

Characteristics of the Retail Technology Development in Russia: The Case of Large Retail Chains

Características del desarrollo de la tecnología minorista en Rusia: el caso de las grandes cadenas minoristas

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ABSTRACT:

This paper examines some of the general and special features of the development of retail technology in Russia through the example of retail chains operating in the market for household appliances and electronics, including the organization of service and Internet commerce. The paper explores the history and current state of retail in Russia. Special attention is devoted to the organized market for household appliances and electronics. The authors examine the market's structure and some of the key indicators of its development and identify some of the major players in Russia's retail market for household appliances and electronics. The paper shares the findings of an analysis of the chains' retail sale of household appliances and electronics via the Internet, names the key players involved in it, and explores the major indicators related to it. The authors identify some of the key trends in the development of technology underlying the retail of household appliances and electronics and explore some of the service policies offered to consumers by large chains and online stores. On the strength of these findings, the authors offer

RESUMEN:

Este trabajo examina algunas de las características generales y especiales del desarrollo de la tecnología minorista en Rusia a través del ejemplo de las cadenas minoristas que operan en el mercado de aparatos electrodomésticos y electrónicos, incluyendo la organización de servicios e Internet Comercio. El periódico explora la historia y el estado actual del comercio minorista en Rusia. La atención especial se dedica al mercado organizado para los aparatos electrodomésticos y la electrónica. Los autores examinan la estructura del mercado y algunos de los indicadores clave de su desarrollo e identifican a algunos de los principales actores del mercado minorista de Rusia para aparatos electrodomésticos y electrónicos. El documento comparte los hallazgos de un análisis de la venta al por menor de las cadenas de electrodomésticos y electrónica a través de Internet, nombra a los actores clave involucrados en él, y explora los principales indicadores relacionados con ella. Los autores identifican algunas de las tendencias clave en el desarrollo de la tecnología subyacente al Retail de

their own vision of the structure of the domestic retail market for household appliances and electronics. The paper identifies the following key trends in the market's development: retailers pursuing major changes in retail formats with a focus on expanding their presence on the Internet – or, by contrast, significant sales volumes being generated through consumer lending.

Keywords: retail format, goods circulation, liberalization, retail, logistics, discounter, electronic commerce, Internet, online store

aparatos electrodomésticos y electrónicos y exploran algunas de las políticas de servicio ofrecidas a los consumidores por grandes cadenas y tiendas en línea. En la fuerza de estos hallazgos, los autores ofrecen su propia visión de la estructura del mercado minorista nacional para electrodomésticos y electrónica. El documento identifica las siguientes tendencias clave en el desarrollo del mercado: los minoristas que persiguen cambios importantes en los formatos minoristas con un enfoque en la expansión de su presencia en Internet – o, por el contrario, los volúmenes de ventas significativos que se generan a través del consumidor préstamos.

Palabras clave: formato minorista, circulación de mercancías, liberalización, minorista, logística, Discounter, comercio electrónico, Internet, tienda online

1. Introduction

Today, the provision of services is becoming an increasingly common practice around the world. By various estimates, the world's advanced countries currently generate 60 to 90% of their GDP through the service sector. Retail is an indispensable part of market economies that is crucially positioned between manufacturers and end consumers, especially in a climate of the development of global economic relations.

Being a significant component within the national economic system, retail, just like any other sector of the economy, evolves passing through certain evolutionary stages. The successful development of retail technologies in alignment with the latest requirements is hardly possible without factoring in the characteristics of their operation at different historical-formative stages.

The development of retail in Russia has been accompanied by complex dynamic processes. It is currently going through transformation driven by advances in information technology, the making of domestic manufacturers, the entry of foreign manufacturers to the Russian market, and some other factors. The domestic retail is getting increasingly civilized. Retail chains are competing with each other for consumers, providing them with increasingly better service. A factor worthy of note in this regard is the booming development of electronic commerce. In the beginning, the e-commerce market featured only virtual players. In recent years, competition in the market has been on the rise thanks to the emergence of online stores run by large retail chains. All this is indicative of the development of multichannel retail trade, which ensures maximum expansion of vistas of interaction with the end consumer.

Retail formats are evolving around the world in a similar fashion, since the initial form of goods exchange in all countries without exception was unorganized trade. In particular, in Western Europe the initial system of commerce was represented by city marketplaces and fairs, which were most common between the 9th and 14th centuries. The greatest competition for city marketplaces was posed by city shops, which operated in a more flexible regime and were not subject to as much government regulation as marketplaces. The third initial form of exchange was (non-stationary) peddling trade (Radaev, 2007). Subsequently, retail formats evolved under the influence of economic and political transformations at a different pace in different countries.

The key preconditions for the development of modern retail formats in the former USSR were transformation processes associated with industrial enterprises transitioning to operation on a cost accounting and self-financing basis. In the late 1980s, this produced a number of positive results, primarily in terms of stabilization and improvement of the financial status of most retail enterprises. However, in a climate of monopolization and lack of competition it was hardly possible to achieve a substantial improvement in retail service. Subsequently, it was suggested to make a broad transition to lease of retail enterprises without altering the core – the form of ownership, which was the first step toward the liberalization of the retail sector. It was allowed to sell at negotiated prices a minor portion of output produced in excess of the targets set

under government contracts. One may consider an even more significant factor the development of the cooperatives movement in the late 1980s, when, along with improvements in goods provision, a portion of higher-quality and scarce goods started to be sold at significantly higher prices.

The liberalization of trade led in the first half of the 1990s to the accelerated privatization of traditional Soviet stores – through their sale or, as was the case for the most part, their transfer into the control of their staff in exchange for privatization certificates. The late 1990s saw the rapid emergence of retail chains. The first supermarkets appeared in Russia in the mid-1990s. A distinctive characteristic of that formative stage of the sector's development was the possibility to generate major profits without having to invest much in improving the efficiency of one's activity – whilst afterwards, both intra- and inter-format, competition induced implementing cutting-edge retail technology and enhancing the level of service for the population. A characteristic attribute of that period was also the stiffening of competition between supermarkets and marketplaces. That being said, right now the price factor no longer plays a determining role and has virtually no effect on consumers' choice of where to shop. The expansion of Western retail chains has accelerated "natural development", with mergers and acquisitions becoming another stimulus for the formats to evolve further.

The growing heft of retail chains is a natural phenomenon today. Retail facilities owned by corporate chains are attractive for consumers and suppliers alike. The availability of a single brand and an integrated concept on development helps inform the consumer beforehand of the range of goods and services offered by the enterprise and save them much time in looking for desired goods. Significantly greater volumes of activity by chains as opposed to separate stores enable consumers to obtain goods directly from manufacturers at better prices and retail chains to offer them as broad a product assortment as possible. The benefits of working with retail chains for manufacturers and suppliers are obvious as well. Among the key benefits of partnering with retail chains are: firstly, the opportunity to sell one's products across the entire area where a chain's retail outlets are located; secondly, extensive vistas of opportunity for manufacturers working with international retail chains; thirdly, the opportunity to create the preconditions for putting together the widest product assortment possible; fourthly, the opportunity to minimize financial risks and maximize sales; fifthly, the opportunity to cultivate efficient logistics (Dudin, Lyasnikov, Sekerin, & Gorohova, 2014).

The latest research into the performance of European retail, especially its leaders, substantiates the trends that emerged in Russia a few years ago. Most notably, it is the ever-increasing concentration of capital. On the other hand, increasingly gaining in prominence is the role of discounters. Over the last 15 years, the number of discounters in Europe has increased more than double and their share of the market – nearly 2.5 times. The key reasons behind the growing popularity of hard discounters are robust competition in the retail market of advanced nations and increased consumer demands in respect of product price parameters (Grewal, Roggeveen, & Runyan, 2013). As for Russia, in 2016 domestic discounters recorded a 15.3% increase in sales, which may serve as an indication of the advantages of going with this retail format under recessionary conditions.

All this provides retail chains with a conclusive competitive advantage. In particular, in advanced countries retail chains take up the entire market space, which is divided equally among discount, supermarket, and hypermarket chains. In Germany, for instance, as early as the early 1980s they controlled 34, 30.3, and 31.7% of the market respectively. All other retail enterprises (smaller stores) accounted for no more than 4% of the market (Grewal, Roggeveen, & Nordfält, 2017).

Over the last few years, Russia has also been witnessing steady declines in the size of the domestic retail network with many small grocery stores and specialized stores closing down. These are getting replaced by the latest formats offering a wide product range and high-quality service.

The renowned French historian F. Braudel points out in his 'Material Civilization, Economics and

Capitalism' that it is the less successful organizational forms that tend to remain relatively unaltered, whilst the more successful forms evolve through qualitative transformation (Braudel, 1979/1988).

The findings of an analysis of the evolution of the market for consumer goods spanning the last 2 decades indicate that this market has 4 major stages in its development:

1) the nascent stage – where investors begin to track the market's development and put together a strategy for entering it. An example of markets at this stage of development is India in the late 1990s;

2) the peak stage – where the market develops quickly and is prepared for modern retail. This is the most favorable stage for investing in the creation of networks of modern stores;

3) the phase-out stage – characteristic of markets that continue to grow, although there are high levels of concentration, which leaves increasingly less room for new players. As a consequence, large chains start entering keenly the markets of smaller cities, while new companies start facing stiff competition;

4) the closure stage – where modern retail accounts for 40–60% of the market and new chains can emerge only if it is a new format and the segment has low levels of competition (Fowler & Bridges, 2010).

It is worth noting that in the period 2010-2016 the domestic retail market had been becoming more concentrated, resulting in the gradual increase of the relative share of the nation's largest retail chains. Right now, chain retailing accounts for over 55–60% of Russia's entire retail market, with retailers switching to new organization formats and the overall sector evincing qualitative growth (through a focus on enhancing and boosting the spectrum of services oriented toward consumer demand) (National Rating Agency, n.d.).

Having said that, Russia's retail market remains highly fragmented compared with that of European nations. More specifically, in Great Britain 4 largest retail chains control nearly 80% of the internal market, in Germany 5 chains – 65%, and in France 5 chains – 85% (Inman & Nikolova, 2016). In comparison, Russia's 10 largest grocery retailers control just 22.5% of the domestic market (*10 krupneishikh setei*, 2016).

Today, the Russian market for organized retail trade is dominated by Russian chains, although there are some foreign ones operating in it as well. The domestic market features both large supermarkets and smaller-format (corner) stores, which are increasingly gaining in popularity. The foreign retailers operating in the Russian market include Metro Cash & Carry, Billa, Auchan (grocery retail), Leroy Merlin, Castorama (construction materials), Media Markt (household appliances and electronics), and others, with the market, nevertheless, dominated by domestic companies.

2. Methods

The study subject is the retail market for household appliances and computer equipment (hereinafter 'HACE'). The authors employ the comparative analysis method to analyze the use of retail technology by Russia's top HACE retailers. In analyzing Russia's current HACE retail technology, it helps to explore and systematize the experience of the nation's retail chains which have already achieved solid results and made it into the top 7 for revenue in the domestic market (based on early 2016 data from Forbes, the National Rating Agency, and Malls.ru). Table 1 provides a general characterization of these chains.

Table 1.
Russia's top 7 HACE retailers in 2015

Rank	Name	Number of stores	Sales volume in 2015, billion rubles	Increase on 2014, %

1	M.Video	368	190.8	16.3
2	DNS, Frau Technica	941	115.9	6.1
3	Eldorado	419	111.6	16.2
4	Media Markt	67	52.4	21
5	Ulmart	372	50.1	48.8
6	Citilink, Positronica, Point	331	43	40
7	Technosila	121	27.5	36.1

3. Results

Based on data from the Russian Federal State Statistics Service, the HACE segment currently ranks 6th, accounting for 2.8% of Russia's overall retail turnover or 5.4% of its total non-food turnover.

The market is quite consolidated, with the 7 key players (M.Video, Eldorado, Media Markt, Ulmart, Positronica, and Technosila) accounting for more than half of it. The consolidation trend continued through 2016.

At year-end 2015, market leader M.Video recorded a 6.4% increase in consolidated revenue – to 190.8 billion rubles, with its network of stores expanding. The major drivers of growth for the company were certain categories of goods (smartphones, headphones, smart gadgets, and action cameras), consumer lending (including interest-free installment plans), as well as the efficient operation of offline and online sales channels. Another key player – Eldorado – registered in 2015 a record level of expansion, including penetration into smaller cities (50,000 residents).

The key drivers of growth, under the present economic recession, have been the chain's flexible pricing policy, active development of online channels, efficient customer feedback management (cool best price offers based on results from the monitoring of consumer sentiment), as well as diversification through new product categories (products for kids and moms; products for the house and garden). Thus, multicategory retail differentiates HACE considerably from other segments, which are forced to shrink their product range under recessionary conditions. A key expectation for the year 2017 is a stabilization of sales based on the assortment and service components.

Russia's top HACE retailers currently are M.Video, DNS, and Eldorado. In December 2016, the Russian retail market for HACE witnessed what is considered to be the biggest deal of the last few years: SAFMAR announcing its purchase of 2 leading retail chains for household appliances and electronics – M.Video and Eldorado. This will enable SAFMAR to take control of around 25% of the market for HACE, and move to 5th spot in revenue among Russia's retailers overall.

No less advanced a position is held by online stores specializing in the retail of electronic devices. Based on estimates by analytics, HACE remains one of the more dynamic sectors of online retail trade. The segment is currently represented by nearly a third of companies that are among the nation's top 100 online players.

In recent years, the sector has witnessed major changes to the HACE retail format, associated with the opening of online stores, development of multichannel communications and sales, expansion of product range, and development of networks of pick-up outlets. As an example,

	Types of service	Core	Auxiliary	Supporting
1	Services accompanying the process of sale of household appliances and electronics:			
	1) information-consultation support for clients		+	
	2) presale preparation of household appliances and electronics		+	
	3) sale of household appliances, electronics, and consumables	+		
	4) lending			+
	5) insurance			+
	6) warranty service and repairs		+	
2	post-warranty service	+		

In most cases, the seller company offers no after-sale service. These services are provided by third-party organizations, which tend to offer subpar service and could, actually, do damage to the image of the brand and the intermediary organization.

Special consideration should be given to consumer lending services, the 2nd most popular banking product. Consumer lending is starting to actively develop in Russia. Right now, 45%–60% of all purchases at retail chains are made on credit, with the way being led by purchases of household appliances and audio and video equipment. The most common amount in which Russians currently purchase things on credit is 20,000–25,000 rubles. Around 80% of the entire market for consumer lending is concentrated in large retail chains, like M.Video, DNS, Eldorado, etc.

Large retail chains, which generate combined 80–90% in sales, dictate to banking institutions their own rules on consumer lending. Profit to be made by banking institutions is laid down in the product's price upfront. Having said that, online stores engaged in the retail of HACE are unable to dictate their own terms on consumer lending.

Note that obtaining a targeted loan at retail chains is not a traditional practice around most of the world. This kind of approach is, normally, characteristic of markets that are in their formative stage of development. Most advanced economies have been going with the practice of consumer non-targeted and card-based lending at banking institutions.

4. Discussion

Among the key factors for the development of retail technology are: stiffening competition and attempts to achieve a competitive advantage in the market; profit maximization; rising consumer demand for goods; being focused on ensuring the prestige of the enterprise and resolving promptly any problems that may arise at it; exploring scientific novelties and implementing them in the production process with a view to enhancing the company's performance (Grewal et al., 2011). In recent years, retailers have been paying increasingly more attention to new instruments for boosting sales, the success of implementing which is hardly possible without the use of relevant equipment and innovative technology.

Researchers have identified some of the most influential trends and technologies that may help attract new consumers (customers) and ensure stable sales:

- 1) the in-store-pick-up and drive-in purchase schemes (choosing a product on the seller company's website and then receiving it at a retail outlet right from inside the car through a drive-through window or at special pack-stations) (Borges, Chebat, & Babin, 2010);
 - 2) advertising being oriented toward convincing a target consumer audience to include a product in the list of purchases to be made in the near future (Groß, 2016);
 - 3) robust innovation in terms of format – transitioning to multiple formats, format differentiation, and developing a range of additional services, including with an orientation toward the characteristics of national mentality and consumption (Pantano & Viassone, 2015);
 - 4) the emergence and spread of the pop-up-store format for temporary stores that open up at malls or non-traditional places (e.g., campuses, parking lots, and temporary street retail sites) and operate for a limited period of time (Dacko, 2016);
 - 5) the use of social networks (Facebook, Twitter, VKontakte, Odnoklassniki, etc.) as a marketing channel for the conduct of varied marketing research (Fotiadis & Stylos, 2016; Kallweit, Spreer, & Toporowski, 2014);
 - 6) large-scale price wars based on the implementation of new approaches to pricing policy: price-match guarantee programs; PriceCheck applications providing information on prices that are on the actual price-tags at the nearest stores; flexible electronic price-setting policies oriented toward a specific consumer (Pantano, 2013);
 - 7) the fast development of mobile commerce – providing consumers with the opportunity to enjoy multiple services on their cellphone and turning the phone into a key tool for making purchases (Pantano & Priporas, 2016; Kimery & McCord, 2002);
 - 8) the ecologization of retail (“green” goods and packaging): robust growth in sales of organic products and a shift to environmentally safe packaging (Roy, Balaji, Sadeque, Nguyen, & Melewar, 2016);
 - 9) customization – further personalization of the product assortment by reference to the wishes of the target groups of consumers and the needs of the local market based on cultivating prompt contact with them (Kang, Mun, & Johnson, 2015).
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5. Conclusions

Globalization has created favorable conditions for the development of retail chains and their entry to the international market. Of special interest to them are countries with a transitional economy that are characterized by lack of shopping floor space, poorly developed shopping infrastructure, and low levels of competition. A country that is no exception in this regard is Ukraine. Under these conditions, a promising area for the development of domestic retail is the integration of Ukrainian and global commercial capital. Evidence from the experience of the leaders in domestic retail indicates that this process has already begun and is gradually gaining momentum.

The authors' analysis has helped identify a set of crucial trends in the development of the retail of household appliances and electronics: retailers pursuing major changes in retail formats with a focus on expanding their presence on the Internet – or, by contrast, significant sales volumes being generated through consumer lending and retail ignoring the vast potential for boosts in revenue through additional services.

Special consideration should be given to the interaction between retail trade and banking institutions, which through concerted efforts can ensure each other additional opportunities for generating profit. Banking institutions can be present in the territory of a retail enterprise and give out loans to its customers. At the moment, the market is characterized by the same banking institutions and consumer lending terms being featured across most of the nation's

retail chains, which is an indication that this kind of strategy is followed by a limited number of banking institutions.

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