



RETAILING IN THE RUSSIAN FEDERATION 2009

A situational analysis after the Georgia
campaign and the Credit Crunch



A report by ResearchFarm Ltd
April 2009



Retailing in the Russian Federation 2009

Key questions answered

- ? How are Russian consumers reacting to changed realities on the ground?
- ? Which sectors and retailers will be hardest hit?
- ? Should Western Retailers expand into the market in Russia, into a strongly recessionary environment?
- ? What are the risks of sitting on the sidelines?
- ? Which investment strategies promise the best results in view of tightening liquidity, legal uncertainty and collapsing real estate markets?
- ? What are the forecasts for the Russian market in the short to medium term?
- ? Is the strategy of Russian players to grow sales at any costs in order to attract foreign interest in the form of an acquisition or IPOs still relevant?
- ? Has the focus on property in the Russian retail market been ill advised from the start?

Who should buy this report ?

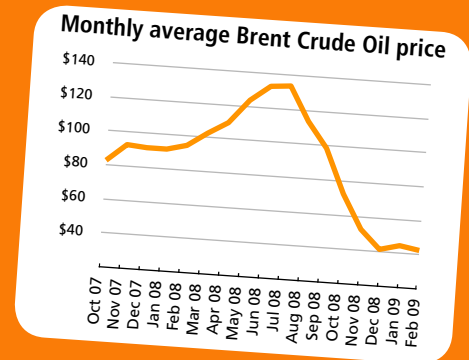
- Retailers (strategy, development, marketing...)
- Manufacturers (sales, marketing...)
- Consulting firms
- Property companies



Retailing in the Russian Federation 2009

« The downturn also offers global majors an easier entry »

Maria Kiselyova (Reuters). Jan 21, 2009.



What's really on the Retail horizon?

With an oil price of US\$150 a barrel, Russia is an enticing, compelling opportunity, an attractive expansion target for western retailers tapping into growing consumer demand and milking rising average wages and consumer expenditure. With the oil price at US\$50, the first players are abandoning the country in the wake of the crisis...

With this report, our team will provide a situational analysis of the development of the retail sector in Russia in the wake of the credit crunch and the military campaign in Georgia.

Issues presented in this report

- Consolidation in Russia
- M&A
- Foreign entrants
- Price & Brand perception
- Demand for Western style products
- Legislation
- **Food and non food** sectors
- Grocery Retailing
- Consumer electronics
- Home Improvement
- Clothing
- Hard discounters
- Shopping centres



This toxic combination of a global slowdown coupled with war has set the cycle of retrenchment in the Russian market in motion. Foreign and Russian capital is fleeing the country **towards safety in the West, where liquidity and funds are desperately needed**, and to a degree guaranteed by governments. Private investors have become increasingly nervous about government intervention into the business sector and the evolving legislative environment. The Russian stock market has been hammered as a consequence and value has been destroyed.

Tightening liquidity and a crashing Rouble have already slowed down economic growth significantly and in the wake of the expected recession we foresee unemployment to rise dramatically. This in turn will have a negative impact on consumer confidence and expenditure and lead to falling retail sales, industrial production and other economic activity in the country. This makes the market Russia a less attractive expansion target and makes it even harder for the various economic actors to raise funds to expand, setting the Russian market firmly on course of a downward spiral.

At a time of crisis when business strategy has to be redeveloped from scratch to allow for the changed reality on the ground, ResearchFarm's Retailing in Russia provides vital insights.



Grocery Retailing

The global number one Wal-Mart is also actively looking to expand into the market. Wal-Mart, joined the Russian retail lobby group in 2008, after hiring Stefan Fanderl from Rewe to head its efforts to explore opportunities in Russia. The Americans have hired 30 Russian office staff and are in acquisition talks with local retailers in need of cash to avert financial meltdown.

Indeed for Wal-Mart there might be even bigger fish to fry. X5 alongside Magnit, Dixy Group and Seventh Continent have lost between 60 - 80% in value over the last half year as Russian stocks were hit by the falling oil price and capital flight from emerging markets.

As a direct consequence many Russian retailers are cutting capital expenditure and expansion to free up cash for debt servicing. A clear downturn in consumer confidence in Russia is also on the cards.

Magnit launched its tenth distribution centre in December 2008. The unit is located in Slavyansk-on Kuban and occupies 20,448 sq m. In the same month Magnit opened its 13th and 14th hypermarkets in Krasnodar Territory, in Gelendzhik and in Novomoskovsk. Magnit now operates 2,477 stores.

Auchan has invested more than US\$100 m in the opening of its shopping complex in Rostov-on-Don, featuring an Auchan hypermarket, alongside other Mulliez family brands such as a Leroy Merlin (DIY) and a Decathlon (sports retailing). The project

is on track to be opened in the Summer of 2009. Overall, Auchan plans to open 10 new outlets in the Southern Federal District. The first Auchan hypermarket was opened in the Rostov region in November 2007. The second 14,000 sq m store began trading in December 2008.

Despite the crisis the German Rewe Group, with its Billa and Selgros chains, plans to continue with expansion into Russia. By the end of the year, Rewe plans to operate 59 outlets in Russia. In 2009, Rewe plans expansion into, among other cities, Voronezh, Tula, Lipetsk and Nizhny Novgorod.



Auchan, Russia

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