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## FOOD RETAIL IN ROMANIA. MARKET OVERVIEW

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### Abstract

Food trade covers the population's needs and is an important component of national security. The belonging to the common European market and to the global security structures, the domestic market potential and the economic growth have led to a constant increase of the interest of the foreign investors for the Romanian agri-food sector. The present paper proposes an analysis of food trade in Romania from the perspective of the development of international retail food networks. The researches revealed a spectacular growth of the different forms of food distribution as well as the preponderance of foreign capital and the bankruptcy of the indigenous companies. Currently, over 2,500 modern commercial spaces are used in the retail food trade in Romania, a sector where more than 44,000 specialized companies operate, with an annual turnover of 15 billion euros and offering jobs for about 180,000 people. Western retail food companies that concentrate on the domestic market put accent on the extensive expansion of distribution networks, by focusing on proximity stores, adapting the product mix to consumer requirements, and including national agri-food products in the offer, developing e-commerce and customer loyalty. Competition in the retail food sector will continue in the coming years, with changes in hierarchies and market shares, without excluding the emergence of companies with American or Asian capital on the Romanian market.

### Keywords

food retail, market, analysis, Romania

### JEL Classification

L11, L66, Q18

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### Introduction

Romania has seen the most spectacular economic development in South-Eastern Europe in recent years, becoming one of the most attractive markets for foreign investors. On a market of about 20 million consumers, large retail food sales networks are facing an aggressive expansion policy, marked by the rapid rallying of new outlets. Wage growth, low inflation, falling interest rates and improving labor market conditions are factors that are currently affecting the growth of the retail sector. The strong evolution of sales in this sector is mainly based on the massive increase in imports, mostly made by the Member States of the European Union. If, years ago, the competition between major international chains was based on new store concepts launched by market players, 2018 was marked, in addition to

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the pace of expansion in the supermarket and proximity segment, a series of projects where retailers primarily aimed at facilitating a faster shopping experience: house self-checkout, mobile payment applications or smart stores.

### **Literature Review**

Stanciu (2014) makes an analysis of Romanian food trade, highlighting the strong development of international retail food networks in recent years. Romania's integration into the North Atlantic Alliance and the European Union has increased the interest of foreign investors. The modern marketing tools, the high level of capital, the developed logistics and the experience of the Western European traders in the field have led to the failure of a large number of indigenous companies on the food chain, so that there is currently no large network of food stores with Romanian capital at national level. The organization of local economic agents in cooperatives / associations, symbiosis with international networks, rural orientation or the development of an integrated production system represent survival strategies for Romanian food companies. Stanciu (2016) shows in the analysis of the retail food sector in Romania the high bankruptcy rate of local food companies, increased risks for domestic traders and the expansion of foreign capital on the Romanian domestic chain. The USDA Food Agency (USDA FAS, 2018) appreciates the strong development of the retail food sector in Romania, amid economic growth, the opening of the market to imports and the evolution of domestic consumption. The report estimates that in 2017 there was a record for imports of US food, which reached US \$ 150 million (up 22% from 2016). Indirect food imports from the US grew by 15% and direct exports by 29% as compared to 2016. In order to make commercial contracts with potential partners in Romania, product catalogs, price lists, samples of products are needed, considering that many retailers in Romania are resorting to subjective factors in decisions about choosing new products. American products with export potential in Romania are distilled spirits, premium fruit and beef. Florian et al (2013) investigated the potential of "own brands" in hypermarket networks in Romania in the context of the economic crisis. Own brands can be an important tool for increasing the performance of manufacturers and traders, leading to increased sales for certain product segments perceived by consumers as having a favorable quality / price ratio and qualitatively close to the recognized brands. Istudor and Pelău (2011) analyzed the behavior of the Romanian food consumer, considered as a reflection of the image, values and aspects specific to the indigenous society, and as a major decision maker in the strategies of the retail food companies.

### **Material and Methods**

The data on the number of companies, turnover, number of employees and profit in the retail food sector were selected from the TopFirme.ro database (2019). For industry-specific information, the USDA Foreign Agricultural Service (2018), LZ Retailytics (2018), RetailFMGC.ro articles, the Web of Science-Clarivate Analytics and Google Scholar scientific databases have been consulted. The Gini Struck Index method, recommended by Săvoiu, Crăciuneanu and Țaicu (2010), was used to assess the concentration of the market. Selected information has been processed statistically, graphically and interpreted. The obtained results were compared with other specialized studies, where appropriate, in order to obtain pertinent conclusions.

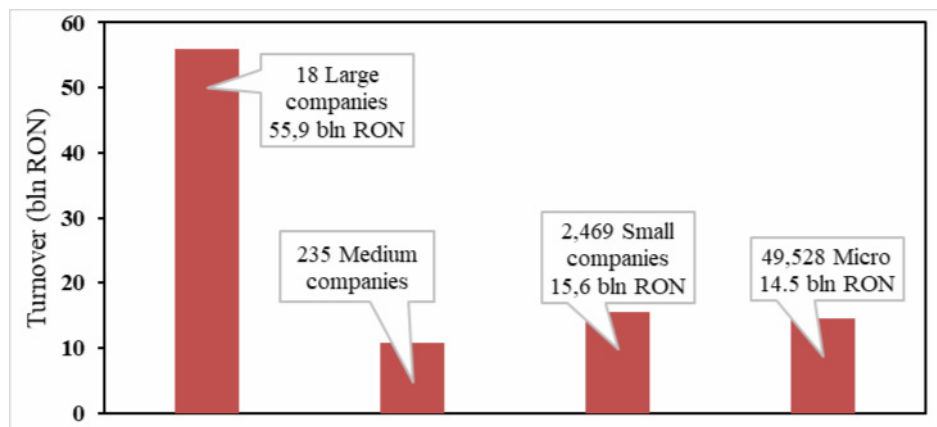
### **The structure of the retail food market in Romania**

According to TopFirme (2019), at the end of 2018, 44,441 companies were declared as main activity "Retail in non-specialized stores, with predominant sale of food, beverages and tobacco" in Romania (CAEN Code 4711). Compared to 2017, the sector registered a reduction in the number of economic agents with over 7,500 units, mainly through the bankruptcy of Romanian-owned companies (Retail-FMGC.ro, 2018, 2019). Companies

specialized in this sector accounted for 2.27% of the total national economic agents in 2018. The global turnover of retail food business operators in Romania reached ROL 66.4 billion (15.1 billion euros) in 2018, accounting for about 4.93 percent of the total national business. Profit declared by traders in the sector was about 2.5 billion lei (558.3 million euros), or 2.34% of national net profit, in 2018. The total number of employees in the national retail trade was at the end of 2018 187,605 persons, or 4.67% of the total number of employees in Romania.

The top 10 operators in Romania reported a total turnover of about 9 billion in 2018. euro, accounting for almost 60% of the total reported by the sector. With a turnover of about 2.3 billion euros and a market share of over 15%, Kaufland Romania SCS is the most important retail food retailer at national level (fig. no. 1).

Romania is currently ranked on the 5th place in Europe, after Turkey, Russia, France and Italy, with regards to the development of commercial retail sales. Thus, according to the USDA Foreign Agricultural Service (USDA FAS, 2018), the retail space in Romania has doubled over the last 4 years, reaching 100 square meters / 1,000 inhabitants.



**Fig. no. 1 Analysis of the retail food sector in Romania (2018)**

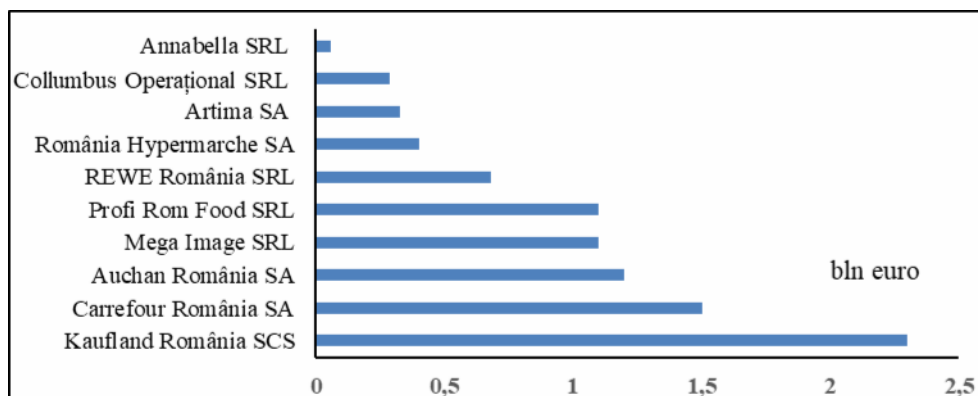
*Source: Authors, by using Retail-FMGC.ro (2018)*

The USDA FAS (2018) report indicates that the structure of the retail food market in Romania is mainly focused on the following sales areas:

- Hypermarkets of over 2500 sq. m (25,000 sq ft) with a wide range of food and non-food products. For the year 2018 Kaufland announced for a budget of \$ 233 million for the expansion and modernization of the current network. French retailer Carrefour reported a 10.6% increase in turnover in the first quarter of 2018 to reaching revenues of \$ 566 million.
- Supermarkets, ranging from 400 to 2,500 sq. m, selling a wide range of food and non-food products. Mega Image has expanded aggressively in this segment and has recently become the largest supermarket chain in Romania.
- Wholesalers / Cash & Carry: Retail / wholesale stores with a diverse portfolio of food and non-food items sold in warehouse style. Metro Cash & Carry, was in Romania in 1996, the largest in this segment with 31 units. The Selgros Network comprises 20 stores, with a range of 41,000 food and non-food items.
- Discount Shops: small supermarkets with limited range of low-cost products, often private label. The German LIDL network showed up on the Romanian market in 2011 through the acquisition of discounter Plus network, which had 107 commercial units at the time of transaction and reported a turnover of about \$ 456 million. LIDL's objective of holding 200 stores in Romania was achieved in 2016. Based on

its turnover, Lidl Romania holds the third place among the retail sector in Romania after Kaufland and Carrefour in 2017. In 2015, it announced a profit of \$ 1.13 billion, increasing by 21% from 2014. Penny Market, another major competitor on this market, reported 2017 growth in turnover by 17% compared to 2016. In 2018, the company reached a 13% increase in turnover.

The Retail Food Sector Analysis provided by the Retail-FMGC.ro (2018) report shows that the major retail food market players on the Romanian market have strengthened their distribution networks, due to the disappearance of small players - the independent neighborhood stores. (Fig. no. 2).



**Fig. no 2. Top 10 Retailers in Romania (Gross retail sales in bln euro)**

*Source: TopFirme (2019)*

The analysis of the market concentration grade according to the method proposed by Săvoiu, Crăciuneanu and Țaicu (2010) is based on the calculation of the Gini Struck Index (IGS), based on formula (1),

$$IGS = \sqrt{\frac{(n \sum (g_i * g_i) - 1)}{(n-1)}} \quad (1)$$

Where:

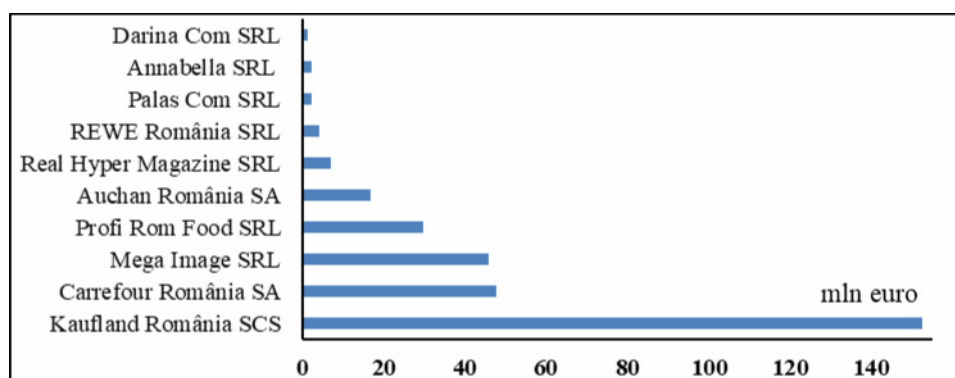
$$n = 44,441$$

$g_i$  = the share of the company  $i$  in total sales.

The assessment carried out based on the previously mentioned method leads to an IGS of 25.15, ie a high degree of concentration of the national retail food market.

By applying this method to national profit concentration, it results in an IGS of 6.08, a value showing a de-concentrated distribution of profits among actors involved in the distribution of food.

With a profit level of € 152.4 million in 2018, Kaufland Romania SCS ranked first among the leading companies. Compared to an annual turnover of EUR 2.5 billion, the profit rate obtained by the German operator was over 6% (Fig. no. 3).



**Fig. no 3 Top 10 profit of retail food companies in Romania**

Source: Autorii, folosind TopFirme (2019)

After a low expansion rate in 2015, the retail sector in Romania grew in 2016, with 423 new stores opening to 2,391 shops. Most of the new stores were opened by international traders, mainly German. In 2016, major retail networks opened 250 new stores, covering all market segments. The opening of consumer goods stores (135) and supermarkets (65) reached record levels in the aforementioned year. At the same time, discount stores increased by 36 new jobs in 2016. The smallest number of new units was registered by hypermarket segments and cash & carry segments (USDA FAS, 2018). However, the hypermarket segment continued to attract new investments, with 8 retail outlets in 2016 and an increase of 15% compared to 2015. With regards to the cash & carry segment, after 4 years without openings, Selgros expanded its network own shops with two units in a new format called "Compact Store".

Although it was considered by consumers as the most expensive retailer, Profi recorded the largest number of shop openings in 2016, with almost half of the total in that year (134). Mega Image (53 new units), and Penny Market (25 new stores) completed the list of inaugurations. In 2016, Mega Image reached 500 stores in Romania, while Auchan, Cora and Metro Cash & Carry did not open any new store in 2016. The USDA FAS forecast is that these outlets will face the competition of major retailers, which will develop larger stores in the outskirts of these cities.

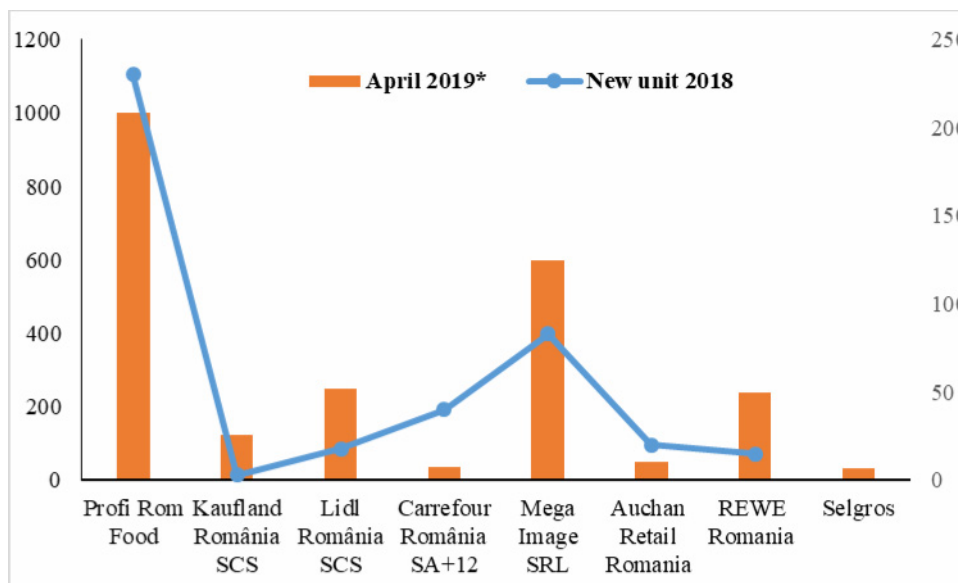
In 2017, Romania's retail market was estimated at about \$ 46.5 billion. Four major players (Kaufland, Carrefour, Metro Cash & Carry and Auchan) held approximately 60% of the total market share. In 2017, a further 43,000 sq. m commercial spaces. Profi, Penny and Lidl have opened stores in smaller cities with lower rental rates. Retailers have made considerable efforts to identify sustainable, long-term suppliers looking for competitive prices and new products. 85% of the products sold in modern Romanian sales outlets are of mixed origin and 15% are exclusively local products. Kaufland's corporate management has announced a budget of \$ 233 million to expand and modernize its network in 2018, doubling virtually the 2017 budget.

Modern retail formats have managed to further strengthen their position in the market in 2018 and currently hold almost 60% of total household consumption (according to GfK data for January-September 2018 quoted in the Retail-FMGC Magazine Report 2019).

The expansion of international networks in Romania continued in 2018 with the opening of 400 stores, representing an additional 50 new locations compared to 2017. Among the modern shopping channels, hypermarkets remained the main destination for family shopping, but begin to lose ground at the expense of other formats (with just six new openings in 2018). Efervescence remained in the supermarket area, which from 81 units opened in 2017 registered in 2018 almost double dynamics, the big players placing 149 new locations on the map of Romania. In addition, supermarkets had the best market share in

2018, and the purchasing frequency has most evolved in this format, with an increase of 6% between January and September 2018, compared to the same 2017) (Retail-FMGC.ro, 2019). The proximity stores enjoyed the highest number of inaugurations, with 200 new locations open in 2018. The opposite was in 2018 the format of cash & carry shops, where there were no new openings, while the specialized department store checked only nine inaugurations. The format of discount stores if at European level is still on the wave, in Romania the dynamics is constant, with 37 openings in 2018, in line with the evolution of the last two years.

In 2018 Profi opened 232 new stores, reaching 925 stores and becoming the largest retail trader in Romania. According to Retail-FMGC.ro (2019), Profi reached 1,000 sales units in Romania in April 2019 (Fig. no. 4).



**Fig. no 4 New retail spaces (2018) and total (April 2019)**

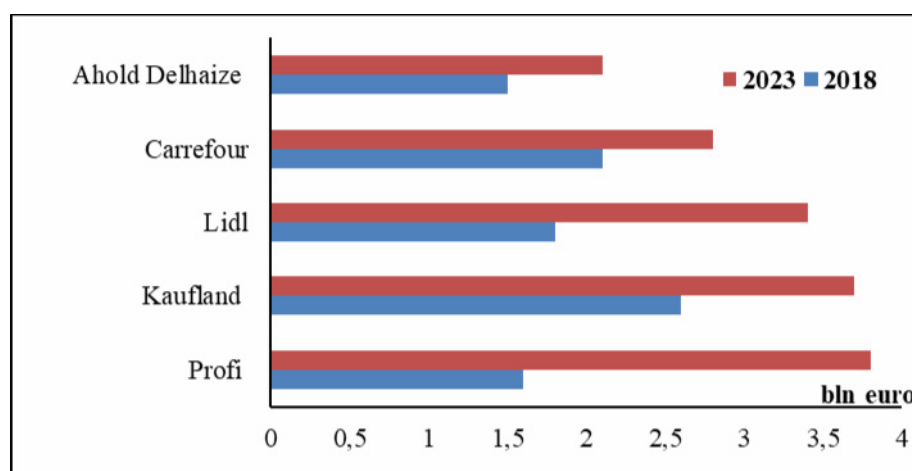
*Source Authors, by using Retail-FMGC.ro (2019)*

**Trends in the development of the retail food market in Romania**

According to LZ Retailytics report (2018), retail networks will grow in Central and Eastern Europe (CEE) twice as fast as in the rest of the European market. For the period 2019-2022, LZ Retailytics forecasts a compound annual growth rate (CAGR) for retailers in the region of 6.9%, while in the rest of Europe it will grow by only 2.9%. If specialized multinationals mainly rely on the extensive development of retailing networks in the region, the "all-size-fits" standard will in the future face difficulties, amid a local consumer trend to avoid operators who do not adapts sufficiently quickly to national peculiarities. A specific CEE phenomenon will be the development of small discount stores (especially by Lidl and Aldi, companies that have used this way to expand faster than the rest of market operators). In Romania, Lidl currently operates 244 quality-discount stores, with REWE Romania as its main competitor, operating a network of 236 Penny Market (Retail-FMGC.ro, 2019a). And for these forms of trade there will be a tendency to increase consumer preferences for local products, although it can be appreciated that regardless of the range of products offered, the price will still be a key factor in the choice of consumers in the CEE area. An opportunity expansion for certain merchants will be online shopping. Romania's e-commerce segment continued to expand in 2017, reaching a share of about 5-6% of the Romanian consumer purchase compared to 4% in 2016. Although the share of online sales remains low on the Romanian market compared to Western European countries expect this segment to grow in

the next few years. According to estimates by key players interested in e-commerce in Romania, the value of online shopping (food and non-food) was \$ 3.2 billion in 2017, as compared to \$ 2.2 billion in 2016, the statistics including only consumer products, no services, utility bills, hotel reservations or entertainment.

It is possible to change the hierarchy of retail food competitors in Romania, based on an aggressive policy of extending the Profi network, which will surpass Kaufland, according to experts (Fig. no. 5).



**Fig.no. 5 Prognosis in the evolution of sales of major retail food companies in Romania (Gross retail sales, in bln euro)**

*Source: Retail-FMGC.ro (2019)*

The Romanian agri-food market will become more and more dependent on imports. The USDA FAS (2018) report estimates that about 85% of the food in the Romanian retail food is imported or of mixed origin and 80% of imported food from EU Member States. The main suppliers of food for Romania are Hungary, Germany, Poland and Bulgaria. The largest share in the food goods imported by traders is processed products, meat, cereals, protein meal, dairy products, fruit and sugar. Local importers and distributors are direct suppliers to retailers, being familiar with existing legislation, commercial practices and domestic customers. Most importers / distributors in Romania have their own distribution channels with national coverage, direct collaboration with them being recommended as a market entry strategy.

### Conclusions

The food trade sector in Romania is dominated by Western networks, with German or French capital, the Romanian capital being virtually non-existent. The trend of rapid development, with the establishment of new stores for market foreclosure, will continue in the short term, with investments being mainly targeted at proximity stores, new outlets in small towns and rural areas. The aggressiveness of large commercial networks will continue to lead to the deepening of bankruptcy of domestic food retail companies. The retail market in Romania has begun to adapt and redefine investments not only for expansion, but also for renovating older, upgraded and upgraded units with formats tailored to urban consumer preferences. Traders have begun to pay more attention to new forms of marketing and marketing, investing in the outward appearance of outlets and on-line sales systems. Strategies based on new business concepts, the promotion of premium products or private trade marks, the "daily low price" or the development of product ranges with the inclusion of local ones are more common on the Romanian market.

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