

FOOD RETAILING TRANSFORMATION IN POLAND IN YEARS 1990-2006

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ABSTRACT

In the nineties of the 20th c. key changes took place in the distribution of fast moving consumer goods (FMCG) in Poland. There was a sharp rise in the number of retail outlets, including grocery stores. Completely new food distribution channels appeared in Polish realities. Among them hypermarkets and discount stores are to be named. These two formats of shops, controlled by foreign chains, have completely changed the image of FMCG distribution in Poland. Supermarkets have also built up their position. It is the only format included in modern distribution channel, where the domestic capital holds a fairly strong position. Despite the lowering significance of the so-called traditional distribution channel of food, its share still exceeds 50%. It is an exceptional phenomenon not only in the developed West European states but also in the majority of Central European countries.

Keywords: *Retailing, Distribution Channels, Grocery Stores, Hypermarkets, Supermarkets, Discount Stores*

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INTRODUCTION

The nineties of the 20th c. is the period of deep structural transformation in Polish economy. Retailing is the field, where changes proceeded most spontaneously and rapidly.

There can be two stages distinguished in the development of retailing after 1989. The first one – it is the stage of quantitative development, which is the consequence of economic and legal barriers liquidation, which made retail chain development impossible. The second one – it is the stage of qualitative development, the stage experienced by the majority of developed capitalist states.

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STAGE OF QUANTITATIVE DEVELOPMENT - YEARS 1990-1995

The stage of quantitative development is bound with unusual speed in the growth of the number of shops in Poland. Their number increased from 152,000 in 1989 to 426,000 in 1995. Relatively underdeveloped infrastructure before 1989 and crucial changes in legal regulations are the major direct reasons of such intensive distribution development. After 1988 commencement of trade activity was not connected with earlier known impediments. It was chiefly due to Economic Activity Act, which was passed. It was required formerly to obtain individual permission to start conducting economic activity. The legislator imposed the obligation on the physical person in the new regulations only to notify about commencement of the economic activity.

Moreover, the number of other retail points of sale increased too in years 1990 – 1995. At the beginning they supplemented significantly the distribution chain. Nevertheless, they quickly became the direct competition for shops. They reacted faster to market changes, they frequently offered goods of higher quality for lower price (Kłosiewicz, 1993).

In the mid nineties of the 20th c. Poland became the country of the highest density of trade network in Europe (Kałużna-Drewińska & Iwankiewicz-Rak, 1999). After 1993 the population number for one shop did not exceed 100 persons. But the increase in the number of shops in Poland was not accompanied by the improvement of retail chain quality. The index of sale area for 1,000 people was kept relatively low. It was 512.6 m² in 1995 (Kłosiewicz-Górecka, 2003). High speed of trade transformation contributed to its fragmented organization structure and brought about the development of so-called small retail trade, which, in turn, produced reduction of competitiveness of both, domestic producers and whole retail trade (Strużycki, 2002).

There were almost 175,000 grocery stores in Poland in 1993. In the coming two years their number was constantly kept on high level of about 160,000 shops. In 1996 the number of grocery stores started to drop dramatically. This trend was maintained until the end of 1999. There were almost 120,000 stores in 2004.

According to M. Strużycki the most important determinants of undergoing transformations in domestic trade after 1990 include (Strużycki, 2002):

1. Dynamic transformations in the field of consumption – new segments of buyers appear on the market, there are frequent shifts among these segments as a result of changes in the range of demographic and behavioral criteria.
2. Appearance of foreign companies on Polish market created new system of market behavior not only referring to product requirements, but also creation of contacts with suppliers,

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offloading part of the costs onto the producer or prolonging the period of buyer's credit.

3. Creation of new quality in trade functioning, including, among others, widely understood distribution systems, its results in the scope of work organization among participants of these processes, and finally changes in workstations, which implement final distribution processes.
4. Integration trend in domestic trade – it is partly the reaction to threats from companies representing foreign capital, and partly the autonomous efficiency process.

The distinguished determinants of distribution transformations are the result of essential changes in subjective market system, its ownership and organizational forms.

QUALITATIVE DEVELOPMENT STAGE - YEARS 1996-2006

Entrance of foreign distribution concerns on Polish market was the essential feature of structural trade transformations. Poland is included in the group of Central-Eastern European countries where dynamics of trade internationalization was tremendously high. The chief factors determining the process include: great capacity of domestic market, rising trend of numerous branch markets, liberal conditions for entering the market and lack of protection system of domestic trade firms from foreign competition. About \$ 7.6 m was invested in trade sector in Poland in years 1990-2002 (Sławińska, 2004). Considerable financial outlays were invested in hypermarkets, discount stores and supermarkets. Foreign investments were limited in case of shops belonging to so-called traditional distribution channels (large, medium, small and specialty food grocery stores).

Hypermarkets

The first hypermarket was opened in Poland in 1994; it was Hit, which belonged to German company - Dohle. The number of hypermarkets was increased by 12-19 per year till 1998. Since 1999 the increasing rate of hypermarkets' number in Poland was even higher. The hundredth hypermarket was opened six years after the inauguration ceremony of the first opening; opening the next hundred ones took only half of the period.

In 2004 this distribution channel was dominated by foreign trade companies; 224 out of 240 hypermarkets belonged to them ("Raport Strategiczny," 2005). The biggest French operators started activity in Poland almost simultaneously – these were Auchan, Casino with Geant hypermarkets, Carrefour and Leclerc, and also the German operators – Metro with Real hypermarkets and Dohle with Hit hypermarkets. Also the British group - Tesco, Dutch Ahold with Hypernova hypermarkets and

Portuguese Jeronimo Martins with Jumbo hypermarkets appeared on Polish market. Two chains of wholesale companies, called also cash & carry, play an important role in distribution of FMCG in Poland. They are Makro, belonging to Metro group and Selgros, belonging to German group – Rewe. Although both chains are included in wholesale companies they have a significant role in retail trade, as well. According to some research centers these wholesale companies belong to the hypermarket group. The increasing number of hypermarkets in Poland in years 1995 – 2004 is presented by Figure 1.

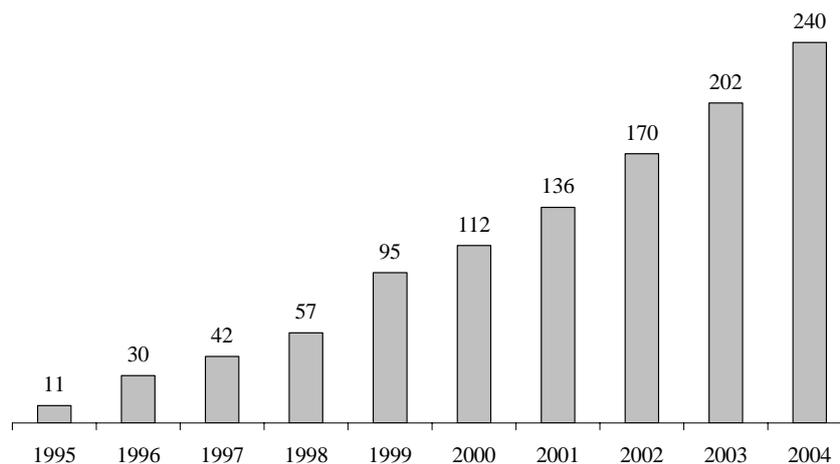


Figure 1: Number of Hypermarkets in Poland in Years 1995-2004

Source: Own elaborations on the basis of data of CAL and GfK Polonia included in: Kłosiewicz-Górecka, 2003; Strużycki, 2002; "Consumer - Product," 1994; "Vademecum handlu," 1998; Kłosiewicz, 1997; Osiecka 1997; Palacz, 1999; "Koncentracji c.d." 2000; Ejchart, 2001; Zimna, 2002; Zimna, 2003; Weiss, 2004; "Przed koncentracją" 2004; "Przeciąganie liny" 2005.

Since the beginning of hypermarkets' activity in Poland there has been constant changes in the leadership in this distribution channel, both taking the number of shops and the turnover into consideration. At the beginning of the 21st c. Real chain held the first position in both categories. However, there was the first spectacular takeover on the Polish market in 2002. Tesco group purchased 13 Hit hypermarkets and overtook the former leader. The appearance of Schwarz Group with Kaufland hypermarkets was a new qualitative event on Polish market. From 2001 the German chain was developing fast to take the lead in

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2005 among the hypermarkets' operators, with its 52 sales outlets (Figure 2). Such a quick development was possible, among others, due to opening relatively small shops taking the format into account; the average sales surface area of Kaufland hypermarkets is about 3,000 m². The comparatively small sales surface area of hypermarkets has its reflection in financial results of the chain- the company is outside the leading three as far as the turnover is taken into consideration.

In 2006 Tesco was the leader among hypermarkets' operators in Poland, also due to taking over Hit chain, when taking the sales surface area and the turnover into consideration (Table 1). The British chain overtook German Real (in 2006 the group took over Geant chain of hypermarkets on Polish market) and French Carrefour (in 2006 the chain took over Hypernova hypermarkets belonging to Ahold).

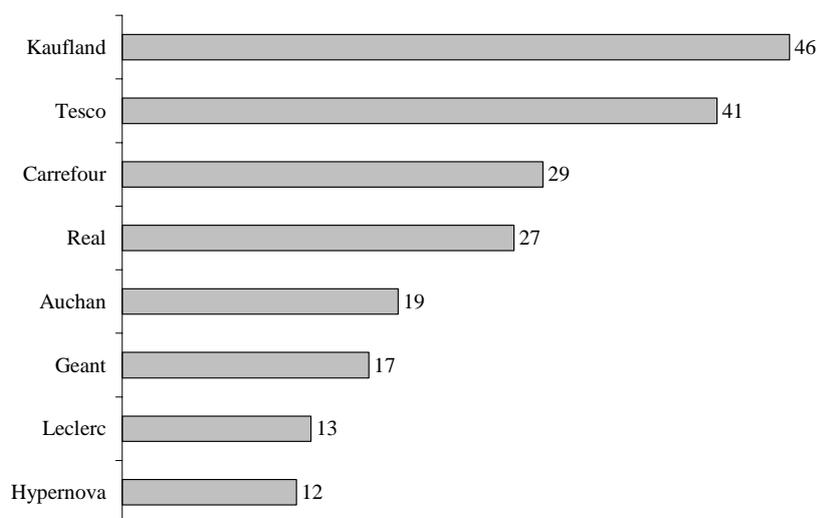


Figure 2: Hypermarkets in Poland in 2005 (before taking over Geant hypermarkets by Real and Hypernova hypermarkets by Carrefour)

Source: "Między hiper," 2005.

Table 1: Total Sales Surface Area, Number of Stores and Average Area of one Store of the Biggest Networks of Hypermarkets in Poland in 2005

Hypermarket chain	Total sales surface area (in thousands m ²)	number of stores	average area of one store (in thousands m ²)
1 Tesco	351	45	7,8
2 Carrefour	240	29	8,3
3 Real	221	27	8,2
4 Auchan	217	19	11,4
5 Géant	182	17	10,7
6 Kaufland	138	52	2,7
7 E. Leclerc	66	11	6,0
8 Hypernova	51	13	3,9

Source: Author's elaboration on the basis of: "Między hiper," 2005.

In 1999 U. Kłosiewicz and B. Słomińska defined characteristic features of the hypermarket operating in Poland. It was the outlet of sales surface area from 8,000 to 12,000 m², dealing with selling grocery and non-grocery products (the latter constitute around 50% of products' range), offering about 20,000 selected items at prices lower by 10-15% from the average market prices (Kłosiewicz & Słomińska 1999).

In the first years of 21st c. a new trend appeared on the market. The average hypermarket offered from 40,000 to 50,000 selected items in 2005. Widening the range of offered products is a routine phenomenon on the developing market; it is a bit more difficult to justify the trend of diminishing sales surface area of the average hypermarket. Competition on the market and regulations, which prolong and complicate the investment process, mostly in case of big buildings, discouraged operators to increase their networks by the largest ones. Additionally, shifting the focus on smaller hypermarkets made it possible for the chains to appear in smaller towns and in new regions. Operators of the so-called compact hypermarkets did not reduce the offered products' range radically, what had an adverse impact on the comfort of doing shopping, but did not lower the sale index from 1 m² of sales surface area. In some cases there was even a rise in the sale index ("Między hiper," 2005).

The growing number of smaller hypermarkets brings about certain complications in the process of analysis of individual distribution channels' participation in sale of FMCG. The former limit in sales surface area of 2,500 m² can cause that similar shops are included in two different distribution channels. The bigger ones (over 2,500 m²) are included in the group of hypermarkets, the smaller ones in the group of supermarkets. This is why there are new demands in literature to create a new category to cover outlets of 2,000 to 3,000 m² ("Między hiper,"

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2005). The classification of grocery stores proposed by GfK Polonia, taken over from Company Assistance Ltd.(CAL), is presented in Table 2.

Table 2: Definitions of Stores Applied by CAL

Type of store	Definition
Hypermarket	Store of sales surface area over 2,500 m ² , selling food and other consumer products.
Supermarket	Store of sales surface area from 300 to 2,500 m ² , selling food and other consumer products.
Grocery store	Large store of sales surface area from 100 to 300 m ² , selling food and often other consumer products. Medium store of sales surface area from 40 to 100 m ² , selling food and often other consumer products. Small store of sales surface area up to 40 m ² , selling food and often other consumer products.

Source: Słomińska 1997.

Discount Stores

Discount trade can be defined as a set of various forms of trade of mass service, with constantly lowered level of prices, reduced standard of service and limited assortment of goods, where private labels constitute an essential role (Maleszyk, 2004). CAL assessed the number of discount stores in Poland in 1997 at 500. Since that moment there has been a visible rise in the number of outlets belonging to this distribution channel. According to GfK Polonia there were 1,360 discount stores in 2004. The rise in discount outlets in Poland is presented in Figure 3.

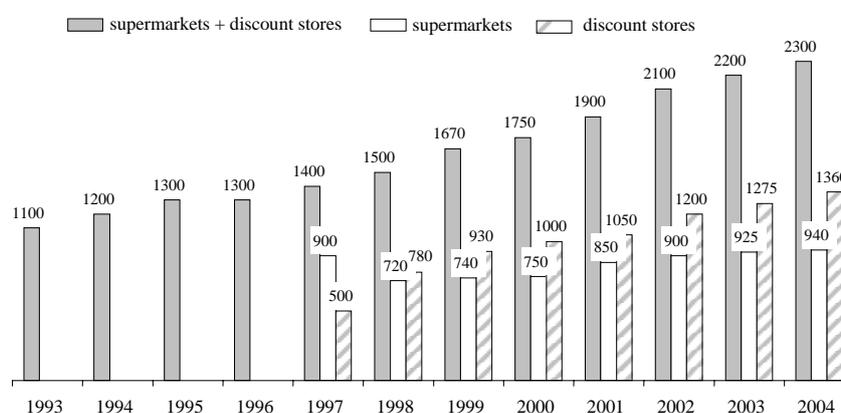


Figure 3: Supermarkets and Discount Stores in Poland

Source: As in Figure 1.

In 2003 the German chain of discount stores – Edeka withdrew from the Polish market selling its shops to Rojal Markets. In this way there were five chains left on the market, with Lidl, belonging to Schwarz Group, developing the fastest of all. In 2003 it doubled its number of shops and the sales surface area, similarly to Kaufland chain of hypermarkets. Although the rate of growth was not so high in 2004 Lidl noticed a significant rise in the number of its outlets ("Zachodni wiatr" 2004).

The Portuguese group – Jeronimo Martins is the biggest operator of discount stores in Poland. The company started its activity in Poland in 1995, investing in Eurocash, the chain of wholesale outlets. In 1998 it purchased the chain of Biedronka (including 48 shops at this time). Then, one year later, it took over 57 discount shops – Tip¹³. Since that moment there was a sudden increase in the chain store development – at the end of 2004 there were 700 Biedronka outlets in Poland. Thus, the Portuguese operator had more shops than all other foreign discount chain stores operating in Poland. There were also similar proportions in case of sales surface area.

According to U. Kłosiewicz and B. Słomińska, the discount outlet operating in Poland it is the shop of modest design, offering from 800 to 1,000 selected items (mostly packed grocery products), at prices from 15% to 30% lower than the average market prices, offering its customers a minimal range of services (Kłosiewicz & Słomińska, 1999). According to CAL the discount store, with sales surface area from 300 to 1,000 m², offers about 1,000 selected items (Zimna, 2002). Table 3 presents sales surface area, the number of stores and the average sales surface area of discount stores operating in Poland.

Table 3: Total Sales Surface Area, Number of Stores and the Average Surface Area of One Store of Foreign Network of Discount Stores Operating in Poland at Present

Company	Total sales surface area in thousands m ² , January 2004	Number of stores, October 2004	Average surface area in m ² , January 2004
1 Biedronka	318	694	500
2 Leader Price	108	144	800
3 Lidl	98	111	1300
4 Plus Discount	93	157	600
5 Netto	36	80	500

Source: Author's elaboration on the basis of: "Zachodni wiatr" 2004.

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Supermarkets

According to CAL's data there were 900 supermarkets in Poland in 1997. At this moment the category of supermarkets was divided into two independent categories: supermarkets and discount stores. One year later there were only 720 supermarkets. The smaller number of shops belonging to this category is not the consequence of their closing down – some supermarkets changed their name into discount stores. Since 1999 there has been a constant rise of the number of supermarkets in Poland. But the rise was not as dynamic as in case of discount stores. Since 1998 there have been more discount stores in Poland and the difference in numbers goes up year after year. The rise in the number of supermarkets is presented in Figure 3. Total sales surface area, the number of stores and the average surface area of one store belonging to foreign network of supermarkets operating in Poland is presented in Table 4.

Table 4: Total Sales Surface Area, the Number of Stores and the Average Surface Area of One Store Belonging To Foreign Network of Supermarkets Operating in Poland

Company	Total sales surface area in thousands m ² , January 2004	Number of stores, October 2004	Average surface area in m ² , January 2004
1 Albert	137	167	800
2 Intermarché	94	89	1100
3 Champion	90	64	1400
4 Minimal	54	27	2000
5 Savia	23	31	700
6 Elea	20	12	1700
7 Spar	8	29	300
8 Julius Meinl	7	10	700
9 E. Leclerc	4	2	2000

Source: Author's elaboration on the basis of: "Zachodni wiatr" 2004.

According to U. Kłosiewicz and B. Słomińska the supermarket operating in Poland is a shop located most frequently at housing estates, with sales surface area from 400 to 2,500 m², dealing mainly with sale of food (70% turnover), offering up to 20,000 selected items (Kłosiewicz & Słomińska, 1999). The definition of the supermarket according to CAL is presented in Table 2.

In contrast to hypermarkets and discount stores, completely dominated by foreign distribution companies, Polish firms appear in the lead of supermarkets' chains. According to GfK Polonia 500 out of 940 supermarkets belonged to companies with Polish capital in 2004 ("Raport Strategiczny," 2005).

The transformations, which took place on the market in 2003, prove that the western operators of hypermarkets do not restrict themselves to one format of shops. They all have other chains operating in different formats than hypermarkets. There are mostly supermarkets, but in two cases – discount stores ("Ekspresowy Leader" 2005).

Large and Medium Grocery Stores

According to CAL's assumptions (taken over by GfK Polonia), the grocery store of sales surface area from 100 to 300 m², offering, apart from grocery products, a limited choice of cosmetics and detergents, is qualified to the category of large grocery stores. It was assessed that there were about 12,300 of such shops in Poland in 1993. There was a distinct downward trend till 1998 to reach the level of 4,800 shops in 1998, the worst year for this distribution channel. The number of large grocery stores varied from 5,300 to 5,700 in years 1999 – 2004.

Stores of sales surface area from 40 to 100 m² belong to the group of medium stores (according to CAL). In 1995 there was a sudden rise in the number of these shops in Poland – from 16,400 to 33,000. The reason of such a quick development of this channel of distribution is not only the fact that new shops were opened. Many of the existing shops were extended by the area of their storeroom, exceeding the limit of 40 m². The changes in the number of large and medium grocery stores are presented in Figure 4.

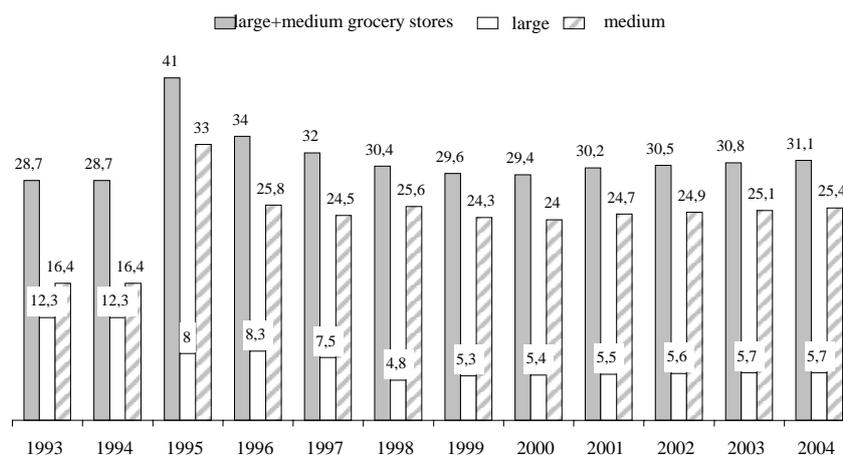


Figure 4: Large and Medium Grocery Stores in Poland (in thousands)

Source: As in Figure 1.

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Small and Specialty Food Grocery Stores

In 1993 the number of small grocery stores, shops of sales surface area up to 40 m², dealing mainly with the sale of food, exceeded 90,000 and it reached its maximum. In years 1995 – 1999 the number of small stores regularly went down to reach the level of 60,000 in years 2000 – 2004 (Figure 5).

The similar situation was with specialty food grocery stores. According to CAL's definition, the specialty food store deals with selling mainly one category of grocery products (like alcohol, green grocery, fish). In 1993 there were almost 54,000 of such shops. From this moment till 2004, with the exception of 1996, there was a downward trend (Figure 5). Not only did the number of shops fall down; but the greater problem is a very big drop of the average turnover of the shop of this distribution channel.



Figure 5: Small and Specialty Food Grocery Stores in Poland (in thousands)

Source: As in Figure 1

Although there is growing significance of new distribution channels in FMCG distribution, still 35% of consumers in Poland declare that the traditional grocery store is the chief place for doing shopping, including also large and medium stores. This format of shop is the place where a half of the consumers spends the whole budget designed for the purchase of grocery products. These indexes are still kept on a lower level in case of hypermarkets – the chief place of shopping for 20% of

consumers, out of which 12% spends the whole budget here on the purchase of food. Data referring to the sale in smaller shops were the additional positive element for them - in 2004 the average number of transactions went up for the first time from many years in shops representing the so-called traditional trade, with the fixed average value of a single transaction ("Co kto lubi" 2005).

SALE STRUCTURE OF FMCG IN POLAND

Sale Structure of Food, Cigarettes and Alcohol

In 1994, the first year when CAL carried out distribution research in Poland, the so-called traditional trade, it is small, medium, large and specialty food grocery stores, generated 93% of food turnover (including cigarettes and alcohol) in Poland. Then only supermarkets constituted the modern distribution channel and they controlled 7% of the market (Figure 6). In 1996 the first hypermarkets emphasized their position. They had 2% share in the market then. Since this moment the distinct move away from specialty food grocery stores started; in 1994 they still controlled 10% of the market, in 1998 it was only 5%. The situation was the weakest in 2003 – specialty food grocery stores generated only 2% of food sale value in Poland.

The situation of small grocery stores was slightly different. They had a strong position on the market till 1998, controlling 38% of food sale. Since this moment a downward trend started in their share in the market – till 2000 their share was lowered to the level of 29%. The position of this distribution channel in years 2001 – 2003 was fairly stable, with 27 – 29% share in the market.

The number of small shops did not change radically in years 1998 – 2003, it oscillated from 60,500 to 63,600. It means that there was a significant fall of the small grocery store in the average share in the market in these years. According to GfK Polonia the fixed number of small shops was the result of difficult economic situation (in some years their number even went up). Running a shop was the only possibility of earning money for many people without work. On one hand small stores are most sensitive to any changes, on the other their owners prove to be most flexible ("Przeciaganie liny" 2005).

At the beginning it seemed that large and medium grocery stores survived the changes in Polish trade fairly well. The share of large and medium stores was kept on the level of 38% - 40% in years 1994 -2000, despite strong expansion of outlets belonging to the modern distribution channel. Nevertheless, the situation of large and medium stores was completely different. While the share of medium grocery stores in food sale rose (from 14% in 1994 to 24% in 1999), the share of large shops fell down distinctly (from 28% in 1994 to 15% in 1999). It mainly

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resulted from the fact that the number of medium shops was going up at the time, while the number of the large ones was going down.

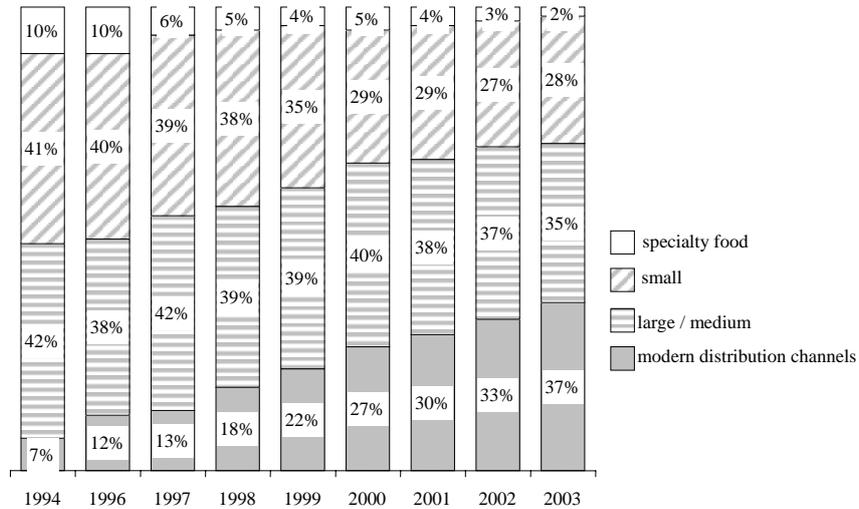


Figure 6: Share of Individual Distribution Channels in Selling Food, Cigarettes and Alcohol in Poland in Years 1994 – 2004

Source: As in Figure 1.

Outlets belonging to the so-called modern distribution channel happened to be the greatest beneficiary of transformations taking place in Polish distribution at the turn of 20th c. and 21st c. In 1994 supermarkets were the only representatives of this distribution channel in Poland (the first discount stores and hypermarkets only appeared) and they generated about 7% of food sale. In 1999 hypermarkets were in control of 10% of food market, discount stores of 7% and supermarkets of about 5%. Till 2002 hypermarkets were developing the fastest. Since this year the leadership was taken over by discount stores, which is the general European trend. Nevertheless, hypermarkets were the most significant representatives of modern distribution channel in Poland in 2003 as far as the turnover was concerned; they generated 19% of food sale, which was more than supermarkets and discount stores altogether. The changes in the share of hypermarkets, supermarkets and discount stores in the sale of food, cigarettes and alcohol are presented in Figure 7.

In 2003 GfK Polonia assessed the market of food, cigarettes and alcohol in Poland at PLZ 88 b. At the time 37% of the market belonged to the modern distribution channel. According to GfK the share will have increased to 50% by 2008 ("Przed koncentracją" 2005).

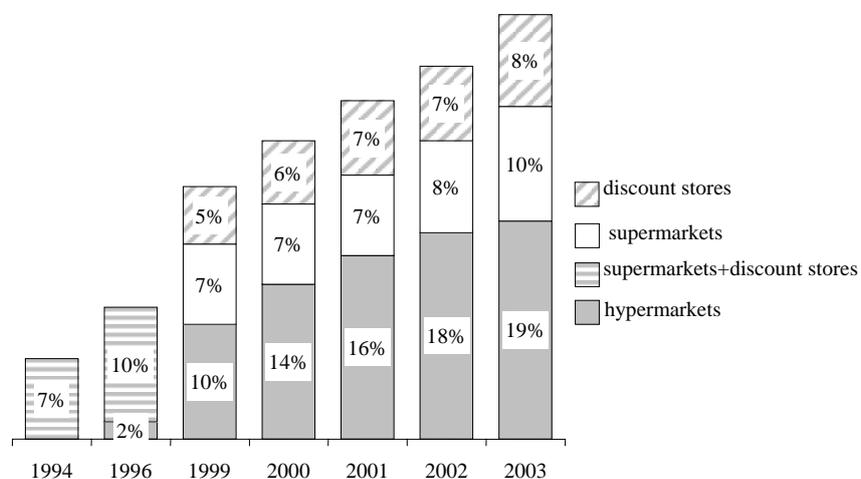


Figure 7: Share of Modern Distribution Channel in the Sale of Food, Cigarettes and Alcohol

Source: As in Figure 1.

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