

## Integration Processes in Trade Sector

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### **Abstract**

*The current situation and development of trade sector are characterized by the increased autonomy of trade enterprises and exaggeration of working conditions through the competition. The article studies the integration processes in the field of trade, provides analysis of retail market and main formats of distributive networks of non-food market as the most promising and developing sort of market. The main research methods include: analysis of references on research, the study of practical materials. The results show that, on the one hand, non-food retail trade chains are characterized by higher retail turnover rates, and on the other, there is a decline in the share of sales. The article argues that retail chains have great prospects for further development as well as the household appliances and electronics sector are characterized by the rapidest growth rates nowadays.*

**Keywords:** format, trade networks, integration, consolidation.

### **1. Introduction**

The current situation and development of trade sector are characterized by the increased autonomy of trade enterprises and exaggeration of working conditions through the competition. The trade structure, ownership and management forms have significantly changed, the level of foreign capital investment has considerably enhanced, and product range has undergone changes in terms of quality. The sector is dynamically progressing and involves communication at different levels - international, regional and branch. Such communication favours the development of integration processes that are among the key trends in trade sector development. The scientific interest in integration processes in trade sector shall be priority.

In accordance with the amended law of October 11 2013, the bill № 354360-6 "On introduction of amendments to article 2 of the federal law "On the principles of state regulation of trade activity in the Russian Federation", trade network shall be understood as a set of a dozen or more trade retail facilities with total square not less than 50 square meters each (Federal law "On the principles of state regulation of trade activity in the Russian Federation, 2014).

## 2. Research Methods

Retail networks are rapidly developing both in the field of food and non-food retail. According to baseline forecast by the Ministry of Economic Development, the development of non-food retail networks is expected to outrun the growth of food trade turnover in the nearest future. The non-food retail turnover is expected to surpass the food trade turnover by 3,9% by 2015, Table 1 (Retail trade. Analytical review, 2012).

**Table 1.** Comparative dynamics of retail trade sectors in Russia (%)

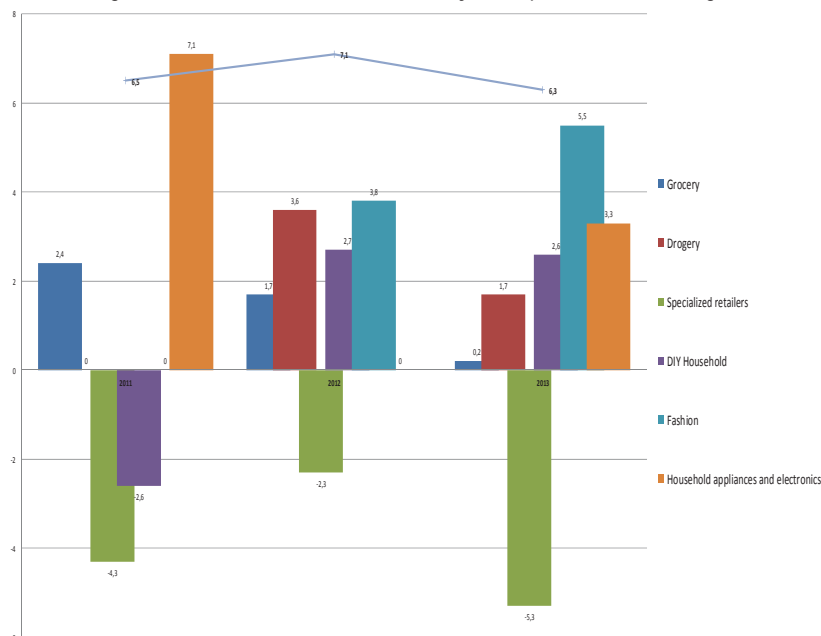
Retail turnover	2010	2011	2012	2013	2014	2015
Food commodities	5,1	3,2	3,4	2,9	3,2	3,6
Nonfood goods	7,7	10,8	8,3	7,6	7,8	7,5

Non-food retail trade turnover is described by the following structure.

**Table 2.** Non-food retail trade turnover structure (Strategy on trade development in the Russian Federation for 2010 – 2015 and for the period up to 2020)

Product groups	2003	2004	2005	2006	2007	2008	2009	2012
Household appliances and electronics	6,0	6,0	6,0	5,0	5,0	5,0	5,0	10,0
Clothes, footwear, accessories	33,0	30,0	28,0	27,0	23,0	22,0	22,0	24,0
Cosmetic and pharmaceutical products	11,0	10,0	10,0	10,0	10,0	10,0	11,0	13,0
Motor cars	15,0	12,0	14,0	13,0	14,0	15,0	11,0	11,0
Petrol	8,0	9,0	10,0	10,0	11,0	11,0	10,0	10,0
Other non-food commodities	27,0	32,0	31,0	34,0	37,0	37,0	41,0	39,0
Non-food commodities share, total	54,0	54,0	54,0	55,0	55,0	54,0	51,4	53,0

At the same time, a decreasing non-food sales share tendency, in total and in separate groups, can be noticed in the goods scheme. In 2012 the share of sales in “clothing, footwear and accessories” sector made 24%, and decreased by 10,0%, while the share of motor cars sales dropped by 4,0%. The level of cosmetics and pharmaceutical products sale remains relevantly stable (11,0-13,0% of turnover), the turnovers of other types of non-food goods appear to be increasing. Structural changes made in 2011-2013 demonstrate dynamic processes in the segments.



**Figure 1.** Dynamics of retail turnover in Russia by segments, %

Non-food trade is represented by a variety of network and non-network structures: Grocery; Drogerie; Fashion; DIY and household goods; Household appliances and electronics; specialized retailers (Retail trade in Russia: dynamics of segments: 2014, 2014).

The household appliances and electronics segment, by analysts, demonstrates the fastest pace of development. The share of 5 biggest companies in the wireless phone and mobile communications market made 82%, and the share of household appliances and electronics network structures made 68%. Such high level of consolidation can be explained by the fact that market is mainly represented by stores applying low-price-strategies (hypermarkets, large supermarkets); as well as by the average price rate decrease, wireless internet development and the availability of consumer loan.

The "DIY and Household" sector is also rapidly developing. Figure 1 demonstrates the level of DIY networks penetration is increasing in Russia on annual basis, and, to compare, in 2013 it was represented by 66 stores of modern design (hyper market).



**Figure 2.** The level of DIY trade networks penetration in Russia

According to data provided by networks, in Russia the hypermarket format dominates in overall DIY-retail network turnover. Such rapid consolidation can be explained through the leading positions of foreign networks: Leroy Merlin, OBI, Castorama, which domestic companies cannot afford. In 2012 the share of 50 largest networks exceeded 43% of Russian DIY retail market, and the share of 250 DIY networks exceeded 52% (INFOLine). According to data of 2012, the share of the leader of DIY market in Russia - French "Leroy Merlin" - makes over 10%, while the share of its nearest competitor - "OBI" network - makes 4,6%. By and large, more than 4,5% of Russian market is occupied by "Castorama", "K-rauta" and "Home Centre" (Retail trade networks for food and complement products sale (FMCG) in Russia, 2014).

They have a good advantage, in fact a broad range of products and low-price strategy.

The potential of Fashion retail network keeps growing in Russia in all aspects, modern customer seeks to purchase fashionable clothing and footwear.

In Russian and foreign markets, the following Fashion retail trade networks prevail: Tsentrobuj [Footwear Centre]; Gloria Jeans; Sportmaster complex (O'Stin); Inditex (Zara, Bershka, Stradivarius); Oodji (OGGI); InCity [2]. According to data by company INFOLine, the accrued revenue of Inditex retail trade network (Zara, Bershka, Stradivarius) made 158% in 2013 as compared to 2012, in the case of OGGI the same index made 71%, and 50% in the case of Gloria Jeans. The accrued revenue of the retail complex InCity made 36%, and 30% in the case of Tsentrobuj [Footwear Centre]. The trade network Sportmaster (O'Stin) shows relatively low growth - 14%.

The analysis of Fashion retail in dynamics scheme revealed the increased sales through chain stores (2013 - 53%, 2010 - 48,0%). Therefore, despite the stable positive dynamics of Fashion retail network turnover growth, its inequality in the context of product groups should be noted.

Positive dynamics is also noticed in the case of "Drogerie" complex, represented by such trade networks like Yves Rocher, Body Shop, "Friend", «OLI Gud» and others. In 2013 the number of stores of such format increased by 25%.

Cosmetics and fragrance market is represented by such large retail trade networks like: "L'Etual"; "Reeve Ghosh" and "Ile De Beaute", these networks prefer the "hypermarket" format, with their share making 68% of the total volume of cosmetics and toiletries products sales. At the same time, these networks make 22% of the total number of chain companies in the cosmetics and fragrance market (Cosmetics and fragrance retailers: review of 2013, forecast for 2014-15, 2013). The main dynamics of Russian cosmetics and fragrance market can be traced in Figure 3.

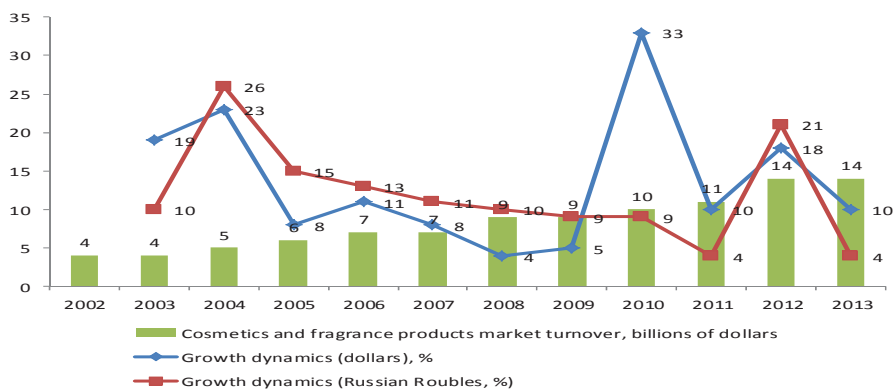


Figure 3. Dynamics of Russian cosmetics and fragrance market volume in 2002 – 2013

The consolidation of the pharmaceutical market made only 15,5%, in the case of clothing market – 1,4%, and only 0,5% in the case of soft goods.

The non-food retail segment is represented by both domestic and foreign trade retail store chains. The locations of retail networks in Russia differ by regions. The largest concentration of such networks is observed in the central part of Russia.

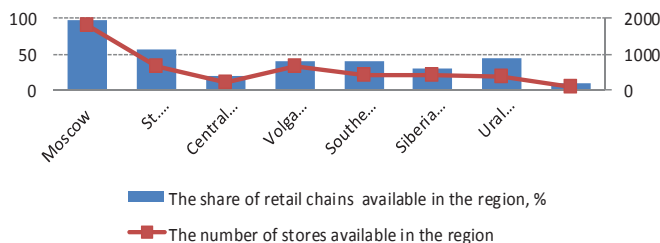


Figure 4. The location of international retail store chains in Russia

Such retail store chains are mainly represented by international companies. According to data by the CBPE association, there are three federal retail store networks for one international retail network (Retail trade chains: development level in Russia, 2012).

The analysis of non-food trade and studies conducted (6) distinctly show that the consolidation level in the non-food trade sector makes 25%, and in the developed EU countries – more than 70%, with the index of modern trade space in the developed EU countries (Germany, the United Kingdom, France, Sweden, Denmark and others) more than 500 m<sup>2</sup>/thousand people. The similar index in Russia makes 73 m<sup>2</sup>/thousand people. The share of 5 largest retail networks in the developed EU countries makes over 60%, while in Russia, according to estimates by different experts, the similar index reaches not more than 15%.

### 3. Analysis Result

The research of non-food market conducted allows making the following conclusions.

Non-food retail trade chains are characterized by higher retail turnover rates, but, at the same time, there is a decline in the share of sales, on the whole and by separate groups.

Retail trade networks are present in all non-food trade sectors. The household appliances and electronics sector, DIY and Household sector, shows the rapidest growth rates.

The market of non-food retail trade in Russia is characterized by relatively low level of consolidation for, virtually, all types of goods, excluding the household appliances and electronics market.

The biggest concentration of retail networks in the central part of Russia can be explained through initial leading starting positions.

Retail chains have great prospects for further development.

Currently, regions are gaining priority in terms of location and investments.

At the same time, according to the results of analysis of trade development in the Russian Federation and foreign countries, it is possible to identify the basic parameters characterizing the development of Russian retailers in comparison to developed countries.

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