

**Goran Petković**

University of Belgrade  
Faculty of Economics  
Department of Business Economics and  
Management

**Stipe Lovreta**

University of Belgrade  
Faculty of Economics  
Department of Business Economics and  
Management

**Renata Pindžo**

Singidunum University  
Faculty of Economics  
Finance and Administration (FEFA),  
Belgrade

**Saša Pešić**

Belgrade

## EVALUATING THE CONCENTRATION IN SERBIAN TOURISM AND FMCG RETAIL SECTOR

Analiza koncentracije u sektoru turizma i maloprodaje  
robe široke potrošnje u Srbiji

### Abstract

Protection of competition is one of the key areas in market policy and strategy of development of one sector in national economy. From time to time, particularly when noticeable M&A activities occur, in Serbian economy emerged the question of excessive concentration. This paper analyze two markets: retail FMCG market and tourism middlemen market (tour operators and retail agencies). The first one can be considered to represent the most important part of retail sector and the second one is the only part of tourism industry where competition might be threatened due to excessive concentration. In the beginning of this paper, both sectors were analyzed and the market ambience and trends were presented. In the later sections, eight standard measures of concentration were analyzed in order to answer the question: "Is there reason to worry about excessive concentration?" Calculated results are to be discussed taking into account actual standards and recommendations of the EU Commission.

**Keywords:** *retail, FMCG, tourism, concentration, market policy, competition protection*

### Sažetak

Zaštita konkurencije je jedno od ključnih područja tržišne politike i strategije razvoja jednog sektora u nacionalnoj ekonomiji. S vremena na vreme, posebno kada dođe do primetnih aktivnosti spajanja i pripajanja, u srpskoj privredi se pojavi pitanje prevelike koncentracije. U ovom radu analiziraju se dva tržišta: tržište maloprodaje robe široke potrošnje i tržište turističkih posrednika (turoperatora i maloprodajnih turističkih agencija). Za prvo tržište se može smatrati da predstavlja najvažniji deo maloprodajnog sektora, a drugo je jedini deo turističke industrije gde bi mogla da bude ugrožena konkurencija usled povećane koncentracije. Na početku ovog rada, oba sektora su analizirana i predstavljeni su tržišni ambijenti i razvojni trendovi. U kasnijim delovima rada, osam standardnih mera koncentracije analizirano je kako bi se odgovorilo na pitanje: „Ima li razloga za brigu oko prevelike koncentracije?“ Izračunati rezultati su raspravljani uzimajući u obzir aktuelne standarde i preporuke Evropske komisije.

**Ključne reči:** *maloprodaja, roba široke potrošnje, turizam, koncentracija, tržišna politika, zaštita konkurencije*

## Tourism industry trends

Tourism is a growing industry, globally and in the long term. The number of international arrivals, overnights, tourism revenues and many other indicators of the business activity show dynamic growth [18].

Southern and Mediterranean Region (which encompasses Western Balkans countries including Serbia) and Central and Eastern Europe belong to the group of the most dynamic areas if the tourism economic indicators are analyzed: number of arrivals and revenues prove it.

Tourism is a resilient industry, continuing to grow even during the period of economic crisis. The year 2015 denotes 6th consecutive in the sequence of years characterized by the above-average growth. International arrivals were increasing by 4% or more every year since the post-crisis year of 2010 [19]. It was recorded 1,184 million of international arrivals, meaning 4.4% increase compared to the previous year and that was above the expectations. Demand was strong, but destinations recorded mixed results due to exchange rate fluctuations, drop in the prices of oil and other commodities as well as increased safety and security concerns. This growth in 2015 fit in a trend projected for the period 2010-2020 with the average rate of growth +3.8% [15]. Southern and Mediterranean Region and Central and Eastern Europe are among the leading parts of the world, showing the growth of 5% and 6%, respectively. The appreciation of the US dollar stimulated outbound travel from USA. The true beneficiaries were Caribbean, Central American area and Oceania, recording 7% growth [19]. International air departures increased by 3% in 2015, with most solid results from May to December (+4%) [19]. Current economic scenario remains relatively volatile with economic growth gradually picking up in advanced economies (+5% in 2015) contrasting with a slowdowns in emerging ones (+4% in 2015).

It is considered that tourism has promising future, as well. It is expected to reach the number of 1.8 billion of international tourists by 2030. International tourism trends are positive but, some inbound tourism indicators are warning, particularly considering underdeveloped economies. So, European indicators of inbound tourism for 2014 and 2015 show growth rate of 2.7% and 2.5% on

average, but the same indicators for non-EU countries are -3.8% (2014) and -1.8 in 2015 [3, p. 8]. This means that non-EU tourism sector in underdeveloped countries must rely on international guests, having in mind that domestic demand is decreasing.

Tourism industry seems to have not so important macroeconomic impact on overall economy. However, the figures reveal something different. The combined direct, indirect and induced<sup>1</sup> contribution of tourism to the world GDP is between 9-10% GDP [18]. Furthermore, 1 of 11 job positions in the world economy is connected with tourism and travel industry. Tourism is very important in the European economy, as well. Direct contribution of the tourism industry to the European GDP was something around USD 2,000 billion, which is 2 times more than automobile industry that generates around USD 1,000 billion (despite the giants like BMW, VW or PSA group). It is also 30% more than European chemical industry, which generates USD 1,500 billion [14]. Travel and Tourism industry contributes to the European GDP more than mining and even more than the whole sector of education. The similar conclusion is if the job structure is analyzed. Tourism and Travel sector generates around 100 million jobs in Europe, comparing with less than 20 million in auto industry or around 20 million in chemical industry. Even financial services, which are one of the most important sectors in European economy, generate around 80 million job positions.

Tourism participates with 30% in global export of services and around 6% in total world export of goods and services [16]. It amounts the fantastic USD 1,245 billion earned in international tourism business enlarged for USD 221 billion coming from international passenger transport (a total of USD 1.5 trillion). International tourism exchange recorded real growth rate of 3.7% in 2014, compared with the volume in 2013. The most successful regions were Northern Europe, Southern and Mediterranean Europe (5%), but also, North-East Asia, South Asia, Caribbean and the Middle East (before war conflicts). Preliminary data for 2015 have been reported for 132 countries: 93 reported growth in earnings (71%), compared with the

<sup>1</sup> For explanation of terms used, see [22]

same period in 2014. Even 33 of 93 recorded growth in double digits (25%), while 39 (29%) posted declines [19].

Tourism has always been considered not only as an economic sector, but also, like sport or a culture, as a very credible vehicle of marketing and political messages. OECD report on the financial support (Overall Development Assistance – ODA) directed towards developing countries confirms this. Tourism receives 0.09% of total support directed to all countries, i.e. around 1% of the financial support directed to the developing countries [17].

That was why the countries in the region are very interested in tourism as the sector that should improve the competitiveness of the national economies in the region. Some of the countries in the region are among top performers in European tourism: Croatia recorded arrivals increase of 9% in 2015 while Serbia had 11.2% in the same period [3, p. 4]. For the first time since 2007, Serbia recorded a larger increase in number of domestic tourist arrivals (+12.2%) in comparison with foreign tourists (+10.1). Increase of tourism may be considered as a result of the implementation of the former strategy of tourism development, adopted in 2006, which created the need for strategy audit and further improvement [12]. The implementation of development strategy called for many changes in the economic and legal environment, particularly in the areas of the consumer protection [11]. Based on the recommendations of the previously adopted strategic documents as well as on positive experience of more developed tourism countries and following recent market trends, the Government of Serbia has taken several measures in 2015. In order to improve the competitiveness of Serbian tourist product, some tax incentives maintained like reduced VAT – 10% for accommodation, despite the overall pressure on fiscal system. On monetary side, incentive scheme by awarding vouchers for domestic tourists was introduced, giving immediate results. Further visa liberalization, reorganization of the winter-school holidays and some other measures are expected to bring results in the near future.

Still, there is a question if there is a real need to take further steps in the other very important area of market policy, i.e. competition protection. Tourism industry consists of three main sub-sectors: hospitality industry,

agencies (tour operators and retailers) and transport. Since transport sector is highly regulated and concentration in hospitality sector is very low, the analysis that follows will be focused on tour operators and retailers, and the level of concentration in this sector.

## Trade and retail sector trends

Key indicators of the trade industry in Serbia are pointing out the trend of significant decrease in the capacities volume and business activities level. This drop, particularly in retail sector, is visible from 2008. In the sections that follow, trends in several retail indicators will be presented.

*There is an obvious trend of decreasing number of stores in the Republic of Serbia from 2008 to 2013.* In the reporting period, the number of stores has fallen by 19%, from 100,233 to 81,200. This data shows that a retail sale in Serbia is slowly diverted, and that there is a trend toward the closure of small, traditional retail outlets. These stores are not able to withstand the competition of larger formats, primarily supermarkets and hypermarkets. Other factors have also affected the disappearance of small, traditional retail outlets such as a decline in retail sales, reduced purchasing power of the population, as well as one-year limitation of margins for basic foodstuffs and others. These processes are especially noticeable in the retail market of fast moving consumer goods in the period from 2003 to 2012. Although still dominated by small shops, the share of modern retail formats in the reporting period increased. From 2003 to 2012, the share of modern formats (hypermarkets, supermarkets and cash and carry objects) increased from 17% to 34% in fast moving consumer goods. Participation of small shops in turnover is significantly reduced during the reporting period, from 71% to 51.5% [5].

*In the period 2007-2013 number of employees in the retail sector in Serbia dropped by 28.3%.* It was due to a decreasing number of outlets, but also the use of more efficient retail formats that are more productive. Decline in employment was greater than the drop in turnover in EUR in retail (16.7%), so that there has been a productivity growth in the retail Serbia.

*Business activity in the retail, measured by turnover has dropped significantly since 2008* (see Table 1). Turnover in 2013 was almost a quarter less than the turnover in 2008, measured in constant prices. The decrease in turnover at constant prices constantly lasted five years, with some mitigation in 2010, so that the turnover in 2010 amounted to only 97.9% of turnover in 2007, at current, and only 76.3% of turnover in 2007 at constant prices. However, sales in non-specialized stores did not follow the decrease in the value of total turnover in retail trade since 2009. In the period from 2009 to 2012, the maximum value of turnover has been achieved in 2011. Turnover in non-specialized stores in 2012 was slightly less than turnover in 2009, while the turnover in the overall retail sales in 2009 amounted to only 87.85% of turnover in 2012.

*Retail sales per capita at current prices in EUR dropped significantly in the reporting period (-14.2%)*. This drop indicates the impact of the economic crisis on the living standard of citizens, influencing consequently the retailers of Serbia. Then, this fall in demand generated an intensification of competitive struggle.

Derived indicators point to a process of concentration of the retail network, an increase in the size of stores and, consequently, to a significant increase in productivity. Number of people per store increased from 76.4 to 88.2 in the reporting period as a result of reducing the number of objects. Number of employees per store was significantly reduced (14.6%) in the reporting period despite the fact that there was an expansion of larger formats in the market, which again suggests that, the retail struggle for productivity growth.

*Judging by the number of inhabitants per store, the retail sector in Serbia is underdeveloped*. Fragmentation of trade in Serbia can be illustrated by the number of people per store. Although this indicator recorded a significant

growth in the five-year period in Serbia (reaching 85), it is still, in 2012, significantly lower than in most EU countries (most people per store has Ireland, i.e. 222). Only Greece (61), Cyprus (67) and Portugal (72) have fewer inhabitants per store from Serbia. Those are usually the countries that have traditionally fragmented trade. Germany (188) France (208) and United Kingdom (221) have two and a half times the number of inhabitants per retail object. The main reason is that in these countries the average store is significantly larger and these markets are dominated by a large modern retail formats.

In the period from 2009 to 2012, the average sales area per capita in 32 European countries rose by 5.08% and amounted to 1,089 m<sup>2</sup> per capita. The highest growth of 28% was achieved in the market of Latvia, while the area of the shops decreased in Greece, Cyprus and Poland. The reduction of the retail area in these countries is primarily a result of the financial and economic crisis effects on the reducing turnover in retail trade and the withdrawal of some retail chains from the market.

For the purposes of the previous Strategy of the Trade Development in the Republic of Serbia, adopted in 2008, the estimate of the retail space in 2007 was performed and the result was 4,240 thousand m<sup>2</sup>. Thus, the estimated shop area in m<sup>2</sup> per capita would be 0.58 m<sup>2</sup>. Assuming that the annual growth in the Republic of Serbia was at the average level 32 European countries (1.27% annually), a new estimate in m<sup>2</sup> of sales area per capita in 2012 amounted to 0.62 m<sup>2</sup>. Thus, the estimated shopping area still puts Serbia at the end of the European countries list, with the countries of comparable retail level, like Romania.

*Serbia lacks larger formats, especially hypermarkets and supermarkets, mostly in its countryside*. In the structure of turnover by retail formats, there has been a

**Table 1: Turnover in retail sector by activities, in EUR million**

|   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   |
|---|--------|--------|--------|--------|--------|--------|
| Non specialized stores                                | 4,282  | 3,096  | 2,908  | 3,435  | 3,046  | -      |
| Specialized stores food, drink, tobacco               | 1,743  | 597    | 558    | 489    | 438    | -      |
| Motor vehicles, motorcycles, spare parts, accessories | 2,863  | 3,655  | 3,584  | 2,683  | 2,505  | -      |
| Other   | 6,236  | 2,678  | 1,976  | 2,352  | 2,196  | -      |
| Retail trade – total                                  | 15,125 | 12,035 | 11,929 | 10,970 | 10,573 | 10,642 |

Source: Calculated according to data from Statistical Office of the Republic of Serbia

rise in the share of modern retail formats in European countries. Since 2009, when the average was 66.8%, in 2012 it reached the level of 70.4%. According to the already cited reports which were made by the consulting firms Kantar and GFK [5], the largest share of modern retail formats (supermarkets, hypermarkets and discount stores) in fast moving consumer goods had Germany with 91.7%, while France and Portugal had almost 86% and the United Kingdom 82.8%. The lowest participation of modern formats was recorded in Serbia in 2012, and it was at the level of only 27.9%, followed by Bulgaria with 40.1% and Romania with 48%, which is a significantly higher level.

*Serbia is considerably lagging behind EU countries when it comes to retail sales per capita.* In 2013 turnover per capita in the EU was, on average, EUR 5,424 and in Serbia only EUR 1,485. Even in Bulgaria and Romania, retail sales were slightly higher than in Serbia (EUR 1,584 and 1,635, respectively). Retailers in Serbia in their stores serve customers which, compared to customers in the EU, are buying significantly less. As the competitive battle in the retail in Serbia is growing ever stronger, the environment is becoming less favorable to small retailers.

Some indicators point to some decreasing gaps between the Serbian retail and retail of EU countries. Despite the economic crisis that hit Serbia and that significantly affected the retail sales, the average size of the object increases. Self-service formats captured their rightful place in the structure of the retail network, increasing retail productivity. Of course, there is much more to be done in order to have a modern trade.

Trends in the development of retail in Serbia are basically favorable but changes are evidently slowed. Changes lead to a reduction of the gap between the Serbian retail sector compared to EU retailers although the pace is very slow. The slowdown in the process was impacted by the adverse macroeconomic conditions, in particular through the reduction of demand and the slowdown in the pace of retail development. The application of modern technologies in Serbian retail sector is not satisfactory. E-commerce is very modestly developed. Some retail formats are not even present in Serbian market, like big "category killers" (supermarket of toys, furniture, fashion goods, etc.), mainly because of the land use problems.

Furthermore, legal framework for omni-channel retailing is quite hostile causing problem if somebody would like for example, to pay in one channel (online) and receive from other (store) and return to third (franchise store under the same banner). These and other obstacles prevent more aggressive development of retail sector.

However, retail is still one of the most advanced sectors of the Serbian economy. Along with this, the expected large investments in modern distribution centers were essentially lacking in recent years. Therefore, it is realistic to expect in the future significant investment in the development of both the wholesale and also retail network. In the future it is also realistic to expect the long-awaited investment by famous retail chains Lidl and Ikea.

### Concentration in tourism sector

This chapter of the paper has been intended to provide statistical and empirical analysis of the Serbian travel agencies industry over the period from 2009 to 2014. The main sources of financial and other numerical data have been gathered from the Serbian Business Registers Agency. The structure of the research is based on a clear definition of the examined industry with specified product and geographical boundaries. Afterward, it will describe the market participants, their revenues and market shares (see Table 2). Furthermore, calculation of the concentration ratios will be presented, showing the change over time period from 2009 to 2014.

According to the International and Serbian Standard Industrial Classification of All Economic Activities, travel agency and tour operator activities include the activities of agencies, primarily engaged in selling travel, tour operators, transportation and accommodation services to the general public and commercial clients as well as the activity of arranging and assembling tours that are sold through travel agencies or directly by agents, such as tour operators. This description can be found under section 791 of the above-mentioned Classification. As the relevant market, in geographical terms, the whole territory of the Republic of Serbia is considered. Although most market participants are registered on the territory

**Table 2: Operating revenues (turnover) and number of tourist (travel) agencies**

|                               | 2009      | 2010      | 2011      | 2012      | 2013      | 2014      |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Operating revenues in 000 RSD | 4,014,418 | 4,850,900 | 5,107,347 | 6,060,449 | 6,596,810 | 8,013,828 |
| Operating revenues in 000 EUR | 42,729    | 47,076    | 50,096    | 53,572    | 58,308    | 68,316    |
| Number of tourist agencies*   | 537       | 537       | 526       | 525       | 522       | 515       |

\* N.B. Tourism entities are generated from the Business Register on the basis of the codes of the core activities 7911 – activities of travel agencies.

Source: Serbian Business Registers Agency

of Belgrade, beneficiaries are from the entire territory of the Republic of Serbia.

In the observed period, there is a correlation between the turnover increase and decrease the number of tourist agencies. These results indicate that the process of concentration gradually changes the structure of tourism market. In the period from 2009 to 2014, turnover increased by 60%, while the number of travel agencies decreased by 4%.

The next point on which this paper is going to focus is the measures of concentration and competition in the tourism industry. Concentration measures (indicators) will be calculated taking into account the definitions as shown in Table 3.

These indicators are used in their standard, usually used form, so that they can be compared with the similar results from other markets. The full list of registered agencies was taken into calculation, including 515 active enterprises with recorded business activity in 2014 (of

total number of 646 enterprises present in the register). The trends in various concentration measures during the period 2009-2014 are shown in Table 4.

Based on all indicators, it can be concluded that the market is poorly concentrated, i.e. it can still be considered as a fairly competitive market. When analyzing the same sector, in the UK is used CR5 indicator which measures concentration based on the market share of the five largest of companies in the industry. US analysts always use the share of the four largest companies in the industry. However, there is no rule about the number of companies that are observed in the concentration ratio.

If this indicator is used as the official parameter, the number of companies that are included in the calculation is determined by official state agency or commission. These differences can lead to problems of comparability. *Scherer & Ross* considered that if the CR4 value is greater than 60%, it is considered to have a strong oligopoly, while the CR4 value ratios between 40% and 60% indicate an oligopoly,

**Table 3: Features of concentration measure**

| Concentration measure                              | Formula  | Ratio range       | Typical features  |
|--|--|-------------------|---|
| Concentration ratio                                | $CRn = \sum_{i=1}^N S_i$                             | $0 < CRn = 1$     | Only takes into account large agencies  |
| HHI  | $HHI = \sum_{i=1}^N S_i^2$                           | $1/n = HHI = 1$   | Considers all agencies, sensitive to entry of new ones                        |
| Rosenbluth Index                                   | $R = \frac{1}{\sum_{i=1}^N S_i (2i - 1)}$            | $1/n = R = 1$     | Emphasizes the importance of the absolute number of agencies                  |
| Gini Coefficient                                   | $G = 1 - \sum_{i=1}^N S_i \frac{(2i - 1)}{N}$        | $0 < G = 1$       | Accounts for all agencies in the market, shows inequality in the distribution |
| Comprehensive Industrial Concentration Index (CCI) | $S_1 + \sum_{i=2}^N S_i^2 (2 - S_i)$                 | $0 < CCI = 1$     | Emphasizes the importance of market leader                                    |
| Entropy Coefficient                                | $\sum_{i=1}^N S_i \log_e \left(\frac{1}{S_i}\right)$ | $0 = EH = \log n$ | Emphasizes the importance of small enterprises                                |

Source: Adapted from [7], [2], [9]

**Table 4: Trends in concentration indicators in Serbian travel agencies industry**

|                                 | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| CR4                             | 15.34% | 17.47% | 16.32% | 23.28% | 22.32% | 28.52% |
| CR5                             | 17.75% | 20.15% | 18.83% | 26.11% | 25.47% | 32.45% |
| CR8                             | 24.26% | 26.41% | 24.92% | 32.31% | 32.14% | 41.32% |
| CR10                            | 28.12% | 30.03% | 28.68% | 35.62% | 35.97% | 45.63% |
| HHI                             | 135.23 | 145.51 | 135.00 | 270.56 | 215.24 | 297.09 |
| Rosenbluth Index                | 0.007  | 0.008  | 0.008  | 0.009  | 0.009  | 0.011  |
| Gini coefficient                | 0.75   | 0.76   | 0.75   | 0.78   | 0.78   | 0.82   |
| CCI                             | 0.08   | 0.08   | 0.07   | 0.15   | 0.15   | 0.14   |
| Entropy coefficient             | 5.05   | 5.00   | 5.03   | 4.77   | 4.80   | 4.52   |
| Entropy coefficient limit value | 6.29   | 6.29   | 6.27   | 6.26   | 6.26   | 6.24   |

while a value below 40% can be considered as competition [13]. The Serbian market of travel agencies, as measured by the standards of those authors, is a truly competitive market during all years of observation. However, a very visible upward trend of concentration in the observed period should be pointed out. Several forces induced these changes in this period. Some agencies emerged as the result of FDI and came at the top of the list. Some other merged or acquired other competitors. Also, some of them went out of the business due to bad results, leaving their market share to the competitors.

The Serbian Competition Law does recognize the implementation of the Herfindahl-Hirschman Index (HHI), as it represents not only a reliable indicator of the concentration level, but also the indicator of changes in the relevant market. HHI is the sum of squared market shares for all industry competitors. The fall of the HHI index level generally indicates a loss of power and increased price competition. Conversely, increase of it, implies the opposite effect. It represents a convex function of market shares and is therefore sensitive to inequality, which occurs in case of large differences in the size of the companies.

According to the Guidelines of the European Commission, it is considered that the markets to 1000 points are poorly concentrated market, from 1,000 to 2,000 points moderately concentrated, with over 2,000 points highly concentrated markets. However, the Commission does not always strictly adhere to standards proclaimed, but takes into account the specifics of each case (primarily local and regional markets) [6]. The US Department of Justice and the Federal Trade Commission generally

consider markets where the HHI is less than 1,000 to be a competitive marketplace, where the HHI is between 1,500 and 2,500 points to be moderately concentrated, and markets in which the HHI is in excess of 2,500 points to be highly concentrated [20].

The *Herfindahl* Hirschman Index also shows an increasing trend during the observed period. The maximum value reached in 2014 (297), while the minimum value was in 2009 (135). Considering these values, it can be concluded that the tourist agencies market structure is quite competitive. Market structure is not even close to a moderately concentrated market.

The use of the rankings of companies as weights for the calculation of the index, starting with the smallest, makes the index unlike  $CR_n$  sensitive to changes in the distribution of the companies by size [2]. Rosenbluth Index in all years indicates poorly concentrations. Rosenbluth Index underlines the importance of the absolute number of enterprises in determining the level of concentration. The value of this index means that this is the market with low entry barriers. Given the characteristics of the indicator, Rosenbluth Index is suitable to be also used in the industries with a few companies.

Gini coefficient in the observed period shows a tendency to increase. The maximum value is observed in the last year (0.82). The high value of the Gini index indicates a highly concentrated market, which is in contrast with other indicators. In fact, the Gini index shows that there is a small group of travel agencies with larger market share and a very large group of competitors with significantly smaller market share. Gini coefficient value confirms

the inequality in the market share distribution among competing travel agencies.

The values of Comprehensive Industrial Concentration Index reconfirm that the market of tourist agencies is poorly concentrated. Also, there is no considerable market leader on this market. Larger values of CCI index in the last three years are the result of the growth of the emerging market leaders. The largest share of leading agency (13.17%) was observed in 2012, while the least market share was in 2011 (4.76%). These variations warn that market structure is not stable and that competition is fierce with the strong impact on the market position of the agencies.

The higher entropy value means the higher degree of competitiveness. The entropy value has been decreasing over time, hence indicating a decreasing level of competition in the tourism sector. However, the value of this ratio in all the years is so close to the maximum value, meaning that the market of tourist agencies is very poorly concentrated. This market can be, again, considered as unstable from the point of travel agencies. The users of their services are free to choose and do not have costs when changing travel agencies.

TUI and Thomas Cook dominate the European tour operators market. Together in 2013, Europe's two leading leisure travel groups had combined market shares of over 50% in major source markets such as the UK, Scandinavia, the Netherlands and Belgium and more than 30% of the German market, being well ahead of other major tour operators [4]. The market share of German tour operators is presented in Table 5.

These data confirm the hypothesis of a mildly concentrated market in Serbia. In Serbian market in 2014,

**Table 5: List of top eight tour operators in Germany**

| Tour operator           | Market share |
|-------------------------|--------------|
| TUI                     | 16.90%       |
| Thomas Cook             | 13.20%       |
| DER Touristik           | 12.40%       |
| FTI Group               | 8.10%        |
| Alltours                | 5.60%        |
| Alda Cruises            | 5.00%        |
| Schauinsland-Reisen     | 3.70%        |
| Small operators overall | 35.00%       |

Source: [4]

even the top 10 travel agencies and tour operators did not reach 50% market share (45.63%). One of the explanations for such a small level of concentration is, actually, a very small tourist market in Serbia, which does not attract big competitors. That is why market leaders are either local tour operators or more and more, tour operators from the key destinations of Serbian travelers: Turkey, Greece, Russia and even Tunisia. These competitors are not the most prominent competitors, meaning that Serbian tourist market is not served at the already top available level.

### Concentration on the retail FMCG market

Intensification of competition is a prerequisite for the development and formation of the modern structure of trade. The processes of trading companies' concentration and growth of market power in Serbia have intensified, especially in the retail market of fast moving consumer goods, that is, in retail trade in non-specialized stores with food, beverages and tobacco. In trade, particularly in retail, over the past two decades, there have been significant changes in the operations of companies from the European Union and Serbia. These changes have had a direct impact on market structure and the intensity of competition. Although the process of concentration is a general trend in European countries, market structure significantly differs primarily in the retail market of fast moving goods.

One of the important changes that happened recently is the shift of the power in marketing channels. In recent years, retailing sector is under strong pressure from concentrated manufacturers, suffering from decreasing of profitability. Trend from 2008, presented in Figure 1, indicates a sharp fall in operating profits, where in one dollar in 2008, retailers participated with only USD 0.31, while producers share was USD 0.69 [8].

Market pressure from the concentrated manufacturers can be considered as the response to the intense concentration in retail sector in former decades. Additional pressure is coming from the demand side. Consumers are even better equipped and able to search for the best price, the most convenient way to purchase chosen product, and to find the most comfortable place to be served. That is



why retailers are increasingly forced to invest in loyalty schemes and CRM strategies [1] and to invest in Big Data solutions [21] in order to profile customers and keep them from switching to another source of supply.

The market share of the five largest retailers of fast moving products in 24 European countries ranges from 26.55% in Poland to 82.25% in Norway, according to data for 2012. The level of concentration in the EU is still growing. However, in some countries with the highest levels of concentration, the process has reached its peak, while in some countries the concentration level has even started to fall slightly. In the period from 2009 to 2012, the average market share of the five largest retailers of fast moving products on the European market rose from 58.99% in 2009 to 60.23% in 2012. This phenomenon is especially pronounced in those countries where the level of concentration is lower than average. It is reasonable to assume that this pursuit of concentration will continue in the future, calling for more careful monitoring by the authorities in charge of market competition protection.

The market share of the five largest retailers of fast moving products in the Republic of Serbia in 2012 amounted to 56.23% and it is close to the European average. However, this conclusion should be interpreted with caution. Specifically, the relevant market of fast moving products in the Republic of Serbia consists of a large number of companies, but the share of modern retail formats is among the lowest in Europe. More than half of the turnover is achieved through small shops including independent shops. It is therefore necessary, in

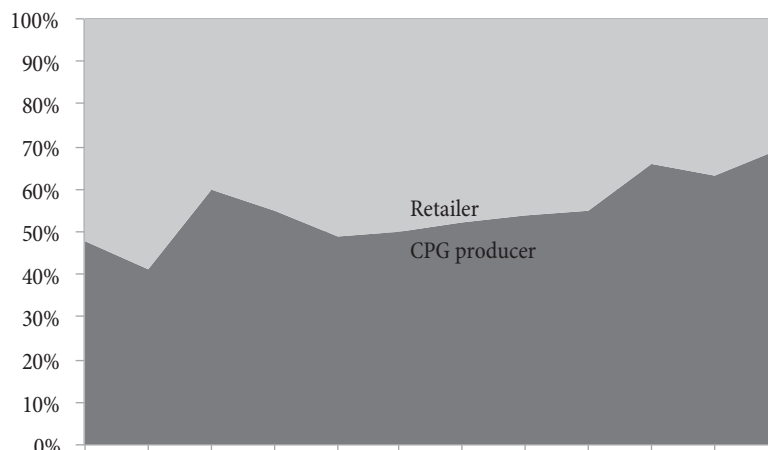
addition to index of concentration, to compare the value of Herfindahl-Hirschman index.

The values of the HHI index in 2012 in the EU countries vary from 1,170 in Italy up to 3,395 in Finland. In Finland, in addition, there was a high increase in the HHI in the period from 2004 to 2012 (4%). However, the differences are increasing at fastest pace in low-concentrated Polish (8.4%) and Czech Republic (5.1%) retail market. The largest increase in price competition accompanied with a decline of the HHI was recorded in Cyprus (-9.7%), Slovenia (-5.6%) and Bulgaria (-5.3%).

The retail market of fast moving consumer goods (FMCG) in Serbia is characterized by a very moderate level of concentration, taking into account the value of the Herfindahl-Hirschman index. On the basis of the Guidelines of the European Commission, it can be concluded that the market of modern retail in 27 European countries is moderately and/or highly concentrated. Until 2010, according to the European Commission, the retail FMCG market in the Republic of Serbia was considered to be very little concentrated. Looking at the data from 2012 up to now, the market can be considered as a moderately concentrated.

The main reason for the large increase in the HHI index in the Republic of Serbia was the significant growth of the market share of the largest retailers in 2012, given that the HHI index is very sensitive to the leading companies in the market. The average value of the HHI Index in 2012 for selected European countries was at the level of 2,159 points. Then, it can be concluded that the HHI value

Figure 1: Operating profit pool for consumer packaged goods



Source: [8]

in the Republic of Serbia (1,256 points) is far below the average. In the future, we should expect a continuation of the process of concentration, and accordingly, further increase of this indicator.

However, low level of the HHI in the Republic of Serbia certainly does not mean that the intensity of the competition is significantly higher, comparing with the majority of the EU countries. Top three retailers on the Serbian FMCG market, in 2012 realized market share of 48%. Then, in 2014 *Mercator* and *Agrokor (Idea)* merged. As a result, only two market leaders remained, keeping the similar market power as the three retailers before. High power distance between two leading retailers and the remaining followers actually does not ensure high level of competition. Sometimes, this cannot be noticed, looking at the customer treatment. But, if the treatment of the vendors would be taken into account, particularly the terms of trade, buying power of big retailers can be seen easily [10].

Serbian FMCG retail market is moderately concentrated, with slow but permanent striving of the big players to enlarge. In this moment, it can still be expected that customers will benefit of the joined, more efficient and better organized retailers. As a consequence of the competition, all big retailers are investing in logistics, IT, own label and even in food production and processing. Looking from that point of view, customers still could be considered as the beneficiaries of the merger and acquisition processes. The side that is squeezed by these processes is consisting of vendors. Future attention of the state authorities, therefore, should be focused on the supplier-retailer relationship, since the retailer-customer relationship still cannot generate some significant economic and social problems.

## Conclusion

Both tourism and trade industries in the Serbian economy are waiting for new strategic documents that should encompass their development in the next five-year period. In the previous period, a lot of discussions have taken place about the competition and consumer protection. This paper

was designed as the contribution to better understanding of the protection of competition on both markets.

When speaking about tourism, focus was on the tour operators and retail tourism agencies. Analysis has shown that no indicator points to concentration problem on Serbian tourism market. Very slow tendency of concentration can be identified from the HHI. However, the level of competition can almost be considered as a state of perfect competition. What is to be monitored on this market, as the advice to the authorities, is the impact and way of doing things in online transactions. These types of transactions sometimes remain invisible for the authorities and are out of range for the traditional instruments of market regulation. That is why traditional businesses, like agencies and hotels, sometimes do not understand the impact of the competition that is coming from the web competitors and sometimes complain about unfair competition. On average, more than one-third of all hotel rooms in Europe are nowadays bought online and this market share is growing rapidly. Online travel agencies, online review sites and (meta)search engines have converged more and more from the consumer's prospective. A rather new phenomenon, the co-called peer-to-peer platforms have popped up as strong competitors to the traditional market players. The number of relevant market intermediaries has recorded declining tendency.

As for retail market, the focus of this paper was on the FMCG sub-market, which obviously is one of the most important parts of the whole retail sector. Looking at eight standard indicators of market concentration on this market, it is possible to come to very similar conclusion that the retail FMCG market in Serbia has just recently become moderately concentrated, measured by the standards of EU Commission. Several mergers and acquisitions, performed in last five years actually pushed some of the indicators (CI5 and HHI) over the line that indicates the state of perfect competition. However, even on this market, regulating authorities need not to worry too much about retailer-customer relationship. What can be pointed out as the possible area of conflict is the supplier-retailer relationship, particularly the pattern of big retailers' behavior concerning the terms of trade.

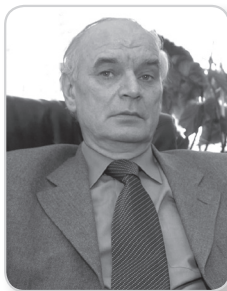
## References

- Anderson, K., & Elf, J. (2015). One step towards creating value from big data: A case study on E.ON Elnät [Master's thesis Technology Management Nr 294/2015, ISSN 1651-0100]. Lund, Sweden: Lund School of Economics and Management, and Faculty of Engineering, Lund University.
- Bikker, J. A., & Haaf, K. (2002). *Measures of competition and concentration in the banking industry: A review of the literature* (Research Series Supervision No 27). Amsterdam: De Nederlandsche Bank.
- European Travel Commission. (2015). *European tourism 2015: Trends & prospects* (Quarterly report Q2/2015). Brussels: ETC Market Intelligence.
- FVW Medien GMBH. (2014). European tour operators ranking: TUI, Cook dominate European tourism market [Press release, January 3]. Retrieved from <http://www.fvw.com/european-tour-operators-ranking-tui-cook-dominate-european-tourism-market/393/126948/11212>
- GfK & Kantar Worldpanel. *Europanel: FMCG global barometer* (2009-2012).
- Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings, *Official Journal of the European Union*, 2004/C 31/03.
- Lipczynski, J., Wilson, J., & Goddard, J. (2005). *Industrial organization: Competition, strategy, policy* (2nd edition). Harlow, England: Prentice Hall.
- Manyika, J., Chui, M., Farrell, D., Van Kuiken, S., Groves, P., & Almasi Doshi, E. (2013). *Open data: Unlocking innovation and performance with liquid information*. McKinsey Global Institute, McKinsey Center for Government and McKinsey Business Technology Office. Retrieved from [http://www.mckinsey.com/insights/business\\_technology/open\\_data\\_unlocking\\_innovation\\_and\\_performance\\_with\\_liquid\\_information](http://www.mckinsey.com/insights/business_technology/open_data_unlocking_innovation_and_performance_with_liquid_information)
- Marfels, C. (1971). Absolute and relative measures of concentration reconsidered. *Kyklos* 24(4), 753-766.
- Petković, G., & Pešić, S. (2015). Efekti procesa internacionalizacije i koncentracije u lancu vrednosti maloprodaje visoko obrtnih proizvoda. In Đ. Kaličanin, D. Lončar, Z. Bogetić, & M. Todorović (Eds.) *Stvaranje vrednosti, teorijsko-praktični aspekti* (pp. 207-222). Beograd: CID, Ekonomski fakultet.
- Petković, G., Lovreta, S., & Pindžo, R. (2014). Consumer protection policy in Serbia in the areas of tourism and commerce. *Ekonomika preduzeća*, 62(1-2), 135-148.
- Petković, G., Lovreta, S., & Pindžo, R. (2015). New strategic cycle in the Serbian trade and tourism development. *Ekonomika preduzeća*, 63(1-2), 115-130.
- Scherer, F. M., & Ross, D. (1990). *Industrial market structure and economic performance*. Boston: Houghton Mifflin.
- Turner, R. (2012). *The comparative economic impact of travel and tourism*. London: World Tourism and Travel Council and Oxford Economics.
- UNWTO. (2014). International tourism on track to end 2014 with record numbers [Press release, December 18]. Retrieved from <http://media.unwto.org/press-release/2014-12-18/international-tourism-track-end-2014-record-numbers>
- UNWTO. (2015). Exports from international tourism rise to US\$ 1.5 trillion in 2014 [Press release, April 15]. Retrieved from <http://media.unwto.org/press-release/2015-04-15/exports-international-tourism-rise-us-15-trillion-2014>
- UNWTO. (2015a). *Tourism driving trade, fostering development and connecting people*. Retrieved from [http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/pdf/tourism\\_driving\\_trade\\_fostering\\_development\\_connecting\\_people.pdf](http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/pdf/tourism_driving_trade_fostering_development_connecting_people.pdf)
- UNWTO. (2015b). *Tourism highlights, 2015 edition*. Retrieved from <http://www.e-unwto.org/doi/pdf/10.18111/9789284416899>
- UNWTO. (2016). World tourism barometer, Volume 14 [Advance release January 2016]. Retrieved from <http://mkt.unwto.org/barometer>
- US Department of Justice & Federal Trade Commission. (2010). *Horizontal merger guidelines*. Washington: US Department of Justice.
- Van Zanten, R. (2012). Surfing the data deluge: How retailers can turn big data into big profits. *Point of View*, 8/12. Cisco Internet Business Solutions Group (IBSG).
- Zečević, B., Petković, G., & Kovačević I. (2014). Turizam kao deo nacionalne ekonomije. In B. Jovanović Gavrilović, D. Molnar, Ž. Stojanović, & B. Zečević (Eds.) *Ekonomska politika i razvoj* (pp. 105-124). Beograd: CID, Ekonomski fakultet.



### Goran Petković

is a Full Professor of Management and Marketing in Commerce at the Faculty of Economics, University of Belgrade, Serbia. He served in the Government of the Republic of Serbia as the State Secretary in charge of Tourism at the three successive ministries, covering this area from 2007 to 2013. He served as the member of the University of Belgrade Council, as the Vice Dean of the Economic Faculty, University of Belgrade and as Chairman of the Council of the same Faculty. His background is in teaching, researching and consulting on retail, distribution, sale and sales management. He is the author of "Positioning of Retail Enterprises" and "Decision Making Models in Commerce". Also, he is co-author of several books, among which "Marketing Channels" (with Lovreta), "Sale and Sales Management" (with Lovreta and Janičijević), "Customer Relationship Management" (with Lovreta, Berman, Crnković, Veljković and Bogetić), "Trade Marketing" (with Lovreta), etc. As a consultant, he worked on numerous projects of which the following stand out: "Tourism Development Strategy in Serbia", "Cost of Doing Business in Serbia", "The Competitiveness of the Serbian Economy", etc.



### **Stipe Lovreta**

is a Full Professor at the Faculty of Economics in Belgrade. His qualifications and main fields of interest relate to economics of commerce, marketing channel management, commercial management, trade marketing, sales management and trade policies. He was Vice Dean and Dean of the Faculty of Economics in Belgrade. He is a full member of the Serbian Association of Economists and he was a member of the Board. He was Editor in Chief of several scientific journals. He was a member of the National Council for the Economic Recovery of the Government of the Republic of Serbia. He has published 15 textbooks and monographs, 250 papers in scientific journals, and 75 papers for national and international conferences. He was the project manager of more than 100 different projects, from management consulting to macroeconomic projects such as the Strategy of Trade Development of the Republic of Serbia and Tourism Strategy of the Republic of Serbia. The most important textbooks and monographs include "Modern Retailing", "Commerce in Modern Market Condition: Comparative Analysis", "Trade Marketing", "Economics of Commerce", "Commercial Management", "Commerce: Theory and Practice", "Sales and Sales Management", "Marketing Channels" and "Customer Relationship Management".



### **Renata Pindžo**

is an Assistant Professor of Investment Management and Investment Decision Process at the Faculty of Economy, Finance and Administration (FEFA), Singidunum University, Belgrade. Since August 2014, she has been working as Assistant Minister at the Ministry of Trade, Tourism and Telecommunications, in charge of the tourism sector. In the period 2008-2014 she was engaged as the Assistant Minister at the Ministry of Economy and Regional Development and the Ministry of Finance and Economy. She is a member of the National Council for the Tourism Development of the Republic of Serbia. Ms. Pindžo graduated from the Faculty of Economics, University of Belgrade, where she obtained master's degree in 2003. In May 2011, she earned her PhD degree. Her experience includes more than 13 years in management consulting and financial advisory services. She has gained knowledge by providing consulting services to many domestic and international companies, including financial institutions and local municipalities during her engagement in Deloitte. Also, as a consultant, she was engaged in the World Bank's projects related to restructuring and improving the competitiveness of Serbian economy. In the Economics Institute, Ms. Pindžo worked on the research and market analysis projects. She has cooperated with many international institutions (USAID, EAR, EBRD, DFID and GIZ) on complex projects of the restructuring of the Serbian economy. She is the author of numerous scientific papers.



### **Saša Pešić**

is a PHD student at the Faculty of Economics, University of Belgrade, Serbia. He received his bachelor's and master's degree from the Faculty of Economics in Belgrade. After graduation, he worked at the audit firm BC Excel, bank, and the financial market within two brokerage houses, as Director of the Investment Fund and later independently. The current focus of his research is the concentration of FMCG market. Other areas of his research are related to the development of trade. The results of his research were presented in a number of scientific papers at relevant national conferences.