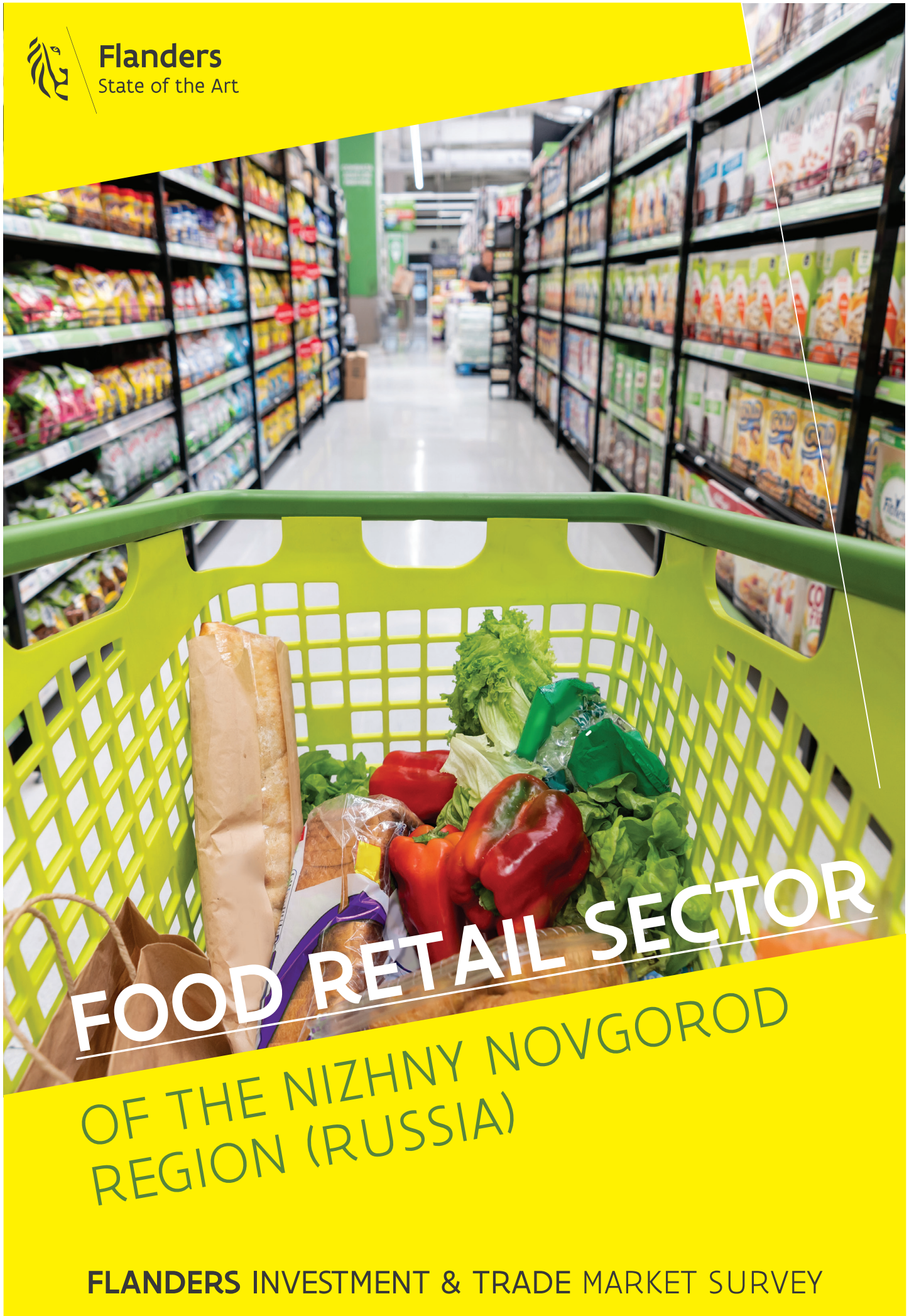




**Flanders**  
State of the Art



# FOOD RETAIL SECTOR

OF THE NIZHNY NOVGOROD  
REGION (RUSSIA)

FLANDERS INVESTMENT & TRADE MARKET SURVEY

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FOOD RETAIL SECTOR OF THE  
NIZHNY NOVGOROD REGION  
(RUSSIA)

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- 400 km (40-minute flight) east of Moscow, 45-minute flight, 3.5-hour train ride or 4-5-hour drive from it;
- Railway density in the Nizhny Novgorod region is three times higher than in Russia in general, road density is two times higher;
- 43 million consumers live within a 500-km radius of the city;
- The city of Nizhny Novgorod is the administrative centre of the Greater Volga Federal District with 13 other regions and republics and the population of 29.4 m (20% of Russia).

## 2. REGIONAL EVOLUTION OF THE FOOD RETAIL SECTOR SINCE 1990'S

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Like in many other Russian areas, the retail sector has undergone an explosive qualitative and quantitative development since the 1990's, when the Soviet Union stopped its existence. As of all retail businesses, the food retail sector is considered to be one of the most competitive and susceptible to modern technologies, is has quickly evolved from the level of unlicensed street kiosks to that of most modern hypermarkets as anchor tenants at contemporary megamalls across Russia. The retail sector of the post-Soviet country stepped into the newly emerged market economy mostly without the heavy and inefficient baggage from the past. Initially, the state regulation of the deficit-prone trade sector was minimal, if not altogether missing, which allowed new entrepreneurs to quickly build and multiply their capitals by creating efficient supply chains to satisfy the demand for foodstuffs, often even basic, and other consumer goods to quite an empty market, which was suffering from the significant economic turbulence of the early 1990's.

In the region of Nizhny Novgorod, the majority of street kiosks and market pavilions successfully transformed into local retails chains in a relatively short time: the first 24/7 supermarket, 'XXI Century', opened in 2001, followed by the first Nizhny Novgorod local chain of supermarkets 'Caravan', which replaced many oddly located and unappealing mini-markets. The number of local players continued to grow, as the market grew as well: 'VKT' and 'Sladkaya Zhizn' were two first companies in Nizhny Novgorod, which combined distribution activities with operation of their own retail chains. New retail management technologies – e.g. bar encoding, customer free-flow instead of over-the-counter service, monitoring of goods' availability and movement in the warehouse and shelves – were becoming a standard. By the time federal and international players started to eye and then enter the regional market in the beginning of 2000's, the local retailers were prepared and able to challenge them and compete in a rather competent manner.

The then-newly created 'trade corridors' along the city's high streets – e.g. the central thoroughfare Bolshaya Pokrovskaya, which was converted into a pedestrian-only street about 40 years ago, – started to decline somewhat as from mid-2000's as construction of shopping malls, uniting commercial and

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entertainment centres, intensified. Since then, malls are still winning over the classical street shopping areas due to their higher practicality given the Russian climate: during 4-5 winter weather months with snow, ice and negative temperatures, it is undoubtedly pleasant to spend a day under one roof to do shopping, eat in a restaurant, play bowling or skate on a rink, watch a movie, etc. Shopping streets are still there, of course, but now dominated by boutiques, jewelry and watch shops, bank offices, coffee houses and cafes as a rule.

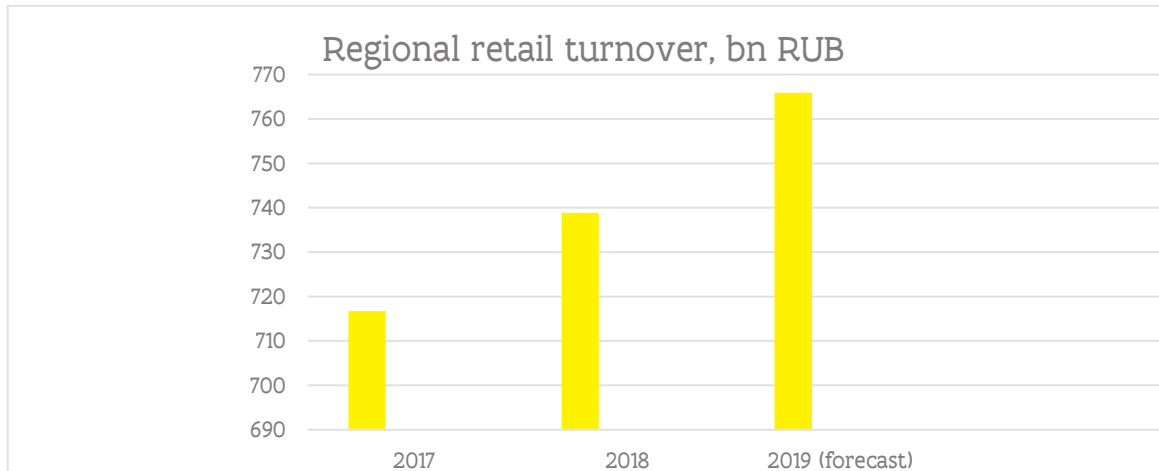
For the past 2-3 years the situation on the regional food retail market may be characterized by growing saturation, fierce competition and, as a result, no recent arrivals of new retail chains (with the exception of two, described below). A bunch of later national newcomers (e.g. Dixi, Bahetle, Miratorg, Nash, Real) left the region in just a while, and local chains have been gradually selling their businesses to federal players. The process started back in 2006, when 'Caravan' was sold to 'Magnit', and the most recent notable sale was registered in 2016 as 'Raycenter', another holding company operating 3 various chains, closed them and leased all its commercial space to X5 Retail Group on a long-term basis. Local retailers also blame market saturation and competition, which are the toughest among Russian regions, according to some experts in the sector, and an increased taxation burden to be the prime reasons for leaving the business. The only successful cases of new federal players entering Nizhny Novgorod and staying are the 'Krasnoye I Beloye' (Red and White) alcomarket chain, originally competing with the local 'Bristol' retailer of the same format, and 'Vkusvill', the healthy choice food chain, which challenges the local similar retailer 'Myasnov', that is also present in Moscow. A total of about 30 retail chains of all kinds now operate in the region of Nizhny Novgorod.

### 3. LATER DEVELOPMENTS, CURRENT SITUATION AND TRENDS

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As of 2019, the retail sector of the Nizhny Novgorod region is the 9<sup>th</sup> largest in Russia, with a turnover of 510.6 bn RUB (~7.2 bn EUR), for 8 months, which is 1.1% higher than for the same period of 2018. The amount for the latter – 738.9 bn RUB (just over ~10 bn EUR) – demonstrated a 3.1% growth to the year 2017.

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Goods and services accounted for 53.4% of the above amount of 2018, while foodstuffs, drinks and tobacco – 46.6%. Nizhny consumers spent 27.4 bn RUB (~386 m EUR) on restaurants and cafes, which is 9.6% more than in 2017, and 19.7 bn RUB (~277 m EUR, +8.7% to 2017) on services of various types.

A decrease of the local retailers' share is, naturally, a clear tendency for the local retail sector, both for food and non-food segments. Currently, two Russian food retail federal chains (X5 Retail Group, with its 3 shop formats, and 'Magnit'), as well as the 'local but international' retailer – 'Spar' – are the leaders in Nizhny as for the number of shops per company. 'SPAR Middle Volga' is a truly unique case, being the Nizhny-based franchisee of SPAR Internationale BV. Since its incorporation in 2001 it grew to the most successful SPAR franchisee of Russia, now operating a chain of 185 stores of various formats (Spar Express, Spar and Eurospar) in Nizhny and a number of neighboring areas, including Moscow, where it is one of the two franchisees for that region.







on foot, with a smaller and notably more expensive product matrix, which originates directly from farmers or suppliers of bio- and organic food and drinks. Both of these formats, as well as most other retailers, follow the Russian general opening hours' pattern and operate 7 days a week from 7-8 AM to 10-11 PM, however some supermarkets (e.g. 'Spar' in Nizhny) and hypermarkets ('Lenta', for instance) work 24/7.

Another tendency worth mentioning is the chains' own trademarks that are quickly gaining popularity: as of 2019, 84% of all consumers bought such products at least once, 52% do it regularly, and 38% always buy them. About 10 to 24% of sales by chains account for own trademarks, which is notably lower than in the EU, however it must be noted that own trade marks were virtually non-existent in Russia some 10 years ago or so.

A new format of shops emerged in Russia since early 2000's – the so-called 'alcomarkets', which are small-size free-flow convenience shops with the main product group being mostly alcoholic beverages of all types, accompanied by other drinks, juices and water, as well as snacks and other basic foodstuffs. One of the first entities of the kind appeared in Nizhny Novgorod in 2003 – a small chain called 'Otdokhni' ('Have a Rest'), always co-located with its partner chain 'Myasnov' ('The Meat Family Man') that originally sold fresh meat and a wide assortment of meat products, later expanding into healthy choice and bio-foodstuffs mini-markets. Since its inception, both chains grew to that of about 190 locations in the Nizhny Novgorod and Moscow regions.

Other similar concept chains worth mentioning, due to their tremendous success, are 'Krasnoe I Beloe' ('Red and White'), founded in 2006 in Chelyabinsk in the Urals area and now operating in 57 areas across the country, and 'Bristol', originally a tobacco kiosk chain founded in 2012 in Nizhny Novgorod and later re-formatting itself into a more profitable alcomarket chain, currently present in over 30 Russian regions. In early January, 2019 both the entities announced a merger, in association with 'Dixi', another food and drink retailer based in Moscow and active in many regions in Russia, and belonging to the owners of "Bristol". As the 2017 sales were close to ~4 bn EUR for 'Dixi', ~3 bn EUR for 'Krasnoe I Beloe' and just under 1 bn EUR for 'Bristol', the united company would become Russia's third-largest foodstuffs retailer, following X5 Retail Group and 'Magnit'.

The merger was approved by the Russian anti-monopoly bodies, as in any of the regions the joint market share of the united company was below 25%, and finalized in September 2019, giving start to a ~1.5 bn EUR worth company of about 13.000 minimarkets and indeed Russia's number 3 retailer for revenues, which are forecast of about 12 bn EUR in 2019, VAT-deducted. It was agreed that the united company would operate their own branded chains like before, under 3 different management teams, however joint forces will be used for procurement and distribution. Some experts in the retail sector assume that the company value may double in 2020, and the revenues may exceed 14 bn EUR following some corporate procedures to implement.

The contemporary retail sector of a Russian region like Nizhny Novgorod is thus a very well-developed and rather saturated market segment where local, national and foreign (Metro C&C, Auchan, Billa) players have



sufficient presence and compete in order to win the local customer by offering quality products at attractive prices and in a modern and pleasant shopping environment.

## 4. MARKET OPPORTUNITIES FOR BELGIAN COMPANIES

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A regional Russian market like Nizhny Novgorod may offer the following interesting business opportunities to foreign suppliers:

- it is a wealthy area of 3.2 million consumers, centrally located in the European part of the country,
- the region boasts excellent transport and logistics capacities which facilitate the flow of goods within and around the region,
- Nizhny Novgorod is the administrative centre and distribution hub of the Greater Volga Federal district, with efficient coverage of 13 neighboring regions populated by over 29 million potential customers,
- EU-made brands are highly respected and have good marketing and sale perspectives.

While the market of Nizhny Novgorod and other regions of the Federal District may be reached via federal and international retail chains, the importance of local importers, distributors and retail chain operators should not be underestimated. Such entities may be a lot more flexible than the 'giants' acting nationwide, and provide valuable niche opportunities, often involving lower overheads and faster market access compared to the major chains.

The importance of the sector may be proved by the fact that, for example, two of the three companies of the Nizhny Novgorod region, which are listed in the Russia top 200 businesses by Forbes, are active in food retail: 'Sladkaya Zhizn' holds position number 106, and 'Albion 2002', the owner of the 'Bristol' chain, is on place 128.

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## 5. USEFUL LINKS

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### *Local food and drink retail chains*

[www.spar-nn.ru](http://www.spar-nn.ru)  
[www.my-spar.ru](http://www.my-spar.ru)  
[www.myasnov.ru](http://www.myasnov.ru)  
[www.somelie.ru](http://www.somelie.ru)  
[www.newvek-nn.ru](http://www.newvek-nn.ru)  
[www.bristol.ru](http://www.bristol.ru)

### *Largest local food and drink distributors*

[www.swnn.ru](http://www.swnn.ru)  
[www.swlife-horeca.ru](http://www.swlife-horeca.ru)  
[www.td-vkt.ru](http://www.td-vkt.ru)  
[www.koliz.ru](http://www.koliz.ru)  
[www.germes-nn.com](http://www.germes-nn.com)  
[www.fruitfood.ru](http://www.fruitfood.ru)  
[www.prodoptima7.ru](http://www.prodoptima7.ru)  
[www.bakaleyaopt.ru](http://www.bakaleyaopt.ru)  
[www.garantia-vkusa.ru](http://www.garantia-vkusa.ru)  
[www.alidi.ru](http://www.alidi.ru)

### *Largest non-food retail chains*

[www.nasyanya.ru](http://www.nasyanya.ru)  
[www.povsport.ru](http://www.povsport.ru)  
[www.order-nn.ru](http://www.order-nn.ru)  
[www.elektronika-nn.ru](http://www.elektronika-nn.ru)  
[www.hozyain.nnov.ru](http://www.hozyain.nnov.ru)  
[www.mebelplus.ru](http://www.mebelplus.ru)  
[www.mozaika-shop.ru](http://www.mozaika-shop.ru)  
[www.nokturn.ru](http://www.nokturn.ru)  
[www.senatnn.ru](http://www.senatnn.ru)  
[www.cronos-optika.ru](http://www.cronos-optika.ru)

### *Largest shopping malls*

[www.etagi.ru](http://www.etagi.ru)  
[www.nebo-trk.com](http://www.nebo-trk.com)  
[www.fantastika-nn.ru](http://www.fantastika-nn.ru)  
[www.respublika-nn.ru](http://www.respublika-nn.ru)



[www.indigo-trk.ru](http://www.indigo-trk.ru)  
[www.ganzann.ru](http://www.ganzann.ru)  
[www.7nebonnov.ru](http://www.7nebonnov.ru)  
[www.трк-золотаямиля.рф](http://www.трк-золотаямиля.рф)  
[www.mega.ru/nn](http://www.mega.ru/nn)

## 6. SOURCES

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[www.government.nnov.ru](http://www.government.nnov.ru)  
[www.dk.ru](http://www.dk.ru)  
[www.vz-nn.ru](http://www.vz-nn.ru)  
[www.newsnn.ru](http://www.newsnn.ru)  
[www.nn.rbc.ru](http://www.nn.rbc.ru)  
[www.vedomosti.ru](http://www.vedomosti.ru)  
[www.kommersant.ru](http://www.kommersant.ru)  
[www.forbes.ru](http://www.forbes.ru)

Companies' websites

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Date of publication: December 2019

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