

## The economic crisis, an opportunity for retailers in Romania

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*There is a clear tendency for the Romanian retailing to adapt to the requirements of the international market. If in the years following Romania's adherence to capitalism the indigenous retailing was marked by a strong segmentation in small retail units with low turnover, retail chains were considerably developed. The domestic market began to be penetrated by the first European retail chains in the mid-nineties of the last century. That was the spark of the change, to which many of the players in the retail sector were not able to adapt. During this period one can notice, on the one hand, a decrease in the majority shareholding of state-owned capital in favor of private capital and, on the other hand, a decrease in the value of the public sector and an increase in the value of the private sector.*

*Romania's accession to the European Union and the removal of customs barriers to the merchandise brought from other member states represented for retailers the long-expected signal of progressive expansion. After going through the stage of consolidation and intra and inter-organizational learning in Bucharest and a few important cities, new subsidiaries were subsequently opened in most of the county towns. Whereas most retailers promised to open a considerable number of subsidiaries in the period of economic expansion, in the last years their activity has been on the decline, being focused mainly on solidifying their own position on the market through mergers or acquisitions as well as exhibiting a central tendency to focus heavily on price and customer attraction.*

*Based on secondary sources of information, the present paper attempts to make a diagnosis-type analysis of the evolution of the retail market in Romania by highlighting the ways in which the western retail networks were adapted to the Romanian market as well as the strategies resorted to by the local networks in their attempt to overcome the economic crisis and deal successfully with the ever-decreasing income of the customers.*

**Keywords:** retail, crises, retail formats, acquisitions, food and non food retail

### 1. Review of the retail sector prior to 1990

In the Romanian technical literature, Mariana Drăgușin is the author who highlighted very well the particulars of the retail sector prior to 1990. Therefore (Drăgușin, 1999, pp. 71-73), the retail system was marked by a highly centralized control, making up a closed system composed of big retail enterprises focused exclusively on retail or wholesale retail, with predefined set of activities and rigid, strictly regulated distribution channels which no one was allowed to deviate from.

Wholesale enterprises were directly subordinate to the Ministry of Interior Retail and were organized according to their specialization: 41 Foodstuffs Wholesale Enterprises operating at the level of a single county, 18 Wholesale Enterprises for Textile and Footwear Products and 17 Wholesale Enterprises for Metal and Chemical Products whose area of supply covers between one and three counties.

The retail activity was carried out by means of a limited number of enterprises (14 in Bucharest and 1 up to 5 in each locality), these too being organized according to specialization: State Retail Enterprises for Industrial Goods, State Retail Enterprises for Foodstuffs and Public Food Service and Mixed State Retail Enterprises.

The Ministry of Interior Retail, through the County Retail Directorates, exercised absolute authority in terms of the short, medium and long-term objectives which usually were set according to ideological rather than economic agenda. The price system was kept under strict control, its relative stability being artificially maintained.

The effects of the constraints placed by the central government led to severe distortions between the volume and contents of supply provided by retail enterprises, on the one hand, and those of the demand, on the other hand, thus pushing this discrepancy to a chronic condition in time. We can, therefore, conclude that, prior to 1990, under centralized economic conditions, the retailing, as is currently practiced, missed out the opportunity to be implemented and developed in Romania.

## 2. Characteristics of the retail sector in the 1990's of the last century

In the period of centralized economy dominated by the image of endless queues formed in front of stores with poor, limited supply, buyers were glad when they were allowed to buy a liter of oil or a few eggs on the basis of their ration card. Nowadays one can notice a reverse situation characterized by the transferal of those queues to the cash registers in supermarkets, hypermarkets and discount stores where consumers wait patiently while carrying their shopping baskets filled with various domestic or foreign products. Obviously they are very satisfied for having been able to choose from among the hundreds of thousands of displayed items.

The period of transition to the market economy had its own distinctive characteristics. As early as 1990, the Romanian market was invaded by a range of cheap, low-quality products which, at that time, managed to satisfy people's "hunger" for shopping and buying anything that was new on the market. The market was disorganized and lacked any structure. Retail enterprises had to deal with an unstable economic environment, rising inflation and variations in the exchange rates.

The period from 1990 to 1994 may be considered as one characterized by a great boom in the number of private enterprises of **various dimensions. After 1995, when the payment facilities for the income tax were eliminated, the boom began to slow down** (Drăgușin, 1999, pp. 71-73).

Radical changes took place in the retail sector. The number of stores increased considerably, doubling within ten years. During this period boutiques and other small shops were the premainly forms of retailing. This proliferation of stores is mainly due to the fact that the inauguration and development of this business model requires much lower amounts of capital than the expansion in the production process.

In addition to the appearance of privately-owned enterprises, the state-owned enterprises were gradually divided into private enterprises. The retail sector practically became a private sector as early as 1998—95% of the actual sales to the final consumer was achieved by private enterprises. As shown in Table 1, 2002 may be regarded as the year since the entire retail sector has been operated by private entities as the state entities became insignificant. In fact, there has been a sharp decrease in the number of public retail units in the last reporting years (Romania's Statistical Yearbook 2006). Therefore, we believe that, in comparison to other economic sectors, the retail sector underwent the fastest privatisation process.

This period was the witness of an increased reduction in the number of small-sized stores (up to 120 square meters) determined by the merger of various retail enterprises, the intense competition from the big retail chains which began to appear on the Romanian market and the declining profitability of the

businesses on the Romanian market because of the sharply rising overhead costs and rents for the commercial space in central areas of localities. It was only between 2003 and 2004 that the percentage of space occupied by such stores decreased by almost 2% (Romania's Statistical Yearbook, 2007).

**Table 1: Retail sector according to types of ownership**

	1998	2000	2002	2004	2006	2008	2009
Total	12.551	21.357	36.270	57.148	84.193	118.183	108.515
State majority shareholding	578	482	485	388	553	39	30
Private majority shareholding	11.973	20.875	35.784	56.760	83.640	118.144	108.485
<b>Private (%)</b>	<b>95%</b>	<b>98%</b>	<b>99%</b>	<b>99%</b>	<b>99%</b>	<b>99%</b>	<b>99%</b>

Excluding the sale, maintenance and repairing of cars, motorcycles and the retailing of (motor) fuels.

Source: Romania's Statistical Yearbook, 2010, p. 482.

This period also witnessed an increase in the number of retail units of large sales area such as supermarkets or hypermarkets. Whereas the percentage of Romanian consumers who went shopping to hypermarkets, supermarkets and cash & carry stores was only 9% in 2001, it rose to over 30% in 2008 (The magazine *Romania Top 100 companies*, 2006, p. 130) with an increasing trend over the ensuing years. According to specialists, our country is on a par with other European states in this respect, the only difference being the ten year gap that places Romania's experience "behind" that of the EU countries. Over the last years, a significant increase in the number of supermarkets, discount units and proximity stores has been noticed to the detriment of large area units.

### 3. Appearance and development of modern retail formats in Romania

The supermarket was the first type of "western" store that appeared on the Romanian market after 1989. The Romanian retail market began to catch the interest of the European retail networks as early as the middle of the nineties when the supermarket chain La Fourmi, founded in 1991, penetrated the market, followed by the opening of the Mega Image units in 1994. Two years later, the Romanian market is penetrated by the Metro group under the cash & carry format. After a pronounced quantitative increase in the 1990's, the beginning of the twenty first century heralded the start of the qualitative changes. Likewise, the other forms of modern retail made their appearance on the Romanian market: the malls (1999), discount stores (2000), hypermarkets (2001) and the specialty stores (2002).

#### 3.1. Foreign food retail formats

Viewed as the pioneer of the retail expansion in Romania and the largest retail group in Europe, over 50% of the combined turnover of the German group Metro is recorded by its outlets and branches located in 30 states on two continents (*Metro Handelslexikon 2010/2011*, pp. 88-89). Metro got into the Romanian market in 1996 (Mihai, 2005) thus creating a "bridgehead" in Romania's capital and managing to inaugurate 32 branches over the thirteen years of development. Ten years later, Metro also brought to Romania the hypermarket network Real which currently number 25 units.

During all these years Metro got attention through its assortment variety, friendly service, the possibility to park the car in the outside area of the unit or the comfortable atmosphere in the store. For many years Metro provided for the Romanian consumer a viable retail "alternative" to the proximity store (convenience or "ABC" store) whose supply was not always of the highest quality. The latter type of retail units often marketed a limited assortment and pursued a price policy which did not suit the pocket of the ordinary Romanian people undergoing the "transition" process. It is likely that this

very reputation contributed to Metro Romania recording a turnover of over EUR 1 billion starting with 2004 (*Despre Metro*, 2010). Driven by the desire to meet the domestic consumers' expectations and particularly owing to a careful expansionist policy, in 2010 the cash & carry Metro network decided to inaugurate a new retail format destined to serve the entrepreneurs—Metro Punct. These units are placed in small towns or in areas with a population of about 100,000 inhabitants. Notwithstanding this aspect, the units provide the same range of assortments and the same services. Currently Metro Punct owns six stores (See Table 2).

As they became aware of the potential of the Romanian market, other European retailers focused their attention on Romania. The German group Rewe penetrated the Romanian market under the Selgros brand with the cash & carry segment (in 2001), under the Billa brand with supermarkets (in 1999) and under the Penny and Penny XXL in the sector of the discount units (in 2005). Carrefour came to Romania as early as 2000 but only preferred the capital as the only place where to inaugurate the hypermarket format. It was no earlier than 2007 that Carrefour Romania, when it purchased the Artima chain, began to reveal its presence on the market through the Carrefour Market supermarkets. It is possible that the French group will also implement the proximity store format in the future. Carrefour group has lately gone into partnership with the Angst company the result of which was the launch on the Romanian market of the Carrefour Express franchise (proximity stores). Four stores were opened in Bucharest under the Carrefour Express brand, followed by other stores within a short period of time.

Cora (Louis Delhaize) and Auchan hypermarkets first focused their attention solely on Bucharest and only much later did they recognize the potential of the other cities in the country. An expansionist strategy was also pursued by the German group Tengelmann through the Plus discount units. In 2011 these units were sold to the Lidl/Schwarz concern and the former stores were renamed with the Lidl brand. By 2011 Kaufland was the only retail network owned by the German group Lidl/Schwarz. The relatively small area occupied by these units (in comparison with that of hypermarkets), the expansionist strategy (40 units in 2008, 55 in 2009, 60 in 2010 and 70 in 2011) as well as their location in the middle of urban conglomerations (quarters) turn these units into a category killer as they provide a great number of articles for a vast area of people at highly attractive prices.

Other retailers are certain to come on the Romanian market. In our opinion, the big absentees on the domestic market are the American group Wal-Mart, the undisputed leader of the worldwide retail, Tesco group (Great Britain) and the German groups Aldi-Nord and Aldi Sud (hard-discount).

Table 2 provides a general overview of the most important European retailers operating on the Romanian market by the end of 2011. It contains the retail formats, the country of origin and the year of their entry to Romania, the turnover recorded in 2010, the number of opened stores and other issues related to location, area, and number of articles, assortment structure or the price level.

**Table 2: Food retail formats in 2011**

Retail chain	Retail format	Country of origin, Year of entry	Turnover (mil. EUR)	Nr. stores (2011)	Nr. employees	Characteristics
Mega Image (Delhaize B)	Supermarket	Belgium, 1994, 2000	198,33	98	3.000	Proximity, 1.000-1.500 m <sup>2</sup> , 3.500-5.000 articles, food, high price level
Shop&Go (Delhaize B)	Proximity			9		Proximity, 100 – 200 m <sup>2</sup> , 2.000 articles, food, high price level

Retail chain	Retail format	Country of origin, Year of entry	Turnover (mil. EUR)	Nr. stores (2011)	Nr. employees	Characteristics
Metro C&C (Metro Group)	Cash & Carry	Germany, 1996	1.254,76	32	5.700	Outside town, 7.500 m <sup>2</sup> , 37.500 articles, mainly food, middle price level
Real (Metro Group)	Hypermarket	Germany, 2006	780,95	25	8.000	Outside town, 6.100-7.400 m <sup>2</sup> , 37.000-40.000 articles, food/non-food, middle price level
Billa (Eurobilla, REWE Group)	Supermarket	Austria, 1999	271,43	61	2.800	Proximity, 1.500-3.500 m <sup>2</sup> , 4.000-7.500 articles, mainly food, high price level
Interex (Intermarche)	Supermarket	France, 1999	57,14	12	530	Proximity, 1.000-2.500 m <sup>2</sup> , 8.000-12.000 articles, mainly food, high price level
Profi (investitori)	Supermarket	France, 1999	146,67	108	1.700	Proximity, 500-1.000 m <sup>2</sup> , 3.000-5.000 articles, mainly food, low price level
Carrefour	Hypermarket	France, 2000	930,95	25	7.123	Car accessible, 8.500-13.000 m <sup>2</sup> , 33.000-50.000 articles, food/non-food, middle price level
Carrefour Market	Supermarket	2007	95,24	45	1.000	Proximity, 1.200-1.500 m <sup>2</sup> , up to 7.000 articles, 1.000 own label, mainly food, high price level
Carrefour Express	Proximity	2010, Partnership Angst	-	3	100	Proximity, 100-500 m <sup>2</sup> , 1.000 – 4.000 articles, mainly food, high price level
Selgros (Trans Gourmet Holding)	Cash & Carry	Switzerland, 2001	764,29	19	4.300	Outside town, 9.000-10.000 m <sup>2</sup> , up to 42.000 articles, food/non-food, middle price level
Penny Market XXL (REWE)	Discounter	Germany, 2001	385,24	6	2.100	Proximity, 2.500 m <sup>2</sup> , 6.000-10.000 articles, mainly food, middle price level
Penny (REWE Group)		Germany, 2005		128		Proximity, 750-1.000 m <sup>2</sup> , 1.300-1.400 articles, food, middle price level
CBA (CBA Com Rom)	Proximity	Hungary, 2002	64,29	366	d.u.	Proximity, different names, under 100 – 300 m <sup>2</sup> , 500 – 1.000 articles, mainly food, high price level

Retail chain	Retail format	Country of origin, Year of entry	Turnover (mil. EUR)	Nr. stores (2011)	Nr. employees	Characteristics
Cora (Louis Delhaize, F)	Hypermarket	France, 2003	326,19	8	2.660	Car accessible, 9.000-11.000 m <sup>2</sup> , 50.000-65.000 articles, food/non-food, low price level
Kaufland (Lidl/Schwarz Group)	Supermarket	Germany, 2005	1.111,90	70	9.993	Proximity, 4.500-8.000 m <sup>2</sup> , 12.000-15.000 articles, mainly food, low price level
Spar	Supermarket	Holland, 2005	9,52	2 (4)	200	Proximity, 300-1.000 m <sup>2</sup> , 9.000-10.000 articles, 50% food 50% non-food, high price level
Auchan	Hypermarket	France, 2006	354,76	9	3.200	Proximity / car accessible, 8.500-12.500 m <sup>2</sup> , 45.000-50.000 articles, food/non-food, middle price level
Lidl (ex-Plus)	Discount	2008	345,24	129	2.000	Proximity, 900-1.000 m <sup>2</sup> , 1.500 articles, mainly food, low price level

d.u. = unavailable data;

Source: IGD, M&M EURO Data, personal research, articles from Piața – Revista Bunurilor de Larg Consum, Wall-Street Journal and the companies' websites

As soon as Romania's accession to the European Union became imminent, competition became more and more intense and, as a consequence, the first years of the twenty first century saw the beginning of the substantial expansion of the modern retail formats. Following the stages of consolidation and inter- and intraorganizational learning in Bucharest and other big municipalities, new branches were opened in most of the county towns. Although the small towns were not overlooked, the expansion strategy of the retail networks paid particular attention to the size of the locality. Thus, the hypermarkets and the two cash & carry networks (Metro and Selgros) focused on localities of over 100,000 inhabitants whereas the smaller towns were „entrusted” to supermarkets and discount units.

Although the inauguration of a new establishment involved significant investments—up to 50% of its total costs (depending on area and size), the expansion strategy of the retail formats also involved the inauguration of logistics and acquisition centres the purpose of which was to maintain the flow of articles to their own locations (*Top 100 companies*, 2006, p. 129).

Retail formats also resorted to various *territorial expansion strategies*. These strategies varied according to the retail format being used, the necessary area, the attractiveness of the location or the number of visitors (good custom). As of 2006 the discount networks Plus (currently Lidl) and Profi and the Spar supermarket have been among the stores that expanded their market presence in smaller towns of less than 100.000 inhabitants. An example of this expansion is Hateg, the smallest town in Romania being penetrated by a retail network, with a population of about 12.000 inhabitants. The retail networks wishing to expand their business in smaller localities count on several competitive advantages such as lower prices for the products of their own stores as against those of the independent stores, the relatively wide and complete assortment, the image and awareness they enjoy as well as some special offers meant to attract and win the loyalty of the buyers.

In terms of the “bridgehead” city chosen for the market expansion, some notable differences may be noticed from one retail network to another. Until quite recently companies used Bucharest as a gate to make their entry on the Romanian market. Later they began to start their expansion from other cities as well. Selgros and Baumax opened their first store in Brasov, Profi and Real chose Timisoara, and Spar also decided on a city in the western part of the country, namely, Arad. The closeness to the western border, the proximity of the supply networks and the rising living standard were among the reason that determined many companies to set up their headquarters in the western areas of the country. Some discount stores, such as Minimax Discount, also preferred small localities as gates to enter the market such as Slatina, Targoviste and Urziceni (in 2004). In 2008 they opened another store in Campia Turzii (Retail, 2006).

### 3.2. Domestic food retail formats

The western European retail networks were not the only retail enterprises that influenced the Romanian market and its buyers. There were also some local initiatives that distinguished themselves when the market opened during the 1990’s of the last century. Notwithstanding the public’s immediate acceptance of the local retail networks, the fund providers’ lack of experience, their decisions to diversify the activity portfolio (often focusing not only on the retail but also on other strategic activities), the failure to suit the consumer preferences and provide a plentiful supply at all times and the overestimate of the expansion capacity led some of the retail networks to ride “the crest of the wave” for only several years. Some promising retail networks such as Trident, Ethis or Pic, veritable “stars” of the domestic retail that heralded one inauguration after another have now become a thing of the past.

Furthermore, these retail networks that only opened supermarkets at first, instead of consolidating their expansion at the height of their success, they announced the opening of new retail formats—hypermarkets and even commercial centers (as in the case of Trident). Other retail networks were timely sold (Artima to Carrefour, Albinuta to Profi) for lack of a clear strategic vision and financial resources or because of the owner’s desire to mark profit. Table 3 provides an overview of the main retail networks that “survived” the economic crisis. Due to the large number of such networks, we only took into account those networks that recorded an over 10 million lei turnover (about EUR 2.5 million) and owned over 10 branches in 2010.

**Table 3: Active networks operating in the food retail with Romanian majority shareholding**

Retail chain	Year of entry	Turnover (mil. euro)	Nr. stores	Main characteristics
ABC, Discount (Comaliment)	Bihor, 1990	3,47	15	Proximity, under 500 m2, under 1.000 de articles
Alba Market / Elit (Retail Alba Com)	Alba-Iulia, 2010	1,11	13	Proximity, 200 – 500 m2, 3.000 – 5.000 articles
Angst	Ilfov, 1993	38,57	26	Proximity, under 500 m2, less than 1.000 de articles, rebranded as Carrefour Express
Agricola (Agricola International)	Bacău, 1993	12,07	59	Proximity, 6.000 – 9.000 articles, 200 – 400 m2
Annabella	Vâlcea, 1994	39,57	37	Cca. 600 employees , Proximity, 1.000 articles, 100 – 800 m2

Retail chain	Year of entry	Turnover (mil. euro)	Nr. stores	Main characteristics
Alfa Beta	Constanța, 1991	16,62	4	Proximity
Barta	Satu Mare, 1994	11,42	5	Proximity
Berlin	Vaslui, 1994	12,05	5	Proximity
Bertis	Covasna, 1992	17,19	4	Proximity
CrisTim	București, 1994	17,10	30	Proximity
Diana	Vâlcea, 2002	14,75	26	Proximity
Dobrogea Fresh	Constanța, 2003	6,01	21	Proximity
Economic, Stop Shop (Aliment Murfatlar)	Constanța 1991	5,76	12	Proximity
Luca	Brașov, 1991	6,76	18	Proximity, under 500 m2, under 1.000 de articles
Marele Alb	Cluj, 1994	3,79	20	Proximity
Mecom	Buzău, 1992	3,76	10	Proximity
Mic.ro (Mercadia)	București / Olanda 2011	78,36	830	Proximity under 500 m2 (720 fixe stores și 110 mobile stores), supermarkets with fresh vegetable market (500 – 1.000 m2), less than 1.000 articles, about 4.000 articles, mainly food, Romanian articles (90%), mainly low prices, but also high prices for a few articles
Macro, miniMax (Mercadia)			58	
Oncos (Oncos Impex)	Cluj, 1993	21,69	26	Supermarkets, 500-1.300 m2, 1.500 articles, mainly food, high price level
Proinvest	Teleorman, 1991	10,83	3	Proximity
Succes (Succes Nic Com)	Gorj	29,43	47	Over 1.000 de employees, 200 – 900 mp, 2.500 – 7.000 articles
Trei G (Trei G Retail)	Oradea	27,36	8	Proximity
Trident (Trident Trans Tex)	Sibiu, 2004	14,48	4	Supermarkets, 800-2.500 m2
Unicarm	Satu Mare	60,33	75	Supermarkets, 500-1.300 m2, 1.500 articles, mainly food, high price level
Vel Pitar (Broadhurst Investments Ltd)	București, 2000	14,18	100	Proximity, less than 500 m2, less than 1.000 de articles
Universal	Sălaj	1,36	13	Proximity

Source: Articles from the magazine “Piata – Revista Bunurilor de Larg Consum”, Wall-Street Journal and the companies’ websites and the Database of the Romanian Finance Ministry.

As evidenced by the above table, all these retail networks operate only two retail formats: proximity stores and supermarkets. Most of them are small-sized stores, providing a not too wide range of articles. It is very likely, however, that their trump card against hypermarkets is represented by assisted selling and specialist advice on the part of the personnel.

### 3.3. Non-food retail formats

In addition to the food retail formats, the Romanian market also comprises those formats that market non-food products. The most important DIY, electronics, furniture and drugstore retail networks are presented in Table 4. Obviously, an important feature in the expansion of the specialized (non-food) retail chains is represented by the inauguration of commercial centers of different dimensions where such units are preponderantly “accommodated” as well as the existence of very large food stores which act as “anchors” for the non-food retailers (they attract customers).

**Table 4: Non-food retail networks**

Retail chain	Retail format	Country of origin, year of entry	Turnover (mil €)	Nr. stores (2011)	Nr. employees	Main characteristics
Ambient	furniture	Sibiu, 1993	107,95	12	1.300	30.000 m <sup>2</sup>
Hornbach	furniture	Germany	3,07	4	426	22.000 m <sup>2</sup>
Ikea	furniture	Sweden, 2007	15,03	1	429	9.500 m <sup>2</sup>
Interhome	furniture	Belgium, 2005	10	5	300	3.000 – 10.000 m <sup>2</sup>
Mobexpert	furniture	1993	110	32	2.200	6.000 – 16.000 m <sup>2</sup>
Kika	furniture	Austria, 2008	11,5	1	128	27.000 m <sup>2</sup> , 50.000 articles
Neoset	furniture	Greece, 1991	1,954	6	50	Min. 400 m <sup>2</sup>
Lemet	furniture	1991	34	108	1.250	500 – 600 m <sup>2</sup>
Arabesque	DIY	Romania, 1994	355	18	4.200	39.000 m <sup>2</sup>
Baumaxx	DIY	Austria, 2006	132,27	14	1.700	15.000 m <sup>2</sup>
Bricostore	DIY	France, 2002	148	15	1.700	+1 2011, 7.500 m <sup>2</sup>
Dedeman	DIY	1992 Bacău	369,9	26	5.000	+ 8 2011, 11.000 – 15.000 m <sup>2</sup>
Leroy Merlin	DIY	Bucharest, 2011	0,003	1	250	16.000 – 17.000 m <sup>2</sup>
Mr. Bricolage	DIY	2006	17,19	3	1	6.000 – 10.000 m <sup>2</sup> , 40.000 articles
Obi	DIY	2008	39,31	7	542	Cities, 8.000 – 10.000 m <sup>2</sup>
Praktiker	DIY	Germany, 2002	197,2	27	2.600	4.300 mp-8.500 m <sup>2</sup> , 40.000 articles
DM	Drug-store	Germany, 2007	13,5	43 (50)	Sub 300	Proximity, 250 – 500 m <sup>2</sup> , 12.000 articles
Altex	Electronics	1994	195	89	1.500	1.500 – 2.000 m <sup>2</sup> , 12.000 articles
Domo	Electronics	Romania, 1994	180	127	1.650	Investment 250.000 euro, 1.200 m <sup>2</sup>
Techno-markt		2007		7		
Flanco / Flanco World	Electronics	1992	100	77	870	500-1.000 m <sup>2</sup> , 14 new stores in 2011, 30.000 articles,
Media Galaxy	Electronics	2004	with Altex	13	1.000	10.000-30.000 articles, 2.000-3.000 m <sup>2</sup> ,

d.u. – unavailable data

Source: Articles from the magazine “Piata—Revista Bunurilor de Larg Consum”, Wall-Street Journal and the companies’ websites., [www.mfinante.ro](http://www.mfinante.ro)

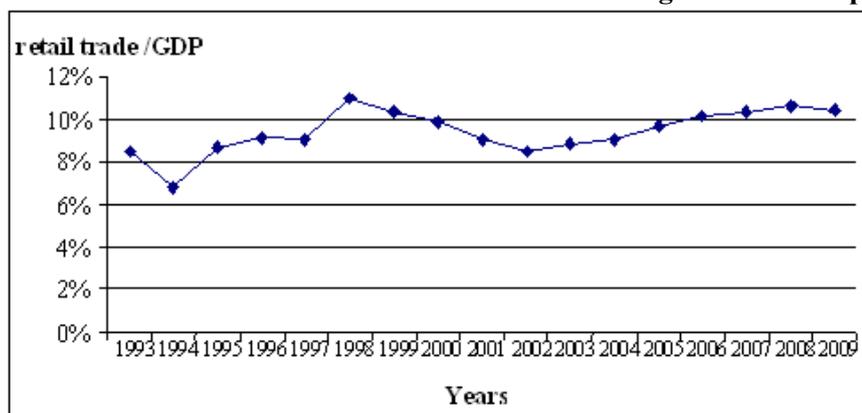
## 4. Retailing according to statistics

The changes in the retail sector are also reflected in the statistical data of the last twenty years. Much circumspection is required when interpreting statistical data up to the year 2000 because the data included hotel and restaurant activities as well. Moreover, in some instances, the term “retail” referred not only to the retailing but also to the wholesale retail and the repairs and maintenance of vehicles and household appliances.

### 4.1. Retail gross domestic product

The relationship between retailing and economic development may be represented by means of an inverted U-shaped curve of a function (Tachiciu, 2003, p.128.). Starting from this hypothesis and from the fact that the Romanian retail sector undergoes rapid development, we may forecast that there are medium-term perspectives of increase in the contribution of the Romanian retail sector to the gross domestic product (Figure 1).

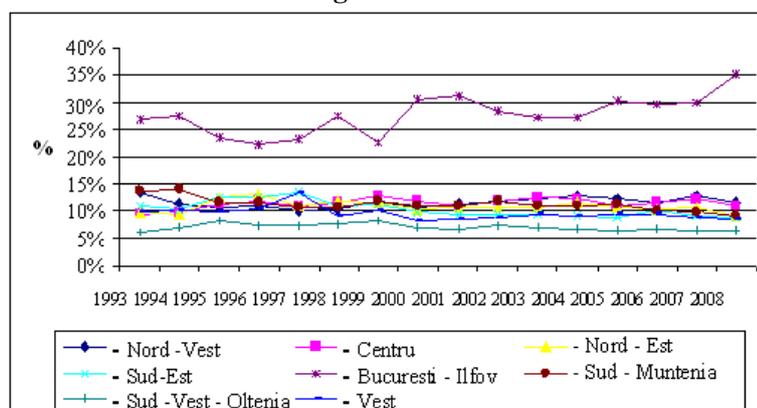
**Figure 1: Evolution of the share of the retail sector in the gross domestic product**



Source: Romania’s Statistical Yearbook (2010, p. 323)

The contribution of the Bucharest Development Region to the overall retail sector was and is significant for the period under analysis, reaching up to 35% in 2008 when the economic crisis began. It is followed by the North-West Development Region with a maximum contribution of 12% in 2008. The South-West Development Region stands out as the region with the smallest contribution to the overall retail sector, only 6% in 2008 (Figure 2).

**Figure 2: The share of each region in the overall national retail sector**



Source: Tempo online (2011a)

## 4.2. Retail turnover

During the economic crisis the retail turnover was in decline by 5% for the wholesale retail and by 3% for the retailing.

**Table 5: Turnover of enterprises having retail as main activity (millions of lei in current prices)**

	2008	2009	2010
Wholesale turnover	220.690	203.733	210.409
Retail turnover	118.183	108.515	114.962

Source: Romania's Statistical Yearbook (2010, p. 482; 2011, p. 504)

The retail market is fragmented among multiple actors. A more pronounced fragmentation is manifest in the case of the wholesale retail. In 2010 the combined turnover of the top five wholesale enterprises was 5.6% of the overall market and 10.9% for the top twenty. A greater concentration may be noticed in the case of the retail. The turnover of the top five actors represents 15.7% of the total retail market and 32.7% for the top twenty (Table 6). A tendency towards increasing concentration may be noticed in 2010 as compared with the previous year.

**Table 6: Concentration of the retail market**

Turnover	2009	2009	2010	2010
	Top 5	Top 20	Top 5	Top 20
Wholesale retail	5%	10,3%	5,6%	10,9%
Retail	14,7%	30,9%	15,7%	32,7%

Source: Romania's Statistical Yearbook (2010, p. 463; 2011, p. 484)

## 4.3. Active retail units, merchandise groups

The percentage of active retail units of all active units decreased gradually from 69% in 1998 to 40% in 2008. In other words, as Table 7 indicates, the number of active retail units did not increase proportionally with the overall number of active units. These data support the hypothesis according to which the retail sector has undergone a quantitative development in the 1990's followed by a qualitative development in the early years of the new millennium.

As a result of the effects of the economic crisis, the number of active units throughout the country decreased by 2.8% whereas the active retail units decreased by 7.7%. The retail units were hit by the crisis to a larger extent than the overall number of units at country level. One year later, the economy, as a whole, was affected more seriously than the retail sector. Therefore, the number of active enterprises at country level decreased by 11% whereas the retail companies by only 9%. Thus, we may conclude that the effect of the crisis became more profound in 2010.

**Table 7: Active retail units versus the total number of active units at country level**

	1998	2000	2002	2004	2006	2008	2009	2010
Romania	323.790	313.508	322.188	404.339	471.952	534.525	519.441	470080
Retail sector	224.287	205.185	181.388	196.222	211.628	214.137	197.611	181903
%	69%	65%	56%	49%	45%	40%	38%	39%

Statistical data refer to wholesale and retail, repairs and maintenance of vehicles, motorcycles and personal and household goods.

Source: Territorial Statistical Yearbook (2006), Statistical Yearbook (2010, p. 466).

Whereas the number of proximity stores (with an area of up to 120 sqm) increased by about 10% between 2003 and 2006, the economic crisis brought about a significant decline in their number. It was upon this type of units that the decrease in the consumers' purchasing power had the most significant bearing with the result that their sales went down and the stores had to be closed down. Because of the higher prices being charged, many individuals preferred to avoid these units and turned to discounters for shopping.

This surmise seems to be confirmed by the statistical data presented in Table 8. As we previously highlighted in Table 2, the area of discount stores ranges between about 1,000 sqm (Lidl, Penny) and 2500 sqm (Penny XXL). Between 2003 and 2006 one can notice a significant increase (54%) in the number of stores with areas between 400 and 999 sqm, their number decreasing considerably during the crisis period (2008-2009). If this situation appears contradictory at first sight, we believe, however, that it is fairly logical. The 400 to 999 sqm category comprises not only discount units but also supermarkets.

**Table 8: Evolution of the number of stores according to area categories**

Areas	2003	2004	2006	% 2006 as compared to 2003	2008	2009	% 2009 as compared to 2006
Total	135.072	135.003	148.902	10,2%	134.878	132.856	-10,8%
Up to 120 sqm	127.486	124.727	140.909	10,5%	128.290	125.128	-11,2%
121-399 sqm	5.942	8.795	5.799	-2,4%	5.020	5.868	1,2%
400-999 sqm	1.177	1.119	1.817	54,4%	976	1.189	-34,6%
1.000-2.499 sqm	387	252	242	-37,5%	373	406	67,8%
2.500-4.999 sqm	38	70	67	76,3%	94	110	64,2%
5.000-9.999 sqm	33	25	52	57,6%	92	114	119,2%
10.000 sqm and up	9	15	16	77,8%	33	41	156,3%

The statistical data contain information from enterprises with retail activities

Source: Statistic Yearbook (2007, p. 730; 2010, p. 575).

#### 4.4. Retail investments

As Table 9 shows, in 2003 the retail investments index was higher than the investments index at the country level. At that time retail investments only represented 14% of the overall national investments, up on the previous year when they were only 11%. This is mainly due to the rapid expansion of new retail formats. The main investors on the Romanian retail market are the German networks Metro, Rewe, Tengelmann, and Lidl/Kaufland, followed by the French networks Carrefour, Auchan, Intermarche or Bricostore and the Belgian group Delhaize.

In 2009, the first year of crisis, retail investments declined in comparison with the previous years, representing only 12% of all investments at country level, with further decline to as little as 9% in 2010.

**Table 9: the national economy's net investments according to activities (in millions of RON current prices)**

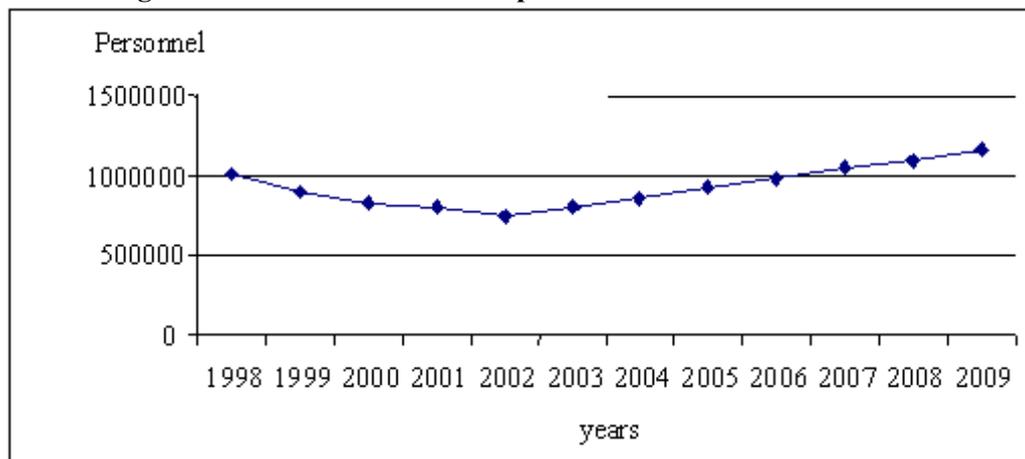
	2000	2002	2003	2004	2006	2008	2009	2010
Total	12.499	27.173	35.651	42.111	68.828	99.526	74.939,3	72294,7
Retail	1.387	3.023	4.902	6.181	10.002	14.438	8.974,7	6840,9
Percentage	11%	11%	14%	15%	15%	15%	12%	9%

Source: Statistical database: Tempo Online, Tempo\_INV101C\_9\_4\_2012\_1, available at [www.insse.ro](http://www.insse.ro), retrieved May 2011, Romania's Statistical Yearbook (2011, p. 378).

#### 4.5. Employed personnel

The investments made in retailing contributed to creating employment for a large number of people. As Table 10 highlights, between 2002 and 2006 the employed personnel in the retail sector increased by 31% and by only 6% in 2008 as compared to 2009 during the economic crisis. In the last years the big retail chains have been the top employment providers mainly as an effect of the territorial expansion. Thus, 6,000 people were employed in 2006 by all retail networks operating at the moment only for the number to exceed 15,000 in 2007. Whereas the forecasts issued before the economic crisis pointed to over 40,000 jobs being created in 2008, things stood differently afterwards.<sup>1</sup> Furthermore, once new information technologies were implemented to handle merchandise, the percentage of IT specialists increased in comparison with the traditional retail occupations (cashier, shop-assistant, and administrator).

According to the statistical data presented in Figure 3, the economic crisis did not bring about massive layoffs. Although this fact poses something of a paradox, particularly in light of resounding bankruptcies and the great number of units being closed, we believe these data to be accurate concerning the retail sector as a whole because the big networks continued their expansionist activity, some of them even reporting considerable profits.

**Figure 3: Evolution of the retail personnel between 1998 and 2009**

The analysis of the structure of the retail workforce in comparison with that of the entire economy according to sex and age groups for 2006 reveals that the number of women is by 11% greater in the retail sector than the total number of women employed at national level. At the same time, one can notice the high percentage of young people employed in retailing (Table 10). Therefore, we appreciate the significant role played by the retail sector in absorbing vulnerable social categories such as the youth and women as it also creates the possibility of working part-time.

<sup>1</sup> Ziarul Financiar, 2008, "Retail-ul va 'inghiti' 40000 de oameni"/Retailing will "swallow" 40,000 people, January 8.

**Table 10: Structure of population employed in retailing according to age groups in 2009**

	Age groups %							% women of the total
	Total persons (thousands)	15-24	25-34	35-44	45-54	55-64	65 și peste	
<b>Total</b>	9243	8,1	26,8	27,7	21,3	11,4	4,7	44,8
<b>Retailing</b>	1157	11,4	36,3	30,2	17,5	4,4	0,2	54

Source: Romania's Statistical Yearbook (2010, p. 96).

#### 4.6. Remuneration in the retail sector

In 2008 and 2009 the average nominal net monthly salary at country level increased by almost 4%, up to 1,361 lei in 2010 in the context of budgetary salary cuts by 25%. As regards the retail sector, the salary increase was insignificant, only by 0.67%, from 1,040 to 1,047 lei. Retailing is one of the economic sectors that offer the lowest remuneration to their employees. With the exception of employees in agriculture (hunting), hotels and restaurants, fishing and fish farming, the employees of the other sectors were better remunerated than the retail employees. Benchmarked against the average salary, men's salary was by 10% higher whereas women's salary was by 10% lower. We notice a slight narrowing of the gender salary gap. At the same time, there is a tendency towards growing salary gaps between the country's capital, Bucharest, and the other cities (Romania's Statistical Yearbook 2010, p. 150).

### 5. Strategic moves on the retail market during the crisis period

The economic crisis acted as a stimulus for the retail networks operating on the Romanian market to rethink their strategy in order to process and better approach the Romanian market. In fact, the period preceding the economic crisis was characterized by an aggressive expansionist policy whereby the retailers' own networks were developed through the branch-opening strategy as well as through acquisitions. Without any regard to costs and financial possibilities, the retail networks rushed into inauguration after inauguration of new branches and into the "swallowing" of the small local networks. 2008 and 2009 brought about a setback in the acquisition of local retail networks, a slight recovery of the acquisition phenomenon being recorded in 2010 and 2011.

#### 5.1. Acquisitions

The retail networks operating on the Romanian market switched from the aggressive expansion promoted prior to experiencing the effects of the economic crisis to a cautious approach to market processing characterized mainly by the small steps policy. In fact, the crisis contributed to the "drainage" of the retail market. Only the networks that experienced a solid increase up to the crisis period managed to cope with the decrease in cash flow, sales and turnover as well as with the process of consumer reorientation towards articles that are absolutely necessary.

Mergers and acquisitions represent for retailers another possibility to increase their business. Retailers resort to this practice to access resources, increase their market power through profit maximization or the increase of the market share, diversify their activity, expand the distribution network (takeover of competitors) or to profitably integrate a competing retail format into their own network and rebrand it (Liebmann, Swoboda, 2008, pp. 246-255). Branch opening is thought of as the most important horizontal, integrative and dynamic strategy in retailing for the reason that it contributes to the inauguration of self-constructed new locations. By using their own resources and competences,

retailers multiply a pre-established concept, impose uniformity upon the merchandise management and perform a more effective audit/evaluation of the proposed activities. The technical literature asserts that branch opening boosts a retailer's business when it owns at least five branches in different locations (Zentes, Ferring, Janz, 2001, p. 676).

As Table 11 reveals, the years 2006 and 2007 witnessed a flood of acquisitions made by domestic retail networks (Angst, Artima, Gima, Oncos etc) and particularly by foreign ones (Billa, Carrefour, Profi or Spar) in order to strengthen their market positioning. The following were by far the most important "moves" on the market: the selling of the 9 Albinuta stores to Profi, the acquisition of the Artima network (21 stores) by Carrefour and the change of the units into Carrefour Market supermarkets.

**Table 11: Acquisition of stores in the Romanian retailing—2006 and 2007**

Year of acquisition	Bought retail chain	Location	Nr. stores	Buyer (Chain)	Value	Surface store (m <sup>2</sup> )
2006	Diskont	Alba-Iulia	3	Spar (Olanda)	d.u.	1.200
2006	Hofer	Baia-Mare	2	Billa	d.u.	1.000-2.500
2006	Avantaj	Râmnicu Vâlcea	2	Artima	2,5 mil. €	1.000
2006	Lotus	Oradea	1		d.u.	1.800
2006	The Best	Bucharest	3	La Fourmi	d.u.	250 – 600
2006	Univers'all	Târnăveni	1	Profi	0,7 mil. €	673
2007		Constanța	4		d.u.	250
2007	Mara	Focșani	1	Penny	d.u.	under 500
2007	Mara	Focșani	1	G'Market	d.u.	under 500
2007	Albinuța <sup>1</sup>	Bucharest	9	Profi	8 mil. €	400
2007	Etti	Timișoara	1	Nova Tim	d.u.	900
2007	Flora	Cluj-Napoca	3	Oncos	d.u.	230
2007	Proban	Bucharest	1	Ethos	d.u.	150
2007	Discovery	Cluj-Napoca	8	Angst	d.u.	150
2007	--		1		d.u.	500
2007	Florelia	Oradea	3		d.u.	under 500
2007	Univers'all	Sibiu	1	Interex	4 mil. €	1.865
2007		Iași	1	Gima	0,15 mil. €	1.200
2007		Bucharest	1	Carrefour	d.u.	3.600
2007	New Planet	Curtea de Argeș	2	Isdum	d.u.	550 – 660
2007	Artima	Various cities	21	Carrefour	55 mil. €	1.000

<sup>1</sup> Artima network was owned by a Lithuanian investment fund (Maxima Lituania) and later sold to the Belgian group Delhaize, which operates the Profi discount stores;

d.u. – unavailable data;

Sources: Roșca (2011a-b), Popescu (2009), Other articles in Piața – Revista Bunurilor de Larg Consum, Wall-Street Journal and the companies' websites.

Since 2008 not only the acquisition phenomenon has been diminished but also the competition landscape has been reshaped to some extent. Thus, only the retail networks featuring a good financial status managed to cope with the economic crisis and go quite successfully through this period marked by uncertainty in consumption. Their small number notwithstanding, the transactions that were carried out in 2008 and 2009 were highly significant—Mega Image took over the 14 La Fourmi stores in Bucharest for EUR 12 million and invested another EUR 3.5 million in their reorganization and adaptation to its own retail format (Table 14).

**Table 12: Acquisition of stores in the Romanian retailing—2008 and 2009**

Year of acquisition	Bought retail chain	Location	Nr. stores	Buyer (Chain)	Value	Surface store (m <sup>2</sup> )
2008	La Fourmi	Bucharest	14	Mega Image (Delhaize B.)	12 mil. € / 3,5 mil. €	250 – 600
2009	Prodas (Mielan Comimpex)	Bucharest	4	Mega Image (Delhaize B.)	5 mil. €	400 – 750
2009	Profi (Delhaize)	Various cities	65	Profi	66 mil. €	500-1.000

u.d.—unavailable data;

Sources: Roșca (2011a-b), Popescu (2009), Other articles in Piața – Revista Bunurilor de Larg Consum, Wall-Street Journal and the companies' websites.

As proof that the effects of the crisis were also felt in other lands, the Profi network, previously owned by the Belgian group Delhaize, was sold in 2009 to a Polish investment fund (Poland Enterprise Investor). The new owner kept the name of the store unchanged but modified the operated retail format. Thus, the former Profi discount stores became small-sized supermarkets.

The unfortunate effect of the economic crisis exhibited particularly in the decline of credit facilities and consumer purchases signaled the entrance into payment default for some local food retail networks, their management having to declare them insolvent. For instance, the Pic hypermarket network, despite its over EUR 150 million cash flow in 2008 and about 3,000-strong workforce, incurred substantial debts owed to providers which led to its being rendered insolvent a year later. On the premises of the Pic ex-hypermarkets the Success network (Success Nic Com) managed to inaugurate homonymous hypermarkets toward the end of 2010, after being rented from the liquidator.

A similar fate befell the Ethos supermarket network which had to close down all its 20 operated stores. While some of its locations were permanently closed down, the profile of other stores was changed into textile units by the Vismontho Trading Company. During this time Univers'all, Trident and G'Market were closed down along with a range of small stores. As highlighted in Table 13, the stores of the previously mentioned networks were actually the source of the main acquisition transactions carried out by the other competitors.

**Table 13: Acquisition of stores in the Romanian retailing—2010 and 2011**

Year of acquisition	Bought retail chain	Location	Nr. stores	Buyer (Chain)	Value	Surface store (m <sup>2</sup> )
2010	Plus (Tengelmann)	Various cities	95	Lidl (Lidl / Schwarz)	200 mil. €	900-1.000
2010	Minimax Discount	Various cities	31	Mic.ro	0,5 mil. € / magazin	750
2010	Ethos	Târgoviște	1	Profi	0,3 mil.	500-1.000
2010	Ethos	Various cities	6	Vismontho Trading	d.u.	cca. 500
2010	Primăvara (Can Serv)	Bucharest	2	Mega Image	d.u.	400-700
2010			1	Carrefour market	d.u.	cca. 900
2010	Hard Discount	Brașov	2	Spar	d.u.	cca. 1.000
2010/11	Pic	Craiova	4	Succes	d.u.	5.500
2011	Ethos	Bucharest	1	Mega Image	d.u.	400-700
2011	G'Market	Bucharest	3	Mega Image	d.u.	400-700
2011	G'Market	Iași	2	Carrefour Market	d.u.	850

2011	Fidelio	Roman, Pașcani	2	Profi	d.u.	500-1.000
2011	Red Market (Delhaize B.)	Various cities	11	Mega Image (Delhaize B.)	Rebranding	400-700

u.d.—unavailable data;

Sources: Roșca (2011a-b), Popescu (2009), Other articles in *Piața – Revista Bunurilor de Larg Consum*, Wall-Street Journal and the companies' websites

We should draw attention to the fact that this wave of acquisitions is not necessarily due exclusively to the bankruptcy or insolvency of various retail networks. The difficulty in adapting to the new market realities, the forecasts of a bleak future for disposals or the fear that their situation might grow worse prompted the management of some networks to reduce the number of selling spaces or even sell the retail businesses. And last but not least, some domestic investors might have resorted to the liquidation of their retail business in order to strengthen the other strategic units or to obtain a proper equivalent value for the already made investments. AS regards the international networks (Plus, Lidl, Delhaize), the decisions adopted in Romania are an integral part of the global strategies which are aimed at ensuring sustainable expansion in the Central Europe (Lidl), consolidation on the already penetrated markets (Delhaize) or withdrawal from the market (Plus) in order to focus on those markets that facilitate a sustainable recovery of investments.

## 5.2. Reduction in activity

The economic crisis brought about a slowdown in the expansion activities—the opening of new stores—of all retail networks on the market. In 2006, 2007 and even the early part of 2008, managers believed they were able to inaugurate on a yearly basis by 20% to 30% more new stores than the number of those already existing. By contrast, the new market reality caused a “rapid” slowdown of this trend. Moreover, some retail networks completely disappeared due to payment default whereas others recorded large fluctuations in the number of stores, having to close down units in less profitable areas and striving to inaugurate new branches where the studies indicated potential buyers. The reduction in activity did not necessarily imply the closing down of stores or the selling of some units but also the optimization of the selling spaces (most often by reducing their area), the rethinking of the assortment structure, the relocation of units in areas with heavy traffic or the constant care for the proper in-store display.

Consequently, the Spar discount network closed down two units in Alba Iulia in June 2010 only to inaugurate another store in Brasov a month later (Spar Discount closed two stores in Alba Iulia and opened another one in Brasov, in *Piața – Revista Bunurilor de Larg Consum*, July 2nd, 2010). The Spar network is currently operated on a franchise basis (Master-Franchise) with the intention of strengthening its position in the future through the inauguration of proximity stores, and supermarkets under the retail brands Eurospar, Spar and Spar Express (Retail Center Association acquired for Romania the franchise of Spar International).

In addition to Spar, Ethos, G'Market, Pic, Univers'all and Trident, other domestic retail enterprises were obliged to close temporarily or permanently their operated stores. The first signal that the strategic decisions adopted by domestic retail enterprises were far from being the best came from the closing of the Univers'all supermarket network in 2007. All the 14 units were closed and sold within a short time to the other competitors. 2009 marked the entrance into payment default of the Pic hypermarkets and the Trident network which incurred debts of about EUR 60 million and EUR 25 million, respectively. These resounding bankruptcies were followed by the demise of the Ethos

supermarket network which closed all its 20 units (Roşca C., G'Market, the fifth disappearance caused by the crisis in the local retailing, in Ziarul Financiar Online, section 'Companies', December 5, 2011).

Another effect of the economic crisis was the necessity to rethink/reassess the disposal areas owned by some networks operating in the Romanian retailing. Thus, in the case of electronics, household appliances and IT stores (Altex, Media Galaxy, Domo etc), the selling areas were reduced from 3,500-4,000 sqm prior to 2008-2009 to about 1,500-2,000 sqm at the moment. Their assortment is relatively the same as before but the product stocks were highly reduced. Each of the 25 Real supermarkets have lately been subject to a "remodeling" worth EUR 0.5 million whereby the assortment was "adapted" to the customers' new requirements and the structure of the departments was reshaped. At the same time, the management decided to include a significant number of articles from domestic providers and/or producers (90% of the assortment) (Popa, 2011).

## **6. Conclusions - Effects of the economic crisis**

The economic crises had several effects on Retailers present in Romania. As has previously been highlighted, some of the main effects of the economic crisis felt by the retail networks are:

- professionalization of the retail market through shutdown of stores (Hard Discount, Fidelio), acquisitions, renting (out), takeovers or partnerships (Angst's cooperation with Carrefour and the opening of the Carrefour Express proximity stores);
- consolidation of the number of stores operated in Romania by foreign retail networks;
- strengthening of retail enterprises through takeover (acquisition) of the networks that failed to cope with the challenges posed by the economic crisis;
- opening new retail formats—the Metro cash & carry network decided to open in cities or areas of 100,000 inhabitants the Metro Punct units for organizational consumers and resellers;
- reorientation of retail networks toward profitable locations, in areas with heavy traffic and in cities under (supermarkets and discount units) and over (hypermarkets) 100,000 inhabitants;
- expansion of proximity store networks (such as mic.ro) featuring narrow assortments but placed in the immediate neighbourhood of buyers;
- many retail networks focused on measures to draw and retain customers by developing and providing a wide range of own brands (Lidl);
- inclusion in the marketed assortments of a significant number of articles from Romanian producers and/or providers (up to 90% at mic.ro, Real);
- changes of in-store display in order to better facilitate customers' access to shelves and relevant products;
- adaptation of the assortment and the store area to people's real needs and their purchasing power.

Instead of the economic crisis showed by the consumption reduction, 2011 was a good year for the Romanian retail market. New retail format, discount store found opportunities to attract consumers with low prices and private labels. Near Lidle other retailers (Profi, Mega Image) develops their store chains also.

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