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Lithuania

Retail Food Sector

Report

2003

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Report Highlights:

Imports of food products account for one fifth of total retail food sales in Lithuania, however, food products manufactured in the U.S. are rare on the Lithuanian market. The best prospects for U.S. food product sales are concentrates and sauces. This report provides an overview of Lithuania's retail food sector.

Includes PSD Changes: No
Includes Trade Matrix: No
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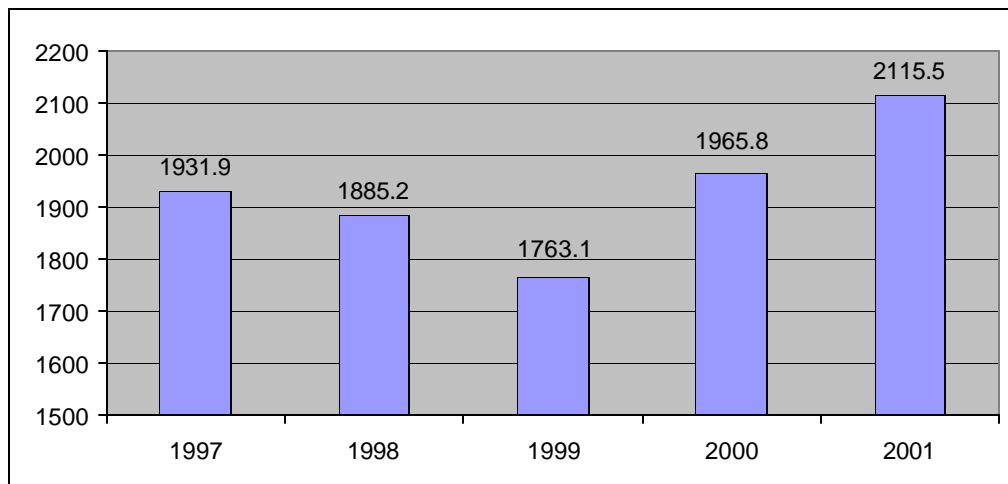
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Executive Summary

Retail trade is one of the most rapidly developing sectors of Lithuania's economy. Total retail trade increased 27 percent from 1997 to 2001 to \$4.6 billion¹. In 2001, most revenue, \$2.1 billion was generated from food retail (marketplaces and HRI included). According to the Lithuanian Department of Statistics, from January to November 2002 compared to the same period of 2001, trade in the food retail sector increased 8.6 percent. The major increase was felt by large companies (with 50 or more employees), whose sales grew 12.2 percent, while sales for small companies increased only 0.2 percent.

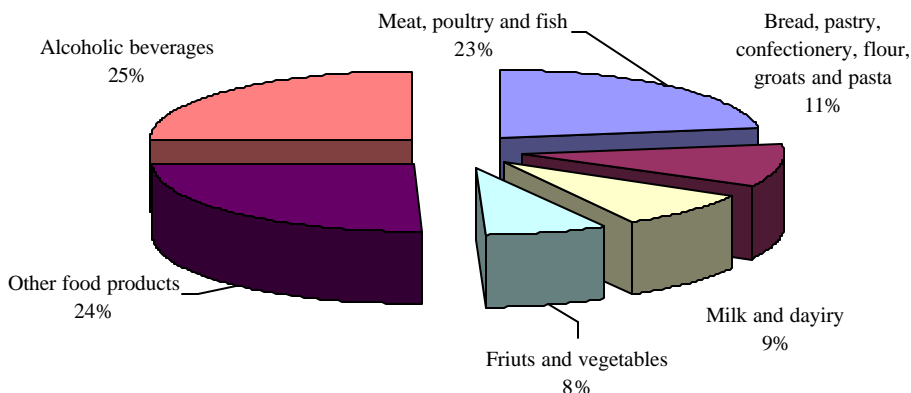
Figure 1. Food retail² revenue in Lithuania between 1997 and 2001 (million \$)



Based on data from the Lithuanian Department of Statistics

In 2001, alcoholic beverage sales accounted for the biggest share (25 percent) of the total value of food products sold through retail and HRI. Meat, poultry and fish comprised 23 percent, bread, pastry, confectionery, flour, groats and pasta were 11 percent, milk and dairy products were 9 percent and fruits and vegetables were 8 percent.

Figure 2. Retail food sales by commodity in 2001



Based on data from the Lithuanian Department of Statistics

¹ The official fixed exchange rate until February 5 2002 was 4 LTL=\$1; since February 2 2002 Lithuanian currency has been pegged to Euro and the fixed exchange rate is 3,4528 LTL = 1 Euro.

² Including trade in institutional food service sector

Imports account for 60 percent of total retail sales of fruits and vegetables in Lithuania as well as up to 27 percent of total retail sales of alcoholic beverages. The same indicator for bread, pastry, confectionery and sweets is 15 percent, for meat and meat products – 0.1 percent.

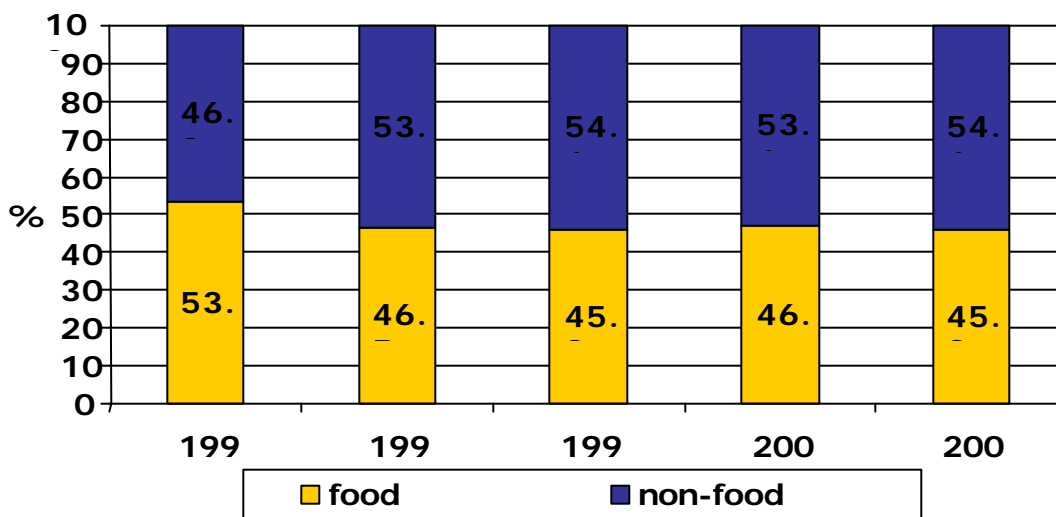
Table 1. Food retail value between 1997 and 2001 (million \$)

Commodities	1997	1998	1999	2000	2001
Meat, poultry and fish	418.1	385.6	397.6	443.0	476.9
Milk and dairy products	245.7	188.5	157.9	168.2	185.4
Bread, pastry products, confectionery, flour, groats, and pasta	223.3	200.9	200.4	202.2	224.9
Fruit and vegetables	163.4	153.7	131.8	153.7	160.7
Alcoholic beverages	499.4	534.2	566.3	524.9	534.4
Other	381.9	422.2	309.0	473.9	533.3
Total	1931.9	1885.2	1763.1	1965.8	2115.5

Based on data from the Lithuanian Department of Statistics

The percentage of food products and beverages in total retail sales decreased from 53 percent in 1997 to 46 percent in 2001.

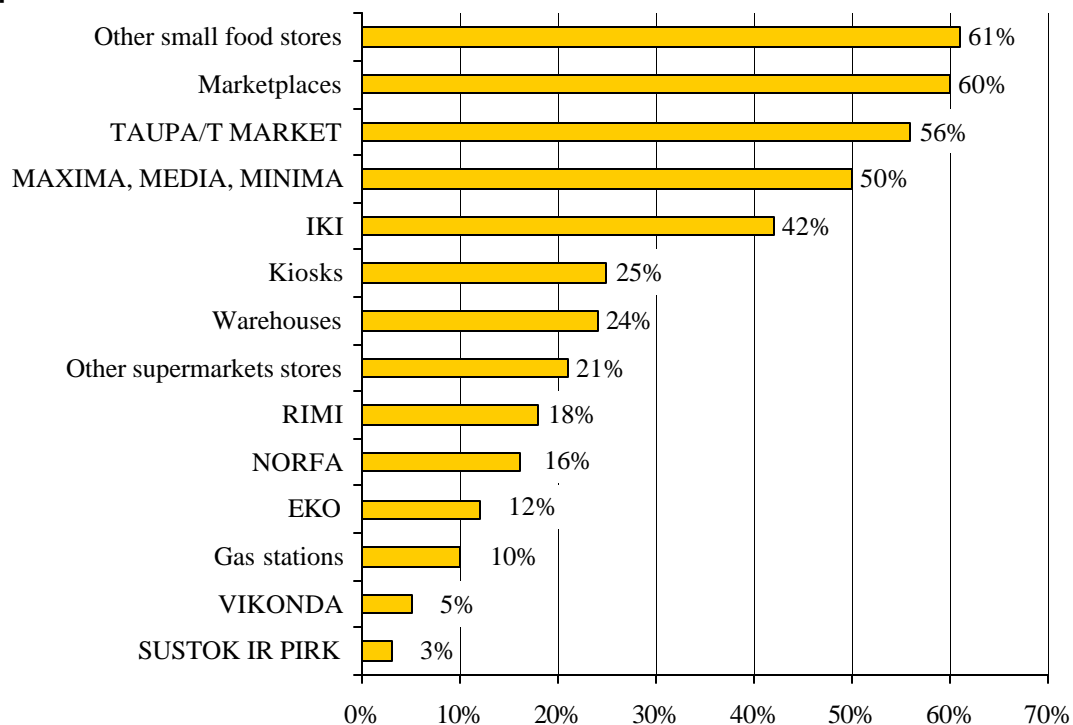
Figure 3. Food and non-food commodities as a percentage of retail trade between 1997 and 2001



Based on data from the Lithuanian Department of Statistics

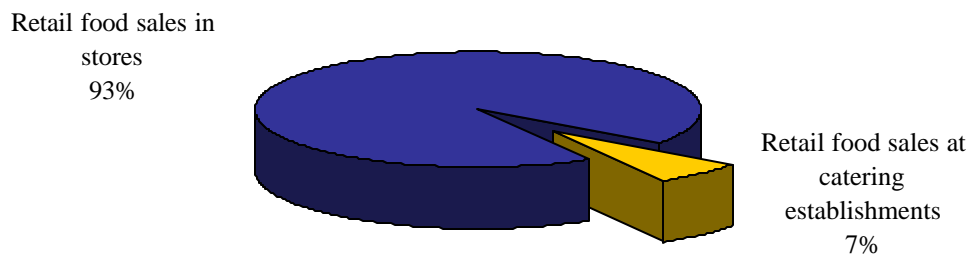
Approximately 60 percent of food products are sold in supermarkets, 30 percent in convenience stores (gas stations, kiosks, medium-small sized stores), and 10 percent in traditional markets. Nearly 93 percent of all food products were sold through these shopping outlets in 2001, with the remaining 7 percent was sold at HRI businesses.

Figure 4. Food products, beverages and fast moving consumer goods purchasing places in 2001



Based on data from market research company Baltijos tyrimai

Figure 5. Retail food sales in 2001 (percent)

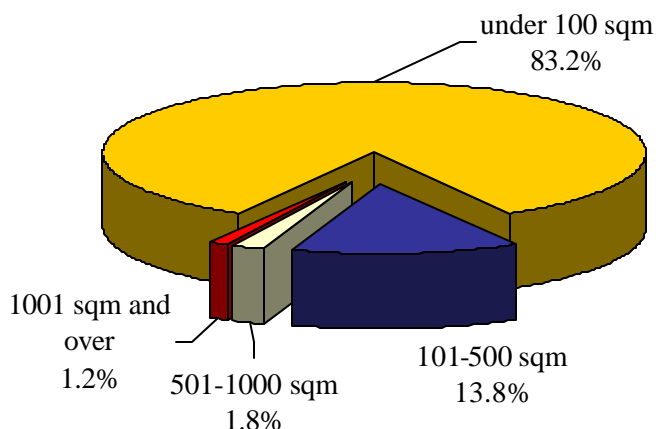


Based on data from the Lithuanian Department of Statistics

The estimated mark-up in the retail food sector is approximately 10-20 percent. The mark-up depends on the category of the food products. The biggest mark-up is on relatively cheap products as well as on products with short expiration dates.

There were 19,129 different types of retail stores in Lithuania in 2001. Food products were sold in 54 percent of them (including variety stores). From 1997 to 2001 the number of retail stores decreased 9 percent.

Figure 6. Stores / Floor space 2001 (percent)



Based on data from the Lithuanian Department of Statistics

The average shopping space per 1,000 inhabitants in Lithuania is less than in the EU and in the U.S. The average EU shopping space per 1,000 inhabitants is 1,000 m², in the U.S. it is 3,000 m², while in Lithuania it is only 552 m².

The total monthly consumption expenditure per one household member in 2001 was approximately \$103, which is 15 percent more compared to 1996 and 2 percent more compared to 2000. The household food expenditure (excluding money spent in cafeterias, restaurants and cafes) was 42 percent of all consumption expenditures, which is \$44.00 per household member per month.

Although shopping centers are concentrated, the largest investments are in renovation and construction of large stores and supermarkets. In 2001 compared to 2000 the number of food stores that are dependent on retail chains increased 41 percent. The number of small food stores decreased 5 percent, the number of gas stations that sell food decreased 6 percent and the number of marketplaces decreased 21 percent. In general, tendencies typical of Western European countries are seen in the Lithuanian retail market.

Advantages	Challenges
Imports account for 20 percent of total retail food sales in Lithuania.	Food products manufactured in the U.S. are rare on the Lithuanian market.
Lithuania has well developed retail chains compared to other Baltic States.	Food market is relatively small.
Well-developed distribution and logistics service systems exist.	High customs duties, import quotas are applied in order to protect local manufacturers.
Lithuanians increasingly shop at super centers and supermarkets instead of marketplaces.	Local food processing sector is well developed.
Lithuanians consider food products manufactured in the U.S. to be of good quality.	Lithuanians are nationalistic in terms of food purchases and tend to buy domestic products.

<p>Lithuania's proximity to EU and Russian markets is favorable for transit flows.</p> <p>Large and increasing presence of retail chains.</p> <p>Consumption of food products continues to grow.</p>	<p>There is a lack of information about U.S. products in Lithuania in general.</p> <p>After integration into the EU, the import regulations will be the same as in the EU's. It could limit imports from the U.S.</p> <p>Strong competition among local importers.</p>
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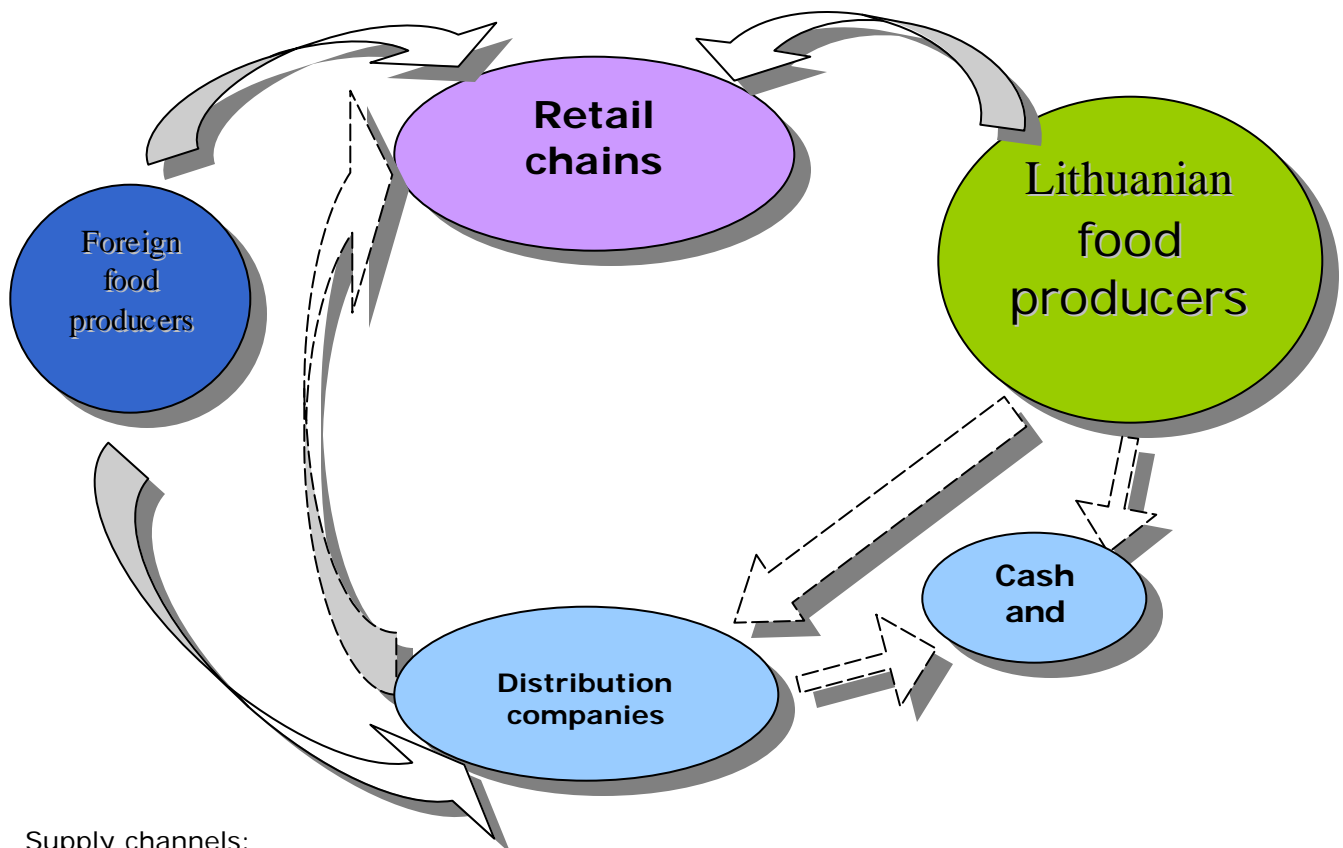
Road Map For Market Entry

A. Supermarkets, hypermarkets, warehouses

ENTRY STRATEGY

Presently, there are many possibilities for foreign market players to enter the Lithuanian retail food market. There are significant under-utilized niches in Lithuania. The best entry strategy is to use aggressive price policy and offer a wide product assortment.

MARKET STRUCTURE



Supply channels:

- Food producers;
- Foreign food producers;
- Distribution companies.

A relatively large share of dairy, meat, bread and pastry products are supplied directly by manufacturers. Local and international food manufacturers increasingly rely on local logistics companies to do business in Lithuania. Some local producers are restructuring their logistics divisions and tend to outsource this work to independent logistics service providers. Wholesalers supply groceries (mostly beverages and imports with a longer shelf-life period). Smaller retailers use cash and carry wholesalers, who are usually partly owned by distribution companies.

MAJOR SUPERMARKETS PROFILE

Name of retailer and type of outlet	Ownership	Sales in 2001 (million \$)	Number of outlets	Location	Type of purchasing agent
VP Market, JSC Hyper, super, mini-markets, wholesaler	Lithuanian	270	Lithuania - 155 Latvia – 40 Estonia - 1	Nationwide, Riga, Liepoja, Daugpilis, Jelgava, Parnu	Importers, distributors
RIMI, JSC Super, mini- markets	Sweden/ Holand	100*	35	Nationwide	Importers, distributors
IKI, JSC Super, mini- markets	France	125*	104	Nationwide	Importers, distributors
Norfos mažmena, JSC Mini- markets	Lithuanian	Not available	34	Nationwide	Importers, distributors
Lupra, JSC Mini- markets	Lithuanian	5	9	Šiauliai	Importers, direct
Stilsena, JSC Mini- markets	Lithuanian	4	8	Šiauliai, Rad- viliškis, Joniškis, N.Akmene	Importers, direct
Vakaru prekyba, JSC Mini- markets	Lithuanian	5	9	Nationwide	Importers, direct
Taupyk, JSC	Lithuanian	10	15	Kaunas	Importers, direct

* - Estimated

The largest retail chain in Lithuania is VP Market, which owns almost 60 percent market share, followed by Rimi at 15 percent, IKI at 15 percent, Norfos mažmena at 10 percent. There are approximately 125 large distribution companies in Lithuania. They focus on wholesale activities in Lithuania but do not own retail store chains. *Sanitex* distributes Procter & Gamble products, *Trojina* distributes Neste and Unilever products etc., *Bennet Distributors*, *Mineraliniai vandenys* distribute alcoholic beverages, *Eugesta* – Merrild and Kinder, *Saldva* distribute different spice mixes. The role of smaller distribution companies operating in Lithuania is rapidly decreasing. During the last 4 years bigger distribution companies replaced smaller distribution companies. As a result several of the smaller regional distribution companies went bankrupt.

According to industry experts, the role of wholesalers will decrease in the future. The largest retail chains will take over the wholesale process and will purchase products directly from producers. Distribution companies imported 50 percent of their products 2-3 years ago,

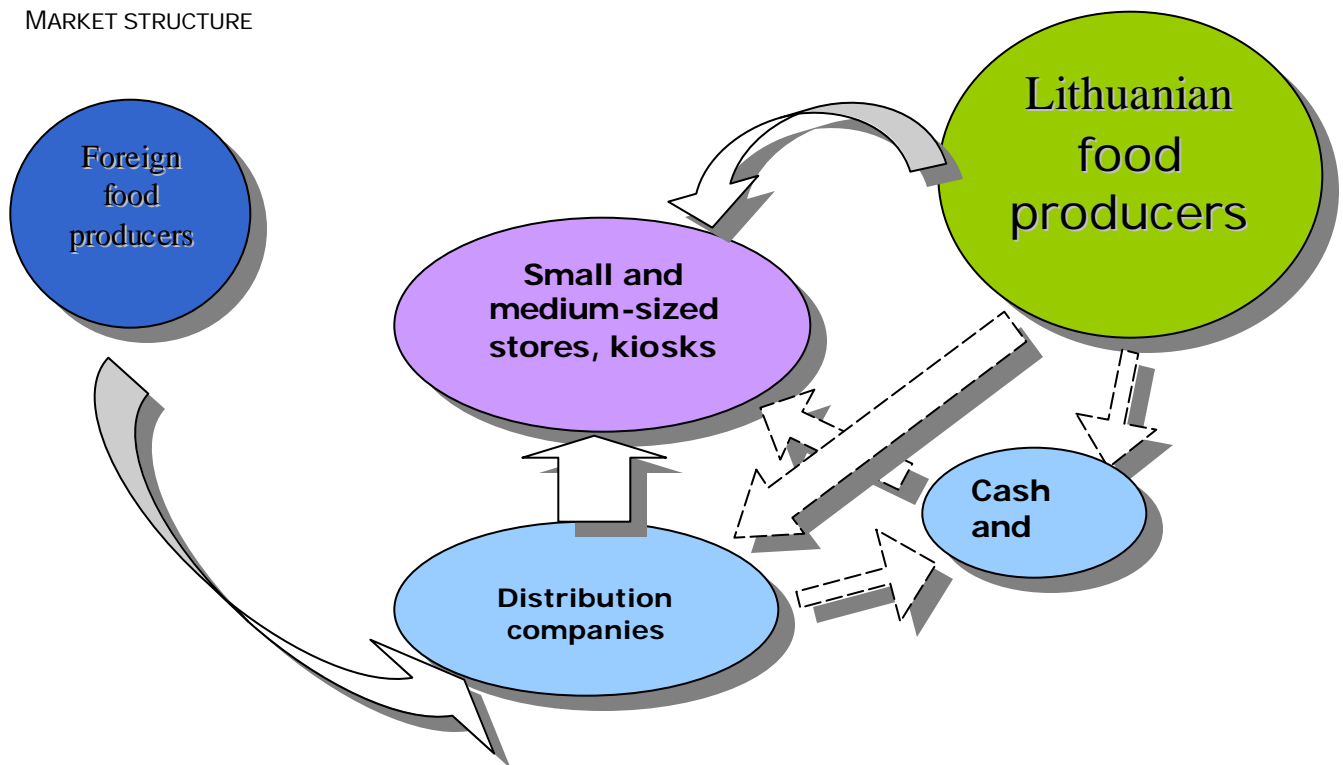
whereas at present they import almost 80 percent. The role of local distribution companies will also decrease because of expected market entry by international market players. The demand for logistics services within the food sector has increased steadily for the last few years. It is estimated that the demand for these services will continue to grow in the next 3-5 years. At present, most of the retail chains (except Rimi) have logistics operations within the company. The development of logistics service providers could influence retail chains to outsource these services in the future. Several supermarket chains have opened fast food HRI restaurants in hypermarkets and supermarkets (Rimi, Maxima chains). The largest assortment of food products is sold in the biggest supermarkets. *Rimi* also sells exotic food products: quail meat, partridge, pheasant, pigeon, crocodile, zebra, kangaroo, antelope, gazelle, bison, and ostrich broils. More than a ton of exotic meat products are sold in Lithuania. The most popular exotic products are crocodile, kangaroo and ostrich meat. French products are a relatively big part of *IKI* retail chain products.

B. Convenience stores

ENTRY STRATEGY

The suppliers of supermarkets also supply the convenience stores. As the convenience stores market share is relatively small in the retail food market, it is estimated that the number of stores will decrease in the future and retail chains will overtake their market share.

MARKET STRUCTURE



CONVENIENCE STORE PROFILE

Convenience stores include small and medium size stores, kiosks, gas stations, and specialized stores. At present about 30 percent of all food products are sold in convenience stores. According to industry experts, the number of convenience stores will decrease

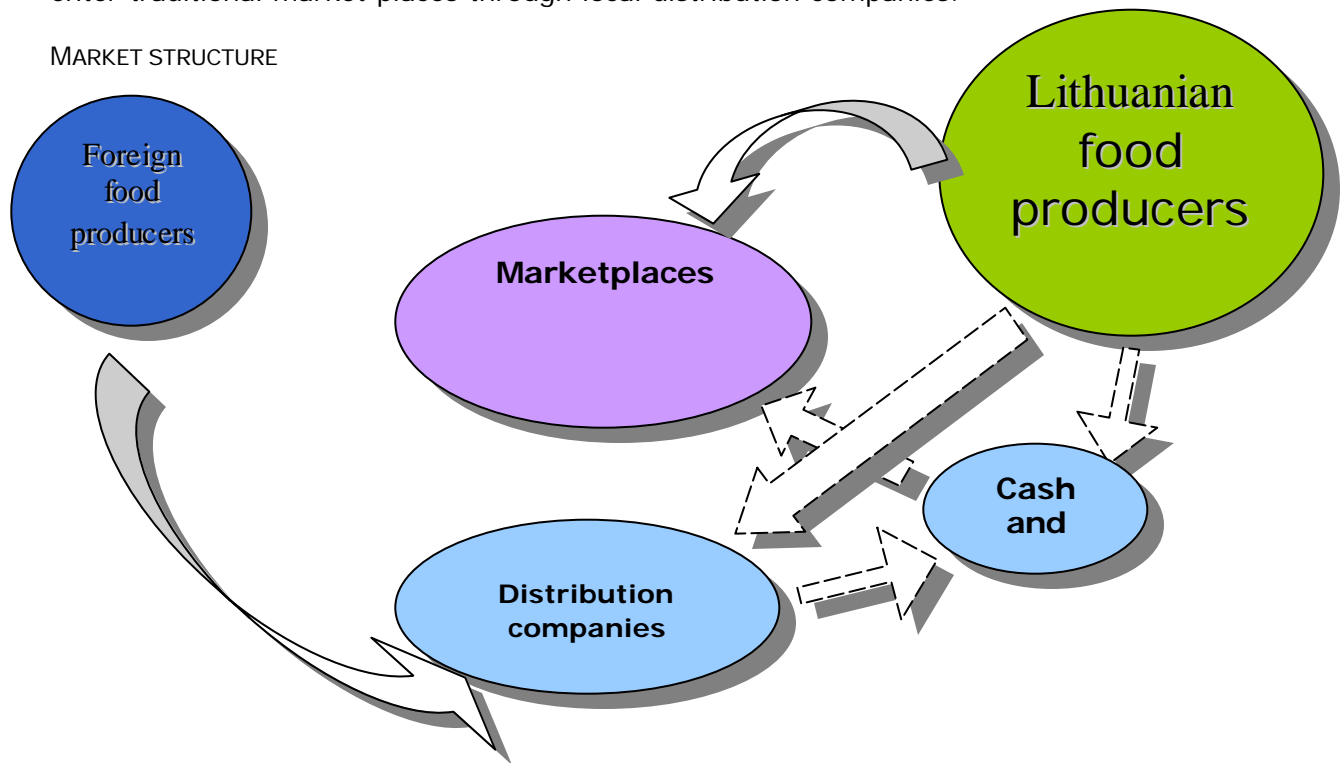
because of the growing concentration of retail chains. The commerce of small retail outlets will substantially decrease and they will become family business outlets as a result of retail concentration. A relatively small number of food items are sold at gas station (Statoil, Lukoil Baltija, Shell, Mažeikiu nafta). The most popular food items are **chocolates, chewing gum, various beverages, sandwiches, coffee, etc.** In December 2001 gas stations were licensed to sell alcoholic beverages. The most popular food products sold in kiosks are **chocolates and chewing gum.** The number of kiosks has not significantly changed over the past few years.

C. Traditional markets

ENTRY STRATEGY

The number of traditional markets have decreased during the last two years. The traditional market sales channel is of relatively small importance when considering long-term market entry strategy. The product quality and sales regulations applied to the traditional market places are also applied to food sales in retail stores. Presently foreign food producers could enter traditional market places through local distribution companies.

MARKET STRUCTURE



TRADITIONAL MARKET PROFILE

The prices at marketplaces are 10-15 percent lower than in supermarkets. According to industry experts, the reduction in income that marketplaces suffered over the past few years was caused primarily as a result of the expansion of retail chains. Still, marketplaces remain quite popular among Lithuanian consumers. Fruits and vegetables remain the most popular seasonal marketplace commodities. Apart from the local products, Polish, Bulgarian, Hungarian and Italian products are sold in the marketplaces. Meat products occupy a distinct position among the commodities sold at marketplaces. Even though the total number of market places is decreasing, a few new marketplaces were opened within the last 2 years and new trends in this area are evident. Farmers markets were opened near big supermarkets or even in the same buildings. Retail chains often control these farmers markets. The future of traditional markets are also dependent on the country's agricultural policy.

Prospects For Sector Development

Indications are that the development of retail chain concentration will continue into 2003. The largest supermarkets plan to expand not only in Lithuania, but also in other Baltic countries and in Russia as well. Market experts indicate that the shopping floor space will increase by 150,000 m² during 2003-2004. The prospects for sector development are closely related to the development of the largest retail chains and the expected entrance of new foreign players in Lithuania's retail market. In the last two years there have been significant foreign capital investments in Lithuania's retail sector. Foreign direct investments totaled \$550 million in 2002. In 2002 Foreign Direct Investment in the retail sector increased by 140 percent compared to 1997. The role of foreign investors in Lithuania's retail sector is expected to increase rapidly in the future. German, French and Spanish retailers are mentioned among potential candidates who have been investigating opportunities to invest in Lithuania's retail sector for the last 5 years. According to industry experts, in the next 3 to 5 years, the role of retail chains will increase and the concentration of retail chains might reach 70 percent of the market. At the same time the number of smaller independent retail stores will decrease significantly.

The leading retail chain in the Baltic States, VP Market is expanding by opening a number of shopping malls and retail outlets. The largest shopping mall, Akropolis which has 45,000 m² of shopping space opened in Vilnius early in 2002. VP Market plans to open a similar shopping mall in Kaunas in 2003 and in Klaipeda in 2004. In addition VP Market plans to open stores in Lithuanian towns with more than 4,000 inhabitants and in Latvian towns with more than 10,000 inhabitants. VP Market plans to open 90 T-Market, 1 Maxima and 1 Hyper Maxima stores in Lithuania in 2003. According to VP Market investment plans for the next 2 or 3 years, they will invest \$300 million in the Baltic States. *JSC Norfos mažmena* (JSC) plans to expand its activities in the Russian market in 2003 by opening new retail outlets there. JSC began constructing new stores in Lithuania in 2002. In 2003 JSC plans to build four new stores, and to open 15 stores. JSC expects its revenue to be valued at \$154 million.

Seven well known EU companies have been investigating investment opportunities in Lithuania for the last five years. So far *ICA Ahold AB* has invested in the market (acquired RIMI). *ICA Ahold AB* plans to develop and improve Hyper Rimi supermarkets in 2003. The company plans to become a market leader in Lithuanian in 2 or 3 years. According to Lithuanian retail experts, this plan could be implemented with the help of the intensive Rimi retail chain development and the acquisition of other local retail market players. *ICA Ahold AB* plans to open 11 Rimi and Hyper Rimi outlets in 2003. In 2003 and 2004, supermarkets

Eko, Vikonda and Sustok ir pirk will be rebuilt according to Rimi standards. In 2003 *IKI* retail chain expects to maintain the second position in the market with the ambition of becoming the retail food sector leader. *IKI* plans to develop a *Pigiau grybo* chain and to open 20 to 25 new stores. *IKI*'s estimated investment in Lithuania in 2003 is \$3 million.

Competition

Competition among retail chains, producers, and distribution companies is evident in Lithuania. A number of well-known European retail market players have been investigating the possibility of investing in Lithuania's retail market for the last 5 years. The entry of well-known European retailers was expected a few years ago and it is still expected in the next 2 years. This could lead either to the acquisition of some existing market players or an independent market entry. One of the most potent new market players in Lithuania's retail market is the German retail chain *Lidl*, which has 5,000 retail outlets worldwide. Current market players are trying to increase their attractiveness to potential foreign investors. Most Lithuanian retail chains were negotiating with several international retailers during the last few years, but no agreements have been reached. Competition forces market players to focus on the ownership of strategically important sites for new retail outlets, competition for floor space, food product assortment and promotional activities. Current market players will probably focus on image building, customer service and loyalty campaigns over the next 2 or 3 years. This will also result in current market players attempting to differentiate themselves and position themselves towards different segments of consumers. Current market players are differentiating their assortment with private labels representing 20 to 30 percent of the products in different retail chains.

The retailers according to cost (expensive – inexpensive):

- *IKI*
- *VP Market / RIMI*
- *Norfos mažmena*

The retailers according to quality:

- *VP Market / RIMI*
- *IKI*
- *Norfos mažmena*

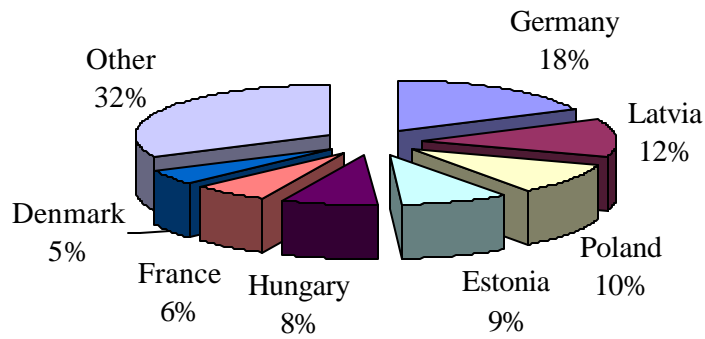
The estimated number of products in various retail chains:

- *VP Market / RIMI* – 20,000
- *IKI* – 15,000
- *Norfos mažmena* – 5,000

In 2001, food imports accounted for over 20 percent of all the retail food sales in Lithuania. The sales of local products at retail were \$1.48 billion, while imports were \$197 million. Over the past three years, the share of food imports in the country's total imports decreased 5 percent. Food and beverage imports increased 5 percent between 2000 and 2001.

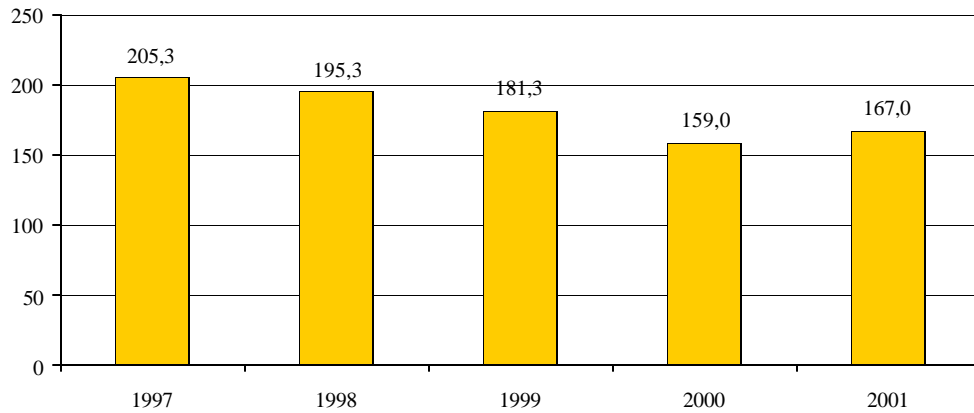
The largest processed food exporters to Lithuania are: Russia (15 percent), Estonia and Germany (9 percent each), Ukraine (8 percent) and Latvia (3 percent).

Figure 7. Processed food imports to Lithuania by country in 2001 (percent)

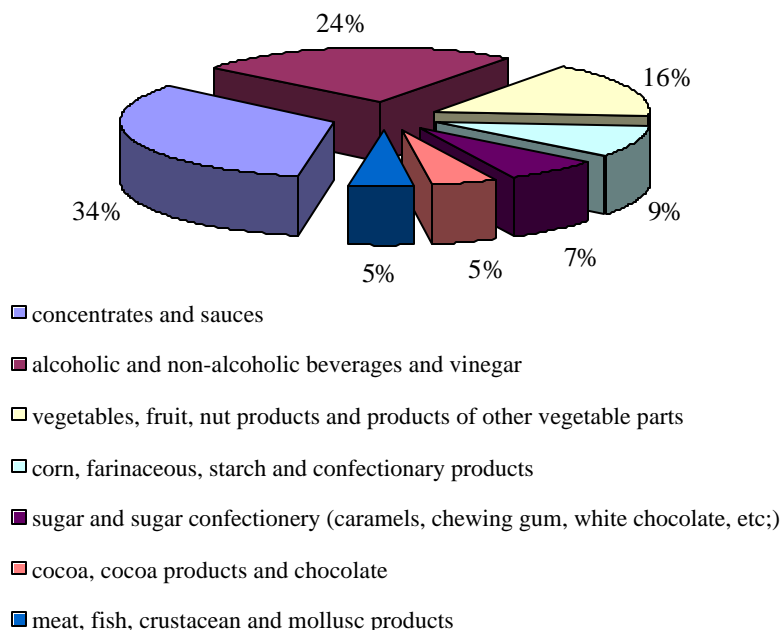


Based on data from the Lithuanian Department of Statistics

Figure 8. Imports of processed foods and beverages between 1997 and 2001 (million \$)



Based on data from the Lithuanian Department of Statistics

Figure 9. The composition of imports of processed foods in 2001 (percent)

Based on data from the Lithuanian Department of Statistics

The analysis of the changes in the volume of imports of processed foods from 1997 until 2001 indicates that imports of meat, fish and crustaceans as well as mollusks remained stable at 4 or 5 percent. Throughout this period sugar and confectionery imports dropped from 12 percent in 1997 to 7 percent in 2001. Imports of cocoa, cocoa products and chocolate also declined during this period from 12 percent in 1997 to 5 percent in 2001.

Imports of concentrates and sauces increased from 30 percent in 1997 to 34 percent in 2001. Similar trends were recorded for alcoholic, non-alcoholic beverages and vinegar products (an increase from 21 percent in 1997 to 24 percent in 2001).

Table 2. Target import tariffs on certain food products

Food products	Import tariffs
Fresh or frozen tomatoes	25-55 percent
Cucumbers	20-55 percent
Fresh or frozen beef	38.7-45 percent
Pork	32.5-40 percent
Milk concentrate, condensed milk and cream	30-35 percent
Cheese and curd	40.5-50 percent
Butter	54-65 percent
Confectionery products of sugar	32.5-45 percent.

Best Products Prospects

A. PRODUCTS WHICH HAVE GOOD SALES POTENTIAL

- Meat and meat products;
- Bread and corn products;
- Milk, cheese and eggs.

B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL

- Fish and fish products;
- Products of dried, canned and other fruits;
- Sources and concentrates, flavorings (ketchup, mayonnaise, mustard);
- Various spices (pepper, chili pepper, vanilla, etc.);
- Soups and bouillons.

C. IMPORT RESTRICTIONS

The import tariff for fresh and frozen poultry is 50 percent; for refrigerated it is 30 percent, for turkey it is 20-28 percent, for pork products it is 32.5 percent and yogurt is 30 percent. The highest restriction is applied to butter and other milk fats (54 percent), for cheese (36.5-40.5 percent) and for white sugar (87 percent).

Table 3. Target import tariffs on certain food products

Food products	Import tariffs
Poultry (fresh and frozen)	50 percent
Poultry (refrigerated)	30 percent
Turkey	20 percent
Pork	32.5 percent
Yogurt	30 percent
Milk fats	54 percent
Cheese	36.5-40.5 percent
White sugar	87 percent

Heavy sanitary and quality restrictions are applied to imported poultry, pork, and beef products.

Integration To The EU

According to Lithuanian government sources, integration will bring about immediate conformity with the EU health inspection and food quality standards.

Possible EU integration effect on the retail sector:

Positive aspects	Negative aspects
<ul style="list-style-type: none"> • Increase in wages • Higher standard of living • Increased spending on food • Increase in product sales 	<ul style="list-style-type: none"> • Increase in competition in the retail sector • Trade barriers with non-EU countries will be erected • Increased public spending to achieve the EU level of production, environmental protection and consumer protection requirements

Post Contact Information

If you have any questions or comments regarding this report, or need assistance in exporting to Lithuania, please contact the Office of Agricultural Affairs in Warsaw, at the following address:

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