

How Active is the Romanian Retail Market?

Introduction

In the most recent edition of ***How Active are Retailers Globally*** we found out that Romania ranks on the 22nd position out of 67 markets in terms of attractiveness and future plans of retailers for expansion. Following this analysis, several questions were raised:

- What is the profile of retailers entering the Romanian market?
 - Where do they open shop?
 - What retail footprint do they occupy?
- How attractive the retail market will be in the future?

In order to answer these questions we made an in-depth research on which retailers entered Romania starting with 2013. We included all international brands, with at least one store opened during this time frame, regardless of location (high-street, shopping centres, shopping galleries). In total, we counted 80 such new brands, which in turn opened a total of 170 stores with plans for at least 30 more during the next 12 months.

How Active is the Romania Retail Market?

A quick answer would be – very active. While the retail sector in Romania went through a very difficult period during 2009 – 2013, the recovery has showed its signs since 2013. As such, in the last 2 years, a record number of 80 new retail brands entered the market. The variety of brands, the occupied surface, the type of location chosen for first opening is intensely varied. The brands range from luxury retailers, like Vionnet or Michael Kors, to value fashion, in the form of Sinsay and Mohito, to homeware (H&M Home, English Home) or even coffee and restaurants (Tchibo Coffee Store or Columbus Café).

This record number of new entries is correlated with strong macro-economic indicators, mainly an average annual GDP real growth in the analysed period of 3.3%, substantially above that of many other European countries.

When & Where?

4 in 10 new brands that entered the market in the last years did it in 2015. Even though the year is not over yet, it proves to be the most successful for retailers. Last two years – 2013 and 2014 share an equal proportion, with 25 and 21, respectively, new entries.

In terms of where the first store was opened there is a pattern of operation – retailers select prime locations (94% go this route), within shopping centres (82%), in Bucharest (68%). Second option for retailers, especially those in Luxury and Business sector opt for High Street or Shopping Galleries as the first location. While the Capital clearly is favourite, this doesn't mean that regional cities are ignored – 1 in 3 retailers will go to such a place, while more than half opened or will open stores in regional places.

KEY FINDINGS
RETAILERS SELECT PRIME LOCATIONS 94%, WITHIN SHOPPING CENTRES 82%, IN BUCHAREST 68%

Cluj-Napoca
 Population 324,576

1%

Iasi
 Population 290,422

1%

3%

Ploiesti
 Population 209,945

3%

Brasov
 Population 253,200

5%

Timisoara
 Population 319,279

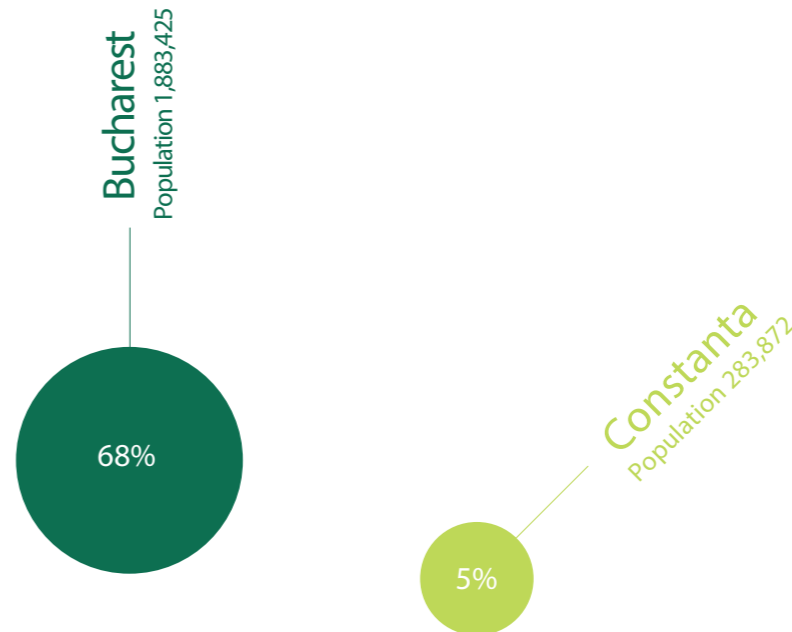


FIGURE 1:

TOP TARGET MARKETS BY NEW RETAILERS

Source: CBRE Research.
 Population data source: National Institute of Statistics, as per 2011 Census.

Who?

The type of retailers, price-point and type of operation is incredibly varied. While fashion retailers are clearly dominating the ranks, even within this segment there are plenty of models: denim, value fashion, luxury, lingerie, sports stores, mid-range fashion and many others. In total, fashion accounts for almost half of total new entries.

Fashion is followed by Coffee and Restaurants sector, which in Romania is a perfect mixture of local operators and international, highly visible brands. As this type of business requires a high level of information about the local market, almost all new brands in this category are operated via franchise.

NEW RETAILERS BY SECTOR FASHION ACCOUNTS FOR ALMOST HALF OF TOTAL NEW ENTRIES



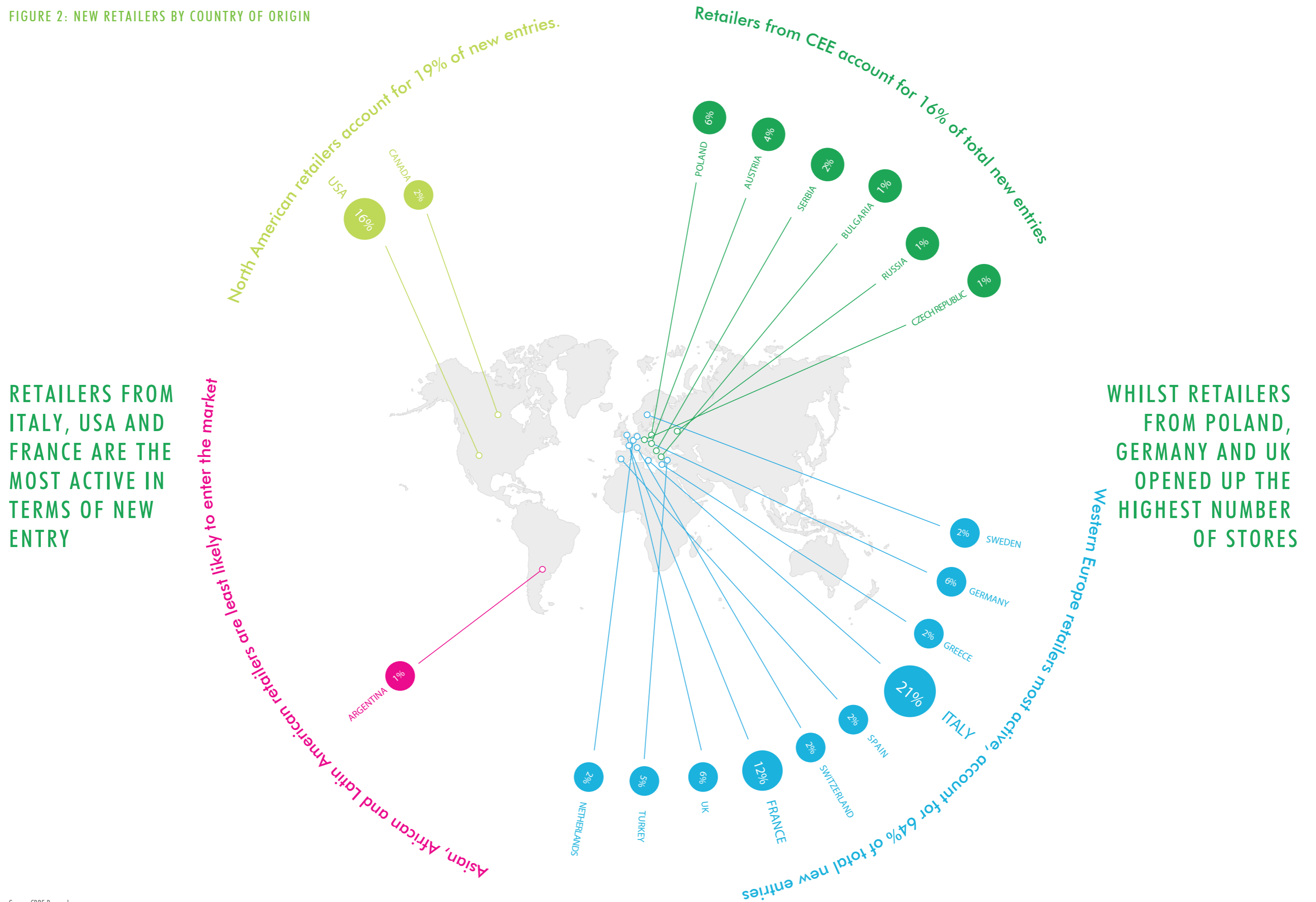
How?

While during the boom period of 2006 – 2008 the predominant business model was a franchisee operation, this holds true only to a certain extent. 65% of new brands chose this type of operation, with only one in three entering the market direct. In terms of domain of activity of retailers and type of operation there is a substantial difference – while 88% of Coffee and Restaurants, 71% of Luxury and Business and 86% of Mid Range Fashion are operated via franchise, only 40% of Homeware retailers and 0% of Supermarkets chose this model.

FRANCHISEE OPERATION BY SECTOR DIRECT ENTRY CHOSEN BY 35% OF NEW RETAILERS



FIGURE 2: NEW RETAILERS BY COUNTRY OF ORIGIN



Source: CBRE Research

Size

In total these 80 new brands to the Romanian market opened up close to 170 new stores and are planning to open at least 30 new stores in the next 12 months. If we exclude big box units (Brico Depot and Jumbo which occupy a total surface of close to 200,000 sq m), the other retailers occupy a retail space in excess of 30,000 sq m, sufficient to fill a brand new medium size shopping centre.

Exports

While Romania has been a magnet for international brands, retailers from our country have been active as well on a global market. Among the most active we can name: Musette, Farmec, Nissa, Braiconf and eMag, targeting markets especially in Europe.

KEY FINDINGS

APART FROM THE EXISTING 170 STORES, THE NEW RETAILERS EXPECT TO OPEN UP AT LEAST 30 NEW ONES IN THE NEXT 12 MONTHS

170
NEW STORES

80
NEW BRANDS

30,000 sq m
RETAIL SPACE

Exits

Alongside entries, the market experienced a number of resonant exits from the market – in total we have counted for the period analysed 10 brands, in the Fashion and Homeware sectors. Most notable exits are: bauMax, Obi, New Look, Nine West, La Senza and others. Motives for exiting the country are varied and mostly reflect either a poor business operation model (mainly linked to promotion and marketing) or a misfit between the brand and consumer preferences. Interestingly, one brand fits both lists – Debenhams exited the country in 2013, to make a comeback in 2015, under a new franchise operator and with new plans for expansion.

Outlook

Looking ahead we expect to see more international brands as the attractiveness of Romania as a retail destination will increase. This will be factored by strong macro-economic indicators, increase in consumer spending, fiscal relaxation and increase of income availability for purchases. While the market continues to be polarised between dominant centres and secondary schemes (evident by the fact that 95% of the retailers analysed in this report chose a prime location), we expect that regional cities to attract more new brands. This is also due to the fact that certain regional cities will increase their offer of third generation centres, highly attractive for retailers. In terms of type of retailers and type of operation, the existing patterns will mostly continue in the coming period – fashion brands, franchisees, and European names will lead the expansion model in Romania.

NEW RETAILERS ROMANIA (SELECTION)

Brooks Brothers
New Balance
Pepco
Vans
Lego

Jumbo
Supeco
Nespresso
Michael Kors
Liu Jo

Decimas
Dolce&Gabbana
Suvari
Claire's

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Where a deep understanding of consumer behaviour informs the physical experience.

Where ideas become actions that directly impact business success.

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