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The Supermarket Revolution in the Balkan Countries: The Case of Serbia

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ABSTRACT

In this paper, we have analyzed the modern grocery retail trends in Serbia in the transition process as well as its influence on the end consumer. Our research has shown that the retail market in Serbia is still immature, as it is of low concentration; it has poor format structure and under-represented private label market share. The supermarket revolution has so far not brought any benefits to the consumers in the sense of lowering food prices. Compared to the base year (2004-2006=100), in the year of 2012 the prices of apples in retail grew by 83%, retail prices of milk grew by 119%, potato by 87%, beans by 106%, pork by 60% and chicken by 83%.

Key words: supermarket revolution, profit margin, transition, food prices, monopoly

INTRODUCTION

Retailing globalization has an enormous impact on the market structure in transition and developing countries (Currah and Wrigley, 2004; Wrigley et al., 2005) and it has influenced the development of trade in these countries, their industry and their consumers.

The supermarket revolution has imposed its own rules and changed the institutional and organizational food processing system in these countries, thus forcing them to, among other things, adjust their system of standards relating to food quality and safety. It is known that this kind of change can mostly hurt smaller farmers who are often unable to adapt quickly to the new demands on the food market (Reardon and

Berdegué 2002; Dries et al., 2004; Muendo and Tschirley, 2004). On the other hand, if adequate state policy is established, the retail revolution can also bring benefits to small farmers and processors, as well as the end consumers. The small farmers and processors gain access to quality-differentiated food markets, which creates possibilities for increasing income, while the benefits for the end consumers lie in potential lowering of food prices (Reardon and Gulati, 2008). In the countries of Central and East Europe (CEE), retail globalization can also be seen as an additional stimulus to improving the competitiveness of local farms, and the finalization of the restructuring of the agri-food chain (Dries et al., 2004). Considering that supermarkets have moved beyond

targeting affluent consumers to attending the needs of middle and low income consumers (Humphrey, 2007), it is not surprising that the economic difficulties in countries of CEE have not destroyed their popularity. Up to 30% of 44.3 million shoppers in the 11 monitored CEE countries (Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine) prefer supermarkets as the main FMCG¹ retail channel (GFK, 2010).

The latest analysis of global movements on the retail market shows that modern retail industry is successfully recovering from the World Economic Crisis. The revenue of the world's top 250 retailers rose 5.1% in the fiscal year of 2011, up to US\$4.271 trillion. The average size of the Top 250 in 2011, as measured by retail revenue, topped \$17 billion, the composite net profit margin maintained its level at 3.8% from 2010, and the composite return on assets was 5.9% - slightly up from 5.8% in 2010 (Deloitte, 2013).

MATERIAL AND METHODS

In this paper, we have analyzed the modern grocery retail trends in Serbia as well as supermarket revolution influence on the end consumer.

In our research, we started from the following hypotheses:

- 1) The changes in the trade sector in Serbia take place spontaneously, without a clear vision and a development policy.
- 2) The supermarket revolution has so far not brought enough benefits to end consumers.

Based on the basic indices (2004-2006=100) of producer and retail prices of fruit (apples), vegetables (potato and beans) milk, and meat (pork and chicken) in the period of 2000-2012, we have analyzed the influence that changes in the retail trade sector have on the development of food prices. The most important source of data for the analysis was the Statistical Office of the Republic of Serbia and the Statistics Division of FAO. The approximate timeframe of the analysis of the presented phenomena was the period of 2000-2012. It is necessary to emphasize that there are certain variations in the analyzed period, caused by data unavailability and by frequent methodological and statistical changes in the work of the Statistical Office. The beginning of the research is the year 2000, the year of "democratic changes" which can be considered the year when the process of complete trade liberalization started.

Modern Grocery Retail Trends in Serbia

Urbanization in CEE, which brought changes in lifestyle, a growth in income and shifting family structures also resulted in changes in food habits of the population. After the privatization of the retail sector in CEE in the 1990s and the establishing of the first supermarket chains, this region faced a massive inflow of foreign supermarket chains. The retail sector in CEE countries shifted small retailers towards larger formats, where foreign companies dominate: Metro Group, Auchan, Globus, Rewe Group, Rautakirja Group, Tesco and Lotte. The biggest retail markets for packaged food and alcoholic beverages are Russia (evaluated at over EUR 100.7 billion

¹ Fast-moving consumer goods: products that are sold quickly and at relatively low cost.

in 2011), Poland (EUR 22.2 billion), Ukraine (EUR 21.0 billion in 2011) and the Czech Republic (8.5 billion EUR) (International Markets Bureau, 2012). According to data from the year 2010 the average sales (of all products, including food products) in retail chains in CEE was 1190.9 EUR/capita, and the average sales through the network of modern grocery retailers (largely multiples and chain stores) and cash&carry/warehouse clubs was 979.2 EUR/capita. The average food consumption, including spending on food services per capita in these countries was 1289.6 EUR in 2010. Comparison of this data with the data that relates to Serbia, we can conclude that food consumption per capita in Serbia, as well as the sale of food and non-food products in the retail network is close to the average in the CEE countries. We can also conclude that Serbia falls significantly behind the average in CEE countries when it comes to sale of food and non-food products through networks of modern grocery retailers and cash&carry/warehouse clubs (801.2 EUR vs. 979.2 EUR), which implies the insufficient development of these formats. Slovenia, a former Yugoslav republic, which has a highly consolidated retail industry (Dmitrović and Bodlaj, 2014) has achieved the undisputed highest sales through modern retail formats (2348.6 EUR/capita).

Household daily shopping structure through retail formats shows that Serbia is the region's leader in shopping in small grocery shops (55% of total grocery shopping) (GFK,

2010). However, Serbia is at the bottom when it comes to shopping in hypermarkets and discount stores. The percent of households that supply themselves in supermarkets is the same as in Croatia (37%). It is noticeable that Serbia has no true discount retail stores, which participate with 1-13% in the market turnover in the other countries of the region. Serbia has a significantly worse structure of retail chains than its neighboring transition countries. A better retail chain structure exists in Slovenia, Croatia and Bulgaria, even in Bosnia and Herzegovina. Traditional stores with a relatively broad, but shallow spectrum of products, though jeopardized by large trade subjects, retain their dominance in the retail food turnover, partially due to insufficient consumer mobility, slow public transportation and the lack of large establishments in smaller towns and villages (Ministry of Trade and Services, 2008).

Besides the already mentioned poor structure of the retail format and its fragmentation, the under-represented private labels and the low concentration also speak in favor of the immaturity of the Serbian retail market. In the sense of organization, the trade sector in Serbia is very fragmented. The data from the Statistical Office show that the number of stores in Serbia doubled in 2005, compared to the year 1999 (Table 1). For comparison, in the year 2006, the trade sector participated with 43% in the total number of business entities in the Republic of Serbia.

Table 1. Number of stores in Serbia in period 1999-2012

Year	1999	2000	2001	2002	2003	2004	2005
No stores	52.943	86.987	86.291	95.996	95.800	103.657	109.232
	2006	2007	2008	2009	2010	2011	2012
	105.061	99.362	103.601	101.627	96918	96963	90650

Source: Statistical Office of the Republic of Serbia

In the process of modernizing the trade network, there were certain changes with the arrival of big retail chains, but these were below the expected level, which speaks of a slow modernization and the continued dominance of traditional stores in the distribution chain. Although the sale surface of the retail establishments is one of the key parameters for analyzing retail development in a country, due to the unavailability of current data, we will mention the data from the year 2007, stated in the Trade development strategy. The total trade sale surface in the given year was estimated at 4,240 thousand square meters, and the surface of the average store at 41.6 square meters, which is insufficient for efficient business. Regional inequality also points out the fragmented retail sector. Up to 40% of the retail network is in the capital, Belgrade. The sale surface has undoubtedly increased in the later

period, considering Serbia's advancement in the Europe integration process, which has also brought increased investor interest. The year 2011, when the Belgian Delhaize Group bought the largest domestic company, Delta Maxi, and thereby became the leader in the Serbian retail market, is also considered a crucial year in the ownership structure, because that is when a global player took over market dominance from domestic and Balkan companies. As an example, we can take the total sales achieved by supermarket chains in Serbia in the year 2010. The mentioned domestic company, Delta Maxi, was the absolute leader with participation at 16.8%. Other significant companies in this sector are also the German Metro Group and the French Intermarché, as well as regional companies, such as the Slovenian Mercator and the Croatian Agrokor (Van Berkum and Bogdanov, 2012) (Table 2).

Table 2. The most important supermarket chains in Serbia, 2010

	Country owner	Total sales (Em)	Grocery sales (Em)	Grocery retail market share (%)	Number of stores
Delta Maksi	Serbia	1.720	1.238	16.8	325
Mercator*/Rodić	Slovenia	342	320	4.3	59
Metro	Swith./Germany	187	187	2.5	5
Idea (Konzum)	Croatia	164	164	2.2	41
Simplo (Si market)	Serbia	15	156	2.1	171
Interex (Inter-marché)	France	75	75	1.0	6
Super Vero (Veropoulos)	Greece	69	69	0.9	3

Source: van Berkum and Bogdanov (2012); *Agrokor has purchased 53.1% of Mercator shares

Retail internationalization and regionalization have also caused the spread of private label (PLs) into new markets. This process is also taking place in the Republic of Serbia, by the arrival of PLs of international and regional brands such as Mercator, Interex, and Idea (Table 3). In a second phase, even national retail chains such as Delta Maxi, Univerexport, DIS and Lilly have developed their PLs (Končar et al., 2010). Yet, their participation in the market with 5% cannot be deemed as sufficient, which indicates Serbia's initial phase of development towards the so-called fast-growing market compared to other CEE countries (Marković et al., 2013). The relatively late arrival of PLs at the Serbian market (since

2001), as well as their relatively small number and assortment cause a lower level of price gap benefit of PLs in Serbia (31-33%) compared to Croatia (37%) and Hungary (38%). The low level of retail concentration also speaks in favor of the immaturity of the Serbian retail market (Marković et al., 2013). Končar et al., 2010 think that one of the reasons for this market's low concentration compared to other CEE countries and EU members is that the larger retail chains such as Aldi, Spar, Tesco, Billa, Auchan, Carefour, Cora etc., are not entering the market.

Table 3. Review of the most important private labels in Serbia

DELHAIZE*	DIS	Univerexport	Mercator S	Metro CC	Gomex
Delhaize, Premia, 365, Care, Bio, Taste of Inspiration, Od naše zemlje	Dobro, Ukusi Srbije	UNI, Bašbaš, Dajdaj, Buzbi, Merzer	Ambienti, Bonus plus, Lumpi, Lumpitekstil, Merkator-linija, Merkator-tekstil, My Body, Active Life, Pro Magic	Aro, Fine Food, Horeca Select, H-line, Rioba, Sigma	Panoni, Fado, Twist, All Day

Source: Author's search on the websites of companies; *Delhaize group, Belgium-based grocery and supermarket chain has acquired Delta Maxi group in 2011, by far the largest food retailer chain in Serbia

Food Prices in Serbia

Based on the basic indices (2004-2006=100) of producer and retail prices of fruit (apples), vegetables (potato and beans) milk, and meat (pork and chicken) in the period of 2000-2012², we have analyzed the influence that changes in the retail trade sector have on the development of food prices. The data on producer prices

comes from the Statistical Base of FAO, while the data on retail prices comes from the Statistical Office of the Republic of Serbia. As seen from the attached graphs, there is a trend in price growth for all chosen foods (Figures 1, 2, 3, 4, 5, 6).

²Except for beans, where the first year of analysis is 2006, due to data unavailability.

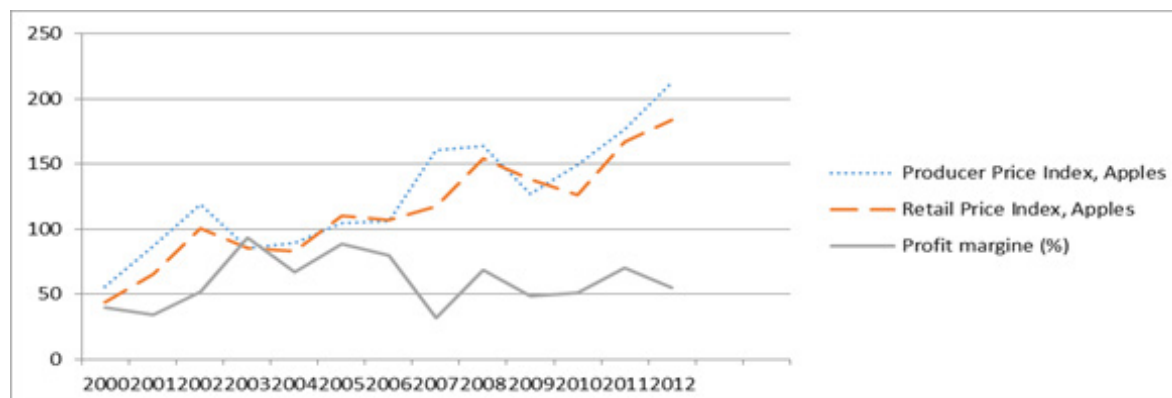


Figure 1. Apple prices in Republic of Serbia (2000-2012)

Source: Author's calculation based on Statistical Office of the Republic of Serbia data

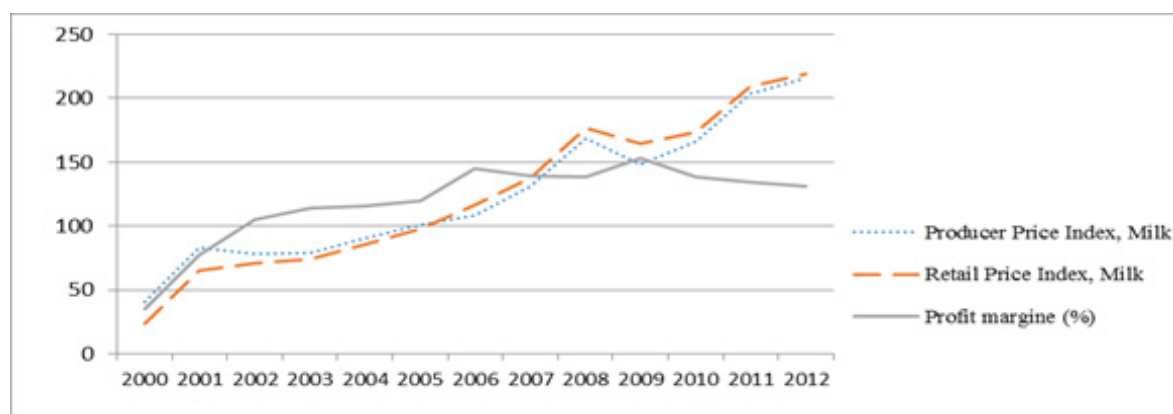


Figure 2. Milk prices in Republic of Serbia (2000-2012)

Source: Author's calculation based on Statistical Office of the Republic of Serbia data

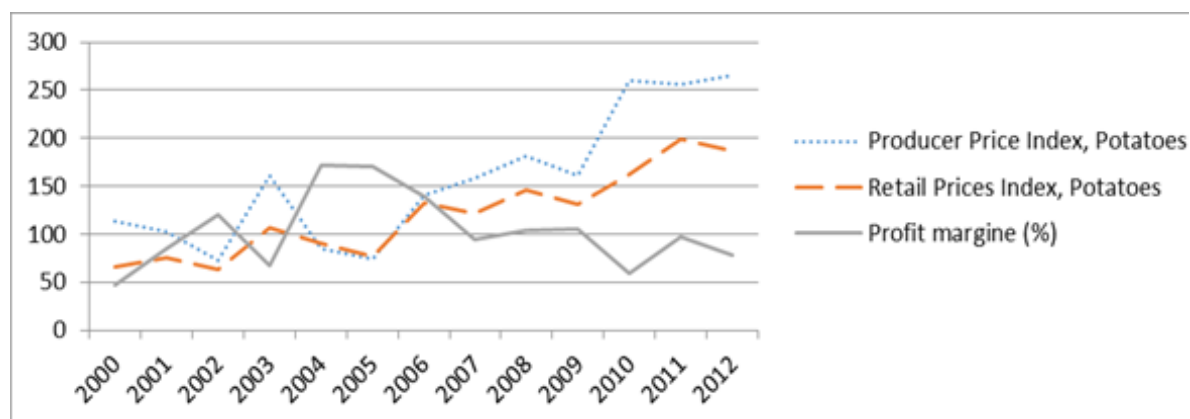


Figure 3. Potatoes prices in Republic of Serbia (2000-2012)

Source: Author's calculation based on Statistical Office of the Republic of Serbia data

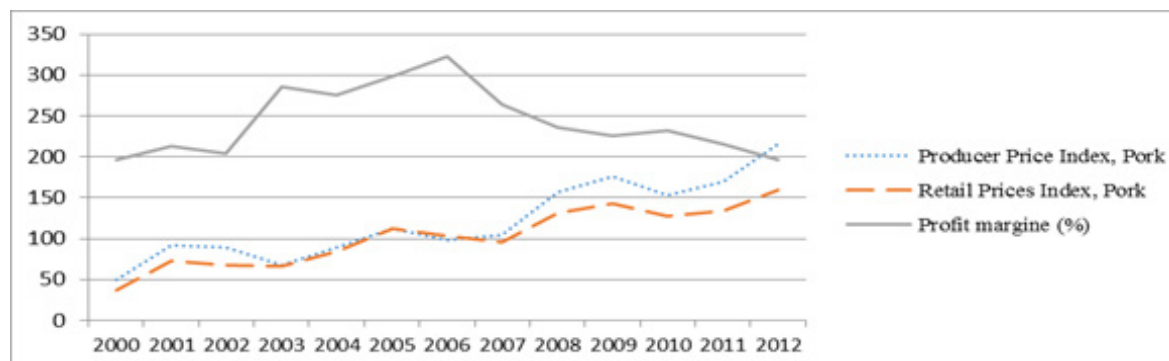


Figure 4. Pork prices in Republic of Serbia (2000-2012)

Source: Author's calculation based on Statistical Office of the Republic of Serbia data

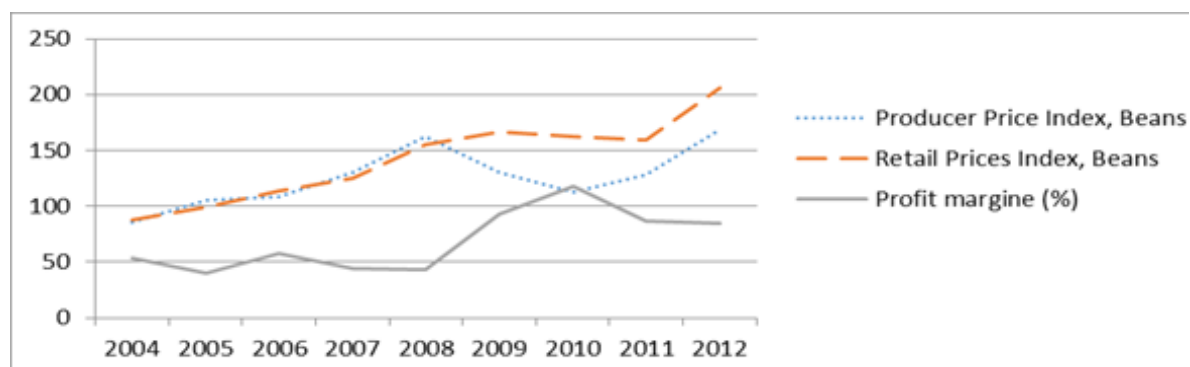


Figure 5. Beans prices in Republic of Serbia (2004-2012)

Source: Author's calculation based on Statistical Office of the Republic of Serbia data

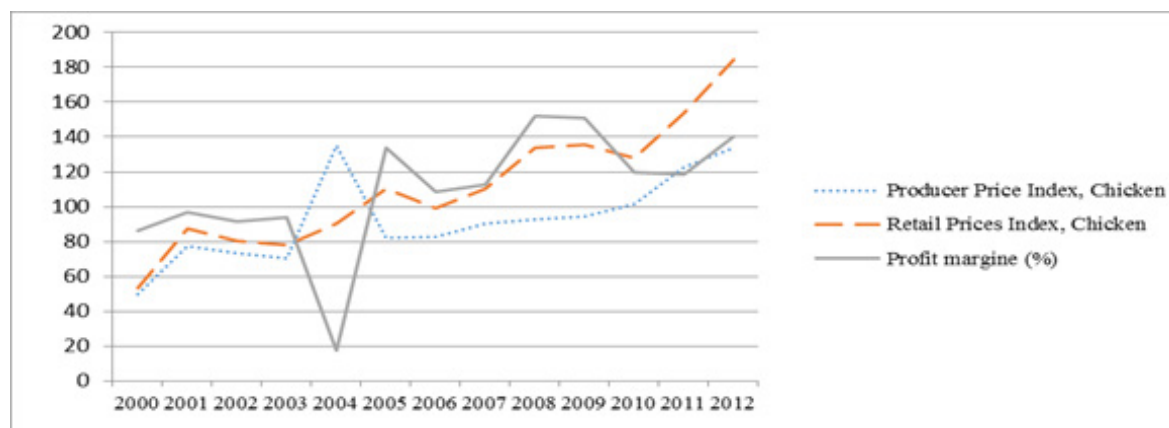


Figure 6. Chicken prices in Republic of Serbia (2000-2012)

Source: Author's calculation based on Statistical Office of the Republic of Serbia data

CONCLUSIONS

Serbia is facing one of the most demanding tasks in the process of economic transition – building a modern market and modern trade. Unfortunately, a unique retail revolution that plays a deciding role in creating market conditions for doing business, is not developing at a desired pace, envisaged by the state document from 2008 – the Trade Development Strategy.

There are a number of structural problems in trade in Serbia, that confirm our first hypothesis that the changes in the trade sector happen spontaneously and without a clear vision and development policy. There are an excessive number of establishments, as well as a fragmented trading network through the prism of a large number of retail stores that are regionally unevenly distributed, and that have an unsatisfying format structure with complete lack of development of discount stores in retail. A small number and assortment of PLs, under-developed electronic trade, and low market concentration is a clear indicator of the retail market's immaturity in Serbia. The supermarket revolution has so far not brought any benefits to the consumers in the sense of lowering food prices. On the contrary, market changes have enabled certain business entities to take "monopoly" position, which confirms the second hypothesis of this research as well. Compared to the base year (2004-2006=100), in the year of 2012 the prices of apples in retail grew by 83%, retail prices of milk grew by 119%, potato by 87%, beans by 106%, pork by 60% and chicken by 83%. Trade must play an active role in optimizing the market structure. For that purpose, appropriate institutional solutions must deal with a planned development of trade and the trade network. It is very important to set up a realistic and analytically efficient

performance of the Commission for Protection of Competition. Besides, it is necessary to offer the consumers the ability to shop in different formats. In that sense, the announced arrival of the discount chain Lidl (known for its price competitiveness) into fifteen cities and municipalities in Serbia seems reassuring.

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Supermarket revolucija u balkanskim zemljama: slučaj Srbije

SAŽETAK

U ovom smo radu analizirali tranzicijske trendove u maloprodajnom prehrambenom sektoru Srbije, kao i njihov utjecaj na krajnjeg potrošača. Naše istraživanje je pokazalo nezrelost maloprodajnog sektora čije odlike su: niska koncentracija, slaba struktura formata i nedovoljna zastupljenost privatnih marki. Supermarket revolucija do sada nije donijela korist krajnjim potrošačima u smislu smanjivanja cijena hrane. U 2012. godini u odnosu na baznu godinu (2004-2006=100) maloprodajne su cijene jabuka porasle za 83%, mlijeka 119%, krumpira 87%, graha 106%, svinjskoga mesa 60% i pilećega mesa za 83%.

Ključne riječi: supermarket revolucija, profitna margina, tranzicija, cijene hrane, monopol