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Retailing in Russia 2009

Crisis-struck but long-term
potential prevails

Published: May 2009
Reference Code: DMVT0513
Report Price: £2,495/€3,610/\$4,795

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Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



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Executive Chairman
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Retailing in Russia 2009

Crisis-struck but long-term potential prevails...

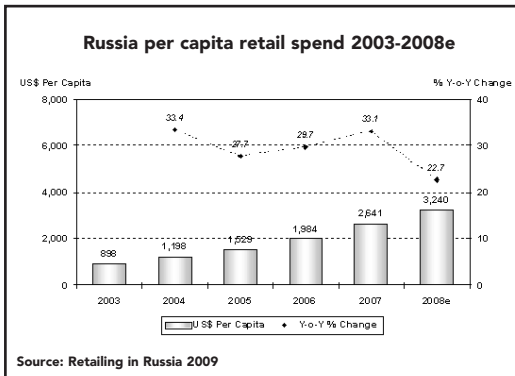
After years of buoyant growth, Russia's retail prospects have worsened as deteriorating macroeconomic conditions and a recessionary environment feed through to weaker demand and declining retail sales. This report analyses the key issues affecting retail in Russia and outlines the future growth potential of the market.

Retailing in Russia 2009 is a new report published by Verdict Research that provides accurate insights into the key trends and future developments for Russia's retail sector and assesses the main operators in the market. It also offers new insights into the strategies for growth in a challenging and competitive market environment through its detailed analysis of the opportunities in the country.

10 Key Russian retailers

X5	Baucenter
Magnit	Metrika
Lenta	Eldorado
Dixy	M.Video
Seventh Continent	Tekhnosila

This new report will help you to assess the retail competitive landscape in Russia and create strategies to exploit future growth in the retail market...



"Over the past five years, per capita retail spend in Russia has grown by 260.7% from US\$898 in 2003 to US\$3,240 in 2008. Retail spend per capita outstripped growth for overall retail as Russia's population declined from 145m to 142m in the same period. The rapid uplift in retail spend per capita between 2003 and 2008 illustrates the large amount of retail investment in and development of the country, which fed through to greater retail expenditure. Verdict expect this figure to rise further as retail continues to develop and modernise in the years ahead..."

- **Quantify key retail trends and accurately predict future opportunities** based on this report's company analysis detailing market share of leading retailers, demographics, channels of distribution, store numbers, selling space provision, sales densities and average store size in five key retail sectors.
- **Predict potential growth for retail in Russia and the challenges facing key retailers** through in-depth analysis of market drivers, key issues and market outlook for DIY, Food & Grocery, Furniture, Clothing and Electricals in Russia.
- **Develop more effective strategic responses** with this report's actionable recommendations for how retailers can cope with the changing Russian retail market.

Retailing in Russia 2009

This report answers key questions including...

- What are the key issues affecting the retail market in Russia?
- Who are the top players in the Russian market and how quickly are they consolidating their position?
- Where are the growth opportunities in the Russian market?
- Which sectors are suffering in the downturn?
- What is the long-term growth potential of the Russian retail market?

Key Retailer Data

Sales densities
Selling space
Number of stores
Sales
Operating profit
Average store size
Sales per outlet

Key issues examined in this report...

Russia furniture market size 2003-2008e

	2003	2004	2005	2006	2007	e2008	03-Aug
in RUB bn	71.9	89.6	111.7	130.9	162.9	182.1	---
change %	14	24.6	24.7	17.1	24.5	11.8	153.3
in US\$ bn	2.3	3.1	4	4.8	6.4	7.4	---
change %	16.6	32.6	27	21.9	32.9	14.9	213.8
Share of total retail %	1.8	1.8	1.8	1.7	1.7	1.6	---

Source: Retailing in Russia 2009

"Russia's furniture market was worth around US\$7.4bn in 2008. Prior to the onset of the global downturn the market was growing strongly from a very small base (only US\$2.3bn in 2003) and is widely seen as having huge growth potential. To put this in perspective, Russia's per capita spend on furniture of US\$52 is relatively low in global terms. Hence there should be significant upward potential. The booming popularity of furniture and home furnishings was largely a function of the population's growing prosperity. With average incomes sliding back significantly, the boom years are over..."

- **While the discounters thrive, luxury and upmarket retailers will suffer.** Value based retailers are in the strongest position to do well in the current climate. The days of frivolous Russian spending have come to an end, at least for the time being. Consumers who previously would not hesitate to purchase the latest designer goods have become much more cautious with their outgoings. Meanwhile changing consumer habits such as trading down and increased price sensitivity mean that retailers with a low price proposition will perform better in the downturn.
- **The food and grocery sector will be the least affected by Russia's macroeconomic and financial woes.** The non-discretionary nature of food means that the country's leading grocers will continue to trade strongly as retailers in other more discretionary sectors such as electricals, suffer from a slump in demand.
- **Since the unfolding of the recent crisis, there has been a greater uptake in private label goods.** The changing consumer behaviour has been a major driver of private label growth in Russia. Consumers that previously shunned private label goods are increasingly changing their buying habits as price becomes the overriding factor driving purchasing decisions.

Retailing in Russia 2009

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Chapter 5: Strategic Issues

Regionalisation – breaking into the millions

- The retail markets in Russia’s largest cities Moscow and St.Petersburg are highly saturated and competitive. To a certain extent further growth in these cities is out of the question as new sites are unavailable and property prices remain inflated.
- The real growth opportunities for retailers lie outside these cities in less saturated regions of the country. There are a number of cities with over 1m inhabitants and these have been the first point of entry for retailers expanding beyond Moscow and St.Petersburg. Three of the largest international retailers in the country have already targeted cities such as Kazan and Volgograd in their regional expansion.
- Auchan opened its first store in Moscow in 2002. The company began its regional expansion in 2006 opening hypermarkets in Nijni Novgorod, Yekaterinburg and St.Petersburg. The retailer is now concentrating its expansion on further extending its presence regionally as well as ramping up its existing operations. In 2009 Auchan will open its first hypermarket in Omsk and a second hypermarket in Samara.
- IKEA entered the country in 2000 and has since opened three stores in the capital as well as two in St.Petersburg. IKEA’s regional expansion has primarily targeted large cities with more than 1m inhabitants such as Kazan and Nizhniy Novgorod. IKEA now intends to intensify its regional expansion and open big box stores in smaller cities with populations of 500,000. IKEA’s regional expansion has also been driven by the company’s Mega Mall shopping centre developments, many of which are anchored by an IKEA outlet.
- Metro has expanded aggressively in the country since it entered in 2001. A lot of Metro’s expansion in Russia has come from its Cash and Carry chain. The company is rapidly expanding its other store networks, Real hypermarkets and Media Markt electricals stores, throughout the country leveraging the logistical support provided by its established Cash and Carry network.

Figure 14: Key regional targets for expanding retailers



Source: Retailing in Russia 2009

Figure 15: Regional expansion by three leading international players



Source: Retailing in Russia 2009

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