Retailing in Slovenia: Current Landscape and Trends

Tanja Dmitrović and Mateja Bodlaj

Abstract

The Slovenian retail market is one of the most concentrated retail markets in Europe. However, the large market power that large retailers exercised in the past has recently dissipated. Deteriorating macroeconomic conditions and changes in consumer behaviour have profoundly affected retail landscape and forced leading retailers to adjust their business strategies.

We begin this country report with a brief sketch of the current economic conditions and the structure of retail industry. The industry is presented through the description of major retailers, distinguishing among food, non-food, and non-store retailing. Next, we turn to recent changes in the retail market brought about by two major forces: economic recession and technological advances, both of which have led to substantial shifts in final consumers' behaviour. Finally, we provide an overview of strategy responses designed by retailers to counteract these challenges.

Keywords

Slovenia, food retail, non-food retail, consumer behaviour, economic recession, multichannel retailing

Prof. Dr. Tanja Dmitrović *(corresponding author)*
Associate Professor of Marketing, Faculty of Economics, University of Ljubljana, Slovenia
(E-mail: tanja.dmitrovic@ef.uni-lj.si)

Prof. Dr. Mateja Bodlaj
Assistant Professor of Marketing, Faculty of Economics, University of Ljubljana, Slovenia

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1 Introduction

Distributive trade is an important sector in Slovenia, contributing 10.5% to the GDP and 12% to total employment in 2012 (Slovenia in Figures 2013). Within the distributive trade industry, retail trade generates approximately 42% of turnover and 50% of employment (Slovenian Chamber of Commerce 2013).

After the initial expansion in the early transitional phase, the Slovenian retail industry underwent a major consolidation in the late 1990s and early 2000s, leading to high market concentration that resulted high market power of retailers. The recession which started in 2009 hit the entire sector heavily. By 2013, this decline was still not subsiding; indeed, in September 2013, retail turnover fell by a further 6% in real terms, compared to September 2012 (Slovenian Chamber of Commerce 2013a). The first signs of economic recovery appeared at the beginning of 2014, when most short-term indicators of economic activity, including turnover in wholesale trade, exhibited growth. Turnover in retail trade stabilised at the 2013 level (Slovenian Economic Mirror 2014) offering some hope that the negative trends may be reversed in 2014.

Many challenges undoubtedly lie ahead for the Slovenian retail industry. We will address some of these challenges and analyse strategic responses offered by retailers. We begin with a short outline of the macro environment and sketch the evolution of the Slovenian retail industry since 1991. Next, we describe the current retail landscape and major retailers. Finally, we turn to changes in consumer behaviour brought about by economic recession and technological development and explain how retailers fight downward trends in performance by revising their business models and marketing tactics.

2 Overview of Slovenia's economy

Slovenia is a small country with 2 million inhabitants and 20,273 sq km, situated at the crossroads of Central Europe, between the Alps and the Adriatic Sea. With its strategic location among Austria, Italy, Hungary and Croatia, Slovenia serves as a bridge among Balkan, Central European and Western European countries, all of which are connected by historical and cultural ties (Doing Business in Slovenia 2013). Slovenia has experienced one of the most stable political and economic transitions in Central and South-east Europe (The World Factbook 2013). According to Inglehart's cultural map, among all countries formerly under a communist or socialist regime, Slovenia is most similar to Western countries in terms of predominant values and lifestyle habits (Mihelič/Lipičnik 2010). In 2004, it became a member of the European Union and was the first transitional country to graduate from a borrower status to a donor partner at the World Bank. In addition, it was the first new EU member state to adopt the euro on 1 January 2007, and it held the EU's rotating presidency in the first half of 2008. In 2010, it became a member of the OECD (Doing Business in Slovenia 2013).

Since its independence in 1991, after the break-up of the former Yugoslavia, Slovenia has been regarded as one of the most successful transitional countries, with the highest GDP per capita in the region and a steady annual growth (Doing Business in Slovenia 2013). Throughout the 1991–2010 period, the GDP increased by 73% in real terms. The highest annual growth was achieved in 2007, when the GDP increased by 6.9% in real terms (Hren et al. 2011). The high economic growth was driven by exports and investment policy, easy access to financing in international markets and relatively high levels of household and government consumption (Doing Business in Slovenia 2013). Consequently, Slovenia had been gradually reducing the gap in its economic development as compared to the EU average until the beginning of economic crisis at the end of 2008 (Hren et al. 2011). In 2009, GDP decreased by 7.9% in real terms. After a moderate economic recovery in 2010 and 2011, spurred mostly by export activity, GDP fell again by 2.5% in 2012. Internal factors continued to impede the economic recovery in 2013 as household and government consumption further declined due to the high pressure to consolidate public finance and stabilize the banking system (Slovenia in Figures 2013; UMAR 2013). However, GDP decline in 2013 somewhat subsided (-1.1%) mainly due to growth in exports in the final quarter of 2013. With reduced uncertainty in the international environment, Slovenia is expected to achieve a moderate 0.5% GDP growth in 2014, owing to a further growth in exports and slower decline in household consumption (UMAR 2014).

In 2013, Slovenia's GDP per capita amounted to 17,128 EUR (UMAR 2014). Despite the economic slowdown, GDP per capita in purchasing power was at 84% of the EU average—higher than any other new EU member state, except Cyprus (Doing Business in Slovenia 2013). Although the unemployment rate remains below the EU average, it increased from 4.4% in 2008 to 10.1% in 2013; it is estimated to stabilise at this level in 2014, and slightly decline in 2015 and 2016 (UMAR 2014). Furthermore, taxes remain relatively high, and the labour market is often seen as inflexible (The World Factbook 2013). Privatisation has lagged since 2002, and the economy has one of the highest levels of state control in the EU. Foreign direct investment has lagged behind the regional average (The World Factbook 2013). The biggest foreign investors in Slovenia's retail are Aldi Süd, E. Leclerc, Eurospin Italia, Lidl International, ÖMV, Rutar and Spar (Doing Business in Slovenia 2013).

In 2012 and 2013, several measures were adopted to stimulate economic activity (e.g., the reduction of enterprises' tax burdens, the introduction of unlimited relief on investments amounting to 40% and the increase of tax relief for R&D) as well as create a more entrepreneurship-friendly environment and reduce administrative barriers. The Slovenian government also adopted several legislative measures regarding the labour market, pension system and banking system (Doing Business in Slovenia 2013). Yet one of the most important measures aimed at consolidating public finance was an increase of the value added tax (VAT) in July 2013. The standard VAT rate increased by two percentage points to 22% and the reduced VAT rate by one percentage point to 9.5%. Retailers were strongly against the VAT increase, arguing that consumer activity would further decline. Retailers subsequently explained that the majority of the VAT increase had not reflected in higher prices, but had been absorbed by lowering retail margins (Pavlovčič 2013).

3 Evolution of the retail sector

Economic transition in Slovenia effectively began in the late 1980s, when changes in legislation allowed for greater private initiative. In the early 1990s, the procedures to establish a privately owned firm were simplified, and the number of entrepreneurs in the trade industry soared. The number of operational wholesale and retail private companies grew from 343 in 1989 to 2,871 in 1991 and 6,404 in 1994 (Potočnik et al. 1995). About half of them were retail companies. Small convenience stores popped up everywhere. Product variety and assortments available to consumers significantly increased, and prices at small independent grocers were often lower than in the large state-owned firms. Large retail companies gradually adopted consumer-oriented strategies, and in the early years of the transition the entire retail industry underwent substantial changes, including privatisation.

The growth trends in the number of retail companies reversed in the second half of the 1990s, when the consolidation of the retail sector was initiated. The most prominent changes happened in grocery retail. Mercator, the largest Slovenian retailer, acquired several medium-sized (mostly regional) retailers between 1998 and 2003, Engrotuš (a Slovenian start-up firm) experienced rapid growth, and a Slovenian subsidiary of Spar opened several new stores. Their sales growth was fuelled by increases in number of outlets as well as by higher sales per outlet.

Consequently, the concentration ratio of the top three firms in grocery retail rose to 64%, the second highest ration in Europe (IGD 2007). Large retail chains quickly modernised their operations, catering to the growing demand from increases in consumers' purchasing power.

Mercator developed innovative operational strategies that put the group on par with the most advanced Western European retailers while giving it a competitive advantage among leading grocery retailers in the Balkans (Research Monitor 2008). Spar Slovenija remained focused on grocery retail, but Mercator and Engrotuš diversified into other retail sectors. Mercator subsidiary firms M-Tehnika (technical retail), M-Pohištvo (furniture), Modiana (textiles) and Intersport ISI (Intersport franchise) became important players in their respective retail markets. Engrotuš added to its core business drugstore chain (Tuš drogerije) and entertainment centres (bowling alleys, restaurants and movie theatres).

On the other end of the spectrum, micro firms could not keep up with the increasingly efficient and powerful chains, and by the new millennium most of them were forced to exit the market. Their decline continued during the next decade, and the number of small stores (with area less than 100 m^2) fell from 1,505 in 2002 to 517 in 2009. By 2010, the total number of stores in grocery retail stabilized at about 1,600 stores. About one third were small convenience stores (< 100 m^2). Large supermarkets and hypermarkets (> 1,000 m^2) accounted for about 10% of the total number of stores (AC Nielsen Retail Census 2010).

Large retailers' growing market power initially improved supply chain efficiency to the benefit of consumers, but it soon led to strained relationships with suppliers, especially with smaller firms without the countervailing market power. More and more anticompetitive behaviour complaints were voiced, and finally, in 2007 and 2008, the Slovenian Competition Protection Office initiated several lines of inquiry focusing on the top three grocery retailers (Competition Protection Office 2007; 2008). Alleged anticompetitive business practices included the abuse of a dominant position (by Mercator), collusive behaviour, and foreclosure (by Mercator, Spar Slovenija and Engrotuš). All investigations were closed in 2009, when large retailers—forced into a corner—proposed a new code of conduct within supply chains and made commitments that would preclude future anticompetitive behaviour (Competition Protection Office 2009).

In the second half of the 2000s, two foreign discount retail chains—Hofer (a subsidiary of Aldi-Süd) and Lidl—entered the market, but at first, their market shares remained low as many Slovenians were prejudiced against making their purchases at discounters. Thus, both Hofer and Lidl adjusted their business models to cater to the tastes of Slovenian consumers. Both firms augmented their assortments with a range of technical products, textiles, as well as some Slovenian and multinational brands. This strategy was successful, enabling discount chains to increase their market shares over the next few years to become important players in the market. At the time of Lidl's entry in 2007, 30% of consumers reported that they visit a discount store at least once a month; by 2010 this share grew to 62%, and for 8% of consumers a discount chain represented their main shop (Nielsen Shopper Trends 2010). In 2013, Lidl and Hofer ranked as the fourth and fifth favourite stores, with 12% and 11% of votes respectively, after Spar with 30%, Mercator with 18%, and Engrotuš with 14% of votes (Južnič 2014).

The economic recession severely affected the trade sector. Retail turnover in the first nine months of 2013 was 15.6% below its 2008 level (Křižnik 2013). The recession profoundly changed the main retailers' market positions as consumers have become much more prudent with their purchases, resulting in overall lower expenditures on grocery and non-grocery goods as well as changed structures in purchases. In grocery retail, both Lidl and Hofer experienced fast growth, and in early 2013 the estimated combined market share of hard discounters (e.g., Hofer, Lidl and Eurospin) amounted to as much as 18–20%, showing a 4 to 5 percentage point increase over the previous year. Among the "Big Three" retailers, Mercator suffered the most: its self-reported grocery market share declined from 34% in 2010 to about 31% at the beginning of 2013 (Mercator Annual Reports 2010–2012).

Non-grocery retail was hit even harder, as expenditures on non-essential goods, such as electronics and home and garden appliances, were severely reduced when the amount of disposable income declined (Retailing in Slovenia, 2013). The largest retailer, Merkur, undertook severe business restructuring due to financial problems caused by an unsuccessful MBO attempt. Several firms in furniture and technical retail exited the market while others were acquired by foreign firms (e.g., furniture retailer Lesnina was bought by Austrian XXXLutz, and internet retailer Mimovrste was acquired by Dutch Netretail Holding).

The outlook for 2014 is mixed. The Slovenian Chamber of Commerce warns that the situation might further deteriorate (Križnik 2013). Euromonitor International predicts that, once the economy starts improving, retailing in Slovenia is also set to recover. The highest growth rates are anticipated in non-store retailing, as this is the most underdeveloped channel, while non-food retailing, which suffered the most during the economic crisis, should also show improvement (Retailing in Slovenia 2013).

4 Current retail landscape

In 2012, companies in Slovenia generated approximately 12.2 billion EUR of turnover from the sale of goods in retail trade, which accounted for almost 50% of total turnover from trade activity in Slovenia (Slovenia in Figures 2013). Total trade activity (NACE section G: Retail trade, wholesale trade, and repair of motor vehicles) generated approximately 35% of total turnover and around 12% of total value added in the Slovenian economy. With the second largest share in total value added, trade activity significantly impacts the development of the Slovenian economy. The largest annual declines of value added in the trade industry were observed in 2009 (-8.7%) and 2012 (-4.2%). The share of value added generated by trade activities in GDP in 2012 was 10.5% compared to 11.3% in 2008 (Slovenia in Figures 2013). Companies operating in section G 47 (Retail trade, except with motor vehicles) employed 49.4% of all employees in trade activity, generated 41.7% of total net sales in trade industry and created 29,964 EUR of net value added per employee (Slovenian Chamber of Commerce 2013).

As Table 1 indicates, turnover in retail trade in 2012 lagged behind the pre-crisis level of turnover generated in 2008. The largest annual decline of turnover occurred in 2009 (-8.6%), when the confidence indicator in retail trade was the lowest (Business Tendency 2013), followed by a significant increase of turnover in 2011 (7.4%). However, another decrease of turnover was observed in 2012 (-1.3%). In terms of commodity groups, the largest share of turnover in 2012 occurred in the sale of non-food products (42.3%), followed by the commodity group food, beverages and tobacco (28.2 %). In comparison to 2008, the relative share of turnover of food, beverages and tobacco increased, while the relative share of non-food products fell (Slovenia in Figures 2010–2013).

Table 1: Turnover in retail trade and commodity groups during the 2008–2012 period

	2008	2009	2010	2011	2012
Turnover (1,000 EUR)	12,585,485	11,500,147	11,492,161	12,343,174	12,186,329
Commodity groups (%)					
Total	100.0	100.0	100.0	100.0	100.0
Food, beverages and tobacco	25.5	29.4	28.9	26.8	28.2
Non-food products	45.8	45.8	44.0	42.5	42.3
Fuels	15.1	12.1	14.2	16.9	18.2
Motor vehicles	13.6	12.7	12.9	13.8	11.3

Sources: Slovenia in Figures (2010–2013)

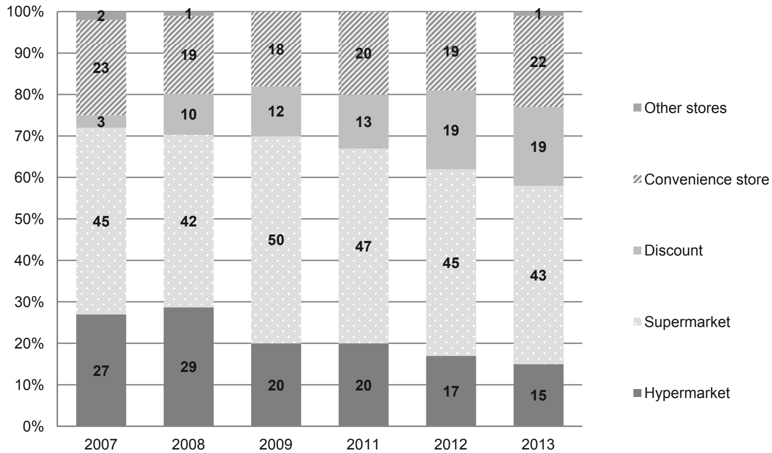
In the last quarter of 2013 and the first months of 2014, the data are somewhat more encouraging: in the last quarter of 2013, the wholesale trade turnover increased (+3.7%) compared to the same period of the previous year, while decline in total retail trade has slowed down (-0.2% in January 2014 compared to January 2013) (Eurostat 2014).

According to the available data, 11,502 retail stores were operating in Slovenia in 2007, of which the majority offered non-food items (63.3%), followed by retail stores with food, beverages and tobacco (24.8%) and motor vehicles and fuels (11.9%) (Rapid Reports 2008). In 2010, Slovenia—with its 1.05 m^2 of sales area per capita and 3,800 EUR of turnover per m^2

of sales area—lagged behind the European countries with the highest level of market development and sales productivity (i.e., Luxembourg, Norway and Switzerland). In particular, sales productivity in Slovenia in 2010 represented only 55% of sales productivity reported for Luxembourg and Norway (6,900 EUR/m^2). Still, it was considerably higher than in the East European member states and even higher than in Germany (3,400 EUR/m^2) and Austria (3,600 EUR/m^2) (Key European Retail Data 2010). The average gross margin on goods in Slovenia's retail trade is among the lowest in Europe. Although the share of gross margin on goods in the turnover ranged from 14% to 38% in other European countries in 2009, in Slovenia it was just 17.5%. Similarly, the share of gross margin on goods in purchases ranged from 17% to 60% in other European countries, whereas in Slovenia it was 24.5% (Gross margin on goods in retail trade 2012).

On the other hand, recent Nielsen's Shopper Trends reveal that Slovenia, with its more than 300 retail stores with a modern format (i.e., hypermarkets, supermarkets and discount stores) per million inhabitants, ranks 5th in Europe (behind Norway, Austria, Denmark and Germany) with regard to modern store density (Rebernik 2012). As early as 2004, modern store formats in Slovenia accounted for more than 60% of sales and, along with the Czech Republic, represented a significantly higher share than in the other Central and Eastern European (CEE) emerging markets (Emerging Markets Retail and Shopper Trends 2005). In recent years, retailers in Slovenia are investing heavily also in building modern shopping centres.

Figure 1: Retail formats: Main store of purchase, Slovenia



Source: Južnič, J., Nakupovalne navade Slovencev, GfK Orange (2014).

The recent GfK Shopping monitor indicates that a supermarket (i.e., a self-service store with at least four but less than 15 cashiers) remains the main retail format for Slovenian consumers when shopping for convenience goods (see Figure 1 above). In addition, the percentage of Slovenian consumers who spend the most monthly money on purchases of convenience goods in discounts stores has substantially increased over the last seven years. In contrast, a negative trend exists for hypermarkets as the main retail format. After a decline in the past years, convenience stores are once again gaining in importance (Južnič 2014).

In general, the key factors that determine Slovenian consumers' store choice are location (i.e. proximity), price, good ratio between quality and price, and product variety (Bajde 2011). In terms of purchase location, Slovenian consumers have the highest level of confidence in the quality of food purchased in market halls (3.7) followed by major traditional food retailers (Trženjski monitor 2013).

4.1 Food retailers

In contrast to most CEE emerging markets with still fragmented retail ownership relative to the Western European levels, Slovenia had the highest level of retail trade concentration in 2004, when the top five chains held 79% of the market share (Emerging Markets Retail and Shopper Trends 2005). In 2012, the top three food retailers—Mercator, Spar and Engrotuš—accounted for approximately 62% of the market share (Ugovšek/Sovdat 2013) and retained their positions despite share stagnation (Retailing in Slovenia 2013). The entry of two international discounters—Hofer in 2005 and Lidl in 2007—significantly affected the retail landscape and sharpened competitive intensity in retail in Slovenia. The percentage of consumers who perceive discount chains as the cheapest increased from 40% in 2009 to 60% in 2012 (Rebernik 2012). At the same time, 55% of consumers view shopping in discount stores as comparable to other stores (Nielsen Shopper Trends 2010). The consumers continue to make purchases in traditional retail stores, yet they have started to split their purchases among different retailers (on average among 4.5 retailers in 2013 relative to 2.6 in 2006) (Nielsen Shopper Trends 2013). The percentage of consumers who increased purchases in discount stores during the previous six months increased from 28% in 2009 to 44% in 2014 (Trženjski monitor 2014).

In 2012, Mercator and Engrotuš reported lower sales, and Spar marginally increased its sales (1.25%); meanwhile, Hofer and Lidl both increased their sales by 20% as well as EBITDA by 25% and 72%, respectively. Both discount chains ended 2012 with a net profit and reached a significantly higher value added per employee compared to major traditional food retailers. In 2012, Lidl was the best performing retailer in Slovenia, with the highest sales growth, EBITDA growth and EBIT as well as the second highest ROE in ROA in the retail sector. Moreover, Lidl was ranked the 15th most successful company in Slovenia overall. The second best performing retailer in 2012 was Spar, with the highest net profit, ROE (18.52%) and ROA (5.16%) in the retail sector (TOP 101 2013). On the other hand, Mercator ended 2012 with a substantial loss, whereas Engrotuš reported considerably lower net profits.

Table 2 shows the selected data on major retailers in the G 47.110 sector (i.e., retail trade in non-specialised stores, mostly groceries). Due to the growing importance of discount retailers, the data on Hofer and Lidl are also added.

Table 2: Major food retailers
(G 47.110: retail trade in non-specialised stores, mostly groceries)

	Year of establish ment/ entry	Number of employees (2012)	Number of stores	Retail formats	Sales area (m^2)	Market share in Slovenia (2012)[2]
Mercator	1949	8,922 (Mercator Group in Slovenia: 11,794; Mercator Group Total: 23,920)	952 (in Slovenia); of which 529 FMCG stores; Group Mercator Total: 1,600	Shopping centres Hypermarkets Supermarkets Convenience stores Discount stores Online store	602,465 (gross sales area) in Slovenia; Group Mercator Total: 1.22 million	32.8%
Spar Slovenija	1991	4,302	88	Shopping centres Hypermarkets Supermarkets Spar City stores	142,197	15.9%
Engrotuš	1989	3,009	291 (including franchise units)[1] out of these only 20 retail units in foreign markets	Supermarkets Markets Drugstores Cash & Carry Shopping centres Cash & Carry online store	N/A	13.0%
Hofer	2005	645	72	Discount stores	N/A	6.5%
Lidl	2007	1,064	43	Discount stores	N/A (the average sales area 1,000 m^2)	5.3%

Note: [1] Various types of stores, including coffeehouses and sweetshops, bowling facilities and bars
Sources: Company annual reports, websites, 2 Ugovšek/Sovdat (2013)

Mercator

Mercator (full name "Poslovni sistem Mercator d.d.") is the largest Slovenian retailer and the main company operating within the Mercator Group, one of the largest business groups in

South-east Europe. In 2012, the Mercator Group employed almost 24,000 employees, achieved 2.87 billion EUR in sales and operated 1,600 retail units of various store formats with 1.22 million m^2 of gross sales areas in seven markets (Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Bulgaria, and Albania). 87% of total net sales were derived in retailing. The primary and main business activity is retail trade with fast-moving consumer goods (FMCG), which in 2012 generated 86% of the total net sales from trade activity. Other business activities of the Mercator Group include tourist services, self-service gas stations, manufacturing and real estate (Mercator Annual Report 2012).

Mercator ranked 228th among the top 250 global retailers in 2011 (Global Powers of Retailing 2013). The growth of the retailer's market share in Slovenia from 1997 to 2006 was impressive, particularly from 1997 to 1999, when the company increased its market share from 15.4% to 29.9%. It began with its internationalization process in 2000 by recognizing opportunities for growth in the less mature retail markets in South-east Europe and capitalised on historical ties with the region, pre-1991 Yugoslavia (Vodlan/Vida 2008). In 2012, Mercator was present in six foreign markets: Serbia (8–9% market share), Croatia (4–5% market share), Bosnia and Herzegovina (6–7% market share), Montenegro (18–19% market share), Bulgaria (less than 0.5% market share) and Albania (1% market share) (Mercator Annual Report 2012).

Mercator's vision is to become the largest, most effective and most efficient retailer in South-east Europe. However, the company currently faces difficult times, particularly in the domestic market, which represents its major market, accounting for 56% of total net sales in 2012 (Mercator Annual Report 2012). In 2012, Mercator's net sales in Slovenia decreased by 11%; the company reported a negative net profit, ROE and ROA and reduced employment by 1,000 employees (Gvin.com 2013). Deteriorating business performance can be largely attributed to past over-investments and unfocused strategy, along with a worsened economic situation (Mercator Annual Report 2012) and the entry of discount retailers into the Slovenian market.

At present, the company is in the process of restructuring. In 2012, the new management redefined the strategy and based it on four key pillars: cost optimisation, focus, profitability and growth. The efforts are directed towards reducing liabilities, sharpening investment policy and improving cost-efficiency in all fields of operations. In 2013, Mercator withdrew from Albania and Bulgaria, which the retailer had only entered in 2009, as the new management found no opportunities for growth in these two markets. Moving forward, greater focus will be placed on its core business (i.e., grocery retail), while the company plans to withdraw from non-strategic business operations and close unprofitable retail units (Mercator Annual Report 2012).

As consumers increasingly make their purchases in smaller stores, Mercator plans to focus strongly on smaller formats (i.e., supermarkets and convenience stores). The retailer believes that its competitive advantage lies in good locations and wide market coverage, particularly with smaller convenience stores. In 2012, it intensively renovated and modernised its stores, particularly smaller ones, in order to offer an easier and quicker purchase, but above all to offer more fresh, local and new products. Although Mercator traditionally positions itself as "*the best neighbour*", offering good quality, service and variety, the recent efforts are strongly directed at changing consumers' price perception and the chain strives to be perceived as "the best retailer which offers everything that a discounter offers and so much more". In 2012, Mercator offered more than 2,700 private label products, continuously increasing their share in total sales. It is the only traditional food retailer with an online store, which was launched already in 1999 (Mercator Annual Report 2012).

Since 2008, there have been nine attempts by Mercator's owners to sell the company. In 2013, Croatian retail chain Agrokor intensified its efforts to takeover Mercator and filed a merger proposal to competition protection authorities in Slovenia, Croatia and Serbia (in both later countries, Agrokor already holds important market shares).

Spar Slovenija

Spar Slovenija, part of the Spar International retail chain, opened its first store in Slovenia in 1991. Over the past 20 years, it has significantly influenced the standards in Slovenian retailing, development of its competition and consequently markedly contributed to increasing quality of retail market in Slovenia. The retailer emphasises its innovativeness and contemporaneousness (Spar Slovenija 2013). Spar was the first retailer in Slovenia to build a shopping centre (in 1993), introduce private label, and to build state of the art distribution centre in Slovenia. It can also be considered an innovator within the holding company Spar International: in 2002, Spar Slovenija opened the largest megamarket at that time (i.e., hypermarket with over 4,000 m^2 and more than 32,000 products) in the entire Spar International chain and was the first Spar subsidiary to develop a new type of store, "Spar 2000" (i.e., a small store in the urban city centre with a "to go" department). In 2012, Spar Slovenija operated 88 stores of various retail formats: supermarkets, hypermarkets, megamarkets, Spar City stores and shopping centres (Spar Slovenija 2013). The average size of the Spar retail unit in Slovenia is the largest within the Spar network in Western and Central Europe (Spar International 2013).

Spar is the second major food retailer and one of the largest employers in Slovenia. Its positioning strategy is based on quality, freshness of produce and friendly staff. Under the slogan *"Good for me"*, it offers over 1,700 products under various private labels in almost all product categories in order to offer an excellent quality–price ratio. The retailer strives to include into its assortment a variety of goods from Slovenian suppliers, including fresh produce, and thereby support the domestic economy (Spar Slovenija 2013).

Several independent studies indicate that implementation of Spar's positioning was successful. In 2013, 30% of Slovenian consumers perceived Spar as being the most desirable of all available retailers. Although this share declined for 3 percentage points as compared to 2012, Spar was still 12 percentage points ahead of the next competitor, Mercator (Južnič 2014). Similarly, AC Nielsen reported in its Shopper Trends 2013 that Spar stores in Slovenia obtained the highest consumers' scores with respect to numerous criteria, such as simplicity of finding products in the store, service quality, high quality of fresh food, a pleasant shopping experience, and the introduction of novelties. In addition, Slovenian consumers perceive Spar to be the leading retailer in freshness, quality and variety. Spar obtained the highest consumer trust rating, and consumers perceived it as offering the best quality–price ratio (Spar Annual Report 2012). In 2012, Spar was perceived as being the most respected retailer in Slovenia. At the end of 2012, 85% of Slovenian households had a Spar loyalty card, with more than 90% of all Spar loyalty cards being actively used (Spar Annual Report 2012).

Engrotuš

Engrotuš is the third largest food retailer in Slovenia and operates as part of Tuš Holding. The company's business operations cover food and non-food trade activity, entertainment and the catering industry. In 2001 and 2005, the company earned an award for best performing and fastest growing company in Slovenia. At the end of 2012, Engrotuš operated almost 300 stores under the name Tuš in various retail formats: supermarkets, markets, drugstores, Cash & Carry (including C&C online stores for B2B customers), and shopping centres. 20 stores operated in foreign markets (i.e., Bosnia and Herzegovina and Macedonia). Its vision is to become a local retailer with the most satisfied and loyal customers. The company's slogan promotes continuous improvement and the best quality–price ratio (*"Tuš–Getting Better and Better"*). The retailer recently started to emphasise freshness and local product selection. In 2011, it launched an extensive promotional campaign "Respecting Slovenian products" in order to support local producers while responding to consumers' wants. Similar to other major retailers in Slovenia, in 2012 the company opened a new convenience retail format promoting efficient purchases (Engrotuš 2013; Engrotuš Revised Annual Report 2012).

Hofer and Lidl

Hofer is a subsidiary of Aldi-Süd and owned by Hofer AG Austria. It entered the Slovenian market at the end of 2005 by opening its first 11 stores. It currently operates 72 discount stores, in which it offers 700 products along with 15 to 20 limited time offer products presented twice a week. Hofer strives to offer "a selection of products of the highest quality at the lowest prices" based on cost optimisation (Hofer 2013). The company received the "Best Buy Award 2013" for being the leading international chain retailer in Slovenia and offering products with the best quality-price ratio. Instead of selling well-established national brands, the retailer constantly develops and improves private labels, thereby controlling the quality it provides to consumers at attractive prices. Its offer increasingly includes products from Slovenian producers. It offers an extensive guarantee for its products (Hofer 2013; Hofer Revised Annual Report 2012). Hofer ended 2012 with 6.2 million EUR in net profits (TOP 101 2013).

Lidl entered the Slovenian market in 2007 by opening 15 stores. By the end of 2012, it had 43 stores throughout the country, generating 8.2 million EUR in net profits, which covered losses from previous years. Lidl has positioned itself as a retailer offering the highest quality at attractive prices (*"Simply more for you"*). In addition to quality and prices, its marketing communications emphasise freshness and employee helpfulness. Lidl's assortment is considerably larger than Hofer's, and in order to meet the everyday needs of the average Slovenian family, its assortment includes more than 2,000 products. Lidl is the only retailer in Slovenia to offer a timeless guarantee for all food and non-food private labels. The company follows its strategy of rapid and successful new store openings (Lidl 2013; Lidl Annual Report 2012).

4.2 Non-food retailers

Retail in the non-food sector remains highly fragmented and extremely competitive in Slovenia. Top three retailers held 22.1% of the market in 2012 (see Table 3). Specialty retailers in categories electronics, appliances, home, and garden reported significant decreases in retail sales in 2012. It is predicted that economic situation in 2014 will impact non-food sales the hardest and a sales recovery can be expected only in 2015 (Non-Grocery Retailers in Slovenia 2013).

Table 3: Larger non-food retailers

	Sector	Number of employees	Number of stores	Retail formats	Sales area (m^2)	Market share in Slovenia (2012)[1]
Merkur d.d. (since 1896)	Technical	2,276 (78% in Slovenia; 11% in Croatia; 9% in Serbia; 2% in BiH	33 (24 in Slovenia)	Superstores Smaller specialised stores Online store	130,000 m^2	13.4%
Mercator d.d.: Intersport, Modiana	Intersport: Sports equipment	Intersport ISI: 774 (Slovenia: 326; foreign markets: 448	Intersport ISI: 83 (Slovenia: 31)	Specialised stores within shopping centres Single stores in city/tourist centres	18,380 m^2 (gross area); 13,971 m^2 (net sales area)	5.1%
	Modiana: textile, cosmetics	Modiana d.o.o.: 526; Group Modiana: 926	Modiana: 88 (Group Modiana: 149)	Cosmetics stores Drugstores	33,000 m^2 (net sales area)	
Müller Drogerija	Cosmetics, toys, paper products		14	Superstores	400–4,500 m^2 (size of retail unit)	3.6%
DM Drogerie markt	Cosmetics	406	66	Drugstores	N/A	3.6%

Note: [1] Non-Grocery Retailers in Slovenia (2013)
Sources: Company websites, company annual reports

Merkur

Merkur is the leading Slovenian technical reseller, providing home & garden products to final customers, companies and craftsmen. It held 13.4% market share in 2012. The parent company, along with its affiliates in three foreign markets (i.e., Croatia, Serbia and Bosnia and Herzegovina), represents the core business division of Merkur Group. Merkur operates 33 medium (3,500–4,000 m^2) and large (6,000–8,000 m^2) superstores; 24 in Slovenia. Despite the market contraction, the Slovenian parent company increased its sales by 7% in 2012 and reported a positive EBIT (the Merkur Group reported a negative EBIT and net loss). The financial situation remains difficult as the company is in the process of a compulsory settlement prompted by faulty management decisions in the past. In 2012, Merkur reorganized its business processes, lowered costs, initiated the sale process for two non-core business divisions and started a search for a strategic partner (Merkur Annual Report 2012).

The company's vision is to become a leading company in the do-it-yourself (DIY) category, appliances and seasonal products in South-east Europe. The retailer's goal is to retain the leading market share in Slovenia, consolidate business in Croatia, moderately grow in Serbia, and minimise risk in Bosnia and Herzegovina. Merkur is attempting to position itself as offering the best value for the money. It follows a multichannel strategy—an integration of real and virtual communication channels in order to create a unique consumer experience. The company plans to optimise its regional coverage by decreasing the number of shopping centres in a particular area. At the same time, the objective is to increase the sales per square metre. Beside several producer brands, Merkur offers 5,700 products under three private labels targeting rational and price-sensitive consumers (Merkur Annual Report 2012).

Intersport ISI and Modiana

Intersport ISI is a leading sports retailer in Slovenia and part of the world's largest international sports retail chain, Intersport. In 1999, Mercator signed a licence contract for the development of Intersport retail units in Slovenia and opened the first store with this banner. In 2009, the company Intersport ISI, 100% under the ownership of Mercator, was established. At the end of 2012, the company operated 81 owned and two franchise retail units in Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Montenegro. Its stores are located in Mercator's and other shopping centres, but also as independent stores in larger city centres and tourist centres. Marketing activities for sales growth along with rationalisation and slower investment activities enabled the company to stabilise its operations in 2012, when its sales were 0.3% lower than in 2011 (Intersport Annual Report 2012).

Modiana, another Mercator's subsidiary, is one of the largest retailers of fashion textile products in Slovenia, operating in Slovenia, Croatia, Bosnia and Herzegovina and Serbia. Its vision is to become the largest textile retailer in South-east Europe offering quality products at acceptable prices. In addition to specialised stores with textile products in shopping centres, Modiana includes also perfumeries under the brand name Beautique (Modiana Annual Report 2012).

4.3 Non-store retailers

Non-store retailing includes vending, direct selling, home shopping and internet retailing. Despite the unstable economic situation and fall in consumer disposable incomes, non-store retail value sales in Slovenia increased by 4% and reached 217 million EUR (excluding sales tax) in 2012. Growth was driven primarily by the increasing popularity of internet retailing, showing a 59% increase in value sales in 2012, as well as the increase of direct selling in 2011 and 2012. On the other hand, home shopping recorded a 15% decline in value sales in 2012, mainly due to the exit of the largest catalogue retailer, Neckermann. As non-store retailing is still poorly developed in Slovenia, accelerated development and improvement of the overall sales performance are expected in the future. Non-store retailing is expected to grow by a 6% constant-value compound annual growth rate (CAGR) over the 2012–2017 period (Non-Store Retailing in Slovenia 2013).

The leading companies in non-store retailing in Slovenia are the multichannel retailer Studio Moderna and internet retailers Mimovrste and Gambit Trade. Mimovrste is the largest internet retailer, with a 14.4% share of total non-store retail value sales, followed by Gambit Trade (10.2%) and Merkur (6.1 %) (Non-Store Retailing in Slovenia 2013).

Studio Moderna

Studio Moderna was established as a Slovenian direct sales company in 1992, but it quickly grew into a leading multichannel e-commerce and direct-to-consumer platform in Central and Eastern Europe. With local offices in 21 countries, the company in total employs approximately 6,000 employees and has 130 transactional websites, more than 200 retail stores, 22 call centre locations, more than 300 hours of daily TV advertising, 6 wholly owned TV channels and a vast network of retail and wholesale partners, including Baumax, Interspar, Mercator and Metro. In addition to sales and promotional activities for many third-party products, the company develops its own brands, such as Kosmodisk (the company's oldest brand for a back-pain relief device), Dormeo (the leading bed brand in CEE, launched in 2002), Top Shop (one of the largest multichannel retail brands in CEE, established in 1996, covering direct response TV advertising, online stores and retail outlets), Bigfish (a folding bike, launched in 2008), Delimano (eco-friendly cookware products), LiveActive (sports and outdoor leisure products) and Wellneo (food supplements, fitness products, and ecological products). The company also owns a fashion retail subsidiary, Studio Moderna Fashion Group, which operates the Stilago online fashion club, the fastest growing fashion online store in CEE, and Stil2Go, the largest online fashion outlet in Eastern Europe (Stilago 2013; Stil2Go 2013; Studio Moderna 2013).

Studio Moderna in Slovenia—part of the international group Studio Moderna—had 43 million EUR of net sales and 431 employees in 2012, making it the leading company for direct marketing in Slovenia. Nevertheless, the company's net sales were 7% lower than in 2011; 52% of the net sales were generated in Slovenia, whereas the rest were achieved in foreign markets. The decrease in net sales was larger in the Slovenian market than in foreign markets (-9% versus -4%, respectively). The most notable activities in 2012 involved the relocation of warehouse facilities to Poland and the optimisation of logistics chain and processes. The company plans to further expand its network of partners and include more products from local producers, develop new communication and distribution channels as well as develop innovative concepts for customer relationship management in order to build long-term customer loyalty (Studio Moderna Revised Annual Report 2012).

Mimovrste

Mimovrste established its online store with computer equipment in 2002, and two years later renewed and upgraded it by launching the online shopping centre Mimovrste, with extended product assortment. Today, the company offers more than 80,000 products in 15 product categories. The number of monthly orders exceeds 17,000. Since its beginning, the online retailer recorded rapid growth, particularly in 2006 and 2008, when the sales doubled. Despite the unfavourable economic conditions, the retailer increased its sales by more than 25% in 2009 and 20% in 2011 (Mimovrste 2013; Mimovrste Annual Report 2012). In 2011, Mimovrste received fresh capital totalling 3 million EUR from the Dutch company Netretail Holding, which operates internet store malls in the Czech Republic, Slovakia, Poland and Hungary. Netretail Holding became a full owner of Mimovrste at the end of 2012 (Cvelbar 2012). Mimovrste strives to offer a pleasant shopping experience through product variety, quality of service and attractive prices. The retailer also plans to expand its assortment of product categories with growth potential and expand into foreign markets (Mimovrste Annual Report 2012).

5 Trends in consumer behaviour

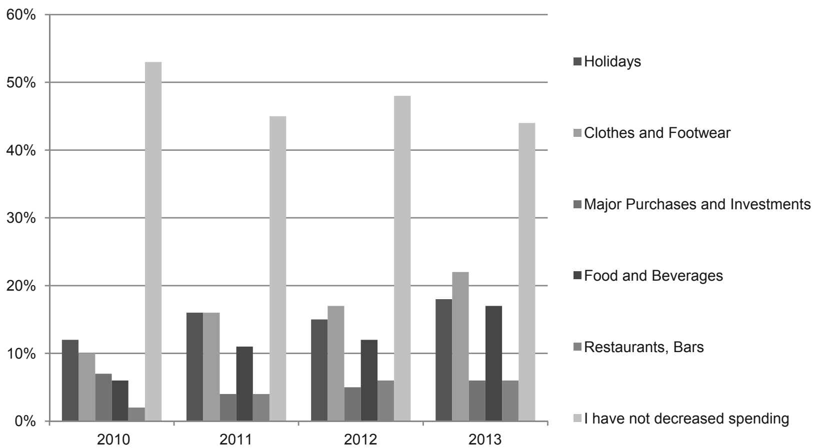
The most prominent force impacting Slovenian consumers' purchase behaviour in 2013 was the continuing economic recession. In 2012, the region's unstable economic situation and the negative prospects for the Slovenian economy caused the consumer confidence index to fall to its lowest point since the end of 2009. Consumers have become much more prudent with their purchases, increasingly differentiating between their wishes and needs (Retailing in Slovenia 2013). At the same time, Slovenian consumers are tech-savvy and are increasingly using internet and mobile phones for product and price comparisons, putting additional pressures on classic brick-and-mortar retailers. However, multichannel retailing should not be seen as a threat but as an opportunity to reverse the negative sales trends.

5.1 Impact of economic recession on consumer spending

Slovenian consumers have had to suffer through periods of economic sluggishness, stagnant wages and rising unemployment in recent years. Not surprisingly, years of steady decline in disposable income have affected their attitudes on spending. Many consumers are tightening their belts and cutting back on discretionary spending for both grocery and non-grocery items (Consumer Lifestyles in Slovenia 2012). A survey by the Slovenian Marketing Association found that, in 2013, 82% of Slovenian consumers believed that the economic recession had impacted their personal lives through higher prices and lower purchasing power (42%), decreased income (38%), loss of employment (17%), and psychological pressure via the media and their social environments (18%). A steady increase in the proportion of affected consumers since 2009 clearly indicates that standards of living were deteriorating throughout the recession period (Trženjski monitor 2013). However, the measurements in April 2014 reveal that some optimism is returning. All indicators showed some improvement. Declines in income and consumption were less pronounced. A share of consumers that felt recessionary effects in their daily lives declined for two percentage points, to 80% (Trženjski monitor 2014).

In 2010, after the first recessionary year, consumer spending was most severely cut in the non-essential goods categories (e.g., holidays) and in those categories where purchase could be postponed (e.g., clothes and footwear, larger investments). Approximately 6% of consumers reported that they had to cut down on spending for food and beverages, while the majority of consumers (53%) did not lower their expenditures (Trženjski monitor 2009).

Figure 2: Expenditure cuts by product categories compared to the previous year (% of respondents)

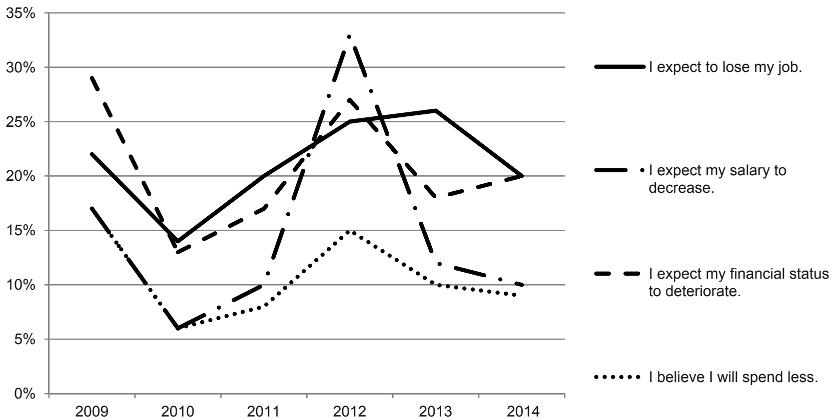


Source: Trženjski monitor (2013)

By 2013, a much different picture had emerged (Figure 2). The number of consumers who carefully plan their purchases and are more prudent in consumption has steadily increased over the years (73% in the spring of 2013 compared to 60% in the spring of 2009). The share of consumers who did not report spending cuts in 2013 compared to the year before shrunk to 44%. Overall, expenditures declined during the entire period and across all categories. The share of consumers who spent less on food and beverages increased to 17%, a five percentage point increase over the previous year. Major purchases were still being deferred, as were expenditures in tourism and restaurant services (Trženjski monitor 2013).

However, it seems that by 2013 consumers had learnt to live with the recession, and a new equilibrium had been established. Negative expectations have somewhat abated, and in 2014 they returned to 2011 levels (see Figure 3). It appears that past expectations regarding the outcomes of the recession have been met, and some of the optimism has returned. Consumer confidence slightly improved in 2013 and was two percentage points above the 2012 level (Consumer Opinion Survey 2013).

Figure 3: Expectations for the near future/next few months
(% of respondents who agree with each statement)



Source: Trženjski monitor (2014)

Slovenian consumers' reactions to the economic downturn are similar to those of consumers in other countries. According to the Nielsen data, 62% of Europeans have changed their shopping habits due to the economic downturn (Nielsen Global Omnibus Consumer Confidence Survey 2013). In the second quarter of 2013, more than 50% of consumers spent less on new clothes, cut down out-of-home entertainment, and switched to cheaper grocery brands. Other belt-tightening actions include saving on gas and electricity and cutting down on holidays and take-away meals.

Price has become the most important determinant of purchases for many Slovenian consumers. The location of the store is still important in grocery purchases (GfK Shopper Monitor 2012); however, due to high market coverage by all major retailers and discounters, location *per se* is not a differentiating source of competitive advantage. Extensive store networks make it easier for consumers to distribute their purchases across several retailers while they are hunting for price bargains and special deals. According to the Nielsen Shopper Trends (2013), 55% of Slovenian consumers buy only the products they need, 50% buy in bulk to get lower prices, 47% actively look for and buy products at discounted prices, 38% buy less overall and 6% switch to cheaper brands. Prior to making a purchase, 66% of consumers visit retailers' websites to check out special offers and weekly deals. In the current economic climate, consumers are reappraising their store, brand and format choices.

Sales of private label products have increased, while mid-priced and universal products have experienced a large drop in demand (Retailing in Slovenia 2013). A switch to private labels already happened in 2009, when almost half of Slovenian consumers reported that they bought more private label products than in the previous year (Trženjski monitor 2013). The number of private label buyers is still increasing, although the growth is slowing down as it approaches the saturation level: 17% of consumers bought more private label brands in 2013 than in 2012 (Nielsen Shopper Trends 2013). The main reasons for buying private label products include the perception that these products are cheaper than manufacturer brands (77% of consumers) and offer good value for money (43%). Furthermore, consumers believe that the quality of private label products is comparable to other brands (37%) and is constantly improving (26%).

Another way for consumers to maximise the received value is to use various benefits offered within loyalty programmes. Loyalty programmes are an important marketing tool with which traditional retailers are trying to fight off discounters. According to the Trženjski monitor (2013), Slovenian consumers typically own several loyalty cards (52% of consumers have three or more loyalty cards), and more than 50% of consumers participate in loyalty programmes with three major retailers. Spar's loyalty card was used for approximately 70% of all sales at Spar in 2012 (Spar Annual Report 2012), while 60% of purchases were made using the Mercator loyalty card in 2011 (Mercator Annual Report 2011).

Online couponing provides additional opportunity to save money. In 2012, approximately one-quarter of Slovenian online shoppers bought coupons, averaging five coupons each. The most popular categories included various services, like holidays (42%), restaurant services (27%), beauty parlours (21%). 30% of online shoppers bought coupons for various products (Trženjski monitor 2013).

Despite high prices and income elasticity, Slovenian consumers increasingly focused attention on country of origin in all product categories. A recent survey by the Slovenian Marketing Association identified a particular consumer segment “Buyers of high quality” exhibiting high loyalty to the brands, particularly to the ones of Slovenian origin. This segment included 13% of respondents in the sample, with the highest purchasing power (Trženjski monitor 2014).

The country of origin has the largest impact when shopping for meat and meat products, but it is becoming increasingly important when buying fresh fruits and vegetables and personal cosmetics as well. In 2013, the average level of confidence in purchased food among Slovenian consumers was 3.2 on a 5-point scale. Food from Slovenian producers obtained the highest level of consumer confidence (4.0), whereas products from foreign producers outside the EU (2.1) or within the EU (2.7) obtained the lowest levels of consumer confidence. Consumers most trusted the quality of food bought at market stalls (3.7), Mercator (3.6) and Spar (3.5). Engrotuš, Hofer and Lidl lagged behind with scores of 3.3, 3.2 and 2.9, respectively (Trženjski monitor 2013).

5.2 Multichannel retailing

The recent developments in digital connectivity are forcing retailers to change their perspectives. Consumers own multiple personal technology devices that enable easy access to information through numerous communication channels. In theory, digital technology can connect any retailer or manufacturer to any customer in the world who has access to the internet (PwC, 2012). Most of the steps in the purchasing process can be conducted using a computer, tablet or mobile phone. Internet and mobile applications have become important media for connecting to consumers.

Slovenia has an 83% internet, 42% smartphone and 14% tablet penetration rate, placing it somewhere in the middle of the spectrum of European countries (Consumer Barometer 2013). Like elsewhere in Europe, online shopping is gaining momentum. Among Slovenian internet users, 45% made an online purchase in 2011, whereas the EU average was 58% (RIS 2013). In 2014, already 68% of consumers purchased at least one item online within the past year, an 8 percentage point increase from 2012 (Trženjski monitor 2014). Slovenian e-consumers made significantly more purchases in Slovenian e-stores (RIS 2013), a trend observed also in other countries (PwC 2012). They buy most often technical products, apparel, footwear and electronics. The main reasons for shopping online include lower prices, practicality, larger variety and time savings. On the other hand, the main obstacles for those who do not shop online relate to the consumers' inability to try the product and a lack of trust (Trženjski monitor 2012; 2013; 2014).

Data show that 45% of consumers start their purchasing journey with online research, using search engines, company websites, comparison sites and social networks (Gorenjc 2013). Online channels are also important for post-purchase evaluations and sharing experiences. Yet, online channels are not a threat to offline channels—just the opposite, in fact: when given multichannel access, consumers actually spend more with their favourite retailers instead of shifting some purchases to a different channel. In most countries, a substantial portion of pre-purchase research is still conducted offline, mostly when making larger purchases or when it is important for consumers to actually see the product before buying it. Slovenian 2014 data show that 27% of respondents searched for items online, but then made a purchase offline. 18% bought products online, but collected them in stores (Trženjski monitor 2014). The ability to see, touch and try products still ranks as shoppers' number one reason for visiting a store in person, followed closely by immediate delivery of the product (PwC 2012).

Therefore, retailers' capability to offer multichannel contact points is crucial in certain categories. Conventional brick-and-mortar stores will remain the most important component of a multichannel strategy, and pure online retailers will have to find ways to overcome their deficits (Jahn 2013). The PwC (2012) study indicated that web product research drives far more shoppers to make a physical store purchase than vice versa. For example, when buying consumer electronics, 23% of respondents conducted research online before going to a store to buy the product, compared to only 2% who did it the other way around. A similar ratio holds true across several shopping categories.

Online behaviour in Slovenia varies across product categories as well as by stages in the purchase process. In general, a large percentage of purchasers conduct research online, but a much smaller percentage actually buys online. Online and offline pre-purchase research is relatively balanced, although the ratio depends on a product category (Consumer Barometer 2013). Among Slovenians who purchased products in 2013 and are part of the online population, an average of 77% conducted online research prior to purchasing products (97% in the case of package holidays and 40% when buying groceries). Of these, 25% actually bought products online, while 53% researched online and purchased offline (the so-called ROPO effect). The largest share of online purchases was in category of leisure flights (59%) while the smallest was in groceries (1%). The largest ROPO effect was in car sales (76%), and the smallest in leisure flights (34%).

The fact is that conventional brick-and-mortar retailers cannot afford to neglect multichannel access, regardless of what they are selling. E-commerce is rapidly gaining ground in categories that were previously little affected, such as groceries. For example, although online sales in Slovenia in 2013 accounted only for 1% of grocery sales, the internet represents an important communication channel. 40% of grocery buyers conducted prior research online, with 21% using search engines, 3% using mobile phones, and 1% using tablets (Consumer Barometer 2013). The Nielsen data show that Slovenian consumers visit grocery retailers' websites primarily to check out special offers and promotions (66%), acquire other information (e.g., store location, opening hours) (43%), and look up recipes (18%) (Nielsen Shopper Trends 2013).

5.3 Retailer's responses: changes in business models?

The year 2013 was in many ways the worst year for the Slovenian retail sector since 2008 (Križnik 2013). Mercator and Merkur, the largest retailers in food and non-food sectors were still undergoing severe business restructuring, which included selling off non-core and unprofitable businesses, withdrawal from unprofitable markets, and cost optimisation (Mercator Annual Report 2012; Merkur Annual Report 2012). Many other traditional retailers were also struggling to maintain their market shares and improve profitability.

On the other side of the performance spectrum were non-store retailers and discount chains with healthy growth rates. Non-store retail in Slovenia is expected to grow further, mostly due to its relative underdevelopment in comparison to other countries (Retailing in Slovenia 2013). The leading online retailer, Mimovrste, is in the process of revamping its logistics system. It will set up a new warehouse to cut down on delivery time, optimise logistical processes and introduce a new IT platform (integrated with Netretail Holding systems) to enable the introduction of new services, enlarge product assortment and facilitate consumer analytics (Mimovrste 2013a). However, the growth of pure online retailers might flatten out in the near future. GfK estimates that, in international terms, pure internet players have already reached a maturity phase of the retail format lifecycle and predicts that the future lies in an omnichannel approach, mobilizing social networks and mobile marketing platforms (Retail Trade Monitor 2013).

Discount chains in Slovenia will continue their strategy of offering a "selection of high quality products at lowest prices" (Hofer 2013). Hofer defines quality through the safety of the products, concern for consumers' health and sustainability (Hofer Revised Annual Report 2012). Lidl claims that the quality of its private label products in most cases exceeds the quality of established national brands, as proven by independent quality tests (Lidl Annual

Report 2012). As long as consumers perceive that they receive adequate quality at affordable prices, it will be very difficult to draw them back to retail chains with less favourable price–quality ratios. Thus, traditional retailers will have to work hard to justify premium pricing. One of the levers for the sustained growth of discount retailers will be the further expansion of store networks, as all foreign discounters are searching for new locations (Eurospin 2013; Hofer 2013; Lidl 2013).

Traditional retailers realize that fighting discount chains and non-store retailers with low prices would be futile. Hence, they look in the other direction; besides improving price-quality perceptions of consumers, they build upon providing a unique product assortment and consumer experience. Mercator plans to restructure its store network (focusing on smaller formats and providing convenience), increase the share of private label products, dissolve its image of a high-price retailer (by offering various discount schemes), and expand the assortment of local products. Initiatives such as "Farmer's Market" and "From my Hometown" which build on offering local, seasonal, and fresh products purport to evoke a perception of close ties with local communities. The retailer redesigned its loyalty programme in 2013 to include instant discounts and customised price promotions. It is also trying to promote multichannel shopping by widening click-and-collect service (Mercator Annual Report 2012). In the past, Mercator was one of the few Slovenian firms that started using analytical CRM tools, such as data-mining, to identify consumer segments and predict purchasing patterns based on scanner data. Most recent projects include the integration of existing applications into a computer-assisted system for efficient shelf management and the introduction of a personal shopping assistant system. Once effected, in-store logistics system will facilitate the use of e-shopping lists and assist consumers in locating individual products. However, given Mercator's current financial situation, the implementation of these projects and initiatives is contingent on the availability of financial resources to support necessary investments.

Spar has followed in Mercator's footsteps by developing its CRM system and loyalty programme. Both were introduced only recently, with much delay compared to its main competitors. Spar expects that the system and programme integration will enable the optimisation of distribution costs as well as the customisation of assortment and promotion offers according to purchase behaviours of their target segments (Spar Annual Report 2012).

Compared to other conventional retailers, Engrotuš is perceived as a low-price chain. In response to falling consumer expenditures, it added a new convenience format (Ekstra Tuš) and upgraded its loyalty programme which now enables designing more effective product/service bundles and greater personalisation of loyalty benefits. Heightened consumer awareness regarding product origin is being addressed by adding more local products to the assortment. Special focus is placed on the freshness of products as a cornerstone for enhanced value perception. On the supply side, its efforts are directed towards achieving efficiencies in logistics and IT systems (Engrotuš Revised Annual Report 2012).

Merkur also strives to keep its leading position in the DIY sector by taking into account increased price sensitivity of consumers. Its strategy includes promoting private labels, while maintaining a large assortment and favourable price–quality ratio. The pricing strategy will rest upon a simplified pricing scheme. Instead of offering a multitude of price promotions, Merkur devised some new price labels, signifying low/favourable prices across several product categories. The company plans to capitalise on its past investments in multiple channels by integrating online and offline shopping experience. To this end, the company is redesigning store layouts, upgrading the online store and supplementing its loyalty programme (Merkur Annual Report 2012).

When it comes to introducing new technologies in stores, Slovenian retailers are lagging behind their international counterparts. A few years ago, Mercator and Spar introduced self-check-out points, and several retailers use information kiosks. Augmented reality, such as QR codes, is rarely utilised.

In addition, in terms of multichannel retailing, retailers in Slovenia seem to be sluggish. Many retailers have introduced mobile apps which can be used to locate stores, browse for products currently on promotion, create shopping lists, and access loyalty programme accounts. Mercator is the only grocery retailer with an online store. Although its web store has been in operation for several years, online sales remain very low. Products can be either delivered or collected at the store, with a drive-in option at Ljubljana click-and-collect locations. More numerous are multichannel retailers in technical retail (e.g., Merkur, Big Bang, M-Tehnika, Comshop); however, online sales represent only a fraction of their total turnover. This indicates that retailers have troubles in adapting their business models to fully exploit multichannel potential. Even companies like Mercator and Merkur, who have had multiple channels in place for some years, still have a long way to go before they can offer a true omnichannel experience to their consumers.

A notable exception in its approach to omnichannel retailing is Big Bang (a specialised technical products retailer within the Merkur Group). The “Big Bang World” omnichannel model supports the fusion of online and in-store shopping. The website includes an information portal with articles and in-house produced videos that explain and demonstrate the features of new technologies as well as a “wizard” which can assist consumers to choose the product that fits their needs (Big Bang 2013). On the brick-and-mortar end, interactive kiosks serve as info points which can be used by consumers or by sales personnel to narrow down product selection (by using product wizard), locate a particular product on the shelves or order products that are not on display from the warehouse. The main business purpose for introducing tools like the wizard and kiosks is to support up-sale and cross-sale (via product recommendations) as well as the support of sales of long-tail assortment.

6 Conclusions

The Slovenian retail industry is highly consolidated. Given the small country size, this is not surprising. High market concentration poses some threats for market efficiency, especially through supply-side squeezes. However, with the onset of the recent recession, these concerns have become secondary as retailers are no longer in a position to exercise excessive market power. The recession has substantially changed consumption patterns, thereby impacting the retail landscape. Price considerations are currently a primary concern for both retailers and manufacturers, as consumers are extremely price sensitive.

In order to improve business performance, retailers have to identify strategies that would facilitate downsizing and restructuring while at the same time allow for creating value for consumers. Extreme cost minimisation might prove self-defeating as the new, empowered customer is highly demanding. The key to success within the new retailing environment is the development of an omnichannel set-up, where online and offline worlds seamlessly overlap and where a unified and coherent brand image is conveyed across various touch points. As financial resources for funding investments in new technologies are scarce, Slovenian retailers will have to apply significant inventiveness and out-of-the-box-thinking to create unique shopping experiences tailored to a specific sales channel's assets.

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