

Group Project 1:

Assessing Romania's Retail Market Potential for Lowe's Companies, Inc.

Camden Sander, Kenneth Klotzsche and Sean Geismann

College of Business, University of Colorado Colorado Springs

INTB 3600: International Business

Dr. Carol Finnegan

10 November, 2020

Group Project 1: Assessing Romania's Retail Market Potential for Lowe's Companies, Inc.

The purpose of this business report is to assess the retail market potential for Lowe's Companies, Inc. in order to determine the retail and overall attractiveness of a foreign country for entry. Among the considerations were China, Malaysia, and Romania. The team decided based upon evidence gathered and presented within that Romania was the best target retail market for Lowe's. This report will highlight the decision criteria between China, Malaysia, and Romania using a Multi-Attribute Model, then analyze the retail market within Romania to determine the feasibility of Lowe's expansion. It will do so by using the indicators of Retail Sector Size, Retail Sector Growth, and Number of Domestic and Foreign Competitors. Additionally, the report will identify legal and regulatory barriers to entry and the impact of rural and urban population distribution. Each indicator will utilize two sources to account for variation in estimations. A summary of each indicator describing the effect on the market potential of Romania will follow on a four-point scale from poor to excellent. Finally, the report will include a three-year sales forecast.

Lowe's Companies, Inc. (Lowe's) is a major U.S. retailer and wholesaler in the Home Goods retail sector, specializing in DIY home improvement. Lowe's offers products for kitchen, bath, electrical, flooring, hardware, paint, gardening, building supplies, and more. Lowe's currently operates over 2,200 stores in North America between the United States and Canada (*Our Locations*). Lowe's has over 320,000 employees and a revenue of \$72.15 billion (*LOW / Lowe's Cos. Company Profile & Executives - WSJ*). The company has been shifting capital expenditures away from existing store improvements and towards new stores, corporate facilities, and international operations.

Country Decision: China, Malaysia, Romania

The countries in consideration were China, Malaysia, and Romania. The indicators used for evaluating the three countries were Population, Size and Growth Rate of the Economy (GDP/GNI), Disposable Income, Education Level, Unemployment Rate, and Investment Climate. China was excluded from the running due to rising political tensions and recent failures by The Home Depot, a domestic rival of Lowe's, to enter the Chinese market. To briefly summarize, some simple data points were analyzed with a Multi-Attribute Model to compare their value between countries.

Table 1

Multi-Attribute Model Comparing Malaysia and Romania

| Indicator | Strength of Indicator (%), Importance Rating | Malaysia: Performance Rating (1-5) | Romania: Performance Rating (1-5) | Results: Malaysia Romania | Winner |
|-------------------------------------|--|------------------------------------|-----------------------------------|---------------------------|----------------|
| Population | 5% | 32.45 m 4 | 19.41 m 4 | .2 .2 | Tie |
| Gross Domestic Product (GDP) | 5% | \$364.7 b 4 | \$239.6 b 3 | .2 .15 | Malaysia |
| Gross Net Income (GNI) (per capita) | 15% | \$10,590 3 | \$11,430 4 | .45 .6 | Romania |
| Literacy Rate | 15% | 94.85% 3 | 96.84% 4 | .45 .6 | Romania |
| Unemployment Rate | 20% | 3.32% 4 | 4.28% 3 | .8 .6 | Malaysia |
| Average Living Cost (monthly) | 20% | \$2,200 3 | \$1,042 4 | .6 .8 | Romania |
| TOTAL: | 100% | 21 | 22 | 2.7; 2.95 | ROMANIA |

Note: statistics gathered from The World Bank and the UN World Population Prospects

As evidenced by the Multi-Attribute Model, Romania is a better fit for entry based off of the basic indicators. Both Malaysia and Romania have nearly equal and stable growth rates, near 4%, so that indicator was ignored. Disposable income can be extrapolated from the GNI per capita and the Average Monthly Living Cost. Both countries are valid candidates, but Romania edged out the win. Additionally, The Heritage Foundation's (2020) meta-analysis comparing the two countries gives Romania a slight edge in the Investment Freedom, Trade Freedom, and Fiscal Health categories. A non-concrete consideration was the similarity between the country's culture and Lowe's home culture, in which Romania is more familiar when compared with the U.S. This is especially applicable for the DIY home improvement subsector in which Lowe's thrives.

Country Choice: Romania

The target market, Romania, is a medium-sized country in Southeastern Europe between the Balkans and Ukraine. It joined NATO in 2004 and the European Union in 2007 and is a member of the United Nations. The Heritage Foundation (2020) rates Romania's freedom score as a 69.7, making it the 38th freest country in the world. Romania is a free market economy. Romania's largest economic sectors are manufacturing, footwear, mining, and timber.

Retail Industry Analysis

Romania's retail sector is robust. According to a Romanian statistician and researcher, there are 167 retail chains across all sectors of retail with more than five stores or a turnover higher than three million euros (Sava, 2020). Of those retail chains, eleven operate in the DIY &

Gardening sector and ten operate in the Home Ware sector, both key sectors for Lowe's. To further analyze, the size and growth of the retail sector at large, the number of domestic and foreign competitors across sectors and within the specific retail format, the specific legal and regulatory barriers to entry, and the impact of population dispersion will be identified.

Size of the Retail Sector

The retail sector size indicator serves as a window into the total market volume of all sectors within the retail space. These sectors include food, apparel, and home improvement, among others. The size is most easily denoted by the retail value retail selling price (RSP). The most recent data the team could find from two different sources was 2017, though data exists up to 2019 through Euromonitor. Euromonitor's (2020) data puts the Romanian retail value RSP at 179 billion Romanian Leu (RON), which is equivalent to nearly 39.3 billion Euros at the 2017 conversion rate of 0.22 EUR to RON. The credit insurance company Euler Hermes estimated the 2017 Romanian retail market was at 40 billion Euros, as reported by Romania Insider (City Compass Media, 2017). Romania Insider also reports that foreign companies hold 52% of the market, meaning the size is particularly available for foreign companies. For Lowe's, this means the market has a sizable cap from which to draw sales. This data leads to the size indicator receiving a ***good*** score.

Growth of the Retail Sector

The retail sector growth indicator shows the year-over-year growth of the total retail market. According to the same Euler Hermes study, the Romanian retail market grew 12 percent from 2016 to 2017. According to FocusEconomics (2020), the market growth was 10.8

percent in 2017. Either way, the retail market growth in Romania has far outpaced the average global expected growth rate of 4.7 percent (Gaubys, 2020). For Lowe's, this means continued growth of customer spending and opportunities for expansion within the market. This leads to the growth indicator receiving a **good** score.

Number of Domestic and Foreign Competitors

The number of competitors indicator informs a company's strategy by highlighting total market share distribution and the saturation of specific retail sectors. Romania Insider (2020) quotes the largest retailers as the German Schwarz and Rewe groups, the French Carrefour and Auchan groups, and the Dutch-Belgian Ahold Delhaize group. Euromonitor ranks them in 2017 as Schwarz, Carrefour, Auchan, then Ahold Delhaize. Finally comes the Romanian companies Dedeman and Profi Rom in number 6. Of these top 6, all but Dedeman are primarily grocery supermarkets. As noted earlier, there are 167 retail chains operating in Romania. However, this number includes many unrelated to the scope of this report. Of primary concern are hypermarkets, wholesale, and home improvement chains.

Schwarz Group was the fourth top global retailer in 2019 (Gaubys, 2020). Schwarz Group operates two major chains in Romania: Kaufland and Lidl. Lidl is a supermarket, while Kaufland is a hypermarket with approximately twenty locations in Romania. Together, they hold the largest single percentage of retail value market share at 10.5 percent. It is unknown what percentage is divided between the two chains, but Kaufland remains a primary foreign hypermarket competitor. Groupe Adeo is another large foreign competitor in the hypermarket sector, with the subsidiary Leroy Merlin specifically in the home improvement subsector. Leroy

Merlin has a sales revenue of \$440.17M (373M EUR) according to Dun and Bradstreet (2020), while Groupe Adeo pulls a one percent total market share. Leroy Merlin operates nineteen locations in Romania. The German Metro AG, who owns the Praktiker chain of hypermarket home improvement stores, operated 27 locations in Romania as of 2016 (Sava, 2020). The final and most dangerous threat is the Romanian Dedeman, funded completely with Romanian capital. Dedeman, a home improvement hypermarket chain with fifty-four locations, accounts for three percent of the total market share (Euromonitor, 2020). Dedeman has a sales revenue of \$1.9B, equaling about 1.6B EUR (Dun and Bradstreet, 2020). Though the market has competition, it is thriving and open to foreign competition. A partnership with Dedeman would provide huge influence over the home improvement market. This results in an **excellent** indicator rating.

Legal or Regulatory Barriers

The team could not find any legal or regulatory barriers specific to the home improvement retail market. No indicator rating.

Impact of Population Distribution

Romania features a relatively even population distribution between rural and urban, with 46 percent of Romanians being rural (*Romania - Rural Population*, 2020). However, these rural populations remain near enough to city centers for regular trips. The city centers are also equally distributed geographically across the country with ample surrounding land, easing logistical problems and encouraging the hypermarket format. Lowe's primary customers would have easy access to stores across Romania. This results in an **excellent** indicator rating.

In summary, the indicators in order are rated as good, good, excellent, not applicable, and excellent. Combined with previous assessments conducted on Romania's market potential, this led the group to rate Romania's retail market potential as **excellent**

Three-Year Sales Forecast

Dedeman is the hardware store benchmark in Romania. They are a newly successful company who take pride in their fast expansion. The reason we picked Dedeman to project a successful Lowe's venture is because they are the most successful DIY business in Romania. Their business model is also most similar to Lowe's.

Comparable Store's Market

Figure 1

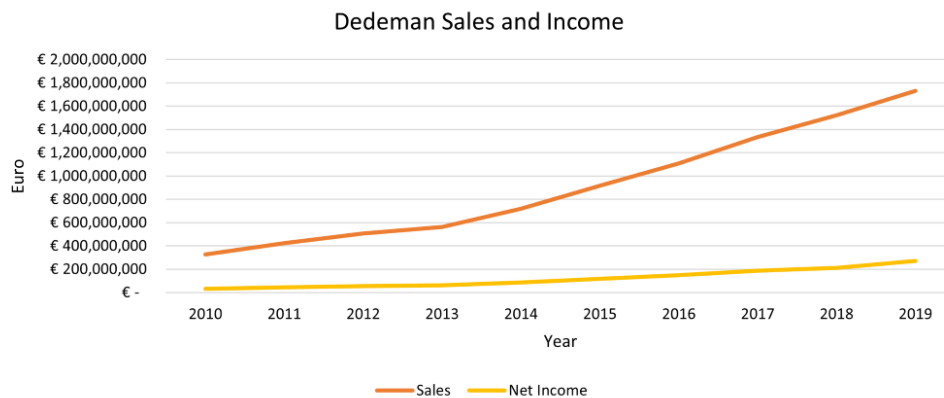
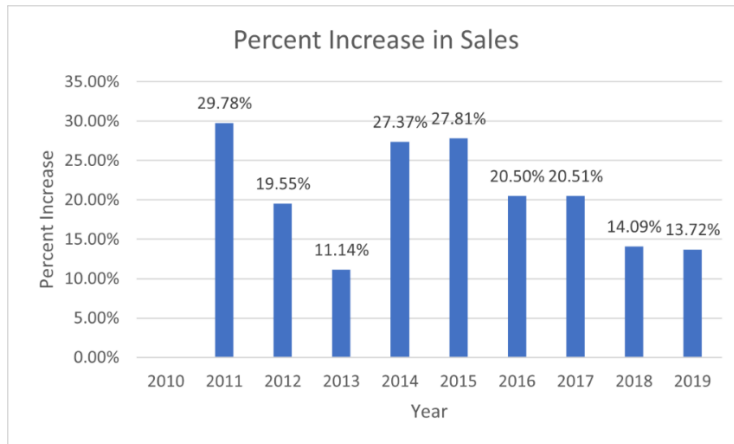


Figure 1 above depicts the sales and income for Dedeman from 2010-2019 (2020). Since Dedeman is a new business founded in 1992, the net income will not increase as fast as sales would, as they are most likely reinvesting their profits to expand their stores. In 1994 they had 11 employees, now they have more than 12,000 (Dedeman, 2020). This explosive growth rate is apparent in the graph above. It is fair to assume that Lowe's will be a competitor to Dedeman

as they offer like products at similar prices. Assuming an even split of their 1.6B EUR sales across all fifty-four locations, each store is expected to generate 40M EUR in sales.

Comparable Store's Growth

Figure 2



Note: Dedeman's Increase in Sales From 2010 to 2019 (RisCo, 2020)

Figure 2 above depicts the growth of sales for Dedeman via percent increase from 2010-2019. The size and scale of Dedeman's operation in Romania is roughly equivalent to Lowe's U.S. operations. These growth numbers are a viable tool to use in predicting the percent increase in sales Lowe's is to expect. If Lowe's can grow at this rate or higher then they will have a bright future in Romania.

Comparable Store's Expansion

Figure 3

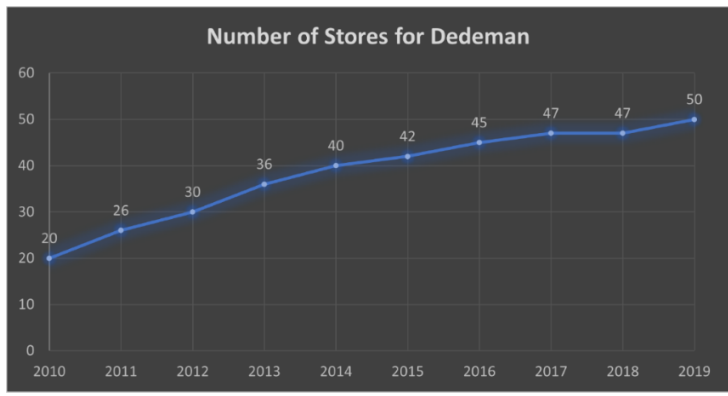
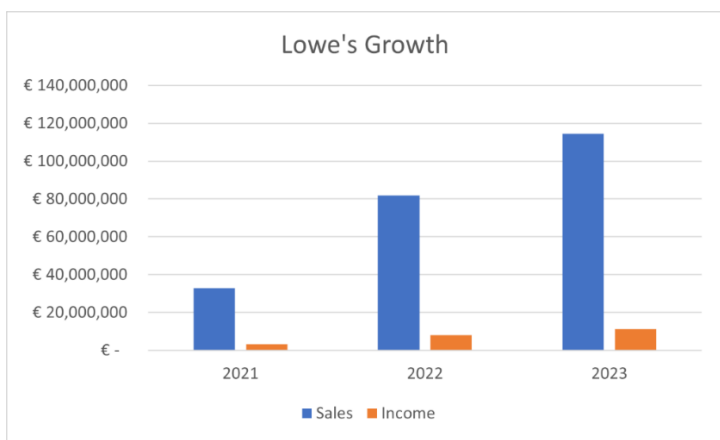


Figure 3 above depicts the number of Dedeman retail stores in Romania from 2010 until 2019. Dedeman is the largest DIY retailer in Romania by number of stores by a large margin, opening approximately 4-6 stores per year from 2010 to 2014 and then slowing to opening 2-3 stores per year from 2015-2019. Currently, Dedeman operates fifty-four locations in Romania. Lowe’s operates over sixty locations in just the U.S. state of Tennessee (Lowe’s Corporate, 2018). If Lowe’s can follow a similar expansion path to Dedeman, the demand is present.

Lowe’s Potential vs Competitor’s

Figure 4



Note: Lowe’s three-year growth forecast in sales and income (RisCo, 2020)

It is reasonable to forecast that Lowe's can come into the market and sell as much per store as Dedeman did in 2010. Within the first three years, Lowe's should aim to have 2 stores by the end of year one and 7 stores by the end of their third year in Romania. This would give plenty of room for more growth if the market demand persists, but it is a conservative assumption to only open 2-3 stores per year if the stores perform moderately well. After a period of time in Romania's market, Lowe's can eye becoming one of the top two DIY retailers in Romania, just as they are in the United States. This usurping of Dedeman's market share would mean a target of sales around 1.5 billion euros and income of about 250 million euros. With this current projected growth rate, Lowe's could reach these numbers in about 15 years. It is unreasonable to forecast Lowe's can grow to this market share in only 3 years as it would require them to open about 10-20 stores within the first year alone. While Dedeman relies on strictly Romanian capital, Lowe's has access to a steady and growing foreign investment stream and also has more experience in the sector.

Conclusion

This report utilized the findings of previous reports to compare the market potential of foreign countries for entry by Lowe's using a Multi-Attribute Model and determined that Romania was a reasonable target. Key indicators of Romania's specific retail market identified the market as an **excellent** target. Through analysis of Lowe's Romanian competition, Dedeman, it was determined that the market is growing and profitable. Lowe's should highly investigate possibilities for investment or acquisition of Romanian competitors.

References

Company Shares. Retailing: Euromonitor from trade sources/national statistics. (2020).

Romania; Retail Value RSP excl Sales Tax.

City Compass Media. (2017, December 11). *Foreign-owned retail companies get most of the Romanian sector's profit*. Romania Insider. <https://www.romania-insider.com/foreign-owned-retail-companies-profit/>.

City Compass Media. (2017, December 13). *Romanian retail market reaches EUR 40 bln*.

Romania Insider. <https://www.romania-insider.com/romanian-retail-market-2017>.

Dow Jones & Company. (2020). *LOW | Lowe's Cos. Company Profile & Executives - WSJ*. The

Wall Street Journal. <https://www.wsj.com/market-data/quotes/LOW/company-people>.

Dun and Bradstreet. (2020). *Home Centers & Hardware Stores Companies in Romania*. Business

Directory. <https://www.dnb.com/business-directory/company-information/home-centers-hardware-stores.ro.html?page=1>.

FocusEconomics. (2020). *Romania Retail Sales - Romania Economy Forecast & Outlook*.

FocusEconomics | Economic Forecasts from the World's Leading Economists.

<https://www.focus-economics.com/country-indicator/romania/retail-sales>.

Gaubys, J. (2020, April 22). *Retail Industry Growth Rate from 2017 to 2023*. Oberlo.

<https://www.oberlo.com/statistics/retail-industry-growth-rate>.

Lowe's Companies, Inc. (2020). *2019 Annual Report*. [https://corporate.lowes.com/sites/lowes-](https://corporate.lowes.com/sites/lowes-corp/files/annual-report/lowes-2019ar-final-1.pdf)

[corp/files/annual-report/lowes-2019ar-final-1.pdf](https://corporate.lowes.com/sites/lowes-corp/files/annual-report/lowes-2019ar-final-1.pdf).

Lowe's on target to open Direct Fulfillment Center in 2018. Lowe's Corporate. (2018).

<https://corporate.lowes.com/newsroom/stories/inside-lowes/lowes-target-open-direct-fulfillment-center-2018?AID=10935405>.

Melenciuc, S. (2018, June 4). *Biggest Romanian-owned business? Dedeman posts record EUR 1.4 bln turnover in 2017, up 20.5 pct; net profit jumps 25 pct.* Business Review.

<https://business-review.eu/business/dedeman-posts-record-eur-1-4-bln-turnover-in-2017-up-20-5-pct-net-profit-jumps-25-pct-172039>.

Melenciuc, S. (2019, May 30). *Dedeman's business rose by 14 pct last year to RON 7.2 bln.*

Business Review. <https://business-review.eu/business/dedemans-business-rose-by-14-pct-last-year-to-ron-7-2-bln-201682>.

RisCo SRL. (2020). *DEDEMAN SRL Financial Indicators.* DEDEMAN SRL.

<https://www.risco.ro/en/verifica-firma/dedeman-cui-2816464>.

Retailing: Euromonitor from trade sources/national statistics. (2020). Romania; Retail Value RSP incl Sales Tax.

Romania - Rural Population. Romania - Rural Population - 1960-2019 Data | 2020 Forecast.

<https://tradingeconomics.com/romania/rural-population-percent-of-total-population-wb-data.html>.

Sava, J. A. (2020, September 4). Romania: retail chains by sector 2020. Statista.

<https://www.statista.com/statistics/642260/retail-chains-number-by-sector-romania/>.

Sava, J. A. (2020, June 2). *Leading DIY retailers by number of stores in Romania 2010-2016*.

Statista. <https://www.statista.com/statistics/454034/leading-diy-retailers-by-number-of-stores-romania/>.

The Heritage Foundation. (2020). *Romania Economy: Population, GDP, Inflation, Business, Trade, FDI, Corruption*. 2020 Index of Economic Freedom.

<http://www.heritage.org/index/country/romania>.