

AN OVERVIEW OF THE GREEK GROCERY RETAIL SECTOR



An Overview of the Greek Grocery Retail Sector

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This report presents an extended summary of a study by the Institute of Retail Consumer Goods in Greece (IELKA) that aims to identify and measure the contribution of the Greek grocery retail sector to the Greek economy, as well as to document and analyze its main figures, current trends and future prospects. The grocery retail sector consists of the non-specialized stores (such as supermarkets, grocery stores etc), the specialized stores (such as butchers, greengrocers, liquor stores, fish stores etc) and the street markets (which have a significant market share in urban areas in Greece).

The analysis includes the following topics:

- The market size
- The national store network
- Employment figures and opportunities
- Investments for productivity and competitiveness
- Contribution to the national economy
- Financial ratios analysis and comparison
- End-consumer's price index
- Development prospects

1. Market Size of the Greek Grocery Retail Sector

The grocery retail sector can be analyzed and documented in several levels depending on the definitions used for the various store types. This report defines three levels:

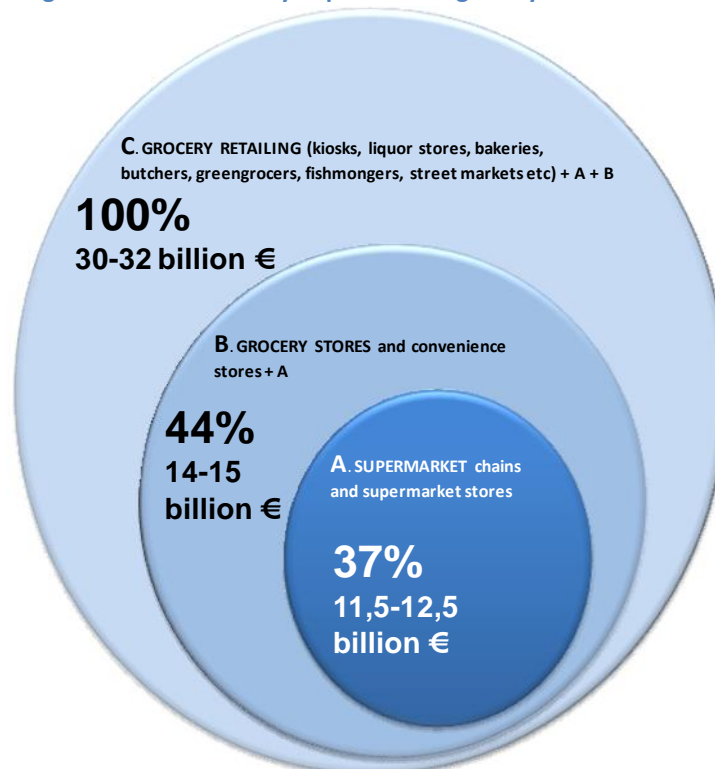
- a) **Supermarkets (A)**: The supermarket is a distinct category of grocery stores and is defined as a retail store that:
- provides a large variety of products (at least 7 out of 10 consumer goods categories)
 - is organized in sections and product categories
 - operates a sales space of at least 200 square meters
 - provides customers with self service facilities for their purchases

- operates at least 2 cash registers

Supermarkets can further be categorized, based on their size or other parameters, as hypermarkets, discount stores, cash & carry etc.

- b) **Grocery stores (B):** Grocery stores stock different kinds of foods, and sell them to customers. Small grocery stores that mainly sell fruits and vegetables are known as produce markets (U.S.) or greengrocers (Britain), and small grocery stores that predominantly sell snack foods and sandwiches are known as convenience stores or delicatessens. Grocery stores are defined herein as non-specialized stores and include supermarkets as well (category A).
- c) **Grocery retailing (C):** Grocery retailing in general is defined as the sum of all the retail sales of groceries to the end-customer (including categories A and B). It is the widest concept of recording the sector and includes supermarkets, grocery stores, convenience stores, kiosks, minimarkets, liquor stores, bakeries, butchers, greengrocers, fish shops, other grocery specialized stores, as well as street markets and direct sales from producers to consumers.

Figure 1: Turnover analysis per level of grocery retail in Greece



According to IELKA's study, **the total turnover of grocery retail in Greece is estimated at 30 to 32 billion Euros yearly** (figure 1). IGD estimates the market size as high as 35 billion Euros (figure 2), similar to the turnover of the Netherlands, Switzerland and Belgium. However, **supermarket chains in Greece** represent only 40 percent of the total turnover (11.5 to 12.5 billion Euros). This is a strong indication

for future development opportunities for the supermarket chains, further validated by the fact that Greece has the lowest percentage of food retailing in non-specialized stores in Europe, 63 percent in comparison to a European average of 84 percent (figure 3).

Figure 2: The 10 European countries with larger grocery retail turnover in billion Euros (source: IGD 2008)

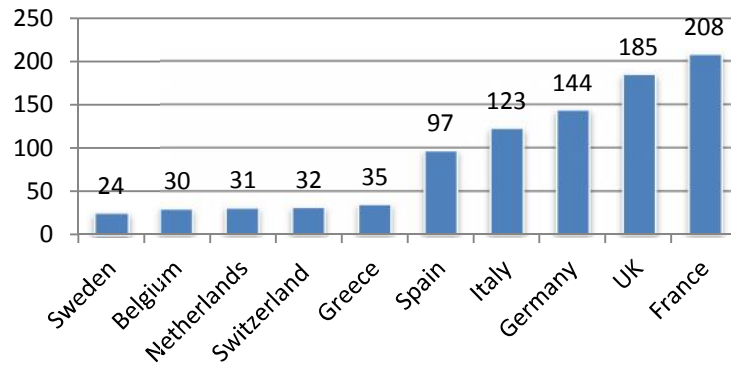
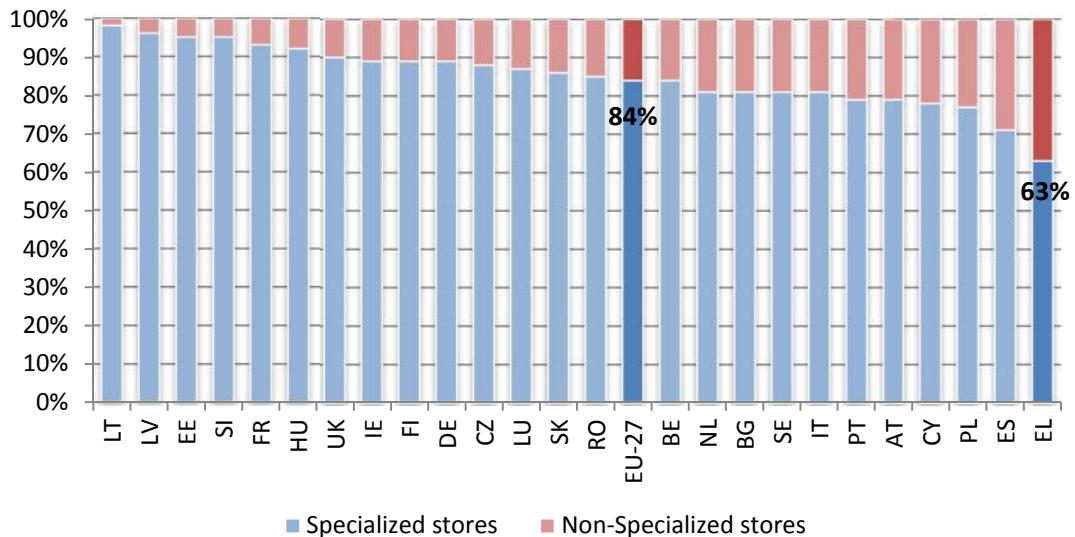


Figure 3: Breakdown of turnover of in-store food retail in Europe (source: Eurostat)



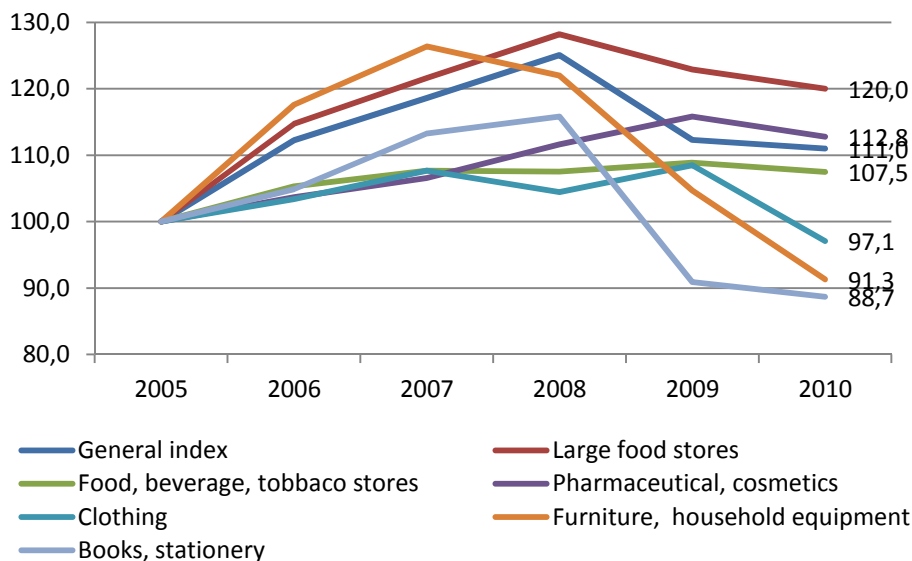
The growth of turnover for the Greek grocery retail sector and especially for the supermarkets sub-sector in the last decade was significant. More specifically, there was a large increase of the supermarket stores' turnover by 60 percent (figure 4). This reflects the considerable investments and modernization initiatives taken by several companies, the entrance of foreign supermarket chains in the local market, the changes in the Greek consumers shopping behavior and the trend to follow the European trends in terms of the market division between specialized and non-specialized stores.

Figure 4: Supermarkets turnover in Greece 2001-2008 (million Euros) (source: Nielsen)



The Hellenic Statistical Authority (EL.STAT.) concludes as well, that the greatest increase in grocery retail was caused by the largest stores (owned by the supermarket chains), which in the period 2005-2010 experienced an increase of turnover by 20 percent (figure 4). On the contrary, smaller grocery and convenience stores increased their turnover by 7.5 percent in the same period.

Figure 5: Retail trade turnover index in Greece 2005-2010 (source: EL.STAT.)



2. An Extended Store Network

Greek grocery retailing owns and operates **the most extended stores network in the country with more than 57,000 points of sale**, which service more than 11 million consumers on a daily basis (table 1). In the last decade, bakeries experienced the greatest network development (number of their stores increased by 25 percent), followed by supermarkets (number of their stores increased by 17.5 percent).

Although supermarket stores represent a small percentage of the total grocery retail sales network (4,400 stores, 9.5 percent of total points of sale), they cover the entire Greek region **with considerably high density (average of 2,600 residents per supermarket store as presented in table 2)** than in other larger countries, due to geographic and institutional reasons. The respective store density in western European countries and North America is 5,000 to 10,000 residents per supermarket store. Noteworthy, the density of the Greek store network is considerably higher in rural areas than in metropolitan areas. This phenomenon is caused by the peculiar geography of Greece (many islands, residential mountain areas), the administrative division of the country's prefectures and the inability (due to legislation) of the sector to develop stores larger than 500 square meters in rural areas.

Table 1: Grocery retail stores in Greece (Sources: EL.STAT., Panorama 2010)

Grocery retailing total (C)	Grocery stores (B)	Supermarkets (A)
57.000	29.700	4.400

These figures do not only reflect the store network's density, but also the increased competition within and among non-specialized and specialized grocery stores, the market partition among a large number of companies and the trend towards servicing customers locally, very near to their homes.

Table 2: Supermarket store density per geographic region

	Total of Supermarket Stores	Residents per Supermarket
Ionian Islands	195	1187
South Aegean	316	972
West Macedonia	166	1766
North Aegean	110	1821
Heperus	166	2119
Peloponnese	302	2027
Central Greece	231	2400
West Greece	308	2409
Thessaly	292	2520
Central Macedonia	770	2591
Attica	1106	3697
East Macedonia and Thrace	188	3227
Crete	220	2767
Greek Average	4370	2586

3. Employment Opportunities

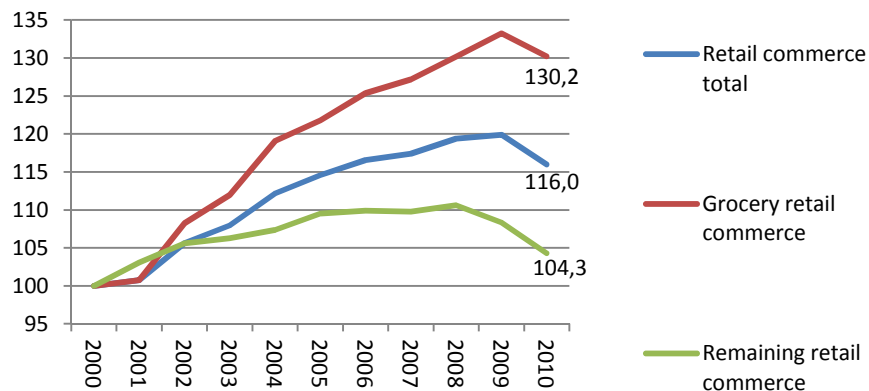
During the previous decade grocery retail direct employment increased by 30 percent (one of the highest increases at business sector level in Greece), while the employment of retail commerce in general increased only by 4.3 percent (figure 6). Currently, more than 190,000 people work in the grocery retail sector of which 40% work for supermarket chains (table 3) and these employees are widely spread (in

contrary with other sectors) throughout the country. Grocery retail sector is considered as one of the leading economy sectors against long-term and youth unemployment.

Table 3: Employees in grocery retail (source: EL.STAT.)

	2007	2010
Supermarket chains	72,500	76,085
Remaining grocery stores	108,287	114,115
Total of grocery retail	185,787	190,200

Figure 6: Employment progress in Greek grocery retail sector 2000-2010 (Source: EL.STAT.)



It is evident that grocery retail stores support large groups of the population that tend to experience higher rates of unemployment such as non-specialized workers, young people, women and elderly.

Grocery retailing is a labor intensive sector, where the cost of staff represents the largest portion of operating costs. Data from large Greek supermarket chains suggest that these costs are almost two thirds of the operating costs, while smaller chains, that have lower expenditure on marketing and overhead costs, should experience even higher employment cost ratios.

4. Investments for Productivity and Competitiveness

According to IELKA's study the sector heavily invested during the last decade. The **total investments for the period 2002-2010 exceeded 6 billion Euros** (table 4). Noteworthy, these investments are not subsidized and are widespread throughout the country due to the aforementioned expanded store networks. Supermarkets, despite their limited participation on the total sector's turnover (40 percent), represent 63 percent of the total investments. These investments are divided in several categories, but **their majority (about 2/3) were utilized towards technological and organization enhancements** of the retail network, aiming to

improve productivity, competitiveness, supply chain cost reduction, efficient consumer response etc.

Table 4: Investments in the grocery retail sector 2002-2010 (Source: EL.STAT.)

Year	Grocery retail sector's investments (million €)	Supermarket chains' investments (million €)
2010*	840	530
2009*	833	527
2008	862	545
2007	691	389
2006	623	391
2005	667	378
2004	460	348
2003	487	327
2002	574	380
Total	6.037	3.815

*Estimated

A significant proportion of these investments was focused on innovative initiatives to enhance business operations and support competitive and long-term strategies. Several of these investments were specified in collaboration with suppliers and exploited the opportunities deriving from the projects of the ECR Hellas organization. The methodology and the outcome of some of the projects undertaken can be considered as national best practices and even European best practices for the grocery retail sector. More specifically, some of these initiatives include the development of one of the best out-of-self prevention systems in the world, a pioneer collaborative system to manage digitally the discount and promotion coupons, very efficient electronic invoicing and ordering systems, as well as centralized distribution infrastructure, POS systems, self-checkout cashiers, WMS systems, VMI systems, ERP systems, RFID prototype systems for tracking and tracing, Master Data Alignment infrastructure etc. Additionally, the larger companies of the sector heavily invest on new “Green” stores, recycling systems and sustainability in general.

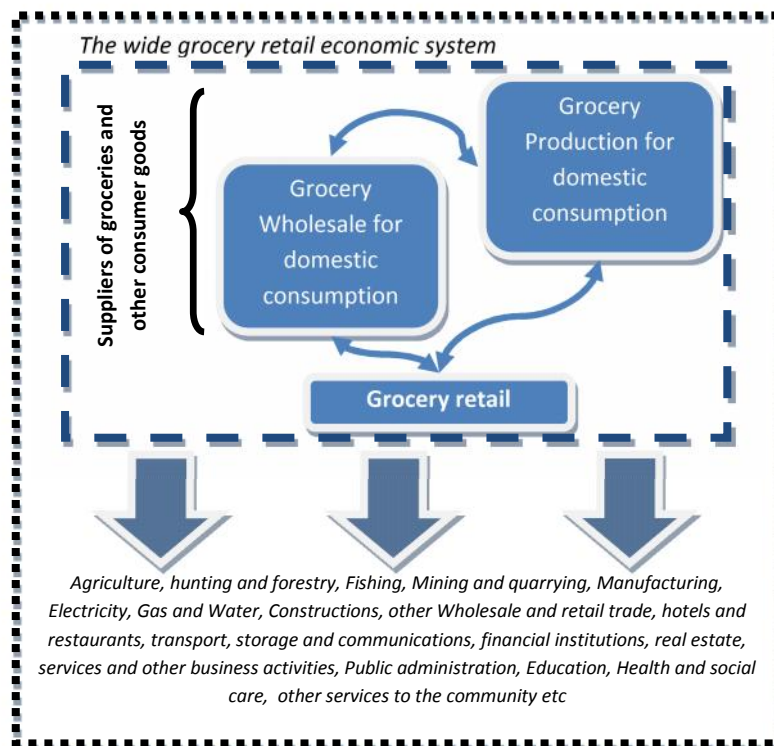
5. High Contribution to the National Economy

Regarding the measurement of the grocery retail sector’s contribution to the Greek economy, the study is based on the input-output model and exploits data provided by the Hellenic Statistical Authority (EL.STAT) and Eurostat.

The input-output model is a quantitative economic technique that specifies the interdependencies between different branches of the national economy. The model measures three separate, but interrelate, types of economic impacts (figure 7): direct impacts (produced by the sector itself), indirect impacts (produced by other sectors with their economic output directly and exclusively linked to the grocery

retail sectors¹) and induced or multiplier impacts (produced by other sectors of the economy due to consecutive rounds of expenditure/procurement).

Figure 7: Grocery retail economic environment



Therefore, the total economic impact of the sector consists of the sum of these three types of impact. The total effect of the Greek grocery retailing is considerable and highlights the sector's importance for the Greek economy (in terms of GDP) and society (in terms of employment). Specifically:

- The Gross Value Added (GVA) produced for the Greek Domestic Product (GDP) is estimated to **14.03 billion Euros**, which represents **7.01 percent of the total GVA of the Greek economy**.

¹ These sectors include:

- Grocery production: The portion of production of groceries (food, beverages, consumer goods, etc) in Greece which is sold and consumed domestically
- Grocery wholesale: The portion of wholesale of groceries in Greece which is consumed domestically, i.e. sold through the grocery retail sector. Grocery wholesale includes the intermediation between producers and retailers, the distribution of grocery products in the country (which includes also international suppliers that import and resale goods in the Greek market), the sale of used raw materials (e.g. sugar, flour, cocoa, etc).

- The employment of **521,000 workers** depends on the grocery retail sector, which represent **10.89 percent of the total employment in Greece**.

Table 5: Total impact of grocery retail sector to the Greek economy

	Gross Added Value (thousands Euros)	Employment	Salaries and Wages (thousands Euros)
Direct economic impact	3,335,099	185,787	1,362,307
Indirect economic impact	5,427,516	123,330	1,992,751
Multiplier economic impact from direct results	1,700,967	94,757	694,803
Multiplier economic impact from indirect results	3,561,654	117,307	1,335,086
Total impact	14,025,236	521,181	5,384,947
Total Greece	200,032,937	4,782,684	38,786,553
% Grocery retail / Greek economy	7.01%	10.89%	13.88%

These figures reflect the importance of the grocery retail sector for the Greek economy and society, due to the production of national wealth, the creation of high employment opportunities and the launch of new business activities. The wide grocery retail economic system is a vital part of the economy with significant contribution to both GVA and GDP, as well as to other macroeconomic indexes.

6. Competitive Financial Ratios

The 2010 financial statement analysis of the supermarket chains (92 supermarket chains for which there are available financial statements) provide a rather positive picture for the sector in the current economic crisis, since only 3 percent of the examined companies are considered to have high credit risk (figure 8) and only one out of ten companies is considered to be inconsistent in their trading behavior (figure 9). Noteworthy, the 2009-2010 trend is positive, since 7 percent of the companies moved from the zone of medium credit risk to the zone of low credit risk.

Figure 8: Creditworthiness of Greek supermarket chains 2010 (Source: ICAP)

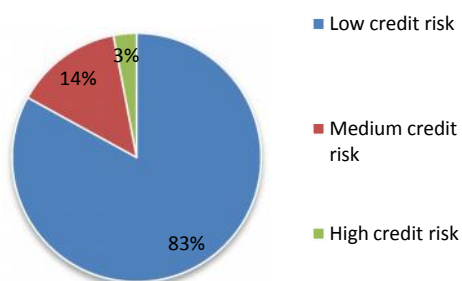
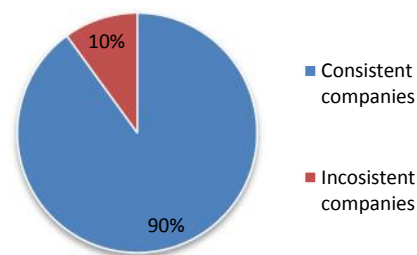


Figure 9: Trading behavior of Greek supermarket chains 2010 (Source: ICAP)



A comparison of basic financial ratios between Greek and well-known foreign supermarket chains (table 6) provides interesting insights. Indicatively, there is a

small difference of operational cost to turnover ratio, despite the fact that Greek companies have to deal with considerable unique cost factors (as described in sections 1, 2 and 8).

Table 6: Financial ratios comparison between Greek and foreign supermarket chains

	Indicative Foreign Supermarket Chains ²	Indicative Greek Supermarket Chains ³
% earnings before taxes/turnover 2009	2.9%	1.47%
% earnings before taxes/turnover 2008	3.17%	1.94%
% earnings before taxes/turnover 2007	3.4%	2.00%
% gross profit 2009	23.23%	21.06%
% gross profit 2008	23.15%	21.05%
% operational cost 2009	19.13%	21.09%
% operational cost 2008	18.80%	20.13%
% operational cost 2007	19.21%	19.93%

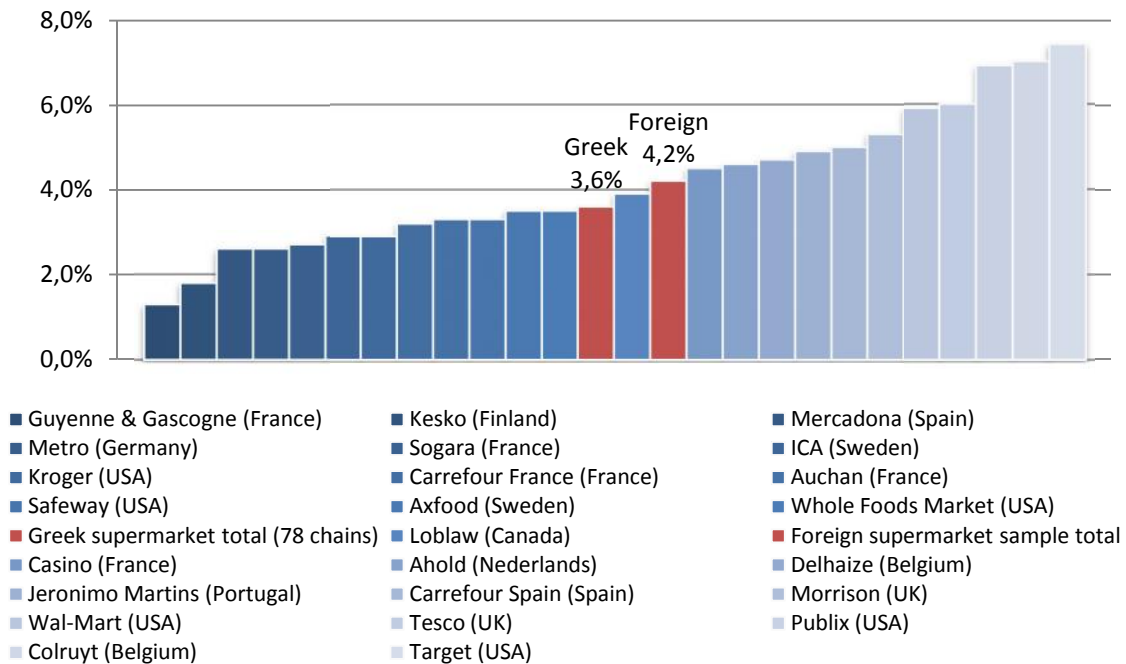
These extra costs are due to the difficult geography (too many islands and mountain areas) and problematic transport infrastructure that increases distribution costs, the high store network density, consumer behavior characteristics (large portion of sales relate to the serving sections of the stores), anachronistic institutional framework for warehousing and transportation and fierce competition caused by the large number of specialized stores. Nevertheless, the financial ratios (operational costs, gross profit) suggest that Greek supermarket chains operate equally efficiently to foreign supermarket chains.

Figure 10, also provides a comparison of the EBIDA (Earnings before interest, taxes, depreciation and amortization) among Greek supermarket chains (78 companies) to 24 top foreign supermarket chains (best practices) for 2009. The average EBITDA for the Greek sector is estimated at 3.6 percent, while the average EBITDA of the sample of well-known foreign supermarket chains is 4.2 percent. **This comparison proves also that Greek supermarket chains operate in a similar competitive level to the respective foreign companies.**

² AHOLD (NED), Carrefour (FR), Casino (FR), COLRUYT (BEL), METRO (GER), Wal-Mart (USA), AUCHAN Group (FR), G. Delhaize (BEL), KESKO (FIN)

³ Carrefour-Marinopoulos, AB Vasilopoulos, Sklavenites, Veropoulos, Metro/Mymarket, Atlantik, Diamantis Masoutis, Pente, Arvanitides

Figure 10: EBITDA comparison between Greek and foreign supermarkets (2009)



7. Grocery retail price analysis

The Greek grocery retail sector is considered to have a positive effect on final consumer prices. The bimonthly study of IELKA on the progress of retail prices in Grocery Retail in 2010 (based on data from the official price observatory of the Greek General Secretariat of Commerce) proves that Greek supermarket chains and their suppliers have made considerable efforts to absorb a large portion of the new heavy taxation in 2010 (caused by the government measures for the Greek debt crisis⁴), which lead to an actual reduction of adjusted product prices. The IELKA index is based on 996 products sold in Greek supermarket chains and represent more than 200 product subcategories. More specifically:

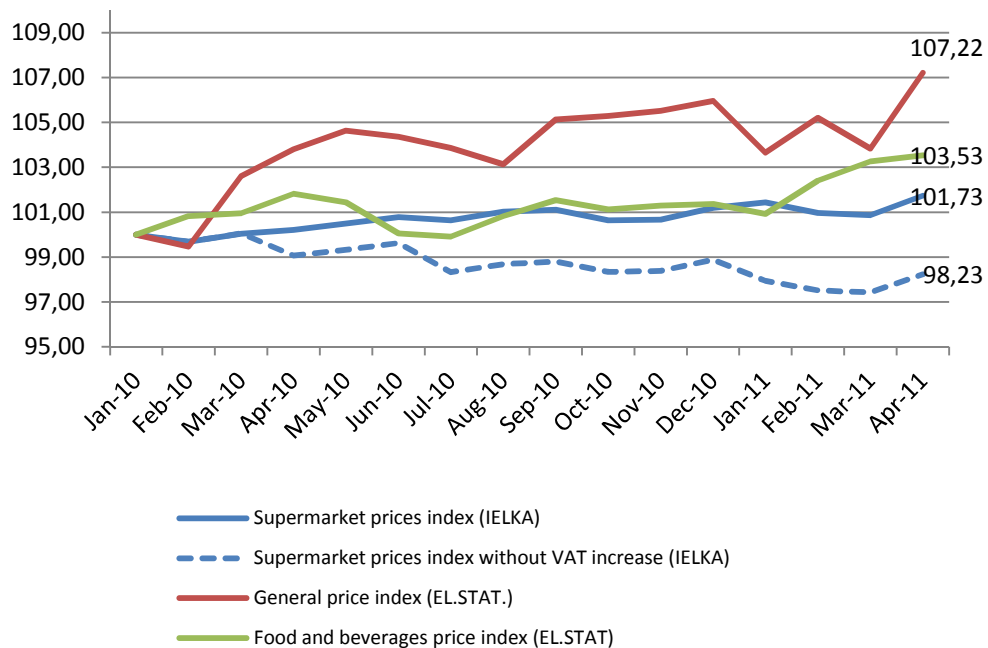
- The overall index increased by 0.79 percent in the 12 month period of 2010. This increase was primarily due to increases in VAT because the adjusted overall price index excluding VAT increase declined by -1.61 percent. If the VAT increase is removed, 58 percent of the products reduced their average price and 79 percent of product categories reduced their average price.
- The progress of prices in Greek supermarket during the period between January 2010 - April 2011 (figure 11) was significantly lower than the inflation (7.22 percent), as well as the progress of prices of grocery retailing in general, which includes other outlets such as specialized stores and street markets (4.59 percent). During the same period, **the increase in supermarket prices**

⁴ From March 2010 to December 2010, the VAT for food and beverages has increased from 9 to 13 percent, while the VAT for other grocery products has increased from 19 to 23 percent.

was only 1.73 percent, while if the new VAT taxation increase is excluded, the prices fell by -1.77 percent.

- A comparison of a typical supermarket shopping basket (April 2011) among Greece, Spain and England shows that the Greek supermarket chains have lower average prices than English (16 percent) and Spanish (2 percent). If the VAT for each country is removed then the average basket in Greece is lower by 22 percent and 7 percent than England and Spain respectively.

Figure 11: Groceries price indexes January 2010 - April 2011



8. Development Prospects

The sector's development prospects are affected by several important factors, such as the emerging consumer trends of Greek shoppers due to the economic crisis, the importance of innovative branded products, as well as the increase in sales of private label products.

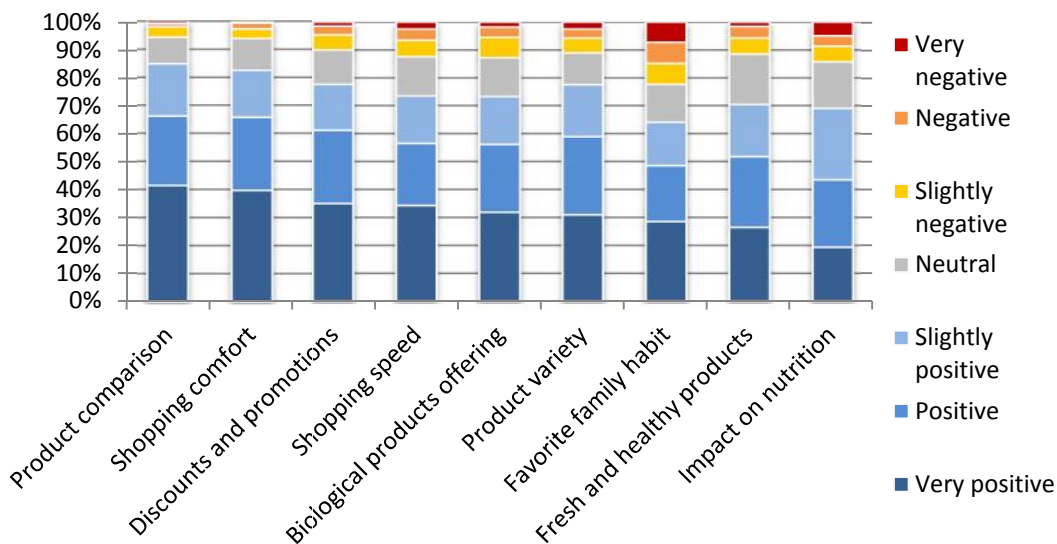
The grocery retail sector in Greece is also responding pro-actively to the challenges of the "future supply chain", such as sustainable development and entrepreneurship (high investments on grocery stores and recycling), collaborative supply chain (the advanced collaborative projects with suppliers in ECR Hellas), technology-enabled consumers (in-store technology investments serving the shopper), consumer health and wellbeing (the availability of wide range of fresh products).

A recent IELKA's consumer survey examined how consumers evaluate Greek supermarkets in relation to their shopping experience and to the grocery retail sector's effect on the Greek economic and social life. **Both, shopping experience and**

sector's socioeconomic effect were evaluated very positively (5.46/7.00 and 4,78/7.00 respectively in a 1 to 7 scale).

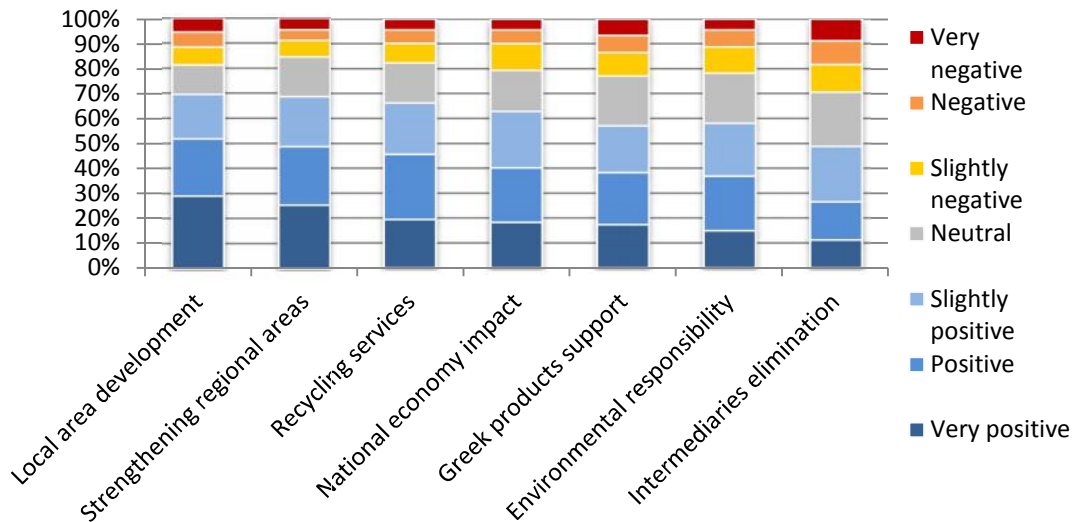
More specifically in regard to the shopping experience (figure 12), consumers are especially satisfied by the comfort and speed of their shopping trip (80 percent), the access to variety and comparison of products (80 percent), the continuous promotions and discounts (77 percent), the access to fresh and biological products and the impact of supermarkets on improving their nutrition (69 percent). These results reflect the improvements made in the past few years on the structure, organization and management of the supermarket stores. It is indicative that on average 75 percent of consumers respond positively to all these associated questions and less than 10 percent responds negatively.

Figure 12: Evaluation of the shopping experience in Greek supermarkets



In relation to the evaluation of the socioeconomic impact of the grocery retail sector, Greek consumers recognize this contribution of the sector (figure 13), such as the development of local areas and neighborhoods (70 percent), the support provided to the local grocery production (60 percent), the environment protection and recycling (67 percent). The responses to these questions are quite optimistic and on average almost 70 percent of consumers have a positive opinion. However, almost 1 out of 5 respondents do not have an opinion about the macroeconomic impact of the sector. Therefore, the image of the sector can be significantly improved by promoting and communicating to the public important facts about the socio-economic impact of grocery retail as described in the previous sections.

Figure 13: Evaluation supermarkets socioeconomic impact



Another positive factor regarding the sector’s future is consumer trust. **Consumers display high trust towards the supermarket chains.** 51 percent of consumers claim that they trust the supermarkets, 21 percent do not have an opinion and 28% distrust the companies (figure 14). The results are quite positive in comparison with other sectors. Figure 15 provides a comparison of trust among various sectors and institutions of the Greek economy. Supermarkets are in the first place by far suggesting that despite the recession in the Greek economy supermarkets are evaluated very highly by the society, suggesting future growth opportunities.

Figure 14: Grocery retail trust

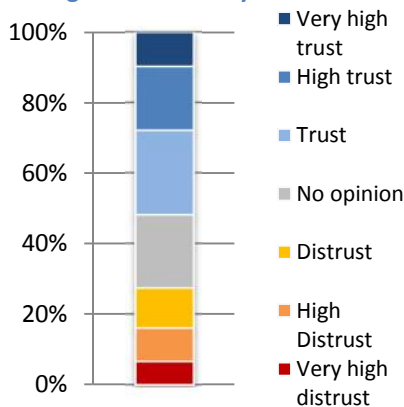
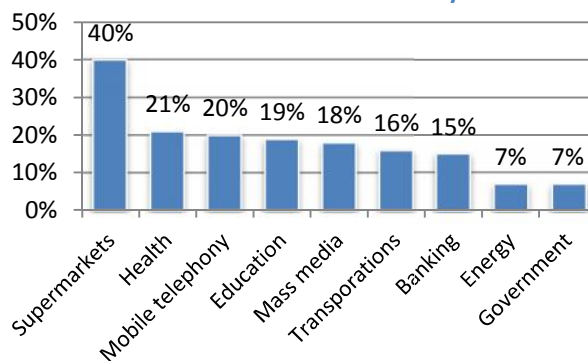


Figure 15: Consumer trust comparison among various sectors of the Greek economy



Other factors that will influence positively the development prospects of the sector relate to the legal and institutional trade framework, as well as to the existing transport and distribution infrastructure in the country. The reform of the outdated legal and institutional trade framework and the improvement of transport infrastructures in Greece are expected to play a key role in reducing costs caused by anachronistic rules for the operation of private-owned trucks (versus public trucks), developing and running warehouses and supermarket stores, as well as the

inadequacy of certain public transport infrastructures (roads, ports, trains, integrated transportation systems etc) and inadequate trading environment (e.g. invoices-consignment notes). Solving these problems could save several hundred million Euros from the operating costs of distribution in grocery retailing. For example, the legislative restrictions on the type of products to be distributed by private-owned trucks causes an extra cost per item up to 0.12 €.

In any case, grocery retail sector offers an important contribution in Greek social and economic life, given that it produces national wealth, provides employment, initiates new innovative business activities and supports low prices to the end consumer. The wider grocery retail system (including direct suppliers) is identified as an important sector of the national economy with significant contribution to the national GVA and to other macroeconomic ratios.

About IELKA (Institute of Retail Consumer Goods – GR)

IELKA is a non-profit research organization founded in October 2010 with members the major Supermarket chains in Greece. IELKA's goals are:

- To promote scientific research and to execute empirical studies on emerging issues of grocery retail
- To provide objective information about the main indicators and trends of grocery retail
- To cope with emerging problems /challenges and suggest possible solutions with scientific justification
- To collaborate with similar Greek and foreign institutes, universities, research organizations etc in order to jointly promote research and initiatives

IELKA's mission is achieved by maintaining scientific and academic neutrality and objectiveness. The methods, tools and practices used by IELKA include

- Research/surveys produced in-house , assigned or in collaboration with other organizations
- An observatory for the main figures and indexes of grocery retail in Greece
- Publications, articles and press relishes
- Events, conferences, seminars, workshops

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