Hungarian Spaces and Places: Patterns of Transition

Edited by

Györgyi Barta
Éva G.Fekete
Irén Kukorelli Szörényiné
Judit Timár

Pécs, Centre for Regional Studies
2005

First published in Hungary in 2005 by Centre for Regional Studies, Hungarian Academy of Sciences, 22. Papnövelde u., Pécs, H–7621

ISBN 963 9052 46 9

Technical editor: Márta Zöld Vámosné
Translation revised by Darrick R. Danta, John Kowalchuk
Translated by Edit Miskolczy, András Szigeti
Maps: Margit Szőke Bencsikné, Sándor Vetési
Cover illustration: Sándor Pinczehelyi
Printed in G & G Kft. Pécs

Contents

List of figures

Nemes Nagy, J. and Ruttkay, É. (1989) *A második gazdaság földrajza* (Geography of the Second Economy). Budapest, Országos Tervhivatal, Tervgazdasági Intézet.
Nemes Nagy, J. (2003) A fekvés és az iskolázottság hatása a területi egyenlőtlenségekre Magyarországon (The Impact of Geographical Situation and Qualifications on Territorial Disparities in Hungary). In Fazekas, K. (ed.) *Munkaerőpiaci tükör*. Budapest, MTA Közgazdaságtudományi Kutatóközpont. 133–144.
Nemes Nagy, J.(2004) Elements of Regional Disparities in the New Regional Pattern. In Enyedi, Gy. and Tózsa, I. (eds) *The Region*. Budapest, Akadémiai Kiadó. 62–80.
Pitti, Z. (1999) *Külföldi vállalatok térnyerése és a hazai gazdaság 1998. évi fejlődése* (The Growing Share of Foreign Companies and the Development of the Domestic Economy in 1998). Budapest, GKI Gazdaságkutató Rt.
Swain, A. (1998) Governing the workplace: the workplace and regional development implications of automotive foreign direct investments in Hungary. *Regional Studies* 7. 653–671.
Szalai, E. (1991) A hatalom metamorfózisa? (The Metamorphosis of Power?) *Valóság* 6. 1–26.
Tagai, G. (2003) *Kelet-Közép-Európa gazdasági és népességi potenciáltere* (The Economic and Population Potential of East-Central Europe). Budapest, ELTE Regionális Földrajzi Tanszék. Kézirat (Manuscript).
Voszka, É. (1988) *Reform és átszervezés a nyolcvanas években. Időszerű Közgazdasági Kérdések* (Reform and Re-organisation in the 1980s. Current Issues in Economic Theory). Budapest, Közgazdasági és Jogi Könyvkiadó.

Chapter 10

Retail Restructuring and Emerging Spatial Patterns of Consumption: New Aspects of Development Disparities in Hungary

Erika Nagy

Introduction

From both an economic and a political point of view, the spectacular improvement of opportunities for private consumption, involving an abundance of goods and the gradual disappearance of structural insufficiencies on the supply side, constituted an essential part of the transition in Central and Eastern European countries. Despite decreasing incomes and complaints concerning the quality of commercial services, purchasing has not only become a popular pastime (Cushman&Wakefield 2002), but according to our surveys conducted at the national level[1] it is also the most important factor in the improvement of the quality of life. The change of demand has had a number of features rooted in the peculiar nature of the transformation process itself and has thus been different from Western European consumption patterns. Differences include strongly price-oriented customer decisions, the high flexibility of demand for everyday consumer goods, slow segmentation of demand, and low-level brand-loyalty. In the emerging Hungarian market, however, these features assumed a rather differentiated spatial pattern in the form of regional and rural/urban consumer models. I will argue that multinational retailers have played a significant role in shaping spatial patterns of consumption. They have become key players in the Hungarian market by introducing organisational and technological innovations, new products and services and by generally reshaping the conditions of purchasing. This process, I want to claim, has been greatly strengthened by the transformation of the regulatory framework of retail activities (the general uncertainty caused by the system change and efforts to promote economic liberalisation) as well as by the shortcomings of national, regional and local governmental economic and retail policies

In what follows, I seek to answer the following questions: What corporate strategies have retailers retail developed in order to adapt to changing economic conditions? How has the implementation of these strategies altered consumption structures and their spatial patterns? Raising the above questions has not only been prompted by fast and spectacular changes in the period of transition but also by theoretical debates going back to the early 1980s concerning a supposedly new (also called post-Fordist) period of the capitalist economy. In the course of these debates, the viability of neo-liberal spatial models has been increasingly questioned (Scott and Storper 1986; Castells 1989; Giddens 1990; Sassen 1991). It has become evident that a re-interpretation of the relationship of the retail sector and space is necessary due to changes in the social role of consumption and to the new integrating role of retail in post-Fordist economies (Hughes 1996; Wrigley and Lowe 1996; Clarke 1998; Sklair 2001; Wrigley 2002).

In my view, *critical political economics* and regulation *theory* offer an adequate theoretical framework for interpreting the role of this sector in the new era. Both schools consider sectoral integration as the answer to the crisis of Fordist mass-production and consumption. Such integration occurred at an international level already in the 1990s marked by the growing share of retail organisations. Representatives of the *former* school have at the same time re-interpreted correlations between *global processes* (acceleration of capital circulation at the first place) and transforming *organisational structures of companies* and have also thrown light on the connections between the increasing differentiation and change of *consumption patterns*, the emergence of *new market sectors* and the growing significance of organisational, product and market innovations. Therefore, retail retail as a key link in the chain of flexible capital accumulation became an important research interest owing to its special, intermediary role between consumer demands and production processes (Wrigley and Lowe 1996; Weijers and Janssen 1997). Representatives of this school took the study of *spatial aspects of corporate decisions as their point of departure*. They interpreted decisions concerning locations as part of the company's operative strategy. This is also expressed in the choice of *space in a broader sense* (macro-economic environment, infrastructure, regional demand) and *location* for purposes of investment, reconstruction and disinvestment (Wrigley and Lowe 1996). In what follows, transformation processes in the Hungarian market will be examined from the perspective of *political economic theory* focusing on the conversion of corporate organisations, resulting spatial changes, the restructuring of supplier and subcontracting systems as well as on corresponding changes in the regulatory environment of retailing. At the same time, using the theory advanced by the regulation *school* based on the cyclic character of social-economical development (Sykora 1994; Nagy, E. 2005) and its historical embeddedness (i.e. specific features of local, regional and national development)[2], I will also attempt to lay bare the structural and spatial characteristics of the transformational process.

I am going to review structural and spatial characteristics of the socialist retail sector up to 1989. These are the features that significantly shaped retail shop networks as well as the formation of consumer habits after the system change, or at least so I would like to argue (chapter 2). In chapter 3, I am going to deal with the most important stages of the changes in the regulatory framework of retail activities paying special attention to both changes in conditions for launching and operating domestic companies and incentives for FDI. I will then analyse re-structuring processes in the retail sector occurring in the past fifteen years with special emphasis on their spatial aspects (chapter 4). This analysis will focus on the retail retailof consumer goods. One reason for this is the appearance of a significant number of national and foreign players in this sector and the resulting spectacularly fast re-structuring and concentration of the market. The choice of this sector is also motivated by its key role in shaping spatial patterns of consumption and retail. Finally, in the closing chapter (5), I am going to provide a review of consumption patterns and regional differences that can be traced back to 'inherited' features and the structural change of the retail sector.

The conclusions presented below are based on a number of research programmes including several completed between 1994 and 2004 as well as one currently underway. These programmes have analysed not only statistical data, but also studied information available from the media and firm (unclear: should it be 'firm' or 'from') demography. Furthermore, a series of interviews were conducted with a number of executives of large foreign retail organisations and representatives of small, medium, and large Hungarian enterprises and sectoral interest groups during the above-mentioned period. The chief purpose of these interviews was to understand the process of organisational transformation in the Hungarian retail sector and to reveal effects of national and local policies. A shopping survey was carried out in 1994 and 2004 (in Debrecen and Békéscsaba) in order to outline the transformation of consumer habits and the spatial characteristics of this process. The application of complementary methods has helped to eliminate inconsistencies and gaps in the statistical background and made it possible to study retail restructuring both with regard to the demand and supply sides.

Retail and Consumption in the State-planned Economy

The monopolistic organisational framework and hierarchical spatial structure of the pre-transition Hungarian retail sector began to emerge at the end of the 1940s. Top-down organisational concentration took place in the course of which the number of retailers dropped drastically. These were replaced by networks of state-owned or co-operative shops. State-owned wholesale companies with national or regional monopolies were put in charge of supplying these networks. This organisational transformation led to an increasing spatial concentration of purchasing choice. Wholesale and distribution functions were divided in a hierarchical fashion within the urban network. The same phenomenon could be observed in the case of retail networks (Beluszky 1966; Kovács 1987).

The *1960s* saw disruptions of supply as the population started to migrate toward urban areas. In response, networks of shops offering consumer products were expanded, while national wholesale companies built rural networks, mainly concentrating on county seats, in order to improve supply. The number of shops as well as retail floorspace continued to grow in the 1970s. However, at the same time a process of concentration also set in as a result of the opening of large new supermarkets and shops specialising in manufactured goods (average floorspace grew as did the share of large towns from the total retail floorspace). Until the 1980s, the gradual *strengthening of the private sector* brought only *minor alterations* but *did not significantly change these patterns*. The development of the private retail sector played a substantial role in the accumulation of financial, technological and social capital. Hungarian entrepreneurs have relied on these various forms of capital during the privatisation process as well as in the course of their subsequent business activities (Belyó 1995; Douglas 1995; Nemes Nagy and Ruttkay 1987)

However, the role of private retailers was still considerable in shaping supply in the years before the system change since they were capable of filling *market nieches* through their special *range of items* and *location*. Even though their *spatial distribution* followed the already existing settlement *hierarchy*, their very appearance in smaller settlements represented an improvement. New elements (department stores, specialist shops) added to 'socialist' commerce and the concentralisation of non-food private shops in towns automatically led to increasing spatial and social differentiation of consumer preferences and habits. It is difficult, however, to track this process using data aggregated at a regional level. At the end of the 1980s, only Budapest's indicators for (per capita) expenditure on culture, recreation, health and body care, clothing and transportation diverged significantly from the average. Some regional characteristics had already emerged, however, representing differences in income and cultural peculiarities that 'survived' the changes of the past fifteen years. Both the 'socialist retail sector' and the development of a so-called 'grey economy' played a significant role in the formation of these characteristics (Table 10.1).

Table 10.1 Changes in household expenditure in regions of Hungary representing different consumption models

Product class	1997			2002		
	Central Hungary	Western Trans-Danubia	Northern Great Plain	Central Hungary	Western Trans-Danubia	Northern Great Plain
Food	100.5	101.2	98.6	103.6	95.2	99.5
Consumer goods	109.4	97.2	93.7	114.5	91.6	94.7
Clothing	103.1	103.8	110.6	106.2	98.3	101.5
Household items and furniture	109.8	100.0	81.6	103.1	94.3	108.7
Health, bodycare	124.7	87.2	83.4	115.2	94.0	95.5
Transportation, telecommunication	129.6	93.2	67.2	117.0	94.9	88.1
Total	108.4	85.0	87.3	113.3	94.2	92.5

*Per capita; national average=100,0

Source: Regional Statistical Yearbook, KSH, 1996, 2002.

Macroeconomic and Regulatory Framework of Retail Restructuring

In the first years of transformation, steps were taken to abolish state monopolies and to create a legal framework of free enterprise. As a result, the key actors in this sector were re-organised and transformed state companies, regional retailers and, lastly, integrational organisations (e.g. supply associations) which, however, were still at a rudimentary stage at that time. This period, up to the middle of the 1990s, can be characterised by the dominance of regulative chaos, (or more precisely, the widespread lack of regulation) as well as by unfavourable macroeconomic processes resulting in a decrease of the real value of demand from year to year.

The process of liberalisation resulted in an eventual increase in the number of small shops and the fragmentation of organisational frameworks by the first half of the 1990s. This process enabled rapid spatial and organisational concentration in a narrowing and scarcely segmented market. The most significant actors in this latter process, which gathered momentum in the second half of the 1990s, were international retailer networks retail. Their expansion gave an impulse to the growth of retail investments and employment. In addition, by leading to an increase in the average floorspace of shops and by introducing new forms of retail and services, it accelerated the growing fluctuation of domestic actors as well as the process of organisational and spatial concentration in the retail sector.

The Act on Individual Enterprises and Corporations passed in 1989 encouraged the launching of new businesses by domestic actors. However, the same Act also removed legislative obstacles to the participation of foreign investors. The licensing procedure was rather liberal.[3] Loans granted by the state were also available for newly-founded enterprises. At the same time, high interest rates and deficiencies of banking services were responsible for the high risk of initiating capital-intensive activities as a consequence of which such investments enjoyed little popularity. By contrast, the services sector in general and retailing in particular attracted most of the enterpreneurial rush of the early 1990s.

This tendency was curbed by the introduction of stricter controls over economic organisations in general and specifically over retailing activities from 1995. Room for tax avoidance by small-scale retail enterprises was shrinking. Meanwhile, social security contribution rates were also increased (all part of the so-called 'Bokros-package', a set of austerity measures aimed at fiscal consolidation in 1995). Retailers were subjected to tax and hygiene controls in particularly high numbers. At the same time, regulations concerning the required level of education for employees of retail enterprises became increasingly demanding as well (1996). In sum, the adoption of a consistent system of regulations can be said to have played a significant role in calming the rush on the retail sector by 1996.

Although private enterprise was encouraged in order to facilitate economic restructuring as well as on political and ideological grounds, *support for domestic small and medium-sized enterprises* (SMEs) in the early 1990s was inconsistent and insufficient. Interest rates of bank loans were too high (exceeding 10%) and the amounts often too small to cover costly investments such as the (re-)construction of retail chains, the introduction of IT in retailing or the setting up of a logistic base.

Furthermore, retailing was not favoured by support schemes for SMEs as economic policies focused on manufacturing until 2000. The acute shortage of capital in the retail sector could not be relieved by bank loans due to already mentioned factors such as high interest rates. The general reluctance of banks to assume high risks and accumulate 'bad loans' prior to the re-organisation (stabilisation) and privatisation of the bank system, which finally took place in 1995-96, made the situation even worse. A new policy for supporting domestic SMEs was introduced as late as 2000. This policy provided funding for specific development projects.[4] Although enterprises involved in retail activities were included in this new support scheme, the availability of funds was rather limited (e.g. for IT-related developments). As a result, the introduction of this support scheme had no significant impact on the highly centralised retail market structure dominated by major international corporations that had emerged by the early 2000s. Similarly to other transitional economies, the failure of the SME support scheme was rooted in liberal economic policy and rapid centralisation driven by international actors (Coles 1997; Drtina 1998).

The process of market fragmentation was also advanced by the transformation of major state- owned enterprises in the early 1990s. Managements of retail firms played a decisive role in company re-organisation and in the first stage of privatisation (as shareholders). Their transition strategies opted either for centralisation (e.g. creating a uniform corporate profile through the introduction of regulations for the entire network) or decentralisation (transforming regional branches into independent firms) as well as product specialisation and the improvement and extension of the range of retail services. However, every company where interviews were conducted in 1994 reported that they were interested at the time in attaining stricter control of the distribution process by combining retail and wholesale activities. Reorganisation involved investments on a significant scale to be realised at the expense of the reduction of retail networks by selling or renting existing premises. Consequently, the transformation of privatised companies contributed to the organisational and spatial fragmentation of retailing.

The so-called *pre-privatisation process* also helped to create a fragmented market structure dominated by independent retailers until the mid-1990s. Individual stores from the network of former state companies (comprising altogether more than 5000 relatively small outlets) were sold one by one at public auctions. The exclusion of state corporations from the pre-privatisation of local and regional retail chains also limited the scope of domestic actors for extending their branch networks.

The liberal attitude of successive national and local governments towards international investment promoted the growing internationalisation of the Hungarian retail market which resulted in a change of direction in the restructuring of retail activites in the late 1990s. As early as in 1989, the Act on Foreign Investments was introduced with the aim of providing a safe legal environment for foreign enterprise and a status equal to that of domestic organisations. Foreign direct investments were also encouraged through favourable taxation which initially included only the corporation (usually called corporate here) tax (18%) levied by the central governmental budget. From 1989, large-scale investments were also fostered through the granting

of immunities from corporate and local taxation (for a five-year period for both taxation types) with no sectoral restrictions (Nagy, G. 1995). By encouraging the influx of 'global' capital in these ways, national investment policies sought to promote the structural transformation of the economy, similarly to other East Central European countries (Lupton 2002).

Global economic actors were welcome also at a *local* level. This is because local decision-makers struggling with a permanent liquidity crisis[5] and structural deficiencies of the local economy were seeking additional financial resources by selling large plots in urban areas to investors and real estate developers of declining parts of their towns. Economic crisis and the propensity of successive national governments to centralise resources made localities increasingly dependent on the decisions of major investors in the 1990s. The result was a distinct local preference for major investors ahead of local SMEs. The turn towards a liberal urban policy focused on improving economic performance of cities and towns was stimulated by the globalisation as well as by the transition process (Guy 1998; Heinritz *et al* 2003).

Shortcomings of regulations concerning retail activities can in general be described as by-products of the transition process. The Act on Retailing was passed in 1978 and amended several times in the 1980s and the 1990s. Although currently more than 50 different pieces of legislation must be taken into account by retailers, many important issues, such as payment deadlines, prices (selling below the suppliers' charges), opening hours, employee-rights and many environmental aspects of retailing have not yet been brought under control. The Hungarian retail regulation system was labelled as 'very liberal' even by the executives of international corporations (2002–2003).

Deficiencies of the legislative framework of retailing as well as the rapid shift to a highly liberalised and contested market were exploited primarily by large-scale retail corporations (mainly in foreign ownership) in the management of supplier networks, price policies and services provision (e.g. opening hours). Inconsistencies and inadequacies of regulations were repeatedly pointed out by domestic retailers who also attempted to persuade decision-makers to establish a coherent legislative framework of retailing. Nevertheless, a new act on retailing is yet to be put forward. This situation is regarded by domestic retailers not only as the failure of national retail policies but also as that of retailer interest groups. The latter still find themselves in a state of disarray (with two major and several smaller organisations)[6] and are strongly influenced by retailers in foreign ownership.

Restructuring in the Retail Sector

One of the important and still insufficiently understood processes in the structural transformation of Hungarian economy and society was the changing role and significance of retailing. Precisely those actors of the retail sector that had formerly been classified as 'non-productive' and had been restricted to a mediating role in the state-planned economy started *to assume control over production, distribution and sales* in the 1990s. A process of vertical integration took place in accordance with international trends, but not solely with the participation and direction of foreign investors. Innovative domestic companies and organisations with a solid financial background also took an essential part in this process. At the same time, the development of the retail retail sector impacted on *social differences as well.* First, this sector was a major source of capital accumulation. Second, retail companies (or at least some of them) created new dimensions of inequality in the period of transition by shaping the conditions of consumption (e.g. accessibility) and by influencing market segmentation.

Structural Fragmentation and the Mushrooming of Shops in the Early Period of Transition

Three main factors are responsible for most of the changes occurring in the first period of the transformation of the retail sector (up to 1996): (i) the process of privatisation as outlined above, (ii) the proliferation, development and fluctuation of domestic enterprises, and (iii) foreign investments. Newly-established domestic SMEs played a decisive role in this period. The number of joint enterprises grew by 250% (although it has to be said that this spectacular change was chiefly due to the mushrooming of enterprises with an initial capital of no more than a few hundred USD), while the number of individual enterprises increased tenfold (the significance of such enterprises was particularly great in food, clothing and other small-scale retail sectors). Our interviews demonstrate that the 'enterpreneurial rush' of the early 1990s should not be regarded as an integral continuation of enterpreneurial activities familiar from the 1980s. Only a small number of entrepreneurs of the socialist 'second economy' could take root in the period of unregulated ('liberalised') retail. The appearance of enterprises in large numbers and the strengthening of some SMEs are phenomea specific to the 1990s. Although this wave of entrepreneurial enthusiasm had gone back considerably by 1996, the share of this sector remained outstandingly high among economical organisations (32%) in spite of its comparably small contribution to the GDP (10%). In the middle of the 1990s, the majority of domestic enterprises had a weak capital base, a great number of them (approximately two-thirds) had no employees and about 90% of them did not join any kind of larger organisation. The fact that the retail sector had a low, 4-8% share of investments between 1991 and 1996 proves that domestic enterprises were insufficiently capitalised at the time. The breaking up of previously existing organisational frameworks was also reflected by the transformation of store chains. The number of small retail stores had increased fivefold by 1996, while floorspace in the majority of newly-opened shops remained below $20m^2$ (Douglas 1995).

Organisational and structural contradictions in the so-called early stage of system change were reflected in the functioning and development of retail organisations. The strong *fluctuation* of actors in this sector was an important factor as well. This fluctuation owed mainly to the decreasing purchasing power of demand, the increasing number of enterprises and intensifying competition due to the appearance of foreign investors. The number of independent retailers and shops remained high with correspondingly large market shares until the middle of the 1990s (Mohácsi 1998) despite the fact that organisational and capital concentration[7] could already be observed in what was to become an increasingly narrow market. Even though there

were initiatives to promote integration as early as the beginning of the 1990s (first, to form supply alliances and, second, to create a unified profile and supply network for retail chains operated by cooperatives), only a small proportion of entrepreneurs were involved at that time. This *individualism* was rooted in the lack of business ethics and trust. It was also sustained, however, by politically and ideologically motivated efforts to strengthen national capital and support free enterprise. At the same time, the continued existence of enterprises which often ran only a single shop is also explained by the essential role they played in survival strategies of households especially in Eastern counties of Hungary. In these regions, which were hit particularly strongly by economic depression and have as a result fallen behind, ownership and organisational structures are still relatively fragmented.

For a significant number of enterprises, the initial deficiencies of regulation (and control) were in fact indispensable to survival since these left a considerable loophole for activites in the 'grey' and 'black' economies. The view that associated dishonest behaviour or even money laundering with commerce and retail (especially in Southern parts of Hungary in the neighbourhood of Balkan states) was fairly widespread in the middle of the 1990s. Business people themselves frequently took a critical stance towards their own profession. The attitude of distrust toward the sector was only exacerbated by frequent complaints concerning quality and fast fluctuation of shops. This process resulted in the swift (trans-)formation of retail alliances which in turn prompted consumers to react and adapt quickly to the changes as well.

Until the middle of the 1990s, foreign investors explored markets mainly by taking part in the privatisation process (e.g. Meinl-Group, Tesco, Delhaize Group), whereas greenfield investments remained sporadic.[8] Investors favoured the capital and the Western region of the country. Partly as a result of this, privatisation was faster here with a smaller number of former state-owned retail companies facing a serious crisis than in Eastern regions. The appearance of foreign investors had a beneficial effect (by accelerating the process of integration and concentration) on the transformation of the organisational framework and the quality of services as well. This East-West division was also reflected in the opinions of local retailers in the middle of the 1990s.

It can be concluded, therefore, that the 'enterpreneurial rush' and the opening of new shops typical of the early stage of transformation could set off spatial inequalities to some extent. On the one hand, material goods became more accessible (thus consumer goods in smaller settlements and peripheral urban areas), while, and on the other, the dismantling of the former hierarchical structure of distribution (through privatisation and re-organisation) led to the decreasing importance of large provincial centres in spatial organisation. However, as new actors appeared (FDI, innovative domestic retail companies) and introduced novel purchasing techniques and higher quality services, spatial inequalities also began to grow. This process reflected spatial disparities in incomes (purchasing power) of the population. Furthermore, it also resulted in the segmentation of consumer markets in the capital, Western Hungary and in large towns (with populations above 100 000) in the middle of the 1990s.

Centralisation and Spatial Polarisation: Spread of New Forms and Techniques of Retailing

Important processes occurring in the second half of the structural and organisational transformation of the retail sector until 2000-1 included the expansion of foreign retail networks, a significant growth in employment and investments, acceleration of capital-accumulation, the spreading of organisational and technological innovations and the territorial centralisation of 'retail spaces'. *FDI* in Hungary was stimulated by increasing competition in home markets accompanied by a wave of corporate mergers in Western Europe during the second half of the 1990s (Hernandez and Bennison 1998; Poole *et al* 2002). Meanwhile, the investment-friendly environment of the time also acted as an incentive. This environment comprised liberal economical policies of successive Hungarian governments, the relatively fast creation of a comprehensive legislative framework, the privatisation process itself as well as the prospects of economic growth (and rising household incomes) and imminent accession to the European Union. Further, the underdeveloped retail network, the breaking up of retail chains of state-owned companies and in general the low standards of retail services[9] also created investment niches. Even though foreign investors appeared in the Hungarian market at the beginning of the 1990s, a significant change in their strategies could only be registered in the mid 1990s. This turnaround was reflected in a significant growth of investments, an increase of large-scale greenfield retail developments and also in the fact that foreign networks began to spread faster in rural areas (partly by new developments and partly by buying up local networks).

The growing influence of *real estate agencies and developments* created a radically new situation. These enterprises take their decisions according to the expected rate of return of real estate investments. Consequently, their appearance accelerated constructions serving partly or exclusively commercial purposes and also increased real estate prices. This group of investors played an especially important role in building *shopping centres*. Their design (i.e. their interior and the composition of future occupants) had a *direct* effect on the spatial strategies of retail organisations and consumers through the infrastructure, agglomerational advantages and special services to be offered in such shopping centres (Nagy, E. 1999).

Food-store chains also played an important role in the structural transformation of the retail sector. Since the consumption of customer goods in Hungary is characterised by large elasticity in comparison to Western European standards, the increase in household incomes since 1997 encouraged investments in this category. The other, equally important motivating factor of expansion has been the increasing competition typical of this sector even in the case of national markets. The relevant group of investors impacted crucially on greenfield investments in a number of ways. By building discount stores and hypermarkets and by functioning as 'anchors' of shopping centres, they contributed to the expansion of new forms of retail. They have contributed importantly to technological innovation (e.g. by creating IT-based logistical service backgrounds) and imported organisational novelties as well. These included, first and foremost, the creation and running of a centralised and strictly controlled (through a system of internal quality control), multi-layered, flexible network of suppliers. This represented an entirely new model in comparison to the fragmented organisational network of the domestic retail sector.

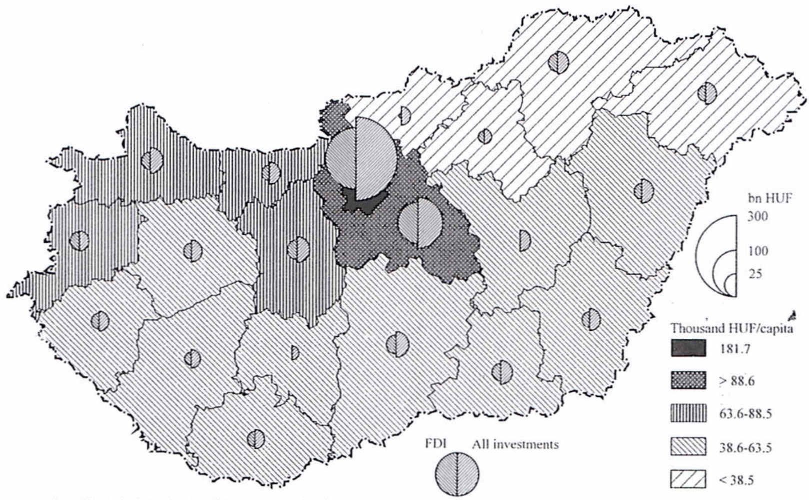
The expansion of multinational organisations accelerated from 1997. This was also reflected in a sudden increase of investments.[10] Tesco, Metro, Delhaize, Auchan, Rewe, Spar and the Tengelmann groups claimed the largest shares of the Hungarian market. In 2002, three Hungarian organisations (supply alliances) made it into the 10 largest players in the food-retail sector (on the basis of turnover). The above-listed large enterprises entered the market with different strategies. They have all sought, however, to adjust to changing markets influenced by volatile customer habits, strong price-orientation, and limited demand. Meanwhile, they have also tried, of course, to exploit the special opportunities present in these markets (e.g. available manufacturing capacities to produce own brand articles and strong competition among Eastern and Central European producers to become suppliers of large networks, etc.)

The *hypermarket* proved to be the most successful new retail form among all the novelties introduced by international actors (Tesco, Delhaize, Auchan, and Spar). These became the most important places for large weekly shoppings (between 1997 and 2003, their shares reached 20% in the market of consumer goods)[11], but their importance in the retail of durable goods also increased.[12] The main target for such developments was the capital and its region. It took longer for hypermarkets to appear in the countryside, and then also mostly in the centres of larger towns. The spatial expansion of investments was basically hierarchical (that is, proceeding according to town-size), but regional preferences could be observed as well. These preferences explain why hypermarkets appeared somewhat later in Eastern Hungary and are also reflected in the spatial strategies of some investors such as Spar and Auchan (Figures 10.1 and 10.2).

A well-structured retail network comprising all known types of shops had evolved by the 2000s. Companies targeting the *category of supermarkets* have been facing strong competition in terms of prices (discount stores), accessibility (traditional corner shops and peripheral developments with large floorspace) and choice (hypermarkets). As a result, the *group of foreign investors* and their relevant strategies have been constantly changing and transforming. Due to strong competition, business strategies of companies have begun to focus more and more on space-related issues. Accessibility, store environments and the group of potential customers (quality-conscious middle-class consumers) have come to be regarded as crucial factors. Therefore, developments (re-constructions) occurred, on the one hand, in higher-income areas (Budapest, Western Hungary), and in large and medium-sized towns, on the other. In the latter case, important retail centres (mainly incity centres) have been targeted.

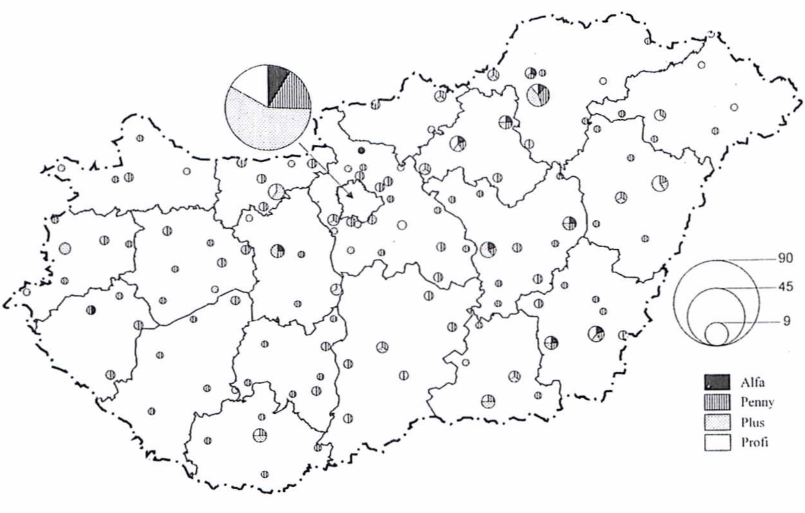
Discount stores represent another equally important group of developments. Their rapid multiplication is also the result of the activities of foreign actors. Unlike supermarkets, they were (also) created for customer groups with lower incomes showing strong price-sensitivity. Given their moderate prices, they were attractive

Figure 10.1 Retail investments in Hungary, 1996-2002



Source: National Statistical Yearbooks of Hungary (1996-2002)

Figure 10.2 Discount store networks in Hungary run by international corporations, 2002



Source: The author's own compilation

for the population of underdeveloped, rural areas where customers are conservative and more inclined to compromise on the quality of products and services (Figure 10.1).

Owing to special characteristics of demand in Hungary (price-sensitivity, the lack of segmentation), *price competition* and large-scale developments have become more and more pronounced in the strategies of foreign investors. At the same time, as already remarked, the importance of space increased in the decisions of companies (concerning investments). These decisions have increasingly reflected regional disparities of income and consumer attitudes as well as differences between towns and rural areas (Figure 10.1). These strategies thus created new aspects of regional inequality. These can also be observed both in the increasing spatial concentration of retail services and the structural transformation of consumption.

The expansion of foreign investors accelerated the process of capital and organisational accumulation. This in turn impacted both on foreign investors themselves (witness Julius Meinl's withdrawal from the Hungarian market and changes in the supermarket sector since 2000) as well as domestic retail enterprises. The increase in the number of shops beginning in 1989 came to a halt in 2003. What is more, even the number of shops trading everyday consumer goods has begun to decrease, mainly as a result of the liquidation of private enterprises and small companies. This *new period,* which could also be referred to as the third phase of development, displayed another important feature of transformation, namely *organisational integration.* This involved the creation and enlargement of domestic networks and the formation of supply alliances by multinational players. As regards food-retail, the share of stores ran by 'independent' entrepreneurs decreased in the domestic market, while small and medium-sized shops belonging to supply alliances (CBA, Coop, Honicer, Reál) could increase their shares in the past three years.[13] In addition to the adoption of a joint policy concerning suppliers, they owe their successes to taking over profitable elements in the strategies of multinational companies[14]. However, accessible smaller groceries – still playing a significant role in the supply of consumer goods – continue to claim a considerable share since they are located most closely to the population's daily routes.

The networks of these associations – especially those of the two largest, i.e. CBA and Coop – cover the entire country. Coop's spatial strategy focuses on supplying rural areas and peripheral urban spaces. These areas are price-centred, conservative and compromise-prone in terms of choice. By contrast, CBA is a voluntary association and its chains of shops can be found in great numbers all over Hungary. Due to their heterogeneity, however, these associations are permanently fraught with conflict. One source of disagreement is the difference in spatial patterns of consumption. This is because different attitudes – i.e. rural vs. urban and regional (Eastern vs. Western Hungary) – are reflected in price and product preferences. These in turn produce differentiated consumer demands which have to be accommodated within the framework of a unified distribution system. Domestic networks are not developed (or flexible) enough for dealing with differences of this kind, not to mention differentiation processes among consumer groups among and within settlements

The appearance of foreign actors and their subsequent developments stimulated changes in market positions and, consequently, the acceleration of organisational concentration. They have also contributed to improved levels of technical and technological services including those provided by domestic players. Experts agree in the positive assessment of this development which in the past four or five years has also spread to Eastern counties of Hungary. At the same time, the prospects of small enterprises lacking capital and opportunities for integration into larger frameworks are rather poor. The majority of them are incapable of introducing even the new quality control system (HACCP) compulsory after Hungary's accession to the EU. As a result, local commercial services have become more restricted or entirely unavailable. This affects primarily rural and peripheral regions and less mobile (elderly or poor) social groups. In short, the above tendencies have further intensified already existing spatial disparities in consumer structures (Figure 10.3).

Socio-spatial Differentiation of Consumption

Increasing incomes, decreasing unemployment rates and the widening range of consumer loans offered (especially from 2000 on) resulted in the *increase of domestic consumption* from 1997. This process continued up until 2002 (disregarding a temporary setback in 2000). This trend, involving markets for both consumer durables and non-durable products, was favourable for the retail sector. Even though differences in incomes remained unchanged until the end of the decade, a decrease in spatial disparities could be observed in terms of consumption. This process had varying effects on different regions of the country. In Eastern and Northeastern regions of Hungary, where incomes are comparably lower, 'delayed' demand for durable goods (household and home entertainment appliances, furniture, etc.) defined the structure of consumption. Meanwhile, in the capital, its surroundings and Western regions of the country, demand grew largely for transportation, telecommunication and services geared towards the improvement of living standards (health, recreation and culture). Thus, available data suggests that in Hungary around 2000 there existed simultaneously a 'Western' model comparable to that dominating consumerist societies of developed economies, on the one hand, and an 'Eastern' model more characteristic of an 'accumulation' phase with an emphasis on material goods, on the other (Table 10.1).

Our empirical inquiries show that structural changes have taken place in parallel with the growth of consumption in the Hungarian market. Consumer markets have become polarised in terms of location (urban vs. rural), space (regions), income and *age.* Markets themselves have also begun to adapt to these tendencies. Urban consumers are more innovative and receptive but are, at the same time, easier to manipulate. The *rural population* is by and large more conservative, but is more willing to compromise (for example, it is more ready to rest content with a more restricted choice of goods to save money and time). From the point of view of entrepreneurs, *regional characteristics* boil down to the more price-centred orientation of the population in Eastern Hungary.

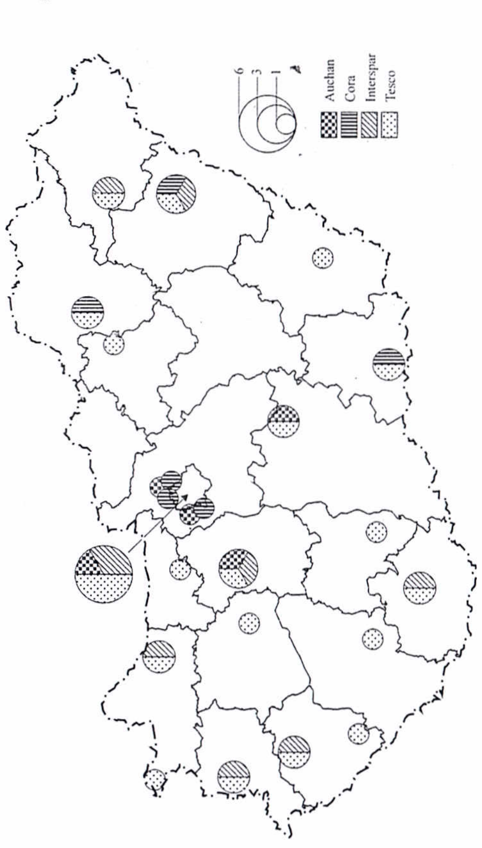


Figure 10.3 Hypermarkets in Hungary run by international corporations, 2002

Source: The author's own compilation

The appearance and spread of new retail forms contributed to social differentiation. Our research indicates that shopping centres and hypermarkets segmented society to the largest extent. The clientele of the former differs in terms of age and income, and (secondly) also in terms of qualifications. Young people and upper middle-class consumers are ready to accept and visit 'malls', while the elderly, those with lower incomes and the less qualified tend to refuse them. As a result, the spread of this form in large and medium-sized towns has had a number of specific effects. First, it has altered the structure of the local retail sector. City centre retail has become polarised in terms of price and quality. Simultaneously, a re-organisation of shopping spaces could be observed. Second, the introduction of new forms of retail has also led to the transformation of shopping habits and even the formation of consumer models and the segmentation of markets (Nagy, E. 1999; GFK Hungária 2000).

Hypermarkets 'divide' consumers according to mobility (income), age and marital status. Especially income tends sharply to mark off the different habits of various groups in the rural population. Car owners developed new shopping habits and spatial patterns of consumption. At the same time, regional differences were also shaped by the popularity of hypermarkets. Large investors interviewed reported that developments in Eastern Hungary were among their most successful undertakings. This can be attributed to a number of reasons. Retail networks adapt to regional characteristics of consumer structures (tested on a quarterly basis) and especially to the needs of customers from the countryside (which needs are in turn crucially shaped by expanding multinational companies).[15] According to domestic entrepreneurs, however, many members of the Hungarian population, especially those living in Eastern Hungary, tend to make irrational consumer decisions ('over-consuming') allowing themselves to be persuaded by promotions and the availability of massive supplies. The fact that shopping is also a pastime activity – not only in shopping centres but also in hypermarkets – plays an important part in the formation of such attitudes, particularly so in the Eastern part of the country.

In sum, the most important impulse for the spatial and temporal re-organisation of shopping habits was constituted by large and financially powerful (mainly foreign) organisations. By the beginning of the 2000s, these had completely transformed the domestic commercial network through large-scale developments. This transformation has affected mainly mobile groups in middle or higher income brackets that have better access to information on new opportunities and are also better positioned to exploit these (similarly to 'Western' societies). Within this group, the structure of consumption has changed radically leading to the transformation of spatial and temporal aspects of consumption. The introduction of new elements (products) in households depends mainly on age and qualification, but is also closely linked to the place of purchase (this is most frequently a newly-opened supermarket or hypermarket). In the case of the above-mentioned social groups, these tendencies point to the spread of more health-conscious diets and general changes in characteristic ways of life (e.g. eating as a cultural experience, decreasing amount of time for cooking, etc.). The transformation of the domestic retail sector least affected groups of retired citizens and those with lower incomes.

These groups cannot benefit from lower prices – not even in towns targeted by large-scale developments. Their structure of consumption changes slowly, while their spatial patterns of consumption are shaped by tradition and price-preferences (market place, discount stores).

Weak segmentation of consumer habits – the legacy of the shortage economy – the fast and often shocking transformation of conditions of shopping, fragmentation and the inertia of domestic actors – all these factors have helped foreign enterprises to assume a key role in shaping consumer culture. Their sophisticated ways of manipulating customers have also furthered this process. The appearance of new types of stores operated in most cases by foreign investors has differentiated society in specific ways. This manifested itself in the growing complexity of mental maps drawn by different social groups of local and regional retail and also in novel attitudes toward new shopping spaces, techniques and products. All these factors contributed crucially to defining consumer habits and the consequent re-drawing of shopping routes. In addition to income, the ability to adapt as a function of qualifications, age and place of living understood in a broader sense (accessibility of new developments, formation of urban/rural consumption attitudes) have all played an important part in the transformation of patterns of consumption. It is to be expected that inequalities rooted in different consumption habits will stay in place. These disparities are sustained by processes of concentration in domestic and international retail, liberal regulatory policies and, finally, by urban planning and efforts at consolidating local budgets in Hungarian towns targeted by commercial developments. However, there is no indication of new sectoral and regional policies to improve the quality of life in undeveloped, deprived areas through a better accessibility of products and services (transport development, support for local suppliers). This is all the more regrettable as Hungarian consumers leaving behind the legacy of the shortage economy regard an ample supply of goods and the possibility of choice as one of the most fundamental positive results of the transition.

NOTES

[1] Two of our surveys carried out for different purposes (in 2000, Szeged and in 2004, Békéscsaba, both involving 1000 households) included questions concerning living conditions and various related aspects. According to the answers given, 75-and 80% of the responders (respectively) found that changes of product supply and conditions of purchasing had clearly improved. In both surveys, these two parameters were mentioned as the most important factors contributing to the improvement of living conditions.

[2] Adherents of this school have argued that each new phase of socio-economic development is a 'partial, temporary and unstable result of embedded social practices rather than the pre-determined outcome of quasi-natural economic laws' (Jessop 1992: 26, quoted by Amin 2000: 7)

[3] Anyone without a criminal record and with appropriate qualifications (education) for the activity to be pursued could obtain a license for individual enterprise. However, several restrictions were introduced in 1995, 1996 and 2000, such as the revocation of the license in the case of debts to public authorities (taxes, social insurance or customs liabilities) and

full financial responsibility in a limited or a joint stock company. The Act on Corporations (1990) also permitted individuals, practically with no restrictions, to join any limited and joint-stock company or to become shareholders in domestic corporations. Conditions and institutions of legal control were not defined by the Act in sufficient detail. There were few administrative (quantified) restrictions. Limitations on membership in economic enterprises were put in practice by the new Act on Corporations in 1997 to prevent unlawful activities (e.g. tax evasion) by means of cross ownership.

[4] Successful applicants were granted bank loans at a reduced rate from governmental funds.

[5] The financial crisis was mainly caused by the failure of the Act on Local Governments (1990) to define clearly the framework of re-distribution (i.e. the division of resources centralised by the national government and the part left remaining with local bodies). In the 1990s, the share of local governments from personal income tax revenues (constituting the most significant part of local government income) gradually fell from 50% to 5%. Meanwhile, the range of public services (e.g. issuing entrepreneurial licences, driving licences, passports, etc.) to be provided by local governments was steadily increasing as many such activities were delegated by central authorities to local ones. Meanwhile, resources re-distributed by the government to local governments did not cover the increasing expenses of the provision of such services. The deficit could only be eliminated by increasing local taxes and selling community assets. Although governmental funds for local development have increased, most settlements are still struggling with financial problems on a daily basis. (In many cases, local government debt was caused by the co-financing of development projects.)

[6] The 1999 amendment of the Act on Retail Chambers abolished compulsory membership in retail chambers. In this way, Chambers of Commerce lost not only the majority of their members, but also their former role in governing retail and wholesale activities, in representing retailers' interests and also their mediating function in conflict management.

[7] Due to the concentration of the food-sector, dominated by the most intense competition, in 1996, 5% of all shops realised 43% of the total turnover in 1996. By contrast, in Western European countries, the five biggest companies had the same share of their respective domestic markets.

[8] The most important foreign investor in this category is the German Metro-group. However, the expansion of D-I-Y and discount (Rewe, Delhaize) chains has also begun.

[9] In the middle of the 1990s, customers of what were mainly shops with small floorspace complained more and more sharply about the lack of quality-guarantees, insufficient technical equipment and poor quality goods. Our earlier surveys show that quality-problems occured mainly in food and clothing retail. Customer surveys conducted at the end of the 1990s signalled significant improvements. Customer satisfaction grew primarily in new (or re-furbished) shops with large floorspaces. The assessment of smaller shops also improved which can partly be attributed to intensifying competition driven by the appearance of foreign investors. (Törőcsik 1994; Horváth and Bajai 2000)

[10] Companies with foreign capital claimed a 62% share in investments in the retail sector between 1996 and 2002.

[11] Cf. Figyelő Top 200 2002.

[12] Their share in the sale of electrical appliances grew from 10% to 34% nationwide (twice the amount of the Western European average) between 1996-2001 (Figyelő Top 200 1996, 2002).

[13] In 2003, this group could increase its market share the most, by 4%, with hypermarkets realising a growth of 2%.

[14] These include the development of a joint and centralised logistical bacground, the sale of own brands, the introduction of HACCP, the creation of a corporate profile and the introduction of barcodes.

[15] The findings on the structural transformation of consumption are based on interviews conducted with managers of domestic retail chains and organisations as well as on surveys carried out in Debrecen in 1999 and Békéscsaba in 2004.

REFERENCES

Amin, A. (2000) Post-Fordism: Models, Fantasies and Phantoms of Transition. In Amin, A. (ed.) *Post-Fordism*. Malden, Mass, Blackwell. 1–40.

Beluszky, P. (1966) Magyarország kiskereskedelmi központjai (Hungary's Retail Centres). *Földrajzi Értesítő* 2. 237–261.

Belyó, P. (1995) A kereskedelmi vállalkozások helyzete és fejlődési lehetőségei (The Current Situation and Development Prospects of Retail Enterprises). *Statisztikai Szemle* 6. 485–500.

Castells, M. (1989) *The Informational City: Information Technology, Economic Restructuring and the Urban-Regional Process*. Oxford, Blackwell.

Clarke, G. (1998) Changing methods of location planning for retail companies. *Geojournal* 45. 289–298.

Coles, T. (1997) Trading Places: The Evolution of the Retail Sector in new German *Länder* since Unification. *Applied Geography* 17. 315–333.

Cushman&Wakefield (2002) *Where People Shop – European Summary. Report*. London, Cushman&Wakefield–Healey&Baker European Research Group.

Douglas, M. J. (1995) Privatisation Growth and Sustainability of the Retail Sector in Budapest. *Moravian Geographical Reports* 3 (1–2). 44–52.

Drtina, T. (1998) *Retailing in Europe: Crossing the Borders*. Prague, INCOMA.

Figyelő Top 200. 1996, 2002.

GFK Hungária (2000) *Vásárlások jellemzői és üzlettipusok részesedése a napi fogyasztási cikkek piacán* (Characteristics of Purchasing and the Share of Different Shop Types in the Market of Consumer Goods). Budapest, Gfk Hungária.

Giddens, A. (1990) *The Consequences of Modernity*. Cambridge, Polity Press.

Guy, M. (1998) Controlling over Retail Spaces: the Impress of Planning Politics in Europe. *Environment and Planning* A 30. 37–47.

Hernandez, T. and Bennison, D. (1998) The organisational context of retail location planning. *Geojournal* 45 (4). 299–308.

Heinritz, G., Klein, K. E. and Popp, M. (2003) *Geographische Handelsforschung*. Berlin–Stuttgart, Gebrüder Borntraeger Verlagsbuchhandlung.

Horváth, A. and Bajai, E. (2000) Hódító hipermarketek. *Élelmiszer Online* I. 20.

Hughes, A. (1996) 'Forging new Cultures for Food Retailer-Manufacturer Relations?' In Wrigley, N. and Lowe, M. (eds) *Retailing Consumption and Capital*. Harlow, Longman. 116–136.

Jessop, B. (1992) Fordism and Post-Fordism: Critique and reformulation. *Pathways to Industrialisation and Regional Development*. London, Routledge.

Kovács, Z. (1987) Kereskedelmi centrumok és vonzáskörzetek Heves megyében (Retail Centres and Agglomerations in Heves County). *Földrajzi Értesítő* 3–4. 253–272.

Lupton, R. A. (2002) 'Retailing in Post-socialist Central Europe'. *The European Retail Digest* 33, 45–49.

Mohácsi, K. (1998) A magyarországi élelmiszer-forgalmazás: a szövetkezeti kereskedelem lehetőségei (Hungarian Food Retail: The Prospects of Cooperative Retail). *Közgazdasági Szemle* 45 (5). 494–506.

Nagy, E. (1999) A kereskedelmi ingatlan-fejlesztések néhány sajátossága és térszerkezet-formáló szerepe a kelet-közép-európai városokban (Some Characteristics of Commercial Real Estate Developments and Their Role in Spatial Formation). *Alföldi Tanulmányok* 17. 13–29.

Nagy, E. (2005) Adaptation and differentiation: the corporate strategies of international investors in the emerging retail market of Hungary. In Turnock, D. (ed.) *Foreign Investments and Regional Development in East Central Europe*. London, Ashgate. 267–291.

Nagy, G. (1995) A külföldi tőke szerepe és térbeli terjedése Magyarországon (The Role and Spatial Spread of FDI in Hungary). *Tér és Társadalom* 1–2. 55–82.

Nemes Nagy, J. and Ruttkay, É. (1987) *A második gazdaság földrajza* (Geography of the second economy). Budapest, Manuscript.

Poole, G., Clarke, G. and Clarke, M. (2002) Growth, concentration and regulation in European grocery reatiling. *European Urban and Regional Studies* 9 (2). 167–186.

Regional Statistical Yearbook. KSH, 1996, 2002.

Sassen, S. (1991) *The Global City: New York, London, Tokyo*. Princeton, NJ, Princeton University Press.

Scott, A. J. and Stroper, M. (1986) *Production, work, territory: A geographical anatomy of industrial capitalism*. London, Allen and Unwin.

Sklair, L. (2001) *The Transnational Capitalist Class*. Oxford, Blackwell. 34–112.

Sykora, L. (1994) Local Urban Restructuring as a Mirror of Globalisation Processes: Prague in the 1990s. *Urban Studies* 7. 1149–1166.

Törőcsik, M. (1994) A lakosság véleménye a kereskedelemről és fejlesztéséről (The Shoppers' View on Local Retailing). *A kereskedelmi funkciók változási irányai Győr és térségében*. Győr, MTA RKK DTI.

Weijers, S. and Janssen, B. (1997) *Changing Logistics Strategies and Structures in Retailing*. Rome, Papers of the RSA.

Wrigley, N. and Lowe, M. (1996) Towards a new retail geography. In Wrigley, N., Lowe, M. (eds) *Retailing, consumption and capital*. Harlow, Longman. 3–30.

Wrigley, N. (2002) The landscape of pan-European food retail consolidation. *International Journal of Retail and Distribution Management*. 30.