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Russia's retail trade: assessment of the state and priority directions of the development

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Abstract

The second decade of the 21-st century is characterized by the increased global instability and the growing transition to geostrategic polycentricity. Since 2014, the Russian Federation has been under imposed sanctions pressure of the United States and the European Union countries that are forcing it to change its foreign policy and economic development course radically. In this paper we examined the dynamics of the retail market of the Russian Federation for the period 2012-2017 and analyzed the state of its structure. Authors identified and reviewed the following problems: the continuance of the trade objects deficit in the country regions; the non-conformity of the retail trade structure quality to the modern requirements; the negative trend of changes and disproportions in the consumer market development in the perspective of the territorial location of metropolitan areas; the lack of sufficient availability of the range of goods with different price levels, suitable for purchasing power to all social groups and classes, and others. Then we made a number of proposals related to the priority direction of the domestic trade development in Russia. In order to improve the population's quality of life in the short term it is required to increase the number of the stationary trading network objects, and also to provide conditions for the proportionality of their placement.

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Keywords

Retail market, trade structure, supply of retail space to the population, FMCG-goods, economics.

Introduction

The second decade of the 21-st century is characterized by the increased global instability and the growing transition to geostrategic polycentricity. Since 2014, the Russian Federation has been under imposed sanctions pressure of the United States and the European Union countries that are forcing it to change its foreign policy and economic development course radically [Tevanyan, 2018]. In response to this unfriendly action, Russia implied the counter-sanctions banning on the import of certain types of agricultural products, raw materials and food. In later years this ban was prolonged until December 31, 2018.

Today Russia's retail tradeis at the epicenter of geopolitical and geo-economic problems and, as a result, in the influence of their multi-directional external and internal factors. Despite the difficult economic climate and the permanent destructive impact of sanctions, the retail remains the most important budget-forming sector of the state economy and makes up the fifth part of the gross national product.

In recent years, positive trends of increasing competition and entrepreneurial activity have been clearly observed in the field of retail trade [Kulikova, Tropynina, Suvorova, 2018]. Nevertheless, the current state of the Russia's domestic market is still characterized by instability, high degree of commodity saturation, decentralized structure, and, as a result, the growing complexity of decision-making management. These issues necessitate the further study of the current state of the Russia's domestic retail market and the assessment of its future development.

Main part

According to Russian Federal State Statistics Service "Rosstat" [The trade in Russia, www], in 2012 the retail trade turnover in Russia increased by 5.9% in comparison to 2011, and amounted to 21.319 trillion rubles. At the end of 2013, this figure in comparable prices increased by 3.8% (25.245 trillion rubles), in 2014 increased by another 0.2% and amounted to 22.172 trillion rubles. In 2015, there was a slight increase in retail turnover to 27.527 trillion rubles (an increase by 4.4%), and it has been noticed that import-dependent retail enterprises had difficulties in establishing economic relations with suppliers. In this connection, in 2016, the market situation worsened (28,317 trillion rubles – an increase by 2.8%). A noticeable positive dynamic in turnover was manifested only in 2017 (29,813 trillion rubles – an increase by 5.3%). That is highly likely occurred not due to the raising sales volumes, but due to an increase in prices for consumer goods, compensation for wages and growth of credit provided to the population.

Meanwhile, the change in the structure of retail trade turnover for 2012-2017 was generally insignificant. In 2013, as well as in 2012, the proportion of food products amounted to 44.9%, in 2014 – 45.6%, in 2015 – 48.6%, in 2016 - 48.7%, and in 2017 – 48.2%. The share of non-food products is accordingly: 55.1%, 51.4%, 51.3% and 51.8%. It should be noted that for the first time in six years the trade turnover of public catering showed a negative growth of 5.5% in 2017 [ibid]. Such a sharp decline in consumer activity was related to the following aspects: the imposed in 2014 food embargo and the fluctuation of the national currency caused by the refusal of the Central Bank of Russia from the regulated exchange rate.

In 2017, the share of imported goods in the retail trade commodity resources amounted to 36%. This is the minimum since 2008 (the period that statistics are kept from). In 2016, this indicator was at level of 38%, in the same period of 2015 - 41%, and in 2014 - 43%. The Ministry of Industry and Trade of the Russian Federation "Minpromtorg" considers that this situation of the decline in the share of imports occurred due to various reasons. The main impact was made by "the contribution of indicators in the field of food products, where the share of imports is only 23%". “Minpromtorg” experts also point out that "international corporations continue to invest in production in Russia" [Ivushkina, www]. This means that the goods of corporate groups are transferred from the category of imported into the category of the “produced in Russia”, which is beneficial for both, the country's economy and producers.

Based on the analysis of the abovementioned “Rosstat” data, we made and suggestion that was further developed and validated in our study. The assumption is that the growth of trade turnover and positive dynamics of the consumer market are mainly provided by expanding the trading network and "increasing the number of stores by the leading players of the Top 10 FMCG networks, enhancing their operational efficiency, making M&A transactions and diversifying the strategy for further development" [Suvorova, 2017]. The proportion of retail chains in retail trade turnover is constantly increasing: in 2013 it was 22.5% (5.68 trillion rubles), compared to 2017 – 28.6% (8.53 trillion rubles).

Authors associated the steady trend of increasing the share of network operators in the total volume of retail trade in Russia with several factors. First, with the active expansion of trade networks from the central regions to the periphery of the country. Secondly, with the increase in turnover due to the fact that every second purchase takes place in chain stores. Thirdly, with the retail structure change expressed by the creation of modern format trading enterprises, where anchor tenants are presented by supermarkets and hypermarkets of different specialization.

However, there is a concern about tough competition of federal and regional retail chains in large cities. They are forced to coexist, and therefore fight for consumers. Large networks have the high sales volumes [Egorov, 2014, 81], and as result they have the ability to dump prices and sell certain categories of goods for almost a third cheaper. Such activities force local businesses to sell the same goods at a loss, not to offer them at all or to look for an adequate substitute. At the same time, representatives of regional retail chains believe that they are more educated about and adapted to their consumer’s needs. They claim to have relevant knowledge and experience of sales in the narrow format of their region. In this regard, regional retail chains are ready to step up the struggle with larger federal competitors. After all, this fight is not only about retaining their share, but also about calling other local retailers and networks to unite against the seizure of their territories.

We believe that such a policy of regional representatives is unlikely to continue in future. Highly likely, in order to reduce the level of competition, the “neighboring” retail chains will have to pay more attention to the differentiation of their own business activities: to adequately expand and deepen the assortment, to adapt the sales concept, to modernize retail space, to use modern trade formats, to apply loyalty systems and others to avoid direct comparison in the eyes of buyers.

Authors find important to underline that the continued trade networks expansion will not have the effect of "symbiosis" with existing small and medium retail players. On the opposite, it will threaten the free market monopolization. This is based on the fact that retail chains are more competitive due to several facts. Among them are the large-scale cost-cutting on the volume of their trade activities (a lower procurement prices granted by producers, a wider consumers market available for selling goods), a unified procurement policy, more efficient logistics, own distribution centers, brand recognition, etc.

Other significant comment expressed on the issue of trade market expansion that included the need for the controlled and systematic replacement of obsolete forms of retail trade with modern ones [Radaev, 2007, 95]. We assume that this process should be treated carefully, and not only in Russia’s large cities, but also in small and relatively small settlements, where the transition from independent enterprises to network structures is ongoing or possible in future. Otherwise, in the struggle for the buyer, competitive pricing and commercial space, there may be observed an intense exit of the small players from market, as well as excessive mergers and acquisitions of the large ones. In the absence of regulatory measures, this can lead to a local crisis. Thus, a better understanding of such issues and processes taking place on local market would help to ensure positive development impacts.

It should also be noted that deficit and uneven distribution of trade objects persist. The problem is aggravated by the low availability of modern retail space in the Russia’s regions and federal districts. The average index throughout Russia approximates 184 sq.m. per 1,000 people. The following statistics were obtained with the calculation of ratio of provision of population with quality retail premises by Federal districts over the year 2017 (measure unit: sq. m. per 1,000 people): Central Federal district – 311,9; North-Western Federal district – 145,3; Southern Federal district – 157,6; North Caucasian Federal district – 62.6; Ural Federal district – 255,4; Siberian Federal district – 223.4; Far East Federal district – 78.7; the Crimean Federal district – 111.4. The top position is occupied by Kursk city (Central Federal district) – 671, for comparison in Moscow this indicator equals to 446,7, whereas Chita city (Siberian Federal district) – 51 is the outsider of the rating[1].

Although the availability of retail space and the quality of the network structure still do not meet modern requirements in metropolitan areas, there is a positive trend that currently observed. The total number of trade objects is increasing meanwhile the total number of economic entities has reduced. For the researched period the retail has significantly replenished with stationary objects such as shops, cafes, restaurants, designer salons, etc. Furthermore, one in five able-bodied residents is provided with a stable job in this sector, and one in three is employed in small businesses.

In addition to federal and regional issues review, we will consider the state of retail trade at the municipal level. The functioning of trade enterprises in cities is provided by the development of infrastructure service facilities that form the supply of goods and services. To date, in this area, there has been a negative trend of ongoing change in the structure of the trading network in terms of the metropolitan areas location. As a result, both consumers and suppliers are exposed.

According to the researchers, the central regions of megacities have commercial appeal of densely populated areas with high social load. However, modern processes show that the number of retail enterprises selling FMCG products has significantly decreased in the center, which led to their movement to the periphery. The quite different problems are in the remote neighborhood, where the infrastructure of the stationary network of trade services is developing slowly and is characterized by a lack of retail space. Therefore, it can be assumed that the main problem of megacities, requiring immediate solutions, is to ensure the affordability of goods and services for all social groups of population, regardless of the territoriality of their residence [Solomatin, 2014], because the territorial disproportions emergence in the development of service sector infrastructure has a direct impact on the comfort and quality of life of the population.

It is evident that the retail market supplies the goods and services consumption to population, and accordingly reflects the problems of social and economic nature. Due to the fact that market self-regulation [Lehkaya, 2013] mechanisms are effective to meet the demand and the needs of only high- and middle-income social groups, for low-income categories of citizens should be implemented measures for their support. The approach should be oriented towards the development of a socially oriented trade network. The preservation of the socially important objects and the creation of favorable conditions for their activities is carried out through the development of retail networks. In particular, discounters that are focused on the sale of food and related products at prices below the average level

[1]Retail real estate in Russia: review of the results of 2017. URL: http://www.colliers.com/-/media/files/emea/russia/research/2018/retail_market_report_russia_year_end_2017_rus_final_.pdf?la=ru-RU

for the main product groups. They also use a variety of loyalty programs for consumers, especially for beneficiaries of social policies.

Based on the results of this study, we project that in the medium-to-long term period the creation and operation of modern formats of large commercial facilities trend will continue. The retail chains development is expected to intensify further in the future. The conditions for the rapid strengthening of retail trade organizations will be formed based on the network principle of business organization which efficiency was well-proven abroad [Cheglov, 2011]. The medium-term perspective will pose an increase of supermarkets, hypermarkets, large shopping centers and complexes launching. The entry into the Russia's commodity market of new foreign companies, mostly from countries that are not part of European Union, is also expected. At the same time, the population's welfare increase will provide a positive impact on growth of quality retail space volume. Basically, it will happen due to the intensive construction of large-scale multifunctional shopping centers and complexes located in different territorial areas of megacities that have a transport accessibility and concentration of passenger traffic, for example, along the city "Ring roads".

Conclusion

Thus, we can assume that the following subjects should be considered a priority for retail trade development of in Russia:

- optimization of the retail network with improving of its quality structure by increasing the total retail space. At the same time, it is necessary to concentrate efforts on the growth of the trade enterprises number of modern formats. For example, super-and hypermarkets, multifunctional shopping centers and others;
- orientation of the retail network objects on the social protection of consumers and enhance of the trade enterprises participation in strengthening the regional development policies;
- creation of joint projects with non-profit organizations aimed at servicing low-income categories of citizens;
- promotion of an effective competitive environment aimed to restrain price growth and prevent monopolization of certain market segments;
- application of the network principle towards to organization of trade activity through involvement of the enterprise structures that are capable not only to create trade nets but efficiently operate them as well;
- provision of conditions for the development of small retail network and stores selling daily commodities in residential areas;
- elimination of current barriers to new market players entry into the industry through the revision of current state regulatory framework by the Government.

In order to improve the population's quality of life in the short term it is required to increase the number of the stationary trading network objects, and also to provide conditions for the proportionality of their placement. This might be accomplished through the development and approval of the following documents as appropriate:

- urban development standards on trade by increasing the total trading area. This could be achieved through the acceptance of trade enterprises growth in cities, in particular, their modern formats. The norms of population provision with the quality retail premises should also be considered for revision;
- targeted program for placement of large objects on consumer market;
- norms and rules establishing the usage of reconstructed houses and new buildings first floors for

the placement of retail and small retail trade enterprises in the “shop with walking distance” format;

– the infrastructure standard, which should be revised based on geomarketing research to ensure the territorial availability of consumer services to the public.

The implementation of the above tasks will contribute to the development of the Russia’s retail market. It will further promote the terms for the implementation of import substitution policy, the attracting investment, the increasing of the state budget revenue and the growth of the national economy.

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Розничная торговля в России: оценка состояния и приоритетные направления развития

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Аннотация

В данной научной статье исследована динамика развития розничного рынка Российской Федерации за период 2012-2017 гг. и проанализировано состояние его структуры. Выявлены основные проблемы; ими авторы исследования считают: сохранение дефицита объектов торговли по регионам страны; несоответствие качества структуры розничной торговли современным требованиям; негативная тенденция изменений и диспропорции в развитии потребительского рынка в разрезе территориального расположения районов мегаполисов; неразвитость ценовой доступности товаров для разных социальных групп населения и другие. В связи с чем авторами вынесен ряд предложений, связанных с приоритетными направлениями развития внутренней торговли России, направленных на формирование условий реализации политики импортозамещения, привлечения инвестиций, увеличения доходной части бюджета страны и роста национальной экономики.

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Ключевые слова

Розничный рынок, структура торговли, предложение торговых площадей населению, FMCG-товары, экономика.

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