

Analysis of Intangible Assets in Retail Trade

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Abstract

There is a growing importance of econometric analysis of the impact of intangible assets on the performance of companies, which seems apprehensive concerning the innovations, new technologies, brand, knowledge and other components of intangible assets for improving the companies' performance. To our knowledge, there are few papers dedicated to the research of specifics of intangible assets impact on the performance of trading and retailing companies, respectively. We find one of the reasons for this in the lack of adequate data, especially for econometric analysis, because many companies do not enclose full data on intangible assets in their financial reports, or do it partially. Taking all this into account, we intend to elaborate the specifics and impact of intangible assets on the performance of global retailers, with particular emphasis on Serbia. We ground our research on theoretical and methodological knowledge and reliable empirical data. (Jel classification: L810, M420, Q320).

Keywords

Innovation, customers, brand, technology, knowledge.

Introduction

Intangible assets have profound influence on a company's value, work productivity (Marrocu, 2011) and performance in trading companies (including retailing). Due to that, detailed analysis of the impact of intangible assets on the performance of companies is given a considerable importance. Starting with the significance of the issue, this paper lays emphasis to specifics and the impact of intangible assets on the performance of trading, especially retailing companies. We aim to point that managers can exert its influence in improving the desired profits of trading companies (Christine, 2015).

Innovations, human resources, intellectual capital, information, goodwill etc. are regarded as crucial factors of creating companies' value and sustainable growth (Sorescu, Frambach, Singh, Rangaswamy, & Bridges, 2011; Greuning, 2011; Vidracsu, 2015; Lev, 2004; Villalonga, 2004; Acito, 2007; Marrocu, 2011; Lukic, Lalic & Vojteski Kljenak, 2016). In its character, they are nothing

else but the elements of non-material investment (intangible assets), and inasmuch as of this, careful research attention is devoted to them in theory and practice. We will draw our attention to the specifics of their impact on the performance in retail globally, and particularly in Serbia. The aim of the analysis is to point to the significance of managing intangible assets so as to accomplish targeted profit of retail companies.

The aim of the research is to thoroughly elaborate on theoretical and practical issues of non-material assets in retail. The knowledge of significance and the structure of non-material assets is fundamental prerequisite for its efficient management so as to meet the desired profit in concrete retail company. As far as we know, there are no fully written papers dedicated to the analysis of intangible assets in retail, especially in Serbia, in which we find our contribution to the treated problems.

There is growing contemporary literature written on the general analysis of intangible assets of

companies, both from the accounting point of view, and from its influence on performance. Nevertheless, as far as we know, there are no fully written papers dedicated to the analysis of specifics of size and structure of intangible asset in retail. We strive to research the issue, especially on the examples of global, and retailers in Serbia, in which we find scientific and professional contribution of this paper.

In the context of the analyzed problem in this study (the case of Serbia) we tested the hypothesis that between certain variables there is a connection (positive or negative), or the variable correlated with each other, and for which it is used as a correlation method.

In order to gain a better idea about the importance of intangible assets in the retail trade, Serbia was compared with other countries, primarily with developed market economy.

For the sake of implementation of econometric analysis in the future it is necessary to develop a unique enclosure system of intangible assets in financial reports of retail companies, especially in Serbia. It will contribute to better analysis of non-material assets in retail.

The primary restriction of research in this work is reflected in the notion that reliable empirical data are not fully comparable since retail companies enclose data in financial reports differently. Partially, it was due to frequent normative change of International Financial Reporting Standards and others. Nevertheless, we consider that research results in this work can serve as basis for further theoretical, methodological and empirical analysis of the given issue, and especially to managers in retail to efficiently manage the non-material assets so as to make desired profit. In that we also find scientific and professional contribution of this paper.

Relevant data for the research in this work were collected from different sources, such as: literature, studies, papers, and annual financial reports of analysed retail companies. Web sites also served as sources. We collected data on trade and analysed retail companies in Serbia from the Business Registers Agency of the Republic of Serbia.

1. System of indicators of non-material value in retail

The structure of assets in retail is specific compared to other economy sectors, and so is the structure of intangible assets. This is due to the nature of its business – bulk purchasing and sell-

ing in small quantities of goods, primarily to end customers. Figure 1 shows the hierarchy of retail assets.

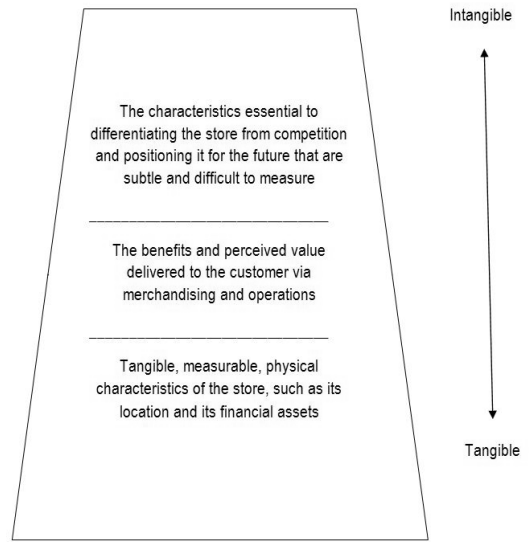


Figure 1 The retail asset hierarchy
Source: Acito, 2007

In accordance with specifics of business operation in retail, there is a system of (ratio) indicators of intangible value that has been developed. It is shown in Figure 2.

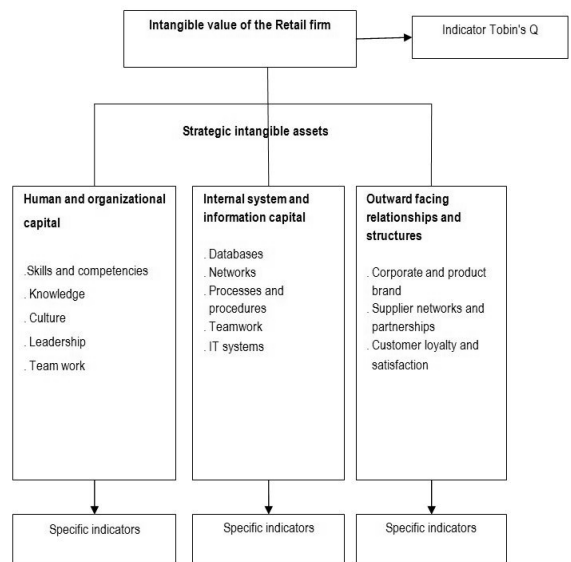


Figure 2 System of indicators of intangible value in retail
Source: Acito, 2007

Adequate measure of intangible assets' contribution to the market value is considered to be Tobin's *q* ratio (Dybvig, 2010). It is defined as relation of firm market value and its assets replacement value, i.e.

Tobin's q = Total market value of firm / Total assets value of firm

Reduced version of Tobin's Q ratio is:

Tobin's q ratio = Market equity value / Account equity value

In contrast to return on equity, as a measure of past firm performance, Tobin's q ratio refers to measurement of firm performance in the future (Villalonga, 2004; Acito, 2007). Table 1 illustrates top ten retailers by Q ratio in 2015.

Table 1 Top ten retailers by Q ratio in 2015

Company	Country	Q ratio
H & M Hennes & Mauritz AB	Sweden	6,465
Tractor Supply Company	U.S.	5,176
BİM Birleşik Mağazalar A.Ş.	Turkey	4,759
Next plc	U.K.	4,679
Inditex, S.A.	Spain	4,570
Dollar Tree, Inc	U.S.	4,514
Nike, Inc.	U.S.	4,353
The TJX Companies, Inc.	U.S.	4,338
Ross Stores, Inc.	U.S.	4,331
Fast Retailing Co., Ltd.	Japan	3,951

Source: Deloitte, 2015

As we can see, retailers which prevail by Q ratio come from the United States of America. There are major differences in food retail between retailers in relation to Q ratio. This is shown by the data in Table 2.

Table 2 Tobin's Q ratio of food retailers

Food retailer	2000	2005	Changes
Whole Foods Market	2,53	5,71	3,18
SuperValu	0,56	1,08	0,52
Ingles Markets	0,76	0,97	0,21
Albertsons	1,09	0,82	-0,27
Winn-Dixie	1,02	0,59	-0,43
Ahold USA	1,46	0,86	-0,60
Kroger	1,65	0,98	-0,67
Safeway	2,30	0,99	-1,31

Source: Acito, 2007

Altogether, Tobin's Q ratio is adequate measure of intangible assets and its impact on market value of retail companies.

2. Intangible assets of selected global retailers

Non-material assets have been significant factor of performance in economy, especially in trade sector and retail (Yu, 2014; Mohr, 2014). There are differences among countries concerning in-

tangible assets in service and retail sector and their share in gross domestic product. So, for example, share of non-material assets in gross domestic product in retail, hotel and transport amounted as follows: Japan 2.7% (2010), Korea 2.1% (2010), Germany 3.5% (2004), and UK 6.4% (2004) (Chun, 2015). Likewise, it differs among retail companies, types of store and category of products. Under influence of numerous controlled and uncontrolled factors, intangible assets in retail are dissimilar from country to country. Table 3 show non-material assets and intellectual capital of retail in the US for 2009.

Table 3 Non-material assets and intellectual capital in U.S. retail, 2009

	Intangible assets as a share of market value (%)	Intellectual capital on and off the balance sheets (\$ billions)	Intellectual capital share in market value (%)	Economic competence on and off the balance sheets (\$ billions)	Intangible assets: Intellectual capital + Economic competence (\$ billions)
Retail	78.4%	\$267	43.69%	\$211	\$478
Food retail	75.3%	\$161	41.97%	\$128	\$288

Source: Hassett, 2011

We came to conclusion that the share of non-material assets in market value of US retail is high, which is also the case in other countries with developed market economy. The fact that speaks in that favour is growing share of private brands in contemporary retail (Keller & Lehmann, 2006). In other words, there is emerging power of brand as a component of non-material asset in retail. So, for example, in February 2016 the value of brand (in million dollars) of selected retail companies amounted: Wal-Mart (US) 53,657, Home Depot (US) 28,798, CVS Caremark (US) 22,891, IKEA (Sweden) 17,009, Target (US) 15,331, Aldi (German) 14,552, Lowe's (US) 12,712, Tesco (UK) 12,499 (Brand Finance, 2016b). To a great extent it determines the performance of global retail companies. There are

also significant investments in development of new information and communication technologies and knowledge advancement (competences) of the employed in retail. Share of intangible assets in market value is also high in all companies (Vi-drascu, 2015), including retailing. Table 4 shows the non-material value (assets) of selected retail-ers.

Table 4 The estimate of intangible assets of selected retail companies, (September 22), 2016 (in billion dollars)

Company	Market value	Accounting value	Non-material value	Share of non-material value in market value
WalMart	222.62	83.61	139.01	62.44%
Home Depot	156.71	6.32	149.68	9.51%
Target	39.45	12.96	26.49	67.14
Tesco	18.38	8.62	9.76	53.10%
Kroger	36.88	6.80	30.08	81.56

Note: Calculation performed by the author based on the data: Market Watch: Stock Market News - Financial News; We mark market value of firm with MV and accounting value with A, we came up with: Non-material assets = (MV – A).
Source: Market Watch, 2016

The data in the given table show high share of non-material value (assets) in market value of presented retailing companies. Therefore, it belongs to important factors of business success of the observed companies. The similar trend is with the other companies that operate on the global level. In order to thoroughly envisage the importance of non-material assets in retail, Table 5 shows the share of non-material assets in total assets of selected retailing companies for the period 2011 – 2015.

Table 5 Share of non-material assets in total assets of selected retail companies (%), 2012 – 2015

Company	2012	2013	2014	2015
Wal-Mart	10.67%	10.09%	9,52%	9.09%
Home Depot	2.76%	2.84%	3.18%	3.39%
Costco	-	23.14%	23,22%	23,03%
Target	0.25%	0.22%	0.74%	0.72%
Tesco	9.09%	8.69%	7.57%	8.52%
Marks & Spencer	8.03%	9.13%	10.22%	10.46%

Note: Calculation performed by the author based on annual reports
Source: Market Watch, 2016

Data in the given table show a high share of non-material assets in total assets in retail companies Wal-Mart, Tesco and Marks & Spencer, in

which we recognize the fact that those companies have major investments in innovation, as crucial factor of business success. In order to deeply contemplate the importance of intangible assets in retail we will analyse data from Fast Retailing company. Table 6 shows the data on intangible assets of Fast Retailing company for the period 2013 – 2015.

Table 6 Share of intangible assets in total assets of the Fast Retailing company (%), 2013 – 2015

	2013	2014	2015
Goodwill	4.10%	2.69%	2.33%
Other intangible assets	5.86%	4.73%	3.52%

Note: Calculation performed by the author
Source: Fast Retailing, 2016

The data derived from this table indicate that the share of intangible assets (Goodwill and other intangible assets) in total assets of the Fast Retailing company is less compared to Wal-Mart and Mark & Spencer. Unlike the trade sector, information and communication (IT) sector is unique to intangible assets influence on performance. As illustration, we will analyse the world wide known company Apple, which has very high level of intangible assets share in its economic value. Data in the Table 7 indicate this.

Table 7 Components of enterprise value in company Apple on 28th April 2016 (\$ billions)

Enterprise value	Components of enterprise value	Disclosed intangibles components	Types of intangible assets	Brand value
\$536	Tangible assets \$274	Disclosed intangibles \$9	Goodwill \$13 (5%)	Brand value \$121
	Intangible assets \$261	Assets breakdown \$252	Contract \$13 (5%)	
			Consumer \$26 (10%)	
			Technology \$79 (30%)	
			Marketing \$131 (50%)	

Source: Brand Finance, 2016a

Data in the table show that in Apple company intangible assets participate in total value with 49%, which is very significant from the impact on total performance point of view. What is peculiar is that only 3.4% of intangible assets are disclosed. As crucial factors of business perfor-

mance, share of technology and marketing is substantial in the structure of intangible assets. Also, there is major share of brand value in total intangible assets.

3. Intangible assets of trade in Serbia

Under the impact of various factors (for example investment in innovation) the significance of intangible assets differs among various countries. Concerning this, in further elaboration we will highlight the specifics of intangible assets of the trade in Serbia. Table 8 shows non-material assets of trade in Serbia for the period 2013 – 2015.

Table 8 Intangible assets of trade in Serbia for the period, 2013 – 2015

	2013	2014	2015
Total assets (000 RSD)	2,160,474,147	2,157,565,402	2,234,368,510
Intangible assets (000 RSD)	37,694,358	31,913,439	35,150,488
Tangible assets (000 RSD)	564,345,163	533,244,474	572,301,081
Relation between intangible assets and tangible assets (intangible assets / tangible assets)*	0,066 (6.60%)	0,059 (5.90%)	0,061 (6.10%)
Relation between tangible assets and intangible assets (tangible assets / intangible assets)*	14,971	16,709	16,281
Share of intangible assets in total assets (intangible assets / total assets) (%)*	1.74%	1.47%	1.57%
Net income (000 RSD)	89,730,566	79,234,350	102,303,232
Return on assets (net income/ total assets)*	0.041	0.036	0.045
Return on intangible assets (net income / intangible assets)*	2.38	2.48	2.91
Return on revenue (net income / total revenue) (%)*	3.00%	2.70%	3.31%
Number of	193,210	191,172	195,621

employees			
Intangible assets per employee (intangible assets / number of employees) (000 RSD)*	195,095	166,935	179,686
Total revenue (000 RSD)	2,987,680,991	2,924,565,910	3,084,081,630
Intangible assets turnover ratio (total return / intangible assets) *	79,26	104,38	87,26
Productivity of business (total return / number of employees) (000 RSD)*	15.463,386	15.298,087	15.765,595

Note: * Calculation performed by the author
Source: Agencija za privredne registre, 2017

Data in the given table show that the share of intangible assets in total assets of trade in Serbia amount approximately to 1.5%. In other words, the share of tangible assets is predominant with about 98.5%. Also, the share of intangible assets in tangible assets is disproportionate (about 6%) – huge discrepancy between material and non-material assets in favour of material physical assets. The share is significantly lower than in countries with developed market economy. An employee creates intangible assets between 166.935 and 195.095 dinars. Efficiency of intangible assets usage (measured with turnover ratio) is high at the first glance, but one point should be kept in mind: low share of intangible assets in total assets. It has adverse effect on the performance of trade in Serbia. Intangible assets return ranges from 2.38 to 2.91. Concerning the obtained results, it is necessary to invest more money in innovation, private brand and other components of intangible assets of the trade in Serbia. Final effect would be improving its total performance.

In the analysed period, the average relation between intangible and tangible assets is 0.0633, i.e. in total material physical assets intangible assets participated on average with 6.33%. It is significantly lower compared to the countries with developed market economies, for example, USA, which has adverse effect on its performance. In order to improve the performance of trade in Serbia in the future it is necessary to invest much more in various business innovations. Table 9 presents the correlation of several indicators of intangible assets in trade of Serbia, for the period

2013-2015.

Table 9 Correlations

		Intangible assets (000 RSD)	Intangible and tangi- ble assets relation	Total assets return	Intangible assets per employee (000 RSD)	Productivity of work (000 RSD)
Intangible assets (000 RSD)	Pearson Correlation	1	-.548	.998*	-.111	.916
	Sig. (2-tailed)		.631	.036	.929	.263
	N	3	3	3	3	3
Intangible and tangible assets relation	Pearson Correlation	-.548	1	-.500	.892	-.167
	Sig. (2-tailed)	.631		.667	.299	.893
	N	3	3	3	3	3
Total assets return	Pearson Correlation	.998*	-.500	1	-.054	.937
	Sig. (2-tailed)	.036	.667		.965	.227
	N	3	3	3	3	3
Intangible assets per employee (000 RSD)	Pearson Correlation	-.111	.892	-.054	1	.297
	Sig. (2-tailed)	.929	.299	.965		.808
	N	3	3	3	3	3
Productivity of work (000 RSD)	Pearson Correlation	.916	-.167	.937	.297	1
	Sig. (2-tailed)	.263	.893	.227	.808	
	N	3	3	3	3	3

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

Note: Calculation performed by the author with use of SPSS, based on the data from the Business Register Agency, The Republic of Serbia
Source: Agencija za privredne registre, 2017

The results of correlation analysis showed that only the relationship between the first two variables (intangible assets and return on total assets) was statistically significant ($p < 0.05$; Pearson Correlation 0.998; Sig. (2-tailed) 0.036), while the other correlation (between intangible assets and labor productivity) is not the case ($p > 0.05$; Pearson Correlation -.111, Sig. (2-tailed) 0.916; Pearson Correlation .916, Sig. (2-tailed) 0.263).

All in all, the intangible assets are one of the critical success factors of the business of trade in Serbia. Adequate management of intangible assets investments can make their target profits fulfilled. The hypothesis tested in this research work is confirmed: intangible assets are a significant factor in the performance of trade in Serbia. This is the case with trade in other countries.

4. Intangible assets of company Delhaize Serbia

Given the fact that Delhaize Group (as part of Ahold Delhaize from 2016) does business in Serbia with important market share, we will analyse in detail its non-material assets with special insight into one of its entities which does business in Serbia (Delhaize Serbia). Table 10 shows data on goodwill and intangible assets share in total assets of Delhaize Group for the period of 2013 – 2015.

Table 10 Percentage share of goodwill and intangible assets in total assets of company Delhaize Group, 2013 – 2015

	2013	2014	2015
Share of Goodwill in total assets (%)	25.52%	25.95%	26.58%
Intangible assets share in total assets (%)	6.31%	6.29%	6.13%
Intangible investment depreciation share in gross margin (%)	0.57%	0.56%	0.48%

Note: Calculation performed by the author based on Annual Report 2015 data
Source: Delhaize Group, 2015

According to the data showed in the table, share of intangible assets in total assets is slightly higher than 6%. It is lower than in Wal-Mart (2015 – 9.09%) and Marks & Spencer (2015 – 10.46%) (See Table 5). Intangible investment depreciation share in gross margin ranges from 0.48% – 0.57%. It is similar to other retail companies in the world (for example, Russia). In order to envisage the trends of intangible assets development in Delhaize Group, Table 11 shows data on its market capitalisation for the period 2011 – 2015.

Table 11 Market capitalisation of Delhaize Group company, for the period 2011 – 2015

	2011	2012	2013	2014	2015
Market capitalisation (million €, end of year)	4423	3083	4425	6213	9339

Enterprise value (million €, end of year)	7082	5155	5899	7210	10119
Total capital (million €, end of year)	5416	5186	5073	5453	6171
Intangible assets (million €, end of year)*	-993	-2103	-648	760	3168
Intangible value share in market capitalisation (%)*	-22.45%	-68.21%	-14.64%	12.23%	33.92%

Note: Value of enterprise = Market capitalisation plus net debt.
Net debt = Financial obligations minus cash. Financial obligations = Short-term loans plus long-term loans.

*Calculation performed by the author

Source: Delhaize Group, 2015

In the given table intangible assets are measured as difference between market capitalisation and total assets (as a measure of accounting value of the firm). It shows the tendency of positive increase in the last two years of the analysed period, which positively reflects in the performance of Delhaize Group company. Table 12 shows intangible assets of Delhaize Serbia company (part of Ahold Delhaize since 2016) in 2014 and 2015.

Table 12 Intangible assets of Delhaize Serbia company, 2014 and 2015

	2014	2015	Index 2015/2014
Intangible investment (000 RSD)	3,942,314	4,785,547	121.35
Goodwill	197,432	197,432	100.00
Depreciation of intangible investments	88,900	82,521	92.82
Material physical assets	35,895,916	38,945,414	107.65
Total assets	66,600,435	73,304,405	110.06
Total business expenses	71,646,608	73,853,030	103.07
Share of intangible assets	5.91%	6.52%	110.32

in total assets (%)*			
Relation between intangible assets and material physical assets*	0.1096 (10.98%)	0.1228 (12.28%)	111.83 (111.29)
Share of Goodwill in total assets (%)*	0.29%	0.26%	89.65
Share of depreciation of intangible assets in total operating expenses (%)*	0.12%	0.11%	91.66

Note: * Calculation performed by the author

Source: Delhaize Group, 2015; Agencija za privredne registre, 2017

According to the data in the given table, intangible assets in 2015 in Delhaize Serbia increased by 21.35% compared to 2014. The share of intangible assets in total assets of Delhaize Serbia company is on the level of parent company, considerably higher compared to average of total trade in Serbia, but it is lower in relation to companies such as Wal-Mart and Tesco (see Table 5). All in all, it has positive effect on its total performance, considering intangible assets as crucial factors of business success.

In order to clarify the specifics of accounting treatment of intangible assets we will bring one case from concrete trading practice. So, for example, retail company Delhaize Serbia applies the following concept of accounting treatment of intangible assets: "Intangible assets are non-monetary assets (they do not represent tangible physical assets) such as patents, licences, concessions, trademarks, hallmark, accounting software, franchise, investment in development of new products, processes and devices, copyright and other. There is a possibility that there will be an economic benefit for these resources in the period longer than one year, to the amount that exceeds costs. Intangible assets are initially measured by purchase price or cost price. After initial recognition, intangible assets are expressed as cost less accumulated depreciation and impairment. The right to use the land, even though it is limited to 99 years, due to the very essence and the anticipated conversion to ownership of the land, the Company is considered to have an indefinite useful life on land and after the expiry of this period, it has opportunity to turn the right to use to the right of ownership of construction land, without compensation. Subsequent expenditure on investments in intangible assets can be capitalized only regarding the expected future benefits of as-

sets they refer to. All other expenses represent expenses for the period in which they were made. Depreciation of intangible assets starts with the following month in relation to the month in which the assets were available for use. The basis for depreciation is purchase price. Intangible assets are depreciated on straight-line method within five years, with depreciation rate of 20%. Depreciation method and useful life is estimated at the end of each reporting period and when necessary, they are corrected". According to: Delhaize Serbia Ltd., Belgrade, Notes to financial reports, 31 December 2015. Business Registers Agency, The Republic of Serbia.)

In 2015 depreciation rate of intangible assets in Delhaize Serbia was 20%, and the estimated lifetime 5 years (According to: Delhaize Serbia Ltd., Belgrade, Notes to financial reports, 31 December 2015. Business registers agency, The Republic of Serbia). In the same (2015) year, depreciation of intangible assets participated in total expenditures with 0.060% (Calculation performed by the author based on the data: Delhaize Serbia Ltd., Belgrade, Notes to financial reports, 31 December 2015. Business registers agency, The Republic of Serbia). The situation is similar in other retailing companies in Serbia (Mercator-S, IDEA).

The share of intangible investment depreciation in total expenditures in trade is insignificant, and differs among countries. For example, in Russia 2014 it amounted: motor vehicle and repair 0.10%, wholesale 0.10%, retail 0.50% and social nutrition 0.40% (Торговля в России 2015, 2015).

Conclusion

Intangible assets gradually became crucial factor of retail companies' business success. There is an increasing share of intangible assets in trade value and total assets of global retailers. It specially refers to innovation, brand, knowledge and technology. Special system of intangible investments indicators for trading business was developed, within which more attention is paid to Tobin's Q ratio. Fundamental prerequisite for efficient managing is integrated approach in the analysis of indicators of intangible assets in retail (based on econometric analysis). Adequate managing of intangible investment can fulfil the desirable profits of retailing companies.

Under the influence of different factors, above all technology innovations, development of private brand and advancement of knowledge, the share of intangible assets in total assets in trade

and retail differs among countries. So, for example, share of intangible assets in total assets of retail companies in Serbia is significantly lower compared to countries of developed market economies. It reflects their overall performance. That is why there should be more investments in creating intangible assets, especially private brand, information and communication technologies and advancement of knowledge. **SM**

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