Changes in the Structure of Retail Trade – a New Reality of the Russian Consumer Market

Altynova Natalia V.[1][a], Kostrova Yuliya B.[2][b] and Shibarshina Olga Y.[c]
[1]*Academy of law and management of Russia (FSIN of Russia), Ryazan, Russia*
[2]*Moscow Witte University, Ryazan, Russia*
naltynova@mail.ru, ubkostr@mail.ru, oshibarshina@mail.ru

Keywords: Consumer market, Retail trade, Development, Sanctions, Covid-19 pandemic, Crises.

Abstract: The purpose of the article is an analytical review of the causes and consequences of the degradation of the Russian retail trade, a description of the new reality of the country's consumer market. The relevance of the research topic is due to the fact that retail trade plays a significant role in the economy of any state and directly affects the life of every person. Russian retail over the past two decades has developed under the influence of several factors: crises, sanctions, pandemics, technologization and digitalization. As a result, the retail sector has undergone and continues to undergo both quantitative and qualitative changes. The main information about such changes is disclosed in scientific articles by Russian authors (I.F. Zhukovskaya, S.B. Ilyashenko, A.M. Skobin, A.N. Stolyarov and others), in the reports of statistical departments (Rosstat and others), in materials of analytical agencies (RBC and others) and other sources. To achieve the goal of the article, the following methods were used: general scientific (dialectical, analysis and synthesis of available literature data, comparisons and analogies, annotation, note-taking and abstracting of information obtained from modern scientific sources), special (systemic, comparative analysis, etc.). As a result of the study, a list of degradation factors for Russian retail was formed, key trends characterizing the current state of the country's consumer market were identified, and measures were proposed to restore and further develop the sector in a new reality.

1 INTRODUCTION

In the modern world, as is well known, retail trade plays a significant role in the economy and directly affects the life of every person. Retail trade in Russia over the past two decades has developed under the influence of several factors: crises, sanctions, pandemics (Covid-19), the introduction of new technologies (Zhukovskaya, Skobina, 2023). As a result of these processes, it undergoes both quantitative and qualitative changes. The purpose of this study is an analytical review of the reasons for the changes in the structure of Russian retail trade due to these factors, as well as a description of the modern consumer market of the country, operating in a new reality.

2 MATERIALS AND METHODS

To achieve this goal, the following research methods were used: general scientific (dialectical, analysis and synthesis of available literary data, comparisons and analogies, annotating, inspecting and referencing information obtained from modern scientific sources), special (system, comparative analysis, etc.). The main sources of information were publications by Russian and foreign scientists and analysts on various aspects of the development of the Russian consumer market, in particular the structure of retail trade; statistical services; other Internet resources, news and notes published in the media.

[a] https://orcid.org/0000-0003-0232-0406
[b] https://orcid.org/0000-0002-5693-2267
[c] https://orcid.org/0000-0002-8843-9661

3 RESULTS AND DISCUSSION

With all the inherent shortcomings of the Russian economy, a developed consumer market has always been considered one of its achievements. A resident of a large Russian city (not necessarily Moscow) had access, with rare exceptions, to the same goods as a European or an American. Most of the world brands were represented in the Russian Federation either directly or through official representatives (Ilyashenko, Stolyarova, 2023). Even the prices have recently adjusted, and it has become less relevant to go "shopping" in Milan. The income level, of course, was still not comparable, but at least on the supply side, almost everything possible was done.

However, due to the impact of the sanctions restrictions of the countries of the collective West, the domestic economy has faced unprecedented pressure, resulting in numerous changes and negative shifts, including the outflow of capital investments, the volatility of the national currency, the growth of banking risks, inflation, disruption of logistics chains, curtailment of promising projects, as well as the introduction of direct restrictions, for example in areas of technology import (Kostrova, 2018). These events of the last year have shown that systems built over the years can be destroyed overnight, and often despite huge losses and without regard to the (still) remaining potential of the market (Kostrova, 2016). As a result, we are seeing massive store closures, termination of representative offices, end of customer support and other unpleasant things. And since retail is a complex mechanism in which every detail is important, the damage sustained by it is very significant.

Thus, the general total degradation has also affected the consumer market, where the main factors of degradation are:

– reduction in the number of consumers, that is, degradation of demand. The decline in qualifications and consumer demands, the increase in the importance of prices, more and more people cannot afford to choose goods and services, for reasons of financial constraints, and they no longer have enough time for this;

– emigration. There is no official data on the number of Russian citizens who have left the country;

– decrease in the birth rate. Since 2000, according to Rosstat data, the population of the Russian Federation has been mainly declining. Only from 2013 to 2015, the so-called "natural growth" of the population, that is, the excess of fertility over mortality, was positive, however amounting, all over these three years, to only about 86 thousand people. At the same time, the total loss ("negative natural growth") for the period from 2000 to 2021 amounted to slightly less than 10 million. In particular, in 2021 alone, 1 million 43 thousand more people died in Russia than were born.

A decrease in the birth rate as such leads to a decrease in consumer activity in the segment of children's goods (in the short term), and in the long term – in all segments in general due to a decrease in the number of consumers.

– deterioration of consumer activity. Citizens of the Russian Federation spend less and less money and make fewer purchases in the domestic retail market. According to experts, last year a record decline was recorded in the domestic retail segment over the past 7 years, which may continue in the coming months. Western sanctions and their extremely uncomfortable financial situation force Russians to save on literally everything, perhaps with the exception of medicines. In 2023, the decline in retail sales in Russia is likely to continue, but it will not be as strong as in 2022. The main trigger for the decline will be the "creeping" process of weakening of the ruble due to problems with filling the federal budget, as well as higher inflation than the Central Bank predicts. The real disposable incomes of the population will remain under pressure and citizens will continue to prefer the savings model of behavior in conditions of continuing uncertainty. Reaching the trajectory of sustainable growth can be expected no earlier than 2024. By this time, the recessionary manifestations in the global economy will end, and the Russian economy will adapt better to Western sanctions, so the emphasis in the behavior of citizens will begin to shift from savings to purchases;

– uncertainty as the main factor. The level of anxiety is growing. According to surveys, the level of anxiety has jumped to 70%. In these conditions, consumer activity is limited to the purchase of necessities, that is, everyday goods (food, minimal clothing needs). The consumer switches to a protective behavior model, for which the purchase of durable goods is completely uncharacteristic. The exception was, traditionally, the period at the very beginning of its, when consumers, against the background of news about the withdrawal of Western goods from the Russian market, created a stock of these goods;

– a drop in creditworthiness. Consumers direct their free funds to reduce the credit burden instead of consumption. Even a decrease in the growth of unsecured lending already gives a drop in consumption. Moreover, there is a decrease in the very creditworthiness as such. In fact, funds are being withdrawn from trade turnover amid concerns about the inability to service loans in the future;

– decrease in real incomes of the population. The incomes of the population have been falling since the beginning of 2022, and the rate of decline is increasing. In the 3rd quarter, the decline reached -3.4% year-on-year;

– decrease in disposable cash flow due to an increase in the cost of living (increase in fixed expenses - food, housing and communal services). According to the Bank of Russia, by May 2022, accumulated inflation was more than 17% year-on-year. At the same time, from December 1, 2022, at a faster pace, for the second time this year, utility tariffs will be increased by an average of 9%, which will certainly add to the annual inflation rate;

Together, the decline in real incomes, coupled with an increase in the cost of living, results in a significant reduction in the funds that consumers can spend on "optional" items, as a result of which retail will compete for an increasingly shrinking resource.

– structural, production, logistics crisis;

– breaking production ties. Many manufacturers are faced with the need to rebuild their production chains, as components have become unavailable. This led, at least, to a change in logistics (if components can be purchased and delivered to the Russian Federation as part of parallel imports), and in most cases, to the need to make changes to the production process, because components had to be changed to other (available) ones. This, in turn, led, in almost all cases, to a decrease in output, its rise in price, and in some cases – to the need to stop production of a certain nomenclature – either before resuming the supply of components, or before changing the production process with their replacement (Kostrova, Shibarshina, 2018).

At the same time, new logistics chains require the reorientation of commodity flows to friendly countries (Armenia, Iran, Kazakhstan, the UAE), which in all cases increases the cost of logistics, and in almost all cases slows down the process.

– changing the financial landscape;

– major changes in the payment infrastructure. All one needed to do before was open a transaction passport in a state bank, but that is no longer the case. It is now necessary to look for a non-sanctioned bank (most likely outside the top 50). These are additional risks, it is more expensive, plus there is a risk that such a bank will fall under sanctions in the future. And the bank may not like your business, and there are fewer and fewer banks suitable for these purposes. This is largely the result of the Central Bank's work to "clean up" the market, so there are very few banks left. At the same time, many major players are credited to large banks and have obligations to them to maintain turnover, which are now impossible to fulfill due to banks being included in the sanctions lists;

– the goods are now mostly prepaid. Previously, many networks lived on commodity credit from manufacturers, large ones – even from foreign ones. You can forget about it at all. And when using "parallel import", you can forget about any preferences from the manufacturer at all, because the importer purchases the goods informally and, most often, does not have any relations with the manufacturer at all;

– degradation of customer service;

– the transition to parallel import reduces the relationship between the manufacturer and the buyer to the level of "goods-money-goods". You will have to forget about any clear warranty or technical support through official channels for a long time. Importers will serve the sold goods within the limits of a small share of their margin allocated for this, while the quality of such service will be determined solely by their enthusiasm. Given that there is no way to build a long-term business on parallel imports, importers will have no need to maintain the reputation of the manufacturer, and at best the risk of receiving legal claims from consumers will motivate them to good service. In general, such a picture for a domestic consumer who has become accustomed in recent years to a different attitude (at least from foreign manufacturers) is unlikely to serve as a motivation to buy;

– consumer lending is slowing down. Borrowers are afraid to borrow. This trend was especially relevant in the spring – summer of 2022, currently the pace of lending is recovering, however, this may be a sign of the need for borrowers to re-credit (take out new loans to repay old ones);

– banks are afraid to lend. In particular, the adoption of laws on the write-off of loans to the mobilized affects the reduction of banks' appetites for retail lending. On the other hand, banks have no other sources of income, so there is no need to talk about a significant decrease in lending;

– access to modern technologies used in trade. From commercial equipment to computers, servers, software. Everything is imported, everything needs to be replaced, or will require in the near future.

4 CONCLUSIONS

The above allows us to conclude that the best companies – representatives of the consumer market have suffered. The conditional "shop at home", which is not part of the network, has lost not so much, if anything at all.

Based on the results of the analysis of the sanctions impact on the retail sector, we can establish that in order to improve it, it is necessary:

– simplification of the format, transition to a discounter, where the brand is not important, but is important is to have an average quality product at a low price. All this is done – x5 opens "Chizhiks", etc. In conditions when the consumer has less and less money, secondary advantages like brand, taste preferences, "utility", etc. will fade into the background. The fight will be between cheap and very cheap. It is worth saying that this is a chance for domestic brands to increase their share in the overall structure of product categories of retail chains, due to the construction of an effective model of partnership of domestic manufacturers with retail representatives or an organization.

– Store brands in everything and everywhere. If the house controls the brand, the manufacturer is less important and can be different for each batch. This will avoid supply gaps and reduce dependence on a particular manufacturer.

– reduction of the assortment. A natural process for creating inventory with irregular deliveries. The less diversity, the easier it is to plan, especially in a period of uncertainty.

– innovative development of the retail sector through the implementation of technological, managerial and marketing innovations that form a complex of industry development. Modern trends point to the deployment of global technological innovations in the retail structure, which implies the integration of domestic trading companies into the online trading market and the sale of goods through marketplaces.

– adaptation of domestic companies to the changed conditions of functioning, the allocation of new categories of players whose activities are based on the importation into the country of goods of foreign companies that have completely stopped or officially stopped economic activity on the territory of Russia.

REFERENCES

Zhukovskaya, I.F., Skobina, A.M., 2023. Retail trade in Russia: development trends under the conditions of sanctions pressure and the coronavirus pandemic. *Economics and Entrepreneurship,* Vol. 1 (150). pp. 187-191.

Ilyashenko, S.B., Stolyarova, A.N., 2023. Prospects for the development of retail trade in Russia under sanctions restrictions. *Economics and Management: problems, solutions.* Vol. 2. No. 3 (135). pp. 5-12.

Kostrova, Yu. B., 2018. Analysis and prospects for the development of the Russian retail market. Economics and management of the national economy: genesis, current state and prospects of development: Materials of the II International Scientific and Practical Conference. In 2 parts, Voronezh, November 15, 2018. Volume Part 2. Voronezh: Voronezh Economic and Legal Institute, 2018. pp. 274-279.

Kostrova, Yu. B., 2016. Formation of a market system for the sale of food products in the Russian Federation. Economics and Law: theoretical and practical problems of modernity: materials of the international scientific and practical conference, Kazan, March 03, 2016. Kazan: Limited Liability Company "Buk". pp. 120-124.

Demography statistics [Electronic resource] Access mode: https://rosstat.gov.ru/folder/12781 (Accessed 10.05.2023).

Statistics of anxiety of the population [Electronic resource] Access mode: https://www.rbc.ru/society/07/10/2022/633fe7119a79473c0843f0f7 (Accessed 10.05.2023).

Statistics decrease in creditworthiness [Electronic resource] Access mode: https://www.rbc.ru/finances/31/05/2022/6295e0829a794723b4fba4f0 (Accessed 10.05.2023).

Statistics of falling incomes [Electronic resource] Access mode: https://www.rbc.ru/economics/02/11/2022/6362802c9a7947d5c397cd54 (Accessed 10.05.2023).

Inflation [Electronic resource] Access mode: https://cbr.ru/hd_base/infl/ (Accessed 10.05.2023).

Kostrova, Yu. B., Shibarshina, O. Y., 2018. The role of food retailing in ensuring the availability of food in the Ryazan region. Modern Economy Success. Vol. 3. pp. 68-71.