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# THE ADAPTING OF HYPERMARKETS AT THE FINANCIAL CRISIS CONDITIONS CARREFOUR ROMANIA

Case  
study

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## **JEL Clasification**

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## **Abstract**

*The financial crisis is a global phenomenon that has marked the evolution of all economic sectors. The drastic change of the consumer behavior has led the trade companies to choose between two survival strategies: the product development strategy and the exit strategy.*

*Carrefour company bases its strategy on five values deeply rooted in the consumer`s conscience: an aggressive pricing policy, based on discount; a range of 50000 items sold under the concept “everything under one roof”, quality, modernity and innovation. The strategy rests on three pillars: customer orientation, transformation and innovation. The product policy is focused on exploiting the products which belong to Carrefour trademarks and the pricing strategy allows the customer to purchase a variety of quality products, at low prices. The promotions acquire an aggressive tint in the company`s marketing strategy, the success being guaranteed by their ability to allow consumers to maintain a regular and economical consumption. For this company, the knowledge of the customer`s psychology is an advantage which allows the implementation of some psychological tricks for sales growth.*

*The strategies implemented by Carrefour enable the company`s survival in a changing competitive environment and generate profit. This result proves that Carrefour deserves the market leading place.*

## 1. The financial crisis: a phenomenon with impact in our lives

### 1.1. The economic context of the financial crisis

The financial crisis was triggered in the first quarter of 2006, when the prices charged in the real estate sector began to decline. "The banks have frozen lending to the population, situation which led to lower sales of both consumer goods and durable goods" ( Ion Gr. Ionescu (2009) Scurt analiz asupra actualei crize economico-financiare, în "Analele Universit ii Cre tine Dimitrie Cantemir", Bucure ti, passim.). The financial institutions have become reluctant in granting loans for business because of the high risk posed by customers. The construction sector has been among the most affected by the decision to stop bank financing. Developers could barely continue the projects begun and they can hardly build new buildings, because the banks refuse to grant credits for investment in a sector in free fall.

The financial and economic crisis has affected all economic sectors worldwide. In Romania, the exports were the first that felt, heralding the decline of the overall economy, but they are the first that have announced increase in the late of 2009.



Figure 1 – The consequences of the financial crisis

The industrial production recorded its first annual reduction in 2008, reaching a peak decrease in February 2009. Giving the fact that the consumer`s debts lack in the system, the trade turnover registered an average decrease of 10,4%

during January – October 2009. The peak reduction was achieved in June, when the retail sales felt by over 17%.

The auto industry has been another sector affected by the financial crisis spreading. The number of cars sold dropped by nearly half and "The jalopy" program wasn`t the success expected.

### 1.2. The retail sector: adaptation for survival

The financial crisis has affected the consumers, both economically and psychologically. They have become more stressed, more concerned about their future and job stability. The frequency of purchase and consumption has decreased and the emergence of "the down trading" phenomenon focuses the client`s attention on the hypermarket`s own brands.

The customers refuse to take in consideration buying "premium" products, because they only afford necessities. In this situation, they decide to buy products that belong to cheaper brands and they have a more rational attitude towards the product`s promotion, which becomes the centre of their buying interes. The pleasure of shopping is gone.

The retail sector has been forced to adapt to the consumer`s changing buying behaviour. In order to develop a successful business in a market affected by the financial and economic crisis, the retail companies must use proactive strategies that will help them improve products and crystallize marketing programs, designed to meet the client`s needs.

## 2. The crisis strategy implemented by Carrefour Romania

### 2.1. Carrefour Company – strategic trends to combat the financial crisis effects

"The marketing strategy is a plan on how the organizations use their strenghts and resources available to meet the market`s requirements, in order to create

competitive advantage" (Ion Gr. Ionescu (2009) Scurt analiz asupra actualei crize economico-financiare, în "Analele Universit ii Cre tine Dimitrie Cantemir", Bucure ti, passim.).

During the financial crisis period, the companies have the possibility to choose between two strategic alternatives (V. Balaure (coord) i colectiv (2002) *Marketing*, Edi ia a doua rev zut i ad ugit , Editura Univers, Bucure ti,, 2002, p. 599. Vezi i Daniela Simona Nenciu (2009) *Strategii de marketing pentru dezvoltarea turismului românesc*, Editura Ex Ponto, Constan a, passim.):

a) *The product development strategy*, which can lead to increased activity through the diversification process of the product range, but maintaining the same customer base, by offering additional services which allow customers loyalty;

b) *The exit strategy* is a rare variant, but there are situations in which full or partial withdrawal of the current markets is a recommended strategy, knowing that a lot of companies have to deal with difficult financial situations. These enterprises can cover part of their loss, selling their seats and their portfolio of orders.

It is further interesting to analyze the ways in which companies like "Carrefour Romania" have successfully adapted their marketing strategies to the financial crisis, manifested in the retail sector.

Carrefour is the company that invented "the hypermarket" concept. This enterprise occupies the leading position in Europe and the second place in the world, after "Walmart" hypermarket. The company's activity is stimulated by the ambition of becoming the consumer's favourite retailer, no matter what is the region in which the company operates.

In those times, when the financial crisis was only an economic term

in the dictionary, the company's strategy was built on five major values, all of them being appreciated by the Romanian consumers: An aggressive pricing policy, based on discount;

- A range of 50000 items sold under the concept „everything under one roof”, providing an unique offer on the Romanian market;
- Quality, which emphasizes two important aspects: the exceptional quality of the fresh products and the top services offered to the customers;
- Modernity;
- Innovation.

Today, the concept "everything under one roof" is considered to be exceeded and for this reason it will be replaced by a more careful selection of the products and by testing partnerships with famous brands. The company has stopped the development of its expansion plans and the managers have become more selective on investments.

The french enterprise is forced by the economic context to change its strategy, setting as a goal the achievement of a sustained profitable growth. The company's strategy is supported on three levers:

- *Client –oriented culture* – requires a good knowledge of the client, in order to serve him better. The customer's trust must be gained through product quality, price and service.
- *Transformation* – involves the management reorganization, the enhancement of synergies between sharing knowledge and best practices. Unfortunately, what for Carrefour means "transformation" and cost reduction, for the company's employees means the risk of losing their jobs.
- *Innovation* – the company's offer will be enhanced by launching new product ranges, that are able to

meet the customer's current consumption demand.

In Russia, the company has opted to apply the exit strategy, because in that country the expansion possibilities were limited.

## 2.2. The marketing – mix – a strategic tool to win "the fight" against the financial crisis phenomenon

In Romania, Carrefour begins to sell its assets, trying in this way to cover some losses. However, in our country, the main strategy of survival chosen by the company is *the product development strategy*.

Fighting against the financial crisis and the fierce competition, Carrefour adapts its strategy to the economic context marked by the Romanian's low purchasing power and introduces in his range of sold products 1200 private – labeled products under company's name. This initiative shows an average price advantage. In the future, the enterprise will launch a line of inexpensive products. The new line will be presented in simple, white packaging and it will bear the "Carrefour value" brand.



Figure 2 – Carrefour's own brand products ([http://www.carrefour.ro/marcile\\_carrefour.html](http://www.carrefour.ro/marcile_carrefour.html) [adapted version].)

The Executive Director of Carrefour Romania, Patrice Lespagnol, said that "customers want competitive prices and a wide range of products to choose from" ([http://www.money.ro/carrefour-dezvolta-marca-proprie-ca-strategie-de-criză\\_287896.html](http://www.money.ro/carrefour-dezvolta-marca-proprie-ca-strategie-de-criză_287896.html)).

The prices for the products sold under the „Carrefour” own brand will be 20% lower than those purchased from suppliers, maintaining the same high

quality. In Romania, for this kind of products, the company has signed partnerships with 40 national suppliers, for example: Danone, VASCAR, European Drinks, Orkla Foods and Farmec.

The "Carrefour" own brand includes consumer and bazar products, divided in two main categories, namely:

- 400 non-food products made in China;

- 800 food products made in Romania, Poland and France. In order to maintain the lowest prices for these products, the company seeks local manufacturers to associate with, so that in two years the products sold under the „Carrefour” own brand reach a total of 3500-4000 items. The „Carrefour” own brand products have obtained 6% market share and for the next two years it is expected to increase by 20 %. The company's managers plan to export this brand to Bulgaria and Turkey. The export conditions to those countries are favorable, because the own brands of the European retailers have had a share between 20-50% of total sales. Besides, the customer can find on the hypermarket's shelves products belonging to other own brands: the "No.1" brand (it has the attribute of the lowest price in Romania), the "Bluesky" brand, the "TeX" brand (for textile products), and the "Reflets de France" brand (which includes regional products from France). The product range commercialized by the company includes also organic products, that are able to protect our environment, offering to the customer cheaper alternative to other brands.

- ✓ Regarding the price policy, the company can choose between two strategies:

- ✓ The quality maintenance strategy by charging normal prices for high quality products;
- ✓ Maintaining or increasing the market share by charging low prices for normal products.

No matter what is the alternative choosen, it has a major disadvantage: the company focuses more on low prices and less on quality.

The company`s distribution policy follows three lines of action:

- Improving transport downstream;
- Reducing "the number of kilometres travelled by road" (<http://www.carrefour.com/cdc/responsible-commerce/our-commitment-to-the-environment/reducing-logistics-impact/>), by developing common deliveries: the same truck supplies several nearby stores;
- Reducing carbone emissions, by looking for alternative means of transport: river transport, rail transport;
- Maximizing the product availability on shelves.

To support the customer, Carrefour has created its own distribution network, which includes: own logistics and warehouses in order to keep goods in hygienic conditions.

If in the past the company used to practice an insufficient promotion strategy for the products comercialized, today Carrefour Romania implements an aggressive promotion strategy. The promotions that are successful among customers can be exemplified as follows:

- *"buy-back" promotions* – the client receives a significant reduction when he buys new electrical appliances, electronics and household appliances, if he offers instead a similar product for recycling;
- *"cross - promotions"* (promotional packages that include complementary products)- the

"down trading" phenomenon determines the clients to prefer economic products and to give up the products that they no longer consider to be necessary;

- *Special themed exhibitions, caravans and product launches* organized in the hypermarket or in parking places: "The Golden Generation" GILETTE promotion;
- *Raffles* – the customer can win great prizes: cars, apartments, toors or scooters;
- *Mass-media contests* – the client has the opportunity to win electronics;
- *Mono-islands products with very low price* – this kind of promotion attracts the client by exposing the clear price of the product ( it removes the client`s suspicion of being tricked);
- *Tasting and samplings* – the customer tests the products and it is satisfied by their quality.



Figure 3 – Some of the company`s successful promotion during the financial crisis period [adapted version] ([http://conferinta.magazinulprogresiv.ro/cd\\_2009/prezentari\\_pdf/arnaud\\_dussaix.pdf](http://conferinta.magazinulprogresiv.ro/cd_2009/prezentari_pdf/arnaud_dussaix.pdf)).

These promotion are successful during the financial crisis period, because they meet the customer`s needs: lifestyle conservation, a regular and economical consumption.

The company`s managers don`t reduce the advertising costs, they improve loyalty programs in order to build a lasting relationship with their clients. To convince the client to buy, the company must focus on a constant and consistent

communication with him, because the consumer needs to trust in the company's values and marketing actions, before purchase the products.

Carrefour Romania uses the following psychological methods to increase sales during the financial crisis period:

- Each customer enters in the hipermarket with a basket, whose dimensions are larger than they use to be, for the only purpose to determine the customer to buy.
- Essential products, such as bread and meat, are located behind the store, the customer being put in the situation to cross the entire shop to buy bread, for example. This psychological trick increase the chances that he might buy more products than he originally thought.
- Products like chewing gum or chocolate bars are placed near the cash registers, because these products are bought on impulse.
- The products are arranged on shelves as follows (Daniela Simona Nenciu (2010) *Tehnici promo ionale*, Editura Europolis, Constan a, passim):
  - The products that sell best are placed in the middle shelf, while the expensive ones are situated at the corners, so that the consumer passes twice near them;
  - „The expensive products are placed at eye level for greater visibility, while the cheap ones are in the lower shelves” (Daniela Simona Nenciu (2010) *Tehnici promo ionale*, Editura Europolis, Constan a, passim).

## Conclusions

The company's financial results have shown that the corporate profitability

hasn't been affected by the financial crisis, due to a marketing-mix adapted to the economical context. The Carrefour's managers have taken measures to prevent the crisis consequences, announcing the change strategy. The marketing policy is based on the product's quality and innovation, competitive advantages which increase the number of clients.

The Carrefour's own brands become very important, because they bring profits to the company and economic facilities for the clients. The company offers to the client diversity and the lowest price on the market. The products sold by the company are designed to not affect our environment. The promotions are heavily promoted, being a mean to reward the client's fidelity, "for a better life".

In an environment, dominated by the fierce competition manifested on the financial crisis background, Carrefour has proved that it deserves to keep its leadership position achieved on the market.

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