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Russian Retail Expansion:

Comparative Analysis Europe & North America

January 2014

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This report was prepared by Kim Iskyan and Rebecca Baldridge on behalf of AVICA Property Investors.

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Executive Summary

Today the global retail industry is in the midst of a revolution, and retailers across the board are feeling the impact from changes in both the industry and consumer landscapes. The success of online retail across markets, as well as digital media, the widespread use of mobile devices, and the proliferation of shopping apps for smartphones and tablets has fundamentally changed the way consumers shop. Moreover, demographic changes such as declining family size and increasing urbanization, particularly in developed markets, have also had a very significant effect on the industry and have forced many retailers, particularly those in the big box segment, to alter their approach to the traditional brick and mortar format.

Big box retailers in the developed world are responding to their evolving environment by reducing the number of "big box" stores in favor of smaller formats more suited to urban areas, and developing multi-channel retail solutions that combine online sales with brick-and-mortar locations to deliver value to customers in new ways. In addition to altering the way they have typically done business, many global retailers are also looking for new paths to expansion and growth. Russia, with its powerful combination of a positive macroeconomic outlook, robust and growing consumer demand, and an environment that strongly favors the big box format, offers a rich opportunity for both home-grown retailers and global retailers alike.

Russia's economy is the world's ninth largest, and has been growing at a faster pace than economies in developed markets including the US and Canada as well as those within the Eurozone. Although growth is currently slowing, the economy is nonetheless continuing to expand, principally due to the steadily increasing purchasing power and the acquisitive zeal of the Russian consumer. Research by major international financial organizations has demonstrated that in the country's consumer-driven economy, increases in consumption typically lead GDP growth. With only a brief crisis-related retreat in 2009, household income has been rising steadily (USD 250/month in 2004 to USD 720/month in 2012). Moreover, income taxes are low and consumers typically own their homes while having minimal levels of personal debt.

Since the dissolution of the Soviet Union, Russia's retail sector has exploded. Pent-up demand from years of deprivation fuelled a mania for consumer goods, and today even young people born in the early 90s are voracious consumers of name-brand merchandise. Retail turnover has also been consistently on the rise in Russia, and is projected to increase by more than 5% annually through 2015. By 2020, Russia is expected to overtake Germany to become the largest consumer market in Europe.

Global retailers have eyed the Russian market with keen interest. International hypermarket operators Metro AG and Auchan in particular have enjoyed marked success in Russia. Vast opportunity remains in the market, and Russia's many unique features, in particular its geography, population distribution, level of urbanization, infrastructural challenges and demographic trends, make the big box format particularly suited to this market.

Russia's enormous area and highly dispersed population serve to keep many Russians living in rural conditions, underserved by many modern amenities including modern format retail. Big box/hypermarket formats are an exceptional fit for such areas; when located in regional centers these stores will draw shoppers from an extended radius. Moreover, Russia's infrastructure challenges will stave off a significant threat from online sales for many years to come. While internet shopping is increasingly popular in Moscow and St Petersburg, poor infrastructure forces merchants to depend on their own dedicated delivery arms to serve their customers. Further complicating the situation is that many Russians, particularly in the regions, continue to be under-banked and pay cash for purchases, adding another complicating factor to the spread of eCommerce.

However, online-ordering with in-store pickup is likely to offer a multi-channel alternative. Such a solution would circumvent payment issues, allow for cash-on-deliver, and compensate for infrastructural challenges. Moreover, customers would be able to examine merchandise and make returns or exchanges on the spot. Large regional shopping centers would benefit as well. Shopping centers tend to be high traffic areas, with access to transportation links and plentiful parking. The Russian tendency toward shopping as entertainment would mesh conveniently with in-store pickups, as there would be ample proximity to other shopping, dining and leisure options.

While this study looks at the development of big box retail in other markets, Russia's singular characteristics make it dangerous to draw strong parallels with the history of big box retail in other countries. However, Canada is the developed market most similar to Russia in terms of harsh climate and low population density. Nonetheless, Canada has seen a proliferation of big box outlets established by US retailers. The success and continuing growth of big box retail in such a similar environment suggests the potential for increased successful expansion in Russia.

A look at data from markets including the US and Canada, France, Germany, Poland, the UK and the Czech Republic also suggests a positive outlook for Russia. For example, based on hypermarkets per million residents, Russia is very, very significantly underpenetrated. Russia's GDP per capita, when compared with that metric and growth in hypermarket penetration, appears more than ample to support continued growth in the segment as well. Based on all of these factors, as well as others that will be discussed in the report, we suggest that there will be significant opportunity for developers to leverage the strength of Russia's most dynamic economic sector.

Key Points

Russia's retail sector offers outstanding growth potential

Russia combines a positive macroeconomic outlook with robust and growing consumer demand

- It is the world's ninth largest economy; economic growth, although slowing, remains strong
- Personal income has risen steadily for the past 10 years, retreating only slightly during the global crisis of 2009, and real wages are expected to rise close to 5% annually through 2017
- In 2012, retail sales totaled USD 582 billion, with 5.3% annual growth projected for 2013-15
- Historical and cultural factors combine to create a propensity to spend

Big box retail is well-suited to the Russian market

- In Russia, the hypermarket is the most popular large scale retail format
- Russia's largest retail chains are homegrown players Magnit and X5, but France's Auchan and Germany's Metro have both enjoyed great success in the hypermarket segment
- Modern format retail penetration is low in the regions, offering significant scope for expansion
- Russia's vast geographic expanse and low population density also favor big box – stores located in regional centers will draw customers from a wide radius
- Russia's poor infrastructure and low penetration of banking services dampen the growth of eCommerce in all but the largest cities, thus mitigating one of the greatest threats to big box retail
- Multi-channel solutions such as in-store pickup can address the limitations posed by infrastructure while attracting customers to big box locations where they can examine merchandise, pay in cash, and enjoy a recreational shopping experience

Comparisons to other markets point to growth potential

- Canada is the market most similar in terms of climate and population density, and the success and continuing growth of big box retail in Canada suggests potential for expansion in Russia
- Comparing Russia to a sample of other markets, it is evident that in terms of hypermarkets per million residents, Russia is extremely underpenetrated. In 2012, the US and Canada had more than 13 hypermarkets per million residents. France, Germany and the UK had more than 20, while Russia has only 4 per million residents.

- During the 2009 financial crisis, when Russia experienced a sharper decline in GDP than any other country in our study, the number of hypermarkets increased by a greater margin than in any other country save Canada
- Measured in current USD, Russia's GDP per capita of about USD 14,000 is more than ample to support growth in the hypermarket segment. When Poland, another former communist country, saw hypermarket growth explode in the late 90s, GDP in current USD was around USD 12,000.

Around the world the fundamental nature of the retail sector is changing, and big box retailers are feeling the impact.

Introduction

Today the retail industry is in the midst of a revolution, and both North American and European big-box retailers are feeling the impact of this sea change. As Russia is rapidly catching up with other markets, the Russian retail and consumer landscape is also experiencing a period of unprecedented evolution. In developed economies, the success of online retailing across markets, coupled with digital media, the widespread use of mobile devices, and the proliferation of shopping applications, has changed the fundamental nature of the retail business. Because of these changes, as well as other factors such as increasing urbanization and demographic shifts, retailers confront a reality in which the traditional brick-and-mortar store is no longer the dominant medium for consumer purchases. Big-box retailers see fewer opportunities for expansion in the US, Canada and Western Europe, and are consequently looking to move into new and untapped markets. Russia, with its powerful combination of a positive macroeconomic outlook, robust consumer demand, and an evolving environment that favors the big-box format, offers a rich vein waiting to be tapped.

"Big box" stores are defined as industrial style buildings or stores with footprints that range from 4,650 square meters to 18,600 square meters. Among big box retailers are found discount department stores such as Walmart, "category killers" that specialize in one type of merchandise (for example, electronics retailer Best Buy), and warehouse stores like Costco. In Europe, where space is at premium, big box retailers may be somewhat smaller than their North American counterparts. A shopping center, according to the International Council of Shopping Centers, is a group of retail and other commercial establishments planned, developed, owned and managed as a single property, typically with on-site parking provided. A hypermarket is a superstore combining a department store and supermarket under one roof and carrying a full line of groceries and general merchandise.

In Russia's retail market, the hypermarket is the most popular large scale retail format. Much of Russia outside Moscow and St Petersburg continue to be underserved by modern format retail, and few other markets offer a similarly attractive level of opportunity for the large format developer.

Russia, with its large population and vibrant consumer market, offers significant scope for investment in the retail sector.

Russia – The Final Frontier in European Retail

Retailers and investors in retail real estate development need look no further than Europe's easternmost reaches for a new market to conquer. The Russian Federation is the largest country in the world by area, covering 17 million square kilometres and stretching across nine time zones to the Pacific Ocean in the east. Not only does Russia have the largest population of any country in Europe with 143 million people, but the country also boasts Europe's largest urban population at 107 million. And all of these Russians are nothing if not enthusiastic consumers.

According to commercial real estate services firm Cushman & Wakefield, Russia is projected to have the largest amount of retail space in Europe by 2015, surpassing current leaders France and Great Britain. Today, France has 16.95 million square meters of retail space and the UK has 16.48 million square meters. Russia is nipping at Britain's heels with 16.47 million square meters. While Russia's commercial property developers have promised an additional 2.87 million

Russia's regions are set to enjoy expansive growth in the retail sector in the near-to-medium term.

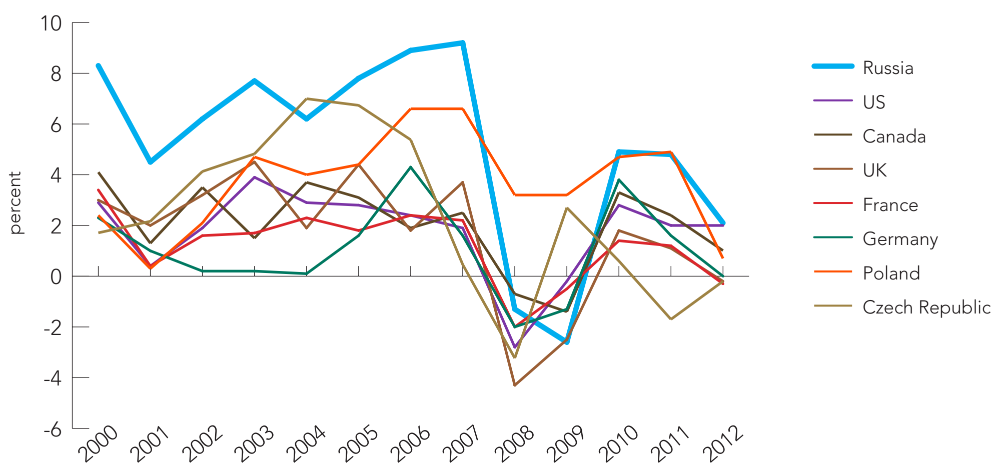
square meters of retail space in 2013, the country is set to outpace Great Britain even in the event of a shortfall. Much of the recent expansion has been driven by development outside Moscow. While an additional 300,000 square meters of space is set to be commissioned in Moscow before the end of 2013, 70 per cent of new retail space is being built in the regions. In 2012, Mytishchi (a Moscow region suburb), Nizhny Novgorod, Surgut, Yekaterinburg and Sochi, site of the 2014 Winter Olympics, were the top five cities in terms of newly developed retail real estate. Economic and demographic factors suggest that the rapid growth of retail will continue both in Moscow and throughout Russia.

Russia's Economic Growth Expected to Continue

Based on 2012 GDP, Russia is the world's ninth largest economy.

Based on 2012 GDP, Russia is now the world's ninth largest economy. The Russian economy continued to grow in 2012 despite turbulence and uncertainty across global markets. GDP expanded by 3.4% in 2012, which compares very favourably to performance in both developed and emerging economies, and domestic consumption was the engine driving this growth.

Comparative Annual GDP Growth 1996–2012

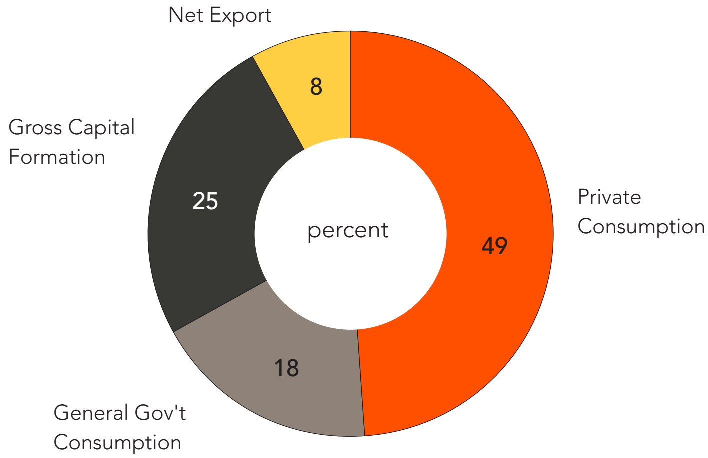


Source: www.tradingeconomics.com, National Statistics Offices

In 2013, Russia's growth decelerated substantially. However, forecasts suggest that this slowdown is temporary, and than a stronger growth trend will resume in 2014 (see page 9).

The Russian consumer is the most powerful driver of economic growth.

Russian GDP Consumption by Sector, 2011



Source: State Statistics Service, Sberbank Investment Research

Sectors linked to the steadily increasing purchasing power of the Russian consumer are responsible for much of the country's economic growth. While Russia is well-known for the economic importance of its extractive industries, including oil, gas, metals and mining, which together constitute more than 50% of stock market capitalization, consumer-related sectors are responsible for approximately 65% of GDP. In fact, consumer-related sectors have provided more than 80% of Russia's GDP growth since 2004. Significantly, in 2012 only the financial sector generated greater impact on overall GDP than the retail sector, which expanded by 6.5%. Declines in other sectors figure more prominently in the slowing growth projected for 2013 and 2014. However, the consumer sector is expected to continue showing solid growth, over 5% annually according to Oxford Economics, through 2015.

GDP Growth by Production Sector

(real growth, %)

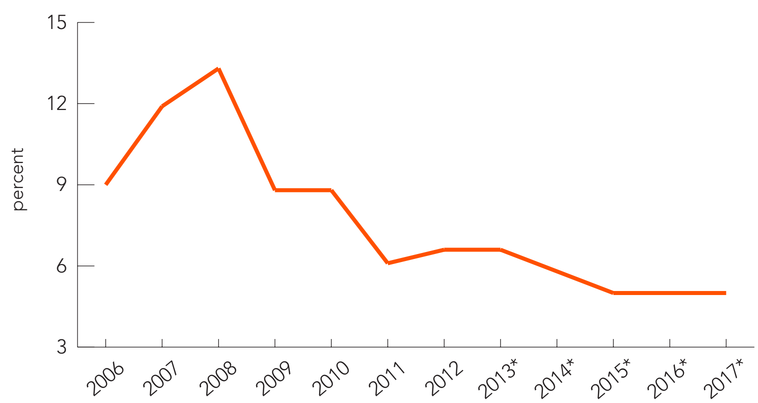
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	7.3	7.2	6.4	8.2	8.5	5.2	-7.8	4.5	4.3	3.4
Agriculture	-1.8	1.0	0.3	2.7	1.3	6.4	1.5	-12.1	16.9	-3.8
Natural Resources Extraction	10.8	13.3	1.5	-2.9	-2.2	1.0	-2.4	5.0	2.9	0.9
Manufacturing Sector	8.8	8.1	4.4	6.6	7.5	-2.1	-14.6	9.7	5.3	3.2
Supply/Dist of Elec, Gas, Water	0.9	7.9	0.9	4.5	-3.4	0.7	-4.7	3.9	0.5	0
Construction	12.7	9.9	10.2	12.8	13.0	11.1	-14.7	4.4	4.5	2.0
Wholesale/Retail	13.3	10.2	9.1	14.1	11.7	9.9	-5.8	7.1	3.3	6.5
Hotels and Restaurants	1.6	5.7	9.3	7.9	13.6	10.1	-14.9	5.0	3.5	4.8
Transport and Communication	7.2	5.9	5.9	9.7	4.8	5.2	-8.6	5.6	6.6	2.7
Finance	29.0	14.7	29.2	25.4	29.1	13.5	1.5	0.3	3.6	15.0
Real Estate	2.8	-3.6	12	10	20.8	10.9	-4.5	6.1	5.8	4.7
State Admin/Military Social Svcs	1.3	4.6	-5.4	2.5	3.9	3.0	-0.1	0.1	0.9	-1.2
Education	1.2	0.3	0.3	0.5	1.1	-0.1	-1.4	-6.8	-7.7	0.1
Health Care	-3.2	1.0	1.7	1.4	1.1	0.9	-0.2	-2.4	-2.3	3.8
Other	0.8	6.3	2.9	7.5	8.6	1.4	-20.0	0.9	-3.5	0.1
Net Taxes on Products	5.9	11.4	9.0	9.4	9.1	5.4	-14.0	7.6	7.1	3.8

Source: State Statistics Service

Inflation is not a significant concern in the Russian economy

Inflation has also slowed considerably since 2008, falling from over 14% to 6.6% at the end of 2012 and stood at around 6.8% year-on-year as of November 2013. According to CEEMEA Business Group, the 2013 average is expected to be around 6.6% as well and decline to an average 5% in 2015-2017. Declining inflation will have a positive impact on consumer purchasing power.

Russian Consumer Price Inflation, 2006–2012

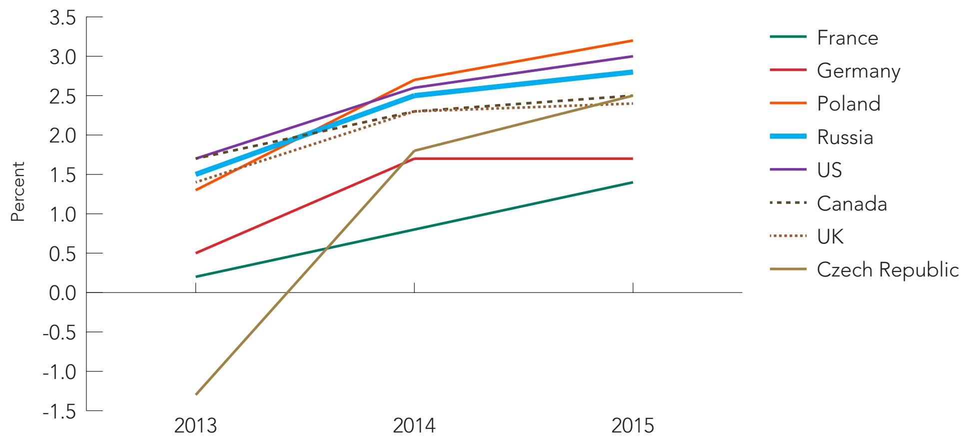


*Forecast

Source: IMF, Russian State Statistics Service

Russia's Sovereign Fund balance provides a comfortable cushion.

GDP Growth Forecasts

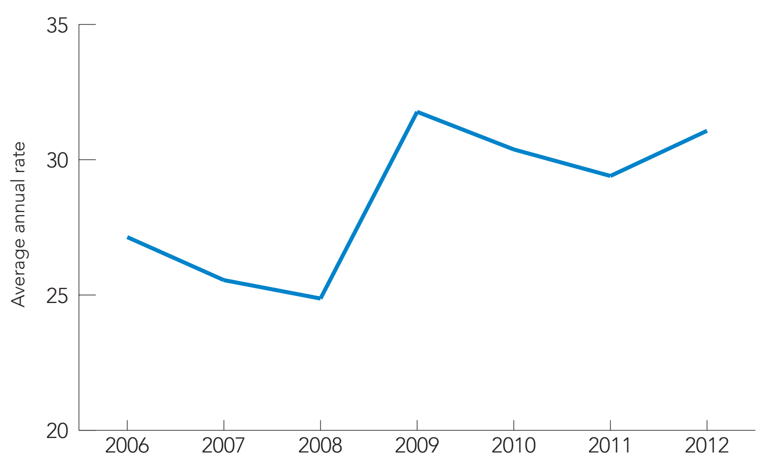


Source: Bloomberg

Increased stability in the ruble will be supportive of the overall economy.

Russia's sovereign fund balance was reported at USD 150.7 billion at the beginning of 2013, and Sberbank analysts suggest that the country has a cushion sufficient to cover any potential deficit without additional borrowing for the next three years, even taking into account as much as a 25% decline in the price of oil. The Central Bank discontinued currency interventions in 2012, finally allowing the ruble to float freely. Consequently, ruble volatility has declined as speculation on devaluation is less prevalent in the currency market. Softening in the ruble will increase the margins on natural resource exports, boosting government revenue and supporting the overall economy.

RUB/USD Exchange Rate Dynamics, 2006-2012



Source: Central Bank of Russia

Rising real wages and disposable income will support continuing growth in retail sales

Rising Incomes and Continued Consumer Spending Support Retail Growth

Russia is a nation of spenders and as previously mentioned, consumer demand is one of the country's most significant drivers of economic growth. Real incomes are rising, as is household disposable income. Average monthly income in Russia has been increasing steadily, excluding a brief retreat in 2009 following the financial crisis, and in the past nine years has risen from around USD 250 per month in 2004 to USD 720 per month in 2012. Moreover, Russians benefit significantly from a very low personal income tax rate of 13%. In 2013, Russia's average monthly income is expected to rise to almost USD 800, an increase of slightly more than 10% year-on-year.

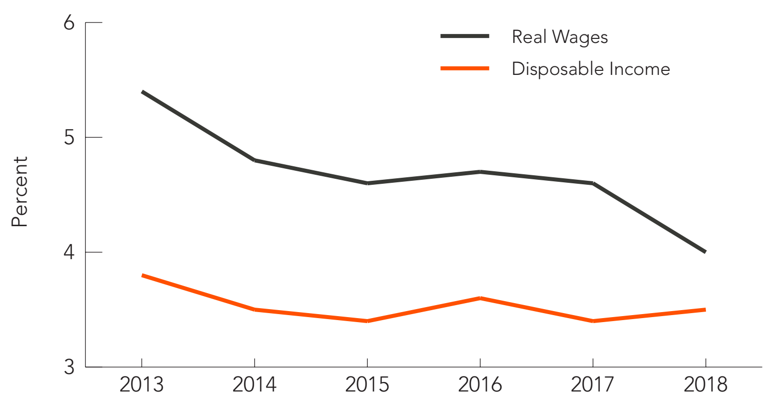
Personal Monthly Average Income

Source: Rosstat

Growth in real wages and disposable income is projected to continue through 2018

Both real wages and real disposable income are projected to continue their growth trajectory through 2018, which will support growth in retail sales.

Forecast Growth in Real Wages and Disposable Income, 2013-2018



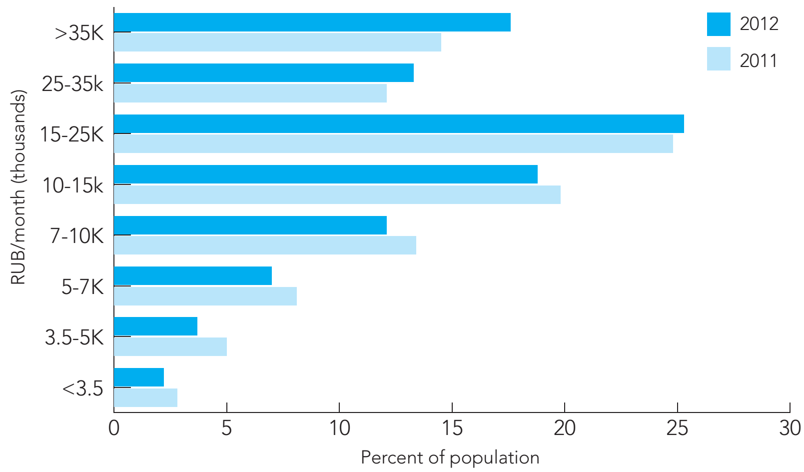
Source: CEEMEA Group

Even taking into account income inequality and the sharp divisions between urban and rural residents, more and more Russians are moving into the ranks of

Russia's middle class is growing rapidly

the middle class. Today 55% of Russians have a median income of USD 15,000, while 15% of Russians report incomes over USD 50,000. By 2020, the number of households with disposable income in the USD 50,000-60,000 range is projected to increase by more than 80%. As income rises, consumption should increase as a share of GDP, driving faster growth in spending than in the overall economy.

Income Distribution in Russia



Source: Rosstat

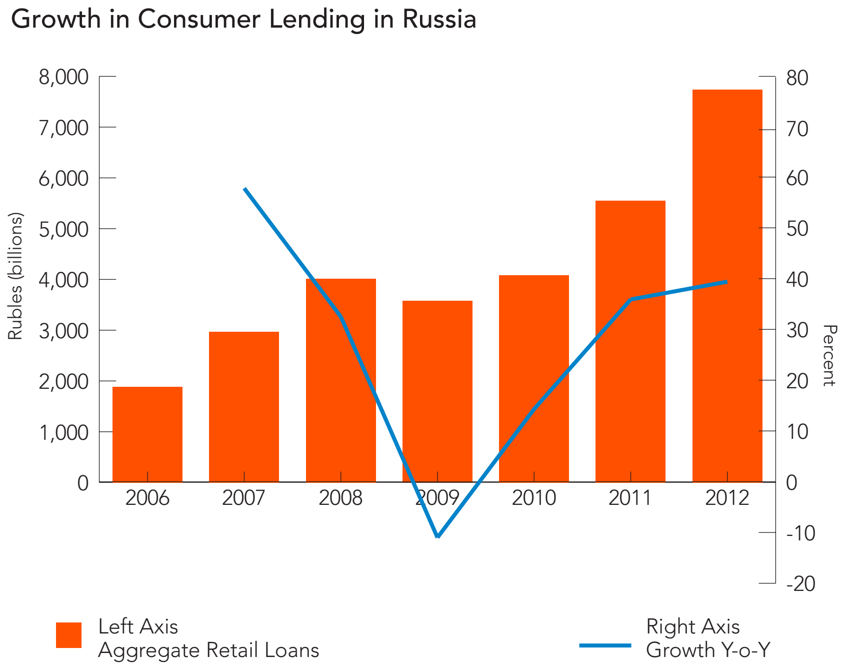
Another factor with a significant impact on the ability of Russians to spend is the relatively low unemployment rate. In October 2013, Russian unemployment stood at 5.3%, which compared favorably to the US unemployment rate of 7% and the UK jobless figure of 7.9%. In Europe, unemployment exceeded 10% in many countries and skyrocketed to over 20% in Spain and Greece, the countries suffering most acutely from the debt crisis. Unemployment is expected to fall slightly in Russia over the coming year, which should also contribute to continuing healthy consumption figures.

Most Russians own their homes outright and have little debt, thus freeing up more income to spend.

Russian consumers are significantly less burdened by personal debt than their Western peers. Consumer lending has only taken off in the past five years, and most families received the deeds to their state-owned apartments following the dissolution of the Soviet Union, thus relieving them of the high housing payments that face consumers in developed markets. Therefore, debt levels remain very low, with household debt/GDP at 8% compared to high developed market figures such as 65% in Germany and 100% in the UK. Consequently, Russians enjoy a much higher percentage of salary as discretionary income.

However, consumer lending is growing rapidly in Russia. Following a decline related to the global financial crisis of 2008-2009, consumer lending recovered, rising by 14.3% year-on-year in 2010. Aggregate retail loans (which include mortgage lending and auto loans) rose by slightly more than 35% in 2011 and close to 40% in 2012, to RUB 8798 billion. The credit card industry is also booming, with cards in circulation rising from 597,000 in 2003 to 26 million in 2012. The increasing availability of consumer credit, both in terms of personal loans and credit card borrowing, will continue to have an impact on growth in consumption.

Spending has become a habit in Russia, and shopping a form of entertainment

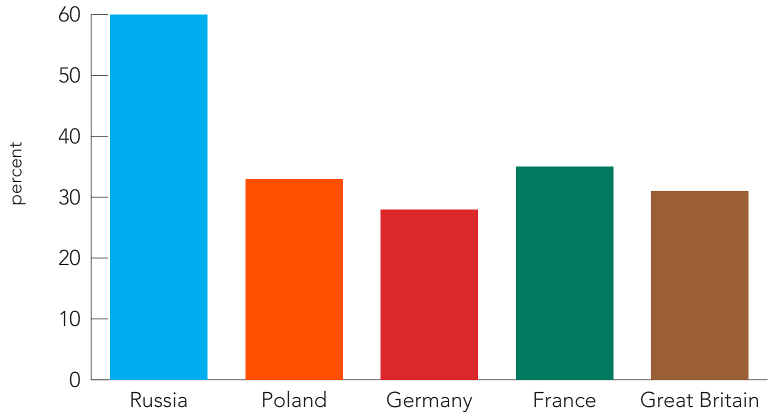


Source: CBR

While higher levels of disposable income and other economic factors play an enormous role in the level of consumer spending, it is also important to take the nature of the Russian consumer himself into account. Whether young or old, the Russian consumer is primed to spend. Older Russians who were deprived of consumer goods during the Soviet era are still driven by years of pent-up demand. The younger consumers who matured in post-Soviet Russia are well-educated and more acquisitive than previous generations with a prodigious appetite for brand name products and designer clothing. The consumer urge developed in the immediate post-Soviet period, driven by pent-up demand, has since evolved into an ingrown consumption habit. Moreover, as incomes rise and the middle class expands, shopping centers and hypermarkets are clogged with consumers who consider shopping as a form of recreation. Russians outspend developed market consumers by a significant margin as well, with 60% of private spending going toward retail purchases.

Russia outspends the rest of Europe

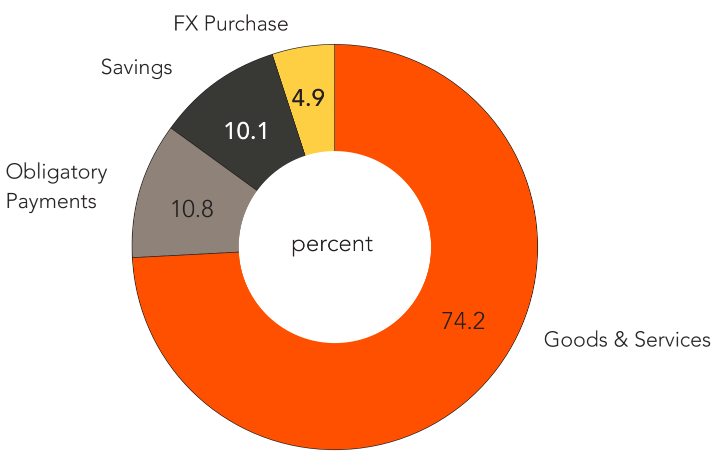
Retail Spending as a Share of Private Spending, 1H 2013



Source: www.tradingeconomics.com

Indeed, over 70% of household spending goes toward goods and services.

Structure of Household Spending in Russia, Q1 2013



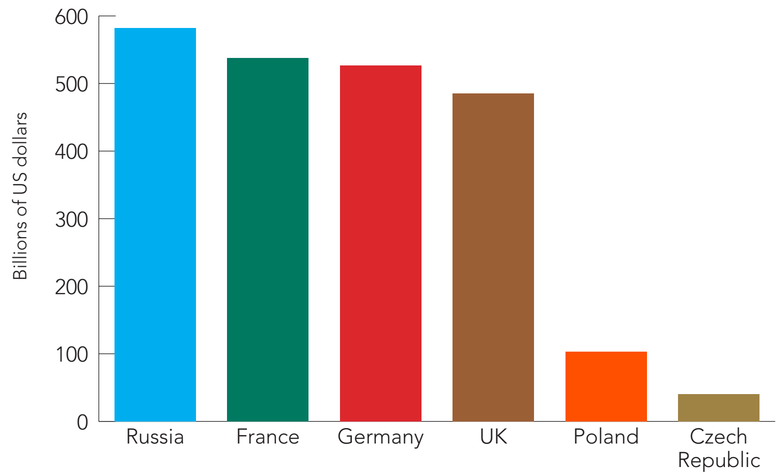
Source: Rosstat

Russia's consumer market is the most attractive in Europe

Even as Russia is set to move into first place in terms of retail space in Europe by 2015, Euromonitor projects that in less than ten years Russia will overtake Germany to become the largest consumer market in Europe with a value of around USD 2 trillion in consumer spending. Russia leads Europe in total retail turnover, and the forecast growth rate in retail sales is also one of the highest in Europe. Last year retail turnover in Russia reached USD 582.4 billion, and is projected to rise by an average 5.3% annually between 2013 and 2015.

Forecast retail sales growth is nearly twice the figure projected for Western Europe

Total Retail Turnover in 2012



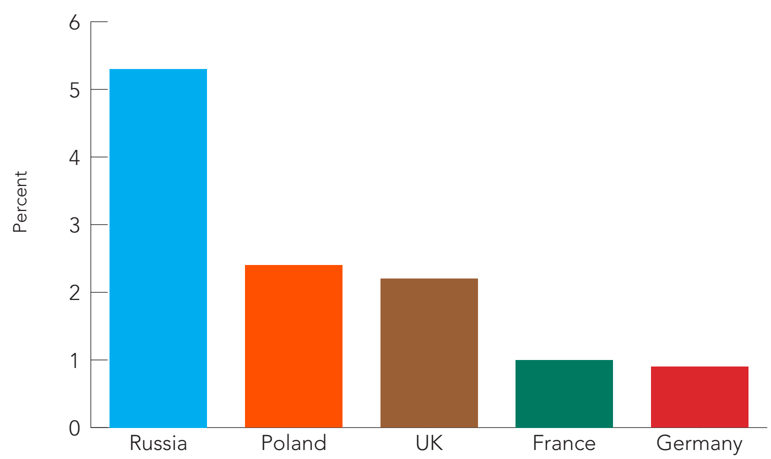
Source: Oxford Economics

The Russian consumer market is expected to continue growing through 2020

Both historical economic data and forecasts suggest that Russia's retail sector will expand at a healthy clip through at least 2020 if not longer. But before considering the specific outlook for big box retail, it's wise to take a look at the evolution of retail in Russia as well as the development of big box retail in North America and Europe.

Projected Retail Sales Growth for Europe, 2013–2015

(Average for 3 years)



Source: Oxford Economics

A Brief History of the Retail Sector in Russia

In the 22 years since the dissolution of the Soviet Union, Russia's retail sector has undergone breathtaking changes. The perpetual frustration of scarcity that characterized consumption during the Soviet period is no more than a distant memory as Russian consumers today have access to a dizzying array of consumer goods.

Across the country the population is served not only by a host of home-grown retail chains, but by global retailers as well. In Moscow, the shopping opportunities rival those in any European capital as international consumer and luxury brands race to meet the demand from Russian customers.

Consumer goods were scarce in the Soviet Union, and the country faced chronic shortages of even staple items due to inefficiency and corruption.

The Era of Shortages

Today's consumer plenty stands in sharp contrast to the Soviet period, when constant shortages were a way of life for all but the most privileged. Soviet citizens could only shop at poorly stocked state-owned stores or, during certain seasons, in open-air farmers' markets. During the Brezhnev era, from 1963-1982, the government took tentative steps to introduce super markets and department stores in major cities, but the success of this plan was limited due to the scarcity of merchandise to stock the shelves.

Some Consumers are More Equal than Others

The government controlled all production, and from the very beginning of the Soviet period the state's focus had been on rapid industrialization and national defense at the expense of the consumer. Farms were collectivized, with food production and distribution determined by government planners and all retail operations state controlled. The production of food and consumer goods was determined by the infamous five-year plans, which measured success by raw output with scant attention to quality, desirability or the volume of goods that actually made it into stores. Communist Party officials and the *nomenklatura*, government bureaucrats, the security services and the military were served by special stores that offered higher quality products and foreign consumer goods while the rest of the population scrambled for whatever merchandise was available.

Retail Therapy, No. Retail Torment, Yes.

Adding to the misery of the Soviet consumer was the grim experience of shopping itself. When an appealing product was identified, the customer waited in one line for a price chit, and then a second line to pay for the purchase, which was typically rung up by a surly babushka using an abacus. After paying and receiving a receipt, the customer would return to the original counter and wait in line yet again to hand over the receipt and claim the merchandise.

Shopping based on availability rather than need was the norm, and the instinct to shop is ingrained.

Money Can't Buy Me Food…

Although wages were low, many Russians held what amounted to forced savings since there was so little to buy. Prices were often set at a lower level than the actual cost of goods sold, as the laws of supply and demand were not relevant in a command economy. Deliveries of perishables such as fresh meat and fruit were often erratic, leading consumers to buy as much as they could when the opportunity presented itself, regardless of need, and the State frequently introduced rationing in response. Most Russians carried a net bag called an *avoska*, or *just-in-case* bag, as well as some newspaper, in preparation for any shopping opportunity that might arise. To add to the general unpleasantness, shops did not provide bags or packaging materials, forcing the consumer to remain constantly at the ready to receive any product.

Chronic shortages forced Russians to be self-sufficient.

A Flourishing Black Market

Given the inefficiencies rampant in the command economy, a black market blossomed. Goods were pilfered from factories or fell off the backs of trucks to be sold to grateful consumers at significant markups over state store prices. Fresh meat and produce were commonly siphoned away from official channels and consumers relied on their connections to keep their families fed and clothed and their apartments furnished.

Subsistence Farming: Sometimes the Old Ways are the Best

While the state run collective farms managed to keep the population in bread, the supply of fruits and vegetables never met demand and the distribution process was grievously flawed. In response, most Russians relied on their own dacha gardens grown on small plots allotted by their employers or the government. Although these tiny kitchen gardens cumulatively accounted for less than 5% of the land under cultivation in the Soviet Union, they were responsible for around 75% of the nation's produce. What Russians didn't reserve for their own use they sold privately, or in the occasionally-sanctioned farmers' markets at prices 2-4 times higher than the prices in state stores.

After the Soviet Union collapsed and imported goods appeared on the market, pent-up demand exploded.

The Soviet Union Collapses

The Soviet Union began its terminal decline in the 1980s. Mikhail Gorbachev's program of *perestroika*, or restructuring, was intended not to end the command economy, but rather to make socialism work more efficiently to meet the needs of Soviet consumers. Some market-like reforms were introduced and non-state stores began to appear, but their prices were 5-10 times higher than those set in state stores, making the new enterprises virtually unaffordable for all. Shortages of all types of consumer goods and food worsened, and for the first time since World War II sugar was rationed. By December of 1991, the situation in the country was no longer tenable and the Soviet Union was officially dissolved on December 25, 1991.

The Renaissance of Russian Retail

With the demise of the Soviet Union, Russia raced headlong into a new era of free enterprise. Earlier in 1991, prior to the final collapse, the government had lifted state price controls and restrictions on imports. Individuals were allowed to engage in private business, and observers noted that the very day following the end of price controls, empty shelves were almost magically filled with goods. Kiosks selling all manner of merchandise sprung up on street corners like mushrooms after a rainstorm, and a booming shuttle trade began. These small time shuttle traders traveled abroad to bring home bags stuffed with inexpensive foreign goods to stock the kiosks. With retail operations in the hands of private entrepreneurs, supply began to catch up with demand. Shoppers enjoyed huge gains in terms of choice, and were delighted to have access to higher quality foreign goods.

Pent-up demand fed burgeoning consumer spending and Russians couldn't get enough of the cornucopia of goods now available to them. A lifetime of shortages and scarcity had created consumers with an innate propensity to shop when they had the chance. Subsequent devaluations in the post-Soviet period convinced Russians that spending their income was wiser than saving it, since cash could lose a significant portion of its value with little or no warning. These factors combined to create a culture of consumption that continues today, bolstering Russian spending habits and supporting continuing growth in the retail segment.

Seventh Continent introduced the modern format supermarket to Russia.

Russians Get a Taste of Modern Format Retail

In the early nineties, kiosks and open air markets continued to dominate the retail marketplace but vast changes were on the way. The first local retail chains, several of which were destined to become today's market leaders, were established. Seventh Continent, the first modern format food retailer to come into being after the fall of the Soviet Union, was established in 1994 by Aleksander Mamut, Vladimir Gruzdev and Grigory Berezkin. Seventh Continent introduced the idea of self-service shopping to Russia and grew quickly, with 15 stores in Moscow by 2000.

Mikhail Fridman's Alfa Group consortium established the Perekrestok chain of supermarkets in 1995, and by 1998 had opened 20 supermarkets and acquired its first wholesale distribution center. The first two outlets of Ramstore, a supermarket jointly owned by Turkish retailer Migros Turk and Enka, opened in 1997.

During this early period in the evolution of the retail sector, supermarket shopping remained the pursuit of the wealthy. Chains competed not by offering better prices, but by catering to affluent customers in search of a pleasant shopping experience suffesed in an aura of exclusivity. Customer service improved very slowly and prices were astronomical, but Russia's new rich were happy to pay a premium for the novel experience of shopping in clean, well-stocked stores that actively discouraged less affluent consumers.

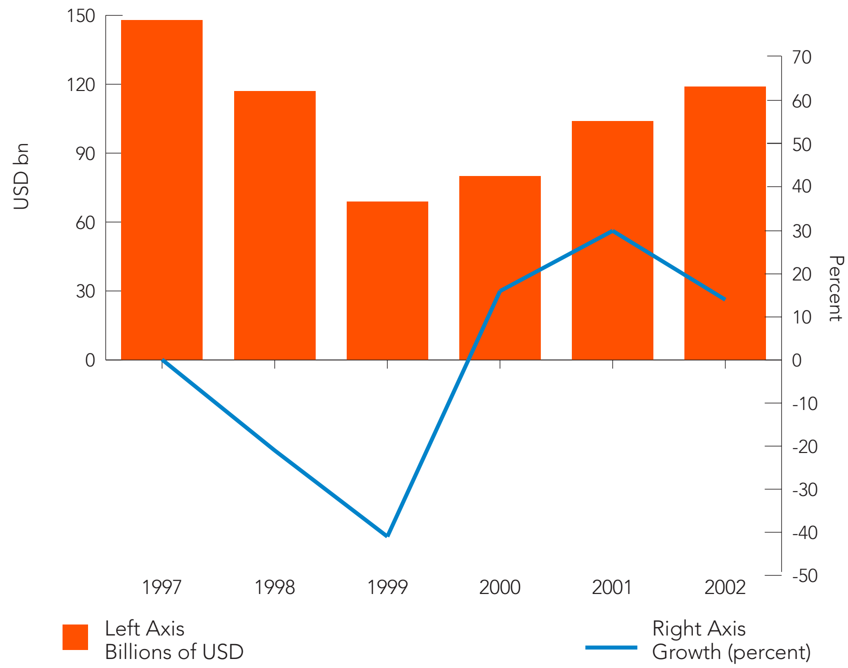
In an unexpected twist, the 1998 financial crisis created the conditions for the retail sector to flourish.

The 1998 crisis proved to be a dark cloud with a silver lining

The financial crisis and ruble devaluation of 1998 led to a sharp drop in Russia's GDP and an enormous increase in inflation. But once the dust settled, the country entered a period of rapid economic growth. The devaluation of the ruble served to jump start the economy, with its great contribution being that it made imported goods unaffordable. Consumers substituted domestically produced goods, which gave a sorely needed boost to Russia's manufacturing sector. Rising commodity prices, a weaker ruble, and increasing service production and industrial output combined to spur a remarkable recovery in Russia's consumer-oriented industries. From 1999 through 2005, Russia's GDP grew by an average 6.7% annually, and by 2000 the retail market was expanding once again.

The Putin presidency ushered in an era of increasing economic stability and rising consumer confidence.

Russian Retail Market (Nominal Terms)



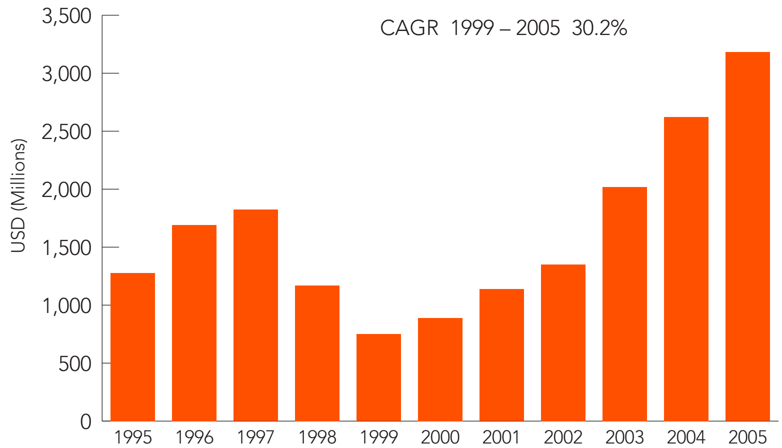
Source: State Statistics Committee

Mushrooms After a Rainstorm – Russia's Home Grown Retail Chains

In 1999 Vladimir Putin was appointed prime minister and became president of Russia upon Boris Yeltsin's resignation, effective December 31, 1999. Putin's accession to the presidency following the chaotic and volatile Yeltsin era had a markedly positive impact on the Russian economy. As economic stability increased, consumer confidence rose and a new Russian middle class began to emerge. Annual disposable income had been steadily rising pre-crisis, and following the crisis-induced decline in 1998-1999, began to grow once again. By the opening years of the twenty-first century, Russia's retail sector was burgeoning.

Revitalized domestic production following the 1998 crisis led to explosive growth for home-grown retailers.

Disposable Income per capita



Source: Rosstat

The 1998 financial crisis drastically altered the environment for retailers, who were forced to adjust their pricing policies and product mix to survive. Less efficient and flexible retailers failed, while those able to adapt began to court new types of shoppers. For example St. Petersburg-based discounter Pyaterochka opened 16 stores in St. Petersburg in 1999, following the financial crisis, and entered the Moscow market two years later.

As mentioned above, the devaluation of the ruble and sharp decline in imports gave a strong boost to domestic production, which allowed domestic retailers to grow in parallel. With prices as much as 20% lower than supermarkets, Pyaterochka, as well as its closest competitor Kopeyka, targeted a less affluent and blue collar clientele. Stores were located outside the center, in highly trafficked residential areas near metro stations. Within five years, Pyaterochka had grown to 1000 stores and more than USD 1.6 billion in turnover. The rapid expansion was achieved via a franchising strategy inside Russia, boosted by EBRD equity participation and acquisitions as well as greenfield investment in the near abroad.

Moscow's Largest Retail Chains Show Spectacular Growth

Names	Turnover 2000, USD mn	YoY	Turnover 2001, USD mn	YoY	Turnover 2002, USD mn
Perekrestok	165	53%	252	32%	333
Ramstore	130	92%	250	24%	310
Seventh Continent	130	55%	202	49%	301
Pyaterochka (Moscow)	90	18%	106	136%	250
Kopeika	60	93%	116	57%	182
Petrovsky	58	72%	100	40%	140
Paterson	27	48%	40	113%	85

Source: Company data, Renaissance Capital estimates

The new retailers sprang up in a retail landscape that still offered up many remnants of the Soviet distribution system combined with new formats developed in the early 90s – residential districts had produkti shops (small mini-markets with a few refrigerated cases for processed meats and dairy, some vegetables, a dismal selection of canned and dried goods, and beverages) and *univermags* (small, Soviet-style department stores) , while city centers boasted *GUMs* (State Universal Stores) and *TsUMs* (Central Universal Store). At the same time, kiosks and open air markets remained plentiful.

None of these retailers resembled the modern formats introduced in other Eastern European countries during the 1990s. Unlike in Central and Eastern Europe, local players dominated the market and the strong local presence limited the leverage of foreign groups.

Global retail giants including IKEA, Metro and Auchan rushed to take advantage of an unprecedented opportunity to tap a huge new market.

Eastward Ho! European Retail Giants Expand Into Russia

With the new millennium, European retailers began to take the first steps in what would become a stampede to access the vast Russian retail market and its free-spending consumers. Several European giants, all big box retailers, began their eastward push in 2002. Swedish furniture and home store IKEA, as well as international heavyweights Metro AG of Germany, with its cash and carry format, and French hypermarket pioneer Auchan had all set up shop in Moscow by the end of 2002. Russia's capital, which accounts for 30% of Russia's retail trade, was the obvious starting point. By 2004, global consulting firm AT Kearney had named Russia the number one priority for global retailers while the Moscow-based real estate firm of Stiles & Riabokobylko said that international retailers had already invested more than USD 1 billion in the country.

IKEA's MEGA Mall introduced the bold new concept of one-stop shopping and entertainment combined.

Swedish style (and meatballs) for the masses

From its first two Moscow stores opened in 2002 and located in the northern suburb of Khimki and the city's southern Teply Stan district, IKEA has expanded to fourteen locations across Russia. The company's geographic reach stretches from St. Petersburg on the Gulf of Finland to Omsk in Siberia. The company has created a highly successful shopping center format, its *MEGA* Mall, which combines IKEA as an anchor tenant with a shopping center hosting a mix of international brands. French hypermarket Auchan typically serves as the other anchor tenant, and most locations also host Germany's DIY big box retailer, OBI. Today international brands such as Zara, American Eagle Outfitters, Starbucks, The Body Shop, Victoria's Secret and many others are found in the IKEA-owned *MEGA* malls.

Today IKEA is Russia's largest shopping center operator, and *MEGA* malls are typically a focal point in their regions. Both the IKEA and *MEGA* concepts are well-suited to the Russian consumer. When IKEA opened its doors in 2002, the Swedish retailer offered consumers their first opportunity to purchase stylish and modern home furnishings at prices accessible to ordinary people. The *MEGA* center concept also recognized that Russian consumers, so long starved for choice and quality, viewed shopping not as a necessary chore but as a form of entertainment. IKEA's own market research indicates that the average visitor spends three hours at the mall during each visit, and generally shops at *MEGA* two times per month. With Auchan for low-priced food and household goods, IKEA for furniture, OBI for DIY needs and a mall full of specialty stores and restaurants, the

Russian consumer can satisfy the full range of needs for reasonably priced, quality goods and entertainment for the entire family.

German big box retailer and wholesaler Metro, with significant international experience, was well-positioned to take on the challenge of the Russian market.

Metro: Moscow mayor rolls out the red carpet

Metro AG, Germany's largest trade and retail group, entered Russia in 2001 at the personal invitation of Moscow mayor Yuri Luzhkov. The mayor had visited Metro operations outside Russia and had been deeply impressed by the company. Troubled by issues such as a lack of transparency, poor logistics and a surfeit of black market activity in the food supply chain, Luzhkov hoped that inviting Metro to set up shop would create a stream of taxable income and lead to restructuring in the city's distribution system, in which modern distribution occupied only 9% in 2000.

Metro, with its Cash and Carry format, is designed to serve as a wholesaler for small to medium-sized businesses, and access to the stores is controlled by the issuance of membership cards. While in theory the cardholder must be a business owner, many Russian companies provide cards to employees for personal use. Selling wholesale-sized quantities at discounted prices to both wholesale and retail customers allowed Metro to quickly gain a foothold in the Russian market. By 2003, Metro had become the second largest retailer in Russia based on revenue, generating USD 610 million in 2003 although the company had only 12 locations in the country.

The company pursued a strategy of building 3-4 stores each in Moscow and St. Petersburg, and then outward into the regions, first into cities with more than one million residents and then into smaller cities. It was the company's goal to establish a presence in as many cities as possible. With significant experience in international expansion, Metro was prepared for the challenges it faced in Russia. As a senior executive from the company noted, one of the principal challenges was the country's size and lack of infrastructure, particularly the lack of a national highway system. For example, the trip to Metro's central logistics hub in Yekaterinburg was a 2700 km drive from Moscow that required four days and two drivers to complete. Realizing that the supply chain would be paramount to success in Russia, the company invested heavily in logistics. Despite the fact that labor costs were approximately 85% lower than in Europe, aggregate logistics costs were nearly double in Russia.

Metro entered Russia at the same time it entered markets in Eastern Europe and Asia based on an internationalization strategy with a declared aim of escaping oversaturation in their home market. The group also runs, beside cash and carry, the Media Markt and Saturn electronics chains. Like IKEA, in 2003 they stated that the Russia portfolio would be one of the top five locations in their worldwide network in terms of outlets and sales within five years. The company's strategy has proved to be highly successful and today Metro is ranked fourth in Russia based on revenue and operates 70 hypermarkets across the country.

Auchan: successful expansion in the hypermarket segment

French hypermarket operator Auchan opened its first location in Russia in August of 2002. The first store had trading space of 16,000 square meters, a 16,000 square meter hypermarket, parking for 2700 cars, 60 boutiques, and 12 cafes and restaurants. The second, a 24,000 square meter hypermarket, was opened as the second anchor store in the IKEA *MEGA* mall in the Moscow suburb of Khimki.

From the beginning the French retailer pursued a discount strategy to challenge both Metro's cash and carry and the outdoor markets that still proliferated at

Auchan continues to thrive even as local retailers have copied its hypermarket concept.

the time. Auchan's management took the time and effort to study and understand the Russian consumer psyche, which combined the gratification of satisfying basic consumer need with the pure curiosity of window shopping and the notion of shopping as entertainment. Accordingly, Auchan tried to position its shopping experience as a more convenient version of a stroll around an outdoor market with a similarly advantageous price/quality ratio.

Although Auchan has been very profitable, its introduction of the hypermarket concept raised questions of how far growth could actually go before saturation set in. Auchan's success rested on three elements, all of which are easy to reproduce: low prices, lots of parking, and large retail areas offering a broad range of food and non-food products. Although it wasn't long before this concept was copied by other retailers hoping to break into the hypermarket segment, Auchan has not suffered unduly. Today, the company operates 176 outlets across Russia and is ranked third among retailers, trailing only Magnit and X5.

To succeed in Russia, foreign retailers need patience, international experience, and flexibility.

Patience and local suppliers are keys to success

The foundation of the success enjoyed by Metro, Auchan and IKEA alike has been the ability to look at profitability from a long-term perspective. Auchan, for example, was aware from the very beginning that their hypermarkets would require several years to reach their full profit potential and planned accordingly.

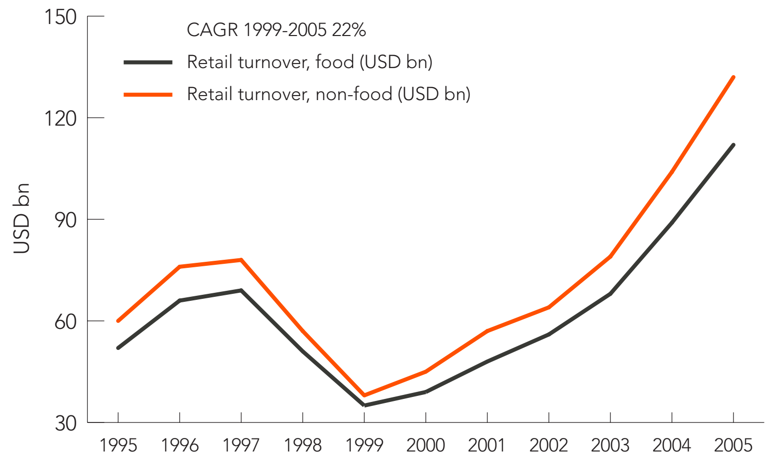
Moreover, as noted from Metro's experience, Russia's road system is congested and underdeveloped, which leads to unacceptably long delivery times and high transportation costs. Logistics networks are dominated by small regional companies, leading to supply chains that are fragmented and unreliable. The proliferation of middlemen and distribution companies also leads to inefficiencies and increased opportunities for corruption, all of which add to costs. Given the difficulties inherent in the market, the international retailers most likely to succeed are those who are not only flexible and patient, but have previous international experience in markets significantly different from their own home markets.

Finally, it is also very important for foreign retailers to source goods inside Russia due both to logistics issues and import regulations, although Russia's entry into the WTO last year resulted in significant reductions in import tariffs. Particularly for stores located in more remote regions, the ability to reduce shipping distance contributes to both lower logistics costs and increased inventory turnover with a reduced likelihood of stockouts.

Retail Explodes in the New Millenium

By 2005, with a population of 145 million people and a GDP per capita of USD 5289, Russia had become the world's seventh largest retail market according to Euromonitor, and total retail turnover climbed to USD 244 billion.

Russian Retail Evolution

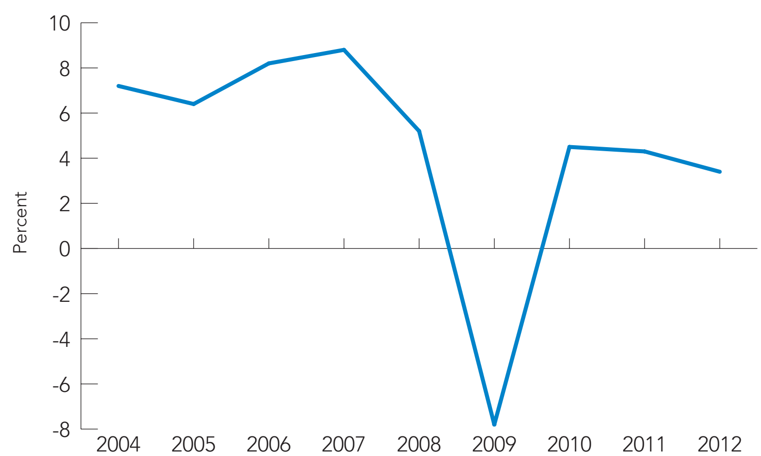


Source: Rosstat

Russia was enjoying a period of unprecedented economic growth. GDP growth had rocketed to 7.4% for 2004, and while expansion retreated slightly in 2005, the next two years saw GDP growth rise above 8% annually.

Following the crisis of 2009, when Russian GDP plummeted, consumer spending retreated to a significantly lesser degree, proving that it's hard to keep the Russian consumer down.

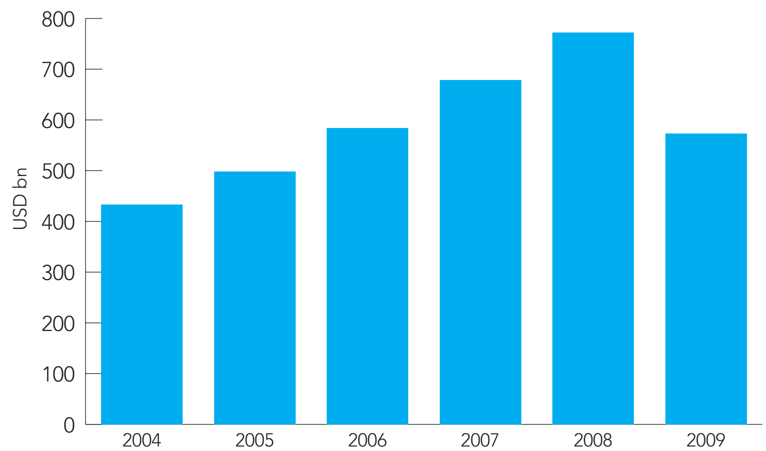
Russian GDP Growth



Source: Central Bank of Russia

Consumer spending rose steadily between 2004 and 2008, from USD 432.7 billion to USD 771.9 billion in 2008. While Russia's GDP plummeted by 7.8% in 2009 following the global economic crisis, consumer spending retreated by a much, much lower percentage, declining only to RUB 18,946.6 for the year. With the magnitude of decline much less pronounced in consumer spending, the consumer sector may be surmised to be somewhat more resilient than other sectors of the Russian economy.

Russian Consumer Spending



Source: Trading Economics

With an increasing number of foreign players moving into Russia's retail sector and significant improvements in the economic landscape, the Moscow retail market saw the share of modern retail formats – supermarkets, hypermarkets and shopping centers -- increase drastically. As competition intensified, the quality of retail service improved as merchants slowly began to understand that polite and efficient service played an important role in attracting business in an increasingly consumerist society. Retailers began to employ modern technologies for inventory control and management, and focused much more heavily on marketing and advertising. The retail market underwent a massive structural change, and more and more began to resemble European markets in terms of quality of service, number of stores and retail sales space.

The Russian consumer might wobble, but he won't fall down

Although the Russian economy certainly suffered a setback in 2009 following the global economic crisis and slumping oil export sales, the retail sector remained a growth leader due to the indomitable spirit of the Russian consumer. The next year, monthly retail sales averaged around USD 50 billion and overall retail sales for 2010 were USD 542.4 billion, a 17.8% increase over 2009. While the crisis of 2008 did push personal consumption down in 2009, the overall retail market only lost 5.5%. Consumers delayed purchases of premium products, but tended to downshift to less expensive substitutes rather than go into complete hibernation. In 2010, the government loaned USD 1.5 billion to the ten largest food retailers to help them through the recession. Real GDP rebounded to grow by 4.5% in 2010. According to Rosstat, real disposable income rose by 10.2% y-o-y, but the average monthly salary remained around USD 688.

Modern format retail has come to predominate in Moscow.

Russia's Retail Sector Today

In 2010, 48.6% of aggregate Russian retail turnover derived from food purchases. Consequently, it should come as no surprise to learn that today Russia's largest retailers are all in the grocery business.

Top Ten Retail Chains in Russia

Rank	Legal Name	Format	Brand	Number of outlets (Sept. 2013)	Selling Space (ths sqm) (Sept. 2013)	Revenue 2012 (bn USD)
1	Magnit	H,D,C	Magnit, Magnit Family, Magnit Cosmetics	7,646	2,841	14.78
2	X5 Retail Group	H,S,D,C	Karusel, Perekrestok, Pyaterochka, Perekrestok Express	4,187	2,081	16.13
3	Auchan	H	Auchan, Auchan City, Raduga, Real	76	729	7.67
4	Metro Group	H	Metro Cash & Carry, Metro Punct	70	551	5.43
5	Dixy Group	H,S,D,C	Megamart, Minimart, Dixy, Viktoria	1,667	574	4.81
6	Okey Group	H,S	O'Key, O'Key Express	87	455	3.85
7	Sedmoy Continent	H,S,C	Sedmoy Continent, Nash Hypermarket	159	263	2.04
8	GK Monetka (OOO Element Trade)	D,S,H	Monetka, Monetka Super, Rait	623	359	1.35
9	Maria-Ra	S,C	Maria-Ra	576	212	1.35
10	Spar	S,H,C,	Spar	320	167	1.32

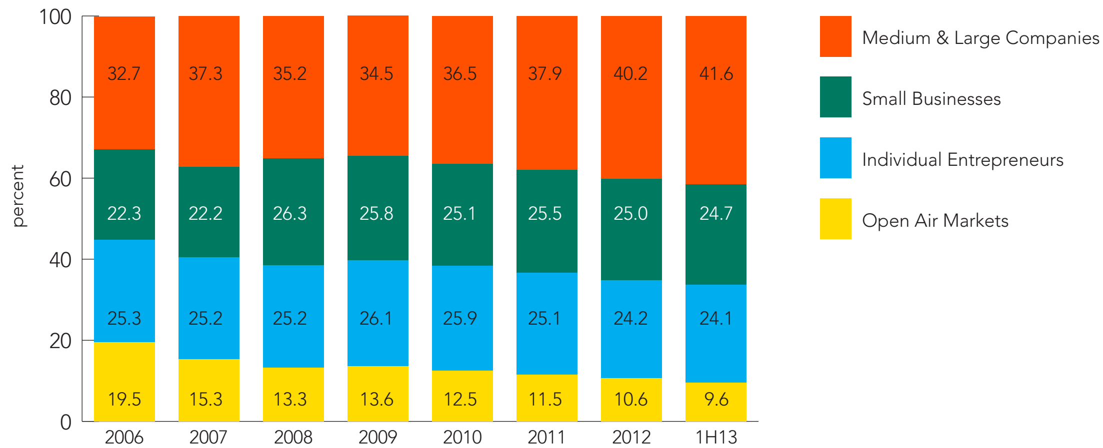
Key: S = Supermarket; H = Hypermarket; C = Convenience; D = Discount

Source: Deutsche Bank, Infoline

Domestic chains are the largest according to revenue, with sales more than double the nearest foreign competitor.

While the two largest retailers are home-grown Russian chains Magnit (taking the number one spot in the ranking for the first time in 2013), global hypermarket operators Auchan and Metro are ranked third and fourth in the country. All told, retail chains command an increasing share of the retail market – 41.6% at the end of 1H 13 -- but with even higher concentrations in the major urban centers of Moscow and St. Petersburg. By the end of 1H 13, the share of open air markets had fallen to 9.6% of retail sales in Russia. Although informal retailing continues at a much higher rate in rural and border areas and can be responsible for as much as 30% of retail sales in remote areas, supermarket and hypermarket operators do not perceive a strong threat from such informal retailers. Moreover, in many cities across Russia municipal authorities are actively discouraging traditional retail formats and taking measures to close markets and kiosks.

Russian Retail Market Structure by Store Format



Source: Infoline

Increasing modern format retail is having a strong positive impact on the consumer sector

In the past ten years, the retail and wholesale marketplaces have changed drastically. From 2001 to 2011, retail sector turnover increased by a factor of 6, created 5 million new jobs and saw productivity rise from 15% of the US level to 31% today. This is the highest productivity gain in any sector. This is primarily due to the significant increase in modern format retail, which is 3-4 times more productive than traditional Russian formats but still lags best-in-class Western peers.

Today, modern format retail accounts for 11% of retail employment and 44% of retail revenue across Russia, compared to 84% in France and Germany. To increase productivity, Russia must further increase the prevalence of modern formats. Russian revenue per square meter is roughly half that in the US although Russian retailers employ 3 times as many people per square meter of retail space than their US counterparts. Labor is highly inefficient and work patterns are poorly coordinated with customer traffic, leading to frequent stock shortfalls and frustrated customers, particularly outside Moscow and St. Petersburg.

The hypermarket/big box format is extremely popular in Russia.

Hypermarkets are well-suited to both consumer preferences and Russia's geography

In Russia, a hypermarket is defined as a store with an area of more than 2500 square meters, of which no less than 35% of the space is devoted to non-food products. Hypermarkets such as Auchan, O'Key and Lenta are usually located on the outskirts of large cities or serve as anchor stores in large urban shopping malls. Hypermarkets target car-owning households of all income levels who seek higher-quality products, more services and a broad range of products.

According to an *Infoline* study, by the end of 2011 there were 580 big box stores covering more than 3000 square meters located across Russia. That year Russian retailer Magnit alone opened 42 hypermarkets in the regions to become the largest big box operator in the country. The *Infoline* study anticipated that by 2016, 800 new hypermarkets would be operating in Russia, particularly in smaller cities where a big share of the local market can be captured by opening only one or two big box outlets.

Supermarkets

Supermarkets have retail space of 400 to 2500 square meters, with 70% of space devoted to food products. Examples include Perekryostok and Seventh Continent. The target market for low cost supermarkets like Pyaterochka and Monekta includes low income households, the elderly and students. Most of these consumers do not own cars and prefer to shop close to home. Supermarkets compete with hypermarkets, convenience stores and independent small grocers as they focus on same consumer groups. X5 is the leading player in this segment with its Pyaterochka and Perekrestok chains.

Cash and Carry

Cash and carry stores are big box retail outlets of roughly 8000 square meters, and operate as small wholesalers. Cash and carry, also known as self-service wholesale store retailing, is a format aimed specifically at trade customers. These retailers, of which Germany's Metro is the undisputed market leader, are generally big box stores that offer a wide range of merchandise, primarily groceries but also non-grocery items. Customers must normally prove they represent a registered business in order to be allowed to shop at such stores. However, many companies provide their employees with membership cards, allowing ordinary consumers to benefit from a wide selection of attractively priced merchandise.

Russian consumers often consider cash and carry and hypermarkets to be the same format. These types of stores offer the widest product assortment and have the largest sales areas compared to other retail formats. Both hypermarkets and cash and carry outlets focus on large family packs and operate on a self-service basis. Both also provide additional services such as in-store bakeries and prepared foods, as well as vast parking areas since this format, like the hypermarket format, is targeted toward consumers who arrive by car and buy in quantity.

Retail market growth is still going strong, with a CAGR of 11% projected for the 2013-2016 period.

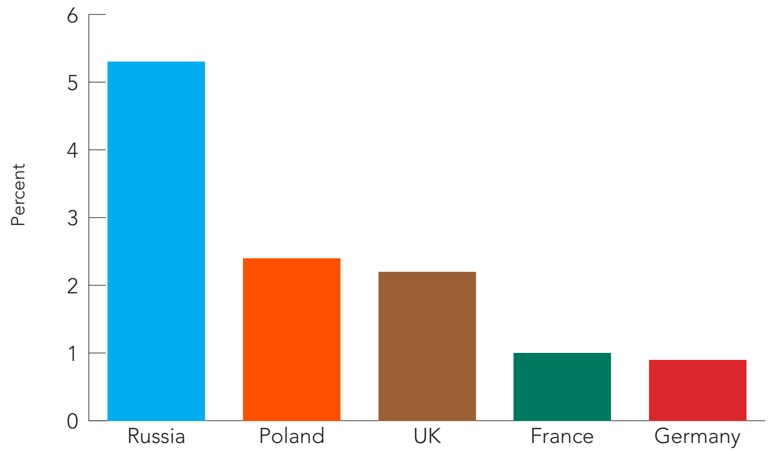
Optimism reigns in the retail sector as Russian consumers continue to spend

In 2012, Russia's retail market continued to grow, expanding by 12%, and by the first of September 2013 was already on track to exceed last year's figure. In the first eight months of 2013, retail market growth stood at 11%. Deutsche Bank projects that the retail market and household consumption will grow in tandem, both at a CAGR of 11% during 2013-2016.

Russian retail sales are rising at nearly twice the pace of European sales.

Projected Retail Sales Growth for Europe, 2013–2015

(Average for 3 years)

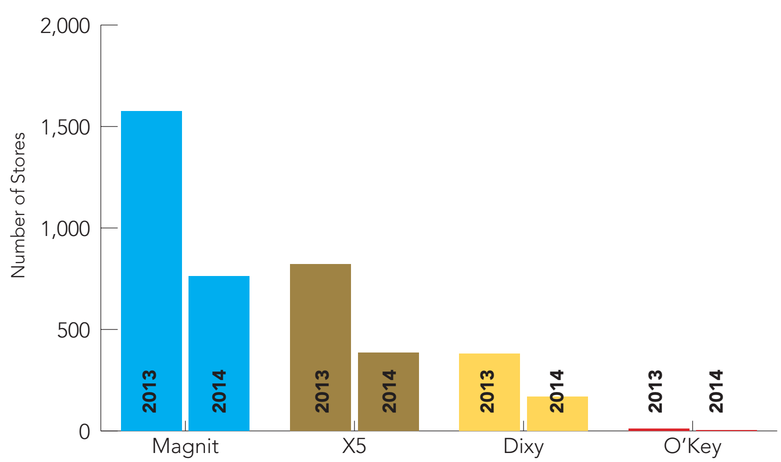


Source: Oxford Economics

Retailers are continuing to expand

According to *Infoline*, the leading 130 retailers in Russia opened 2,878 outlets in the first nine months of 2013, compared to 5,000 in total in 2012 and 3,000 in 2011. The top four Russian companies are expected to open fewer stores in 2013 than in 2012, but nonetheless the pace of openings remains brisk.

Store Rollouts by Company

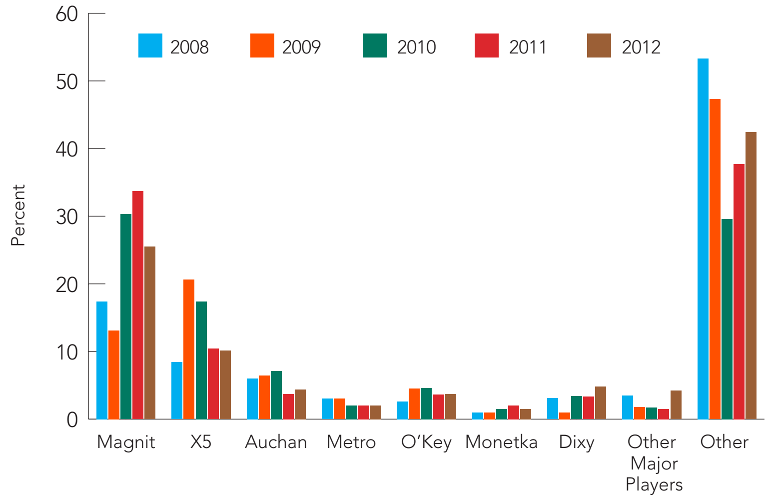


Source: Company Data

Aggregate selling space for the top 130 has increased by 992,500 sq m between January and September of 2013, or 9% since the end of 2012 to reach a total of 12.8 million sqm.

Smaller regional retailers are responsible for opening a larger share of new stores.

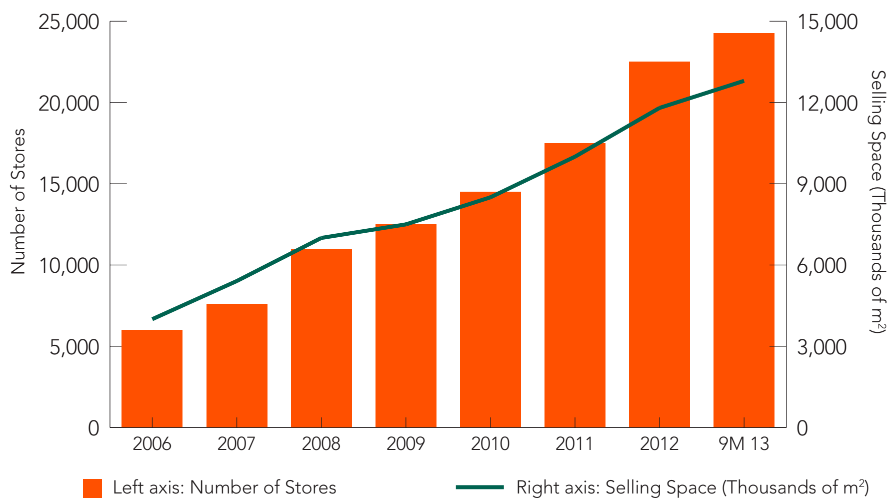
Growth in Retail Space, 2008–2012
Top 130 Retailers



Source: Infoline

One trend that stands out is that of who is doing the expanding. Beginning last year, the share of growth in selling space that came from the largest retailers declined, while smaller local chains for example Maria-Ra and Holiday, expanded more aggressively.

Number of Stores and Selling Space for 130 Top Retailers in Russia

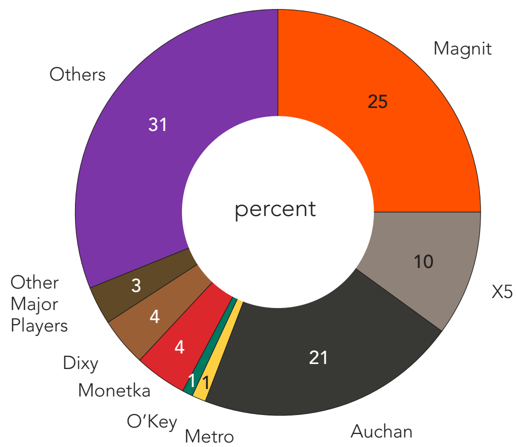


Source: Infoline

Over the first half of 2013, a third of growth of retail space came from smaller retailers. Auchan's purchase of Royale led to a more than a 20% increase in the French companies retail space. Magnit also opened more stores over the course of the first half.

Modern format retail penetration remains low throughout Russia's regions, suggesting significant scope for expansion across the country.

Structure of Selling Space Growth
Top 130 Retailers in Russia, 1H 13



Source: Infoline

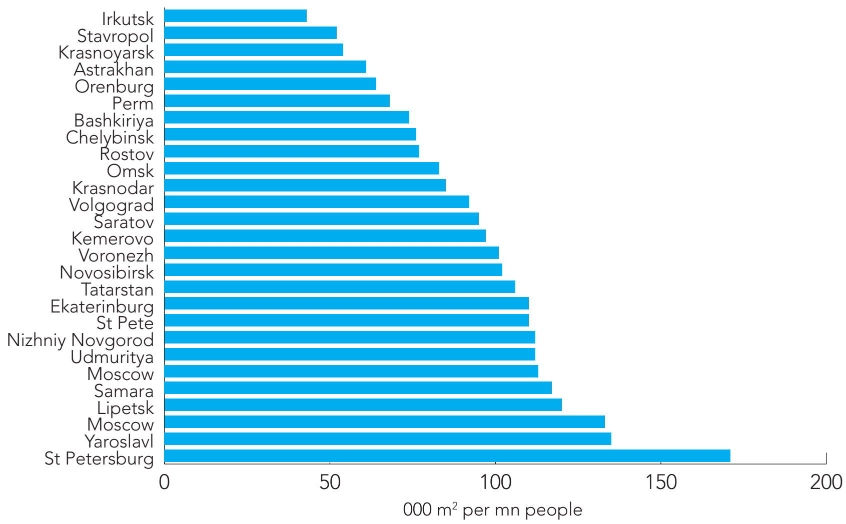
Russia's regions offer the most attractive growth opportunities in the retail sector

Beyond the densely populated metropolitan areas of Moscow and St. Petersburg, Russia's regions remain underpenetrated by retail companies. While land is freely available, the quality retail stock necessary for the development of supermarkets and hypermarkets remains in low supply. However, as development is increasing, the opportunities for companies to open large, modern format shopping centers and hypermarkets should steadily increase.

As indicated by the chart below, penetration of modern format retail remains low in many areas, and of the regions having more than 100 sqm of modern format retail per million people, almost all are located in the Central Federal District, of which Moscow is the capital and includes other cities such as Tula, Tver, Samara, Lipetsk, and Kaluga.

Outside the most penetrated and populous Central and Volga federal districts, the opportunities for expansion are even more attractive.

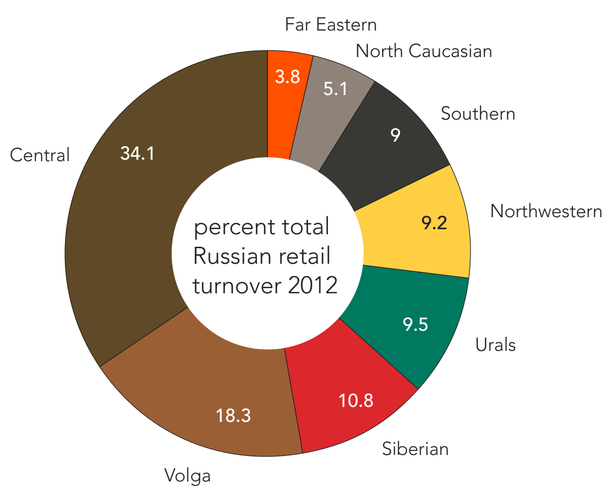
Average Penetration Modern Retail



Source: Goldman Sachs Research

The Central Federal District is the traditional leader in terms of retail turnover and is responsible for more than 30% of total retail turnover in Russia. Additionally, this district is nearly two times the size of the Volga Federal District, which accounts for slightly over 18% of the country's retail spending. Unsurprisingly, the remote Far Eastern District is the smallest retail market in the country, generating not quite 4% of retail turnover.

Retail Turnover by Federal District

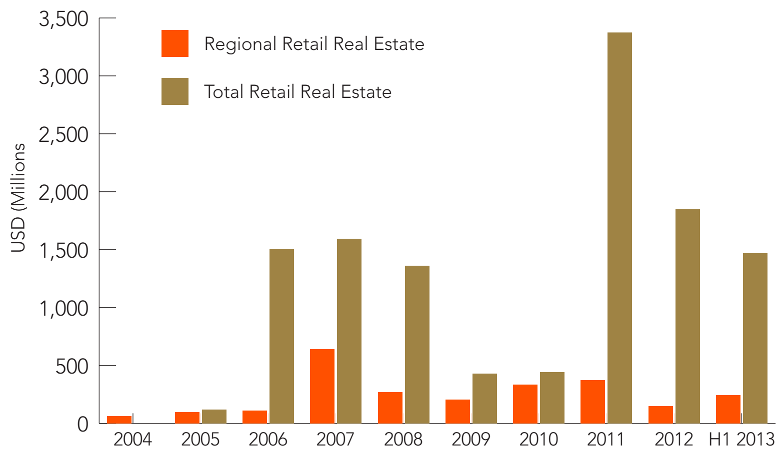


Source: PMR

Outside the Central and Volga districts, penetration by Russia's national retail chains is also much lower, and the competitive environment far more welcoming. These regions are served by local retailers who are typically less sophisticated in terms of logistics, marketing, promotion and service orientation. Their one advantage is stronger relationships with local suppliers. The areas ripest for harvest are those in which the presence of large chains is limited, the local retail market is fragmented and the retail sector is dominated by small and/or traditional format retailers. In more remote and underserved areas, a large format store can serve as a regional hub and draw customers from a significant radius.

The volume of investment in regional retail real estate over the past eight years is low compared to the overall volume of retail real estate investment, and highlights the low level of retail penetration outside Russia's principal cities. Such low penetration suggests a significant opportunity to bring modern format retail to Russia's underserved population.

Regional Retail Real Estate Investment vs. Total Retail Real Estate Investment



*All cities excluding Moscow and St. Petersburg

Source: Jones Lang LaSalle

Online shopping is an increasing challenge to brick-and-mortar stores in developed markets, but the situation is different in Russia.

Clicks Versus Bricks: Online Shopping and the Impact on Russian Retail

The e-Commerce revolution

In developed markets, online shopping is having a transformative effect on the retail industry. It's impossible to ignore the tremendous rate of growth that online retailers have enjoyed over the past ten years. The proliferation of internet-enabled devices, from smartphones and tablets to notebooks and e-readers, as well as the centrality of the desktop or laptop computers in the majority of homes in the developed economies have turned e-Commerce into a powerhouse industry in the West.

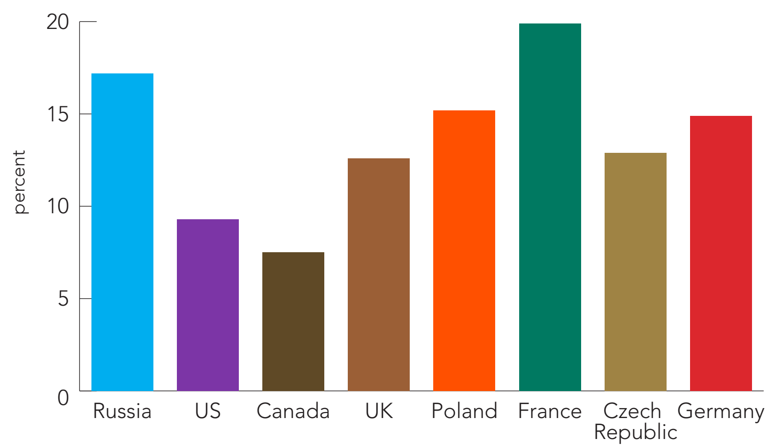
Internet shopping has had a significant impact on many types of brick-and-mortar stores. Online shopping offers myriad advantages, not the least of which is the luxury of convenience. Customers can comparison shop among a variety of retailers with a click of the mouse, and save valuable time that might be spent shopping for hard-to-find goods or commodity products that need not be inspected before purchase. Best of all, purchases are delivered straight to the customer's door. Competing with advantages like these, traditional retailers will be forced to find creative new ways to induce shoppers to visit their physical locations.

Online sales as a percentage of total retail sales remains low in Russia.

Globally, 4% of the world's retail turnover is derived from online sales, up from 2.2% five years ago. The US and the UK are the leaders in online shopping, both with slightly more than 10% of retail turnover from internet purchases. In fact, WSL Strategic Retail's *How America Shops: Mega Trends 2012* report found that in the US, the internet is the third-most-shopped channel after supermarkets and mass merchandisers

Over the past three years, online retailing has been growing at an average of more than 18% per annum globally, while global retail sales through other channels have increased at just 1.3% annually. In Russia, eCommerce has only begun to take off in the past three years, resulting in considerable growth over the period.

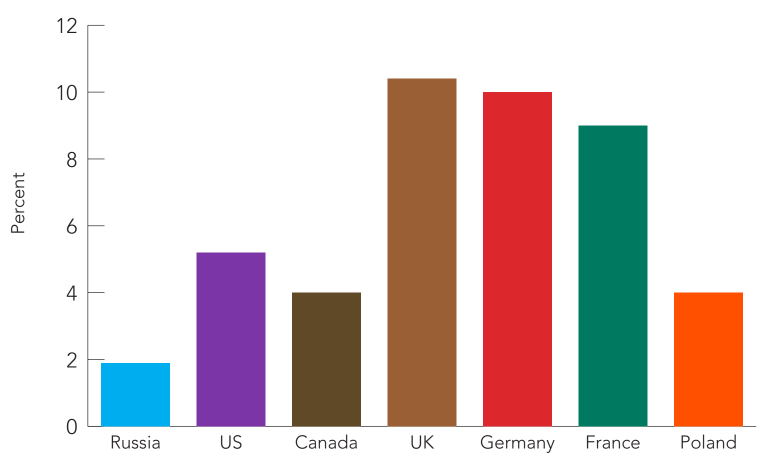
Total Growth in Online Retail Sales 2009–2012



Source: Euromonitor, Cushman & Wakefield

Around the world, e-Commerce is burgeoning. Not surprisingly, the share of online sales as a percentage of total retail sales is higher in North America and Western Europe than in Russia, but growth is now skyrocketing in Asia, Latin America and Eastern Europe as well.

Online Sales/Total Retail Sales, 2012 (%)



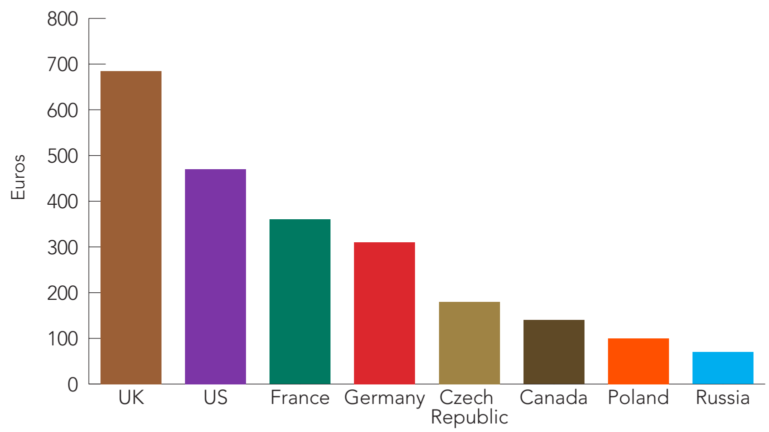
Source: Cushman & Wakefield

Comparatively low internet penetration is one reason why online sales remain low in Russia.

A New Era in Russian Consumerism

As indicated in the figure above, Russia is lagging far behind North America, Western Europe and parts of Asia in the development of e-Commerce with only 1.9% of total retail sales attributed to online shopping. Both the US and the UK exceeded Russia's 1.9% e-Commerce penetration level some time ago – 2003 for the US and 2005 for the UK. In 2012, the average Russian spent EUR 70 online annually while the per capita figure ranged from more than EUR 300 per capita in Germany and close to EUR 500 in the US to almost EUR 700 in the UK.

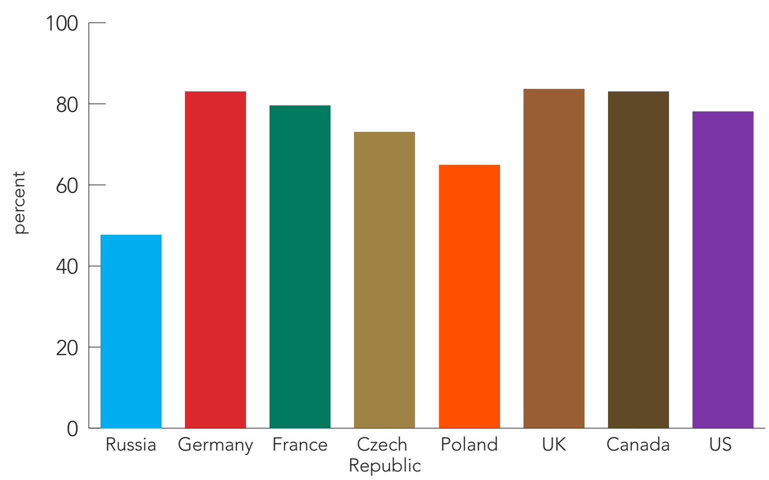
Online Sales per Capita, 2012



Source: Euromonitor, Cushman & Wakefield

One reason for the low level of online shopping in Russia is the country's internet penetration of only 47.7%. In Europe, internet penetration is lower only in Moldova, Ukraine, Romania and Belarus. In major developed markets such as the US, Canada, Germany and the UK, internet penetration is around 80% or higher.

Internet Penetration by Country



Source: Internet World Statistics

While accelerating growth should see online sales reach 7% of total retail sales by 2020, Russia will nonetheless continue to lag Western markets.

However, Morgan Stanley forecasts that Russia's internet penetration rate will increase at a CAGR of 4% between 2012 and 2015, adding almost 35 million new internet users.

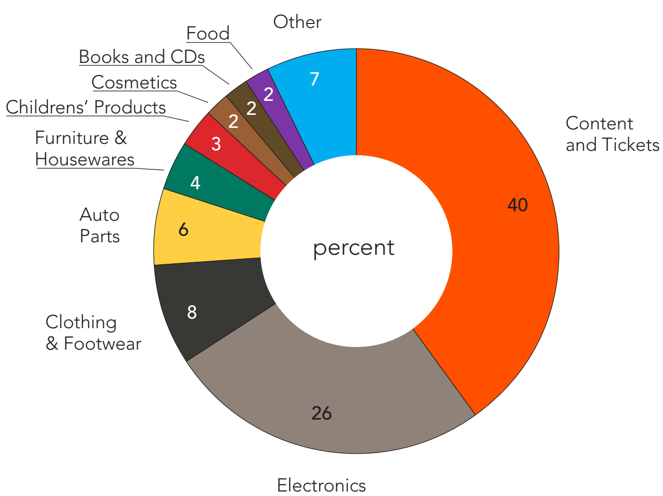
Morgan Stanley also forecasts that from the current low base, Russia is set to become one of the most rapidly growing e-Commerce markets in the world. In their opinion, the physical constraints on competition and limited product choice that derive from the low population density outside major cities Moscow and St. Petersburg should increase the level of demand for online shopping. Analysts at the bank expect e-Commerce to increase at a 35% CAGR through 2015, and reach a penetration level of 7% of total retail sales by 2020. However, even at this impressive level of growth Russia will continue to lag Western markets by ten years.

Morgan Stanley also forecasts that Moscow and St. Petersburg, which constitute 15% of Russia's population, will be able to sustain higher sales growth than other parts of the country. They expect these cities to maintain growth of approximately 30% through 2020, compared to 20% in the rest of Russia. Moscow and St. Petersburg have significant advantages that support the expansion of e-Commerce, including internet penetration in excess of 70%. Indeed, Moscow and St. Petersburg together account for a quarter of Russian internet subscribers and approximately 60% of online sales. In addition to internet penetration, higher disposable income, greater population density and the concomitant more robust postal and logistics infrastructure all act in concert to favor online shopping.

A survey conducted as part of Morgan Stanley's research found that in many ways, Russian online shoppers are very similar to their Western counterparts and buy online for similar reasons, including lower prices, convenience, and time saving. However, one reason cited – the poor selection of merchandise in brick-and-mortar stores, was specific to Russia.

As in developed markets, the most popular items bought on the internet are travel services/tickets and consumer electronics.

Online Sales Structure in Russia, 2012



Source: Cushman & Wakefield, DataInsight

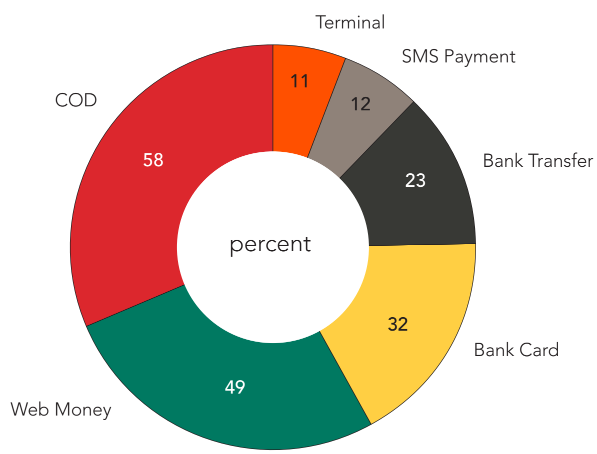
A continuing reliance on cash payment will hamper the development of online shopping in Russia.

According to the survey though, 54% of Russians who have made no online purchases in the past cited the inability to see and touch merchandise as influencing their decision to eschew internet shopping. Other factors discouraging shoppers include a lack of confidence in online payment security, the difficulty of returns and exchanges, product quality, and the particular merchants offering online shopping.

Poorly developed infrastructure remains a stumbling block

Although e-Commerce is expected to grow at an impressive rate in Russia, a raft of infrastructure issues will prevent online shopping from becoming as prevalent as it is in the West for some years to come. The first issue to be overcome is that of payment. Russia is still a cash-based economy, and access to credit cards remains relatively low. According to a 2012 study by MasterCard, 74% of Russians held credit or debit cards as of 2011. However, only 40% of survey respondents reported using their cards for retail purchases. Cards are used more for specific types of purchases, particularly tickets for travel. Most purchases made over the internet, close to 60%, are still cash on delivery.

Consumer Payment Methods in Russia



Note - Percentage total is greater than 100% as survey respondents may have indicated more than one choice

Source: Morgan Stanley, DataInsight

Although the use of alternative payment systems and penetration of debit/credit cards will increase, both domestic and foreign retailers will continue to feel the impact of payment issues.

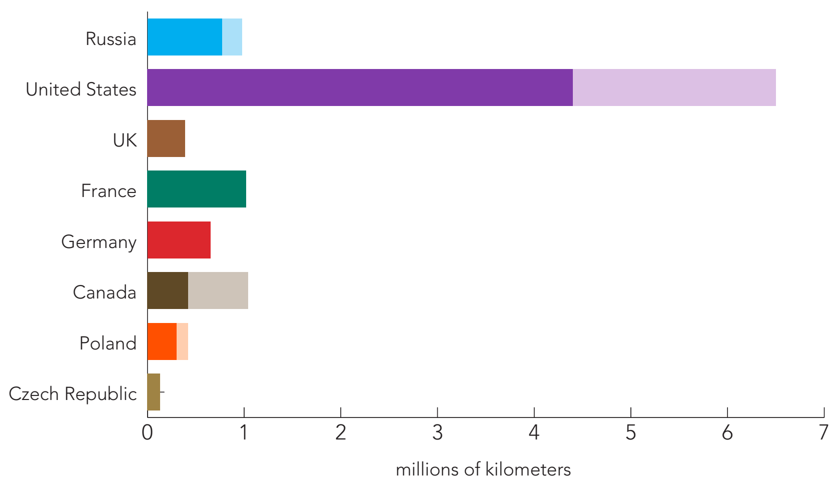
That said, other types of payment such as electronic payment systems are becoming more popular. Popular search engine Yandex offers its Yandex.money solution, and recently came to an agreement with British online payment provider Skrill to link Yandex.Money to foreign online retailers, allowing Russian consumers to more easily shop. Until recently, many Russian bank cards were not accepted by international merchants. Some 10% of Russian online purchases are cross border, and leading online auction site eBay.com launched a Web site in Russian in April of 2013. However, foreign e-Merchants will continue to face significant barriers to entry arising from the same factors that limit the expansion of e-Commerce for domestic Russian merchants.

Other significant infrastructure issues, for example poor roads and the lack of a reliable postal service or other delivery method, will also impede the expansion of eCommerce.

An equally significant limiting factor is logistics. In the largest urban areas such as Moscow and St. Petersburg, online retailers typically rely on their own couriers to deliver merchandise and pick up payments. The same holds true for online retailers in other major *millioniki* cities, but the lack of reliable postal delivery makes its much more problematic to ship merchandise to shoppers in smaller cities. International logistics companies like FedEx, UPS and DHL do serve Russia, but typically handle shipments only between major cities and international destinations.

Finally, Russia's road system is extremely underdeveloped. Although Russia is the largest country in the world by land mass, it ranks 7th in terms of total road length, with only 982,000 km of roads. Of that, only 776,000 km is paved. While the Russian government increased spending on road construction and maintenance from USD 7 billion in 1999 to USD 111 billion in 2010 (an increase from 3.5% to 7.4% of GDP), corruption, red tape and inefficiency negatively impact progress. A study conducted by Russian news agency *RIA Novosti* in 2010 indicated that the cost to build one mile of road in Russia is three times that of the cost in the US, and the cost rises as construction approaches larger cities.

Total Road Lengths
(lighter shade indicates unpaved roads)

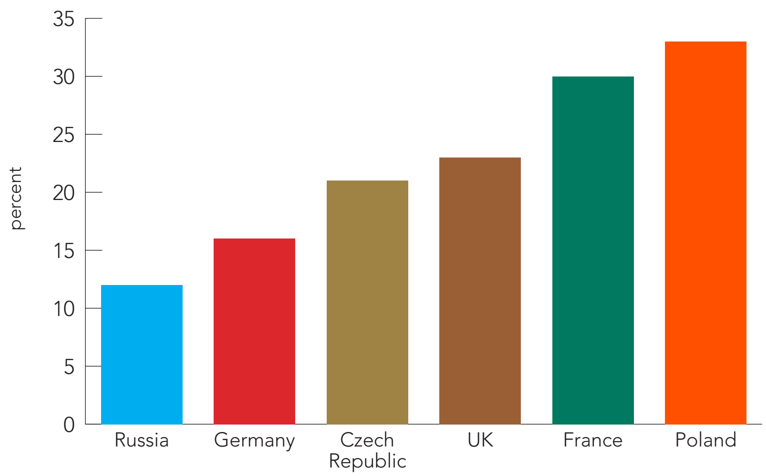


Brick-and-mortar and e-Commerce can peacefully coexist

Certainly, the daunting infrastructure factors that limit the widespread growth of e-Commerce across the whole of Russia help to assure a strong future for brick-and-mortar retail. Indeed, the traditional retail structure in Russia is still developing. For example, shopping centers continue to play a relatively weak role in Russia's retail environment, responsible for only 12% of aggregate retail sales last year.

In-store pickup offers a multi-channel solution particularly suited to Russia, as it circumvents infrastructure limitations and allows consumers to interact with merchandise while drawing customers to larger regional shopping areas.

Shopping Center Sales as a Share of Total Sales – Europe



Source: Cushman & Wakefield, ICSC

Russia is the largest retail market in Europe, but conventional sales continue to be responsible for the greatest percentage of aggregate sales. Both shopping centers and online retail have significant growth potential, and both channels should see business more than double over the next ten years. Cushman & Wakefield projects that these will be the fastest growing sectors in Russian retail. However, while in the short term the online segment will exhibit faster growth than other forms of retail, the growth rate will likely run into a ceiling created by the infrastructure issues in Russia that cannot be resolved in the short-term.

What does seem clear is that brick-and-mortar stores are here to stay, and in developed markets as well as Russia. There is no question though, that there will be many changes to come. In North American and Europe, store closures are expected as chains no longer need as many physical stores. Store size will also change, as categories go online. For retailers everywhere, learning to operate in a multi-channel environment will be the key to success. While developed market retailers will be forced to make significant alterations to their existing businesses, the relative youth of the Russian retail sector means that many retailers can focus on building a multi-channel format as they build out their businesses.

In the words of Jerry Storch, CEO of American big box retailer *Toys R Us*, "the Internet is transformational, but it's not just the exclusive playground of Internet-only companies," he said. "In fact, it's the stores that are going to win in the end because of the physicality. Everything that's going on the Internet is about mobile and about physical, the ability to see what's going on in my neighborhood and act on it immediately." As a result, Storch said retail stores are becoming mini-distribution centers for the Internet. That trend will grow even more as retailers put in place "buy online, pick up in store" programs like Toys 'R Us has done.

Particularly in Russia, a major component of multi-channel retailing will be online ordering with in-store pickup. Such a solution will circumvent payment issues, allowing for cash-on-delivery, and compensate for the lack of logistics infrastructure that will take years to build. Moreover, customers will be able to inspect merchandise and make returns or exchanges on the spot. Large regional shopping centers are likely to benefit as well. Shopping centers tend to be areas of

Technological innovations can trigger revolutionary changes in the retail landscape.

high traffic, with access to transportation links and plentiful parking. The Russian trend of shopping as entertainment will mesh conveniently with in-store pickups, as there will be ample proximity to other shopping, dining and leisure options.

Multi-channel marketing will also provide a strategic advantage to companies by virtue of the transactional and behavioral shopper data gained, but Russian retailers need to develop the ability to mine and leverage this data more effectively to optimize the sales structure and generate the maximum revenue per square meter in store while continuing to grow the online business.

Big Box Retail in North America, Europe and Eastern Europe

The United States: The 1950s changed the face of retail in the US

Until around 1945, the retail sector of the US economy consisted predominantly of family-run specialty shops selling one type of merchandise, for example grocery stores, pharmacies, hardware stores, and clothing stores, as well as the old fashioned general store where customers could find a variety of items in one place. Department stores were rarities found only in the largest cities. Modern retailing, with an emphasis on chains and larger discount and department stores, did not begin to take root until the late 1940s to early 1950s.

Top Five Retailers in the US – 2013

	2012 Revenue (USD 000)
Walmart	328,704,000
Kroger	92,165,000
Target	71,960,000
Costco	71,042,000
Home Depot	66,022,000

Source: Kantar Retail, National Retail Foundation

The first retail chain in the United States was the Great Atlantic & Pacific Tea Company (A&P), which was established in 1859 as a small tea shop in Lower Manhattan. Founders George Gilman and George Hartford began to expand their business almost immediately and eventually began selling groceries. By WWI, A&P had become both the largest food retailer and the largest chain in the United States. A&P would dominate grocery retailing for decades, and at the peak of its ascendancy was responsible for 2.5% of all retail sales in the US. Today Walmart, the world's largest retailer, is responsible for 10% of all retail sales in the US.

Throughout the 1920s new chains appeared on the retail landscape: familiar names such as Kroger, Woolworths, Sears & Roebuck, and Montgomery Ward. By 1929, chains were responsible for 22.2% of retail sales, but nearly 80% of retail purchases were still made with independent retailers. This continued to be the case for the next quarter century.

Every great transformation in the retail industry over the past one hundred years has come about due to a technological catalyst – the first such catalysts were the train and the US mail service, each which facilitated the creation of a new business model. Each new model was revolutionary in allowing new market participants to increase inventory turnover faster than existing merchants.

The great technological catalyst of the 1950s was the creation of the interstate highway system; as society became increasingly automobile-oriented, America's great exodus to the suburbs took off. The new suburbs that were springing up everywhere were strictly residential and included no shopping areas. The advent of this new type of residential area gave rise to the first shopping malls, and eventually the strip malls that are so ubiquitous today. Chain retailers built immense supermarkets and department store chains opened suburban branches that would challenge the dominance of their downtown flagship stores. In this new type of environment, retail chains thrived. Car ownership continued to rise, and car owners were happy to drive to shopping centers. Independent retailers and downtown stores suffered as a result, by 1967 independent retailers had lost 20% of their market share, which fell to 60% of aggregate retail sales.

Actions by the federal government gave big box retail a big boost in the US.

The not-so-invisible hand of Uncle Sam

The federal government had a great deal to do with creating the environment that ultimately spawned big box retail. Federal funding for creation of the interstate highway system gave the US more paved road per capita than any other country in the world. Federal mortgage guarantees supported new suburban construction, while changes to the tax code made shopping centers extremely attractive tax shelters. Commercial property owners were able to accelerate depreciation and take extremely large deductions in the first years of a project, often transforming real profit into sizable losses on paper. Developers scrambled to build shopping centers, gleefully took their tax deductions and then sold off the properties. Tax benefits were only applicable to new construction, thus discouraging city center construction and renovation. Shopping centers populated by retail chains became a big business.

Walmart was one of the first big box retailers, and has certainly been the most successful as the company is today the world's largest retailer.

Birth of a giant

As shopping centers proliferated throughout America, changing the landscape forever and driving more independent retailers out of business, Sam Walton opened the first Walmart in Rogers, Arkansas in the summer of 1962, building a 16,000 square foot "discount city" at the intersection of two major highways. The store sold a broad range of merchandise trucked in from hither and yon, wherever the lowest prices were to be found. Walton's cunning plan was to undercut local retailers with an assortment of loss leaders and then sell customers higher margin products once they'd been lured into the store. Walton was even able to take advantage of a legal loophole that allowed him to pay employees significantly less than the federally mandated minimum wage.

By 1969, there were 18 Walmart stores and Walton built his first distribution center. Expansion accelerated, and the company pursued a strategy of saturating a region with stores before moving on to a new area. All of the stores were located in small towns where land was cheap, labor costs were minimal, unions non-existent and zoning of negligible concern. The stores laid waste to the local retail landscape. It was impossible for smaller retailers to compete.

Attention shoppers! Blue-light special!

Following the success of Walmart, the industry hatched a new flock of retail chain giants, Target, Kmart, and various regional stores including Bradlees and Zayre in New England, Caldor in New York, and Venture in the Midwest. Soon retailers were inspired to come up with a new variation on the mega-retailer and the *category-killer* was born. These were superstores specializing in one particular type of product – Toys R Us was the first, after which came Home Depot, Babies R Us, Circuit City and more.

As if Americans didn't have sufficient retail choice already, the final incarnation of big box was spawned – the warehouse store. These stores offered customers the opportunity to buy bulk quantities at extremely low prices in a Spartan environment – typically a metal barn of a building with a cement floor and an unfinished ceiling. Price Club was the first warehouse store, established in 1976, and Costco followed in 1983. Not surprisingly, Sam Walton opted to join the fray and opened his first Sam's Club the same year.

Category killers, or stores that sell one type of merchandise, tend to dominate their segments in terms of market share.

Big box charges across the retail landscape

Over the past twenty years, big box retail has grown at a speed unprecedented in the industry. This retail format flourished in the 1990s, fueled by a dynamic stock market and easy credit followed by a housing boom. In 1996, America's top ten retail chains were responsible for a startling 18% of consumer spending. Less than ten years later, in 2005 their share had swollen to 25%. Today, just a handful of companies dominate in each retail segment. Between 1990 and 2005, Target expanded by a multiple of 8, with USD 53 billion in annual sales in 2005. Category killers Home Depot and Lowe's together control half the hardware market in the country, while Staples and Office Depot have taken such hold in the office supplies market that small-to-medium sized office supply stores have seen their market share reduced to less than 5%. Costco has nearly tripled in size since 1995, swallowing Price Club whole in the process, and five companies now command 46% of the American market for groceries.

Today the internet and demographic changes are acting in concert to challenge the big box concept in the US.

Re-thinking the big box model

"In our lifetime we will see the last Walmart discount store disappear." Or so says John Rand, a retail industry analyst with Kantar Retail Research in Boston. Could it really be the end for a company that has more than a 50% share of the market in many regions of the United States? Probably not, but certainly Walmart, as well as other big box retailers, will have to change with the times.

Today another technological catalyst, the Internet, is causing a disruption in the retail industry, while demographic changes are also having a significant influence on the way that Americans want to shop. While in the twentieth century population growth in the suburbs exceeded that in urban areas, the 2010 census revealed a reversal in this pattern. Increasingly Americans are returning to the cities and looking for opportunities to do their shopping near home. For example, the Los Angeles Forum for Architecture and Design refers to a "new urbanism" movement in design that is dedicated to creating mixed-use neighborhoods where people can work, shop and participate in recreational activities within walking distance of their homes.

Until recently, big box retailers were not ready to consider new ways of doing business and attempted to shoehorn large format stores into space-constrained urban areas. However, today the traditional big box retailers are devising new business models to adapt to demographic trends. Best Buy, the electronics category killer, is closing many of its big stores to focus on opening a larger number of smaller stores. Target has introduced City Target, which carries merchandise more suited to customers on foot (for example, 4-roll packs of paper towel rather than 8-roll packs), while Walmart is rolling out its Walmart Express stores, which combine food, pharmacy and convenience formats and are 10% of the size of a typical Walmart discount store.

Showrooming may be one method to counteract the growing impact of online shopping.

The other significant challenge for big box retailers in North America is the increasing popularity of online shopping. A slower economy has compressed margins and made consumers more price-sensitive. Online retailers like Amazon can achieve inventory turnover five times faster than that of big box retailers, and can therefore charge much lower prices. While initially lower margin merchandise like books and CDs were the most popular products sold online, consumers began purchasing higher margin items, clothing, furniture, appliances and electronics – typically the types of merchandise customers prefer to inspect before buying – online. Consequently, big box retailers have seen more customers walk into their stores to inspect merchandise before leaving empty-handed to purchase it online. Their challenge will be to steer customers toward a multi-channel format, with "showrooming" in physical store locations combined with efforts to turn these customers into online buyers through their own Web sites. In order to succeed in this new marketplace, big box retailers will be forced to innovate, identifying new ways to capture value, and potentially look to new markets to grow their businesses.

Poland

Today Poland's economy is one of the fastest growing in the European Union and one of the largest, ranking sixth out of the 28 EU member countries. However, like Russia, Poland was pushed headlong into the free markets following the dissolution of the Soviet Union in 1991. At the end of the 1980s, approximately 80% of all retail outlets in the country were either co-operatives or directly owned by the state, while the remaining 20% were privately owned. While 20% may seem to be a high percentage, most of these stores were tiny, less than 50 sq m, and together accounted for less than 5% of Poland's retail trade. The term cooperative was also misleading, as these cooperatives were also owned by the state.

Top Five Retailers in Poland – 2013

	2012 Revenue (PLN Mn)
Jeronimo Martins SGPS SA	29,909
Tesco Plc	13,137
Auchan Group SA	6,372
Eurocash SA	8,277
Carrefour SA	7,562

Source: retail-index.com

Another nation starved for consumer goods

Like Russians, Poles were starved for consumer goods and pent-up demand exploded, making retailing one of the fastest growing segments of the new economy. During the first five years of economic transformation, thousands of retail outlets opened. By 1995, most stores had been privatized and communist monopolies and co-ops broken up. During this first phase of transformation, only a handful of Western retailers attempted to enter the market. The largest of these were IKEA and German health and beauty retailer Rossman KG.

Poland, a former communist country like Russia, saw foreign retailers come to dominate the market very quickly.

Western chains dominate in Poland

The second phase of Poland's economic transformation came around 1995, when Western chains began a relentless push eastward. Germany's Metro AG was the largest foreign entrant in the retail space and by 2000 had opened 65 locations throughout Poland, as well as 8 shopping malls, and had invested nearly USD 1 billion. Carrefour and Auchan were also highly active in developing the hypermarket business in Poland, and Tesco joined the stampede as well. According to Daniel Bernard, former chairman of Carrefour, "although Russia and Poland are similar in becoming market economies only in 1991, the lack of local retailers in Poland has allowed foreign retailers to dominate. This is in contrast to Russia, where the local operators are very good and know their market, making it much more difficult for international companies to enter the market."

Robust economic growth in Poland fueled the hypermarket explosion.

Rapid proliferation of the hypermarket format

As the Polish market moved beyond the first stages of growth, the late 90s and early 00s were characterized by the rapid growth of modern retail formats. At this stage of development, retailers were able to choose between standard retail formats or introduce hybrid formats more tailored to the specific needs and preferences of customers in their particular market. The three formats dominating in Poland were supermarkets, hypermarkets (big box) and convenience stores. Hypermarkets typically satisfy shopper needs for low prices, one-stop shopping and entertainment, while convenience stores meet needs for urgency and proximity. Supermarkets occupy an area somewhere between these two ends of the retail spectrum.

In the first years of the twenty-first century, the number of hypermarkets in Poland grew at a breathtaking pace, from 414 outlets in 1999 to nearly 1900 by the end of 2006. Metro, Auchan, Carrefour and Tesco saw their Polish business burgeon. During the 1990s and until the beginning of the financial crisis in 2008, Poland's GDP growth had consistently outperformed the European Union average, often achieving annual growth in excess of 3.5%, and this economic growth, accompanied by rising disposable income, fueled the demand that led to such rapid growth in the hypermarket segment.

A nation of do-it-yourselfers

From 2005, the country also experienced a burst of development in the DIY sector, in part as that was the last year for certain types of construction allowance income tax deductions. The first international mega-retailer to open a DIY hypermarket was Germany's OBI in 1998, and by 2006 the company operated 25 outlets in Poland. French Castorama entered the market later, but by the same time operated 30 locations across Poland. By the end of 2012, more DIY hypermarkets operated in Poland than in any other Central European country and Poland continues to lead in terms of new DIY stores opened annually.

But a lingering fondness for the "neighborhood shop" may be putting the brakes on the hypermarket segment.

Shopping closer to home…

While hypermarkets continue to open at a significantly slower pace, a number of factors suggest that big box retail in Poland, as in many other developed markets, is facing a number of challenges. One such challenge comes from the nature of the Polish consumer. Poles continue to be loyal to traditional outlets such as little "corner" shops in their neighborhoods. In 2006, a PriceWaterhouse Coopers survey showed 34% of respondents shopping in "traditional" shops while 35% stated that they preferred to do their shopping in hypermarkets. By 2011, 32% of respondents reporting shopping in traditional outlets while the percentage of respondents preferring hypermarkets had fallen to 27%.

…and eager for a bargain

Closer to the beginning of the new millennium, discount stores were viewed with significantly less favor by consumers. Such stores carried a limited range of merchandise at very low prices, often sold directly from shipping pallets. Many shoppers considered the merchandise to be of lower quality as well as less expensive. However, discounter Biedronka, owned by the Portuguese company of Jeronimo Martins, transformed this segment of the market, improving the quality of their merchandise, including their own private label products, and paying considerable attention to marketing and store design. Other discounters followed suit, and now the discount format has been gaining considerable ground at the expense of hypermarkets.

Hypermarkets are being squeezed on cost

Moreover, the price competition from discounters, particularly in the grocery segment, is forcing hypermarkets to lower costs in order to maintain margin. Given that hypermarkets are characterized by their large size (more than 2500 sq m), it may require investment, for example in energy-efficient equipment, in order to reduce operating expenses. Discounters and supermarkets are not burdened by such requirements.

In addition to the challenge posed by the increasing popularity of the discount format, other factors are also having an infelicitous impact on the hypermarket segment. Rising gasoline prices in Central Europe have made shipping to more remote locations less cost effective, thus reducing the price advantage for hypermarkets. Higher gas prices also reduce the inclination of shoppers to make shopping trips by car, and reinforce the previously mentioned preference for shopping near home.

The rise of discounters and growing online shopping are also putting pressure on the hypermarket segment.

The threat from online shopping

Finally, Poland will be subject to the same type of technological catalyst as other developed markets – the growing popularity of online shopping. As of late 2012, online shopping had grown to 3.5% of overall retail sales, according to PMR. The research firm estimated the total value of the online market to be PLN 17.9 bn, and projected that this figure will increase by almost 50% to PLN 26.6 bn in 2014. Like other markets, the Polish retail sector will be forced to rethink the ways in which it does business and develop multi-channel solutions that allow brick-and-mortar and online shopping to complement each other. In this evolving environment, and with a population more inclined to shop near home, hypermarkets are unlikely to see double digit growth again and companies will be forced to look both for new formats and new markets for expansion.

The French invent the hypermarket.

France

France is a country which has bestowed many cultural gifts upon the world, but perhaps one of the great nation's less recognized contributions to modern civilization is the hypermarket. This retail format appeared at the beginning of the 1960s in France; for the first time French

Top Five Retailers in France – 2013

	2012 Revenue (Euros Mn)
Carrefour	39,530
E. Leclerc	32,300
ITM Enterprises	31,500
Groupe Auchan	19,956
Groupe Casino	18,450

Source: retail-index.com

shoppers could peruse a vast assortment of non-food and food products spread over more than 2500 sqm of selling space. Football-pitch sized parking lots were an essential part of the hypermarket package, as were discount pricing and self-service for all products with the exception of certain foods such as cheese and fish.

The first French hypermarket was opened in a southern suburb of Paris by three families from the Alpine city of Annecy. They named the hypermarket Carrefour, and it was an immediate success. Ten years later there were more than 250 hypermarkets in France and today there are 1900. At the beginning of 2013, Carrefour operated 222 hypermarkets in France, including the largest hypermarket in the country, the 25,000 sqm store in Villiers-en-Biere, Seine-et-Marne, in the Ile-de-France region. Today Carrefour is the world's second largest retailer after Walmart, with annual revenue expected to exceed USD 116 billion in 2013, according to Kantar Retail. E. Leclerc, which opened its first hypermarket in 1964, is now the dominant hypermarket chain in France with 489 locations. However, Carrefour is still the largest hypermarket chain in terms of size, although second to Walmart based on revenue. Other hypermarket chains in France include Geant (120 locations), Auchan (134 locations) and Hyper U (61 locations).

France's first hypermarket chain, Carrefour, is today the world's second largest retailer.

Even the French can't resist one-stop shopping

Hypermarkets gained such enormous popularity in France and throughout Europe based on the novel (for the time) concept of one stop shopping. The European tradition of visiting multiple specialty shops for different types of products, while charming, proved burdensome on a regular basis. Gasoline prices were significantly lower in the 1960s and 1970s, and people were also more willing to spend time in the car for the convenience of shopping in one establishment that could meet almost every need a consumer might express.

Although France may be the birthplace of the hypermarket, the segment is facing the same challenges as it is in other markets.

The challenges to big box retail are similar across developed markets

However, French big box retailers are today experiencing many of the same challenges that are pervasive in other European countries as well as in the US. Competition is greater than ever, particularly from online shopping sites, and shoppers are able to easily comparison shop to find the very best deals. Economic pressures also have dampened consumer spirits, and many customers are avoiding the myriad temptations of hypermarkets and focusing instead on discounters who operate smaller stores closer to city centers.

Industry consulting firm Planet Retail projects growth of just 2% in the Western European big box segment between 2011 and 2016. With slight growth continuing, it is premature to envision the demise of the hypermarket format. Despite existing challenges and changes in the market, Carrefour in France still welcomes one million visitors to its hypermarkets every day, and Planet Retail estimates suggest that 90% of the French population visits one of the country's 1900 hypermarkets at least once a month. Nonetheless, French hypermarket operators will be forced to make changes in their business similar to those being considered by North American big box operators, for example increased focus on smaller locations closer to city centers, multi-channel retailing, and show-rooming to compete with the challenge from the online segment.

Germany's Metro AG has been extremely successful in expanding internationally.

Germany

The hypermarket format came to Germany not long after France, with Metro AG opening the first big box format store in 1964. Metro AG is today one of the world's largest retailers and operators of hypermarket and wholesale cash and carry format stores. However, strong competition from discounters and legal restrictions governing store size, pricing and opening times have acted in concert to make the hypermarket format less widespread in Germany than in other European countries.

Top Five Retailers in Germany – 2013

	2012 Revenue (Euros Mn)
Edeka	47,200
Rewe	35,500
Lidl	35,000
Aldi	25,525
Metro C & C	13,600

Source: retail-index.com

Metro AG occupies the largest share in its home market, but other prominent big box operators include the Kaufland chain of hypermarkets (owned by discounter Lidl) and Marktkauf (owned by Edeka). Walmart made a sustained effort to gain traction in the German market between 1997 and 2006, but failed due to a combination of unexpectedly strong competition from German discounter Aldi combined with an unwillingness to make the changes in their business model necessary to adjust to the local social norms and regulatory environment.

Discounters hold strong appeal for German shoppers

Today a number of factors are acting to put pressure on the German hypermarket segment. German consumers are conservative and price conscious, and Deutsche Bank research indicates that German consumption gains typically lag GDP growth, reflecting a more cautious stance toward spending. Given the price sensitivity of the German shopper, discounters such as Aldi and Lidl, with their lower prices, are extremely attractive. According to *Forbes* magazine, there are 15,477 food discount stores in Germany, making it the most oversaturated market in Europe and the most competitive. In such a competitive environment, hypermarkets, with their higher running costs due to the vast area of retail space, cannot offer the same price advantages.

Demographics and market saturation put even more pressure on the hypermarket segment in Germany.

Demographics put pressure on the hypermarket segment

Additionally, demographic factors are playing a role as well. The population is declining in many regions of Germany, while average age is increasing and family size is falling. Moreover, the country consists of conurbations, or closely linked networks of cities with fewer than 1 million people. As in the US, where increasing urbanization is driving a desire for more localized shopping, Germany's landscape, as well as its aging population, is supporting a trend toward shopping closer to home. Finally, online shopping is exerting pressure on brick and mortar retailers just as it is in other markets, and according to Morgan Stanley research the share of online shopping in total retail sales in close to 10%. As in other developed markets, big box retailers will have to find ways to surmount these challenges. Given the maturity and retail saturation of the market, the situation in Germany is more acute.

US retailers dominate in Canada's big box segment.

Canada

For many years, Canada's retail market was dominated by domestic companies such as the Hudson Bay Company and Zellers. However, a quick look at the top five retailers in the country today shows a very different picture. With one exception, the largest retailers in Canada are big box operators from their neighbor to the south.

Top Five Retailers in Canada – 2013

	2012 Revenue (CAD 000)
Walmart CAD	22,330,000
Costco Wholesale Canada	13,238,055
Shoppers Drug Mart	10,458,652
Canadian Tire Corp.	10,132,300
Home Depot of Canada	6,800,000

Source: Toronto Globe & Mail

During the big box boom of the nineties, US retailers showed little interest in the Canadian market. With more than enough market share to grab and territory to conquer at home, the difficulties involved in expanding across the border failed to justify the investment involved. For example, as Canada is a bilingual country, stores operating in the province of Quebec required French signage, product labelling and advertising. As Canada's population is barely ten percent of the US population, the effort involved seemed impractical.

A maturing market drives big box retailers north

Today however, the picture looks much different with American big box retailers pouring into Canada. This is in part due to the increasing maturity and saturation of the US market. With fewer opportunities to expand domestically, it only makes sense to turn to the geographically closest market. Moreover, the CAD has strengthened, making the market more attractive, and a Colliers International Consulting study showed that Canadian shopping centers demonstrated sales per square foot nearly 50% higher than the average figure for the US in 2011.

American big box hardware retailer Lowe's opened its first Canadian store in 2007, and now operates 33 locations in Canada. Home Depot Canada offers 180 locations across the country, while Walmart has a total of 380 locations, 222 super centers and 158 discount stores. In 2011, US retailer Target acquired 189 Zellers stores from Canada's Hudson Bay Company, and is currently completing refurbishment. Of these locations, 135 new Target stores in total will have opened by the end of 2013.

The one domestic challenger to US hegemony in the big box arena is Canadian Tire, a big box retailer whose stores selling sporting goods, hardware, electronics, housewares, garden and patio, and auto accessories are a fixture across the country. Facing a strong competitive challenge from Target, the traditional big box retailer will be trying a new strategy – one that retailers in the US have already begun to implement. The company plans to roll out smaller versions of its big box format in urban malls, hoping that branching out into the new territory of city centers will help shore up its business. However, given the higher costs of rents in urban locations, the company will have to hope that customers are willing to pay the premium for convenience.

Russia's unique features are particularly suited to the expansion of big box retail.

The Future for Big Box Retail in Russia

After tracing the development of big box retail in the developed economies of North America and Western Europe, as well as in post-Soviet Poland, it is tempting to draw certain parallels with the potential path that big box retail is likely to take in Russia. However, Russia possesses many unique features that render it unwise to draw conclusions based too heavily upon the trajectories displayed in other markets. Characteristics ranging from the quality of infrastructure, the distribution of the population, the level of urbanization and demographic and sociological trends differ so significantly as to ensure that Russia remains in a league all its own.

Against a backdrop of growth, Russian consumers continue to spend.

A free spending population and slow but continuing economic growth make for fertile ground

We have established that the Russian consumer has a propensity to spend and a level of disposable income that compares very favorably to that observed in developed markets. While the absolute income figure may be considerably lower, the Russian consumer is by and large free of the significant levels of debt and high housing costs that burden consumers in Western Europe and especially the United States and Great Britain. What the Russian earns is typically close to what he or she spends.

Deutsche Bank research has identified Russia as a consumer driven economy, in which consumption growth typically leads a rise in GDP. Russia's Ministry of the Economy has revised its GDP growth projection to 1.8% in 2013, and 2.5% in 2014. The Ministry is also forecasting growth of 3.1% annually through 2020, 2.5% each year from 2020-2025, and 1.8% annually through 2030. While such figures should not be relied upon too heavily, it is nonetheless interesting to note that the Ministry views the current slowdown as an anomaly rather than a trend.

GDP growth has slowed over the current year, and was recorded at 1.6% in the first quarter and 1.2% in the second and third quarters. The Russian consumer continued to carry water for the economy during the first three quarters of the year. Although a decline to 1% m-o-m growth in GDP for September was blamed on a month-on-month decline in consumer spending, it may be possible to attribute that decline to seasonal factors. For 9M 13, disposable income was up by 3.6% y-o-y while retail sales growth rose by 3.8% y-o-y. Consumption tends to rise considerably in the final quarter of the year, and GDP growth for 4Q is likely to ensure that the annual figure meets the revised Ministry of Economy target for 2013. Even with the slowing growth projected, Russia is expected to become the largest retail market in Europe in the near future.

Where can global retailers look for opportunity?

Across the developed markets, numerous factors are coalescing to dampen the prospects for big box retailers. Not only are these markets increasingly saturated, but the multiple challenges of rapidly increasing online shopping, demographic issues such as smaller family size and an aging population, and trends toward urbanization and localized shopping all work in concert to change the landscape for big box retailers. If they wish to maintain market share and thrive, they can't continue business as usual. US retailers are moving into Canada and Mexico, and industry leader Walmart has expanded in emerging market economies around the world.

According to Mike Nelson, former head of international real estate with Wal-Mart, "Russia presents a great opportunity for retail expansion, but there are

Canada shares a number of features, including a harsh climate and low population density, with Russia. The successful expansion of large format retail in Canada bodes well for the segment in Russia.

formidable challenges; including strong local players and well positioned foreign players like Auchan and Metro. Today, for a new foreign player to succeed, I believe that acquisition is the best entry vehicle as well as patience in a market where the consumer has become accustomed to assortment, convenience, and competitive pricing." Russia, with a geographic location that places it in both Europe and Asia, offers retailers from neighboring Europe a natural destination for continued expansion, but European big box and category killer retailers would be advised to draw upon the examples of internationally-experienced companies as they look for new opportunities to grow.

Geography and demographics play a strong differentiating role for Russia

Russia's vast area and highly dispersed population have served to keep a large number of Russians living in rural conditions underserved by many modern amenities, including modern format retail. Particularly outside of the Central Federal District, penetration of modern format retail is very low. Indeed, in many rural areas residents are limited to a tiny selection of extremely small shops selling a shoddy selection of merchandise. A centrally located hypermarket offering a wide range of quality food and non-food products at attractive prices in the region's largest town would be able to serve a large geographic area and draw customers from significant distances.

Of all the markets surveyed, Canada is the most similar to Russia geographically. While Russia may be the largest country by area in the world, Canada is the second largest, covering close to ten million square kilometers. Like Russia, Canada's climate is harsh, winters are bitterly cold, and the country has only 415, 000 km of paved road, roughly in proportion to the 776,000 km of paved road in Russia given Russia's greater land mass. Canada's population density is only 3.7 people per square km, compared to 8.4 people per square km in Russia. Although Canada has disadvantageous geographic characteristics more on par with Russia than any other country in this study, Canada nonetheless has seen a proliferation of big box outlets established by US retailers. The success and continuing growth of big box retail in an environment similar to Russia's suggests the potential for increased successful expansion in Russia.

Russia's poorly developed infrastructure ensures that online retailing will not threaten brick and mortar for years to come

Poor infrastructure will mitigate any possible challenge from online shopping in the near-to-medium term.

The developed markets of Europe and the United States have dense populations served by vast, modern highway systems, advanced logistics infrastructure, and convenient options for payment, all of which combine to make online retailing a significant threat to brick and mortar retail. Although online shopping is increasingly popular in Russia, significant expansion will be primarily limited to urban areas in which retailers are able to offer their own delivery services. It will be many years before the residents of Russia's regions will have the luxury of online shopping with home delivery given the unreliability of the postal system and lack of service by international provides such as DHL or FedEx. Moreover, the number of Russian's holding cards to facilitate payment on line remains very low compared to developed markets, which also poses a challenge to the spread of online retailing.

Russia is significantly underpenetrated by hypermarkets compared with the other countries in this study.

A last look at some numbers from other markets

Although Russia's unique characteristics suggest that the country is not subject to the same forces influencing big box retail in North America and Europe, an examination of various metrics across the countries analyzed for this report, which include the US, Canada, the UK, Germany, France, Poland, and the Czech Republic (please see appendix for figures), suggest a positive outlook for big box growth in Russia. First, looking at hypermarkets per million citizens, it is evident that Russia remains extremely underpenetrated. In 2012, both the US and Canada (the market most similar to Russia in terms of geography and population density) had more than 13 hypermarkets per million citizens. As early as 1999, the United Kingdom had reached 14 hypermarkets per million residents, and at the end of 2012 the number had ballooned to nearly 23. Mature markets France and Germany have respectively 26 and 20 per million residents, while Poland has 11. Despite double digit growth in the number of hypermarkets every year with the exception of 2009, when growth fell to only 8% annually, Russia *still* had only 4.3 hypermarkets per million residents at the end of 2012.

Investors will find a wealth of opportunities in both the broader consumer sector and the big box segment.

In Eastern Europe, the greatest period of growth in the number of hypermarkets came in the 90s, as Poland and the Czech Republic enjoyed close proximity to Western Europe as well as cultures more accessible to Western European retailers seeking to expand eastward. The mature markets of Germany and France had experienced the period of rapid growth many years earlier, while the US market saw growth peak in the early to mid-00s. What is particularly notable is the impact of the 2009 financial crisis on growth in the number of hypermarkets. The developed market countries saw GDP decline by anywhere from 1-4 percentage points as a result of the crisis, and yet only Germany saw a decline in the number of hypermarkets. The rest of these countries continued to see the number of hypermarkets increase by anywhere from 1-4% annually in 2009 and 2010. Canada, although it too saw a decline in GDP of almost 4% (all figures report in local currency), nonetheless witnessed almost a 10% increase in the number of hypermarkets. Most remarkable, however, was the response of Russia's retail sector to the crisis. Although Russia experienced a steeper decline in GDP than any other country analyzed herein (-7.8 % in local currency terms), the number of hypermarkets increased by a larger margin than in any other country save Canada. This suggests that the Russian retail sector is extremely resilient, and growth should continue at a faster pace than in the overall economy. Finally, Russia's GDP per capita of slightly more than USD 14,000 (measured in current USD), which has more than quadrupled in the past nine years, should be more than ample to support continued growth as well.

Conclusion

Based on the myriad factors considered in this report, Russia is a unique destination for investors seeking an opportunity to tap into a market that remains underserved by modern format retail. While Russia leads Europe in terms of new retail space construction, the country is still ranked 28th in Europe in terms of retail space per capita, suggesting significant scope for continued growth. As foreign retailers and Russia's home grown market leaders alike seek to expand large format retailing in Russia's regions, the dearth of high quality and modern retail space, particularly big box construction, should continue to offer ample opportunities for developers to leverage the strength of Russia's most dynamic economic sector.

Appendix

Company Name: Auchan

Headquarters: Croix, France

Market Cap: Privately Held

Overview: Groupe Auchan SA is a privately held French retail group headquartered in Croix and active in 13 countries around the world, in Western Europe, Eastern Europe and Asia. According to US-based retail consulting firm Kantar, the company is ranked 14th globally based on revenue.

The company was founded in 1961, when Gerard Mulliez opened his first self-service shop in Roubaix, France in the district of Hauts-Champ, from which the company took its name. The Mulliez family continues to control Groupe Auchan today, although company employees hold an 11.9% state in the company. Following great success in France, the company began to expand internationally in the 80s, with its first foreign undertaking the creation of Alcampo in Spain. Through the 90s Auchan expanded across Europe, and by 1999 had opened its first hypermarket in China.

Today Groupe Auchan operates 1495 hypermarkets and supermarkets in 13 countries, and also operates a retail financial services arm. Groupe Auchan's growth has also been supported by real estate subsidiary Immochan since 1976. Today, Immochan serves as a promoter, developer, manager and investor for the group's shopping centres.

With the development of its e-commerce activities, the Group formalized the creation of a fifth business division in 2010 to keep pace with the rapidly growing E-commerce segment. The e-commerce division has structured and consolidated its model in France, where it currently includes Auchandirect, Auchan.fr and GrosBill, and is now developing rollout strategies for the other countries in which the company is active.

Auchan in Russia: Auchan moved into the Russian market in 2002. At that time, supermarkets and hypermarkets were something of a novelty to Russian consumers, who quickly adopted the Auchan Russia model of "modernity, choice and discount." From the beginning, the French retailer pursued a discount strategy to challenge both Metro's cash and carry and the outdoor markets that still proliferated at the time.

Auchan's management took the time and effort to study and understand the Russian consumer psyche, which combined the gratification of satisfying basic consumer need with the pure curiosity of window shopping and the notion of shopping as entertainment. Accordingly, Auchan tried to position its shopping experience as a more convenient version of a stroll around an outdoor market with a similarly advantageous price/quality ratio.

Since opening its first hypermarket in Russia, Groupe Auchan has rolled out several different formats across the country. In 2008, 12 Ramstore outlets acquired from Enka were rebranded under the Auchan City banner; a smaller format with a product range tailored to the local convenience market. In 2009, another discount format, Nasha Radouga (Our Rainbow) was created for locations in medium-sized cities.

The company has also opened a chain of supermarkets called Atak, and now offers credit facilities and a VISA card through BA Finans, the Russian subsidiary of Banque Accord. In May of 2013, Auchan concluded a deal to buy Russia's Real hypermarkets from Germany's Metro Group. The company plans to rebrand all of these stores by the end of 2013.

Strategy: Although Auchan is an international company, Groupe Auchan strives to conduct a decentralized operation. Each chain in each country is independent, although it operates in synergy with other international locations, shares experience and pools resources. The decentralized approach is intended to bring local stores into closer alignment with their customers.

Groupe Auchan also focuses on organic growth, and is concentrating its investment on the three priority areas of Western Europe, Central and Eastern Europe and Asia. However, the focus on organic growth does not rule out external partnerships or acquisitions, and the company does not hesitate to seize opportunities as they arise. Most importantly, the customer remains at the heart of the strategy. Discount prices, diversity of choice, quality of service, adaptation to local markets, and responsiveness to multi-channel purchasing behavior all originate with the customer. Groupe Auchan places the highest priority on listening to and meeting customer expectations.

Financial Overview

(EUR bn)	**2011**	**2012**	**June 2013**
Revenue	60.79	60.35	
Gross Profit	14.26	13.88	
Operating Income	1.86	1.66	
Net Income	1.19	0.92	
Gross Margin	23.5%	23%	
Net Margin	2%	1.5%	
Total Stores Globally			1495
Hypermarkets			709
Supermarkets			786
Total Stores in Russia			176
Hypermarkets			75
Supermarkets			101

Company Name: Carrefour

Headquarters: Boulogne, Billancourt, France

Market Cap: USD 27 billion

Overview: French retail giant Carrefour, which gave birth to the hypermarket concept in 1963, is the world's second largest retailer, following Walmart. Carrefour operates mainly in Europe, Argentina, Brazil, China, Dominican Republic, United Arab Emirates, Qatar and Saudi Arabia, but also has shops in North Africa and other parts of Asia, with most stores being smaller than hypermarkets or even supermarkets. The group operates hypermarkets, supermarkets (with the highest numbers of both found in Europe), convenience stores and cash and carry format locations.

The first Carrefour store was opened on 1 January 1958 in Annency, France by partners Marcel Fournier, Denis Defforey, and Jacques Defforey. On June 15, 1963, the Carrefour group opened its first hypermarket, a supermarket and department store under the same roof, in the Paris suburb of Sainte-Genevieve-des-Bois. This first hypermarket had 2500 square meters of retail space, a dozen checkout lanes, and a 400 car parking lot.

The group expanded rapidly through France and in the 1970s began to expand internationally, opening hypermarkets in Spain and Brazil by the middle of the decade. Also in the mid-70s, the group took the innovative step of launching its own private label line, *Produits Libres*, which consisted of fifty products, including oil, crackers and cookies, milk, and pasta, which were sold in unbranded white packages at significantly lower prices than branded products.

In the 1980s, the group opened hypermarkets in Argentina and by the early 1990s had expanded into Asia, Greece, Italy and Turkey as well as taken over the French hypermarket chains of Euromarche and Montlaur. In 1997, Carrefour opened its first hypermarkets in China, Singapore and Poland. The group has continued its strategy of expansion through mergers and acquisitions since the late 1990s, and as of September 2013, operated 10,102 stores in 34 countries.

Strategy: After booking a net loss in 2011, management made the decision to refocus the business in regions where Carrefour has a strong market position. In developed markets, the company's strategy calls for it to defend its well-established customers and market share while pursuing growth opportunities in emerging markets. In addition, management plans to continue offering the best prices while maintaining a wide product range and renovating its store network to improve the customer experience. Finally, they will continue to decentralize and streamline the business, encouraging initiative at the local level and giving store managers greater autonomy.

Presence in Russia: In October of 2009, Carrefour discontinued its operations in Russia, a country that only earlier in the year the company had declared a strategic priority. Management cited "an absence of sufficient organic growth prospects and acquisition opportunities in the short and medium term that would have allowed Carrefour to attain a position of leadership." In June, Carrefour had opened its first Russian hypermarket, an 8000 square meter location in Moscow, with a second following shortly thereafter. Moreover, the company had announced plans for more openings by the end of the year based on the "outstanding long term potential" of the market. The company explained the abrupt reversal as a pragmatic decision based on a strategy of entering countries only where it could be a market leader. French retailer Auchan, as well as Germany's Metro, were some of the first foreign retailers to enter the market and have established leading positions, while home-grown retailers X5 and Magnit command the largest shares of the market.

Financial Overview

USD billionn	**2012**	**2011**
Revenue	97.89	104.79
Gross Profit	18.78	20.31
Operating Income	2.75	3.06
Net Income	0.30	(2.38)
Gross Margin	19.2%	19.4%
Net Margin	0.3%	-2.3%

Total Number of Stores	9,994	
France	4,635	
Europe (ex France)	4,314	
Latin America	675	
Asia	370	

Company Name: Globus-Gruppe

Headquarters: St. Wendel, Germany

Market Cap: n/a

Overview: Founded as a grocery store in Germany in 1828, the Company opened its first Globus store in 1970. Currently it boasts 65 hypermarkets in Germany, the Czech Republic, and Russia (where it has 6 locations). Additionally, there are a total of 84 Globus and Hela hardware stores, 81 Baumarkt construction hypermarkets in Europe, and nine AlphaTecc electronics hypermarkets (in Germany).

The Company employs 32,500 people and reported revenue of EUR 6.48 bn in 2012.

Strategy: In Russia, Globus currently has hypermarkets in Schelkovo, Klimovsk, Vladimir, Ryazan, Yaroslavl' and Korolev, as well as a logistics center in Tomilino. The EBRD is lending €134.5 million to OOO Hyperglobus, the Russian arm of Germany's Globus, to fund its expansion in medium-sized towns in central Russia which have so far had little or no experience of modern high-quality food retail formats. Hypermarkets are planned in Krasnogorsk, Tver', Tula, Smolensk, and Kaluga in the next few years.

Company Name: Home Depot

Headquarters: Atlanta, Georgia

Market Cap: USD 111.16 billion

Overview: The Home Depot, Inc. established in 1978, is the world's largest home improvement specialty retailer with fiscal year 2012 revenue of USD 74.8 billion and earnings of USD 4.5 billion. The Home Depot operates more than 2,200 big box format retail stores in the United States (including Puerto Rico, the U.S. Virgin Islands and Guam), Canada and Mexico. In terms of overall revenue, the company is the largest home improvement retailer in the United States. Its closest competitor is Lowe's. Home Depot retail locations are large warehouse-style buildings averaging 105,000 ft2 (9,755 m^2) with megastores operating in larger facilities (the company's largest store, located in Union, New Jersey, is 225,000 ft^2).

Following the downturn in the housing market of 2008-2009, Home Depot closed 54 stores across the US. In 2012 the company closed its big box format stores in China, but continued to operate smaller stores specializing in custom products and focusing on more intimate interactions with customers.

Home Depot Canada operates 180 stores and employs over 35,000 people in Canada, with stores stores in all ten Canadian provinces. Home Depot also serves territorial Nunavut, Northwest Territories, and Yukon via its online channel. In Mexico, the company opened its 100th store during fiscal year 2012.

Strategy: Management is focused on integrating their online and in-store data, pricing and assortment planning processes to enhance the customer experience. The company is also improving inventory management systems and completed the mechanization of their Rapid Deployment Centers. Moreover, they are developing new distribution centers and enhancing existing facilities to support direct to customer fulfillment, which should be completed in the next two years.

Additionally, we have begun the development of new distribution centers and the enhancement of existing facilities to support direct to customer fulfillment, which we expect to complete over the next two years. In 2012, the company upgraded their online platform, enhancing the site's visual appeal and functionality. In keeping with the industry trend toward multi-channel operations, they continue to enhance and improve the Buy Online, Pick-up In-Store, and Buy Online, Return In-Store programs. They are also now rolling out a Buy Online, Ship-to-Store program.

Financial Overview

In millions, fiscal year end	**FY 12 2/13/13**	**FY11 1/29/12**	**FY 10 1/30/11**
Revenue	74,754	70,395	67,997
Gross Profit	25,842	24,262	23,304
Operating Income	7,766	6,661	5,839
Net Income	4,535	3,883	3,338
Gross Margin	35%	34%	34%
Net Margin	6%	6%	5%

Total Retail Space (000 m^2)	234.5	234.9	235.
Total Retail Space - International	n/a	n/a	n/a
Wt Avg Sales per Square Foot	318.63*	299.00	288.64
Number of Stores in US	1,977	1,974	1,976
Number of Stores Outside US	283	278	272

*A 53rd week in fiscal year 2012 resulted in a $5.51 addition to wt avg sales per square foot.

Company Name: Lenta

Headquarters: St. Petersburg

Market Cap: USD 3.1 billion

Overview: Lenta is one of the largest and fastest-growing retail chains in Russia. Established in 1993 in St. Petersburg, Lenta currently operates 66 hypermarkets and 5 supermarkets in different Russian regions.

The store format ranges in size from 5,000 to 20,000m^2, with the standard format having an average of 12,000m^2 of total space, of which approximately 7,000m^2 is selling space. Lenta also operates a 20,600m^2 distribution center in St. Petersburg, which handles products for the chain throughout Russia. In addition, the Company has distribution centers in Moscow and Novosibirsk.

Overall, Lenta boasts a presence in 39 cities, a workforce of 20,000 employees, 6 million regular customers, and a product range of over 20,000 SKUs, including both food and non-food items.

Strategy: Lenta aims to double its hypermarket store count over the next three years. Also in the works are an enhanced product assortment, improvements to the supply chain, and prioritized expansion in the most promising regions with at least 18 stores to be rolled out annually. The company will continue to focus on Siberia and Russia's Northwest, entering the Urals and increasing the Company's presence in the Central District. Plans also exist to continue expansion of the real estate portfolio and introduce new store formats adapted to local needs, such as the supercompact format in smaller catchment areas and a supermarket pilot in Moscow, due to open in 2013.

Financial Overview

RUB 000, fiscal year-end	FY 12	FY11	FY 10
Revenue	109,909,902	89,766,025	70,628,291
Gross Profit	22,676,822	16,710,707	12,752,096
Operating Income	10,164,680	6,419,062	4,221,598
Net Income	5,135,798	1,696,504	2,220,121
Gross Margin	20.6%	18.6%	18.1%
Net Margin	4.7%	1.8%	3.1%
Total selling space, (000 m^2)	376	287	266
Number of stores in Russia	56	42	39

Total Retail Space as of September 30 2013 is 420,000 m^2
FY 12 Revenue per square meter was RUB287,723

Company Name: Magnit

Headquarters: Krasnodar

Market Cap: USD 30.76 billion

Overview: Founded in 1994, Magnit expanded to 1,500 stores by the end of 2005 and conducted an IPO in 2006. As of June 30, 2013, the Company operated approximately 6,552 convenience stores, 164 hypermarkets, 32 Magnit Family stores and 700 cosmetics stores in 1,713 locations. Until this year, Magnit held first place among Russian retailers based on revenues, but has now been overtaken by X5.

The Company's logistics comprise 18 distribution centers, automated stock management and a fleet of 4,646 vehicles delivering goods to all chain stores. Magnit is a leading retailer in Russia by sales. The Company's 2012 revenue totaled RUB 448,661.13 million; it is also a major employer, with over 200,000 employees.

Strategy: Magnit is pursuing a strategy of rapid, regionally-focused organic growth that emphasizes building logistics first, a move that is well suited to the Russian market with its vast geographic area and poorly developed infrastructure. The company plans to increase coverage density in all key markets and expand into the least penetrated regions. Plans include opening at least 500 convenience stores and no less than 250 cosmetics stores in towns with populations exceeding 5,000 people, and 50 hypermarkets annually in cities with populations of 50,000 or more.

The company also plans to develop a multi-format business model in order to meet the needs of customers from different income brackets. Other plans include continuing to improve logistics and invest in information technology to more effectively control inventory and traffic flows, as well as begin directly importing produce in order to minimize costs.

Financial Overview

In millions of dollars, fiscal year-end	FY 12	FY11	FY 10
Revenue	14,429.7	11,423.3	7,777.4
Gross Profit	3,785.8	2,742.0	1,718.9
Operating Income	1,125.8	624.7	463.0
Net Income	807.8	418.7	333.7
Gross Margin	26.0%	24.0%	22.1%
Net Margin	5.5%	3.7%	4.3%
Total selling space, (000 m^2)	2,549,256	1,970,164	
Revenue per square meter, USD	5.80	5.66	
Number of stores in Russia	6,884	5,309	

Company Name: Media Markt/Media-Saturn

Headquarters: Ingolstadt, Germany

Market Cap: €7.7 billion*

Overview: Media Markt is an electronics chain. Three independently managed retail brands comprise Ingolstadt-based Media-Saturn Group: Media Markt, Saturn and Redcoon. In 2011, the multinational Media-Saturn-Holding GmbH had operations in 18 European and Asian countries, net revenues of 20.6 billion euros and some 70,000 employees; it is majority-owned by METRO Group.

The first Media Markt opened in an industrial park in Munich in 1979, and the first Russian store opened in Moscow in 2006. Within **Metro Group**, Media Markt belongs to the Media-Saturn sales division. Today, Media Markt stores with a selling space ranging between 2,500 and 8,000 sq m may be found in 14 European countries.

Strategy: Media Markt prefers to focus on continued low prices as opposed to offering short-term special discounts. The Company entered the Russian market in 2006, had 54 stores in 27 Russian cities as of end-November 2013, and is currently the Number 3 electronics retailer in the country.

**This is the value – extrapolated from the price of a recently purchased stake in Media-Saturn – for Media-Saturn, of which Media Markt is a part.*

Financial Overview

Unless otherwise stated, figures are for all of Media-Saturn, not just its Media-Markt subsidiary operating in Russia

In millions of euros, fiscal year-end	FY 12	FY11	FY 10
Revenue (for Media-Saturn in Eastern Europe)	2,731	2,534	n/a
Gross Profit	n/a	n/a	n/a
Operating Income (EBIT before special items)	326	542	625
Net Income	n/a	n/a	n/a
Gross Margin	n/a	n/a	n/a
Net Margin	n/a	n/a	n/a
Total Retail Space (000 m²)	3,035	2,880	n/a
Number of Stores in Russia	48	n/a	n/a

Company Name: Metro

Headquarters: Dusseldorf, Germany

Market Cap: EUR 11.9 billion

Overview: The Metro Group is a German global diversified retail and wholesale company, and the world's eighth largest retailer based on revenue. Metro commands the largest share of the German retail market, and is one of the most globalized retail and wholesale companies. In 2012, 61.6% of the company's revenue was generated outside Germany.

The company was founded by Otto Beisheim, who after WWII worked as an electronics wholesaler. During a visit to the US, he observed how customers purchased goods directly from warehouses for cash, which differed from the German practice of wholesale orders sold on credit and delivered to the retailer. On his return home, Beisheimer put this principle into practice by establishing the first Metro store, Germany's first cash-and-carry retailer, in 1964. The Metro Group, which today includes Metro cash-and-carry stores, retailers Saturn and Media Markt, Real hypermarkets and the Kaufhof department stores across Europe and Asia, was formed through a merger of the retail companies Asko Deutsche Kaufhaus AG, Kaufhof Holding AG and Deutsche SB-Kauf AG in 1996.

In 2006, Metro Group's Real hypermarket division purchased 85 Walmart stores after the US behemoth decided to withdraw from Germany after losing billions of dollars over a ten-year period. The stores were rebranded as Real hypermarkets. Today the Metro Group operates more than 2000 stores in 32 countries around the world, and occupies leading market positions in all countries in which the Group is active.

Metro in Russia: As of the end of 2012, Metro operated 69 Cash and Carry stores, 48 Media-Markt and Saturn electronics stores, and 1 Real hypermarket in Russia. The Group entered Russia in 2001 at the personal invitation of Moscow's mayor. Selling wholesale-sized quantities at discounted prices to both wholesale and retail customers allowed Metro to quickly gain a foothold in the Russian market. By 2003, Metro had become the second largest retailer in Russia based on revenue, generating USD 610 million in 2003 although the company had only 12 locations in the country.

The company pursued a strategy of building 3-4 stores each in Moscow and St. Petersburg, and then outward into the regions, first into cities with more than one million residents and then into smaller cities. It was the company's goal to establish a presence in as many cities as possible. In 2003 Group management stated that the Russia portfolio would be one of the top five locations in their worldwide network in terms of outlets and sales within five years. The company's strategy has proved to be highly successful and today Metro is ranked fourth in Russia based on revenue.

Strategy: Metro Group refocused its strategy in 2011 in an effort to become more competitive across all sales lines, as sales growth is the company's top priority.

Management also intends to strengthen performance by increasing margins and improving cost position and cash flow. In order to achieve these goals, the company focuses on creating value for customers.

First, customer needs and expectations are the basis for strategic considerations. Research on the products and services customers demand, as well as the best sales channels to meet these demands, determines the direction taken in the business models of the company's sales lines.

Growth is the second priority, and is measured in terms of sales per square meter and customer satisfaction. Consequently, management invests in expanding services, adjusting prices and improving productivity. Indeed, improvements in all processes, including those that will reduce costs, are a significant part of company's effort to create a streamlined and effective organizational structure that will maximize the cash flow used to fund investments.

Efficient processes and optimized cash flows are the foundation for continued, stable sales growth internationally, and international expansion is the strongest pillar supporting the company's success. Finally, management views continuing innovation as the key to adding value for Metro customers.

Financial Overview

(EUR mn)	**2011**	**2012**
Revenue	91.8	85.82
Gross Profit	19.49	17.93
Operating Income	3.32	2.17
Net Income	1.03	0.13
Gross Margin	21.2%	20.9%
Net Margin	1.1%	0.2%
Total Retail Space (000 m^2)	12,954	13,003
Stores in Russia	116	131
Number of Stores	2,187	2,243

Company Name: O'Key

Headquarters: St. Petersburg, Russia

Market Cap: USD 3.3 billion

Overview: Founded in 2001 in St. Petersburg, the O'Key Group set its sights on becoming the leading grocery retailer in the St. Petersburg region. The company has succeeded in that goal and more, and today is one of Russia's leading retailers, ranked sixth in the country based on annual revenue. As of September 2013, the Group operated 87 stores in Russia's largest cities in the North-West, South, Central, Urals and Siberian regions with total selling space of approximately 455,000 square meters. Russia is one of Europe's largest retail grocery markets, and continues to offer significant potential for further growth.

O'Key focuses on the hypermarket format, based on modern Western European hypermarkets. The stores offer a wide assortment of products and goods at competitive prices as well as in-store bakeries, extensive parking, light and spacious trading areas, and playrooms for children. The Group is also developing a supermarket chain to complement the main hypermarket operations and give customers an opportunity to enjoy attractive prices in a comfortable environment, and within walking distance. O'Key offers a wide range of food and non-food products, with more than 64,000 stock keeping units (SKUs), including dairy, meat and other foods products as well as private labelled consumer goods. One third of the company's hypermarkets are located in the St. Petersburg region, and the Group enjoys strong brand loyalty in Russia's northwest.

Strategy: In 2002, the company launched its first hypermarket in St. Petersburg, and rapidly grew to become a market leader in the region. Since its inception, O'Key has focused on rapid and sustainable development. By 2015, the O'Key Group plans to operate stores in 25 of Russia's largest cities, and estimates that it will spend approximately RUB 50 billion to double selling space to around 800,000 square meters. The company also hopes to double revenue by 2016.

Management believes that the focus on the hypermarket format will allow the company to capitalize on opportunities in the under-penetrated and rapidly growing hypermarket sector of the Russian retail market. They contend that O'Key is well-positioned to take advantage of these in regions outside of St. Petersburg, including the Urals region, Siberia and the Moscow region market, which is underserved by hypermarkets despite its position as the city with the highest retail turnover per capita in Russia.

O'Key Goup is also focusing on developing its logistics system and IT infrastructure in order to optimize inventory levels, better forecast demand and improve the effectiveness of both its customer-focused category management and supply chain systems.

Financial Overview

In 000 RUB	**2012**	**2011**	**2010**
Revenue	117,333,236	93,134,430	82,666,633
Gross Profit	27,626,985	21,281,043	17,924,022
Operating Income	7,326,215	5,388,520	5,790,879
Net Income	4,678,861	3,239,880	3,002,994
Gross Margin	24%	23%	22%
Net Margin	4%	3%	4%

Total Retail Space, (000 m^2)	428	346	287
Total Hypermarket Space, (000 m^2)	387	308	260
Number of Hypermarkets	52	42	35
Number of Supermarkets	31	29	22

Company Name: Tesco

Headquarters: Cheshunt, Hertfordshire, UK

Market Cap: USD 46.37 billion

Overview: Tesco is one of the world's largest retails, ranked fourth this year after losing its number three ranking to Costco. The company, employing more than 530,000 people and serving customers in the UK, Europe and Asia, is the leading grocery retailer in the UK with a market share of more than 30%.

The company was founded in 1919 by Jack Cohen as a group of market stalls, with the Tesco name first appearing in 1924. The first Tesco store opened in 1929 in Burnt Oak, Middlesex, and by 1939 there were more than 100 Tesco stores across the country. From its roots as a grocery store, Tesco expanded in the 1990s, diversified both geographically and into different business lines and product areas, including books, clothing, electronics, furniture, gasoline, software, financial services, internet and telecom services, DVD rental and music downloads. Also in the 1990s the company expanded beyond targeting only the lowest price segment of the market and created product lines appealing across the market. The company's formats include:

Tesco Extra: These are principally larger, mainly out-of-town hypermarkets that stock nearly all of Tesco's product ranges, although some are located in town center and inner-city locations.

Tesco Superstores: These are standard large supermarkets that stock groceries and a significantly smaller range of non-food goods than Extra locations. Previously branded as simply Tesco, only recently the stores have re-branded as Superstores.

Tesco Metro: These stores are between Tesco Superstores and Tesco Express Stores in size, with locations averaging 1000 square meters. They are mainly located in city centers beside train stations, the inner city, and on town high streets.

Tesco Express: These are neighborhood convenience stores average 200 square meters, stocking mainly food with an emphasis on higher margin products. They are found in busy city centers, small shopping areas in residential areas, small towns and villages, and in Esso gas station forecourts.

Strategy: Tesco's strategy is to appeal to all segments of the market, a prominent component of which is its focus on its own range of branded products, from the low-prices Value line to the upmarket Finest. The product ranges are not limited to food, and encompass categories such as beverages, housewares, and clothing as well as Tesco Mobile and Tesco Bank services.

The company focuses on people, both customers and employees. The current strategy is to grow the UK core business by improving like-for-like sales through the "Building a Better Tesco" program that is intended to enhance the customer experience. Another pillar of strategy is to improve the shopping experience for international customers as well, particularly in Central Europe, where customer satisfaction has declined in the past year. Finally, the company plans to become as strong in other product lines as it is in food, and improve service standards across all business lines. The company has pulled out of several international markets, including the US and Japan, in recent years but is calibrating its portfolio through diversified formats and new markets.

Financial Overview

£ millions	**FY13**	**FY 12**	**FY 11**
Revenue	64,826	63,916	60,931
Gross Profit	4,089	5,397	5,060
Operating Income	2,188	4,182	3,811
Net Income	120	2,814	2,671
Gross Margin	6%	4%	8%
Net Margin	2.2%	4.9%	4%
Total Retail Space (000 m^2)	NA	NA	103.6
Total Number of Stores	6,784	6,234	5,380
UK	3,146	2,979	2,715
US	NA	185	164
Europe	1,507	1,351	1,082
Asia	2,131	1,719	1,419

Fiscal years end in Feb 2013 and January 2012 FY 13

Company Name: X5

Headquarters: Moscow

Market Cap: USD 4.6 billion

Overview: X5 Retail Group is the country's market leader in food retail. The Company operates the a soft discounter chain under the Pyaterochka brand, a supermarket chain under the Perekrestok brand, a hypermarket chain under the Karusel brand, an online retail channel under the E5.ru brand and convenience stores under various brands (including Kopeyka and Perekrestok Express).

X5 Retail Group N.V. was established on May 18, 2006, as the result of the merger between the Pyaterochka and Perekrestok retail chains. In June 2008, X5 acquired the Karusel hypermarket chain, substantially strengthening the Company's position in the hypermarket format, and became a multi-format retail chain. X5 continued the consolidation of the Russian retail market with the acquisition of the Paterson retail chain in 2009 and the Kopeyka chain in 2010. In 2011, X5 added 577 stores organically and completed integrating the Kopeyka retail chain by rebranding 616 Kopeyka stores to the Pyaterochka and Perekrestok brands.

Pyaterochka stores emphasize convenient locations and the lowest prices. With average net selling space of 350 square meters, the stores offer approximately 3,500 stock keeping units (SKUs).

The Perekrestok focus is on quality and service, with a broad selection of fresh goods at fair prices supported by original promotional and advertising campaigns. Perekrestok stores offer approximately 11,000 SKUs with an average net selling space of 1,000 square meters. The Company is also developing a high-end supermarket under the Green Perekrestok brand.

Karusel hypermarkets offer one-stop shopping at low prices with a wide range of quality food and non-food products, efficient check out and weekly catalogues. The stores have an average net selling space of 5,000 square meters and offer approximately 22,000 SKUs.

The Perekrestok Express brand offers ready meals, which account for up to 50% of the product assortment, in high-traffic zones. Kopeyka offers convenient shopping in residential areas with a focus on fresh products.

In early 2012, X5 launched E5.RU, an online retail store offering more than 400,000 non-food products. E5.RU offers the convenience and flexibility of choosing the time, location and method for receiving and paying for online purchases. Customers may pay for and receive merchandise selected online at Perekrestok and Pyaterochka stores in Moscow, the Moscow region, St. Petersburg and certain other regions.

Strategy: The Company's strategy is to leverage its multi-format retail structure and scale to take advantage of growth opportunities in the Russian market. They plan to focus on retail expansion and organic growth using the Moscow and St. Petersburg locations as a source of funding. An emphasis on service, product quality and assortment is expected to increase the customer base, while strict management Of Costs And Shrinkage Is Intended To Have A Positive Impact On Margins.

Financial Overview

USD millions	**2012**	**2011**	**2010**
Revenue	15,795	15,455	11,280
Gross Profit	3,724.2	3,679	2,629
Operating Income	191.4	702	545.1
Net Income	(126.5)	302.2	271.2
Gross Margin	23.6%	23.8%	23.3%
Net Margin	NA	2%	2.4%

Total Retail Space, (000 m^2)	1,969.7	1,727.3	1,555
Number of Stores in Total	3,802	3,002	2,469
Pyaterochka	3,220	2,525	1,392
Perekrestok	370	330	301
Karusel	78	77	71
Convenience	134	70	45

Other Privately Held or Subsidiary Retailers Active in the Russian Market

Leroy Merlin: The fourth largest DIY company in the world, Leroy Merlin is a French home improvement and gardening retailer and a subsidiary of the larger French DIY Groupe Adeo. Globally, the French retailer owns 360 hypermarkets in 10 countries.

Leroy Merlin stores are typically big box locations of around 9000 square meters located on the outskirts of major towns and cities. The stores provide both self and sales-assisted services, and the business is centered on six main sectors: DIY, building, gardening, sanitary equipment, renewable energy and interior decoration.

The first Leroy Merlin store in Russia opened in 1998, and today Leroy Merlin operates 24 Moscow and regional stores and employs more than 10,000 people. Currently the company is preparing to open its first hypermarket in the Tver region of Russia, with plans to build another 15 hypermarkets across the country.

The company will invest approximately USD 500 million invested in the expansion, and management is convinced that the Russian market holds significant potential. Stores are planned for Tula, Lipetsk, Kalga, Ivanovo, Briansk, Belgorod, Vladimir, Orel, Smolensk, Kursk, Stary Oskol and Ryazan, all of which have populations of more than 400,000.

OBI: Founded in 1970, the company is the second largest DIY retailer in Europe, the third largest in the world, behind The Home Depot and Lowe's, and the leading brand in the German and European DIY segment. The company is headquartered in Wermelskirchen, Germany and is owned by the Tengelmann Group. In 2012, OBI recorded sales of nearly EUR 6.9 billion.

Apart from Germany, the company operates in the Czech Republic, Slovenia, Poland, Hungary, Bosnia-Herzegovina, Italy, Austria, Switzerland and Croatia. OBI is the fourth largest DIY retailer in the world and employs more than 38.000 people worldwide. According to a survey by the TNS Infratest institute, OBI is among the best-known brands in Germany with brand awareness of over 95%.

OBI entered the Russian market in 2003, and today operates 19 stores in Russia, with locations in Moscow, St. Petersburg, Nizhny Novgorod, Kazan and Ekaterinburg. Each store features an average sales area of 11,000 square meters. According to management, the company has enjoyed double digit growth for transactions in comparable Russian OBI stores over the last three years, while customer traffic has increased by 8%. The company plans to open four stores per year in Russia through 2016, with particular focus on the eastern and southern regions of the country.

Castorama: Established in 1969, Castorama is a French retailer of DIY tools and supplies and part of the Kingfisher group, a leading European home improvement retail group. The stores stock up to 50,000 products in the largest locations in France, and are aimed at mainstream consumers. The company operates a total of 196 stores in France, Poland and Russia.

Today in Russia there are 19 Castorama stores with up to 34,000 SKUs each located throughout the country, in Moscow, Samara, St. Petersburg, Rostov-On-Don, Omsk, Krasnodar, Voronezh, Togliatti, Ufa, Perm, Nizhny Novgorod and Yekaterinburg. Every month these stores serve more than 3 million customers in total, and Castorama employs more than 3000 people in Russia. It is currently one of the top three largest DIY retailers by sales revenue in the country. Since 2005, Castorama Russia has invested more than RUB 10 billion in the Russian economy. The company plans to continue to expand its activities in Russia.

O'Key: A Case Study in the Hypermarket Segment of the Russian Retail Market

The O'Key Group opened its first hypermarket in St. Petersburg in 2002, and today the company has grown to become one of the largest retail chains in Russia. It is ranked sixth overall in the country based on revenue, and operates 86 stores in Russia's 20 largest cities in the North-West, South, Central, Urals and Siberian regions with total selling area exceeding 435,000 square metres.

The company operates its O'Key hypermarkets and Express supermarkets across Russia, although St. Petersburg remains the largest market in terms of revenue. Since its founding, the company has adhered to an expansion strategy intended to capitalize on the growth opportunities in the underserved and rapidly growing hypermarket sector. In recent years, the company has focused not only on Moscow, the largest retail market in Russia, but has looked toward the regions for growth. O'Key focuses primarily on large cities with a population in excess of 500,000.

Offering the consumer a unique value proposition

Company management believes that the Russian retail market will grow rapidly over the next 3-5 years, and is focused on providing regional customers with their value proposition. This includes:

- A broad product range with competitive prices and high quality, with an emphasis on fresh food, in-store bakeries, deli products, and a wide selection of non-food products;
- a modern and attractive shopping environment;
- hypermarket locations in close proximity to traffic hubs including major intersections, and accessible to public transportation, and supermarkets located in residential areas;
- a range of convenient in-store service providers such as dry-cleaners, banks, food courts and pharmacies;
- supervised in-store play areas to allow parents to shop at their leisure; and
- attentive customer service coupled with a large number of checkout lanes to reduce waiting time.

O'Key views its value proposition as a competitive advantage. In particular, they seek to add value through their pricing model, which is intended to make higher quality products more affordable, thus translating into a higher average check.

Betting on regional expansion

O'Key's business model was highly successful in St. Petersburg, which according to *Planet Retail*, has the most saturated and competitive food market in Russia. O'Key's average check has been the highest among hypermarkets operated by domestic competitors including X5's Karusel, Dixy's Megamart and Magnit. The chain attributes its strong position in the St. Petersburg market to customer satisfaction and loyalty, and intends to replicate its business model to achieve similar customer satisfaction levels as it expands regionally.

As O'Key continues to expand regionally, the company's focus on modern hypermarkets based on Western European-style hypermarkets, rather than the less attractive warehouse-style hypermarkets more common in

Russia, will help sustain a competitive advantage by offering a more appealing shopping environment. Particularly in the regions beyond Moscow, where the penetration of modern retail formats is lower, the company is well positioned to take advantage of projected growth in the retail market. In particular, the company will focus on areas such as the Urals region, the second-wealthiest region in Russia and Siberia, as well as the Moscow region, which continues to be underpenetrated by hypermarkets despite its status as the largest retail market.

Strategies for success

As O'Key expands it hypermarket and supermarket operations, the company is increasingly able to realize economics of scale and margin gains that will contribute to greater flexibility in competitive pricing and add even more value for shoppers. The increased scale is helping the company source merchandise on more attractive terms and gain access to an ever-wider network of suppliers and quality products.

Successful regional expansion is also being driven by the ability to customer tailor the selection of merchandise to suit local tastes and preferences. O'Key is also benefiting from a greater share of revenue from imported non-food products such as clothing, footwear, home appliances and electronics, all of which are higher margin products.

Increasing the share of private label products has also enhanced margin, as private label incurs little in the way of marketing costs and offers higher margins than branded products. This additional option for customers complement the broad product range and offer customers a chance to save money on staple products, thus freeing up wallet for additional branded products. Such a strategy contributes to heightened customer loyalty while increasing profit margins and overall competitiveness.

Logistics and IT infrastructure are critical tools in supporting strategy

Sales and import logistics are critical, as a sound logistics base is necessary to insure that a broad product range is consistently available. The company is able to source most of its merchandise directly from manufacturers and distributors, which makes it possible for O'Key to open stores throughout the country. Most non-food, private label and non-branded products are imported from China, India and Italy and distributed to store locations by third-party transport companies from logistics hubs in St. Petersburg. Although the company is expanding warehouse capacity in order to support increased import and private label business, O'Key is using cross-docking, or the practice of unloading product from one truck or railcar to another with little or no storage in between. Not only does the practice reduce warehousing costs, but it reduces dependence on distributors and facilitates improved delivery times and greater product availability.

IT infrastructure has also been enhanced to support expansion, and in 2009 the company began to build an advanced retail management system to streamline and automate everything from supplier negotiations, assortment and pricing to delivery and retail space management. Implementation was conducted in five stages, the final completed last year. The increasing sophistication of the IT backbone is further contributing to successful regional expansion.

Location, location, location…

The company also attributes successful expansion to its careful choice of store locations. In determining where to locate a new hypermarket, the company evaluates publicly available demographic data, segmenting cities into segments by population. A competitive analysis determines which retailers are already present, and then potential share of household spending and store revenue are estimated. All of these criteria are taken into account when deciding to lease, build or acquire an existing store. Location is critical and hypermarkets must be located near public transportation hubs with large residential areas within a fifteen minute car ride or a 30 minute trip by public transport. In areas of lower population density and greater under-penetration of modern format retail, these parameters could be relaxed.

Expansion continues apace

Since opening its very first hypermarket, O'Key has made steady progress in its march across Russia. From a single store in 2002, the company had opened 52 stores by 2010, 32 hypermarkets and 22 supermarkets. Even in the 18 months following the financial crisis in 2009, O'Key managed to open 15 new stores. By the end of 2012, O'Key operated 52 hypermarkets and 31 supermarkets, demonstrating a steadily increasing rate of expansion.

Canada

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	30.5	30.8	31.1	31.4	31.7	32.0	32.3	32.6	33.0	33.3	33.7	34.1	34.5	35.1
GDP Per Capita - Current USD[2]	21,681	23,559.5	23,017.4	23,425.2	27,335.3	31,011.9	35,087.9	39,250	43,248.5	45,101.6	39,659.1	46,211.5	51,554.1	52,219
GDP Per Capita - Constant LCU[2]	37,752	39,379	39,679	40,474	40,827	41,681	42,518	43,364	43,845	43,630	41,907	42,748	43,374	43,614
Annual GDP Growth (%) - LCU[2]	4.7	4.3	0.8	2.0	0.9	2.1	2.0	2.0	1.1	-0.5	-3.9	2.0	1.5	0.6
Real Household Disposable Income Growth (%)[3]	2.9	4.8	2.8	1.8	2.1	3.8	2.5	5.7	3.8	4.2	1.1	3.5		
Household Final Consumption per Capita (constant '05 USD)[2]	16,890	17,417	17,629	18,107	18,466	18,882	19,384	20,027	20,718	21,087	20,920	21,363	21,645	
Household Final Consumption Per Capita Growth (annual %)[2]	3.0	3.1	1.2	2.7	2.0	2.3	2.7	3.3	3.5	1.8	-0.8	2.1	1.3	
Household Final Consumption/ GDP (%)[2]	57.1	55.4	56.0	56.8	56.6	55.8	55.3	55.3	55.6	55.5	58.7	57.9	58.0	
Total Retail Space (000 m^2)[4]	956.5	1,224.2	1,489.5	1,668.1	1,774.2	1,993.9	2,160.1	2,393.1	2,783.2	3,246.7	3,778.4	4,409.1	5,300.4	6,092.0
Annual Growth in Hypermarket Retail Space (%)[4]		28.0	21.7	12.0	6.4	12.4	8.3	10.8	16.3	16.7	16.4	16.7	20.2	14.9
Total Number of Hypermarkets[4]	171.0	191.0	204.0	220.0	225.0	241.0	248.0	261.0	281.0	307.0	336.0	370.0	414.0	458.0
Growth in Hypermarkets[4]		11.7	6.8	7.8	2.3	7.1	2.9	5.2	7.7	9.3	9.4	10.1	11.9	10.6

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

Czech Republic

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	10.29	10.278	10.267	10.206	10.203	10.211	10.221	10.251	10.287	10.381	10.468	10.507	10.53	10.553
GDP Per Capita - Current USD[2]	6,045	5,725	6,289	7,685	9,336	11,157	12,706	14,446	17,467	21,627	18,806	18,867	20,580	18,608
GDP Per Capita - Constant LCU[2]	238,013	248,254	256,839	263,173	273,018	285,723	304,426	324,742	341,205	348,736	331,023	338,221	345,382	340,202
Annual GDP Growth (%) - LCU[2]	1.8	4.3	3.5	2.5	3.7	4.7	6.5	6.7	5.1	2.2	-5.1	2.2	2.1	-1.5
Real Household Disposable Income Growth (%)[3]	2.0	2.0	2.3	3.0	4.0	1.8	5.1	5.6	3.8	2.1	1.3	0.2		
Household Final Consumption per Capita (constant '05 USD)[2]	5,193	5,248	5,430	5,607	5,898	6,092	6,269	6,524	6,754	6,884	6,858	6,901	6,949	
Household Final Consumption Per Capita Growth (annual %)[2]	2.2	1.1	3.5	3.2	5.2	3.3	2.9	4.1	3.5	1.9	-0.4	0.6	0.7	
Household Final Consumption/ GDP (%)[2]	52.6	51.9	51.5	51.3	51.5	50.5	49.3	48.6	47.7	48.9	50.6	50.6	50.6	50.3
Total Retail Space (000 m^2)[4]	301.0	454.0	599.0	669.0	774.0	891.2	1,018.3	1,105.4	1,186.3	1,241.8	1,263.6	1,291.2	1,344.7	1,389.8
Annual Growth in Hypermarket Retail Space (%)[4]		50.8	31.9	11.7	15.7	15.1	14.3	8.6	7.3	4.7	1.8	2.2	4.1	3.4
Total Number of Hypermarkets[4]	63.0	94.0	114.0	127.0	145.0	161.0	189.0	210.0	230.0	244.0	258.0	267.0	283.0	296.0
Growth in Hypermarkets[4]		49.2	21.3	11.4	14.2	11.0	17.4	11.1	9.5	6.1	5.7	3.5	6.0	4.6

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

France

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	58.497	58.858	59.267	59.686	60.102	60.505	60.963	61.4	61.795	62.135	62.466	62.765	63.089	63.409
GDP Per Capita - Current USD[2]	24,075	21,775	21,812	23,494	28,794	32,785	33,819	35,457	40,342	43,992	40,488	39,186	42,522	39,772
GDP Per Capita - Constant LCU[2]	25,295	26,047	26,333	26,385	26,435	26,909	27,195	27,672	28,130	27,951	26,932	27,258	27,666	27,533
Annual GDP Growth (%) - LCU[2]	2.8	3.0	1.1	0.2	0.2	1.8	1.1	1.8	1.7	-0.6	-3.6	1.2	1.5	-0.5
Real Household Disposable Income Growth (%)[3]	2.7	3.1	3.1	3.5	0.5	2.1	1.1	2.4	3.0	0.2	1.2	0.9	0.6	
Household Final Consumption per Capita (constant '05 USD)[2]	17,562	18,036	18,334	18,564	18,750	18,926	19,245	19,535	19,878	19,816	19,766	19,973	19,985	
Household Final Consumption Per Capita Growth (annual %)[2]	2.9	2.7	1.7	1.3	1.0	0.9	1.7	1.5	1.8	-0.3	-0.3	1.0	0.1	
Household Final Consumption/ GDP (%)[2]	55.9	56.2	56.5	56.4	56.8	56.6	56.9	56.7	56.5	56.9	58.1	58.1	57.7	57.7
Total Retail Space (000 m^2)[4]	6,752.0	6,855.9	7,063.6	7,271.4	7,375.3	7,680.2	7,941.0	8,297.6	8,564.4	8,734.2	9,091.8	9,164.0	9,503.9	9,492.1
Annual Growth in Hypermarket Retail Space (%)[4]		1.5	3.0	2.9	1.4	4.1	3.4	4.5	3.2	2.0	4.1	0.8	3.7	-0.1
Total Number of Hypermarkets[4]	1,126.0	1,146.0	1,176.0	1,200.0	1,265.0	1,310.0	1,360.0	1,442.0	1,494.0	1,533.0	1,591.0	1,607.0	1,648.0	1,655.0
Growth in Hypermarkets[4]		1.8	2.6	2.0	5.4	3.6	3.8	6.0	3.6	2.6	3.8	1.0	2.6	0.4

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

Germany

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	82.087	82.188	82.34	82.482	82.52	82.501	82.465	82.366	82.262	82.12	81.875	81.757	81.779	81.917
GDP Per Capita - Current USD[2]	25,957	22,946	22,840	24,326	29,367	33,040	33,543	35,238	40,403	44,132	40,275	40,164	44,021	41,514
GDP Per Capita - Constant LCU[2]	25,520	26,264	26,617	26,575	26,461	26,774	26,972	28,002	28,956	29,325	27,892	29,097	29,970	30,138
Annual GDP Growth (%) - LCU[2]	1.8	2.9	1.3	-0.2	-0.4	1.2	0.7	3.8	3.4	1.3	-4.9	4.3	3.0	0.6
Real Household Disposable Income Growth (%)[3]	1.8	0.9	1.7	-0.0	0.7	0.6	0.4	1.2	-0.0	1.0	-0.7	0.9		
Household Final Consumption per Capita (constant '05 USD)[2]	19,110	19,471	19,697	19,549	19,594	19,666	19,709	20,026	20,014	20,206	20,285	20,505	20,850	
Household Final Consumption Per Capita Growth (annual %)[2]	2.3	1.9	1.2	-0.7	0.2	0.4	0.2	1.6	-0.1	1.0	0.4	1.1	1.7	
Household Final Consumption/ GDP (%)[2]	58.1	58.4	58.7	58.2	58.9	58.5	58.8	57.9	55.9	56.2	58.6	57.4	57.4	57.6
Total Retail Space (000 m^2)[4]	7,933.3	8,269.4	8,365.2	8,506.3	8,708.9	7,298.7	7,516.2	8,165.3	8,388.5	8,344.0	8,457.6	8,271.4	7,868.5	7,903.9
Annual Growth in Hypermarket Retail Space (%)[4]		3.8	4.5	1.2	3.5	-8.0	1.5	6.1	0.8	1.1	2.0	-2.5	-0.7	-1.4
Total Number of Hypermarkets[4]	1,500.0	1,557.0	1,627.0	1,647.0	1,705.0	1,569.0	1,592.0	1,689.0	1,703.0	1,722.0	1,757.0	1,713.0	1,701.0	1,678.0
Growth in Hypermarkets[4]		3.8	4.5	1.2	3.5	-8.0	1.5	6.1	0.8	1.1	2.0	-2.5	-0.7	-1.4

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

Poland

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	38.667	38.654	38.254	38.242	38.219	38.191	38.174	38.157	38.125	38.116	38.136	38.167	38.53	38.896
GDP Per Capita - Current USD[2]	4,340	4,454	4,979	5,184	5,675	6,620	7,963	8,958	11,157	13,886	11,295	12,302	13,382	12,708
GDP Per Capita - Constant LCU[2]	20,958.3	21,968.4	22,352.7	22,685.9	23,579.1	24,853.9	25,764.2	27,386.0	29,260.1	30,755.9	31,226.9	32,470.8	33,608.2	34,211.6
Annual GDP Growth (%) - LCU[2]	4.5	4.8	1.7	1.5	3.9	5.4	3.7	6.3	6.8	5.1	1.5	4.0	3.5	1.8
Real Household Disposable Income Growth (%)[3]	3.5	1.7	4.1	-1.0	1.2	1.7	1.5	4.5	4.6	4.0	4.8	2.7		
Household Final Consumption per Capita (constant '05 USD)[2]	4,190	4,345	4,466	4,622	4,722	4,945	5,048	5,303	5,568	5,887	6,002	6,191	6,298	6,349
Household Final Consumption Per Capita Growth (annual %)[2]	5.8	3.7	2.8	3.5	2.2	4.7	2.1	5.1	5.0	5.7	1.9	3.2	1.7	0.8
Household Final Consumption/ GDP (%)[2]	63.2	64.1	65.0	66.9	65.8	64.7	63.4	62.5	60.5	61.6	61.2	61.3	61.1	61.2
Total Retail Space (000 m^2)[4]	414.0	752.0	1,025.0	1,217.0	1,423.9	1,566.4	1,701.0	1,889.5	2,028.6	2,196.4	2,319.4	2,419.1	2,503.5	2,605.7
Annual Growth in Hypermarket Retail Space (%)[4]		81.6	36.3	18.7	17.0	10.0	8.6	11.1	7.4	8.3	5.6	4.3	3.5	4.1
Total Number of Hypermarkets[4]	65.0	117.0	158.0	186.0	205.0	237.0	257.0	287.0	329.0	368.0	397.0	418.0	439.0	456.0
Growth in Hypermarkets[4]		80.0	35.0	17.7	10.2	15.6	8.4	11.7	14.6	11.9	7.9	5.3	5.0	3.9

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

Russia

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	146.9	146.3	146.3	145.9	145.3	144.6	143.8	143.2	142.5	142.1	141.9	141.9	141.9	141.9
GDP Per Capita - Current USD[2]	1,339	1,775	2,101	2,375	2,976	4,109	5,337	6,947	9,146	11,700	8,616	10,710	13,284	14,037
GDP Per Capita - Constant LCU[2]	32,966	49,935	61,279	74,461	91,344	118,368	150,959	188,893	233,973	290,784	273,464	325,225	390,316	436,130
Annual GDP Growth (%) - LCU[2]	6.8	10.0	5.3	5.2	7.8	7.7	6.9	8.6	8.8	5.4	-7.8	4.2	3.9	3.0
Household Final Consumption per Capita (constant '05 USD)[2]	1,526.0	1,635.3	1,792.1	1,950.1	2,107.4	2,373.7	2,665.4	3,000.2	3,435.5	3,800.1	3,606.4	3,793.0	4,019.3	4,274.0
Household Final Consumption Per Capita Growth (annual %)[2]	-2.5	7.2	9.6	8.8	8.1	12.6	12.3	12.6	14.5	10.6	-5.1	5.2	6.0	6.3
Household Final Consumption/ GDP (%)[2]	53.5	46.2	48.9	51.2	49.9	49.9	49.4	48.7	49.9	47.4	52.8	50.6	48.0	48.1
Total Retail Space (000 m^2)[4]	3.7	6.4	9.6	30.0	87.3	305.6	568.3	1,293.0	1,873.4	2,330.7	2,513.8	2,682.6	3,064.2	3,455.5
Annual Growth in Hypermarket Retail Space (%)[4]		73.0%	50.0%	212.5%	191.0%	250.1%	86.0%	127.5%	44.9%	24.4%	7.9%	6.7%	14.2%	12.8%
Total Number of Hypermarkets[4]	2	3	4	9	26	54	97	190	270	351	380	432	520	605
Growth in Hypermarkets[4]		50.0%	33.3%	125.0%	188.9%	107.7%	79.6%	95.9%	42.1%	30.0%	8.3%	13.7%	20.4%	16.3%

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

United Kingdom

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	58.684	58.886	59.113	59.319	59.552	59.842	60.235	60.584	60.986	61.398	61.792	62.262	62.735	63.244
GDP Per Capita - Current USD[2]	25,625.2	25,057.6	24,836.4	26,997.0	31,153.0	36,695.1	38,121.6	40,481.0	46,330.2	43,146.8	35,331.3	36,232.8	38,960.8	38,514.5
GDP Per Capita - Constant LCU[2]	17,840	18,529	18,994	19,385	20,043	20,522	20,967	21,380	22,015	21,657	20,656	20,872	20,918	20,817
Annual GDP Growth (%) - LCU[2]	2.8	3.9	2.5	2.1	3.4	2.4	2.2	2.0	3.0	-1.6	-4.6	1.0	0.2	-0.5
Real Household Disposable Income Growth (%)[3]	2.7	4.7	5.4	2.4	3.2	0.4	2.0	1.1	1.1	1.3	1.5	0.5		
Household Final Consumption per Capita (constant '05 USD)[2]	20,308	21,293	22,042	22,814	23,533	24,160	24,633	24,845	25,359	24,791	23,873	24,011	23,638	23,740
Household Final Consumption Per Capita Growth (annual %)[2]	4.7	4.9	3.5	3.5	3.2	2.7	2.0	0.9	2.1	-2.2	-3.7	0.6	-1.6	0.4
Household Final Consumption/ GDP (%)[2]	63.2	64.1	65.0	66.9	65.8	64.7	63.4	62.5	60.5	61.6	61.2	61.3	61.1	61.2
Total Retail Space (000 m^2)[4]	3,524.8	3,647.8	3,836.3	4,059.5	4,240.3	4,509.0	4,772.0	5,107.0	5,353.0	5,587.0	5,743.0	5,979.0	6,233.4	6,430.1
Annual Growth in Hypermarket Retail Space (%)[4]		3.5	5.2	5.8	4.5	6.3	5.8	7.0	4.8	4.4	2.8	4.1	4.3	3.2
Total Number of Hypermarkets[4]	850.0	891.0	932.0	973.0	1,015.0	1,150.0	1,161.0	1,214.0	1,258.0	1,299.0	1,332.0	1,371.0	1,414.0	1,444.0
Growth in Hypermarkets[4]		4.8	4.6	4.4	4.3	13.3	1.0	4.6	3.6	3.3	2.5	2.9	3.1	2.1

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

United States

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population[1] (millions)	275.9	279.0	282.2	285.1	287.8	290.3	293.0	295.6	298.4	301.2	304.1	306.8	310.5	312.8
GDP Per Capita - Current USD[2]	33,332	35,082	35,912	36,819	38,225	40,292	42,516	44,623	46,349	46,760	45,305	46,616	48,113	49,965
GDP Per Capita - Constant LCU[2]	38,386	39,545	39,584	39,935	40,604	41,630	42,516	43,228	43,636	43,070	41,366	42,001	42,447	43,063
Annual GDP Growth (%) - LCU[2]	3.7	3.0	0.1	0.9	1.7	2.5	2.1	1.7	0.9	-1.3	-4.0	1.5	1.1	1.5
Real Household Disposable Income Growth (%)[3]	3.1	4.8	2.5	3.6	2.9	3.1	1.4	4.0	2.0	2.7	-2.1	2.2		
Household Final Consumption per Capita (constant '05 USD)[2]	25,930	26,959	27,411	27,872	28,414	29,081	29,790	30,345	30,747	30,298	29,468	29,751	30,264	
Household Final Consumption Per Capita Growth (annual %)[2]	4.3	4.0	1.7	1.7	1.9	2.3	2.4	1.9	1.3	-1.5	-2.7	1.0	1.7	
Household Final Consumption/ GDP (%)[2]	68.19	69.00	69.85	70.25	70.38	70.10	70.07	69.86	69.99	70.58	70.84	70.85	71.57	
Total Retail Space (000 m^2)[4]	18959.3	22230.4	26779.8	32004.9	34514.4	38804.6	43994.2	49278.7	53382.6	56718.5	58794.7	61137.2	63318	65711.9
Annual Growth in Hypermarket Retail Space (%)[4]		17.3	20.5	19.5	7.8	12.4	13.4	12	8.3	6.2	3.7	4	3.6	3.8
Total Number of Hypermarkets[4]	1,242	1,449	1,723	2,038	2,194	2,469	2,771	3,091	3,315	3,517	3,668	3,800	3,931	4,071
Growth in Hypermarkets[4]		16.7	18.9	18.3	7.7	12.5	12.2	11.5	7.2	6.1	4.3	3.6	3.4	3.6

Sources: [1]Trading Economics; [2]World Bank; [3]OECD; [4]Euromonitor

Appendix | Sources

Alfa Bank
AT Kearny
Aton
CB Richard Ellis
Citi Retail Digest
Credit Suisse
Colliers Real Estate Review
Cushman & Wakefield
Deloitte
Deutsche Bank
Euromonitor
Eurostat
Financial Times
Goldman Sachs
Harvard Business Review
Harvard Business School
Infoline
International Council of Shopping Centers
Jones Lang LaSalle
King Sturge
Kommersant
MDM Bank
Morgan Stanley
National Retail Federation
OECD
PMR
Renaissance Capital
Rosstat
Sberbank Investment Research
Vedomosti
The Wall Street Journal
The World Bank

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Kim Iskyan has over twenty years of experience in investment research and consulting in frontier and emerging markets.

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