Retail in Poland: An Assessment of Changing Market and Foreign Investment Conditions

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Introduction

Retail business is the fastest changing sector of the Polish economy. There are several reasons for this but, perhaps, the most important is the legacy of a wide-spread neglect, reglementation and shortages that preceded the peaceful conversion from the centrally planned to a market economy in 1989. After the initial turmoil of the first formative years of the economic, political, and social transformation, millions of Poles rushed with their fully convertible earnings in New Zlotys (NZL; the average conversion rate in 2001 was US$ 1 = NZL 4.05 and C$ 1 = NZL 2.55) to hundreds of new retail and quasi-retail outlets to make up for the lost years. This enthusiasm for consumerism, combined with surprisingly robust growth of the economy during the 1990s at 5 or even 7 % annually, was soon noted by foreign retailers. In spite of the depleted and antiquated infrastructure, Poland offered relatively stable growth, and reasonably reliable legal and regulatory environments, and most importantly, increasingly affluent and enthusiastically pro-Western consumers. By the end of 2000, Poland became the Central European (Central and Eastern Europe is defined here as Poland, Czech Republic, Slovakia and Hungary) darling of Western investors who in the first half of 1999 alone transferred over $5 billion (all monetary values are in US $ unless indicated otherwise) in foreign direct investment (FDI); a significant proportion of this has been invested in retail and distribution sectors. By December 2000, German conglomerates Metro AG and Tangelmann (the third and fourth largest global retail companies respectively) had opened over 100 outlets and 8 malls in several locations. An indication of the future of the Polish retail industry can be found in Janki near Warszawa where the

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first suburban mall was opened in 1999 with IKEA, Géant, Extrapole, Cubus, Office Depot, Euro, Vision Express, McDonald, Massa and Praktiker, among others, and a combined floor space of over 70,000 m^2. In addition to new foreign investment, Polish retailers became a takeover target.

The objective of this paper is to review some of the major trends in Polish retailing from the perspective of both foreign investment and domestic competition. First, the objectives and legacy of the centrally planned economy are examined. Second, the principles of transition to a market economy are assessed in the context of privatisation of the retail sector including a closer examination of the role of FDI in this process. The theoretical discussion provides a background against which changing consumer demand and responses of both foreign and domestic investors are reviewed. The last section of the paper attempts to summarise the major processes involved in the transformation of the Polish retail sector from a centrally planned to market economy.

A word of caution is necessary about the data sources. It is quite customary to complain about the data sources in Central and Eastern Europe. Even though more than ten years after the momentous developments in 1989 many of these complaints are no longer justified, microeconomic data are still difficult to obtain. Now, however, the reasons have nothing to do with state propaganda, the notorious secretiveness of the communist authorities or the censor's scissors but with the speed with which the Polish economy and retail in particular are developing (Chain Store Age 1997). The pace of investment is such that statistics gathering institutions are not able to collect and process data fast enough. In many instances, the radical transformation of the economy did away with any forms of monitoring beyond the most rudimentary in the belief that development is more important than planning. For these reasons, the data used in this paper are far from complete. Nonetheless, the most important trends are clearly discernible.

Centrally Planned Retailing

Like all other sectors of the socialist economic model, retailing was regulated and controlled by the Ministry of Central Planning. Everything from store location, distribution, staffing, and all the way down to pricing was under control of the central planning authorities in Warsaw (Riley 1997a, 1997b). More importantly, all sectors of the economy were ranked and evaluated on a scale reflecting their social "desirability" and political "correctness" in accordance with the principles of Marxist-Leninist society. Accordingly, the highest priority in a Soviet-style society were heavy industries and mining, the key sectors which "produced" most of the working class and the proletarian vanguard of the new society.

The translation of the often vague communist dogma into a workable blueprint for the central plan produced a hierarchy of investment priorities which relegated any reference to individual needs, tastes or preferences to the bottom of the scale (Michalak 1998). All services were regarded as essentially parasitic and unimportant. Consequently, retailing found itself not only at the bottom of investment priorities but also the relatively well developed retail sector inherited from pre-war free market Poland and the so-called "new territories" in the west of Poland (the former eastern provinces of Germany -- Silesia, East Pomerania and parts of East Prussia) was systematically dismantled or purposefully destroyed. All enterprises were nationalised and other resources and capital were distributed to other sectors. The words like "merchant" or "retailer" became derogatory terms often used to describe the "enemies of the people" or "social parasites".

These are the principal reasons for the characteristic look and feel of "East European" retailing in Poland and other countries occupied by the armies of the Soviet Union. These are also the reasons why the huge housing estates consisting of nearly identical "blocs" comprising the suburbs of Warsaw, Prague or Budapest have almost no other shops than shopping centres located near major intersections (Chudzyńska 1981). Because those suburban shopping centres were often poorly supplied with goods, most shopping was oriented to city centres serviced by a heavily subsidised public transport system rather than in the housing estates. Typically, about 40 to 50 % of all retail outlets and nearly 100 % of higher order retailing was located in the centres of large cities. Many smaller cities had only a few very basic shops. During the 1970s, Poland and Hungary experimented with a number of free market reforms. The most tangible results of these reforms in retail was an improvement in the quality and range of merchandise as well as the addition of some basic shops in the centres of the largest housing estates.

Much retail activity was organised through quasi-retail outlets established in many large industrial plants. In keeping with the tradition of 19th century patronage by large industrial groups such as Krupp or Thyssen in Germany and Scheibler or Poznanski in Poland, many consumer goods and difficult-to-obtain foodstuffs were distributed to workers at subsidised prices directly at the factories. Central planners did not have to worry about the impact of these sales on the rest of the retail sector since none of the stores operated in market conditions; there was no rent, no price flexibility, turnover, profit or supply to worry about. Retail outlets were there strictly to distribute goods at prices determined by the five year plan (Werwicki 1992). Naturally, the demand side of the economy was much more difficult to control. Consequently, a huge "grey zone" of quasi-retailing has developed that provided Central and Eastern Europe with its unique "flavour" of street vending, markets at major railway stations, and the "legendary" illegal cross-border retail traffic between the "bloc" countries. The near-collapse of the Polish economy in the late 1980s left the retail sector in a state of complete ruin and neglect.

Transformation to a Market Economy

It is not surprising that retailing became one of the fastest changing and most visible sectors of the transforming economy. The "shock therapy" instigated in 1989 by the first non-communist government in Eastern Europe since the war introduced radical economic reforms aimed at re-capitalisation of all sectors of the economy, macroeconomic stabilisation including currency convertibility and hard budget constraints, price liberalisation, a privatisation programme, and relaxation of trade and investment restrictions (Baltowski and Mickiewicz 2000). One of the most important reforms was the privatisation of state-owned industries.

The privatisation of state enterprises in Central and Eastern Europe was a unique event that will probably never happen again on such a scale. The theoretical tenets of the reforms undertaken in Poland and other former communist countries were based in the neo-classical principles of the free market economy. In particular, public choice theory formed the basis of the theoretical assumptions and implementation (Baltowski and Mickiewicz 2000). According to this theory, privatisation liberates enterprises from the burden of political involvement and non-market economic guidelines devised by government bureaucracy. The mass privatisation schemes eventually implemented reduced the capacity of politicians to influence the activity of enterprises (Tittenbrun 1995). Consequently, the most important consequence of privatisation was the decoupling of production and distribution processes from the political sphere.

In the absence of sufficiently large domestic capital stocks, FDI has been regarded as crucial to the successful privatisation and transition toward a market economy. As a result, almost without exception the governments of the Central and Eastern European countries have advocated and enacted policies actively encouraging outright sale or acquisition of a controlling interest in existing state enterprises, including retailing, to foreign investors. Any study of FDI has to take into account the various forms of foreign investment available to the investors (Dawson 1994). In the case of Poland, there are four major types of investment permitted by the government. They include joint ventures, wholly owned subsidiaries, acquisition of controlling interest, and portfolio investments. FDI in retailing principally took the form of wholly owned subsidiaries and most recently joint ventures.

At the end of the 1980s, around 80 % of all retail stores in Poland were either co-operatives or state-owned. The remaining 20 % were privately owned stores. This relatively high percentage is misleading because most private stores were very small -- in many cases less than 50 m^2 in size. In spite of their number, together they accounted for less than 5 % of total retail turnover. It is also worth noting that the term "co-operative" as used in Poland during the communist rule can be deceptive. Polish co-operative stores were fully owned by the state not by free self-governing associations involved in autonomous economic activity. In short, the vast majority of retail turnover, over 95 % of the market, was accounted for by state-owned stores (Taylor 2001).

The so-called Big Bang Reforms enacted in Poland in 1990 changed all this. These acts of the Polish parliament, which allowed privatisation of state assets, permitted for the first time since the Second World War the creation of a large number of private stores. However, there was one important problem. Poland had been starved of domestic capital and a professional entrepreneurial class simply did not have the assets to go ahead with a straightforward sale of state-owned stores to the highest bidder. Instead, the so-called "small privatisation" was devised and implemented between 1990 and 1991 in the retail sector (Earle et al 1994). "Small privatisation" limited the tender to the former employees of the state retail sector -- the shopkeepers, sales and managerial staff. Furthermore, the state retained the ownership of fixed assets including the real estate and land instead of leasing them to the successful bidders. The new shopkeepers bought only assets such as store equipment, goods and stock, and were given a free hand in running the store. Clearly, such "privatisation" leaves much to be desired since the new retail management is reluctant to invest in store premises that do not belong to them; expansion and takeovers are difficult; and consequently much needed consolidation is slow. Nevertheless, even though this type of privatisation does not create pure market conditions, it served as a useful starting point in transforming a state-run sector into a large and independent retail organisation (Baltowski and Mickiewicz 2000).

In a market starved for consumer goods and choice, retailing quickly became one of the fastest changing and growing economic activities. Unlike other sectors of economic activity, basic retailing did not require vast capital investment, distant investment horizons or sophisticated technologies. Many Poles took the opportunity presented by the wide open borders, the tacit encouragement of the authorities and an eager public. During the first years of the transition, many thousands of new retail outlets were opened up (Table 1). In the period between 1990 and 1995, most stores were privatised and communist monopolies and co-ops broken up. Within five years, the number of stores had nearly doubled. The fastest growing categories were general foodstuffs, clothing, bookstores, car dealerships and gas stations. Some categories declined including cosmetics, liquor, household appliances and footwear. There was also a small but significant increase in the number of rural stores (Table 1). The increase outside cities was particularly welcome since retail offerings had been extremely limited in the Polish countryside. Moreover, very few foreign investors were interested in investing outside the large cities.

Since there was no effective regulation of the retail sector, this period was characterised by what can only be termed a "wild-east" phase. The streets around major communication terminals, underground passages, parks and football stadiums became covered with thousands of little stalls, displays and cars with open trunks all operated without any kind of permit or license. Goods were often sold directly from the trunk of the owner's car who had just driven back from Germany. Although it is easy for a sophisticated Canadian or West European consumer to notice the grotesque quality of these efforts, they nevertheless served

TABLE 1 Types of Stores: Change between 1990 and 1998

Specification	Change (+) increase (-) decrease		Total
	1990 - 1995	1995 - 1998	
Stores	+ 24,632	- 1,553	450,232
Private sector	+ 28,187	- 1,222	447,500
Over 400 m^2	+ 1,282	+ 415	3,513
Rural	+ 4,335	- 97	101,797
General foodstuffs	+ 20,614	+ 159	147,366
Fruits and vegetables	+ 24	+ 39	6,974
Meat	- 1,081	- 177	14,879
Fish	+ 166	- 45	1,574
Bakeries	- 404	- 143	3,630
Liquor stores	- 2,772	- 192	2,539
Cosmetics	- 4,345	- 81	6,997
Textiles	- 1,941	- 39	4,531
Clothing	+ 5,591	+ 316	35,367
Footwear and leather	- 1,213	- 208	8,495
Furniture	+ 250	- 128	6,589
Household appliances	- 4,839	- 225	7,958
Books and stationary	+ 3,914	+ 29	16,246
Car dealers	+ 2,990	+ 209	13,453
Other	+ 7,678	- 1,067	173,634
Gas stations	+ 2,263	+ 354	7,607
Private	+ 2,106	+ 336	5,756

Source: GUS (2001)

a very useful and important role indeed. They filled the most serious holes in the market and satisfied the most pressing needs and requirements during a period when “official” retailing was near complete collapse.

The period of unregulated growth of retail outlets lasted only as long as the near-hyperinflation at the beginning of the 1990s. The stabilisation of the old currency and subsequent introduction of the fully convertible New Zloty together with the new regulatory environment brought the growth of the alternative retail outlets to a halt. Even though there are still many markets, street vendors and stalls their number declined significantly since the early 1990s. Moreover, many foreign investors brought with them the standards of the European Union (EU) to the Polish retail sector. The entry of the “greenfield investors” put a quick end to the first phase of the transition. One of the most important achievements of the first phase was privatisation and transformation of the domestic retail sector into a reasonably functioning system.

The second phase started roughly with the entrance of the foreign competitors and direct foreign investment into the Polish retail sector. Although a handful of Western firms such as IKEA and Rossmann KG had already entered the market in 1990, it was not until 1994 that several large conglomerates invested substantial amounts of capital in Poland. By 1998, there were over 1,600 stores

TABLE 2 FDI in Poland by Economic Sector (as of 31 December 2000)

Sector	1998	1999	2000	Planned
Manufacturing	15,912.1	17,318.4	19,462.7	4,406.4
Finance	4,802.9	7,861.8	10,392.7	743.1
Wholesale and retail	2,942.7	3,398.4	3,962.6	1,187.6
Construction	1,685.3	1,930.3	2,490.6	938.7
Transport, storage, communication	719.3	1,891.7	5,568.8	537.1
Hotels, restaurants	429.8	423.1	696.8	215.0
Community, social and personal services	397.8	1,585.3	1,614.4	584.6
Power, gas, water supply	241.8	473.0	1,058.6	1,413.2
Real estate, rental, business activities	112.0	190.2	451.4	1,233.0
Agriculture	24.1	30.1	44.8	17.0
Quarrying and mining	11.8	68.3	28.3	4.4
Total FDI of over $1 million	27,279.6	35,171.0	45,772.0	11,280.1
Estimated total FDI of below $1 million	3,371.6	3,741.6	3,620.5	
Total FDI	30,651.2	38,912.6	49,392.5	

Source: PAIZ (1999, 2000, 2001).

TABLE 3 FDI Stocks in Central and Eastern Europe - Spring 2001 (US$ billion)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Poland	0.1	0.4	1.4	2.3	3.8	7.8	11.5	14.6	22.5	28.0	37.0
Czech Rep.	0	0.6	2.9	3.6	4.5	7.1	8.5	9.8	12.5	17.5	21.5
Hungary	0.6	2.1	3.6	5.6	7.1	11.9	15.0	16.1	17.5	19.3	21.1
Slovakia	na	na	na	0.5	0.8	1.1	1.4	1.6	2.0	2.1	3.4

Source: Business Central Europe (2001), Vienna Institute for International Economic Studies (2001).

of over 400 m^2 floor space of which a majority was foreign owned. Metro AG is the largest foreign investor in Polish retail and wholesale sector. Up until 2001, the company had opened 65 retail centres and 8 malls M1, and had created over 18,000 new jobs in Poland. The company has invested nearly $1 billion since the beginning of its activity in Poland. The total FDI in the retail and wholesale sector was estimated at nearly $4 billion by the end of 2000 (Tables 2 and 3). However, these figures probably significantly underestimate the flow of FDI since many companies are very protective of their investment plans. The Polish Agency for Foreign Investment (PAIZ) estimated that probably around $3.9 billion had been invested in the wholesale and retail trade sector by 2001, and a further $1.1 billion had been pledged by various companies. Clearly, FDI plays a major role in the Polish retail and wholesale market. It is, therefore, necessary to examine in more detail trends in this type of investment.

The total FDI amounted to nearly $50 billion by the end of 2000 (PAIZ 2001). According to PAIZ, as of December 2000 the inflow of FDI has reached $49.7 billion and there were in total 885 investors who had invested more than $1 million. Clearly, Poland had become one of the most attractive markets in Central Europe (Table 3). In terms of the total value, Poland received more FDI

TABLE 4 Origin of FDI in Poland by Country (31 December 2000) - Spring 2001

Rank	Country	1998	1999	2000	Planned	#
1	France	2,398.9	3,854.7	7,901.0	1,058.1	70
2	USA	4,911.2	5,152.9	7,350.3	2,944.5	130
3	Germany	5,117.3	6,077.3	5,903.7	1,680.2	209
4	Netherlands	1,878.9	3,233.2	4,224.9	711.6	66
5	Italy	2,037.6	3,208.0	3,417.6	1,215.4	65
6	Multinational	1,813.1	2,589.3	2,296.7	541.6	21
7	UK	1,929.5	2,068.0	2,181.1	269.0	35
8	Sweden	691.5	789.2	2,027.9	688.3	53
9	South Korea	1,412.4	1,616.3	1,617.4	26.5	5
10	Russia	958.0	1,112.2	1,286.4	301.0	2
11	Austria	758.3	799.4	1,172.2	160.1	38
12	Ireland	226.1	813.7	1,025.0	0	3
13	Switzerland	666.2	634.6	757.5	315.4	19
14	Denmark	558.4	541.4	741.2	80.6	34
15	Belgium	156.8	289.8	587.5	128.3	23
16	Greece	3.6	1.5	501.5	4.0	2
17	Norway	455.8	456.0	491.7	122.2	14
18	Japan	198.3	374.4	476.0	95.5	11
19	Spain	62.3	259.3	377.9	0	7
20	Portugal	147.2	288.2	338.7	324.8	5
21	Finland	191.2	214.0	256.0	63.0	20
22	Canada	235.6	259.0	209.2	16.0	19
23	Croatia	138.0	173.0	173.0	16.0	2
24	Turkey	48.0	100.1	100.1	58.0	4
25	Israel	5.4	5.4	83.4	20.0	5
26	Australia	98.1	68.0	70.0	16.0	3
27	Czech Rep.	68.4	51.2	51.2	0	4
28	China	25.0	45.0	45.0	45.0	2
29	South Africa	25.0	25.0	35.0	95.5	2
30	Liechtenstein	29.5	29.5	31.9	27.0	4
31	Luxembourg	2.3	11.6	17.2	0	3
32	Malaysia	0	10.7	10.7	2.2	1
33	Slovenia	6.0	6.0	10.0	50.0	1
34	Cyprus	0	7.2	7.2	6.5	2
35	Taiwan	5.7	5.7	5.7	200.0	1
--	Total over $1 mln	--	--	45,772.0	11,280.1	885
--	Estimated value below $1 mln	--	--	3,620.5	--	--
--	Total FDI	--	--	49,392.5	--	--

Source: PAIZ (1999, 2000, 2001).

than Russia or, indeed, the entire CIS combined. The largest group of investors was from Germany (209), followed by the US (130), France (70), the Netherlands (66), Italy (65) and Sweden (53) (Table 4). However, in terms of the total value of investment, the largest investor in Poland was France with $7.9 billion followed by the USA ($7.3 billion) and Germany ($5.9 billion). However, the United States has already pledged a further $2.9 billion which would place it ahead of France

TABLE 5 Regional distribution of FDI in Poland by Voivodship -- Spring 2001 (number of locations)

No.	Voivodship	1998	1999	2000
1	Mazowieckie (Warsaw)	449	483	649
2	Slaskie (Katowice)	231	268	333
3	Wielkopolskie (Poznań)	216	231	269
4	Dolnoslaskie (Wrocław)	153	166	218
5	Pomorskie (Gdańsk)	139	146	176
6	Malopolskie (Kraków)	101	111	151
7	Lodzkie (Łódż)	109	118	150
8	Kujawsko-Pomorskie (Bydgoszcz)	76	81	104
9	Zachodniopomorskie (Szczecin)	72	77	101
10	Lubelskie (Lublin)	48	56	62
11	Podkarpackie (Rzeszów)	48	50	61
12	Warminsko-Mazurskie (Olsztyn)	43	46	55
13	Swietokrzyskie (Kielce)	44	45	52
14	Lubuskie (Zielona Góra)	40	43	52
15	Opolskie (Opole)	35	36	41
16	Podlaskie (Bialystok)	30	31	39

Source: PAIZ (1999, 2000, 2001)

with its $1.0 billion pledge or Germany with $1.6 billion. It is worth noting that many investors classified as "multinational" – $2.2 billion and a further $0.5 billion planned -- are, in fact, German-based. In any case, the three most significant sources of capital for Poland were Germany, France and the United States.

At present, the regional distribution of FDI reflects the increasing economic polarisation in Poland between the much more highly developed western regions compared to the eastern provinces (Table 5). By far the most favoured location is Warsaw with 649 investments worth over $1 million, followed by Katowice (333), Poznań (269), Wrocław (218), Gdańsk (176), Kraków (151) and Łódź (150); all of them except Warsaw and Łódź are located in either the western, south-western or north-western provinces of Poland (Table 5).

Changing Investment Conditions

Foreign investors are attracted to Poland by inexpensive labour, good market access, historical links with the West, low capital costs, a large national market (Poland has over 38 million inhabitants), and proximity to the EU and the rest of Central and Eastern Europe. According to partial data collected for this survey, there were 105 large hypermarkets owned by foreign firms in Poland in 2000. The sector is experiencing dynamic growth as investors fight for market share. It is estimated that the Polish market can support around 180 to 200 hypermarkets before it reaches saturation. At present rates of construction, this is likely to be achieved by 2005. The main competitors are Carrefour, Géant, Auchan, and

Leclerc (France), Real and Hit (German), Ahold (Netherlands) and Tesco (UK). By comparison, there were only 10 Polish-owned supermarkets of comparable size at the end of 2000. In all, this country of over 38 million inhabitants is served by around 115 supermarkets -- clearly a very small number by standards of developed market economies. However, foreign and domestic firms operate a large number of medium-sized retail outlets. In the 5 year period from 1992 to 1997, the number of Western owned retail points increased from 330 to 950 (Boruc 1998a) -- i.e. on average there were 2 new foreign supermarkets opened every week. It is expected that the number of both large and smaller retail outlets will increase very significantly. According to various data sources, foreign investors are planning to add another 360 large hypermarkets and medium-size outlets in the next 1 to 2 years. If figures provided by Tengelmann are taken at face value, this firm alone is planning to open around 1000 retail outlets in the next few years (Mojkowski 1997). Of course, not all of these retail locations will be new. It is difficult to evaluate how reliable these figures are; however, if past trends are anything to go by, there will be very fast growth in the retail sector in Poland in the next two to three years.

The faster than expected growth (i.e. as expected by many Western experts) of the retail sector, in particular its foreign investment component, is the result of surprisingly strong demand. In 1998, Poland ranked around fifth place among CEE countries in terms of GDP per capita PPP (Business Central Europe 1998). It is estimated at $6,406, or behind that of Slovenia ($11,724), the Czech Republic ($11,566), Slovakia ($8,585) and Hungary ($7,318) but ahead of Romania ($4,378) which is comparable in terms of population to Poland, Ukraine ($2,175) and Russia ($4,378) which is much larger (this estimate was made before the collapse of the Russian currency in October 1998; since then, depending on the source, the Russian currency lost between 40 to 60 % of its PPP value while the stock market lost 95 %). More importantly, Poland offers foreign retailers much better long-term prospects with robust economic growth (even though the decline in trade with the troubled Russian economy and with Ukraine will in the short term slow this growth down by a percentage point or two). Associated with this growth, there will be a corresponding increase in real wages (especially in state industry -- cf. 6.5 to 7.5 % in 1997 and around 5.5 % in 1998).

Structure of Consumption

Poland is a vast market with over 38 million potential consumers. Poles under 30 are consumption-oriented and heavily influenced by Western fashions in their choice of brands. Older Poles, particularly those over 40 years of age, are much more traditional and, by and large, prefer known and tested products. Women make up 51.4 % of the population and the ratio has remained virtually unchanged since the 1970s. Comparatively more women live in cities -- for every 100 men, there are 109 women -- while in rural areas, the proportion is more balanced.

Poles embarked upon a spending spree after years of regulation and shortages (Mojkowski 1997). With bank credit at an all time high, household debt amounted to $5.3 billion in 1997 alone. A relatively small but fast growing upper-middle class benefiting from investment dividends, stocks and privatisation has boosted demand for luxury goods and services. There is also the legacy of the communist past -- the "grey economy"; every third Pole participates in the "grey zone" either as a producer or as a buyer. Although there are no exact statistics available, the low estimate is that this "grey economy" was worth somewhere between NZL 8 and 10 billion in 1997. Polish consumption has gone through an accelerated consumer cycle which in the West by contrast took decades (Mojkowski 1997). In the 5 years since 1992, i.e. since the Polish economy stabilised enough to become attractive to foreign investors, Poles went through several consumption cycles. Early in the 1990s, they were making up for the lost years buying stereos, VCRs and other household appliances; then came satellite dishes; and finally this was followed in the mid-1990s by house renovations and improvements, cars, new homes and increasingly, foreign travel. There are also various cultural and social factors which have contributed to a growth of retail sales such as convenient opening hours that include late evenings, nights, weekends and Sundays. Even the Pope's outspoken stand against Sunday shopping did not dissuade the overwhelmingly Catholic Poles to slow down their consumer spending.

The structure of consumer spending in Poland is fast approaching that of Western Europe. The proportion of income spent on food items is decreasing in favour of other goods and services (Boruc 1998b, 1999). The consumption of food, non-alcoholic and alcoholic beverages declined from 46.6 % in 1990 to 38.2 % in 1999. At the same time, there was an increase in the consumption of goods and services from 49.8 % in 1990 to 57.6 % in 1999. Poles spent increasingly on brand name products. The growth in the consumption of in home equipment and health services has been particularly rapid. Significantly, individual consumption expenditure has risen every year since 1993. At least theoretically, this growth should last until Poland reaches EU consumption levels.

As mentioned above, there has been a steady increase in the wealth of individual Poles since 1989. Although GDP per person is still relatively low by EU standards, the relative wealth can also be measured in terms of durable goods consumption. The number and quality of durable goods purchased by individual households has increased significantly. During the period between 1993 and 1999, the proportion of households owning a colour TV set rose from 77.8 to 98.9 %, the proportion owning a VCR from 44.1 to 56.6 %, a computer from 8 to 11.5 %, a washing machine from 55.6 to 70.2 %, and a microwave from 4 % to 14 %. Often, this reflected the replacement of low quality goods purchased during the communist period with modern brands.

The main difficulty in selling consumer goods in Poland is distribution. Although distribution networks do exist in Poland, they vary greatly in their structure and scope. Most have been pieced together only since 1989 and are product specific with different layers of agents, wholesalers or retailers. Regulations do not exist beyond those needed for establishing a legitimate business. As a result, the distribution of consumer goods is very difficult even for large producers who have to keep their products on the shelves in hundred of thousands of retail stores. Many foreign investors find it necessary to establish their own distribution network for their operations in Poland. On the plus side, labour and trucks are readily available at competitive prices.

Logistics

Logistics costs make up between 5 and 20 % of total costs in a typical retailing or manufacturing company in any highly industrialised country. Whereas ten years ago, a typical retailer in the UK would have had a month's supply of goods in stock, today that margin has been cut to a week. All this poses a substantial challenge to Polish and Central European firms in general. If they are to find a place in the new pan-European supply chains that are beginning to invest in the region, they will need to bring their logistical organisation and technology up to the standards of the multinationals. More generally, their chances of competing in the EU depend upon whether they can keep pace with the state-of-the-art techniques now entering retailing and other sectors in the West.

Some changes are already taking place. Many of the large international logistics providers, such as the French FM Logistics, the Danish Maersk or the British Tibbit & Britten already operate in the region (Business Central Europe 2001). Invariably, their main clients are large multinationals, particularly in the retail and consumer goods sector, which have driven the logistics industry in the West. The arrival of these firms in Poland has fed demand for subcontracting (or outsourcing). The logistics industry is also starting to benefit from Poland's position as a transit route to the large markets in Eastern Europe. Many of the large warehouses built in Warsaw were designed to store products on their way to the east.

Logistics could benefit Polish retailers immensely. Unfortunately, according to a recent survey by the Polish Institute of Logistics and Warehousing, the only activity frequently outsourced by Polish companies is transport. For example, only 4 % of companies outsource warehousing. Using modern logistics techniques, they could trim their costs by an average of 10 %. Other surveys also confirm that locally owned firms have a substantial scope for cost cutting. Poland's Institute of Logistics and Warehousing suggests that logistics represent 12.5 % of the total costs of Polish distribution companies. This compares with only about 7 % on average in the West.

Lack of awareness and logistical skills are not the only obstacles to efficient distribution and supply of retailers. Multinationals and domestic companies are severely hindered by the lack of infrastructure. This is changing rapidly for warehousing. For example, during 2000 an extra 185,000 m^2 were built in Poland, representing a 43 % increase on the existing stock. The new facilities are very different from those built during the communist era. The new warehouses are very large and equipped with modern security and maintenance facilities. Most importantly, they are located on or very near major transportation routes. Unfortunately, the quality of the roads in Poland is very low. For example, Poland has only half the road mileage of Germany and the highway network is virtually non-existent. Although the government has designed a comprehensive plan for road and highway development, its implementation is less than satisfactory. There are many competing explanations why there is so little progress; however the most important reason is quite simple -- the huge capital investment required to bring Polish roads up to EU standards exceeds anything that either the Polish government or the private sector can afford. Financial services are too primitive to provide the necessary liquidity while the political system is still too fragmented to come up with a realistic solution. It is hoped that EU membership which is envisaged sometime after 2004 will bring infrastructure grants capable of improving the road network.

Competition between Domestic and Foreign Retailers

As indicated above, there were over 1,600 foreign-owned retailers in Poland by the end of 2000. This is a very small number, around 0.37 %, of the total size of the retail sector in Poland (Taylor 2001). However, their significance in providing examples of Western European standards far exceeds their number. According to Taylor (2001), in 1998 foreign investors owned only 3.7 % of the total retail space in Poland. However, their share of the total retail turnover has been increasing steadily, reaching 8.3 % in 1998 (Boruc 1999). Moreover, foreign investors have almost completely monopolised the hypermarket and large supermarket format, owning over 90 % of the stores and an even larger share of retail space in this format category (Dawson and Henley 1999).

The effects of these developments are not clear. So far, large foreign investment and chains have been good for Polish consumers. They have improved standards, forced prices down by some competition and filled in obvious gaps in the market (Werwicki 1992; Riley and Niznik 1994). However, there is a fear that with the accession of Poland to the EU they may become a problem, e.g., by favouring their own, mostly foreign, brands over domestic products. However, Polish consumers do not seem worried and, according to CBOS (Centre for the Study of Public Opinion in Warsaw), roughly 50 % of Poles have a negative attitude towards greater control of the market and less than 10 % support measures designed to limit foreign competition in retail (Boruc 1998b). Nevertheless, one forecast estimates that if present trends continue, in five year time 50 to 60 % of the Polish retail market may be in foreign hands.

Unfortunately for domestic retailers, a reversal of these trends would require a radical transformation of the outdated and short-sighted practices used in Poland. Here is an anecdotal example from a Polish weekly that illustrates the essence of the problem (Boruc 1998a). In 1997, in two-medium sized cities in the south of Poland a rumour spread that some German investors were planning to build several supermarkets in the area. Understandably, alarmed local retailers banded together and after a stormy session, decided to join forces and face the challenge together. They decided to spearhead the competition by investing in two large supermarkets.

With great enthusiasm and energy, they put the money together, found suitable sites, and arranged for the builders and suppliers to commence the work. In a short time, everything was in place to face the foreign competition head-on. However, when the foreign investors changed their mind and decided to locate somewhere else, the alliance collapsed, even though the local retailers would have profited significantly from pursuing their plans, with or without the competition. This is a typical story illustrating the problems that have dogged Polish retailing. The inertia inherited from the centrally planned economy still continues in many sectors and parts of the country.

There have also been attempts to lobby politicians to influence legislation, in effect, by imposing restrictions or tariffs on foreign retailers. So far these efforts have failed because of public opinion, pressure from the EU, and quarrels within various political coalitions and factions. However, the potential is there; after the election to the Polish parliament of two radical anti-EU parties at the end of 2001, several proposals have been made to restrict the growth of hypermarkets significantly. Moreover, since early 1998, the Ministry of Industry began working on a proposal called the "Development Program for Domestic Commercial Activities". It proposed that all retail investments of over 400 m^2 in cities with a population up to 50,000 and 1,000 m^2 in large cities would need to seek a permit from the local authorities. Because local Chambers of Commerce -- including the local retailers -- would have to be consulted -- indeed, the proposal envisaged that they would participate in decision-making, it would probably spell the end of foreign investment in this sector, at least at the present scale. Although the proposal ostensibly argued that the process would transfer decision-making from the central authorities (the proposal was developed before the regional reform), in fact it is a thinly disguised attempt to introduce barriers to entry (Stadelbauer 1999).

There is almost unanimous recognition that it is not possible to limit globalisation and consolidation of the supply-side of the retail market in Poland (Kaser 1995; Knott 1997). The only chance for the Polish retail industry appears to be consolidation. The best solution would be the establishment of a few large Polish chains. Unfortunately, as illustrated earlier, the entrepreneurs and managers of Polish retail firms are not keen on cooperation and see each other rather than foreign competition as the major threat. In the 12 years since 1989, the Polish retail industry has not succeeded in creating a single pan-regional retail company. The closest to it are the so-called "purchasing groups" (grupy zakupowe), of which there are about 10, which negotiate wholesale contracts on behalf of a large number of stores (Boruc 1998b). Even here, however, only a fraction of the industry is involved -- a few dozen wholesalers and several thousand small retailers.

There were around 890,000 retail outlets and 425,000 retail stores in Poland in 1995, increasing to 950,000 outlets by 1998 and 450,200 stores by the end of

TABLE 6 Number of Retail Outlets in Poland between 1990 and 1999

Specification	1990	1995	1998	1999
Total retail sales outlets	469,700	890,000	950,000	na
Stores	237,400	425,600	451,800	450,200
Gas stations	na	5,300	7,300	7,600
Retail outlets per population	81	43	41	na
Stores per population	161	91	86	86

Source: GUS (2001)

TABLE 7 Retail consolidation in Central and Eastern Europe

	Large retail chain as % of the total number of stores	% of retail turnover
Hungary	23	80
Czech Rep.	16	60
Poland	7	30

Source: Boruc (1998a).

1999 (Table 6). The number of retail outlets increased from 1 for every 81 persons in 1990 to 1 for every 41 in 1998, while the number of retail stores increased from 1 for every 161 persons to 1 for every 86 between 1990 and 1999. Although the number of stores seems to have stabilised at about 450,000 by 1999, without some sort of cooperation, joint capital investment, consolidation and cost restructuring most of these small businesses and purchasing groups are not likely to survive. Even though some categories of stores have started to decline (Table 1), Polish retailing is much less consolidated than even its Czech or Hungarian counterparts, let alone its West European counterparts (Table 7).

This archaic structure of Polish retailing is one of the most important reasons for the enthusiasm of foreign investors! They have to watch other foreign investors much more closely than the Polish competition. Even better for them, the few Polish retail networks, such as "Społem" (a co-op with a history dating back to 19th century and which, in nationalised form, survived even the communists), have been broken up into several hundred, usually small, local cooperatives. In spite of this, "Społem" is still easily the largest Polish retail chain with over 7,400 franchises and with a combined floor space of over 1 million m^2. Although "Społem" has started to re-consolidate along regional lines, without significant capital investment and restructuring this, may be too little too late.

In spite of all this, there has been a revival of some domestic retailing. The "Społem" co-op is making a comeback. At least some Polish retailers are consolidating and investing on a pan-regional scale (Table 8). There will be some large consolidations from 1999 onwards. According to some statistics, the turnover of Polish retailers is increasing by a very healthy 20 to 30 % annually (Table 9). There are already examples of some success stories. Thanks to the stimulation

TABLE 8 Examples of Larger Polish Retail Ventures

Name	Location, size, corporate history
Krakchemia	Kraków, Tarnów locations, raised capital by going public. Although this is the only retail chain on the Warsaw stock market, new ones will soon follow. Each of the locations have 5,000 m^2 floor space and next are planned for Nowy Targ and Bielsko-Biala
Duet	Olsztyn, 30,000 m^2, started in 1991, two ex-"Spolem" locations; takeover of "Faktor", fourth store 2,500 m^2; plans to open a network of suburban supermarkets, Tarnów around 50 million NZL, grew by 120 % between 1997-1998
Marko	Bialystok. First store 2,000 m^2; second 4,300 m^2 in Olsztyn. Also 50 % in Massa Company SA. Massa -- two supermarkets 2,800 m^2 in Janki and Siedlce. Two smaller sites in Augustów and Suwalki
Aldik	south-east of Poland, Lublin. 15 stores; started in 1991; suburban markets up to 900 m^2. Plans include a joint venture with other Lublin retailers, new retail centre of 7,000 m^2
Piotr i Pawel	Poznan. In January 1998 opened fourth location – 5,400 m^2. Started in 1990; turnover ca. NZL 100 million. Four locations
Market Pozperito	Poznan; turnover ca. NZL 250 million. Started in 1991; 13 locations, Poznan, Bydgoszcz. 3 large supermarkets "Hipomarket" – Poznan, KoszalinKatowice; 5 discount stores "Raz Dwa". Planned 2 more stores and 1 hypermarket; plans to go public
Mokpol	A coop. During the 1980s a chain of 300 +. Today only 22 survive

Source: Boruc (1998b).

TABLE 9 Comparison of Foreign and Domestic Retailers in Terms of Turnover in 1997

Foreign	NZL million
HIT Hypermarket	839
Plus Discount	619
Geant Polska	495
Elektromis PSH	414
Ahold & Allkauf	388
Billa Polska	371
Real	276
	3,402
Domestic	
PHS	383
PHU Robert	107
PPH Aldik	90
Marko	85
Krakchemia	74
Market Pozperito	71
Piotr i Pawel	62
	872

Source: Boruc (1998b).

provided by foreign competition, there is now, for example, a modern retail centre "Arena" (3,000 m^2) in Wrocław, Poznań's "MM" (2,000 m^2), Warsaw's "Land" (42,000 m^2), and another in Lublin (7,000 m^2), all run by Polish companies.

There have also been some mergers and consolidation of Polish-based retail and wholesale operators especially in the larger cities, e.g. Rast (near Olsztyn), Florczyk brothers (near Kielce) and Mikromarket (near Bydgoszcz). However, it is almost universally expected that small stores or wholesalers will be forced out of the market or bought up by larger, usually foreign, competitors. Probably their only chance of survival is outside the large urban centres.

Conclusions

It is somewhat surprising how rapidly foreign investors have introduced new standards of retailing to Polish consumers. Although retailing in Poland still has a long way to go, it is certain that the structure of the sector will come to replicate that of Western Europe, and while insufficient time has elapsed to allow the development of private national chains, their appearance is probably inevitable (Samiee 1995). Yet, at the same time, the legacy of the past has ensured that state retailing lingers, and, worse still, that old habits and practices die hard. The system of rents, established only after 1989, introduced the all important market mechanism in the most elementary sense of this term. Since then, however, Poland has developed into one of the most dynamic emerging markets, increasingly drawing foreign investment. Even the near collapse of the Russian and Belorus economies did not affect the Polish market very much. For example, after an initial loss of about 5 % of the exchange value against major currencies, the NZL bounced back and at the end of 1998 started to appreciate against the US dollar and the German D-mark to reach a level above its pre-October 1998 exchange rate (i.e., from before the crisis in Russia). More recently, some doubts about the growth of the Polish economy have emerged after the economy came almost to a halt at the end of 2001. Nevertheless, for many people, the annual inflation rate of below 4 % and the stock of FDI of over $50 billion have provided the final proof that Poland has emerged successfully from the hardest part of the transition commenced twelve years earlier. Polish membership in NATO along with the Czech Republic and Hungary has further strengthened the confidence of foreign capital. Although membership in the European Union is a longer term proposition, few doubt that Poland will wait beyond 2005.

Incomes and demand will most likely grow steadily in spite of the recent slowdown. The Polish market is already very closely tied to that of the EU and the rest of the world economy; and the next few years should strengthen these ties even further in particular with its neighbours to the west and south. Although the Polish retail market is far from saturation levels, sooner or later foreign retailers will have to adapt more convincingly to local tastes and preferences. This should lead to the emergence of significant competition among retailers forcing new standards, adaption to local tastes and lower prices. As in neighbouring former East Germany, the novelty of "Western brands" will eventually wear off and, perhaps, this will be a moment when domestic retailers will be able to reclaim at least some of their lost ground. However, at present, this is purely speculative; foreign investment in retailing has a long way to go in Poland before it eventually faces serious domestic competition.

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