

CONSIDERATIONS REGARDING BEHAVIOR AND STRATEGIC ORIENTATIONS OF ROMANIAN RETAILERS DURING THE ECONOMIC CRISIS

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Abstract:

The paper presents the results of an empirical research having as a goal the identification of Romanian retailers' behavior during the crisis and the establishment of the strategic alternatives that could be followed in conditions of uncertainty regarding the future evolutions of this sector. The research has at its basis an investigation realized on a representative sample at a national level. Starting from a few hypotheses, we propose to find some correlations between phenomena, facts and indicators related to Romanian retail sector, the research leads to highlighting some strategic options regarding prices, costs, the assortment, financial sources, etc.

Keywords: strategic options, retail, retailers' behavior, assortment.

1. Introduction

Retail sector plays a very important role in the entire world. It cannot be denied that most of developed economies count in a great extent on the retail activity having the role of a driving force for the economic growth. Analysts, managers, but also other interested persons use the data coming from the retail sector as an indicator for the economic situation and standard of living.

According to Zentes, Morschett et al (2007), retail refers to those companies, buying goods from other organizations, in order to resell them to the final consumers, generally without any changes made to them and offering additional services (transportation, storage). The process is, still, more complex, because involves also the assortment establishment, the appropriate

packaging for household consumption, information offering, after-sale services and other.

Among elements that give importance to retail sector in the economy of a country, there can be mentioned its contribution to gross domestic product, creation of jobs, and also the increase of public incomes by collecting the value added tax (Cox and Brittain, 2004).

On the basis of the theories and studies from the national and international professional literature, statistics analysis and personal observations, we formulated a series of hypothesis, that will be validated or not after processing and interpreting the collected data:

Hypothesis 1: *If the economy of a country is in crisis, then private label sales of retailers may register a growth.*

Hypothesis 2: *Retailers' promotion expenses increase during economic crisis, in order to attract customers and retain them as loyal.*

Hypothesis 3: *If adopting an expansion strategy, then small retailers prefer the alternative of renting the commercial space, meanwhile the great commercial chains from the modern retail choose building it from scratch.*

Hypothesis 4: *In conditions of crisis, price reductions represent the preferred solution of retailers to increase their sales.*

2. Research methodology

The collected data were obtained by applying a questionnaire, which, together with information from secondary sources (literature, national or international statistics institutes, Internet, etc.) permitted shaping a realistic picture on the activity of retailers in Romania in the recent years in terms of their strategic decisions.

Investigation period was held between December 2010 and March 2011, and the sample size was 50 respondents, managers of the

companies under study. For data collection, different methods were used, depending on the nature, location and availability of respondents. Of these, we can mention: investigation by correspondence (mail, e-mail or online platforms specialized in questionnaires) or interview (at the company or by phone).

The questionnaire was distributed via email to a much larger number of retailers across the country, over 200 companies, but feed-back existed only from 50 of them; the most successful method of data collection was the interview. For processing and analysis of data collected from respondents it was used Statistical Package for Social Sciences (SPSS), which allows calculus of media, graphics, correlations, extrapolation, filtering where necessary, cross analysis, statistical t-test, etc.

The structure of the sample selected for the research on retail business in Romania includes 50 respondents, both in modern and traditional retail from 11 towns located in 7 counties of the country (table 1).

Table 1

The structure of the sample

Retail format	%
Hypermarket	12
Supermarket	10
Discounter	2
Online Retail	12
Cash & Carry	4
Specialized store	20
DIY	10
Grocery	8
General store	18
Kiosk	2
Convenience store	2
Total	100

The sample structure is heterogeneous, as companies are different, both through the format and also the size, scale and geographical spread at national level. Thus, the number of hypermarkets, discounters and other modern retail formats is not very large in comparison with specialized or general stores. The explanation is that the former, being large international organizations,

generally adopt similar strategies, having a common vision.

3. Data analysis and discussion

Evolution of indicators such as number of employees, turnover, sales of private labels, promotional and advertising expenses, the assortment and prices is shown in table 2.

Table 2
Evolution of retail activity's indicators, in 2010 compared to 2009

Indicators	Total din care:		
	Increase (%)	Decrease (%)	Constant (%)
Number of employees	22	18	60
Turnover	28	48	24
Private label sales*	46	8	18
Promotion expenses	40	24	36
Assortment	62	12	26
Prices	48	14	38

Note: * The difference of 28% represents the retailers that do not have private labels in their offer

It is noted that most of the retailers have increased sales of their private labels (46% of the entire sample). If we consider only retailers who sell such products, their share is much higher - 64%. So, **the first hypothesis** "If the economy of a country is in crisis, then private label sales of retailers may register a growth" is **validated**. The explanation consists in the lower price of these

products, correlated with low purchasing power of the population.

From a statistical point of view, the hypothesis validates by applying t test, for a confidence interval of 95%, a mean of the variable "sales of private labels" equal to 2.53 and a standard deviation of 0.696 that means a grouping of data around the average (table 3).

Table 3
One-sample t test for the variable „private labels sales”

	Mean	Standard deviation	Sig. (2-tailed)	t
Private labels sales	2.53	0.696	0.0003	4.069

The value 0.0003 (the real significance threshold) is inferior to the significance threshold of the test (0.05), showing thus the validation of the hypothesis for the application of a test value equal to 3, that corresponds to private labels sales' growth during the crisis. In order to validate this hypothesis, there were also used

questions in form of Likert scale. In the coding system from 1 to 5, where 1 represents total disagreement, and 5 – total agreement, the mean for the statement "Private labels sales increased during recession" is 3.52, value expressing the agreement of 75% of the retailers that answered this question (53% of the respondents

mentioned simple agreement, and 22% of them the total agreement).

Analyzing the evolution of promotion and advertising expenses under crisis conditions states, we observe they increased to 40% of the respondents and for 36% of them remained stable, fact that proves companies' management realized that only in this way, the relationship with the customer may be maintained and even strengthened.

In table 4, we can observe which retail formats registered a decrease of these expenses in 2010, using a crosstabs analysis in SPSS program

for the two variables: retail format and evolution of promotion expenses. Formats that decreased this type of expenses are, especially, from traditional retail: groceries, general stores, specialized stores.

Kiosks and convenience stores from gas stations maintained this budget, but great retailers, such as hypermarkets, discounters, supermarkets and DIY stores, understood the importance and the necessity of this communication expenses in crisis conditions and increased them (more than 60% of the respondents for each format).

Table 4

Evolution of promotion expenses on retail formats

Retail format	Promotion expenses		
	Decrease	Constant	Increase
Hypermarket	-	33,3%	66,7%
Supermarket	-	40%	60%
Discounter	-	-	100%
Online retail	-	50%	50%
Cash & Carry	-	50%	50%
Specialized store	40%	30%	30%
DIY	40%	-	60%
Grocery	50%	-	50%
General store	44,4%	55,6%	-
Kiosk	-	100%	-
Convenience store	-	100%	-
Total	24%	36%	40%

So, **the hypothesis 2** "*Retailers' promotion expenses increase during economic crisis, in order to attract customers and retain them as loyal*" **is partially validated**, taking into account that only 40% of the respondents increased the expenses, most of them belonging to modern

retail. For the statistical validation of the hypothesis, we applied „one-sample t test”, for a confidence interval of 95% and a test value equal to 3 (corresponding to the expenses' increase in the coding system). The results are shown in table 5.

Table 5

The t test for promotion expenses' evolution

	Mean	Standard Deviation	Sig. (2-tailed)	t
Promotion expenses during recession increased	2.16	0.792	0.0001	7.502

The real significance threshold (0.0001) is inferior to the t test significance threshold (0.05), which validates the research hypothesis. Regarding the statement “*Promotion expenses must increase during the economic crisis*”, 60% of the respondents agree this approach, and 24% of them also mentioned total agreement. Although 84% of the retailers consider such a strategy opportune, only 40% of the respondents applied it, fact justified by the corresponding budgets and the need for expenses cuts and survival in crisis.

Retail companies had to apply a series of measures to mitigate the

negative effects of financial crisis on their activities: cost reduction, negotiating prices with suppliers, replacing imported products with local and cheaper products, restricted their product range, developed customer loyalty programs and also their private labels and other (fig. 1).

It is noted that most of the retailers have applied cost reduction (72%), and negotiated prices with suppliers (50%). Percentages sum differs from 100% due to multiple responses of the companies, which in most cases use a combination of measures to mitigate negative effects and achieve their objectives.

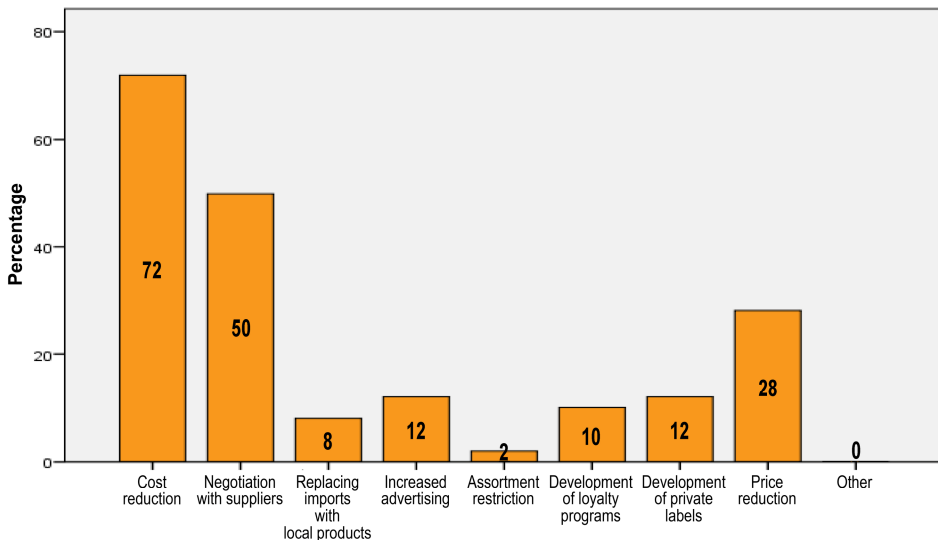


Figure 1. Measures adopted by retailers in 2010 to mitigate the impact of economic crisis

As it is shown in table 2, product range restriction is not considered a solution for retailers, under crisis conditions, over 60% of companies preferring increase the assortment, both in 2010 and 2011. The explanation could be the emergence of new products on the market, both in food and especially in non-food (electronic and home appliances) domains, which attract consumers.

If we analyze the correlation between cost-cutting measures, chosen by 72% of respondents, with the price reduction, chosen only by 28% of retailers, we can conclude that the retail operators have targeted mainly the rise of profit margins by price maintenance (38% of respondents) or their increase (48%), as shown by the data in table 2.

Regarding the effectiveness of these measures, 66% of retailers argue that the largest effect was generated by cost reduction, followed

by negotiation with suppliers (fig. 2). So, we can state that cost reduction is the measure preferred by retailers from our country to manage crisis.

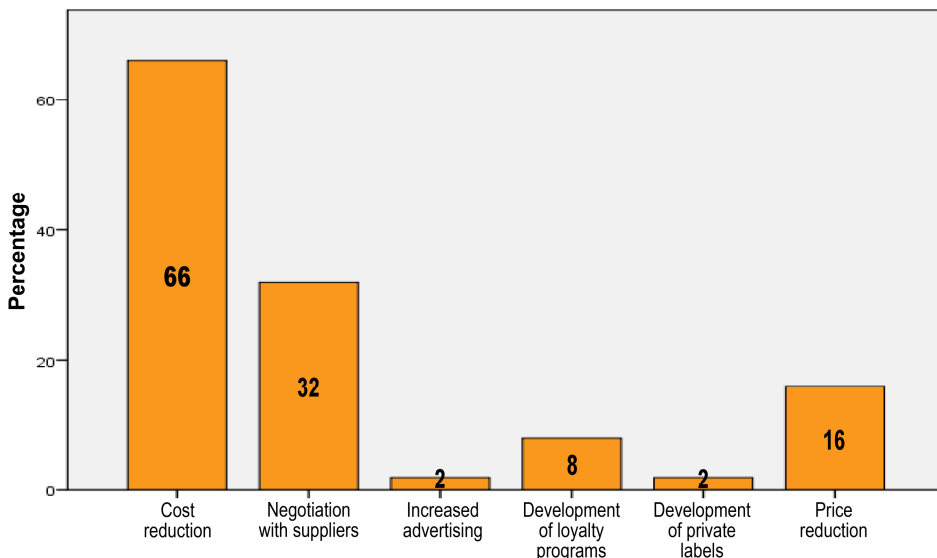


Figure 2. The efficiency of the measures taken by retailers in 2010 for crisis management

Applying t test, for a confidence interval of 95% and a test value equal to 1 (corresponding to the retailers' preference for cost reduction), the

statement according to which cost reduction is the measure preferred by retailers from Romania in crisis management is validated (table 6).

Table 6

The t test for cost reduction measure

	Mean	Standard deviation	Sig. (2-tailed)	t
Cost reduction is the measure preferred by retailers from our country for crisis management	0.66	0.479	0.0001	5.024

The real significance threshold (0.0001) validates the statement, according to which the measure preferred by retailers in crisis is represented by cost reduction. Standard deviation shows that retailers' answers are similar from this point of view, grouping around the mean.

Companies mentioned several solutions that have proved a greater or less efficiency. Even if not all those who adopted these measures have been satisfied with their effectiveness (which is seen in lower percentages), the order of preference is the same as in figure no. 2. This fact proves a good prediction of management over the decisions taken in 2010, in order to

maintain the company in a stability zone.

The main objective in the period 2010-2011 is represented, according

to the retailers' declarations, by sales' increase (68%), followed by cost reduction, but in a less proportion – 20% (fig. 3).

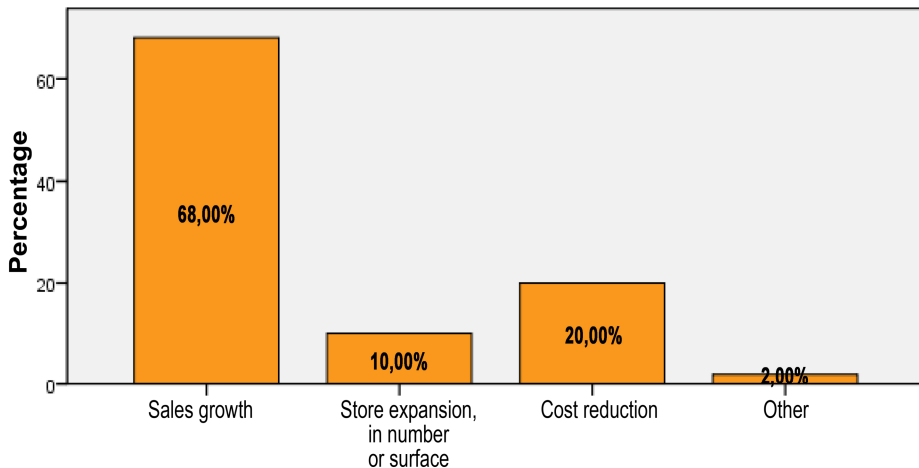


Figure 3. Short-term objectives (2010-2011) aimed by retailers

These objectives result in a logical manner from the turnover evolution in 2010, for the most part of retailers, when for 48% of the respondents, sales decreased, and for 24% of them, remained constant (table 2).

The expansion alternatives taken into account by the respondents are:

renting new facilities, buying or construction, expansion of the commercial surface in the existing units or mergers and acquisitions of other retail units (fig. 4). The most common options were building a new space for 46% of retailers, and rental of commercial space for 32% of them.

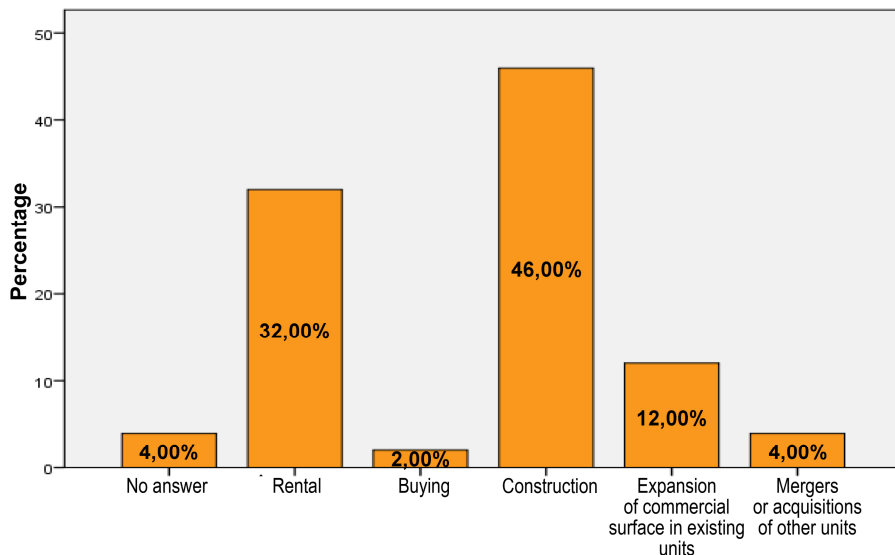


Figure 4. The expansion alternatives preferred by retailers

If we deepen the analysis of the main retail formats (table 7), we can see that large companies of modern retail prefer as an expansion alternative – building their own facilities, in order to have a greater independence of the decisions and implemented actions. Instead, small retailers choose renting space, for reasons of cost and greater flexibility in case of relocation or business closure. To validate the hypothesis we used the crosstabs option in the statistical program SPSS.

The hypothesis no. 3 - If adopting an expansion strategy, then small retailers prefer the alternative of renting the commercial space, meanwhile the great commercial chains from the modern retail choose building it from scratch – is validated, because it is noted that formats represented by large and powerful companies choose in a proportion of more than 60% (hypermarkets – 83,3%, supermarkets – 60%, cash & carry – 100%, DIY – 60%) building their own facility, assuring them a greater stability.

Table 7

Expansion alternatives of the main retail formats

Retail format	Rental	Buying	Construction	Expansion of the commercial surface	Mergers or acquisitions
Hypermarket	-	-	83,3%	16,7%	-
Supermarket	-	-	60%	40%	-
Discounter	-	-	100%	-	-
Cash & Carry	-	-	100%	-	-
Specialized store	60%	-	30%	10%	-
DIY	-	-	60%	20%	20%
Grocery	75%	25%	-	-	-
General store	22,2%	-	66,7%	11,1%	-
Kiosk	100%	-	-	-	-
Convenience store	-	-	-	-	100%

On the other side, there are also small retailers (general stores) choosing this way for their expansion, although, for most of them, this category of retailers prefer rental of commercial facilities: specialized stores (60%), groceries (75%) and kiosks (100%). Although there are some exceptions, the tendency observed at the level of expansion preferences is that formulated in

hypothesis 3, which we can say it is validated.

In recent years, marked by unfavorable economic conditions, retailers have particularly implemented cost strategy rather than differentiation as people faced with decreased revenues are more sensitive to price (table 8). If we consider only the two generic strategies, we may say that most of the respondents (60%) choose cost strategies, explanation

being the reduction of the purchasing power (with a great influence over retailers) and clients' sensitivity to price.

At a certain moment, depending on the economic and competitive

structure of the sector, retailers may choose to implement several strategies simultaneously, fact that generated multiple answers to this question.

Table 8

Retailers choosing cost and differentiation strategies

Generic strategy	Number of respondents*	Percentage (%)
<i>Cost strategy</i>	15	60
<i>Differentiation strategy</i>	10	40
Total	25	100

Note: * Number of retailers choosing these strategies was 25

So, if we consider at all strategic options (fig. 5), retailers chose in a proportion of 56% price strategies, followed by cost (30%) and differentiation strategies (20%). Often,

price strategies count on well established cost strategies, providing retailers a higher profit margin and sales' growth.

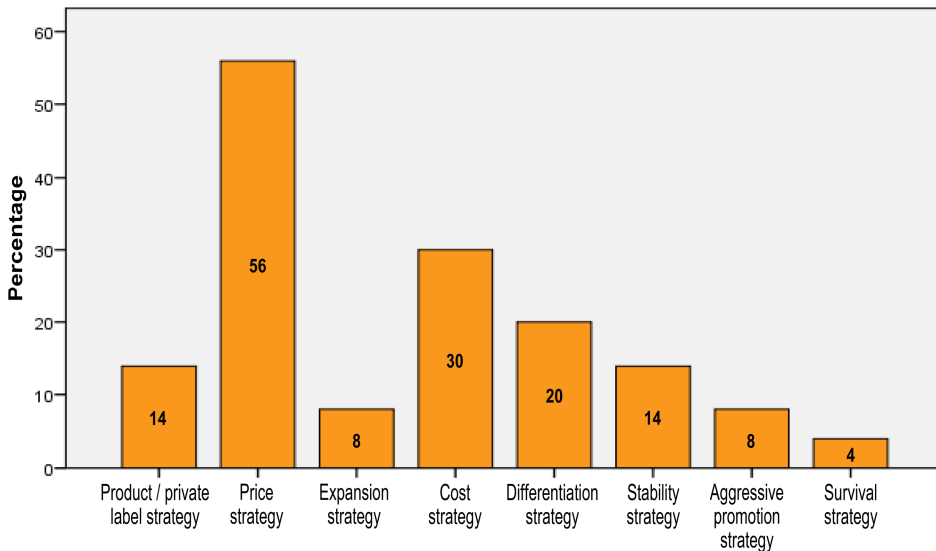


Figure 5. Strategies chosen by retailers in 2010

As differentiation methods, retailers chose more solutions, but the main element of differentiation used by 60% of the respondents is price,

followed by quality of products – 42%, services offered to clients – 32% and the assortment diversity – 20% (fig. 6).

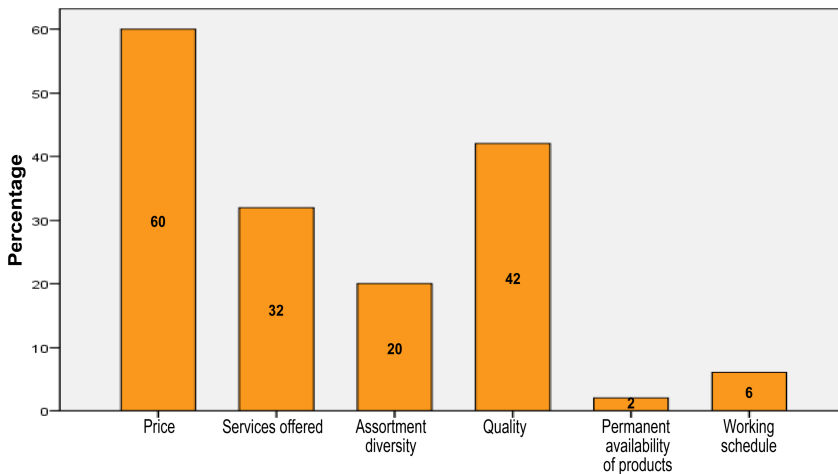


Figure 6. Differentiation methods chosen by retailers

Due to reduced purchasing power of population, retail operators implement strategies to ensure the maintenance of existing customers and attracting new ones, based mainly on low prices or lower cost products (e.g., private labels, whose sales have increased during the crisis).

Price strategies used in retail activity, presented in professional literature, are high-low pricing, everyday low pricing (EDLP) and high price/quality service. Most of retailers (46%) adopted EDLP strategy, considering it the most efficient in conditions of the present economic crisis (fig. 7).

High-low pricing strategy has been used by 34% of the retailers, especially by hypermarkets, supermarkets and cash & carry. This strategy creates frustrations for clients that bought the product at a higher price and after that this changed its price with a lower one. But, in the same time, the strategy has also a stimulating effect for those hunting promotions. High price/quality service strategy was chosen by 20% of the respondents, especially by specialized stores, focused on a certain type of products.

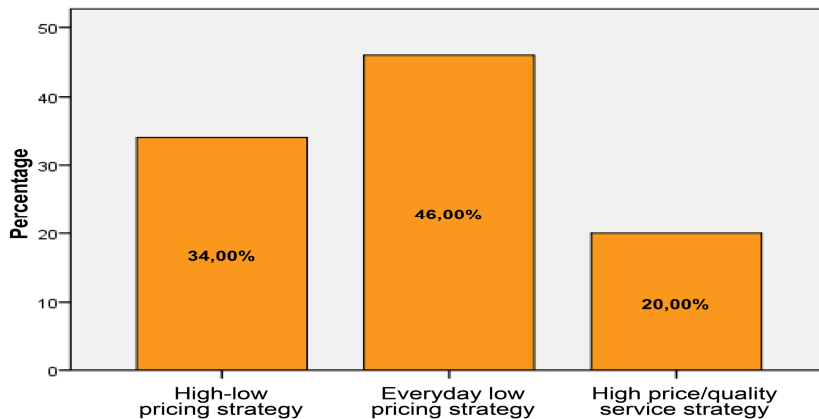


Figure 7. Price strategies adopted by retail operators

Closely related to the issue of pricing strategies, where most respondents said they used the strategy of low prices, we formulated **hypothesis 4 - In conditions of crisis, price reductions represent the preferred solution of retailers to increase their sales.** On a scale from 1 (total disagreement) to 5 (total agreement), the mean of answers

offered by retailers is 4 (agreement), that validates the hypothesis.

If we consider all favorable answers (agreement and total agreement), 90% of the respondents appreciate that price reductions led to an increase of sales, in conditions in which clients are more sensitive from this point of view, as a consequence of a reduced purchasing power (table 9).

Table 9

Price reductions – solution for sales growth	
Retailers' opinions	Percentage (%)
<i>Total disagreement</i>	4
<i>Disagreement</i>	-
<i>Indifferent</i>	6
<i>Agreement</i>	52
<i>Total agreement</i>	38

So, **hypothesis no. 4 is also confirmed** by answers regarding the most efficient promotions implemented

by the retailers (price reductions, gifts, packages, a larger quantity at the same price, etc.).

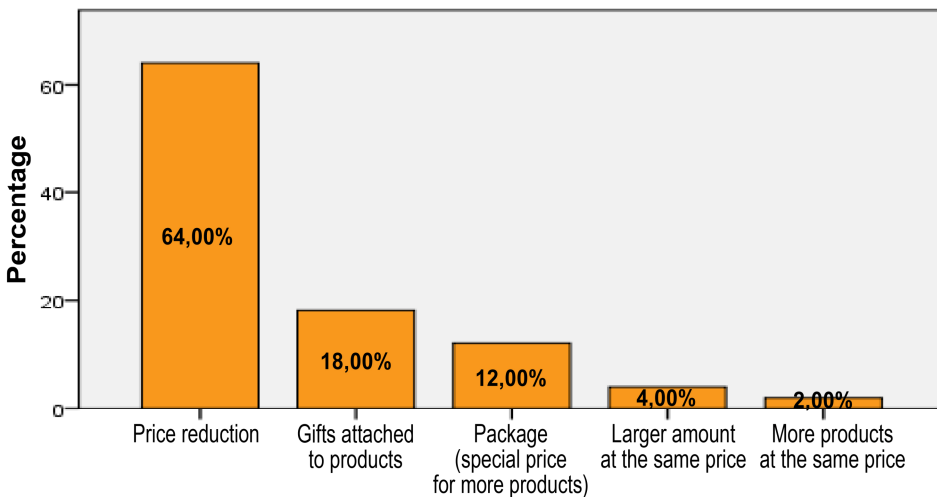


Figure 8. The efficiency of promotions implemented by retailers

So, 64% of the retailers consider that price reductions represent the promotions which generate highest sales (fig. 8). Gifts attached to products

(18%) and packages of special price products (12%) are, also, considered efficient, by modern retail formats.

4. Conclusions

Our research on the retail sector led us to a series of conclusions. **First, we showed that during the economic crisis, private labels sales increase**, because they are cheaper, and population purchasing power decrease. Private labels need to be intensely promoted, in order to change consumers' perception on their quality, 74% of respondents understanding the importance of this change of perception among the consumers.

In order to strengthen the relationship with customers, **retailers must increase during the economic crisis promotion and advertising expenses**. Our study's results show that 40% of the respondents realized this fact, their expenses increasing and for 36% of them, they remained constant. Formats that registered a decrease of these expenses are from traditional retail. Hypermarkets,

discounters, supermarkets and DIY understood the necessity for these communication expenses and increased them (more than 60% of each format).

Retail companies had to apply a series of **measures to mitigate the negative effects of the economic and financial crisis** over the developed activity. Most of retailers used cost reduction (72%), but also the negotiation of prices with suppliers (50%) that permitted them at least to maintain their margins at the same level.

Our study also strengthened the idea according to which price reductions represent the most efficient solution for sales growth in crisis conditions (90% of respondents), when customers are more sensitive from this point of view, as a consequence of a lower purchasing power.

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