

Articles

PIOTR CHECHELSKI

Institute of Agricultural and Food Economics
– National Research Institute
Warsaw

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IMPACT OF BUSINESS CORPORATIONS ON THE POLISH FOOD MARKET

Abstract

The paper aimed at analysis of changes taking place in the food market in Poland under the influence of transnational business corporations. Their physical and financial assets, and knowledge enable them to exert an increasing influence on other market participants, and to develop rapidly. However, due to the large number of transnational corporations (lower concentration) their impact on the Polish food market in the first decade of the twenty-first century proceeded somewhat differently than in other developed countries in Europe.

Introduction

In the first decade of the 21st century, Poland witnessed a huge speeding up of the globalisation processes which were executed mainly by the activities of transnational corporations (TNCs), both financial, production, business and others.

The leading position of corporations in the globalisation of the world economy stems from their economic strength and advantages related thereto. The TNCs entering the Polish food market had very strong competitive advantages, e.g., large capital, new technologies and advanced IT systems, highly qualified staff, effective marketing, etc. In Poland, along with a raise in their share in production of the food industry, and especially retail trade, increased also their significance and impact on the whole market of food products.

Transnational business corporations contribute to important social and economic changes, and to making the retail trade, in the first decade of the 21st century, the most important link in the food chain in Poland. The operations of business corporations can affect: the enterprises of the food industry (forcing

cost reduction, production concentration and specialisation, by commissioning production under their own brands, etc.), agriculture (production of cheap raw materials, e.g., GMO and organic food), business enterprises (forcing concentration and specialisation of sales, price reduction and eliminating them from the market), consumers (changing their consumption habits and preferences by advertisement and marketing activities). Dynamic development of business corporations in the 21st century causes that apart from the undeniable benefits, they are also a threat to other entities operating in the food market.

The largest business corporations operating in Poland

The beginnings of foreign businesses in the Polish market go back to 1990-1991, when first Billa, Reiten and Edeka department stores were opened. Their range and importance was minor, though. Only when, in the second half of the 90s, the large global business corporations, such as: Metro, Leclerc, Casino, Tesco, Auchan, Carrefour and others, entered the market they triggered significant changes in the Polish retail trade. Eleven out of 250 of the largest business corporations in the world are in Poland. Two withdrew in the last 10 years: the Dutch Ahold and French Casino.

In 2012, the share of the largest 10 businesses in Poland in sales of food and everyday items accounted for 46.6% of the market. For comparison, in other European countries it is much higher: in Germany it amounts to 87%, France – 86%, Spain and Hungary – 83%. Analysing the ranking of the largest business corporations in Poland (Table 1), it can be stated that in 2007-2012 the lead was the same and it included almost exclusively foreign-capital enterprises (branches of business corporations), which in respective years changed only their ranks on the list. There were only two Polish-capital enterprises in the top ten: PSH Lewiatan (7th) and Polomarket (10th).

Average growth in sales in 2007-2012 among 10 researched enterprises amounted to 76.76%, i.e. quite a lot, as much as 15.35% per year. Eurocash opened the ranking having 250.4% increase; it was followed by Schwarz Gruppe – 238.7% and Jeronimo Martins – 156.4%. The Metro Group noted a drop by 8.8% and Carrefour – a slight growth by 4.6%.

The development strategies of global retail chains in Poland are varied and disclosed reluctantly. In general, apart from building own stores they often buy-out smaller chains or individual stores. They do not shun from launching franchise networks, which usually brings them greater benefits than these obtained from organic development. Business corporations develop mainly based on modern formats of mass consumer service: hypermarkets, supermarkets, discount stores and convenience stores. The formats of mass service are run, above all, by global retail chains, but recently they also start to be an important development line for the largest national-capital businesses.

In recent years, mega stores are bought in Poland increasingly more often. In general, these are transactions between foreign corporations, e.g., in 2014 Metro Group sold Real hypermarket chain to Auchan. These operations are linked to

a change in the strategy of global companies in Poland and also worldwide. The changes are influenced also by the trade concentration process.

Table 1

Ranking of the largest business corporations in Poland in 2007-2012

Name	Revenues from sales in PLN thousands				Changes in 2012/2007, in %	Changes in 2012/2011, in %
	2007	2010	2011	2012		
Jeronimo Martins Dystrybucja SA, Kostrzyn	11,276,287	20,217,012	25,287,184	28,907,849	156.4	14.32
Metro AG Group in Poland Warsaw	16,397,000	17,140,000	17,200,000	14,960,000	-8.8	-13.02
Schwarz Gruppe	4,600,000	no data	13,158,117	15,580,972	238.7	18.41
Tesco sp. z o.o., Kraków	8,100,000	10,713,729	10,752,000	10,859,520	34.1	1.00
Eurocash SA, Poznań	4,729,866	7,791,759	9,980,596	16,575,781	250.4	66.08
Carrefour Polska Warsaw	7,350,000	9,100,000	8,945,782	7,689,588	4.6	-14.04
PSH Lewiatan, Włocławek	4,466,000	6,818,000	7,300,000	7,630,000	70.8	4.52
Auchan Polska sp. z o.o. Warsaw	4,800,000	6,250,000	6,525,000	6,550,000	36.5	0.38
Grupa Muszkietierów Poznań	2,537,000	3,610,000	4,200,000	4,650,000	83.3	10.71
Grupa Polomarket sp. z o.o., Pakość	1,922,000	2,900,000	3,300,000	3,570,000	85.74	8.18
TOTAL	66,178,153	84,540,500	106,648,679	116,973,710	76.76	9.68

Source: own study based on Rynek Spożywczy no. 1, 2014.

Concentration and consolidation processes

Regrettably, Poland does not have even a single large domestic retail chain that can efficiently and over a longer period of time compete with the global business corporations, and the trade concentration process in the market of food products lags behind other developed European countries. Therefore, in the coming years the significance of business corporations in the domestic trade will further grow and processes of market concentration and consolidation will progress.

When Polish-capital retail chains try to compete with the global trade corporations it usually is a complete disaster. In the 90s, the largest Polish retail chain Społem threw away its chance when there was still a possibility to reform, upgrade sales, modernise facilities, and when the foreign chains were not yet a serious competition. Failure resulted mainly from vaulting ambitions of and animosities between the presidents of respective cooperatives.

Such examples are numerous also recently, e.g., Bomi operating on the Polish stock exchange was practically liquidated, Tradis was taken over by Eurocash, Grupa Polomarket and many smaller retail chains fell apart in 2014.

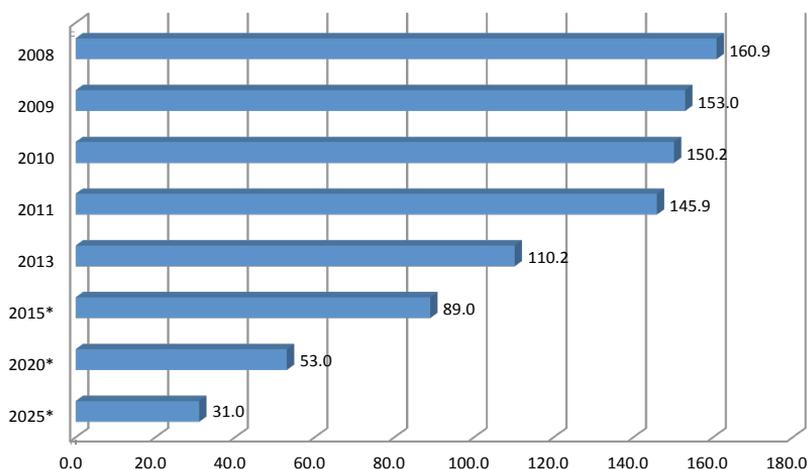
Without a doubt, new entities appear in their place, e.g.: Grupa Kapitałowa Specjał, which is the largest Polish-capital franchise owner. It services over 20 thousand of recipients, including 4,000 of stores affiliated under a franchise Nasz Sklep and LD Holding. The resilient Grupa Handlowa PL Plus created in 2014 and comprising the Piotr i Paweł, Polomarket (its part), Bać-Pol and Topaz chains is growing fast. At present, the group has ca. 1,000 stores, but it is assumed that in 2016 it will have ca. 2.5 thousand stores and ca. PLN 10 billion in turnover. The now largest Polish-capital chain – Lewiatan, cooperates with Eurocash in terms of deliveries of products. However, only time will tell whether these chains will be able to face up the competition of foreign business corporations, or will they share the fate of their predecessors.

The competition is even more severe for small non-affiliated grocery stores; hence their number plummets (Figure 1).

Small stores, to avoid falling out of the market (liquidation), should seize their chance and join franchise networks¹. Both foreign business corporations and Polish-capital groups have franchise networks. Their number continually grows – in 2004 there were 226, in 2012 – 421, and the number of affiliated stores increased from 17,695 to 32,970 (Kłosiewicz-Górecka 2013) and still surges (Figure 2). Development of a franchise network allows independent retailers benefitting from, e.g., the scale effect when buying and reducing prices of products offered to customers, thereby increasing their chances of staying in the market.

Business breakdown structure of the food industry in Poland and the European Union (Figure 3) shows that concentration and consolidation processes in our industry were faster than in the Community countries. Consequently, changes in the structure of our food industry were different than in the entire EU. In Poland, the number of enterprises in the sales structure in the group of the largest companies grew fast and it dropped in the remaining groups, while in the food industry of the European Union the trend was opposite.

¹ Franchise – system of sales of goods, services or technologies which is based on close and uninterrupted cooperation between legally and financially separate and independent enterprises: franchisor and its individual franchisees. Franchise also assumes the transfer of know-how from franchisor to franchisee throughout the period of franchise contract. The idea behind it is granting rights and acquisition of obligations through conclusion of a franchise contract. [<http://pl.wikipedia.org/wiki/Franczyza>].



* prognosis

Fig. 1. The number of grocery stores in thousands

Source: Euromonitor International www.euromonitor.com.

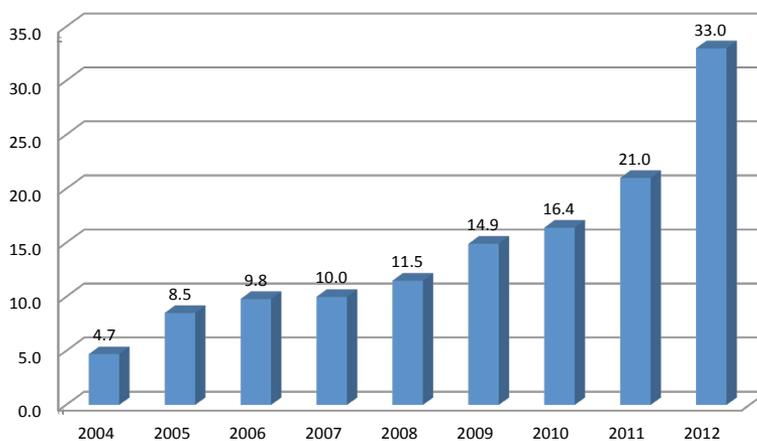


Fig. 2. The number of franchised general grocery stores in 2004-2012 in thousands

Source: Profit System www.profitsystem.pl.

Transnational corporations had and will probably still have a significant share in the concentration processes in the food industry in Poland. Their impact on changes taking place in the sector was important, both its positive and negative impact, and it was changing over time. The TNCs (business and production) had a positive impact on: faster restructuring of many sectors, technical and technological progress, growth in wages, quality of the market offer, and production concentration and specialisation processes, etc. These actions made them contribute to the development of individual sectors and the entire food industry. But,

on the other hand, the TNCs contributed to the decrease in the number of small grocery stores and wholesalers, traditional recipients of small-scale processing of food industry products, which caused their elimination from the market and forced production under their conditions on others (production under the chain brand, pressure to reduce selling prices, etc.). Given the processes of consolidation of enterprises taking place in the market, it should be assumed that this situation will change, bringing the model of operation of the retail chains in Poland closer to the model of highly developed European countries.

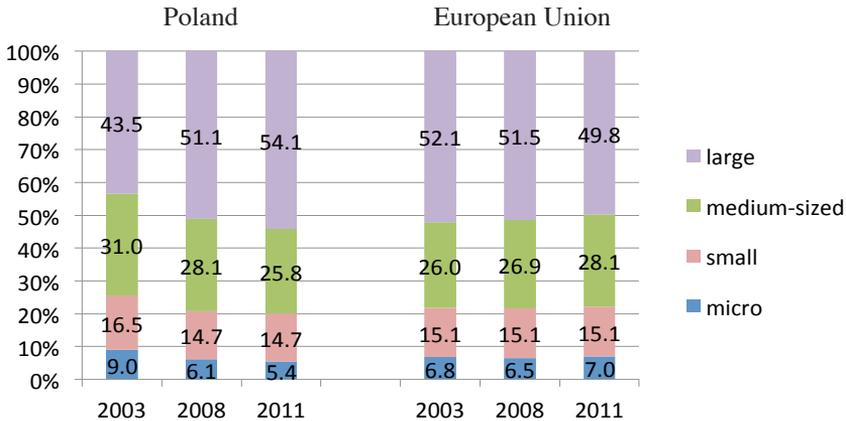


Fig. 3. Economic structure of the food industry in Poland and the European Union as a percentage of the sale of the entire sector

Source: study by Tereszczuk M. based on Eurostat data.

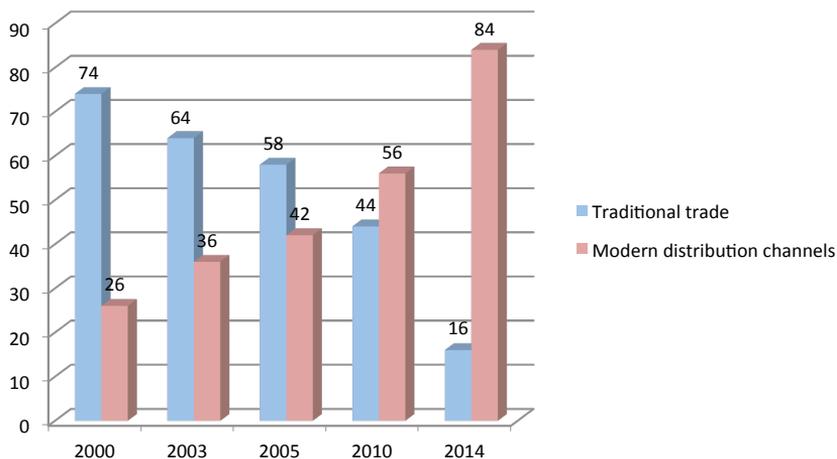
Evolution of distribution channels in trade

The considerable quantitative development of retail chains in Poland in the 21st century is accompanied by fluctuations of forms and formats of trade. As regards changes in the organisational structure, the most important impact is the establishment of modern formats, i.e. hyper- and supermarkets, discount stores and convenience stores. Their share grows very fast (Figure 4).

Transformations in this regard, which took place in Poland in the first decade of the 21st century, are alike the changes that happened in the societies of highly developed countries in the past. However, in our country the pace of these changes is faster and they have some distinct features, including:

- there is still a very large number of small stores of individual owners working at the verge of profitability;
- a large share (ca. 40%) of the Polish society lives in rural areas and only 22% of the population lives in cities of more than 200 thousand inhabitants, which does not foster sales concentration in mega stores;
- traditional approach of the Polish consumer (GfK Polonia survey) shows that still a large share of society prefers to buy in local small grocery stores and to buy Polish products;

- there is a strong competition between foreign business networks in Poland; in other countries there are at most a few and in Poland there are several dozen of them.

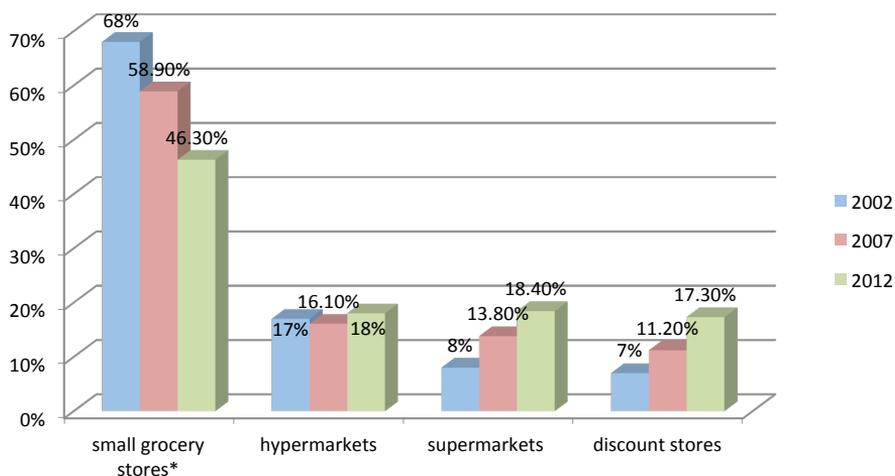


Traditional trade – understood as independent, self-contained stores operating in the market.

Modern distribution channels – discount stores, supermarkets, hypermarkets, convenience stores affiliated in franchise networks and national and foreign business networks.

Fig. 4. The share of trade in fast-moving consumer goods (FMCG – %)

Source: GfK Polonia, Nielsen.



* associated in franchise networks and independent

Fig. 5. FMCG retail structure in 2002, 2007 and 2012 (%)

Source: Euromonitor International.

Table 2

The number of modern sales outlets (hypermarkets, supermarkets and discount stores) in Poland in 2002-2015

	2002	2006	2007	2008	2009	2010	2015 prognosis
Hypermarkets	170	222	245	267	282	290	330
Supermarkets	900	1,816	2,186	2,303	2,424	2,600	3,700
Discount stores	1,200	1,383	1,528	1,756	1,948	2,140	3,000

Source: prepared on the basis of Roland Berger Strategy Consultant Report, Retailer of the Year 2011.

Not all formats of the modern trade developed in a similar manner and at the same pace as in developed countries (Figure 5). The fastest increase in the share of sales was noted in 2002-2012 in discount stores and supermarkets, while in hypermarkets sales contracted. The share of discount stores in trade in food products among the Central and Eastern European countries is the highest in Poland². This is influenced mainly by a wide selection of own-brand products offering high quality at affordable price.

Recently, apart from discount stores, convenience stores develop very fast. In 2014, they noted the fastest growth among all formats as regards the number of stores, amounting to 11%. Whereas retail sale growth in value terms reached 8%. This format is favoured by Polish consumers who are much inclined to do smaller shopping in convenience stores situated near their place of residence and opened longer.

To sum up, the Polish retail food trade market is now a market of modern formats having all forms of trade that exist in economically developed countries. The preferences of Polish consumers were noted and taken into account by the managers of business corporations. Strong competition in the Polish market results in interpenetration of principles and blurring of differences in sales so far binding only in respective formats. Moreover the specialisation applicable until recently in business corporations, concerning customer service by individual types of sale formats, also disappears slowly. The largest global business corporations, such as: Tesco, Carrefour, Metro, have in our market both hypermarkets, supermarkets, and franchise networks of smaller stores working under their brands. One of the formats that may disappear shortly from our market are the small, independent and non-affiliated stores.

The positive effects of the business operations of transnational corporations include gradual increase in the share in trade of modern sales formats (hypermarkets, supermarkets, discount stores, convenience stores, Internet sales), new communication and marketing techniques, and better aesthetics of stores and shops. But a decrease in the number of small traditional stores results in negative consequences for regional wholesalers, small and medium-sized producers, local markets, labour market, distributors.

² Convenience stores have already got 11% market share; <http://www.dlahandlu.pl/40897.html>.

Problems of Polish-capital companies

At the backdrop of the EU countries, Poland is a market highly saturated with retail trade (number of stores). Contrary to other countries, this situation is closely linked to the period of Polish economic transformations of the 90s, including also total trade privatisation. This was undoubtedly a positive effect of market changes. However, a negative side of the phenomenon is that, today, Poland has one of the most fragmented trade structures in Europe. This was one of the reasons why the national business enterprises had much worse financial results from trade.

The greatest problems of Polish business enterprises include:

- insufficient capital;
- disagreements between shareholders;
- not very professional staff (especially at the medium and higher level);
- low level of implementation of new sales techniques, new additional services, etc.;
- little known brands in the national market;
- inferior conditions of price negotiations with food producers on account of the size of the supply scale;
- strong competition, especially from the side of global business corporations.

In turn, cooperation of food industry enterprises with foreign business corporations is linked to difficulties because producers – especially small and medium-sized – complain about harsh price negotiations, long payment deadlines, narrowing down the range of products to the fastest-moving consumer goods and various fees charged by business corporations (fees for entering the network, marketing of new products, advertising products in the network's magazine, a spot to display the product during the promotion, number of items at the store, possibility to deliver the item to the central warehouse of the network, opening a new store of the distributor). They also have to pay fees to the distributor for turnover discounts, to create promotion budget in the form of the so-called trade credit, in short – business corporations dictate terms of purchase, i.e. follow monopsonistic practices.

The nature of competitive relations in the market of food products in Poland is, thus, largely determined by practices used by these corporations that, as it sometimes happens, abuse their strong market position. Cooperation of global business corporations with food producers shows inequality between partners since under the current market conditions the supplier is usually the weaker side. The asymmetry refers primarily to the Polish food industry enterprises and to a lesser extent – foreign production corporations.

Own brands are also an important element of the strategy of the business corporations and for many they have major significance given the will to increase their purchasing power and achieve the synergy effect. The basic feature of own brands is low price. The main task of the own brand is creating an advantage over the competition, thus food sales under own brand, usually cheaper than brand products, is a strategic element of the largest business corporations.

In Poland, purchase of food marked with the logo of a retail chain is not yet as significant (in 2013 it was estimated at 24%) as in other European countries, e.g., in Switzerland 53%, Germany, Belgium and Great Britain, where it constituted over 40% of the whole offer of a chain, but it grows really fast.

Foreign business corporations in Poland prefer large recipients making it possible to raise the sales efficiency. Consequently, less and less business enterprises dictate the terms of sales in a given market of products.

The economic strength and expansive management of foreign business corporations cause greater changes in distribution channels of food products than competitive actions in the area of distribution of individual producers and domestic trade, which are mainly focused on the use of internal resources, neglecting expansion of the management system to the outside.

Probably, in a short term perspective only a small number of Polish-capital enterprises will be able to compete with TNCs. These will be companies which will follow global activity approach. For a major part of Polish-capital enterprises the key strategies will consist in adjustment to the terms set by transnational corporations. Even today, one can see that business corporations force local enterprises into the role of subcontractors, subsuppliers, thus they make them more and more subordinate, while they leave the role of main coordinators, organisers and creators of new food products to themselves.

Therefore, a question arises: what strategies should be adopted by the Polish-capital food industry enterprises to ensure themselves a chance for efficient survival and development. There are several options according to the author:

1. **Production to the local (domestic) market** – searching for market niches or having an established local brand (traditional products in local markets), development of own chains (to take over the trade margin) and cooperation with small retail chains in the domestic market. This guarantees survival in the market, but it requires constant consolidation of one's own brand.
2. **Cooperation with retail chains** – production of several product ranges, in long series under the terms and mainly under the brand of retail chains (certain sale and guaranteed prices). However, this leads to significant dependence on business corporations which can be risky given the constant search for reduction in costs.
3. **Association of producers under the “product brand”** (e.g. Polish sausage, Kraków ham, etc.) – extension of activities on foreign markets similar to the domestic market (e.g. markets of the EU-12 countries) using own competitive advantages there. However, this requires uniform production of high quality, agreement and cooperation between the associated partners, above all, pertaining to the breakdown of marketing costs. It can guarantee survival in the market.
4. **Establishment of own company's brand** – permanent investments in research and development of innovativeness of products, skilful marketing. It requires considerable funds, skills in achieving a goal, but it does not guarantee final success; it is a strategy rather for large and strong enterprises.

5. Establishment of own company's brand and cooperation with business corporations – a mix of strategies 2 and 4, but safer than the two separately. It is applied by large and global production corporations of established brand(s) in the market.

To sum up, the globalisation processes, including the processes following from the operations of transnational business corporations contributed to changes in the food economy, modernisation of retail trade in Poland, e.g., increase in the area of total sale and average area of stores, improvement in trade organisation and enhanced competitiveness of its enterprises. This process also brings benefits to consumers (wider market offer and lower prices) and producers, who win the competitive battle and secure access to global consumers, also via global retail chains. Already now a large part of the Polish foreign trade, especially export of agri-food products, takes place through global business corporations and shows an upward trend (in 2013 it amounted to ca. PLN 7 billion – i.e. ca. 10%).

Also in agriculture, vertical relations between business corporations and large individual producers or groups of producers, mainly of fruit and vegetables, are starting to be increasingly more common. In retail food trade – both among foreign corporations and Polish traders – products manufactured in our country dominate, which is a very positive phenomenon. This follows not only from low prices of domestic products but also their high quality and taste.

The attitude of customers remains a wild card as regards the future trade model in Poland: will they adopt the “global” consumption patterns and if yes, to what extent, or will they continue to prefer products from Polish producers. After a period of increased interest in shopping in large department stores, first signals of the trend reversal are visible and customers start to return to small grocery stores. Market surveys in Poland, even now, point out that customers are not loyal to a specific business company, unlike in economically developed European countries. The awareness of the Polish consumer also grows, as apart from the price they are more and more interested in the quality, use-by dates, brand, etc.

Conclusions

In line with the general laws of worldwide economies development, a greater growth in consumption of non-food than food goods should be expected in the coming years. Also the changing demographic structure will start to impact the future model of consumption, which consists mainly in increasingly larger group of people in post-working age that have specific preferences and needs. The above-described processes will contribute to slowing down the retail trade in food, and certainly also employment in the sector, and its share in the GDP generation will probably decrease in favour of other types of services.

Consequently, retail trade in Poland in the perspective of several dozen years will probably concentrate further and the foreign corporations will further consolidate, thus, reducing their number. This will happen both as a result of verification of their operations in the Polish market, and mergers and takeovers in Europe and worldwide.

As mentioned before, the operations of transnational business corporations create both opportunities and threats for the development of the Polish food economy. However, it is especially important that they change the balance of forces in the food marketing chain. So far the food industry enterprises were the main force and integrator of the chain, but now this changes and transnational business corporations take on the role.

The results of the conducted analysis show that also the second decade of the 21st century in the Polish economy will “belong” to transnational business corporations both given the growth in their significance in the food chain (connections to the surrounding) and the ownership changes in progress.

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Key words: business corporations, Polish food market, transnational corporations, retail trade, concentration and consolidation processes, franchise, supermarket, own brands

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