and now customers use e-mail, web pages and smartphones to interact with retailers. CRM systems support business performance processes that communicate directly with clients. The two major components of operational CRM systems are customer-facing applications and customer-touching applications (http://sis.binus.ac.id/2016/08/18/crm-customer-touch-points).

The presented marketing concept suggests one of the types of customer relationship management that is based on the use of consumer databases and interaction of communication in the process of sale of products and services. Some of the most recent CRM statistics shows effiecency of its implementation (available at : https://www.ibm.com/):

- without CRM, 79% of leads fail to convert,
- bad data sources result in 30% of all leads failing,
- the CAGR on CRM is 15.1%,
- CRM generated $36 billion in 2016,
- the ROI on CRM is approximately $5 to every $1 invested,
- adoption rates for CRM are 26%,
- CRM gives businesses a 65% boost in sales quotas,
- a 41% revenue increase is realized with CRM,
- social CRM improves retention by 26%,
- CRM is used for email marketing 60% of the time for small businesses,
- leads that are nurtured in the CRM system convert 47% of the time,
- conversion rates can improve by 300% with CRM in place,
- average purchase value can improve by 40% with CRM,

- lead cost is reduced by 23% with CRM, customer service can improve by 47% with CRM, and
- overall, 74% of businesses using CRM report better customer relationships.

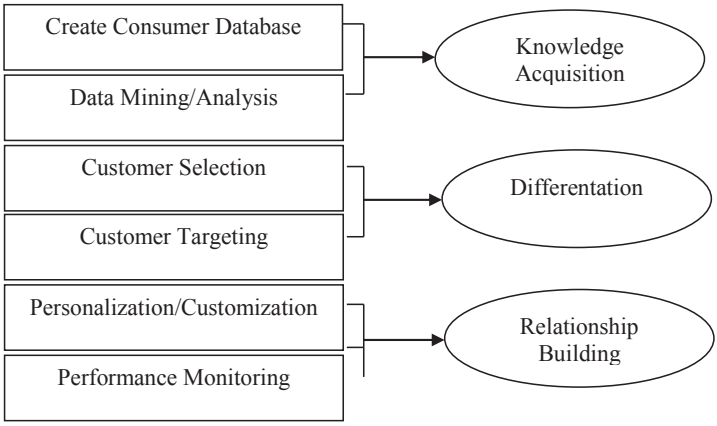
A good CRM system will gather information from every customer touchpoint and combine it with information from other sources about industry trends, general economic conditions, and market research about changes in general preference levels that might affect demand for the company´s products or services (Schneider, 2017). Thanks to multichannel approach, retailerers provide information about customers from multiple channels and thus affect the value of customers in the CRM system. The concept of loyalty and trust towards an individual consumer provides products that are in line with their needs.

4. ELECTRONIC, MOBILE AND INTERACTIVE CUSTOMER RELATIONSHIP MANAGEMENT

Building long-term relationships with customers requires the identification of customers and continuous interaction with them, with the aim of adjusting the offer to their individual needs. Adjustment creates the ability to change products, which is essentially an extension of personalization in accordance with the priorities of the individual user. Databases create the basis for storing all data and information about interrelations with personalized customers, all of which create new customer relationship management known as electronic customer relationship management - eCRM, mobile customer relationship management - mCRM and interactive customer relationship management – iCRM.

eCRM is sometimes referred to as web-enabled or web-based CRM and emerging from this view eCRM has been defined by Forrester Research (2001) as "a web centric approach to synchronising customer relationships across communication channels, business functions and audiences" (Kennedy, 2006). Electronic technology-enabled customer relationship management is becoming increasingly important to businesses due to increased loyalty to customers and the growing desire to retain them with the help of the Internet, Web browser or other electronic touch points. With personalized relationships with customers it is possible to have pesonalized content thanks to the massive adjustment of marketing messages, increasing the depth and nature of interactions in marketing channels, lower operating costs, and target and personalized interactions. Targeting and positioning "one to one", segmentes the market towards personalized individuals. The differentiation of products in accordance with the priorities of each individual user to a great extent affects customer loyalty.

Figure 2. An eCRM model



Source: Ab Hamid, N. R. (2005), pp 51-57.

Electronic customer relationship management includes all forms of customer relationship management using new information technologies. New digital communications technologies provide custom content information to eCRM, according to the requirements of each individual. Internet technologies, through the development of multi-channel marketing programs and client retention strategies, build powerful electronic technology enabling personalized interactions with customers on the global electronic market. The construction method of eCRM is shown in Table 5.

Table 5. Building blocks of eCRM

Building Block of eCRM		
Service and Support	**Sales**	**Marketing**
Internet Chat	Sales Portals	Online Ad Marketing
Collaboration Tools	Sales Configuration	Affiliate Marketing
Self-Service	Interaktive Selling	Online Campaign Management
Interactive Voice Responce	Sales Content Managemenet	Online Customer Analytics
Voice Over Internet Protocol		E-Mail Marketing
Customer Feedback		Lead Management
E-Mail Response Management System		Loyalty Management
		Web Personalization
		Web Analytics
		Wev Content Management

Source: Sarner, A., Janowski, W., DeSisto, R., Kolsky, E., Gomez, M. (2002.

eCRM is built through technologically-guided components within the service sector and support, sales and marketing. The eCRM technology components are related to Internet-based customer communications before purchasing, interactive sales and online communications, and customer relationship management.

As a subset of electronic customer relationship management, there is a mobile CRM that fosters relationship with customers thanks to new mobile media. Through mobile media, mCRM interactively builds and maintains customer relationships. Thanks to new mobile technologies, as well as significantly improving access to networks, mCRM becomes extremely popular, with the need to emphasize that users become more sophisticated and easily adapt to new technologies. Mobile channels create personalized direct connections with customers, with the ability to quickly take action to use information according to the requirements of each individual customer. mCRM provides a high quality response, enhancing and strengthening loyalty relationships between customers and businesses.

mCRM is perceived as services that aim at nurturing customer relationships, acquiring or maintaining customers, supporting marketing, sales or services processes, and using wireless networks as the medium of delivery to the customers, it is communication, either one-way or interactive, which is related to sales, marketing and customer service activities conducted through mobile medium for the purpose of building and maintaining customer relationships between a company and its customers (Lendel, Kubina, 2010). The evident rise of mobile CRM is shown in data (available at: https://www.agilecrm.com/):

- mobile CRM access does not just increase use of the software, but also the productivity of the workforce around 15%;
- users of mobile CRM are achieving better results;
- 65% of sales reps who have adopted mobile CRM have achieved their sales quotas, while only 22% of reps using non-mobile CRM have reached the same targets.

Internet-based electronic commerce activities provide interactive CRM (iCRM), where user requests are instantly resolved online in real time. This leads to a faster resolution of consumer demand, which increases customer satisfaction and loyalty. The main goal of iCRM is therefore to create greater consumer loyalty, sales growth and satisfaction, and provide a rich source of consumer knowledge that can be used to deepen consumer understanding in order to facilitate the provision of personalized services. Through joint cooperation, iCRM creates a stable position and provides opportunities for timely modification and monitoring of market changes in the global market. Expanding and intensive use of new iCRM technologies requires a complete change in the customer's culture of behavior.

A key challenge in developing iCRM is further building confidence and long-term sustainable relationships between retailers and customers. New technological applications represent the basis and key elements in the development of iCRM. iCRM can be integrated with other CRM data (which is stored in an integrative database), which can improve sales opportunities and relationships with customers, and thus the profitability of retailers. Interactive servicing of websites via iCRM increases the life of consumers by increasing future sales through repeated purchases.

5. CONCLUSION

By creating and maintaining a long-term customer relationship management, it is possible to create profiles of each individual customer. New CRM systems require changes in the organization's infrastructure, as well as the development of new technologies related to business rules, databases and information technology. A key place is personalization, which helps businesses to create and maintain strong and long-lasting relationships with customers. Interactive communication enables the differentiation of products and services according to the requirements of individual customers. Research relates to long-term trends in the development of an electronic, mobile and interactive concept of customer relationship management. eCRM customer relationship management takes place with the help of the Internet, Web browser or some other electronic touch points. The interactive character of eCRM helps businesses to establish and maintain long-term relationships with customers, thanks to personalized Web sites. The step further goes to mCRM where activities are carried out via mobile media in order to build and maintain customer relations. The future construction of customer relationship management through new technology applications lies in the expansion of the new iCRM.

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