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## Russian Federation

### Retail Food Sector

## Russia--World's Fastest Growing Food Retailer 2004

**Approved by:**

Eric Wenberg, Director  
ATOMoscow

**Prepared by:**

Olga Taybakhtina

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**Report Highlights:**

Russia's retail sector is booming thanks to six straight years of strong economic expansion. According to official sources, total retail turnover in 2003 was \$146 billion (including \$68 billion for food retail turnover), although unofficial estimates place total sales at least 50 percent above this level. Its clear that the expanding market has caught the attention of retailers – both local and foreign chains. Experts forecast growth will peak by 2012, so for U.S. exporters of food products for retail sale, the clock is ticking down. As chains expand, quality becomes more important, an advantage for U.S. products.

Retailing in Russia is sophisticated and competitive. One Russian supermarket chain allows clients to pay cell phone bills in their checkout line. The Soviet era of cash booths, empty shelves, and sullen service is long gone.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Moscow ATO [RS4]  
[RS]

Ramstore, a Turkish owned supermarket chain, will invest \$270 million in expanding its stores over the next year. Metro, a German chain, will open 8 new stores this year, at an undisclosed cost, but must total above \$250 million. Perekrestok, a Russian-owned chain is expanding throughout Russia and into the CIS countries. New rumors of Wal-Mart's market entry abound.

The growth in the retail food sector is a story of Moscow and the regions. Reports are that the supermarket and chain stores are expanding faster outside Moscow. The consensus forecast is that the limits of this expansion call for about \$15.5 billion in new investments in retail by 2012, adding 13 square kilometers of retail space. The retail sale of food accounts for about half that growth.

To explore the opportunities for U.S. companies in the local retail market, ATO Moscow attended the 'Retail Director' business convention that took place in Moscow on September 2-4, 2004. The convention was focused on the discussion of strategic issues in the Russian retail business, i.e. the new factors of influence on the retail sector development in Russia and the conditions that will contribute to the retail growth in Russia today. The event attracted over 500 retailers, producers, suppliers, distributors, and wholesalers from Moscow, St. Petersburg, the Russian regions, and the CIS countries. Prepared by BBPG ('Business to Business Production Group'), this convention has acquired a high reputation in the local business community.

Market experts noted that the rate of opening new stores in Russia is significantly higher each year, but the growth trend is slowing slightly. The retail business in Russia keeps growing very quickly due to construction of the large format stores, like hypermarkets. Consumers' demand for convenience stores is exceeding their supply. At this time, there are no market prerequisites for the retail sector decrease as the market is very far from saturation. Russian retailers forecast that the retail industry in Russia will keep growing 50-100 percent a year and will reach its saturation by 2010-2011. However, its development is restrained by high real estate and rental cost in Russia, low qualified personnel, and other non-related duties, like technical maintenance of road infrastructure and professional education of personnel. The retail sector in Russia is characterized by 'cloning' of stores by the major retail operators. As chains expand, quality becomes more important. Retailers competing with each other for the number of stores can lose quality control of product quickly and it is a major concern, an advantage for U.S. products. Russian speakers talked about this problem with a great concern: "we want to 'clone' stores, but with the minimum loss".

About 25 percent of the return in retail sales in Russia from large format food stores comes from Moscow and the city is seeing new store construction, particularly on its edges where big boxes have room to grow. In terms of the growth in sales turnover, more and more, the regions are growing new chains and stores faster than Moscow. The cities with a high market potential for expanded retail are as follows: St. Petersburg, Nizhniy Novgorod, Kazan, Ufa, Samara, Yekaterinburg, Rostov-on-Don, and Krasnodar.

Below are listed some other major retail trends for the next few years in Moscow:

1. Decrease of outdoor markets and kiosks;
2. Growth of entertainment centers and malls;
3. Construction of retail outlets in residential areas and near the Third Automobile Ring;

4. Diversification of formats by retail operators;
5. International operators' coming; and
6. International logistical operators' coming.

ATO Moscow encourages U.S. companies doing business in Russia to attend the events organized by BBPG to better understand Russian retailers and network. Conventions like this give companies a great opportunity to learn about the latest trends in the Russian retail sector first hand and meet with the key market players. For those of U.S. companies who would like to give more exposure to their products and services, BBPG offers a few options of participation in the convention, such as sponsorship, a promotional event of the company's products, a tasting table for new products presentation, the company's presentation, etc.

For further information about BBPG conventions and terms of participation, please contact BBPG directly using the contacts below.

BBPG ('Business to Business Production Group')

Aleksey Filatov, General Director

Rubtsovskaya Naberezhnaya, 3, Office 401

107082 Moscow

Tel/fax: 7 (095) 263-9930, 265-6640

Web: [www.b2bpg.com](http://www.b2bpg.com)

Contact: Elvira Tarasenko at [elvira@bbpg.ru](mailto:elvira@bbpg.ru) or

Yelena Slivka at [elena@bbpg.ru](mailto:elena@bbpg.ru)

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