RESEARCH REPORT
Retail networks in Belarus: Development plans in 2016

1.1. General description of the research

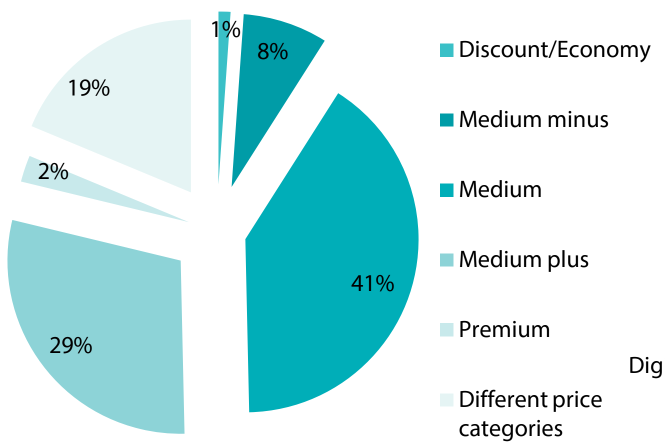
The analytical center of Menka Company in the spring of 2016 conducted a research of plans for the development of international and republican retail networks*, present at the Belarusian market.

The purpose of this research is to determine the plans for the development of large network retailers of Belarus for 2016, as well as to identify the peculiarities of entry of the international brands into the Belarusian market. Achieving this goal allowed evaluating how active the retail chains are in the market in 2016; to identify the problems associated with entry into the Belarusian market, and, ultimately, to identify trends in this area, typical for the Belarusian market.

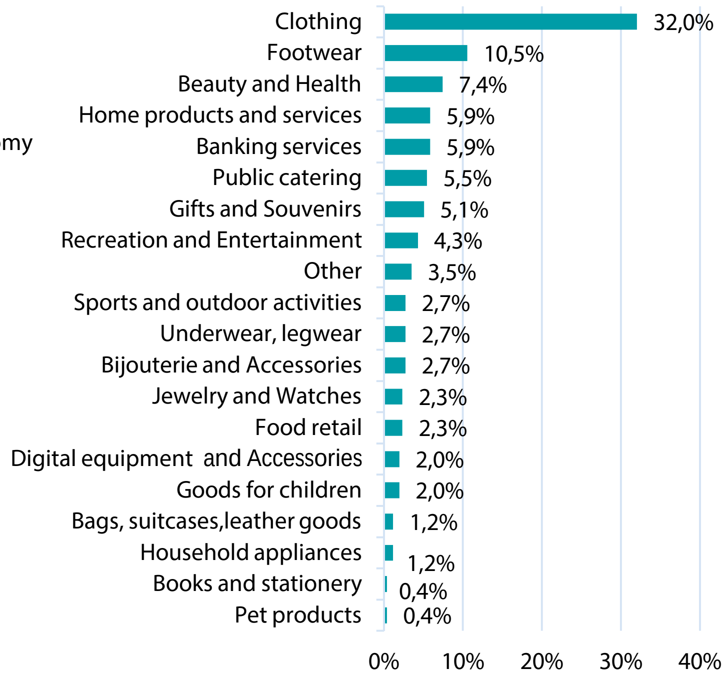
A telephone survey was used as a method of research. 256 representatives of large network retailers of Belarus were interviewed.

1.2. Characteristics of the achieved sample frame

1.2.1. The ratio of price segments of the surveyed retailers



1.2.2. The ratio of product categories of the surveyed retailers



The price segment was determined based on the own positioning by the representative of the interviewed company. If the retailer referred the price position of the company to two adjacent price segments (for example, “medium” and “medium minus”), then both options were fixed (i.e. the company was simultaneously at two price segments). If the retailer noted that the company represents goods or services in more than two price segments, then the option “different price categories” was noted.

Most often, Belarusian network brands define their price segment in the categories “medium” and “medium plus” (45.7% and 32.8% respectively).

** The research uses the definitions developed by the analytical center of Menka Company, taking into account the international practice of the Belarusian legislation and peculiarities of the retail business and retail property in Belarus.*

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1.2.3. The share of price segments of retailers in the context of product categories, %*

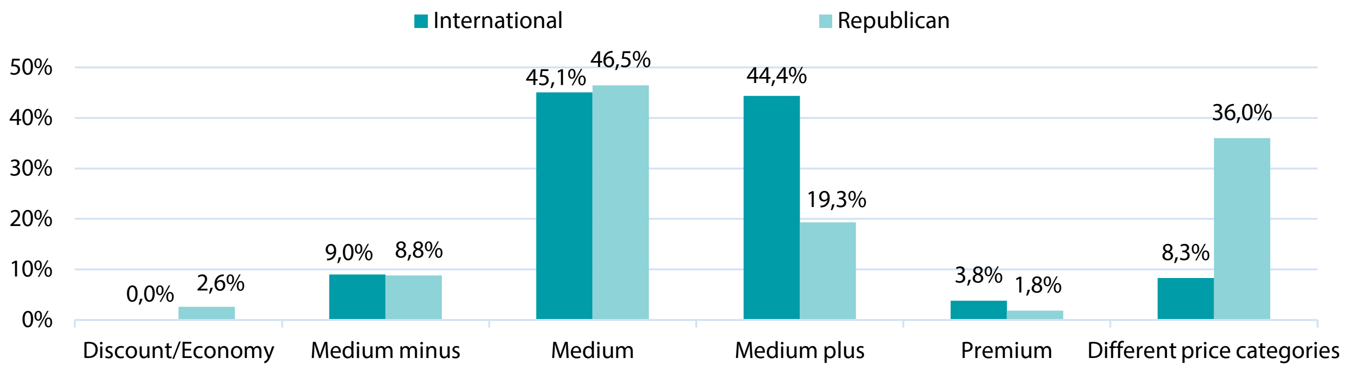
	Discount/ Economy	Medium minus	Medium	Medium plus	Premium	Different price categories	Confidence band for the category**
Bijouterie and Accessories	0.0	0.0	42.9	71.4	0.0	0.0	21.4
Beauty and Health	0.0	11.8	82.4	29.4	0.0	17.6	18.8
Footwear	0.0	14.8	51.9	51.9	3.7	0.0	11.6
Pulic catering service	7.7	30.8	46.2	30.8	0.0	0.0	21.1
Clothing	0.0	6.4	51.3	35.9	6.4	3.8	6.7
Recreation and Entertainment	9.1	0.0	9.1	18.2	0.0	63.6	19.7
Gifts and Souvenirs, Sweets	0.0	0.0	53.8	53.8	0.0	7.7	16.5
Food retail	0.0	16.7	0.0	0.0	0.0	83.3	26.7
Home products and services	7.1	7.1	21.4	21.4	7.1	35.7	21.4
All categories	1.2	8.9	45.7	32.8	2.8	21.1	4.3

** The table includes product categories with a sufficient confidence band*

*** Confidence band for the category at a confidence level of 95%*

The representatives of product categories, “Beauty and Health” are prone to include themselves into the mid-price segment. As a rule, the representatives of “Shoes”, “Clothing”, “Gifts and Souvenirs, Sweets” categories pose themselves in “Medium-medium plus” segments. Goods/services of various price categories, as a rule, represent the product categories “Recreation and Entertainment” and “Food Retail”.

1.2.4. The share of price segments of international and republican retailers



International brands, as a rule, are much more likely than republican ones to position their price category as “medium plus”. Republican brands, in turn, more often refer themselves to the undifferentiated price category “different price categories”. Such positioning can be associated with two circumstances:

- trading network has a wide range of products (in such situations, it may be difficult to determine the price segment). In particular, this is typical for multi-brand networks;

- representatives of the trading network do not use price positioning in the marketing strategy and, accordingly, do not relate themselves to a certain price category.

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2.1. Indicators of the average minimum and maximum desired area, and the rental rate in general and by categories (indicators are calculated from the number of given information on the indicator), sq.m.

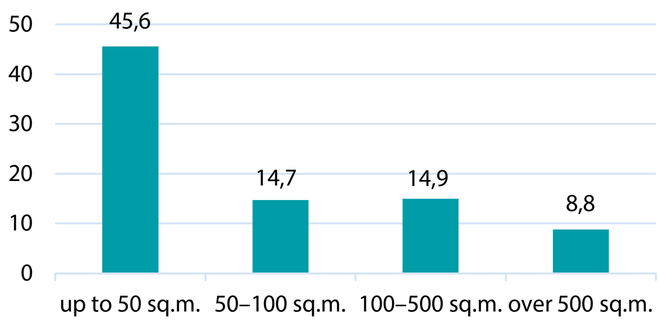
Category	*Average minimum desired area*	*Average maximum desired area*	*Minimum desired area*	*Maximum desired area*	*Average maximum desired rental rate*	*Number of surveyed brands in the category*
Banking services	57.3	89.5	5	200	43.3	15
Bijouterie and Accessories	17.0	24.7	4	50	45	7
Beauty and Health	41.7	70.1	4	150	32.6	19
Underwear, legwear	77.0	98.3	20	200	14.4	7
Footwear	95.2	112.4	30	300	17.3	27
Public catering	113.8	249.4	5	500	13.8	14
Clothing	131.6	197.2	20	2000	15.6	82
Recreation and Entertainment	81.7	230.8	10	1000	9.3	11
Gifts and Souvenirs, Sweets	18.9	34.1	6	70	39.0	13
Food retail	2150.0	3308.3	100	9000	negotiated	6
Other	26.9	40.7	5	100	44.1	9
Sports and Outdoor activities	97.6	162.4	8	300	5	7
Goods for children	92.7	236.0	8	500	40	5
Home products and services	128.6	234.2	3	1000	23.6	15
Digital equipment and Accessories, Communication services	23.0	28.0	17	40	55	5
Jewelry & Watches	43.8	105.0	30	200	10	6
Total	*160.8*	*245.9*	*5*	*9000*	*25.1*	*256*

** The table includes product categories with a sufficient confidence band (at least 5 of the surveyed brands in the category)*

The largest areas are required for food retail (at an average 2000 - 3000 sq.m). Relatively large areas are also in demand for the categories “Public catering”, “Recreation and Entertainment”, “Home products and services”, “Clothing”. The smallest areas - for categories “Bijouterie and Accessories”, “Gifts and Souvenirs, Sweets”, as well as “Digital equipment and Accessories, Communication services”.

The average index of the maximum desired rental rate is 25.1 US dollars per one square meter of the rented area. The highest maximum desired rental rates (i.e. the marginal rates up to which the retail chain is ready to consider rental offers) are typical for the categories “Banking services”, “Bijouterie and Accessories”, “Beauty and Health”, “Gifts and Souvenirs, Sweets”, “Other”, “Goods for children”, and “Digital equipment and accessories, communication services”. This list is close to the list of product categories interested in the smallest formats of retail space, which allows us to put forward a hypothesis that there is a link between the size of the premises and the expected rental rate.

2.2. The average maximum desired rental rate in terms of the desired size of rented area, USD/ sq.m.



The highest indicators of the maximum desired rental rate are typical for small areas (up to 50 sq.m.), the lowest indicator - for the largest areas (over 500 sq.m.).

At the same time, a stable significant correlation of the average strength between the maximum desired rent rate and the average size of the desired area was revealed, which confirms the indicated trend.

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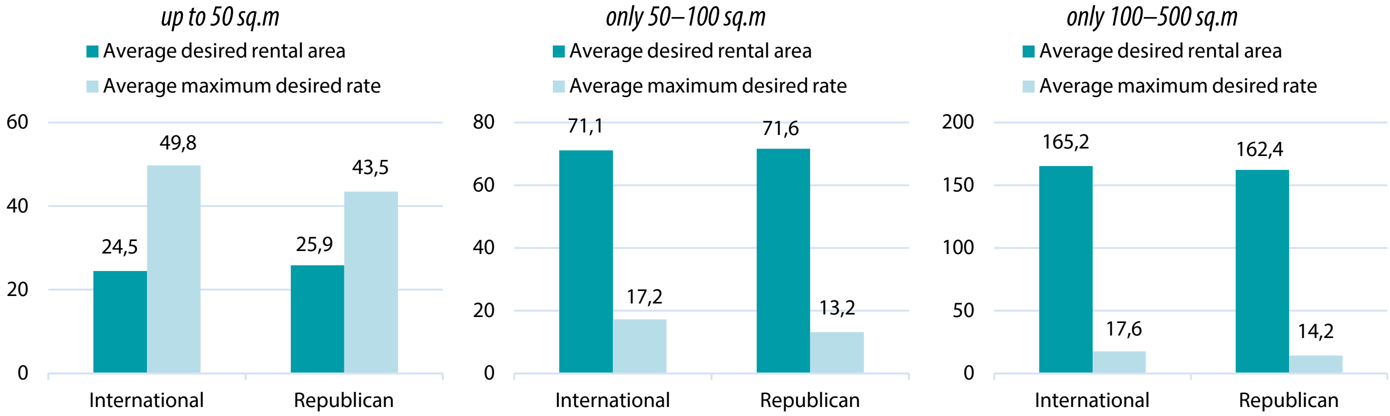
2.3. Indicators of the average minimum and maximum desired area and rental rate by the network category, sq.m.

Networks	*Minimum desired area*	*Maximum desired area*	*Average minimum desired area*	*Average maximum desired area*	*Number of brands*	*Average maximum desired rental rate, USD*
International	4	1500	100.4	125.8	133	27.6
Republican	3	9000	203.7	337.5	123	23.8
Total	3	9000	160.5	245.9	256	25.1

International brands are characterized by a higher average maximum desired rental rate. At first glance, the higher expected price per meter of leased area on the part of international operators may be because smaller retail spaces, whose prices are higher, represent the greatest interest for them. However, if we consider these indicators in the same format of the desired retail space (up to 50 sq.m, 50-100 sq.m and 100-500 sq.m), it should be noted that for equal areas the price per square meter, which the international network is ready to pay for, at an average higher than the price of the republican network.

2.4. The indicators of the average desired area and the average maximum desired rental rate in terms of segments, and desired format of the sales area, sq.m.



As we can see, within the segments under consideration, the average desired area of international and republican brands is at the same level, and the average maximum desired rate is consistently higher in all segments in the group of international brands.

3.1. Plans for opening in the context of international/republican brands, %

Activity	*International*	*Republican*
Do not plan to develop	44.6	29.7
Plan to close (in whole or in part)	3.1	5.9
Plan to open new outlets	23.8	57.6
It is not yet known whether new objects will be opened	28.5	6.8
Plan rotation	3.8	0.0

** The sum of frequencies is above 100%, as the situation of a combination of rotation and opening of new points is possible*

More than a third of Belarusian retailers (37.5%) do not plan to increase the number of outlets in 2016. The fifth part - can not determine the development plans for the near future, 4.4% of retailers plan to close. Compared with international brands, the share of those who plan to open new outlets is much higher among the republican brands.

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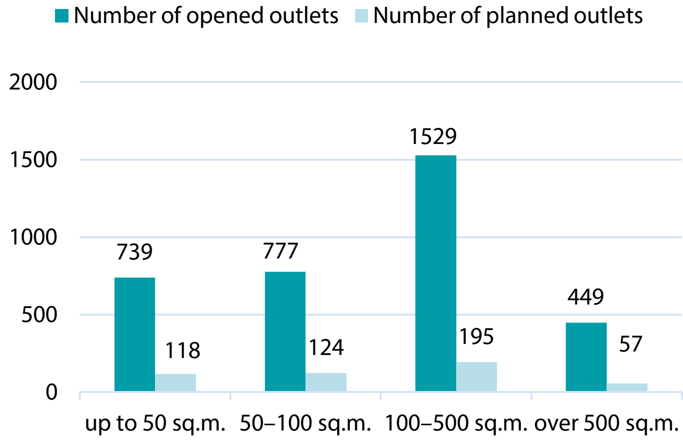
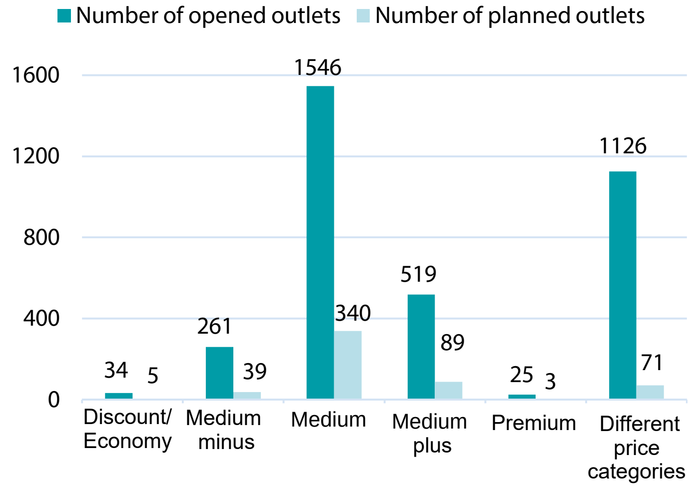
3.2. Plans for opening in terms of the desired areas



3.3. Plans for opening in terms of the price segments



Categories “Beauty and Health”, as well as “Clothing”, “Footwear” and “Food retail” are the most widely represented by the retail facilities. The greatest number of points planned for the opening is also in the categories “Beauty and Health” and “Clothing”. The largest number of existing and planned outlets are in the area of 100-500 sq.m, and in the context of price segments - at the average price category and segment of different price categories.

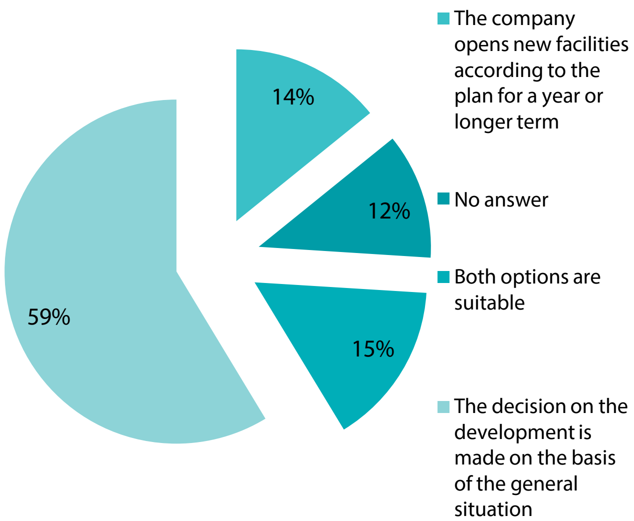
3.4. Plans for the development of retail networks in the regions (% of those who plan to develop and responded to the relevant question), %

Activity	*International*	*Republican*
Plan development in the regions	48,4	73,5
Do not plan development in the regions	41,9	20,6
Undecided	9,7	5,9

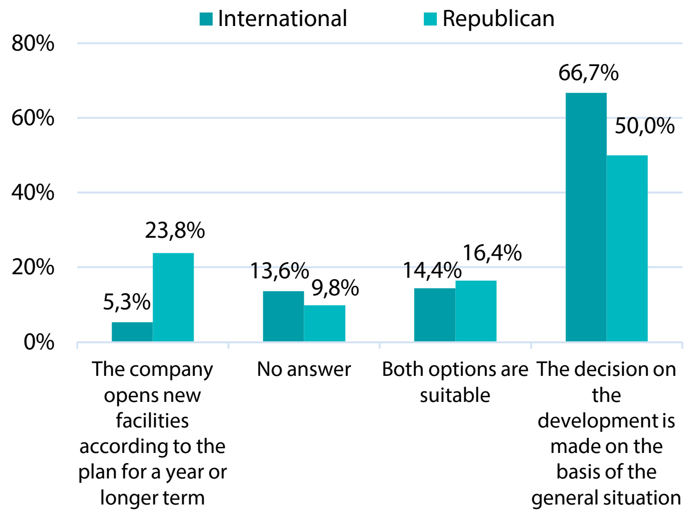
The results of the research showed that republican brands are much more focused on development in the regions. This trend is connected with the peculiarities of entry of the international brands into the Belarusian market. As a rule, international networks to enter and open their first stores choose Minsk as the largest local market in Belarus.

4.1. The relationship between types of brand expansion strategies

generally



by network category



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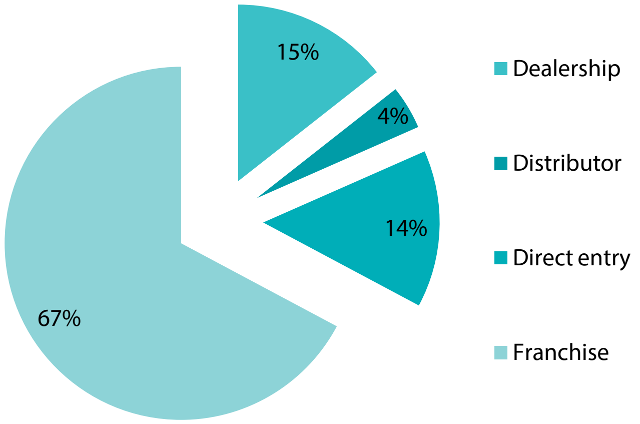
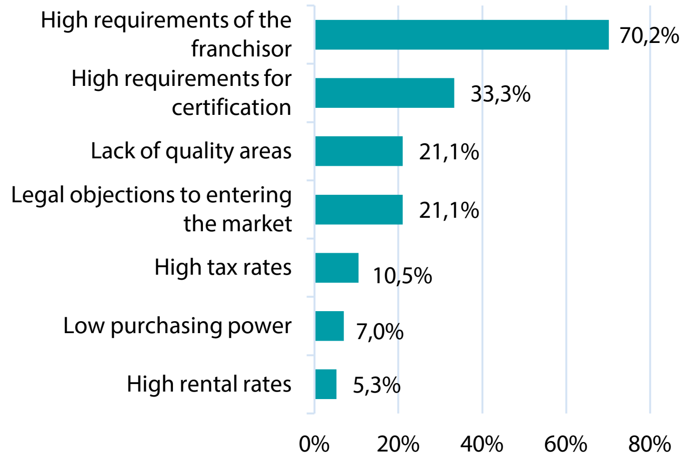
At present, the majority of network retailers are focused on the strategy of situation-based development. As a rule, retailers do not make long-term plans for the development of the network, but react to changes in the market situation and emergence of opportunities for the development. However, this strategy among international retailers is more widespread than among the republican ones.

5.1. The ratio of ways of entry of the international brands into the Belarusian market as a whole

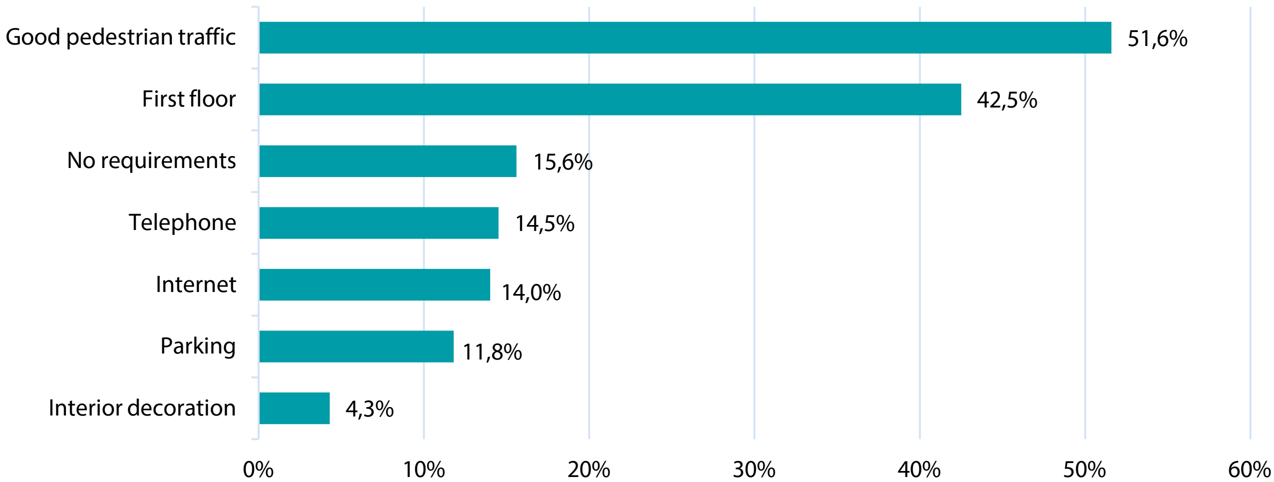


5.2. Rating of problems encountered by international networks when entering the Belarusian market,% of the number of respondents who answered the question and indicated at least one problem



Franchising is the main way for international brands to enter the Belarusian market. The main problem faced by international retailers is high rental rates. More than a third of those who answered the question also noted the problem of low purchasing ability of the population.

6.1. Requirements for rented premises, % of the number of respondents, expressed requirements for the leased areas



7.1. The ratio of lessees by the criterion of preference for the placement of a retail facility in the shopping center or in the area of street retail in terms of the network type, %

Format of placement	*International*	*Republican*
Street retail	11.4	16.4
Shopping center	71.2	33.6
Shopping center, street retail	17.4	50.0

For most international brands, unlike the republican brands, the preferred location for retail area is the shopping center. Republican retailers are inclined to consider potential lease areas both in shopping centers and in the format of street retail.

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Conclusion:

Qualitative analysis of the results allowed revealing the tendency connected with the fact that network retailers use different methods of the price category positioning. In Belarus, positioning can be aligned both in reference to the franchisor, and in reference to understanding of their position in the market. Moreover, the price category of a brand can not be problematized by its management. Thus, the price category can be determined based on various grounds, which makes it difficult to analyze the objective distribution of price categories of network retailers. In this case, positioning of own price segment by the brand itself is a subjective factor that allows evaluating the features of brand policy. While Belarusian retailers determine their price segment in the "medium" and "medium plus" categories, the lower price segments remain freer for positioning.

- Republican and international brands present in the Belarusian market have a number of significant differences:

Parameter	*International retailers*	*Republican retailers*
Price category	International brands, as a rule, are much more often present in the "average plus" price category than the republican ones.	Republican brands are much more likely to classify themselves as undifferentiated wide-assortment categories.
Average level of the maximum desired rental rates	27.6 $	23.8 $
Preferred format of retail areas	For most international brands, the format of the shopping center is more preferable.	Republican networks are more prone to consider the possibility of expanding both in the format of a shopping center and in the format of street retail.
Development strategy	The strategy of situational development among international retailers is more widespread than among the republican ones.	
Geography of development	The development of international brands is more concentrated in Minsk than the development of republican networks.	About 70% of the republican brands which planning development in 2016 are going to open retail facilities in the regions.

- More than a third of Belarusian retailers do not plan to increase the number of outlets in 2016, 4.4% of retailers plan partial or complete closure of retail facilities. The fifth part currently can not determine the development plans in the short term. It makes sense to consider this fact in the context of development strategies that are typical for the Belarusian market. In the present conditions, the majority (about 60%) of retailers are oriented toward a strategy of situation-based development, i.e. they prefer a strategy of prompt response to the changing market situation and the emergence of opportunities for improvement.

- The largest number of outlets in 2016 is planned for commissioning in category "Clothing", as well as in category "Beauty and Health", which is characterized by the largest number of already functioning retail facilities.

- Franchising is the most common way for international brands to enter the Belarusian market. The main problem faced by international retailers is high rental rates.

- Shopping centers are a fundamentally important site for international brands to enter Belarus. Firstly, the most preferred format of retail areas for international brands are the areas of shopping centers. Secondly, the most frequent problem faced by retailers when entering the Belarusian market is high rental rates.

Thus, shopping centers play an important role in communicating with international networks and bringing them to the Belarusian market. On the one hand, international brands are interested in high-quality areas of shopping centers. On the other hand, the shopping centers themselves are interested in a quality unique pool of lessees for the local market.

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GLOSSARY

The research uses the definitions developed by the analytical center of Menka Company, taking into account international practice, Belarusian legislation and peculiarities of the retail market and retail property in Belarus.

An ***international retail network*** is a network that operates simultaneously in two or more countries through its own representative offices and official partners.

A ***republican retail network*** is a network that operates on the territory of Minsk and one or several regions of Belarus.

Street retail is a trade format that implies retail spaces located on the ground floors of buildings with a separate entrance and own display windows.

A ***shopping center*** is a retail property with a concept and unified management, with a leasable area of at least 5,000 sq.m.

Categories of products and services

Beauty and Health	Stores of perfume, cosmetics, optics, pharmacies, fitness clubs
Bijouterie and Accessories	Jewelery and accessories stores
Underwear	Stores of underwear for men, women, children
Clothing	Clothing stores for men, women, children (including denim and outer clothing)
Footwear	Footwear stores for men, women, children
Goods for children	Stores of children's toys, goods for creative activities and other goods for children
Public catering	Public catering facilities, including objects in the format of free-standing rooms, islets, stands and in the food courts
Gifts and Souvenirs	Gift and souvenir stores
Sports and Outdoor activities	Stores offering sportswear, shoes, sports equipment
Bags, Leather goods	Stores of bags, suitcases, leather goods
Home products	Shops of furniture, goods for interior, DIY-stores
Digital equipment and Accessories	Stores of mobile devices, and communication services
Jewelry and Watches	Jewelry and watches stores
Other	Stores of tea and coffee, party games, etc.

Price segments

Upper	Luxury
	Premium
Medium	Medium plus
	Medium
Economy	Medium minus
	Low

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