

# Russian Realities

There seems to be an obsessive press coverage on Russia reflecting latest reactions to the country's overt flexing of its petro political muscle and new world status. While you cannot condone the continuing centralising of power and increasing silencing of critical media and opposition, visiting the country you have to be impressed with the overwhelming sense of well being among Russians enjoying the incredible fast track transformation to a modern retail consumer society.

Facts and figures suggest that Moscow is well on its way to becoming Europe's largest retail market. The continuing rise in personal incomes and unleashed consumerism could see the city overtake Paris and London sooner rather than later. Russians spend a large proportion of their incomes on buying rather than saving and they want a better quality of life and healthier lifestyles. This is good news for the food retail market and is reflected in the sector's spectacular growth. The potential bad news is the decreasing population - 4% in 15 years - 6.5 million people. This is ironic in a country more than six times the size of India but with a population of only 142 million as of the beginning on 2007.

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Latest retail news is the continued influx of western retailers willing to take on the challenges of logistics and supply chains in this vast country. German operations feature. Metro Cash & Carry now has 32 locations in Russia and a potential German cash & carry operator, Selgros, is entering the market (their shareholders are the Otto and Rewe Group). Along with Real and Media Markt Saturn, another German chain, Dener, a garden and home goods stores group, have planned a wide scale expansion in Russia. The German developer ECE has planned its first Russian project, a retail entertainment centre in Yaroslavl. This move directly into the regions is not surprising. Yield rates for regional shopping centres are now more than Moscow and developers are planning centre chains with investment flowing into the many cities wanting to get the latest retail, leisure and entertainment complexes. With 11 cities of over million people and 23 with more than half a million, the grab for market/city share is on. The question is how many centres can a city like Volgograd and Omsk support? The other issue is how the generally less well off populations in the regions can afford the latest western lifestyle products.

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The challenge for all these developments is achieving the right anchor tenants. Auchan, Leroy Merlin, Carrefour, Castorama and OBI now feature on tenant mix plans but there is a shortage of fashion-led anchors like Debenhams and Marks & Spencer and there is a danger of tenant mix cloning. Moscow now has over 70 centres and while some are clearly doomed, 10 million consumers can support some major developments but achieving exciting different tenants and experiences becomes an increasing challenge.

The long running saga of when Walmart will enter the market is still unclear. American executives have been a feature at Russian conferences and rumours continue regarding Walmart and X5 (Russia's largest retail business formed with union of the Perekrestok and Pyaterochka supermarket chains). Ramstore, the Turkish supermarket and hypermarket chain have also been quoted as possible partners. Along with retail investment, the corresponding development of logistic warehousing has attracted international investment interest. This raises some ethical issues of some international investors given the still sometimes murky issues of corruption and influence of this relatively non transparent market. Money talks however. When you can get 10-20% yields on real estate in Russia compared to 4-5% in Europe, clearly many take a pragmatic view on the risks and ethics involved.

A major issue for any retail operation in Russia is the shortage of experienced skilled staff. Poaching is rife and the unfortunate consequences are a reluctance to invest in training people to make them more attractive to competitors and the reality of inexperienced management who have inevitably been promoted too fast beyond their competence level.

Perhaps the greatest challenge for retailers in Russia is managing the expectations of their customers. Russians may still be in a phase of enjoying the process of shopping but they are becoming used to something better every time they visit, shop and indulge and their aspirations are starting to stretch the capabilities of retailers and developers. The positive effect, however, is attitude of local entrepreneurs and companies to ensure they are keeping ahead of their consumers by aiming to be better than their western counterparts, learning from their mistakes and leapfrogging general accepted practices and international benchmarks.

There can be a fundamental mistake by many consultants working in the so-called developing markets that they are there to teach rather than learn. It is assumed, not unreasonably, that local business is in total catch up mode and western solutions and techniques will provide the magic for success. However, the reality provides mutual learning opportunities. I have seen examples of category management that are 'wrong' by western practices but that really work. We work with a regional retail bank that has an amazing credit loans

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business run without forms and processes lending to 'difficult' unusual people who don't fit the normal required profiles. They use experienced local women who are totally empowered to judge by interview a possible candidate and then authorise a loan. The results are amazing - a very low default rate and increased business based on a real CRM policy (not the sad western call centre replacement for real service). We know of community based retailing strategies that use what we would call viral buzz marketing to create real direct consumer partnership - our latest marketing techniques are their basic practice. There are clearly lessons for us if we look hard enough and ignore our own western hype and habits.

Where we have had some influence is the introduction of ethical and environmental values into some Russian businesses. Helped by the need to attract international money, managements and staff are starting to implement people, planet and profit policies that can meet the scrutiny of different interests. The importance of investor relations and company profiling (who really is behind the label?) is a relatively new concept for traditionally non transparent Russian organisations but some are learning and adapting fast and it enables us to introduce a new level of brand strategy and sensitivity to meet these diverse demands. It was therefore revealing to be told by a Russian banker recently that he viewed some examples of slick western advertising media as phoney and manipulative and that he wanted better - now who's teaching who...?



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