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RUSSIAN RETAIL: MODERN CONDITION AND DEVELOPMENT TRENDS

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Abstract

The retail sector is crucial for the Russian economy, due to the main indicators of its development. The article assesses the state of the trade industry in Russia, discusses the features of the development of retail trade, presents an analysis of the evolutionary development and current state of Russian retail.On the basis of documents regulating trade activities in the Russian Federation, the concepts of “types” and “kinds” of trading enterprises are considered, they are called “formats” in international trade. Since decisions on the territorial distribution of trade objects and the choice of trade formats determine the effective use of the trade infrastructure, the article discusses the criteria for the most common trade formats and characterizes the main trade formats presented in the domestic retail market in conjunction with the strategic development of the country's trade.The authors studied the peculiarities of retail infrastructure development, various retail formats, paid attention to creating a comfortable environment in regional consumer markets through a variety of retail infrastructure, based on meeting basic living needs of the population on competitive terms, examining criteria that characterize the level of retail development, the state of the consumer market, entrepreneurial activity of individual territories, taking into account their economic, demographic and geographical characteristics. Attention is focused on the role and participation of regional authorities in this process. The necessity of creating a “matrix of trade formats” with the aim of creating a comfortable consumer environment through the development of multi-format trade infrastructure for individual municipalities is substantiated.

Keywords: Consumer market, distributive trade, multi-format, retail, retail chains, trading formats.

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1. Introduction

The trade industry in Russia is important both for the country's economy and for the social sphere, which is due to a number of indicators. Trade makes a significant contribution to the gross domestic product (GDP) of a country. The share of wholesale and retail trade in GDP in 2017 was 14.2%, which is slightly lower than in previous years (2015 - 16.4%; 2016 - 15.9%), but in general, the wholesale and retail trade retains one of the leading positions in the formation of the gross product of Russia. The industry provides tax payments and fees to the budget system of the Russian Federation, 19% (in 2017) of the population provides workplaces, and over the past ten years, this figure has increased, and the number of business entities engaged in trading activities has also increased: currently in Russia there are more than three million of them. Their competitive development is a stimulating factor for innovation activity. Trade, as a sphere linking production and consumption, responds to market changes, affects the quality of products, and more often dictates its criteria, focusing on the demand of the consumer market, thereby setting standards for manufacturers and suppliers. The retail network represents a significant part of the sphere of commodity circulation, is the basis of the material and technical base of trade.

Competitive development of trade is regulated by the Federal Law of the Russian Federation of December 28, 2009 No. 381-ФЗ "On the basis of state regulation of trading activities in the Russian Federation", which stipulates the need to develop a scientifically based policy of municipalities on the formation, placement and development of retail chains.

Issues of retail development management are of particular importance in the context of the Trade Development Strategy in the Russian Federation for 2015-2016 and the period up to 2020 (hereinafter - the Strategy). This document provides directions for the development of the trade industry in Russia, in particular the multi-format retail infrastructure with a view to its effective functioning.

2017 is characterized by the transition of the consumer market to a new development paradigm, the main characteristics of which are: increased competition between retailers (especially the price one), accelerated growth rates in the number of commercial objects of modern formats, development of innovative formats, market consolidation amid continued decline in consumer activity and difficult working conditions on the market (Panasenko, Stukalova, & Mazunina, 2018; Podzumkova, 2018).

2. Problem Statement

The present stage of development of retail trade in Russia is characterized, on the one hand, by the intensive development of retail chains, their expansion into the regions, and on the other, by the extremely unevenness of this process. In addition, we are witnessing an evolution of the format of trade enterprises, which in our country is much faster than in Europe, which sets the task of developing trade concepts aimed at specific groups of consumers.

Provision of retail space for consumers of individual regions and municipalities requires informed decisions on the choice of retail formats and the territorial distribution of the trade infrastructure.

The task based on the Strategy provides a solution to the problem, which is to form the reputation of trade as an attractive business in order to avoid negative consequences for the industry in the form of legislative restrictions, the absence of some state-supported measures used in other industries.

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3. Research Questions

The main issues of research on the current state and development trends of Russian retail are:

- what is the current state of Russian retail?

- what are the problems of development of Russian retail?

- what is the evolution of the format of trade enterprises in Russia?

- what are the opportunities for the development of trade business in Russia, taking into account global trends?

- what effect does a variety of trading formats have on the formation of a comfortable consumer environment?

- what are the main directions of forming a comfortable consumer environment, and what criteria allow us to assess the effectiveness of trade infrastructure?

4. Purpose of the Study

The purpose of the study is determined by the significance of the development of retail trade for the Russian economy and consists in identifying the features, the most pressing problems of organizing the trading activity of the Russian retail, opportunities for the development of trading business and evaluating ways to solve them in terms of global and domestic trade development trends.

The actively developing retail segment of the consumer market requires scientifically based approaches to its organization in the context of individual regions, and in this regard, the goal of the study includes the development of these recommendations.

5. Research Methods

The object of study is the retail segment of the consumer market. In accordance with modern legislation, the main purpose of retail trade, as a type of business activity, is the sale of consumer goods for direct consumption.

The information base for writing the article was periodic publications devoted to the theoretical aspects of the problem being studied, the regulatory and legal framework for the organization of trading activities in the Russian Federation, statistical materials of the Federal State Statistics Service, rating data, business references presented on the Internet, and official websites of retail networks. Methods of systematization, forecasting, analytical, statistical, expert methods were used.

6. Findings

Effectively developing trade industry affects the competitiveness of the economy. The retail sector acts as a link and an active participant in the consumer market.

Table 01 presents the data of retail trade turnover in Russia in 2007-2017. For the period 2015-2016, the decline in trade turnover amounted to almost 20%. Over the past decade, a similar picture was observed in 2009. During the crisis decline of effective demand in recent years, the situation prevailing in the consumer market has forced retailers to actively express themselves in the struggle for the consumer. And in 2017, according to the Federal State Statistics Service, the growth of retail turnover was 1.2%.

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Table 01. Retail turnover in Russia in 2007-2017

Year	Turnover, bill. rubles	In % to the previous year in comparable prices
2007	10757.8	-
2008	13853.2	113.0
2009	14599.2	94.9
2010	16499.0	106.4
2011	19082.6	107.0
2012	21394.5	106.3
2013	23668.4	103.9
2014	26118.9	102.5
2015	27526.8	90.0
2016	28317.3	95.4
2017	29804.0	102.0

Source: FSSS data, Ministry of Economic Development (Federal State Statistics Service of Russia in figures- 2018, 2018).

In 2012-2016, there was a higher growth rate of retail turnover in terms of value: the average increase in this period was 12.5% per year. In 2017, the growth rate of retail turnover decreased to 4.5%. The severity of this gap is noticeable in the turnover of food products (including tobacco and beverages): in 2017, the volume of trade increased by 8.5%, in 2015-2016 the average increase was 11% per year.

The presented dynamics of retail trade with the main trend today - low consumer activity, requires special solutions for the development of retail trade in difficult market conditions (Stepanova, 2018). In this context, decisions on the territorial distribution of objects of trade, the choice of trade formats, are of particular relevance.

The main function of retail enterprises is the sale of consumer goods. The specificity of their activity is manifested in the fact that they simultaneously require the organization of activities for the sale of goods and the provision of trading services. The quality of this process largely determines the competitiveness of the retail network as a whole. It is for this purpose that retail formats are chosen by retail. Today, retailers are characterized by the structuring, implementation and development of various retail formats, sub-formats.

On the basis of the state regulatory document (GOST R 51773-2009 Trade services. Classification of trade enterprises, 2009), the concepts of kinds and types of trade enterprises are defined. Updated in 2013, the domestic standard (GOST R 51303-2013 Trade. Terms and definitions, 2013) also offers only the concept of the type of retailer.

The main features of the classification of types of enterprises: sales area, breadth of range, form of shopping service. There is a question about the types “Products” and “Manufactured goods” - for them the minimum border of the sales area is 18 sq.m, where it is necessary to carry out the placement and display of goods. In the GOST from 2013, among the trade types, the “Self-Service Store” was allocated, for which only the service form became the type criterion, on the other hand most of the other kinds and types of commercial enterprises fall under this type (by service form).

The current domestic practice of network development requires a wider definition for the types of trading enterprises that are called “formats” in international trade. Moreover, the Strategy also states that

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the development of trade in the country should be directly related to the opening and development of trade objects of various sizes and formats of trade on equal terms.

All trade formats, regardless of size, are recognized as civilized and have the right to unhindered development as part of their identity and uniqueness, as well as natural evolution without government intervention due to increased entrepreneurial activity, changes in consumer preferences (Trade Development Strategy in the Russian Federation for 2015-2016 and period up to 2020, 2014).

The modern concept of a retail format includes the characteristics of a retail facility based on selected ways of doing business. Moreover, according to the authors, the main criterion for the characteristics of the format of a commercial enterprise, determined taking into account the development of the market situation, is a clear understanding of the orientation towards the target group of consumers. The focus of the formats on the relevant target groups allows you to create an effective competitive environment. The criteria for trading formats (other than those mentioned) are: the area of the sales area, the area of the warehouse (for individual formats); number of calculation nodes; the breadth of the range (total and group); price segment; number of purchases per day; number of staff; the radius of territorial coverage; location; promotion; additional services.

Today in the domestic retail market there are mainly commercial formats, the characteristics of which are presented in table 02.

Table 02. Characteristics of the main retail formats of Russian retail

Criteria (requirements)	**Hypermarket**	**Supermarket**	**Soft discounter**	**Hard discounter**	**Cash & carry**
Area of the trading hall, sq.m	4000-10000	500-2000	400-800	300-600	5000-10000
Storage area, sq.m	Not standardized	250-600	100-250	100-200	Not standardized
Range, thousand items (number of SKU)	25-50	3,5-20	1-2,5	0.8-1.2	To 10
The number of cash units	25-40	5-20	5-10	2-6	Not standardized
Turnover per month	4500-6000 thousand dollars	500-1200 thousand dollars	250-400 thousand dollars	120-270 thousand dollars	To 30 million dollars
Number of staff, persons	600-900	50-190	34	28	150
Own production workshops	Widely represented	Are present	Are absent	Are absent	At the discretion of the operator

Note: Compiled by the authors

In addition to those presented in the table, the “convenience store” format is widely used. And it is these stores with the necessary assortment, extended working day, reasonable prices are now promising for many operators. The development of this format of “walking distance” is dictated by the need to ensure physical and economic accessibility, above all, food to protect public health. In this context, special attention is paid to the development of socially-oriented retail formats that implement fresh farm food, but this often requires special infrastructure, small retail outlets.

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Dixy Group OJSC is actively developing the "convenience store" format; by 2015, the operator opened 2500 stores, and the optimization to close inefficient retail facilities has reduced their number to 2333, but the company continues to develop and plans to open new ones. X5 Retail Group pays attention to the development of a supermarket format with an increased assortment of fresh products, and also combines formats, for example, a reduced-size hypermarket-discounter with the goal of their most convenient placement in sleeping areas.

The development of retail formats in the world is subject to a single logic. Russian retail is going through the main stages of development of developed countries markets. In the course of evolution, there is an inevitable crowding out of traditional forms of modern commerce. Table 03 presents the characteristics of the stages of development of modern trade formats in the domestic consumer market.

Table 03. Development of trade formats in the domestic retail market

Stage	Characteristics	Formats, examples
1. 1994 – 1998	- The transition from wholesale to retail; - active development of retail markets; - the emergence (1997) of the first domestic retail networks; - the first foreign network "Ramstore" (1997); - the share of network trading is 1%.	Active development of market trade, expensive supermarkets
2. 1998 – 2000	- Expansion of the range of domestic goods; - reduction of trade margin; - the transition from supermarkets to discounters; - an increase in the number of regional retail chains (food); - the share of network trading is slightly higher than 1%.	Active development of the discounter format (Pyaterochka, Kopeika, Magnit, Dixie)
3. 2000 – 2005	- Increased competition of domestic networks; - active introduction of foreign trade network structures; - retailers dictate rules to manufacturers; - network companies are starting to develop franchise programs (2002); - X5 Retail Group N.V. launches the first PL; - Pyaterochka trading network opens the largest distribution center in the North-West (2003); - 2003–2004 Russia occupies the first place in the ranking of attractiveness for entry of global retail chains (according to A.T. Kearney consulting company); - the share of network trading reaches 24%.	A new format for Cash & carry appears in Russia. Active opening of hypermarkets. Opening of the Swedish store Ikea. Auchan, the largest French hypermarket chain, has been operating in the Russian market since 2002.
4. 2005 – 2008	- development of new formats and multi-format; - the introduction of category management; - active expansion of retail in the regions; - uneven regional development of retail; - the share of retail chains in 2007 was 32.6% of the market.	The largest representation of formats: discounter, supermarket, cash & carry, hypermarket "convenience store"
5. 2008 – today	- The development of more than 700 retail chains of various levels: from international to regional (according to the INFOLine information agency); - concentration through mergers and acquisitions of local regional networks; - the share of retail chains amounted to 55% of the retail	Modern formats continue to actively develop: a discounter, a supermarket, a cash & carry, a hypermarket an

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	trade in food products by 2017; - the largest M&A deal in Russian retail in 2008 - the purchase of the «Carousel» network by X5 Retail Group N.V.; - a network of wholesale and retail enterprises was formed in the DIY segment - "DIY Retail Russia TOP" (more than 100 retail and small wholesale chains of building materials and household goods).	"convenience store" Multiformat trade networks.

The modern period is also characterized by the development of the "master of categories" trade format, which finds distribution in non-food, that is, in the non-food trade sector. There are many such networks in the world practice of retail. In Russia, Ikea is the most famous. The idea of the format is to be the first in its category (best assortment, best prices, best service, best promotion). The next stage in the evolution of retail trade is the development of non-food formats, specialized formats: category killers - DYI, BTE, drohery, the format of large chain department stores, shopping and entertainment centers.

Table 04 contains data on trade formats and the number of stores of 7 leading retailers of the Russian consumer market.

Table 04. Number of stores of network operators in Russia in 2010-2017, units

Company	Format	2010	2012	2014	2017
«Magnit»OJSC, including	All	4055	6884	9711	16960
«Magnit»	CS	4004	6046	8349	12503
«Hypermarket Magnit»	H	51	126	306	244
«Magnit Cosmetic»	CC	2	692	1086	4000
«MagnitSemeinyi»	S	-	-		213
«X5 Retail Group», including	All	1809	3802	5483	12121
«Pyaterochka»	CS	1392	3354	4998	11225
«Perekryostok»	S	301	370	403	638
«Carousel»	H	71	78	82	93
Ltd «METRO»	CC	57	68	79	90
Ltd «Auchan»	H, S, CS	44	57	84	314
OJSC «Dixie Group»	CS, S, H	646	1499	2195	2703
Ltd «Lenta»	H	39	56	132	329
Ltd «OKey»	H, S, D	57	83	109	145
Formats: M – convenience store, H – hypermarket, S – supermarket, D – discounter, CC – Cash & carry.					

Note: Source: data of the information agency INFOLine (Analytical base: "700 retail chains of the FMCG of Russia - 2018", 2018)

In the competition for consumers, retailers actively develop several formats simultaneously, i.e. develop a multiformat concept of presence. This approach to the organization of sales is particularly relevant in the face of increasing competition, as it allows to increase the coverage of various consumer categories, which requires retailers to develop more accurate trading concepts aimed at specific groups of consumers (Berezka, 2016).

In accordance with the Strategy, the criteria for a comfortable consumer environment and efficiency of trade infrastructure, as well as the level of entrepreneurial activity are:

- the number of shopping facilities of all trade formats, including trading places in markets and fairs;
- the number of retail space, differentiated by different formats, per 1000 population (Trade Development Strategy in the Russian Federation for 2015-2016 and the period until 2020, 2014).

The relevance of the second indicator is obvious, since the standard used so far, which takes into account all the formats of trade In total, cannot characterize the actual situation with regard to providing consumers of certain regions with retail space. Often, the opening of a large shopping center or a hypermarket becomes a way of achieving the established standard, and its location does not always ensure the principle of accessibility for all residents of the territory being assessed. The importance of the need for small-format stores, “easy-to-access” objects, small retail trade enterprises may not be taken into account.

The formation of a comfortable consumer environment through the development of a multi-format trade infrastructure requires the participation of regional authorities. Considering the demographic, geographical, economic conditions of the territories, the work on creating a matrix of trade formats for individual municipal entities is important and necessary. Such a document implies the creation of comfortable conditions for both the consumer and domestic producers through the availability of the necessary and sufficient number of objects of trade infrastructure of various formats with the ability to meet the basic needs of the population at competitive conditions. In addition, such indicators will make it possible to identify problem areas, and their timely adjustment will be a regulatory instrument for the development of trade, both in individual territories and in Russian retail as a whole.

7. Conclusion

The formation of a developed consumer goods market is a complex process, reflecting the general trends in the development of a country's economy. Trade, including retail, is still one of the fastest growing industries. In the conditions of competition for consumers, retailers use trade strategies based on the introduction of new formats, a multi-format approach to trading business, and as a result, they offer customers new trade services (by nomenclature and quality), a new range of products that, undoubtedly, improves the organization of retail, increases the degree of customer satisfaction.

The current domestic practice of developing networks requires a broader definition for types of trading enterprises that are called “formats” in international trade, with the main criterion for the characteristics of a retail format being orientation to the target group of consumers.

The currently approved standards for the supply of retail space do not reflect the real situation in accordance with the actual need, since they are not differentiated by the trading formats. Assessment of the state and development of trade in certain regions should take into account the number of retail space with differentiation according to trade formats. This will create a comfortable consumer environment with the ability to meet the basic needs of the population at competitive conditions, as well as increase the efficiency of the trade infrastructure. At the regional level, the “matrix of retail formats” for each municipality should become an important tool for the development of retail trade.

Thus, a variety of retail formats is a potential to increase the economic and social effect of retail.

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