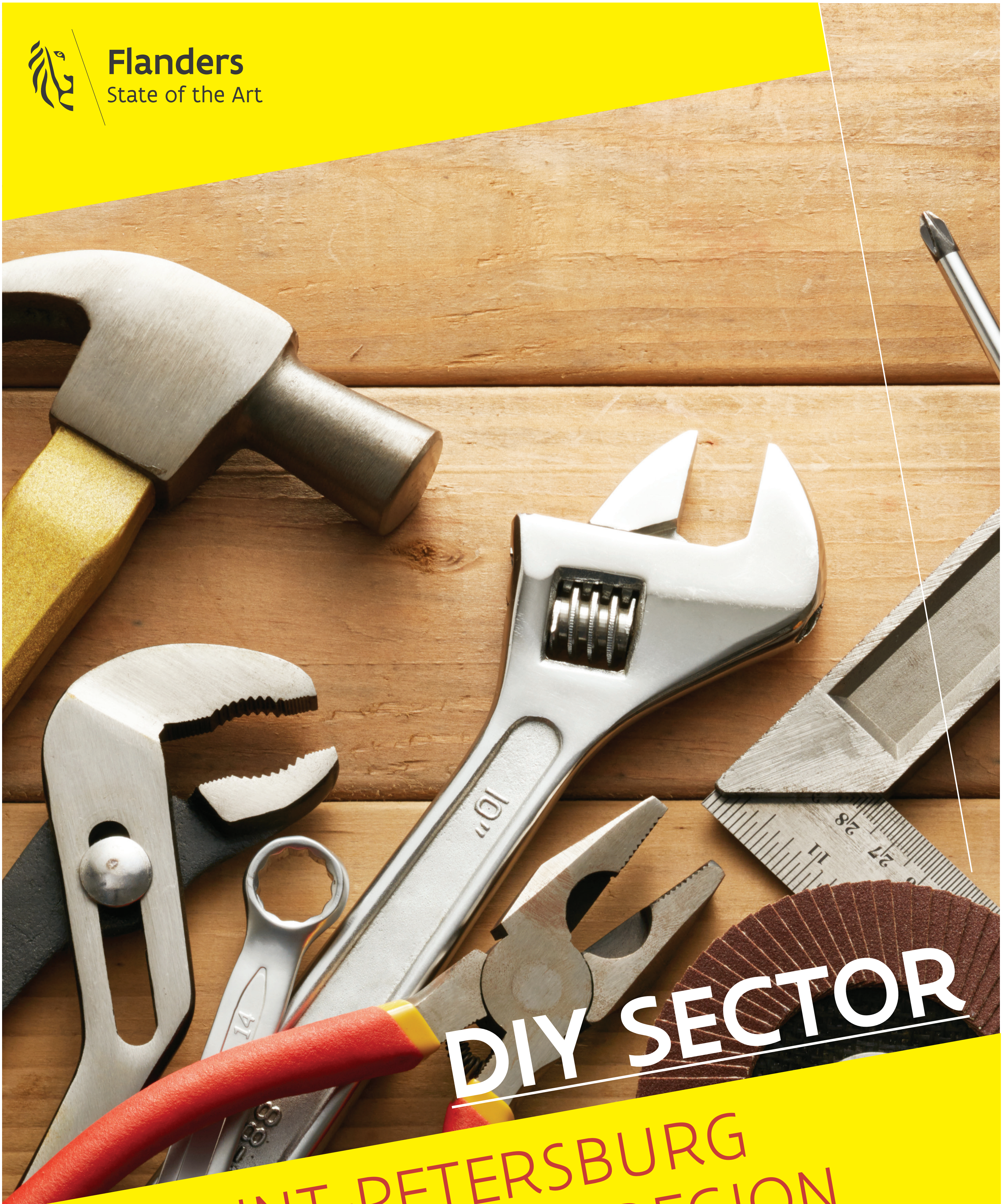
Flanders
State of the Art



DIY SECTOR

IN SAINT-PETERSBURG AND LENINGRAD REGION

FLANDERS INVESTMENT & TRADE MARKET SURVEY

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DIY SECTOR IN SAINT-PETERSBURG AND LENINGRAD REGION

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1. INDUSTRY PROFILE

The Russian DIY market began to take shape 20 years ago when **Maxidom** (https://www.maxidom.ru/) opened its first DIY store in St. Petersburg. German **OBI** (www.obi.ru/) came to the Russian market in 2003. French DIY retailers **Castorama** (https://www.castorama.ru/) and **Leroy Merlin** (https://leroymerlin.ru/) entered the Russian DIY market in 2004.

The main features of the Russian DIY market are the following:

- Market size is some € 20 billion.
- Major international chains dominate the DIY market.
- Retail chains share in DIY sales is 80%.
- Density of DIY stores in big cities much higher than that in Russian regions.

The DIY market in big Russian cities is very competitive. All leading DIY retailers are present in large cities and start expanding into regions. Most of the DIY retailers in regions are small local players that can't stand the competition with big retailers.
There are more than one thousand DIY chains in Russia. But the number of DIY chains is reducing due to a tough competition with big retailers.
The average Russian spends ten times less per year on DIY products than the average German. Current DIY per capita spending in Russia stands at around € 25. It continues to decline, and this downward trend results mainly from declining household incomes.
Most of the DIY stores in big cities are hypermarkets with the total area of 10 000 m^2. Smaller DIY formats are available in regions. They have a different product range and a price range.

Some DIY chains are focused on hard DIY and soft DIY - **Petrovich** (www.petrovich.ru), **Baucenter** (https://baucenter.ru/) and **Stroitelny Dvor** (https://www.sdvor.com/). Others are focused on household and gardening products – **OBI, Domovoy** (https://tddomovoy.ru/), **Maksidom** (https://www.maxidom.ru/) and **Start** (http://startonline.ru/). **IKEA** (https://www.ikea.com/ru/) stands apart from the others because it is mainly focused on furniture and household products.

DIY chains serve not only private customers (B2C) but also the construction sector (B2B). The percentage of the sales for professionals and individual customers varies from chain to chain.

Leroy Merlin leads the Russian DIY market. The company operates 81 DIY stores located in 43 regions. **Leroy Merlin** is planning to continue expansion and increase the number of stores to 100 in the nearest future.

2. MARKET TRENDS IN 2017

The main trends that moved the DIY market in 2017 are:

- Continued consolidation of the market
- Expansion of big players into regions and reduction of regional DIY retailers
- Strong price competition
- Increased marketing costs
- Import substitution policy
- Increased online sales and multi-channel retailing
- Introduction of new smaller formats.

Big DIY retailers (**Leroy Merlin, Petrovich, OBI** and **Castorama**) continue their expansion into regions. They introduce new smaller formats, offer new targeted products and maintain prices. Local DIY retailers can not compete with big retailers and quit the market.

Leroy Merlin remains the undisputed No. 1 in the Russian DIY market. The company was the most active player in 2017. **Leroy Merlin** opened 16 new DIY stores and expanded into 9 Russian regions. In the first half of 2018, **Leroy Merlin** took over Finnish **K-Rauta** that decided to leave the Russian market and sell the business. The 12 K-Rauta stores will be transformed into Leroy Merlin stores by the end of 2018.
Russian chain **Petrovich** showed a very good operating performance in 2017. Last year **Petrovich** increased its sales by 20,8% and ended up second outpacing German **OBI** in terms of sales. The company operates 18 DIY stores located in 5 Russian regions.

Leading DIY retailers increase marketing costs to encourage sales and retain customers. They use commercials on TV, offer marketing campaigns and loyalty programs.

Petrovich has consolidated the leading position in online trade, increasing its online sales to RUB 13 billion (35% of the total sales). The company aims to increase the online trade share to 45% by 2021. According to **Petrovich**, their main advantages are e-commerce, multi-channel retailing and perfect logistics.
All main DIY retailers are trying to keep prices down introducing private-label products and brands at lower prices. By offering private label products, DIY retailers draw in new customers, add some exclusivity to their brand and build customer loyalty.

The import substitution policy is an important trend that is maintained in every industrial sector. It enables to stabilize prices and reduce dependence on currency fluctuations and imported products. Many DIY retailers increase the share of products made in Russia. At **Leroy Merlin**, the share of products made in Russia reaches 50%, and the company is planning to add more local products.

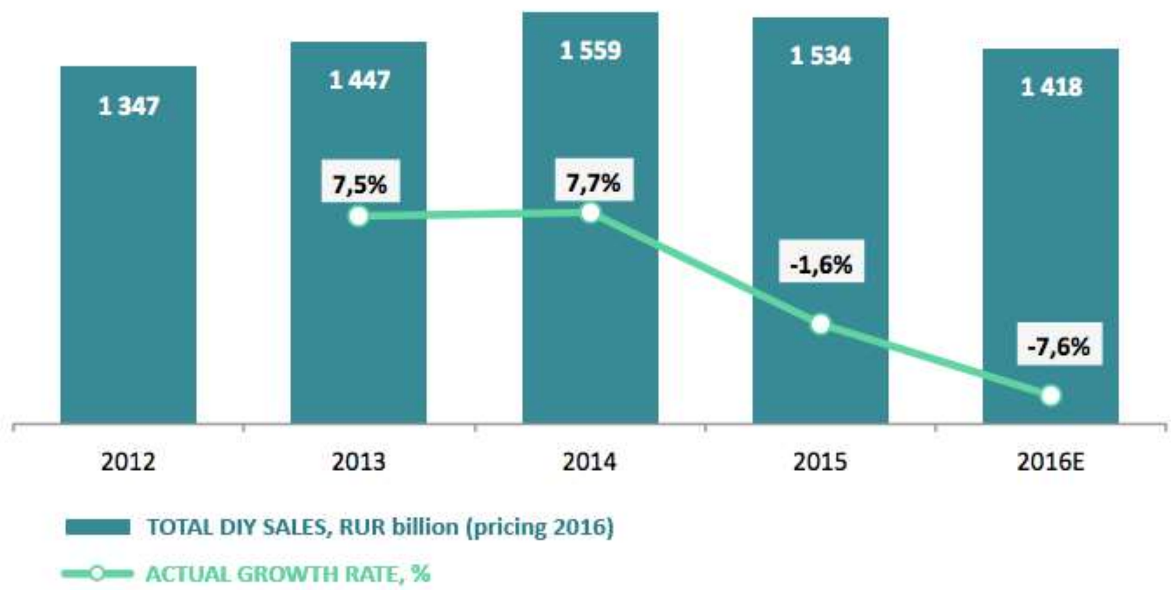
Online sales in DIY retail are steadily growing. Last year online sales grew by 40% according to the **Russian Association of Internet Trade Companies** (http://en.akit.ru/). The younger generation which generally has less experience and less knowledge when it comes to home improvement, have a greater need for information when they start a DIY project. They research online before making a home improvement purchase, buy things online and get them delivered straight to their home.

In general, the Russian DIY market is very flexible, responds to global market conditions and local environment and looks for new opportunities.

3. RECENT DIY SALES

2015 was quite successful for the Russian DIY market since the total sales fell by 1,7% reaching 1 534 RUB billion. 2016 was, on the contrary, very challenging because the total sales declined by 7,6%. The industry was well supported by the residential construction sector that broke the record of 2014. The volume of the housing construction reached 85,3 million m² in 2016. Besides, the industry was also supported by the government plans to complete transport infrastructure, energy and utilities projects in anticipation of the FIFA World Cup 2018. In 2017, the total DIY sales grew by 1,8%. See the total DIY sales over the period 2012-2016 below.

Figure 1. Total DIY Sales Over The Period 2012-2016, RUR billion, %



Source: RBC (https://www.rbc.ru/)

Below one can see the ranking of the TOP-10 DIY chains in Russia.

Figure 2. Sales of the Top-10 Russian DIY Chains Over The Period 2014-2017, RUB billion

Source: INFOline (http://infoline.spb.ru/)

Leroy Merlin ranks first in this rating with the total sales of 266 RUB billion. Last year the company increased its market share to 12,8%. **Petrovich** increased its sales by 20,8% reaching 37,8 RUB billion in 2017. The other DIY retailers showed a moderate growth last year. The total sales of German **OBI** fell for the second consecutive year. French **Casrorama** also showed negative dynamics for the second consecutive year. It chiefly reflects the overall slowdown of the Russian economy and low consumer spending.

Soft DIY and hard DIY are the most dynamic segments in DIY retail. The former was the main growth driver in 2017 whereas the latter fell by 5,2% by the end of 2017. The segment of hard-DIY depends heavily on residential construction and cottage building sector. It can be accounted for by the fact that many construction companies offer flats with finishing and a basic renovation. A decade ago, most of the flats were sold unfinished, just concrete walls and ceiling. Now the share of flats with finishing and renovation reaches 35%.

In recent years, the garden segment has become very attractive and shown a growth potential. Many Russians like gardening and have summer cottages (datchas). They do not travel outside the country and spent summer either in the countryside or in summer cottages. They renovate their cottages, grow vegetables, fruits and flowers. So many DIY retailers have expanded their garden range adding new and private-label products.

4. DIY MARKET IN SAINT-PETERSBURG AND LENINGRAD REGION

Saint-Petersburg is often called the heart of the Russian chain retail. Many DIY retailers come from Saint-Petersburg: **Petrovich, Maksidom** and **Domovoy**. The density of DIY stores in Saint-Petersburg is much higher than in any other Russian city (80%).

The DIY market in Saint-Petersburg is very well developed and consolidated. The main players are federal DIY chains. See Table 1 below.

Table 1. DIY Chains in Saint-Petersburg

DIY Chain	Number of stores
Leroy Merlin	14
Stroitel	12
Domovoy	11
Maksidom	9
Petrovich	8
Saturn	7
OBI	5
Castorama	2
IKEA	2
Start	1

The increasing concentration generates a *strong competition* among DIY retailers in the city*. The retailers have to meet* the demands of sophisticated and discerning customers. Having acquired the **K-Rauta** chain, **Leroy Merlin** has become the biggest DIY retailer in Saint-Petersburg. Traditionally this retailer offers low prices and has the strongest presence, so it helps the company gain new customers in Saint-Petersburg. The tough competition with **Leroy Merlin** makes other retailers look for new opportunities and market niches. **Petrovich** attracts customers with its hard DIY range, logistics, perfect online and offline services. 90% of the construction companies in Saint-Petersburg work with **Petrovich** (B2B segment). **Maksidom** brings new customers and retain the existing ones by customization, loyalty programs and a wide product range.

Nowadays DIY retailers are looking for new growth opportunities. **Leroy Merlin** is planning to open the first dark store in Saint-Petersburg. This format is well-known in FMCG retail, but new and innovative in DIY retail. It will be a distribution center that will cater exclusively for online shopping. So the dark store will be closed to the public.

DIY retailers can also grow their sales by expanding into other markets. **Leroy Merlin** and **Petrovich** introduce smaller formats in regions – DIY markets (5000-8000 m^2). **Maxidom** has opened a small DIY market (4000 m^2) at the shopping mall “Grand Canyon”. Shopping malls are usually very popular among Russians, and they have a very good customer traffic. Even **IKEA** has introduced a new format in Russia – a design studio and showroom (300 m^2). The company is planning to scale up this project in big cities. So smaller formats prove to be efficient and successful due to further expansion and an increase in online shopping.

The product range in Saint-Petersburg is different from that in Leningrad region. DIY retailers in Saint-Petersburg offer products in different price-ranges: high-price (premium), mid-price and low-price. The product range includes many building materials for home improvement and design, hard DIY, different tools, products for housekeeping as well as for gardening. Nowadays a lot of retailers optimize their product range adding private-label products and replacing premium products. Brands lose their customer appeal. More and more customers look for cheaper products, and this is why premium-brand sales drift downward.

The DIY market in Leningrad region is not developed and consolidated. There are many small players and DIY markets. The most dynamic segments are hard DIY, soft DIY and gardening. Customers look for low-price building materials to build and finish a house, buy plants, flowers and fertilizers. So the main customer segment is cottage owners and builders. See Table 2 below.

Table 2. DIY Chains in Leningrad region

DIY Chain	Number of stores
Vimos	37
Stroy Udacha	31
Petrovich	4
Stroitel	2

The biggest DIY chain in Leningrad region is **Vimos** (https://www.vimos.ru/). The company operates 40 DIY stores located in several regions: Saint-Petersburg, Leningrad region, Veliky Novgorod region and Pskov region.

Vimos is planning to invest 1 RUR billion into renovation and rebuild of its existing stores. The company wants to improve its stores and expand product range. It is expected that Vimos will increase its sales by 12% by the end of 2018. Besides, **Vimos** wants to spend 12 RUR million on private-label brands this year. Next year the investment into private labels will be 20 RUR million. So **Vimos** is more focused on protecting the bottom line, rather than investing into growth and innovations.

According to INFOline, the luxury segment accounts for 20% of the total DIY sales. The most active player in this segment was **"Dom Laverna"**, the chain founded in 1992 in Saint-Petersburg. The chain included 8 stores and was focused on luxury DIY brands and accessories. Their main customers were interior designers and architects (B2B). But in 2016 **"Dom Laverna"** went bankrupt and shut down the stores. This year the former owners of **"Dom Laverna"** have opened a new DIY store for interior designers and architects – **"Buro Interiors"** (http://www.buroint.ru/). If this projects proves successful, the company will scale up this project in Saint-Petersburg.

Another strong player in the luxury segment is **Piterra** (https://www.piterra.ru/). The company was founded in 1999 in Saint-Petersburg and is now present in Saint-Petersburg and Moscow. **Piterra** has 6 showrooms and 3 warehouses in Saint-Petersburg and 2 showrooms in Moscow. The company is focused on premium wallpapers, textiles, paints, moldings and accessories.

5. OPPORTUNITIES FOR BELGIAN EXPORTERS

Russia has started major investment and modernization programs which will provide business opportunities for foreign companies. It is looking for foreign investment, expertise, technologies and resources.

Benefits for Belgian businesses exporting to Russia include:

- huge market with over 146 million consumers;
- respect for "EU made brands" including retail and luxury;
- anticipated increase in the number of Russian mid-class people.

Strengths of the Russian market include:

- young and well-educated workforce;
- respect for high quality products;
- strong transport links and logistics;
- access to supply chains that could lead exports to other markets in the CIS countries and the Eurasian Economic Union.

As for the DIY market, high-quality and luxury building materials and accessories can be exported and gain success in Russia.

6. ADDRESS LIST OF DIY CHAINS IN SAINT-PETERSBURG AND LENINGRAD REGION

Leroy Merlin
https://leroymerlin.ru/

Chain founded in Russia: 2004
Total number of stores: 84
Number of stores in St. Petersburg: 14
Number of stores in Leningrad region: non
Regional presence: 43 regions, covers a greater part of Russia

115163 Moscow
Ul. Shabolovka 31A
T: +7 (495) 961-01-60
F: +7 (495) 961-01-61
Alexandra Gribanova, Area Manager North-West Russia, Central Russia, Belarus
Alexandra.Gribanova@leroymerlin.ru

Saturn
https://spb.saturn.net/

Chain founded in: 1997
Total number of stores: 48
Number of stores in St. Petersburg: 7
Number of stores in Leningrad region: non
Regional presence: 25 regions

194100 St. Petersburg
Ul. Litovskaya 15
T: +7 (812) 325-40-04
F: +7 (812) 703-12-12

Vimos
https://www.vimos.ru/

Chain founded in: 1992
Total number of stores: 40
Number of stores in St. Petersburg: non
Number of stores in Leningrad region: 37
Regional presence: St. Petersburg, Leningrad region, Pskov region, Veliky Novgorod region

188640 Leningrad region
Vsevolozhsk, Koltushskoe shosse 298
T: +7 (812) 666-66-55
zakupka@vimos.ru

Domovoy
https://tddomovoy.ru/

Chain founded in: 2000
Total number of stores: 31
Number of store in St. Petersburg: 11
Number of stores in Leningrad region: non
Regional presence: 13 regions

191025 St. Petersburg
Nevsky pr. 55
T/F: +7 (812) 622-22-25
info@startonline.ru
assistant@startonline.ru

Stroi Udacha
https://stroyudacha.ru/

Chain founded in: 2001
Total number of stores: 31
Number of stores in St. Petersburg: non
Number of stores in Leningrad region: 31
Regional presence: Leningrad region

191040 St. Petersburg
Ligovsky pr. 74A, office 506
T: +7 (812) 607-74-73
info@stroyudacha.ru

OBI
https://www.obi.ru/

Chain founded in Russia: 2003
Total number of stores: 28
Number of stores in St. Petersburg: 3
Number of stores in Leningrad region: 2
Regional presence: 14 regions

125252 Moscow
ul. Aviakonstruktora Mikoyana 12B
T: +7(495) 933 46 80
F: +7 (495) 933 46 81
info@obi.ru

Castorama
https://www.castorama.ru/

Chain founded in Russia: 2004
Total number of stores: 21
Number of stores in St. Petersburg: 3
Number of stores in Leningrad region: 2
Regional presence: 15 regions

115114 Moscow
Derbenevskaya nab. 7, building 8
T: +7 (495) 777-25-55
F: +7 (495) 777-25-54
infor@castorama.ru

Petrovich
https://petrovich.ru/

Chain founded in: 1995
Total number of stores: 18
Number of stores in St. Petersburg: 8
Number of stores in Leningrad region: 4
Regional presence: St. Petersburg, Leningrad region, Moscow region, Veliky Novgorod, Karelia

194358 St. Petersburg
6 Verkhny per. 12A
T: +7 (812) 329-01-95
snabzhenie@petrovich.ru
info@petrovich.ru

Maksidom
https://www.maxidom.ru/

Chain founded in: 1997
Total number of stores: 14
Number of stores in St. Petersburg: 9
Number of stores in Leningrad region: non

Regional presence: St. Petersburg, Nizhny Novgorod, Ekaterinburg, Kazan, Samara, Ufa

195267 St. Petersburg
Grazhdansky pr. 18A
T: +7 (812) 324-55-41

IKEA
https://www.ikea.com/ru/

Chain founded in: 2002
Total number of stores: 14
Number of stores in St. Petersburg: non
Number of stores in Leningrad region: 2

141400 Moscow region, Khimki
Mikrorayon IKEA
T: +7 (495) 737-53-29

Stroitel
http://stroitel-spb.com/ru/

Chain founded in: 2006
Total number of stores: 14
Number of store in St. Petersburg: 12
Number of stores in Leningrad region: 2
Regional presence: St. Petersburg and Leningrad region

197374 St. Petersburg
Ul. Savushkina 104, building 2
T: +7 (812) 676-86-41
stroitel_office@bk.ru

Start
http://startonline.ru/

Chain founded in: 2006
Total number of stores: 1
Number of store in St. Petersburg: 1
Number of stores in Leningrad region: non
Regional presence: St. Petersburg

191025 St. Petersburg
Nevsky pr. 55

T/F: +7 (812) 622-22-25
info@startonline.ru
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