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Retail Evolution in Eastern European Countries: An Overview

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Abstract

Retail has evolved a lot in the last years. Still, compared to more mature markets (such as US, UK, Germany, France, Sweden, the Netherlands), retail in Eastern European countries is less developed, with more balanced supply and demand. According to GfK's report on *European Retail in 2018*, in 2017 there was a slight increase (+1.9 percent) in the purchasing power within the European Union (EU28) countries, Romania having the biggest increase (+7.8 percent) [1]. However, Romania's low per capita purchasing power shows a gap in wealth levels across Europe. Huge differences between Western and Eastern Europe are visible also in terms of per capita values for retail space. Thus, the purpose of this descriptive research study is to analyze and compare how retail has evolved during recent years in Eastern European countries, with the help of several indicators. Data was collected from Eurostat and other industry reports. Results show that in EU28 countries the turnover in wholesale and retail trade has constantly grown (between 2011-2016), trend visible also in Bulgaria and North Macedonia. Per capita sales area increased too (between 2014-2017) in most Eastern European countries. This positive trend is visible also for retail turnover per m^2 of sales area in all countries considered, although there are differences among them (with Bulgaria and Romania ranked the lowest and Cyprus and Greece the highest).

Keywords: Retail, Eastern Europe, secondary data, indicators

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1. Introduction

Retail is a major sector in the European economy, with almost one in 10 people working in over 3.6 million retail companies (which represent 4.5 percent of value added and account for 9 percent of EU jobs) [2]. At the same time, retail is changing rapidly due to the growth of online shopping and multi-channel retailing. Year after year new stores open, others close or relocate; retailers experiment with different store formats (larger or smaller); some change the layout in their stores, others offer loyalty programs.

Historically speaking, in 1916 Clarence Saunders founded Piggly Wiggly (in Memphis, US), the `first self-service grocery store / supermarket'. The development of the self-service concept lead to `lower prices, larger stores, parking lots, category management, gondolas, instore promotions, shelf facings and planograms' [3]. In 1962 Walmart opened

the `first hypermarket in history' (in Arkansas, US, calling it `Super Center') followed by Carrefour, who opened the `first European hypermarket' in Paris just one year later. This format has spread across the world, offering customers a greater choice at lower prices, as well as private label products. By 1997 e-commerce and amazon.com had become very popular. However, e-grocery has evolved much slower than other categories. Nowadays, as PCs, tablets and smartphones are used for shopping, the focus is on multi-channel and/or omni-channel retailing. Brick and mortar retailers are redefining themselves in response to consumers' behavior, seeking new ways to engage customers. Data generated by consumers allows retailers to learn more and more about their customers, enabling promotions to become a more targeted personal communication.

In most developed countries, retail has experienced an increase in the scale of operations and market concentration, with large-scale retail chains acquiring market share from independently owned small shops [4]. Merger and acquisitions have also contributed to this development. Thus, many retailers now have huge turnovers, lots of employees and large store networks.

Globally, another important aspect is the shift in power within the distribution channel, retailers being now comparable to and in many cases even larger than many manufacturers. Thus, `today's manufacturers often depend on a few large retailers for a substantial share of their global turnover' [4].

In this context, the purpose of this descriptive research study is to analyze and compare how retail has evolved during recent years in Eastern European countries, with the help of several indicators (turnover by NACE Rev. 2, value added by NACE Rev. 2, persons employed by NACE Rev. 2, per capita sales area, retail turnover per m^2 of sales area).

2. Retail in Eastern European Countries

Retailers adopt different strategies to sustain a competitive advantage in a competitive environment. Thus, monitoring operational and financial performance along with the ever changing and diverse consumer demands is crucial.

Many retailers are interested in improving their `productivity'. Hence, they calculate `sales per m^2' and/or `sales per employee'. According to McGoldrick, a low value of these indicators does not necessarily mean lower effectiveness, as a relatively high number of employees may be an outcome of higher service positioning, while more space per unit of sales could reflect a more comfortable selling environment [5].

At the same time, in order to evaluate their `financial performance', retailers can calculate several financial ratios: `internal liquidity ratios, return ratios, financial leverage ratios, and earnings coverage ratios' [6]. Another way to measure financial performance is by calculating `value metrics'. For example, the `economic value added' is calculated based on the net operating profit, the weighted average cost of capital (WACC) and the capital [6].

From an economic perspective, in 2018, each citizen of the EU28 countries had an average **purchasing power** of €14,292 (a 2.5 percent increase since last year). However, the disposable net income among the 42 studied countries varies a lot, with Liechtenstein (€65,438 per capita), Switzerland (€40,456 per capita) and Iceland (€32,958 per capita) having the highest purchasing power, while Belarus, Moldova and Ukraine (€1318 per capita) the lowest [7].

Because of this gap in wealth levels across Europe, we will take a closer look just at the countries from Eastern Europe. As it can be seen in Figure 1, these countries (Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Montenegro, North Macedonia, Romania, Serbia and Turkey) have a low purchasing power (except Greece and Cyprus, which have a medium one).

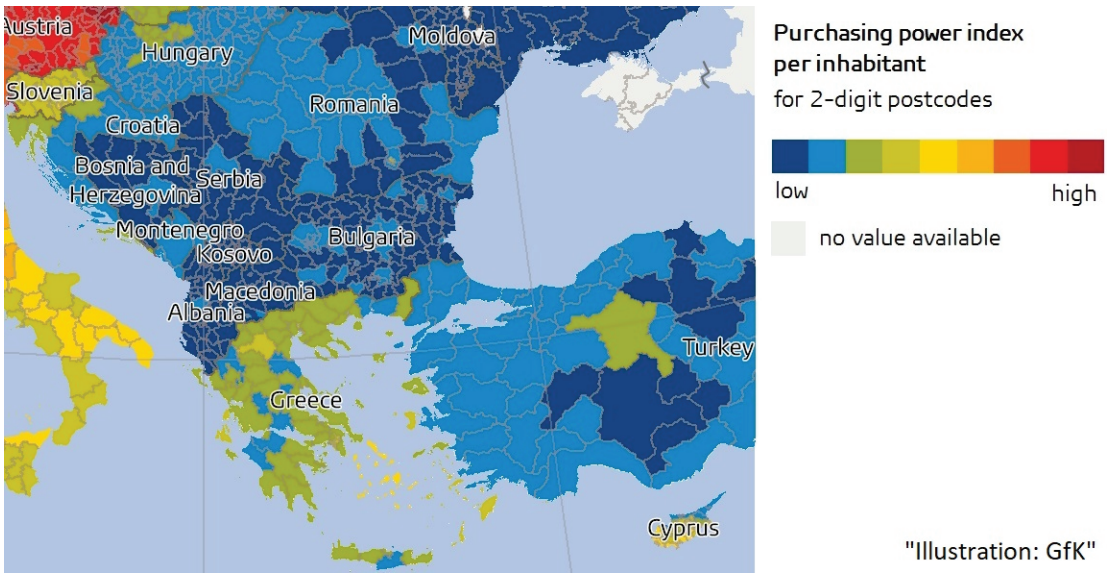

Figure 1: Purchasing power in Eastern European countries, 2018. (Source: cropped from [8] GfK's *Map of the Month: Purchasing Power Europe 2018*, https://www.gfk.com/insights/news/map-of-the-month-purchasing-power-europe-2018/)

A closer look to some of the above-mentioned countries shows that there are differences in terms of purchasing power within the regions inside each nation. For example, Bosnia & Herzegovina has, on average, a medium purchasing power, with the regions around Sarajevo and Mostar with a high one. Bulgaria likewise, except the

region around Sofia with a high one, and the ones around Vidin and Silistra with a low one. Greece has, on average, a medium purchasing power too, except the South Aegean part and the Ionian islands with a high one, respectively some parts of East Macedonia & Thrace, Thessaly, Central - and West Greece, and Peloponnesus with low purchasing power.

On the other hand, Croatia is really diverse, having in the Eastern and South-eastern part a low purchasing power, while in the Western part and in the region around Zagreb a high one. So is Cyprus; its Northern part has a low purchasing power, while the rest has a medium to high one (within Larnaca and Nicosia districts). Purchasing power varies a lot also in North Macedonia, with a low one in the North-eastern and South-eastern part and a high one in Pelagonia and in the regions around Skopje, Dojran, and Gevgelija. In Romania, the regions around Bucharest, Cluj-Napoca, and Timișoara have a high purchasing power, while some parts of Moldova and Muntenia have a low one. (More details about each countries' purchasing power can be found in [9] GfK's *Compendium: Purchasing Power Europe 2018*, available at: http://www.gfk-geomarketing.com/fileadmin/gfkgeomarketing/en/EN_geodata_Purchasing-Power-Europe-2018-Compendium.pdf).

Huge differences between Western and Eastern Europe are visible also in terms of **per capita values for retail space**. For example, Denmark, Germany, Luxembourg, Switzerland, Netherlands, Belgium, and Austria have between 1.40-1.60 m^2/inhabitant, while Turkey, Romania, and Bulgaria have less than 0.80 m^2/inhabitant [1]. As regards just the countries in Eastern Europe, in Bulgaria, Croatia, Cyprus, and Romania sales area per capita has grown from one year to another (except Greece, where it remained constant) (Table 1 and Figure 2).

Table 1: Evolution of per capita sales area in selected countries from Eastern Europe, 2014-2017.

				m^2/inhabitant
	2014	**2015**	**2016**	**2017**
Bulgaria	0.72	0.73	0.74	0.75
Croatia	1.08	1.10	1.10	1.13
Cyprus	1.03	1.04	1.05	N/A
Greece	0.74	0.74	0.74	N/A
Romania	0.68	0.69	0.70	0.72

(Source: own table based on data extracted from [1, 7-12] GfK's *European Retail* studies 2015-2018)

This shows that retail in Eastern European countries is less developed, with more balanced supply and demand (compared to more mature markets - such as US, UK, Germany, France, Sweden or the Netherlands - with an over-supply of retail space).

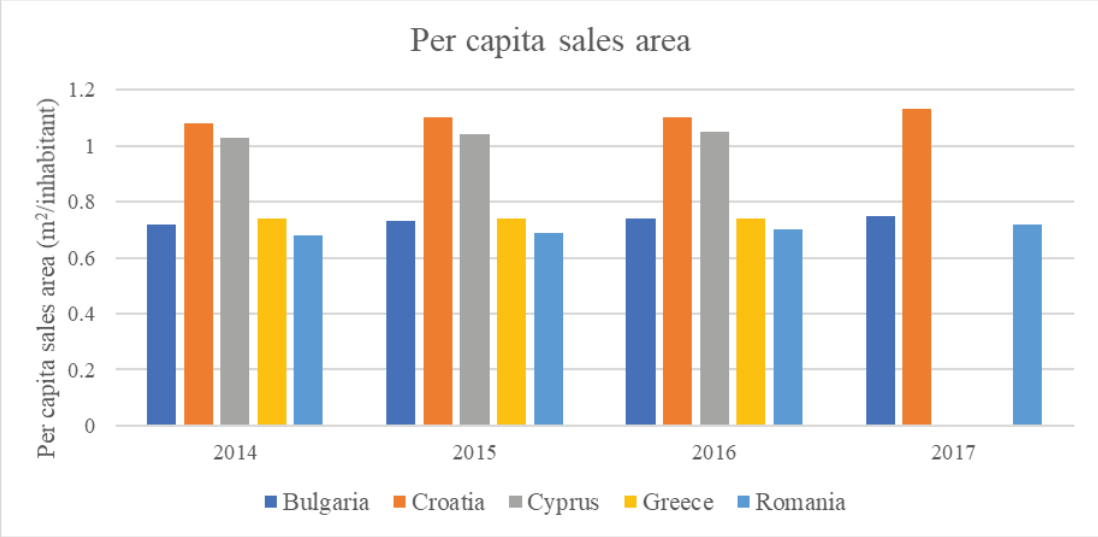

Figure 2: Evolution of per capita sales area in selected countries from Eastern Europe, 2014-2017. (Source: own graph based on data extracted from [1, 7-12] GfK's *European Retail* studies 2015-2018)

As regards **retail turnover per m^2 of sales area** (Table 2), retailers in Cyprus generate the most € /m^2, followed by retailers in Greece. Bulgaria and Romania ranked the lowest (with less than 2500 € /m^2) until 2017, when they managed to reach comparable levels with Croatia.

Table 2: Evolution of retail turnover per m^2 of sales area in selected countries from Eastern Europe, 2014-2017.

				€ /m^2
	2014	**2015**	**2016**	**2017**
Bulgaria	>2500	>2500	>2500	2500-3000
Croatia	2500-3000	2500-3000	2500-3000	2500-3000
Cyprus	4500-5000	4500-5000	5000-5500	N/A
Greece	4000-4500	4000-4500	4000-4500	N/A
Romania	>2500	>2500	>2500	2500-3000

(Source: own table based on data extracted from [1, 7-12] GfK's *European Retail* studies 2015-2018)

In terms of **turnover** (by NACE Rev. 2 - wholesale and retail trade; repair of motor vehicles and motorcycles) in EU28 countries the turnover in wholesale and retail trade has constantly grown (between 2011-2016). This trend is also visible in Bulgaria and North Macedonia, while in the rest of the countries there have been fluctuations (Table 3 and Figure 3).

As regards the **value added** (by NACE Rev. 2 - wholesale and retail trade; repair of motor vehicles and motorcycles; value added represents the difference between the value of what is produced and intermediate consumption entering the production, less subsidies on production and costs, taxes and levies) in EU28 countries it has

Table 3: Evolution of turnover (by NACE Rev. 2) in selected countries from Eastern Europe, 2011-2016.

						millions €
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
EU28 countries	9,532,044.8	9,731,591.7	9,726,799.0	9,925,420.6	9,972,594.7	9,910,515.3
Bosnia & Herzegovina	12,926.1[p]	13,619.1[p]	13,261.8[p]	14,971.2[e]	15,654.5[e]	15,355.1[e]
Bulgaria	45,475.4	48,333.3	49,427.0	50,497.3	53,282.5	54,759.0
Croatia	29,714.3	28,838.3	28,645.7	28,405.0	29,534.3	31,332.2
Cyprus	12,385.7	11,833.0	10,961.0	10,900.0	10,910.1	11,337.1
Greece	137,935.8	120,155.4	114,426.1	118,818.9	102,076.5[b]	102,070.4
North Macedonia	N/A	6403.1	6998.1	7176.6	7403.1	7782.7
Romania	94,149.4	95,099.2	93,931.4	98,920.8	105,218.5	111,451.4

e = estimated, b = break in time series, p = provisional
(Source: data extracted from [13] European Commission's Eurostat Database, https://ec.europa.eu/eurostat/data/database -- Structural Business Statistics -- main indicators)

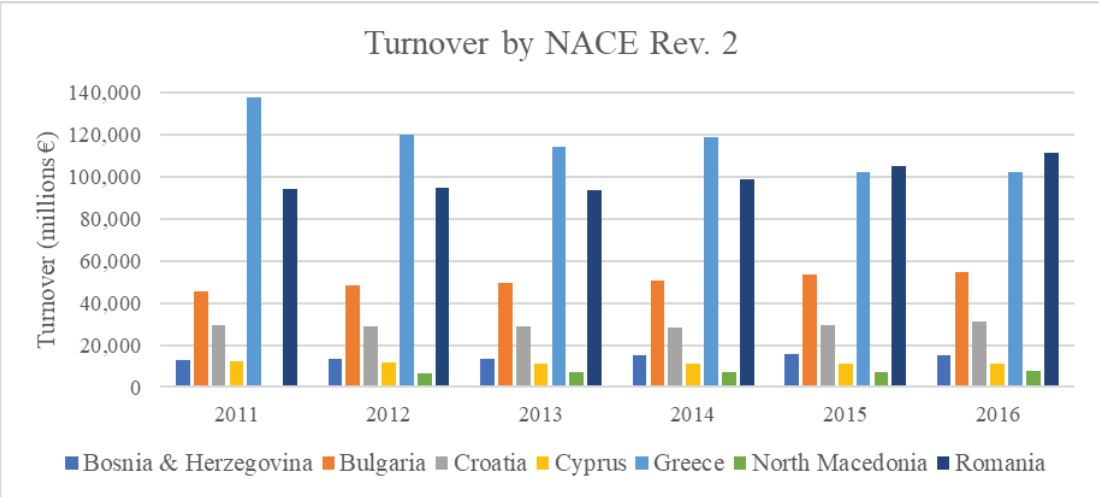

Figure 3: Evolution of turnover (by NACE Rev. 2) in selected countries from Eastern Europe, 2011-2016. (Source: own graph based on data extracted from [13] European Commission's Eurostat Database, https://ec.europa.eu/eurostat/data/database -- Structural Business Statistics -- main indicators)

decreased from 2011-2014 and increased each year from 2015-2016. A similar trend can be observed in Croatia and Cyprus, while in Bulgaria, North Macedonia, and Romania it has constantly grown. In Bosnia & Herzegovina, and Greece there have been fluctuations (Table 4 and Figure 4).

Retailing is a major source of jobs, as it can be seen in Table 5 and Figure 5. Although on average (EU28 countries) there was a slight decline in the number of persons employed in this sector between 2011-2013, starting 2014 the number of employees has constantly grown.

In a nutshell, in terms of per capita values for retail space, Croatia and Cyprus have more retail space (above one m^2/inhabitant) than Bulgaria, Greece or Romania, but they

Table 4: Evolution of turnover (by NACE Rev. 2) in selected countries from Eastern Europe, 2011-2016.

						millions €
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
EU28 countries	1,197,416.7	1,153,320.3	1,146,641.90	1,242,562.0	1,314,959.7	1,352,939.2
Bosnia & Herzegovina	1412.7[p]	1687.4[p]	1445.7[p]	1799.5[e]	1924.8[e]	2021.7[e]
Bulgaria	3429.8	3670.0	3983.6	4361.5	5028.1	5287.0
Croatia	4002.7	3614.0	3611.9	3878.6	4164.5	4439.5
Cyprus	1887.90	1760.3	1591.6	1585.0	1606.4	1729.6
Greece	18,933.9	15,154.4	14,053.1	14,772.3	10,328.3[b]	N/A
North Macedonia	N/A	751.4	806.5	817.2	882.9	967.4
Romania	8900.1	8944.9	9273.5	10,441.9	11,273.1	14,178.3

e = estimated, b = break in time series, p = provisional
(Source: data extracted from [13] European Commission's Eurostat Database, https://ec.europa.eu/eurostat/data/database -- Structural Business Statistics -- main indicators)

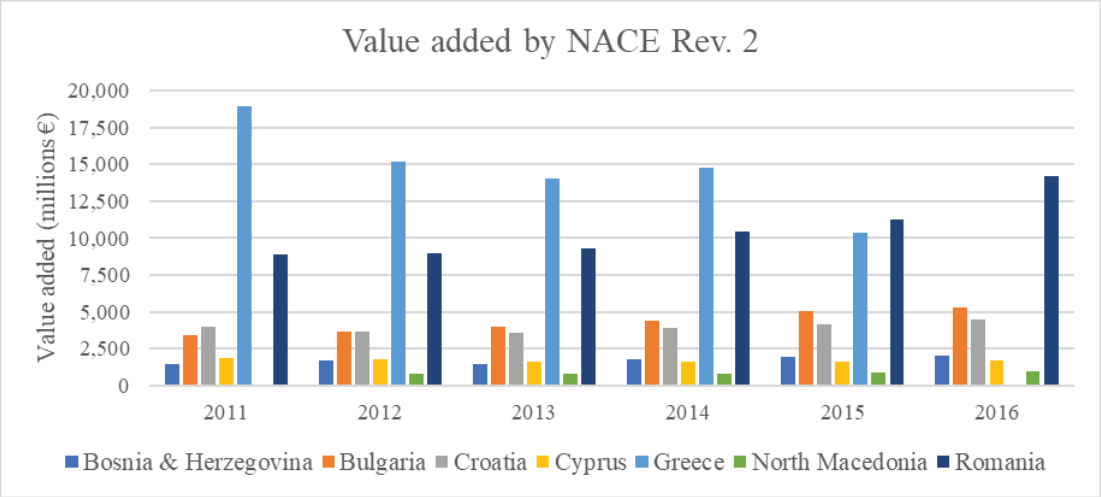

Figure 4: Evolution of value added (by NACE Rev. 2) in selected countries from Eastern Europe, 2011-2016. (Source: own graph based on data extracted from [13] European Commission's Eurostat Database, https://ec.europa.eu/eurostat/data/database -- Structural Business Statistics -- main indicators)

are still below more mature markets such as Denmark, Germany, Luxembourg, Switzerland, Netherlands, Belgium, and Austria (which have between 1.40-1.60 m2/inhabitant). The most retail turnover per m2 of sales area is generated by retailers in Cyprus, followed closely by those in Greece.

On average, the turnover in wholesale and retail trade has constantly grown, as did the number of persons employed in this sector (since 2014).

Table 5: Evolution of persons employed (by NACE Rev. 2) in selected countries from Eastern Europe, 2011-2016.

						units
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
EU28 countries	33,253,000	32,862,900	32,451,100	32,680,601	32,992,629	33,289,520
Bosnia & Herzegovina	106,763[p]	104,094[p]	100,872[p]	130,171[e]	132,568[e]	139,504[e]
Bulgaria	516,004	503,570	497,070	499,958	496,087	509,155
Croatia	239,934	234,127	228,636	232,648	226,889	228,232
Cyprus	66,003	63,873	59,765	59,836	62,154	64,624
Greece	869,258	792,497	758,229	782,102	639,710[b]	708,428
Romania	892,639	900,171	899,635	888,089	882,621	907,015

e = estimated, b = break in time series, p = provisional
(Source: data extracted from [13] European Commission's Eurostat Database, https://ec.europa.eu/eurostat/data/database -- Structural Business Statistics -- main indicators)

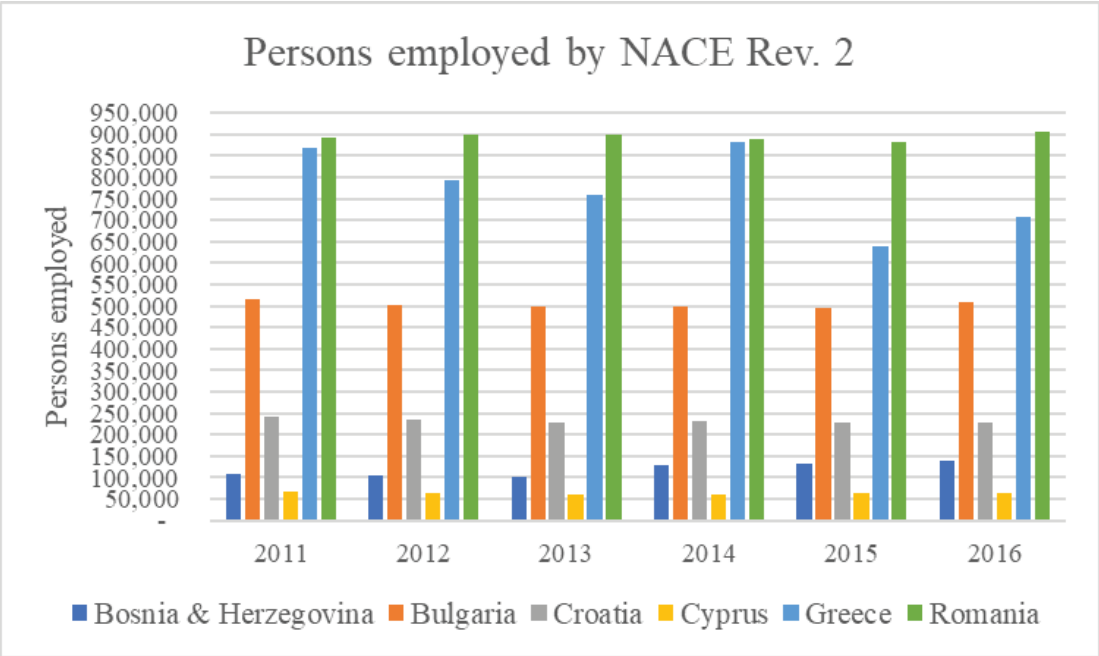

Figure 5: Evolution of persons employed (by NACE Rev. 2) in selected countries from Eastern Europe, 2011-2016. (Source: data extracted from [13] European Commission's Eurostat Database, https://ec.europa.eu/eurostat/data/database -- Structural Business Statistics -- main indicators)

3. Conclusion

Retail plays an important role within countries' economies, because it involves high annual sales and is a major source of employment. At the same time, retail offers a wide range of career opportunities for people with diverse skills and qualification backgrounds.

As regards the outlook for the future, global urbanization and rise of the middle class will further drive the growth of modern retail. At the same time, the higher density will allow for home delivery at a lower cost [3], giving e-grocery the chance to expand and be profitable.

Retail in Eastern European countries is less developed than in more mature markets. Most retailers are small or very small (often family-owned businesses), which means that international retail chains can further develop (especially in smaller cities and/or rural areas). Thus, it is important that local authorities understand the implications and support local small retailers to modernize.

Furthermore, recent research [14] found that `consumers in Central and Eastern Europe generally prefer the shopping experience of visiting bricks and mortar retail centers rather than making purchases through e-commerce'. According to the same study, Central and Eastern European countries are lacking in high-street retail provision. In this context, investments in real estate and development and/or remodeling of shopping centers are likely to continue.

The limitations of this study derive from the limited secondary data available. The different years for which data is available are a challenge in finding a trend or making a comparative analysis. Thus, for future research, we suggest a differently designed method for gathering data.

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