



Q1 2022

Recent trends in retail trade and consumer behaviour



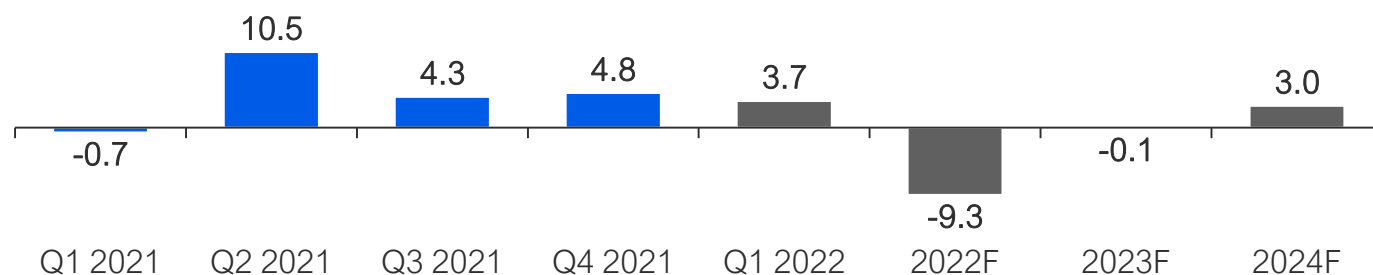
Contents

01	Macroeconomic indicators	4
02	Consumers	6
03	Retail	8
04	E-commerce	9
05	Recent developments	12

In January and the first half of February, Russian GDP and average salary indicators demonstrated growth after a downturn caused by COVID-19, although the general economy (including retail) faced difficulties due to high inflation. After the developments of 24 February 2022, the macroeconomic reality has gone through drastic change. Inflation growth reached 2% per week, projections and estimates of all other indicators fell dramatically too. As Q1 was coming to an end, Western sanctions and Russian Government's counter measures had a telling impact on the retail sector but yet had not fully affected macroeconomic indicators. Long-term forecasts predict a significant decline for Russian economy after the repercussions of 2022.

Despite being affected by a new economic environment, Russian GDP demonstrates moderate growth after the low base effect during the pandemic

Real GDP, Y-o-Y,% change

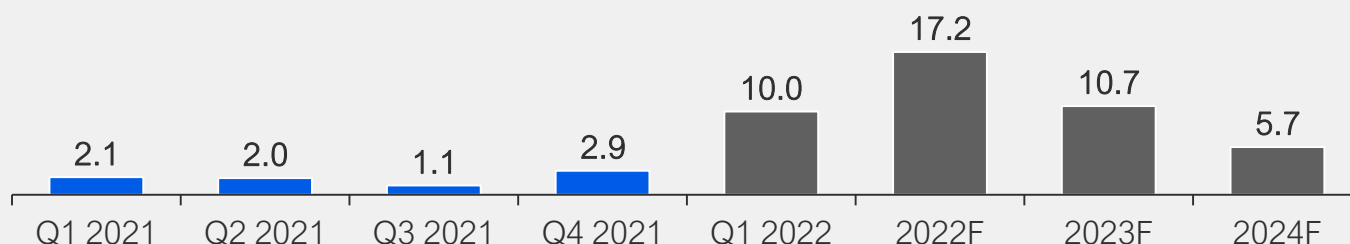


Source: Federal State Statistics Service (Rosstat)

Forecast by: IHS Markit, Ministry of Economics, The Economist Intelligence Unit

The consumer price index increased significantly on the back of new political decisions and imposed sanctions

Consumer price index, Y-o-Y,% change

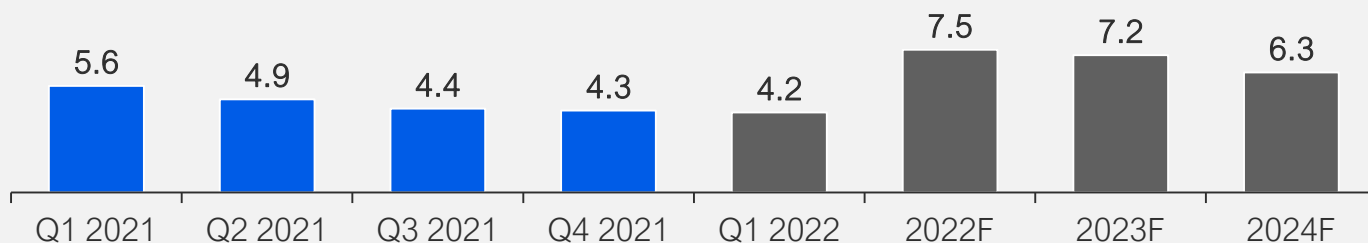


Source: Federal State Statistics Service (Rosstat)

Forecast by: IHS Markit, Ministry of Economics, The Economist Intelligence Unit

The unemployment rate is a little lower than in Q1 2021, because in Q1 2022 the repercussions of economic sanctions had not fully materialised yet

Unemployment rate, Y-o-Y,% change

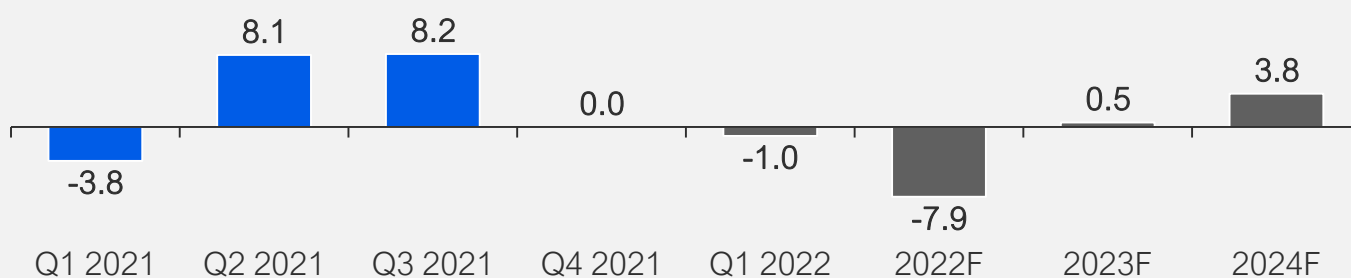


Source: Federal State Statistics Service (Rosstat)

Forecast by: IHS Markit, Ministry of Economics, The Economist Intelligence Unit

Real household income is going down

Real disposable income, Y-o-Y,% change



Source: Federal State Statistics Service (Rosstat)

Forecast by: Daniel Thorniley-Global Business Consulting, Ministry of Economics

Key factors driving retail chain or store choice to buy different product categories



Promotional offers remain a key factor for consumers when they choose a retail chain or a store to buy products from different categories. Exceptions here are Grocery (59% of respondents choose their store firstly based on its convenient location (and discounts)) and DIY/Home Improvement (48% of those interviewed look to the offered product mix that suits their preferences best).

- The important role that discounts and special offers play emphasizes that retailers need to plan and continue promotional activities.
- In addition to the price/expectations match criterion, customers always focus on product assortment and quality, which means retailers have to take these factors into account.
- The convenience store preference trend continues for Grocery.



Grocery (Food and Beverages)

- 1) Convenient location (59%)
- 2) Discounts and special offers (55%)
- 3) Product offering matches customer needs (54%)



DIY/Home Improvement

- 1) Product offering matches customer needs (48%)
- 2) Discounts and special offers (45%)
- 3) Goods and services quality match customer expectations (35%)



Clothing and Footwear

- 1) Discounts and special offers (59%)
- 2) Product offering matches customer needs (57%)
- 3) Goods and services quality match customer expectations (49%)



Health and Beauty

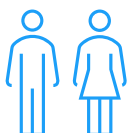
- 1) Discounts and special offers (52%)
- 2) Product offering matches customer needs (47%)
- 3) Goods and services quality match customer expectations (36%)



Electronics and Household Appliances

- 1) Discounts and special offers (55%)
- 2) Product offering matches customer needs (44%)
- 3) Goods and services quality match customer expectations (39%)

- Women value discounts and special offers, as well as convenient delivery terms more often than men. For instance, in Clothing and Footwear, the difference in perceived discount relevance between men and women is 10%.
- When selecting their goods, men, in turn, focus on the properties of the product and not on the terms of its purchase. Men emphasise quality more often than women. For instance, in Electronics and Household Appliances, the quality factor is 6% more relevant to men than to women, while the discount factor is 7% more relevant to women than to men.



Key factors driving brand selection to buy different product categories

In most categories, product quality comes to the foreground when consumers choose a specific brand to purchase a specific product. This trend was already eminent in 2021. The exception here is Clothing and Footwear, where customers equally focus on attractive prices and product quality (62% and 61%, respectively).

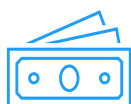
Moreover, the top three brand selection factors are the same for all categories.

Despite the relevance of the price/quality balance, brands that match buyer expectations attract consumers across all product categories.



Quality is the fundamental brand selection factor for consumers, which means manufacturers should pay attention to this driver. That said, discounts and special offers remain relevant.

	High product quality	Discounts and special offers	Brands match customer expectations
 Grocery (Food and Beverages)	67%	57%	41%
 DIY/Home Improvement	60%	56%	38%
 Clothing and Footwear	61%	62%	41%
 Health and Beauty	60%	51%	40%
 Electronics and Household Appliances	65%	57%	41%

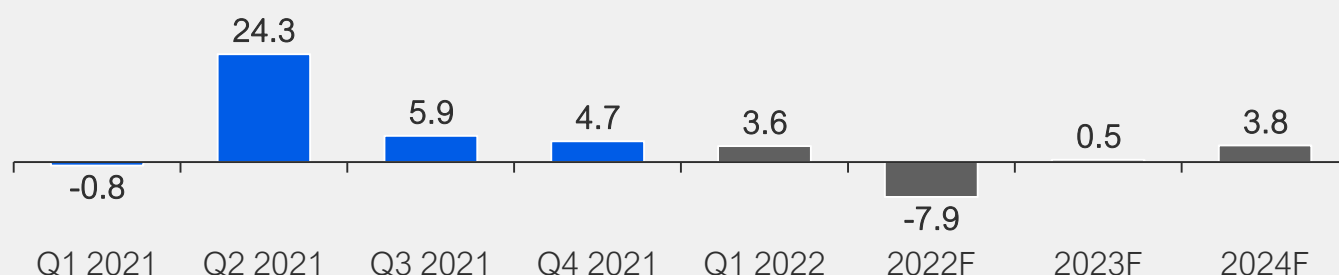


Income growth drives specific brand or product selection factors. The higher the income, the more attention consumers pay to product quality and customer service. For instance, in Clothing and Footwear, respondents with a household income higher than RUB 100,000 reported more often that their choice of a store to buy clothing and footwear was driven by: product assortment match to customer needs (67%); product quality match to customer expectations (50%); high level of customer service (19%).

In Q1 2022, retail trade turnover in Russia grew by 3.6% as compared to Q1 2021 and reached RUB 10 trillion 241.9 billion (according to Rosstat). This indicator grew by 2.2% in March on the back of a feverish demand for consumer goods. According to the estimates made by the Russian Ministry of Industry and Trade in May, retail turnover decline rate in Russia may reach 10% this year.

In Q1 2022, the real retail trade turnover slightly increased due to the low base effect, while the full impact of imposed sanctions is yet to be felt

Real retail trade turnover, Y-o-Y,% change

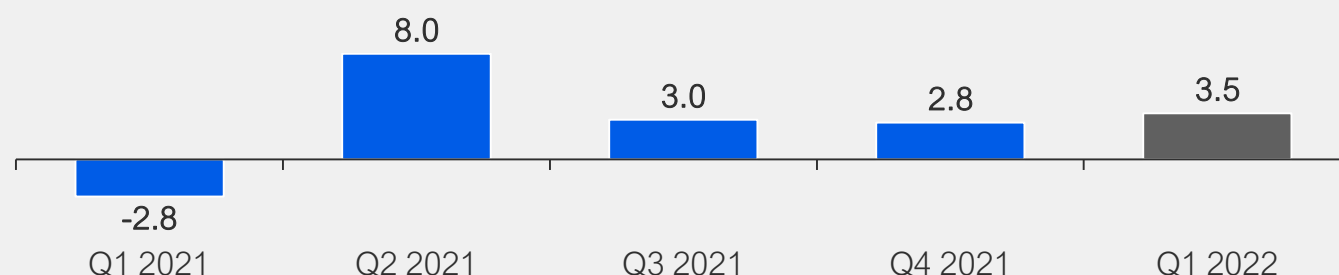


Source: Federal State Statistics Service (Rosstat)

Forecast by: Daniel Thorniley-Global Business Consulting, Ministry of Economics

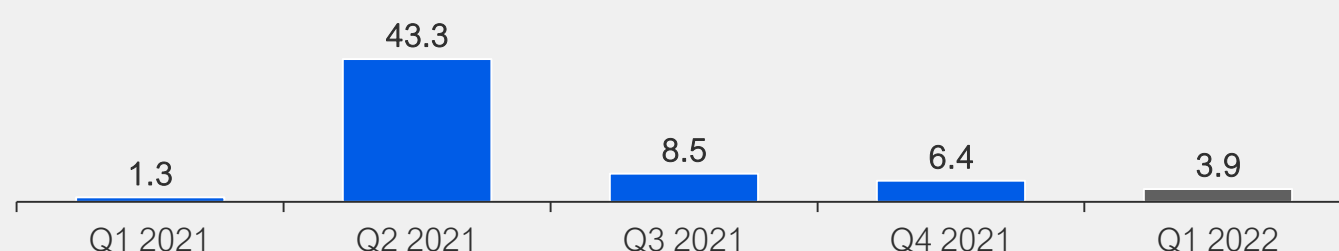
In Q1 2022, turnover indicators in the food and non-food segments of retail remained higher than those for the same period in 2021

Food retail turnover, Y-o-Y,% change



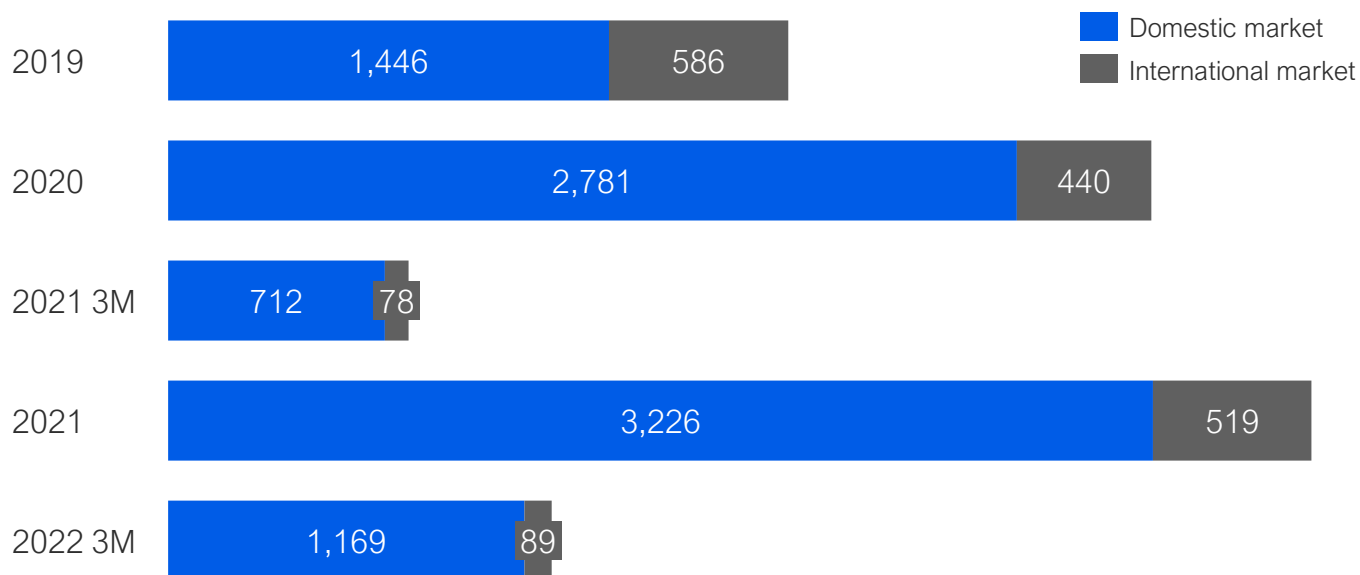
Source: Federal State Statistics Service (Rosstat)

Non-food retail turnover, Y-o-Y,% change

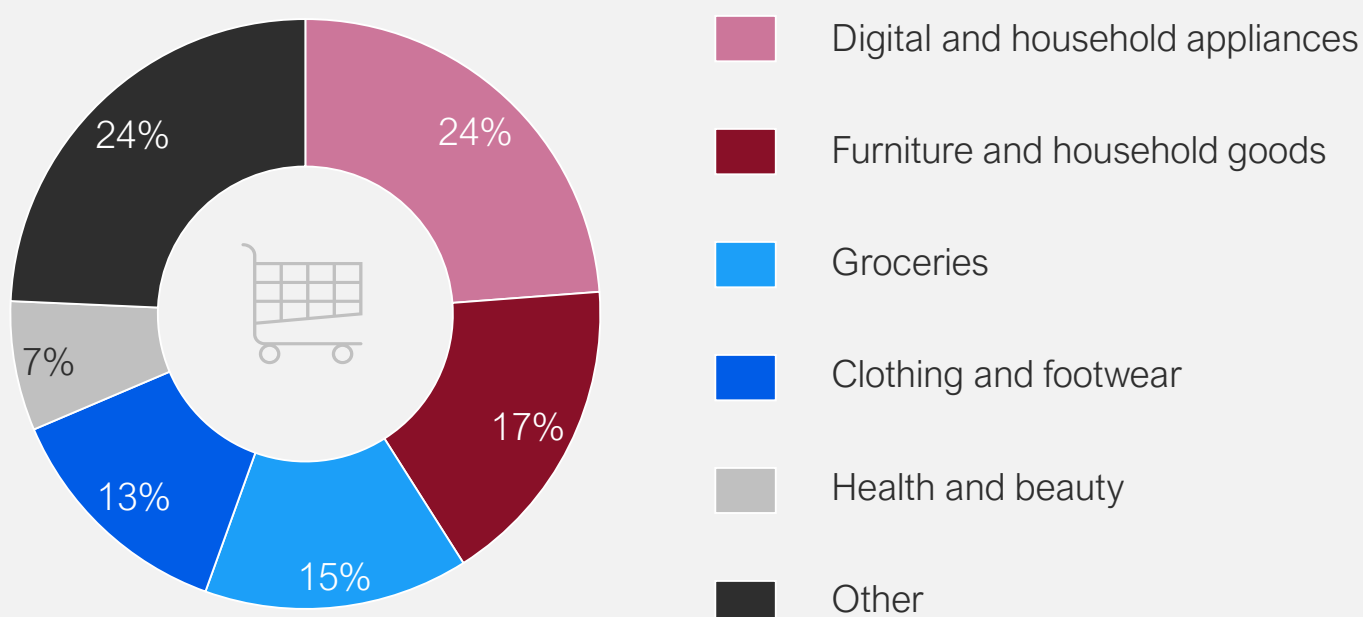


Source: Federal State Statistics Service (Rosstat)

Russian e-commerce, RUB billion

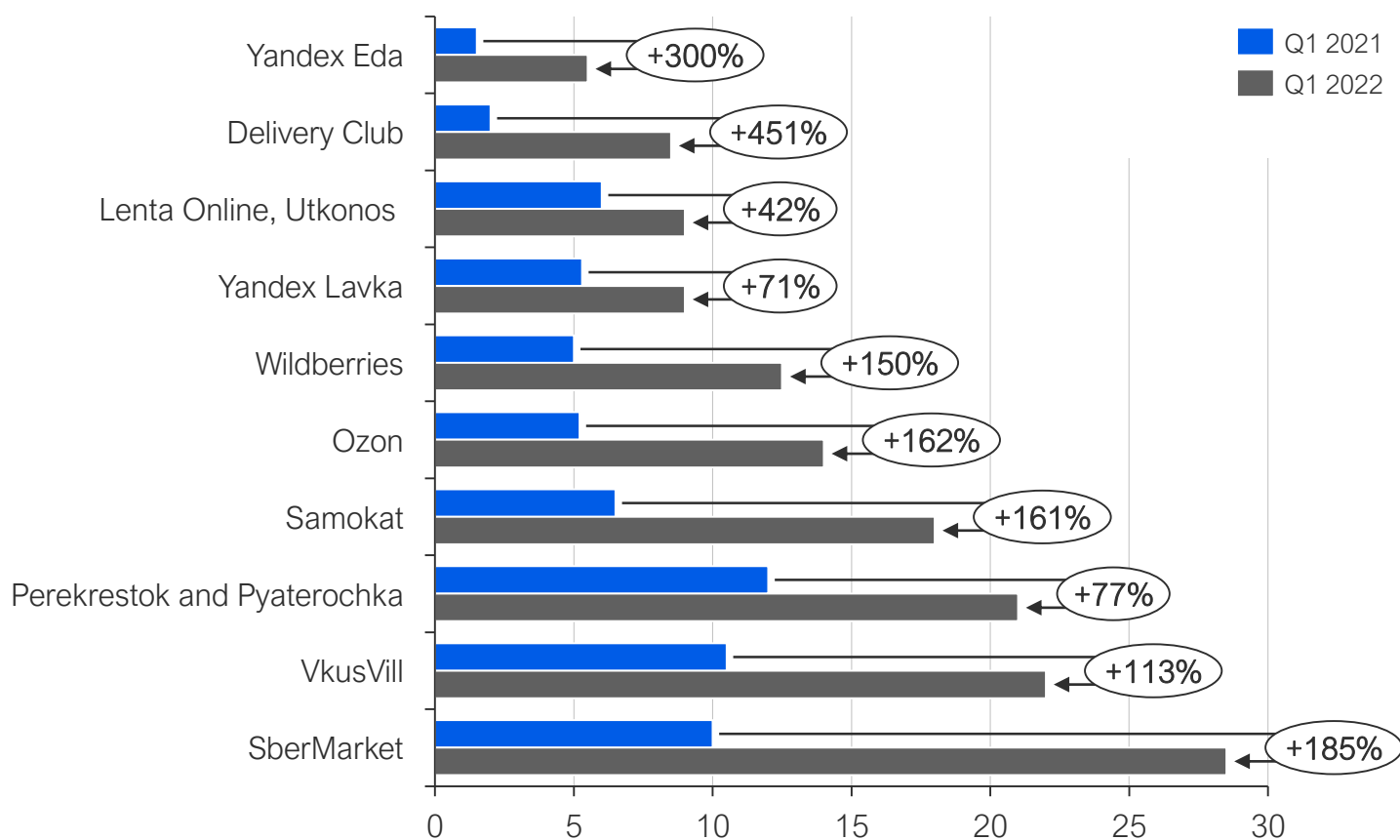


Russian e-commerce by categories in the domestic market (3 months) In 2022, RUB billion

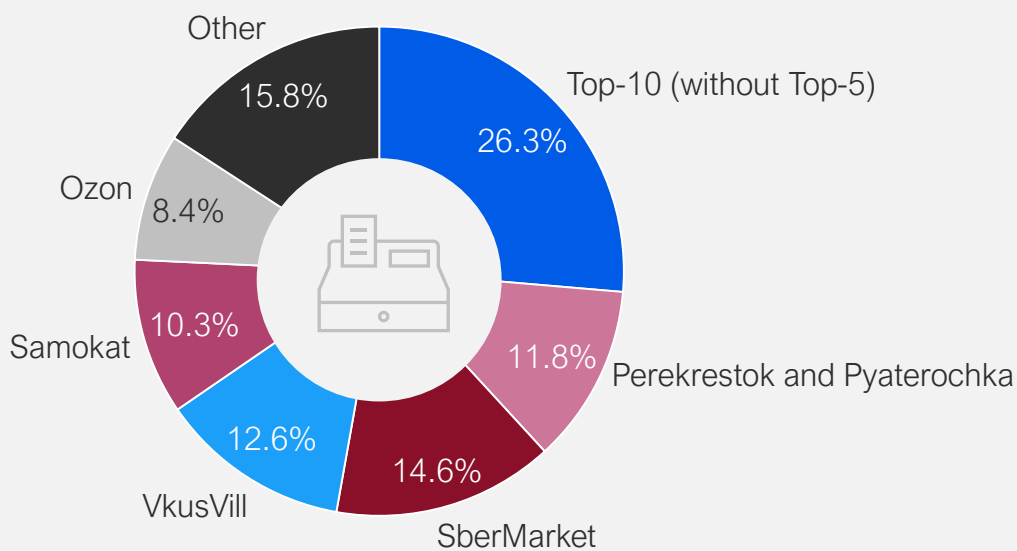


Source: Association of Internet Trade Companies (AITC)

E-commerce



Source: INFOLine



Key observations

A change in consumer behaviour and feverish demand for certain types of goods in Q1 2022 led to an increase in the volume of online purchases by 59% as compared to the same period in 2021 up to RUB 1.25 trillion.

According to materials from Association of Internet Trade Companies (AITC), the share of e-commerce in the total retail turnover amounted to 11.2% in Q1 exceeding the historical maximum reached in 2020.

Out of the total sales for the period from January through March 2022, 93% (RUB 1.169 trillion) attribute to the domestic market, which is 64% more than last year. Other 7% (RUB 88.6 billion) attribute to cross-border trade, which is 11% higher.

Such abnormal growth of Russian domestic e-commerce market stems from a major shift in today's reality as bank operations with certain countries became impossible while imposed sanctions reduced purchasing on foreign platforms almost down to zero. All this was accompanied by consumer panic and a feverish demand for some product categories.

Tax and Legal Issues

- The Government of Russia resolved to legalise parallel imports (30 March)
- Russia simplified the procedure for obtaining a license to produce and sell alcohol (26 March)
- The Government of Russia expanded tax support measures for businesses and citizens by pausing checks of currency control operations and suspending bankruptcy petitions to courts, as well as adopted a law bringing amendments to the tax code (24 March)
- Russia introduced a ban on wholesale supplies of alcohol, tobacco products, cosmetics, some clothing, luxury goods and technological motor vehicles from the USA (16 March)
- Increased limit on duty-free import of goods (15 March)

Issues faced by suppliers and importers

- Russian and foreign FMCG suppliers massively abandon discounts and promotional campaigns (19 March)
- As the currency exchange rate plummeted, DIY retailers and residential developers faced a situation when manufacturers of certain construction materials refused to ship goods (28 February)
- The plummeting exchange rate caused major alcohol importers to stop their shipments (Simple and Luding) (28 February)
- Foreign suppliers refused to ship products to many Russian importers (28 February)

Mergers and acquisitions

- Sber announced the purchase of Stockmann and Perekrestok Vprok (21 February)

Developments in Q1 2022

New technologies and formats in retail

- Lenta goods turnover in stores by using a technology for visual detection of queues (25 March)
- Magnit opened a hybrid darkstore (16 February)
- Magnit enhanced efficiency through big data and neural networks (15 February)
- Nestle Russia migrated Russian factories to green energy (18 January)

In the period from 24 February through the end of Q1 2022, several dozens of major foreign companies operating in retail and FMCG production announced they would reduce their operations in Russia or leave the market completely.

These included:

- Clothing and Footwear – Uniqlo, Hugo Boss, Crocs, Adidas, Levi Strauss & Co, PVH Corp, Puma, Inditex, H&M, Asos
- Food and HoReCa, including tobacco and alcohol – Carlsberg, Heineken, Imperial Brands, Nestle, Herbalife Nutrition, British American Tobacco, Mars, Mondelez International, PepsiCo, Coca-Cola, McDonald's, Fazer, Valio и Paulig, Prisma, Diageo, Starbucks
- Cosmetics and personal hygiene – Johnson&Johnson, Oriflame, Colgate-Palmolive, Estée Lauder Companies, Sephora(LVMH), A. S. Watson
- Technology companies and marketplaces – Prosus (investor for Avito), Visa, MasterCard, eBay, Samsung, Panasonic, AMD, Intel
- Automotive businesses – Volvo cars, Scania, Audi, Renault, General Motors, Harley-Davidson, Jaguar Land, BMW, Ford, Toyota, Honda, Mercedes-Benz, Suzuki, Volkswagen, Skoda, Porsche, Rolls-Royce, Land Rover
- Others – Tiffany, Moody's Corp., Louis Vuitton, Hermes, Chanel, IKEA

“

Sanctions are becoming more severe as they go deeper into Russian retail trade in the new economic reality. The financial frenzy gave way to anxious anticipation and global long-term uncertainty. Nevertheless, all players including retailers, manufacturers and logistic partners have to make quick decisions. The retail trade sector is transforming simultaneously in many business areas. So, the decisions aiming to reduce the crisis should also develop in parallel to each other and tackle multiple factors.

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