agribusiness handbook

Food Retail

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This handbook is part of a series of agribusiness manuals prepared by the FAO Investment Centre Division, in collaboration with FAO's Rural Infrastructure and Agro-Industries Division. It was prepared for the EBRD Agribusiness team, under the FAO/EBRD programme of cooperation. The production of the manuals was financed by FAO and by the EBRD multidonor Early Transition Countries Fund and the Western Balkans Fund. The purpose of this handbook is to help agribusiness bankers and potential investors in the Early Transition countries (ETCs) and Western Balkan countries (WBCs) to acquire basic knowledge about the food retail sector and to become acquainted with recent economic trends in the sector around the world, with a special focus on the ETCs and the WBCs. This volume was prepared by Dmitry Prikhodko, Economist, FAO Investment Centre Division, with inputs from Inna Punda and Jose MasCampos, FAO Agribusiness Consultants, as well as from members of the EBRD Agribusiness team. Electronic copies can be downloaded from www.eastagri.org, where a database of agribusiness companies, including food retail companies that operate in the ETCs and the WBCs, is also available. Please send comments and suggestions for a future edition of the manual to TCI-Eastagri@fao.org.

Design and page layout Alberto Pedro Di Santo

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INTRODUCTION

The retail sector is responsible for the sale of food and non-food items for personal or household consumption that 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 retailers[1] 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, because 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 that in the past were traditional food retailers, the information provided in this handbook applies to the entire retail trade sector unless the food retail sector is explicitly mentioned.

In contrast with retailers, 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 increasing 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 antitrust or similar legislation.

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

1. 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 specialized stores (butchers, flower shops, etc. – often called *food speciality* 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 m^2 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 that sell consumer electronics, furniture, durable and leisure goods, etc.).

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

Discounters are stores that typically have a sales area of 300–900 m^2, 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 specialize 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 and have extended open 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 with 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 sales space of less than 400 m^2 and usually specialize in packaged groceries. Food accounts for at least 50% of total retail sales. Sometimes, independent grocers specialize in one type of product, e.g. meat.

Free-standing food specialists such as butchers, bakers and florists 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 greater than 2,500 m^2 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 (FMCGs[2]) on a self-service basis;
- *specialized stores:* these sell electronics, construction materials, furniture, and other goods and do not specialize in food;
- *vending machines:* sales of packaged food and drinks are made using machines;
- *kiosks:* these are located in streets, parks or residential areas and are still popular in the 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; and
- *alternative selling channels:* sales are made through internet, mail and television, and through independent agents and/or distributors directly to the consumer.

[2] *FMCGs 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. FMCGs may also include packaged food products and drinks, although these are often categorized separately.*

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 EUR 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 specializing 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 (million EUR)

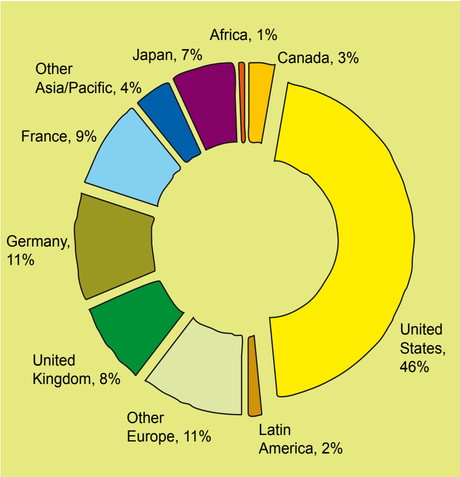
Type of store	2002		2003	2004	2005	2006	2007	
	M EUR	Share %	M EUR	M EUR	M EUR	M EUR	M EUR	Share %
Supermarkets	31,294	31	32,590	33,307	34,802	34,657	35,606	32
Small grocery retailers	22,656	23	23,053	23,419	24,473	25,554	26,527	24
Hypermarkets	19,588	20	20,724	21,185	21,738	20,857	20,705	19
Food/drink/ 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 retail 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 for retail sales, 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 1: Geographical distribution of global retail sales and average annual sales per company*, 2006



	No. of compa-nies	Avg. sales per company (M USD)
Top 250	250	12,985
Africa/Middle East	4	4,738
Asia/Pacific	42	8,013
Japan	29	7,448
Europe	91	14,075
France	13	23,444
Germany	18	19,732
United Kingdom	20	13,384
Latin America	9	4,426
United States (excl. direct sales)	93	15,899

*Source: Deloitte, *250 largest retailers only*

2.2 The world's leading retailers/chains

The share of the top ten world retailers in global retail trade continues to increase, according to Deloitte analysts[3]. 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 ten 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 billion[4], with French group Carrefour far behind with USD 98 billion in sales. While there is increasing concentration in global retail trade, the top ten retailers in Brazil held 21% of total retail sales in 2006, while in the Russia Federationand 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] *2007, See: http://walmartstores.com/Investors/7666.aspx*

Table 2: Top five global retail leaders

Name of company/ Country of origin	2006 retail sales (M USD)	Formats	Country of operation	2001–2006 retail sales CAGR*
Wal-Mart Stores, Inc./ United States	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, United Kingdom, United States	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, Romania, Saudi Arabia, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, Tunisia, United Arab Emirates	2.30%
The Home Depot, Inc./ United States	90,837	Home improvement, non-store	Canada, China, Mexico, Puerto Rico, United States, Virgin Islands	11.10%
Tesco plc/ United Kingdom	9,976	Convenience/forecourt store, department store, discount department store, hypermarket/supercenter/ superstore, supermarket	China, Czech Republic., Hungary, Japan, Republic of Ireland, Malaysia, Poland, Slovakia, Republic of Korea, Thailand, Turkey, United Kingdom	12.50%
Metro AG/ Germany	4,857	Apparel/footwear specialty, cash & carry/warehouse club, department store, electronics specialty, hypermarket/supercenter/ superstore, other specialty, supermarket	AUnited Statestria, Belgium, Bulgaria, China, Croatia, Czech Republic, Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Republic of Moldova, Morocco, Netherlands, Poland, Portugal, Romania, Russian Federation, Serbia and Montenegro, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, Viet Nam	4.00%

**CAGR – Compound Annual Growth Rate, specific term for the geometric mean growth rate on an annualized basis.*
Source: Deloitte

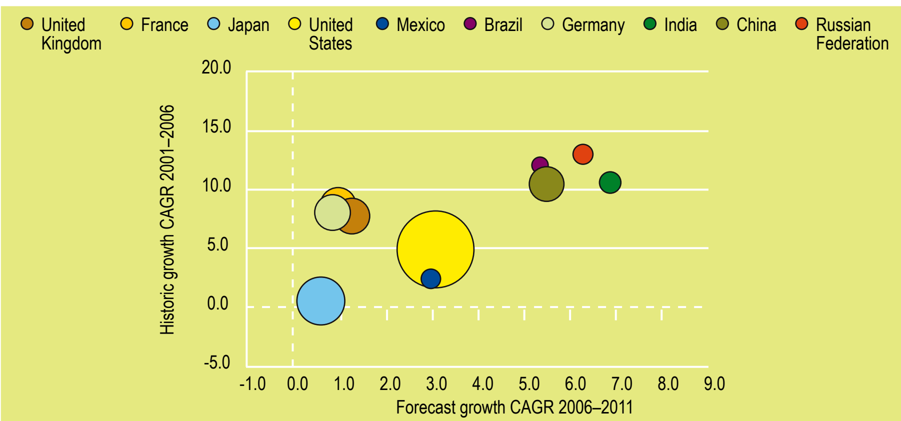
2.3 Retail trade expansion in emerging markets

The sales growth of most retailers accelerated between 2003 and 2008 due to expansion into emerging markets, with China and the Russian Federation 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 with companies that operate in one or two countries only.

The Russian Federation, 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 Figure 2). 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 Figure 2).

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



Source: Euromonitor International

In 2006, the Russian X5 Group[5] entered the list of top 250 global retailers, ranking 191 with sales of USD 3.5 billion and an income of USD 103 million. The X5 Group is now the second food retailer in 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, the Russian Federation, and other emerging markets in 2006, as compared with 2000. The number of retailers in these markets is expected to be further reduced by the entry of major international retail chains, along with mergers and acquisitions that are taking place among local companies.

Table 3: Declining share of independent grocers in emerging markets, 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
Russian Federation	43.6	31.0	-12.6

Source: Euromonitor International

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

Country	No. of stores per 1 M population	Country	No. of stores per 1 M population
Slovakia	5,111	Russian Federation	2,269
Bulgaria	4,870	France	2,259
Italy	4,560	Czech Republic	1,982
Poland	4,402	United Kingdomraine	1,298
Romania	3,500	United States	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 United Kingdomraine, the X5 Group is believed to be the largest multi-format food retailer in the Russian Federation.

2.4 Retail private labels

The expansion of major retail chains has spurred a rapid development of the private label product[6] 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 United Kingdom, Germany, Canada, France, and Spain. The product groups with the highest share of private labels are packaged food, pet food and pet care products, soft and hot drinks, and household care. For example, the private label share of packaged food accounts for 35.2%, 24.9%, and 18.0% in the United Kingdom, Germany and France, respectively, while the private label share of soft drinks accounts for 31.5%, 27.4%, and 16.7% in the United Kingdom, Germany and Canada, respectively (Euromonitor International, 2005).

Private label products account for a much smaller share of sales in developing markets. For countries[7] such as China, India, Poland, Mexico and Brazil, the share of all label products for all the abovementioned 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 WBCs and the ETCs.

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

Product group	% share of private labels
Packaged food	12
Pet food and pet care products	10
Hot drinks	7
Household care	7
Soft drinks	7
Over-the-counter health care	6
Cosmetics and toiletries	2
Alcoholic drinks	2
Domestic electrical appliances	1

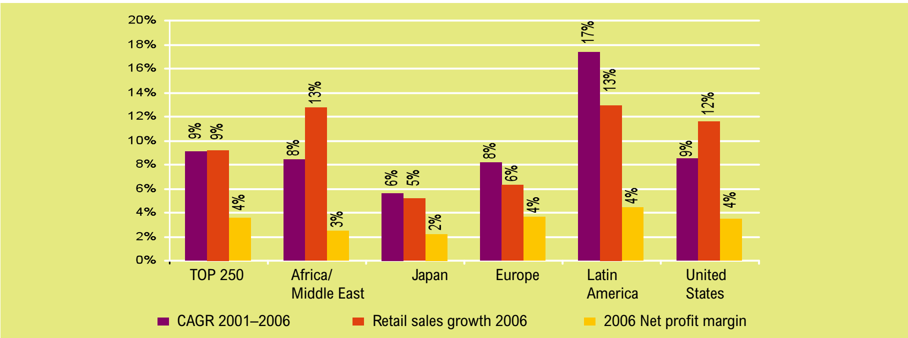
Source: Euromonitor International

[6] *Private label products are typically those manufactured by one company (producer) for offer under another company's brand (retailer's brand).*
[7] *Data is not available for the WBCs.*

The retail food sector does not manufacture/produce goods, but in some cases does slightly modify products, e.g. in-store preparation of meat, cooking, baking, retail packaging of salads, etc. Rather, the actual added value 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 and 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 retail markets such as that in Canada[8], high competition results in the net profit margin of retailers (after tax deductions) rarely exceeding 5%. The developing retail markets in Africa or Latin America do not enjoy significantly higher profit margins.

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



Source: adopted 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 with 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% (USD 0.50/USD 1.50) x 100%. On the other hand, the gross margin is relative to the sales price and equals (USD 0.50/USD 2.00) x 100% = 25.00%.

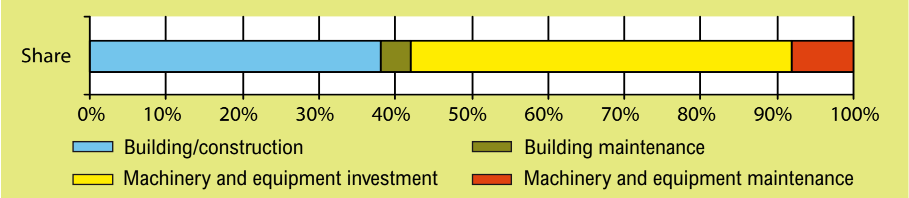
The gross margin from trade is not the sole source of income for retailers. In emerging markets, retailers also generate income from the following activities:

- advertising and promotion activities for brand owners;
- product placement charges;
- retail chain entry fees; and
- 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 retail formats and product mixes, event though 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 an 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
United States	1,211
Russian Federation	468
Brazil	390
India	53
China	39

Source: Euromonitor International and official statistics

Please refer to the Annex Statistical Data for more information on car ownership statistics in the WBCs and the ETCs.

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 discount stores 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 besides price that might influence consumer purchasing decisions. Examples of other considerations 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 organization 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.

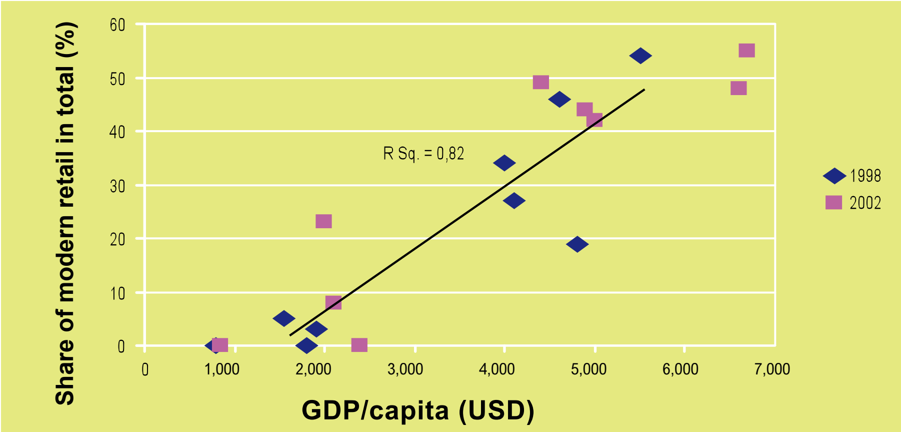
5. RETAIL TRADE DEVELOPMENTS IN THE EARLY TRANSITION COUNTRIES (ETCs)AND THE WESTERN BALKAN COUNTRIES (WBCs)

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 in China, Brazil, India, the Russian Federation and elsewhere. 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 worldwide presence.

Considering current market developments in other parts of the world, as well as the overall market size in the ETCs and the 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 the Russian Federation, Kazakhstan and Turkey (in the case of the ETCs) and Central Europe and the Northern Balkans (in the case of the WBCs) may be more willing to enter these markets. There is good potential for the development of modern retail sectors in both the ETCs and the WBCs 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, modern retail 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 cited below. Both the WBCs and the ETCs are experiencing economic growth that 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

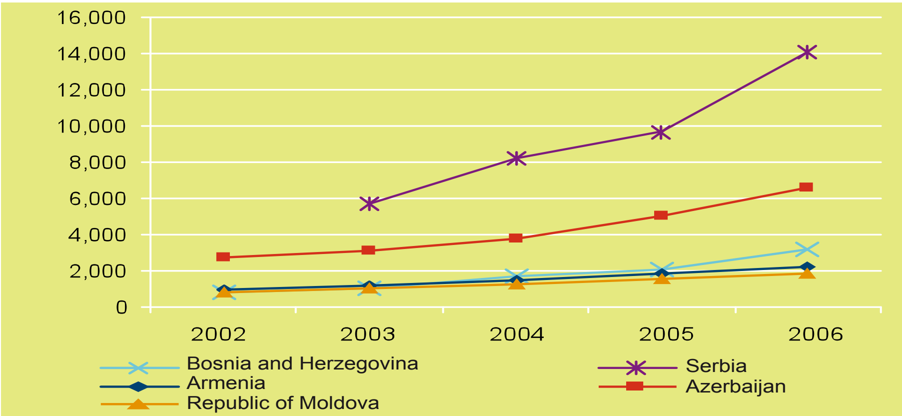
Table 7: Per capita gross national income (USD)

	2000	2001	2002	2003	2004	2005	2006	2007	Growth %
ETCs:									
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
Rep.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
ETCs avg.	**608**	**617**	**644**	**719**	**842**	**1,028**	**1,280**	**1,607**	**164**
WBCs:									
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
Bosnia & Herzegovina	1,560	1,630	1,750	2,040	2,540	2,980	3,330	3,790	143
FYR 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
WBCs avg.	**1,523**	**1,535**	**1,630**	**1,998**	**2,572**	**3,098**	**3,562**	**4,090**	**168**

Source: author's presentation based on World Bank data

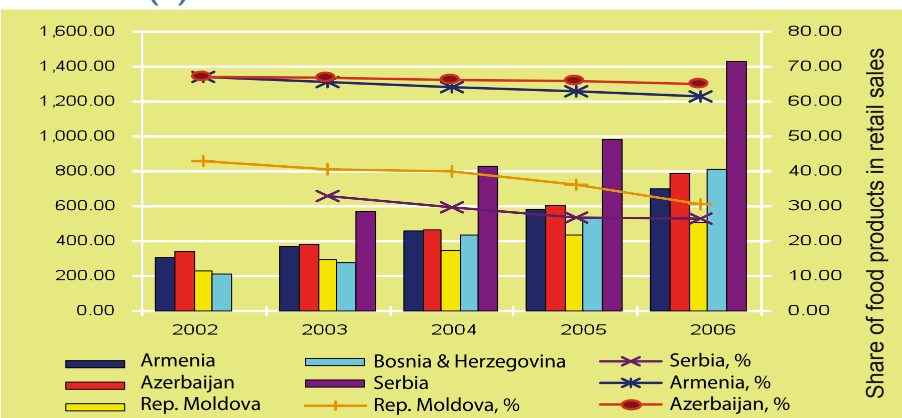
Food products usually play a significant role in total retail sales in the ETCs and, to a lesser extent, in the WBCs, as consumers tend to spend a major part of their income on food purchases. The share of food and food products in total retail sales in the ETCs and the WBCs ranges between 30 and 60%, according to official statistics (Figure 6). 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 the WBCs will decline as disposable consumer incomes grow.

Figure 6: Annual retail sales in selected ETCs and WBCs (million USD)



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

Figure 7: Per capital retail sales (USD) and share of food products in retail trade (%) in selected ETCs and WBCs



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

5.1 Major retail chains in the ETCs and the WBCs

Retail companies in the ETCs are generally smaller than in the WBCs. 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 the WBCs as compared with the 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 the ETCs and the WBCs can be found at: 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 & Herzegovina	Konzum, Merkator, Bartulo, Interex, Tropik (Maxi)
Georgia	Populi, Goodwill
Kyrgyzstan	Ramstor (Migros), Narodnyi, Stolichnyi
Republic of Moldova	Green Hills Market/Vistarcom, Fidesco
Montenegro	Plus Commerce
Serbia	Delta Maxi, Dis Trade, Idea, M-Rodi, Mercator-S, Univerexport
FYR Macedonia	Tinex-MT

Source: Government agencies, author's calculation

5.2 Major sector trends and developments in the WBCs

In recent years the following trends have been observed:

- The retail trade sector is quite diverse in the WBCs and the level of penetration of the modern retail chains varies considerably between countries such as Serbia and Albania.
- In some 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 prospects for some WBCs also shape markets in the WBCs, as happened in more developed neighbouring markets such as that in the Czech Republic, Hungary and Poland.
- Some retailers in the 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 WBCs continues, nonetheless, to be served by relatively small retail outlets. Despite some rare cases of hypermarkets and other large projects, markets in the WBCs 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, a 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 urbanization 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 EUR 8 million loan by the EBRD in 2006, the retail chain expanded fast and now counts six supermarkets in Tirana and three supermarkets 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 that has been operating in Albania since 2006. Conad now has six supermarkets in Albania, concentrated mainly in Tirana.

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

There are several other retail chains that 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.

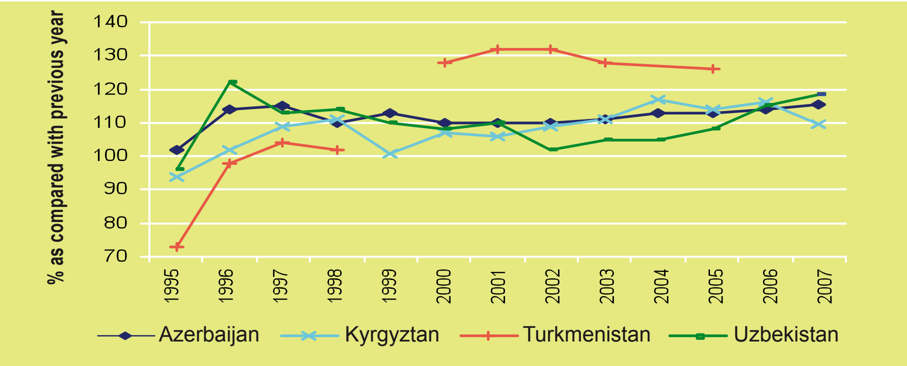
Despite fast expansion, supermarkets occupy a small share of the food retail sector and are concentrated in major cities such as Tirana and Durres. Fresh fruit and vegetables, dairy products and meat are still largely sold in specialized traditional stores and open markets, and wholesalers still play 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 modernize 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 the ETCs

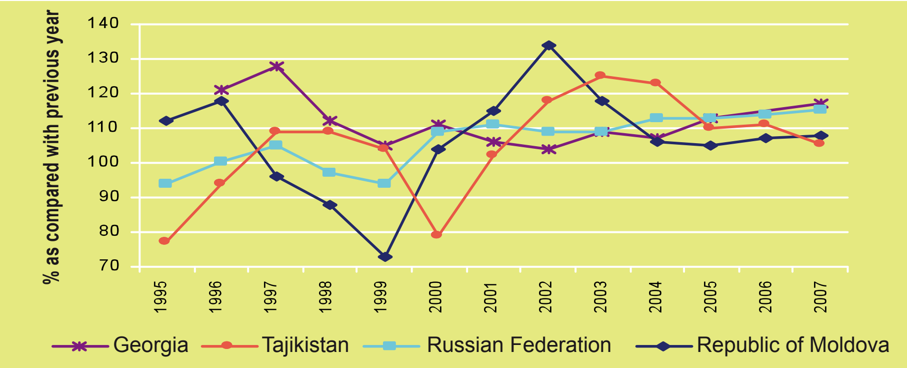
- So far, the retail trade sector has shown moderate growth in Armenia, Azerbaijan, Kyrgyzstan and Uzbekistan (Figure 8).
- Retail trade trends in Georgia, Tajikistan and the Republic of Moldova have been unclear. Retail trade in these countries somewhat reflects the situation in the Russia Federation (Figure 9).

Figure 8: Changes in retail sales in selected ETCs



Source: Author's presentation based on CIS Stat data

Figure 9: Resumption of retail sector growth in some countries after the Russian financial crisis, 1999



Source: Author's presentation based on CIS Stat data

- The role of traditional open markets remains quite important in the 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 ETCs in the foreseeable future. Modern retail trade expansion will continue to develop, initially at the expense of traditional 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, unorganized 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 United Kingdomraine, witnessed similar developments. Trade development in the ETCs will likely follow suit.
- Most likely, the retail sector in the ETCs will follow the path of market development previously seen in the Russian Federation and United Kingdomraine: privatized food retailers (example the “gastronom”) operate for some time as independent food retailers and are later converted into modern supermarkets or discounter formats, while remaining privately-owned individual stores. With the expansion in retail trade turnover, shops consolidate under a local chain/brand, leading to the centralization/rationalization 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 m^2 and selling 20,000 food and non-food products.
- Local retailers in the 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/

Table 9: Urban population, % of total population

Country	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
Republic of 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 & Herzegovina	39.2	41.1	43.2	45.7	46.3	46.9
FYR Macedonia	57.8	60.7	62.9	65.4	65.9	66.4
Serbia & 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)

Country	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
Republic of 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 & Herzegovina	14.2	18.3	n/a	n/a	n/a
FYR Macedonia	145.4	145.4	148.0	n/a	150.0
Serbia & 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)

Country	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
Republic of 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 & Herzegovina	n/a	n/a	n/a	n/a	34.9	34.3
FYR 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 Organization

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

country	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
Republic of 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 & Montenegro	n/a	42.5	39.9	42.3	39.0	n/a

Sources: FAOSTAT, World Bank and government statistics

European Bank
for Reconstruction and Development

Food and Agriculture
Organization of
the United Nations