Biweekly News Review

Published by PMR Publications

Retail Update Russia

A prime source of market intelligence for retail professionals

www.russiaretail.com

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PMR Publications (www.pmrpublications.com) is a division of PMR, a British-American publishing, consulting and market research company. PMR Publications provides reliable market intelligence for business professionals interested in Central and Eastern European countries as well as other emerging markets. Publications by PMR analyse the business climate in the region, in particular in the construction, retail, IT, telecommunications and pharmaceutical sectors. PMR Publications offers both free and paid subscription newsletters, internet news portals and in-depth reports.

PMR

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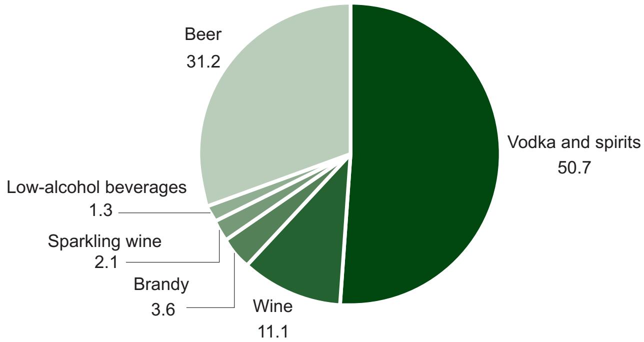
Market news

Joint volume of alcoholic beverage sales in Russia drops by 2.5% in January-November 2010

The sales volume of the Russian alcoholic beverages, expressed in terms of absolute alcohol, decreased by 2.5% year on year in January-November 2010, according to the Russia's Federal Statistics Service (Rosstat), reaching 113.2 million dl.

In terms of real volume, not absolute alcohol, drops were also registered in most categories of alcoholic beverages. In particular, the retail sales volume of vodka and other spirits dropped by 5.8% year on year to 140 million dl and beer sales fell by 2% to 908.5 million dl. The volume of wine sales dropped by 2.2% to 89.9 million dl. Additionally, the volume of brandy sales grew in the first three quarters of 2010 by 4.3% to 9.7 million dl and sparkling wines sales increased by 1.6% to 21 million dl year on year.

Share of different kinds of alcoholic beverages in the joint volume of alcohol retail sales in Russia* (%), January-November 2010



** expressed in terms of absolute alcohol*
Source: Rosstat, 2010

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Mineral water market in Russia grows by 15.5%

The mineral water market in Russia grew in terms of volume by 15.5% year on year in 2010, according to Rbc.ru, citing Express-obzor analytical company.

Between now and 2014, the market is forecast to grow at a rate exceeding 30%.

Most mineral water produced in Russia comes from the North-Caucasus, Central and Volga federal districts. According to the source, the joint share of the aforementioned regions in the total volume of mineral water production in Russia amounts to 62.2%.

Grocery

Magnit opened 827 stores in 2010 and grew revenues by 40%

Magnit, one of major Russian grocery retailers, opened 827 stores (net) in 2010, increasing its total store count to 4,055. This translated to a total trading area of 1.4 million m^2 in December 2010.

According to the company's unaudited preliminary data, its net retail revenues in 2010 amounted to RUB 236.1bn ($7.7bn), which translates to a 39.2% growth compared to 2009. In December 2010 alone, the company reported RUB 28.7bn ($934.1m) in net revenue, a 49.6% y-o-y increase.

Recently, the company concluded an agreement with the German MAN car manufacturer to acquire 1,700 lorries. The vehicles will be used for the retailer's logistics operations. The first 620 lorries, worth approximately €60m ($77.5m), will be delivered in February 2011, with the remainder to arrive within the year.

In addition to retail outlets, the company owns a chain of logistics centres in different regions of Russia where the lorries are most likely to be used.

Lenta increased sales by 27% in 2010

Lenta, a Russian grocery retailer from St. Petersburg, increased its LFL sales by 24% year on year in 2010, while its consolidated net sales grew by 27% year on year from RUB 55.6bn ($1.83bn) in 2009 to RUB 70.6bn ($2.34bn) in 2010.

According to the company's plans, Lenta intends to open eight new hypermarkets in Russia in 2011, each covering 12,000 m^2.

The Lenta hypermarket chain consists of 39 outlets, including 14 stores in St. Petersburg, four in Novosibirsk, two in Nizhny Novgorod, two in Krasnodar and two in Omsk, as well as units in Astrakhan, Barnaul, Novgorod, Volgograd and other major Russian cities.

Atac grew to 50 stores in 2010

The French **Auchan Group** grocery retailer has increased the store count of its **Atac** grocery retail chain in Russia to 50 in 2010.

The company opened 18 Atac supermarkets in 2010. The 50th store in Russia is located in Krasnogorsk and occupies 1,220 m^2. By opening the store, the chain fulfilled its expansion plans for 2010. By 2015, the retailer plans to increase the number of Atac stores to 200.

The Auchan Group has operated in Russia since 2002. In mid-December 2010, it operated 44 Auchan hypermarkets in Russia, 22 of which were located in Moscow.

Also, as *Retail Update Russia* reported, the company considers to develop another grocery retail chain in Russia in 2010, **Raduga** grocery discounter hypermarkets, after two Raduga pilot outlets were opened in Kaluga and Penza.

Dixy tests supermarket format

The **Dixy** grocery discounter chain will launch a pilot supermarket in the Moscow Province in January 2011. This is the retailer's first experience in the new format, as traditionally the company's stores operate in the discounter regime. The pilot store will open by late January.

According to InfoLine, cited by *Rbc Daily*, investments in one Dixy new-type supermarket opening amount to 700-900% more than a traditional Dixy discounter.

The Dixy store count is 616 outlets in the Central, North-Western and Urals Russian federal districts. The Dixy Group is 61.09% owned by the multisectoral **Merkury** group.

Pyaterochka founder leaves X5

The founder of the Russian **Pyaterochka** and **Karusel** grocery retail chains, Andrey Rogachev, has sold his stake in the **X5 Retail Group**, which is currently the country's largest retailer and the owner of the aforementioned chains. However, apart from Rogachev admitting the stake's sale, no further details have been disclosed.

Rogachev owned an 11% share in the group. The stake is considered to be worth approximately $1.4bn.

As *Retail Update Russia* reported, Rogachev announced his plans to sell his stake in X5 already in 2008. However, he failed to do so due to an alleged lack of interested buyers. Currently, among other options, Rogachev is considering using the gained funds to support his construction development business in Russia.

Pyaterochka grows in Volgograd Province

The **Tamerlan Group**, the Volgograd Province franchise partner of Russia's largest grocery retailer, the **X5 Retail Group**, opened four discounter shops under the **Pyaterochka** banner in December 2010 in the region.

Three stores started operation in Volzhsky. The fourth outlet opened in the Srednyaya Akhtuba village. The average area of each store is approximately 350 m^2.

Overall, the Tamerlan Group launched 14 Pyaterochka stores in 2010. By 31 December, the franchisee operated 121 units. In 2011, Tamerlan Group plans 30 openings in Volgograd and the Volgograd Province.

SAHO launches new Khlebnitsa store in Novosibirsk

The **Siberian Agrarian Holding** (SAHO) opened its first mini-market under the **Khlebnitsa** bakery retail brand in Novosibirsk. The store operates on a trading area of 200 m^2. Currently, 23 bakeries operate in Russia under the Khlebnitsa banner.

The chain includes outlets in two formats: supermarkets and small convenience stores (mini-markets). In 2011, SAHO plans another Khlebnitsa opening in Novosibirsk.

Consumer electronics

Volume of sales on Russia's mobile phone market in 2010 up by 25%

A total of 34.8 million mobile handsets were sold in Russia in 2010, which is an increase of 25% year on year, according to the **Mobilnye Telesistemy** (MTS) mobile phone operator and retailer. In comparison, in 2009, the volume of sold mobile phones decreased year on year by 27% to 26.2 million. The value of sold mobile phones on the Russian retail market increased by 7% year on year to RUB 155.2bn ($5.16bn) in 2010.

According to the Russian **Euroset** mobile phone operator, in 2009, the value of sales on the Russian mobile phone market fell by 45% year on year in US dollars terms to $4.32bn, and by 30% in Russian roubles, to RUB 130bn.

Simultaneously, the average market price for a mobile phone dropped by 14% to RUB 4,453 ($150) year on year, MTS reported. The share of handsets with a price of under RUB 5,000 ($166) comprised roughly 74.3% of the total sales on the mobile phone retail market, while mobile phone sets sold at a price of between RUB 5,000 and RUB 9,999 ($333) had an 18.5% share. A 7.1% share is held by phones costing over RUB 10,000.

29 consumer electronics stores opened in Novosibirsk in 2010

Consumer electronics retailers actively opened outlets in Novosibirsk in 2010. During the year, 29 stores offering consumer electronics goods opened in the city, according to business.ngs.ru. Twenty-two percent growth was seen in the number of stores operating in the retail consumer electronics sector compared to 2009. According to the source, about 160 of the aforementioned stores currently operate in Novosibirsk.

M.Video launched two stores in the city last year. The first supermarket opened in November 2010 in the Sibirsky Mall shopping centre. The second store began operating at the **Sportmaster** sportswear outlet in December. In addition, new consumer electronics stores were opened by **Technosila** in the Golden Park shopping mall, **Eldorado** in the Versailles shopping centre, **Sibvez** in the **Domotsentr** hypermarket and **Expert** in the Festival mall.

Among the new market players is the **5th element** retailer from the Republic of Altay, which managed to launch two stores in Novosibirsk in 2010.

Additionally, a number of brands in the sector have already worked in the city. Among others, this includes **Elikon** (12 stores), **Elektrobyt** (seven stores) and **Rembyttechnika** (seven stores).

According to business.ngs.ru, the development of the retail consumer electronics market in the city will continue in 2011. This year, the German **Media Markt** plans to open a store in the Aura shopping mall. Eldorado also has plans for further openings in Novosibirsk in 2011.

Mir Group announced bankrupt

The Moscow Arbitration Court has declared the **Mir Group**, a group of companies operating on the consumer electronics market in Russia, bankrupt on 14 January after the group filed a lawsuit for its own bankruptcy in November 2010. The Mir Group's assets are considered to be worth some RUB 331m ($11m) and its debts almost RUB 1.5bn ($50m). Since the bankruptcy announcement, the group has gone under external management for six months.

As *Retail Update Russia* previously reported, the court has also declared bankrupt the group's wholesale operator **Eurokontur-Mir**, as well as its head company, and arrested the assets of its Mir consumer electronics stores.

According to maonline.ru, about 30 stores of the group's retail chain still operate in Russia.

Clothing & accessories

Kurt Geiger enters Russia

The British Kurt Geiger luxury shoe brand has entered the Russian footwear market. The first store under the banner started operation at the Atrium retail centre in Moscow on 14 December 2010. The company plans further expansion in Russia in 2011.

The British brand is exclusively represented in Russia by the **Fashion Galaxy** retailer, which is also a distributor of such brands as UGG Australia, Repetto France, Mystique and DAV.

Kurt Geiger's world store count comprises 150 stores, including 35 stores in the UK.

New Stockmann shopping centre in St. Petersburg increases company's turnover by 60%

The new shopping centre operated by **Stockmann**, a Finnish concern operating on the Russian retail clothing market, which was opened in St. Petersburg in November 2010, has increased the value of the company's total Russian turnover by 60%, according to Retailer.ru. The centre covers a total area of about 97,000 m^2 and hosts approximately 70 stores.

The company plans to open another shopping centre in Yekaterinburg in spring 2011.

Cosmetics & pharma

Douglas Rivoli sold to Rives Gauche

The German **Douglas Holding** sold its Russian perfume and cosmetics retail chain under the **Douglas Rivoli** name to **Rustiset Holdings**, which operates the **Rives Gauches** perfume and cosmetics chain on the Russian retail market.

The deal included the acquisition of 32 stores and a three-year license to use the Douglas Rivoli brand. The cost of the deal is estimated at €55-75m. The agreement on selling Douglas Rivoli was closed on 30 December.

The annual sales of Douglas Rivoli are considered to be over RUB 2bn ($66m). The Douglas company entered the Russian market in 2003 when it founded a joint venture with **Rivoli**.

36.6 signs contract to supply private label products

36.6, one of the major groups of companies on the Russian pharmaceutical market, has signed a contract with **SIA International** on the wholesale distribution of 36.6's private label products and other logistic services.

The company expects to receive a monthly turnover from its private label goods wholesale sales at a level of RUB 7-8m ($233,000-266,000), which would be a half of its annual revenue. Overall, 36.6 sold products worth approximately RUB 15m ($0.5m) in 2010.

According to 36.6, in Q3 2010, its consolidated (retail and wholesale) sales amounted to RUB 4.87bn ($162m), which translates to a 6.3% y-o-y growth. The retail sales of the group's pharmacies in Q3 2010 reached RUB 3.41bn ($113.7m), a y-o-y 3.3% decrease.

The retail chain of pharmacies of the 36.6 group, operating under the same name, included 845 units in Russia at the end of Q3 2010. The group also includes a medicine producer, **Veropharm**.

New CEO appointed at Protek

Aleksey Molchanov left his role as the CEO of the **Protek**, a Russian pharmacy group. He will be replaced by Igor Filatov, the former deputy general manager. Both have spent over 10 years in the company. Mr. Molchanov was appointed the company's CEO on 1 January 2008.

According to the company's official statement, Mr. Molchanov will spend two years in London to acquire business experience. However, some voices on the market agree that the dismissal is a result of the Protek board of directors' dissatisfaction with the company's 2010 financial results.

Protek recorded a y-o-y fall in its net profit by over 1,900% to RUB 14.5m ($0.5m) in Q3 2010, which was a four-fold drop in comparison to Q2, when net profits hit RUB 57.6m ($1.9m), which *Retail Update Russia* reported in November 2010.

Other

European retailers on Russian DIY market maintain steady growth in 2010

The major foreign retailers operating on the Russian DIY market, in terms of trading area, **Obi**, **Leroy Merlin**, **Castorama** and **K-Rauta**, reassured their positions on the market in 2010, according to Rbc.ru. After 2009, when the joint sales value on the market dropped by nearly 17% year on year to RUB 338bn ($11bn), the foreign retailers kept low but steady growth in their store count in Russia in 2010.

Particularly, the German Obi opened three stores in Yekaterinburg, Krasnodar and Moscow. Currently, the retailer operates 17 stores in Russia. In mid-2010, the company announced its plans for about four openings in Russia annually in 2011-2012.

The French Leroy Merlin operator opened two stores in Voronezh and Samara in 2010. The company operates 15 stores in Russia.

As *Retail Update Russia* reported in November 2010, Leroy Merlin will start constructing a new hypermarket in Krasnoyarsk in spring 2011, which will likely open in 2012. The company's plans for 2011 include two more openings in Russia.

Castorama operates 14 stores in Russia. It opened two stores in Perm and Ufa in 2010. In H2 2010, it announced its plans for about 20 new openings in Russian over the next five years.

The Finnish K-Rauta operates 12 stores in Russia. The company opened two stores in Kaluga and Tula in 2010. It also plans to open its first store in Moscow in 2011.

Tashir to intensify activities on Russian retail sector

Tashir Group, one of major players on the Russian construction market and the owner of the **Nash Dom** DIY retail chain, plans further expansion in the retail sector in 2011, according to the company's deputy CEO Vitaly Yefimkin, cited by *Rbc Daily*.

The plans are based on the growth of the consumer demand on the Russian retail market in 2010, which resulted in an increase in the retail turnover in the country. However, in the opinion of Mr. Yefimkin, customers still preferred goods from the lower price segment. As Tashir offers prices in Nash Dom stores on average 12-15% lower than competition, it was able to widen the scope of customers last year, and the turnover of Nash Dom stores increased by 10% year on year in 2010. Mr. Yefimkin also expects that the share of retail stores in Tashir's business will increase to 26% in 2010, a 6-p.p. growth year on year.

The Nash Dom chain of DIY hypermarkets includes three outlets operating in Tashir trading centres in Moscow. The next stores are to open in Yaroslavl, Ivanovo and Belgorod in the near future.

Last year, Tashir launched a number of new retail projects, including **Modny Alliance** clothing stores, **Comedy Café** restaurants and the **Kids Garden** children's goods chain. Also, the group operates the **Cinema Star** multiplex network. The aforementioned projects are owned by Tashir group.

Mebbery grows by 28 new stores in 2010

Mebbery, a furniture and housekeeping goods retailer operating on the Russian market, opened 28 new stores in 2010. The company's store count is 38 outlets in the Volga, Central, North-Western and Urals federal districts.

The retailer has been developing the chain since April 2007, when the first company outlet started operation in Nizhny Novgorod. The franchise program, provided by Mebbery, requires premises of at least 70 m², located by the main traffic arteries in cities and towns with a population over 10,000 people.

According to the company, Mebbery stores offer over 500 SKUs.

Second Detmart outlet in Moscow to open in January

Detmart, a new children's goods retailer, will open its second outlet in Moscow. The company signed a lease contract for the store on an area of 1,300 m² in December. The space was previously occupied by an **Arbat Prestige** perfume and cosmetics store. The new opening is scheduled for late January.

The first Moscow Detmart store started operation in the Zolotoy Vavilon shopping centre on 25 December. In 2011, the retailer will continue its growth by opening 3-5 new outlets in Moscow and in the vicinity of the capital.

Baskin Robbins brand expands by 34 new units in 2010 in Russia and CIS

Baskin Robbins, the US ice cream parlour brand, opened 34 new units in Russia and the Commonwealth of Independent States (CIS) in 2010. The newly opened stores include two own company units at the Moscow Sheremetyevo and Domodyedovo airports. The brand mainly operates on a franchise basis.

The first Baskin Robbins ice cream parlour opened in Russia in 1988 in Moscow. The company's production plant started operations there in 1996.

The chain, which operates 174 ice cream parlours in Russia, Ukraine, Kazakhstan and Azerbaijan, increased its turnover by 26% year on year to RUB 505.9m ($16.9m) in the first nine months of 2010. In Russia, the brand is operated by the **BRPI** company, which is the master franchisee in the country.

■

Supplier news

Milkiland acquires 17.8% in Ostankinsky dairy complex

Milkiland , a holding from the Netherlands, has completed the acquisition of a 17.8% share in the **Ostankinsky** dairy complex in Moscow and has grown its stake in the Russian company to 93.78%. The deal has been performed in three phases and at total cost RUB 289.4m ($9.6m). The first two phases were completed on 17 May and 29 October 2010, and the third phase was completed on 11 January.

Outside the Russian dairy complex, Milkiland holds a 100% share in **Milkiland-Ukraine**, the owner of 10 processing plants and four agro-firms in Ukraine.

Cristal trademark in Russia contested by Soyuzplodoimport

The Russian Higher Arbitration Court has postponed for two months the hearing of a claim by the **Soyuzplodoimport** state company, which is contesting the legal protection of the Cristal trademark in Russia, owned by the French **Champagne Louis Roederer** wine house. Soyuzplodoimport owns its own Kristal vodka brand, which was registered in Russia before the French Cristal.

In the company's opinion, the similarity of the two brand names may be confusing for clients.

The Russian company appealed the verdict of a lower instance court, which ruled in favour of the French wine house.

■

In brief

- A new **Perekrestok** grocery supermarket, owned by **X5 Retail Group**, opened in the Monarch shopping centre in Moscow 28 December 2010. The outlet, taking up 15% of the total area of the mall (1,455 m^2), has become its anchor tenant.
- The Japanese **Uniqlo** clothing retailer will open its third Russian store in Moscow, the largest among the company's units. The store will occupy 2,000 m^2 and be located in the Afimall Citi retail and leisure centre. The company entered the Russian market in spring 2010.

Ukraine

Volume of commercial retail space supply in Kiev to grow by 23% in 2011

The volume of commercial retail space supply in Kiev may grow by 23% (260,000 m²) to almost 1.4 million m² in 2011 compared to 2010, according to the Aurora Development research company, cited by retailstudio.org. The volume of trading area supply on the Kiev retail market in 2010 increased by 9% year on year to almost 1.1 million m².

According to the source, six major trade and leisure centres are expected to be put into operation in Kiev in 2011. These include Esplanada (38,000 m²), the second segment of Dream Town (82,000 m²), Mega-Citi (25,400 m²), Rainbow (22,800 m²), Promenada Park (43,000 m²) and Marmelad (47,000 m²).

Brocard-Ukraine to have new owner

The Cypriot **Indenon Holdings** has received the approval of the Ukrainian antitrust office to acquire a controlling stake in the **Brocard-Ukraine** cosmetics and perfumes retailer.

The company operates 63 stores in 24 cities throughout Ukraine, selling over 230 leading cosmetics and perfumes brands, including Chanel, Lancome, Estee Lauder, Mexx, Marc O'Polo and Mango.

In 2010, Brocard opened six stores. The retailer's turnover amounted to UAH 800m ($99m) in 2009. It plans to increase the figure by 10% year on year in 2010.

Brocard-Ukraine is part of the German **Brocard Group** holding. The company has operated in Ukraine since 1995.

Forte to sell factories in Russia and Ukraine

Forte, the prominent Polish furniture producer, intends to sell its factories in Russia and Ukraine, according to a report in the Polish daily *Parkiet*. **Boydak Foreign Trade**, a Turkish company, will buy the plants. The transaction should be concluded by the end of February 2011. The companies still need the approval of the Russian antitrust office, although the Ukrainian antitrust office has already approved the sale. The value of the transaction was not disclosed.

However, the Polish producer does not intend to withdraw from the Eastern European markets. According to Forte's management, exports to Ukraine have been much more profitable than production there since the country abolished custom duties.

Plato grows to 40 stores in 2010

The Kiev-based **MTI Group** footwear retailer opened a new **Plato** store in Rivne on 28 December 2010. By this opening, the company now has a Plato store count of 40. The store is located in the Zlata Plaza shopping centre.

The MTI Group develops chains under the banners of **Intertop**, **Plato** and **Kidtop**, as well as the **Protoria** network of IT goods stores.

Jointly, the MTI Group operates 147 outlets in Ukraine, covering a trading area of 40,165 m². The retailer also operates 16 units in Kazakhstan on a joint area of 2,884 m².

Pakko opened five Vopak stores in 2010

The **Pakko Holding**, a grocery retailer operating in western Ukraine, has opened a new **Vopak** supermarket in Kremenets in the Ternopol Province.

This is the retailer's second store in Kremenets and its fifth store to have opened in 2010. The retail space is approximately 300 m² and offers approximately 4,500 SKUs.

The Pakko Holding also operates the **Pakko** wholesale stores.

Fokstrot opens third store in Ivano-Frankovsk

The **Fokstrot** consumer electronics retailer will open a new **Fokstrot Tekhnika dlya doma** supermarket (1,200 m² of trading area) in the Arsen retail centre in Ivano-Frankovsk. It will be the company's third store in the city.

The retailer opened four revamped stores in Kharkov, Nikolayev, Lubny and Lvov in December 2010. The aforementioned reopenings took place due to the company's plans to revamp all of its existing stores, which *Retail Update Russia* reported in September 2010.

Fokstrot was founded in 1994. According to the company, it enjoys a 20% share in retail consumer electronics sales in Ukraine. It operates 198 Fokstrot Tekhnika dlya doma supermarkets and 37 **Foksmart** consumer electronics hypermarkets in Ukraine and Moldova.

Since September 2010, the company has been a member of **Euronics**, a large consumer electronics purchasing group present in 30 European countries.

■

How to succeed on risky yet potentially rewarding Russian retail market?

Retail Update Russia speaks to Art Vartanian, managing director of Retail Solutions, a company providing advisory services for the retail sector in Central and Eastern Europe, about whether retail markets in Russia and Ukraine have recovered from the crisis; why the withdrawal of Carrefour and Wal-Mart from Russia were missed, golden opportunities; and about the strategies of other retailers in Russia and Ukraine.

Mateusz Lasek, *Retail Update Russia*: How did the crisis influence the retail markets in Russia and Ukraine? In your opinion, have these markets managed to get out of the crisis?
Art Vartanian: Generally, all markets were impacted dramatically, but the impact in Ukraine and Russia was especially severe. Luxury and specialty retailers were generally affected more than other groups, though there are exceptions to this as well. The majority of shoppers learned to get along with less, and this resulted in decreased trade turnover.
Retail Solutions expects these markets to rebound, led by the Russian market. Future success comes down to how determined the management of a given company is to adapt to the market and improve their offer to the end customer.

Can you give any examples?
Our clients Henderson, EBRD, as well as companies like Inditex and Starbucks, have continued their dramatic expansion in these markets and successful development of their chains. There are, however, other companies still scratching their heads wondering what happened in 2008, and in 2009 they stood by and watched some other retailers climb back. The more expertise a company has, the more likely it will succeed with a lucrative return on investments.

Where opportunities for growth are there in these markets?
A number of opportunities exist now in the above mentioned markets, such as office supplies (increased business activity), electronics (an opportunity for retailer Best Buy), and others with a clear, well thought out strategy.

How would you assess the year 2010 on the Russian retail market?
Numbers are still coming out, but one can clearly see increased foot traffic in shopping centres. It is clear that it was a good year with a lot of developments. On the one hand, there were many bankruptcies and credit defaults in all segments of retail. On the other hand, new companies entered the market, some withdrew, and some took advantage of the lower rents and expanded.

You mentioned that the Russian market will lead the regional rebound from the crisis – can you elaborate more on this?
The Russian retail market has recovered but it is still fragile. Markets like Russia are for those with an appetite for risk and an understanding of the wider picture. With that being said, we think the withdrawal of companies such as Wal-Mart and Carrefour, and the bankruptcies and defaults of Technosila and Mosmart, among others, were all missed, golden opportunities in the market, but there will be more.

And what about Ukraine?
In Ukraine retail is back on the upswing, however our key data points are Kyiv and Lvov. I do not think this market is back to boom times, but I expect to see steady sustained growth for nearly all types of goods. Ukraine's GDP grew 4.5% in 2010 and similar, stable growth is forecast for the next couple of years; inflation also seems to have been brought under control. I would say that retail sales and economic growth will proceed hand in hand with a great deal of stability, unless there is another world-wide economic crisis.

Looking back on 2010, what kind of start to the new year do you expect for the Russian and Ukrainian retail markets?
The Russian stock market was up 23% in the past year and 200% in the past 24 months. Oil is back to $100 a barrel. Consumer confidence is up. People want to get back to spending. In the end, it's about running the best business, as efficiently as possible, and giving customers the best offer based on a well-considered strategy. More than one third of the Russian and Ukrainian economy is retail, so this is an opportunity for those with the best offer.

In your opinion, how will the growth of Russia's retail market influence retailers' policies? For example, Magnit is not looking to further expand its chain in Siberia and Northwest Russia, including St. Petersburg, in 2011. The retailer's explanation is strong competition in those regions, as well as a lack of suitable premises for new openings. Would you agree with those arguments?
I would separate the two. Magnit is an impressive retailer and St. Petersburg may not be the best location for its strategy. Additionally, there are much stronger players in the Northwest. In Siberia, however, there are failing retailers with serious issues, which provides growth opportunities for others interested to grow in this region.

On the other hand, the German Metro Group claims that the Russian market has capacity for over 100 new hypermarkets in the next few years, with Moscow alone having room for 30. How would you comment on those two contrasting policies and the companies' arguments?
That is an interesting contrast, indeed. First of all, Germans are great retailers. There are many examples, such as Aldi, Lidl, Metro, or Obi, to name just a few. They have the know-how to export their formula worldwide. So, despite the obstacles a foreign company has to deal with in Russia, they have the right formula. Some companies are quick to simply look for the easy hits, rather than develop their infrastructure and training.

Lately, some retailers in Russia started, or intensified, the development of discounter formats. This includes X5, Holiday, NTS, or Atac, to name just a few. How would you interpret the expansion of this format, which developed especially during the crisis? Does it forebode another drop in the market?
Yes, we have noticed a rising interest in this format – we have been receiving calls from retailers in Russia, Ukraine and Belarus, as well as investment companies, on how to develop discounting.
A drop in the market? I would rather call it a major opportunity for the prepared. Frankly speaking, I do not see it as an indication of concern with another drop in the market, but as an opportunity to tap into a growth area in the underdeveloped retail segment. As we continue to distance ourselves from the crisis, this strategy could be effective if the companies involved offer the consumer a competitive offer.

Lately, Leroy Merlin's first hypermarket was opened in Ukraine by Adeo Group, which, together with Auchan, is controlled by the Mulliez family. Do you think Leroy Merlin's entrance into Ukraine is a symptom of the Mulliez family's strong interests in that country, or is it rather an attempt to diversify its profile to improve its market position?
Auchan seems to be doing fairly well in Ukraine (and Russia as well). They were able to make a cheap acquisition of the O'Key chain, which provided them with very good locations in large cities throughout Ukraine, with virtually no competition in Zaporozhie, Simferopol, Kriviy Rih, Kiev, and Kharkov. So, I would say that Leroy Merlin was opened because of Auchan's good results. I do not think, though, that it was designed to work the other way round, i.e. that Leroy Merlin's entrance was expected to improve Auchan sales, even if they were initially located in the same areas.

In that case, what development strategy would be best for Leroy Merlin on the competitive Ukrainian DIY market?
The market is indeed competitive – German Obi also had to struggle, competing with EpiCenter (a local group), which is dominant in the DIY segment in Ukraine. As for Leroy Merlin, it is hard to say just how well it will be able to compete, especially without a first market mover advantage. Leroy Merlin's Ukraine strategy is yet to unfold. I think that smaller stores in more convenient locations would work best for them, opposed to trying to win with an identical format.

Map of latest openings

Retail outlet and shopping centre openings referred to in the current issue of Retail Update Russia

Place	Retailer	Chain	Format	Number of outlets	Current store count
Ivano-Frankovsk	Fokstrot Tekhnika dlya doma	Fokstrot	Consumer electronics	1	198
Moscow	Fashion Galaxy	Kurt Geiger	Footwear	1	1
	Detmart	Detmart	Children's goods	1	2
	X5 Retail Group	Perekrestok	Grocery supermarket	1	Over 30
	Uniqlo	Uniqlo	Clothing	1	3
Novosibirsk	Siberian Agrarian Holding	Khlebnitsa	Bakery	1	23
Srednyaya Akhtuba	Tamerlan Group	Pyaterochka	Grocery discounter	1	Over 1,200
Volzhsky	Tamerlan Group	Pyaterochka	Grocery discounter	3	Over 1,200

Source: PMR Publications, 2011

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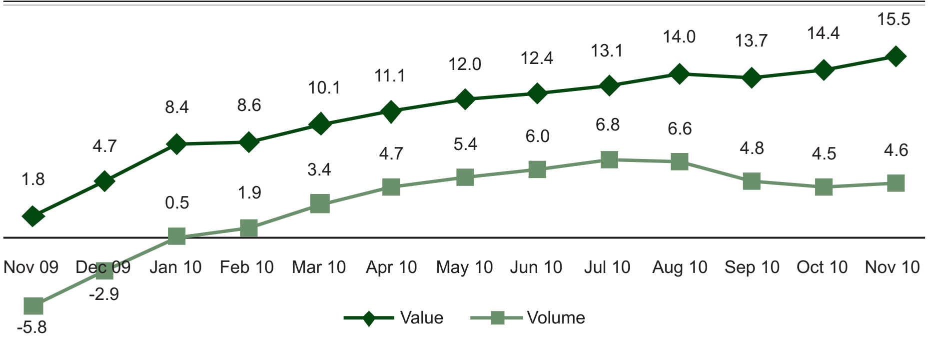
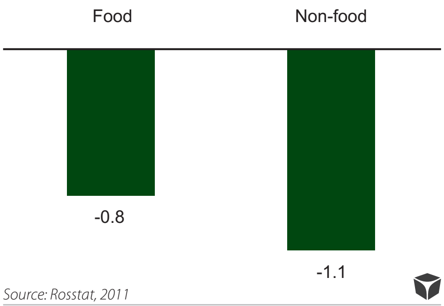
Retail data sheet

Retail sales turnover in Russia by value and volume (%, y-o-y), November 2009-November 2010*



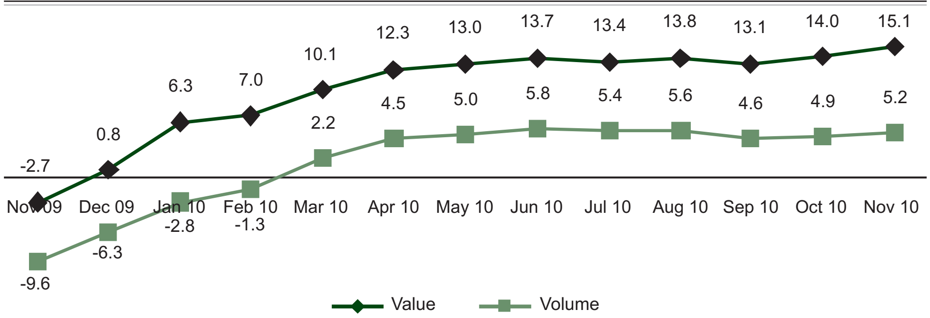
* January-November 2010 updated by data concerning analysis of selected small business subjects
Source: PMR Publications based on Rosstat, 2011 www.pmrpublications.com

Retail sales in selected categories of products in Russia by volume (%, m-o-m) November 2010



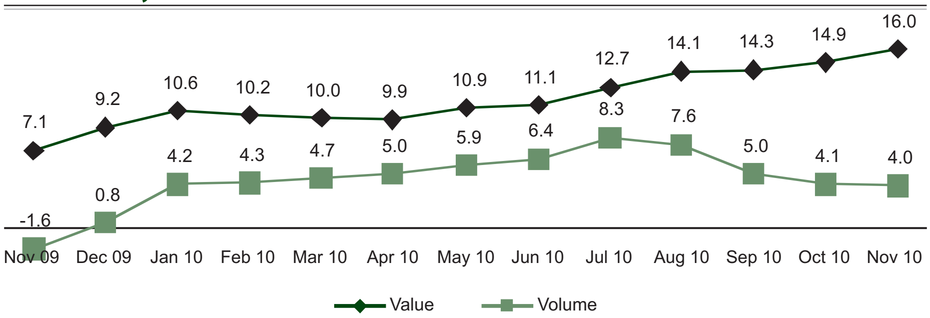
Source: Rosstat, 2011

Retail sales turnover of non-food products (%, y-o-y) in Russia by value and volume, November 2009-November 2010*



* January-November 2010 updated by data concerning analysis of selected small business subjects
Source: PMR Publications based on Rosstat, 2011 www.pmrpublications.com

Retail sales turnover of food products (%, y-o-y) in Russia by value and volume, November 2009-November 2010*



* January-November 2010 updated by data concerning analysis of selected small business subjects
Source: PMR Publications based on Rosstat, 2011 www.pmrpublications.com

Share in retail sales turnover in Russia by trade organisation, November 2009 and November 2010

		November 2009	November 2010
Retail sales	↑	RUB 1,266.9bn = 100%	RUB 1,463.4bn = 100%
Retail trade organisations and private enterpreneurs	↑	85.7%	86.8%
Commodity, food and mixed markets/bazaars	↓	14.3%	13.2%

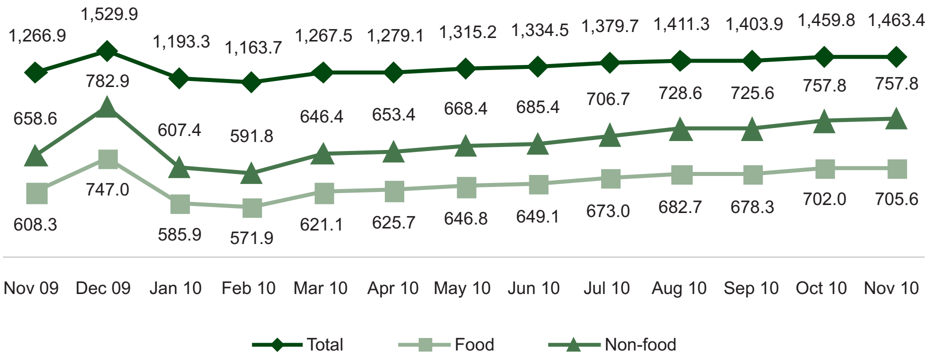
Source: Rosstat, 2011

Share in retail sales turnover in Russia by product category, November 2009 and November 2010

Retail turnover in November 2009		Retail turnover in November 2010	
RUB 1,266.9bn		RUB 1,463.4bn	
Food	Non-food	Food	Non-food
48.0%	52.0%	48.2%	51.8%

Source: Rosstat, 2011

Retail sales turnover in Russia (RUB bn), November 2009-November 2010*



*January-November 2010 updated by data concerning analysis of selected small business subjects

Source: Rosstat, 2011

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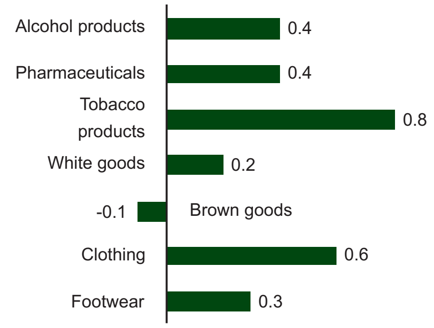
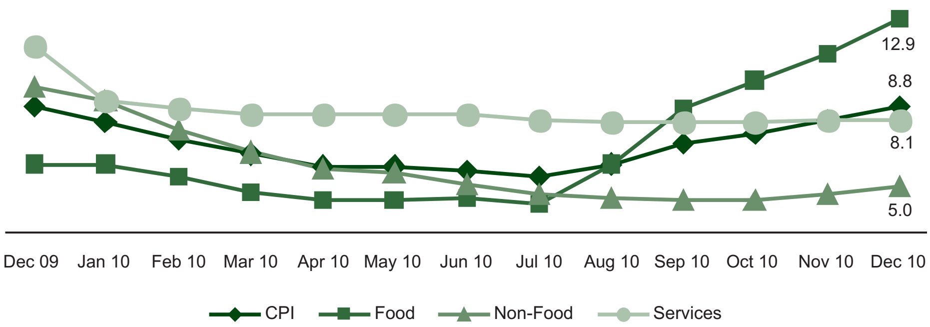
Consumer price indices in Russia for selected groups of products (%, m-o-m), December 2010



Source: Rosstat, 2011

Selected consumer price indices in Russia (%, y-o-y), December 2009-December 2010



Source: Rosstat, 2011

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Foreign trade turnover ($ bn) and yearly change (%) in Russia, 2009 and October 2010

	2009		October 2010	
Foreign trade	$495.8	-35.1%	$59.6	19.6%
Imports	$191.8	-34.3%	$24.5	27.0%
Exports	$304.0	-35.5%	$35.0	14.9%

Source: Rosstat, 2011

Consumer price indices in Russia for selected groups of products (%, y-o-y), December 2009-December 2010

	Tobacco	Alcohol	White goods	Brown goods	Clothing	Footwear	Medicines	Perfumes & cosmetics
Dec 09	18.7	8.9	9.2	5.4	11.0	10.1	17.6	15.5
Jan 10	19.2	9.4	8.9	5.1	10.8	10.0	13.9	15.1
Feb 10	18.7	9.2	6.6	3.0	10.2	9.4	7.6	13.1
Mar 10	17.2	8.7	4.9	1.2	9.2	8.3	1.6	9.9
Apr 10	17.2	8.3	3.8	0.1	8.6	7.7	-2.7	8.3
May 10	15.9	8.1	2.9	-0.6	8.2	7.1	-3.9	7.2
Jun 10	14.8	7.9	2.3	-1.3	8.0	7.0	-4.1	6.4
Jul 10	14.5	7.9	2.0	-1.2	7.9	6.8	-3.7	5.9
Aug 10	15.2	8.0	1.9	-0.7	7.7	6.4	-3.2	5.5
Sep 10	17.1	8.2	1.5	-1.0	7.4	6.3	-2.7	5.1
Oct 10	18.5	8.4	1.4	-1.4	7.3	6.2	-2.1	4.8
Nov10	19.3	8.3	1.2	-1.6	7.0	6.2	-1.8	4.6
Dec 10	19.5	8.3	1.2	-1.8	7.1	6.1	-1.9	-

Source: Rosstat, 2011

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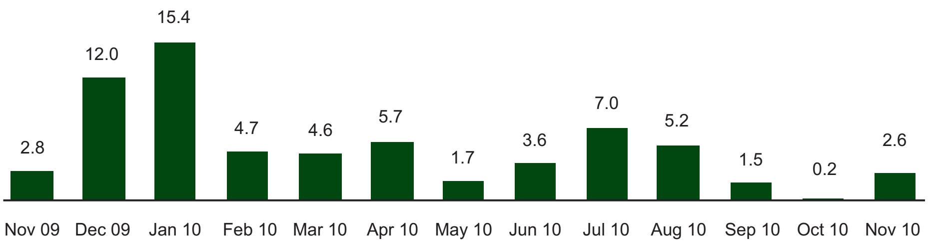
Living standards (RUB) and yearly change (%) in Russia, November 2010

	November 2010	
Average per capita income	RUB 19,160*	11.1%*
Real disposable income growth	-	2.6%*
Nominal monthly salary	RUB 21,599*	11.5%*
Real monthly salary	-	3.2%*
Unemployment	6.7%**	
Population	141.8 million***	

* preliminary data
** according to Labour Force Survey
*** October 2010
Source: Rosstat, 2011

Yearly change in average real disposable income in Russia (%), November 2009-November 2010



Source: Rosstat, 2011

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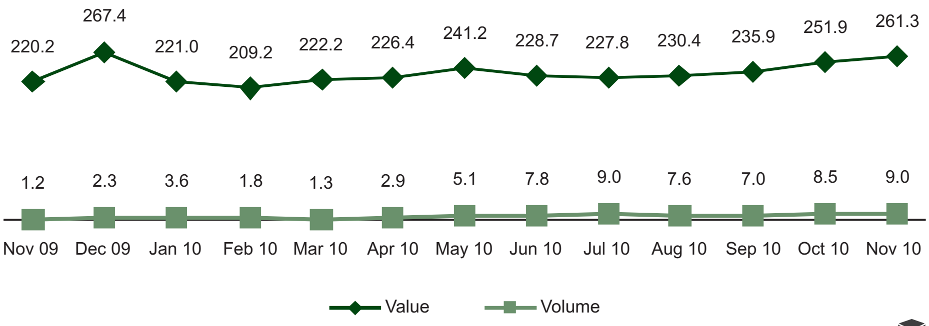
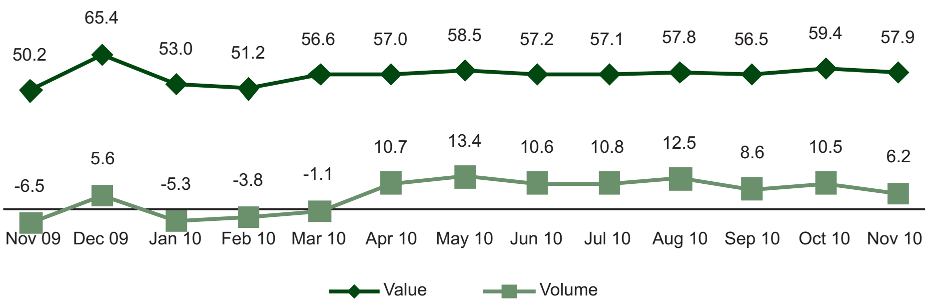
Retail sales turnover in Moscow by value (RUB bn) and volume (%, y-o-y), November 2009-November 2010



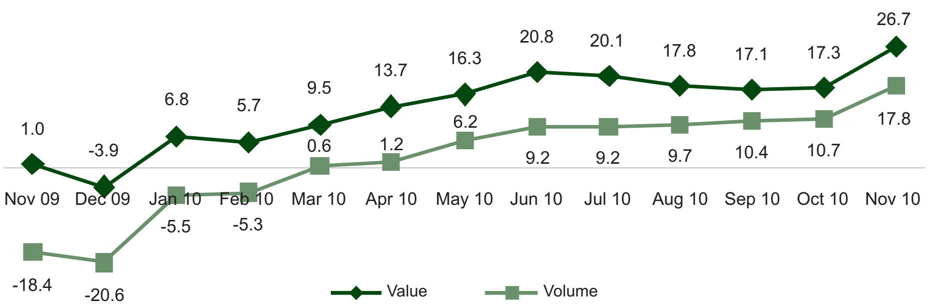
Source: Rosstat,2011 www.pmrpublications.com

Retail sales turnover in St. Petersburg by value (RUB bn) and volume (% y-o-y), November 2009-November 2010*



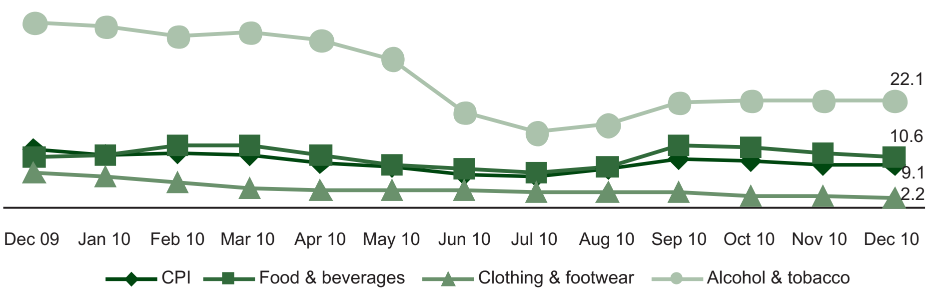
** November 2009-February 2010 data updated by Rosstat*
Source: Petrostat, 2011 www.pmrpublications.com

Retail sales turnover in Ukraine by value and volume (%, y-o-y), November 2009-November 2010



Source: PMR Publications based on Ukrstat, 2011 www.pmrpublications.com

Consumer price indices in Ukraine for selected groups of products (%, y-o-y), December 2009-December 2010



Source: Ukrstat, 2011 www.pmrpublications.com

Upcoming events

Food Business Russia - B2B Conference Group

Hilton Leningradskaya, Moscow, Russia 3-4 February 2011

tel: +44 207 193 7863
email: manley@b2bcg.ru
www: www.foodbusinessrussia.ru

10th Anniversary Annual Russian Retail Forum - Adam Smith Conferences

Marriott Grand Hotel, Moscow, Russia 28-31 March 2011

tel: +44 (0)20 337 73706
fax: +44 (0)20 701 77447
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