Multinational retailers set for rapid expansion in Russia

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Multinational retailers are set to expand faster in Russia over the next five years than their national or local counterparts, thanks to their greater investment capacity and desire to find new growth opportunities outside the mature markets of Western Europe, according to Retail Trade International, a new study from Euromonitor International on the global retailing industry.

Attracted by rising income levels, declining unemployment, a gradual decrease in interest rates, which are benefiting consumer credit, and growing demand for consumer goods, multinational retailers have their sights firmly set on Russia. Indeed, according to Euromonitor International, they have already won prominent positions in modern retail formats such as hypermarkets, chained supermarkets, furniture and furnishings megastores and cash and carry. In 2006 for example, Metro AG opened its first Media Markt electronic megastores and continued the expansion of its Real hypermarkets and Metro Cash & Carry wholesale stores. France-based Decathlon also started to develop its chain of sports goods stores in 2006. Meanwhile, multinational retailer Dixons Group signed an agreement with Russian player, Eldorado, which will allow Dixons to purchase the Eldorado chain for US$2 billion in 2011. Accessorise, Body Shop and Intersport have also recently appeared in Russia.

Out with the old and in with the new
The current legislative environment in Russia is also favourable for the development of modern retail formats suited to multinationals, with local government policies directed towards the construction of modern retail and entertainment centres in place of old-fashioned outdoor markets. According to Euromonitor's Retail Trade International, by the end of 2005, 4,000 kiosks and pavilions were demolished and re-housed to new modern premises in St Petersburg according to the government's instructions.

'Collaborating' with local governments difficult to finance for smaller players
In Russia, local government authorities wield considerable power over the development of retail outlets and can stop the opening of a new outlet by denying planning permission. This power enables local governments to receive additional dividends from retail operators when they discuss construction schemes. Large chained retailers with their 'deep pockets' are better able to resource this form of 'collaborating' with local governments and frequently sponsor different festivals and city holidays or invest in the development of the city's infrastructure. In contrast, however, smaller retailers do not have the same resources to fight for the best spot.

Future outlook: multinationals seek out acquisition targets
Over the next five years, Euromonitor International predicts that more multinational retailers are expected to enter Russian retailing through acquisitions. This trend has been seen already with InterGlobal Consulting acquiring Parter Service, which specialises in selling tickets through the internet and AS Watson buying 24 outlets of the Spektr chain of perfumeries.

â€œAcquisitions are attractive to multinational retailers because they provide them with the opportunity to leverage the brand strength, distribution network and outlets of existing national or local retailers, rather than starting from scratchâ€•, comments Magdalena Kondej, Retailing Analyst at Euromonitor International. â€œThis model brings together local ownership and international marketing expertise in order to cater for specific local needs. It is particularly useful for retailers looking to expand beyond Russia's major cities, where modern retail formats and distribution networks will be considerably less developedâ€•, concludes Euromonitor's Kondej.

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