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Comment: Kingfisher can succeed in Romania despite Debenhams' exit from the 'difficult market'

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Given the recent performance of British brands in Romania, one can be forgiven for doubting the decision last week by B&Q owner Kingfisher to enter the market following its acquisition of Bricostore from French retailer Group Bresson.

Political turmoil formed the focal point of Romania’s retail year in 2012 and could yet have far-reaching effects for the retail sector in the future. A new left wing government was installed in April last year, after the previous regime failed to survive a no confidence vote amid growing public unrest about stringent austerity measures; however, the retail prognosis is far from clear.

While the new government’s promise to roll back many of the austerity measures is undoubtedly a popular move with many Romanians, the uncertainty surrounding the economic wisdom of such a move is affecting market confidence as well as prompting greater caution among consumers.

The Kingfisher deal, which involves the acquisition of the third largest operator in Romania in terms of sales and number of operational units, is undoubtedly a significant boost to a retail market that has witnessed several leading British brands scale back their operation in recent years. On the same day Kingfisher announced its intention to launch in Romania, Debenhams revealed it had closed all six of its stores there, describing the country as an “extremely difficult market”.

Kingfisher has said it will convert the 15 stores it has acquired as part of the deal into its Brico Dépôt format, but chiefs will also have to understand and adapt to the local market, carefully planning price policy, while at the same time strategically planning the cities it targets for expansion.

With a population of 22 million there is certainly a lot of growth potential for the brand over the next five to 10 years and despite last year’s political unrest Romania remains a relatively stable economy in comparison to some of it neighbours.

The DIY sector in Romania reached €1bn in 2012, although new store openings were at the lowest levels seen since the early 2000s. DIY has been dominated for the last two years by Dedeman, the only local operator in the sector, which aggressively expanded, while the international chains operating in the country nervously sat on the sidelines. As a domestic retailer, a further factor in Dedeman’s success has been its ability to understand the local market and set its price policy accordingly. Kingfisher take note.

In recent years, the British fashion sector has been represented by big brands such as Marks & Spencer, Debenhams and Next, but despite being household names in the UK have so far failed to appeal to the Romanian consumer. These brands have discovered to great cost that their price policies were not compatible with local spending power, but scratch beneath the surface and there is a far more obvious explanation for their lack of success.

Each of these brands was operated by a local franchise and not directly by the British based companies themselves. Some of these franchisees lacked the financial strength to support an aggressive, competitive expansion and in the case of Debenhams, the franchisee closed down all of the brands it operated in Romania and left the market for good.

In any case, department stores have never been a compatible model in a market that is traditionally dominated by shopping centres.

While this regional trait may have contributed to the difficulties experienced by Debenhams, there is absolutely no reason why Kingfisher cannot buck the British trend and go on to be an enormous success in a market that is there for the taking.

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