

Internal Trade

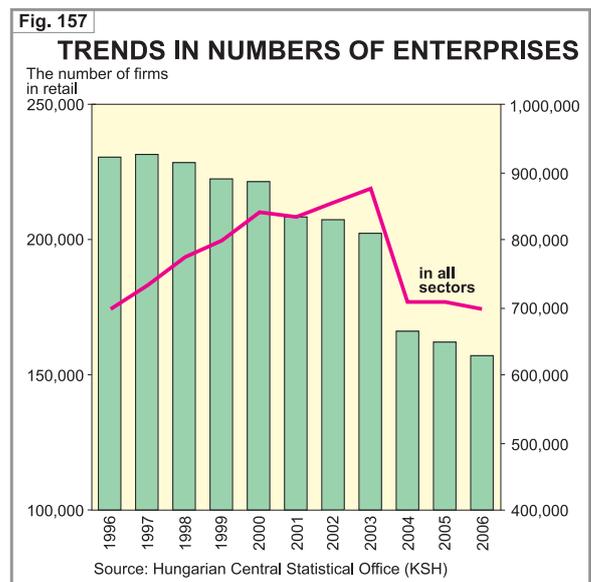
The term 'internal trade' covers a diverse range of activities supporting the flow of goods from the producer to the 'final' consumer, including wholesale, and a series of intermediary actions by the logistics and retailing sectors. To capture the increasing complexity of tasks related to the flows of goods, and the changing socio-economic context of trade, the restructuring of the wholesale, retail and consumption spheres in Hungary should be interpreted in the light of the integration of the national economy into the global circulation of capital, as well as in the specific socio-cultural context of post-socialist era transition.

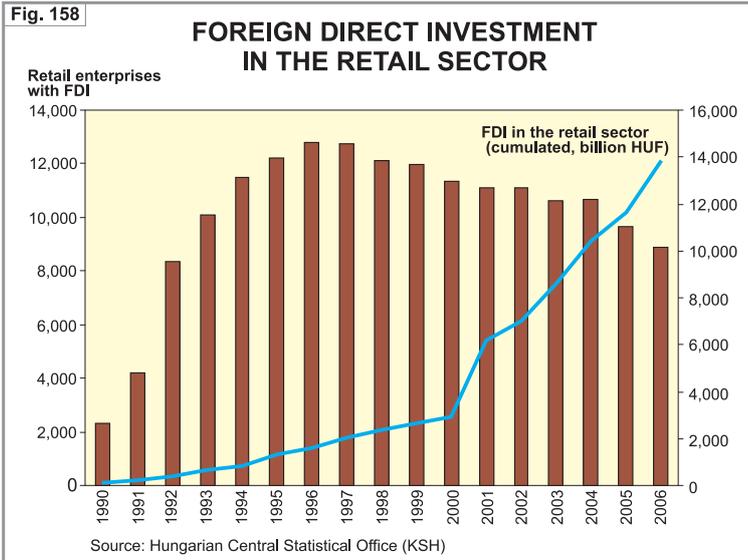
Recent spatial developments have been in the context of rapid structural shifts stemming from the transition process. Although the sector (particularly retailing) was the scene of a whole series of innovations for the centrally planned system from the early 1970s onwards (e.g. self-service grocery stores and construction of department stores), along with new, 'alternative' forms of retail introduced by 'private' entrepreneurs, the structural and spatial deficiencies remained and stimulated an enterprising 'rush' into the sector from 1989 on. The *entry of small-scale domestic firms to the market, en masse*, was also encouraged by national policies that aimed to channel national (and international), social and financial capital into the national economy in order to stimulate restructuring and manage the crisis during the transition. The retail and wholesale sectors were the primary scenes of the *accumulation of 'small capitals'* until the mid-1990s, due to the privatisation of major state-owned companies, to the highly liberalised (and in many ways unregulated) conditions for founding and running enterprises and opening shops, and also to the relatively low capital intensity and its rapid circulation.

As a result, internal trade showed *increasing competition* along with *fragmentation of the sector* in terms of capital, organisation and space. Nevertheless, declining purchase power (in terms of real wages), stricter regulations, and *competition* stimulated primarily by the *entry of international retailers* and property developers, resulted in fundamental structural changes

in the sector. *From the mid-1990s on*, there was a shift toward 'large scales' (*concentration*) in terms of capital and organisation: the number of firms (particularly, small ones run by individual entrepreneurs) was declining, while the number of shops was stagnating or only slightly increasing (*Figure 157*). Concentration was also an ongoing process in terms of the *vertical integration* of the flows of goods: the distribution process, and increasingly, the production of goods were organised and controlled by retailers. Changing the balance of power in the value chain was a strategic approach of *major international retail corporations*, as well as of domestic agents that joined *buying groups, franchise networks* and other forms of associations, that grew successful competitors of powerful agents of the market. Meanwhile, the majority of independent domestic firms suffered from significant losses in terms of market share and margins.

Internal trade was increasingly *embedded into international flows*, due to the *liberalisation* in the flow of goods and the *entry of international retailers and wholesalers*, particularly, from 2001 on (*Figure 158*). The process was spurred by increasing household incomes, the development of banking services and pent-up demand for durable goods. Foreign direct investment got new stimuli with Hungary's EU-



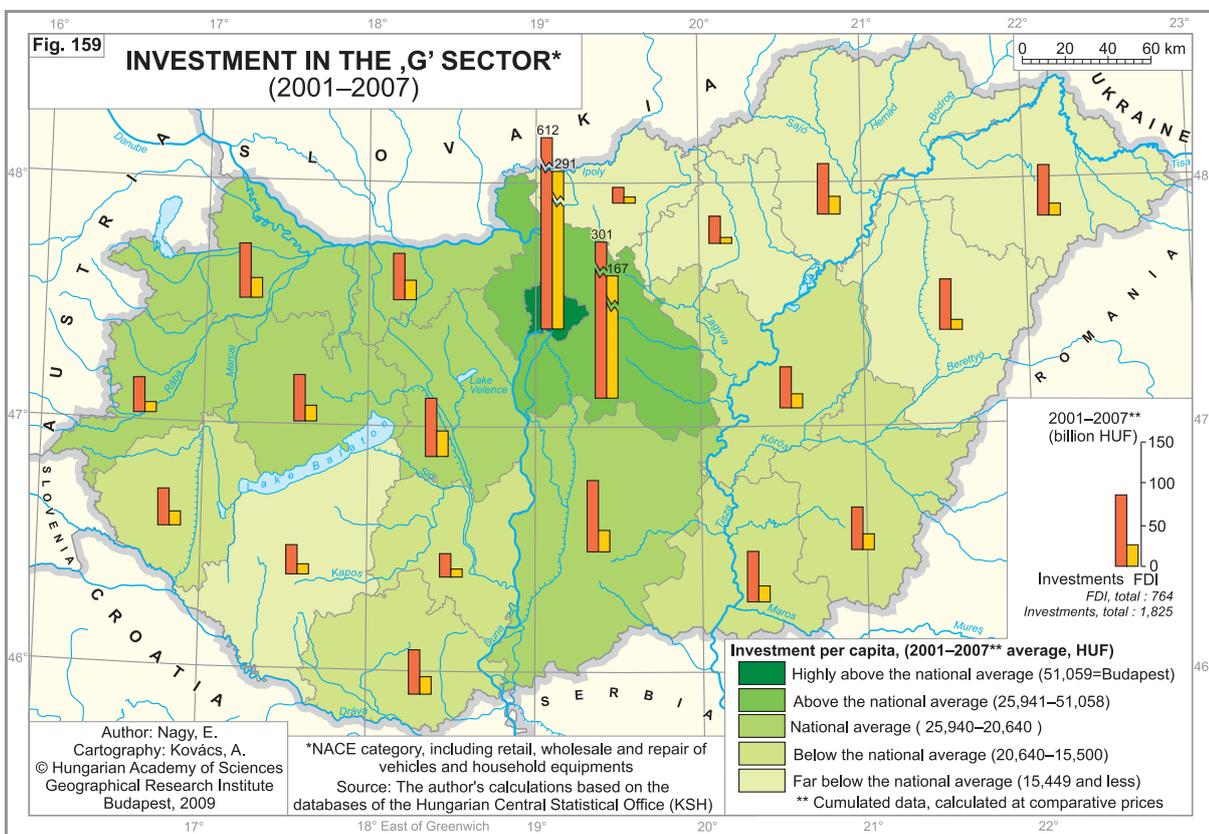


accession in 2004 (the share of the sector rose from 12.6% up to 15.3% of FDI between 1996 and 2006). Although international agents had to adapt to the rapidly changing conditions and a new (emerging) culture of consumption, their expansion was spectacular and had a key role in the restructuring of internal trade. The success of *transnational retailers* rested not only on their *organisational culture* and *financial*

resources, but also on their reputation vis-à-vis domestic retailers in the 1990s. Moreover, international agents were able to *exploit deficiencies of national and local regulations* that left the key issues, such as opening hours, supplier-retailer relations and the localisation of new developments, unregulated.

The entry of transnational firms *accelerated the introduction and spread of innovations* in distribution and retailing, the organisation of retail space, new retail forms (hypermarkets, classical indoor shopping malls, and strip malls, discount stores, etc.), quality control systems and public relations (e.g.

market research). The spatial expansion of *FDI in retail and wholesale* (Figure 159) made such innovations widespread throughout the national economy. The spread of FDI was also fed by competition, reinforced by Hungary's EU-accession (e.g. the entry of Lidl and Aldi into the grocery sector), by the *rise of successful domestic retailers* (e.g. Coop, CBA and Reál chains on the food market) and the stricter control of transactions

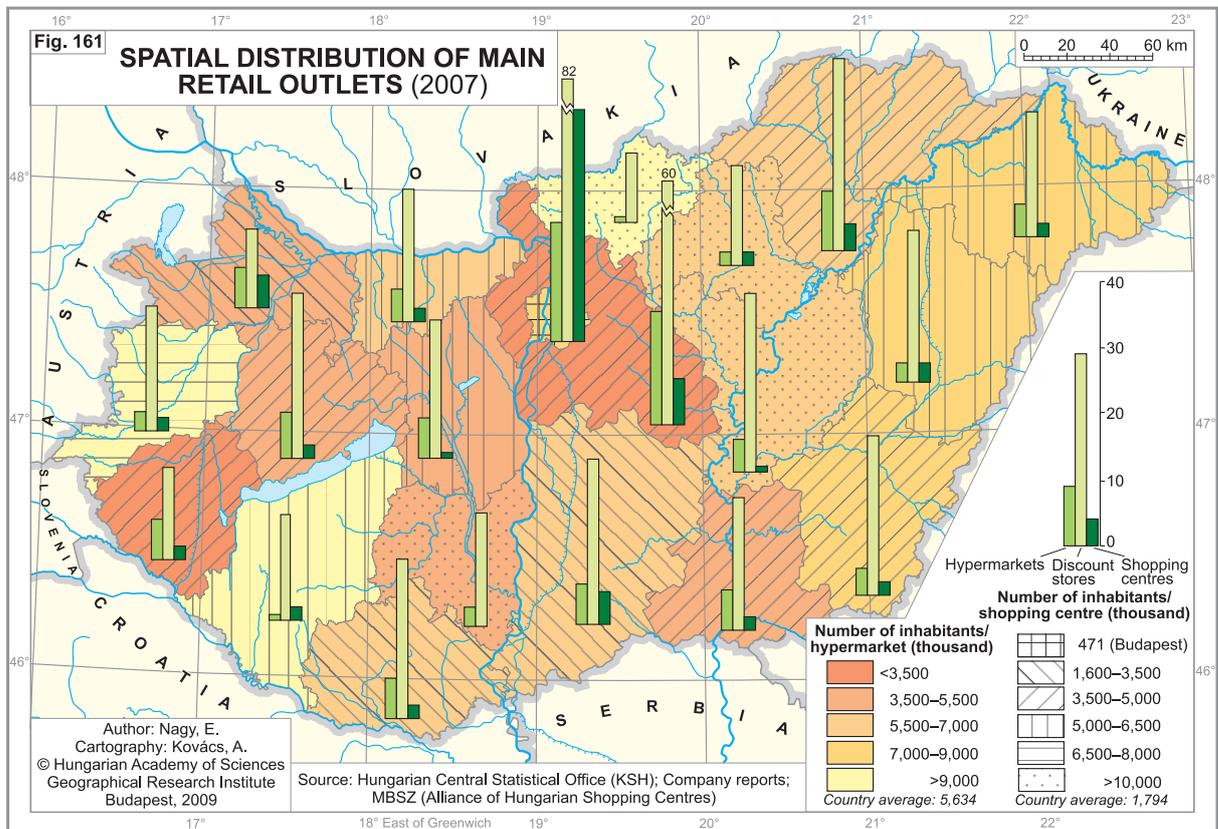
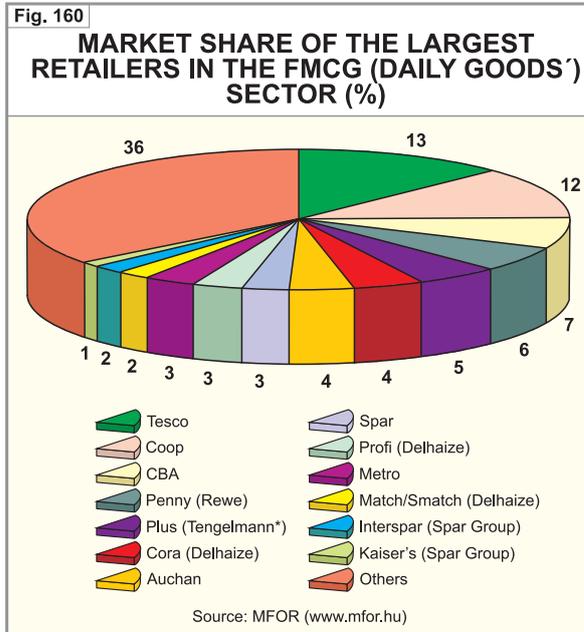


(i.e. consumer protection, retailer-supplier relations, ethical business practices, and the introduction of compulsory quality control systems).

Although, the shift toward a *more regulated business environment* challenged all agents in the sector, tighter control and competition primarily affected small-scale independent re-

tailers. The highly contested arena of *food retail* was a scene of a particularly *rapid concentration* in the 'post-EU accession' period, which is reflected by the dominance of a small number of agents on the market: the 10 largest agents (together, operating 13 chains) controlled 64% of the market (Figure 160). The concentration continued in 2007 and 2008, as new discount stores entered the market (expanding primarily at the expense of small independents) and a new wave of mergers and acquisitions began.

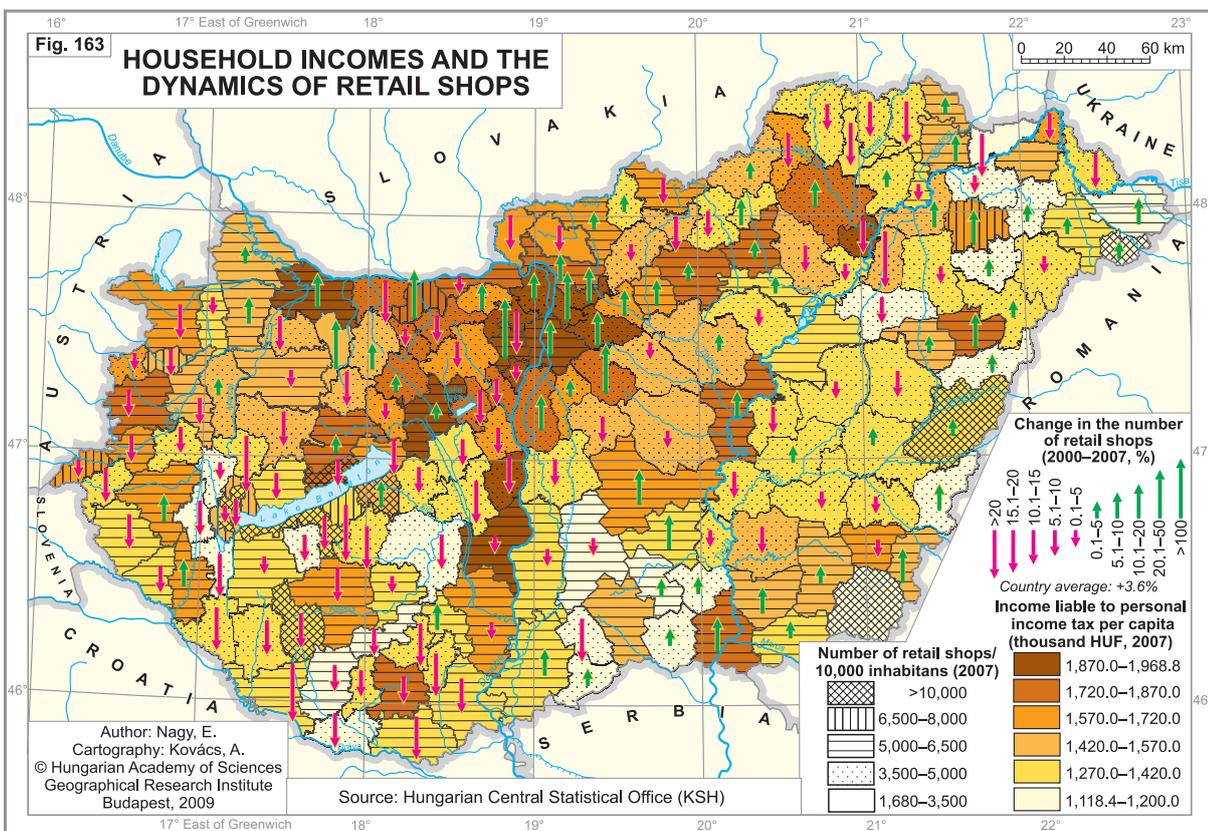
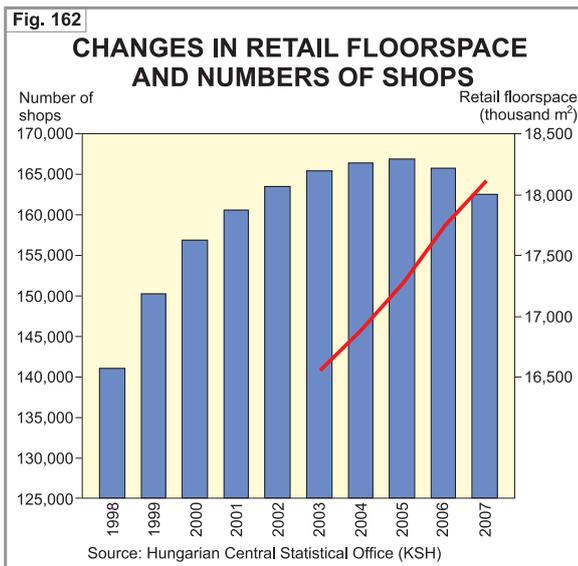
From the mid-1990s on, macro-economic stability and growing domestic demand have stimulated the *introduction of new retail forms by international agents* – probably, the most profit-yielding type of innovations in the sector. The first organisational novelties were introduced in the form of *supermarkets*, the *discount store* and the *DIY* (Do it yourself) segment, that was followed by the 'success story' of *hypermarkets* and *shopping mall* developments from the late 1990s on. The market share of new retail formats (and that of firms developing and/or running them) was increasing rapidly, and induced unprecedented structural changes in the market: hypermarkets, discount stores and supermarkets had a 60% share in 2007. Meanwhile,



shopping mall developments (enclosed, 'traditional' forms and later, 'strip malls') challenged not only small food retailers, but (much rather) specialist shops in the segments of apparel and of durables. This retail form stimulated a *concentration* in terms of capital, organisation and space, but provided a *scene for globalisation* (e.g. in the fashion industry).

The above process rested on retail developments that were *focused* not only on *Budapest* and its urban region, but shifted to *major* and later, to *medium-size county towns* from 2000 on (Figure 161). Discount store developments and Tesco's 'mini-hyper' strategy (a response to the price competition stimulated by 'hard discounters' from 2007 on) reached even smaller towns (mostly, having at least 20,000 inhabitants). Nevertheless, the *introduction of new retail forms* was a *spatially differentiated and hierarchical process*, and their spread – as well as the falling domestic demand from 2006 on – accelerated the shift to an *increasingly uneven spatial structure in retail and consumption*.

The concentration of internal trade was reflected by *the increasing spatial concentration of retail activity* at a macro-level: the number of shops was stagnating and (from 2005 on) declining, while *retail floor space* was *increasing* rapidly (Figure 162). The growth of space for retailing continued to be focused largely (50%) on the *Budapest region*. Spatial inequalities are more evident by focusing on smaller spatial scales: microregions of higher income status (the wider Budapest region, *major county towns* and *economically dynamic regions* in the north-west)



were the predominant scenes for store openings (Figure 163) and also for the introduction of new retail forms (Figure 161), nevertheless, large-scale developments involved shop closures in a relatively high number, particularly from 2006 on, when the dynamics of the domestic market had exhausted. The low-income areas seem to be the losers of spatial restructuring: only 10 out of the 82 below-average regions had more shops in 2007 than five years before (Figure 163).

While *shopping facilities* were increasingly *concentrated in urban centres*, the urban network was highly differentiated: towns of the same size by population took different development paths (Figure 164). **Budapest** and its region was deeply embedded in the flow of goods, acting as the focal point for not only a major stake of retail investments, new forms and other innovations, but also the business headquarters of key agents in the sector, as well as the distribution centres supporting domestic supply and international trade. The *mushrooming commercial developments stimulated a de-concentration* of retail and distribution spaces (Figure 165) that rests largely on Budapest's role in internal as well as in international trade. Spatial concentration and de-concentration were ongoing proc-

esses also outside the capital city and its region: shopping facilities were increasingly focused in large and medium-size towns, and increasingly on their fringes, re-drawing shopping routes and habits – while rural regions with small centres suffered from lacking retail developments and the decline of local retail (Figure 164).

The spatial restructuring of internal trade was conditioned by the *rapid integration of the domestic market into international flows*, and also by the *particular conditions of post-socialist era transition*, such as the changing social context of consumption and deficiencies in the operation of institutions controlling the market, mediating business norms (giving rise to blossoming 'black' activities, abuse of market powers, etc.). Peculiar conditions, along with neoliberal policies employed from the mid-1990s on, stimulated an unprecedented concentration of retailing and distribution, moreover, through supply channels, a re-organisation of spaces of production. The discussed processes raised new dimensions of spatial differences and inequalities at different geographical scales, *reinforcing the economic power of Budapest*, changing the relations of urban centres and their hinterland, and transforming our daily experiences and social practices.

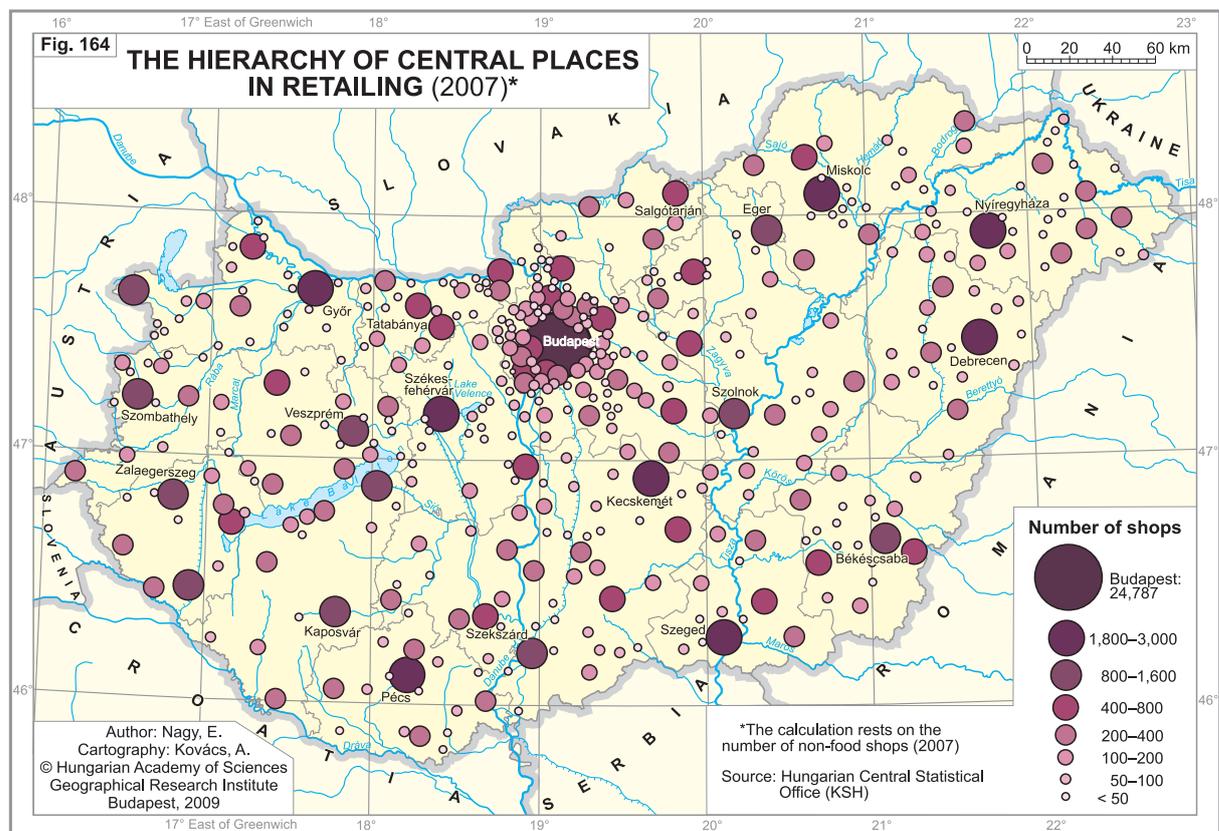


Fig. 165

SPATIAL DIFFERENTIATION OF RETAILING (2007)

