CCA Grocery Retail Market Inquiry for 2023:

Turnover rise and increased market dynamics

The Croatian Competition Agency (CCA) carried out the Groceries retail market investigation (including food, beverages and toiletries and household supplies) in Croatia for 2023. The sample included 44 undertakings that, according to their realized turnover, represented the largest undertakings operating in the grocery retail market.

There were four retailers less in the 2023 sample compared to the previous 2022 market research - Duravit, Kordun, Strahinjčica and Špar from Bjelovar, whose market segment was integrated into Studenac.

The turnover from grocery retail in the Republic of Croatia of all undertakings from the sample in 2023 amounted to EUR 7.73 billion. In 2023, a nominal grocery retail turnover growth of EUR 1.07 billion was recorded compared to the previous 2022, when it amounted to EUR 6.66 billion, showing that the grocery retail market rose by 16.1%. For the sake of comparison, the growth rate had been 15.7 % in the previous period, or EUR 0.9 billion.

This was certainly influenced by the general inflation trends and especially in the part related to the food and non-alcoholic beverages component in the consumer price index.

In 2023, there was a total of **5.140** sales outlets of the sampled retailers, which rose by 144 compared to the previous 2022, representing a growth of 2.9%. For the sake of comparison, in 2022 the rise was 3.5% compared to 2021, or 177 more outlets.

The total net sales space of all sales outlets of the surveyed undertakings in 2023 amounted to 1.6 million square meters, recording an increase in net sales space of 59,000 square meters compared to the previous 2022, representing a growth of 3.8%.

Market structure and trends in grocery retail market in 2023

Konzum plus was the largest grocery retailer in 2023. Its market share in the observed 2023 amounted to 20% - 30% and recorded a slight increase in market share compared to 2022, with a double-digit turnover growth in groceries retail. In 2023, it had 637 outlets (in the previous 2022 it had 628 outlets).

It should be emphasized here that Konzum plus market share, as well as all other retailers' market shares, are shown as a percentage range since they were marked as business secrets by the retailers themselves.

Furthermore, the trend of increasing turnover in groceries retail of the Schwarz Group members continued. In 2023, Lidl recorded double-digit turnover growth according to relative indicators. Lidl's market share in the observed 2023 amounted to 10%-20%. The other Schwarz Group member, Kaufland, also recorded the rise in its turnover and market share in the range between 5%-10%. Overall, both Schwarz Group members had a combined market share of 20%-30% in 2023.

The turnover growth in the groceries retail in the observed 2023 was recorded by 37 retailers.

The highest nominal rise in groceries retail turnover in 2023 was recorded by Konzum plus (by more than 200 million euro), followed by Lidl, Spar, Studenac and Kaufland (all four recorded growth in the range from 100 to 200 million euro). They were followed by Plodine and Tomy (nominal growth ranged between 50 million to 100 billion euro), KTC and Eurospin (growth ranging from 20 million to 30 million euro).

In the observed year 2023, regional retailers - Boso, Ribola, Mlin i pekare, NTL and Decentia also experienced turnover growth in the grocery retail ranging from 10 to 20 million euro. Some smaller local retailers, such as Trgovina Krk, Trgocentar, Zabok, Gavranović and Bakmaz all grew by less than 10 million euros.

However, Studenac kept the lead in the number of outlets (1,257 outlets in 2023), predominantly of small format such as small stores and supermarkets.

The list of "Top 10" in 2023 remained unchanged: Konzum plus, Lidl, Plodine, Spar, Kaufland, Studenac, Tommy, KTC, Trgovina Krk, NTL.

The highest rise in the market share among top ten grocery retailers in 2023 compared to 2022 was recorded by Studenac and Spar, followed by Konzum plus.

Moderate rise in market concentration

In 2023 asymmetry between the leader in the market Konzum plus and its second rival Lidl remained the same.

Compared with 2022 the report year showed a mild rise of the concentration ratio CR10 (the market shares of the 10 biggest retailers in the market), that was 86.7 in 2023 and 86.4 in 2022. The CR10 increase was primarily due to the rise in market shares of Studenac and Spar, less of Konzum plus.

The results of the analysis of the five-top-rivals (CR5) indicated that the concentration ratio CR5 was 66.4 in 2023, and 66.2 in 2022. In other words, there has been a slight change in the first five rivals (Konzum, Lidl, Plodine, Spar, Kaufland) as well as the change in the respective market shares and the “distribution” of market shares in 2023 compared with 2022.

Herfindahl-Hirschman Index (HHI) amounted to 1,408 in 2023 (1,405 in 2022), indicating that the grocery retail market for in Croatia was weakly concentrated. In other words, it proved a competitive structure of the grocery retail market in Croatia.

Market situation and changes at the regional level

<u>Counties and the City of Zagreb</u>

In the observed year of 2023, turnover rise was recorded in all 20 counties and in the City of Zagreb, just like in 2022. The highest turnover from retail was recorded in the City of Zagreb

(1.3 billion euro), followed by Split-Dalmatia County (1 billion euro), Primorje-Gorski Kotar County (678,7 million euro), and Istria County (614 million euro), Zadar County (522 million euro), Zagreb County (less than 505 million euro), and Osijek-Baranja County (little more than 402 million euro).

The highest nominal rise in the realized turnover in the grocery retail at the regional market level (City of Zagreb and twenty counties) was in 2023 recorded in the City of Zagreb where 169 million euro rise in turnover was recorded (an increase of 14.7 percent compared to 2022), followed by Split-Dalmatia County, where the turnover rise amounted to slightly less than 142 million euro (increase of 16 percent compared to 2022, Primorje-Gorski Kotar County, where turnover rise of 82 million euro was recorded in 2023 compared to 2022 (increase of 13.7 percent, and Istria County with turnover rise of 79.4 million euro (increase of 14.9 percent compared to 2022). The significant increase in grocery retail in Split-Dalmatia, Istria, and Primorje-Gorski Kotar counties has been likely influenced by inflation and the growth in tourism indicators and consumption in those counties

The City of Zagreb and six counties (Split-Dalmatia, Primorje-Gorski Kotar, Istria, Zagreb, Zadar, and Osijek-Baranja counties), realized slightly less than two-thirds (65.6 percent) of the total grocery retail turnover in Croatia in 2023, continuing the trend from the previous years, with a slight decrease compared to 2022 when this share was 65.8 percent.

Konzum Plus remained the leading retailer in the City of Zagreb and six counties (Zagreb, Krapina-Zagorje, Varaždin, Karlovac, Lika-Senj, and Osijek-Baranja counties), as in the previous year of 2022.

Members of the Schwarz Group were leading in two counties. Lidl was the leading retailer in Koprivnica-Križevci, while Kaufland is the leading retailer in Brod-Posavina County. In 2022, Lidl was also taking the lead in Bjelovar-Bilogora County and Kaufland was also leading in Požega-Slavonia County. In 2023 Studenac took the lead in Bjelovar-Bilogora County (as a result of taking over Špar Bjelovar), whereas Mlin i pekare, Sisak took the lead in Požega-Slavonia County (operating as NewMiP d.o.o. since October 2023).

Furthermore, among the leading retailers in the counties, there has been one change in 2022, as Studenac became the leading retailer in the Dubrovnik-Neretva County, marking its first-time leading position in that county. This was the result of the merger with the former local retailer Pema, so Studenac has moved from third to first position in that county.

Tommy remained the leading retailer in three counties in the Adriatic region, in its home Split-Dalmatia County, Šibenik-Knin County, and Zadar County.

Studenac was the leader in Dubrovnik-Neretva County and for the first time in Bjelovar-Bilogora County as mentioned above.

In 2023, KTC was the largest retailer in Virovitica-Podravina County, while Mlin i pekare remained the market leader in the Sisak-Moslavina County, but also for the first time in Požega-Slavonia County. Boso has been the long-standing leader in the Vukovar-Srijem

County. Trgovina Krk was the largest groceries retailer in Međimurje County, also due to the merger with Metss from Čakovec.

<u>Cities of Split, Rijeka, Osijek</u>

Tommy retained the top position in Split, Lidl was in the second position. In Split a positive trend continued, meaning the grocery retail turnover rise in 2023 compared with 2022 (the same applied to Rijeka and Osijek as well). This was likely due to the increase in tourist trade, as well as the influence of inflation. In Split Studenac had the highest number of outlets – small stores and supermarkets, followed by Tommy, Konzum plus and Ribola.

In Rijeka, the market leader in the grocery retail was Spar, the highest number of outlets is yet held by Brodokomerc Nova and these are also predominantly small stores and supermarkets, followed by Studenac and Trgovina Krk.

In Osijek, Konzum Plus remained the largest retailer in the grocery retail market, with a slight increase in its market share. Spar is in the second position. The highest number of outlets in Osijek is held by NTL d.o.o., predominantly small stores and supermarkets, followed by Konzum plus with both small and big format stores, and that is followed by Aska, a local retailer in supermarkets.

Supermarkets keeping the lead

The results of the market investigation showed that supermarkets achieved the highest grocery retail turnover in Croatia in 2023, amounting slightly more than 4 billion euro. Compared to 2022, there has been an increase of 581 million euro, or 17 percent.

Hypermarkets followed, with a turnover of 1.56 billion euro in 2023, marking an increase of 196.5 million euro compared to 2022, or 14.4 percent.

Self-service stores generated a turnover of almost 1.52 billion euro in 2023, with an increase of 192.2 million euro compared to 2022, or 14.5 percent.

Small stores recorded a total turnover of 649.6 million euro in 2023, showing an increase of 102.3 million euro compared to 2022, or 18.7 percent.

For comparison, in the previous study for 2022, the highest turnover growth compared to 2021 was also recorded in supermarkets, followed by self-service stores, hypermarkets, and small shops. That is to say, hypermarkets replaced self-service stores with the second-highest turnover growth in the grocery retail market in Croatia.

Supermarkets as a type of a retail outlet continued to dominate the sales structure based on both turnover and the net sales area. In the observed year of 2023, grocery retail is significantly dominated by supermarkets and hypermarkets, as more than two-thirds, specifically 72 percent, of total turnover in the grocery retail was generated through sales in supermarkets (51.8 percent) and hypermarkets (20.2 percent).

Similar as in the previous year, in 2023 self-service stores held the share of more than 42% of all retail outlets, followed by small shops with 39%, supermarkets with 16 % market share and hypermarkets with a little less than 3 %.

Regarding the criterion of the net sales area, supermarkets continued to have the largest share, accounting for just over 49 percent, and rising, of the total net sales area in 2023. They were followed by self-service stores with a share of 21.8 percent. Hypermarkets followed with a share of 21.6 percent, and small stores with a share of about 7.5 percent. What changed here compared to 2002 was that self-service stores replaced hypermarkets in the second place regarding the net sales area.

No shop format indicated a decline in net sales area, unlike in 2022 when hypermarkets lost some of their net sales area.

On-line shopping and loyalty programmes

The results of the inquiry for 2023 showed that groceries on-line shopping has still not taken a significant share in the total turnover structure of the groceries retail shops. The highest share in the on-online grocery retail turnover in 2023 was recorded by the biggest retailer Konzum plus.

Seven retailers reported turnover by e-commerce on their own platforms in 2023. No new retailer has generated turnover on its own platform.

In 2023 loyalty programmes were applied by 14 groceries retailers. No new undertaking launched such a reward programme. Like in 2022, Konzum plus, Lidl and Kaufland, followed by the members of Schwarz Group and Studenac and KTC had the highest number of members in their loyalty reward programmes.

Regional retailers such as Robin and Dergez had worth mentioning loyalty programmes in place.

Due to the introduction of the euro as the official currency in the Republic of Croatia, from the beginning of 2023, the minimum purchase value of goods and/or services required to earn additional points in loyalty programmes is now stated in euros. Additionally, the thresholds for earning a certain number of points within the loyalty programmes of individual retailers have been significantly increased, requiring higher purchase value.

Gross margin

Similarly as in 2021 and 2022, in 2023 the CCA investigated the average gross margins of retailers applied across eight categories of products. The categories that were selected by the CCA were: meat and meat products, poultry meat and eggs, bakery products (bread, pastries), milk and dairy products, fresh fruit and vegetables, soft drinks and water, confectionery products (biscuits, chocolates, candies, etc.) and basic food products (flour, sugar, rice, noodles, edible oils, etc.).

The indicators taken into account by the CCA included the gross margins in 2023 compared to 2022 (at the end of the respective year).

The indicators regarding the average gross margins of surveyed retailers in 2023 for eight categories were as follows: meat and meat products - 23.7 percent, poultry and eggs - 24.1 percent, bakery products - 37.2 percent, milk and dairy products - 21.4 percent, fresh fruit and vegetables - 29.9 percent, non-alcoholic beverages and water - 25.9 percent, confectionery products - 31.7 percent, basic food products (flour, sugar, rice, noodles, edible oils, etc.) - 24 percent.

The results of this research showed that the average gross margins for food products in 2023 were the highest in the category of bakery products and confectionery products, and relatively high in the category of fresh fruit and vegetables and non-alcoholic drinks.

When comparing average gross margins in 2023 to those in 2022, of the eight observed product categories, the research results showed a slight decrease in average gross margins in four categories (meat and meat products, poultry and eggs, milk and dairy products, basic food products), while the remaining four categories show a slight increase in average gross margins (fruit and vegetables, confectionery products, non-alcoholic beverages and water, and bakery products).

It must be noted here that certain food products included in the CCA survey, were in 2023 subject to the government Decision on Direct Measures for Price Control for Individual Food Products, OG 104/22, 5/23, 31/23, and 37/23 and the Decision on Direct Price Control Measures for Certain Products in Retail Trade OG 107/23), which came into effect on 18 September 2023. The list of products covered by the latest Decision has been expanded to 30 products and includes, in addition to food products, a smaller number of non-food products.

The full version of the CCA Groceries Retail Market Inquiry for 2023 in the Croatian language will be available on the CCA website.