



Supply chains: the supermarket

Tesco comes to Hungary

Commentary:

Like some other large retailers Tesco is also developing its international operations in the transition economies in Central and Eastern Europe. One of the Central European countries where Tesco is developing is Hungary.

Peter McMahon, European Supply Chain Director, Tesco:

This store has been open now for just over eighteen months and is our biggest one, in fact this one and the one we have in a place called Pasturgibek, which is just outside Budapest as well, are the largest hypermarkets in Europe. We started some five or six years ago by acquiring thirty small supermarkets in the north west of Hungary, which we've continued to develop. We're now at a stage in the year 2002 where we've got 23 hypermarkets that vary from about 5,000 square metres up to one as big as this which is 25,000 square metres, and we have plans to open another six this year.

Commentary:

The basic layouts and displays in this Budapest Tesco are familiar enough although weighing and pricing takes place in the departments rather than at the checkout. As in Korea and Thailand the majority of the fish are live and they are also mostly freshwater fish, reflecting Hungary's location far inland. This is definitely a hypermarket rather than a convenience store. There's a comprehensive range of electrical goods, not just entertainment products, but also white goods. And some unexpectedly outdoor merchandise. There's no sit-down restaurant but rather a more Hungarian style stand-up buffet, and a popular hot food takeaway counter.

Peter McMahon, European Supply Chain Director, Tesco:

It's a very, very large product range, I mean a store this size will stock 60-70,000 items, varying from fresh food to grocery, right the way through to a very, very comprehensive range of non-food, electrical, non-food, televisions, fashion, clothing, all sorts of products that you'd expect to see in the UK which are now available in Hungary. Our food range by far is the biggest in Central Europe and continues to grow as we develop our suppliers with us and work together with them.

Commentary:

It would be an impressive operation even in developed Western Europe, but how well does it work in the transition economies of Central Europe? Car ownership in Hungary is well below one car per household. This militates against out of town locations, even with free bus services to the shopping centre from the centre of Budapest. Furthermore, the traditional Hungarian shop is found not in an out of town location, but close to the houses and apartment blocks in the centre of the city. They're generally greengrocers or butchers, rather than supermarkets, although you will find the occasional convenience store. Most Hungarian shoppers are seen carrying just one shopping bag, not a trolley-full. It's in this environment that Tesco operates.

Laszlo Kallay, Institute for Small Business Research:

I think the primary reason is that there is business opportunity here. What they can do here in Hungary and in other transition economies presupposes a huge volume of investment. This is typically what small shops or Hungarian owners cannot do if you want to build a huge hypermarket outside Budapest, or anywhere in the country, you have to invest billions of florins. This is very difficult. Smallcan organise their activity but cannot invest in a short time a huge amount of money. Hungary, like several other transition countries, tries to encourage foreign direct investment and large investors, very large investors get almost automatic tax advantages. They very often don't pay profit tax for ten years, five years, ten

years, and if they are also large employers that's another big advantage from the point of the Hungarian government, that's also another, I would say, excuse to provide for their tax advantages. Very often investments into the infrastructure needed by the companies is supported by the government as well, and sometimes they are given subsidies as job creators. If a foreign investor comes here the way they do business here is that they establish a company in Hungary, typically owned by 100% by the parent company, and this is in fact a Hungarian company, although foreign owned. The rules are the same. They have to do business under the same acts in Hungary. Most of the employees are Hungarian. It is a recent development that the top managers can be Hungarians as well.

Peter McMahon, European Supply Chain Director, Tesco:

This business is Hungarian. Its name is English but the vast majority of this business is run by Hungarians, and we consider it very much a Hungarian business. Other Hungarian retailers, there's always room for Hungarian retailers; I mean it's a big and growing market we just described. Just the fact that we get bigger doesn't necessarily mean that the smaller shops disappear.

Commentary:

In fact the tax breaks offered by the Hungarian state to foreign investors are targeted mainly at manufacturing industry. Retailers like Tesco benefit only to a limited extent. They benefit instead from the attraction of hypermarket shopping.

Laszlo Kallay, Institute for Small Business Research:

If you can afford going to a large hypermarket you can buy large quantities of goods, larger quantities of goods at much, much cheaper prices, so there's a changing habit here in Hungary. A lot of people go to these large businesses, of course, and how could they profit here, but on the other hand in the Hungarian society we have, for example, a much lower number of cars available, a lot of families don't have a car at all, and if they do so they don't prefer driving a long way every day or frequently, so I think there's a big room for retail, Hungarian-owned small retail shops as well because they are much closer in the physical sense of the road, much closer to the customer, they don't have to go out of town and buy things there.

Commentary:

Small shopkeepers have not left the international supermarket chains to pick off the emerging middle classes. They are developing their own strategies.

Laszlo Kallay, Institute for Small Business Research:

One thing they did was they organised a few networks. One of them is the CBA Network in Hungary, which is probably the most successful in organising small shops. They have a common purchasing policy which is a response to the efficacy of the large multinational companies who can provide lower prices, a wider product assortment and very good quality products, also cheap products as well. The result is that members of these networks are much more competitive on the market, they can provide lower prices, they have offices at different locations, typically inside towns, cities and villages. Therefore, if you want to buy anything you don't have to drive so far, you have to go so far, therefore they are closer to the customers, especially the ones who don't have cars or for whom travelling is more difficult.

Commentary:

Budapest Central Market, a three-storey collection of individual and independent stores, is a recognition of the traditional benefits to small traders of getting together. Studying what's on offer suggests another issue. What Hungarians want to buy is very distinctive. What rice and kimchi are further east, sausages are in Central Europe. The extensive wine department centres around domestically produced wines, a matter of pride to Hungarians, just as German or Australian supermarkets emphasise their own wines.

Peter McMahon, European Supply Chain Director, Tesco:

The vast majority, probably over 90% of our products, are sourced within country, within Hungary, and as our volume has grown by opening more stores, our suppliers have grown in partnership with us. Our approach to our suppliers is very much partnership, very much

giving them a vision of what we want to deliver to the consumer, and helping them to work with us to actually grow to that sort of image we want to project to our customer, and quality. There's a lot of successful stories about our suppliers growing with us, and we will continue to source our product from Hungary because the Hungarians want to source their own product.

Laszlo Kallay, Institute for Small Business Research:

I think there's a number of small businesses in Hungary which have the chance to become suppliers of Tesco, and other networks probably. They have to develop their manufacturing bases to provide the quality needed by these networks, and also the volume of products they need, and the flexibility in terms of delivering in time, and according to the schedule what is needed by these networks. And they also have to solve the problem of financing their activity. Very often large networks pay on thirty days, sixty days, sometimes even ninety days, and it is very difficult for small businesses to finance their manufacturing activity. One answer to this question is factoring. Factoring means that banks would buy the invoices issued by small businesses and since they can count on paying for these invoices by large companies, this is a very low risk financial activity; therefore it's a good opportunity for the businesses which become suppliers of large chains to finance their manufacturing activity.

Commentary:

A large part of Tesco's success in the UK can be attributed to their energetic exploitation of all aspects of e-commerce. Is that true in Central Europe?

Peter McMahon, European Supply Chain Director, Tesco:

We've just introduced what we call EDI, it's Electronic Data Interface. This has been received very well by our suppliers so within the next twelve months we'll be able to pass to our suppliers all our orders and our customer demands electronically, and they'll confirm them with us, and we'll eventually end up paying our suppliers electronically as well. So that's just been launched in Hungary and will go across all of our business in Central Europe within the next two years. We're using a web based system which is accessible to everybody from the smallest supplier to the multinational suppliers that we deal with.

Laszlo Kallay, Institute for Small Business Research:

I think the major advantage of using information technology is that it is much cheaper than the older techniques or order methods used, and therefore if you use information technology there's a huge competitive advantage for you. I think it is also an opportunity for small businesses to organise their activity more efficiently, in a more economic way, and they do so, so they have a kind of information infrastructure, communication infrastructure for the retail industry. They have up to date information about the needs of the small chains and the individual shops which have the background organisation to deliver in time in the right quantity of goods they need.

Commentary:

If Tesco Budapest continues offering innovations not yet seen in Britain, keeping the expatriates in touch with home, and bringing their cheaper Value range to the Hungarian consumer, what of the future?

Peter McMahon, European Supply Chain Director, Tesco:

I think it will continue to be very exciting and very, very rapid. I think that we will move more into maybe smaller formats, we'll look certainly at maybe moving into the small stores we know in the UK, where we have convenience stores. There's a lot of towns and villages in Hungary and in Central Europe that don't necessarily justify a large hypermarket like this, but certainly the Tesco brand and the Tesco service and the Tesco price can be brought to them in a smaller format. I think the Hungarian consumer is changing at a very, very fast pace of knots, and will continue to do so, and their demands upon us will go very much in line with what has done in other parts of the world we trade. They'll want, they'll still want very, very competitive prices, they'll want good quality, and they'll want good stores and good service to buy it in, or a good internet shopping base to do it so, and we are proven throughout the world to be able to react to that.

Commentary:

The Hungarian small retailer reacted to the arrival of the powerful western group by combining as a buying consortium. That response is also found in the UK. In the next band we leave Tesco and look at an association of small retailers.