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Agricultural Situation

Transaction of Supermarket Chain Enhances Concentration in the Retail Food Market 2000

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Report Highlights: In mid-April 2000, the previously significant Austrian supermarket chain Julius Meinl sold all but one of its remaining supermarkets to Austria's largest supermarket chain Spar. There are rumors that Meinl will sooner or later sell also its retail outlets in Czech Republic.

Includes PSD changes: No
Includes Trade Matrix: No
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Transaction of Supermarket Chain Enhances Concentration in the Retail Food Market

Summary:

After the closure and sale of numerous outlets in 1999, the Julius Meinl concern sold recently all but one of the food shops which were still in the company's hands. The buyer is Austria's second largest supermarket chain Spar, which is expected to gain 1 - 2 percentage points of the country's total food market. The transaction is a further significant step in the ongoing retail food market concentration. It is expected that sooner or later, Meinl will also sell its supermarkets in the Czech Republic. End summary.

After the sale of 162 shops to Billa, and a relatively large number of outlets to other retail firms, the Austrian supermarket chain Julius Meinl recently sold 93 shops to the supermarket chain Spar. Spar also took over Meinl's 1,500 employees. The price of the deal has not been disclosed.

Meinl, in the past regarded as a higher quality food retailer, was probably too small to compete on the mass product sector. Thus, in 1998, Meinl expressed the intend to sell all its outlets to Billa, a subsidiary of the German REWE concern. However, due to Billa's large market share in the eastern part of Austria, the EU Commission allowed Billa to take over only 162 outlets in February 1999. For competition reasons, Billa could not buy 177 supermarkets with an annual turnover of around AS 6 billion. As a consequence of the EU decision, Meinl closed several shops and sold a combined number of 77 outlets to Loewa and Spar in 1999. Meinl should continue to operate the remaining 94 supermarkets as upper class "gourmet shops".

Most experts doubted that such a large number of more expensive, upper class outlets would be able to exist in the Vienna area. This was probably also realized by the Meinl family, who owns majority of the concern consisting of a bank, food processing plants, and until recently a supermarket chain. Nevertheless, Meinl's announcement in mid April 2000, that 93 of its remaining 94 outlets were sold to the Austrian supermarket chain Spar, came as a great surprise. Some months earlier the company had announced that in 1999 AS 120 million was invested and an additional AS 700 million will be invested in the transformation of supermarkets into gourmet shops.

The deal still has to be approved by Brussels. However, as Spar's market share in the eastern areas of Austria will remain considerably below 50% despite the recent acquisition, no objections are expected from the EU Commission.

The last transaction is one of several steps in the frame- work of Meinl's changing business policy. The company is probably interested in abandoning practically all its retail outlets, regarded as marginally profitable. In 1999 and 2000 the company sold all its Austrian

supermarkets (total turnover in 1998 AS 10 billion) except one and in June 1999 it sold the Csemege Julius Meinl food chain in Hungary to the Belgium Louis Delhaize concern (estimated price AS 2.5 billion). According to rumors, it is only a question of time before Meinl sells its outlets in the Czech Republic. Only one supermarket, upgraded to an exclusive gourmet shop in the center of Vienna, will remain Meinl property.

Spar is, after Billa (market share 31%), Austria's second largest food chain. Before the recent acquisition Spar had a market share estimated at 25%. Through acquiring 93 Meinl outlets (annual turnover about AS 2.5 billion), Spar should gain 1 - 2 percentage points of the total Austrian market. While Billa is strong in eastern regions of the country, Spar is strong in western parts. Spar has always particularly endeavored to expand in the eastern areas and thus welcomes the new shops, all of which are in this area. According to Spar, not all outlets are in favorable locations and thus it is expected that about one third of them will be closed. In contrast to Billa, which operates a number of Meinl shops under the old logo, Spar will soon introduce its own logo in the new shops.

With the recent transaction, concentration of the retail food market has proceeded significantly but the end is not yet in sight.

In 1999, the Austrian retail food trade had a turnover of AS 168.5 billion, up 2.1% from 1998. Total sales area is 2.6 million square meters. Smaller shops, with a sales area of less than 500 square meter are losing whereas larger ones are gaining significance. The total number of retail food shops was in 1999 around 7,000.