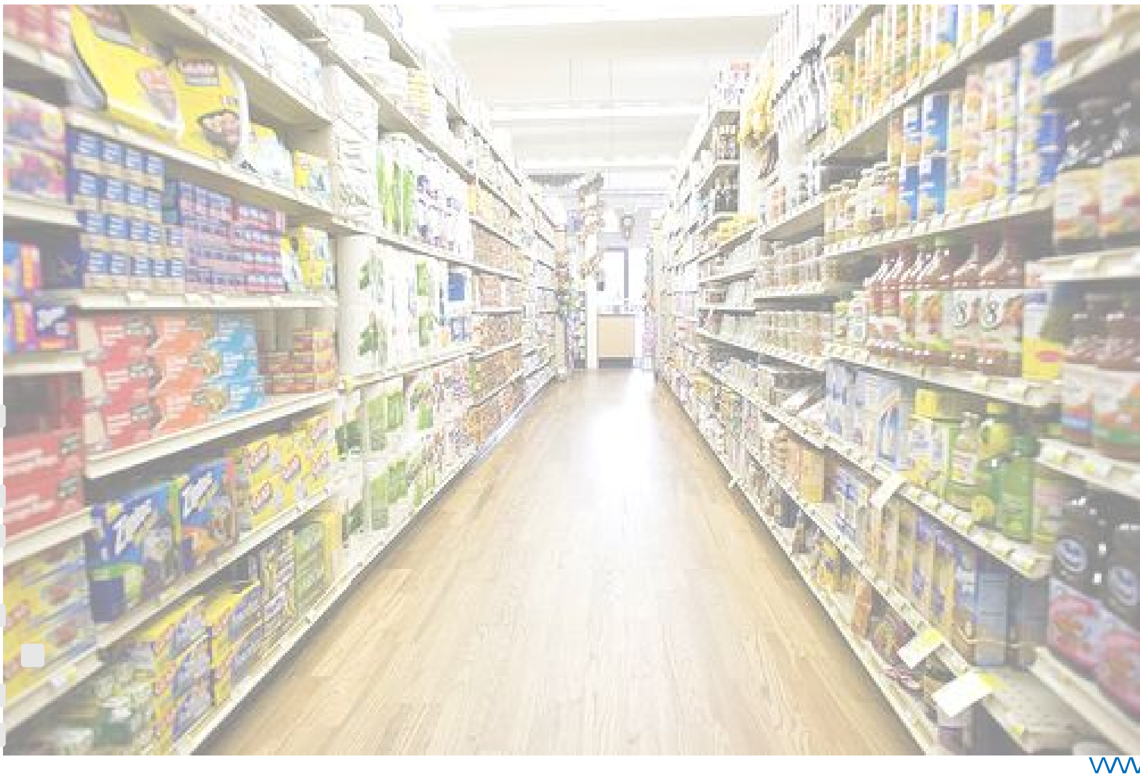
информационное агентство information agency

Research

Private Labels of FMCG Chains in Russia

Trends of 2011 and Prognosis till 2015



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Facts about INFOLine agency

INFOLine information agency was established in 1999, its aim was to render information and advisory services to commercial organizations. The agency renders permanent information support to more than 1000 companies in Russia and world-wide. On daily basis INFOLine IA monitors publications in more than 5 000 MSM and carries out analytical research according to 80 subjects of RF economy. Since 2003 INFOLine IA has been conducting various desk researches of the markets both on the customer's request and on the Agency's own initiative. When working on a market research, the Agency's analysts make extensive use of their unique data support and their years-long experience of operating various data flows. The research materials of INFOLine IA are used by **the largest FMCG retailers** (X5 Retail Group, Magnet, Auchan, Metro Group, O'Key, Lenta), **suppliers** of commodities, raw materials and packaging for PL (PepsiCo Holdings, Mars, Velikolukskiy milk plant, Pobeda Vkusa, Mareven Food Central, ALVISA Management, Omskiy melted cheese plant, Lyubimiy Krai confectionary association, Tetra Pac and others), **developers and building companies** (Adamant GC, Glavstroy Corporation and LSR Group), **producers** (Pepsi, SABMiller, Fazer, Mars), **distributors** (Megapolis GC), **financial** (Uralsib FC, MDM-Bank) and **service** companies (GC Service-plus, Wincor-Nixdorf).

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About Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognosis till 2015 Research

In 2010 the total sales volume of private label (PL) by Russian FMCG chains came up to more than 140 billion roubles, the growth of the index by 2009 came up to about 40%. Russian FMCG chains try to follow the international trend of growing private label goods share and that is why they introduce private labels into the product mix, whishing to diversify the offered range of commodities and to increase sales volumes of PL. At the same time the shortage of true-to-life information about directions and ways of PL development, about positive and negative international experience of FMCG chains developing their PLs, specific features of production and consumption in Russia leads to faulty planning of private label development objectives. The relevance of **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognosis till 2015 Research** for Russian FMCG chains is determined by the necessity of efficient strategic planning of private labels development in Russia and definition of their effectiveness enhancement in the mid-term.

In August 2011 the survey conducted among production companies revealed that 66% of companies, which do not produce PL, are interested in entering this market; 65% of PL suppliers are interested in expansion of this type of production. The relevance of the **Research** for Russian production companies is determined by the fact that suppliers of PL are often not ready to flexibly comply with rather long list of the customer's requirements, and production of PL turns out to be unprofitable for the supplier. The development strategies of PL should be rationally integrated into the manufacturing system of other company's brands; they should serve the aims of efficient competition at the market and should be taken into account when researching the marketing outlets for company's own output.

The objective of **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognosis till 2015 Research** is to provide a system analysis of PL retail trade conditions in the world and in Russia, to offer all-inclusive description of the market trends, characteristics of development potential of the private label segment of FMCG chains in Russia, as well as formulation of recommendations for producers and retailers aimed at enhancement of PL activities efficiency. The development and consolidation of retail trade market is determined by growing significance of retail chains for wholesale and retail consumer goods trade. Under economic crisis conditions the "bottlenecks" in operation of retail chains became critical risks for regional players, and led to decrease of efficiency for federal ones. While at the world-wide market the growing margin pressure stimulated complete optimization of business processes, Russia borrowed the target factors of development without formation of a relevant package of activities aimed at their achievement. The detailed analyses of private labels dynamics at the world-wide market of FMCG makes it possible to reconsider the directions and methods of PL development in Russia due to more efficient technological, logistics and marketing schemes. **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognosis till 2011 Research** renders possible the definition of promising directions of PLs development, exposure and elimination of popular errors of private labels portfolio management, as well as efficient introduction of successful practices of the market leaders, taking into account the limitations of FMCG market in Russia.

During the preparation of the Research of PL market in Russia the specialists of INFOLine IA identified deep recessionary tendencies of private labels market in 2010-2011, described typical for Russia problems in the field of creation and promotion of PLs, which represent key obstacles for development of private labels and substantially divert away the development vector of the Russian consumer goods market from the world-wide trends. The most important among them are the incorrect KPIs of PL departments at retail chains (concentration on the number of launched SKUs instead of sales performance figures), which determine the overall low efficiency of the majority of new private label goods and absence of the essential support of the brands at retail chains (especially negatively such situation affects umbrella brands), as well as the unreadiness of retail chains to provide some kind of guarantees to producers, which prevents shaping of prerequisites for a long-term partnership. Under conditions of economic crisis the sales problems forced the suppliers to agree to practically any conditions on the part of retail chains regarding production of PL, and at present time the retailers go on with a similar strategy, offering no guarantees on volumes and terms of their purchases of PL, on buy-out of PL packaging etc. As the result, the production of private labels becomes unpractical for many not-too-large producers and they gradually scale down their activities in this direction. The largest producers continue their production of PL goods, since it – to certain, but not very large extent – positively affects positions of their own brands within a retail chain, as well as allows optimization of logistic costs. In connection of the above-mentioned factors the INFOLine IA specialists rather cautiously estimate the prospects for increase of PL share in Russia and would describe the overall situation at PL market as stagnation, as far as such performance indexes as SKU and retail chains sales are concerned.

As a part of its project of expansion of its services range during 2002-2010 INFOLine IA presented the following package of information products:

- In 2002 – **Topical News: Trading Chains** service.
- In 2004 – information portal **www.advis.ru** with traffic of more than 12 thousand visitors a day. The subject of **Trading chains** is one of the most popular at the portal.
- In 2005 – an archive of topical materials devoted to the subject of **Trading chains**.
- In 2005 – quarterly branch **FMCG Trading Chains**, number of users – 200 companies.
- In second quarter 2007 – **analytic database 230 FMCG Trading Chains of Russia**;
- In second quarter 2008 – **Hypermarkets Segment** research.

- In the 1st quarter of 2009 – a monthly periodical branch survey **Rating of FMCG Trading Chains in Russia**, containing performance dynamics of 70 major retailers in Russia.
- In second quarter 2009 – a survey devoted to the subject of **Retail Foodstuffs Trade in Russia in 2008-2009 Effects of crisis.**
- In second quarter 2010 – **Retail FMCG Trade in Russia. Results of 2009. Prognosis till 2012** research.
- In the forth quarter of 2010 –**550 FMCG Trading Chains of Russia, Ukraine, Kazakhstan and Republic of Belarus database**, which includes the basic results of the research of the retail trade in regions and contact information for **550** largest FMCG store chains of Russia with sales volumes over **2300** billion US dollars 2008 (these chains contain **69** thousand trading units with total trading floorspace of more than **17** million square meters).
- In the first quarter of 2011 – **Hypermarkets Segment of 24 Cities and Regional areas of Russia Research**, which contains analyses of this segment's conditions in 22 cities of Russia (including 2 cities-regional areas: Moscow and St. Petersburg) and 2 regional areas of Russia (not including Moscow and St. Petersburg), describes conditions of retail market of Russia in general, development and conditions of hypermarket format in Russia; it also contains a data- base of 470 operating FMCG hypermarket chains of Russia.
- In the first quarter of 2011 – **Segment of Shopping Centers in 24 Cities and Regional Areas of Russia. Results of 2010. Prognoses till 2013 Research**, which characterizes trends and development outlooks for the segment of shopping centers in Russia, contains analyses of the overall conditions of shopping centers in 22 cities of Russia (including 2 cities-regional areas: Moscow and St. Petersburg) and 2 regional areas of Russia (Moscow and Leningrad regions).
- In the third quarter of 2011 – **FMCG Retail Trade in Russia. Results of 2010. Prognoses till 2013 Research**, which includes prognoses for macroeconomic performance figures of Russia, description of the current conditions and development prognosis for retail trade in Russia, evaluation of the main aspects of the trade regulation, characteristics of the development indexes of FMCG trading chains, business-references for TOP-10 largest retailers of Russia and 100 FMCG retailers of the second echelon, analyses of situation in regional areas in Russia.
- In the third quarter of 2011 –**INFOLINE RETAILER RUSSIA TOP-100. Rating of Trading Chains. Results of 2010 Research**, which contains dynamics of the key performance indexes of retail trade in RF, dynamics of key indexes for TOP-100 in total, market surveys of FMCG, home appliances and electronics, DIY and homeware, mobile devices, perfumery and cosmetics, fashion and children's products. The research also contains structured information about their development.

Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognoses till 2015 Research includes the characteristics of such phenomenon as private labels at retail chains and changes, which PL introduces to development of FMCG market; characteristics of PL goods market development abroad and in Russia; directions of efficiency enhancement in the field of creation and promotion of PL, as well as the analyses of Russian retailers' approaches towards development of private labels. Research and analyses of the trends at the private label world market makes it possible to make a true-to-life evaluation of its priority development directions, which should become relevant for Russia in mid-term, taking into account the specificity of Russian market development. On the bases of the results of the Research the specialists of INFOLine IA formulated recommendations aimed at enhancement of FMCG retailers' activities efficiency and improvement of PL portfolio management practices.

Main sections of **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognosis till 2015 Research.**

No.	Section's Title	Section's description
	About the Research	Aims, objectives and methods of the Research, main prerequisites of its realization, experience of INFOLine IA in the field of retail trade.
I	International experience of FMCG retail chains' private labels development	Approaches to research and treatment of PL phenomenon, classification of PL, basic strategic principles of PL creation; history, main trends and development performance figures of PL world market.
II	Structure of consumers' preferences in respect of PL and brands in Russia and the world	Changes in consumers' preferences of population in Russia and countries of the world in the segment of PL food commodities at retail chains under recession and economic recovery conditions.
III	Russian private label market of FMCG retail chains	Description of specific development of PL market in Russia, rating of 50 largest retailers of FMCG segment in Russia according to key indexes of PL development, number of stores and their aggregate trading floorspace.
IV	Recommendations on efficiency enhancement of PL portfolio management for retail chains and FMCG manufacturers	Analyses of the main problems of FMCG chains of Russia related to management of private labels, key directions of efficiency enhancement. Practices of private labels development by FMCG producing companies, Recommendations for enhancement of PL activities efficiency for Russian FMCG suppliers.

The most important features of **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognoses till 2015 Research** are as follows:

- Systematized data on types of private labels, their development strategies, evolution stage of approaches towards creation of PL at world and Russian market, specificities of retail chains activities in this direction. On the bases of the obtained information there was developed a classification of private labels, considering specifics of PL market formation in Russia.

- There was conducted a series of interviews with the leading Russian producers of private labels, experts on PL market of retail FMCG trade and representatives of **TOP-70** largest FMCG retailers.
- The results of branch conferences and summits were analyzed (during October 2009 - September 2011 Mikhail Burmistrov delivered reports and moderated round-table discussions at all **key branch conferences**[1]**)**.
- A questionnaire survey was conducted among TOP-70 largest FMCG retailers regarding the achieved PL development indexes and their mid-term plans; the latest tendencies of private labels market development and the specificities of Russian PL market were described.

Within the context of preparation of **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognoses till 2015 Research** the specialists INFOLine IA made use of the following sources of information:

- Materials of the international Private Label Manufacturers Association[2], branch surveys of such companies as Planet Retail, Deloitte, international on-line polling of consumers by such companies as Nielsen and Ipsos Marketing, expert polling of companies as Gerson Lehrman Group, Retailwire and others;
- Materials of trading chains and supplying companies (press-releases, web-site content, annual activities reports, financial statements);
- Data of Federal State Statistics Service and Ministry of Economic Development;
- The service of **Topical News: Trade** and the archive materials accumulated since 2001 on the subject of Trading Chains, materials from international and Russian MSM (printed press, electronic MSM, information agencies).

Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognoses till 2015 Research allows the consumer of this information product to solve quite a number of problems, which would take to much time to solve using internal resources (a private label department of a trading chain or a sales department of a production company or a retailer) or very costly (if the research materials were purchased):

- analyses of private labels segment development at retail chains world-wide;
- evaluation of conditions and development outlooks for private label goods retail chain trade in Russia;
- evaluation of changes in consumers' preferences in relation of pl at retail chains in Russia and world-wide;
- definition of directions for business processes optimization, realistic and practical KPIs as well as the methods to achieve them.

The potential consumers of **Private Labels of FMCG Chains in Russia, Trends of 2011 and Prognoses till 2015 Research,** prepared by the specialists of INFOLine IA, could be as follows:

- private labels development departments and management of FMCG supplying companies;
- private labels development departments and management of FMCG trading chains;
- sales departments of companies producing or developing packaging for the segment of FMCG.

[1] **Private Label & Purchasing Director 2010**, **The Fifth Forum Supplier 2010, Strategies for Working with Retail Chains**, **The Fifth All-Russia Anti-Crisis Forum Supplier-2010, Consumer Market of North-West, Retail Business Russia 2010**, **The Tenth Foodstuffs Forum Trade in a Big City**, **The Sixth Annual Conference Retail in Russia, New Rules of the Game**, **The Seventh All-Russia Anti-Crisis Forum Supplier 2011, Consumer Market of North-West, Strategies for Working with Food/Non-food Chains**, **INFOLine Retailer Russia TOP-100**, **The Tenth Forum Russian Retail Trade Forum of Suppliers and Retailers Private Label 2012**

[2] www.plma.com, www.plmainternational.com .

Section I. International experience of FMCG retail chains' private labels development

The main trends and performance figures of PL development in the world

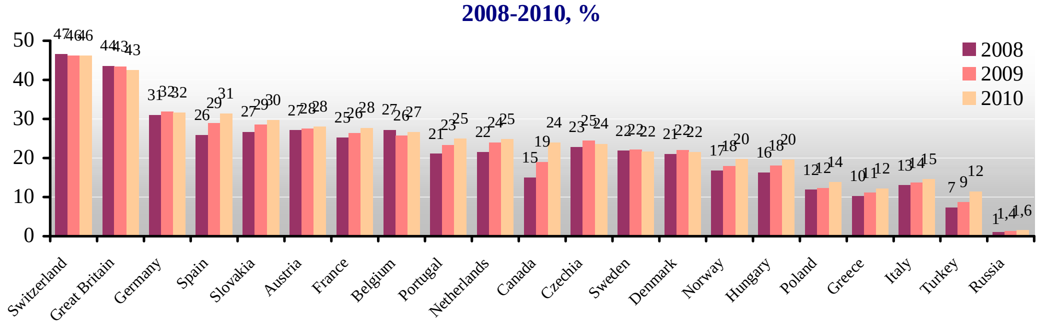
Terminology and perception of PL by retailers, manufacturers of traditional brands, PL manufacturers and consumers

Store brands, private label (a proprietary trademark or a retail chain's own mark, hereinafter referred to as PL[3]) – commodities produced by order of trading chains under the trademark that is owned by the chain. <…>

Current conditions, trends and prospects for PL development at FMCG chains market in foreign countries

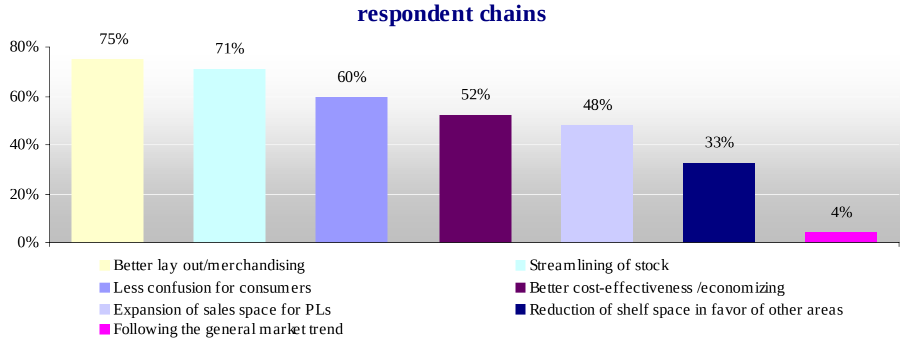
Growth rate of the PL share at the world market comes up to 34% a year, while the growth of branded products – only 19%. In 2009-2010 the PL market share increased in 14 of 20 European countries monitored by Nielsen. PL growth was recorded in Western Europe, but especially significant figures of PL growth were demonstrated at the developing markets, such as Czechia, Slovakia and Turkey. <…>

PLs share in FMCG retail trade turnover according to European countries in 2008-2010, %



In parallel with streamlining of private label SKU number the retailers all over the world replaced the less significant brands with private label and leading brands, which allows them to balance the proposal without considerable losses in sales. <…>

Reasons for changes in product mix in foreign FMCG chains, % of respondent chains



DEMO-VERSION

The full text of the section contains a description of FMCG retail chains' private labels development and perception by consumers and producers of competing products, classification of the stages and strategies of PL development, analysis of factors influencing the competitiveness of the PL, the dynamics of PL performance in the world market.

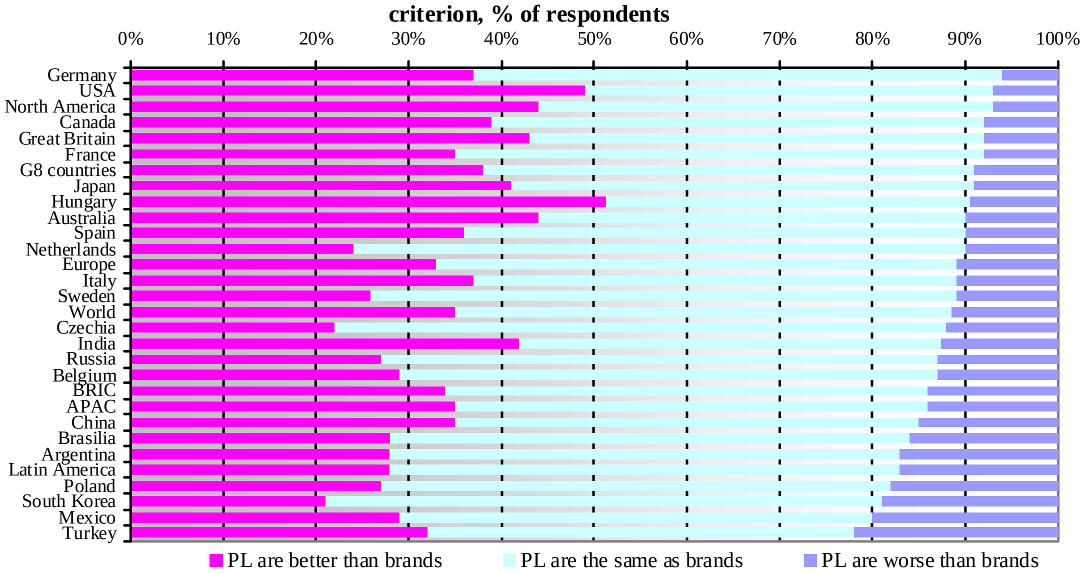
[3] "Private label" term is used for English translation.

Section II. Structure of consumers' preferences in respect of PL and brands in Russia and the world

Consumers' preferences during the economic crisis and post-crisis period

Under conditions of severe competition for the consumer, typical for the developed countries' markets, PL and well-known brands have separated their spheres of influence. Producers of well-known brands position themselves as the companies targeted at special quality, which maintain their reputation and would never sink down to schemes used for creation of PL. Retailers, in their turn, build their relations with consumers declaring the unique needs of consumers to be the most important priority, on the contrary to some ephemeral symbols and characteristics of a popular trademark. Brands, occupying the leading positions in some product category or being some special commodity of premium segment, complement the proposals of retailers and maintain their positions. Weak brands, which have nothing to oppose PL goods with, are squeezed out of the market, or are forced to reduce prices to the level favorable for a retailer. <…>

Comparison of PL and well-known brands according to "good price/quality ratio" criterion, % of respondents



In Russia the share of expenditures on food in 2010 came up to 30% in the structure of consumer expenses of the population; consequently this segment of commodities has become the main direction of PL development among FMCG retail chains. <…>

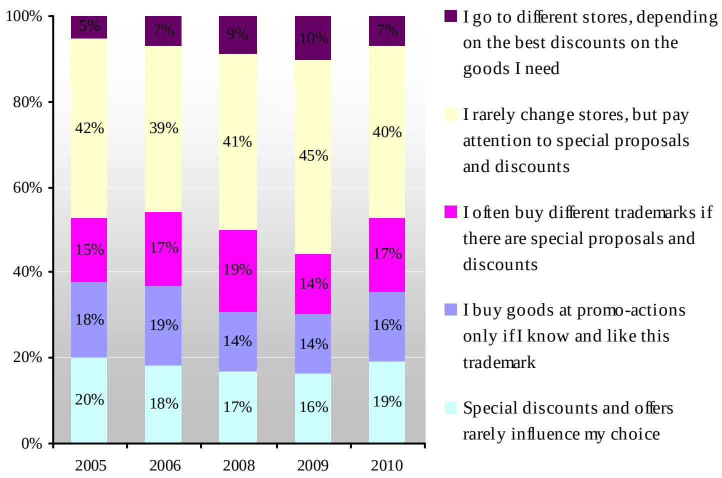
Promising activity lines of PL development

Creation of PL is possible and necessary in those categories where the retailer is able to set up production of commodities with characteristics that are in demand with the targeted audience. The analyses of sales permits to bring to light categories in which the large-scale brands are traditionally strong as well as those in which the manufacturer's brand does not have the fundamental importance. <…>

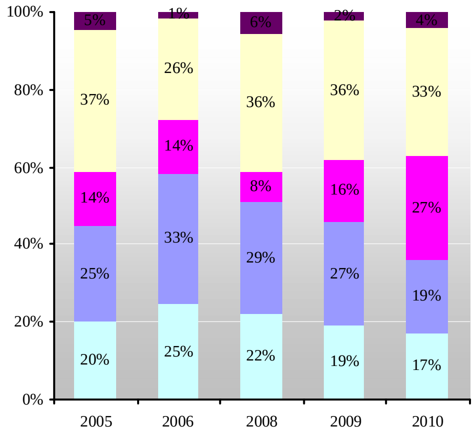
Consequently, the categories with high probability of considerable PLs share should possess the following attributes:

- low share of brands;
- commodity – the main indicator;
- standard characteristics of quality;
- standard packaging; high turnover rate;
- stable demand;
- trading margin that needs increase;
- no brands with high loyalty coefficient;
- low innovative activity of brands.

Dynamics of promo-actions influence on the point of purchase choice of consumers in Moscow in 2005-2010

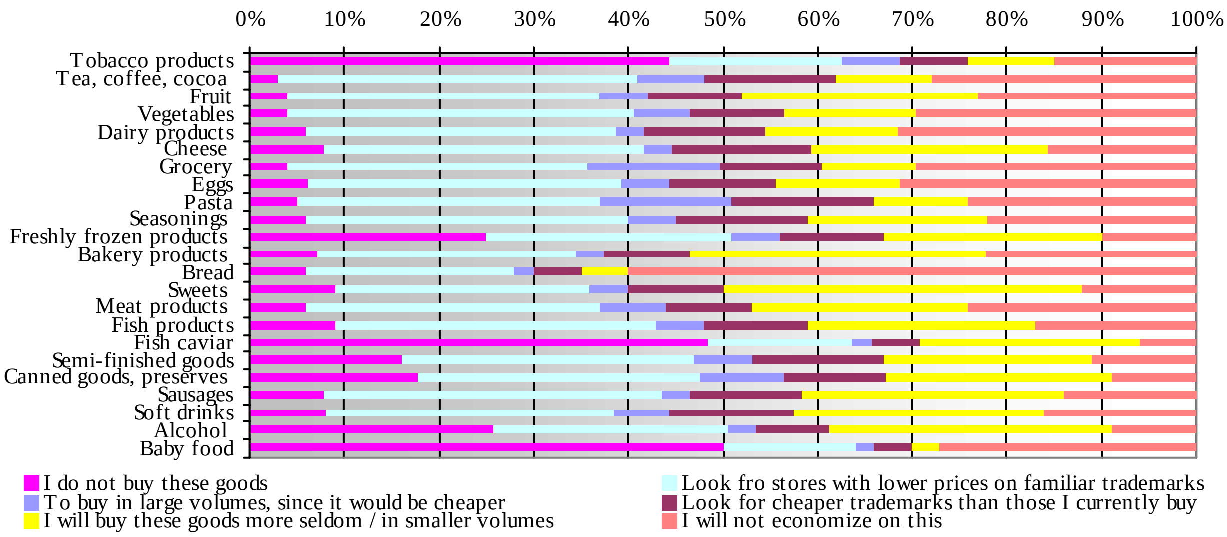


Dynamics of promo-actions influence on the point of purchase choice of consumers in St. Petersburg in 2005-2010



The most promising for PL development are groups commodities in which consumers can switch to less expensive trademark: semi-finished goods (18%), cheese, pasta (17%), tea, coffee, cocoa (16%), sausages (14%), soft drinks (15%), and seasonings (16%). Despite prices consumers are not prepared to save on tobacco products (14%), caviar (10%), alcohol beverages (11%), and baby food (8%). <…>

Methods of economizing used by consumers for food commodities categories in 2010



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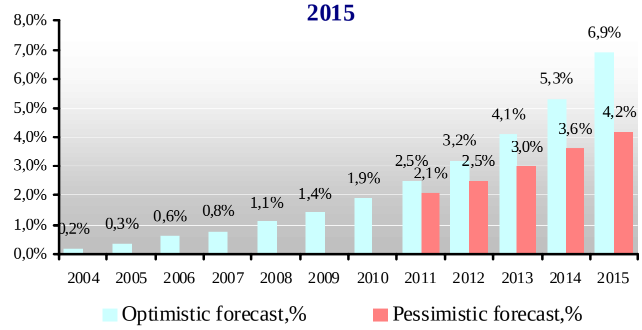
The full text of the section contains a detailed analysis of changes in consumers' preferences of population in Russia and countries of the world in the segment of PL food commodities at retail chains under recession and economic recovery conditions.

Section III. Russian private label market of FMCG retail chains

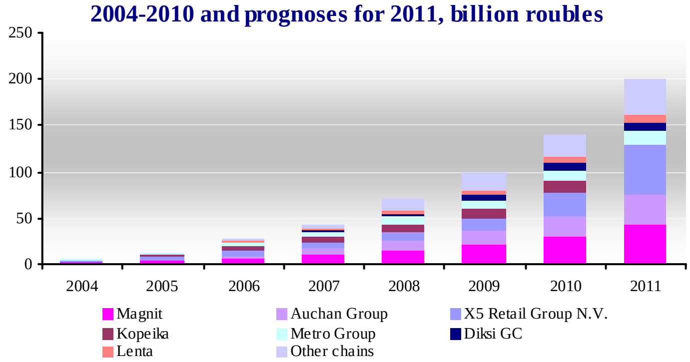
Current conditions and specifics of PL development of Russian FMCG retail chains

In Russia the share of PL in product mix of retailers is more than an order lower than in majority of countries of the world, which is determined by relatively short period of PL development, high level of buyer's loyalty to brands as well as a number of miscalculation on the part of Russian retailers that were made when introducing PLs into product mix. <…>

Share of PL goods in sales turnover of FMCG in Russia in 2004-2010 and prognoses for 2011-2015

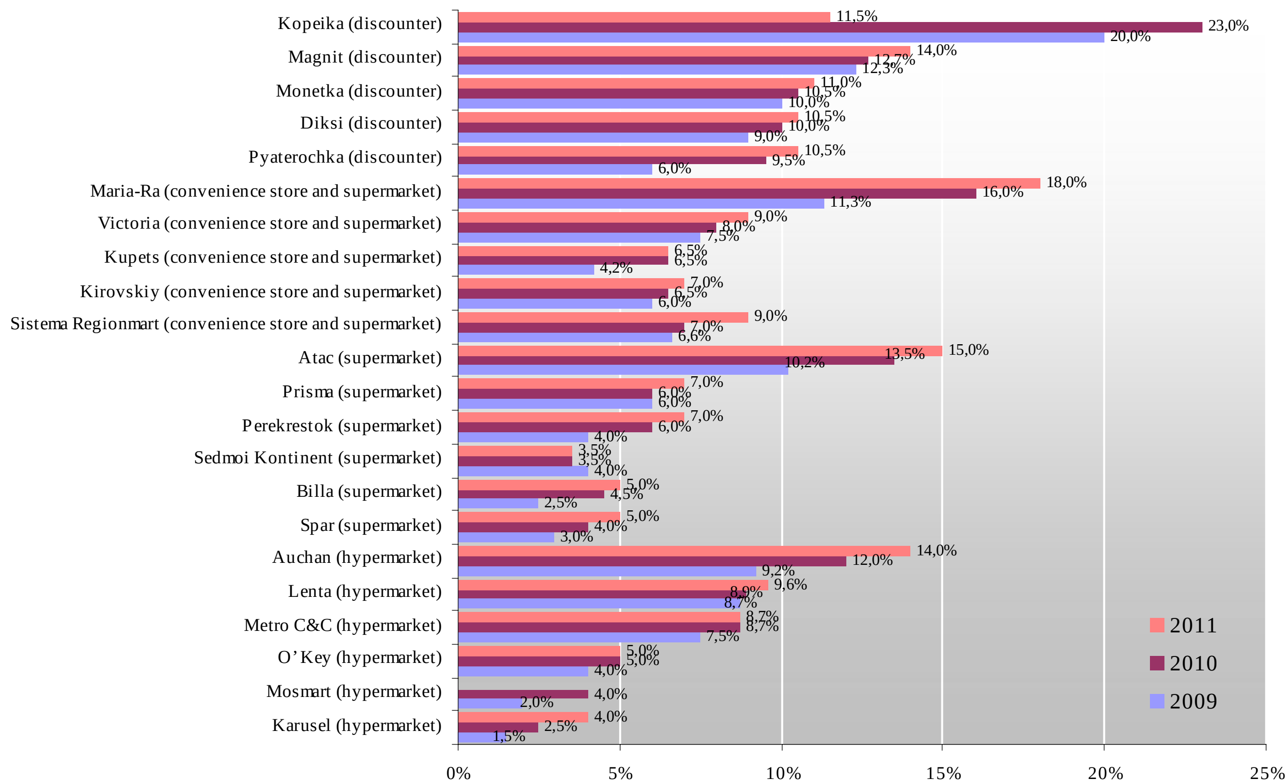


Sales of PL goods at FMCG chains in Russia in 2004-2010 and prognoses for 2011, billion roubles



In 2010 over 60% of the total volume of PL at FMCG sales in Russia fell on 4 retailers. <…>

Share of PLs in the sales of FMCG chains in Russia in 2009-2011, %



DEMO-VERSION

The full text of the section contains a description of specific development of PL market in Russia, ratings of 50 largest retailers of FMCG segment in Russia according to key indexes of PL development, number of stores and their aggregate trading floorspace.

Section IV. Recommendations on efficiency enhancement of PL portfolio management for retail chains and FMCG manufacturers

Practices of private labels development and promotion by FMCG retail chains in Russia

Mistakes of PL development of federal FMCG retail chains

The critical mistakes of federal chains in relation of private labels are as follows:

- Organizational disbalancements. <…>
- The incorrect KPIs of PL departments <…>
- Inefficient quality control. <…>
- … <…>

PL strategies of regional retail FMCG chains

The scale effect and early start-up of PL development (2003-2005), which made it possible to shape a pool of suppliers and complete the development of trademarks portfolio, allow the largest retailers to commit errors in PL development without significant loss. The chains with turnover at the level of below 5 billion roubles, which began their PL development in 2008-2010, are not entitled to making mistakes. <…>

Recommendations for enhancement of PL efficiency of Russian FMCG retail chains

The recommendations related to private labels can be structured according to activity lines of business-processes:

- Organizational management and HR policy. <…>
- The main recommended quantitative KPI. <…>
- The main recommended qualitative KPI. <…>
- Interaction with suppliers. <…>
- Interaction with consumers. <…>
- Category management. <…>
- Price formation and promotion of PL. <…>

Practices of private labels development by FMCG producing companies of Russia

The interviews of FMCG manufacturers revealed that 66% of companies, which do not produce PL, are interested to penetrate this market, and more than 60% of PL suppliers are interested in expansion of such products. <…>

Recommendations for enhancement of PL activities efficiency for Russian FMCG suppliers

The development strategies of PL should be rationally integrated into the manufacturing system of other company's brands; they should serve the efficient competition at the market and should be taken into account when researching the marketing outlets for company's own output. Suppliers need to take into account the specifics of PL positioning in retail chains, in order to be able to consider important for the customer competitive features of commodities when developing the partnership with the chain. <…>

DEMO-VERSION

The full text of the section contains an analysis of the main problems of FMCG chains of Russia related to management of private labels, key directions of efficiency enhancement, practices of private labels development by FMCG producing companies, recommendations for enhancement of PL activities efficiency for Russian FMCG suppliers.