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Modern Grocery Retail Trends in Central and Eastern Europe

Source: *Planet Retail, 2012*

Source: *Planet Retail, 2012.*

Growing Forward

Canada

EXECUTIVE SUMMARY

During the 1990s, the retail sector in Central and Eastern Europe* (CEE) was privatized and some domestic supermarket chains gradually emerged. In the following decade, the region saw a massive inflow of foreign supermarket chains, driving the rapid launch of large-format modern retail development.

Large-format retailing is becoming mainstream in many places across the CEE, particularly in Russia's larger cities, where growth of this channel is quickly progressing. In most countries, there is rapid multi-nationalization and consolidation of the supermarket sector, with profound changes in the consumer food shopping experience.

The ripple effects of globalization in the first part of the 21st Century have also caused supermarkets to emerge rapidly through a proliferation of formats including discount stores, cash and carries and small-format convenience chain stores, on top of a growing number of large-format stores. In addition, retailers have made significant changes in their procurement systems, such as the establishment of centralized buying and distribution centres, shifts from traditional brokers to new, specialized wholesalers and the use of private standards.

The impact of reforms on supermarket expansion in this region is closely linked to socioeconomic factors. Growing incomes and urbanization had already created burgeoning demand for supermarkets, but this format only 'took off' once reforms were implemented and large players (mostly from Western Europe) saw an investment opportunity.

*For the purposes of this report, Central and Eastern Europe includes the following countries:
Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine

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Source: *Planet Retail, 2012*

SOCIOECONOMIC OVERVIEW

Central and Eastern Europe (CEE) is home to almost 342 million inhabitants (based on 2010 statistics), with Russia, Ukraine and Poland representing a combined 66% of the total population.

Central and Eastern Europe's five largest economies based on total Gross Domestic Product (GDP) are Poland, Greece*, the Czech Republic, Romania and Hungary which together accounted for 75% of the region's total GDP in 2010. In the same year, the countries with the largest real GDP growth were Belarus, Moldova and Georgia.

The highest consumer spending per capita in CEE is found in Slovenia, the Czech Republic and Hungary. The consumer spending in these countries is generally three to four times higher than in neighbouring countries such as Serbia, Romania or Bulgaria.

However, the general level of wealth in CEE continues to be very low when compared with most other European countries. As well, the GDP per capita in Western Europe is more than three times higher than the overall average for Central and Eastern Europe.

Socioeconomic Indicators in Central and Eastern Europe by Country, 2010

Country	Inhabitants	Total GDP (US$)	Per Capita GDP (US$)	Real GDP Growth (%)	Price Inflation (%)	Total Spending Per Capita (US$)
Albania	3,202,000	11,684,108,200	3,650	3.50	3.60	2,901
Armenia	3,299,000	9,369,871,500	2,840	2.10	7.27	2,237
Azerbaijan	9,049,000	51,705,847,200	6,009	5.00	5.67	2,271
Belarus	9,481,000	54,869,183,900	5,734	7.55	7.74	3,088
Bosnia and Herzegovina	3,897,000	16,584,037,700	4,243	0.70	2.12	3,919
Bulgaria	7,505,000	47,720,920,200	6,355	0.15	3.04	4,032
Croatia	4,416,000	60,691,001,300	13,743	-1.19	1.05	7,850
Czech Republic	10,507,000	197,449,117,500	18,256	2.35	1.46	9,473
Estonia	1,337,000	18,950,031,800	14,368	3.11	2.89	7,617
Georgia	4,436,000	11,636,243,300	2,629	6.38	7.11	2,126
Hungary	10,014,000	128,440,935,000	13,004	1.20	4.85	8,586
Latvia	2,248,000	23,726,067,200	10,552	-0.34	-1.22	6,579
Lithuania	3,293,000	36,395,444,500	11,002	1.32	1.19	7,492
Macedonia	2,056,000	9,080,220,500	4,442	1.80	1.51	3,387
Moldova	3,564,000	5,707,595,800	1,601	6.90	7.36	1,353
Montenegro	626,000	4,111,911,800	6,397	1.08	0.50	3,688
Poland	38,092,000	468,341,898,100	12,295	3.80	2.58	7,601
Romania	21,430,000	163,882,093,900	7,517	-1.27	6.11	4,733
Russia	142,900,000	1,484,075,579,200	10,333	4.00	6.85	5,426
Serbia	7,396,000	38,242,899,400	5,168	0.95	6.17	4,650
Slovakia	5,430,000	87,091,988,100	16,079	4.02	0.70	8,230
Slovenia	2,018,000	46,916,066,100	23,615	1.21	1.83	12,923
Ukraine	45,783,000	135,994,439,000	2,970	4.19	9.37	2,195

Source: *Planet Retail, 2012*

**Note:* While Planet Retail includes Greece in its definition of Central and Eastern Europe, Greece will be excluded from the analysis in the rest of this report, as it is more often associated with the EU 27 market than CEE.*

DEMOGRAPHICS

Demographic trends in Central and Eastern Europe vary from country to country. However, the region as a whole faces demographic challenges similar to those faced by Western Europe, including birth rates that are below replacement levels and aging populations. These trends affect the region's retail food markets by influencing consumer behaviour and preferences, making demographics an increasingly important factor when analyzing shopping trends in this region.

Some countries face significant population losses in upcoming decades due to high death rates, low birth rates and an overall lack of immigration. Bulgaria, Ukraine, Russia and Romania face the most significant declines in these areas. Internal migration is also changing demographic profiles. Capital cities and major regional cities are forecast to better retain their populations than more rural and industrial areas, due largely to employment prospects. These cities will remain "younger" as they will attract internal migrants with work and lifestyle opportunities. The major cities are also significantly wealthier, presenting further retail opportunities based solely on consumer spending power, which is also expected to increase as economies in CEE expand.

Demographics in Central and Eastern Europe, Historic/Forecast

Category	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020
Median age of population (years)	37.8	38.0	38.2	38.3	*38.5*	38.7	38.8	39.0	39.3	40.5
Birth rates (per '000 inhabitants)	10.7	11.3	11.5	11.4	*11.4*	11.4	11.4	11.3	11.2	10.4
Death rate (per '000 inhabitants)	13.4	13.3	13.0	13.2	*13.2*	13.2	13.1	13.1	13.1	13.0

Source: *Euromonitor, 2012*

CONSUMER TRENDS

Income growth, lifestyle changes as a consequence of urbanization, and shifting family structures have all resulted in diet changes among consumers in Central and Eastern Europe. For example, growing purchasing power and increased opportunities for women in the workforce have resulted in less time for home cooking, and higher demand for processed or prepared foods. Consumers in this region, whose diets have traditionally been carbohydrate-rich, have also increased their consumption of more premium meats, as well as fruits and vegetables. Furthermore, consumers in the wealthier countries such as Poland, Russia and Czech Republic, are adjusting their diets to include relatively higher value-added foods. As a result, this region is seeing an increasing differentiation of food products on the market, making the shopping experience more complex.

While consumer purchases are still largely driven by price, quality and income level, how consumers define "quality" has changed considerably in recent years. According to a Datamonitor study of the retail environment in Central and Eastern Europe, perceptions of quality are now closely associated with four types of attributes: sensory, health, process, and convenience. Datamonitor defines the attributes as follows:

- Sensory attributes refer to the classic aspects used to measure food quality (taste, appearance, and smell), with taste being dominant. Consumers use a host of market signals, such as brand, price, and other labels, in trying to predict the level of sensorial quality.
- Health attributes refer to the association of what one eats to personal health. Consumers in this region are increasingly seeing these as important criteria for food selection.
- Process attributes relate to consumer interest in how food is produced. Other social and environmental factors would also be included here. For example, some consumers are willing to pay a premium for food products that are organic, sustainable, equitably produced, environmentally friendly, non genetically modified and/or respect animal welfare.
- Convenience attributes are defined as aspects of a food product that save time or energy in terms of shopping, storage, preparation, eating and/or disposal.

CONSUMER TRENDS (continued)

Consumer Expenditure on Grocery Retail and Food in Central and Eastern Europe,

Country	Grocery* Retail Sales Per Capita ($US)	Total Food Spending** Per Capita (US$)	Modern Grocery Distributor (MGD)*** Grocery* Sales Per Capita ($US)
Albania	1,017.92	1,082.22	378.29
Armenia	876.14	929.01	268.63
Azerbaijan	962.77	1,027.33	255.62
Belarus	1,634.81	1,743.84	536.43
Bosnia and Herzegovina	1,293.80	1,362.71	732.37
Bulgaria	1,417.69	1,510.76	1,305.86
Croatia	2,416.40	2,607.12	2,891.51
Czech Republic	2,469.36	2,647.63	2,274.36
Estonia	1,921.25	2,056.59	2,358.87
Georgia	1,048.26	1,114.43	285.11
Hungary	2,118.62	2,487.19	1,839.06
Latvia	1,867.77	1,967.14	1,909.67
Lithuania	1,895.60	2,052.42	1,633.87
Macedonia	1,148.22	1,211.16	1,468.83
Moldova	626.37	653.91	341.98
Montenegro	1,426.84	1,418.47	737.02
Poland	2,149.73	2,298.48	2,231.18
Romania	1,530.63	1,625.77	1,318.27
Russia	1,731.30	1,831.58	905.21
Serbia	1,582.88	1,670.33	1,065.58
Slovakia	1,842.43	2,046.21	1,621.80
Slovenia	2,767.14	3,180.15	3,123.70
Ukraine	853.64	924.03	469.89

Source: *Planet Retail 2012*
Note 1: *Refers to all products purchased through a grocery retail establishment, including non-food items.*
*****Note 2:*** *Total food spending includes spending on foodservice.*
******Note 3:*** *MGD refers to modern grocery retailers (largely multiples and chain stores) and cash & carries/warehouse clubs.*

RETAIL LANDSCAPE

There are significant differences between individual Central and Eastern European countries in terms of how international retail has progressed. Countries such as Poland, Slovakia, the Czech Republic and Hungary have benefitted from the expansion of major Western European retailers that began in the late 1990s.

Retail investments in the highly competitive CEE region are often associated with several years of start-up loss. This largely limits market entrance possibilities to wealthier retail groups that can fund their investments from established home-market operations, such as Metro Group, Rewe or Carrefour. In recent years, many grocers have opted to restructure their portfolios to maximize gains, withdrawing altogether from some CEE markets in order to expand in others.

Source: *Planet Retail 2012*

RETAIL LANDSCAPE (continued)

Only a few foreign grocery retailers, namely Metro Group, Auchan, Globus, Rewe Group, Rautakirja Group, Tesco, and Lotte, operate in the Central and Eastern European region. Most Western retailers are focusing on expansion in Russia, while Ukraine is not yet prepared for large-scale foreign retail investment. Consumer spending in Ukraine is roughly half what it is in Russia.

Top 20 Modern Grocery Distribution Banners in Central and Eastern Europe
Company, Format, Total Sales and Grocery Sales in 2010

Banner	Company	Format	Total Banner Sales ($US)	Grocery Banner Sales ($US)
Metro	Metro Group	Cash and carry	7,633,303,047	7,202,512,677
Pyaterochka	X5 Retail Group	Supermarket	7,216,391,113	6,799,607,708
Magnit	Magnit	Supermarket / neighbourhood	6,978,836,197	6,978,836,197
Tesco	Tesco	Hypermarket / superstore	5,847,197,624	5,164,712,000
Kaufland	Schwarz Group	Hypermarket / superstore	5,374,309,380	4,746,560,981
Makro	Metro Group	Cash and carry	3,719,370,600	3,509,465,526
Billa	Rewe Group	Supermarket	2,761,739,584	2,592,255,954
Auchan	Auchan	Hypermarket	2,758,612,682	2,334,810,734
Real	Metro Group	Hypermarket	2,666,215,251	2,256,608,195
Lewiatan	Lewiatan	Supermarket / neighbourhood store	2,121,856,873	2,044,452,974
CBA	CBA	Neighbourhood store	1,355,342,904	1,242,983,614
COOP, Mini	COOP EURO	Neighbourhood store	1,324,898,672	1,217,340,801
5'Marinopoulos	Carrefour	Convenience store	711,291,861	630,934,718
Zabka	Zabka	Convenience store	699,217,992	652,908,741
Lukoil	Lukoil	Forecourt store	472,922,701	395,604,861
BP Connect	BP	Forecourt store	381,005,972	318,715,541
Ruch	Ruch	Kiosk	148,292,657	128,950,137
Lietuvos Spauda	Rautakirja	Kiosk	49,915,218	47,085,629
Starbucks	Starbucks	Coffee shop / tea house	—	1,798,410
Costa Coffee	Whitbread	Coffee shop / tea house	—	897,860

Source: *Planet Retail, 2012*

RETAIL LANDSCAPE (continued)

Sales in Modern Grocery Distributors (MGDs) and Specialist Retailers in Central and Eastern Europe by Country, 2010

Country	Total MGD Banner Sales (US$)	MGD Grocery Banner Sales (US$)	Specialist Retailer Grocery Sales* (US$)
Albania	76,263,790	69,421,771	373,831
Armenia	345,920	—	16,035
Azerbaijan	18,653,871	15,877,749	121,853
Belarus	12,432,863	8,178,154	15,472,729
Bosnia and Herzegovina	870,781,749	762,845,876	3,367,290
Bulgaria	2,773,787,426	2,542,605,313	12,019,798
Croatia	5,502,403,283	5,011,833,147	37,359,079
Czech Republic	14,846,120,764	13,187,715,901	158,412,546
Estonia	1,976,963,907	1,734,961,795	15,122,087
Georgia	54,994,865	51,036,055	—
Hungary	15,131,880,955	13,614,306,491	77,416,069
Latvia	2,086,477,041	1,845,326,612	10,929,025
Lithuania	3,795,526,540	3,439,110,742	59,825,581
Macedonia	193,239,369	182,072,219	7,864
Moldova	151,543,194	141,188,257	272,169
Montenegro	93,542,426	87,574,256	—
Poland	35,368,026,752	31,548,334,441	460,526,457
Romania	8,467,386,150	7,532,673,655	70,549,882
Russia	42,185,151,234	38,735,256,386	295,350,820
Serbia	2,770,968,890	2,582,252,497	6,661
Slovakia	6,502,487,591	5,917,985,912	27,279,882
Slovenia	4,295,347,006	3,962,063,651	24,570,689
Ukraine	6,776,688,337	6,180,249,052	12,201,037

Source: *Planet Retail 2012*
****Note:*** *Specialist retailers are not a segment within modern grocery distributors, but remain an important channel in many countries in Central and Eastern Europe. Grocery sales figures are provided for comparison.*

Source: *Planet Retail 2012*

RETAILER CHARACTERISTICS

Modern Hypermarkets

Retailing in the region is moving away from small retailers to larger formats. With the growing prevalence of modern retail, the act of shopping is no longer viewed as a simple necessity, but as an opportunity for an outing or enjoyable experience. Many hypermarkets in CEE aim to create a broader shopping experience for customers with tastings and in-store promotions. Loyalty programs have also become popular in establishing a closer relationship with shoppers. As a result of such initiatives, consumers are more willing to travel to these larger stores where a wider assortment of goods can be found.

Hypermarkets in Central and Eastern Europe usually feature a selling area that exceeds 2500 m^2 and carry varied product categories previously only found at speciality stores, such as furniture, car accessories, household appliances and toys.

Discounters

The discounter channel has also become significant in Central and Eastern Europe. These stores appeared later than hypermarkets, as their general strategy is to enter well-established markets and then expand rapidly. Discount formats generally offer a fairly narrow assortment of products, at around 1,000 to 2,000 items, compared to supermarkets that easily stock over 6,000.

Discounters will usually stock just two to three key brands for each product category. They will generally offer introductory promotions for new brands as acquired, keeping the new item in stock for a few weeks. Their strategy is to rotate brands rather than list them permanently. However, even discounters have started to widen their branded selection. Their main messaging to consumers relies heavily on offering the best prices, therefore private label is extremely important in the discounter channel, and the largest variety of own-label brands can be found in this format.

Discounters' focus on price is also reflected in how their sales area is arranged. The shelves are very plain, with some products simply stacked on palettes. Discounters seek to maximize profit from a low price point, rather than make shopping a broader activity or experience, as seen in modern hypermarkets.

Source: *Planet Retail, 2012*

Source: *Planet Retail 2012*

TOP COUNTRIES IN THE REGION'S RETAIL SECTOR

Central and Eastern Europe saw robust growth after 2010, following the global economic downturn. According to Euromonitor, Russia, Poland, Ukraine, Czech Republic, Romania, Hungary, Slovakia and Bulgaria present the best prospects for economic growth within the next decade. The following factors reinforce the region's capacity to attract foreign direct investment:

- large domestic markets
- a large number of cities with over 250,000 inhabitants
- improved infrastructures in terms of roads, airports, ports and cold chains
- a diversified economic base
- strong human capital drawing on a sizable cohort of young professionals
- a number of economically significant regional clusters

Economic growth in these markets will spur continued growth in the retail food industry, as illustrated by the table below.

Sales of Alcoholic Drinks and Packaged Food in Key Central and Eastern European Countries
Historic/Forecast Market Sizes (Based on Retail Sales Price) in US$ Millions

Category and Country	2008	2009	2010	2011	2012	2013	2014	2015
Alcoholic drinks								
Russia	41,119	42,422	44,642	46,243	47,222	48,756	51,486	54,357
Poland	9,004	9,134	9,194	9,326	9,724	10,064	10,396	10,723
Ukraine	4,572	5,377	5,962	6,427	6,985	7,528	8,143	8,867
Romania	2,941	2,742	2,743	2,801	2,915	3,103	3,378	3,728
Hungary	2,618	2,565	2,653	2,733	2,839	2,978	3,144	3,308
Czech Republic	2,415	2,451	2,535	2,580	2,618	2,658	2,696	2,734
Slovakia	1,101	1,202	1,226	1,246	1,268	1,299	1,337	1,380
Bulgaria	765	776	786	803	829	855	884	916
Packaged food								
Russia	64,603	72,255	79,889	87,687	95,414	103,489	111,269	118,979
Ukraine	16,778	17,607	19,133	20,869	23,171	25,126	27,082	29,268
Poland	17,449	18,099	18,743	19,444	20,211	21,007	21,841	22,700
Czech Republic	8,033	8,010	8,094	8,316	8,613	8,926	9,237	9,588
Romania	6,522	6,733	7,078	7,748	8,234	8,711	9,197	9,738
Hungary	5,747	5,944	6,033	6,249	6,495	6,751	7,056	7,410
Slovakia	3,781	3,738	3,737	3,834	3,953	4,112	4,286	4,457
Bulgaria	2,795	2,843	2,882	2,994	3,114	3,230	3,348	3,472

Source: *Euromonitor 2012*

Source: *Planet Retail 2012*

Source: *Planet Retail 2012*

TOP COUNTRIES IN THE REGION'S RETAIL SECTOR (cont'd)

RUSSIA

The Russian economy has returned to growth after the economic downturn in 2008-2009, and remains the largest in Central and Eastern Europe by far, due to the country's large population of 143 million. The country's packaged food and alcoholic beverages retail market was valued at over US$133.9 billion in 2011.

Approximately 8.5% of Russians live in the capital city of Moscow and its suburbs. Over 77% of the population lives in urban areas, which is a very high proportion by CEE standards. There are 12 cities in Russia with more than one million inhabitants.

Russian consumers are divided between a small elite living in Moscow and St. Petersburg, and a large lower-middle class. Russians have an unusually high proportion of disposable income and generally have European tastes. They are well informed consumers that are open to new products. As income levels and consumer confidence grow, increasingly busy lifestyles are expected to boost demand for packaged food. Russian consumers prefer conveniently packaged products, particularly well-known brands. Furthermore, Russian consumers are following the trend towards health-consciousness. They are increasingly looking for "natural" and nutritious products without any artificial ingredients, as well as variants with added beneficial health ingredients.

Source: *Planet Retail 2011*

Russian alcohol companies are trying to boost sales by targeting female consumers. New flavours and brands were developed, and existing brands are being adapted for the female market hoping to increase their consumer base.

The majority of modern retail stores in Russia are located in Moscow and St. Petersburg. The modern retail sector is dominated by domestic retailers such as X5 Retail Group, Magnit and Dixi. However, there are some large international companies in the market such as Metro Group, Auchan and Rewe.

Russian retailers did not offer any private label ranges until 2004. With the arrival of global players such as Auchan, which offered private labels at extremely competitive prices, many domestic chains began launching their own ranges, particularly at lower price points. Private label products are generally up to 40% cheaper than branded products. At first, Russian retailers' private label ranges were limited to soft drinks, dairy products and confectionery products. Today, private label products can be found in all grocery categories and in some non-food product ranges.

Top Five Russian Grocery Retailers in 2010

Company	Number Of Outlets	Total Sales Area (m^2)	Average Sales Area (m^2)	Grocery Banner Sales ($US millions)	Grocery Market Share (%)
X5 Retail Group	2,469	1,544,627	626	10,990	5.26
Magnit	4,055	1,422,709	351	7,605	3.64
Auchan	95	425,100	4,475	4,537	2.17
Metro Group	73	638,800	8,751	3,500	1.67
O'Key	57	287,000	5,035	2,218	1.06
Total	**6,749**	**4,318,236**	**640**	**28,853**	**13.80**

Source: *Planet Retail 2012*

TOP COUNTRIES IN THE REGION'S RETAIL SECTOR (cont'd)

RUSSIA (continued)

Historic/Forecast Market Sizes of Alcoholic Drinks and Packaged Food in Russia, in $US Millions

Category	2007	2008	2009	2010	2011	2012	2013	2014	2015
Alcoholic drinks	36,522	41,119	42,422	44,642	46,243	47,222	48,756	51,486	54,357
Beer	14,746	16,837	18,302	20,069	20,441	21,020	21,966	23,415	25,113
RTD*/high-strength premixes	837	1,078	1,018	986	962	958	1,018	1,093	1,186
Spirits	14,448	15,762	15,607	15,828	16,819	16,762	16,640	17,044	17,076
Wine	6,491	7,442	7,495	7,760	8,022	8,482	9,131	9,933	10,983
Packaged food	55,359	64,603	72,255	79,889	87,687	95,414	103,489	111,269	118,979
Baby food	913	1,221	1,488	1,767	2,128	2,438	2,749	3,065	3,378
Bakery	8,972	9,994	10,801	11,352	11,830	12,346	13,101	13,866	14,653
Canned/preserved food	3,226	3,784	4,184	4,619	5,021	5,390	5,787	6,147	6,506
Chilled processed food	4,139	4,676	5,376	5,856	6,343	6,848	7,384	7,881	8,412
Confectionery	7,803	8,895	9,775	10,753	11,765	12,828	13,825	14,718	15,597
Dairy	11,146	13,573	16,138	18,739	21,155	23,727	26,380	28,968	31,544
Dried processed food	2,188	2,699	3,125	3,335	3,544	3,706	3,893	4,082	4,290
Frozen processed food	4,899	5,675	6,312	7,046	7,940	8,633	9,381	10,104	10,846
Ice cream	1,577	1,725	1,949	2,249	2,478	2,756	2,981	3,205	3,417
Meal replacements	8	11	13	12	14	17	20	23	26
Noodles	416	479	555	587	616	631	657	685	720
Oils and fats	4,147	5,064	5,247	5,623	6,202	6,777	7,336	7,817	8,251
Pasta	848	1,133	1,336	1,499	1,615	1,709	1,815	1,930	2,052
Ready meals	2,882	3,228	3,586	3,930	4,373	4,743	5,086	5,373	5,643
Sauces, dressings and condiments	3,040	3,524	3,870	4,221	4,612	4,944	5,289	5,600	5,925
Snack bars	7	9	10	11	14	16	18	21	24
Soup	339	399	457	534	624	706	803	910	1,009
Spreads	472	547	611	705	807	916	1,022	1,110	1,194
Sweet/savoury snacks	2,796	3,179	3,329	3,582	3,820	4,056	4,308	4,650	4,903

***Source:** Euromonitor 2012*
***RTD** = Ready-to-drink*

TOP COUNTRIES IN THE REGION'S RETAIL SECTOR (cont'd)

POLAND

Poland is currently the second-largest retail market for packaged food and alcoholic beverages in CEE, valued at a combined US$28.8 billion in 2011. The country is home to just over 38 million inhabitants, making it the third-largest population in Central and Eastern Europe, behind Russia and Ukraine. This is despite an estimated 4 million residents emigrating from Poland following its entry into the European Union (E.U.) in 2004. Almost 6% of the Polish population lives in the capital of Warsaw and its suburbs, and over 64% of inhabitants live in urban areas. The population is spread across a very large number of small and medium-sized towns.

Although price and the price-to-quality ratio remain the two main factors guiding purchase decisions, consumer behaviour and shopping trends illustrate that health and wellness is an increasingly important influence on demand for packaged food. A growing number of Polish consumers are using food products as a way to lead a healthy lifestyle, to look and feel better, and to prevent illness. As a result, sales of health-positioned products such as pro/pre-biotic yogurts, bread substitutes, breakfast cereals, snack bars, reduced-calorie sweet and savoury snacks, and functional oils and fats are enjoying increasing sales.

Poland is also a country with a long tradition of vodka manufacturing. High per capita volume consumption and Polish diasporas are major factors behind the expansion of domestic alcoholic beverage companies. According to the latest rankings of global spirits published by Drinks International, Sobieski, a premium Polish brand, is the second fastest developing brand in the world. The American market was the main contributor to this fast growth. However, in recent years, Poland has also become the third-largest producer of beer in Europe (with the products largely destined for the local market), as well as the fifth-largest consumer market for beer. This indicates a key developing shift in Polish preferences regarding alcoholic beverages.

Roughly half of Poland's retail sales are generated through the food sector. While small traditional convenience stores remain the leader in Polish food retail, hypermarkets, supermarkets and discount stores are slowly gaining share. Each of these modern channels held a fairly equal share of the market in 2011, however, growth in the hypermarket sector has slowed somewhat compared to supermarkets and discount stores. As well, the wholesale sector continues to provide attractive opportunities. Metro Group, the leader in this market, generates half of its Polish sales by selling to tens of thousands of independent grocery stores and restaurants.

Several global food manufacturers have set up operations in the country, which now serves as a regional export base for other markets in CEE. Following E.U. accession in 2004, a number of Western manufacturers took advantage of lower wages to set up their business in Poland.

According to Planet Retail, the number of private labels in the country is also growing rapidly, especially in outlets run by foreign operators. The largest foreign retailers currently operating in Poland are Jerónimo Martins, Metro Group, Tesco, Carrefour, Schwarz Group, Auchan and Aldi. The perception of private labels among Polish consumers has improved significantly in recent years, particularly during the global financial crisis, but largely due to widening product variation. Many retailers have introduced higher-quality private label items, including premium ranges, which fits well with consumers' considerations of price versus quality.

Top Five Polish Grocery Retailers in 2010

Company	Number Of Outlets	Total Sales Area (m^2)	Average Sales Area (m^2)	Grocery Banner Sales ($US millions)	Grocery Market Share (%)
Jerónimo Martins	1,675	939,518	561	5,853	8.60
Schwarz Group	550	898,325	1,633	3,075	4.52
Metro Group	83	802,800	9,672	3,046	4.47
Tesco	371	756,781	2,040	2,742	4.03
Eurocash	690	305,700	443	2,532	3.72
Total	**3,369**	**3,703,124**	**1,099**	**17,248**	**25.33**

Source: *Planet Retail 2012*

POLAND (continued)

Historic/Forecast Market Sizes of Alcoholic Drinks and Packaged Food in Poland, in $US Millions

Category	2007	2008	2009	2010	2011	2012	2013	2014	2015
Alcoholic drinks	8,285	9,004	9,134	9,194	9,326	9,724	10,064	10,396	10,723
Beer	3,760	3,969	3,904	3,820	3,788	3,904	3,981	4,046	4,111
Spirits	3,669	4,127	4,265	4,358	4,473	4,689	4,871	5,057	5,235
Wine	837	890	946	994	1,042	1,107	1,185	1,265	1,347
Packaged food	16,575	17,449	18,099	18,743	19,444	20,211	21,007	21,841	22,700
Baby food	292	322	343	366	392	421	454	491	533
Bakery	3,524	3,637	3,717	3,788	3,853	3,922	3,996	4,085	4,163
Canned/preserved food	671	711	743	778	816	856	900	946	996
Chilled processed food	606	648	691	731	771	809	848	887	925
Confectionery	2,098	2,261	2,400	2,505	2,618	2,742	2,863	2,981	3,101
Dairy	3,972	4,202	4,368	4,528	4,711	4,910	5,107	5,305	5,499
Dried processed food	821	853	866	883	907	939	977	1,019	1,065
Frozen processed food	590	613	639	669	700	736	773	813	856
Ice cream	332	366	392	400	415	435	459	486	518
Meal replacements	11	8	9	10	10	11	11	10	10
Noodles	127	136	136	135	134	136	139	142	146
Oils and fats	1,473	1,564	1,603	1,663	1,724	1,788	1,852	1,913	1,982
Pasta	229	252	260	275	292	311	331	353	377
Ready meals	276	303	323	343	363	384	405	427	449
Sauces, dressings and	1,144	1,181	1,227	1,283	1,346	1,415	1,489	1,567	1,651
Snack bars	18	22	24	28	31	35	40	44	49
Soup	168	172	174	169	166	166	168	170	173
Spreads	277	295	291	296	302	308	316	324	332
Sweet/savoury snacks	736	753	775	802	835	871	911	955	1,003

Source: *Euromonitor 2012*

UKRAINE

Ukraine is the third-largest market in Central and Eastern Europe for packaged food and alcoholic beverages, with combined retail sales of US$27.3 billion in 2011. Ukraine's population of almost 46 million is the second-largest in the CEE behind Russia, and 71% of inhabitants reside in urban areas. The capital city of Kyiv is Ukraine's undisputed centre of modern retail development.

Despite solid and forecasted growth in retail sales, total consumer spending in Ukraine was very low in recent years compared to the rest of Europe. Consumer spending in Ukraine is about 50% below that of Russia. During the recent economic downturn, Ukrainian consumers became more cautious with their money and switched to cheaper products, particularly in the alcoholic beverage market. However, alcoholic drinks have significant potential in this country as per capita consumption has not reached maturity (particularly that of beer and wine). According to Euromonitor, Ukrainians will remain too price sensitive to purchase premium alcoholic drinks even in the long term. Whiskies, rum, gin and tequila will continue to only be purchased by upper-income consumers, creating opportunities to extend the beer and wine market.

Packaged food sales experienced strong growth in 2010 and 2011 due to Ukraine's overall economic growth and the ongoing development of the country's retail infrastructure. Rising disposable income levels over the forecast period are expected to encourage consumers to spend more on packaged food, while the ongoing expansion of supermarket and hypermarket retailers across the country offers consumers access to a widening range of products.

The five largest grocers in Ukraine currently hold a combined market share of less than 25%, which indicates a fairly diversified market. The national grocery retail scene is shaped by a few domestic retailers, such as Fozzy Group and Furshet, who operate across the country, and dozens of small local retailers who have started to expand beyond their regions. As well, there are a vast number of small independent shops supplied by a huge number of mostly locally operated wholesale businesses. The only Western grocery retailers currently active in Ukraine are Rewe's Billa supermarket division, German Metro Group's cash and carry format, and Auchan. The only buying group operating in Ukraine is SPAR, which has a very small store network.

According to Planet Retail, Metro has reported plans to build its presence in Ukrainian cities with more than 300,000 inhabitants through its Real hypermarket banner. Furthermore, Rewe plans to expedite the expansion of its Billa supermarkets in the country.

Source: *Planet Retail 2012*

Top Five Ukrainian Grocery Retailers in 2010

Company	Number Of Outlets	Total Sales Area (m^2)	Average Sales Area (m^2)	Grocery Banner Sales ($US millions)	Grocery Market Share (%)
Fozzy	350	284,220	812	1,655	4.84
ATB Market	457	297,050	650	1,382	4.04
Metro Group	27	236,200	8,748	878	2.57
Furshet	115	184,000	1,600	731	2.14
Retail Group	52	108,300	2,083	462	1.35
Total	**1,001**	**1,109,770**	**1,109**	**5,111**	**14.94**

Source: *Planet Retail 2012*

TOP COUNTRIES IN THE REGION'S RETAIL SECTOR (cont'd)

UKRAINE (continued)

Historic/Forecast Market Sizes of Alcoholic Drinks and Packaged Food in Ukraine, in $US Millions

Category	2007	2008	2009	2010	2011	2012	2013	2014	2015
Alcoholic drinks	3,832	4,572	5,377	5,962	6,427	6,985	7,528	8,143	8,867
RTD*/high-strength premixes	1,621	1,887	2,166	2,344	2,484	2,698	2,915	3,167	3,472
Beer	112	163	184	175	182	194	207	223	243
Spirits	1,442	1,724	2,102	2,392	2,589	2,795	2,990	3,209	3,469
Wine	657	798	924	1,051	1,173	1,298	1,416	1,544	1,683
Packaged food	13,068	16,778	17,607	19,133	20,869	23,171	25,126	27,082	29,268
Baby food	170	244	247	234	265	283	312	343	378
Bakery	5,363	6,729	7,019	7,615	8,016	8,884	9,378	9,875	10,397
Canned/preserved food	514	605	655	649	737	807	897	1,001	1,145
Chilled processed food	1,086	1,521	1,541	1,422	1,538	1,693	1,876	2,088	2,362
Confectionery	1,196	1,557	1,630	1,925	2,125	2,407	2,677	2,936	3,188
Dairy	1,768	2,194	2,277	2,584	2,934	3,314	3,704	4,080	4,475
Dried processed food	253	334	397	431	526	565	607	648	698
Frozen processed food	382	456	460	475	525	567	612	662	728
Ice cream	250	338	314	430	494	554	607	652	697
Noodles	68	84	94	104	125	131	137	142	149
Oils and fats	928	1,318	1,505	1,732	1,964	2,190	2,390	2,573	2,777
Pasta	70	80	82	103	140	153	165	175	187
Ready meals	197	248	245	254	286	304	326	353	390
Sauces, dressings and	525	659	758	811	897	969	1,037	1,108	1,196
Snack bars	1	2	1	1	1	1	2	2	2
Soup	43	71	106	102	106	110	116	122	130
Spreads	43	58	64	82	106	139	180	214	251
Sweet/savoury snacks	592	765	738	742	743	798	846	902	976

Source: *Euromonitor 2012*
****RTD*** *= Ready-to-drink*

CZECH REPUBLIC

In 2011, the Czech market for alcoholic beverages and packaged food stood at almost US$11 billion combined, making it the fourth-largest in Central and Eastern Europe. The Czech Republic is also the fifth most populous country in the region with 10.5 million people, behind Russia, Ukraine, Poland and Romania but just ahead of Hungary, and twice as large as neighbouring Slovakia.

The country's population is aging steadily, with the median age rising from 38.5 to 39.2 years between 2004 and 2009. Also, net migration is increasing as the country becomes a more attractive destination for economic migrants, particularly those from Eastern non-E.U. countries, such as Ukraine.

Like consumers throughout Europe, many Czechs have been forced to control their spending over the past couple of years as the rate of unemployment increased during the economic crisis. Furthermore, the value added tax (VAT) on food products increased from 10% to 12% in 2012, and will rise to 17% in 2013. As a result, Czech consumers have become more value-conscious about their purchases in a wide range of product categories. Discounters have gained market share from supermarkets/hypermarkets in such categories as packaged food and homecare, while private label offerings have expanded at the expense of branded products.

As a result of experiences abroad, the preferences of many young Czechs have shifted from more traditional domestic cuisine, towards international foods. Many consumers have acquired new tastes for different ethnic foods, fueling demand for products like sushi, which was relatively unheard of in the Czech Republic until recently. Younger Czech consumers also tend to lead busy lifestyles which is increasing demand for packaged food items that offer convenience and quality, such as ready meals.

Premium private label ranges are also seeing growth, since they are perceived as a comfortable balance of high quality and price. According to Euromonitor, private label products also benefit from the fact that many are produced by domestic companies, which Czech consumers appreciate. Private label penetration is relatively high in areas of the country where premium ranges are more widely available. However, the dairy products and confectionery categories, for example, have relatively low value shares of private label products. There are many well-established domestic brands (or former domestic brands that now fall under international companies) offering good quality at a good price in these categories.

Planet Retail highlights that supermarkets/hypermarkets in the Czech Republic remained the most important distribution channel for packaged food in 2011, due to their aggressive price policies, as well as their stronger implementation of loyalty cards (Tesco's Club Card, for example) and contests/lotteries. Czech consumers are also opting to shop in the modern outlets located in close proximity to their homes. To attract further business, convenience stores have introduced more promotional offers and competitive prices.

Western retailers dominate in the Czech modern grocery market, as the leading players are almost exclusively foreign companies. International heavyweights such as Schwarz Group, Rewe, Tesco, Ahold, Metro Group, Globus, and SPAR Austria have been key players in the Czech retail landscape since 2008.

Top Five Czech Grocery Retailers in 2010

Company	Number of Outlets	Total Sales Area (m^2)	Average Sales Area (m^2)	Grocery Banner Sales ($US millions)	Grocery Market Share (%)
Schwarz Group	321	614,690	1,915	2,369	11.07
Rewe Group	528	413,440	783	2,340	10.94
Ahold	279	320,550	1,149	1,665	7.78
Tesco	157	481,652	3,068	1,540	7.20
Metro Group	13	119,171	9,167	1,226	5.73
Total	**1,298**	**1,949,503**	**1,502**	**9,142**	**42.72**

Source: *Planet Retail 2012*

TOP COUNTRIES IN THE REGION'S RETAIL SECTOR (cont'd)

CZECH REPUBLIC (continued)

Historic/Forecast Market Sizes of Alcoholic Drinks and Packaged Food in the Czech Republic, in $US Millions

Category	2007	2008	2009	2010	2011	2012	2013	2014	2015
Alcoholic drinks	2,771	2,832	2,855	2,781	2,830	2,869	2,919	2,962	3,003
Beer	1,430	1,462	1,472	1,389	1,394	1,410	1,442	1,470	1,489
RTD*/high-strength premixes	3	3	3	4	9	9	10	10	10
Spirits	816	835	841	847	866	874	882	887	897
Wine	522	531	539	541	561	575	585	596	606
Packaged food	7,543	8,033	8,010	8,094	8,316	8,613	8,926	9,237	9,588
Baby food	102	119	127	135	143	153	163	174	187
Bakery	1,557	1,577	1,498	1,461	1,486	1,525	1,572	1,626	1,690
Canned/preserved food	421	449	463	477	490	505	517	522	525
Chilled processed food	556	615	650	689	732	783	817	833	852
Confectionery	723	748	748	742	753	777	805	838	876
Dairy	2,041	2,246	2,186	2,195	2,249	2,326	2,425	2,544	2,682
Dried processed food	260	279	287	302	315	326	338	344	350
Frozen processed food	439	474	502	511	520	533	545	550	555
Ice cream	314	328	340	337	349	366	385	406	431
Meal replacements	11	11	10	10	10	10	10	11	11
Noodles	34	36	38	39	40	42	44	45	46
Oils and fats	486	524	512	522	530	544	560	581	605
Pasta	89	89	91	96	100	105	110	111	113
Ready meals	140	164	184	197	206	212	219	222	225
Sauces, dressings and condiments	293	303	311	319	331	343	355	361	366
Snack bars	13	13	12	12	12	13	13	14	14
Soup	66	69	71	73	75	77	79	80	81
Spreads	125	127	127	129	131	136	141	146	153
Sweet/savoury snacks	167	172	178	184	188	193	198	201	204

Source: *Euromonitor 2012*
****RTD** = Ready-to-drink*

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