

CEFTA Agreement and FMCG Market in Southeastern Europe

Kolaja
& Partners

Belgrade, November 16, 2007

While consumption of FMCG per capita rises the retail chains grow fast and consolidate. FMCG producers expand to new markets to increase sales. This situation creates strategic dilemmas for market participants

MAJOR TRENDS IN FMCG IN CEE

1
Consumption per capita is growing

2
Retail chains are being created and consolidated

3
Local FMCG producers establish brands and expand abroad

Strategic dilemmas for FMCG market participants

- –
- Single or multiple formats? (purchasing power vs. complexity)
- Wide or specialized product portfolio?
- Single-brand or multi-brand strategy? (Economies of scale vs. complexity)
- International expansion to the West, East or neighboring countries? (Market potential vs. feasibility)

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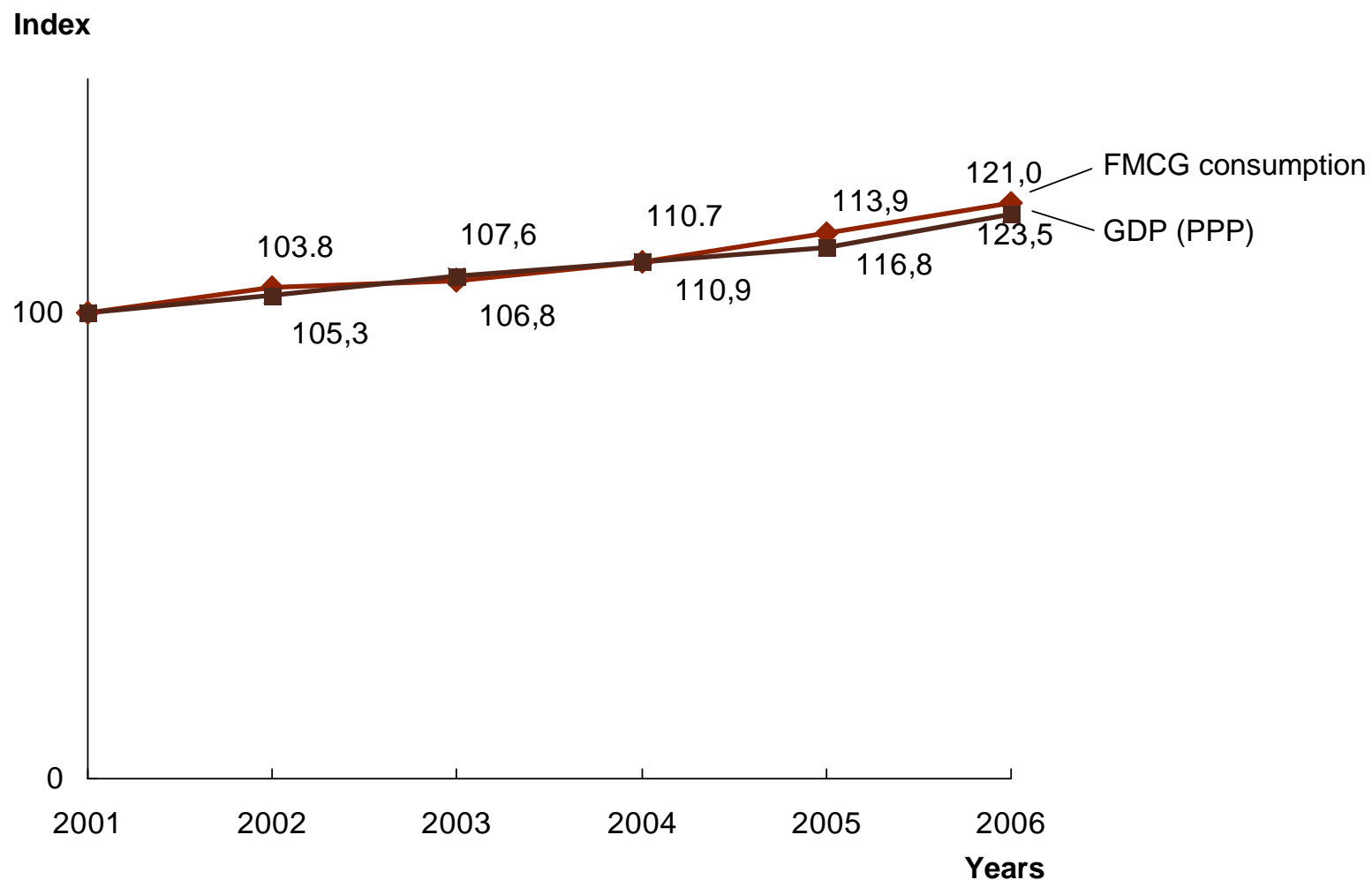
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FMCG consumption has been growing along with the GDP

FMCG CONSUMPTION VS GDP GROWTH IN POLAND 2001-2006

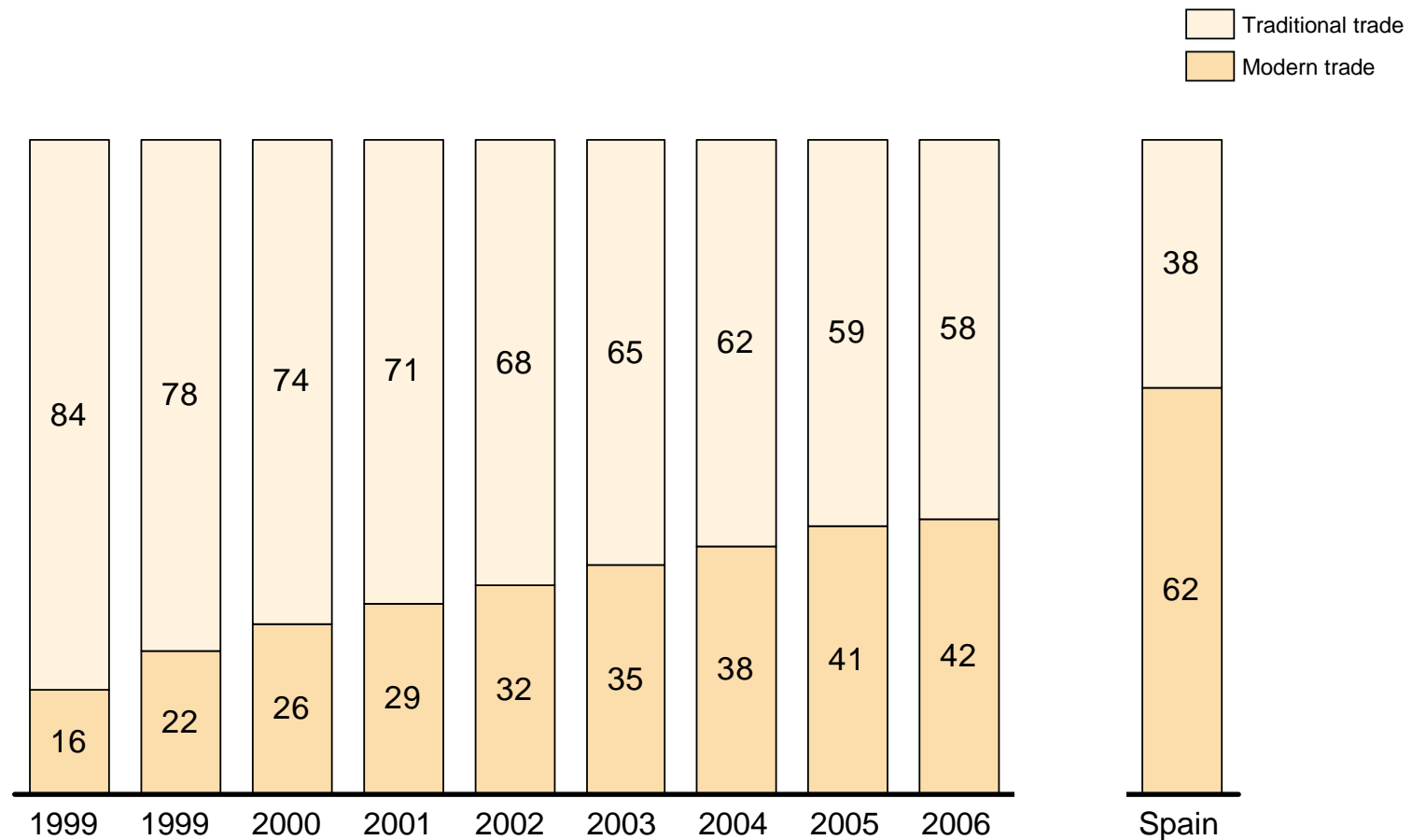
Data for 2001=100



Source: Gfk Polonia; CAL; Kolaja & Partners estimations

The chains have been gaining significant market share through growth

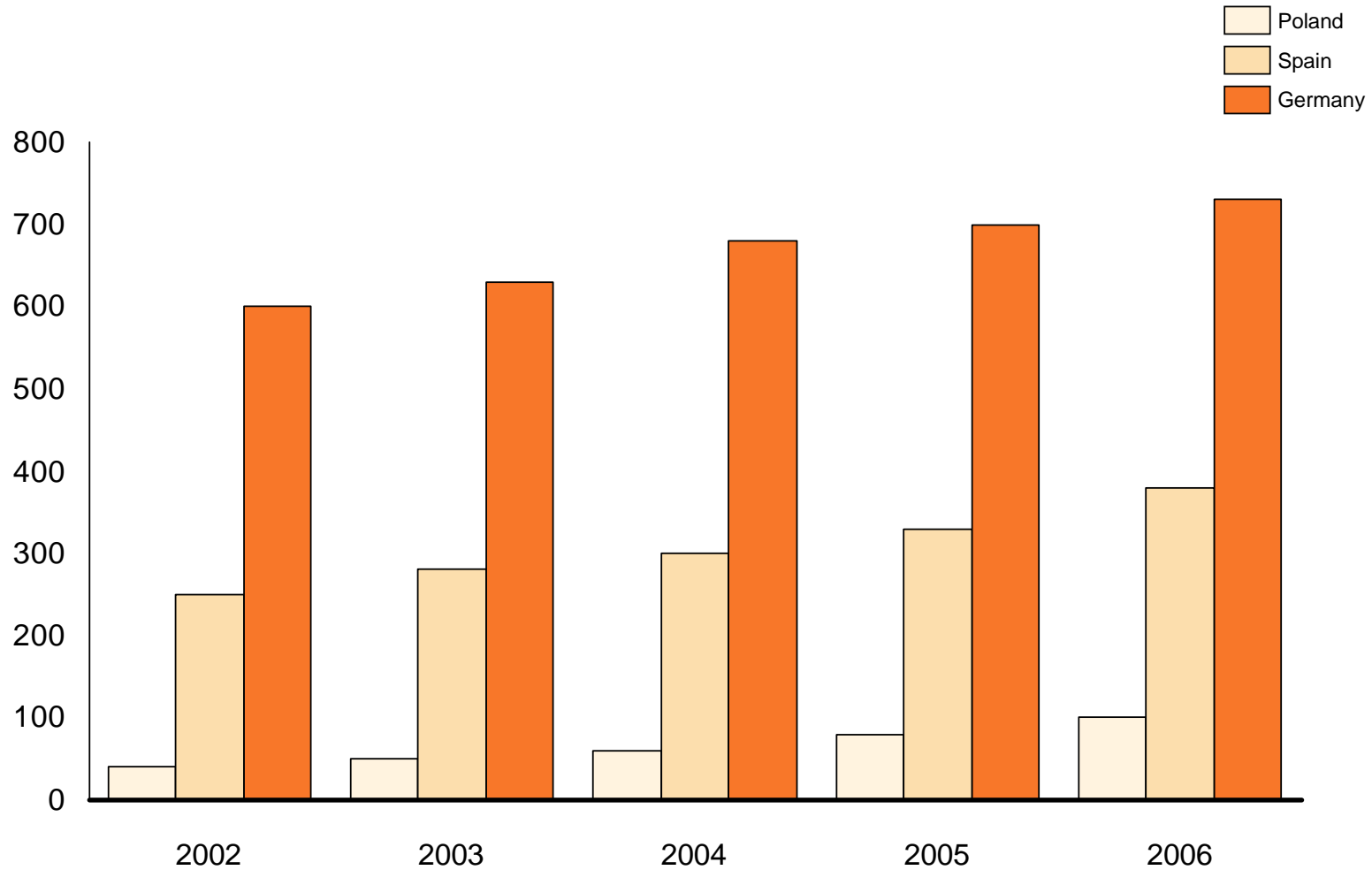
MODERN VS. TRADITIONAL SALE CHANNEL STRUCTURE EVOLUTION



Modern Channel = Hypermarkets + Convenience + Cash&Carry

While gaining the market share, the discounters will also benefit from growing consumption per capita

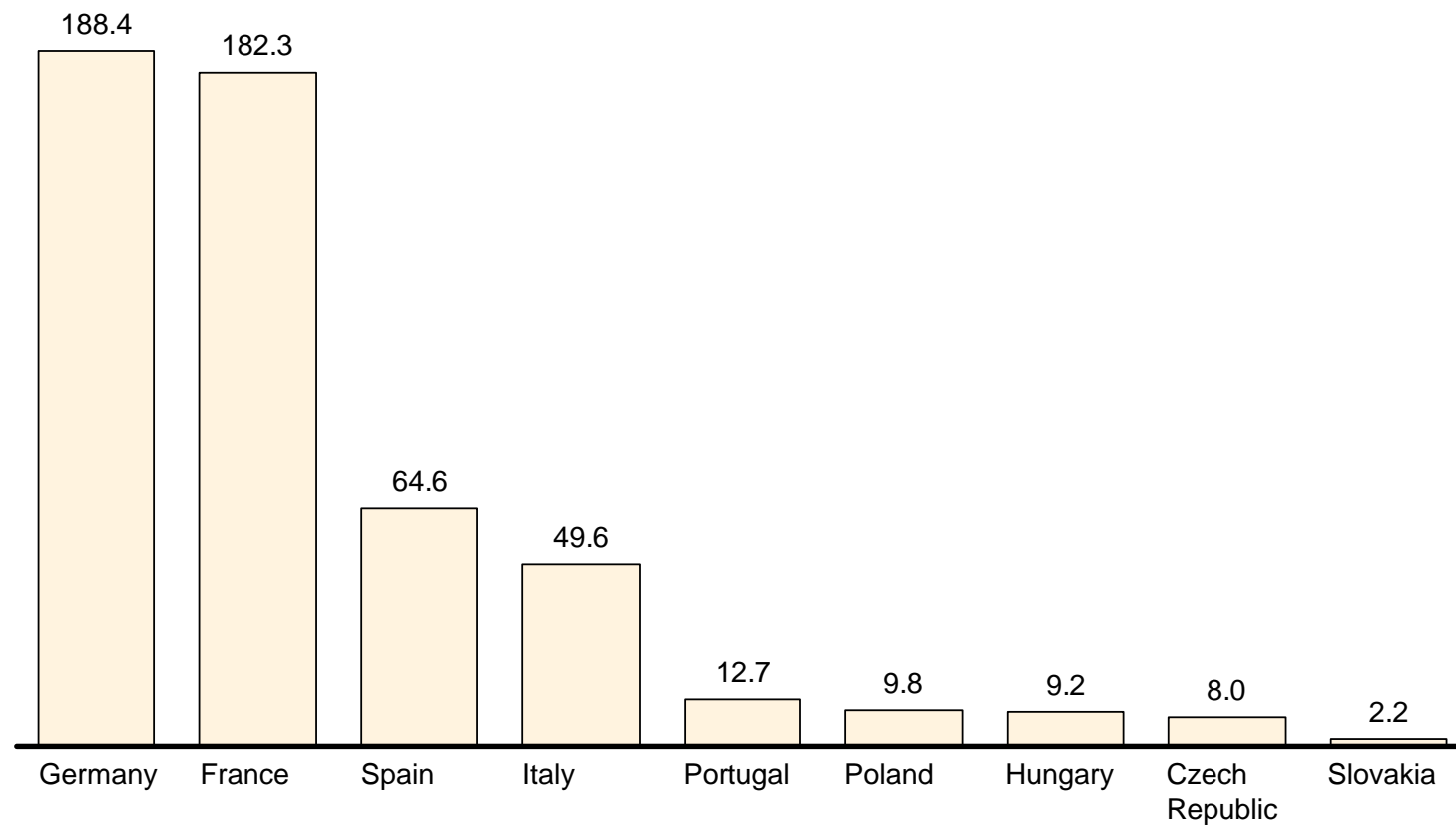
ANNUAL DISCOUNTER SALES PER CAPITA EUR



The industry has been undergoing already some consolidation, but this trend is going to be even more visible in the future

TOP 10 FOOD RETAILERS BY COUNTRY IN EUROPE IN 2005

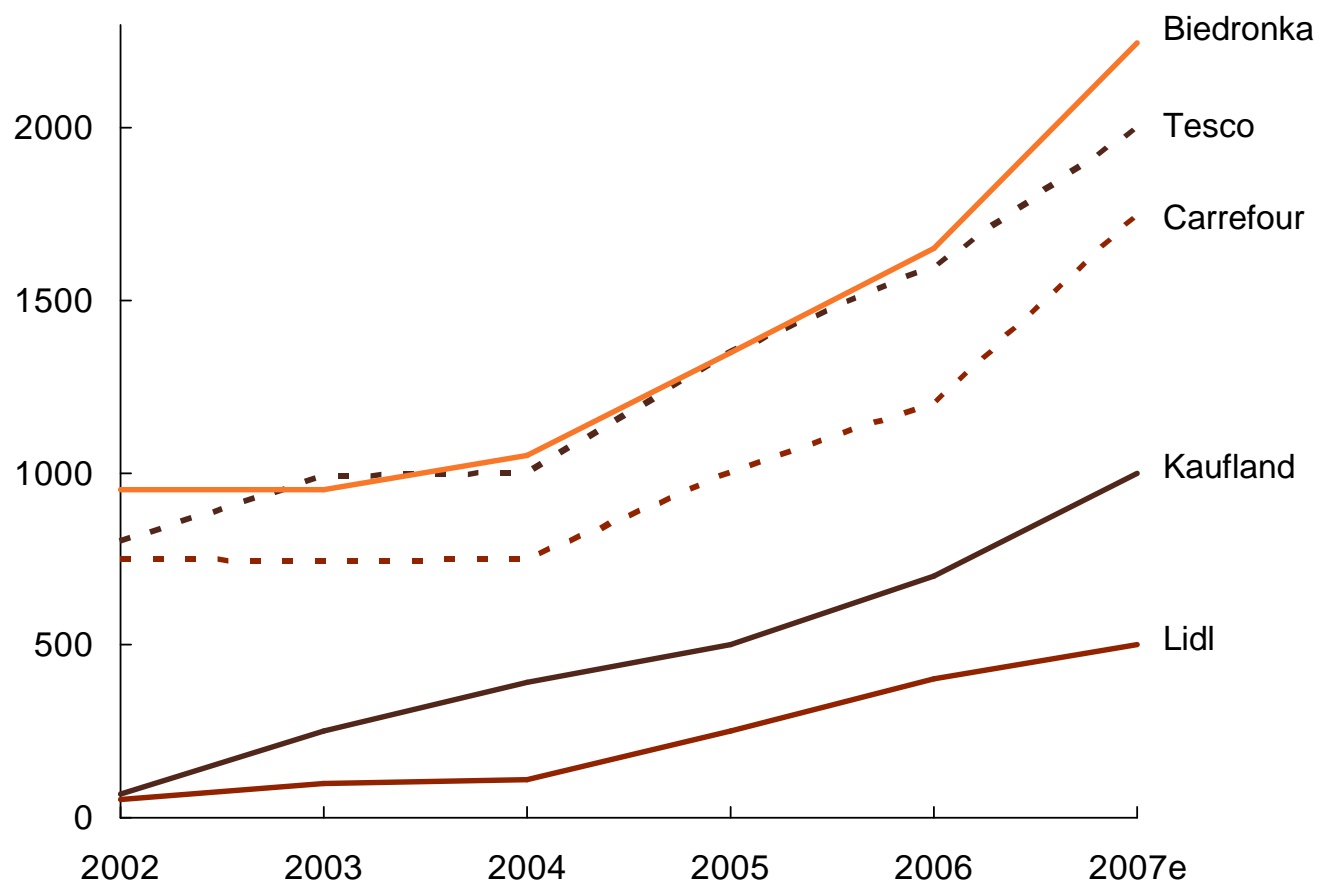
EUR billion



The entrants usually are able to growth fast

SALES OF SELECTED RETAILERS IN POLAND

EUR million



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RETAIL CHAIN SEGMENTS

Segments	Examples	Outlet sales area m ²	Number of SKU thousand	Pricing	Working capital	Location	Frequency of purchasing
Premium Convenience stores	 	200-500	25-60	High	Very low	Shopping Malls	1/week
Standard Convenience stores	  	100-300	0.9-1.2	Very low	Negative	High-density residential areas	2-4/week
Hypermarkets	  	>400	30-50	Low	Positive	Major city routes	1/week
Wholesale Cash & carry	 	>400	30-50	Very low	Negative	Outskirts	Weekly-biweekly

Source: Kolaja & Partners

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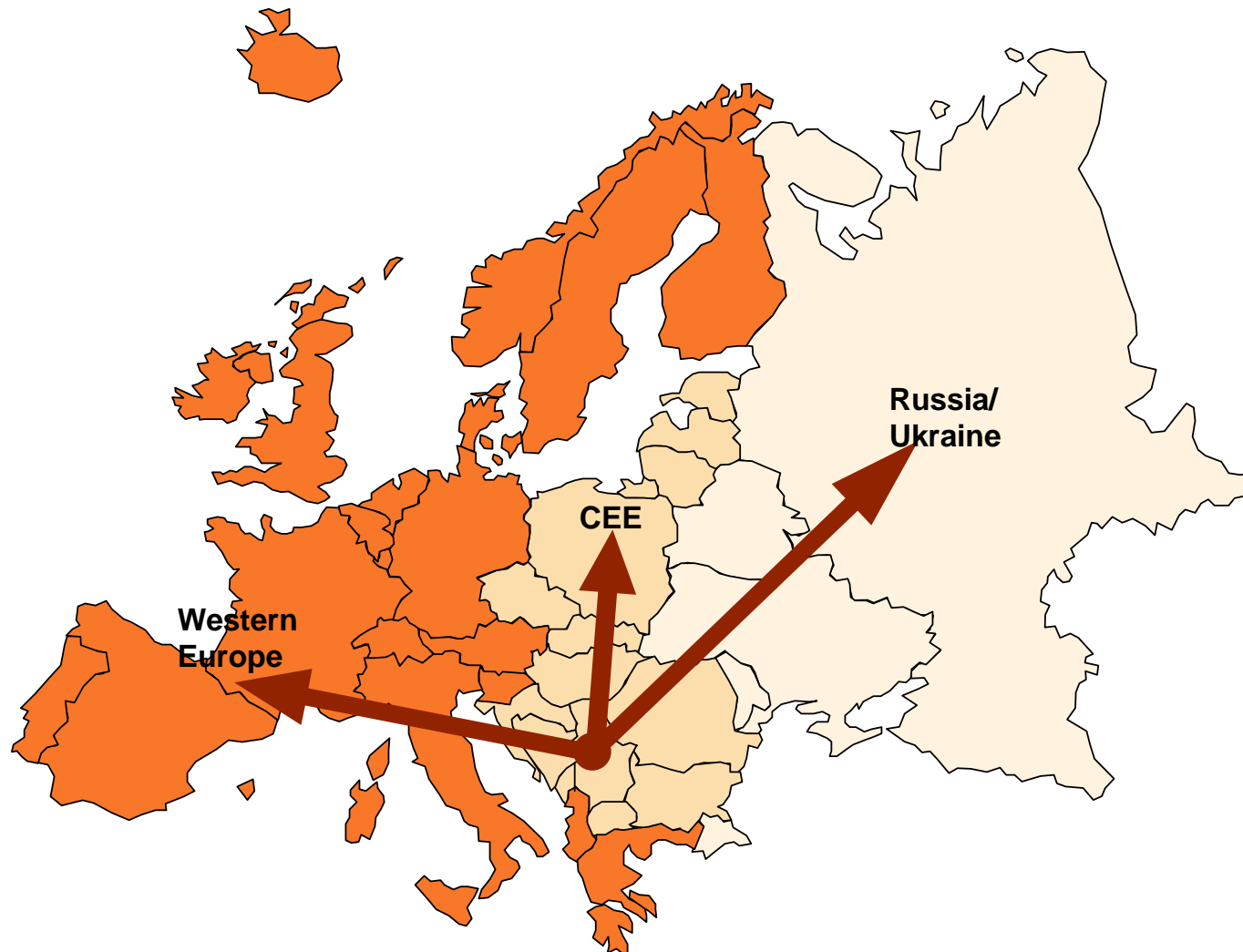
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Which markets to expand to?

POTENTIAL MARKET ENTRY OPTIONS FOR CEFTA COMPANIES – WHICH MARKETS TO EXPAND TO?



It is significantly easier to enter the CEE markets rather than the Western markets

MARKET ENTRY OPTIONS – SELECTIVE SKINCARE COSMETICS

DISGUISED
CLIENT EXAMPLE

Markets	Examples	Population	Market entry costs EUR m	Required market share to break even	Relative competitive intensity
Eastern Markets	Russia	142,8	0.8-1.5	1-3%	Low
	Ukraine	46,5			
CEE	Poland	38,5	0.2-0.5	3-5%	Low
	Romania	22,1			
	Czech Rep.	10,2			
	Hungary	10,1			
	Bulgaria	7,6			
Small Western Markets	Norway	4,6	0.3-0.5	6-12%	High
	Denmark	5,4			
	Sweden	8,9			
Medium W.M.*	Holland	16,2	~0.7	~4%	High
Large Western Markets	Spain	40,6	0.9-1.2	1-3%	High
	UK	59,3			
	Germany	82,2			

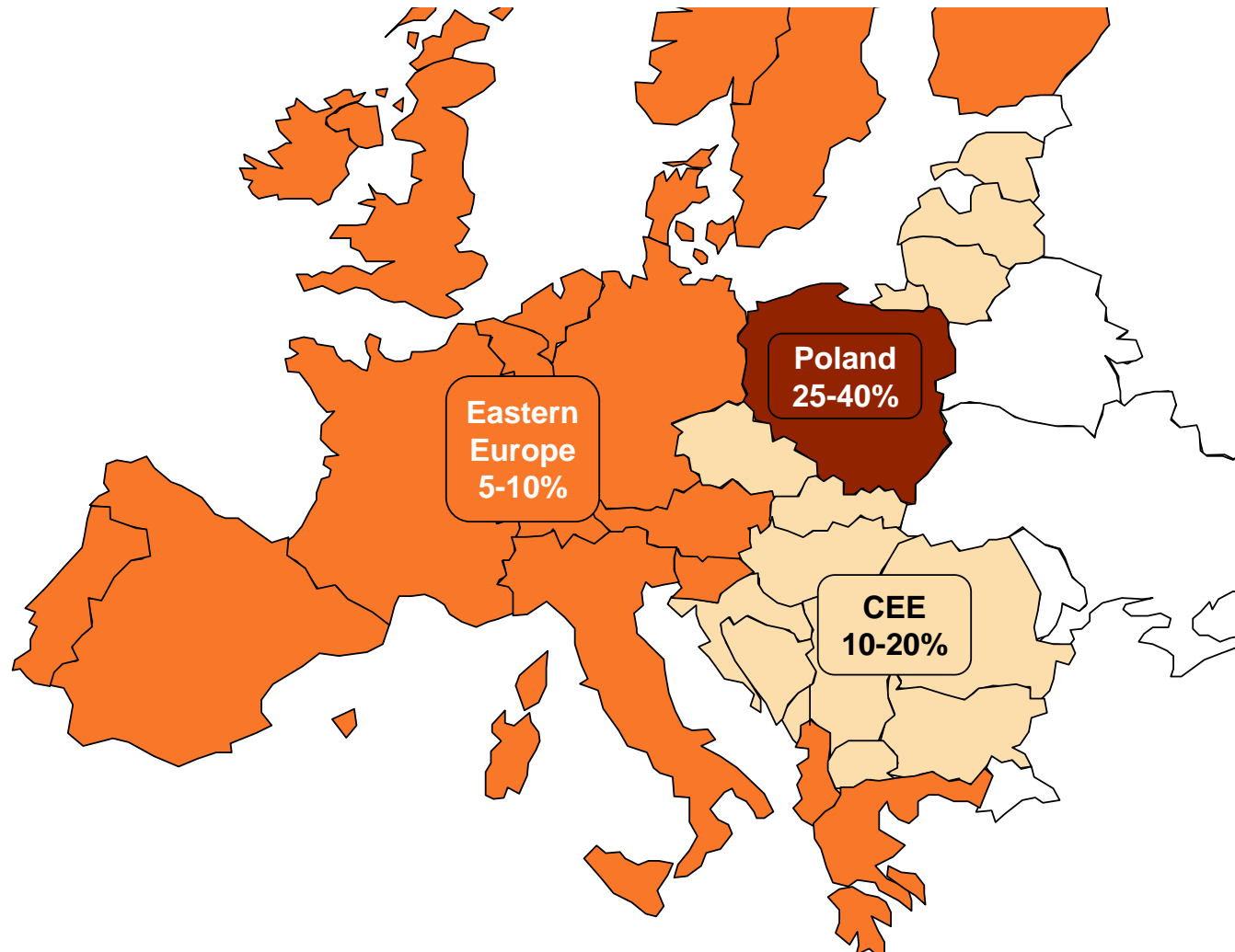
* Western Market

Source: Kolaja & Partners

Margins realized depend heavily on brand perception, therefore highest margins are realized on domestic and then CEE markets by CEE producers

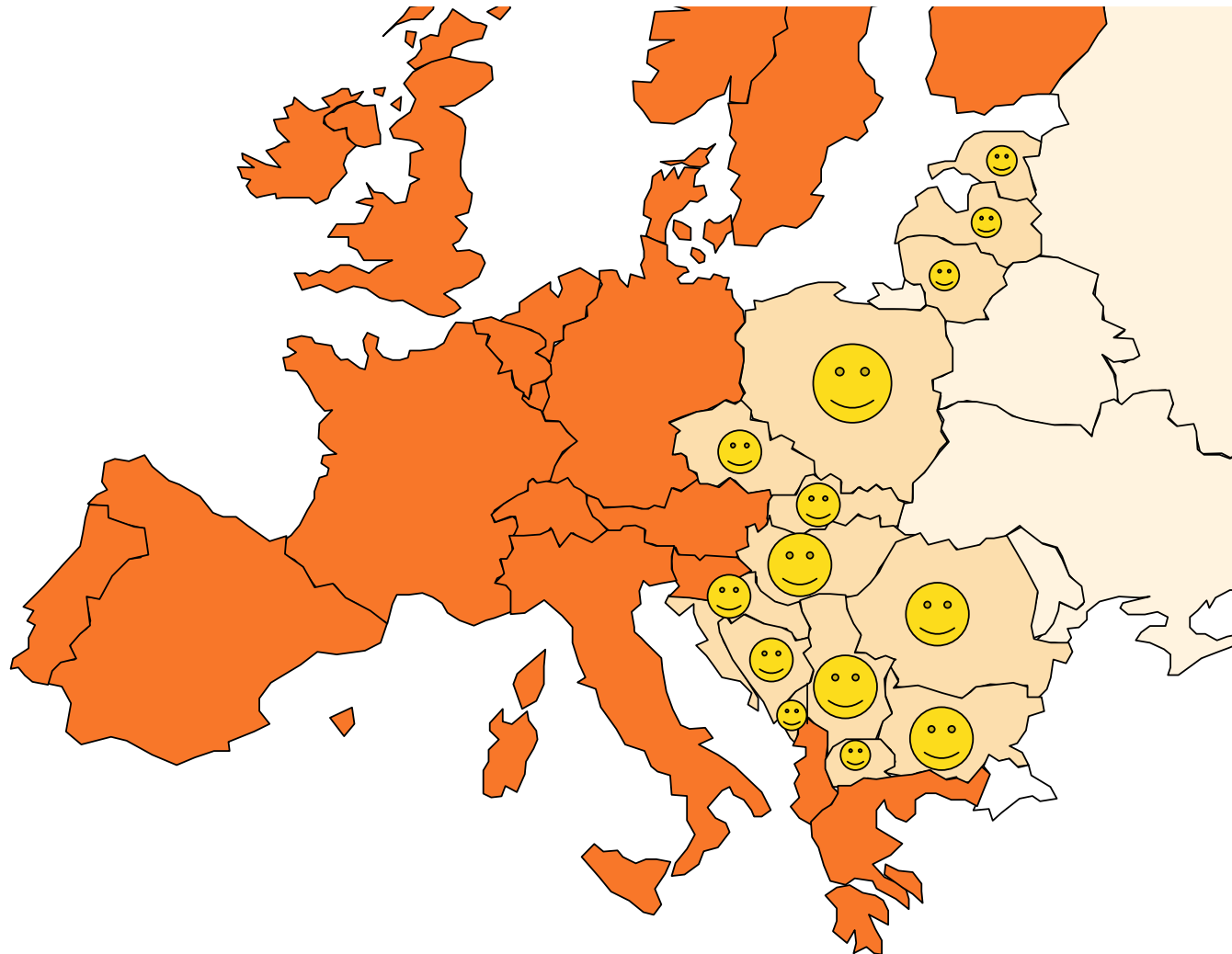
MARGINS REALIZED IN VARIOUS SALES REGIONS

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The CEE countries seem to be the best options for foreign expansion for CEE companies

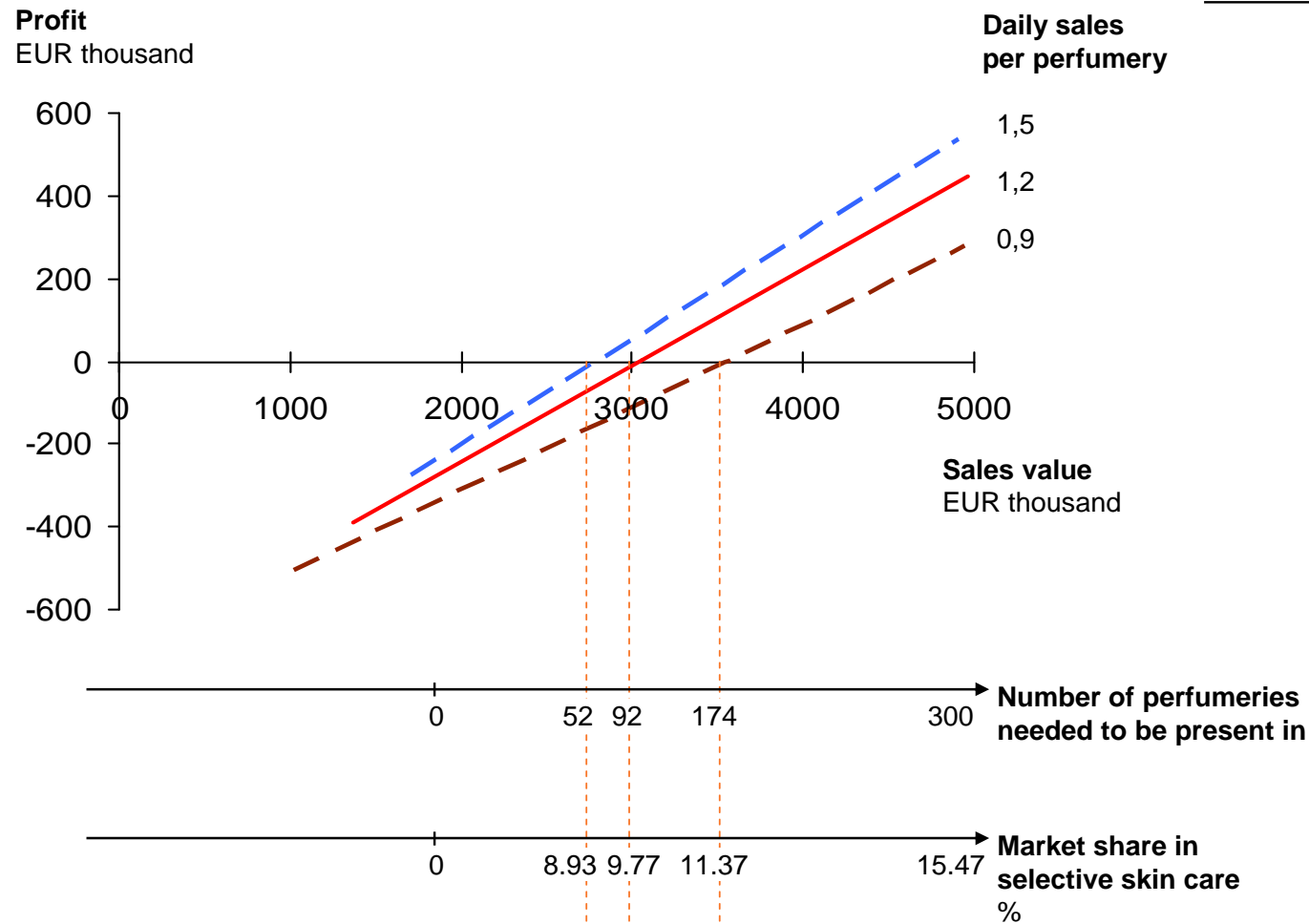
REGIONAL EXPANSION OPTIONS



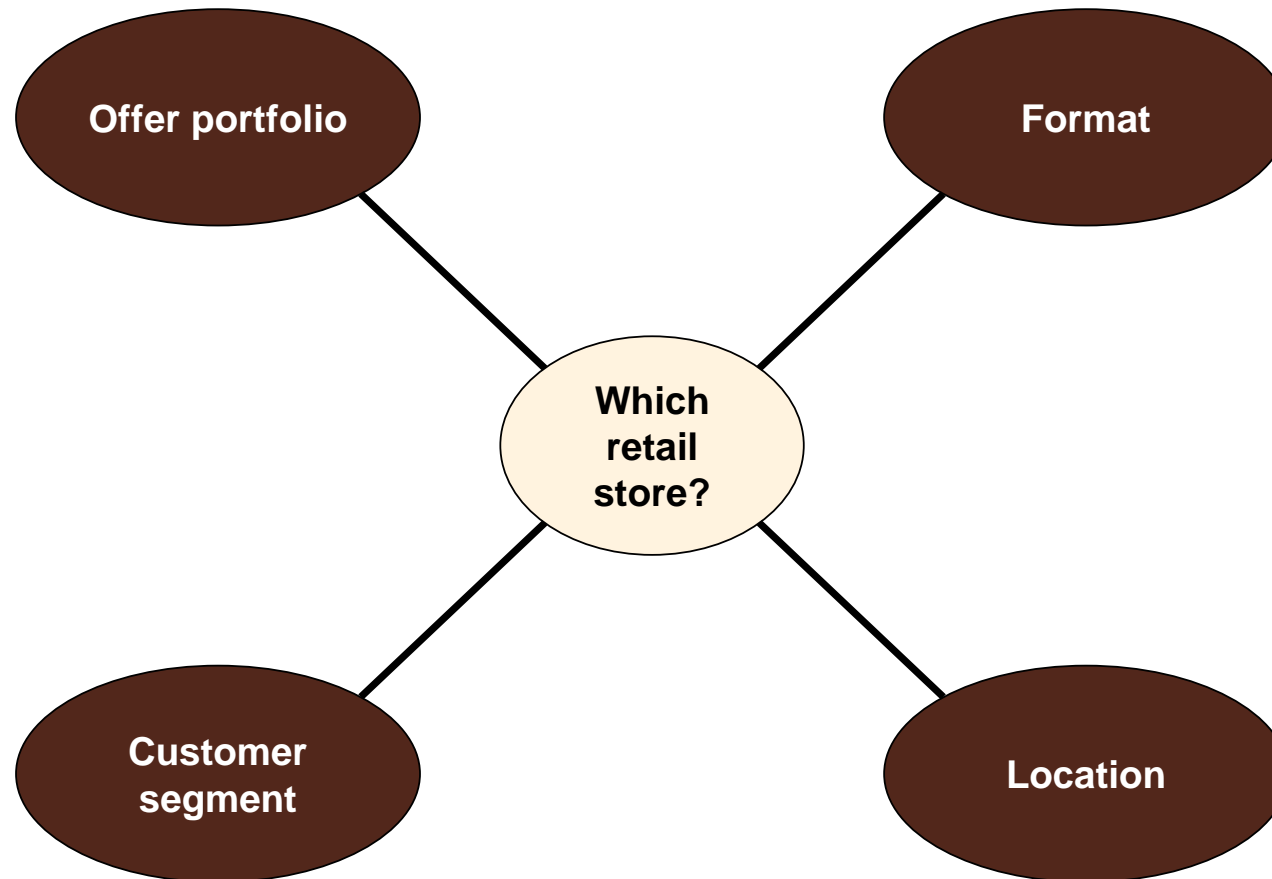
Especially, for small Western markets, reaching the profitability would require gaining significant market share

ENTERING SWEDISH UPSCALE COSMETICS MARKET – SENSITIVITY ANALYSIS

DISGUISED
CLIENT EXAMPLE



OPTIONS FOR RETAIL CHAIN SET-UP



FMCG consumption has been growing steadily at a pace of 4.3% on a yearly basis

FMCG CONSUMPTION IN POLAND 2001-2006
PLN per capita

