14 INTERNATIONAL BRANDS IN RUSSIA

MAGAZIN MAGAZINOV

MAGAZIN MAGAZINOV is publishing the results of the recent research devoted to the activity level of international brands on the Russian market. The current paper captures the activity of global retail chains in Russia from July 2013 to July 2014. It also outlines their expansion dynamics during the 4 years study of their extensive development in our country.

What do we try to reach by conducting quantitative analysis of international retailers' activity in terms of opening new stores and widening their geographical presence?

1. Studying property market development in Russian cities

The number of international brands embraced by a city indicates the level of its retail property development. For several years running, we have been tracing one and the same trend: cities enjoying growth of quality retail space supply attract new international brands as well. In contrast, cities with small or zero growth of space in modern shopping centers are much less popular among international retailers — in this case, it is only possible to open a new store in the street retail format rather than in a shopping center.

2. Revealing the potential of Russian cities for retail property development

The fact that international brands open new stores in a city with zero retail space supply increase, demonstrates the city's unrealized potential in terms of retail real estate. These cities are particularly promising for new objects development.

3. Unveiling the potential of Russian cities for international retailers further expansion

The quantitative analysis of opened/closed stores throughout Russian cities allows capturing the most promising areas for global chains expansion. This is also important for international retailers that, in this case, are given the opportunity to assess the potential of Russian regions and to adjust their development strategies accordingly.

Executive Summary

Over H2 2013–H1 2014, retailers have reduced their expansion rate on the Russian market and opened much fewer stores than before, because of the deteriorated macroeconomic conditions. Still, Russia was flooded with new international brands: 32 global newcomers entered the market during the research period. This time, retailers slightly changed their geographical preferences: the majority of the new stores appeared in million-plus cities, due to the dramatic retail space supply growth in these cities. However, cities with less than a million residents are still attractive for global retailers in Russia, and this year the difference between them and the million-plus cities is at its minimum.

CONTENTS

4 INTERNATIONAL BRANDS: GROWTH RATE DYNAMICS

6 BRANDS DISTRIBUTION BY CITY

9 NEW AREAS OF DEVELOPMENT

10 BRANDS DISTRIBUTION BY REGION

12 FUTURE GROWTH AREAS

14 MARKET LEADERS

15 INTERVIEW
Olga Eremeeva
Pandora in Russia

16 NEW INTERNATIONAL BRANDS

17 INTERVIEW
Tikhon Smykov
Prenatal Milano in Russia

18 INTERVIEW
Flavio Perini
Prenatal worldwide

19 RETAIL SECTORS

20 PRICE SEGMENTS

22 STREET RETAIL VS. SHOPPING CENTERS

23 TERMS AND DEFINITIONS

24 CONTACTS

INTERNATIONAL BRANDS: GROWTH RATE DYNAMICS

Currently, retailers' plans are adversely affected by the macroeconomic instability. By the end of 2013, Russian economy started slowing down. Statistics showed lower figures for a number of important economic KPIs: decreased GDP growth rate, poor retail turnover dynamics, and growing capital outflow. Worsening macroeconomic conditions resulted in ruble devaluation of 7% to USD in 2013.

Still poorer macroeconomic performance and further depreciation of the ruble continued in 2014, this time due to the escalating political situation: a setback in relations with the Western countries and the political crisis in Ukraine. All of these made retailers more cautious about their development plans. Still, full assessment of retailers' reaction to the current situation will only be possible during the next research. The lowered activity observed today is due to the economic difficulties.

Retailers are decreasing their development activity throughout Russia. For the second year running we have been observing significant downturn in the total store number growth rate. In H2 2013–H1 2014, 920 stores were opened by international brands, compared to 1,075 stores opened previously.

NUMBER OF STORES OPENED DURING THE YEAR

BRANDS DISTRIBUTION BY CITY

Moscow is still the leader in attracting new brands and expanding those already present here. 40% of all stores and food service points by international brands are located in the Russian capital.
St. Petersburg ranks second with 13%, which is lower than last year due to the global retail being attracted by million-plus cities.

The market leaders — Moscow, St. Petersburg, and Yekaterinburg — have remained the same over the four years of monitoring. Besides, for the fourth year running, we have been observing new quality shopping centers emerge which pushes up the number of international brands.

Ryazan and Ufa are steadily increasing the presence of global retail by introducing new high grade retail projects. The current leaders include Tyumen and Yaroslavl. These two have moved up the list since 2011 thanks to a number of openings, e.g. Kristall (GLA 75,000 sq.m in Tyumen) and Aura (GLA 63,000 sq.m in Yaroslavl).

Novokuznetsk, Kemerovo, Tomsk, Naberezhnye Chelny usually lag behind other major Russian cities in terms of international retail development. Still, due to relatively high living standards they offer favorable conditions for international brands' expansion. Tomsk, with a new shopping center opened in Spring 2014 (Izumrudny Gorod, GLA 32,000 sq.m), has improved its YoY results — the new shopping center brought 9 new global brands, including H&M, and LPP Group's brands Reserved, Cropp, House, and Mohito.

CITY	NUMBER OF BRANDS, 2014	PROPORTION OF THE TOTAL NUMBER OF INTERNATIONAL BRANDS IN RUSSIA, 2014	PROPORTION OF THE TOTAL NUMBER OF INTERNATIONAL BRANDS IN RUSSIA, 2011	RANKING				CHANGE IN THE RANKING IN 4 YEARS
				2014	2013	2012	2011	
Moscow	430	90%	97%	1	1	1	1	–
St. Petersburg	237	50%	56%	2	2	2	2	–
Yekaterinburg	178	37%	41%	3	3	3	3	–
Krasnodar	152	32%	30%	4	4	4	5	1
Rostov-on-Don	135	28%	30%	5	5	5	4	-1
Novosibirsk	114	24%	23%	6	7	6	8	2
Nizhny Novgorod	110	23%	24%	7	6	7	7	–
Samara	107	22%	21%	8	8	8	9	1
Ufa	107	22%	13%	9	10	10	14	5
Kazan	104	22%	25%	10	9	9	6	-4
Tyumen	89	19%	12%	11	18	18	15	4
Krasnoyarsk	88	18%	14%	12	12	13	12	–
Voronezh	87	18%	17%	13	11	11	10	-3
Omsk	86	18%	16%	14	13	12	11	-3
Perm	83	17%	16%	15	15	15	11	-4
Volgograd	79	17%	11%	16	17	17	16	–
Chelyabinsk	76	16%	14%	17	14	14	13	-4
Ryazan	64	13%	6%	18	16	16	23	5

CITY	NUMBER OF BRANDS, 2014	PROPORTION OF THE TOTAL NUMBER OF INTERNATIONAL BRANDS IN RUSSIA, 2014	PROPORTION OF THE TOTAL NUMBER OF INTERNATIONAL BRANDS IN RUSSIA, 2011	RANKING				CHANGE IN THE RANKING IN 4 YEARS
				2014	2013	2012	2011	
Orenburg	59	12%	9%	19	17	19	19	–
Irkutsk	57	12%	7%	20	20	22	20	–
Saratov	55	12%	9%	21	19	19	17	-4
Yaroslavl	54	11%	5%	22	26	25	25	3
Vladivostok	52	11%	9%	23	22	22	18	-5
Izhevsk	49	10%	6%	24	22	21	23	-1
Togliatti	47	10%	9%	25	21	20	19	-6
Barnaul	43	9%	4%	26	23	24	26	–
Khabarovsk	41	9%	7%	27	24	23	21	-6
Penza	40	8%	3%	28	23	26	27	-1
Astrakhan	37	8%	3%	29	25	27	29	0
Tula	37	8%	0%	29	23	27	–	–
Tomsk	36	8%	6%	30	29	29	22	-8
Novokuznetsk	34	7%	4%	31	31	31	26	-5
Ulyanovsk	33	7%	3%	32	27	28	28	-4
Kemerovo	31	6%	5%	33	29	31	24	-9
Lipetsk	29	6%	4%	34	28	30	26	-8
Naberezhnye Chelny	22	5%	3%	35	31	32	29	-6

NEW AREAS OF DEVELOPMENT

For the first time in our monitoring history, we also considered cities with the population of 300,000–500,000 people. This is because Russian developers are gradually turning to smaller cities. New shopping centers appearing in these cities bring along international brands.

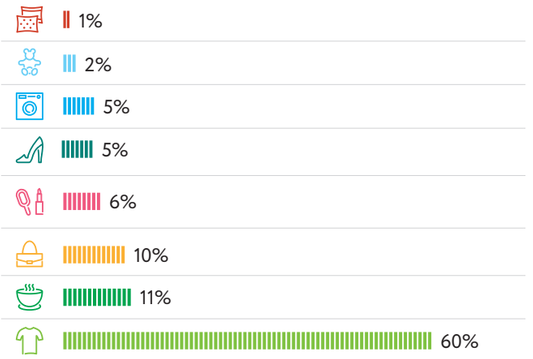
This paper covers the brands currently existing in these cities, or the «statics». The next one will focus on the dynamics as well.

In total, the cities in this group feature 147 international brands, that is one third of those present in Russia. We will look into the brands' dynamics in this city group in the next research.

The leader in this group is Surgut, which is no surprise as this city has the biggest volume of modern shopping center space supply among the cities with 300,000 to 500,000 residents.

The structure of international brands present in the group is typical for Russia, with the dominating retail sectors being medium-range clothing and accessories, and the two most aggressively developing segments, fashion and food service points.

STORES OPENED IN 300,000—500,000 CITIES, BY RETAIL SECTOR



The most active brands within this group are adidas, Colin's, Yves Rocher, Benetton and Reebok — they have more stores than any other international brands in these cities. The three leaders in the food service segment are Baskin Robbins, McDonald's, and Subway.

RANKING OF RUSSIAN CITIES BY THE NUMBER OF INTERNATIONAL BRANDS

CITY	NUMBER OF BRANDS, 2014	RANKING POSITION
Surgut	82	1
Sochi	76	2
Kaliningrad	45	3
Belgorod	44	4
Stavropol	40	5
Cheboksary	39	6
Vladimir	35	7
Ivanovo	33	8
Kirov	30	9
Magnitogorsk	30	9
Arkhangelsk	29	10
Vologda	26	11
Kursk	25	12
Smolensk	25	12
Ulan-Ude	22	13
Oryol	22	13
Bryansk	20	14
Tver	19	15
Kaluga	18	16
Murmansk	18	16
Chita	15	17
Kurgan	13	18
Cherepovets	12	19
Vladikavkaz	11	20
Nizhny Tagil	9	21
Makhachkala	7	22

BRANDS DISTRIBUTION BY REGION

In the current reporting period, the international chains followed a different pattern in their expansion on the Russian market: apart from Moscow — the traditional leader in the number of openings, most of the stores were opened in million-plus cities. Note that during the previous time period, international chains were more focused on smaller cities — 500K to 1M people.

This trend is primarily explained by the fact that newly commissioned shopping centers appeared mainly in million-plus cities. Still, it would be wrong to say that international brands have lost their interest in smaller cities altogether, because the difference in numbers between them and the million-plus cities is insignificant.

Interestingly, due to more active openings in larger cities, million-plus cities continued to strengthen their leadership in the total number of stores among other city groups. Today, almost one third of all stores by international chains are open in million-plus cities.

2013
2014

BREAKDOWN OF THE TOTAL NUMBER OF OPERATING STORES AS OF H1

Cities with 500K-1mln population	18% / 19%
Cities with more than 1mln population	29% / 28%
Saint Peterburg	14% / 13%
Moscow	39% / 40%

BREAKDOWN OF THE TOTAL NUMBER OF STORES OPENED IN H2–H1

Cities with 500K-1mln population	32% / 20%
Cities with more than 1mln population	26% / 22%
Saint Peterburg	9% / 10%
Moscow	33% / 48%

Some changes were also observed in the breakdown of chains' activity by federal districts. Besides Moscow and St. Petersburg, most new stores by international brands opened in the Southern and Ural Federal Districts which amounted for more than 50% of the openings.

Best dynamics were observed in the Ural Federal District due to high chains activity, primarily in Tyumen — the city which got the largest number of stores by global chains among all the regional cities. In the Southern Federal District, most of the stores were opened in Volgograd. In both cities, retailers were mainly attracted by the recent shopping center openings.

DEVELOPER ACTIVITY IN VARIOUS CITY TYPES IN H2 2013–H1 2014 (BREAKDOWN OF THE NEW SPACE SUPPLY IN QUALITY SHOPPING CENTERS)

Cities with 500K-1mln population	30%
Cities with more than 1mln population	31%
Saint Peterburg	14%
Moscow	25%

Proportion of the total number of stores opened in H2 2013–H1 2014

Proportion of the total number of stores opened in H2 2012–H1 2013

*Moscow and Saint Petersburg excluded. Cities of Northwestern and North Caucasian Federal Districts were not included in these statistics.

FUTURE GROWTH AREAS

In the next few years term, international brands will enter mainly the cities that enjoy high levels of social and economic development (high wages and hence high retail turnover) and a large volume of space supply in modern shopping centers under construction. These cities are also characterized by low volumes of the existing supply in quality shopping centers and a small number of international brands present in the market.

Moscow will still be attractive for international brands, both new to Russia and those willing to expand in Moscow. During the four years of monitoring, Moscow has retained its status of the most popular Russian city among international retailers: it is here that the majority of new brands entering the Russian market have opened their first stores and the existing brands enhanced their presence.

Another popular brands destination will be Yekaterinburg. These two cities have high levels of quality retail space per person ratio and a large number of brands present, however, this does not make them less attractive for international brands.

The anticipated areas of future development for international retailers are Khabarovsk, Kemerovo, Naberezhnye Chelny, Lipetsk, Barnaul, and Vladivostok. We believe these cities should be included in the short-term expansion strategies of international chains.

MARKET LEADERS

In H2 2013–H1 2014, 920 stores and food service points were opened by international brands in Russia.

The most active chain in terms of the new stores number was the American Subway (11% of all stores opened by international brands during the period). The second and third places in the top five were also taken by food service points. In this respect, the market leaders follow the last year's trend.

The ranking's newcomers, clothing brand adidas and accessories brand Pandora, have been quickly expanding in all Russian cities during last year. Despite the fact that adidas started closing the least effective stores alongside with opening the new ones, it managed to become one of the market leaders.

Previous year's leader, Samsung, which opened over 100 stores back in 2013, closed some of its mono brand stores during the current research period.

	BRAND	RETAIL SECTOR	COUNTRY OF ORIGIN	SHARE OF THE TOTAL NUMBER OF OPENINGS
1	Subway		USA	11%
2	adidas		Germany	10%
3	Pandora		Denmark	7%
4	Burger King		USA	6%
5	McDonalds		USA	5%

The most active «conquerors» of the new markets in the reporting period became Burger King, Escada and ELC — they entered the most number of cities.

	BRAND	RETAIL SECTOR	COUNTRY	NEW CITIES OF PRESENCE
1	Burger King		USA	13
2	Escada		Germany	8
3	ELC		United Kingdom	7
4	Pandora		Denmark	7
5	Giuseppe Zanotti Design		Italy	5

INTERVIEW

OLGA EREMEEVA

Director General, ZAO PanClub

What is going on in the local jewelry market?

Russian jewelry market is not yet consolidated. The country is filled with independent players. Major Russian manufacturers build their own retail chains. There are a lot of grey schemes so proper market assessment is complicated. However, over the past few years, the market has been growing by 8 to 10% YoY, mainly due to gold and silver prices going up. Silver items and lightweight gold pieces sales have grown substantially. With larger Western players broadening their market presence, the share of imported silver jewelry has been recently growing, too. By end of 2013, the market slowed down and continued so throughout 2014. In the nearest future we expect the trend to remain, the geopolitical situation being tense, the ruble falling, and the inflation booming.

Pandora Brand Expansion Results for 2014 and Throughout Its Presence in Russia

Pandora began its expansion to Russia in November, 2010. Its first stores opened in Moscow and St. Petersburg. Today, the company has 153 stores of its own retail chain in 32 cities of Russia, with plans to add 10 more by end of 2014. Apart from our own retail chain, we are developing partnerships and are currently working with 50 regional representatives owning 156 shops, 180 by EOY.

Chain Efficiency in Russia and New Shops Efficiency

Sales grew by 40+% in 2014 as compared to 2013. It's difficult to keep efficiency high right now because rental rates and cost price zoom up as ruble is falling down. Despite that, we are generally reaching the targets.

Strategy of Pandora Brand Stores Development in Russia

We are developing our federal chain and are planning on further expansion to regions. During our first years, we focused on million-plus cities, and are now turning to 300K-plus ones. The company prefers opening its own conceptual stores; however, we also franchise with partners offering multi-brand and shop-in-shop concepts.

Our aim is to lead the Russian jewelry market, having formed new trends in consuming jewelry.

Cities in Focus

Pandora stores can be found everywhere in Russia, Kaliningrad to Vladivostok. Brand's own retail stores are present in 32 cities and embrace Central, North-Western, Southern, Siberian, Ural and Volga Federal Districts. Partner stores are also present in Far Eastern and North Caucasian Federal Districts.

Street Retail vs. Shopping Centers

The majority of stores are located in shopping centers with several working in street retail format. Out of 153 brand-owned stores, just 19 are street retail ones. Those are mainly in Moscow and St. Petersburg, even though Rostov-on-Don and Yekaterinburg have them, too.

Besides, in the past few years, street retail format is getting trickier to develop, people having less options for getting their cars parked in close proximity to the stores. Unfortunately, many landlords refuse to notice the trend and keep the prices high. As a result, we see more empty street retail spaces. Most Russian cities have no shopping streets. Exclusions are extremely rare. Street retail seems to be dying out, with foodservice points replacing shops.

Prospects and Forecasts

In 2015, we hope to reach 200 brand's own stores by entering new cities, and 190 partner stores by adding more partners to our network. We hope to increase profit by both opening new stores and gaining positive LFL dynamics.

NEW INTERNATIONAL BRANDS

In total, 32 new international brands entered the Russian market during the research period, with the largest newcomers being Moncler, Agnona, Sandro, Maje, Hooters, Krispy Crème, Shake Shack, Prenatal Milano. The majority of the new brands preferred to open in high-level shopping centers of Moscow.

The most active players belong to the clothing (11 new international brands), and the foodservice retail sectors (6 new brands). Another interesting trend is the boom of children's goods chains in Russia. Last year, a total of 6 international kids' store chains entered the Russian market: Absorba, Prenatal Milano, Chicco, Conguitos, Tartine et Chocolat, and Reima. This is due to the general state of things in the segment: Russian children's goods market is performing well and, judging by the demographic, social and economic factors, is well presupposed for further development.

The majority of international chains that appeared in the market of Russia belong to the medium price segment. There are only a few premium and luxury brands: luxury Moncler and Patek Philippe and a premium French duo: Sandro and Maje. Both French brands had been present in department stores like Tsvetnoy and Podium Market before, and in June 2014 they opened their first mono brand stores at Vremena Goda Galleries.

№	BRAND	RETAIL SECTOR	PRICE SEGMENT	COUNTRY OF ORIGIN	CITY OF OPENING	LOCATION
1	**Agnona**		Premium	Italy	Moscow	Stoleshnikov Lane
2	**Harmont & Blaine**		Medium Plus	Italy	Moscow	Kuznetsky Most street
3	**HE by Mango**		Medium	Spain	Moscow	Goodzone
4	**Maje**		Premium	France	Moscow	Vremena Goda
5	**Monki**		Medium	Sweden	Moscow	Goodzone
6	**Moncler**		Luxury	France	Moscow	Stoleshnikov Lane
7	**Nautica**		Medium	USA	Moscow	Golden Babylon (Prospect Mira), Raykin Plaza
8	**Sandro**		Premium	France	Moscow	Vremena Goda
9	**Sinsay**		Medium	Poland	Moscow	Filion
10	**Sherri Hill**		Medium Plus	USA	Moscow	Moscow Gallery
11	**Suitsupply**		Medium Plus	Netherlands	Moscow	Bersenevskaya Embankment
12	**Hooters**		Medium	USA	Moscow	Bolshoi Zlatoustinsky Lane
13	**Krispy Crème**		Medium	USA	Moscow	Nikolskaya street
14	**Max Brenner**		Medium	Israel	Moscow	Legend of Tsvetnoy Business Center
15	**Shake Shack**		Medium	USA	Moscow	Arbat street
16	**The Noodle House**		Medium	UAE	Moscow	RIO in Leninsky Avenue
17	**Wetzel's Pretzels**		Medium	USA	Moscow	Raykin Plaza, RIO in Dmitrovskoye Highway
18	**Absorba**		Medium	France	Moscow	RIO in Leninsky Avenue
19	**Chicco**		Medium	Italy	Moscow	Gagarinsky
20	**Conguitos**		Medium	Spain	Moscow	Afimall
21	**Prenatal Milano**		Medium	Italy	Moscow	RIO in Dmitrovskoye Highway
22	**Reima**		Medium	Finland	St. Petersburg	MEGA Dybenko
23	**Tartine et Chocolat**		Medium	France	Moscow	Leninsky Avenue

INTERVIEW

TIKHON SMYKOV

Director General, Inventive Retail Group

What Is Going on in Local Kids' Goods Market?

Many segments see downturn of retail demand today. However, kids' goods market is feeling well and continues to grow. Our PRENATAL MILANO chain is just gaining momentum, having opened 7 stores by now. We believe it's bound to prosper as the products are competitive and the brand is so attractive for customers. I'm positive PRENATAL MILANO will soon be as well-rooted in the Russian kids' goods market as it is in Europe. The project is a long-term one, and it is developing by steps.

Trying to assess the market prospects, kids' goods appear quite well positioned even given the economic complexities. Strong players within the segment continue their growth, the market segment being much less competitive than others, even though the competition is increasing. No doubt that, should Russian economy stagnate for longer, kids' segment will feel it. But you know how they say it's always darkest before the dawn.

PRENATAL MILANO Brand Stores Chain Development Strategy

In Europe, Prenatal stores are typically large format shops with over 1,500 sq m of retail space. But for Russia, the format was considered inappropriate so the Italians and us together, we decided to settle for smaller stores with the emphasis put on clothes. Russian PRENATAL MILANO chain comprises 200 to 250 sq m stores in the best shopping centers of Moscow and St. Petersburg — as yet. The chain sells clothes and accessories for pregnant women and for kids aged 0 to 8. There is also some choice of prams, car safety seats, diaper boards, etc.

Street Retail vs. Shopping Centers

For now, we consider only larger shopping centers with good traffic, in Moscow and St. Petersburg. Some time on, we're planning to enter regions, mainly million-plus cities where our group's chains are already present. As for street retail, the format is hardly working in Russia today due to the lack of proper pedestrian zones generating enough traffic for the stores.

Prospects and Forecasts

Next year, we'll follow our pre-announced strategy for developing PRENATAL MILANO chain. As for the three-year horizon, we're flexible, we'll look and see.

№	BRAND	RETAIL SECTOR	PRICE SEGMENT	COUNTRY OF ORIGIN	CITY OF OPENING	LOCATION
24	**Models Own**		Medium	United Kingdom	Moscow	MEGA Khimki
25	**Tony Moly**		Medium	South Korea	Rostov-on-Don	Golden Babylon
26	**Deichmann**		Medium	Germany	Moscow	Goodzone
27	**MIO**		Medium	United Kingdom	Moscow	Golden Babylon
28	**Index Living Mall**		Medium	Thailand	Barnaul	Respublika
29	**H&M Home**		Medium	Sweden	Moscow	Afimall City
30	**Patek Philippe**		Luxury	Switzerland	Moscow	Stoleshnikov Lane
31	**Serapian**		Medium Plus	Italy	Moscow	Modny Sezon
32	**WHSmith**		Medium	United Kingdom	Moscow	Paveletskaya Square

INTERVIEW

FLAVIO PERINI

International Franchising Director, Prenatal SPA

How do you generally assess the Russian market? How is it important for Prenatal in terms of its European expansion strategy?

As for now, Russia is the key region for Prenatal development. It is important to admit that the country is not in its best position now and the macro economic conditions are quite tough, the ruble is experiencing devaluation against US dollar and euro. It all has a certain negative effect on real estate as well.. Despite these factors we still believe in the market, we still believe in our partners here and are willing to continue our expansion on the Russian market.

The format of Prenatal here in Russia is different from what we have in Italy. This is explained by the necessity for a broad international development. For many countries the format of more than 1,000 sq m is not interesting. In order to strongly increase our presence internationally, we opted for smaller stores, with a product assortment mainly focused on our core target customer (Mum to Be, New Born and Baby) particularly on textile and on our Private Label HG's – a complete nursery collection made by Prenatal.

We are now observing the growth in goods for kids segment in Russia. Did this factor have any weight and influence in your deciding to enter the Russian market?

Before entering the market we conduct a massive research and assess the market in the course of the several following years. The research showed that Russian market is highly interesting for Prenatal. We do not hold a short-term vision on Russia, it is very long-term as we are focused on breeding customer loyalty to our brand.

While we were assessing Russia as the probable destination point for Prenatal expansion, we looked at the two main factors. Firstly, we evaluated the way the middle class is doing in the country. Actually it is growing and since we target the middle and upper-middle segment audience, this factor is of extreme importance for us. Secondly, differently from what was happening in Europe during the last 10 years, particularly in the Southern countries where we are developing, in Russia there are now few successful players in our core target sector and this could represent for us a huge opportunity for expanding our business dramatically in the next 3—5 years.

How do you see Prenatal further expansion strategy in Russia? Do you plan to enter Russian regions (by now Prenatal only has stores in Moscow and Saint Petersburg)? How do you choose expansion directions?

As we see much potential in the Russian market, we will start our regional expansion from the year of 2015. When we choose potential regions for Prenatal stores opening, we look at other retailer's operational performance in the city/region, or we rely on our partners' info on how retailers work in the region.

By now you only have stores in shopping centers in Russia. Do you have any plans of opening stores in street retail? Why/ Why not?

Despite this fact that by now we do not have Prenatal stores in street retail, we consider opening them - firstly in Moscow and Saint Petersburg to see how they can work. If this experience is successfull, we may consider opening street retail stores in other Russian cities. We still prefer shopping centers more, but if the street retail premise enjoys a good location, it may be considered for opening a store. It is never easy to operate in street retail in Russia, though if the premise allows to lead business not in a tough manner, we may consider it for Prenatal.

Still, our primary focus of Prenatal expansion in Russia lies in shopping centers. It is mainly explained by two factors: by the necessity to have big traffic that will ensure the store's successfull operation, and by the necessity to build brand awareness. These all are easier to reach in shopping centers. Adding the fact that Moscow and Russia in general are expecting massive new shopping centers space supply, it makes it clear why we look more at shopping centers locations.

Why did you choose to stick to the strategy of expanding via a partner in Russia? Was it done to eliminate certain risks?

Not exactly. We wanted to find a strong Retailer Group as a partner because we truly believe that only those who will stay and work closely on a daily basis with our customers can succeed in Russia. It's a very complicated market and it would be too complicated to manage it directly from Italy.

Do you have any quantitative data on how many Prenatal stores you plan to open in Russia?

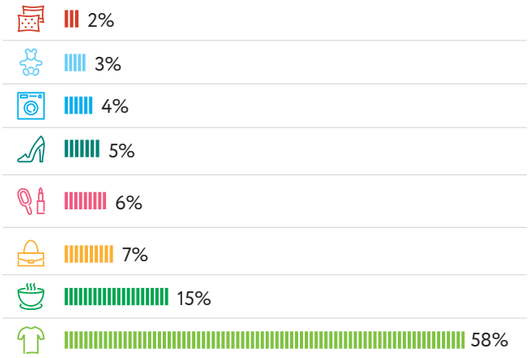
We are now dedicated to expanding Prenatal Milano presence in Russia.We plan to open more than 67 Prenatal stores in the next 4 years by opening approximately 10—15 stores each year starting from 2015. By the end of the year of 2014, we will have opened 12 stores more. We generally look very positively at the Russian market and are ready to grasp local opportunities by expanding here.

RETAIL SECTORS

The largest number of international brands in Russia belongs to the clothing segment: 276 global retailers work in the fashion industry. There are 70 chains selling accessories and 34 chains selling footwear.

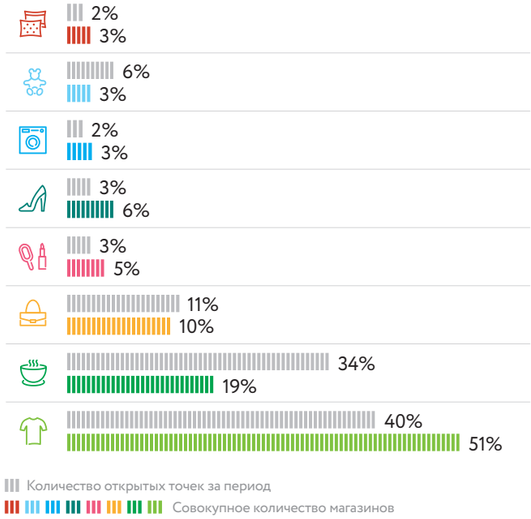
As before, we define 9 key retail sectors of non-food retail. According to our methodology, Debenhams and Stockmann are the only two department stores among all international brands present in Russia. That is why this retail sector is not outlined in the chart.

INTERNATIONAL BRANDS IN RUSSIA BY RETAIL SECTOR



Food service segment currently represented by 30 international brands keeps unveiling its potential in Russia. In 2013, the growth rate of food service points almost reached that of the clothing segment, the traditional leader. Apart from the leading brands - Subway, Burger King and McDonald's - other retail sector representatives like KFC, Dunkin' Donuts, Sbarro, Starbucks also demonstrated active development. Interestingly enough, of all the newcomers of the previous year (Moe's, Lavazza Espression, Marugame Siemen, Smoothie Factory, Debauve & Gallais, Mado), each opened at least one more store in Russia. Meanwhile, Johnny Rockets, for instance, closed both of its outlets. Consequently, as of the end of the reporting period, in 36 major Russian cities the three largest profile players — Subway, McDonald's and KFC — operate 1066 outlets, while the three clothing leaders — adidas, Reebok and Calzedonia — own 587 stores, which is half as many.

STORES OF INTERNATIONAL BRANDS BY RETAIL SECTORS



Top 5 international brands in each sector (by the number of stores)

1	adidas	Subway	Pandora	Ecco	LEGO	Yves Rocher
2	Reebok	McDonalds	Diva	Salamander	Mothercare	L`Occitane
3	Calzedonia	KFC	Accessorize	Crocs	Imaginarium	LUSH
4	Colin's	Baskin Robbins	Swarovski	Geox	ELC	The Body Shop
5	Mango	Burger King	Nomination	Camper	Smyk	MAC

PRICE SEGMENTS

The majority of international brands in Russia belong to the middle price segment (198 brands), while upper-middle and premium segments have 93 brands each. The low price segment is only represented by 27 brands.

It is a widespread belief that no name products, due to their large supply and low prices, are strong competitors for the low segment international retailers on the Russian market. As a result, representatives of this segment are unwilling to enter the Russian market. For instance, this year there were no low price segment brands among the newcomers. At the same time, this price segment has certain potential for development. For example, German brand Takko Fashion which appeared in Russia in spring 2013 has 47(!) stores throughout the country.

INTERNATIONAL BRANDS AND STORES BY PRICE SEGMENT

Luxury	4%	14%
Premium	7%	19%
Upper middle	15%	19%
Middle	54%	42%
Low price	20%	6%

Total number of stores
Number of international brands in Russia

Top 5 international brands in each segment (by the number of stores)

1	MaxMara	Miele	Pandora	adidas	Subway
2	Bogner	Escada	L`Occitane	Ecco	McDonalds
3	Yves Delorme	Villeroy & Boch	Levi's	Yves Rocher	KFC
4	Giuseppe Zanotti Design	Pierre Cardin	Swarovski	Reebok	Burger King
5	Ermenegildo Zegna	Hugo Boss	DIM	Baskin Robbins	Diva

STREET RETAIL VS. SHOPPING CENTERS

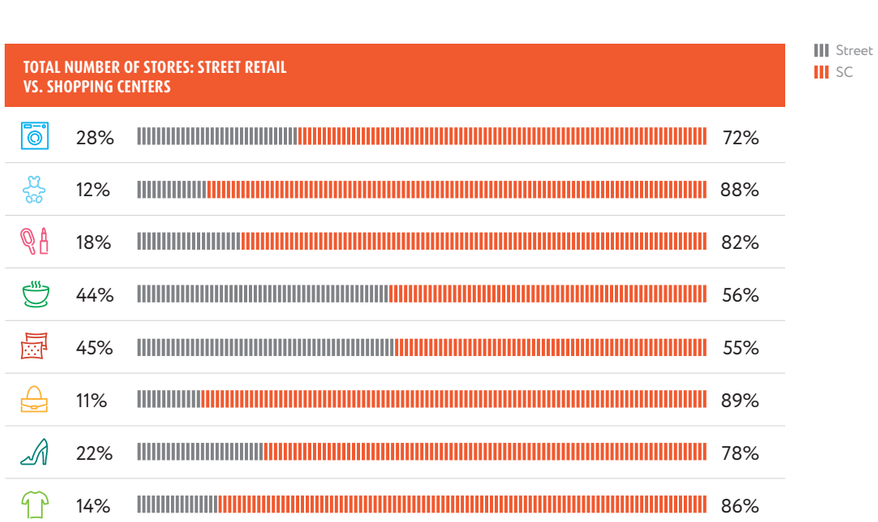
The ratio of the stores and food service points opened by international brands in retail corridors to the existing stores in shopping centers is 1:4. This repeats the previous year's pattern.

As for the newly opened stores, international chains tend to open their stores in shopping centers, this trend becoming more obvious than in the previous year. Specifically, during the current research period, for each store opened in the street retail segment, 5 stores opened in shopping centers (this proportion was 1:3 previously).

For several years running we have been marking a number of profiles leaving retail corridors for shopping centers, and the current statistics confirm this is true not only for Moscow, but also for other regions of Russia. There is a steady decrease in the number of stores in the street retail format in the «accessories», «children's goods» and «electronic appliances» retail sectors, with the latter falling to a record low. Less than one third of all the appliance and electronics stores opened in the street retail format.

Players in the booming food service segment were not clear about their preferences. This has been a distinct trend for several years now. Brands in this segment opened 155 stores in shopping centers and the same number of stores in the street retail format.

TOTAL NUMBER OF STORES: STREET RETAIL VS. SHOPPING CENTERS



Traditionally, street retail segment is well developed in cities with limited or absent floor space supply in modern shopping centers, just because there is no other place to open. These are cities like Vladivostok, Khabarovsk, Kemerovo, Irkutsk. That said, this is just a quantitative assessment of the segment development level. For instance, these statistics do not say whether these cities have quality retail corridors completely in line with the technical requirements of chains.

In contrast, the least developed retail corridors are in the cities with a large number of modern shopping centers, except those with well-established street segments, like Moscow and St. Petersburg. As for the cities with the least developed retail corridors, these are Samara, Kazan, Ufa, Togliatti, Volgograd, Krasnodar, and Orenburg.

TERMS AND DEFINITIONS

INTERNATIONAL CHAINS	Russian and foreign companies that have officially opened a store or a service point in Russia under a global brand (present in at least two countries).
PERIOD	July 2013–July 2014
SAMPLE SIZE	478 brands. Please note that the increased number of international brands is not the result of actual brands entering the Russian market (in the reporting period, the market had only 32 newcomers). It results from the brands spinning off product lines (kids, jeans, underwear) as full-fledged stores. Starting from the current research, we consider separate product lines with their own stores as unique brands.

PRICE SEGMENTS

LUXURY	First lines of fashion houses
PREMIUM	Second lines of fashion houses
UPPER MIDDLE	The average bill is from 7,000 to 13,000 ₽
MIDDLE	The average bill is from 3,000 to 7,000 ₽
LOW PRICE SEGMENT	The average bill is less than 3,000 ₽

RETAIL SECTORS

CLOTHING	Stores selling men's and women's clothes, clothes for all family (including underwear, outerwear, jeanswear, sportswear, kids' clothes)
FOOTWEAR	Stores selling shoes, primarily under a single brand
ACCESSORIES	Stores selling accessories, watches, gifts, bijouterie and jewelry
HOUSEHOLD GOODS	Stores selling goods for home, interior decoration, repairs and construction
CHILDREN'S GOODS	Specialized stores selling only children's clothes, shoes, associated goods, toys
DEPARTMENT STORES	Large stores selling different groups of mostly non-food goods by various brands, carrying out retail trade under concession agreements and lease agreements
RESTAURANTS AND CAFES	Foodservice points, including food court concepts in shopping centers
ELECTRONIC APPLIANCES	Home appliances and electronics sellers, computer stores, mobile operator retail shops
PERFUMERY AND COSMETICS	Stores selling perfumery and cosmetic products

Geographic coverage

The present research covers 36 major Russian cities, each with more than 500,000 permanent residents. Currently, this city type remains most attractive for international brands willing to open their stores. All the international brands' dynamics shown here are based on the data in these 36 cities.

To obtain more detailed research findings this time we have increased the number of cities in our study area. We have included cities with the population of 300,000–500,000 people, which widened our geographical coverage to 64 Russian cities.

Location

Each store/service point was classified as either a shopping center or a street retail premise. Stores located in unqualified retail complexes were equated to those in shopping centers. A lot of brands are present in various Russian regions as franchises or sub franchises, or unofficially.

In the course of the research we considered only official stores, so a number of smaller sales points opened as sub franchises or unofficially, could have been omitted from the sample.

CONTACTS

SERVICES FOR RETAILERS

Tenant Representation

Ksenia Grevtsova
Head of Department
grevtsova@magazinmagazinov.ru

Research and Consulting

Andrey Vasyutkin
Head of Department
vasyutkin@magazinmagazinov.ru

Geomarketing Research

Alexey Nikiforov
Head of Department
nikiforov@magazinmagazinov.ru

Public Relations

Julia Mosolova
Head of Department
pr@magazinmagazinov.ru

40/2 Prechistenka St. Moscow 119034 Russia

T: + 7 495 790 00 00
E: info@magazinmagazinov.ru

www.magazinmagazinov.ru
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