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A Fresh APPROACH

An iconic chain in Slovenia, Mercator Group was hit hard by the global financial crisis. Now with a new management team and a new shareholder they are refreshed and ready for tomorrow's challenges.

Images courtesy of Mercator Group

With more than 1,540 stores in five countries, the Mercator Group is one of the largest retailers in Central and Eastern Europe. Despite their current strong position in the market, the years following the global financial crisis were hard on the European economy, and the retail sector in particular was hit hard.

Toni Balažič, President of Mercator, was brought into the company as part of a team that had the challenge of turning around the retail chain after a number of factors led to less than desirable results. With his background, Toni was well placed to lead the company through a period of change and rejuvenation. Entering university to study economics, Toni got his first professional job at only 19, working in public relations.

"While I was studying I was already working for one of the leading PR agencies in Slovenia, called Spem. And I stayed there for about five to six years, mainly focusing on dealing with the clients, PR issues, and also developing know-how. During that time I also established the Slovene subsidiary of the London School for Public Relations, which became one of the leading platforms for PR education in Slovenia.

"Then I was hired by Petrol, which is one of the biggest energy companies in Slovenia. I was their marketing director, so my role was to develop a more modern marketing function and strategy, and we were also developing modern organisational culture. After that, I went and acted as a consultant with AT Kearney Management Consulting Agency."

While working as a consultant, Toni developed restructuring plans for companies, helping them become profitable after they had been recording losses. He then worked at the companies Fructal and Žito, helping them develop new strategies to streamline their companies, develop strong brands and stabilise their market share. It was due to his successes with these businesses that he was asked to join Mercator.

"When I was brought in to Mercator in 2012, we were faced with many issues. The first issue was the declining market share of Mercator because of changes in the competitive environment in Slovenia and changes in consumer behaviour. From 2006, our competition became ›

fiercer and fiercer, and that's why Mercator started to lose its market share from 2007–2008. So I was brought in mainly to help change the market trends."

These market trends, a result of a number of factors including the economic downturn, saw the profits of Mercator decline considerably. After seeing increasing profits since Slovenia joined the European Union in 2004, due to the GFC from 2008 Mercator saw a 3.7-per-cent decrease in revenues year on year.

"The industry saw an increase in the share of the discounters and also a change in consumer behaviour because of the GFC. Consumers changed their behaviour, and became more and more opportunistic. These issues very much influenced our profitability and our market share. In addition, there was the issue of the decline of the Slovenian economy. The Slovenian economy has very much been hit by the GFC and we were in a recession until last year. So all these issues influenced the decline of our profitability."

One impact of the GFC and Mercator's declining market share was the large debt the company was saddled with when Toni started. With more than €1 billion in debt in a time of credit crunch, and Mercator unable to get more loans, Toni realised the company needed to restructure its debt.

"We were faced with a lot of issues, and there was also the lack of knowledge on how to really restructure such a huge debt in the region. And that high debt was also very complex. In our case, in terms of the debt restructuring, it was one of the most complex in Europe. We had 57 banks in our portfolio, eight jurisdictions, and €1 billion in debt."

> "The first issue was the declining market share of Mercator because of changes in the competitive environment in Slovenia and changes in consumer behaviour."
> - Toni Balažič

Another issue that Toni was faced with at Mercator was shareholder instability, with a number of unsuccessful attempts by shareholders to sell their majority shares in the company. "From 2005 on, Mercator was faced with an unstable shareholder structure, and as a consequence the company was unable to totally focus on its core business because it was always distracted by the fact that there was something going on with the shareholder structure."

Previous attempts by shareholders to divest Mercator shares proved difficult after political opposition to the sale. Because Mercator was previously government owned, and an iconic chain in Slovenia, there were strong views in the public sphere on its sale to a foreign company. The sale was finalised in September 2014, and the combined company employs approximately 60,000 people.

The acquisition by Agrokor, in combination with the restructuring of debt and increasing cost efficiency in the company, helped turn Mercator around. "In terms of the cost efficiency, we wanted to become as lean an organisation as possible, and we decreased our overhead by 25 per cent in the past 18 months. We decreased the levels within our organisation; we decreased our costs by over €60 million in the last two years. We were able to stop the decline of our market share and it started to grow again. We now hold one-third of the Slovenian market and as a group we are the biggest retailer in the region."

After the GFC and the increase in discount retailers in the region, Toni realised that for Mercator to continue to increase their market share they needed to set themselves apart from their competitors. The focus for the company in their products and marketing became the quality and freshness of their food. "We want to be the leader in fresh. So whether that's fruit, vegetables, meat—we are certainly the leader in fresh food," Toni says.

After a number of scandals in the food industry in Europe in recent years—with horse meat being found in a number of products claiming to be beef in the UK and Ireland—Toni says that consumers are more aware of the origin of their food, how it was produced and how local it is. "That scandal really made consumers more aware ›

"Due to its reliability and progressiveness, Perutnina Ptuj is one of the most important business partners of Mercator. It is no surprise that with development of innovative and quality products it has been the best in the food industry for more than 110 years." - Nada Krajnc, member of the management board, Perutnina Ptuj

of the sourcing of their food. So that's why consumers are requesting transparency on where the food is sourced, and they really want to have the food sourced as locally as possible and be produced in as natural a way as possible."

Mercator prides itself on the fact that the majority of the fresh food it sells has good traceability, and much of it is locally produced. This, it believes, sets it apart from other retailers in Slovenia. "A huge share of the fresh product on our shelves can be traced, and it is local. So that's very important. We want to have the best offering of Slovenian products, of local products."

However, this focus on having Slovenian products poses some difficulties. "Freshness and closeness and having local products is really becoming more important. But this is becoming an issue because Slovenia is not self-sufficient in terms of food products," Toni says. Consumers want as much of their fresh produce as possible to be sourced locally, but Slovenia does not have a massive food production industry. Only around 30 per cent of vegetables and 40 per cent of fruit consumed by Slovenians is locally produced.

To try to increase their share in local produce, Mercator embarked on a project to develop long-term relationships and contracts with Slovenian farmers. They work with food producers to develop agreements that are beneficial to Mercator, the farmers, and the consumers. "Our consumers see that the quality of local products is higher. So by doing that we are actually helping our farming industry to increase their productivity and their revenue.

"We've been doing that for three years and we have hundreds of contracts now with Slovenian farmers and small farming companies which are based on a long-term partnership. We strongly believe that our future competitive advantage will be due to our regional and local suppliers. And in order to really make them competitive we strive to form long-term relationships with them because we want to show them the future."

In addition to forming long-term contracts, Toni believes there are two other key concepts that are essential to good relationships with suppliers. "The first thing is dialogue. The main benefit from cooperation between Mercator and its suppliers must be expressed in a better shopping experience for our consumers. We include our suppliers and partners in developing our new concepts within the store or in sales and marketing. We don't use professional actors in TV commercials; we actually use real people from our business, from our suppliers, which really shows the commitment on both sides. Second is the mutual benefit. We strongly believe that you cannot be successful in the long term without having fair relationships with your suppliers. So these are the two key success factors in working with our suppliers."

As well as improving the performance of the company financially, Toni wanted to reform the company culture and key values. "Key values for us became one word, and that word is companion. We want to reposition Mercator to become a companion for all of our stakeholders. Whether that is the consumers or the employees, we really want to make them feel that Mercator is a companion to all of them. Meaning that we want to be close to them, we want to take care of them, we want to establish trust, and we want them to know we are all part of Mercator's success."

Part of this key value includes a focus on training and development for employees of Mercator. "Training and development is becoming more and more important for our company. It starts with coaching on the management level. So what we want to do is to make sure that each employee in our company has daily access to the best knowledge of our company.

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"That's why we have a network of trainers and we have 156 trainers who are working daily with our employees in the shops to really help them develop the best skills. We also develop more formalised workshops for either selling skills or expert skills. So in the past year, about 30–40 per cent of our employees participated in one of those programs. We also developed a leadership centre where we are developing new leaders for the company."

After years of financial struggles, feeling the impact of the GFC and seeing consumer behaviours shift, Toni believes the company has turned around very quickly.

He reflects, "2014 was one of the key years in our history. We really stabilised our shareholder structure. We gained a new shareholder, Agrokor Group, and we actually showed that we were able to focus more on the core business. Second, we successfully stabilised the financial restructuring. We stabilised the financial issues, and this is extremely important to really be able to focus on business in the future."

Toni is hopeful about increasing Mercator's profits and market share further. "In the future, what we have to do is really strengthen our position as key retailer in the region. Plus, within two years we want to become the most profitable retailer in our region. So this is a business goal for the next two years and we are quite sure we are able to achieve it."