

GLOBAL TRENDS IN TRADE DEVELOPMENT WITH SPECIAL REFERENCE TO THE EU AND SERBIAN MARKET

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Abstract

The key trends explaining the majority of changes in modern marketing channels are: Change from a simple channel to a coordinated omnichannel marketing; Changing the relationships with customers aimed at creating a superior customer experience, personalization and customization; Stopping the trend of increasing the average store size and restructuring the retail network; Technological changes and the emergence of new communication channels (social networks); Digit(al)ization of business, applications and databases in the cloud; Market change - labor market and market competition with dramatic geopolitical changes; A turn towards sustainability in all three components: economic, social and environmental sustainability. The transformation of trade in the European Union is currently lagging behind the processes in the USA and some other developed economies. Greater investments are expected, especially at the level of large corporations. The three areas of transformation of trade and marketing channels, foreseen by EU documents, are: sustainability, digital transformation and transformation of skills and talent. Statistical reporting on market processes plays an important role in the development of markets and market institutions. The most sensitive and complex area of transition of the Serbian economy refers to the development of a modern market structure and marketing channel, necessary to connect the domestic economy with the economy of the European Union. In the previous period, significant efforts were made to correct the deformations in these channels, such as the overemphasized development of wholesale trade. The trends, however, were often opposed to the development trends of marketing channels in the European Union.

Key words: omnichannel, personalization, digitalization, sustainability, skills.

1. INTRODUCTION

Trade in the third decade of the 21st century does not resemble trade at the end of the 20th century, and it can be stated that the trends of change are becoming clearer and that the intensity of these changes is increasing.

Business models and business formats are changing. The greatest achievement of wholesale logistics in the 20th century was the cross-docking center, which enabled just-in-time supply of stores without keeping stock in the warehouse. Today, they are supplanted by automated

fulfillment centers sometimes equipped with robots (Burns et al., 2022), that enable just-in-time supply to final consumers at the address indicated by the consumer in the order, immediately before delivery. In retail, the drivers of development in the last two decades of the previous century were big box stores, and the key competitive factor was size and growth (the bigger the better). The key drivers of competitiveness today are online marketing channels, which often provide a huge assortment without retail stores and even without stock, so without risk.

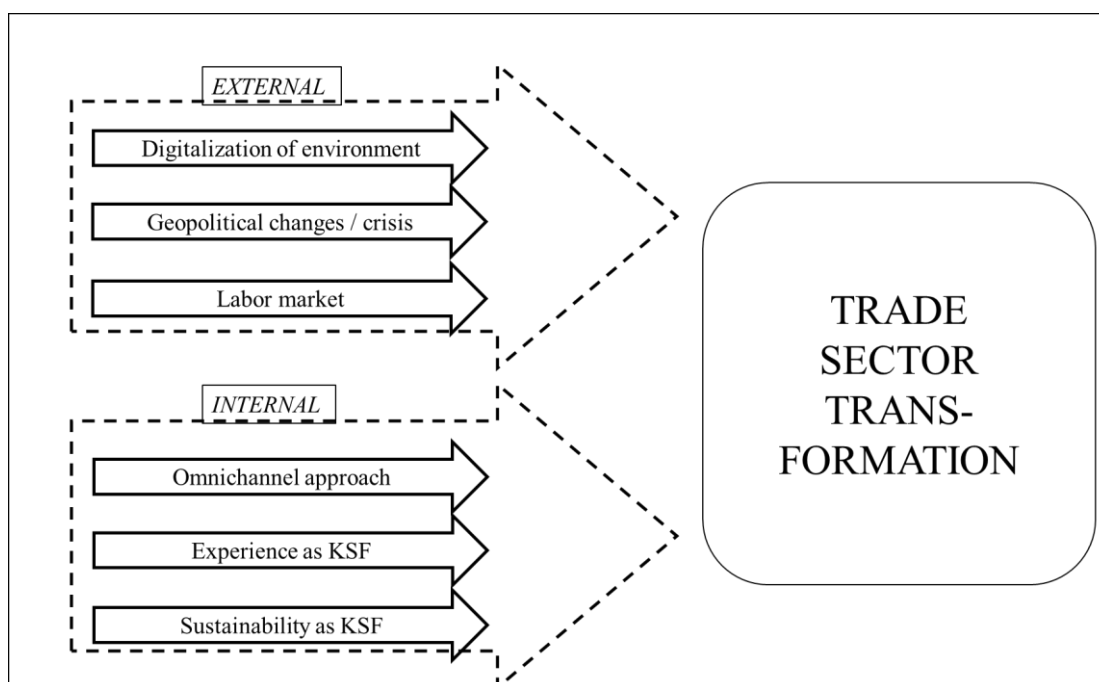
Marketing channels are becoming complex and consumer expectations are growing not only in terms of price, as it was in the last century, but also in terms of availability, convenience and personalized service. In the 20th century, the depersonalization of services, in order to reduce costs and prices, meant the process of transferring parts of the work process to the customer (comparing products, separating and sorting goods in carts, carrying goods to the cash register and from the cash register to the place of consumption, filling in various forms, for example for credit, etc.). Depersonalization in the XXI century means the process of transferring tasks (comparison of products, simulation of product trials, ordering, payment, notifications) to algorithms like chatbots (Jiménez-Barreto, 2023).

At the same time, trade is developing in different parts of the world with different intensity, and it can be freely claimed that some of the most innovative markets are China and India, which certainly do not belong to the most developed economies in the world. Nevertheless, on this occasion, the analysis included development trends in three regions for which there is the best basis in the available research literature. We are talking about the market of the USA, the European Union and the Republic of Serbia. By comparing the key development trends, the differences between these regions were analyzed and it was established that European trade lags behind American trade, as well as Serbian trade lags behind European trade.

2. KEY GLOBAL TRENDS IN TRADE DEVELOPMENT

Trade, as an intermediary activity, suffers from complex external and internal influences. Among external influences, frequent and diverse crises dominate, indicating the mutual connection of participants in marketing channels, which was observed even before the latest global crises (Milberg & Winkler, 2010, p.10). Among the internal influences, a new type of innovation (Purchase & Volery, 2020) dominates, which affects the change in competitiveness factors and consumer behavior.

Figure 1. Key external and internal trends changing trade sector



The text that follows describes some of the significant influences that are changing modern commerce.

Digit(al)isation of environment. Marketing channel members are constantly evolving, adapting to the environment, particularly to the consumers. The environment is in the process of digitization, i.e. converting analog signals into digital ones, and business people and traders among them use the opportunity to use digitized data in order to digitalize, i.e. improve their business processes (Frenzel et al., 2021). The technological advances contribute to the introduction of new devices, communication channels, as well as concepts and platforms. All these technologies can either lead to reintermediation or disintermediation in marketing channels. AI is being increasingly used in category management and dynamic pricing (Menidjel et al., 2019). POS data are streaming into large databases. Big data is feeding newly developed AI decision making models, with optimizing and predictive capabilities (Benzidia et al., 2021). Digitalization is also present in behind-the-scenes operations. Modern WMS systems are ever more reliant on IoT technology, allowing for logistics automation in the form of robot usage and drone use in last-mile delivery (Lim & Srari, 2018).

Geopolitical changes. Before-mentioned changes on labor market were partly initiated by geopolitical changes and migrations of large number of people towards “developed North”. Also, very visible changes occur due to the stagnation of globalization, growing protectionism and the crisis of the liberal economic model. The idea of free, open market is being challenged on a daily basis. Geopolitical turmoil gives rise to market protectionism (Rust, 2020), such as those of Brexit, Trump’s and Orban’s domestic policies, etc. CEFTA agreement accession is currently crawling to a halt in certain Balkan countries, endangering the liberalization of international trade (Petkovic, 2022). Coupled with local and global crises and hotspots, such as Covid-19, Ukrainian

war and Israel-Hamas conflict leading to supply chain disruptions, we are seeing evidence that crisis management is gaining importance in trade management. On the other hand, the growing global income gap creates growing inequalities between a small rich group and a growing poor population. The reconfiguration of marketing channels clearly follows this trend, showing an increase in discount retailers on the one hand and luxury marketing channels on the other. The question of the sustainability of this kind of marketing channel structure is inevitable.

Labor market has also been affected by political as well as demographic trends. Workforce deficits are becoming a growing concern for both wholesalers and retailers. High rents, high employee fluctuation rates and increasing workforce import are just some of the implications, which are bound to broaden further (Kahya, 2018). Marketers resolve the conflict between the demand for a better consumer experience and the employment of an imported workforce that is unable to communicate with those consumers. Competition drives forward the need for productivity. This, in turn, motivates retailers and wholesalers to digitalize where possible, relying only on the handful of experienced professionals. Retaining the necessary knowhow in the form of crucial employees is another challenge altogether. This is the age, as in the beginning of the 20th century, of balancing between intensive "depersonalization" of trade operations and personalization of the shopping experience. However, it is not now based on the self-service system associated with the development of the packaging industry, but on the transformation of sales processes based on new electronic devices and algorithms.

Omnichannel approach. Modern wholesale and retail are under constant pressure to change and evolve, adapting to the ever-changing customer and market demands. In this sense marketing channels are shifting to the multiple-channel fulfillment strategies. By aiming to provide seamless shopping experience to their customers, retailers are transitioning towards well-integrated omnichannel models, rather than discombobulated compilation of independent sales channels (Berman & Thelen, 2018). Along with the aforementioned seamless shopping experience, the modern omnichannel retail also requires the existence of data-driven optimized supply chain flows (Jocovski et al., 2019). The new reality in terms of customer journey stipulates the use of integrated multiple-media touchpoints. This emphasizes the role of direct marketing, at the expense of mass media (Watson et al., 2015). E-marketplaces, such as Amazon.com or Alibaba only further strengthen this market trend, creating a new digital "playground" for the implementation of advanced CRM activities and data analysis techniques.

Experience as key success factor. Having abundant data on your customer behavior and preferences allows for elaborate personalization efforts. Be it in terms of products offered, special promo sales, or communication content, personalization has become a key ingredient in adding value for the customer (Cotarelo et al., 2021). Rather than wait for the retailer to initialize offer personalization, customers can engage in the customization process. The penetration of digital technologies in trade allows for advanced means of customization approaches. The new trade paradigm slowly shifts towards the premises of experience economy, putting the customer experience first. Customer experience is the lens through which the overall value-adding shopping process is evaluated. It entails the entirety of shopping activities, from product awareness, product search, purchase, all the way to finding the right fulfillment approach for

each customer (Kumar et al., 2021), such as Y-digital natives and Z-mobile natives. These generations have fully affirmed the concept of "sharing experiences" through social networks, so that marketers have adopted the need to integrate physical and digital experiences in the so-called phygital experience (Bonfanti, 2023).

Sustainability as key success factor. The notion of competition in trade is also evolving. The traditional economic point of view is being replaced by the triple-bottom line accountability (Elkington, 2004). Sustainable retail revolves around social and environmental awareness. As such, ethics in retail is an important aspect of social accountability (Morali & Searcy, 2013). It is especially reflected in online customer satisfaction, through precise deliveries and adequate return policies and fraud management (John et al., 2020). ESG (Environment, social, governance) standard is also gaining in reporting importance and relevance. In terms of ecological activities, it entails CO₂ emissions in transport and warehousing emissions, disposing of expired products, return logistics and recycling (Belz & Binder, 2017). IFRS association has created a special division for sustainability, however the majority of ESG evaluations rely on private retailing agencies. This shows that sustainability measuring and reporting still has a long way to go until reaching a standardized format, such as those of financial reports.

3. CURRENT TRADE DEVELOPMENT LEVEL IN THE EU

The evolution of marketing channels is best depicted by the dynamics and outlook of the main actor, which is trade. The EU trade sector represents a role model for marketing channel functioning and structure in emerging countries. According to Eurostat data every tenth euro is generated in trade sector, and the entire sector employs 14% of the total EU workforce. SMEs account for the majority of trading companies, numbering around five million.

EU market is a heterogenous compilation of different sales channels, from the physical ones, to various forms of brick & click retail, to pure-click varieties. According to the European Commission (2023) analysis of the retail sector, food is the dominant category amounting to 53,3% of total sales. Supermarkets contribute the most with 16.5% of all sales, followed by small and independent retailers (14,6%). Hypermarkets add additional 9.1%, and remaining retail formats all add up to 16.1%. Non-food sector revenue represents 43.7% of the total retail revenue. Health and beauty products bring 10.2% of the revenue, followed by household products (9.7%) and clothes and footwear (6.1%).

Although lagging in comparison to USA market, retail in EU is bound to undergo a systematic renovation. By 2030 the approximated investment in the range between 300 and 600 billion euros, secured predominantly by large enterprises, will be diverted into three main areas – sustainability, digital transformation and skills and talent (McKinsey, 2023).

Sustainability will be the dominant field for future retail investments. The severity of ecological challenges differs depending on the point of view. If we account for all upstream supply chain activities, almost 95% of all harmful emissions in retail can be accounted for (Scope 3). This is why sustainable supplier evaluation is gaining in importance, especially when PL products are

concerned. Energy suppliers also cause certain emissions (Scope 2) motivating retailers to invest in renewable energy sources. The narrowest perspective is related to retail operations (Scope 1), predominantly related to logistics, warehousing, etc. Internal activities, as well as supply chain coordination, should also be aimed at implementing sustainable practices, based on circular economy principles (Jones & Comfort, 2018), such as the 5 Rs (refuse, reduce, reuse, repurpose and recycle). These will be crucial aspect in creating long lasting sustainable competitive advantage through supplier cooperation and integration. The future lies in creating partnerships between retailers and producers with regenerative agriculture practices or plant-based meat alternative capacity.

Retail also benefits from implementation of digital innovations. Digital transformation is aimed at developing omnichannel retail models revolving around providing seamless shopping experience through the use of automation, analytics, IT innovations, etc. Digital transformation has the capacity to improve productivity on one hand, while also creating unique customer experiences. Incorporation of technologies such as VR and AI leads to the creation of new marketing channels, such as m-commerce, s-commerce, and as of late also latest v-commerce.

Skills and talent transformation in retail is expected to create 1.5 million new workplaces each year. Such growth does not come free of problems such as labor shortage, high fluctuation rate, low employee specialization and education willingness, etc. Marketing channel transformations create the need for continuous improvement in terms of skills and knowledge, as many employees will be forced to prequalify for other job positions. Employees working in stores, warehouses and on product category management jobs will feel the highest pressure in this sense. New technologies and new products will require employees to adapt to the new reality, especially in terms of automation requirements, assortment customization, dynamic pricing, customization of the offer to the individual demand, etc. HR department now plays a vital role in this process, through online recruiting, training digitalization, etc. Will the HR in marketing channels and retail transform in the future? The answer is of course positive, bearing in mind the growing influence of social networks as recruiting platforms (LinkedIn), the application of AI in talent recognition and development (Sandep, 2021), etc.

4. CURRENT TRADE DEVELOPMENT LEVEL IN SERBIA

The link between free market economy and modern retail evolution is undeniable. In its brief history SFRJ has gone through several economic cycles aimed at developing market economy. Ever since the industrial reform of 1965, through the 80s, all the way to 2000s and today, proclaimed reforms would fizzle out in terms of implementation, after the initial enthusiasm. Serbia has undergone several attempts at forming the liberal, capitalistic market, all of which led to the widening, rather than narrowing the gap with the developed western countries.

In order to catch up to the EU in terms of market KPIs, integral market development is needed. Marketing channels alongside trade as the primary market institution, are the spearhead of this process. However, last 20 years have witnessed several divergent flows on Serbian market. Traditional trade still has an important role in Serbian retail, at the expense of modern marketing

channels. Integration and cooperation are lagging, broken up by occasional moments of retail disintegration and discombobulation. Conducted market studies show that Serbian market still resembles the initial phase of market liberalization and institution creation. This is depicted by high number of subjects on all levels of marketing channels. The overall trade structure is thus compromised, leading, among other things, to low levels of retail market concentration and productivity.

According to Statistical Office of the Republic of Serbia (SORS, 2022) data, retail and wholesale sector is one of the key drivers of economic growth in Serbia, as some key indicators show. One third of all companies and 16% of all employees are engaged in trade activities, creating 11% of the national GDP. Dynamic growth of trade sector was present up until 2007. After the Great recession and financial crisis, growth rates in trade have diminished significantly.

Small independent retailers dominate the trade landscape. Serbian Business Registers Agency data shows that this is apparent as around 33,000 entrepreneurs operated in this sector in 2021, compared to 31,000 companies. The majority of these subjects are located in the wholesaling sector. Wholesale is still the dominant trade aspect in Serbia, whilst retail only amounts to 40% of GDP generated in trade. This should not come as a surprise since each retailer is matched by three wholesalers on Serbian market, which is quite the reverse of the expected proportion. The negative implications on the overall structure of the trade sector are thus quite apparent.

The transformation of trade sector has started with the demise of the large national trading companies during the 90s, marking the sharp beginning of the ownership restructure in trade sector. Until then the dominant socially-owned enterprises, gave rise to private ownership, and trade sector saw the exponential increase in the number of companies, up until 2014 when the number of all traders, especially retailers has begun to shrink due to crisis. On the other hand, e-commerce has entered the phase of rapid growth. National Bank of Serbia (NBS) data shows that the 3 million transactions in 2018 have increased tenfold in 2022. Electronic commerce conditions the appearance of new types of service providers, such as Internet platforms (for example, for drive sharing CarGo), courier and delivery services, fulfillment centers. Innovations in business models such as labor leasing (Official Gazette, 2019), importing workers, etc., are emerging.

Concentration in trade sector is slow, which has good and bad consequences. Food retail market concentration has so far been much lower compared to EU national markets. However, if we only observe the leading companies, the difference is not so significant, as the Serbian market has a couple of strong competitors. From the market leader's perspective market concentration is not that low, whereas closest market followers are much smaller compared to EU countries. FMCG market concentration can be evaluated as moderate and stagnate, as top ten retailers amount to around 55% of market share. The retail market is fragmented, with only two large retail chains present on the market until 2018. With the market entry of the third largest player, concentration level of top ten retailers has increased somewhat to 58% (KZK, 2019, p.27), slowly increasing in last 10 years (Vukmirović et al., 2015). Similar fragmentation is also present in fashion and non-perishables markets.

Oversized wholesale sector is coupled with fragmented retail sector in Serbia. Domestic wholesale is very fragmented, tuned to the needs of the retail sector, with comparatively lower number of employees and turnover compared to EU. Wholesale revenue far outweighs the one in retail, showing that marketing channels in Serbia are not productive. This is especially true for raw materials market and industrial consumption inputs. In these sectors wholesale failed to establish itself and create a competitive market position through value adding recycling processes such as collection, buyback, sorting, etc. The majority of wholesalers in Serbia represent marketing channel cost “deadweight”, which is evident from the fact that 90% of all wholesalers are micro-sized enterprises with less than 9 employees.

Number of stores in Serbia fluctuates, on the other hand. Retail fragmentation is slowly being addressed. The processes of store enlargement and store number reduction are evident, but at low pace and with cycles. The average store size in 2018 was 330 m² compared to just 44.6 m² in 2009. The total number of retail stores in Serbia dropped from 98,000 in 2009 to 71,711 in 2018, recovering for a while in the last years. This implies that the modern, more productive retail formats are slowly taking over the market. This is causing a change in the overall retail market structure, which is significant, but not as it was predicted before Financial stabilization program and the impact of global crisis (MTTT, 2009).

Traditional (food) retail is on the constant decline, shrinking from 71% of the total market turnover at the beginning of the century, to just 36% in 2016. While mom and pop corner stores are disappearing, Serbia still preserves a strong presence of open-air markets and green markets, counting around 150 different enterprises managing 410 locations with 60,000 stands. This retail aspect is also important in terms of national employment rate, as it provides 80,000 jobs. In terms of market share, within sale and purchase of agricultural products, these local markets participate with 35% of the market, while this figure only increases when the narrower the scope of the assortment is in focus. As such, 42% of retail revenue in the fruit and vegetable category is generated on open-air markets and green markets (Radosavljevic, 2017). Belgrade city authorities also opened its first wholesale market in 2012. Trade fairs survived also, having a long tradition in Serbia, predominantly in Belgrade, Novi Sad and Leskovac.

Modern retail formats are constantly gaining in momentum, with the expansion of supermarkets and hypermarkets. This is not in line with the overall trends. For example, in USA, supermarket industry is considered to be mature one, with growth rate equal or lower of GDP growth rate, intensive competition and high rate of mergers and acquisitions (Kalyani, 2019, p. 13). Supermarkets (and hypermarkets) are under the pressure of non-traditional formats: organic and fresh food stores on the wealthy end of the market, and from discounters on the budget end of the market. From 2018, Serbia also has a discount food retail market, which expands strongly and is expected to reach 15% to 20% of total revenue share in the next ten years.

Low productivity, margin distribution and financing are the key, gap-causing problems in Serbian trade sector compared to EU market. The trade productivity in Serbia is almost twice as low as in the EU. Data from 2014 show that one store in Serbia serviced 83.5 people, compared to 138 in EU. This figure drastically changed over the years, and amounts to 96.1 in 2021 (SORS,

2022) which is closer to EU standards, but still at least twice worse. Retail sector is also subordinated to wholesale in terms of margin rates. Looking at the figures from 2009, Serbia was a rare market where average wholesale margin rate (20.9%) was higher compared to retail (20.7%) (MTTT, 2010). Finally, retailers oftentimes operate at the expense of their suppliers, making them finance retail operations through products (Pesic, 2015). All these market distortions lead to the fact that trading activities in Serbia are relatively more expensive to other markets, due to lower productivity, inadequate marketing channel structures and low market concentration ratio.

Marketing channel transformation in Serbia must adhere to global and European trends and reality. Individual companies are expected to spearhead future sustainable development and growth through the introduction of modern business practices. However, all these effects will be short lived if the market transformation is not approached from a systematic point of view. National policy in this regard must be clear and should address current major drawbacks.

The fact that data on trade flows is lacking is a significant problem for policy makers. Statistics on different marketing channel members is important in order to understand overall market dynamics and structure. Missing data leads to clouded perception of retail and wholesale networks, as well as mystification of pricing and margin policies, which oftentimes lead to public misunderstanding and implementation of outdated and ineffective measures, such as margin rate fixing, price ceiling, etc. It is necessary to improve public data and analytics systems and reporting through private initiatives.

Government support and strategic guidance is unfortunately lacking in trade sector. Rather than tackling the root of systematic problems, such as sustainability, the focus is on handling immediate disruptions and apparent effects. The lack of support for marketing channel members in terms of various subventions is evident, which prevents further development activities and practices, such as employment of members of endangered groups, support for innovators, reduction of carbon footprint, etc. The most obvious absence of Government support is seen in domestic retail, where the companies are not offered any help nor support regarding the collection and recycling of different hazardous products and waste such as batteries, plastics, etc.

Lack of local marketing channel development is another hindrance for national trade development, especially in less developed parts of the country. By providing adequate communication infrastructure and with a well-developed last mile delivery system, India (Sinha et al., 2015) and China (Ye et al., 2018) have demonstrated the potential of online retail in reaching developing and undeveloped areas. Undeveloped marketing channels only further the population emigration from the economically and socially devastated areas, enhancing regional disbalances in the level of development.

Inadequate competition protection also has an important role in marketing channel distortions. Slow regional and European integration processes of Serbia are hampering the development of retailers and wholesalers. International integration leads to higher competition in the national markets, which benefits the consumer. Competition drives the prices down, while forcing the

competitors to invest in value-adding activities, such as high customer servicing level. The somewhat moderate process of retail market concentration still has not reached the wholesaling sector, leading to previously discussed productivity and profitability problems.

Wrapping up this analysis of the development of the trade sector in the Republic of Serbia, it can be concluded that only some global trends had their impact on this market. Such trends include the strengthening of discount trade, the development of e-commerce and, to some extent, concentration in certain aspects of the market. Productivity is moving in the same direction, but at a much slower pace, as is the digitalization of trade and the development of an omnichannel market presence. When it comes to sustainability as a concept, it is completely unknown in the trade sector of Serbia, and the same can be said for adapting to the "new" consumer. Both concepts are present in Serbia at the level of operational copying of campaigns from the developed market, mainly in international companies, without any strategic involvement.

5. CONCLUSION

The paper highlighted some of the key trends in modern marketing channel transformations, which include omnichannel sales development, advances in terms of personalization and seamless shopping experience creation, technological innovation and communication channel development, as well as triple-bottom line sustainability introduction into trade management.

The level of trade development in EU is still not on par with USA. Future investments in EU trade sector will be spearheaded by large corporation and will be aimed at sustainability, digital transformation and skills and talent. Another point of vital interest will be statistical coverage of this process, as monitoring and reporting will play an important role in overall implementation.

In the context of Serbia, modern market and marketing channel structure still remains one of the most delicate and challenging issues. Modern marketing channel development drive the overall national development by creating an open and highly competitive market. Previous years and decades saw many attempts to close the gap with EU trade sector. Unfortunately, many of these endeavors proved fruitless, or even sometimes counter-productive. However, the dominant tendency currently present is one of slow transition from traditional trade to modern trade formats, driven dominantly by large international corporations.

In the upcoming years we can expect more intensive changes in marketing channel structure. Marketing channel institutions already present in EU markets will find their way onto Serbian market, driving market competition and development. New trade policies should account for these moments and reflect the market reality by focusing on reducing the gap between trade development level in Serbia and EU.

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