

agribusiness
handbook



**Food
Retail**



European Bank
for Reconstruction and Development



Food and Agriculture Organization
of the United Nations



agribusiness
handbook

**Food
Retail**

TABLE OF CONTENTS

INTRODUCTION	5
1. TYPES OF RETAIL STORES	7
2. GLOBAL FOOD RETAILING AT A GLANCE	9
2.1 Retail trade by type of store	
2.2 The world's leading retailers/chains	
2.3 Retail trade expansion in emerging markets	
2.4 Retail private labels	
3. COSTS AND MARGINS	15
4. OTHER MAJOR PRE-INVESTMENT CONSIDERATIONS: CONSUMERS AND MARKETS	17
5. RETAIL TRADE DEVELOPMENTS IN THE EARLY TRANSITION COUNTRIES AND THE WESTERN BALKAN COUNTRIES	19
5.1 Major retail chains in ETCs and WBCs	
5.2 Major sector trends and developments in WBCs	
5.3 Major sector trends and developments in ETCs	
6. FURTHER READING AND INFORMATION	27
7. STATISTICAL DATA	29

This handbook is part of a series of agribusiness manuals prepared by FAO's Investment Centre Division for EBRD's Agribusiness team, under the FAO/EBRD cooperation. The production of the manuals was financed by FAO and by the EBRD multidonor Early Transition Countries Fund and Western Balkans Fund. The purpose of this handbook is to help agribusiness bankers and potential local investors acquire basic knowledge on the retail sector, worldwide and with a special focus on Early Transition Countries and Western Balkan Countries. This volume was prepared by D'mitry Prikhodko, Economist, FAO, with inputs from Inna Punda and Jose MasCampos, Agribusiness Consultants, FAO. It was reviewed by Antoine Deroide, Banker, EBRD. Electronic copies can be downloaded from www.eastagri.org, where a database of agribusiness companies, including retail companies, that operate in Early Transition Countries and Western Balkan Countries is also available. For more information, please contact TCI-Eastagri@fao.org.

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned. The views expressed in this information product are those of the author(s) and do not necessarily reflect the views of FAO.

All rights reserved. Reproduction and dissemination of material in this information product for educational or other non-commercial purposes are authorized without any prior written permission from the copyright holders provided the source is fully acknowledged. Reproduction of material in this information product for resale or other commercial purposes is prohibited without written permission of the copyright holders. Applications for such permission should be addressed to:

Director
Investment Centre Division
FAO
Viale delle Terme di Caracalla, 00153 Rome, Italy
or by e-mail to: TCI-Eastagri@fao.org

© FAO 2009

INTRODUCTION

The retail sector is responsible for the sale of food and non-food items, for personal or household consumption, which require little or no additional processing before reaching the end consumer. It is considered the final step in the food value chain. Sometimes food stores have in-store bakeries, delicatessens, and meat packaging facilities and provide wide selections of ready-made food, not only for the end consumer but also for other shops, department stores, kiosks, hotels, and restaurants.

Food retailing accounts for approximately 40% of all retail sales worldwide but, with time, most traditional food retailers¹ expand their businesses to include non-food retailing. This handbook focuses predominantly on food retailing and does not attempt to cover other major retail product categories, such as: home furniture and related household goods (about 10% of all sales); clothing and footwear (8–9%); leisure goods, health, and beauty products (approximately 7% each); or other non-food products. However, since the distinction between food and non-food retailing is becoming increasingly unclear due to the diversification of the product mix available at once traditional food retailers, the information provided in this report applies to the entire retail trade sector unless the food retail sector is explicitly mentioned.

In contrast with the retail sector, wholesalers purchase large quantities of goods for further sale to processors or retailers and not to end consumers. Wholesale trade usually involves/requires the issuing of commercial invoices. In the formal retail sector, cash receipts issued at the counter are the only documents confirming the sale. Most countries clearly distinguish retail and wholesale trade in their legislation. To protect traditional small retailers from the increased competition arising from modern retail networks, some countries have also established strict regulations regarding retail store locations, opening hours, the maximum number of working days per year (including during weekends), and other constraints. In countries with a mature retail sector, competition in a given area may be regulated by anti-trust or similar legislation.

1. Traditional retailers such as supermarkets, discounters, convenience stores and others which began by selling primarily food products.

I. TYPES OF RETAIL STORES

The food retail industry covers a broad range of stores and outlets involved in the selling of products to consumers. In most cases, the *modern retail trade* includes hypermarkets, supermarkets, grocery stores, convenience stores, and independent specialised stores (butchers, flower shops, etc. – often called *food specialist* stores) that are either independent businesses or parts of retail networks. The following terminology is generally accepted to distinguish different types of food retailers.

A hypermarket is a store with a sales area of over 2,500 m² with at least 35% of selling space devoted to non-food items. Sometimes, hypermarkets are also called “super stores”, a combination of a supermarket and a department store. Hypermarkets are usually located in suburbs due to the limited space availability in city centres and the need for large parking areas for shoppers. Sometimes, hypermarkets are located close to residential areas and can be adjacent to shopping centres which sell consumer electronics, furniture, durable and leisure goods, etc).

A supermarket is a store with a sales area of typically 400 to 2,500 m² with at least 70% of its selling space dedicated to food products. This type of retail outlet is the most common in WBCs and ETCs (Mercator in Bosnia, Almaly in Azerbaijan, Green Hills in Moldova, etc.)

Discounters are stores which typically have a size of 300–900 m², have less than 1,000 product lines (predominantly packaged food and non-food products), and sell products at prices lower than those of traditional retail stores. Some discount stores specialise in merchandise such as jewelry, electronic equipment, etc. Goods in discount stores usually have own-label or budget brands. Aldi, Lidl, Netto, Norma, Penny and Eda are well-known examples of this type of retail outlet. Hura!, recently established in Slovenia, is another example.

Convenience stores (*C-stores*) sell a wide range of goods with extended opening hours. A convenience store is often located alongside busy roads or near gas stations, railway stations, or in densely-populated urban areas. Product selection is limited compared to supermarkets and, in many stores, only one or two choices are available for each type of product. Prices in convenience stores are typically higher than in supermarkets. The 7-Eleven stores are probably the best example of convenience stores.

Independent grocers do not belong to chain stores, have selling space of less than 400 m², and usually specialise in packaged groceries. Food accounts for at least 50% of total retail sales. Sometimes, independent grocers specialise in one type of product, e.g. meat.

Free-standing food specialists such as butchers, bakers, and flower shops are often independent and are usually considered traditional retailers. Often, these retailers operate on open markets or have free-standing retail sales points.

Industry specialists also distinguish the following trade outlet formats (mixed retailers and non-food retailers):

- *department stores*: these usually have a sales area above 2,500 m² with mostly non-food goods;
- *cash & carry*: goods are sold from a wholesale warehouse to customers, retailers, professional users, caterers, institutional buyers, etc. who are usually issued a commercial invoice on the spot and carry the goods away by themselves;
- *variety stores/mass merchandisers*: these sell predominantly fast-moving consumer goods (FMCG²) on a self-service basis;
- *specialised stores*: these sell electronics, construction materials, furniture, and other goods and do not specialize in food;
- *vending machines*: sales of packaged food and drinks through machines;
- *kiosks*: these are located in streets, parks, or sleeping quarters are still popular in ETCs. Depending on local regulations, some are allowed to sell alcohol;
- *retail markets*: these are dedicated sales points, usually managed by municipal authorities, with individual vendors selling directly to end consumers;
- *alternative selling channels*: these include internet sales, mail orders, television shopping and other sales through independent agents and/or distributors directly to the consumer.

2. FMCG are products that are sold quickly at relatively low cost such as toiletries, soap, cosmetics, teeth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, light bulbs, batteries, paper products and plastic goods. FMCG may also include packaged food products and drinks, although these are often categorised separately.

2. GLOBAL FOOD RETAILING AT A GLANCE

2.1 Retail trade by type of store

World food retail sales, as captured by Euromonitor International, increased from EUR 100 billion in 2002 to 110 billion in 2007; with supermarket, small grocery retailer, hypermarket, and discounter sales increasing by 2–3% per year on average, or 14–17% throughout the 2002–2007 period. In contrast, stores specialising in the sale of drinks, tobacco, and other food specialties experienced a decline in sales over the same period.

Table 1: Distribution of food sales by different types of retail format, EUR million

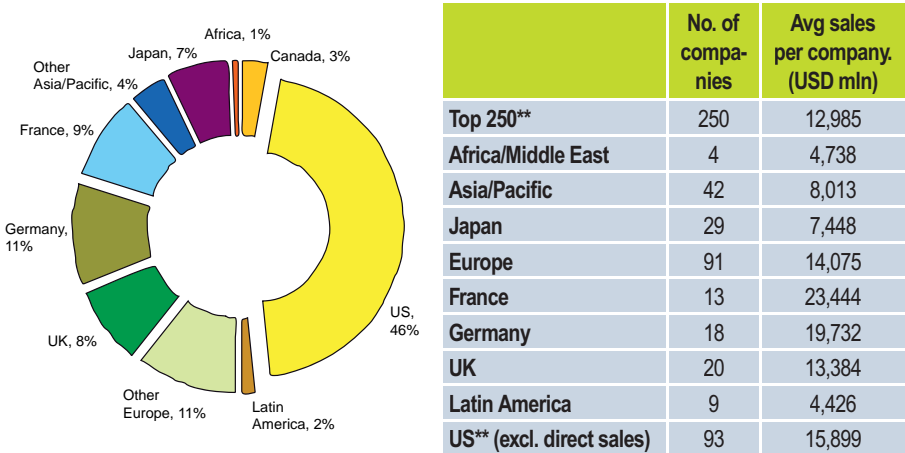
	2002		2003	2004	2005	2006	2007	
	EUR, M	Share, %	EUR, M	EUR, M	EUR, M	EUR, M	EUR, M	Share, %
Supermarkets	31,294	31%	32,590	33,307	34,802	34,657	35,606	32%
Small grocery retailers	22,656	23%	23,053	23,419	24,473	25,554	26,527	24%
Hypermarkets	19,588	20%	20,724	21,185	21,738	20,857	20,705	19%
Food/drink/ tobacco specialists	17,172	17%	17,074	17,188	17,166	17,060	17,007	15%
Discounters	7,189	7%	7,202	7,562	7,641	7,888	8,213	7%

Source: Euromonitor International data

The expansion of formats such as convenience stores in many developed countries has been supported by restrictions on the development of large-scale outlets due to concerns about the environment and competition. As a result, even “big box” retailers—such as Wal-Mart and the Home Depot—have started to develop new, smaller store formats for urban areas.

Europe and North America are the two most important regions, generating about 60% of all world retail sales. As a single country, the United States has the largest retail market in the world. Ninety-three out of the 250 largest retailers are US-based companies.

Figure I: Geographical distribution of all retail sales and average annual sales per company (2006)*



Source: Deloitte, *250 largest retailers only

2.2 The world’s leading retailers/chains

The share of the top ten world retailers continues to increase in global retail trade, according to Deloitte analysts³. With combined sales of about USD 980 billion in 2006 (food and non-food retail sales) and a healthy rise of 10% during 2005, the world’s 10 largest retailers captured 30% of the sales of the 250 largest retailers (+1% increase in share as compared with 2005). Wal-Mart, a US company, was the largest retailer in the world with annual sales of USD 345 billion⁴, with French group Carrefour far behind with USD 98 billion in sales. While there is increasing concentration in global retail trade, the top 10 retailers in Brazil held 21% of total retail sales in 2006, while in Russia and China this figure was only 11% and 7% respectively. Indian retailing is one of the world’s most fragmented, as the share of chains in total retail sales was almost negligible (Euromonitor International), although there has been growth in the supermarket sector.

3. See: http://www.deloitte.com/dtt/cda/doc/content/de_CB_R_GPofRetailing08_140108%281%29.pdf
 4. See: 2007, <http://walmartstores.com/Investors/7666.aspx>

Table 2: Top 5 global retail leaders

Name of company/ Country of origin	2006 retail sales (USD M)	Formats	Countries of operation	2001–2006 retail sales CAGR*
Wal-Mart Stores, Inc. / USA	344,992	Cash & Carry/Warehouse Club, Discount Department Store, Hypermarket/Supercenter/Superstore, Supermarket	Argentina, Brazil, Canada, China, Costa Rica, El Salvador, Guatemala, Honduras, Japan, Mexico, Nicaragua, Puerto Rico, UK, USA	11.10%
Carrefour S.A./ France	97,861	Cash & Carry/Warehouse Club, Convenience/Forecourt Store, Discount Store, Hypermarket/Supercenter/Superstore, Supermarket	Algeria, Argentina, Belgium, Brazil, China, Columbia, Dominican Republic, Egypt, France, French Polynesia, Greece, Guadeloupe, Indonesia, Italy, Malaysia, Martinique, Oman, Poland, Portugal, Qatar, Reunion, Romania, Saudi Arabia, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, Tunisia, UAE	2.30%
The Home Depot, Inc./USA	90,837	Home Improvement, Non-Store	Canada, China, Mexico, Puerto Rico, US, Virgin Islands	11.10%
Tesco plc/ UK	9,976	Convenience/Forecourt Store, Department Store, Discount Department Store, Hypermarket/Supercenter/Superstore, Supermarket	China, Czech Rep., Hungary, Japan, Rep. of Ireland, Malaysia, Poland, Slovakia, S. Korea, Thailand, Turkey, UK	12.50%
Metro AG/ Germany	4,857	Apparel/Footwear Specialty, Cash & Carry/Warehouse Club, Department Store, Electronics Specialty, Hypermarket/Supercenter/Superstore, Other Specialty, Supermarket	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep., Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Moldova, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Serbia and Montenegro, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, UK, Vietnam	4.00%

*CAGR – Compound Annual Growth Rate, specific term for the geometric mean growth rate on an annualised basis

Source: Deloitte

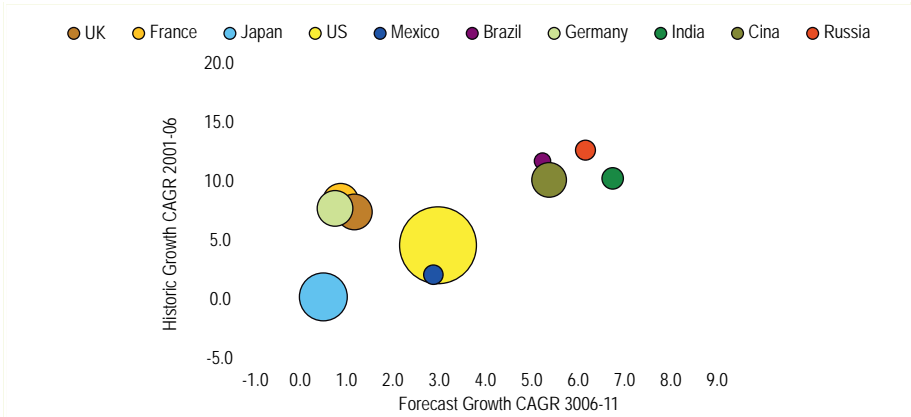
2.3 Retail trade expansion in emerging markets

The sales growth of most retailers accelerated between 2003 and 2008 due to expansion into emerging markets, with China and Russia proving to be of particular interest and attracting investment from many of the world’s leading companies, including Wal-Mart, Tesco, Home Depot, Auchan, Metro, and others.

Carrefour, Tesco, Metro, Schwarz, Aldi, Rewe, Auchan, Edeka Zentrale, E. Leclerc, and Ahold are the leading food retailers in Europe. Due to a recent slowdown in the growth of European retailers, especially those based in the saturated markets of Western Europe, French and German companies in particular have expanded their operations far beyond their own countries. On average, French companies had retail operations in 15 countries in 2006. German retailers were doing business in 14 countries on average. The increased geographical diversification of European and other retailers has had a positive effect on their profits, as compared to companies that operate in one or two countries only.

Russia, China, and India have been the fastest growing retail markets in recent years. The markets in these countries grew by an estimated 10–14% in 2001–2006 (shown on the left axis of the graph below). Although retail sales in these three countries appear to be relatively small in size, these countries are forecast to remain the world’s fastest growing retail markets with 6–7% annual growth in 2001–2006 (lower axis of the graph below).

Figure 2: Relative market value in USD and the compound annual growth rate (CAGR) for: 2001–2011 | fastest growing markets



Source: Euromonitor International

In 2006, the Russian X5 Group⁵ entered the list of top 250 global retailers, ranking 191st with sales of USD 3.5 billion and an income of USD 103 million. The X5 Group is now the second food retailer from Central and Eastern Europe after CBA Kereskedelmi Kft, from Hungary, which also entered the list of top 250 largest retailers in 2006, ranking 180. CBA has stores in Bulgaria, Croatia, Hungary, Lithuania, Romania, and Slovakia.

Emerging markets in Central and Eastern Europe have shown a clear tendency towards growth and increased consolidation over recent years. Growth and consolidation trends will most likely continue into the foreseeable future. The share of independent stores in retail trade declined by 13–22% in Slovakia, Romania, Bulgaria, Hungary, Poland, Russia, and other emerging markets in 2006, as compared with 2000. The number of retailers on these markets is expected to be further reduced by the entry of major international retail chains, along with mergers and acquisitions which are taking place among local companies.

Table 3: Declining share of independent grocers in emerging markets in 2000–2006

Country	% of total grocery retailing 2000	% of total grocery retailing 2006	Percentage change
Slovakia	57.6	35.5	-22.1
Romania	40.4	22.1	-18.3
Bulgaria	68.8	52.3	-16.5
Hungary	28.5	13.6	-14.9
Poland	55.8	42.6	-13.1
Russia	43.6	31	-12.6

Source: Euromonitor International

Table 4: Concentration of food retailers per 1 million inhabitants in selected countries (2007)

Country	Number of stores per 1 mln population	Country	Number of stores per 1 mln population
Slovakia	5,111	Russia	2,269
Bulgaria	4,870	France	2,259
Italy	4,560	Czech Republic	1,982
Poland	4,402	Ukraine	1,298
Romania	3,500	USA	1,006

Source: Euromonitor International

5. The X5 Group was formed in May 2006 through the merger of Pyaterochka and Perekrestok, two leading Russian chains. With stores in 22 regions of the Russian Federation in addition to stores in Kazakhstan and the Ukraine, the X5 Group is believed to be the largest multi-format food retailer in Russia.

2.4 Retail private labels

The expansion of major retail chains has spurred a rapid development of the private label product⁶ segment. Private label products were initially used primarily in the context of the major retailers' pricing strategies and targeted mainly low-income consumers.

Currently, private label products have established their strongest position in developed markets, where major retail chains have achieved their deepest penetration. Private label products enjoy a higher share in the UK, Germany, Canada, France, and Spain. The product groups with the highest share of private label are packed food, soft and hot drinks, and household care. For example, the private label share of packed food accounts for 35.2%, 24.9%, and 18.0% respectively in the UK, Germany and France, while the private label share of soft drinks accounts for 31.5%, 27.4%, and 16.7% respectively in the UK, Germany and Canada (Euromonitor International 2005).

Private label products account for a much smaller share of sales in developing markets. For countries⁷ such as China, India, Poland, Mexico, and Brazil, the share of all label products for all the above-mentioned product groups does not exceed 5% and, in most cases, is close to or lower than 1% (Euromonitor International). However, as multinational retailers make inroads into emerging markets, the availability of private label products is expected to increase in the medium term. It is expected that private label products are going to play an increasingly important role in retailers' development strategies in the WBC and ETC countries.

Table 5: Private label share of global value sales (%)

Packaged food	12
Pet food and pet care products	10
Hot drinks	7
Household care	7
Soft drinks	7
OTC healthcare	6
Cosmetics and toiletries	2
Alcoholic drinks	2
Domestic electrical appliances	1

Source: *Euromonitor International*

6. Private label products are typically those manufactured by one company (producer) for offer under another company's brand (retailer's brand).

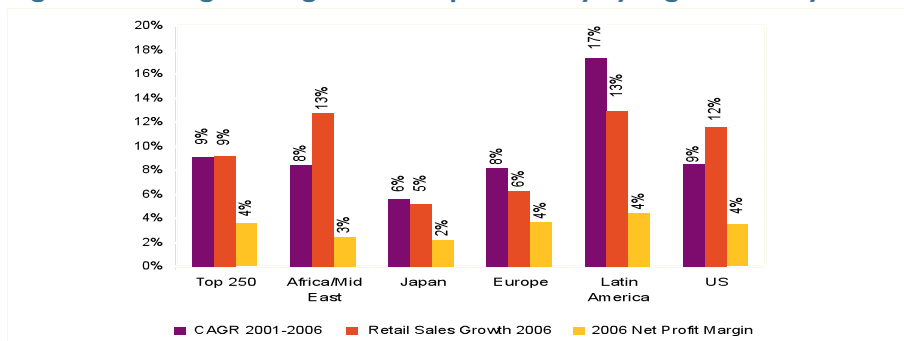
7. No data available on Western Balkan Countries.

3. COSTS AND MARGINS

The retail food sector does not manufacture/produce goods, except in the case of slight product modification such as the in-store preparation of meat, cooking, baking, retail packaging of salads, etc. Rather, the actual value-add of the retail sector is the service of selling goods to consumers. The value of this service is represented by the gross margin (difference) between the final retail price paid by the buyer and the cost of the goods purchased. The gross margin must cover all expenses of the business including building investment costs or property rent, labour, payroll, heating, electricity, building maintenance, licence fees, taxes, and other expenses, as well as the retailer's profit.

The gross margin and mark-up. The gross margin in food retail usually varies between 25–30%. The net profit is what remains of the gross margin after all costs have been paid. The net profit margin is the indicator usually considered by investors at the time of making investment decisions. In reality, in developed markets such as Canada⁸, high competition results in the net profit margin of retailers (after tax deductions) rarely exceeding 5%. The developing markets in Africa or Latin America do not enjoy significantly higher profit margins.

Figure 3: Average sales growth and profitability by region/country



Source: adapted from Deloitte's 2008 Global Powers of Retailing Report

Another term used in retail trade to describe the difference between the purchase price of goods and the retail sale price expressed as a percentage is the *mark-up* (рус. *торговая наценка*). The terms *mark-up* and *gross margin* are often used interchangeably. However, investors should note that retailers often use the term *mark-up* to establish retail prices from the wholesale price level. The mark-up, therefore, should not be used to assess the profitability of an investment as it is always a larger number when compared to the gross margin.

8. See: http://www.ic.gc.ca/epic/site/retra-comde.nsf/en/h_qn00148e.html

For instance, if the retail price of a food item is USD 2.00 and its purchase cost is USD 1.50, the mark up is 33.33% ($\text{USD } 0.50/\text{USD } 1.50 \times 100\%$). On the other hand, the gross margin is relative to the sales price and equals ($\text{USD } 0.50/\text{USD } 2.00 \times 100\% = 25.00\%$).

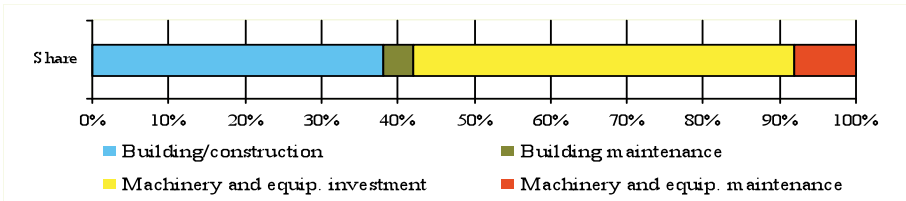
The gross margin from trade is not the sole source of income for retailers. In emerging markets, retailers also generate income from the following activities:

- advertising and promotion activities for brand owners;
- product placement charges;
- retail chain entry fees;
- reduced operating capital needs/cost due to supplier credit (producers/wholesalers are often required to defer payments due from retailers).

Retail chain entry fees are often a significant source of income, especially when the chain has sufficient market power (share) to determine the conditions of entry for suppliers. This is especially true for the fees charged by retailers to alcohol producers in some markets in Europe and Central Asia (USD 5,000–20,000 per brand of hard liquor per store). The retailers often impose long-term credit terms on their suppliers and get immediate cash from their customers. Therefore, the stores may often have negative working capital requirements on which they can also make revenues.

Investment costs. The costs of establishing a retail business vary significantly depending on retail outlet type, size, location and other factors. During the start-up phase, the investment costs tied to the acquisition of land plots or property rental are largely dependent on the store location (city centre vs. suburbs), the availability of infrastructure/utilities (access roads, electricity, sewage networks, etc.), and the cost of obtaining necessary permits (construction, fire safety, food safety, environmental and other). While investment costs in the store building itself can be significant, these costs are not necessarily the most significant expenditure. Investment costs in machinery and equipment (M&E) and maintenance can be high in the case of food retailers (refrigeration equipment, warehouse equipment, etc).

Figure 4: Capital investment and maintenance expenses in the Canadian retail sector



Source: Industry Canada

4. OTHER MAJOR PRE-INVESTMENT CONSIDERATIONS: CONSUMERS AND MARKETS

Consumer incomes. Largely determine retail sales volumes. This is true for both mature and developing retail markets. More information on the relationships between consumer incomes and development of the modern retail trade is provided in the Region Specific section, below.

Consumers and local culture. The vast geographical and cultural diversity in emerging market economies calls for a careful analysis of local tastes and consumption habits. Flexibility and adaptability are therefore critical when investing in emerging markets; in particular, companies must be ready to experiment with formats and product mixes, although this can cause implementation delays.

Car ownership. The number of cars per household significantly impacts the ability of urban consumers to reach stores located outside of the city centre and residential areas or the ability of rural consumers to reach the outlet. In countries with low consumer incomes and a low average number of passenger cars per household, it clearly cannot be expected that consumers will be able to reach modern retail stores. The selection of appropriate locations is clearly determined by parameters such as the average number of cars in use in the geographical location of the store.

Table 6: Passenger cars per 1,000 households, 2006

Country	No. of cars
USA	1,211
Russia	468
Brazil	390
India	53
China	39

Source: Euromonitor International and official statistics

Please refer to the Statistical Annexes Section for more information on car ownership statistics in the WBC and ETC.

Demographic trends and female employment. Trends in female employment, demography, and consumer lifestyles are taken into account at the time of

retail investment planning. The creation of new employment opportunities for women, the reduced size of households, the increased number of people living alone, and other factors contribute to changing consumer lifestyles and the emergence of modern retail formats. Changing lifestyles largely determined the success of discounters and hypermarkets in Eastern Europe and the Asia-Pacific region between 2001 and 2006, while hypermarkets, supermarkets, and convenience stores led the growth elsewhere. Emergence of an urban middle class in the major cities eventually leads to the consideration of other factors which might influence consumer purchasing decisions, besides price. Examples would be quality and convenience.

The supply side. In many countries, supply and distribution networks are not developed to assure a steady flow of uniform quality goods. This is especially true for food products in transition countries. A high reliance on imported food products may put business at risk of facing import problems and/or interference by government agencies. Possible costs related to maintaining high inventories of goods over extended periods of time due to poor supply chain organisation should be considered.

Retail sector staff training and retention. Investors in rapidly emerging retail markets often experience difficulties with staff recruitment as a result of quickly improving job opportunities and stiff competition in the industry. Therefore, staff retention programmes (length of stay and performance bonuses) will have to be considered at the time of investment planning in many emerging markets.

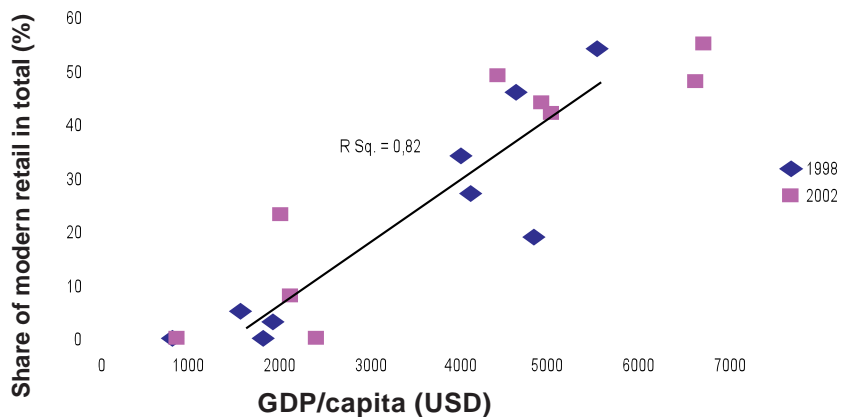
5. RETAIL TRADE DEVELOPMENTS IN THE EARLY TRANSITION COUNTRIES AND THE WESTERN BALKAN COUNTRIES

The maturity of Western European and US markets and the growing saturation of Eastern European markets (Poland, Czech Republic, etc.) are encouraging global retailers to look at markets like China, Brazil, India, Russia and others. However, not all retailers are able to invest in all existing emerging markets simultaneously. Investment decisions by major retail networks are not based solely on expected profitability. They also depend on the retailer's particular financial situation, on risk exposure and its influence on the cost of borrowed capital for the entire company, and on the price of its shares on the market. As of today, no retailer has been able to establish a world-wide presence.

Considering current market developments in other parts of the world, as well as the overall market size in ETCs and WBCs and previous retailers' experiences in these countries, it is not likely that leading retailers will start investing in these markets in the foreseeable future. Nevertheless, existing regional retail networks from Russia, Kazakhstan, and Turkey (in the case of ETC) and Central Europe and the Northern Balkans (in the case of WBC) may be more willing to enter these markets. There is good potential for the development of modern retail sectors in both the ETC and the WBC countries due to rising consumer incomes, changing consumer preferences and lifestyles, and other factors. It is also expected that modern retail will develop at the expense of traditional open markets and kiosks. Geographically, it will continue developing beyond major metropolitan areas to smaller cities in each country. This trend has already been observed in Tirana and Yerevan.

Increase in consumer incomes has been the major driving force behind the emergence of the modern retail trade formats, as illustrated in the example of Central and Eastern Europe, below. Both WBC and ETC countries are experiencing economic growth which will eventually spur the development of modern retailers and gradually increase their sales.

Figure 5: Income and growth of supermarkets in transition countries



Source: *Food Retail Growth and Farmers in Transition Countries*, Johan Swinnen, University of Leuven

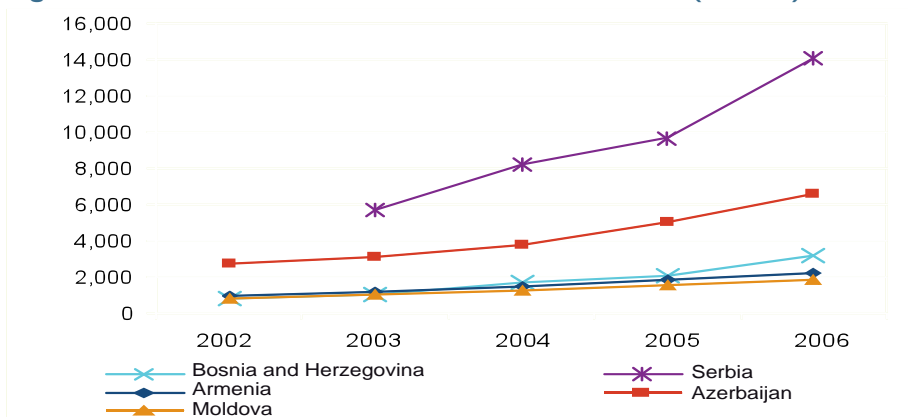
Table 7: Per capita gross national income, USD

	2000	2001	2002	2003	2004	2005	2006	2007	Growth
Early Transition Countries (ETC)									
Armenia	660	710	800	950	1,160	1,500	1,960	2,640	300%
Azerbaijan	610	660	720	820	950	1,270	1,890	2,550	318%
Georgia	700	680	730	860	1050	1,330	1,670	2,120	203%
Mongolia	410	440	490	560	690	810	1,000	1,290	215%
Moldova	370	400	460	570	720	940	1,080	1,260	241%
Uzbekistan	630	560	450	420	460	530	610	730	16%
Tajikistan	180	180	180	210	280	330	390	460	156%
ETC avg	608	617	644	719	842	1,028	1,280	1,607	164%
Western Balkan Countries (WBC)									
Montenegro	n/a	n/a	1,700	2,190	2,830	3,560	4,410	5,180	205%
Serbia	n/a	1,460	1,590	2,130	2,970	3,570	4,030	4,730	224%
BiH.	1,560	1,630	1,750	2,040	2,540	2,980	3,330	3,790	143%
Macedonia	1,840	1,720	1,720	1,980	2,440	2,810	3,100	3,460	88%
Albania	1,170	1,330	1,390	1,650	2,080	2,570	2,940	3,290	181%
WBC avg	1,523	1,535	1,630	1,998	2,572	3,098	3,562	4,090	168%

Source: own presentation based on World Bank data

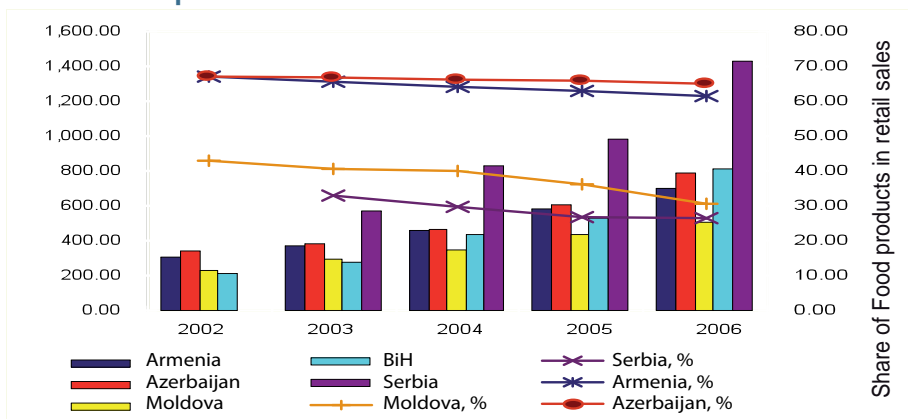
Food products usually play a significant role in total retail sales in ETCs and, to a lesser extent, in the WBCs, as consumers tend to spend a major part of their income on food purchases. The shares of food and food products in the ETCs and WBCs range from between 30 to 60%, according to official statistics (cf. right-hand graph below). However, this data should be treated with caution, as unregistered retail trade via open air/wet markets is significant in both regions. It is expected that the share of food products in total retail trade in both the ETCs and WBCs will decline as disposable consumer incomes grow.

Figure 6: Annual retail sales in selected ETC and WBC (M USD)



Source: Author's calculation based on official statistics on retail trade, population and exchange rates.

Figure 7: Per capital retail sales in selected ETC and WBC (USD) and share of food products in retail trade



Source: Author's calculation based on official statistics on retail trade, population and exchange rates.

5.1 Major retail chains in ETCs and WBCs

Retail companies in ETCs are generally smaller than in the Balkans. For instance, Populi, the largest supermarket chain in Georgia, has an annual turnover of USD 28 million (2007) as compared with the USD 1.8 billion turnover of “Delta Maxi” (Delta M Group), which operates in Serbia, Bosnia and Herzegovina, Montenegro and Bulgaria. The more advanced development of retailers in WBCs as compared with ETCs is explained by higher consumer incomes, the earlier commencement of regional expansion, the superior development of supply networks and other factors.

More information on retail chains in ETCs and WBCs can be found on: www.eastagri.org/agribusinesses.

Table 8: Major retail chains in some ETCs and WBCs

Country	Major retail chains
Albania	Euromax, Conad
Armenia	Galaxy, Star, Yerevan City
Bosnia and Herzegovina	Konzum, Merkator, Bartulo, Interex, Tropik (Maxi)
Georgia	Populi, Goodwill
Kyrgyzstan	Ramstor (Migros), Narodnyi, Stolichnyi,
Moldova	Green Hills Market / Vistarcom, Fidesco
Montenegro	Plus Commerce
Serbia	Delta Maxi, Dis Trade, Idea, M-Rodi , Mercator-S, Univerexport
Macedonia	Tinex-MT

Source: governmental agencies, Author's calculation

5.2 Major sector trends and developments in WBCs

In recent years the following trends have been observed:

- The retail trade sector is quite diverse in the Western Balkan countries and the level of penetration of the modern retail chains varies considerably between countries like Serbia and Albania.
- In some regions of the WBCs, supermarkets (chains) have developed only very recently. In Albania, the first true supermarket chains, Euromax and Conad, came into existence during the last 2–3 years.
- During the 2003–2008 period, a rise in consumer purchasing power and a burgeoning middle class created good opportunities for retail sector development.

- EU accession perspectives for some WB countries also shape markets in WBCs, as happened in more developed neighbouring markets such as the Czech Republic, Hungary, and Poland.
- Some retailers in WBCs have already developed a mix of retail trade types, including more advanced formats such as hypermarkets. Recently, Euromax began to open hypermarkets in Albania. The first Euromax hypermarket was built in 2005 near Tirana.
- The WBC region continues, nonetheless, to be supplied by relatively small retail outlets. Despite some rare cases of hypermarkets and other large projects, WBC markets are generally underserved by the modern retail outlet formats.
- Consolidation in the retail industry takes place with regional chains expanding into smaller markets. For instance, in Bosnia and Herzegovina alone, the retail chain VF Komerc, was acquired by Croatia's Konzum (Agrokor Group). In July 2007, the Serbian market leader Delta Maxi, the retail subsidiary of Delta Holding, acquired the Bosnian retail chain Tropik.

Case study: Albanian retail chain transformation

The Albanian retail sector is still dominated by traditional stores. Rapid urbanisation and economic growth combined with foreign investments have only recently enabled the emergence of the modern retail sector in Albania.

EUROMAX is the first and leading retail chain in Albania. The first Euromax hypermarket was established in 2005 near Tirana. Following a EURO 8 million loan by the EBRD in 2006, the retail chain expanded fast and now counts six supermarkets in Tirana and three in other cities. Recently, Euromax was bought by the leading Serbian retailer Delta Maxi, a part of Delta Holding.

The second leading supermarket chain is Conad, an Italian retail chain which has operated in Albania since 2006. Conad now has six supermarkets in Albania, concentrated mainly in Tirana.

Euromax provides a mixed portfolio of domestic and import agrifood products, whereas Conad primarily sells foreign (Italian) products. Albanian agrifood products are rarely found in these supermarkets.

There are several other retail chains which are Albanian owned but are of a smaller size and have more limited geographical coverage. Examples are Big Market and Extra, which are facing growing competition from the two leading supermarket chains.

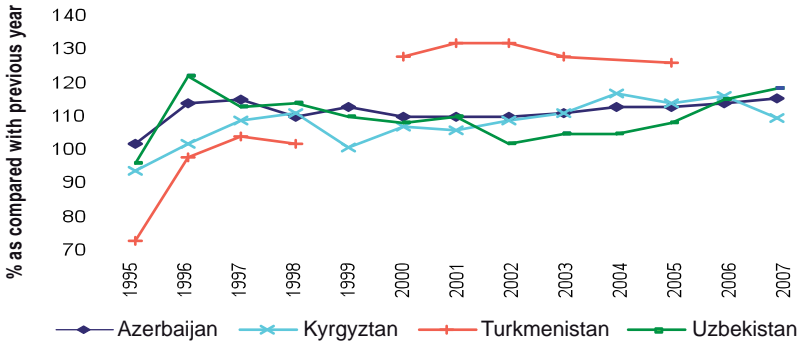
Despite fast expansion, supermarkets occupy a small share of the food retail sector and are concentrated in major cities such as Tirana and Durrës. Fresh fruit and vegetables, dairy products, and meat are still largely sold in specialised traditional stores and open markets, and wholesalers still play an important role in the sale of fruits and vegetables. However, the supermarket expansion in these main urban areas has forced many small general stores out of business and many others are struggling to survive.

In the coming years, the supermarket chain sector in Albania is expected to grow substantially and have a greater impact on the overall agrifood chain in the country. When supermarkets modernise their procurement systems, they require more from suppliers with respect to volume, consistency, quality, costs, and commercial practices. The highly fragmented Albanian system of agriculture will need to adjust to market demand changes as only a small number of farmers will be able to meet retailers' volume and quality requirements.

5.3 Major sector trends and developments in ETCs

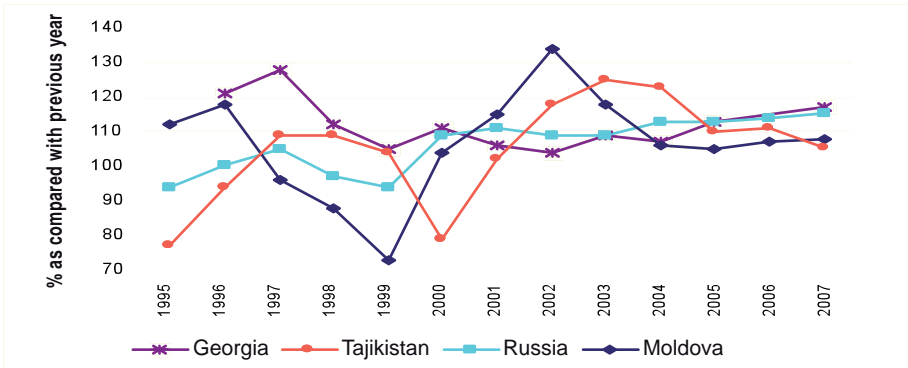
- So far, the retail trade sector has shown moderate growth in Armenia, Azerbaijan, Kyrgyzstan, and Uzbekistan (see the left-hand graph below).
- Retail trade trends in Georgia, Tajikistan, and Moldova have been unclear. Retail trade in these countries somewhat reflects the situation in Russia (right-hand graph below).

Figure 8: Changes in retail sales in selected Early Transition countries



Source: own presentation based on CIS Stat data

Figure 9: Resumption of retail sector growth in some countries after the Russian Financial crisis (1999)



Source: own presentation based on CIS Stat data

- The role of traditional open markets remains quite important in ETCs even in the relatively developed retail markets of Armenia and Azerbaijan. According to available official trade statistics, the share of open markets

in the food retail trade in Armenia decreased insignificantly from 38% in 2002 to 36% in 2008; while in Azerbaijan, the share of traditional markets increased from 32% to 35% during the same period. It is expected that the role of traditional markets will remain important in the ETC countries in the foreseeable future. Modern retail trade expansion will continue to develop, initially at the expense of old store formats, kiosks, and other types of retail trade.

- As modern retailers emerge and develop in ETCs, the traditionally high share of retail sales by open markets will fall. For instance, in the Russian Federation, unorganised retail trade decreased from more than 50% in 1999 to no more than 25% in 2003. Though not on the same scale, other developing markets in the region, including Ukraine, witnessed similar developments. Trade development in ETCs will likely follow suit.
- Most likely, the retail sector in the ETCs will follow the path of market development previously seen in Russia and Ukraine: privatised food retailers (ex-“gastronom”) operate for some time as independent food retailers and are later converted into modern supermarkets or discounter formats, whilst remaining privately-owned individual stores. With the expansion in retail trade turnover, shops consolidate under a local chain/brand, leading to the centralisation/rationalisation of procurement, logistics, administration, and other functions. Typically, these emerging chains are then sold to a regional retail chain.
- More advanced retailers in some ETCs have already reached the stage of creating their own national retail chains with multi store type/format. For instance, the Star retail network in Armenia had 11 supermarkets until it recently built its first hypermarket, with a floor space of more than 2,000 m² and selling 20,000 food and non-food products.
- Local retailers in ETCs will eventually expand outside their capital and major cities.

6. FURTHER READING AND INFORMATION

EastAgri, retail: <http://www.eastagri.org/>

Planetretail: <http://www.planetretail.net/>

Euromonitor: <http://www.euromonitor.com/Retailing>

Deloitte: <http://www.deloitte.com>

FAO: <http://www.fao.org/>

7. STATISTICAL DATA

Table 9: Urban population, % of total population

	1992	1995	2000	2005	2006	2007
ETCs						
ARMENIA	67.5	66.3	65.1	64.1	64.0	63.9
AZERBAIJAN	53.7	52.2	50.9	51.5	51.6	51.8
GEORGIA	55.2	54.0	52.7	52.2	52.6	52.7
KYRGYZSTAN	37.8	36.3	35.4	35.8	36.0	36.1
MOLDOVA	46.8	46.3	46.1	46.7	42.3	42.0
TAJIKISTAN	31.5	28.0	25.9	24.7	26.4	26.4
UZBEKISTAN	40.1	38.4	37.3	36.7	36.7	36.8
MONGOLIA	57.0	56.8	56.6	56.7	56.9	57.0
WBCs						
ALBANIA	36.4	39.1	41.8	44.8	45.4	46.1
BOSNIA AND HERZEGOVINA	39.2	41.1	43.2	45.7	46.3	46.9
MACEDONIA	57.8	60.7	62.9	65.4	65.9	66.4
SERBIA AND MONTENEGRO	50.9	51.4	51.6	52.2	n/a	n/a

Sources: World Bank, Government Statistics and World Development Indicators

Table 10: Passenger cars, per 1,000 people (when available)

	1992	1995	2000	2005	2006
ETCs					
ARMENIA	0.7	0.5	n/a	n/a	n/a
AZERBAIJAN	34.0	36.2	42.0	57.0	57.0
GEORGIA	88.2	67.4	46.5	49.8	56.0
KYRGYZSTAN	47.3	43.0	38.6	39.0	39.0
MOLDOVA	51.0	38.2	54.0	70.0	84.0
TAJIKISTAN	0.3	0.2	19.0	n/a	19.0
MONGOLIA	n/a	10.5	18.4	n/a	28.0
WBCs					
ALBANIA	10.4	18.4	36.8	61.5	71.0
BOSNIA AND HERZEGOVINA	14.2	18.3	n/a	n/a	n/a
MACEDONIA	145.4	145.4	148.0	n/a	150.0
SERBIA AND MONTENEGRO	141.4	151.7	n/a	n/a	204.3

Sources: World Bank, Government Statistics and World Development Indicators

Table 11: Female employment, % of total employment (when available)

	2002	2003	2004	2005	2006	2007
ETCs						
ARMENIA	47.7	47.5	46.0	45.6	45.7	45.7
AZERBAIJAN	47.7	47.7	47.1	47.6	48.3	49.1
GEORGIA	48.1	47.2	48.0	47.5	47.3	47.9
KYRGYZSTAN	42.6	43.9	42.7	42.4	42.1	n/a
MOLDOVA	51.4	51.2	52.0	52.2	50.0	50.2
MONGOLIA	49.4	49.4	50.9	50.5	51.3	50.8
WBCs						
BOSNIA AND HERZEGOVINA	n/a	n/a	n/a	n/a	34.9	34.3
MACEDONIA	38.9	40	38.7	39.1	38.3	39.2
SERBIA	n/a	n/a	41.7	40.2	40.9	41.8

Source: International Labour Organisation

Table 12: Share of total household expenditure on food, % (when available)

	2002	2003	2004	2005	2006	2007
ETCs						
ARMENIA	67.5	68.0	56.9	57.9	57.4	54.4
AZERBAIJAN	53.6	54.7	61.5	59.8	60.2	n/a
GEORGIA	52.1	53.1	53.6	50.4	50.6	48.3
MOLDOVA	n/a	n/a	56.4	54.2	44.4	n/a
TAJIKISTAN	80.7	75.2	73.3	72.1	57.8	58.4
WBCs						
SERBIA AND MONTENEGRO	n/a	42.5	39.9	42.3	39.0	n/a

Sources: FAO STAT, World Bank and Government Statistics



**European Bank
for Reconstruction and Development**



**Food and Agriculture Organization
of the United Nations**



Please address comments and enquiries to:

Investment Centre Division
Food and Agriculture Organization of the United Nations (FAO)
E-mail: TCI-Eastagri@fao.org

