

## **METHODICAL APPROACH OF ASSESSING COMPETITIVENESS IN DOMESTIC TRADE AND IN CONSUMER COOPERATION**

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**JEL classification: M31, F1**

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### **Abstract**

*The paper proposes a new methodical approach in order to assess the competitiveness of enterprises in domestic trade and in consumer cooperation as a necessary condition for improving their activity on the market, it pays a special attention to indicators of enterprise's competitiveness based on the marketing principles, choosing the criteria of evaluating the product's competitiveness by calculating the indicators of probability on the basis of using the Delphi method of experts' questionnaires, calculating the domain's indicators that reflect the level of competition in domestic trade and in consumer cooperation of the Republic of Moldova.*

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**Keywords:** *enterprise's competitiveness, product competitiveness, domestic trade, consumer cooperation, fields' indicators, Delphi method, SWOT analysis, integral competitiveness indicator.*

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### **1. Introduction**

Currently there has not yet been developed a unique method of assessing the company's competitiveness on the basis of field's indicators that would reflect the level of competition in domestic trade and consumer cooperation because each economic agent uses his own strategy and tactics of activity to extend his goals.

The competitiveness is based on a set of indicators reflecting primarily the level of product's competitiveness, and secondly the company's overall competitiveness. To assess the competitiveness of an economic agent, it is required to compare the data, which must meet certain requirements, including: measurability parameters of products and market segments which these products are intended to, measurability phases of the product's lifecycle and environment in which the business operates, etc.

### **2. The degree of investigating the issue at the present moment, the aim of research**

The need of developing and implementing a method of evaluating the company's competitiveness is due to the enterprises' characteristics within domestic trade and consumer cooperatives that are influenced by a number of factors. The results of the evaluation will enhance the company's

competitiveness if it accounts for an important criterion as product competitiveness and there will be taken into consideration factors which form the economic conditions of businesses from domestic trade and consumer cooperation.

### **3. Applied methods and materials**

In the present research, there have been applied analysis methods that reflect the level of products' competitiveness and of companies as a whole, the sales volume of the product taking into account the competitiveness of the enterprise on the market. The authors pay attention to the necessity of choosing the criteria that would reflect the level of competition in domestic trade and consumer cooperation taking into account the specific economic activity. The comparative method used in research, SWOT analysis, Delphi method, grouping method on assessing the effectiveness and running businesses within the domestic trade and consumer cooperation.

## **4. Results and discussions**

### **4.1. Specifics of developing methods for evaluating enterprise's competitiveness**

In the specialty literature methods of assessing enterprise's competitiveness based on the theory of competitive advantages, described by A. Curno, M. Porter and P. Samuelson [6], are widely met.

In these works it is stated that to ensure the economic competitiveness of the subject it is necessary to use more efficiently the material, human and financial resources. The competitive advantages of the company are those, which create certain advantages of production factors over its competitors.

Also the methods of evaluating competitiveness, described in the specialty literature, have some drawbacks because they cannot take into account the compliance of the company's manufactured products to real consumers' demand.

The important thing is the use of structural and functional approaches in determining the level of enterprise's competitiveness. The structural approach enables the company to assess the situation on the market, given the level of competition and the possibility of its positioning on the market. Functional approach involves making comparisons of economic indicators of the companies with the ones of the competing firms, characterizing the efficiency of all enterprises in various fields: the use of fixed and circulating capital, ratio of sales to working capital, ratio of profit to the working capital, ratio of working capital to current liabilities and other indicators characterizing the financial activity.

At the same time, structural and functional approaches to measure the level of competitiveness of the company should be completed with product competitiveness based on marketing principles. To this end, it is necessary to make marketing applied researches that will determine the main products' parameters evaluated by consumers to determine the competitive level of competing products depending on quality and price indicators. In our view, this approach objectively reflects the company's competitiveness in the market and competition in domestic trade that is known that, the higher the product's competitiveness is, the higher both the company's competitiveness and competition in the branch are.

## 4.2. The evaluation of enterprise and product competitiveness

The method of evaluating the enterprise's competitiveness based on the marketing principles has advantages because it takes into account an important criterion influencing enterprise's competitiveness – product's competitiveness. But the results of the assessment will increase if they take into account factors influencing economic conditions of enterprise's activity, strengths and weaknesses in their company based on SWOT analysis and Delphi method, as well as normative acts, their implementation to improve competitiveness [1, 2].

Product competitiveness can be assessed on the basis of the analysis of the quality indicators' importance and comparative economic indicators of the product evaluated against consumer needs. Therefore, product competitiveness is ensured only by fulfilling the conditions of its priority by the consumer to the basic product taken as a model, sample. On the definite market as a model can be analyzed specifically the product with the largest share of sales volume or the product which is mostly demanded by consumers as a result of the field survey.

The process of evaluating enterprise's competitiveness is based on the following methodical approach:

1. Calculating the indicators which characterize competitiveness / competition / product;
2. Calculating the unique / full / product competitiveness indicator;
3. Calculating the indicator characterizing the product sales volume corrected by the indicator of product competitiveness and market image of the company;
4. Calculating the benchmark assess of the effectiveness of running business activity, etc. [4, 5, 6, 7].

Simultaneously, we highlight the factors influencing the competitiveness of enterprises which should be taken into consideration [8]:

1. Limit the number or range of suppliers: there may be situations when an exclusive right is the only way to ensure that a service reaches the market. However, the regulating authorities should understand that alternatives that restrict less the competition are impracticable before tackling such a right.
2. Establishing a license or authorization as an operation condition: a license to practice, the size of the restriction imposed on the entry can be high because the qualifying conditions are often complemented with additional elements. Other common conditions for licensing include the need on minimum working capital. Qualification assessment of practitioners can be justified in cases where consumers cannot make a decision on the competences of a practitioner/ the damages suffered by consumers / making a weak decision are serious and irreversible.
3. An important factor influencing enterprise's competitiveness is significantly increasing the cost of entry or exit of businesses on the market: the regulations that set strict standards for product testing may be justified when there is significant risk of occurrence of adverse effects associated with customers' use of the product. In some cases, alternatives such as providing more information or the terms of disclosing the product's characteristics can be taken into account to enable consumers to make more informed decisions.
4. Restricting the flow of goods and services in domestic trade: geographically limiting the flow of goods and services which are imposed where trade would be feasible technically and economically, has the effect of artificially reducing the size of the goods or services

market. By reducing the size of the market, there are more negative effects on competition: likelihood the degree of market's concentration grows to the point where producers reach out and use their market power; a smaller and more isolated market may be associated with lower levels of innovation, product's differentiation and others. Thus, consumers can be served at a lower level in terms of quality.

4. Controlling the selling prices of goods or services: when minimum tariffs are established, the suppliers with the lowest cost are prevented to gain the market share by offering better tariffs to consumers. Legislation on minimum tariff has the disadvantage of reducing the total economic efficiency and encourages inefficient producers to remain on the market, thus preventing the use of resources in other more productive, alternative areas.
5. Limitation of advertising and marketing: even if sometimes there are limited situations where advertising restrictions are justified for certain goods or services, each situation must be carefully analyzed in terms of cost / benefit. Such restrictions almost always reduce economic efficiency and harms consumers. When excess consumption should be encouraged, alternative approaches to advertising restrictions include information campaigns and consumption taxes. They represent more direct means, effectively solving the identified problem.

The process of assessing the competitiveness of domestic trade enterprises and consumer cooperatives involves using complex approach to all economic, technological, social, organizational, environmental factors and others related to enterprise's competitiveness, which are described in the specialty literature.

#### **4.3. Peculiarities of domestic trade development, new amendments and changes in the Law on Domestic trade**

Domestic Trade is a system that stimulates small business development with a much faster pace than other sectors of the economy. According to the National Bureau of Statistics and the State Registration Chamber in 2015 out of all enterprises registered in the country's economy 43% work in the sphere of domestic trade. The specifics of domestic trade activity lies in the fact that it is easier to organize business in trade in comparison to other branches of the economy and requires less initial capital. Through domestic trade a profit can be obtained in a relatively short time, which allows faster recovery of investments than in other types of activity.

Domestic trade actively participates in creating GDP. Thus, if in 2006 it was for 11.5% of domestic trade in GDP, then in 2012 its share was about 14%, positioning among the main branches of the gross value added (GVA). During 2006-2012 GVA in domestic trade has increased about 2.4 times from 5.145 billion lei to up to 12.25 billion lei [9].

According to the data on investment in the economy from 2012 the domestic trade is ranked the fourth in total investment, with a share of about 12.5% (after transport and communications sectors, real estate sector and manufacturing sector).

Also, in 2015 the sales volume in retail trade (apart from selling cars and motorcycles) according to the National Bureau of Statistics of Moldova decreased by 6.4% (in comparable prices) compared to 2014 [9] because of the influence of a reason number of negative factors. The index noted that actual payment (but not nominal) of labor payment in December 2015 was only 94.5%

compared to December 2014. If we calculate the dollar value of Moldova's GDP in 2015 which was only 6.2 billion dollars against 7.14 billion in 2014, i.e. Moldovan economy fell by almost a billion dollars a year. If the systemic reforms are not speeded up, the banking-financial, justice and energy sectors, Moldova is likely to remain in a state of amorphous future growth.

In the coming years, the competitiveness of the economy remains to be affected on the ground that labor productivity's growth over the past decade was slower than the increase of wages. In 2016 Moldovan economy could stagnate in case of internal and external constraints since 2015 will remain valid for the current year. Thus, the main negative constraints in budgetary-fiscal domain in the view of the authors are:

1. Maintaining the blockage of external financial assistance;
2. Increasing the costs of State's debt servicing;
3. The risk of over indebtedting as a result of conversion the emergency loans in bankrupt banks in government securities;
4. Economic instability further diminishes the confidence of the business in market which erodes business confidence in the future.

Volume reduction in retail sales in 2015 compared to 2014 is caused by a decrease in remittances of money sent home by people who work abroad. Thus, those working in the West have lost any hope that the situation will improve in Moldova and have started to bring their families. On the other hand, those working in the Russian Federation due to the deepening crisis in this country are forced to return home because of lack of jobs. As a result, money remittances from Russia fall further.

In this situation, the authors propose to change the paradigm of development of the domestic trade and economy as a whole from the model based on the export of labor model of attracting remittances, satisfying consumption needs, improve the functioning of state institutions by changing the orientation of development programs from consumption to production investment and exports through higher rates than imports today.

Development of domestic trade in their vision is hampered by other main factors such as: rendering poor services, inefficient activity of the business environment, lack of product competitiveness and business competitiveness, poor quality of governance at all levels of leading the commercial agents, corruption growth in trade followed by inadequate tax legislation.

To improve the situation in domestic trade it is necessary to implement a set of measures: implementation of anti-corruption initiatives and reforms to streamline the state institutions, streamlining procedures for moving the goods from the producer to the consumer by improving transport and logistics services; facilitate domestic trade through building better roads and attracting public investments.

According to the strategy of developing the domestic trade for 2014-2020 it is foreseen that the Action Plan provides an increase in retail sales by about 3-4% annually, which will reduce the disproportion between supply and demand and trade infrastructure between urban and rural areas by 10-15%. The strategy foresees expanding commercial network by 50 units annually and the growth of modern trade format to retail sales to 45%.

The strategy of developing the domestic trade will be implemented in two stages. At the first stage during 2014-2016 were foreseen actions to improve the legal and institutional framework that are

not effectively implemented in practice and the creation of booths for territorial licensing of trading activities. At the second stage of implementation for the period 2017-2020 actions related to the improvement of trade's infrastructure and upgrading forms of products' and services' distribution are envisaged.

Currently, a series of amendments on developing the strategy of domestic trade have been developed; among them - the Law on Domestic Trade [1] to optimize the licensing requirements in the field of domestic trade (exact establishment of control powers of Local Public Authorities (LPAs) and Central Public Authorities (CPA) involved in the authorization and supervision of the trade; excluding the acts which are currently required by LPAs, which are not necessary in the process of approval in domestic trade; determining when LPAs is entitled to refuse the issue, suspend or withdraw the authorization of functioning, inclusion of standard acts that will be applied at issuing the operation authorization, shortening the period for issuing the operating license, extending the validity term of the operation authorization, maintaining the conditions of free release of operating license, regulate the matters related to the fees paid by merchants for holding the operating license, etc.). In the future, an information system will be developed allowing the automation of issuing process of operating permits and will be offered to all local public authorities (LPA), which will ensure the establishment of single window mechanism of issuing licenses.

The new amendments provide essential reduction of the term for obtaining the authorization, exclude pre-opinions without the necessity to establish a reduced set of documents required to be submitted for authorization, to reduce the involvement in authorizing process of authorities which must do the checks in force, reduce the need to obtain the operating license repeatedly every year. Taking into account that the domestic trade is very important to organize the competition and equal conditions for economic entities, it is necessary to take over European practices in the harmonization of legislation related to the establishment of requirements which must be met by the merchant to obtain authorization to operate in the domestic trade.

A special place in amending the Law on domestic trade belongs to targeted measures to support internal producers. The authors consider that it is necessary to allocate a quota of 1/3 surfaces of commercial shopping centers and Metro Cash shops for exposing local products on the condition that there is consumer's demand and supply from domestic producers. It is necessary to cap the size of financial advantages (discounts, bonuses) offered to traders by the supplier in the amount of 6% from the selling price of foodstuffs and 2% from the sale price of socially important food products.

Currently domestic producers will not withstand competition with producers in Ukraine on selling the dairy products in the commercial network. This is explained by the fact that production costs are higher for dairies in Moldova in the absence of an effective style of directing enterprises' resources than in Ukraine.

The authors consider unclear the State's interference in introducing changes in the nomenclature of socially important goods for the population from 29 to 14 items by reducing trade margins. We believe that the State should stimulate the business environment and develop competitive advantages in selling the first necessity products.

We believe that stores should pass to quick payment to the producers of perishable products up to two weeks from the day of delivery. Discounted sales must be regulated to prevent and counteract unfair trade practices (by setting conditions for fulfilling discounted sales, including liquidation

sales, clearance, promotion sales etc.). At the same time it is necessary to set clearance periods when accelerated sales of stock-sized cargo to seasonal products autumn-winter for 3-4 months in the first half, and for spring-summer products is rational to set 3-4 months for second semester. To calculate whether real or price reduction is not necessary, it is rational to establish „reference price”, or reporting the price reduction to the reference price. In case the rules of discounted sales are violated, it is necessary to establish sanctions or differentiated penalties or fines depending on the violation of the law.

In our view, all these proposals of amendment and improvements of Domestic trade law will stimulate the activity of small and medium enterprises which currently hold a share of over 50% from trade.

#### **4.4. The characteristic features of consumer cooperatives enterprises in the Republic of Moldova and possibilities for evaluating its competitiveness**

Consumer cooperatives provide goods and services to rural population by fulfilling cooperative principles. The economic-financial activity results for the years 2012-2015 to 2008-2011 were examined at the XVI<sup>th</sup> Congress of Consumer Cooperatives of the Republic of Moldova [3] where it was stated that the retail sector has increased by 108.4% over 4 years. Essential increases were observed in wholesale trade, a growth by 152% in 2012-2015. The increases are evident in catering services where the growth was by 108.1% compared to the previous four years. In marketing the growth over the four years was by 127%. Procurement volume of activity at current prices increased by 113.2% during 2012-2015 and production taken from the population stands at 315.4 million lei [3]. A more modest increase was observed in the processing industry by 107.2%, which requires greater support of agricultural activity for services of processing agricultural products. These figures can provide a positive impetus to the Congress participants and confidence in the future development of consumer cooperatives. At present in the consumer cooperatives system operate 63 units of "CoopPrim" concept and two units of the "CoopPlus" type in settlements from 18 districts of the country [3].

To boost the activity of cooperative organizations and enterprises in the future it is necessary to achieve a set of measures related to: organizing a more efficient procurement activity, retail trade and rendering services; fulfilling development projects in providing profitable activities in all areas of consumer cooperatives; enhancing the role of wholesale trade in development retail trade by transmitting trading units which are stationed at wholesaler cooperative enterprise's balance sheets; efficient management of financial and economic costs and efficient use of cooperative heritage; supporting co-operative members and landowners in the agricultural works, in organizing different agricultural services and purchases of agricultural products; programming financial and economic activity by strengthening the role of each unit of revenue and expenditure as an important tool for the development strategies of current activities of each economic agent.

The assessment of commercial enterprises and consumer cooperatives competitiveness should be based on the social significance of trade and the specific economic functioning in the republic's economy. The main directions for corporate social activity should be focused on meeting the needs of the population in goods and services, to bring to a normal state the consumers' goods' market based on the potential use from inside, enhancing the competitiveness of enterprises and organizations.

## 5. Conclusions

Formation of competitiveness of domestic trade enterprises' and consumer cooperatives is influenced by a number of internal and external factors conditioned by the specifics of their development in the republic's economy.

In the paper there was researched the specifics of training competitiveness of enterprises in the domestic trade and consumer cooperation, which is based on the interaction output of the enterprise, its internal resources and efficiency, influence of external factors of the republic's economy.

The authors proposed the methodical assessment approach of competitiveness based on calculating field's indicators characterizing the financial situation, effectiveness of work, including marketing activities, the ability to react to market's needs, product competitiveness, efficiency and running the enterprise, the observance of the six conditions described above. The authors' recommendations are:

1. Relevant ministries will introduce an appropriate process to identify some of the existing policies that restrict competition unduly and to develop specific criteria for assessing competitiveness in trade [8];
2. To subject to competition assessing the policies in trade which aim to promote competition policy (restricting monopolies held by companies in the market; introduction of a regulatory scheme to strengthen the competitiveness of enterprises etc.);
3. To revise the policies that restrict trade's competitiveness by achieving the following measures (the introduction of proper public review of state policies that restrict unduly competitiveness; adoption of some measures which observe the objectives related to the costs and benefits of implementing public policies);
4. To assess competitiveness by observing the specified methodology and implementation of a work plan on reforming the economy of the Republic of Moldova, adjusting the institutional and regulatory frameworks for the management and prevention of economic crisis related to economic and consumption activities.

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**Rezumat**

*În lucrare este propusă o nouă abordare metodică în vederea evaluării competitivității întreprinderilor în comerțul interior și cooperarea de consum ca o condiție necesară în perfecționarea activității acestora pe piață, se acordă o deosebită atenție indicatorilor competitivității întreprinderii în baza principiilor marketingului, alegerii criteriilor evaluării competitivității produsului prin calculul coeficienților ponderabilității în baza utilizării metodei Delphi de chestionare a experților, calculării indicatorilor sectoriali ce ar reflecta nivelul concurenței în comerțul interior și cooperarea de consum a Republicii Moldova.*

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**Cuvinte-cheie:** *competitivitatea întreprinderii, competitivitatea produsului, comerțul interior, cooperarea de consum, indicatori sectoriali, metoda Delphi, analiza SWOT, coeficient integral al competitivității.*

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**Аннотация**

*В статье предложен новый методический подход к оценке конкурентоспособности предприятий внутренней торговли и потребительской кооперации в качестве необходимого условия для улучшения их деятельности на рынке, уделено особое внимание показателям конкурентоспособности предприятия, основанных на принципах маркетинга, выбору критериев оценки конкурентоспособности продукции посредством расчета удельных коэффициентов согласно методу Delphi по опросу экспертов, расчету отраслевых показателей, отражающих уровень конкуренции во внутренней торговле и потребительской кооперации Республики Молдова.*

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**Ключевые слова:** *конкурентоспособность предприятия, конкурентоспособность продукции, внутренняя торговля, потребительская кооперация, отраслевые показатели, метод Delphi, SWOT анализ, интегральный показатель конкурентоспособности.*

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The publication is fulfilled within the research Project „Domestic trade and consumer cooperatives development in the context of economic integration of the Republic of Moldova in the European Community” (code 15.817.06.28A).

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*Received 18.04.2016*

*Accepted 23.06.2016*

*Published 30.06.2016*