CORPORATE CONSOLIDATION PECULIARITIES IN UKRAINIAN RETAIL GROCERY MARKET

Iryna Sevruk, PhD student
Kyiv National University of Trade and Economics, Ukraine

Abstract
The purpose of the article is to study the state and general retail trade development trends in Ukraine, monitor processes of consolidation and concentration of market power in Ukrainian grocery market, evaluate concentration levels of international trade FMCG companies and analyze the impact of the mentioned processes on the competitive environment of the domestic retail turnover. Analysis and systematization of scientific research of foreign and Ukrainian scientists allowed choosing concentration ratios for different quantity of firms and Herfindahl-Hirschman index as methodological tools for a study of the market concentration level and accumulation of assets, consolidation of market power by the international FMCG companies in the retail market in Ukraine. The Ukrainian grocery market is defined to have certain specific features which despite the overall positive evolution of retail trade volume and retail trade chains turnover are reflected in the dominance of local business representatives on it, low concentration level versus other European countries, as well as negative concentration dynamics of international capital in the retail grocery market in Ukraine.

Keywords: International retailers, grocery market, market concentration

Introduction
The development of trade is an essential condition that ensures a favorable economic and social environment in any state. In most economically developed countries of the world trade is a key strategic sector of the economy that maintains a balance between supply and demand, satisfies the needs of the population, affects the economic potential forming; and it is also a major employer of the economically active population. Recession processes in the world and Ukraine in recent years influence the peculiarities of domestic trade, which are the strengthening of capital concentration process of huge commercial chains that acquire less successful market operators in crisis. The above mentioned emphasizes the need to study the consolidation and concentration peculiarities of the retailers market power in the food market of Ukraine for further distinguishing the international retailers importance in it.

Production and capital concentration in different markets has been the subject of a considerable amount of research both in Ukraine and abroad. Most of the recent studies was conducted by such foreign scientists as A. Batio (2012), W. Baumol and A. Blinder (2011), Ch. Vehorn and J. Kopf (2013) K. McGoldrik (2012), J. Peoples (2012), F. Young, I. Vasiliev (2008), A. Mitrofanov (2002), E. Yudnikova (2008) and others. Among Ukrainian scientists we should distinguish the works of V. Apopii (2010), V. Bazylevych and V. Fyliuk (2012), A. Herasymenko (2010), A. Iltniuk (2010), V. Lahutin (2009), H. Fyliuk (2009), A. Shymko (2012) and others, who pay special attention to the production and capital

concentration evolution, competition and competition policy, government regulation of monopolies, and industry market research, including general trends to activate the concentration and consolidation processes in the domestic market segments.

However, pointing out the significant role in the modern Ukraine development of retail trade, which is the part of the few sectors that keep positive economic dynamics even in crisis, we need to examine the current situation and identify retail trends in Ukraine, analyze mechanisms of the processes of concentration involving national and international capital in the Ukrainian food market (segment FMCG), the study of which is also important because more than half of the cost in the Ukrainian consumer basket falls at FMCG. Moreover, transformation processes in the domestic grocery market (FMCG) is a part of general trends in capital consolidation and concentration of powerful international retailers on food markets in Central and Eastern Europe. Therefore, in this aspect, it is important to study the specific features of the above mentioned processes in the Ukrainian market.

**Main Text**

According to State Statistics Service of Ukraine the retail trade turnover in Ukraine before the financial crisis was characterized by a constant growth. In particular, in 2007 and 2006 the annual increase throughout the country was 20%, and in Kyiv city – 25–30%. Over that period much attention was paid to expansion of small retail format chains, development of shopping malls and retailers’ expansion to the regions. However, the positive trend of the previous years changed into the crisis of 2008 – 2009, which was reflected in the 6.5% decline of trade network retail turnover, but in 2010 the situation in the retail market changed by 21% growth (Table 1). Retail market began to stabilize and recover in 2010–2011. However, the real dynamics was lower due to the increase of retail prices by 1.5–2 points for that period. Year of 2011 was characterized by the overall growth in retail trade as well as trade network retail turnover growth by 24.6%, which was associated with stabilization of population income growth, expansion of consumer loans to individuals etc.

**Table 1. Turnover of retail trade in Ukraine, bln.UAH**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Year-on-year change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.Turnover of retail trade$^{136}$</td>
<td>325.1</td>
<td>456.0</td>
<td>444.3</td>
<td>541.5</td>
<td>685.7</td>
<td>+40.3 2.6 +21.9 +26.6</td>
</tr>
<tr>
<td>2.Retail turnover of the enterprises (legal entities) including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.Retail trade turnover of the trade network of enterprises</td>
<td>171.7</td>
<td>238.5</td>
<td>222.9</td>
<td>271.4</td>
<td>338.7</td>
<td>+38.9 6.5 +21.8 +24.8</td>
</tr>
<tr>
<td>2.2.Retail turnover of restaurant business</td>
<td>6.5</td>
<td>8.4</td>
<td>8.1</td>
<td>9.5</td>
<td>11.4</td>
<td>+29.2 3.6 +17.3 +20.0</td>
</tr>
</tbody>
</table>

Source: State Statistics Service of Ukraine$^{137}$, calculated by author.

Analyzing the state of retail trade in Ukraine according to State Statistics Service of Ukraine, we must pay attention to the methodological notes that were taken into account to work out Table 1. According to the explanations$^{138}$ the retail trade turnover includes turnover of retail businesses that operate as retailers and estimated sales of consumer products through

---

136 On the basis of the total single survey and administrative data on retail trade network and restaurant business, owned by individual entrepreneurs.
137 http://www.ukrstat.gov.ua
138 http://www.ukrstat.gov.ua
a trade network belonging to individual entrepreneurs, and markets (based on the total single survey and administrative data on retail trade network and restaurant business, owned by individual entrepreneurs). The retail turnover of the enterprises means the amount of sales of consumer goods to the population through the retail trade network and restaurants, as well as industrial, transport and other non-trading companies directly to the public over the company’s cash desk. Additionally, the retail trade turnover includes selling food stuffs through trade channel to institutions, organizations and enterprises to serve their contingents (sanatoriums, child-care institutions, hospitals, etc.).

Tendency of reducing the volume and share of retail trade turnover network and restaurants can be explained by the growth of another component of retail trade turnover – the retail turnover of individual entrepreneurs and formal markets selling consumer goods. For example, in 2000 the share of this component accounted for 35.8%, while in 2011 - 46.2%, that is an increase by 10.4 percentage points (Fig. 1). Thus, the organized trade (including trade network) is about 55-60% of the retail market of Ukraine and markets - 40-45% accordingly.

![Fig. 1. The dynamics of structure sales of goods through trade channels](image)

Despite the gradual recovery of the economy from the crisis, Ukrainian citizens still have to spend much of their income on food stuffs mainly because of their rise in price that violates the macroeconomic regularity by which the higher is population’s income, the lower are food stuffs purchase expenditures in the structure of consumer spending. The share of nonfoods in 2005 amounted 58.4% of the total volume of goods sold through the trade network, in 2006 – 61.8%, 2007 – 64.7%, and 2008 – 65.6%, in 2009 the economy saw a decline in nonfoods share by 5.6 percentage points to 60%, with the next growth in 2010–2011 (Fig. 2).

---

139 http://www.ukrstat.gov.ua
In general, the state and development of retail trade in Ukraine can be characterized by certain features and the following general trends.

1. Development of retail trade in Ukraine corresponds to general global trends: active development in the pre-crisis period changes by the economic downturn caused by the global financial and economic crisis, with the further improvements in the trade development.

2. The share of organized trade is gradually getting higher – 55–60% of the retail market of Ukraine, which also emphasizes changing preferences of consumers who prefer formal trade to informal.

3. Ukrainian domestic market saw the active development of new trade formats of foreign origin: supermarkets, hypermarkets, cash & carry, discounters, the quantity and retail space of which is constantly growing (the largest growth rate is peculiar to hypermarkets), replacing more traditional forms (markets, etc.).

4. Nonfoods share in total trade network retail turnover increased to 61.1% in 2011; however, the pre-crisis level of 2008 has not been achieved yet (65.6%).

It is noteworthy that the retail industry or retailing refers to those industries the importance of which for the economy can not be reduced and with the development of information technologies it is increasing or modifying. As for the Ukrainian retail market, besides the trends mentioned above, there is also a tendency to market entry of more and more foreign players with significant access to international investment resources and ample opportunities for the innovative industry development. According to the results of the annual survey by international A.T. Kearney “Global Retail Development Index” company 2006 Ukraine took fourth place in the list of the most attractive regions in pre-crisis, in 2007 Ukraine held the fifth position after India, Russia, China and Vietnam and was highly attractive to the multinational companies, but in 2008–2009 the country's position changed, and Ukraine was at the 17th place due to the global financial crisis 140. Although in 2010-2012 according to A.T. Kearney the country was not included even in the rating of the thirty most attractive countries for investment in the retail trade, but we do not consider Ukrainian grocery market to have a significant decline of the international retailers’ activity. Moreover, the management of most international retailers present in the market underline their intention to expand business in Ukraine (for example, Russian X5 Retail Group is planning to open

---

stores at brand “Perekrestok Express”\(^{141}\), and some foreign companies, such as Russian retailer of premium supermarkets “Azbuka vkusa”\(^{142}\) plans to enter the Ukrainian retail market at once.

The global financial crisis affected the activities of both domestic and international retailers in the retail market of Ukraine. During the crisis the consolidation processes in the Ukrainian market are becoming widespread: the number of foreign chains that have not properly assessed the real situation of the Ukrainian market and proved unable to compete under these conditions, left the retail market by selling their stores or leasing their retail space to successful national or international operators. The examples are Russian retailers “Paterson”, “Piaterochka”, “Vester”, “O’kay” and the European ones “Euromart” (U.S. and Greece), “Smak” (Ukraine and Serbia), “Bumi-market”\(^{143}\) (Lithuanian “BM-Trade”) and others.

The research of Ukrainian retail grocery market showed that retail segment of FMCG is represented by national, international retailers and national operators that are fully or partially owned by foreign investors. Among multinational corporations in the retail and wholesale trade on the Ukrainian food market there are companies: Metro Group (LLC “METRO Cash & Carry Ukraine”), Auchan Group (LLC “Auchan Hypermarket Ukraine”), which in 2012 together with Metro Group announced the purchase of German chain Real,\(^{144}\) LLC “Real,- Hypermarket Ukraine”) by Auchan, Rewe Group (FICE “Billa Ukraine”), Spar International ( LLC “Spar Ukraine”), X5 Retail Group (PJSC “X5 Retail Group Ukraine”, represented by “Perekrestok” chain), most of which are developind by starting from scratch or “greenfield investment” (Billa, Metro), merger or acquisition of national operator (Perekrestok, Auchan), or through franchising (Spar). Moreover, the market has national retailers, which, however, have “foreign roots”, that is why we consider them to be representatives of international business (hereinafter - the international retailers). Among them there are such chains as Novus, whose investor is a Lithuanian company “BT Invest”, Furshet (PJSC “Furshet”), “Torhovyj dim “Amstor” and stores Brusnichka (LLC “Ukrainisky retail”). The official sources\(^{145}\) announce that a 100% - owner of Furshet is a British company “Anthousa Ltd.”, through which 21% of the company shares has a French chain Auchan, the rest is owned by the well-known Ukrainian businessman Ihor Balenko. “Torhovyj dim “Amstor” is a part of PJSC “Smart Holding”, 75% of which is owned by British company “Optimabest Management Ltd.”, and therefore we can talk about the presence of foreign capital in the Ukrainian food market. One more company present in the market, which has a stable growth dynamics, refers to the list of national networks with a foreign capital: LLC “Ukrainisky retail”. It should be noted that 100% of the share capital of a company is owned by “United Retailers Ltd.” - a subsidiary of the Cyprus holding company “SCM Holdings Ltd.”, 100% shares of which belong to a successful businessman Rinat Akhmetov\(^{146}\). Thus, Ukrainian retail grocery market is characterized by a large number of subjects of different organizational forms with the total quantity of 395 stores in August 1, 2013 (including 121 stores of multinationals operating in the field of international trade) in various formats with extensive regional coverage.


\(^{143}\) The chain was acquired by Ukrainian company "Fozzy Group".

\(^{144}\) http://www.auchan.ua/uk/auchan-world/news/#news1.

\(^{145}\) http://bypuer.com.ua/ua/company/.

Analysis of the international companies in the Ukrainian retail grocery market showed that the overall dynamics of international retailers’ turnover is positive and has a constant growing, but year-on-year growth is slower versus the total market growth (Fig. 3).

![Image of chart showing dynamics of retail grocery market and retail trade turnover of ten international grocery chains in Ukraine]

Fig.3. Dynamics of retail grocery market and retail trade turnover of ten international grocery chains in Ukraine

Considering the analysis of the competitive environment and concentration of foreign capital in the Ukrainian food market we must analyze the fact of commencement of proceedings by the Antimonopoly Committee of Ukraine (AMC) on anticompetitive concerted actions of 18 huge retailers including those of interest within this paper: LLC “Auchan Hypermarket Ukraine”, FICE “Billa Ukraine”, PJSC “Furshet”, LLC “NOVUS Ukraine”, PJSC “X5 Retail Group Ukraine”, LLC “Spar-Center”, LLC “METRO Cash & Carry Ukraine” and the foreign company LLC “ACNielsen Ukraine”, which is known to conduct market research in Ukraine.

According to the official sources, during the investigation started by the Committee in May 2012, it was ascertained that defendants committed anticompetitive concerted actions resulted in food stuffs price increase in trade networks during 2010-2011. At the same time the defendants coordinated the interaction format with suppliers that affected interests of the producers, by creating a cartel with LLC “ACNielsen Ukraine” company in the center of it. The latter is known to follow ICC/ESOMAR standards, and in this respect there is a question of the company research activity in compliance with the principles prescribed by the International Code.

Thus, we can assume that the Ukrainian market is characterized by relatively low level of competition that allows retail chains to compete with each other not directly but indirectly, as far as pricing policy of the retailers in most cases has an identical nature, and the struggle for consumers is based on specific differences within other elements of the marketing mix.

Hereinafter we need to determine the level of concentration of international capital in the domestic market. According to the domestic and international research practice to

---

147 “Real-,” company operated till 2013 and was counted here as a separate chain.
148 Estimated on the basis of data provided by an independent consulting group “GT Partners Ukraine”.
149 http://www.amc.gov.ua/amku/control/main/uk/publish/article/99632

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CR (3)</td>
<td></td>
<td>24.41</td>
<td>22.68</td>
<td>18.15</td>
<td>16.73</td>
<td>-7.11</td>
<td>-19.98</td>
<td>-7.79</td>
</tr>
<tr>
<td>2. CR (5)</td>
<td></td>
<td>28.50</td>
<td>27.36</td>
<td>22.74</td>
<td>21.11</td>
<td>-3.97</td>
<td>-16.92</td>
<td>-7.15</td>
</tr>
<tr>
<td>3. CR (7)</td>
<td></td>
<td>29.48</td>
<td>29.04</td>
<td>25.03</td>
<td>23.50</td>
<td>-1.48</td>
<td>-13.82</td>
<td>-6.09</td>
</tr>
<tr>
<td>4. CR (10)</td>
<td></td>
<td>30.88</td>
<td>30.42</td>
<td>26.49</td>
<td>24.91</td>
<td>-1.51</td>
<td>-12.90</td>
<td>-5.96</td>
</tr>
<tr>
<td>5. Herfindahl-Hirschman index (HHI)</td>
<td></td>
<td>236.41</td>
<td>201.89</td>
<td>133.35</td>
<td>111.07</td>
<td>-14.60</td>
<td>-33.95</td>
<td>-16.71</td>
</tr>
</tbody>
</table>

Thus, despite the gradual increase in sales of the international retail chains in the domestic food market, concentration ratios for three, five, seven and ten international retailers in the grocery market of Ukraine and Herfindahl-Hirschman index for 2009 - 2012 indicate a lack of consistency and single-direction of the international capital concentration process in the retail of Ukraine. The calculated concentration ratios show multidirectional trends of Ukrainian food market development in pre-crisis and post-crisis periods: a sufficient scale and high pre-crisis dynamics and significant decrease of business consolidations in the modern conditions. Recent trends allow us to hypothesize about the temporary market structuring completion phase in value and quantitative terms, attended by further stabilization process or sluggish growth. We should note the importance of not only the recession as a factor of destructive influence on the process of assets consolidation and market power concentration. Equally important is the impact of institutional determinants, including the lack of a clear legislative system; delaying the process of a law on trade adoption; the spread of illegal mechanisms for acquiring controlling interest to most developed countries; the presence of corporate conflicts associated with the formation and redistribution of ownership in joint stock companies. As a result, we can point out the obvious feature of the concentration process in the retail grocery market of Ukraine comparing to the markets of Central and Eastern Europe: a relatively low concentration level of foreign and high concentration level of national capital. Low concentration level, on the one hand, confirms the existence of competition in the market and the lack of a dominant position of a certain company, including foreign capital in the grocery market of Ukraine, but on the other hand, this level leads to a number of sector-specific risks and complications. Thus, high concentration level may increase the stability of the market during the crisis. Equally important is the accelerating transformation of the trade sector due to the innovative development of the considerable investment resources of the dominant companies. In this sense the national economy faces a conceptual dilemma to find a consensus between the low and high concentration levels of the relevant market sector, which actually comes down to a choice: to increase competitiveness of powerful operators, possibly non-residents, and the industry as a whole or a transparent competitive environment and economic sovereignty of the state.

151 Calculated on the basis of data provided by an independent consulting group GT Partners Ukraine
Conclusion

Therefore, the analysis of the retail trade state and development trends in Ukraine showed that the retail sector is one of the most dynamic. During 2006-2011 retail trade was characterized by increase in the formal trade share and the share of nonfoods sales through the retail trade network; growing interest in modern retail trade formats, and moving away from traditional trade forms of Ukrainian retail market. The analysis of the state and trends of market power consolidation and concentration processes in the retail market of Ukraine, the assessment of the concentration level of international FMCG - retailers and analysis of the impact of the mentioned process on the competitive environment of the domestic retail trade showed that these processes occur, but relatively slow. Ukrainian market refers to the markets with a low concentration of foreign capital and dominated positions of national retail business operators. According to the research the international retailers occupied the most advantageous positions before the crisis, due to better access to credit and investment resources on a global scale comparing to national operators, and successful strategy of a corporate development in times of crisis. However, since 2010 it is possible to identify a clear downward tendency in the dynamics of concentration processes of international capital in the Ukrainian retail grocery market.

References:
OECD Economic Surveys: Mexico 2013, New findings on obstacles to economic growth, Concentration in selected economic sectors, 2013.


Shymko, O. V. Rozvytok konkurentsii u sferi torhivli iak neobkhidna umova efektyvnoho funktsionuvannia spozhyvchoho rynku [Development of competition in the trade as a necessary condition for the effective functioning of the consumer market]. Ekonomichni nauky, vol. 3, no. 9 (33), 2012.

http://www.ukrstat.gov.ua
http://www.amc.gov.ua/amku/control/main/uk/publish/article/99632