
THE STRATEGIES OF DISCOUNT STORES ON THE ROMANIAN RETAIL MARKET

BELAȘCU Lucian

Abstract:

A pertinent analysis of the retail industry's future must include a substantial analysis on emerging countries. These markets will play a more important role in future global economic dynamics, but nevertheless, most concerns focus still on the side that brings opportunities for major retailers. In this context, this article proposes a presentation of the Romanian discount market, with emphasis on positioning strategies of discount supermarkets and hypermarkets.

Keywords: *Romanian retail market, discount, strategies, supermarket, hypermarket*

If the department store is the type of store which is representative to the commerce of non-food merchandize, the supermarket is the sales unit which revolutionized in every country the food retail.

As defined by the French Institute of Self-service, the supermarket is a commercial self-service retail unit (or a separate sector in a department store), by which, with a wide range of consumer goods, a more or less important variety of non-food goods of current demand is being commercialized (10-15% of total sales); purchase payment is made at cash registers, located at the exit of the self-service flow. The main technical and commercial features of supermarkets are: sale area between 400-2500 m²; structured on one level; rapid rotation of stock merchandise (12-24 rotations per year); a cash register for 100 m² of sales area; location, mainly, in new neighborhoods.

Hard discount fits into the supermarket category as well, which is a self-service store with a limited variety of basic goods (less than 1.000 items), composed, almost exclusively, of distributors' brands. Such stores are Lidl, ED, Aldi etc. Another option for hard discount is soft discount (for example, Leader Price, Plus, Profi, Penny Market), which is characterized by a wider assortment (1.300-2.000 items), and commercializes best known and appreciated brands, prices being higher.

Discounters have increasingly more interest in modern trade, their market share at European level increasing slowly, but steady, in the past two decades (from 10% in 1991 to 16% in 2001 and 20% in 2008). Norway and Germany are examples of

countries in this regard, discounters holding a share of approximately 50%. Significant percentages are registered in countries such as Belgium (39%), Austria (33%), Denmark (30%), Holland (19%), Hungary (18%), Portugal (17%), Finland (16%), Sweden (15%), Poland (13%), Greece (12%), Spain (11%), and France (11%).

In 1917, Bernard Shulmann created in the USA the first convenience store. Such a store expanded in Germany, where the Albrecht brothers created Aldi, after the Second World War. The concept was put into practice in order to meet basic needs, within a shortage economy with a systematic search for cost control.

A hard discount store is a full self-service retail store, with a sales surface generally between 300-1.000 m², with an average of 700 m². It puts forward a limited assortment of items representing a majority of own brands, with household products with high rotation and sold at very low prices. Each item is profitable, with a contribution margin rate of approximately 15%, with a small compensation between them. Costs are minimized: little staff, untidy decoration, without customer service. These stores are generally found in high transition areas. Hard discounters prefer to be located in neighborhoods with dense and/or disadvantaged population, where they take advantage of the traffic created by a hypermarket, settling down nearby. Hard discount operators' know how results from the effectiveness of the upstream activity: the limited variety allows increasing volumes, thus optimizing buying conditions, logistics, and structure and administration costs.

The average surface of the most successful chains (Aldi, Lidl) is 700m². There are soft-discount stores as well, with significant chains such as Dia%, Penny, Plus. It is the neighborhood store that offers a limited, but a more thorough range of items than a hard discount store, combining manufacturer brands, own brands and dumping prices.

Hard discounters' assortment is almost exclusively composed of consumer goods. With little profundness, it is limited to basic products that have a strong rotation, and proposes only one reference, generally below its own brand. The range consists of less than 1.000 items, of which a strong dominant of grocery-beverages and a few references of fresh industrial products (dairy products, frozen products). The most extreme chains can reach a maximum of 500 items, with few fresh products and with no frozen products at all. Such a limited offer explains the Anglo-Saxon name of hard discounters: LADS (Low Assortment Discount Stores).

Product quality varies depending on chains: some offer only products with a good price-quality ratio, selling basic products rather than low quality products. Other chains are willing to compromise in terms of product quality in order to obtain lower prices at all times, thus becoming sellers of dumping prices. The first option is inevitably the most efficient: the hard discount world leader, Aldi, is known for the quality of its products.

As shown by its name, hard discount is entirely directed toward the search for low prices. Focusing on products with very strong rotations allows obtaining very advantageous purchase conditions by concentrating on a few manufacturers and thus compensating for low margin rates through the importance of large volumes. The

margins do not excel 12%, but personnel costs are maximally reduced (less than 5% in the best chains).

The hard discounter uses 2-3 cash registers located at the exit and 4-5 employees (the manager, assistant manager and 2-3 cashiers/ commercial workers per department). The stores are somber; the products are arranged on shelves in their original cardboards, lacking refinement, with complete self-service and no departments with traditional serving whatsoever.

Introducing some brands familiar to manufacturers and adding some fresh product references, leads to sales increase, in the beginning. This however does not guarantee the concept's sustainability. Moreover, despite what is sometimes said, hard discount stores are not for the poor. Studies about consumers show that if families with low income frequent them, many families with higher income also make storage shopping for basic products, adding to it the shopping made in supermarkets or hypermarkets.

We will present below the status of the Romanian retail market, with a particular emphasis on discount networks. Beyond absolute values, all merchants, and suppliers as well, have felt the decrease of sales' volume and value. Thus, in the middle of this year, most of them have adopted drastic measures to restructure and become more efficient.

At present, the Romanian retail market has the following characteristics: drastic contraction of orders for distributors; people reduce their food costs and are moving towards shops closer to home to eliminate transportation costs; increasing number of insolvencies among producers and distributors; sales keep dropping; late payments are more frequent and payment periods become longer; traders spread only by small shops; instead, discounters continue their aggressive expansion; the assortment is limited and the presence of its own brands on shelves is increasing even on once considered peak periods (weekend, afternoons), and the stores use a minimum of open cash registers; black market and smuggling proliferate; it is also a turning point for the retail market where underperforming players leave the market, local supermarket being absorbed by international chains or even by buying direct competitors.

Lower consumption will be increasingly felt especially in the urban environment, which has the best coverage in terms of modern retail, because rural population is still focused on self-consumption and has no access to major retail chains. So far, the expansion of stores with the best penetration chance - discounters - has reached the medium urban environment, meaning in areas of 10 000-12 000 inhabitants. The expansion towards the rural area – whether, or not, it will take place – will be long term. Moreover, studies carried out earlier this year by GFK already indicate that household consumption began to be affected. Given the new circumstances, suppliers and merchants are expecting an additional drop in sales of 10-15 %. Another factor that will negatively influence consumption is the arrival of the warm season and vacations (or dismissals) when sales are already affected, even in growth periods.

Discount networks are the ones that are supporting 80% of the expansion of modern trade in Romania in 2010. The number of hypermarkets and supermarkets will continue to grow this year, but not in line with the previous years. The four discount supermarket chains in Romania planned and announced the opening of 80 new stores in 2010.

The retailer Penny Market has scheduled for 2010 to extend the network with 25 stores. As a result, Rewe Romania, the Penny store operator, is expected to reach 124 stores later this year. The amount of investment in a Penny Market is approximately 1.5 million euro in a green field situation and to 0.5 million euro if the location is rented. Plus Network has planned the opening of 24 new stores this year. The network of Plus stores, which belongs to the German group Tengelmann, sold to Schwarz Group the Plus store chain in Romania and Bulgaria; they will be rebranded as Lidl. This is the new retailer on the Romanian market - by acquiring Plus, which officially announced its entry in Romania and Bulgaria. Two territories with a combined population of nearly 30 million is not an insignificant market, related to the advantage of already having a network of 120 stores. The entrance of Lidl in Romania could largely change the image of discount stores in Romania. Profi Network, recently acquired by the investment fund Enterprise Investors for the amount of 66 million US Dollars, has the opening of ten stores planned for this year. According to the press release given by the investment fund the target is to double the number of stores in the coming years. Profi owned, earlier this year, 65 stores and opened 15 stores last year. MiniMAX retailer aims to open 20 stores in 2010.

Profi opened the first store in Romania in 2000; it was a success, and people began to know and be acquainted with products offered by PROFI and the quality / price ratio. In 2006, Profi was represented by 146 stores, of which 45 in Belgium, 75 in Hungary, 45 in Romania and is present in over 25 cities in our country. In 2007, Profi Romania opens 10 stores and acquires the network of shops named "Albinuta". In 2008, the expansion of Profi continues, reaching a total of 51 stores and shops begins rebranding the "Albinuta" chain. In 2009, Profi completes the rebranding action and intends to open at least 10 stores. Currently, Profi Romania includes 67 stores in 27 counties.

Profi is a retail company which offers for sale food in particular (60% of the total sales) and other household goods for permanent use. The product categories that can be found in Profi stores are: articles in special offers, vegetables and fruits, greens, sweets, frozen foods, dairy, groceries, meat, bread, staple foods, cosmetics, detergents, breakfast products, alcoholic drinks, juices and mineral water. The Profi organization provides thus for sale a wide selection of food and non-food products and various brands, but the best sold are the products' branded Profi involving "quality at low prices" (slogan profile).

Within the assortment structure, the Profi network, non-food represents only 5% of the total. In the current economic conditions, consumers will focus probably ever more to the type of trade which provides 90% of what they need at a price very accessible price, including proximity to the store. All this aspects are very important

and here are the advantages of Profi. Profi began to change massively the assortments commercialized in stores in 2005. That was the moment when the company took a radical measure and has decided clearly the separation of the hard discount concept which they had until then. In 2005, they doubled the assortments through an empirical method for the sake of doing it quickly. Consumer reaction to this change was quite rapid, with sales growing at 20-25%. Until then, the Romanian consumer has been reluctant, Profi opening its first store in 2000 and being the first discounter in Romania during the period.

When they opened the first store, the consumer response was not the expected one, Romanian consumers being demanding customers; even though in nine cases out of ten he chooses the cheapest product, he would desire to have where to choose from. The clients adored the Profi prices, but did not like how the store looked, with products directly on pallets, in boxes and then they gradually turned to a concept of "soft discount". After that, starting with the second half of 2006, the firm began implementation of a fine-tuning of products and assortments covered.

Within the store, the costumers are highly interested in products with price appeal. Consumers are moving ever more toward first-price products; the sell for these products is raising a lot. This will obviously increase the number of such products on the shelf. But here comes the need to be careful not to exaggerate in any direction because the customer wants to find on the shelves good quality products at affordable prices, but also the branded products. The advantages that Profi has besides the direct competition of the network is given by the very good locations and the assortments which customers can find in Profi stores.

REWE Group, the third largest player in the food trade sector in Europe, recorded in Romania the highest business growth rate out of the 14 countries where it operates. Romanian market has brought the German group in 2006, almost one quarter of sales in Eastern Europe, region where it operates with a total of approximately 700 stores in eight countries. Rewe entered the local market in 1999 with the Billa supermarket chain, subsequently bringing divisions Selgros Cash & Carry (2001) and discount stores (XXL Megadiscount 2001). Rewe Group subsidiary in Romania is currently fourth in the group (excluding Germany), where Austria, Italy, and France, when referring to sales volumes.

In order to strengthen its position on the discounters market, Rewe Group regrouped, giving up the brand XXL Mega Discount. Rewe Romania changed its strategy on the discount segment. The company has abandoned one of its brands, bringing Discounters stores under one name. More specifically, XXL Mega Discount stores were gradually transformed into Penny Market XXL. The first XXL Mega Discount store was opened in Romania in 2001; nowadays, residents of Bucharest, Sibiu, Buzau, Braila and Targoviste enjoy the benefits XXL Mega Discount. Penny Market XXL is the adapting to modern requirements of the former XXL Mega Discount.

As appears in the name, the stores are being revised after the Penny Market format, but at larger dimensions. Thus, Penny Market XXL stores have an average sales area of 2500 square meters and an assortment of 3,500 products, combining

both food and nonfood products. In addition to the larger assortments, Penny Market XXL brings a selling space with assisted service, where customers can buy sliced groceries and dairy products in bulk. But perhaps the most important advantage of the Penny Market XXL is its own butchery, all meat products and products being very fresh and made in the same day.

Penny Market, the successful concept of REWE Group, was founded in 2005 in Romania. The store has a standard sales area of 750 square meters and an assortment of 1400 articles. The expansion will cover the entire country, in towns of over 20,000 inhabitants. All the time, besides the basic assortment, promotional offers are available in limited quantities, in addition to the standard range. They are valid for two weeks, according to the brochure from that period, distributed free to the clients' homes. Penny principle is based on the purchase of goods from Romania, so that the main weight of the items offered for sale to be of local provenance. In some cases they rely on foreign suppliers, for some categories of items that are not produced in Romania and whose price - quality ratio match Romanian customer requirements.

SC MiniMax Discount SRL is a Romanian company founded in 2003 with the aim of developing a network of medium-sized Discounter stores in cities in Romania. Mercadia Holland BV Group acquired the entire shares package of SC MiniMax Discount SRL in a deal concluded recently.

MiniMAX network has now 31 Discounters stores in towns with over 10,000 inhabitants throughout the country. The final stage of the network aims to open 100 stores. MiniMAX commercial spaces have an average selling area of 750 square meters and the overall activity of the stores is managed and maintained by MiniMax Discount logistics center, located on an area of 15,000 square meters in Bucharest.

The retail stores are modern spaces equipped according to European standards, self-service system, with four cash registers and 25 parking spaces. Product offering includes approximately 2000 references. MiniMax Discount promote their own brands including range developed in partnership with local suppliers: Steiner - beer, Coria - carbonated and non-carbonated juices, MAX - carbonated soft drinks, Montan - meat / sausage, and a wide range of products under the brand MiniMAX Discount, such as sunflower oil, cheese / cheese products, rice, corn flour, flour, milk, cans, syrups.

The discount is not a specificity of supermarkets only. It also applies to hypermarkets: small, medium or large sized; of course, if the company decides to adopt a discount policy.

As far as hypermarkets are concerned, the discount is a type of selling with the following characteristics:

- Low prices for the whole range of products;
- A simple manner of displaying goods (box, pallet);
- Low general costs in maintaining the store, meaning first of all selling goods directly in the cardboard or plastic packing; it leads to the lowest costs as far as displaying and handling the goods are concerned;

- Regarding the shelves and the whole aspect of the store, functionality comes before esthetics;
- Branded products will be sold only if the difference in price is balanced by quality or they are too important to be abandoned;
- The image of price – the most advantageous business in the area/region;
- Choosing the competitive variety out of a wide range of products of the same kind; each product can also be found in the lowest price category; regional variety; the quality of local products.

The Romanian commercial landscape, as far as discount hypermarkets are concerned, is represented by: Kaufland, in the small size category, and Auchan, in the large size category.

Auchan is on the second position in the stores business in France and in top 10 worldwide. Regarding Auchan, its advertising slogan is “We only have low prices, for absolutely all products”. From now on, you don’t need to hunt for promotions. All our over 60.000 products have low prices, permanently”. In order to differentiate itself of classical hypermarkets, Auchan counts on larger spaces between shelves, better displayed and easy-to-find products, and is proud to have the largest parking areas among the hypermarkets.

The same important fight is lead in creating an image as strong as possible in the mind of the customer. Auchan comes with arguments: it explains to the customers (via posters inside the store and on the local radio) that the company purchases large quantities of goods, thus obtaining the lowest prices.

Auchan has limited promotions, simply because all products are offered at the lowest prices on the market, this fact being underlined in all kind of advertising. Auchan has a different approach: it doesn’t cut prices only for several products and raise them for all the rest; all the products have low prices at Auchan. The discount policy of Auchan includes negotiating large quantities with suppliers in order to have the lowest prices. There are no fidelity cards, because they cost a lot and lead to price increase for all the products in the store, without great savings for the customer. Auchan customers are loyal because they find low prices, not because they enter a rewarding system. There is very little investment in advertising. They prefer to invest in prices the savings with advertising, so that the customer wins. Why paying more?

Regarding Kaufland, it reached the expansion objective settled when entering the Romanian market (autumn 2005), that is 50 stores by the end of 2010. Nowadays, Kaufland is the largest hypermarket chain in Romania, as far as the total selling area is concerned (about 250.000 sqm) and the fourth as far as income is concerned. Since entering Romania, Kaufland expanded exclusively by building new stores. Company officials say that the expansion strategy does not include takeovers, but they don’t exclude this possibility in the future, on the condition that the characteristics of the targeted location adapt to the Kaufland concept.

Taking into consideration the present economic situation, most of the specialists agree that discount stores have an advantage on other types of commerce. Study papers and reports from surveying institutions certify it. According to them, last

year the supermarkets lost 4% of the market share to hypermarkets and discount stores.

Most of the retailers are offering way too many products. This is a symptom specific to dysfunctional relation between the purchasing policy and company's ability to understand consumers, in general. We can add to that the incapacity to increase awareness regarding the life cycle of a product or a brand. Retailers often consider that a large number of brands in the store represent a selling argument in itself. In the future, retailers will consider it more efficient to communicate how many brands they eliminated following the restructuring of the portfolio, thus betting on the message of an increased attention regarding the needs of the customers. The strengthening of customers' loyalty will be based more and more upon a continuous demonstration that retailers understand their preferences and lifestyle and are able to anticipate changes.

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