

THE ROMANIAN RETAIL MARKET - PRESENT AND PERSPECTIVES

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Abstract:

In 2012, the Romanian retail market are facing with several problems which players must find solutions. It comes to maintaining a financial balance in terms of accelerated development and consumption has declined in recent years, finding and recruiting specialized personnel and the development of alternative sales channels.

Key word: retail, Romania retail market, modern commerce.

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This year's Romanian retail is facing many problems to which players will have to find solutions. Primarily it comes to maintaining a financial balance in terms of accelerated development and to a consumption which has declined in recent years. We see that it slowly started improving, but still in a very small percentage, so that financial balance is essential. Differentiation is still need for competitors, because now the approached strategies are still focused almost exclusively on price offer and the one of products. An effective expansion model must be found in order to gain traditional trade share.

Another acute problem of retailers who are in a process of expansion and consolidation, implicitly, is to find and recruit specialized personnel. Some alternative sales channels need to be established, and here we talk about e-commerce, which began to be very successful in our country. The past year, Romanians made credit card payments of 4.5 billion Euros.

Retailers must ensure better infrastructure, to provide flexibility, with the desire to provide customers diverse services (home delivery), which would increase the area of action planning. E-commerce will be another winning book for retailer in the future.

The trade sector, one of the main engines of the Romanian economy, represent over one third of GDP, with sales of 47 billion Euros in 2011 and 60% of the private consumption, using 12% of the Romanian workforce.

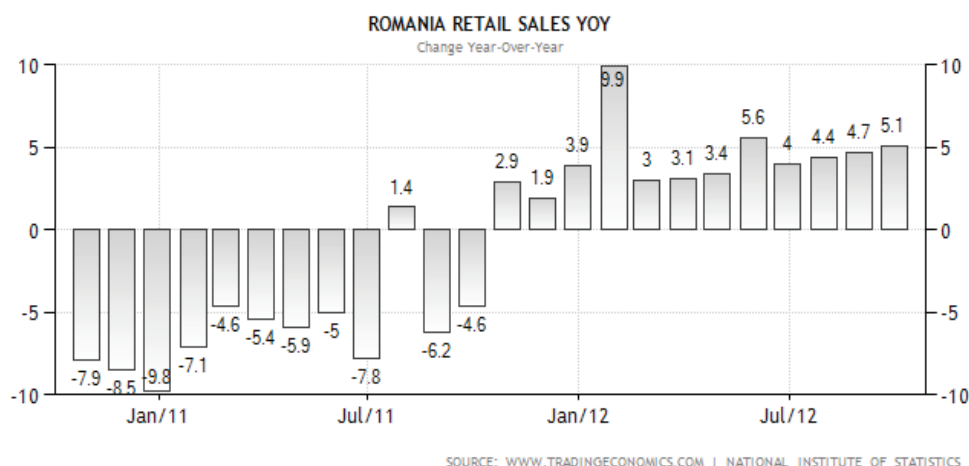


Figure 1. Romania Retail Sales Year Over Year

Source: www.tradingeconomics.com

In recent years, the retail market has registered a remarkable growth. Total sales in the retail sector in Romania increased by almost 150% in the last decade. Also, the number of stores has increased impressively, with 876%, from 380 outlets in 2001 to 3700 in 2011. The Romanian market is dominated by traditional retailers, even though the modern trade sector has developed rapidly over the last decade and continues to grow and prosper.

The share of modern retail formats has almost tripled over the last decade. However, total share is still low, with a market share of 26%.

In the first six months of 2012, 49% of the total expenses of households in Romania for mass consumer products went to supermarkets, up with two percentage points from the same period last year.

The supply chain poorly developed. Modern trade should be based on an optimal functioning supply chain - in this respect, Romania still has many obstacles to overcome. The food industry in Romania, especially the agriculture, will have to increase and to strengthen its role.

The reasons underlying this situation include underdeveloped infrastructure and insufficient equipments, as well as the absence of investments and management skills.

An efficient food industry that disposes of resources forms the basis for a functional supply chain and a modern trade.

Over 100 stores appeared in the first semester of the current year on the map of modern retail, which entitles us to believe that it was an active period, but not very active, in terms of the expansion of this trade segment. Strictly in terms of numbers, the balance is negative, caused by the disintegration of Mic.ro and Macro/ Minimax chains (with a total number of over 700 stores), but the modern trade expansion process is a reality that exceeds present statistics. Having the advantage of financial resources, international trade chains are more active in terms of expansion, but there are local networks that continue to open new branches.

Supermarkets have registered the largest numerical increase, more than half of the retail stores emergent on the modern retail map belonging to this format. In modern trade structure, supermarkets cover 16% of the value, while hypermarkets gained one percentage point in the first half. The main growth engine in modern retail formats remains the large number of buyers, his trend being consolidated by continuous territorial expansion of large retail chains.

The vividness of extending the networks operated by Mega Image was the striking characteristic of the first half of this year regarding modern retail chains development in Romania. Together, the Mega Image and Shop & Go chains opened 37 stores, more than the following three most active commercial chains together: Profi (14 stores opened), Lidl (12) and Carrefour market (10).

Table 1 : Top ten networks according total area for sale at June 30, 2012

Place	Retailer	Store tipe	Sales area (mp)		
			30 june 2012	30 june 2011	Evolution (%)
1	Kaufland	Hipermarket/discount	380.594	328.194	15,97
2	Carrefour	Hipermarket	192.000	176.600	8,72
3	Selgros	Cash & Carry	188.000	178.000	5,62
4	Metro	Cash & Carry	179.626	179.626	0,00
5	Real	Hipermarket	177.727	177.727	0,00
6	Lidl	Discount	149.480	112.560	32,80
7	Penny / XXL	Discount	109.324	98.614	10,86
8	Auchan	Hipermarket	101.500	73.500	38,10
9	Mega Image	Supermarket	89.480	52.571	70,21
10	Cora	Hipermarket	72.300	63.700	13,50

Source: Bădescu C. (2012) – 2012 - The year of supermarkets, Review "Market", july 2012

Discounters, although they continued to open new stores in the first semester were more discreet and we cannot expect the second semester to be different. With the exception of Kaufland (4 new stores) and Auchan (1) networks, other hypermarket operators have not added any new store. The first half of 2012 was also very quiet for the drugstore chain dm (1 single opening).

On the proximity stores segment we had an intense activity due to the Shop & Go chain (17 new stores) and a lesser extent the Carrefour Express - Angst chain which increased by 4 units.

As expected, the collapse of Mic.ro and Macro chains led not only to a decrease in the total number of stores, but also the exit of 18 cities from the modern retail map; to these adding another 3 because of the withdrawal of some local networks from those cities. Meanwhile, seven cities have entered the map, due to some local networks (Perfect in Mures, Econom in Suceava, Livorno in Dambovita), one national (Unicarm) and the international ones (Mega Image and Profi). Thus, in mid-2012, the modern retail was present through stores networks in 245 cities in Romania.

Boutiques and grocery stores attracted almost 36% of total expenses for FMCG products in comparison with 37% in the previous period.

In the first half of the year the purchase frequency at channels level also increased, this after a period in which the number of purchase acts decreased steadily from year to year. However, this increase of the purchase frequency is accompanied by a lower loyalty to retailers at total mass consumer products, which confirms the "shopping around" trend.

With the expansion of modern retail formats, strong growths are also found for private label products. They have gained 3 percentage points in the first six months, covering 11% of the mass consumer goods market in value, but to the detriment of national brands. Thus, 9 out of 10 households have purchased at least once private label products in the first half of 2012, while the average amount paid for these products increased by more than 30%.

In other East European countries, the share of modern retail is much higher: in Poland, for example, over 50% of the food trade is organized in modern distribution formats, while in Hungary, it exceeds 80%. Only Moldova and Kazakhstan registered a weaker growth than Romania in this sector. By comparison, most countries in Western Europe have a share of modern trade between 70% and 80%.

Table 2 : Top ten European retailers (estimated june 2012)

European rank	Retailer	Home country	European Retail Sales € MM	European Retail Stores
1	Schwarz Group	Germany	66,327	11,365
2	Metro Group	Germany	64,870	2,150
3	Tesco	United Kingdom	63,986	4,383
4	Carrefour	France	62,709	7,054
5	Rewe Group	Germany	45,048	14,005
6	Auchan	France	44,377	2,685
7	Edeka	Germany	40,281	15,117
8	Leclerc	France	34,745	733
9	Intermarche	France	32,030	3,877
10	Sainsburys	United Kingdom	28,532	970

Source: Kantar Retail Top 50 European Retailers, april-may 2012

The collaboration between retailers and suppliers, there can be no functional supply chain without an effective collaboration between retailers and suppliers. Both sides have a common goal: to fulfill customer expectations in order to be successful in a competitive environment. The design and variety of the product range, as well as

customer diversity represent as many challenges in meeting the daily expectations of customers.

The complexity of modern trade in terms of product range, is high: an average supermarket offers around 20000 - 30000 products, while large commercial formats such as hypermarkets and Cash & Carry large stores, store up to 50000 products per year (including seasonal items and so on).

In addition, the complexity of the business environment will grow significantly in the coming years due to trends such as consumer-driven innovation, offers personalized, multi-channel commerce, home delivery or sustainable supply. Therefore, an increase is expected regarding the importance of collaboration between stakeholders within the supply chain.

Experts believe that when it comes to positioning and brand management, vertical collaboration is even more important to offer consumers a consistent experience on those brands, and finally to meet its needs.

Retailers need skilled suppliers as regards their products and regarding the positioning in terms of prices. Creating a supportive legal framework – is the key responsibility of regulatory authorities.

Capitalizing the potential of the Romanian trade industry depends primarily on the regulatory authorities; they need to conceive a supportive legal framework, considering the practical nature, specific economic context and the impact on all stakeholders, throughout the supply chain. In light of the increasingly large demands of consumers, the collaboration between retailers and suppliers should be expanded rather than restricted, in order to maximize consumer benefits, an objective pursued by all stakeholders, experts say.

The prospects for the next five years are bright. Experts in the field estimate that modern retail will expand to smaller cities and will continue to gain the market share of traditional trade. In comparison with Poland, a country with a more mature retail market and the only one comparable in terms of the urban / rural structure, a stabilization of modern trade can be estimated, at a market share of approximately 65-70%. This also depends on the success of the models developed by large retailers to address the market segment considered to be traditional trade. At this moment, franchise seems to be the favorite model, because the risks are shared with franchisees and there is an increased flexibility in testing different concepts.

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