

International brands in Belarus 2016

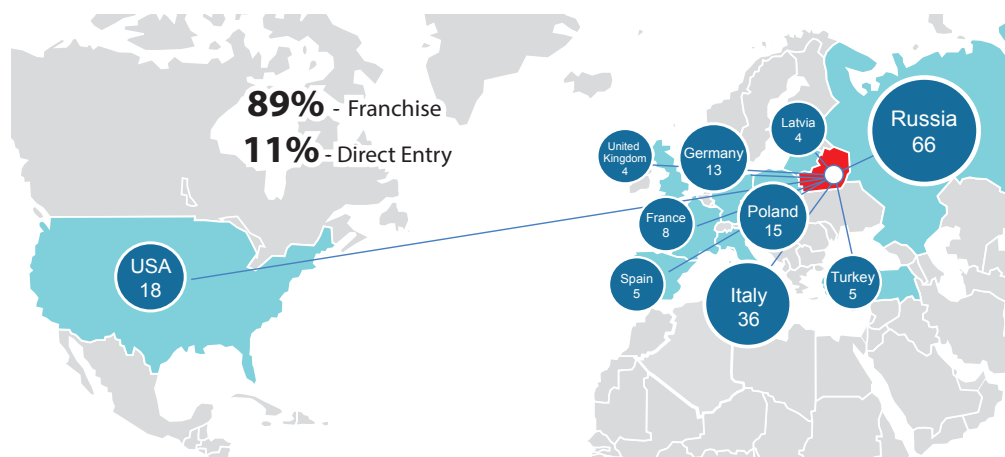
Analytical Center of Menka Company is publishing the results of its annual research of the international brands operating in the Belarusian market. This report contains an activity analysis of 189 international retailers in Minsk and the regional centers of Belarus from January 2015 to March 2016. The purpose of the study is to determine the peculiarities of international brands presence in the Belarusian market.

In the course of the research we have made a complex analysis of international brands presence in the Belarusian market which concerned countries of brands' origins, their forms of entry, retail sectors, price segments, locations of international brands' facilities, their activity in the market, the results of international chains operations in Belarus and development plans for 2016. We have also analyzed the problems that the international chains faced when entering the Belarusian market. Beyond that, our company tried to evaluate the market attractiveness for international retail in the future.

We only considered international brands that operate in Belarus through franchise or their own stores. Multi-labeled and unofficial stores are excluded from the sample.

Top 10 countries of origin of the international brands operating in Belarus

Russia is the largest exporter of retail brands to Belarus - around 35% of international retailers come from Russia. Russian brands are represented almost in all retail sectors. European brands mostly belong to the clothing and underwear retail sectors. The USA is the largest exporter of public catering brands into Belarus.



Source: Menka Analytical Center»

Ranking of Minsk and the regional centers by the number of international brands in Q1 2016

Rank	City	Number of brands	Share of the total number of international brands in Belarus	Rank in 2015
1	Minsk	173	92%	1
2	Vitebsk	43	23%	3
3	Brest	38	20%	2
4	Gomel	36	19%	5
5	Grodno	35	19%	4
6	Mogilev	34	18%	5

Source: Menka Analytical Center

The capital of Belarus, Minsk, has the largest presence of international retailers in Belarus. The city with almost 2 million inhabitants, with the highest income level in the country and highest investment level and development activity remains the most attractive city for international retailers. Vitebsk ranks second which is higher than last year due to the opening of «Green-center» shopping center of «traditional small» type. The new shopping center formed new quality retail stock and brought to the city some new international brands that have aggressive expansion strategy and flexible requirements to the leased premises. It should be noted, that international brands' activity in the country indicates the level of its retail property development and the level of the business climate in the industry.

Belarus (as of 1 April 2016): Population - 9 498 700. Unemployment rate - 1,2 %. Average monthly wages in Q1 2016 - 326 USD. Inflation - 5,7%.

Minsk - the capital of Belarus. Population - 1 963 153. Unemployment rate - 0,7 %. Average monthly wages in Q1 2016 - 475 USD. Quality retail stock per 1,000 capita - 284.3 sq m.

Regional centers of Belarus:

Brest Population - 341 209. Unemployment rate - 1,3 %. Average monthly wages in Q1 2016 - 320 USD. Quality retail stock per 1,000 capita - 176.2 sq m.

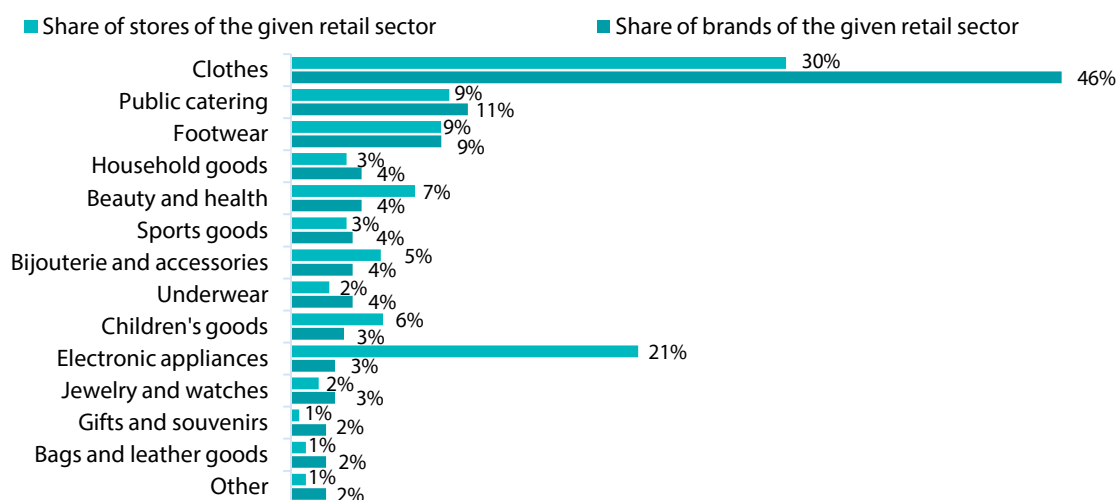
Vitebsk Population - 377 061. Unemployment rate - 1,6 %. Average monthly wages in Q1 2016 - 304 USD. Quality retail stock per 1,000 capita - 169.2 sq m.

Gomel Population - 531 804. Unemployment rate - 1,3 %. Average monthly wages in Q1 2016 - 314 USD. Quality retail stock per 1,000 capita - 66.7 sq m.

Grodno Population - 366 522. Unemployment rate - 1,5 %. Average monthly wages in Q1 2016 - 327 USD. Quality retail stock per 1,000 capita - 112.3 sq m.

Mogilev Population - 378 321. Unemployment rate - 1,7%. Average monthly wages in Q1 2016 - 305 USD. Quality retail stock per 1,000 capita - 106.3 sq m.

International brands in Belarus by retail sector (as for the end of Q1 2016)

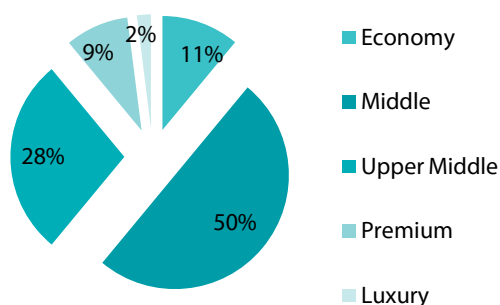


Source: Menka Analytical Center

46% of the international brands operating in the Belarusian market belong to the clothing segment. This retail sector is also the leader by the number of stores – it accounts for 30% of all the stores and food service points of the international retailers. 11% of the international brands in Belarus and 9% of all international brands' facilities refer to the public catering segment. The footwear segment comes third with 9% of all the international brands represented in Belarus. Retailers of these three segments operate mostly on areas from 50 to 200 sq m.

Electronic appliances stores take 21% of all the stores and food service points in Belarus. Such representatives of this retail sector as «Euroset», «Svyaznoy» and «MTS», were among the first to enter the Belarusian market and currently have 157 stores altogether in Minsk and the regional centers of Belarus. Their standard required area – up to 50 sq m.

International brands in Belarus by price segment



Source: Menka Analytical Center

Half of international brands in Belarus belong to the middle price segment. The majority of premium and luxury brands are represented only in Minsk. Upper-middle brands opened in Minsk 76% of their stores. The brands of middle and economy price segments dominate in the regional centers of Belarus due to lower average personal income in comparison to Minsk.

Operators in the middle-price segment open 1-2 stores per annum on average, while premium operators open on average 1 store each year. International retailers in the economy segment are the most active in this regard – they open an average of 2-7 new stores a year.

Market leaders by the number of stores in Q1 2016

Retail sector	Brand	Country of origin	Way of entering the market	The number of stores in Minsk and regional centers of Belarus	Year of entering the market	Area, sq m
Bijouterie and accessories	Jenavi	Russia	Franchise	25	2011	4-10
Children's goods	Kari Kids	Russia	Direct entry	15	2013	300-450
Health and beauty	Yves Rocher	France	Franchise	22	1993	30-60
Footwear	Kari	Russia	Direct entry	21	2013	300-450
Clothes	Colin's	Russia	Direct entry	17	2010	350-600
Public catering	Stolle	Russia	Franchise	11	2011	50+
Sports goods	Columbia	USA	Franchise	9	around 10 years ago	80-120
Electronic appliances	Euroset	Russia	Direct entry	54	2005	20-40
	Svyaznoy	Russia	Direct entry	54	2007	20-40
Households goods	Black Red White	Poland	Direct entry	12	2008	300+

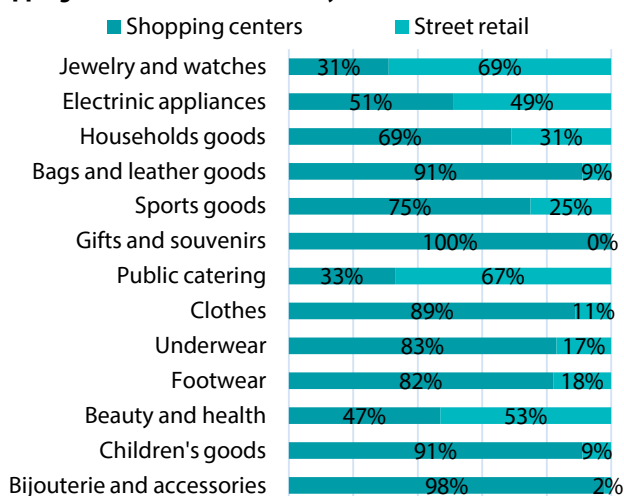
Source: Menka Analytical Center

There are no leaders in such profiles as «underwear», «bags and leather goods», «gifts and souvenirs», «jewelry and watches» due to their low representation and small number of stores – operators in these retail sectors have from 1 to 6 stores.

The most active retailers in terms of new stores number were «MTS» and «Euroset» (*electronic appliances*), from Russia, and Turkish fashion operator «LC Waikiki». Each of these retailers opened 8 new stores in 2015 in Minsk and the regional centers of Belarus. The Russian retailer «TVOE» representing the clothing sector opened 5 stores in Minsk and the regional centers. Russian brand «Kari», which opened 5 stores in 2015, is the leader in the footwear segment. French retailer «Yves Rocher» with 5 new stores leads beauty and health profile. These operators opened their stores mostly in small convenience-based and medium shopping centers. In Q1 2016 the most active international retailer was «33 pingvina» from Russia, that opened 6 new ice cream shops in Minsk.

In terms of market coverage, only 7% of international retailers have 100% retail coverage of the Belarusian cities analyzed in this report. These retailers are: «Mothercare», «Kari Kids» (*children's goods*), «Yves Rocher» (*beauty and health*), «Kari» (*footwear*), «Concept Club», «Colin's», «Oodji», «TVOE», «Top Secret», «Sela» (*clothes*), «Black Red White» (*household goods*), «Euroset», «Svyaznoy», «MTS» (*electronic appliances*).

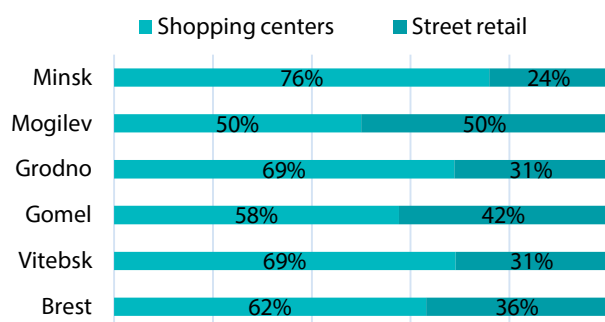
Shopping centers vs. street retail by retail sector



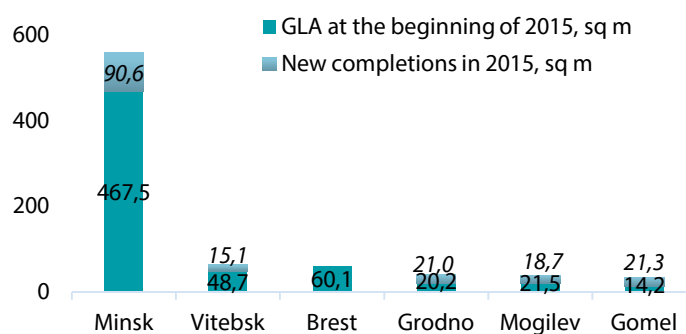
Source: Menka Analytical Center

The majority of international brands prefer to open their first stores in the capital, Minsk, choosing traditional shopping centers, the city center, locations and streets with the highest traffic. As of the end of Q1 2016, the number of stores opened by international brands in shopping centers was 2.4 times higher than the number of stores opened in street retail corridors. Almost all shops in «bijouterie and accessories», «children's goods», «clothes», «footwear», «underwear», «sports goods», «bags and leather goods», «household goods» sectors operate in shopping centers. Operators in «electronic appliances», «beauty and health» profiles are equally inclined in shopping centers and street retail corridors.

Shopping centers vs. street retail by the city



Total retail stock as of the end of Q1 2016, thousand sq m of GLA



Source: Menka Analytical Center

The analysis of the ratio of stores opened by international brands in street retail format to the stores operating in shopping centers, as well as of the total retail stock in Minsk and the regional centers of Belarus suggests that cities with small number of high-quality shopping centers have higher number of street retail stores. Thus, in Minsk, only 24% of stores and food service points of international retailers were opened in street retail corridors. The largest number of stores in the street retail format was opened in Mogilev (50%) and Gomel (42%) – in the cities with the smallest volume of quality retail supply.

International retailers that entered the Belarusian market in 2015 – Q1 2016

No.	Brand	Country of origin	Way of entering the market	Retail sector	Price segment	City of the 1 st opening
1	Dzintars	Latvia	Franchise	Beauty and health	Middle, upper middle	Minsk
2	Hunkemöller	Netherlands	Franchise	Underwear	Middle, upper middle	Minsk
3	Incanto	Italy	Franchise	Underwear	Middle, upper middle	Minsk
4	Acoola	Russia	Franchise	Clothes	Middle, upper middle	Vitebsk
5	Baon	Russia	Franchise	Clothes	Upper middle	Vitebsk
6	Pompa	Russia	Franchise	Clothes	Middle, upper middle	Gomel
7	Diverse	Poland	Franchise	Clothes	Middle	Brest
8	VISAVIS	Russia	Franchise	Clothes	Middle	Gomel
9	7 Camicie	Italy	Franchise	Clothes	Upper middle	Minsk
10	Adolfo Dominguez	Spain	Franchise	Clothes	Upper middle	Minsk
11	Napapijri	Italy	Franchise	Clothes	Upper middle	Minsk
12	21 Shop	Russia	Franchise	Clothes	Economy	Minsk
13	Sinequanone	France	Franchise	Clothes	Upper middle	Minsk
14	Liu Jo	Italy	Franchise	Clothes	Premium	Minsk
15	PlayToday	Germany	Franchise	Clothes	Middle	Minsk
16	Conte of Florence	Italy	Franchise	Clothes	Upper middle	Minsk
17	Max&Co	Italy	Franchise	Clothes	Premium	Minsk
18	Gant	USA	Franchise	Clothes	Upper middle	Minsk
19	Mango Man	Spain	Franchise	Clothes	Middle	Minsk
20	Devernois	France	Franchise	Clothes	Upper middle	Minsk
21	Patrizia Pepe	Italy	Franchise	Clothes	Upper middle	Minsk
22	Ralf Ringer	Russia	Franchise	Footwear	Economy	Minsk
23	Ekonika	Russia	Franchise	Footwear	Upper middle	Minsk
24	Badura	Poland	Franchise	Footwear	Middle	Minsk
25	Baskin Robbins	USA	Franchise	Public catering	Upper middle	Vitebsk
26	Burger Club	Ukraine	Franchise	Public catering	Middle	Brest
27	Svit Donuts	Ukraine	Franchise	Public catering	Middle	Minsk
28	NYCoffee	Russia	Franchise	Public catering	Economy	Brest
29	Tea Funny	Russia	Franchise	Public catering	Middle	Minsk
30	Papa John's	USA	Franchise	Public catering	Middle	Minsk
31	Yogurtlandia	Italy	Franchise	Public catering	Middle	Minsk
32	Burger King	USA	Franchise	Public catering	Economy	Minsk
33	KFC	USA	Franchise	Public catering	Economy	Minsk
34	Domino's Pizza	USA	Franchise	Public catering	Middle	Minsk
35	Sbarro	USA	Franchise	Public catering	Middle	Minsk
36	Fresh Line	Ukraine	Franchise	Public catering	Middle	Minsk
37	Tasty help	Russia	Franchise	Gifts and souvenirs	Middle	Vitebsk
38	Batiskaf	Russia	Franchise	Sports goods	Upper middle	Minsk
39	Bogner	Germany	Franchise	Sports goods	Luxury	Minsk
40	Tosca Blu	Italy	Franchise	Bags and leather goods	Upper middle, Premium	Minsk
41	220 Volt	Russia	Franchise	Household goods	Middle	Minsk
42	Tet-a-Tet	Russia	Franchise	Tea, coffee	Premium	Minsk
43	Pandora	Denmark	Franchise	Jewelry and watches	Upper middle	Minsk

Source: Menka Analytical Center

43 new international retail chains opened their first stores in Belarus in 2015 – Q1 2016. 44% of new players belong to the middle price segment. The vast majority of new brands come from clothing retail sector – 42%. Public catering sector ranks second (28%) with a range of new global fast food chains such as «KFC», «Burger King», «Domino's Pizza», «Sbarro», «Papa John's», that consequently has revived the Minsk market in this segment and made it more competitive as well.

30% of new international brands came from Russia, 21% of new players are from Italy, 16% came from the USA.

21% of new operators opened their first stores in the regional centers. This can be explained by the fact that it was regional companies that invested in franchises and then preferred to start working from cities where they already had offices. Besides, regional companies have better insight in local market peculiarities.

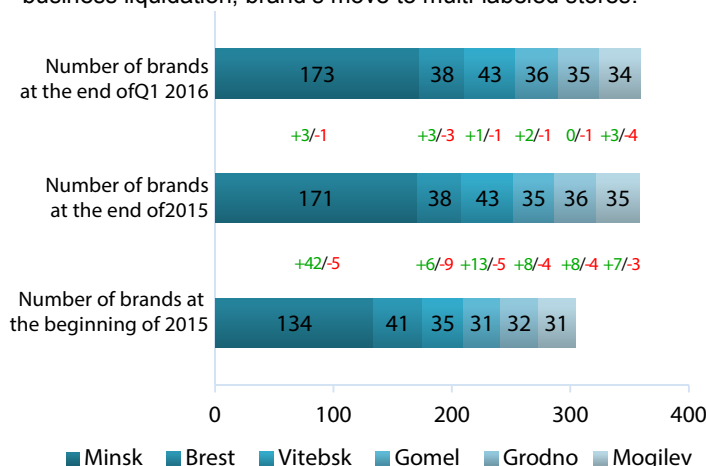
74% of new international retailers opened their first stores in Minsk in the traditional shopping centers of the following types: small (GLA 5 000-19 999 sq m), medium (GLA 20 000-39 999 sq m) and large (GLA 40 000 sq m and above) - according to the classification of shopping centers developed by the Analytical Center of Menka Company, based on the classification of International Council of Shopping Centers (ICSC) and adapted to the situation on the Belarusian retail property market. In the regional centers the most preferable locations were traditional shopping centers of small and medium types.

International brands in Belarus 2016

The dynamics of international brands presence in Minsk and the regional centers of Belarus

In 2015, 188 stores were opened by international brands in Minsk and the regional centers of Belarus, while 72 stores were closed. Therefore, the total number of stores of international brands increased by 116. In Q1 2016, 52 stores were opened and 19 stores were closed.

During 2015 such retail chains as «Young Reporter», «adL», «Tiffi», «Verezo», «People», «Indiana» left the Belarusian market. Italian brand «Pennyblack» left the market in Q1 2016. The analysis has shown that most of these brands were represented by one franchise store and had worked on the market not more than for 5 years. The main reasons of these exits are franchisee's business liquidation, brand's move to multi-labeled stores.



The range of external and internal factors (geopolitical problems, government reforms, etc.) could not help but reflect on the state of the retail trade and retail property markets and on the state of the consumer market: the opening dates of large projects are being postponed, the retail trade turnover, business profitability and standard of living are lowering, consumer spending pattern is changing. However, all this did not stop Belarusian companies from investing in franchises of popular international brands. Now they have an opportunity to benefit from low competition, improved commercial terms of lease and purchase, increased supply and quality of retail stock both in shopping centers and in street retail corridors.

During the period under research international brands were actively reviewing their development plans and optimizing their retail chains in Belarus - closing unprofitable stores and opening new ones in better locations, mainly in new shopping centers in good location, with better concept and strong anchors (more often large national food hypermarket chains).

Retailers' expansion plans for 2016

In the beginning of 2016, the Analytical Center of Menka Company conducted a poll of retail chains operating in Belarus considering their further expansion plans in Belarus. 23.8% of international retailers are planning to open new stores in 2016, while 44.6% of respondents have put their expansion plans on hold. 28.5% of international brands are going to make decisions on opening of new stores based on the current situation. 3.1% of international retailers are planning to reduce the number of their stores or to leave the Belarusian market at all, 3.8% of international operators are planning to close unprofitable stores and open new ones in better locations. The survey has also shown that around 65% of international retailers operating in Belarus form their expansion strategy on the basis of the current situation. Only 4.8% of the international retail chains represented through franchise partners and 16.7% of the international retail chains that entered the market directly open new stores according to the development plan for a year or longer.

The plans for opening new stores announced mostly the operators in such retail sectors as «clothes», «footwear», «public catering», «bijouterie and accessories», «beauty and health», «sports goods». It should be noted, that fashion retailers that entered the market directly are planning to open in 2016 at least 4 large-format stores (700-1500 sq m) not only in Minsk, but also in other major Belarusian cities. The stores of these brands most fully satisfy the changing demand of the Belarusian consumers of different social groups and offer a high quality service. Such retail chains appeared to be more financially stable in the situation in the Belarusian market.

Forecast

Today entry of the international brands to the Belarusian market should be considered in two aspects:

- Now it is a good time for those who had long planned to enter the Belarusian market: rental levels are low, the supply on the retail real estate market exceeds demand. In 2016-2018, we expect an increase in quality retail stock supply mostly due to the completion of traditional shopping centers of «large» and «very large» types in Minsk located along the main traffic arteries and perhaps in the best locations of the city. The market needs new brands in all retail sectors, powerful traffic generators – now it is the right time for a quick start for such retailers. In our opinion, first brands to succeed in the Belarusian market will be those that plan to develop their business mostly at their own expense and through their own stores of highly demanded formats.
- Political and economic risks of entry into the market are still high. Therefore, our experts suppose that in 2016-2017, when choosing a strategy to enter the market, big international brands will try to reduce risks and give their preference to selling franchise: this will give them a chance to have some real experience on the market while keeping an opportunity to open their own stores in the future.

- From the beginning of 2015 to the beginning of April 2016 the national currency devalued by 69.2% compared to the US dollar.
- In January-March 2016 retail turnover dropped by 0.9% compared to the same period in 2015.
- In 1st quarter of 2016 the share of food products in retail turnover was 51.3% and increased by 1.1 percentage points compared to the 1st quarter of 2015.
- In January-March 2016 real disposable income of the population (money income after deduction of taxes, charges and fees adjusted to consumer price index for goods and services) dropped by 6.8% compared to the same period in 2015.
- As of 1 January 2016, bad individual debts under cash loans accounted for 327 bln BYR and increased by 16.6 bln BYR in 2015 (5.3% rise).

Glossary

In the research we used the terms developed by the Analytical Center of Menka Company considering the international practice, the Belarusian legislation and the features of the retail real estate and retail trade markets of Belarus.

International retail chain – a retail chain that operates simultaneously in two or more countries through own stores or official partners.

Street retail – is a retail format, which means retail space located on the ground floor with a separate entrance and its own shop windows.

Shopping center – is a retail property that is planned, built and managed as a single entity with a minimum GLA of 5 000 square meters.

Retail sectors

Beauty and health	Stores selling perfumery and cosmetics; optician's stores, pharmacies, fitness clubs
Bijouterie and accessories	Stores selling bijouterie and accessories
Underwear	Stores selling underwear
Clothes	Stores selling clothes for men, women and children (including jeanswear and outerwear)
Footwear	Stores selling shoes for men, women and children
Children's goods	Stores selling toys, art supplies and other children's goods
Public catering	Dining facilities including the facilities in the form of traditional freestanding shops, kiosks, carts and food court units
Gifts and souvenirs	Stores selling gifts and souvenirs
Sports goods	Stores selling sportswear and sports equipment
Bags, leather goods	Stores selling bags, suitcases and leather goods
Household goods	Specialized stores selling furniture, interior decorations; DIY stores
Electronic appliances	Mobile operator retail shops, computer stores
Jewelry and watches	Jewelry and watches sellers
Other	Stores selling tea, coffee, board games, etc.

Source: Menka Analytical Center

Price segments

High	Luxury Premium
Middle	Upper Middle Middle
Economy	Lower Middle Low

Source: Menka Analytical Center

