

THE IMPACT OF THE ECONOMIC CRISIS ON EUROPEAN RETAIL

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Abstract:

The paper illustrates the European retail trends as subject to the impact of the economic crisis. Overcoming the crisis in the case of certain European countries is based on actual facts, namely figures. Overall, however, the recovery process appears to be slow and unequal when it comes to regional markets. Thus, studies have revealed for the year 2010 a limited increase in volumes in the food sector, which indicates the struggle of this sector's players to keep consumption to the float line by means of intensive promotional activities. Regarding European retail, two major trends can be mentioned: a high level of consolidation and wider diversity throughout the world of retail.

Key words: crisis, modern trade, international retailers

JEL classification: M31

Overcoming crisis in the case of certain European countries is based on actual facts, namely figures. On the whole however, the process of recovery can be seen as slow and unequal among regional markets. Turkey is a leader in terms of recovery, with a 5.6% growth in Gross Domestic Product (GDP) in 2010, and a 5.2% one forecasted for 2011. Slovakia, Russia and Ukraine are yet another three countries that are expecting high economic growth rates, whereas in Poland, which has managed with a great deal of effort to avoid recession, a slowing down of the growth rhythm is expected, along with a stagnation of consumption. Positive, yet slight signals can be noticed for the Czech Republic.

In this context, exports remain a key source of growth for this region. Furthermore, analyzing the evolution of local currencies in 2010 versus 2009, the Polish zloty, the Hungarian forint, the Czech crown and the Romanian lei are the only currencies in the world which have devalued against the euro, which made them more competitive as compared to other trade areas. For instance, “for the first nine months of this year, Romania has had the fourth export growth rate in the European Union”, according to Eurostat.

Limiting the area of interest to retail, Eurostat data for the third quarter of 2010 have revealed a marginal increase in volumes in the food sector compared to the same months of the previous year, which indicates the struggle of the players in the field to maintain consumption on the float line by intensive promotional activities.

As for the consolidation of European retail, which is also an indicator of the extent of industrial development, two main trends can be noticed.

The first one occurs among Western countries, such as Germany, France, Norway or Sweden, characterized by a high degree of consolidation, with the top five players having a share of over 60%. On the other hand, there are the Central and Eastern areas, where there is greater diversity in retail, while the market share of the top five companies in the field is still below 30% in many countries (among which Romania, Russia, Bulgaria, Turkey, Moldavia or Ukraine).

However, a consolidation trend is also present among Central and Eastern European markets. For instance, if we compare 2006 to 2009, the number of countries in the area where the top five players have increased their market share above the 50% threshold has grown from four to eight. This phenomenon confirms yet another important medium-term trend, the market share increase of large European retail groups, in a vertical and horizontal expansion race slowed down only temporarily by recession.

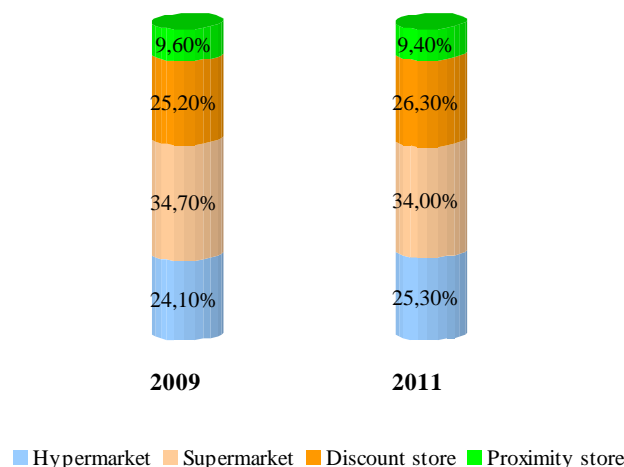


Figure no 1. The structure of modern retail in Central and Eastern Europe

Source: Ardelean Romina - Mai este loc de creștere pentru Europa?, „Progressive Magazine” Review, no. 135, february 2011

During the last 12-18 months, consumption in Romania has been affected by currency depreciation, the overall reduction of revenue and salary cuts especially in the public sector, as well as by fiscal changes, where both population and corporations are concerned.

INS data show that during the first nine months of 2010, compared to January-September 2009, the retail market share in Romania, except for the vehicle and motorcycle trade, has decreased by 4.9%, as a series adjusted according to working days and seasonality.

Significant decreases have taken place in small towns due to the less frequent shopping of consumers; while in the rural area own consumption is still strongly present.

Private labels of supermarket and hypermarket networks have gained ground in 2010, at the expense of famous brands, reaching a market share of almost 7% of all consumer goods in September 2010, from 4.2% at the beginning of the year.

Real has launched the Real Quality brand, which competes both against Romanian production brands, and international brands, while the network's representatives have stated their intentions to increase the share of private labels to 20% of sales by 2012, as compared to 3.5% in 2009. Carrefour has also brought on the market products of the same name situated on the mid-range of prices, products launched internationally last year as well.

The top retail player, the Metro Cash & Carry network, has also bet everything on its own brands by relaunching the Metro brand portfolio internationally, which is expected to double their share in the total sales of the stores up to 20% in 2012.

The most recent launch has been announced this year by the discount hypermarket network Kaufland, which has launched 400 K-Classic products.

Modern trade, represented by hypermarkets, discount stores, cash & carry and supermarkets, has reached a 45% market share in 2010 compared to 43% in 2009, with an upcoming growing trend.

GfK estimates that this type of trade will reach a market share of 54% of the total consumer goods consumption by 2015.

As for the stores format in modern trade, in the Central and Eastern European area supermarkets still have the largest market share, which is however decreasing in favor of hypermarkets and discount stores. The latter have already confirmed their success in Poland, the Czech Republic and Hungary, while Russia, Turkey, Romania and Bulgaria are following - slowly but steadily - the same trend.

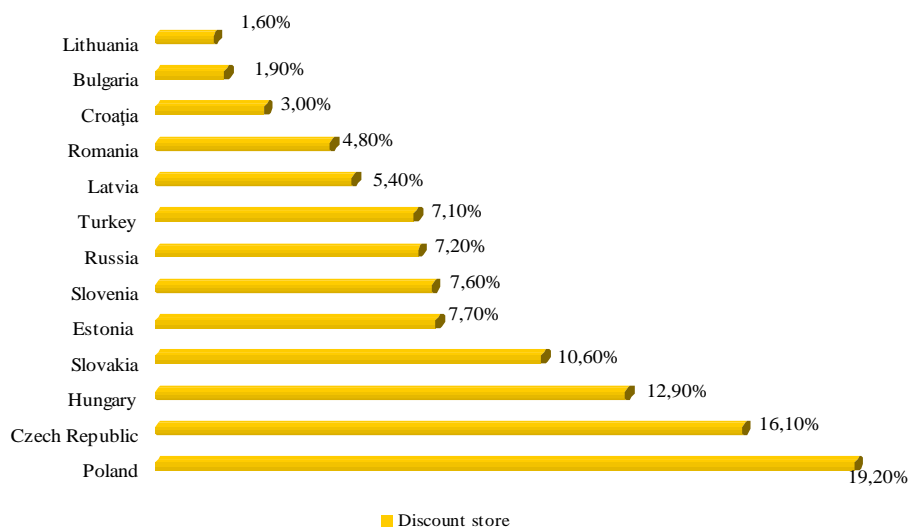


Figure no 2. The market share of discount stores

Source: IGD MyReports

Another format whose evolution deserves attention is the concept of modern proximity store (also known as convenience store), a segment that has been subject to most experiments of top players in recent years. Even so, this small-sized modern store format is still underdeveloped, but consumers are certainly ready to embrace it as an alternative to classic traditional stores. Their evolution will be especially visible in those countries where the market has reached saturation on the hypermarket segment.

In what concerns Romania, according to certain GfK studies, the most important type of trade is still that of traditional stores, although a decrease of their market share is forecasted from 41% to 40% by 2015. A market share increase is expected for hypermarkets, from 21% presently to 26%, and for discount stores, from 10% to 16%, by 2015.

In Romania, supermarkets will have an 11% market share in 2015 compared to 12% in 2010, while the market share of cash & carry stores will decrease to 1% from 2% presently.

By September 30th 2010, 76 stores opened, but five others were shut down, without taking into consideration the insolvency proceedings undergone by the Spar network.

As for the store format, this year have opened 12 hypermarkets, 3 cash & carry stores, 31 supermarkets and 30 discount stores.

If up to 2010 the general market trend has been the expansion of supermarket and hypermarket networks at the expense of convenience stores, many of the small independent players on the retail market being the most affected by the wave of insolvencies in 2009 and 2010, a slight reversal of the trend has taken place this year.

Another trend is the appearance of producer stores (Angst, Unicarm, Agricola, Elit, Cristim), regarded by many of the players in the food sector as a means of generating cash and protecting against a retailer's possible insolvency.

IGD experts are anticipating an increasing prominence of online food retail, of emerging markets and sustainability, along with other key trends.

In 2010 there was a series of experiments undertaken both by retailers and suppliers in this segment, in a “fever” of materializing opportunities brought by the virtual market. An undeniable contribution to this has been the increasing number of consumers open to the idea of integrating technology in their every-day lives, a phenomenon confirmed as well by an increasing number of users of the smartphone and its applications.

Just as notable is the abundance of online platforms launched and social media platforms implemented by means of tools made available by network developers in the field, such as Facebook or Twitter. In figures, we can speak of an estimated online retail market of over 9.5 billion pounds in the UK only in 2015 (versus 4.8 billion pounds in 2010), plus the substantial increases forecasted globally.

2011 could be the year of greater orientation towards markets in the external portfolio of the top retail players. Tesco has already made public their intention to intensify their expansion plans, while Walmart is expecting the right time for a move to South Africa, and Sainsbury’s is reviewing the opportunity of a possible entry on external markets. Starting from 2011 the rhythm of retail globalization is expected to accelerate significantly in the next five years compared to what is happening today. Therefore, this is an issue that will be most certainly present in the charts of the upcoming years as it is a reliable source of profit for those players who will be able to react quickly to the new trends.

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