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Consumer Trends in Food and Retail Sector

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Agricultural Situation

Approved By:

Erik W. Hansen

Prepared By:

ATO St. Petersburg Staff

Report Highlights:

Highly respected Russian research company "Romir" recently published the results of an intensive study on changes in consumer behavior and purchasing patterns in Russia from 2013-14. The article is focused on the food and retail sectors and was published in Russian Food and Drinks Market Magazine - an informative and analytical magazine that is devoted to the food market in Russia and provides expert analysis and up-to-date information about Russian food market since 1993. A courtesy translation of the article can be found in the report which has not been significantly modified.

General Information:

Highly respected Russian research company "Romir" recently published the results of an intensive study on changes in consumer behavior and purchasing patterns in Russia from 2013-14. The article is focused on the food and retail sectors and was published in Russian Food and Drinks Market Magazine - an informative and analytical magazine that is devoted to the food market in Russia and provides expert analysis and up-to-date information about Russian food market since 1993. The magazine has a circulation of 45,000 copies and works with the most significant market research organizations and information agencies in Moscow, St Petersburg and in the various regions of Russia such as "Abercade Consulting", "AC Nielsen", "Analytics-Russia", "a2z Marketing", "EMC", "FM Consult", "I & A, "ROMIR Monitoring", The Institute of Agrarian Marketing (IAM) and many others. A courtesy translation of the article can be found in the report which has not been modified.

BEGIN COURTESY TRANSLATION:

Consumer Trends in 2013-2014

To understand changes seen in the market (in general) and on consumer behavior (in particular) it is important to look at core consumers in terms of living standards, income, expenditures and buying habits. According to the Russian Federal Statistics Service (Rosstat), the average income in Russia in 2014 was a little more than 33,000 rubles per month. Every other urban family owns a car. This should be considered by manufacturers and retailers as not every family, or consumer, can go for big grocery shopping trips to stores located far from residential areas.

On average, urban consumers go grocery shopping three times per week and the average check amounts to between 500-560 rubles. Affordable prices are traditionally the most important factor determining the choice of grocery stores to visit - it has been since 2008. Another important choice factor emerged in 2013 - store location. Roughly 68 percent of Russian consumers prefer stores located close to their residences (according to findings of “Romir’s” poll) show that consumers want to save not only money but time. Formats satisfying both demands can be found in "discounter" stores which have seen active expansion from 2012-2013.

Many economic limitations were introduced in 2014 and they have certainly affected consumer behavior. The embargo placed on food imports resulted in increasing prices for imported products and price rises for raw materials and ingredients both domestic and of foreign origin. The Russian Federal Antimonopoly Service introduced controls over the prices for "socially important food categories and this has helped to avoid skyrocketing rises of prices but, yet, prices still rise. Consumers respond to such situations in a simple and predictable way – they reduce purchasing activity and switch to frugality. One of signs of frugal behavior and/or optimization of buying habits is stability of the average household's expenditure on Fast Moving Consumer Goods (FMCG) categories. This trend has been observed since October 2013 when monthly expenditures of urban consumers did not exceed the amounts seen in the previous year. Thus, with rising inflation rates considered, we can talk about a reduction of overall expenditures.

This unpleasant trend seemingly passed by in May 2014 - expenditures demonstrated slight growth. In

August, the index of buying activity increased by 7.8 percent over August 2013 which was higher than the official inflation rate at that time. However, the introduction of counter sanctions to food categories brought Russian consumers back to frugality. In September 2014, the index of buying activity was already lower than a year earlier.

Traditional increases of average check amounts were not observed through 12 months of 2014 except for average checks in small urban settlements (population 100,000 to 500,000) which was probably related to the expansion of federal retail chains. Analysis regarding the dynamics of the average check amounts seen after introduction of counter sanctions in August 2014 revealed growth only in cities with populations of 1 million people or more - first of all in Moscow and Saint Petersburg where many consumers had to make changes to their buying lists because they had to substitute favorite brands with some alternatives. Right after the introduction of the import ban, many urban consumers tried to squirrel foods that they expected to disappear during the coming year. In the majority of cases, substitute products are a little more expensive than the brand of habitual choice seen prior to the ban.

In general, the food import ban caused neither buying rushes nor panic. According to a poll held in September 2014, only 21 percent of Russians saw changes to their product mix in stores while the rest (79 percent) were not affected by these changes yet. In 2009 consumers were cutting expenditure but increased frequency of visits to stores in search for better prices. Now, consumers reduce both expenditures and purchase frequency - in 2014 an average buyer went shopping 15 times per month (5 percent less frequently than a year before). Despite strong expansion of federal retailers to Russian periphery, the number of stores visited by consumers in 2014 reduced. At the same time, the importance of the so called "favorite stores" increased as they saw the largest share in purchases and number of checks. As soon as consumers pick the store responding to all important demands, they start to use up in such stores about 30 percent of all money spent on FMCG categories.

A reduction in the number of stores visited by a household is observed in all distribution channels. However, some formats actually demonstrate growth in 2014: for instance, hypermarkets performed pretty well. This format drew consumers from other distribution channels and, thus, saw 2 percent growth. Increased purchase frequency of loyal consumers provided another 5 percent of growth. An increasing number of discounter stores led to increased sales via this format – by 6 percent during 2014. Half of this growth was provided by consumers drawn from other retail formats. Consumption of already habitual food categories also changed in 2014. For instance, a significant decline of buying activity was registered in the category of cigarettes: not only the number of smokers reduced (by 2 percent) but also average per capita consumption went down (by 4 percent).

Changes were also observed in dairy category. Consumers substituted traditional products like milk, kefir and other similar products with new dairy products like drinking yogurts, "spoonable" yoghurts, etc. Respectively, the share of purchases of former categories reduces to let the share of the newer products increase. A trend observed now for several years already has been increasing sales of fresh products – vegetables, fruit, meat, fish, poultry. Urban dwellers had been increasing their consumption of fresh categories – both consumer base and share of "fresh" and "organic" foods in total expenditure increases. The category of mineral water performed quite interestingly in 2014. Vibrant growth here coincided with the return of Georgian sparkling mineral water brand "Borjoumi" to the Russian market in spring 2013 after a long ban.

Unlike other FMCG categories, chocolate showed strong stability in 2014. As a rule, this confectionery category is used as an indicator of "buying mood" of consumers. This simple indulgent product is very sensitive to economic shocks. In this context, stability of the category is a good thing. However, despite positive trends seen in quality of food consumption - increased shares of fresh products, mineral water and new dairy products - in questions of consumption quantities, Russians stepped to the path of maybe not frugality but reasonable optimization. Frugal habits of consumers of different incomes living in different cities are not the same. However, certain common trends can be traced. For instance, 28 percent of consumers say they tried to avoid unnecessary expenditures in 2014 and, thus, buy the quantity of food they are actually going to consume. Purchase frequency in this group declined by 21 percent. The share of people purposefully searching for discounts and promotional sales in food stores increased in 2014. Last year, 20 percent of urban consumers acknowledged their love for special food offers. Every fifth consumer tries to buy cheap products not avoiding even foods with close expiration dates offered with significant discounts. The average check in this group increased by 23 percent though purchase frequency declined by 17 percent.

A small group of consumers – about 5 percent – did not come to some departments in a store to avoid the temptation to buy items not really needed. Consumers in this group say they increasingly prefer products under retailers' private labels. In 2014, the average check in this group reduced by 20 percent. The share of consumers not caring about increasing prices and still bought the same products and in the same quantities as they used to constituted 28 percent. However, the share of this group tends to decline over time.

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What determines the described trends? Of course, general economic instability, uncertainty about the future and anticipation of a possible recession or further ruble devaluation influence consumer behavior. On the other hand, retailers and manufacturers urged consumers to develop reasonably frugal habits by fierce price and promotional wars started several years back. Tempting consumers with interesting offers in 2014 resulted in declined loyalty to brands and retail chains. What now? New consolidation of brands and retail chains is needed to develop consumer loyalty again. Only this can help us survive through this crisis until the market is relative stable again.

Inna Afanasenko
Head of Consumer Panel Department
"Romir" company"

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