

THE EVOLUTION OF FMCG DISTRIBUTION NETWORKS ON THE ROMANIAN MARKET IN THE CONTEXT OF THE ECONOMIC CRISIS

by George Cosmin Tănase

Abstract

The changes and developments in Romania in recent years have produced major transformations in the economy and in particular regarding the development of goods distribution system and also the unprecedented development of modern forms of distribution selling FMCG (fast moving consumer goods). Romanian retail market is maturing rapidly, which means that, practically, now aligns to the functioning and structure of the mature markets of Europe. This trend is expected to be relevant for the next years. Clearly, however, is the fact that even if they do it more selective, international retailers will continue their expansion in Romania, with an increasing pressure on developers to achieve business conditions to enable them to minimize risks.

Key words: distribution networks, FMCG, marketing strategies, increased competition

Romania is an important market for large distribution networks, as evidenced by the investments made in recent years and the projects announced for the next period. Year 1990 marked the beginning of the restructuring and modernization of Romanian distribution system. Following the privatization process that took place in this sector and the market penetration of large groups of international distribution, Romania currently has a distribution system characterized by the presence of most modern marketing formulas. Since 2001, retail trade began to be dominated by large chains, which discovered in Romania a market with great potential. Also, in recent years, under price pressure and insufficient incomes, consumers are moving towards point of sale with lower prices, so the effective reduction size of consumption is diminished. As a result of this situation is explained the success of major trading areas (cash & carry, supermarkets) that are also frequented by consumers with modest budgets. Compared with other Eastern European countries, also members of the European Union, modern retail in Romania still has a significant potential, leading to its further development in all areas of the country, in parallel with the gradual disappearance of street vending and small businesses. However, as competition increases in this area, there are major changes in positioning and promoting the distribution market in general and particularly on the retail. Retail concentration is an important element that defines this market. The pace of concentration in retail consumer goods is increasing worldwide, however, Romania still has one of the smallest degree of retail concentration in Central and Eastern Europe, the combined market share of top five retail chains being 19.2%.

In recent years, the Romanian market recovery was evident in a significant gap in terms of retail network development (even if there is a significant intermediate network of small shops and kiosks). Promoter retail network development is the consumer behavior in constant evolution. New formats - cash & carry, supermarkets, hypermarkets and discount - contributed to the modernization and remodeling the trade picture.

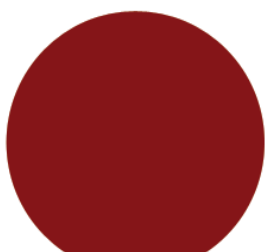
The main distribution networks on the Romanian market are presented in the following table:
The main retailers operating on the Romanian Market (TOEMM, July 2010)

No.	Name	Group	Store type	Number of stores		Year of entrance on the Romanian market
				Total	Bucharest	
1	Carrefour	Hyparlio Group	Hypermarket	22	7	2001
2	Cora	Louis Delhaize	Hypermarket	5	3	2003
3	Real	Metro Group	Hypermarket	25	4	2006
4	Auchan	Auchan Group	Hypermarket	7	2	2006
5	Metro	Metro Group	Cash&Carry	27	6	1996
6	Selgros	Rewe	Cash&Carry	18	4	2000
7	BricoStore	BricoStore	Do It Yourself	14	4	2002
8	Praktiker	Metro Group	Do It Yourself	24	3	2002
9	Hornbach	Hornbach	Do It Yourself	3	2	2008
10	Baumax	Baumax	Do It Yourself	11	1	2008
11	OBI	Tengelmann	Do It Yourself	5	1	2008
12	Carrefour Express	Hyparlio	Supermarket	15	0	2001
13	Carrefour Market	Hyparlio	Supermarket	10	4	2008
14	Spar - Supermarket	Spar	Supermarket	16	0	2005
15	Billa	Rewe	Supermarket	51	3	1999
16	Mega Image	Louis Delhaize	Supermarket	53	37	1994
17	Red Market	Louis Delhaize	Supermarket	7	4	2010
18	G'Market	GimRom Holding	Supermarket	7	3	1999
19	Profi	Louis Delhaize	Discounter	65	10	1995
20	Plus	Tengelmann	Discounter	101	5	2005
21	Kaufland	Lidl & Schwarz	Discount Hypermarket	44	3	2005
22	Penny Market	Rewe	Discounter	99	1	2001
23	Penny Market XXL	Rewe	Discounter	6	1	2001
24	Altex	Grup Altex	Specialised store	55	8	1992
25	Domo	Domo	Specialised store	126	13	1994

Currently, many supply chains are operating on the Romanian market, such as Metro, Intermarché, Carrefour, Auchan, Louis Delhaize (Cora, Mega Image, Pro), Rewe (Selgros, Billa, XXL Mega Discount), Bricostore, each having a store network developed in line with their target market and specific features of the group. This development has resulted in attracting new investments, from both domestic and international companies existing on the market. Entry of new competitors on the retail market in Romania, as Auchan and Ikea and the expansion intentions of the existing ones has caused increased competition in the market.

Estimates show that the number of shops and supermarkets is growing, while investments in hypermarkets and shopping mall type have longer to materialize. But taking advantage of Romanian consumers' growing interest in modern marketing formulas that neighboring countries' markets are already saturated has focused the investors' attention in the last years on Romania. Most distribution businesses have announced major investments to cover each sector both in Bucharest and every city or small town in Romania. Major retailers pay particular attention to the capital, Bucharest, for opening new stores. This interest is due to the city population (1.9 million inhabitants) and that it constitutes an important economic center. On behavior modification we may note that Romanians prefer to buy from supermarkets and hypermarkets, as it is more convenient, and the products are cheaper. More and more consumers choose the supermarkets where they can find the whole range of products, from food to clothing or electronics. Today, all retailers are trying to position themselves relying on the attraction of low prices.

Great retailers have changed their marketing strategies in recent years and they have adapted to attract customers and one of the tools by which retailers try to increase the default number of customers and the sales is marketing their own brands. Some have found their marks' early potential and developed comprehensive long-term strategies to help them maintain market share. Major retail chains rely on imposing their own brand and customer loyalty. Whether it's supermarkets, hypermarkets or cash & carry stores, large retail chains offer one or more brands in selling some of the products supplied by local producers.



As regards the general situation at this time, a clear effect of the economic crisis is the decline in consumption. The high costs affect the companies' budgets, the profit margins are reduced, so there are less investments and price increases cannot be operated under conditions of strong competition. Of course, those who master the niche may change prices, but others do not. Therefore, managers should be concerned with reducing costs by increasing productivity. Basically, with fewer resources, they will have to produce more. On the other hand, multinationals bring increased pressure on branches of emerging markets to reduce expected losses from mature markets. In such cases, usually the decisions of multinationals are polarized: there are companies that rely on the crisis to increase their market share, and companies to withdraw or substantially reduce their presence in Romania. The decision depends on the degree of involvement in the local market, the risks taken by the company's top management and the problems that companies have.

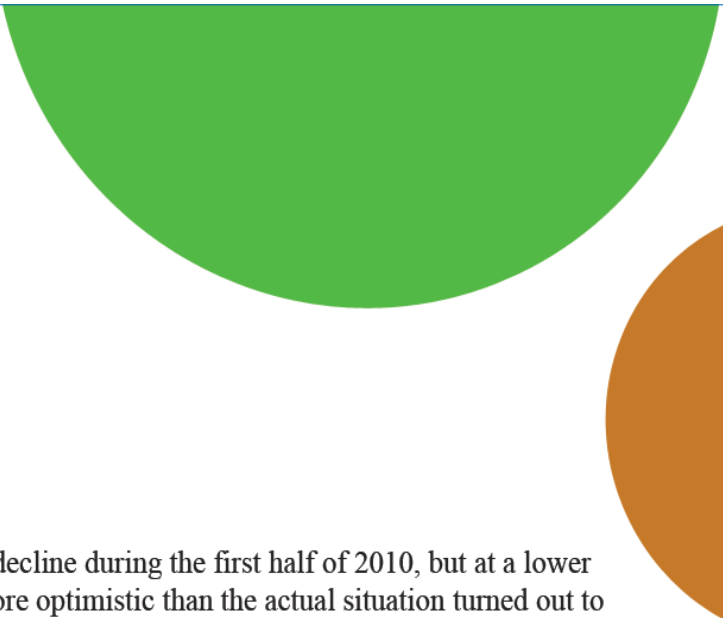
However, at this moment, market expansion, demand, competition and the future relations with suppliers or customers are relatively predictable. In today's world, competition is increasing and the permanent change has become a normality. It is therefore natural that this state of affairs does not make exceptions to the distribution. If the big chains have relied so far on strong growth in sales and hence a territorial extension, starting in 2009, their strategy has changed, the focus is rather moving towards sustainable profitability. For several years, the retail sector grew, supported mainly by the easy access to credits and the large number of foreign investments. Once the global situation began to deteriorate, Romania, largely dependent on foreign capital went into recession. In 2009, specialized market fell by 10.4% to 195.4 million RON (46.2 billion euros), after an increase of 22.1% in 2008 to 218.1 million RON (59.2 billion euros). Retail market decline has been driven both by reducing non-food sales, which were lower by 13.5% in 2009 compared to 2008, respectively 114.6 million RON (34.1 billion euros), but also the lower value of purchased goods and the changes in consumer behavior. The economic crisis has affected less modern retail, which has had stable financial resources so that retailers could face price competition and attract customers by offering cheaper products. This trend was more pronounced in the food segment, where modern retail has gained a substantial market share in 2008-2009. Top 15 large groups of retail market accounted for 17.2% of sales in 2009 versus 14.7% in 2008 and 14% in 2007. Eight of the operators are active in the food segment, four do-it-yourself (DIY), two electronic market and one cosmetic. The market is dominated by foreign retailers, such that only four of the 15 groups are indigenous.

Thus, domestic and international retailers continued to expand in 2009, but at a lower rate compared to previous years. Of the 157 planned shops that retailers announced early last year, only 129 have resulted. Also in 2009 were closed about 26 stores. Although all modern formats of trade openings have been recorded, the largest expansion had the discounters. They opened last year 79 units, that number is higher than in 2008 when it opened 56 such stores. Rewe Romania reached by the two formats in its possession, Penny Market and Penny XXL at 105 stores, becoming the largest retail network in Romania, considering the number of stores operated. Plus Discount network controlled by the German group Tengelmann, opened 24 stores out of 25 planned for 2009, reaching 96 units to operate in Romania. Profi Network has opened 15 stores in 2009, seven more than the plan announced last year.

Retailers believe that, with high price of fuel, and exchange rate fluctuations, the largest share in consumer goods price increases has the cost of transport due to congestion and lack of well developed infrastructure. Prices increase has occurred due to the increase of value added tax (VAT) in early July 2010. Besides increasing the cost of raw material, utility providers have already increased rates. These increases will be reflected in the price of basic foodstuffs. Also, changes to operating charges and higher costs amid credits. Another major challenge for FMCG retailers in the current context is the development gap to local producers, especially those of food, ie those who constitute the largest category of products sold by the modern distribution networks in Romania. The aggressive expansion in recent years of the modern chain stores - hypermarkets, supermarkets, cash & carry - overstretched the capacity of domestic food production factories, and this process affects the supply of retailers.



George Cosmin Tănase



In terms of sales, the retail market continued to decline during the first half of 2010, but at a lower pace than last year. Early estimates were slightly more optimistic than the actual situation turned out to be in tune with the macroeconomic who brought a positive feeling during the first months. As these estimates were revised downward the retail market has responded. The number of shopping centers that were planned to be opened this year was reduced, and most retailers have remained very cautious about the extension.

Commercial rents have continued to fall, the vacancy rate in malls has increased, the measures announced by the government and the decrease of consumption have changed the expansion plans of retailers. The market is in the process of replacing, less efficient stores' place being taken by powerful international retailers. However, the announcement of government measures, exchange rate fluctuations and increase in VAT have led to lower consumer confidence and hence the volume of retail sales. Being not a developed retail market, providing insufficient information on the potential development of certain areas or cities, both retailers and developers have taken risks entering smaller cities (in terms of number of inhabitants). Now there is better coverage, so that consumption patterns can provide more information about what might suit one city or another. It is also important to note that the profile of discount retailers are likely to increase its market share during the crisis, because these companies are very careful at the cost structure, allowing them to invest in competitive prices. While modern trade still has an important potential, the economic crisis changes priorities in the field. Retail market in Romania is still in early development and is highly fragmented. Following the economic crisis, international companies are expected to further strengthen their market position in Romania, but the recession and financial liquidity problems have forced some companies to delay important market expansion. However, in 2009 and the first half of 2010, despite difficult economic conditions, domestic and international companies continued to invest in the country, in most sectors.

Romanian retail market is maturing rapidly, which means that, practically, now aligns to the functioning and structure of the mature markets of Europe. This trend is expected to be relevant for the next years. Clearly, however, is the fact that even if they do it more selective, international retailers will continue their expansion in Romania, with an increasing pressure on developers to achieve business conditions to enable them to minimize risks.