

The impact of crisis on modern retail in Romania

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ABSTRACT

The main problems retail market and FMCG (Fast Moving Consumer Goods) have experienced in 2009 were probably decreased consumption rates, money-flow blockage, more difficult access to finance, financing cost increase, insolvency and bankruptcy. The fall of the durable goods market was followed in 2009 by a decrease in consumer goods sales, the main consequences of the drop in revenues being that all the market actors - producers, distributors or retailers - were forced to take emergency measures.

KEY WORDS: market, modern trade, international retailers

The first victims were local and regional distributors, caught between the producers that insistently wanted to place the merchandise in retail stores and the stores that could not or did not want to pay anymore. The truth is that everybody was trying to secure their cash due to the limited predictability of the future.

Major producers and distributors in FMCG took their time to adapt to the new situation and started developing programs to support downstream partners, up to small retailers. At the same time, every player understood it was time to focus their efforts on operational activity analysis to identify all cost optimization and capitalization possibilities to offset sales decrease.

Significant attention was paid to portfolio optimization in order to remove products

with low turnover rates that now meant frozen money and adapt the offer to the new consumption needs. Moreover, stores increased their segments of sales promotions and first price products.

Unfortunately, market research does not reflect yet the overall downturn of the consumer goods market. Even if all large scale producers, regardless of the business sector they operate in, have reported significant sales decrease, acknowledged or not, the reports of the agencies keep showing an increase in market share, as well as an increase of the costs of purchased merchandise and a decrease in the quantity of purchased goods.

The number of stores opened in 2009 by international retailers is almost equal to that of 2008. We could therefore assert that at least in theory the retail stores expansion rate has not slowed down. What did happen was that hypermarkets and supermarkets significantly lowered or even cut the investments made in new stores, which lead to the expansion of discount chains. But the financial crisis is only partially to be blamed for the decrease in the number of new stores opened. In the case of Carrefour or Mega Image for example, much of their activity in 2009 consisted in renewing or rebranding a series of networks absorbed during the previous years, such as Artima, La Fourmi and Prodas.

Tabel no.1

Evolution number of stores in Romania (September 2008 – September 2009)

Type of stores	September 2008		June 2009		September 2009		Evolution number september 2009-september 2008 (+/-)
	Number of stores	Share of value (%)	Number of stores	Share of value (%)	Number of stores	Share of value (%)	
Retail	90.373	100	89.326	100	88.445	100	-1.928
Super/hipermarkets	654	33,57	722	39,32	755	41,01	+101
Food stores ≤ 20mp	31.781	59,05	31.234	54,11	31.209	52,66	-572
Food stores 21-40mp	30.781		29758		29.608		-1.173
Food stores >	9.730		10.040		10.401		+671

40mp							
- kiosks	4.514	3,47	3.987	2,88	3.759	2,64	-755
- drugstores	7.924	3,92	8.164	3,69	8.164	3,60	+240
- gas stations	1.326		1.298		1.255		-71
Stores food for animals	2.110		2.276		2.257		+147
Butchers	810		1.016		1.037		+227
HoReCa	33.301		33.640		33.293		-8
Restaurant	5.237		5.679		5.809		+572
Bar	5.471		5.401		5.492		+21
Cafe	22.593		22.560		21.992		-601

Source: adapted by Nielsen

Large scale retailers have been reluctant to reveal their plans for 2010. Discount chains, however, promise to expand even more aggressively, especially now that they can take advantage of the commercial real estates available at affordable prices.

The methods retailers turned to last year in their effort to support the purchasing power were sales promotions. We include here price discount offers and self-liquidating promotions, which turned stores in 2009 into huge Christmas trees, decorated with sales promotions ads. The previously mentioned methods seem to have worked since studies show that customers were indeed attracted by promotion offers. There are, however, at least two risks associated to these offers: that of brand erosion and that of having the buyers get too used to sales promotions.

Moreover, sales promotions were often used without involving the suppliers, which meant that they were not able to fully control the movement of goods and develop coherent plans for the brands in their portfolios.

All retailers noticed that buyers opted for entry-level products. There was a significant decrease in impulse shopping tendencies, as well as in the amount spent on purchased goods. It was also noticed that buyers tended to purchase fewer fresh products and more canned products and take advantage of sales promotions. This change in the behavior pattern is related to the increased promotional activity mentioned above, since national brands were forced to find a solution to this new purchasing behavior.

Retailers realized this was the perfect opportunity to launch or consolidate their

portfolios of own brands. Real and Carrefour officially launched their ranges of own brands, some of these brands even extending to bio and organic products, Metro announced a new own brand policy, with a clearer portfolio adapted to customer needs, while all retailers increased the range of own brand goods, a trend that will be followed this year as well.

Another tendency that should be mentioned is that electronics and home appliances sales dropped 50%, which lead to a significant decrease in retailers' profit margins. This tendency will be illustrated in the annual results reported by companies. However, the numbers of the first three quarters of 2009 have already shown a decrease or stagnancy in sales.

The first signs that the money flow in the market was blocked led to the readjustment of retailers' payment policies. The consequences of internal audits were significant cost cuts, performed even by means of staff cuts, as well as payment deadlines extension and delaying actual payments within the legal terms of the contracts.

The same need to obtain profit determined several retailers, such as Carrefour or Interex, to close underperforming stores. That if bankruptcy had not led to suspending the activity of the entire chain, as was the case of Spar or Pic.

All small or major players must have made an offer to or must have received an offer from the competition. The transaction of the year, however, may be the acquisition of Profi by the investment entity Enterprise Investors for 66 million Euros. Moreover, there are rumors that Lidl has acquired Plus discount network, although no official statement has been made regarding this matter.

A new phenomenon began to take shape at the end of 2009: local chain stores tried to take over spaces from major or even international competitors. 2009 forced retailers to close unprofitable units. The empty spaces resulting from this could be acquired by surprise players such as retailers who have not relied on an aggressive and expensive expansion, but rather on the efficiency of the commercial space.

The retailers that have gone into insolvency are known: Trident, Ethos, Pic, Fidelio and Spar. What one must notice is that the Romanian management is involved in all

these cases. Unfortunately, the Romanian retailers pretending to be of large scale have not been able to prove that they can carry on with their activity in rougher conditions, given the fact that their growth was based more on the general advance of the market and less on a coherent and professional business approach.

It was especially the lack of predictability even on a short term which shook the retailers and the traders in the FMCG, as well as the dramatic change in the context, but on a smaller scale. Given that nobody knows for sure what tomorrow will bring, the only feasible instrument to be used is adjusting the activity based on the situations which develop on the market.

An imperative is very clear though: adjusting and optimizing costs and achieving efficiency at any cost in the hope that 2009 will remain at the same level with 2008 or 2007. In what follows, we will try to analyze what each retailer did in the past year and what are their plans for the future, for 2010, where such information was available.

Producers tend to think that supermarkets are less favored during recession, given the fact that the operating costs are high. Surely, as I was saying above, many Romanian supermarkets have lost in 2009, but there are still successful examples, like Alfa Beta Constanța and Paco Focșani, small chains oriented towards sales and profitability.

Referring to international retailers, I tend to consider the Mega Image supermarket chain as the 2009 winner, year which brought by a more consolidated network through acquisitions, as well as through its own stores. Having a concept of a premium positioned store, Mega Image has adapted to the new consumption conditions using an adequate price policy. Moreover, at the end of last year the company implemented the concept of the Red Market discount supermarket. This means that there are functional departments with large transit space, thus favoring the placement of the products under the form of pallets.

Hypermarkets, especially the large scale outlets, became aware that, on the average, one third of their space was totally unproductive because of the drop in the sales for the durable goods. Detergents, cleaning products, cosmetics and personal care

products saw a decline in sales as well, so the square meter productivity influenced the financial results. The decrease in revenue became evident in mid-2009, which is why hypermarkets started intensive sales promotions in order to regain customers.

The discount segment has not stopped expanding. On the contrary, it has reached a very good territorial coverage. The plans of these retailers for 2010 still include expansion, Plus and Penny opening this year store number 100. Beyond the geographical development, the discount chains are currently optimizing all the operations and cost structures because of the economic crisis, as well as to assure a good competitive position when the much awaited Lidl arrives. Part of the German group Lidl & Schwartz together with Kaufland, Lidl has been purchasing for years now plots of land for stores, as well as for a logistics centre, although rumor has it that Kaufland has helped them a lot on entering Romania, even on a logistic level.

In 2009, the cash & carry segment had to adapt to the change in their customers', the resellers' buying behavior. Confronted with the drop in demand and the financial blocking, small retailers have reduced their assortment, have bought rarely and in smaller quantities and have preferred sales promotions, cheap products and own brands.

These tendencies have forced even the cash & carry chains to take measures, especially because they also had to suffer from non-food product sales freeze. The solutions proposed by Selgros included the expansion of the special programs Gastro and Retail and a store remodeling program. Recently, the Selgros store opened last autumn in Bucharest had already been conceived based on an improved lay-out, whilst the store in Cluj was modernized. These actions remain a priority in 2010, together with continuing the expansion with at least one store.

In what concerns the resellers' support program, it was conceived as "150 reasons to choose Metro", representing different types of actions meant to actually help the resellers. These actions range from a generous offer of products, especially basic products at cheap prices to training activities for sellers and store managers or free counseling and actual help in reorganizing food stores.

SUMMARY

The end of 2009 brought by tensions and contract blockings between retailers and suppliers because of the ambiguities in the Law for Trading Food Items. However, the repercussions of this food trade regulation can be more carefully evaluated only after the amendments to this Law come into force. Referring strictly to these relations in the context of crisis, it can be generally concluded that both sides have found the solutions to counteract the drop in the purchasing power. The economic climate will not improve overnight, that is why it is expected that the purchasing power will continue to drop. It is possible, though, that after a year of crisis, both retailers and producers will possess the critical data mass which will allow them to draft an action plan for 2010. This plan will include efficiency enhancing actions implemented since last year, increasing the number of cheap products and own brands and all kind of programs and services to support the purchasing power. The consolidation of the retail domain will continue the insolvencies and purchases eliminating or introducing new surprise players in Romania. Everybody hopes that the signs of economic recovery will appear at the end of the year and is counting on them. The annual financial results, which will be known in the spring of 2010, will quantify in a more exact manner the losses caused by the economic crisis and will provide more realistic projections for the future.

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