Policy Brief – Case Study

Greek Retail Market in Times of Recession and Income Contraction*

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The economic downturn has created an entirely new business environment, unprecedented for the retail and food suppliers in Greece. Businesses in the industry were found to compete vigorously for the shrinking disposable income of consumers, acting within the limits of profitability and revising their strategies in order to adapt to the requirements of the new economic environment. According to the Panorama of Greek Super Markets 2013, the main feature of developments in the industry in 2012 was reduced turnover.

Based on data from the Hellenic Statistical Authority, the food industry presented a decrease in turnover by 12.43%, while large food stores witnessed a decrease in their turnovers by 6.97%. These decreases, according to a study conducted by IELKA, amount to about 2.7 billion. Euro. The average per capita consumption expenditure on groceries (FMCG and fresh food) is estimated to have dropped from Euro 1,800 per year to levels of early 2000s.

Given that the sample of 60 chains of retail market of annual Panorama of Greek Super Markets showed reduced turnover by just 0.5%, it is reasonable to assume that this drop in sales affected to a much greater extent small food stores. This development equals to increasing market shares for larger and more organized chains of retail market, which have greater capabilities to meet the challenges of economic recession.

The aforementioned are illustrated through the balance sheets and the Profit and Loss statements of the 60 chains if retail market that participate in the annual Panorama of Greek Super Markets. Total sales fell by 0.5%, which corresponds to decrease of Euro 36.47 mil, reaching a total of Euros 7.3 bil. It is clear that this reduction is much smaller than the overall market decline, reflecting the reallocation of shares for the benefit of larger supermarket chains. It is characteristic that the 15 supermarket chains with highest sales showed an increase in turnover by 0.89%, while the remaining 45 smaller chains showed reduced turnover by 11.31%.

It seems, therefore, that the impact of the economic recession in the food industry is a restructuring process towards more efficient market structure, with emphasis on economies of scale. This becomes evident from the analysis of any balance sheet of 15 large supermarkets, which shows that they remain a stronghold in the Greek economy in terms market share maintenance, especially as regards sales, profitability and liquidity.

[*] Based on Analysis published in www.selfservice.gr

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Structural changes that took place in the retail market in recent years (exit Atlantic, Aldi, acquisition of Dia, economic problems with Arvanitides, Evia Supplying etc.), opened available space to several companies to enhance their position based on sales and expansion through new stores. There is a significant number of companies that showed an impressive increase in sales by improving their position in the overall standings. Typical examples are the Market In, the Cooperative IN.KA., Chalkiadakis the Bazaar, the ANEDIK Kritikos and Supplying Food (Promitheftiki), which this year find themselves in positions 8-13 in relevant classification, all being profitable exhibiting sales growth that exceeds 2.25%, increasing total turnover by 6.05% from EUR 707.87 mil to EUR 750.71 mil. and their market share from 9.65% to 10.29%.

It appears that the market for supermarket retail chains shows great resilience in times of recession and disposable income contraction. The champion in this market holding the leading position for third consecutive year is Alfa-Beta Vassilopoulos, the company with the biggest profits in the industry. Profits for 2012 amounted to Euro 44.26 mil. increased by 7.90% compared to 2011 and turnover being more that Euro 1.6 bln. (2.74% net profit). Masoutis followed suit experiencing a very positive year since sales rise 4.64% in 2012 (the highest increase in the industry) marking a turnover of Euro 734.35 million. and profits of Euro 15, 39 mil. Metro was also profitable, achieving profits of Euro 19.25 million. (2.75% net profit) and the same goes for Sklavenitis with profits of Euro14.55 mil (1.18% net profit).

However, despite these positive results in terms of value, profitability margins for these retail market chains remain the unchanged, with a rather downward trend. Indicative is the fact that seven out of the eight largest firms reduced their net profitability index. Overall, 60 companies in 2012 showed net profits of Euro 105.69 mil. reduced by -5.87% compared to 2011. The net profit ratio stood at 1.45%, down by 0.08% compared to 2011, while the operating profit margin also remained almost unchanged at 2.14% and the EBITDA ratio in a promising 4.17%. The return on equity declined and stood at 9.62% in 2012, decreased by -2.98% compared with 2011, which was the result of both a decline in corporate profits, and the growth experienced equity (mainly thanks to the inflow of capital in alfa-Beta Vassilopoulos).

In each case, however, the whole industry faces clear difficulties. Just 28 companies managed through this difficult situation to increase their net profits, while 30 firms were able to increase their sales. A significant number of companies, mainly from smaller chains, showed losses. Typically, from the 60 firms sampled 13 presented losses in their net results before tax, while 13 firms experienced losses in operating profits (we could say that they have a primary deficit).

The overall picture becomes slightly better when considering the EBITDA ratio, which remains positive for 53 industry firms, and is negative for only 7. This indicator shows more clearly the "primary" state of the organism (surplus-deficit), as it sets off the effects of fixed assets management, goodwill and each firm’s special cases of borrowing. Thus, in 2012 the EBITDA indicator shows that the vast majority of the industry still has a positive outlook for the future and will exhibit surpluses. This is also made apparent through liquidity management of the industry’s firms.

Over the last three years the industry faces reduced liquidity in the Greek market and economy. Greek banks have significantly reduced their available credit lines in 2012, due to their delayed recapitalization, leading businesses in respective actions. The situation in 2013 remained unchanged with banks tightening their lending policies and being very selective in which businesses they qualify to support.

The industry's response to this pressing environment was to transfer liabilities to the future, which explains why in 2011 a decrease in short-term liabilities of enterprises and an increase in long-term liabilities were noted. This practice enabled the industry's firms to earn some valuable time to absorb the effects of the economic downturn. In 2012 there are clear indications for the next step in consolidation of financial management of enterprises, which is summed up to a substantial increase of liquidity ratios due to reduced liabilities. Total liabilities of 60 retail market chains decreased by Euro 93.94 mil. (3.17% percent decrease). Crucial role played in this development the decrease in sales, which contributed to the decrease in liabilities to suppliers by 2.25% and led to a reduction in pay days from 114.63 days to 113.18.

This decrease in liabilities resulted in a significant increase in liquidity indicators of business. The industry's liquidity has increased from 65.38% to 68.96% and the immediate cash ratio increased from 32.29% to 34.81%. It should be noted that these increases are the result and the increased current cash of business by 15.31% from Euro 266.23 mil. Euro 306.99 mil. With regard to asset accounts, stocks, despite the decline in sales, showed little increase about 0.87%. So the inventory turnover rate, after a significant period of growth in 2012 fell from 7.74 to 7.59.

Investment of 60 supermarket chains in 2012 totaled Euro 153 mil. This amount, which corresponds to 2.10% of turnover, is very high. Indicative is the fact that investments exceed net profits by Euro 106 mil. EUR. There are two ways to see this investment policy; firstly, a strategy of expansion through nee stores and network development and secondly as a positive byproduct of the crisis. Investments concern mainly fixed assets and specific development network, but not to the extent observed in previous years. In particular, in 2012, the 10 largest chains opened or acquired more than 35 new point of sales when all business chains combined of the retail supermarket business in 2012 incorporated in their network just 10 stores.

At the same time, given the economic downturn, and as banks have dramatically reduced their available funding, it is no coincidence that many companies now aim to reduce operating costs and increase productivity. In order to be more productive and efficient, they invest in smart and technologically advanced systems, expertise and infrastructure. In conclusion, the overall picture of the industry reveals a conservative-cautious period for retail food, during which it seems to come out as winning companies those that had invested in the past in more organized networks.

The industry is assumed to have been adversely affected by the economic downturn, but continues to show resilience and there are clear indications coming from the financial management of the chains that the industry is moving towards operations with greater efficiency and productivity. Forthcoming mergers, acquisitions and investments are bound to bring new structural changes in the industry.

References

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