

ROMANIA – EAST EUROPEAN TIGER ON RETAIL MARKET

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Abstract: *The drivers of change active in the commerce sector also influence the methods by which retailing is carried out and the activities undertaken by companies in the sector, thereby altering the scope of retailing. Retailers have become very good at managing all aspects of their business and developing their own business systems, approaches and practices.*

While during the middle 90's the most attractive markets for foreign retailers were Poland, Czech Republic and Hungary, lately the situation begins to change. Even though the Romanian retail sector is in its first steps of development, only last year three chains of stores have joined this market- Auchan, Real and Spar.

Related to the investments value in retail per capita, Romania is going to occupy this year the first place in Central and Eastern Europe, with an average of €30.9. The Romanian market retail has the biggest growing rhythm from the region and will be able to cross over €100 billions until 2010, only if the mean growth of 50 percent from the late years will be maintained. The Romanian retail future sounds bright.

Rezumat: *Modificările apărute în cadrul sectorului comercial influențează atât metodele prin care retailul evoluează cât și activitățile realizate de companiile din sector, alterând astfel scopul retailului. Retailerii excelează în managementul tuturor aspectelor referitoare la afacerile din acest sector și la modalitățile de dezvoltare a sistemelor, modalităților și practicilor de afaceri.*

În timp ce la jumătatea anilor '90 cele mai atractive piețe pentru retailarii străini erau cele din Polonia, Republica Cehă și Ungaria, în ultima perioadă situația a început să se schimbe. Cu toate că sectorul de retail din România este încă la începutul dezvoltării sale, doar în ultimul an trei mari lanțuri comerciale au pătruns în România: Auchan, Real și Spar.

Referitor la valoarea investițiilor realizate în sectorul retailului ce revine pe cap de locuitor, România va ocupa locul întâi, anul acesta, în cadrul Europei Centrale și de Est cu o medie de 30,9€. Piața de retail din România are cel mai mare ritm de creștere în cadrul regiunii și va depăși valoarea de 100 miliarde € până în anul 2010, dacă ritmul mediu de creștere, în valoare de 50%, înregistrat în ultimi ani se va păstra. Viitorul sectorului de retail din România sună bine.

Keywords

retail market, East Europe, economic tiger, hypermarket segment, cash & carry, increasingly aggressive expansion.

INTRODUCTION

The commerce sector in Europe faces several challenges, including increased competition, complex supply chains, changing demographics, increased migration, changing consumer and media trends as well as its ability to attract skilled labour. Additionally, the rise of economies in emerging Asia and continued economic out performance by the United States pose significant external challenges to the European Union. While these challenges do threaten the competitiveness and survival of some companies in the sector in the different EU countries, they also represent an opportunity for expansion and growth for others. In direct response to these new challenges, the European retail and wholesale companies increase their competitiveness through acquisitions and mergers, the introduction of new technologies, restructuring processes, new forms of shops and assortments, and innovations in personnel management.

Recent studies have shown a dramatic rise of supermarkets in several developing regions around the world in only the past decade (Reardon et al., 2003). The studies show that the rise of supermarkets have had a profound effect on agrifood systems via several important changes in the organisation and institutions of the food system, including centralisation of procurement from farmers, decline of traditional wholesale systems, and the rise of demanding private standards for product quality and safety. The supply-side implications of these changes are emerging: the changes have taken a great toll on smaller and under-capitalised producers unable to meet the new requirements, with a resulting exclusion of many small producers, in addition to the creation of new local dynamic markets for local farmers (Reardon and Berdegúé, 2002).

THE RAPID RISE OF SUPERMARKETS

Over the past 10 years, the supermarket sector has developed very quickly in the CEE, taking the form of an exponential curve – starting slowly after liberalisation/privatisation of the former state-controlled retail sector, and then accelerating, with the main growth taking place in the past 5-7 years. This recent growth has been spurred by Foreign Direct Investment (FDI) which has created investment competition with domestic chains (in most places).

There have, in general, been three waves of development determined by socio-economic factors (income, urbanisation, infrastructure, etc.) and degree of advancement in policy reforms:

- the first-wave countries are in the northern half of Central Europe, with the supermarket share in food retail going from 10% in the early 1990s to 50% at present;
- the second wave countries include most of southern Central Europe, with supermarket growth starting in the mid/late 1990s and reaching on average 30% today;

- the third wave includes some of southern Central Europe and all of Eastern Europe, including the Russian Federation. In this third-wave area, supermarket growth started in the late 1990s and early 2000s, and has reached only about 5-10% of food retail, but is growing rapidly (Dries et al., 2004).

To put the above in international perspective, supermarket growth started in the US in the 1920s and in Western Europe in the mid-1900s, and has generally reached 70-80% of food retail today. The larger countries of South America underwent the retail transformation described in the first wave above, in the 1990s, and now stand at 50-60%. The first wave countries of CEE are closest now to the retail situations of, for example, Mexico, Thailand, and South Africa; the second wave to Ecuador, Guatemala, and Indonesia, and the third wave to India, Kenya, and Peru (the latter perhaps most like Russia or Romania in the sense that policy factors held back retail transformation, the potential demand for which was strong due to socio-economic factors). Keep in mind that all of these countries, including the US and Western European countries, started from the same base in the sense that the traditional retail system in all of them was made of small shops and open-air or central markets.

Supermarket growth starts in large cities among the upper and middle income groups, and then the typical pattern we observe in CEE as well as other regions, is that supermarkets spread into lower-middle and lower income groups as they spread into medium cities and then small cities and even rural towns. There is a correlation between this diffusion and the stage or wave: in first-wave countries supermarkets have been pushing into small towns for several years, while in third-wave countries they are only just now pushing into smaller cities. In general, supermarkets tend to spread well beyond the middle class as they make the kinds of procurement system changes we note below, thus reducing costs and prices. And intense competition and relative saturation in the big cities and certain countries drives the spread of supermarkets into the successive concentric circles of expansion in space and over consumer segments in the EU.

ON ROMANIAN RETAIL MARKET FUTURE IS COMPETITION

As a result of this concentration of activities, the top retailers' market shares in EU countries are likely to decrease in the coming years. Modern grocery companies are now springing up all over the region's most underdeveloped markets, like Russia, Ukraine, Romania and Bulgaria.

Romania is one of the top targets in Eastern Europe for retailers like Metro, Carrefour or Selgros, whose local large-format stores provide the biggest sales increases for their chains.

Our country has a higher potential than Poland and the Czech Republic, where some retailers prefer to slow down expansion. Newly-entered players and expected names are putting more pressure on retailers' expansion plans. Western European retailers operating hypermarkets dominate the Central and Eastern

European markets. Romania is no exception, but what makes it different at this moment from countries like the Czech Republic, Poland or Hungary is the high.

For all the changes over the past 10 years, the next five are likely to witness even more rapid development. There is an aggressive retail property development pipeline which will significantly enhance infrastructure and stock for established domestic and overseas retailers, as well as new entrants. The retail market is undoubtedly poised for a period of accelerating development.

In the past, it has been difficult to monitor accurately Romanian retail sales on account of hyperinflation and wild fluctuations in the value of the lei. However, as the economy stabilises, retail sales are showing signs of sustainable, real growth. Romanian retail sales are now estimated to exceed €10 billion, with steady growth forecast for the next few years.

Table 1. Romanian retail sales 2004 - 2010

	€ billion	% increase
2004	10.2	—
2005	10.6	3.4%
2006	11.0	3.8%
2007	11.4	3.6%
2008	11.9	4.4%
2009	12.3	3.4%
2010	12.9	4.9%
Source: Mintel, National Institute of Statistics		

The local market has for several years been dominated by Carrefour and **Cora** on the hypermarket segment, while Metro and Selgros have competed on the cash & carry market.

Carrefour has been more focused on organic growth, opening more stores than Cora, the latter having only three stores in Romania at the moment. Metro group managed to stay ahead of Rewe, which owns Selgros.

While new competitors came to Romania – and there have been a few in the last two years: Real Hypermarket, Kaufland, Auchan and Spar – their strategy shifted a little to face competition and ensure bigger and bigger profits from Romanian shoppers.

Last year proved to be the best for retailers in Romania, as all major players accounted for historical increases in sales. If forecasts for 2007 come to fruition, this year might bring even better performances.

Hypermarkets Carrefour and Metro occupy the first positions in a ranking of Romanians' favourite shopping places, each with a 7% share, followed by Billa with 6%, Artima with 4% and Kaufland with 3%, shows a market survey of the consulting company GfK.

Carrefour Romania is in an expansion period, with an unprecedented dynamic. The Carrefour strategy follows the opening of two more stores this year, to add to the existing eight. In 2008 we plan to open at least six more stores in Braila, Suceava, Pitesti, Arad, Bucharest's Vitan area and Oradea. The target for the French retailer is to cover the majority of Romania's regions, this fact

having its bases on the fact that Romania makes 2 percent of Carrefour's EU sales.

Carrefour, which is the third ranking retailer in Romania sales wise, after Metro and Rewe, is now competing with newcomers like Real, Auchan and Kaufland, which also have aggressive expansion policies. This competition is spiced up by land price rises even in secondary Romanian cities along with a labor force crisis, which all make it even tougher for retailers to open new stores. While Carrefour is taking up this rapid pace in new openings in Romania, the group has pulled out of the Czech Republic, by swapping stores with another giant retailer, Tesco, which is not yet in Romania. For its stores in the Czech Republic Carrefour received Tesco stores in Taiwan.

The French retailer's sales in Romania reached €608.9 million last year, around 2 percent of the group's sales in Central and Eastern Europe. It may achieve some €850 million in turnover at the end of this year, according to previous media reports. So far, Carrefour Romania has managed to increase its January to June 2007 sales by 43 percent on the same period of last year, to some €362 million. The group's sales in Europe, excluding France, Spain, Belgium and Italy, reached €16.6 billion, which means Romania accounts for around 2.1 percent of the region's sales.

Greece, Poland and Romania continued to drive the growth of our other European countries, with sales growth on constant exchange rates of 7.9 percent, 23.7 percent and 27 percent respectively, reads Carrefour's latest financial report. Out of these three countries with excellent growth, Romania ranks first in terms of sales increases. For comparison, Spain, Italy and Belgium accounted for sales increases of 5.9, 2.6 and 1.4 percent respectively in the first half of this year. So Carrefour gets most of its sales increases from Central and Eastern Europe, Latin America and Asian countries.

Metro Group, currently the top retailing group in Romania in terms of sales, is not expanding its network of stores, which is actually the widest in the country with 23 outlets. The German retailer is however renovating some of its existing stores. The group has brought in a sister company whose expansion it is currently taking care of. Hypermarket operator Real, which entered the Romanian market last year, is expanding in the country at a rapid pace. With nine units already opened, some six more planned for this year and another six for next year, Real is competing with Carrefour, Auchan and Cora.

Metro Cash & Carry's turnover last year in Romania stood at €1.42 billion. Out of the €12.6 billion turnover made by the group in Eastern Europe, Metro Cash & Carry Romania contributed 11 percent.

The first half of this year brought up Romania's and Russia's names among the countries which performed best in the Metro Group, according to the latest group financial report. Sales in Eastern Europe showed above average growth rates for the group, with a 23.5 percent increase in the first half of this year. Western Europe's sales increase was lower – 13.5 percent, which seems to

confirm the idea that Eastern Europe is becoming more and more important to large retailers.

Kaufland, part of Lidl & Schwarz Group, is the hypermarket operator with the highest number of stores opened shortly after market entry. Since 2005, it has opened 28 hypermarkets in Romania. The group is recognized for its fast and aggressive expansion policy once it has entered a new market. Kaufland types of stores are at the border between large supermarkets and hypermarkets.

CONCLUSIONS

Romania has become lately the scene of debates between great European retailers. With every year, the Romanian retail segment attracts more new and big names to the market, while existing players devise increasingly aggressive expansion plans. Thus, the potential of a market of nearly 22 million consumers does not always guarantee success for all who open stores on the market.

The most recent examples of this are Gamma and Profi. After having expanded to more than 20 stores by last year, the Profi network recently had to close its first two stores in Timisoara and Lugoj.

The failures are inevitable on the competitiveness market. Many retailers are concentrating activities in the EU countries, exiting some and increasing their presence in others, but on the other hand, the majority of EU markets are already saturated. In these conditions, the extension on Eastern Europe market is more than necessary. Future tendencies will be underlined by the retailer's activity from the Eastern Europe Tiger region

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