

**THINK RETAIL THINK VERDICT**

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## **Retailing in Central & Eastern Europe 2008**

**Westwards expansion amidst looming cash flow management crisis**

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# About Verdict Research

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## Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

## Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



**“Verdict are the company of choice for any research analysis and insight into retailing”**

**Sir Stuart Rose**  
Chief Executive of Marks & Spencer

# Retailing in Central & Eastern Europe 2008

## Westwards expansion amidst looming cash flow management crisis...

Central and Eastern Europe's growth potential in 2008 remains massive, attracting retailers and developers to the region. In a polarizing retail environment, growth prospects depend on the specific sector and market. In CEE's major conurbations the transformation has accelerated at breakneck speed mostly driven by hypermarket and shopping centre development. In 2007 CEE's retail market as a whole was worth a massive €179bn, equivalent to half the size of the German market and slightly less than half that of France, and had grown by 56.4% over the 2002-07 period.

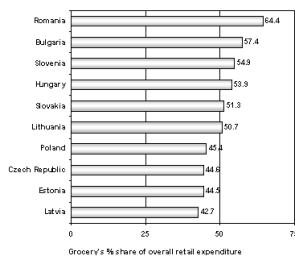
This new report published by Verdict Research provides extensive analysis of the growing CEE retail market including insight into the dynamics of the market and authoritative analysis of the leading retailers. It also identifies the key issues in the market and highlights the main opportunities and threats going forward.

### Key Countries Profiled

The Baltic States	Poland
Bulgaria	Romania
Czech Republic	Slovakia
Hungary	Slovenia

## Identify growth opportunities and understand key issues and challenges in the Central and Eastern European retail market with this new report.....

Grocery % share of total retail expenditure 2007



Source: Retailing in Central & Eastern Europe 2008

**"Format diversification and regionalisation are driving retailers' expansion in CEE, whilst local players are seeking out further growth opportunities abroad.**

**As the retail market in CEE's largest urban centres becomes increasingly saturated, retailers have begun to turn their attention to smaller up-and-coming regions, and developing new formats to tap into a burgeoning convenience sector. Meanwhile discounters continue to thrive in a highly price sensitive market..."**

- **Identify key retail trends and accurately predict future opportunities** based on this report's company analysis detailing market share of leading retailers, demographics, channels of distribution, store numbers, selling space provision and average store size in 5 key retail sectors.
- **Develop more effective strategic responses** using this report's actionable recommendations enabling you to cope with the changing CEE retail market.
- **Understand key strategic issues facing the market** and assess threats and opportunities to formulate more effective retail strategies with the analysis contained in this report.
- **Quantify the size and potential of CEE retail markets** with this report's market and sector size, GDP, household size and population growth data essential for retailers looking to enter or expand in this region.

# Retailing in Central & Eastern Europe 2008

## This report answers key questions including...

- Who are the top players in the market and how quickly are they consolidating their position?
- Where are the growth opportunities in the CEE retail market?
- What are the key issues affecting the CEE retail market?
- Where are the major threats to retailers coming from?
- What impact is the global credit crunch and sky high inflation having on CEE's retail environment?

### Key Retailer Data

Market value and growth for  
5 key retail sectors from 2002-07

Trends by sector

Key macro-economic trend data

Demographics

## Key issues examined in this report...

**International expansion and retail development**

**Stage 3**  
Format diversification and regionalisation. F&G market becomes more saturated and concentrated. Weaker players drop out of market, while leading players consolidate their positions. M&A activity intensifies.

Formats	Key Players	Targets	Main goals and benefits
Cash and carry Hypermarket Discount Convenience	Metro Carrefour Rewe Tesco Auchan Lidl Aldi	Regionalisation and expansion into smaller urban centres	Format diversification Retailers develop smaller formats to cater for smaller establishments

Source: Retailing in Central & Eastern Europe 2008

**"In purchasing power terms many consumers in CEE markets are still relatively poor compared to the west. For grocers this translates into significantly reduced brand loyalty levels in these countries. That said, stronger brand loyalty in the west is also a result of decades of advertising and building modern FMCG brands such as Coke or Nivea, while in the former east this was not the case..."**

- **Whilst income levels remain low in CEE countries, most retail spending is on essentials such as food and grocery.** Latvia is the most developed market with 42.7% of overall retail expenditure taken by food and grocery and emerges as best in class in CEE. However, Romania lags behind considerably and performs worst on this measure with 64.4%. Grocery takes 40.0% of the overall retail share in mature economies such as France, Germany and the UK.
- **Sales densities across Central and Eastern Europe are much lower than in the West because of the wealth gap and lower purchasing power.** In consequence price pressures limit profitability in the East. For example, in the Czech Republic most of the leading foreign grocers have made significant losses for a number of years. Lidl, Spar and until recently Ahold made losses in the Czech Republic against a backdrop of strong sector growth.
- **Low incomes and spending levels in Central and Eastern Europe create a major opportunity for discounters.** Where income levels remain comparatively low, discounters are growing rapidly. They are also helped by the fact that their relatively small footprint enables them to acquire new sites more easily than hypermarkets.

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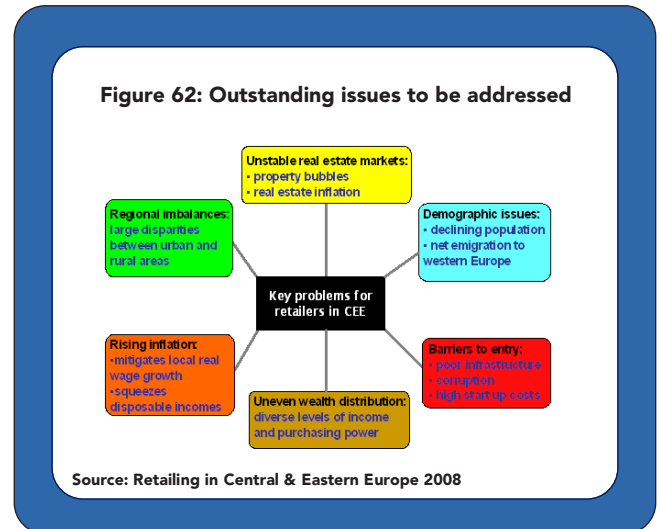
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## Chapter 13: Strategic Issues

### Other Barriers to Entry

- Poor infrastructure, corruption and high start up costs act as barriers to market entry. These need to be removed to further more retail investment in the region. Despite all the good work carried out so far, there remain numerous obstacles to overcome still.
- The often insufficient transport infrastructure – trains as well as highway networks are often not fit for demand of modern supply chain – needs significant investment. While EU funds will help, many CEE countries have to do more on this account. Poland, Bulgaria and Romania are especially bad on this measure and if these problems are left unaddressed, there is a danger that even the strong growth prospects of the respective economies will not compensate for the poor infrastructure in the countries and retailers will shy away from investing in the market.
- Corruption remains a major issue despite the push for reforms and the crackdown on corruption, resulting from various legal preconditions for EU accession (Copenhagen criteria). While corruption is bad for business for the obvious reasons, with the misappropriation of funds threatening the economy, the internal market as well as justice and home affairs, theThis report is a licensed product and is not to be photocopied perception of corruption and the worry of judicial and legal instability is damaging also and a reversal will take a long time. In some cases high levels of red tape and slow bureaucratic procedures are deterring some retailers from investing. Guaranteeing a speedy setting up of operations facilitates the entry of foreign companies. Romania and Bulgaria’s problems in fighting corruption have been well documented and Bulgaria’s less than satisfactorily progress on this measure has resulted in the EU freezing some transfer payments to Bulgaria in late 2008.
- High start up costs which are often underestimated also act as a deterrent for retailers. Depending on the country labour forces need sufficient amounts of training to learn and incorporate new processes and standards; this is very often a cost intensive process. Another start up cost issue involves the absence of legacy systems – from cash desks to supply chain management and inventory systems. As retailers often have to start from scratch getting the various systems and networks in place often involves high costs. These costs of course only add to the significant costs involved in securing the right sites for stores and distribution centres in the various countries. Wage inflation in rapidly growing economies is another factor.



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