

Retail in Central Europe

Market Overview

Retail in Central Europe

1) Trends in the CE retail market

There are currently several major trends in Central European retail which are to a certain extent common to all CE countries:

Consumers prefer larger shop formats

The market share of small businesses, groceries and local markets is constantly declining in favour of the homogenised supermarkets, hypermarkets and discounts. This change of market structure is most prominent in the Czech Republic, while small businesses in Poland, for example, still keep a market share of about 50% in rural areas.

Retail sales are constantly growing

Retail sales are likely to continue growing at a substantial rate despite last year's slump in some countries. This growth is especially significant in Hungary and the Czech Republic, where sales are estimated to triple and double respectively between 2000 – 2010, according to data analyst Mintel. The rate of growth will be the fastest in Romania, Bulgaria and Slovakia.

Discount stores push super- and hypermarkets out of their position

Discount stores with their aggressive marketing (for example Lidl) are successfully attracting increasing numbers of customers. Partly because of lower levels of income, price is still a determining factor for a large part of customers in CE. Discount stores are likely to gain bigger shares of the market and to expand further into more CE countries.

Cities are reaching the point of saturation

As the retail market in major cities is nearing saturation, retail chains are exploring opportunities further afield in more rural areas, bolstering sales and converting consumer habits. (Note: this is not much of an issue in countries with a less developed retail system such as Romania and Bulgaria.)

"Polarization" of customers is continuing

Despite the determining role of price in consumers' decisions described above, the number of shoppers who choose the best quality products instead of the least expensive is increasing. More customers are also beginning to better appreciate the quality of services provided as well as ease and comfort of shopping instead of simply the value for money factor.

2) Retail volume and growth in selected countries in figures

Year	Czech Republic	Poland	Hungary	Slovakia	Romania	Bulgaria
Retail sales (USD bln)						
2003	21.858	103.2	21.611	10.114	13.259	7.284
2004	25.485	118.5	26.2	12.992	26.920	10.039
2005 est.	28.362	143.8	28.039	15.335	35.910	11.547
2006 est.	32.340	153.7	29.629	18.518	41.925	13.482
Retail sales volume growth (%)						
2003	3.3	3.6	5.9	4.4	11.2	4.2
2004	3.3	2.5	2.6	4.8	17.6	13.8
2005 est.	5.0	3.7	1.7	6.8	17.5	11.8
2006 est.	5.1	3.7	6.6	8.0	9.9	8.7

3) Market structure

Czech Republic

In 2005, two major retail chains decided to pull out of the competitive Czech market. French giant Carrefour will be replaced by Tesco, while Austrian Julius Meinl sold most of its supermarkets (over 60) to Ahold, who will operate them under the Albert brand. Small local businesses have the smallest market share of the market of all the CE countries. The Czech Republic is one of the countries with the highest number of large format shops per person.

Top 5 retailers by sales in 2004

Rank	Company	Sales in 2004 (CZK bn)
1.	Metro Group	38.2
2.	Ahold CR (Albert, Hypernova)	34.6
3.	Schwarz ČR (Kaufland, Lidl)	34.5
4.	Rewe ČR (Penny Market, Billa)	23.3
5.	Tesco Stores	21.0

Poland

Tesco is strengthening its position since acquiring the German chain of supermarkets HIT in 2002. The shops per person proportion is still lower than in Hungary and the Czech Republic. The new government's proclaimed hostility towards foreign hypermarket chains may help in conserving this situation. Small local businesses have a substantial share of the market in rural areas.

Top 5 retailers by sales in 2004

Rank	Company	Sales in 2004 (PLN bn)
1.	Metro Group	12.4
2.	Jeronimo Martins (Portugal)	4.7
3.	Tesco	4.6
4.	Auchan	4.3
5.	Carrefour	3.8

Hungary

Despite the market dominance of foreign chains in Hungary, small independent retailers, especially grocers in rural areas, manage to hold on to a considerable share of the market. Unlike in other CE countries, the market leader is a domestic company – CBA, which controls almost 3,000 small to medium-sized shops.

Top 5 retailers by sales in 2004

Rank	Company	Sales in 2004 (EUR bn)
1.	CBA	1.97
2.	Tesco	1.62
3.	Coop	1.42
4.	Metro Group	1.05
5.	Louis Delhaize	0.87

Slovakia

As most consumer goods industries are strongly import-oriented, there is significant room for expansion in Slovakia. The growth of the volume of retail sales is estimated to reach 8% in 2006. Tesco is the market leader in Slovakia and is to expand significantly as 11 hypermarkets, formerly owned by Carrefour, will be transformed into Tescos (Carrefour will acquire 4 hypermarkets in Taiwan in return).

Top 5 retailers by sales in 2004

Rank	Company	Sales in 2004 (EUR mil)
1.	Tesco	560
2.	Metro Group	473
3.	Coop Jednota	391
4.	Rewe (Austria)	220
5.	Schwarz Group	174

Romania

The Romanian retail market is underdeveloped and suffering from low spending power. Food sales last year accounted for approx. 60% of total retail sales. The proportion of supermarkets and hypermarkets is low as retail is dominated by family-run businesses, kiosks, markets and street vendors. However, the retail market is undergoing rapid modernisation and experiencing dynamic growth (even though it is hampered by several factors, especially a poor distribution system).

The market share of hypermarkets has soared from about 5% in 2001 to 18.8% in 2004. Retail chain operators have also begun expanding outside Bucharest.

Among the leading retailers in the Romanian market are the German companies **Metro** and **Rewe**, Belgian **Delhaize Group** and French chains **Louis Delhaize** and **Carrefour**.

Bulgaria

The Bulgarian economy has recovered from the crisis of 1996/97 and consumer spending has been growing strongly in recent years. The complete privatisation of the formerly state-owned retail system is nearing completion. Although family-run businesses and kiosks are still important in retail distribution, supermarket chains are spreading quickly. As the climate is becoming more attractive and purchasing power grows significantly, investors are likely to make up for the somewhat late entrance of foreign retailers into the Bulgarian market.

Key players in retail are **Metro**, Cyprus-based company **Stambouli**, **Rewe**, Turkish **Migros Turk**, Greek **Ena** and Austrian petrol retailer **OMV** with its chain of petrol stations and mini-markets.

Slovenia

The Slovenian retail market is highly modernised and large format retailers are dominant. In recent years concerns have been voiced about the effectiveness of the Slovenian competition rules – some say that the market structure is highly concentrated.

Two of the biggest Slovenian retailers may merge - **Mercator**, market no. 1, will buy the supermarket chain of **Era** in Slovenia and Croatia, subject to approval from the Competition Protection Agency (UVK). Aside from property in Slovenia itself, Era has property in Macedonia and wants to expand to Kosovo and to Montenegro. Recently there has been controversy over a proposed Sunday shopping ban. **Emona Obala Koper**, a retailer that operates a chain of 24-hour convenience stores, took the matter to the Constitutional Court in December.

A German discount store, **Hofer**, has recently entered the Slovenian market but customers seem to be conservative and reserved this shopping format which is new to the country.

Croatia

The local retail sector is highly dispersed. In the mid-1990s two of the main supermarket chains fell into the hands of local tycoons. **Agrokor**, controlled by Ivica Todoric, acquired the **Konzum** chain, and Globus Holding, run by Miroslav Kutle, bought Diona. Globus Holding (not the German Globus) suffered severe liquidity problems in 1998-99, and eventually went into liquidation. Both chains have faced increasing foreign competition from Austrian **Billa**, **Mercatone** of Italy and from **Mercator**, a Slovenian firm, all of which have started building new, large supermarkets in Croatia. **Metro Group** also operates in the country, and in late 2005 announced a US\$40m investment package to expand the number of its Metro Cash & Carry wholesale outlets from three to five. Many Croatians travel abroad to shop, particularly to Trieste (Italy) and Graz (Austria), where prices of consumer durables are often lower than at home. Further competition for all locally based retailers stems from Hungary, where food products tend to be cheaper, as well as parts of western Hercegovina, where Croatian consumer goods are available tax free.

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