

The Analysis of Profit per Employee in the Trade of Serbia

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Abstract

It is well known that there is a special system of indicators for measuring efficiency, productivity and performance of trade adjusted to the very nature of business. As a part of it, the significance of profit per employee is stressed as a contemporary measure of trade performance. It is quite understandable considering the high share of labour force in trade and the possibility of its substitution with the modern technology. This work analyses the specifics and factors of the profit per employee dynamics in trade of Serbia and selective global retail chains, first of all - developed market economies. On the base of research results, we propose measures for increasing profit per employee in trade of Serbia in the future.

Key words: *revenue, profit, employees, average personnel costs, modern technology.*

JEL classification: *F65 L81 M40.*

INTRODUCTION

The issues of the research in this paper are specifics and comparative advances of profit per employee compared to other indicators of performance in trade.

The **aim** of this paper is to be indicative of theoretical and practical significance of profit per employee analysis, as one of the contemporary measures of performance in trade, with particular reference to Serbia. In that context, in particular the advantages of indicators profits per employee compared to other efficiency measures retail chains. Theoretical knowledge and identification of key factors is fundamental prerequisite for implementing relevant measures to increase profit per employee in trade. This is particularly important for retail chains in Serbia. Managers of retail chains in Serbia this paper suggests how should analyze the profit per employee in the position of taking appropriate measures for its increase in the future. In all of this reflects the **importance and contribution** of this paper the economic literature, especially in Serbia.

On the West, extensive **literature** is published on the subject of theoretical and practical aspects of profit per employee analysis, as a contemporary measure of performance in trade (McGoldrick, 2002; Bryan, 2007; Levy, 2007; Berman, 2010, Higón et. al. 2010; Lichtenstein et al. 2010; Ilic, 2012; Gauri, 2013; Teng, 2014), while in Serbia insufficient attention is devoted to this issue (Lukic, 2011a, b; Lukic, 2012; Lukic, 2013a, b, c; Lukic, 2014a, b, c). Therefore, by researching this problem, our work should give contribution towards the field of measuring performances in trade, especially in Serbia. Saying it in

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other words, our analysis should give relevant theoretical, methodological and empirical basis for efficient application of the concept of profit per employee, as contemporary measure of performance in retail chains in Serbia.

Considering the importance and complexity of the given problems, we can **test different hypotheses**: H1 –productivity of work affects income costs (wages, salaries), H2 – as factor of motivation, income costs (wages) affect profit per employee, H3 – capital affects the profit per employee, H4 – technical equipment, availability of working capital and inventories affect the profit per employee. The theoretical explanation given hypothesis is that the labor productivity, motivation of employees, salaries, capital expenditures and working capital is very important factors profit per employee. Between them there is a correlation. Productivity of work is expressed by sales revenue per employee. The salaries are observed as average personnel costs. Capital is expressed as tangible and intangible assets. The influence of talent, knowledge and motivation – as non-material assets – is expressed through analysis of profit per employee. Giving the significance of human factor in the times of modern technology wide range application, measuring of non-material assets is very significant for trade, i.e. we see a special value of profit per employee, as a contemporary measure of performance. Through the given hypotheses we investigate the following factors affecting the profit per employee in trade of Serbia: sales revenue, number of employees, average personnel costs and capital. With their and other significant factors adequate control we can obtain increase of profit per employee in trade in Serbia in the future. All tested hypotheses in this work are confirmed on the example of Serbia.

The **methodology of research** of the given hypotheses is based on the literature, theory, norms, comparative and statistical analysis. In this study, there are certain **limitations**. It is primarily related to different ways of displaying and evaluating individual elements of the indicators profit per employee each year in Serbia, with regard to the harmonization of financial reporting with the European Union. No, it does not significantly affect the statistical validity of the results obtained in this work for the trade Serbia.

Recommendation managers of retail chains in Serbia in the future is that - in the tradition of the performed theoretical, methodological and empirically analyze in this paper - continuously analyze profit per employee and compared with comparable countries, especially the developed market economies and industrial standards. This will provide the basis to anticipate and take appropriate measures to increase profit per employee, as a very significant indicat operational efficiency of retail chains. Their efficient operation will have a positive effect on efficiency of overall trade Serbia.

Original empirical data needed for the research of the hypotheses are collected from the relevant literature, annual reports given by the global retail chains, Statistical yearbook of the Republic of Serbia, Serbian Business Register's Agency and the appropriate consult houses web sites.

According to this the number of commercial firms involved, we can conclude that the sample is statistically valid. The test sample in this study includes a large number of trading companies are obliged by law to submit a formal annual financial statements of the Business Registers Agency of Serbia. The number of commercial firms involved in individual years analyzed in this paper: 2008 – 37077, 2009 – 34982, 2010 – 35474, 2011 – 33451, 2012 -33393, 2013 - 33341. According to this the number of commercial firms

involved, we can conclude that the sample is statistically valid. The paper also analyzes the comparative profit per employee, the five largest retail chains in Serbia. In this way, as a whole, provided the validity of the statistical analysis in this paper.

1. THEORETICAL DIMENSIONS OF PERFORMANCE MEASUREMENT: THE PROFIT PER EMPLOYEE

Maximizing revenue from employees – profit per employee is being lately advocated as a measure of performance in theory and practice (Bryan, 2007). Profit per employee as a measure of performance has significant advances compared to other, such as: market capitalization and revenue from capital.

The profit per employee is good expression of influence of intangible assets, talent, knowledge, motivation of employees on total business and financial performance of a company. It can be easily calculated, given the fact that all companies, including trading, have data on net profit and number of employees. Besides, it does not require coordination with accounting conventions – as it is case with market capitalization and revenue from capital.

Total profit is equal to: profit per employee multiplied by the number of employees. Market capitalization increases with profit, and it also affects the amount of profit – the bigger profit the bigger revenue from capital. This all shows that three measures of financial performance are correlated, directly or indirectly.

To our opinion, profit per employee is very significant measure of performance of retail chains. It is quite understandable when we consider the high share of labour costs in total operative costs. Therefore, it is good measure of efficiency of retail chain management (on all management levels), especially the system of managing human resources.

Profit per employee indicates the level of profit each employee generates in retail chain. At the same level of profit it can be increased by “optimizing” the number of employees. In retail, the number of employees can be optimized by increased productivity of work, part-time job (especially in the period of increased sales during New Year and Easter holidays), modern technology application (i.e. substitution of labour force with modern technology). The fluctuation of employees is reflected on the performance of retail chains (Ton, 2008, 2009).

The efficiency of labour force in store contributes to the improved level and quality of service, productivity of work and labour cost decrease. It is not only a base for efficient managing of labour costs, but also a way to manage strategic goals. Key elements of the efficiency of labour are: goods flow, sales area tools and routines, scheduling and managing system (Retail/Workforce efficiency: Improve your service level and productivity while reducing costs, 2011).

The share of labour costs in sales revenue is significant. So, for example, the procentual share of labour costs in sales revenue is 7.8% in distributive trade, 6.2% in wholesale trade, 11.6% in retail trade, 9.7% in food retail sale and 12.7% in non-food retail trade (Cornille, 2011).

Starting point in labour force efficiency analysis in store is: envisaging the influence of personnel costs (labour costs) on total operating costs. It is very significant. So, for example, personnel costs of big food retailers in west Europe (expressed in percentage of sales) make up about half of total operating costs: store personnel costs – 10%, other store costs – 3%, logistics costs – 4%, general and other administrative costs – 4%, total operating costs – 20% (Retail/Workforce efficiency: Improve your service level and productivity while reducing costs, 2011)

Significant cost savings and thus increased profit per employee can be made by improving relation between sales and costs. It is achieved by efficient sales and cost management and, especially by application of new models of business and modern technology (by substitution of labour force with modern technology).

Research showed that companies Wal-Mart and Kroger belong to the most efficient global retail chains considering the productivity of work. They permanently analyse the possibilities of input reduction (such as selling area, number of checkout counters, number of employees and the store features) without the impact of profit decrease (i.e. keeping outputs on the same level) (Gauri, 2013) and the quality of services to customers.

Activity-based costing belongs to important instruments of efficient management of profit per employee in retail. Results of analysis showed that the implementation of activity-based costing can reduce costs 3-5%. Margin increase, growth of sales and orientation towards better markets improves profit 5-15%. For that reason, better understanding of cost servicing (operating costs) is needed, and the way they vary in certain products, channels, supply chains, suppliers and customers segments (Walker, 2008).

2. PROFIT PER EMPLOYEE OF SELECTIVE GLOBAL RETAILERS

As to compare results of profit per employee on the international level we will show data of profit per employee in trade of selected countries and global retail chains. Table 1 shows the turnover and profit per employee and average personnel costs in trade of European Union (EU-27), 2010.

The number of employees and turnover are significant factors of profit per employee. The number of employees in the European Union in 2010 was (thousands): 32791 in distributive trade, 3796 in motor vehicle and parts, 18562 in retail, except motor vehicles and parts, and 10434 in wholesale. The highest employment was in retail except motor vehicles and parts – 56.60%.

Turnover per employee belongs to very significant factors of profitability in trade - it shows level of turnover each employee generates. Turnover per employee in European Union in 2010 was (thousands euros): 270.540 in distributive trade, 268.802 in motor vehicle and parts, 139.642 in retail, except motor vehicle and parts, and 503.899 in wholesale. Therefore, it is highest in wholesale, and the lowest in retail, except motor vehicle and parts, what is in tune with business of some trade sectors.

Table 1. Turnover, profit per employee and average personnel costs in trade of European Union (EU-27), 2010

| | Number of employees (in thousands) | Turnover (in millions EUR) | Gross profit (in millions EUR) | Turnover per employee (in thousands EUR)* | Profit per employee (in thousands EUR)* | Average costs of employees (in thousands EUR per employee) |
|--|------------------------------------|----------------------------|--------------------------------|---|---|--|
| Distributive trade | 32791 | 8870098 | 442596 | 270.540 | 13.497 | 25.9 |
| Motor vehicle and parts | 3796 | 1020376 | 47228 | 268.802 | 12.441 | 28.4 |
| Retail, except motor vehicle and parts | 18562 | 2592034 | 160245 | 139.642 | 8.632 | 19.4 |
| Wholesale | 10434 | 5257689 | 235123 | 503.899 | 22.534 | 36.0 |

Data source: Eurostat

Note: *Author's calculation

As a contemporary measure of performance, profit per employee in European Union (EU – 27) in 2010 amounted (thousands of EUR): 13.497 in distributive trade, 12.495 in motor vehicle and parts, 8.632 in retail, except motor vehicle and parts and 22.534 in wholesale. Therefore, it is highest in wholesale.

Beside turnover and number of employees, average personnel costs are significant factors of profit per employee in trade. In trade of European Union in 2010 they amounted (in thousands of EUR per employee): 25.9 in distributive trade, 28.4 in motor vehicle and parts, 19.4 in retail, except motor vehicle and parts, and 36.00 in wholesale. Considering business character of some trade sectors, the highest are in wholesale.

In order to compare the trade chains in Serbia with other countries Table 2 presents the turnover and profit per employee for selected global retailers.

Table 2. Turnover and profit per employee of selected global retailers

| Company | Turnover per employee \$ | Profit per employee \$ |
|------------------------------|--------------------------|------------------------|
| Wal-Mart Stores, Inc. | 216.603 | 7.589 |
| Amazon Com, Inc. | 842.229 | 3.088 |
| Costco Wholesale Corporation | 586.375 | 10.815 |
| Dillard's, Inc. | 172.026 | 8.321 |
| Home Depot, Inc. | 215.923 | 14.753 |
| Ross Stores, Inc. | 177.919 | 14.562 |
| Red Bath&Beyond Inc. | 243.794 | 22.143 |
| Target Corporation | 204.452 | 6.679 |
| Macys Inc. | 159.812 | 7.997 |

| Company | Turnover per employee \$ | Profit per employee \$ |
|----------------------------|---------------------------------|-------------------------------|
| Family Dollar Stores. Inc. | 190.354 | 8.024 |
| Kohls Corporation | 142.770 | 6.911 |
| Fastenal Company | 219.617 | 29.623 |
| Sears | 330.013 | - |
| Lowes Companies, Inc. | 153.882 | 14.175 |
| Kroger Co. | 289.863 | 5.328 |
| Safeway Inc. | 142.778 | 2.556 |
| Big Lots, Inc | 240.231 | 3.359 |
| Best Buy Co., Inc. | 257.648 | 3.255 |
| Staples, Inc. | 475.989 | 9.711 |
| J.C.Penney Company, Inc. | 103.112 | - |
| Supervalu Inc. | 485.943 | - |
| Prosek | 244.313 | 6.507 |

Data source: Wal-mart Stores Inc s Competition Data by Company – SCIMarket;
<http://scimarket.com/dstocks/competitionNO4.php?code=WM> (accessed 4/5/2014 11:35 Am)

As an expression of labour productivity, turnover per employee differs under certain controlled and uncontrolled factors in retail. They range from \$103.112 (J.C.Penney Company, Inc.) to \$1003112.

Profit per employee differs between certain global retailers. It ranges from \$2.556 (Big Lots, Inc) to \$29.623 (Fastenal Company). For two most comparable companies in literature we find data that profit per employee in Wal-Mart is \$7.589 and Costco \$10.815. Therefore, it is higher in company Costco. Beside the number of employees, these differences are the result of strategies of managing turnover, costs, margin and profit. As to improve its market and finance position in relation to Costco and other companies, Wal-Mart intends to increase profit per employee by increasing efficiency with application of specific strategies and new business models.

3. PROFIT PER EMPLOYEE IN TRADE OF SERBIA

The profit per employee in trade of Serbia was affected by diverse factors of controlled and uncontrolled nature. Typical are: low purchasing power, high unemployment, unstable market structure, high bank charges, negative exchange rates, presence of certain monopoly on retail market, strong black economy, tardy progress in attraction of new business models in retail, low participation of private label, low participation of discount retail chains in the structure of retail formats (stores), inadequate presence of foreign retailers on the retail market, low application of modern technology and other factors.

Table 3 shows the business revenue and net income (net profit) per employee in trade of Serbia for 2008-2013 period.

Table 3. Business revenue and net income (net profit) per employee in trade of Serbia, 2008-2013

| | Number of employees | Business revenue (in 000 dinars) | Net income (in 000 dinars) | Business revenue per employee (in 000 dinars)* | Net income per employee (in 000 dinars)* |
|------|----------------------------|---|-----------------------------------|---|---|
| 2008 | 215540 | 2364978872 | 84995251 | 10972 | 394 |
| 2009 | 207325 | 2291803287 | 75376369 | 11054 | 363 |
| 2010 | 197677 | 2431409522 | 79198098 | 12299 | 400 |
| 2011 | 200801 | 2704315839 | 91822735 | 13467 | 457 |
| 2012 | 193954 | 2979785183 | 93687650 | 15363 | 483 |
| 2013 | 191653 | 2876251582 | 89440797 | 15007 | 466 |

Data source: Business Registers Agency

Note: *Author's calculation

As a measure of labour productivity, business revenue per employee continually increased in observed time period, except in 2013 when it was slightly less compared to 2012. It positively affected net income per employee.

In observed time period net income per employee in trade of Serbia ranged from 363.000 (2009) to 483.000 (2012). It averagely amounted 427.167 dinars (Table 4), 4.067 euros respectively. It means that income per employee in trade of Serbia is significantly lower than in European Union (see Table 1).

Table 4. Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------|---|---------|---------|----------|----------------|
| Net income per employee | 6 | 363.00 | 483.00 | 427.1667 | 47.89746 |
| Valid N (listwise) | 6 | | | | |

Net income per employee in trade of Serbia in observed time period increased until 2012, when it slightly decreased in 2013 (Chart 1). Therefore, the dynamics is similar to the flow of business revenue per employee.

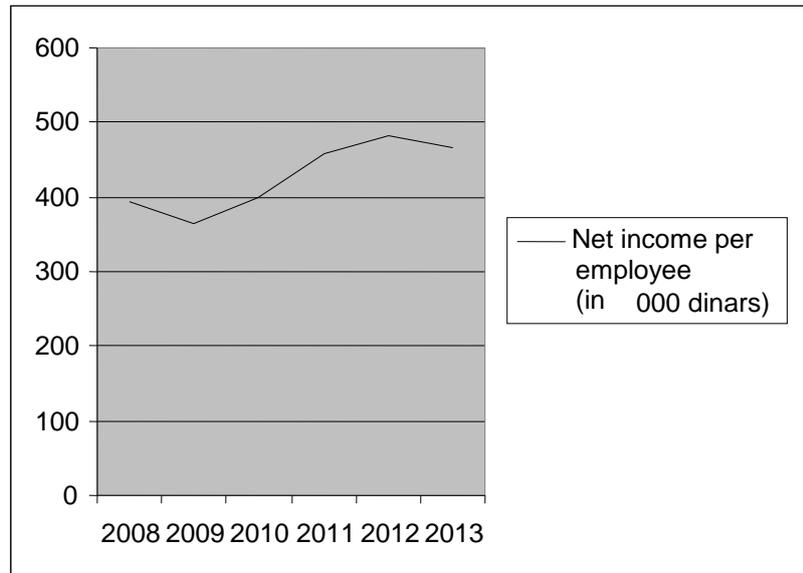


Figure 1. Net income per employee in trade of Serbia

Data source: Table 3

Note: Author's chart

Besides other factors, productivity of work significantly affects profit per employee in trade. Generally speaking, it is very significant.

Available fixed capital and working capital are among major factors of profit per employee and they are vitally important for doing trade business. Table 5 shows the fixed and working capital per employee in trade of Serbia for period 2008-2013.

Table 5. Fixed and working capital per employee in trade of Serbia, 2008-2013

| | Fixed capital (in 000 dinars) | Working capital (in 000 dinars) | Number of employees | Fixed capital per employee (in 000 dinars)* | Working capital per employee (in 000 dinars)* | Business revenue per employee (in 000 dinars)* | Net income per employee (in 000 dinars)* |
|------|-------------------------------|---------------------------------|---------------------|---|---|--|--|
| 2008 | 982366954 | 1051969418 | 215540 | 4557 | 4880 | 10972 | 394 |
| 2009 | 1009583847 | 1107234193 | 207325 | 4869 | 5340 | 11054 | 363 |
| 2010 | 735991172 | 1202100608 | 197677 | 3723 | 6081 | 12299 | 400 |
| 2011 | 754145195 | 1235889841 | 200801 | 3755 | 6154 | 13467 | 457 |
| 2012 | 777748387 | 1335716476 | 193954 | 4009 | 6886 | 15363 | 483 |
| 2013 | 792256974 | 1350409493 | 191653 | 4133 | 7046 | 15007 | 466 |

Data source: Business registers agency

Note: *Author's calculation

It is significant that in trade of Serbia in observed time period fixed capital per employee decreased while working capital increased. It means that investment in modern technology, as a key factor of profit per employee, was unsatisfactory. Table 6 shows the impact of fixed and working capital per employee on business revenue and net income per employee, that is business revenue per employee on net income per employee in trade of Serbia.

Table 6. Correlations

| | | Fixed capital per employee | Working capital per employee | Business revenue per employee | Net income per employee |
|-------------------------------|---------------------|-----------------------------------|-------------------------------------|--------------------------------------|--------------------------------|
| Fixed capital per employee | Pearson Correlation | 1 | -.612 | -.571 | -.627 |
| | Sig. (2-tailed) | | .197 | .237 | .183 |
| | N | 6 | 6 | 6 | 6 |
| Working capital per employee | Pearson Correlation | -.612 | 1 | .961(**) | .849(*) |
| | Sig. (2-tailed) | .197 | | .002 | .032 |
| | N | 6 | 6 | 6 | 6 |
| Business revenue per employee | Pearson Correlation | -.571 | .961(**) | 1 | .952(**) |
| | Sig. (2-tailed) | .237 | .002 | | .003 |
| | N | 6 | 6 | 6 | 6 |
| Net income per employee | Pearson Correlation | -.627 | .849(*) | .952(**) | 1 |
| | Sig. (2-tailed) | .183 | .032 | .003 | |
| | N | 6 | 6 | 6 | 6 |

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

In trade in Serbia there is moderate negative correlation between fixed capital per employee and business revenue and net income per employee. There is strong positive correlation between working capital per employee and business revenue and net income per employee. Correlation between business revenue per employee and net income per employee is highly positive.

Treated as a motivation factor, average personnel costs have significant impact on profit per employee in trade. Table 7 shows the average personnel costs in trade of Serbia in period 2008-2011.

Table 7. Average personnel costs in trade of Serbia in 2008-2011 period (in thousands of dinars per employee)

| | 2008 | 2009 | 2010 | 2011 |
|------------------------------|------|------|------|------|
| Republic of Serbia | 639 | 679 | 729 | 794 |
| Wholesale, retail and repair | 572 | 597 | 637 | 671 |

Data source: Statistical yearbook of the Republic of Serbia 2010, 2011, 2012, 2013

It is known that average personnel costs are lower in Serbia compared to other countries and they belong to very significant factors of attraction of direct foreign investment. Expressed in euros, they are much lower compared to average personnel costs in distributive trade of the European Union (approximately numerically expressed Serbia: European Union, 6.4: 26.5, respectively) (Table 8).

Table 8. Average personnel costs in distributive trade of selected countries of the European Union

| | Average personnel costs (in 000 EUR per employee) |
|----------------|--|
| EU-28 | 26.5 |
| Germany | 28.6 |
| France | 41.3 |
| Italy | 32.6 |
| Croatia | 11.0 |
| Holland | 31.0 |
| Slovenia | 20.9 |
| United Kingdom | 22.3 |

Data source: Eurostat

As to thoroughly research the problems in this paper, Table 9 shows the business revenue and profit per employee of selected trade companies in Serbia in 2013.

Table 9. Business revenues and profit per employee of selected trade companies in Serbia in 2013

| | Number of employees | Business revenues (in 000 dinars) | Net income (in 000 dinars) | Business revenues per employee (in 000 dinars)* | Net income per employee (in 000 dinars)* |
|-----------------|---------------------|-----------------------------------|----------------------------|---|--|
| Delhaize Serbia | 7413 | 76836096 | 4094120 | 10365 | 552 |
| Mercator-S | 4701 | 63393962 | 518542 | 13485 | 110 |
| IDEA | 3949 | 55300760 | (2237097) | 14003 | (566) |
| Knez Petrol | 520 | 37602982 | 222120 | 72313 | 427 |
| OMV Serbia | 42 | 31075305 | (545967) | 739888 | (12999) |
| Lukoil Serbia | 176 | 30347465 | (3195070) | 172428 | (18153) |

Data source: Business Registers Agency

*Note: *Author's calculation*

Company Delhaize Serbia made the highest net income per employee, but when it is expressed in dollars (6.494), it is considerably lower compared to Wal-Mart and other global retailers (see Table 2). The income was affected by unfavourable business environment in Serbia.

CONCLUSIONS

Profit per employee is one of contemporary measures of performance of all companies, including trading. Its special value is the way it measures influence of “non-material capital” on the performance of companies. It is specifically important for trading companies concerning their high share of labour force in doing trade business, and in conditions of wide-spread application of modern technology.

In relation to the trade of countries of developed market economies, European Union and global retail chains, profit per employee in trade of Serbia is significantly lower in observed companies and on the level of the whole trade. So as to increase the profit per employee in trade of Serbia in the future it is necessary to efficiently control the critical factors of business success.

It particularly refers to the large-scale implementation of contemporary concepts of managing costs (above all base-activity costing), new business models, concept of managing relationships with customers, Toyota business principles and modern technology. Development of private label is one among many critical factors of business success which is measured by profit per employee. The effects of all this are increased revenue from sales, significant decrease of total costs (costs of goods sold and, especially operating costs) and increase of total profit and profit per employee in trade of Serbia.

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