Chapter 13

Food Retail Chains: Hungary in the EU

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Abstract. The role of retail chains is significant, not only in the European but also in the Hungarian market. Major changes can be seen in the food trade, and hypermarkets and supermarkets are becoming more widespread, which has an international tendency. We are able to see the transformation of trade structure and changes in customer behaviour. On the customers' side, this means newer demands on retail chains, which fact greatly determines the location and shape of stores. In Hungary, the presence of small shops is still significant, in accordance with European and international trends; yet on the basis of turnover, the increasing dominance of larger sales centres can be seen.

Keywords: Food retail, Customer behaviour, Hungary, EU

Introduction

In the international and Hungarian food market, retail chains are present to a significant extent, though they have to face keen competition not only from EU member states but with food products from South-East Asia, South-America and North-America, too. This phenomenon enforces intense price competition between manufacturers and distributors.

In recent decades, food trading has gone through major transformations both vertically and horizontally. It can be seen as an international trend, too, how supermarket and hypermarket networks are spreading - and retailing concentration is increasing due to mergers and acquisitions. Multinational companies strengthen their global presence by taking over partner companies. The biggest amount of expansion can be expected from Asia and South-America. In these regions, it is not just population but also income levels that are continually increasing. Favourable economic conditions might promote innovative processes; at the same time, the development of new products may well be the most important area for investment (Lakner, 2003).

Transformation of the Trade Structure

In Hungary, transformation of the food-trade structure began in the 90's. In the second half of the 90's about one hundred thousand shops sold food products; yet as international store chains appeared and the volume of sales went down, competition grew even further on the Hungarian market. A process of concentration then began in the food trade. Only 5 percent of shops were selling over 40 percent of goods. Distribution systems have changed in the country, and new types of businesses appeared on the market, such as discount stores and supermarkets. Foreign companies began to use new trading methods and other technical means of trading. Trade brands and private-label brands are now present on the market to ever greater degrees and with major significance. (Mohácsi, 1998)

Juhász et al. (2005) summarises the effects of trade concentration. First of all, concentration issues relate to competition law; accordingly, regulations were created to protect the interests of the retail trade and consumers. Other effects of this concentration can be seen in price increases and changes in product ranges.

In the development of trade in Hungary major changes took form in the early 90's. Domestic partnerships characterized trade, though from the year 2000 international chains and supply cooperatives appeared. By the middle of the decade, supply partnerships –covering several countries- of some international chains existed on the market. National manufacturers were replaced by international manufacturers. Later, concentrated production or specified regional production started to spread. Nowadays, sales systems are characterized by having flexible outsourcing structures, based on customers, sales channels and sales categories. Ordinary prices have been replaced by regional and international prices; and, in addition, purchase-incentive prices have appeared. Competition in Hungary has become multi-faceted, which is manifesting itself in prices, in the experiences customers get and/or in services. (Csiby, 2006)

Trade Models in Hungary

Hypermarket: A store with a floor-space of more than 2.500 m2, with an assortment of more than 10.000 goods, at least 30 percent of which is non-food; using more than 10 cash registers (e.g. Auchan, Cora, Interspar, Tesco)

Supermarket: A store with a floor-space of between 400 and 2.500 m2, with a variety of thousands of food and near-food products; using 3 to 10 cash registers (e.g. Kaiser's, Match, Spar, larger Coop-s and CBA-s)

Discount store: A store with a floor-space of about 400-1.000 m2, with limited food or near-food products (maximum 1000-2000), using 3 to 10 cash registers (e.g. Lidl, Penny Market, Plus, Profi)

Cash&carry: Store for retailers, mainly where private household shopping can be done; its parameters are usually similar to those of the hypermarket (e.g. Alfa, Interfruct, Metro)

Small shop chain: A chain member shop with a floor-space of less than 400 m2, using 1 or 2 cash registers, providing a food and near-food range (e.g. CBA, Coop, Reál)

Independent small shop: Independent shop with a floor-space of less than 400 m2, using 1 or 2 cash registers, providing a food and near-food range.

Drogerie: Special store selling chemical household products (e.g. DM, Rossmann)

In Hungary, there were approximately 1700 shops together with drogeries in 2011. Supermarkets have the largest proportion amongst these (34%). They are followed by discount stores, their ratio being about 29 percent. Hypermarkets hold third place, with 167 shops, making up nearly 10 percent. Within the hypermarket category Tesco has the leading role with its 70 percent ratio inside the category (see Table 1). In the supermarket category Spar possesses more than 60 percent of shops. Penny Market is the leader in the discount category, having almost 40 percent of shops. Lidl gets second place, with its 30 percent. Aldi is in third place with half as many shops as Lidl. Aldi is followed closely by Profi (with only a negligible difference). Table 1. shows clearly that there was an increase in the hypermarket, supermarket and discount categories in 2011 compared to 2009; though we can also see a reduction in supermarket numbers in 2011 compared to 2010.

Table 1. Number of shops in Hungary

Hypermarket	*2009*	*2010*	*2011*	*Supermarket*	*2009*	*2010*	*2011*
TESCO hyper	102	116	117	TESCO super	76	89	94
AUCHAN	12	12	12	SPAR	348	348	350
INTERSPAR	31	31	31	KAISER'S	20	20	9
CORA	7	7	7	MATCH	123	123	121
TOTAL	152	166	167	TOTAL	567	580	574
Discounts	*2009*	*2010*	*2011*	*Drogeries*	*2009*	*2010*	*2011*
PENNY MARKET	178	186	189	DM	257	257	251
LIDL	122	135	148	ROSSMANN	187	187	179
ALDI	58	73	79	MÜLLER	31	32	34
PROFI	73	73	73	SCHLECKER	22	7	
PLUS							
TOTAL	431	467	489	TOTAL	497	483	464

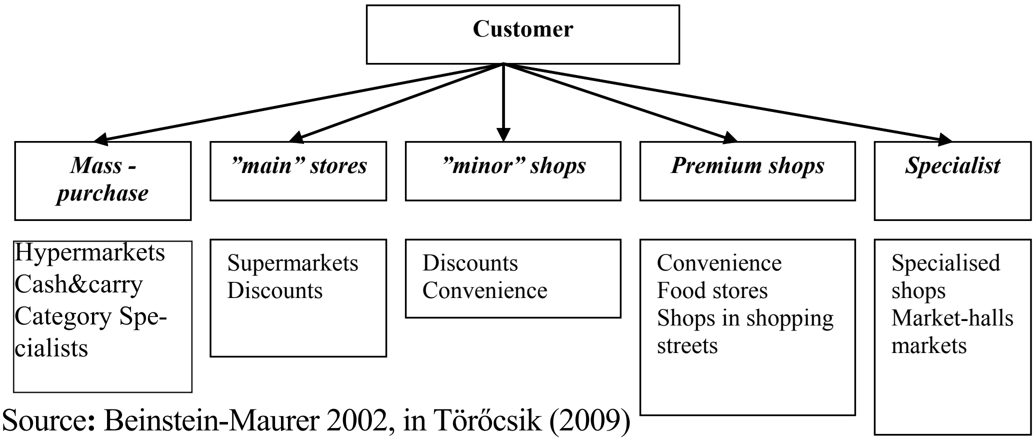
Source: AC Nielsen (2011)

According to settlement-economy theory, the consumers' choice of shops is determined by distance, cost and the length of one's journey getting to where you can purchase a product. Distance and physical separation is a major barrier with the location of shops. The choice of shops is greatly determined by factors pertaining to the competing businesses, e.g. accessibility, journey time and technology. Two main types can be seen from the perspective of location, product and service. One type is convenience-shopping, when the location is important (i.e. the shop is easily accessible); the second provides a comparative-shopping, when prices, product range, quality and style can be compared. Generally, younger, better educated consumers with a higher income level are willing to cover longer distances more often than are others. (Shaffer et al, 2004)

Agárdi and Bauer (2000) in their study show influential factors in changes in food-purchasing habits based on the new meaning of shopping. In the late 90's, shopping was much more of a pastime than a purchasing activity. Now, free time has decreased for the economically active population; and people mobility has risen, so they can easily access shops which are farther from their homes. Customers are more and more well-informed about the location of a shop. However, one can note that the aging of the population does strengthen local, smaller shops.

Customers can choose from different shopping outlets in relation to their home, i.e. to see whether it is easily accessible or not and what the 'demands' are (e.g. travel costs) (Töröcsik, 2009). According to the studies of Beinstein-Maurer (2002), consumers classify different shop types as follows. (Figure 1.)

Figure 1. Types of shop and their meaning



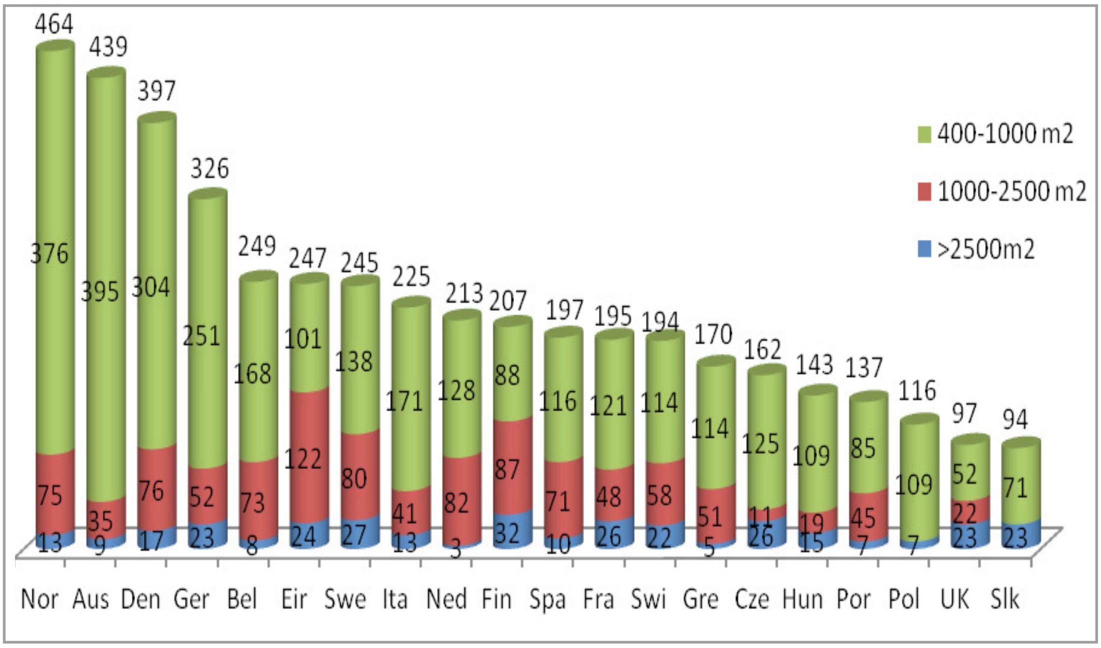
Source: Beinstein-Maurer 2002, in Töröcsik (2009)

According to a survey done by the AC Nielsen Market-Research company, the biggest group of customers (39%) went shopping to supermarkets 'regularly' in 2010. Just one year earlier hypermarkets were the leaders - when almost the same number of consumers (38%) chose a hypermarket. The ratio of regularly chosen hypermarkets and supermarkets in 2010 has increased compared to in 2009, whilst with discount stores there has been no change in regular attendance.

Forms of Food Trade

In Europe, the proportion of shops with a between 400 m² and 1,000 m² floor-space is the largest per one million inhabitants. Discount stores belong in this category. Hypermarkets with 2,500 m² make up the smallest proportion concerning shops - their ratio varies between 2 percent and 24 percent depending on the country. In Hungary, discount stores predominate (at 76%); hypermarkets make up a 10 percent ratio of shops per one million people. In this respect, the number of shops per one million inhabitants is higher in Hungary than in Slovakia, the UK, Poland or Portugal. In a European countries Top 20 chart, Hungary holds sixteenth place.

Figure 2. Number of shops per one million people in Europe

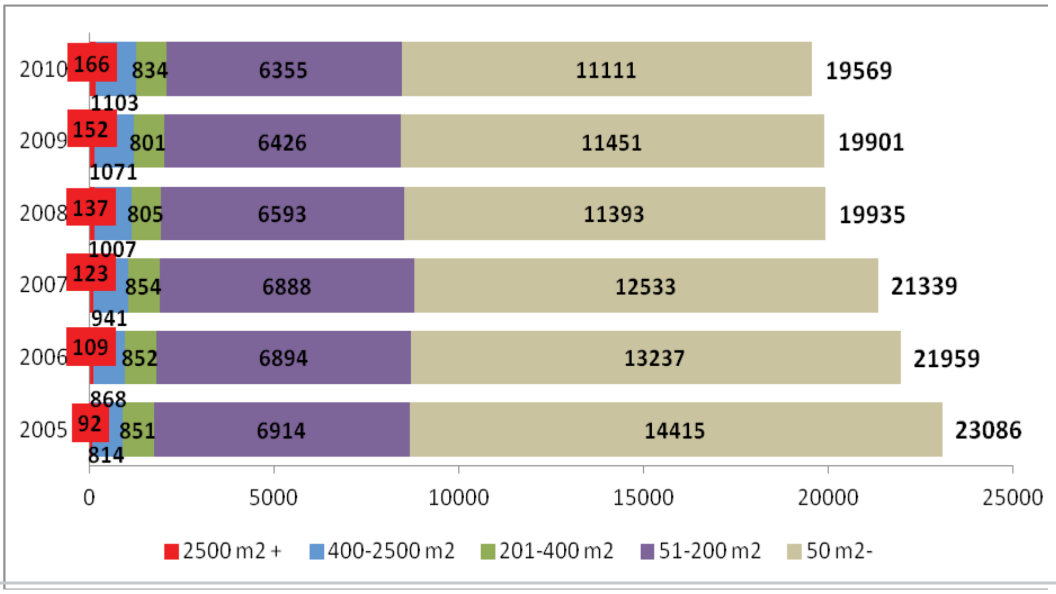


Source: AcNielsen (2011)

Number of Shops

Figure 3. shows concentrations in the Hungarian market - and a decline in the number of national shops can be seen. In five years the number of shops had gone down by 15 percent by 2010. Compared to 2005, the number of the smallest shops (floor-space below 50 m²) decreased by 23 percent. At the same time the number of shops over 2500 m² has increased by 80 percent. Between these two extremities supermarkets are located - and their number has grown over five years. The number of discount stores was increasing for two years, though since then it has been falling continuousy. The number of small shops has decreased steadily, i.e. their number had fallen by 229 by 2010 compared to in 2005.

Figure 3. Food shop numbers in Hungary



Source: AC Nielsen (2011)

Conclusions

As a part of the common European market, food shops in Hungary have the same types of structure as in the EU. The changing economy, customers' behaviour and attitude are having an impact on the present structure of food retail chains. Community economics theories tell us that the most important elements that determine business and customer-related decisions are the location of the activity and food store choice. Despite the concentration, small retail chains do have an increasing role to play in Hungary as well as in the European Union. After the preliminary descriptive analysis, explanatory factors will be assessed in the context of further research.

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