MAIN DEVELOPMENT TRENDS OF GROCERY RETAIL INDUSTRY: CASE STUDIES OF LATVIA, LITHUANIA AND ESTONIA

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Abstract. Dynamic development and changing trends have become the most characteristic features of grocery retail sector in almost all developed countries. Because of the rising consumer spending power and the availability of a comparatively cheap land, many modern retailers have expanded into the Eastern Europe. Therefore, the Eastern Europe, including Latvia, Lithuania, and Estonia, has become as one of the regions with the fastest growing store-based grocery retailing. Such global changes in the sphere of grocery retailing served as the basis for the research aim − to determine the main development trends of grocery retail sector in three neighbouring countries − Latvia, Lithuania, and Estonia during the period from 2006 to 2011. Research results showed that Latvian, Lithuanian, and Estonian grocery retail sectors have undergone structural changes; as a result, food products mainly are distributed through modern grocery retailers, like hypermarkets, supermarkets, and convenience stores. Although, a constant decline of traditional retailing can be observed in all the countries studied, there are signs of change. It was also concluded that Latvian, Lithuanian, and Estonian grocery retail sector could be characterised as highly concentrated.

Key words: grocery, retail, sector, Latvia, Lithuania, Estonia.

JEL code: L1, L810.

Introduction

Globalisation has imposed distinctive structural changes on the grocery retail industry, and worldwide grocers are undergoing significant structural and managerial changes in order to achieve both lower costs and improved services (Arkader R., Frossard Ferreira C., 2004). Recent studies (Agriculture and Agri-Food Canada, 2010; Popkowski Leszczyc P.T.L. et al., 2004) suggest that one of the key global trends in grocery retailing is segmentation. It means that a supermarket, which has been the most common format of a food store, is being displaced to some extent by larger hypermarkets on the one hand and smaller convenience stores on the other hand.

According to global retail market analysis (Agriculture and Agri-Food Canada, 2010), because of the rising consumer spending power and the availability of a comparatively cheap land many modern retailers have expanded into the Eastern Europe. Therefore, the Eastern Europe, including Latvia, Lithuania, and Estonia, has become as one of the regions with the most rapidly growing store-based grocery retailing. Such global changes in the sphere of grocery retailing served as the basis for the research **hypothesis**: Latvian, Lithuanian, and Estonian grocers are undergoing significant changes. The defined hypothesis initiated the **aim** of this study: to determine the main development trends of grocery retail sector in

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three neighbouring countries – Latvia, Lithuania, and Estonia. The following research **tasks** are advanced to achieve the set aim:

1) to analyse the structure of grocery retail sector in Latvia, Lithuania, and Estonia;
2) to define and describe the key players in grocery retail sector in Latvia, Lithuania, and Estonia;
3) to detect the main differences between the studied countries.

To achieve the set aim and tasks of the research, the authors have used the publications and studies of Latvian and foreign scientists, statistical data from the Central Statistical Bureau of Latvia, Lithuania and Estonia, Eurostat that covers five years during the period from 2006 to 2011 as well as authors have analysed publications and studies of Latvian and foreign scientists and information from largest grocery retailers in the studied countries. The research authors have widely applied generally accepted research methods in economics, i.e. monographic descriptive method as well as analysis and synthesis methods to study the problem elements.

Results and discussion

In order to better understand and determine the main development trends of grocery retail sector in the studied countries, in this study, the authors have focused on two parameters that can be used to characterise a certain sector. These parameters were structural changes and competitive environment, i.e. key retail players of grocery retail sector.

1. Structural changes

Grocery retail sector is closely linked with the level of population, i.e. consumers' welfare. Therefore, its development can be affected by many factors, e.g. political and economic situation in the country, entrepreneurial environment, amount of investments as well as other macroeconomic factors (Agriculture and Agri-Food Canada, 2010). As in other countries, also Latvian, Lithuanian, and Estonian retail sectors have undergone structural changes (Vanags A., Paalzow A., 2007) and this process is still going on.

During the Soviet times (1940-1990), in Latvia, Lithuania, and Estonia, food was sold in specialised corner shops (bread shop, dairy shop, meat shop) as well there were larger supermarkets (Univermag) that sold all types of consumer goods. These shops were state owned. In Latvia, Lithuania, and Estonia independent retail chains started their expansion in the middle of the 1990s after the countries regained their independence (Grike I., 2012). In this research, such type of grocery retailers are defined as traditional grocery retailers. This type includes independent small grocers, food/drink/tobacco specialists and other grocery retailers. Today in Latvia, Lithuania, and Estonia, structural changes in grocery retail can be observed where food products mainly are distributed through modern grocery retailers. According to the internationally accepted classification, in this research, modern grocery retailers were defined as the following types of stores:

- hypermarket - trade area, which covers more than 2 500 m^2 and in which non-food products occupy not less than 35% of the area. Hypermarkets are usually located on the outskirts of cities or in shopping malls;
- supermarket - trading area, occupying 400 to 2 500 m^2 and in which 70% of all products are food and everyday products;

- convenience store - food retail chain stores that offer a wide range of food products and have the sales area that does not exceed 300 m^2. These stores are usually located in residential areas of large cities and small towns;
- discounter - trade area, which occupies from 300 to 1 000 m^2 and in which goods are traded with minimal price difference (5-7%);
- forecourt retailer - store, which is located next to a petrol station. These types of stores usually have extended hours and sales area of 400 m^2. They trade products in the following categories: audio-visual products, fast food, the press, greeting cards, car accessories etc.

Although the overall development trends of grocery retail sector are similar in Latvia, Lithuania, and in Estonia, there can be detected specific features that are characteristic only to a particular country.

Latvia

Development of grocery retail sector in Latvia has been closely related with the situation in country's economy and population's welfare level. In 2009, when Latvian economy was in the post-crisis recovery phase, the retail sector took a waiting position as retailers postponed their expansion plans and, consequently, high unemployment rate determined people to cut their spending. The situation began to change in 2010 when the situation in the economy started to improve, i.e. the number of employees gradually grew, the wages climbed, and the purchasing power of the population increased. According to the statistical data in 2012 compared to 2011, the retail sales have risen by 9.7% (Central Statistical Bureau of Latvia, 2013). However, if one compares changes in grocery retailers' sales in a longer time scale, then in 2011 it has risen by 11.2% compared with 2006.

Statistics show that the number of modern grocery retailers' outlets in 2011 has risen by 2%, if compared with 2010, while the number of traditional grocery retailers' outlets continued to decline (Central Statistical Bureau of Latvia, 2013), marking a similar trend as in other economically developed countries (Agriculture and Agri-Food Canada, 2010; Arkader R., Frossard Ferreira, C. 2004). Such a trend in the retail sector accords with the pace of the modern consumer lifestyle when shopping convenience, a wide range of products, many discounts and special offers, availability of car parking have become the determinants of retail store selection. Other scientists who have studied the situation and consumers' behaviour in grocery retail sector (Pancenko E. u.c., 2008; Popkowski Leszczyc P.T.L. et al., 2004) have also pointed out similar findings. In response to the growing demand of consumers, retailers open new stores in densely populated urban housing estates and shopping centres.

According to the statistical information (Central Statistical Bureau of Latvia, 2013), the most popular food distribution channels in Latvia are convenience stores (forming 41.2% of total grocery retailers' sales), supermarkets (23.7%), and hypermarkets (14.9%). Several below mentioned factors have contributed to more rapid development of such types of grocery retailers:

- the entrance of Lithuanian company UAB Maxima Groupe in the Latvian retail market and expansion of convenience stores network Maxima X throughout the country;
- aspirations of independent small grocers to survive in a climate of increasing competition from supermarkets and hypermarkets. Small independent players united to form trade co-operatives such as Baltstor SIA with the Vesko brand, Latvijas Tirgotaju Kooperacija AIBE SIA with Aibe, Iepirkumu Grupa SIA with top!, and the newest player, founded at the end of 2007, Latvijas Tirgotaju Savieniba SIA with LaTS;

- consumers' overall swing towards large stores and shopping centres where food operators are hypermarkets as well as openings of new hypermarkets (key players - Rimi and Prisma hypermarket networks);
- new supermarkets were opened by all the core players – Maxima Latvija SIA, Rimi Latvia SIA and Palink SIA (Iki stores).

In the post-crisis period, discounters have slightly lost their popularity in Latvia and the total turnover of this type's grocery retailers showed a declining trend from 2006 to 2011. Until 2012, only two discounter's chains Supernetto (Rimi Latvia SIA) and Cento (Palink Ltd) were operated in Latvia.

While the overall sales of traditional grocery retailers are decreasing every year, chained food/beverage/tobacco specialists remain the strongest players among traditional grocery retailers. These usually belong to large local food manufacturers and mainly offer their branded products. Some chains such as Laima stores by Saldumu Tirdznieciba SIA and Latvijas Balzams by Bravo SIA, are traditional for Latvia. Other popular representatives of this type's retailers are Putnu Fabrika Kekava AS and Daudznozaru Kompanija Daugava SIA, which have significantly expanded their networks of branded stores in order to reduce their dependence on the leading modern grocery retailers such as hypermarkets and supermarkets.

Lithuania

In Lithuania, like in Latvia, it is possible to observe retail sector modernisation and modern grocery retailers becoming as most popular distribution channel accounting for 86% share of the total grocery retailers' sales in 2012 (Statistics Lithuania, 2013). The analysis of the changes in grocery retailers' sales leads to the conclusion that Lithuania is the only one among the studied countries where grocery retail sector has experienced a significant decrease in sales. In 2011, total grocery retailers' sales fell by 16.8% compared with 2006. Positive development tendencies, e.g. when sales amounts in 2011 exceeded 2006 level, can be referred only to discounters and food/drink/tobacco specialists. The main factors that limited the purchasing power of consumers in relation to food were the low level of wages, rising heating bills, purchasing of other non-food products as well as the price decline of some food categories, influenced by the falling global commodity prices (Lietuvos bankas, 2011).

According to statistical information (Statistics Lithuania, 2013), the most popular food distribution channels in Lithuania are supermarkets (forming 43.5% of total grocery retailers' sales), hypermarkets (23.4%), and convenience stores (13.1%). Overall, there can be observed several main trends in the Lithuanian grocery retail sector:

- within better economic situation in the country, consumers' buying habits have changed - if earlier preference was given to lower commodity prices, then now positive shopping experience is more important. To keep abreast of these changes in 2011 and 2012, a number of grocery retailers networks modernised the existing stores as well as opened new convenience stores, supermarkets, and hypermarkets;
- the importance of traditional retailing declined over the review period; however, there are signs of change;
- the demand for exclusive delicacies and foods have increased that has contributed to the growth and development of food/beverage/tobacco specialist stores.

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Estonia

Like in Latvia and Lithuania, also in Estonia hypermarket and supermarket segments continued to expand but the importance of small individual retailers has decreased constantly. Such store types as hypermarkets, supermarkets, and discounters have built up extensive store networks that are able to offer to consumers a very diverse range of products for competitive prices.

In the period of economic crisis, the Estonian consumers preferred discounters, because they made it possible to reduce everyday expenses. In 2011, only one discounter network Säästumarket (Rimi Eesti Food AS) operated in Estonia. Alongside with the improvement of the economic situation in the country and rising income level, consumers started to increase their purchases in supermarkets rather than in low-cost stores, i.e. discounters. Such conditions led supermarkets to maintain their leading position in the Estonian grocery retail market.

In Estonia, according to statistical data (Statistics Estonia, 2014), the amount of grocery retailers' sales has increased most significantly compared with Latvia and Lithuania. During the period from 2006 to 2011, the total amount of grocery retail sales in Estonia increased by 26%. However, such an increase is mainly related with the growing prices after adopting the euro in 2011. In Estonia, according to the statistical information provided by Eurostat (2012), in 2011, there was recorded the second fastest price increase among all the European Union Member States, comprising 5.1%.

In general, modern grocery retailers - supermarkets, convenience stores, hypermarkets, and discounters - dominate in the Estonian food retail market, constituting accordingly 27.1%, 24%, 21.9%, and 16% of the total grocery retail sector's sales. However, the role of traditional grocery retailers remains significant in rural areas with small population where modern retailers are not profitable to place their store networks.

2. Key players in grocery retail sector

Latvia

Main players in the Latvian grocery retail sector are foreign companies. Nearly half or 43.4% of total grocery retail turnover comes from two foreign companies - SIA Rimi Latvia, a subsidiary of the Swedish company ICA AB, and Maxima Latvia SIA, a subsidiary of the Lithuanian company Maxima LT UAB (Table 1).

The next most important players in the Latvian grocery retail are local retail companies, which actually are marketing cooperatives that unite small independent Latvian traders. One of the largest of such local companies is Baltstor SIA that acquires 7% of total turnover in the grocery retail sector. Such local companies as Latvijas Tirgotaju Savieniba SIA and Partikas Tirdzniecibas Apvieniba SIA, representing respectively 6.1% and 6.0% of total grocery sales, take similar market shares.

The data summarised in Table 1 show that all the key players in Latvian grocery retail sector have created national store chain coverage, which allows them to attract the maximum numbers of potential consumers. However, foreign companies Rimi Latvia SIA and Maxima Latvija SIA are mainly concentrated in densely populated urban areas, mainly Riga and other largest cities.

Table 1

Top five Latvian grocery retail companies and their characteristic features in 2012 (mln LVL and %)

Store chain	Company	Capital origin country	Number of stores	Turnover, mln LVL	Market share, %
Rimi, Supernetto	Rimi Latvia SIA	Sweden	113	417.2	23.3
Maxima	Maxima Latvija SIA	Lithuania	141	413.2	20.1
Vesko, Mego	Baltstor SIA	Latvia	130	146.8	7.0
LaTS	Latvijas Tirgotaju Savieniba SIA	Latvia	702	111.0	6.1
Elvi	Partikas Tirdzniecibas Apvieniba SIA	Latvia	89	74.5	6.0

Source: authors' calculations based on the data of Maxima Grupe, 2014a; ICA Gruppen, 2013; retail companies' websites

Yet, in rural areas, there are available either small independent stores, which thrive due to the fact that they are also the sole players in the particular area, or independent small stores, which are the members of Latvian trade co-operations.

Lithuania

The main characteristic of Lithuanian grocery retail market is a pronounced dominance of local retailers – 3 of 5 largest grocery retailers are Lithuanian companies. A clear leader is Lithuanian company Maxima LT UAB, which according to statistical information (Maxima Grupe, 2014b) constitutes about 40% of total grocery retail sales in Lithuania. The second largest market player is an international company Palink UAB, whose largest shareholders are German, Belgian, French, Italian, and Swiss traders union Coopernic - the second largest food retail organisation in Europe.

Table 2

Top five Lithuanian grocery retail companies and their characteristic features in 2012 (bln LTL and %)

Store chain	Company	Capital origin country	Number of stores	Turnover, bln LTL*	Market share, %
Maxima	Maxima LT UAB	Lithuania	227	4.56	39.1
IKI, IKI Express un IKI Cento	Palink UAB	Germany, Belgium, France, Italy, and Switzerland	226	2.18	16.8
Norfa	Norfos Mazmena UAB	Lithuania	127	1.55	12.0
Rimi	Rimi Lietuva UAB	Sweden	32	1.12	6.5
Aibe	Aibes Mazmena UAB	Lithuania, Latvia	520	0.67	4.8

Source: authors' calculations based on the data of Maxima Grupe, 2014b; ICA Gruppen, 2013; retail companies' websites

The third largest food retailer in Lithuania is Lithuanian company Norfos Mazmena UAB, which occupies 12% of total grocery retail market (Table 2).

Overall, the grocery retail sector of Lithuania can be characterised as highly concentrated owing to the fact that five largest grocery retail companies control 79.2% of total market and this market share tends to increase.

Estonia

In Estonian food retail sector, both local and foreign companies operate. Estonian grocery retailers such as Eesti Tarbijateühistu Keskühistu and Selver AS compete with Swedish company Rimi Eesti Food AS, Lithuanian company Maxima Eesti OÜ, and Finnish company Prisma Peremarket AS (Table 3).

Table 3

Top five Estonian grocery retail companies and their characteristic features in 2012 (mln EUR and %)

Store chain	Company	Capital origin country	Number of stores	Turnover, mln EUR*	Market share, %
Rimi, Säästumarket	Rimi Eesti Food AS	Sweden	83	358.0	19.0
A&O, Maximarket, Konsum	Eesti Tarbijateühistu Keskühistu	Estonia	259	327.7	18.9
Selver	Selver AS	Estonia	39	317.9	16.2
Maxima	MAXIMA Eesti OÜ	Lithuania	65	291.0	13.8
Prisma	Prisma Peremarket AS	Finland	8	147.0	6.5

Source: authors' calculations based on the data of Maxima Grupe, 2014c; ICA Gruppen, 2013; retail companies' websites

Foreign grocery retailers have well adapted to the Estonian consumers' tastes and in their chain stores offer products from national producers. Swedish retail company's ICA AB subsidiary company Rimi Eesti Food AS has become one of the market leaders in Estonia, the company offers a wide range of products and, in order to attract consumers, implements a significant discount policy.

Estonian company Eesti Tarbijateühistu Keskühistu, which essentially runs convenience stores, has the strongest regional coverage and the most extensive store network in Estonia. This network covers cities, towns, but especially villages in rural areas. Other leading grocery retailers run mostly hypermarkets, supermarkets, and discounters, which mostly are located in cities and towns and do not cover rural areas due to the small population.

Estonian, like Lithuanian, grocery retail sector can by characterised as highly concentrated as five largest grocery retail companies control 74.4% of total market and this figure tends to increase.

Conclusions

1. Today in Latvia, Lithuania, and Estonia, structural changes in grocery retail can be observed where food products mainly are distributed through modern grocery retailers. The most popular food distribution channels were detected as follows:
   - in Latvia: convenience stores (forming 41.2% of total grocery retailers' sales), supermarkets (23.7%), and hypermarkets (14.9%);
   - in Lithuania: supermarkets (forming 43.5% of total grocery retailers' sales), hypermarkets (23.4%), and convenience stores (13.1%);
   - in Estonia: supermarkets, convenience stores, hypermarkets and discounters - creating accordingly 27.1%, 24%, 21.9%, and 16% of total grocery retail sector's sales.

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2. Although, a constant decline of traditional retailing can be observed in the all countries studied, there are signs of change:
   - in Latvia, chained food/beverage/tobacco specialist stores that belong to large local food manufacturers remain the strongest players among traditional grocery retailers;
   - in Lithuania, the demand for exclusive delicacies and foods have increased that has contributed to the growth and development of food/beverage/tobacco specialist stores;
   - in Estonia, the role of traditional grocery retailers remains significant in rural areas with small population where modern retailers are not profitable to place their store networks.
3. Latvian, Lithuanian, and Estonian grocery retail sectors can be characterised as highly concentrated owing to the fact that five largest grocery retail companies control accordingly 62.5%, 79.2%, and 74.4% of these countries' total market.

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