The Activity Features of Trade Enterprises

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Abstract. The study consists of three different directions. The first is devoted to the perception of trade, the second – to the selection of criteria, and the third – to the comparison of trade enterprises. The authors of the article analysed the perception of trade, termed the main features of trading companies. The empirical study is carried out for trade enterprises located in different countries (including wholesale and retail trade ones). The results of study are useful to management science: the authors provided new insights on trade development and the ability of enterprises to have trade expansion; the features of their activity, which reflect the basic differences of trade enterprises. Due to paper limitations the specifics of trade sector in comparison with other sectors have not been widely revised. The research is based on systematic analysis, statistical methods, aggregation, concretisation, comparison, and the evaluation of the multi–attribute complex proportional assessment of alternatives.

Key words: trade, enterprises, features, COPRAS.

1. Introduction

Trading companies have a significant impact on the national economy. Over 32.8 million employees of total 217.5 million employees in the European Union work in trading companies; sales of trade enterprises comprise 66% of gross domestic product in the European Union and 74% – in Lithuania; they also own most business enterprises. 28.6% of companies in the European Union business structure are engaged in trading activities. It should also be noted that most European Union trading businesses are small and medium enterprises (even
99.87%; they create up to 80% of all added value created by trading companies). Comparison of indicators in different sectors shows that trade enterprises are among those with the lowest workforce productivity; they are also distinguished for the largest number of enterprises, the number of employees and added value.

In general, service companies are the fastest-growing enterprises. This trend is common for both wholesalers and retailers (Sahay, 2005).

Trade is a complex phenomenon of social economic development that is distinctive for its dynamics and manifold changes. Such processes as globalisation, use of knowledge in economy, the development and expansion of the European Union affect this phenomenon:

- Increasingly intensifying globalisation processes lead to emergence of new international markets, spread of technologies.
- Growing scales of knowledge application stimulate the development of higher intellectual value products and use of technologies in various domains.
- The European Union development and expansion processes facilitate free movement of goods, services, capital and workforce, they also create conditions for increasing the competitiveness of companies operating in different countries. However, it is observed in the European Commission (2011) research that sales of trading companies that were actively growing during the last decade, started to decrease because of economic crisis.

To summarise the above mentioned it should be noted that one should analyse trade as a very complex research object.

Having performed literature review, it is observed that practical activities of trading companies should be understood and analysed in trading studies. However, little attention has been paid to such studies. Therefore, the paper aims to reveal the abilities of companies to develop trade under current challenging conditions, to compare economic entities in different countries and to show peculiarities of activities of trade enterprise.

Analysis of research published by Oxford University Press, Cambridge University Press, Harvard University Press, Springer, M. E. Sharpe, Routledge and other publishers has shown that only 0.44% of research works on trading topic are aimed at revealing peculiarities of trading companies’ activities.

Obviously, trading companies should try to actively strengthen their competitiveness in response to changes pre-conditioned by globalisation, knowledge economy and the European Union development and expansion.
It shows relevancy of the topic and a necessity to formulate and solve the following important issues:

- Peculiarities of trading companies’ activities have not been widely analysed.
- Existent theoretical knowledge is not adequate to current changes. Research goal is to reveal the peculiarities of trading companies’ activities by comparing them.

The research is based both on a literature-driven and an empirical-driven approach. Most attention is drawn to analysis of trading companies’ activities.

2. **Trade concept and peculiarities of companies acting in this field**

Trade covers activities of purchasing and selling goods and services. The word ‘trade’ means purchasing, selling or exchanging goods. Usually trade is understood as trading material, physically shaped goods (material movable things), excluding electricity, water and gas, if they are not prepared for selling as goods of limited volume or specific quantity. The European Union Council Directive (2006) “On the common system of value added tax” defines a ‘good’ as a material property. According to this directive, “a good is a thing”. But it should be noted that USA and Japan include immaterial goods into this category. Trading companies started selling immaterial digital goods when the opportunity for selling (i.e. order and provide) goods on internet emerged. Goods that had material form in traditional trading turned into immaterial goods (examples of such goods include music, games and books) (Diorio, 2001). The main difference is that in the European Union immaterial goods are treated as services.

Trade is a branch of economy; to develop trade goods are transferred from manufacturing to consumption sphere. According to NACE classification, wholesale and retail types of trade are distinguished (Lietuvos statistikos departamentas, 2010). The main wholesale trade activity is resale of goods to professional consumers and companies. Before selling, goods can be sorted, packaged, mixed and repackaged without introducing any essential changes to goods. Some wholesalers sell goods by using their own warehouses and usually deliver goods to buyers by using their own transport; this activity is called warehouse trading. Other wholesale companies deliver goods to their clients directly from warehouses of manufacturers; such activity is called transit trading. Wholesale companies include entities that are engaged in buy-up trading. Most often such companies buy up agricultural goods and various secondary raw
materials. Their major task is to buy up goods that are used as raw materials for producing other goods from multiple manufacturers; then sorted and made up goods are sold to processing industry companies.

Main retail trade activities are carried out in shops, although there are also other trade forms: wagon trade on streets and squares with large buyer flows, etc.

Retail companies differ from wholesalers by the following:

- Retail trading companies sell goods often and in small quantities.
- There are much more trading companies than wholesalers.
- Connection with buyers is anonymous and opening hours are adjusted to buyers.
- Retailers sell goods at a higher price than wholesalers.
- Retail companies apply the uniform price policy to all buyers, while wholesalers apply different price policies to various clients.
- To attract more clients much attention is paid to goods presentation.

According to the Lithuanian Department of Statistics (2010) data, the Lithuanian retail trading companies buy 60% of goods from wholesale companies.

Further in the paper the practice of trading companies including wholesale and retail enterprises is reviewed. The research methodology is based on:

- Systems approach,
- Trade development research concept,
- Comparison of companies.

At the core of systems approach is comprehensive analysis of a complex research object as an integral entity.

Trade development research concept covers the application of mathematical methods to reveal the patterns of ongoing changes and evaluate their effect.

Comparison of companies carried out in different countries to uncover peculiarities of trading companies’ activities.

Systems approach is a methodological framework for systems analysis. Systems analysis is a set of means applied to research complex phenomena.

3. Criteria used for comparing trade enterprises

A set of criteria has been developed to analyse peculiarities of trading companies’ activities by comparison. Literature review has shown that quantitative indicators are mostly used to analyse the performance of companies. Several groups of criteria are distinguished:

- General criteria that describe the national environment
(telecommunication infrastructure, government politics, market indicators, transparency and trustworthiness of financial system). Analysis of such indicators is not the task of this research.

- Specific criteria that show certain features of trade sector (work force efficiency, personnel expenses, investments, company size, and etc.). These criteria will be used in this research.

Different criteria will be applied to reveal the features of trading companies’ activities. Variables that reflect financial condition are identified in literature (Černy, 2011). Profitability, asset management and liquidity ratios are often mentioned indicators of financial condition. Analysis of research published by Oxford University Press, Cambridge University Press, Harvard University Press, Springer, M. E. Sharpe, Routledge and others has shown 20 thousand publications on this topic. Several publications can be mentioned: Huselid (1995) analysed financial company performance indicators. Delaney ir Huselid (1996) collected information and found that 590 U.S. companies did not make profits.

European Commission (2011) research has shown that a lot of staff is employed in trade sector with the largest numbers in very small retail trading companies. The contribution of staff to company performance was emphasized by Černy (2011). Many other authors who performed important research in this field highlighted it as well. For instance, Katou and Budhwar (2010), Katou (2008) analysed and related staff contribution to better company performance; Guest et al. (2003) studied the influence of staff to financial indicators of a company; Purcell et al. (2003) researched the significance of staff expenses and staff motivation, etc.

The European Commission (2011) research observes that trading companies actively invest in information technologies and telecommunications. Maula (2001) suggests to evaluate the quality of investment. Jasilionienė (2010) research has shown that a lot of companies use their own return on investment (ROI) calculators to evaluate company investments; others assess the investment payback period, net present value (NPV) or apply other indicators.

It is argued in the European Commission (2011) research that retail trading companies foresee large investments in nature-friendly shop environment. However, at the same time the research indicates that small trading companies are not capable to make large investments. This idea has been developed by Maula (2011) who highlights non-financial factors for creating company’s added value, such as knowledge and resources. This author distinguishes the effect of partnership between companies on creation of added value. He also draws attention to the significance of staff as individuals in the process of
creating added value.

In order to improve economic performance, the factors that affect company performance should be known (Donselaar et al. 1998). The European Commission (2011) research observed that the workforce efficiency in the trade sector is not high, lower indicators are also common to transport services, hotel and catering, and real estate sectors. Several main reasons explain why workforce efficiency is a very important measure of trade sector companies’ performance. First of all, trading companies provide services (this peculiarity influences expenses for production means). Second, distribution sector is a user of social services (it uses workforce resources). Changes in trade sector efficiency can have a significant impact on the economy. Usually, service organisations do not measure workforce efficiency as manufacturing companies do; this is due to more complex and diverse processes in such companies. However, it is necessary to determine features of services where increase in efficiency is important (Sahay, 2005).

In general, workforce efficiency is an important measure of economic performance of any company. Analysis of efficiency theories shows that trade sector efficiency should be understood as a distinctive phenomenon. To measure workforce efficiency, a ratio (it is calculated by dividing turnover by the number of staff) should be used. The most efficient workforce is in the supply chain of manufacturers, especially in the field of food or computer production (Burinskienë et al., 2011).

Several studies analyse efficiency of workforce in the trade sector. Mellat and Elham (2010) studied the relation between workforce efficiency and profitability. Battisti and Iona (2009) analysed efficiency gap between the United Kingdom service sector and its major international competitors. They also researched workforce efficiency gap between the United Kingdom and USA trade sectors. Burinskienë et al. (2011) analysed the gap between wholesale and retail trading companies. The research found that the lowest workforce efficiency was in retail trade enterprises. Both wholesale and retail trading companies working in the field of medicine were distinctive for the highest workforce efficiency, while the lowest efficiency was found in companies working in the field of music trade. Additionally, the authors observe that recently workforce efficiency in retail trading companies has been growing two times faster than in wholesale trading companies (Burinskienë at al. 2011). Seller-Rubio et al. (2007) published a research on the efficiency of trade services and its measures. In this research, workforce efficiency changes were classified into changes that happen due to setting up hardware and increasing
efficiency. Johnston and Jones (2004) indicated that efficiency reflected actions of service companies. Besides, in their research the relation between efficiency and client service was analysed. Tietz (1971) studied social and economic factors that stimulated the economic growth of wholesale and retail trading companies. Sobotka and Platts (2010) performed two-level analysis focused on service organisation performance: the efficiency of organisation activities and staff was analysed. According to Oprime, Tristao and Pimenta (2011), companies should improve their performance by integrating supply chains of higher efficiency levels. It increases the capacity of a company to allocate more resources for trading on new international markets. Such experience provides companies with information about clients and markets that can be used for the future development (Mohamad, Hoshino, 2012). Basing on it, Yusof (2008) defined the system of variables that covered long-term and short-term behaviour of companies.

To measure company size an indicator showing the average turnover per company is applied. This indicator is used to show the importance of economies of scale. Burinskienė et al. (2011) analysed the values of this indicator in wholesale and retail trading companies and determined that the lowest company size was common for both wholesale and retail trading companies that work in flower trade domain. A relation between turnover per company and work force efficiency was observed. The strongest relation was observed in wholesale trading companies (Burinskiene et al. 2011). Other authors emphasize the significance of economies of scale in developing trade on new markets. They argue that exporters often have higher work force efficiency that allows covering new market entry expenses. “Export supplement is more important for small than large companies because the costs of new market entry are relatively higher for smaller companies” (cited from: Kox and Rojas-Romagosa, 2010, p. 296). When the activity scale grows exporters get return on investment related to higher work force efficiency because trade means better access to goods’ markets. Demand for company’s goods increases its capacity. Besides, it shows that exporters should use more advanced technologies. In general, the new market entry contribution varies in each country; for instance, countries and trading companies that use older and less advanced technologies export less. Decrease in trade expenditure can have a significant impact on a company’s decision to leave certain market, export or invest in order to decrease expenses, develop new services or increase the quality of current services.

The European Union carried out several researches of wholesale and retail trading companies and found that innovations have positive impact on trade
sector – companies experience higher level of growth, increase business scale and workforce efficiency (European Commission, 2011). The European Commission (2011) research also indicates that wholesale trading companies engaged in selling machine equipment and tools as well as retail companies trading by mail, online and other channels are more active innovators than others. Trading companies in new member states (companies, operating in Czech Republic, Slovakia, Slovenia, Romania, Hungary, Estonia, Latvia and Lithuania were analysed) are more active innovators as well. In 2004 Brockhoff initiated a research where he studied the impact of long-term company collaboration on innovation. The research revealed the strong connection between two companies (purchaser and seller) had a significant influence and stimulated partners to develop and improve services, employ more advanced technologies (Albers, Brockhoff, 2004). This impact was also observed by other authors: Walter, Gemunden (1998), Waudig (1994), Gemunden, Heydebreck (1994). Maula (2001) suggests to use various non-financial means to maintain relations with partners.

The abovementioned shows that criteria of financial condition, workforce efficiency and company size, innovation and collaboration should be included in the developed criteria system that will be used for comparing trading companies.

4. Research of trade company practice

Empirical research aims to reveal the peculiarities of trade company performance.

The following empirical research tasks were formulated:

- To analyse the practical activities of trading companies and to reveal the current state-of-the-art in the European Union, Lithuania and companies in other countries.
- To conduct a comparative analysis of wholesale and retail trading companies.
- To reveal peculiarities of companies’ performance.

This research aimed to compare trading companies from different countries. In this case the multi-criteria solution issue was faced (Peldschus, 2009).

Trade company comparison was performed basing on a multi-attribute complex proportional assessment methodology suggested by E. K. Zavadskas, L. Simanauskas and A. Kaklauskas (Zavadskas, Simanauskas, Kaklauskas, 1999). The abovementioned methodology allowed normalising criteria of a different purpose (i.e. criteria that determine essential features of trading company activities) and making the final decision based on those criteria.
First of all, a matrix for task decision-making was developed; the number of columns in it coincided with the number of criteria, while the number of rows – with the number of compared objects. When applying multi-attribute methods, it is very important to determine criteria (indicators) weights (significance) (Podvezko, 2005). After normalising the decision-making matrix, it was turned into a matrix without measure units for criteria numerical values. Then the normalised decision-making matrix was weighted: values of each criterion were multiplied by an appropriate weight; the total sum of abovementioned criteria should be equal to 1 (Turskis, Zavadskas, Peldschus, 2009).

Selection of the way for normalisation and application of decision method is the business of a person who takes the decision (Turskis et al., 2009). Often authors choose to apply COPRAS (The multi-attribute Complex PRoportional ASsessment of alternatives) method.

COPRAS method was used for this research as well. In Lithuania COPRAS is well-known and it has been applied since 1994 to solve various tasks (Andriuškevičius, 2005; Bivainis, Drejeris, 2009; Ginevičius, Podvezko, 2009; Ginevičius, 2008; Ginevičius, Podvezko, 2007; Kaklauskas, Gulbinas, Krutinis, Naimavičienė, Šatkauskas, 2007; Kildienė, Kaklauskas, Zavadskas, 2011; Malinauskas, Kalibatas, 2005, etc.).

For the purpose of comparing trading companies from different countries in accordance with descriptive criteria systems a complex assessment was applied. The complex assessment provides an opportunity for:

- Using the generalised indicator for describing the companies.
- Assessing different and even contradictory criteria.
- Considering the significance of various criteria to assessment results.
- In comparison of manufacturing and trading companies nine criteria were used for describing companies in order to reveal:
  a) Work force efficiency,
  b) Average expenditure per employee,
  c) Added value per employee,
  d) Company size (by analysing average company turnover),
  e) Investment size,
  f) The size of investments in material objects,
  g) Total revenue,
  h) Partnership with other companies,
  i) Innovation.

In research the listed criteria were divided into three groups. Criteria, describing the main measures of trading company performance (a–d), were
assigned to the first group; criteria, describing financial indicators (e–g) were assigned to the second group, while criteria, defining the activeness of trading companies – to the third group (h–i).

The listed criteria are especially important for comparing trading companies and assessing opportunities for trade development.

Criteria system was developed by considering all possible quantitative criteria that describe the companies under analysis. Weights of quantitative criteria were determined by expert method.

Criteria in the first group received the highest expert score, while criteria in the second group got less attention of experts than criteria in the third group. Compatibility of expert opinion was assessed by concordance coefficient. In this case it was equal to 0.047 (significance of concordance coefficient was equal to 37.87 and it was bigger than critical value, which was equal to 15.51; it showed that expert opinion were compatible).

Research was performed in 25 European Union countries, Norway and Turkey. The following countries provided all data necessary for the research: Ireland, Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Italy, Spain, United Kingdom, Cyprus, Croatia, Latvia, Poland, Lithuania, Luxembourg, the Netherlands, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, Hungary and Germany. Due to the lack of information trading companies from Malta, France and Greece were not included in this research.

Eurostat survey data was used for this research. Having assessed the Eurostat survey sample, the authors concluded that it was sufficient. To ensure 95% confidence level and 3% margin of error 0.62% of trading companies (0.65% of wholesalers and 0.69% of retail trading companies) should be surveyed. Not less than 1.25% of abovementioned companies in each country took part in the Eurostat survey.

Basing on collected data, comparison of trading companies from different countries was carried out in several directions:

- General comparative analysis of trading companies,
- Wholesale trading companies’ comparative analysis,
- Retail trading companie’s comparative analysis.

Comparative analysis of trading companies showed that Luxembourg and Denmark trading companies had the best trade development capacity. Indicators of work force efficiency, added value, company size and innovation were the highest in Luxembourg trading companies. Even 85% of Luxembourg trading companies implemented innovation, 43% - aimed at sales growth (54% aimed to achieve growth on international markets).
The research found that 23.8% of all analysed trading companies collaborated; 42% applied innovation; the total revenue of analysed trading companies was equal to 4.8%, while overall investment comprised 14% of turnover. 48% of companies implemented innovation, 22.3% aimed at sales growth (only one third aimed to achieve the growth on international markets).

Comparative analysis of retail trading companies showed that Luxembourg and Norway retail trading companies had the best trade development capacity. Luxembourg retail trading companies had the highest indicators for work force efficiency, added value and turnover per company.

It was found that the total revenue of all retail trading companies under analysis was equal to 5%, while overall investments comprised 17% of turnover. It was observed that average number of staff in one retail trade company reached 5 employees (4265.6 thousand companies with 20418.5 employees were analysed).

Comparative analysis of wholesale trading companies showed that Luxembourg and Denmark wholesale trading companies had the best trade development capacities in comparison to other countries. Luxembourg wholesale trading companies had the highest indicator values for work force efficiency, added value and turnover per company; besides, even 65% of Luxembourg wholesale trading companies applied innovation.

The total revenue of all wholesale trading companies under analyses comprised 5%, while overall investment comprised 12% of turnover. It was observed that the average number of employees in one company was equal to 5.8 (1946.7 thousand companies with 11315.3 thousand employees were analysed).

The research revealed that the capacity of Lithuanian wholesale trading companies assessed against other countries was much better than those of retail trading companies. It was found that Lithuanian trading companies often faced the lack of business partners, they were especially active in collaboration with other companies, were distinctive for large investments, 39% were innovative, but Lithuanian trading companies also had very low work force efficiency, smaller added value and small turnover per company.

The research revealed that Bulgaria trading companies had the lowest trade development capacity. In comparison to all other analysed trading companies, Bulgaria had the lowest turnover per company, smallest added value and expenses for employees. Work force efficiency was particularly low as well as aims to develop trade on international markets (only 8% of companies would like to achieve this goal). Only 21.3% of Bulgarian trading companies
implemented innovation (this number was twice time smaller than the general average).

Comparative analysis of trading companies showed that 41.8% of trading companies under analysis implemented innovation. One fifth of trading companies planned to implement innovation. It was also found that the highest work force efficiency, the highest turnover per company, average employee expenses and added value were common for wholesale trading companies, while retail trading companies were distinctive for higher general revenue and especially large investments.

The research also discovered that Luxembourg trading companies were unique for their activeness and this indicator was important for assessing companies’ trade development capacity. 85% of companies implemented innovation. Majority of Luxembourg trading companies were distinctive for activeness in achieving sales growth.

The research showed that both wholesale and retail trading companies had similar capacity for implementing innovation. Despite the same average number of employees both in retail trade and wholesale trading companies, turnover per wholesale trade company was four times higher than value of the same indicator in retail trading companies.

Several peculiarities of trade sector were uncovered by the research – trading companies should purposefully implement innovation that would stimulate trade development: to sell goods that will be demanded on new market, implement other innovation that allows building capacity necessary for trade development and increase service diversity. The research found that to stimulate the application of advanced technologies for sales development, more attention should be paid to purposeful launch of technologies in trading companies.

5. Conclusions
Different variables were used to reveal the peculiarities of trading companies’ activities. First of all, this research used the methods that had been applied for a long time and considered important variables that reflected financial condition of companies (total revenue and investment variables). Second, variables that described long-term behaviour of companies (these were work force efficiency indicators and economies of scale) were introduced. The results of theoretical analysis confirmed that including work force efficiency indicator in the criteria system was very important for service organisations. This indicator reflects the economic dimensions of service activities. Company size indicator shows that economies of scale are important in order to enter new international markets. It
means that these variables should be included in the proposed criteria system that will be used for making trading companies comparisons (including retail and wholesale trading companies).

Third, innovation and collaboration with other companies in the same supply chain uncover average-term company behaviour. Literature analysis showed that trading companies trade contribution varied in different countries; for instance, in countries where companies were more active innovators sales on international markets grew, while in countries where older technologies were applied sale rates were lower. According to the authors, in order to get integrated into supply chains with higher efficiency levels such companies should improve their performance. The research showed that Luxembourg trading companies played a very significant role which was important for evaluating trade development perspectives.

Findings of the empirical research showed that Luxembourg trading companies built the best capacity for trade development, while Bulgarian companies – the lowest capacity in comparison to trading companies in other European countries. Research results indicated a great gap between Luxembourg trading companies and their international competitors. The largest gap was between Luxembourg and Bulgaria trading companies.

Comparison of trading companies revealed that the highest work force efficiency, the highest turnover per company, average staff expenses and added value were common for wholesale trading companies, while the highest overall revenue and especially large investments were common for retail trading companies. The innovation capacity was similar both in wholesale and retail trading companies. Although both wholesalers and retailers had similar average number of employees, turnover per company in wholesale trading companies was four times higher than in retail trading companies.

The research revealed that in order to achieve higher competitiveness level against other countries Lithuanian trading companies should pay more attention to increasing work force efficiency. It was observed that wholesale trading companies in Lithuania had better capacity for trade development on international market.

The empirical research revealed that the proposed system can be applied to determine in which countries trading companies have the best performance results.

Findings of this research can be useful for private companies and policy-makers responsible for trade policy. Better understanding of trading companies’ peculiarities is relevant for developing public policy oriented at trade
development and innovation.

Further research that could extend the current one can be performed in the following directions:

• First, assessment of trading companies that sell goods on different market.
• Second, extending the proposed criteria system. Criteria used for comparisons can be supplemented by other qualitative and quantitative criteria, for instance, company age, return on investment, inventory turnover, asset turnover, debt ratio and other financial indicators.
• Third, the set of criteria can be used to compare companies functioning in other sectors.
• Other directions.

References


