ExportReady DISCOVER | SEV Hellenic Federation of Enterprises SECTORAL REPORT Romania

Sector: Food and Drink

April 2023

Sponsored by

ExportGate | EUROBANK

Contents

For further information

Division, International Relations & Regional Policy

SEV Hellenic Federation of Enterprises

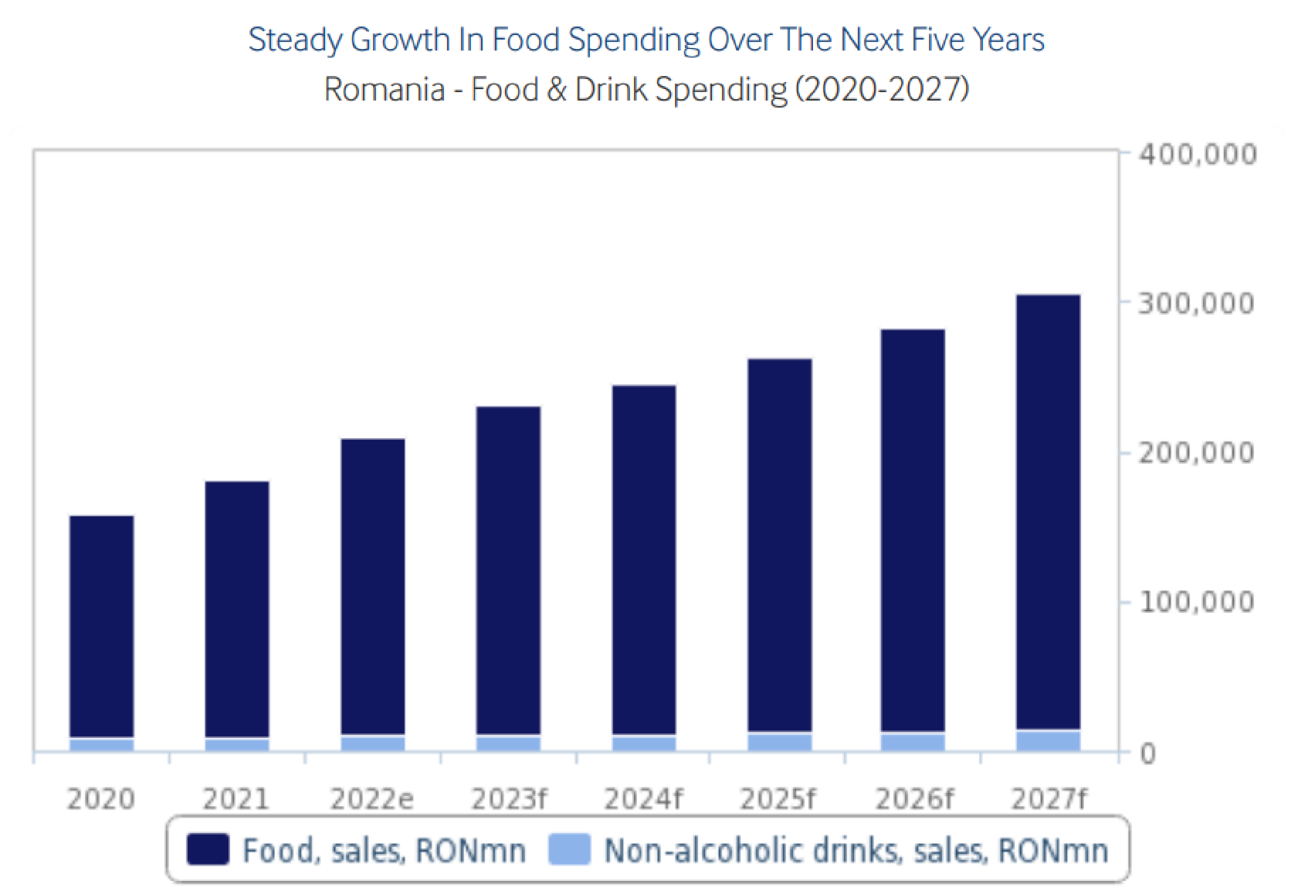
T. +30 211 5006 104

E. ir@sev.org.gr

Follow us on:

1. Sector Overview

Key View: A positive outlook for Romania's food and non-alcoholic drinks spending in 2023 is estimated as we expect consumers to maintain their focus on essentials. Price sensitive consumers will look for cheaper options, even shifting to cheaper retailers as a result. There will be a similar trend in the drinks segment, with steady consumption levels over the short term. However, there will still be some pockets of premiumisation, such as in the spirits segments, as consumers seek out better quality or more authentic products.



Source: BMI -Fitch Solutions

Latest Updates and Industry Developments

- Food spending will grow by a forecast 9.8% y-o-y in 2023 to reach RON220.1bn (USD49bn), increasing from the forecast RON200.3bn (USD42.7bn) in 2022, as Romanian consumers retain their focus on essential foodstuffs. Over the medium term

- (2023-2027), we forecast food spending to grow by an annual average of 7.8% y-o-y, taking spending in nominal terms to RON29.9bn (USD66.2bn) in 2027.
- We forecast spending on alcoholic drinks to grow 8.6% y-o-y over 2023, to a total of 21.9bn (USD4.9bn). Romania has one of the highest alcoholic drinks consumption rates in the world. Over the medium-term (2023-2027), we forecast alcoholic drinks consumption to expand by an annual average rate of 2.7% y-o-y.
- Non-alcoholic drinks spending will grow 8.1% y-o-y in 2023 to reach RON10.8bn (USD2.4bn). Over the next five years, nonalcoholic drinks spending will grow by an annual average 6.6% a year, taking spending in nominal terms to RON13.8bn (USD3.1bn) in 2027.
- In February 2022, Auchan began remodeling its store lines with the constructions of self-checkout routes for customers. Currently, 12 of the Auchan stores in Bucharest, Cluj, Constanța, Brașov, Iași and Timișoara are already equipped with the new home system, and by 2025 it will be available in all units the network.
- From January 2023, the government introduced a hike in the VAT on sugary drinks. The move will see the VAT of non-alcoholic drinks containing added sugar, sweeteners and flavours increase from 9% to 19%.
- In September 2022, Heineken Romania announced that it would be closing its factory in the southeastern city of Constanta in September 2023. After years of running below capacity, the factory will cease operations as the company requires a more efficient manufacturing footprint in the long term.

2. SWOT Analysis

Strengths:

- Romania has a relatively large consumer market by regional standards.
- Romania's economic growth will remain strong on a regional comparison.
- We expect further integration into the EU to stimulate changes in Romanian lifestyles, with consumers becoming more receptive to modern retail formats.
- Romanians are high per capita consumers of alcoholic drinks.
- There has been a steady increase in investment in the country's food and drinks sector in recent years.

Weaknesses:

- Romania's formal beer market is highly saturated, with strong levels of competition and foreign-owned top players.
- The consumption of illicit alcohol remains high in the country.
- Household spending is among the lowest in the EU, with only the capital Bucharest currently offering a sizeable market for retailers in all price segments.
- Local sourcing requirements restrict retailers and lead to higher costs.

- The market is relatively fragmented, with many small producers and limited integration among different sectors in the economy, which can limit scale and efficiency.

Opportunities:

- There is a growing consumer demand for healthy and organic food products in Romania.
- With disposable income growth having stagnated over the last decade, consumers will be looking for cheaper goods. Private label offerings will boost demand at retailers.
- The ongoing development of the mass grocery retail industry will allow producers to bring products to market more efficiently.
- The highly fragmented food and beverage manufacturing industries offer opportunities for acquisition-based entry and/ or expansion for foreign players.

Threats:

- The ongoing Russia-Ukraine conflict is having a serious impact on global supply prices of key commodities, leading to consumers facing higher food and drink prices.
- Romanian consumers, especially those outside the main economic centres of the country, are relatively price sensitive.
- The introduction of a sugar tax due to rising health concerns will weigh on the consumption of carbonated drinks.
- Public health campaigns will continue pushing consumers away from spirits and other high-alcohol content drinks.
- Private label goods remain prominent, lowering overall value sales for the big players.

3. Industry Forecast

Food

Key View: Food spending in Romania will increase in 2023 despite growth decelerating when compared with 2022 as consumers maintain the focus on essentials. We forecast fresh and preserved vegetables spending and dairy spending to be growth outperformers. Spending on food will continue to increase over the remainder of our forecast period, supported by increasing economic activity, rising disposable incomes and the proliferation of mass grocery retail.

Latest Updates

- Food spending will grow by a forecast 9.8% y-o-y in 2023 to reach RON220.1bn (USD49bn), increasing from the forecast RON200.3bn (USD42.7bn) in 2022, as Romanian consumers retain their focus on essential foodstuffs. Over the medium term (2023-2027), we forecast food spending to grow by an annual average of 7.8% y-o-y, taking spending in nominal terms to RON29.9bn (USD66.2bn) in 2027.
- There is growing awareness amongst consumers about the importance of a healthy and balanced diet, which has led to an increase in demand for fresh fruit and vegetable, lean

meats and heathier food options. Spending on fresh and preserved fruits will grow by an average of 10% a year, to a total of RON22.2bn (USD5.0bn) in 2027, while fresh vegetable spending will grow by an average of 8.4% a year, to a total of RON38.5bn (USD8.7bn).

Drink

Key View: Romania's drinks sector will benefit from increasing economic activity, with both spending and consumption increasing in 2023. We project alcoholic drinks spending and consumption to increase over the remainder of our forecast period to 2027.

Beer will be a consumption growth outperformer over our forecast period, followed by spirit and wine consumption respectively. The non-alcoholic drinks spending category will grow in 2023, as consumers maintain their focus on essentials. Over the medium term, there will be a concentrated shift away from carbonated drinks and into alternatives, like juices and bottled water.

Latest Updates

- We forecast spending on alcoholic drinks to grow 8.6% y-o-y over 2023, to a total of 21.9bn (USD4.9bn). Romania has one of the highest alcoholic drinks consumption rates in the world. Over the medium term (2023-2027), we forecast alcoholic drinks consumption to expand by an annual average rate of 2.7% y-o-y.
- Non-alcoholic drinks spending will grow 8.1% y-o-y in 2023 to reach RON10.8bn (USD2.4bn). Over the next five years, nonalcoholic drinks spending will grow by an annual average 6.6% a year, taking spending in nominal terms to RON13.8bn (USD3.1bn) in 2027.
- Household spending on coffee products will grow by an average of 7.7% a year, out to 2027, growing to RON5.8bn (USD1.3bn) by 2027. The growth in the coffee market can be attributed to several factors, including the increasing popularity of specialty coffee, the rise of a coffee shop culture in the major cities, and the growing number of international brands entering the market.

4. Market Overview

Food

Romania's food market remains highly fragmented, with the top 10 manufacturers accounting for around 30% of the overall packaged food market. Most domestic producers operate on a localised basis, with a handful of major manufacturers distributing their products nationally. In certain sub-sectors, such as dairy, direct sales by farmers still account for a considerable share of consumption. EU accession has created substantial opportunities for the Romanian food and beverage industry in international markets.

Recent Developments

• Food services franchise operator Sphera Franchise Group released its Q222 financial results on August 30 2022. The company stated that it had achieved record sales across all of its markets (Romania, Italy and the Republic of Moldova), as a result of delivering double-digit sales growth from all of its brands. Q2 revenue totaled RON327.4mn, up by 40% y-o-y, delivering EBITDA of RON17.5mn and net profit of RON2.2mn. However, net profit represented a year-on-year decrease of 54% as a result of the effect of inflation on costs and soaring energy prices.

• Nestlé Romania announced on August 2, 2022 that it would aim to grow its business in the second half of the year at a similar pace to the 12.6% growth achieved in H122. H222 would see the company focus on developing its pre-existing CSR projects (including a new tree planting programme for the end of the year). 2023 will see Nestlé Romania focus on investing in new sustainable products for its portfolio.

• On June 15, 2022, Nestlé announced the launch in Romania of its Nesvita range of healthy snack products. The product launch is response to healthification trends in Romania and the results of research carried out by the company that showed 72% of urban Romanians prioritised natural ingredients in their food purchasing decisions.

Market Drivers And Trends

The food market remains highly fragmented, with the top 10 manufacturers accounting for around 30% of the overall packaged food market, while a large number of smaller manufacturers account for the remainder of sales. Most domestic producers operate on a localised basis, selling their products through their own outlets or through local stores. A handful of major manufacturers distribute their products on a national basis, with significant economies of scale enabling them to operate efficient distribution networks and production techniques. In certain sub-sectors, such as dairy, direct sales by farmers still account for a considerable share of consumption.

Food Consumption

The traditional Romanian diet is largely based on meat and dairy. Average annual per capita consumption of meat is around 40kg, which is expected to increase. Pork is the most popular meat, accounting for more than half of total per capita consumption, followed by poultry. Dairy products are also very popular, but their per capita consumption is still comparatively low, at an estimated 30kg per capita per annum. The fish market is growing, with local fish accounting for 15% of total consumption, and imports from Norway, Ireland, the US and the Netherlands accounting for most of the remainder. EU accession has encouraged efforts to improve food standards and quality and has also created substantial opportunities for the Romanian food and beverage industry in international markets.

Leading Players

As a result of strict regulation governing foreign investment in Romania in the past, many multinational producers have established joint ventures with domestic manufacturers or have purchased them outright. Examples of companies that have undertaken this type of development include US-based Kraft Foods, Swiss firm Nestlé, Dutch firm Unilever, Norway-based Orkla Foods, French firm Danone and Germany-based Hochland. Czech Hamé, a subsidiary of Nordic Partners, also has a manufacturing arm in Romania, which supplies the country with canned meat, pâtés and ready meals. Orkla Foods Romania is a subsidiary of Norwegian food processor Orkla Foods. The company now operates three factories in the country. Orkla's major offerings include Tomi and La Minut ketchup, canned foods (under the Ardealul brand), as well as butter lines (Linco, Unirea and Wiesana). In early 2012, Orkla expanded its Romanian operations through purchasing 100% of the stock in Romania-based Food Distribution Services (FDS). FDS remains an independent entity, with Orkla Foods Romania continuing as one of its key suppliers. Unilever deals in a wide variety of fast-moving consumer goods, including detergents, soups (under the Knorr brand) and margarines (such as the Delma and Rama brands). Unilever is one of the major players in the Romanian margarine market and its margarine operations in the region reach as far as Albania, Serbia and Moldova.

Food Services

The Romanian food services market is well developed, combining the presence of foreign operators with domestic chains. International fast-food chains maintain large networks in the country, and home-grown businesses provide various dining options. Sphera Franchise Group operates 47 KFC outlets in the country as well as 23 Pizza Hut outlets and 10 Taco Bell outlets, it also operates its own delivery service in Romania for KFC and Pizza Hut. In August 2020, the company opened a new KFC outlet at Dambovita Mall in the city of Targoviste. In February 2022, foodservice group Sphera Franchise Group reported sales of RON1bn for 2021, a rise of 41% over the previous year. 2022 marks the 25th anniversary of KFC in Romania and five years since the launch of Taco Bell in Romania.

McDonald's has a smaller network of 67 restaurants in 21 cities. However, it is seeking to grow through new service and product offerings. The chain is expanding its delivery service, which to date has served office and shopping areas. It is also growing the McCafé network.Subway is another foreign food services brand present in the market, with a network of 31 restaurants. As for local competitors, some fast-food and, more recently, fast-casual chains have managed to expand into nationwide restaurant networks.Salad Box, a healthy food service chain, now operates 40 fast-casual restaurants across Romania. Some smaller food service chains, such as Oro Toro, are also underscoring the format's popularity among the young urban population. In the local fastfood market, Springtime, with European and American cuisine, and Chopstix, with Chinese food options, operate 16 and 15 restaurants respectively across the country. Romanian food service company Jerry's Pizza opened two new outlets in H120 after opening four in 2019 with an investment of EUR600,000. There are currently 23 Jerry's Pizza outlets in Romania, and the company is also planning to expand its delivery fleet.

Meat Processing

The Romanian meat processing industry remains fragmented, although this situation is changing in the face of adverse economic conditions. Elit Cugir, the leading charcuterie producer in Transylvania and among the top 10 nationally, has reported a continued sales decline and rising prices of raw materials. Other companies active in the meat processing industry include Fox, Cris-Tim (which is also present in the dairy market) and Caroli Foods Group. Caroli Foods operates a joint venture with Campofrio, a Spanish firm that was already present in Romania. In 2011, it closed its Tulcea-based factory, which had an annual production capacity of 11,000 tonnes of meat. Caroli Foods continued processing meat at its Pitești production unit, which has a capacity of 36,000 tonnes per annum. It also unveiled a EUR6.0mn investment plan aimed at upgrading the plant in November 2016. We expect poultry production to outperform in the long term. Producers will seek to benefit from growing domestic demand, with Romania currently running a poultry deficit. The sector will benefit from efforts by companies to expand production capacity and improve vertical integration. For example, in May 2021, it was announced that Romanian poultry producer Aaylex would acquire Banvit. Efficiency within the sector will continue to improve. Pork production will continue to decline as a result of ASF concerns and limited growth in domestic consumption. Likewise, the small beef sector will struggle as beef is not commonly consumed in Romania, and we do not expect this to change during our forecast period.

Confectionery

In recent years, especially prior to the global economic downturn, the confectionery market has shown considerable promise, with foreign companies increasingly interested in the country. The dominant sub-segment, according to Nielsen, is milk chocolate, followed by white chocolate and filled chocolate bars. The market is supplied by more than 50 companies, although consolidation has been proceeding rapidly. Kandia holds around one-fifth of the total confectionery market and is second in the chocolate segment, with a share of 24%. It boasts major brands such as Kandia, Laura and Anda. The company - which was formed in 2004 through a merger between Kandia and Excelent - is the market leader in the candy segment, with a share of 32%. In November 2011, Kandia took over Romanian peerSupreme Chocolat in a bid to boost its competitive position in the local market. The latter manufactures the well-known Primola brand at its factory in Bucharest. The enlarged unit has become the second largest player in the local confectionery market, after Kraft Foods. In April 2022, Kandia Dulce announced plans to increase its production facility in Bucharest by about 30% and also double its storage capacity. The proposed expansion is expected to increase production capacity by 4,525tonnes annually with a final capacity of 19,800tonnes annually.

Kraft Romania has the largest share of the chocolate tablets market, with brands including Milka and Poinana; jointly, these two brands hold 50% of the chocolate tablets market. Kraft remains the leading player in the overall Romanian confectionery market. Other major players in the field are multinationals, such as Nestlé and Ferrero. Global confectionery major Mars has also been present in the market, through its local subsidiary Mars Romania, since 1994. Its major confectionery brands include Mars, Snickers, Milky Way, Bounty and Twix, although the company also deals in pasta sauces and other goods. Romanian firm Alka is one of the leading producers of wafers, dried fruit and nuts. Its key competitors include domestic companies Star Foods (which is also the leading crisps producer in Romania) andStandard Snacks, and importers such as Hungarian Mogyi.

Frozen Food

With the increase in mass grocery retail and convenience shopping, especially in urban areas, the popularity of frozen foods is growing, in both volume and premium terms. Frozen and chilled food products distributor Macromex, founded in 1993, operates two warehouses in Bucharest and Campia Turzii and five cross-docking points in Arad, Craiova, Brasov, Bacau and Constanta. The company has more than 1,700 products in its portfolio, with its most popular brands being Edenia, La Strada and Corso. The company invested EUR15.0mn (USD18.23mn) in a new warehouse near Bucharestin in 2021. Corso Distribution Center has an area of 10,000sq m, with a storage capacity of 10,500 pallets for frozen products and 2,200 pallets for refrigerated products.

Canned Food

Sales of canned goods have been increasing in both value and volume terms. The premium end of the Romanian market has led this growth, in contrast with most other developed markets across Europe, where such foods are viewed more as a commodity. Canned meats make up most of the segment, with canned fruit not being considered as healthy as fresh fruit. Nevertheless, the increase in fresh food prices has resulted in larger volume sales of canned fruit, with the focus now being firmly on more economically priced goods. Norwegian company Orkla Foods is one of the main players in the sector.

Dairy

Prior to recent EU-driven reforms, Romania was relatively self-sufficient in dairy production. A full 40% of output was directly consumed or used in small-scale local production, and only 25% was sold to large processors. As the industry consolidates and major investments are made in modernising facilities, output levels are rapidly growing. The local dairy market is valued at around EUR40.0mn. Domestic dairy producer Albalact is one of the five leading local players, alongside Dutch firm Friesland, French Danone and domestic firms LaDorna and Hochland. Similarly to a number of other producers of foods and beverages, Albalact is investing in the establishment of private retail stores in the capital Bucharest and the city Cluj-Napoca. The stores only sell private label goods under the De Albalact brand, with the move expected to improve brand exposure, cut costs and enhance Albalact's brand positioning in relation to the increasing number of private labels offered by leading mass grocery retail players. Bonas is a local dairy producer founded in 1991. The company produces dairy products out of a factory in Dezmir, Apahida commune, Cluj County. The factory has an area of more than 1,000sq m, with a total processing capacity of 15,000 litres of milk a day. Bonas products are sold mainly in its 18 stores in Cluj County, hypermarket networks and small retailers. The company's strategy involves expanding its network of stores, including through a franchise system, mainly for stores in localities too far from the factory. The company also wants to develop a new factory.

LaDorna, which was acquired by France-based Lactalis in mid-2008, is mainly engaged in the manufacture of liquid milk, dairy products and cheese. In December 2016, Lactalis bought Romanian dairy firm Covalact for an undisclosed sum. The acquisition of LaDorna and Covalact boosted Lactalis' regional position, with other operations already established in Serbia, Moldova and Ukraine. Lactalis also entered the Polish market with the acquisition of local yoghurt maker Obory, indicating its interest in the Central and Eastern Europe market as a whole. Italian dairy conglomerate Parmalat is also owned by Lactalis and is expanding in Romania. Parmalat deals with a variety of fruit juices under the Santal brand, which is manufactured locally. The contribution of milk products - including ultra-high temperature milk brands Prima Creştere, Sviluppo and Parmalat - to Parmalat Romania's turnover is just 2%, as they are imported. The dairy producer Olympus is expanding its product portfolio. Following an investment of more than EUR20.0mn in 2018 in a new production line in the Hălchiu plant in Brașov, the company launched the new Stragghisto Greek yoghurt on the local market. Olympus was the first dairy producer to launch Greek yoghurt in Romania in 2011, turning it into a brand-name product. Stragghisto complements the current range of classic Greek yoghurts, which are among the most preferred products within the category among Romanian consumers. Its yoghurt is entirely intended for domestic consumption and is distributed in most large chain stores across the country.

Drink

Fueled by increased foreign direct investment, the Romanian beverage industry has expanded in recent years and has potential for further growth in the alcoholic and non-alcoholic sectors. The beverage manufacturing industry remains relatively fragmented, with around 100 companies engaged in the field; therefore, acquisition-led expansion is a possibility for foreign players.

Recent Developments

• From January 2023, the government introduced a hike in the VAT on sugary drinks. The move will see the VAT of non-alcoholic drinks containing added sugar, sweeteners and flavours increase from 9% to 19%.

• In September 2022, Heineken Romania announced that it would be closing its factory in the southeastern city of Constanta in September 2023. After years of running below capacity, the factory will cease operations as the company requires a more efficient manufacturing footprint in the long term.

• Purcari Wineries announced on August 29 2022 that its H122 revenue of RON123.9mn represented 16% y-o-y growth. While the strongest revenue growth (44% y-o-y) came from the company's business in Moldova, revenue growth in Romania stood at 7.0% y-o-y for the half-year. Net profit stood at RON20.9mn for 1H22, up by 2.0% y-o-y from RON20.4mn in H121.

• PepsiCo announced on August 2 2022 that it had entered into a strategic agreement with Romanian spring water brand, AQUA Carpatica. Under the agreement, PepsiCo will hold a 20% equity stake in AQUA Carpatica for distribution rights in Romania and Poland. The agreement also paves the way for possible expansion into other markets in Europe and the US.

Market Drivers And Trends

Alcoholic Drinks

Although the Central and Eastern Europe (CEE) region is generally associated with spirits, beer has become a hugely popular beverage in recent years. Since the fall of the Soviet Union, the area has opened up to outside influences and has moved towards more Western consumption patterns. Thus, beer has grown in popularity. This is particularly true for younger consumers, who view traditional spirits as old-fashioned and are increasingly turning to foreign beers as an alternative.

Beer

Beer is a significant segment of the alcoholic beverages sector in Romania. The country has a long-standing tradition of beer consumption, and it remains a popular beverage among consumers. The market is dominated by international players such as Heineken, Carlsberg, and Ursus, which offer a wide range of products to cater to different consumer preferences. These companies use locally sourced ingredients to produce beer, which is available in different styles, including lagers, ales, and stouts. In recent years, there has been a shift towards premium and craft beer, which is perceived as a more sophisticated and high-quality option. The market faces challenges such as increasing competition from other alcoholic beverages, changing consumer preferences, and government regulations related to alcohol consumption. However, the market is expected to continue growing, driven by the increasing demand for premium and craft beer and the expanding middle class in Romania.

Wine

Romania has a long-standing tradition of winemaking, and it is among the top ten wine-producing countries in the world. The market is dominated by local producers, with international players having a relatively small market share. The main grape varieties cultivated in Romania include Fetească Neagră, Merlot, Pinot Noir, and Sauvignon Blanc. Romanian wines are known for their unique flavors, which are influenced by the local terroir and climate. The market offers a range of wines, from traditional and classic varieties to modern and experimental blends. In recent years, there has been a growing demand for premium and organic wines, which are perceived as healthier and higher quality options. The market will post strong growth over the medium term, driven by the increasing demand for premium and organic wines, as well as the growing popularity of wine tourism in Romania. Cramele Recas is the largest winery in Romania and one of the largest wine exporters in the country. The company produces a range of wines, including traditional Romanian varieties and international blends. Murfatlar is a domestic winery that produces a range of wines, including red, white, and rosé varieties. The company is known for its traditional Romanian wines, as well as its premium and limited edition wines. Halewood Romania is a subsidiary of the UK-based Halewood International, and it produces a range of wines, including both Romanian and international varieties. The company is known for its innovative and experimental wines, such as fruitflavored wines and wine-based cocktails.

Spirits

The spirits markets is a large component of the alcoholic drinks market in Romania and is mostly dominated by local producers, with international players having a relatively small market share. The most popular spirits are vodka, brandy and whiskey. The main domestic brands include Stalinskaya Vodka, Tuica de Bihor and Zetea Palinka. In recent years, there has been a growing trend towards premium and craft spirits, which are perceived as higher quality or more authentic. The market faces challenges ranging from increased competition from international players to government regulation around alcohol consumption.

Non-Alcoholic Drinks

Carbonated Drinks

The carbonated drinks segment is a significant segment of the non-alcoholic beverages sector. Carbonated soft drinks are popular among consumers of all ages, despite growing concerns about their health implications. The market is dominated by international brands such as Coca-Cola, PepsiCo, and Nestle, which all have a strong presence and established distribution networks. These companies offer a wide range of carbonated drink options, including regular and diet varieties, as well as flavored and energy drinks. In recent years, there has been a shift towards healthier alternatives, with consumers opting for low-calorie and natural soda options. However, traditional carbonated drinks continue to hold a significant market share, particularly in urban areas where there is a higher consumption of packaged and processed foods.

Fruit Juices

The fruit juice segment is also relatively significant segment of the non-alcoholic beverages sector. As part of healthification trends in the country, consumers are increasingly seeking healthier options, and fruit juices are perceived as a natural and nutritious alternative to carbonated drinks. The market is dominated by local players such as Rauch, Agricola, and Hochland, who offer a wide range of products that cater to different consumer preferences. These companies use locally sourced fruits and vegetables to produce natural and organic juices, which have gained popularity among health-conscious consumers. In addition to traditional fruit juices, there is also a growing demand for functional juices, such as those that provide added vitamins or energy-boosting properties. The market faces competition from international brands, particularly in the premium juice segment, but local companies are leveraging their knowledge of local tastes and preferences to maintain their dominance in the market.

Bottled Waters

Bottled water has gained popularity among consumers due to concerns about the quality of tap water and the increasing awareness of health and wellness. The market is dominated by both local and international brands, with players such as Dorna, Aqua Carpatica, and Nestle offering a range of products to cater to different consumer preferences. The market has seen a growth in the demand for specialized types of bottled water, such as sparkling and flavored varieties. In addition, there is also a growing demand for premium bottled water, which is perceived as a healthier and more environmentally friendly option. However, the market faces challenges such as price sensitivity among consumers and concerns about the environmental impact of bottled water consumption. The government has implemented regulations to promote the use of tap water and reduce plastic waste, which could impact the growth of the bottled water market in the future.

Mass Grocery Retail

Romania's mass grocery retail (MGR) sector is expanding rapidly, in line with rising household incomes and increasing demand for convenient and Westernised formats. The leading retailers will continue to vie for market share, rapidly growing and modernising their store networks across the country, including in smaller cities and rural areas.

Recent Developments

• In February 2022, Auchan began remodeling its store lines with the constructions of self-checkout routes for customers. Currently, 12 of the Auchan stores in Bucharest, Cluj, Constanța, Brașov, Iași and Timișoara are already equipped with the new home system, and by 2025 it will be available in all units the network.

• In February 2022, Auchan and the Romanian retail chain Profi announced a joint partnership for negotiations, with the stated goal of enhancing the two networks' bargaining power 'to the benefit of end consumers'.

Major Players

Romania's MGR industry is relatively saturated, with around 10 large retailers - including big international players such as Auchan, Carrefour, Schwarz Gruppe (Kaufland and Lidl), Metro, REWE and Ahold Delhaize - serving a population of more than 19mn. The market is becoming increasingly concentrated, although the top five retailers jointly represent less than a quarter of total MGR sales in the country, with this figure being the lowest in the EU. Kaufland Romania is the leading retailer in the MGR sector and benefits from its reputation of being the cheapest supermarket in the country. The company has continued to provide quality products at discounted prices, and we expect this strategy to prompt other retailers to follow suit throughout our forecast period. Lidl is a German discount supermarket chain that has been rapidly expanding in Romania over the past few years, gaining market share from traditional retail players. The retailer's growth can be attributed to its focus on offering high-quality products at affordable prices, a wide range of private label brands and a convenient and efficient shopping experience. The company has invested heavily in logistics and supply chain management to ensure its products are always available and that customers can easily find what they need. Auchan has been present in Romania since 2005 and operates 132 stores in the country. Auchan has been expanding its presence across different store formats in recent years. Over 2021, the retailer opened 125 MyAuchan stores in Petrom filling stations. The stores offer coffee, fresh products, frozen products, drinks and other groceries, as well as non-food products such as cosmetics, detergents and toys. In 2017, the largest retail deal in Romania's history was completed, with private equity firm Mid Europa Partners acquiring Profi from the Polish Enterprise Fund VI for an undisclosed sum. Profi is a chain of supermarkets and convenience stores with more than 1,000 stores in its network across Romania. The chain began its rapid growth in 2010. In 2013, the firm opened its first convenience stores under the brand Profi City. In 2015, it opened supermarkets under the brand Profi Loco. Profi opened 31 new stores in the first two months of 2021. The retailer planned to open 250 stores over the year and become the second-largest player in the market by 2024.

Market Drivers And Trends

Romania's MGR sector will experience strong growth over our forecast period, on the back of strong consumption growth and multiple VAT cuts. In recent years, the country's MGR sector has been one of the most dynamic in the CEE region. Factors shaping our forecasts include a positive consumer outlook and the expansionary activities of the main retail players, including the strengthening of their private label offerings. However, we note that rising operating costs will increasingly put pressure on the retailers' margins. Expansion of the discount, supermarket and hypermarket formats will shape the growth of overall MGR values. Discounters benefit from their lower prices as well as their ability to set up in urban areas and residential neighbourhoods (unlike hypermarkets), which reduces transportation expenses. Nonetheless, supermarket and hypermarket formats will continue to dominate the MGR sector, accounting for the vast majority of total sales. Over the longer term, a growing demand for high-quality products and greater choice will prompt international retailers to open more outlets in the cities and extend their networks to the surrounding regions. Consumption patterns will gradually converge towards those of the more developed economies in the region. In recent years, in line with wider regional and global trends, organic produce and bioproducts have been rising in popularity. Key retailers in Romania that carry such foodstuffs are Carrefour, followed by Natura Food, Bio Food, Pukka Food and the Bio Markt chains. Carrefour is the clear leader in the bio-food market, estimated by the retailer to be worth around EUR15.0mn. In order to maintain their position, retailers are beginning to carefully develop strategies and policies that include price cuts, smaller stocks and reduced costs. In addition, more affluent consumers, particularly in urban areas, are attracted to the prices and convenience afforded by modern supermarkets and hypermarkets. Although Romania's MGR sector has already received substantial investment over the past few years, the poor state of the country's infrastructure remains a concern for retailers, as does the lack of modern retail space and warehouse infrastructure, which remains a long-term issue. With the relaxation of restrictions on land ownership by foreign companies in 2014, we expect investment in the sector to accelerate, especially as consumption remains strong. The ongoing process of EU convergence will improve economic infrastructure and the country's ability to support foreign direct investment.

Furthermore, the Romanian authorities are aware of the problems that plague the domestic business environment and are committed to enhancing transparency and openness. Large-scale infrastructure improvement is ongoing and will receive substantial influxes of EU funds and loans over the coming years, which will help MGR operators.

Private Label Brands By MGR Players

Private label brands have been gaining popularity in Romania due to their affordability and high quality. Many supermarket chains are expanding their private label offerings to provide consumers with a wider range of products at competitive prices. For instance, Auchan has been investing in its private label brand, launching more than 2000 new products under its brand name in 2021. The expansion of private label brands also helps supermarkets to differentiate themselves from competitors and increase their profit margins.

Increased Emphasis on convenience

Supermarkets are focusing on providing a more convenient shopping experience for consumers. Many supermarkets are offering longer opening hours to cater to the needs of busy consumers. Some supermarkets are also offering self-checkout options, which allow customers to scan and pay for their purchases without the need for cashier assistance. Additionally, home delivery and clickand-collect services are becoming increasingly popular, and many supermarkets in Romania are investing in their logistics capabilities to provide faster and more reliable delivery services.

E-Grocery And Food Delivery

The Covid-19 pandemic is accelerating demand for e-grocery and food delivery services in Romania. With people having to spend more time at home, they are increasingly turning to delivery options. We also note that consumers may continue to opt for food delivery in order to limit their exposure to the virus due to residual fear. A key medium-term driver will be increasing levels of internet connectivity, particularly mobile, which will facilitate access to e-commerce companies, as well as e-grocery and food delivery platforms. Furthermore, a rise in disposable incomes will facilitate further growth in Romania's food delivery segment, with more consumers projected to be able to pay a premium for home-delivery options, driven largely by increasing disposable incomes and a greater demand for convenience (which typically comes at a higher price point).

The competitive landscape of Romania's food delivery segment is becoming increasingly crowded. Domestic players (such as Tazz by eMag) are active in the market and international food delivery platforms expanded into the country in 2020 (including Bolt Food, Glovoand Bringo). A notable exception is Uber Eats, which closed its operations in the Romanian market in June 2020, having entered the market in 2018. A notable recent development is Auchan signing a deal with delivery platform foodpanda for grocery delivery. In July 2021, Carrefour Romania and Bringo announced a partnership to launch a 30-minute delivery service in Bucharest and Lasi, as well as areas of Mangalia, Craiova and Resita. Customers in Bucharest and Lasi who live close to Carrefour Market stores will have access to the new 30-minute delivery service through Bringo. In November 2021, Carrefour Romania announced that it had added two new cities, Cluj-Napoca and Timișoara, to its rapid delivery service. A total of 10 Carrefour stores have been included in the Bringo platform in the two cities to ensure that shoppers in almost all areas can access the service. Currently, 93 Carrefour stores in all three formats – Hipermarket, Carrefour Market and Market Express – are included in Bringo. In November 2021, the Spanish delivery startup Glovo announced that it had launched its service in Romania's western city of Arad, the ninth city in the country where it operates. The company planned to enter three more cities by the end of 2021. In October 2021, it was announced that the Italian online grocery shopping Everli would expand into Romania in early 2022. Czech Republic-based online grocery business Rohlik launched its sezamo in Romania in the spring of 2022, creating around 1,000 new jobs over the year.

Discount Models Gaining Traction Discounters such as Lidl and Penny Market are gaining market share in Romania by offering lower prices and a wide range of products. Supermarkets are responding by adjusting their pricing strategies and improving their product offerings and customer service. For instance, some supermarkets are offering loyalty programs and promotions to retain customers, while others are focusing on providing a better in-store experience through store renovations and staff training.

5. Sources

- Fitch Group
- Exportgate, Eurobank