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Date: 4/27/2016

GAIN Report Number: RFATO034

Russian Federation

Post: Moscow ATO

Consumers Turn to Private Labels

Report Categories:

Retail Foods

Agriculture in the Economy

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Report Highlights:

As the economic crisis in Russia deepens, consumers are tightening their belts and changing their purchasing patterns culminating in the growth of Private Label Products (PLP). The share of PLP in gross turnover is still lower than in most European countries but this figure is steadily growing each year. In 2015, the PLP share in gross turnover rose 15.4 percent and this figure is expected to grow in 2016 and beyond. Most private label manufacturers are local but there are many foreign producers supplying PLP for Russian retailers, especially for traditionally imported goods like olives, coffee, preserved fruits amongst others.

General Information:

In recent years, private label packaged foods have increased in popularity in Russia fueled by chained retailer expansion and the lingering economic recession. Most grocery stores offer private label advertisements and promotions which allow consumers to try new products. In many cases, consumers prefer private label over branded products as the quality is similar but with more attractive prices. As a result, with consumer spending decreasing, private label products have gained in popularity in 2015 led by affordable unit prices. In short, customers turn to private labels because they are 20-30 percent cheaper on average than branded products.

Private label products (PLP) have historically been viewed as being of lower quality competing within the lower priced segment throughout the country. However, this situation has changed recently with active development of the mid-priced segment resulting in an expansion of private label products in packaged food areas in Russian grocery stores. For example, "Azbuka Vkusa" and "Metro" have developed low priced private label products and their own premium private labels as well. According to Produce Marketing Association (PMA) data, the largest Russian grocery retailers have expanded private labels to between 10 and 13 percent in total sales in 2014. This percentage increased to 15.4 percent in 2015 and many market analysts expect it to hit 20 percent by the end of 2016.

An obstacle standing in the way of rapid development of private labels in Russia is the perception that such products tailor to the lower economic classes. According to a recent Nielsen's research survey, 60 percent of Russian consumers consider private labels to be the choice of people who cannot afford to buy branded goods. Moreover, 40 percent of Russians surveyed stated they would not buy private labels from product categories in which quality is especially important (cheese, milk, meat and seafood, shampoo, toothpaste, infant nutrition). On the other hand, what seems to be especially important in times of economic slowdown, 40 percent of respondents admit that branded goods are more expensive than private labels and 47 percent of respondents agreed that the quality of private label products has improved in the last few years. In addition, two-thirds of Russians surveyed stated that they would like to try new product categories under private labels.

According to the leading grocery retailers, the most promising areas of growth for private labels in Russia are dairy products, consumer health products, alcoholic drinks (especially spirits), and unpackaged/artisanal bakery products (especially products baked fresh by retailers in-store). However, in industries such as soft drinks (especially mineral water) Russia's retailers are likely to be forced to reduce their private label activities. Packaged food and fresh food are expected to remain dominant in value sales of private label products in Russia over the future. (Euromonitor International)

Major Russian Chains Lead the Way for PLP

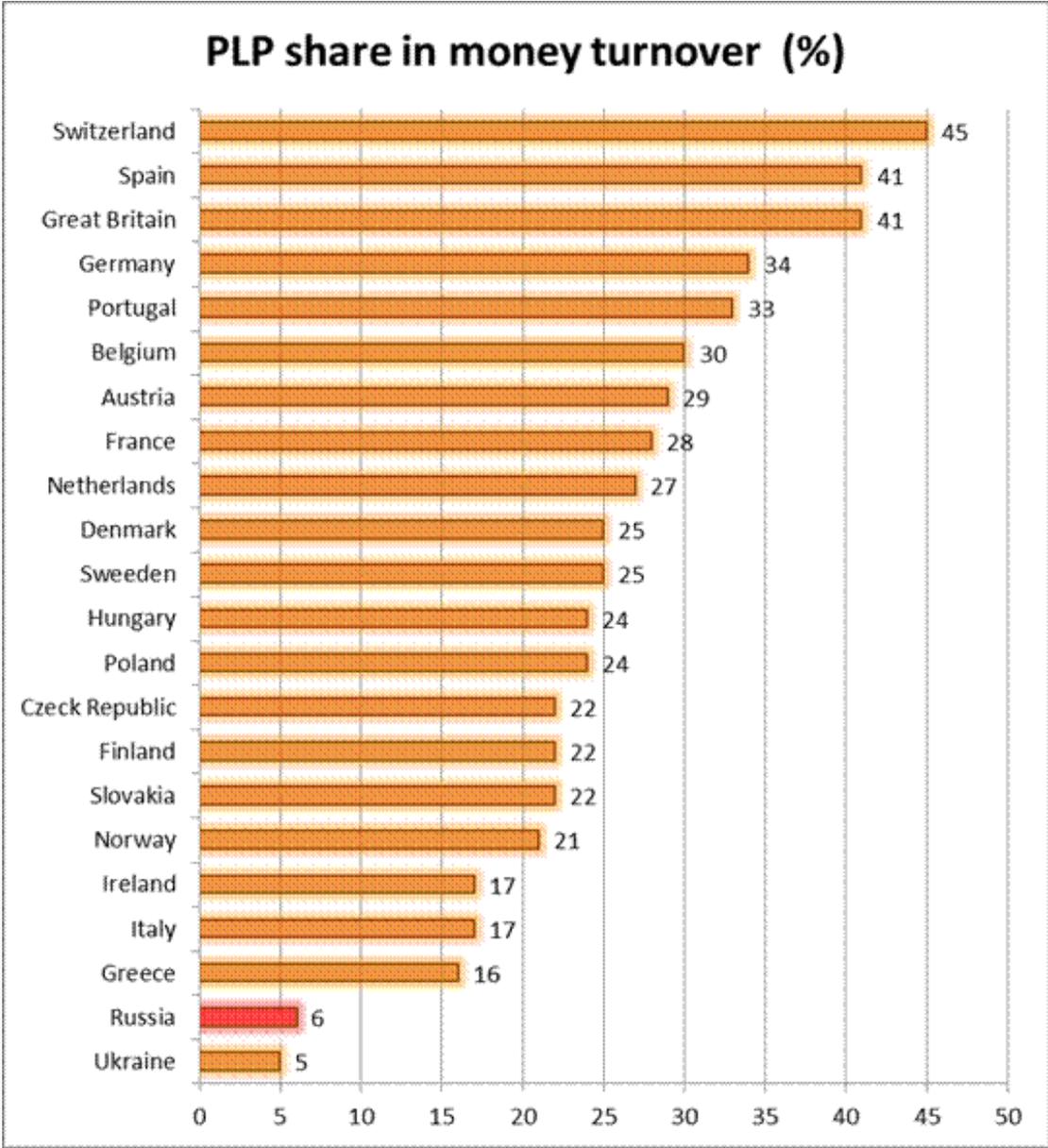
National retail chain "Dixy" recently announced that it has 600 stock keeping units (SKU) of PLP in its assortment. Its major share is in dairy (22 percent) and grocery products (35 percent). Price-wise, Dixy's PLP is located in the low segment (91 percent) and the moderate segment (9 percent) and the chain has contracted about 250 manufacturers, 90 percent of which are domestic. The remaining 10 percent are foreign companies who produce traditionally imported goods like olive oil, wine, preserved fruits, and coffee.

Austrian chain “BILLA” has about 450 SKU of PLP in assortment and they are planning to increase this figure up to 700 SKU by the end of 2016. Its PLP share in gross turnover increased 70 percent in 2015. Domestic hypermarket chain “O’KEY” currently has more than 1,000 PLP in 2 brands with the largest PLP share is nuts and dry fruit (25 percent).

Russian premium retail chain “Azbuka Vkusa” has 1,300 SKU of PLP in 3 brands. Its share in the company’s turnover has risen from 9.5 percent in 2014 to 11 percent in 2015 with virtually all of the PLP sales volume in the food sector. Leading PLP categories are ready-to-eat products (own factory), fruit/vegetables and bread/bakery. In 2015 PLP products found their way into 48 percent of total checks - meaning every other client purchased a private label product during a visit. The most successful private label food products in this retail chain are “Prosto Azbuka” beer (produced by Heineken brewery in Holland) and “Prosto Azbuka” olive oil (produced in Sicily and Chile).

Another retail concept that has become popular and focuses on PLP is “small farm” stores such as relatively new retail chain “VkusVill/Izbyonka”. Founded in 2009 as a “kiosk” offering dairy products from the farm, it has grown to more than 400 stores in 2015 with all manufactured goods selling under private labels.

Graph 1. Russia: PLP Share in Turnover, Percentage in Value



Graph 2. Russia: Survey Results of Consumer Interest in PLP, in Percentage by Category

Interest in PL production (% of respondents)

