Russia

ECONOMIC OVERVIEW

GDP AND CPI

GDP and CPI in 1999-2003

Key economic indicators	1999	2000	2001	2002	2003
Real GDP growth (%)	6.3	10	5.1	4.7	7.3
CPI (%)	36.5	20.2	18.6	15.1	12.0

Source: Goskomstat

The Russian economy grew by 7.3% in 2003 versus 4.7% in 2002. Higher growth rates in 2003 were induced by above-average world oil prices, which accounted for about 2.0% of GDP growth, and by two internal factors: a rise in personal incomes and capital investment.

Inflation continued to decline in 2003. This can be attributed to slower cash circulation caused by a popular shift in demand from dollar to ruble holdings, tight state budgetary policy and restrictions on the prices of products sold by natural monopolies.

UNEMPLOYMENT

Unemployment statistics

Year	1999	2000	2001	2002	2003
Unemployment rate (%)	12.6	10.5	9.0	8.0	8.5

Source: Economist Intelligence Unit

Russia's low-cost and generally highly skilled labor force is one of the main attractions for investors. The labor market in Moscow can be compared to the labor markets of developed countries, with a reliance on unskilled foreign workers to fill low-paying jobs. At the same time, outside the large towns the labor situation is similar to that seen in developing countries.

Area ('000 sq km): 17,075
(US 9,600 – EU 2,500 – World 133,700)

Capital: Moscow

Population (million): 144.1
(US 288.4 – EU 305.5 – World 6,200)

GDP (USD billion): 345.6
(US 10,400 – EMU 6,600 – World 32,300)

GNI per capita (USD): 2,130
(US 35,400 – EMU 20,320 – World 5,120)

Currency: Russian ruble (RUR)

Language: Russian

Main religions: Russian Orthodox, Muslim

Government type: Federal republic

Russia

ECONOMIC FORECASTS

GDP forecast, annual % change

Year	2004	2005	2006
Pessimistic forecast (%)	3.9	4.8	4.9
Optimistic forecast (%)	5.2	5.9	6.1

Source: Ministry of Economic Development and Trade, December 2003

Russia's economy is expected to grow at the rate of about 5.4-5.8% a year in 2004-2006 given the right external conditions: stable oil prices and demand, which are forecast to be favorable to the country. Following President Putin's statement that the main strategic objective is to double the country's GDP by 2010, the government is determined to provide favorable internal conditions for steady economic development by reducing the corporate tax burden, carrying out economic reforms and facilitating structural changes towards internal market-oriented industries in the economy. Inflation is expected to follow a downward trend and decline to 10.0% in 2004 and 6.5-8.5% in 2005.

According to Economist Intelligence Unit forecast, the unemployment rate is expected to fall to 8.0% in 2006.

REGULATORY ENVIRONMENT

FOREIGN DIRECT INVESTMENT

The volume of foreign investment attracted by Russia is rising. In 2003, foreign investment increased by 26% in euro terms to reach EUR26.3 billion; the level of foreign direct investment grew even faster, reaching EUR6.0 billion in 2003, and making up 22.8% of all foreign investment received by Russia during the period (versus 20.2% in 2002).

The most attractive sectors for foreign investment include the oil industry, metallurgy and machine building, food, wood processing, retail trade, catering, and communications. Since 1998 the most active investors in Russia were Germany (16.2%), USA (13.7%), Cyprus (11.5%), UK (9.7%), the Netherlands (7.3%) and France (7.2%).

Volumes of foreign investment in Russia in 2001-2003, in EUR billion

Year	2001	2002	2003
Volume of foreign investment	15.9	20.9	26.3
Volume of foreign direct investment	4.4	4.2	6.0

Source: Goskomstat and Ministry of Economic Development and Trade

The following factors are making Russia attractive for foreign direct investment:

- Stable and high growth rates - not only in the oil and gas industries but also in the consumer goods sector. Potential areas of investment are expanding;
- A vast consumer market, which has registered rapid growth over the course of several years and continues to offer strong potential;
- Political stability and clear indications of the government's willingness to further develop the market economy - investment risks are approaching those of developed countries;

At the same time several factors are impeding the flow of foreign investment. These include administrative barriers and a high level of corruption among executive authorities and the justice system, poor practice of corporate governance and the underdevelopment of physical infrastructure.

Although Russia's accession to the World Trade Organization (WTO) is backed by the EU (agreement signed at the Russia-EU summit on May 21, 2004), and is expected to make the country more attractive to foreign investors, Russia will have to work actively to further improve its investment climate as it needs to compete for FDI with new EU members who will be able to leverage investment flows from Europe with their new status.

Foreign investment activity including foreign direct investment is mainly regulated by the federal law *On Foreign Investment in the Russian Federation* (1999) with amendments, and the corresponding bylaws. Although the vital role played by foreign direct investment in the country's economy is officially recognized, Russia has not provided significant nationwide incentives for FDI. At the same time, it is steadily making efforts to improve overall business conditions by reducing tax burdens and administrative pressures which affect both national and foreign companies. Regional governments are authorized to establish additional incentives for foreign direct investors, including reduced regional tax rates or tax relief on the regional components of the tax rates.

PROPERTY / REAL ESTATE REGULATIONS

The Land Code of the Russian Federation does not contain any material restrictions on foreign ownership of land plots that may affect retail business. Non-agricultural land plots for construction purposes may be leased or purchased under general competitive conditions.

However, foreign ownership of agricultural land plots and, therefore, direct ownership of agricultural land plots by foreigners, or by the Russian legal entities with foreign share of over 50%, is prohibited. Such entities are limited to leasing agricultural land plots for a period of up to 49 years.

In general, bureaucratic procedures can make it hard to obtain all necessary permits required to get access to land. The other issue is lack of transparency in the process of assigning land plots for rent, but actions are being taken to make the process more transparent, for example, land auctions are planned to be held in Saint Petersburg.

There are no barriers to the purchase and ownership of buildings and premises by foreigners or by Russian companies with a foreign investor. No stamp duty is levied on the purchase of immovable property in the Russian Federation.

OTHER REGULATIONS

Corporate income tax

Corporate income tax stands at 24%. No tax rebates apply (prior to 2002 corporate income tax stood at 35%, but a wide range of potential tax rebates were available).

Value added tax (VAT)

With effect from January 1, 2004, VAT has been reduced from 20% to 18%. A further reduction to 15% in 2006 is under discussion.

Sales tax

Sales tax was abolished all over the country from January 1, 2004. The maximum tax rate was 5%. The elimination of this tax allows retail chains and other retailers working in modern formats to compete on a more even basis against open markets and other traditional retailers who often evaded paying sales tax.

Customs code

The new Customs Code, generally complying with the requirements of the WTO, took effect on January 1, 2004. The new code provided clearer and simpler foundations for customs procedures, reduced the length of customs clearance from 10 to 3 days and introduced several other improvements. Experts believe that the new Customs Code will energize export-import activity in the country and can increase the volume of exports and imports by up to 3-5%.

There is still a significant gray economy within Russia that is based on imports that avoid or all or part of the customs duty and import VAT. Apart from depriving the government of revenues, this practice makes it difficult for legitimate importers to maintain price competitiveness.

Opening hours

Retailers are free to set opening hours at their own discretion. Several major retailers and many smaller traditional stores operate on a 24-hour / 7 days a week basis. However, Russian Labor Code entitles employees to additional compensation for working non-standard hours.

Recent Developments

Investors have carefully followed developments over the past year in the Russian oil sector, and more recently the wave of terrorist attacks, and the government's reaction thereto. To some extent, some of these developments have underscored the volatility and uncertainty traditionally connected with the Russian marketplace.

Russia

DEMOGRAPHICS AND CONSUMER BEHAVIOR

POPULATION

Population evolution

According to the latest national census of 2002, the population of the Russian Federation stood at 145.2 million, or 1.8 million less than in 1989. In 2003, the population was declining at an annualized rate of about 0.8%.

In a medium term the population of Russia will continue contracting. By 2006, it is expected to be down to 140.7 million.

Population by age group

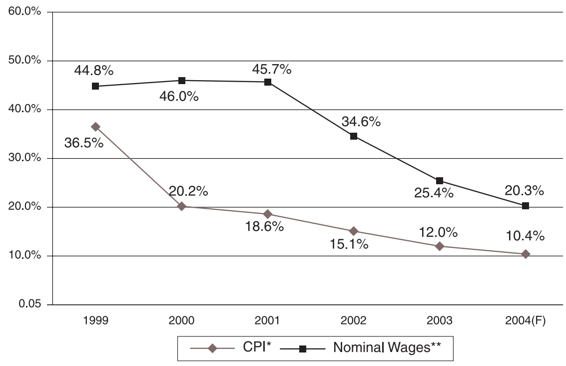
The decline in the birth rate over the past decade has naturally led to a decrease in the 0-16 age group (18% of the total population in 2003 versus 24% in 1989). This could in turn lead to labor shortages and, when combined with current population aging trends (share of those beyond working age reached 21% in 2003), affect the stability of the pension system in the long run.

Urbanization of the population

Almost three quarters of the population of Russia is concentrated in the European part of the country. Russia is highly urbanized: the urban share of population stands at 73% and 13 cities have over 1 million inhabitants (Moscow, St. Petersburg, Volgograd, Ekaterinburg, Kazan, Nizhny Novgorod, Novosibirsk, Omsk, Perm, Rostov-on-Don, Samara, Ufa and Chelyabinsk).

INCOME/BUYING POWER

Consumer price index and growth of nominal wages in 1999-2004



* In % of the previous year (in comparable prices)
** In % of the previous year
Source: Goskomstat and Ministry of Economic Development and Trade

Real disposable money incomes are growing steadily. According to the Goskomstat, they increased by 14.6% in 2003, with average per capita income reaching EUR148 per month. In 2003, 20% of the Russian population had income of less than the official minimum substantial level of EUR61. This compares with 24% in 2002.

Improvement in the well being of the population can be determined on sales of consumer durables. On average, 155 people per 1,000 inhabitants owned their own car in 2003. This works out as 2.6 times higher than in 1990. In Moscow, the level is much higher at 256 cars per 1,000 people. In January 2004 an average of 26% of the Russian population and 70% of Muscovites owned mobile phones.

The Russian population is known to have a very broad spread of incomes: in 2003 the top 10% of wage earners received 30% of the country's total wage packet, whereas the 10% at the bottom earned only 2.1%.

Income and buying power varies significantly from region to region. The most well-to-do population is concentrated in Moscow, St. Petersburg, large regional centers and several smaller cities where the extracting industries are located (Tyumen region, Republic of Komi, Republic of Sakha, etc).

CONSUMER BEHAVIOR

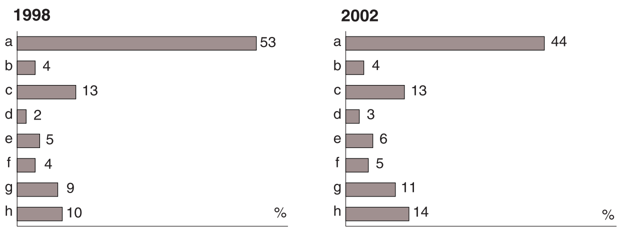
Average household spending patterns

The breakdown of household spending in Russia is slowly, but steadily changing: on average the proportion allocated to food fell from 53% in 1998 to 43% in 2003.

Food expenditure is being replaced by increased spending on household amenities, goods and services, medicine and medical services, recreation, education and cultural services.

These shifts reflect growth in disposable incomes and the move towards a more western lifestyle.

Breakdown of average household consumption in 1998 and 2002



a) Food
b) Transport, post and communication services
c) Clothing
d)Recreation, education and cultural services
e) Residence
f) Medicine and medical services
g) Household facilities. goods and services
h) Miscellaneous commodities and services

Source: Goskomstat

Brand / Price sensitivity

On average about 15% of Russian consumers try new brands of the goods they buy on a regular basis. This share reaches 22% for the 16-24 year age bracket.

Forty-four percent of the population takes into consideration whether or not a product is a brand name when making a purchase decision. Price and recommendations from friends and relatives remain more important decision factors.

There is a significant difference in attitudes to domestic and foreign goods. Seventy-seven percent of the population believes Russian food brands are superior to foreign ones, whereas only 23% of Russians believe domestic clothing and footwear products surpass their foreign equivalents in quality. As for furniture and electronic goods, only 12% and 19% respectively estimate the quality of such products produced domestically to be better than that of their imported counterparts.

Attitudes towards branded goods in general, and foreign-produced brands in particular, are more positive in Moscow and in large regional cities due to the higher level of western lifestyle penetration and higher incomes.

Russia

RETAIL & CONSUMER SECTOR PERFORMANCE

MAJOR CONSUMER GOODS PLAYERS

Top 10 food companies

Ranking	Company name	Category of products	2002 Sales (EUR million)	2003 Sales (EUR million)	Growth rate (%)
1	Wimm-Bill-Dann	Food	872	832	- 4.6
2	Baltika	Brewing	732	714	- 2.5
3	Philip Morris Izhora	Tobacco	618	N/A	N/A
4	Petro	Tobacco	543	N/A	N/A
5	APK Cherkizovsky	Food	405	399	-1.5
6	Mars	Food	356	N/A	N/A
7	Ligget-Dukat	Tobacco	303	N/A	N/A
8	Ochakovo	Food	287	289	+0.7
9	Donskoi Tabak	Tobacco	207	180	-13.0
10	Rossia	Food	202	N/A	N/A

Sources: Annual Expert-200 rating of largest companies in Russia (2003) and companies' data

In 2003 the food & beverages industry grew by 105.1%, which is 1.4% less than in 2002 as a result of a slow-down in several industry sectors, including alcoholic beverages and tobacco production.

The food & beverages industry is among the most attractive industries to foreign investors because investments tend to pay back quicker than investments in the basic sectors. Almost all major international food companies have gone into production in the country by building brand-new plants or investing money into local capacities.

Russian food manufacturers, especially large holding companies, are able to compete with foreign players because they have managed to modernize their production capacities and adopt modern technologies to make the quality of their food products comparable to that produced by their foreign counterparts. Given that Russian food brands have a better image than foreign brands in the country, domestic manufacturers often have the edge. This has led several international food companies to create Russian-looking brands.

Russian companies are leaders in several segments of the food industry: Wimm-Bill-Dann in dairy products; APK Cherkizovsky in meat products; Krasny Oktyabr and Sladko are both strong players in the confectionary sector, although Mars and Nestle are leading the market.

The sectors where international companies dominate are the brewing (Baltic Beverages Holding (Baltika), SUN Interbrew, Efes Beverages Group) and the tobacco sector (Philip Morris, Japan Tobacco International and British American Tobacco).

Major non-food companies

Ranking	Company name	Category of products	2002 Sales (EUR million)	2003 Sales (EUR million)	Growth rate (%)
1	Russian Textiles	Textile, clothing	212	222	+ 4.7
2	Aquarius	Consumer electronics	143	152	+ 6.3
3	Formoza	Consumer electronics	N/A	N/A	N/A
4	Kalina	Cosmetics and perfumery	137	132	- 3.6
5	Shatura	Furniture	109	106	- 2.8
6	Nevskaya Kosmetika	Cosmetics and perfumery	79	N/A	N/A
7	Gloria Jeans Corporation	Textile, clothing	74	89	+ 20.3
8	NEFIS Cosmetics	Cosmetics and perfumery	75	66	-12.0
9	Tchaikovsky Textile	Textile, clothing	32	N/A	N/A

Sources: IRG Top 100 emerging companies in the Russian consumer market report and companies' data

Cosmetics and personal care

The Russian cosmetics and personal care market is estimated to have been worth EUR4.62 billion in 2003. All major international companies producing cosmetics and personal care products are present in the Russian market: about 30% of it is controlled by eight world leaders (Procter & Gamble, L'Oreal Group, Beiersdorf, Colgate-Palmolive, Unilever Group, Henkel, Oriflame International and Gillette) and other foreign producers represent about another 23%. Many of the major international companies have invested in order to have their goods produced locally.

Foreign players are traditionally stronger than local companies in producing make-up and perfumery, while leading Russian companies, such as Nevskaya Cosmetika, Kalina, Svoboda, Linda and several others, are able to supply good-quality personal care goods.

Clothing

Although the Russian clothing market is enjoying steady growth at an average year-on-year rate of 16.2%, and is considered to be one of the fastest-growing clothing markets in the world, the national clothing industry is in recession and is not expected to return to the production volumes of Soviet times for quite some time. Growing consumer demand for clothing is being satisfied by increasing imports, mainly from China, Turkey and Italy. Obsolete equipment, the need to import raw materials, price dumping of imported clothing and a lack of operational and managerial efficiency are the main impediments to domestic production. While, there are still a few successful brands of clothing in the country (Gloria Jeans, OGGI and Sela), these represent exceptions for the time being.

MAJOR RETAIL PLAYERS

Retail sales

During the last four years, retail turnover has grown steadily at an average rate of 9.2% per annum. This has been accompanied by a steady increase in incomes. In 2003, retail turnover increased by 8% year-on-year in national currency terms to reach EUR130 billion, while real disposable money incomes increased by 14.6% The slower growth in retail turnover in comparison to growth in real incomes is explained by a rising propensity to constitute savings using banking services. Retail turnover is projected to continue growing at the same rate in the coming years.

Russia

The overall share of purchases made through retail chains grew from 2.7% in 2001 to 8% in 2003.

The Moscow retail market accounts for 28% of national retail sales. It represents the most developed market in the country in terms of consumer incomes, retail formats development and infrastructure. The share of purchases made through retail chains in Moscow stood at 17% in 2003.

Consumer purchases by type of outlet (FMCG) in Moscow, %

Outlet type	2000	2003	2005 (F)
Self-service format	9	17	30
Traditional stores	22	23	20
Kiosks	20	15	13
Open-air markets	33	28	23
Other	16	17	14

Source: IRG

Retail chains and modern shopping centers are being developed at a fairly fast pace in the following sectors:

- food;
- consumer electronics;
- furniture and household goods;
- DIY.

At present, domestic retail chains dominate in non-food retail, such as consumer electronics and construction materials.

The most intense competition is to be seen in the food sector. A variety of strategies can be used to develop in this sector:

- The development of several formats simultaneously (e.g. Sedmoi Continent, Perekrestok, Ramstore);
- The acquisition of smaller food retail chains and independent operators (Magnit acquired Nesterovky chain, Kopeyka acquired Prodmak);
- The development of franchising systems (e.g. Spar, Aromatny Mir, Pyaterochka, Perekrestok);

Major food retailers

Group name	Store brand	Retail formats	Number of stores (as at 1 Jan 2004)	2003 Sales (EUR million, incl. VAT)
Agrotorg	Pyaterochka	Discount store	260	828
Metro AG	Metro Cash & Carry	Cash & Carry	7	798
Tander	Magnit	Discount stores	530	506
Perekrestok	Perekrestok	Supermarket, hypermarket, convenience store	64	399
Sedmoi Continent	Sedmoi Continent - 5 Zvezd (5 Stars)	Supermarket	14	
	Sedmoi Continent - UniversamSem’	Supermarket	13	395
	Shagov (Seven Steps)	Convenience store	14	

Group name	Store brand	Retail formats	Number of stores (as at 1 Jan 2004)	2003 Sales (EUR million, incl. VAT)
Ramenka	Ramstore	Supermarket hypermarket	19 6	381
Uniland Holding	Dixi	Convenience store, discounter	25	319
Lenta	Lenta Cash & Carry	Cash & Carry	10	248
Felma	Kopeika Kopeika Super	Discounter, hypermarket	46	235
Auchan	Auchan	Hypermarket	3	293

Sources: Companies' data, AC Expert-Ural, United Financial Group

Major foreign food retailers

Ramstore: in 1997 this Turkish chain was the first to launch the hypermarket format in Russia. Ramstore now operates six hypermarkets and 17 supermarkets in Moscow, together with supermarkets in Nizhny Novgorod, Krasnoyarsk and Kazan. In 2004, Ramenka plans to open stores in St. Petersburg, Rostov-on-Don, Novosibirsk and to continue expanding in the towns of the Moscow region. Ramenka's sales are expected to reach EUR530 million in 2004 and EUR760 million by 2007, effectively doubling the sales registered in 2003

Auchan: owns three hypermarkets on the outskirts of Moscow; in 2004 Auchan plans to open 3-4 new hypermarkets in Moscow and St. Petersburg, including one relatively close to the Moscow city center, which is unusual for a hypermarket format. Auchan is considered to be a major rival for open grocery markets and domestic discount stores because of its aggressive pricing policy and the fact that it offers a wider range than its price competitors.

Metro Cash & Carry: operates five outlets in Moscow and two in Saint Petersburg. In 2004 Metro AG plans to expand into other regions by opening stores in Yaroslavl, Kazan, Nizhny Novgorod, Rostov-on-Don, Samara, Ekaterinburg and Volgograd. By 2007 the company plans to invest EUR600 million to develop its stores in Russia. The cash & carry format is still underdeveloped in Russia - Metro Cash & Carry remains the only foreign chain of this format in the country.

Spar: operates 15 stores in Moscow, three in the Nizhny Novgorod region and one in Kazan through its franchising partners Spar Retail, Marta and Spar Middle Volga. The majority stake of Spar Middle Volga - managing stores in Nizhny Novgorod - was bought by Perekrestok in the end of 2003. Nevertheless the stores will be operating under Spar name in the foreseeable future. At the beginning of 2004 SVA-Trading became the fourth franchising partner. Its aim is to develop the Spar chain in the Moscow region by opening seven stores there by 2006. By the end of 2004 there are scheduled to be 33 Spar stores in Moscow and the surrounding region and four in the regional cities.

Martkauf (Ava): operates one hypermarket on the outskirts of Moscow. The company plans to invest more than EUR130 million in a project to open six new stores by 2005.

Russia

Major non-food retailers

Group name	Store brand	Retail formats	Number of stores	2003 Sales (EUR million, incl. VAT)
Eldorado	Eldorado	Household appliances & consumer electronics	462	1,064
Mvideo	MVideo	Household appliances & consumer electronics	34	508
SV	Technosila	Household appliances & consumer electronics	38	310
Mir	Mir	Household appliances & consumer electronics	25	222
IKEA	IKEA	Furniture	4	217
Marionnaud Parfumeries*	Arbat Prestige	Cosmetics & perfumery	14	151

* Arbat Prestige plans to work under the Marionnaud Parfumeries brand, according to a franchising agreement signed at the beginning of 2004.

Sources: IRG and companies' data

Major foreign non-food retailers

IKEA: owns two shopping centers on the outskirts of Moscow, one in Saint Petersburg and another in Kazan. The group builds shopping malls selling food products, clothing, consumer electronics and other goods near its furniture stores to attract consumers to suburban locations where its stores are situated. In the near future IKEA plans to launch three new stores in Moscow and one other in Saint Petersburg.

OBI: operates two stores in Moscow and plans to open up to three new stores in the Russian capital in 2004. By 2008 the company is expected to open at least 15 new stores, including outlets in Saint Petersburg and Ekaterinburg, thus investing EUR260 million in the Russian market.

Douglas-Rivoli: the company was established in 2003 as a joint venture between Douglas and the Russian luxury cosmetics & perfumery chain Rivoli. Douglas-Rivoli operates seven chain stores in Moscow and stores in Rostov-on-Don, Kazan, Chelyabinsk, Omsk and Volgograd. It also owns mono-brand stores Acqua Di Parma, Lancome, Clinique and chocolate boutique Godiva. Douglas-Rivoli is planning to expand further in Russia at a pace of around six new stores a year.

Sephora: perfumery & cosmetics chain Sephora (owned by LVMH) opened its first store in Moscow in December 2003. By the end of 2004 the company plans to open eight stores, including two stores in Saint Petersburg and a store in Samara or Ekaterinburg.

E-commerce

Internet penetration remains low. According to the Ministry of Communications there were 14 million Internet users in Russia in 2003. However, Internet use in the country is growing very rapidly: in 2003 the number of Internet users increased by 50%.

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Struggle for space

The availability of large trading spaces in good locations such as city centers, or along busy highways within the city boundaries, is diminishing in Moscow. As a result, commercial rents are high and retailers are forced to place stores on the outskirts of the city or in the suburbs. Where retailers act as developers (IKEA or Ramenka for example), they need to ensure adequate transport infrastructure, parking facilities or even a free-bus service to get customers to their stores.

Ability to retain trained staff and professional management

The significant lack of retail professionals in the country, at both managerial and entry levels, makes it vital for retailers to train their personnel extensively and maintain competitive compensation packages and career development programs. Several major retailers run their own training centers which are believed to make tangible impact to their success.

Value-for-money concept

Strong price sensitivity, negative experience with cheap, mainly Asian, imported goods and the population's general inherent predilection for prestigious goods calls for the development of specifically adapted store formats and marketing strategies.

OPPORTUNITIES

Development of shopping centers

The rapid development of modern retail formats in Russia, and especially in Moscow, will mainly involve settling in new areas on the outskirts of Moscow and using spaces vacated by open markets. The Moscow authorities are planning to reduce the number of open food and non-food markets from 230 to 96 in 2004. The total surface area covered by shopping centers in Moscow stood at 817,000 square meters in 2003:12 times more than in 1997. Across the country, the shopping center format expanded by 25% in 2003 in relation to 2002. Despite hosting the second-largest shopping center in Europe (Mega Mall managed by IKEA), Moscow still ranks far behind the other European capitals in terms of retail space in shopping centers: 78 square meters per thousand inhabitants is 2.5 times less than in Prague and more than 5 times less than in Paris.

Expansion into regional cities

As most experts recognize, 2003 represents the first year when growth of the retail chains' share of total retail turnover in Russia (from 4% to 8%) was attributable not only to rapid development in Moscow and Saint Petersburg but also in the other regions.

Among the main reasons for expanding into the regions is the growing shortage of available trading spaces in Moscow and Saint Petersburg and expectations that strong foreign competitors are to enter the market.

While Magnit was the only company with established regional presence in 2002, Pyaterochka now runs almost 100 stores (about 30% of all its retail outlets) in the regions, in addition to its stores in Moscow and Saint Petersburg. Other major food retail chains have also opened outlets in the large regional centers:

Perekrestok: Toliatti, Volgograd, Nizhny Novgorod, Samara;
Ramstore: Nizhny Novgorod, Krasnoyarsk, Kazan;
Paterson: Samara, Penza, Kazan, Tver, Ufa.

As for non-food retailers, the Eldorado consumer electronics chain operates in more than 250 Russian cities and has an established presence in Ukraine and Poland. Its closest rival, Mvideo, has opened outlets in only six regional cities.

Although expansion into regions gives retailers access to new markets and enables them to increase volumes of operations, they need to deal with poor infrastructure, logistics problems, a lack of qualified labor and emerging competition from local retailers mustering their strength. They also often have to adapt their marketing strategies, since regional populations tend to be more price sensitive and they have different lifestyles to Moscow dwellers.

Russia

Supply Chain

Relationships with suppliers are starting to alter significantly. Having previously been rather dependent on their suppliers, modern day retailers, especially strong retail chains, are establishing their own rules for working with their supply chains. Retailers can now oblige their suppliers to work stiff delivery schedules, give lower prices, long-term credits and even packaging and marketing.

EMERGING TRENDS

Demand for private labels

Retailers are expanding the production of private labels.

Food retailers such as Ramstore, Perekrestok and Pyaterochka are all selling a wide range of goods under their own labels. Sedmoi Continent is planning to extend its array of private-labeled goods in 2004.

Consumer electronics retailers such as Technosila and Eldorado have launched their own brands: Techno and Elenberg respectively. Another competitor, Mir, is also planning to launch its own brand in the near future.

Customer loyalty

Retail chains in Russia have become quite active in fighting for customer loyalty. Almost every major retail chain has its own loyalty program. Loyalty programs based on pecuniary rewards (discount cards, bonus programs) rather than programs based on emotional rewards are the most wide spread ones in Russia.

Strong coalition loyalty programs have emerged. For example, the discount-based pool, Six Sevens, brings together seven major retailers and service providers in their efforts to develop customers: Starik Khottabich (construction materials), Sportmaster (sports goods), Sedmoi Continent (grocery), Arbat Prestige (cosmetics & perfumery), Kuda.ru (travel agency), MVO (car service) and MVideo (consumer electronics).

Multi-purpose shopping centers

Large-scale shopping malls that draw together a range of retailers (fashion, electronics, furniture, food, etc), food courts and entertainment facilities are becoming very popular among consumers. The coming year will also see the development of a new “retail parks” format in Moscow.

Russia