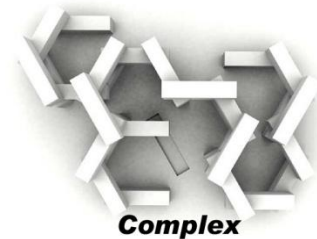


Products introduction into the Russian market

Partnership with retail chains in Russia

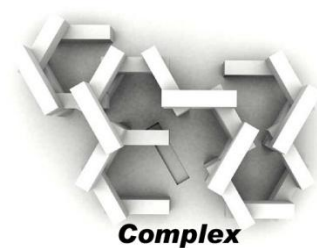
Speaker: Igor Besschastnov
Retail Business Growth LLC – General manager

The Israel Export & International Cooperation Institute
Tel-Aviv
17.05.2011



Content

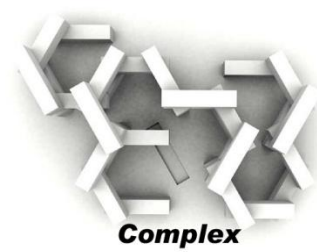
- Russian retail growth outlook for the next 10 years
- Similarities & Differences between Producer and Retailer on the high competitive Market
- Specifics of Supply Contracts with retail chains in Russia, work with imported goods



Russian Retail growth outlook for the next 10 years

- Force of Federal Law No. 381 from 28.12.2009 which regulates trade activity in Russian Federation:
 - 25% limit for one retail chain within one administrative territory (municipality)
 - trade terms
- Retail chains share increase in total retail trade from 25% (Y 2011) to 55-65% (Y 2020)*
- Modern trade formats share increase from 35% (Y 2011) to 60-70% (Y 2020)*

**Source: Minpromtorg RF – Trade growth strategy in RF for YY 2011 – 2015 and up to Y 2020.*



Similarities & Differences between Producer and Retailer on the high competitive Market

Producer:

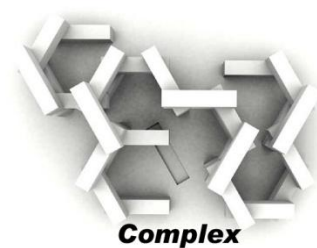
Quality & Profit

Retailer:

Quality & Price

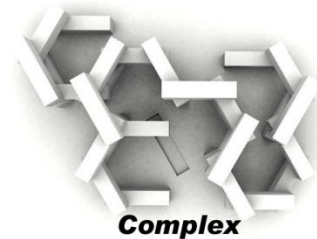
(Retailer Profit – is result of Quality, Price and Service)

Russia – is high competitive market as in Production as well as in Retail



Specifics of Supply Contracts with retail chains in Russia, work with imported goods

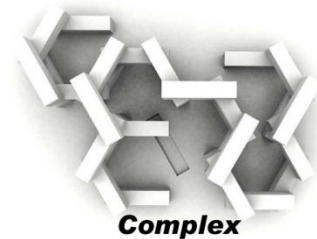
The main technological and perspective Retail Chains FMCG in Russia:
Auchan, Metro C&C/Real, X5 Retail Group, Magnit, Dixy, Lenta, O'Key, Globus, 7th Continent, Globus Gourmet, Azbuka Vkusa, etc...



Work with imported goods

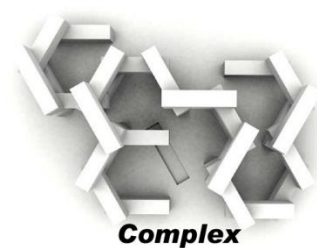
- Through Importer and Distributor
- Directly with Retail chain
- Not all the Retail chains may import goods themselves

(Partnership specifics under these terms)



Work with imported goods

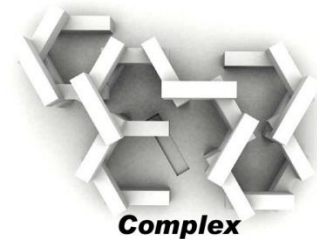
- Russian language inscription on the product and package
- Russian certification
- Dynamic package (as one of the demand of modern trade)



Assortment & Price policy of retail chains in Russia

...is unique for each chain but having the following basics:

- retail chain profitability based on planned margin achievement for each product category being on competitive retail price level and own expenses size
- targeting to the all or individual types of Consumers in accordance with there purchasing power
- product correspondent to principle of «value for money», producers brand secondary excluding separate international and federal brands, but mainly this is typical for the «mass» retail, not for the premium
- intensive Private Label expansion
- Promo policy

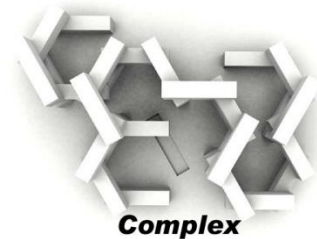


The main specific of Retail in Russia

- Geography, multi format
- Different population density
- Different per capita income among regions and different purchasing power
- Logistics. Direct delivery and via Distribution Center
- Domestic producer support
- Orientation to developed Retail technologies of world Retail leaders
- Electronic Data Interchange (EDI)

The main terms of Supply Contracts

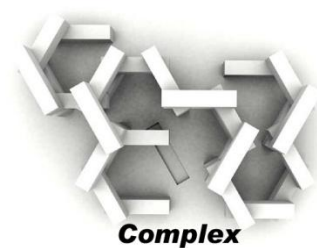
- **Contract** in Retail chain pro forma only
- **Assortment** strictly in accordance with Retail Company marketing strategy
- **Price catalogue** – purchase strictly with agreed in written form of the assortment by the fixed prices
- **Order** – Supplier obligatory to execute any volume by the price catalogue → examples of some volumes by the product categories in Retail chains in Russia



The main terms of Supply Contracts

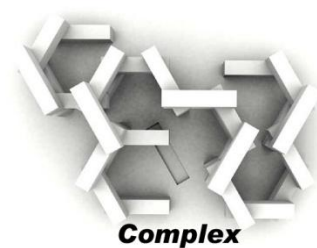
- **Purchase price**
- **Payment terms**
- **Bonuses**
- **Discounts**
- **Penalties**

★ Marketing expenses for product promotion are including into separate (additionally to Supply Contracts) Marketing Agreements (signed by mutual decisions)



The main terms of Supply Contracts

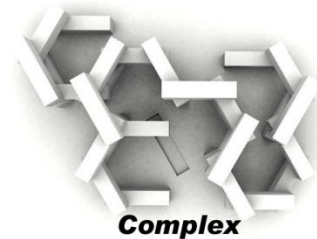
- **Purchase price** should:
 - be in line (like SKU) with Retail chain needs in each individual product category
 - be strictly in line with «value for money» principle
 - be competitive as to the same available product as well as to similar proposals from the other Suppliers
 - provide necessary turnover and benefit in line with marginality plan
 - has maximum stability



The main terms of Supply Contracts

Payment terms – credit terms (regulated by Federal Law No. 381):

- food products with expire period less than 10 days – up to 10 working days
- food products with expire period from 10 to 30 days – up to 30 calendar days
- food products with expire period more than 30 days +
alcohol products produced in the Russian Federation – up to 45 calendar days



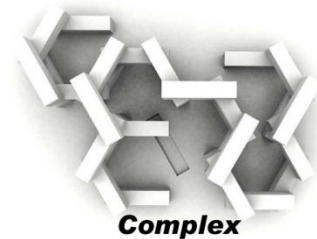
The main terms of Supply Contracts

Bonuses* (regulated by Federal Law No. 381):

- monthly/quarterly
- yearly

} Σ max 10%

*Excluding socially significant food goods asserted by the
Russian Federation Government



The main terms of Supply Contracts

- **Discounts:**

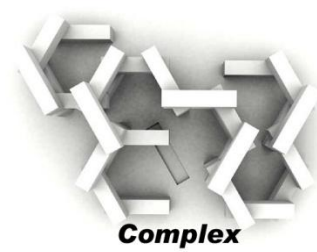
- logistics (0-5%) – fixed

- promo discounts*:

- temporary (up to 30%)

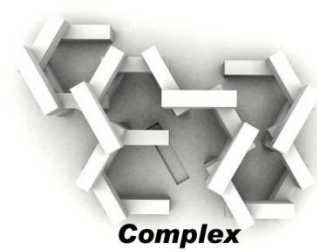
- seasonal (up to 30%)

*Retail price is decreased for these discounts



The main terms of Supply Contracts

- Main types of **Penalties** (may be %, may be fixed):
 - order non-delivery (0.5%/day, as a rule)
 - order violation (10-30% from non-delivery/over-delivery value)
 - for absence or wrong Trade (incl. Certificates), Accounting docs
 - break of order execution in promo period
 - damaged package
 - wrong information re consumer product attributes, suppliers data, etc.

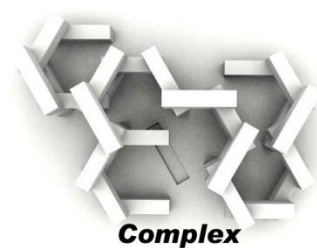


The main terms of Supply Contracts

One of X5 Retail Group term:

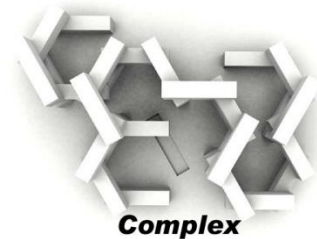
Penalty (two-sided) for each case of «unfriendly» action in amount 2.700.000 RUR (approximately 100.000 USD)

- bribe offer / active pressure from Supplier side
- bribe request / active pressure from Buyer (Retailer) side



The main terms of Supply Contracts

Remain of actual goods expire period should has $2/3$ (in some cases 85%) of the established expire period - in time of delivery to the Shop



Conclusions

- Russian Retail Market – is rather complex, high competitive, growing technologically oriented on World Retail leaders technologies
- Russian Retail Market – has greatest potential
- Your Business in Russia has greatest chances for success

**WE ARE READY TO SUPPORT IN THE START AND
ACCOMPANY YOU WITH BUSINESS IN RUSSIA**



Congress and Exhibition Company«IMPERIA»

str. Magnitogorskaya 51, liter J, Saint-Petersburg, Russia

Tel./Fax: +7 812 3274918

str. Krasnopresneskya nab., Moscow, Russia

Tel./Fax: +7 495 7307906

www.imperiaforum.ru

imperia@imperiaforum.ru



«Retail Business Growth» LLC

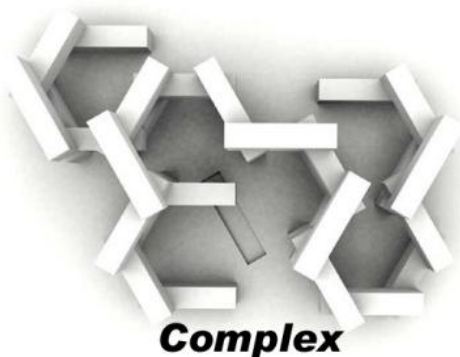
Business-center «A-Real», office 214, str. Piskunova 59,
Nizhny Novgorod, Russia, 603005

Tel./Fax: +7 831 4195676

Tel. +7 831 4136738

www.rbg-rus.com

info@rbg-rus.com



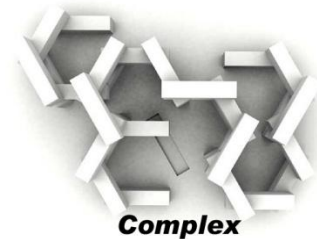
Complex Consulting

str' HaMayan 4, Ligad Center 2, Modiin 71700, Israel

Office: 972-8-9718361

Fax: 972-8-9704673

tuvia.khusid@gmail.com



**THANKS FOR ATTENTION !
WELCOME TO RUSSIAN MARKET !**