

THE ROMANIAN RETAIL MARKET

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Abstract:

The Romanian retail market has remained unchanged for the most part, but signs of the tendencies that will determine its future evolution have become obvious within. While hypermarkets reached medium-sized towns, discounters started to enter towns with less than 15,000 inhabitants. Territorial expansion will remain their main focus this year, but their plans are somewhat limited for two reasons: on the one hand, the price of land is expected to drop, and on the other hand, the forecasts for 2009, along with the global financial crisis are making retailers less willing to firmly engage in opening new stores.

Key words: *distribution chain, retail, retail stores.*

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The Romanian retail market has remained unchanged for the most part, but signs of the tendencies that will determine its future evolution have become obvious within. If 2007 was the year of hypermarkets and discount stores, 2008 could be referred to as the year of “but”: the geographical expansion of retailers continued, but at a slower pace, consumption continued to grow, but there were signs of moderation, emphasis still laid on price, but premium orientation appeared as well.

The years 2007 and 2008 were years of significant growth, especially in FMCG. Both retailers and suppliers reported a two figures increase of sales on the grounds of an increased purchase power. Thus, according to Euromonitor, the Romanian market of packed food was worth 6.9 billion dollars in 2008, while 10.5 billion euros were forecasted for 2012. For 2009, forecasts are an average of 10%, while appreciatively 36% of the companies that were part of a research undertaken by “The Economist” stated that they expected their performance in Romania to be “equal” of “better” than in 2008, while less than 30% are expecting a lower performance. The final outcome for 2008 was subject to the influence of the general economic development and analysts have estimated a mere 2-3% increase of the GDP.

Retail stores bore no significant changes compared to 2007, reduction in small stores and proximity stores being balanced by an increasing number of large stores.

The latter, including discount stores, had an almost 10% growth, standing out in this respect. The changes that emerged were related to the reduction of the number of small sized stores and the increase of the number of medium sized and specialized ones. As for the improvement of “quality” in this type of trade, challenges have remained the same.

The owners of traditional stores have become aware that their territory is menaced by discount rivals, but their efforts in order to keep their clients are still insufficient. The main problem remains the incapacity of most traditional stores to make a clear positioning and to adjust correspondingly their assortment and their message to the buyer. Large stores are still perceived as threatening because of the small prices, and so the efforts of the owners of traditional stores are continuing to focus around competition in this area, in the detriment of outlining the specific advantages of this type of retail: closeness to the consumer, specialization, proximity.

On the other hand, the threat of modern trade is a real one. In 2008, only 19% of the households were spending most of their shopping budget in traditional trade, compared to the 37% in 2005. The density of modern stores per one million inhabitants in Romania is: 1 hypermarket, 1 large supermarket and 15 small supermarkets.

Table no.1

The Evolution of Retail Stores in Romania

Tips of stores	2006 september	2007 september	2008 september	Evolution 2008-2006 (+/-)
Stores:	91.429	90.547	89.630	-1.799
Hiper/supermarkets	403	543	654	+251
Food stores ≤ 20 m ²	32.582	32.574	31.781	-801
Food stores 21 – 40 m ²	33.221	31.626	30.781	-2.440
Food stores ≥ 40 m ²	8.992	9.542	9.730	+738
Kiosks	5.730	5.001	4.514	-1.216
Pharmacies	5.408	6.078	6.772	+1.364
Butcher shops	780	815	810	+30
Gases	1.463	1.241	1.326	-137
Cosmetic shops	1.092	1.103	1.152	+60
Stores feed Veterinary pharmacy	1.758	2.024	2.110	+352

Source: *** www.marketresearch.com, "Retail in Romania 2009", February 2009

The main characteristics of modern trade in 2008 in Romania remained the same, namely a focus on territorial expansion and price communication, but bearing specific accents.

The sustained rhythm of development made it possible for most traders to assert that they had reached national covering.

While hypermarkets reached medium-sized towns, discounters started to enter towns with less than 15,000 inhabitants. Territorial expansion will remain their main focus this year, but their plans are somewhat limited for two reasons: on the one hand, the price of land is expected to drop, and on the other hand, the forecasts for 2009, along with the global financial crisis are making retailers less willing to firmly engage in opening new stores. That's why during the first half of 2009 the pace of development of food retail networks will probably be slower.

Besides the expansion, 2008 brought along a new trend: the purchase of retail networks by competitors and their integration in their adoptive families. Announced at the end of 2007 and the beginning of 2008, the purchase of Artima by Carrefour and of La Fourmi by Mega Image were almost finalized.

The renovation of stores was another dominant of 2008. The French retailer Interex has started a renovation campaign for its stores. The strategic decision of intensifying investment on the Romanian market also required an improvement of the commercial concept according to the latest standards developed by the mother company in France. As a particularity, Interex, part of the group Les Mouschetaires, is running its own stores in Romania, while in the other countries where it operates it is a traders association.

The renovation initiative started in 2007 continued in 2008 for Metro and will be carried on this year. Another two major programs were undertaken by Metro in 2008: the inauguration of the Gastronomic Training Center, in spring, and of the Resellers Training Center, in September 2008. The purpose of the center is providing consultancy and training for the whole food and non-food assortment, the optimization of the commercial space and promotion techniques for the various ranges of products.

Besides expanding, all players have become increasingly interested in analyzing and rendering their assortment more efficient.

The large number of SKUs on shelves, delighting a consumer willing to choose, finally means inefficiency. Traders are showing actual signs of the upcoming rationalization and are acting accordingly. The major principles are keeping the highly sold products, increasing the share of own brands and a focus on fresh products.

For the time being, own brands do not hold a significant share of the assortment, but their sales are intended to reach a 15% average. Discounters especially are the mobile of development for this sector even if, as shown, own brands as a concept are far from being outlined in the mind of Romanian consumers.

Strategies vary from case to case. For the most part, retailers' own brands are positioned on the first price segment, mostly covering basic products. The segment of own brands centered around national, premium and bio brands is emerging more clearly. This is a new tendency embraced by retailers. Mega Image or Carrefour may stand as examples of retailers that have responded to the orientation towards bio products, including within their own brands offer.

The traders' reaction to a question regarding their relation with the suppliers revealed the fact that it isn't drastically altered compared to the previous year. The problems are the same: a lack of regularity in terms of supply and the non-compliance with required quantities, but on the other hand, the actual state of the Romanian distribution chain is far from the generally accepted quality standards. Therefore, a great deal of effort is needed in this respect both from suppliers and traders.

Guilt lays primarily in "road infrastructure", but the state of roads can not be entirely responsible for the lack of organization in suppliers' warehouses and delivery departments of stores. Given the focus on expansion, traders are not yet interested in operation efficiency, even if inefficiency means money waste throughout the entire distribution chain.

On the other hand, the plans of retailers envisage more and more the development of personal logistic warehouses or the upgrading of the existing ones.

As for the direct commercial relationship between the two parts, 2008 brought another premiere. Romanian producers, or at least part of them, took a firm position against the pressure from traders and the "discrimination" they felt coming from them in favor of imported products. The intentions of suppliers are even more serious, as they are willing to turn the provisions of the code into legislation; that's why this will probably make a first page subject for papers in 2009 as well.

The recollection of the period of discussions on the Code of Good Practice and the perspective of the economic crisis are also altering the stands of both parties in the annual negotiations for 2009.

In 2008, modern trade held over 40% nationally, which means a 5% increase on 2007. The possibility of expansion is still there, but it reduces as the sales area increases.

There will be a higher chance to find locations for smaller stores than for large hypermarkets whose presence is not even necessarily justified in medium-sized towns.

After the purchase of Artima, Carrefour became the first hypermarket operator to start activities on a totally different format, that of supermarkets. And Artima was the only option that the French trader decided not to let go, even if the financial state and operation of this supermarket network were not the most competitive.

Other traders as well, such as Billa, have adopted a strategy of development on smaller surfaces and based on the concept of proximity. Discounters have the best chance of continuing their expansion because their format is suitable for small-sized towns.

The result was, even more obvious than the previous year, the intensification of competition. In Arad, for instance, there are 14 modern format stores for less than 200,000 inhabitants. Why choose one store in favor of another? What will be the winning offers in order to obtain customer loyalty? The frequency of visiting large stores is already increasing, which reveals little loyalty. As modern retail is a relatively new phenomenon, high frequency of visitation may be due to curiosity. But what is it that will make the customer come back? Recent surveys have revealed the fact that Romanians tend to choose a store that is closer to their home, large-sized and well supplied.

Once curiosity dissolves and the customer becomes more demanding, he will choose a store according to the courteousness of the staff, the number of open cash registers, the space between shelves intended entirely for him and not for deposited merchandise that hasn't been placed on the shelves, according to the freshness and cleanliness in milk products shelves, to the correspondence between the prices displayed on the shelves and those from the cash register etc. All of these will become decisive elements of differentiation and loyalty in a few good years, along with the gradual improvement of services that really matter to customers and once the customers become ready to drastically sanction their absence.

All traders are "actively" looking for such opportunities, and the financial difficulties about to come will provide several such occasions. When considering punctual purchases, the most probable targets will be local supermarkets that are not part of a network and lack solid financial resources. Surprises may also come from larger players, such as G' market or Spar, which have not been able to comply with their initial plans.

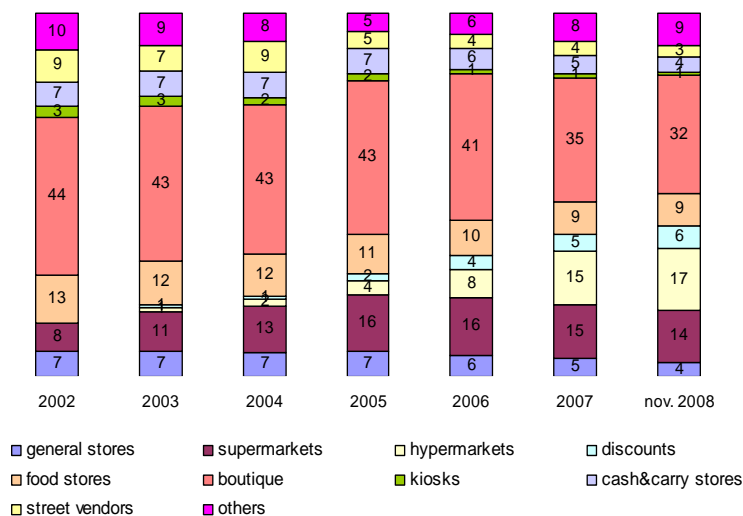


Figure no. 1. Share valuable of sales for channel types

Source: GfK, "Supermarketurile pierd teren in orasele mari in fata ofensivei hipermarketurilor", 11 November 2008

If previously G'Market was positioned as a mall supermarket, last year the Turkish dealer purchased or rented independent spaces, outside malls, in Focsani or Bacau. Their turnover was 60 million euros in 2007 (from 44.5), while 2008 came with no spectacular growth on the grounds of investment in two new stores and the closing of the store in Bacau.

After a few management changes, Spar was equally unable to carry out their initial plans, which, at the end of 2007 envisaged the development of a franchise system. We'll see how the company evolves in more difficult circumstances on the market and whether the rumors regarding its taking over by Spar Austria come true.

MiniMAX Discount is another network whose officials have admitted to being “behind initial planning”, but are trying to catch up. The company had 19 stores at the end of 2008, while its competitors were having over 50.

Perhaps 2009 will bring a fourth Cora hypermarket. Locally, the Romanian hypermarket network Pic opened one store in 2008, even if its intentions had been more ambitious.

Even though taking small steps, Romanian retailers are developing regional networks. The most eloquent example is Ethos network, which has begun a gradual expansion in small and medium-sized towns in a 200-300 km area around the capital, expansion sustained by a logistic warehouse. With 25 stores at the end of 2008, Ethos is expected to go through a re-branding and repositioning process, thus becoming one of the core players for the southern part of our country.

We could also mention Trident network, expanding in Transylvania, which is currently operating five hypermarkets and has opened a fruit-vegetables logistic center while considering development in Moldavia and Bucharest. Time will tell whether these retailers are “for sale” or not. Anything can happen, but these are however examples of Romanian networks developed according to unconceivable standards so far.

2008 was also the year of stronger signals from specialized networks. Dm drogerie market, the drugstore network, reached a number of nine stores, but there have appeared specialized stores on bio and ecologic products as well, such as Bio Markt, Pukka Food, Cosul Verde and so on, which are exploiting an extremely narrow niche, but obviously expanding. Convenience networks operators have begun testing the Romanian market.

The most recent example is R-kiosk, with six stores in the capital and five throughout the country, with a 20% press offer and mass consumption everyday goods.

Therefore, the market becomes mature enough to welcome specialized networks only after the national development of the food trade industry.

Even if the “crisis” will not be that harsh, there are signs of concern: unemployment has reached an increasing part of the active population, and there have already appeared financial insolvencies on the market. All companies need cash and resort to all kinds of mechanisms in order to get it. Moreover, the headquarters of multinational companies (retailers or suppliers) are drawing in cash from subsidiaries in countries with a two figure profit.

The scenario will be similar to the ‘90s, namely the layer of the high income class will be constant, while the share of the low income one will significantly increase. The phenomenon may turn out to be profitable for discounters and stores perceived as offering small prices, regardless their format. What is especially important for strong producers/suppliers is that they will have to financially support traditional trade. Moreover, both suppliers and traders will have to face the reality of lower profits and margins, closer to the average level in developed countries. No player on the market has forecasted a serious worsening of the FMCG situation in 2009.

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