Retail market in Ukraine

Industry trends
Retail market overview

Ukraine is one of the largest and fastest-growing consumer markets in Central and Eastern Europe, with a population of approximately 45.4 million people.

During 2005-2013 the retail sector has shown a compound annual growth rate of 21% and continues to attract the interest of investors.
Retail market overview

In 2013, domestic retail sales in the Ukrainian organized market totaled EUR 40.8 billion, or about EUR 904 per capita. At the same time, according to research, Ukrainian consumers spend about 30% of their income on food.

In Ukraine (excluding the territory of the Autonomous Republic of Crimea and Sevastopol), the total retail trade turnover in January-June 2014 amounted to EUR 29.7 billion, i.e., 0.8% more than in the corresponding period of 2013 in UAH terms.

The current geopolitical situation has had a negative impact on consumer demand and the devaluation of the national currency reduces the purchasing power of the population, so growth is likely driven by higher prices.

Taking into account the current difficult situation in the Donbas region, a reduced rate of trade in the Donetsk and Lugansk regions was expected: trade volume declined in January-June by 2.5% and 7.7%, respectively.

The Ukrainian retail market in different segments was characterized by a significant number of mergers and acquisitions last year. In the coming years it is expected that modern retail formats will replace spontaneous trade. It’s also expected that the market will experience consolidation and there will be a focus on online sales.

Source: State Statistics Service of Ukraine
Structure of retail sales in Ukraine

Retail trade turnover
EUR 83.3 bn

Organized trade of goods
EUR 40.8 bn

Food retail
EUR 16.7 bn

Non-food retail
EUR 24.0 bn

Unorganized trade
EUR 42.5 bn

1) Includes estimated sales of consumer goods through retail chains owned by individual entrepreneurs and markets
2) Structure of sales of retail chains based on data for 2012
3) MGR – Mass Grocery Retail
Source: State Statistics Service of Ukraine, BMI, EY analysis
Food retail

Food retail turnover in Ukraine is estimated at EUR 16.7 billion. Separate stores still account for a large share of the market.

Ukrainian consumers buy a significant share of food products in open markets. Nevertheless, a decline in the share of unorganized trade due to the presence of trading networks operating in the same price segment is expected. According to GT Partners Ukraine, in 2013 the share of food network operators in the total retail turnover of enterprises of the country was 33%, which is 2% more than the year before.

A low level of consolidation continues to characterize the food retail market in Ukraine. There are more than 100 modern retailers. On average there are 10 such companies in each region. The lowest number (5 operators) is in Khmelnytsky and Sumy and the highest (more than 30 operators) is in Kiev.

International players such as Metro Group, Auchan, Rewe Group (Billa) and Spar are present on the Ukrainian market. However, the local companies ATB Market and Fozzy Group lead the market in terms of both sales and number of stores. Almost all those in the top-10 own networks of stores of different retail formats (supermarket, hypermarket, “near home,” cash & carry, discount stores).

The leading networks, ATB Market and Fozzy Group, have maintained their positions and growth to a greater extent, due to active network expansion in the "near home" and mini-market formats. The small sizes of these stores and their emphasis on the lowest prices have allowed them to show the greatest percentage growth in the face of the declining purchasing power of the population. Therefore, many operators are trying to reach this segment of the market, opening new outlets. In 2013, therefore, their number increased by 28%, reaching 2,045 stores.

Visitors to Ukrainian supermarkets have started to more actively buy products of the stores' own brands (private label brands). The self-packing by shops of cereals, frozen semi-finished foods, household chemicals and many other products for resale under house brands is not a new move. These products generate high demand among customers. According to ua-retail, since the beginning of this year unprecedented sales growth of 30% has been recorded; by the end of 2014 it could reach up to 40%. Increasing interest in products in this category is a stable trend, one conditioned by their more attractive prices.

Source: forbes.ua, delo.ua, EY analysis
DIY

The DIY Ukrainian market increased by 4.7% in 2013. The national chain Epicenter remains the leading player, with market share of more than 31%.

Significant changes occurred last year: the leader, Epicenter, acquired its nearest competitor, the top-2 Ukrainian chain Nova Linia (16 stores), while two large international companies, OBI and Praktiker, left the Ukrainian market.

German international retailer OBI decided to leave the Ukrainian market in December, 2013. The chain included 3 hypermarkets with an average of 11,000 sq. m, in Kharkov, Odessa and Mariupol. The sales points closed and their stock was distributed. The lack of the necessary amount of vacant square area and the fact that local players had a better understanding of the peculiarities of the market were cited as some reasons for OBI’s leaving.

German Group Praktiker ceased operations in Ukraine in February, 2014 with the sale of its chain of four supermarkets in Kyiv, Lvov, Nikolaev and Makeevka to the Kreston Guarantee Group. The sale was initiated due to financial difficulties that the company had faced since 2011. In addition, the Ukrainian subsidiary was unprofitable.

The only foreign player on this market in Ukraine is Leroy Merlin (part of Groupe Adeo), which operates three stores in Kiev (the third store opened in December, 2013).

Six stores, in Kyiv, Brovary, Dnipropetrovsk, Donetsk, Zhytomyr and Simferopol, are grouped under the Oldi chain. Average trade area is approximately 7,500 sq. m.

The largest national chain, Epicenter, therefore has a near-monopoly on the DIY market and new players are less likely to appear in the near future.

### Largest DIY chains in Ukraine, 2013, quantity of stores

<table>
<thead>
<tr>
<th>Chain</th>
<th>Quantity</th>
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<tbody>
<tr>
<td>EpicentR</td>
<td>41</td>
</tr>
<tr>
<td>Nova Linia</td>
<td>16</td>
</tr>
<tr>
<td>Oldi</td>
<td>6</td>
</tr>
<tr>
<td>Praktiker Group</td>
<td>4</td>
</tr>
<tr>
<td>Leroy Merlin</td>
<td>3</td>
</tr>
<tr>
<td>OBI</td>
<td>3</td>
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</tbody>
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*As of July 2014 OBI stores had closed, Praktiker’s stores had been sold to the Kreston Guarantee Group, and Epicenter had been acquired by Nova Linia

Source: EY analysis
Household appliance and electronics retail market

The value of the household appliances and electronics retail market amounted to EUR 4.6 billion in 2013. The share of the official household appliances and electronics market in Ukraine is approximately 40%. In summer 2013 the owner of the Technopolis retail chain, Victor Polishuk, acquired the retail household appliance chain Eldorado. The new company decided to continue development under the better-known brand, Eldorado, the retail chain of which was twice as big at the date of acquisition.

Currently the largest household appliances and electronics market players are Foxtrot, Eldorado and Comfy.

The year 2013 saw the largest M&A deal in cellular retail: the retail chain Allo acquired another chain, Mobilochka. The newly formed company controls more than 50% of sales on the cellular market. The combined chain united more than 900 stores in Ukraine as of the date of acquisition. Its nearest competitor, ringoo, has approximately 300 sales points.

The DIY Ukrainian market increased by 4.7% in 2013. The national chain Epicenter remains the leading player, with market share of more than 31%.

According to AllRetail.ua, the household appliance and electronic retail market demonstrated the following tendencies in 2013. First, the digital market remains in the positive segment due to several product groups. These are TVs (household electronics), smartphones (telecommunications) and tablet computers (IT technologies). Second, there has been a tendency towards digital market saturation with primary devices (such as notebooks, monitors and loudspeakers) and thus a logical transfer to supplementary devices (such as keyboards, mice and memory cards). Third, household appliances showed growth in all product groups, unlike the digital technology market.

The sector destabilized in 2014 because of external factors influencing consumer demand. The geopolitical and economic events of the first five months of 2014 affected the behavior of local consumers, who strove to convert the extremely devaluated hryvnia in buying long term goods. The market in 1Q 2014 boomed with sales due to the devaluation of the national currency, but dropped by 1.3% in quantitative terms compared to the same period of the previous year.

Other former leading retail chains, like MegaMax and FoxMart, have restructured operations and started to sell goods online.

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Pharmacy retail

In 2013 the Ukrainian pharmacy industry continued to develop. The value of pharmacy sales of medicines amounted to EUR 2.9 billion in 2013.

Pharmacy kiosks were liquidated. The closing of the kiosks enabled pharmacy shares in the retail pharmacy market to grow. New stores opened predominately in cities, while the quantity of outlets in villages and urban-type settlements diminished. The growth in the number of sales points encourages competition between market payers and forces them to find out new opportunities for market niche expansion.

The average net profit margin of pharmacies is 3%-5%, while the average EBITDA margin of the business is around 5-10%. Mark-up is limited to 25% by law.

Redistribution of marketing budgets to company production units and the launch of private labels (companies’ own trademarks) will correspond to an increase in profitability.

The consolidation level remains low, with the largest company occupying less than 3% market share. Pharmacy-Magnolia led the market in terms of sales value for 9 months 2013. Pharmacy chains Med-Service Group and Titan were in second and third place, respectively.

These top-3 players account for almost 8% of total pharmacy sales. The low level of concentration implies high potential that international chains could enter the Ukrainian market and consolidate it.

The privatization of municipal chains is expected to occur in the short term. Among the largest municipal pharmacy chains are those created by the split-up of the Soviet chain ‘Pharmacia’ according to geographic principle (by the country’s administrative regions). There is still no unique or approved privatization scheme for all of them, but municipals are ready to sell, and this represents a good chance to increase presence in a particular region.

There will be an increase in the number of pharmacies with open display formats.
Health & beauty product retail

The development of the beauty care sector highly depends on the economic situation in the country and on the population’s purchasing power.

According to Euromonitor findings, the volume of the Ukrainian health and beauty market has increased by 3.2% since 2012.

The most significant growth was demonstrated by the following product segments: child care products (+9%), dental care products (+4.6%) and makeup products (+3.6%)

Ukrainian retail’s health & beauty segment players are focused on cost savings and on expanding their retail chains. A strong international player, Watsons, is maintaining its leadership position in terms of number of retail outlets in Ukraine, having a special expansion policy budget (in 2013-2016 Watsons announced a plan to invest about EUR 225 million in retail chain development).

The rest of the players - mostly local retail chains - are much more dependent on credit financing. Nevertheless, we are witnessing the substantial growth of proStor (Dnipropetrovsk), which is in the top-3 in terms of number of sales outlets and demonstrated the fastest growth in 2014 (it opened its 159th outlet on 22 June 2014). ProStor was the first health & beauty retail chain to launch an online shop to support its competitive advantage.
While demonstrating constant growth, the retail market for child care products in Ukraine is unsaturated and the competition among the players remains severe.

We expect the predominance of multi-brand shops in traditional retail as well as dynamic growth of e-trade in child products, with favorable prices and a larger supply compared to traditional retail.

The Ukrainian child care product sector has substantial growth potential due to the increase in Ukraine’s population of children and low retail sales per capita.

One of the peculiarities of the toy market is seasonality. The summer season drop-down in sales may come to almost 30% or more. Online shops selling children’s clothes and products constitute a substantial portion of the unregulated market and offer prices that are 5% to 15% below those in traditional retail.

The unregulated market’s share in the child care segment is rather significant, coming to 38%.
Fashion retail

The rapid development of the commercial real estate market in Ukraine is providing wide opportunities for the penetration of new brands (according to trademaster.ua’s latest findings). The year 2013 saw 18 new brands appear on the market. Most of these opened their sales outlets in two new shopping centers, OceanPlaza and Gulliver. One brand, meanwhile, is represented at the SkyMall shopping center.

As of the current period Ukraine has Europe’s lowest index of provision with quality commercial areas—258 sq m per 1000 inhabitants, with a low vacancy rate in the largest modern shopping centers. In particular, the provision index with commercial real estate per 1,000 inhabitants in Kyiv constitutes 320 sq m, which falls far below that of other large cities in Eastern Europe (in Warsaw, Prague and Zagreb the numbers are 448 sq m, 666 sq m and 725 sq m, respectively). Because of the deficit in commercial area, rental prices are still rather high, which is an additional obstacle for international brands planning to enter Ukraine.

Construction plans for new shopping centers in Europe in 2014-2015 indicate that Ukraine is in the top-5: according to plan, 1.4 mn sq m of commercial space is to be constructed. If all the announced projects are realized, the quality commercial space market in Ukraine will almost double and the country will reach 11th place in the European rating of total commercial shopping center space, with an area of 3.7 mn sq m.

The scale and large formats of the new shopping centers, particularly the megamalls Respublica, Lavina Mall and Blockbuster Mall, provide opportunities for new retail operators who would like to come to Ukraine.

Ukraine has the lowest ratio of physical presence of international brands among European countries. For example, Kyiv, according to CBRE research, is in 49th place out of 188 in the world rating of presence of brands (only 28.2% of international retail chain operators are exposed in Kyiv).

Despite general positive trends, retail sales of clothes and footwear in Ukraine as of five months of 2014 sharply declined in volume due to the overall stressful social and political situation and the dramatic decline in the consumption capacities of consumers.

In line with the latest Ukrainian Retail Association research, the volume of the retail footwear and clothes market in the CIS is expected to rise by 18% by 2016 to reach EUR 106 billion (compared to EUR 90 billion in 2013). The online share will be 15%, or EUR 15.9 billion, compared to 5.1% and EUR 4.6 billion in the previous year based on data provided by online retailer Lamoda.
E-commerce

Almost 50% of the Ukrainian population are active users of the Internet. Based on a GfK report, there are 19.3 million active online users, almost 2.8 million of whom are online consumers (the data covers the whole territory of Ukraine and users aged 16+).

Home appliances and clothes are the most popular groups of products, those with the highest demand among Ukrainian online customers. In 2013 the cosmetics, perfumes, jewelry, accessories and gifts segments substantially added to sales compared to 2012.

Globally, the media sector, sporting goods (nearly 33%), appliances (about 24%) and furniture (about 15%) account for the bulk of online retail. Slightly less commonly consumers purchase apparel, personal hygienic goods, and food and beverages. Business Insider forecasts an inevitable increase in the share of online trade in the long-term perspective.

E-commerce in Ukraine is still in the early development stage, so market players should use the opportunities for development that exist, especially taking into account the need to raise consumer interest in e-purchases.

Based on Aukrotop100 data, the Ukrainian e-commerce market continues to grow. By the end of the year its volume will cross the EUR 1.5 billion benchmark. The forecast for the next five years is for 400% growth, reaching EUR 7.5 billion in 2018.

E-commerce in Ukraine demonstrated sustainable growth in 2013 in spite of a low Internet penetration ratio (42%-51% compared to 80%-90% in the USA and Europe), low consumer income and the intrusion of regulatory bodies in the operations of online shops. Aukrotop100 forecasts a 49% e-commerce growth rate in Ukraine for 2013, with roughly EUR 1.5 billion in monetary terms.

Large operators, like Foxtrot Comfy and Allo, plan to develop online sales channels primarily in the home appliances segment.

Although we have a variety of online payment systems, 80% of customers still prefer cash payments.

One trend involves significant product portEURfolio expansion via classic shops and online retailers.

The top-5 Ukrainian e-retailers includes the largest online shops and shopping centers, Rozetka.ua being the undisputable leader among them. Among the largest players are also Tickets.ua, modnaKasta, LeBoutique, Stando, Prom.ua, Aukro, Sokol, FotoMag.com.ua and Allo.

According to data provided by AVentures, the e-commerce market is significantly consolidated and in most segments the top-5 players control 60%-90%.

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of e-commerce market in Ukraine and other countries, EUR bn</th>
</tr>
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<tbody>
<tr>
<td>USA</td>
<td>139</td>
</tr>
<tr>
<td>UK</td>
<td>39</td>
</tr>
<tr>
<td>Germany</td>
<td>27</td>
</tr>
<tr>
<td>Russia</td>
<td>9</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: comScore, Forrester, McKinsey, Go-Gulf, eMarketer, Aukrotop100
E-commerce: Industry case

Attracting a financial investor for Portmone in 2013
(EY - financial advisor)

Portmone is an independent online-payment operator, a leader in Ukraine, servicing over 1 mn active users: buyers, sellers of goods/services and banks.

EY as exclusive financial advisor performed the full range of M&A services: searching for an investor, financial modelling and business valuation, and negotiations with potential investors. EY’s specialists structured and realized the deal, including agreements on commercial terms and conditions, transaction support in SPA preparation and shareholders’ agreements.

During the process, EY received four indicative offers from strategic and financial investors. As a result, EY’s team raised financing from a regional private equity fund, Europe Virgin Fund (EVF), founded by Dragon Capital, which acquired a controlling stake in Portmone. At the same time, the founders of Portmone retained their shares in Portmone and continued operational management with EVF as partner.
Petrol retail sales (gas stations)

Retail sales of fuel and natural gas via gas station chains reached EUR 7.1 billion in 2013. The number of gas stations increased from 7,671 in January to 7,833 in December in Ukraine.

As of May of 2014, in Ukraine (excluding Crimea and the city of Sevastopol), sales volumes of fuel and natural gas via gas stations (7,227 in number) came to EUR 0.7 billion (according to a State Statistics Service report).

There was 212.7 thsd. tons of petrol sold, which is 20.7% less than in May of 2013. In addition, there were sold 142.8 thsd. tons of diesel (for a decrease of 8.7%), 39.4 thsd. tons of condensed liquid gas (a 17.2% increase) and 8.8 thsd. tons of compressed gas (a decrease of 14.4%). Of this total volume, 52.6% of all fuel sales are of A-95 gasoline, 46.6% are of A-92, 0.4% are of A-80 and 0.4% are of A-98.

The top-10 players own less than 50% of the gas stations in Ukraine. The largest gas station chain belongs to UkrNafta, a 50%+1 share of which is owned by the government. Meanwhile, among other shareholders of UkrNafta is the large Ukrainian business group ‘Privat’, which also owns gas stations under the brands ANP, Avias, Sentoz and Mavex. This makes UkrNafta #1 on the petrol market in terms of number of gas stations in Ukraine. Group Privat market share is estimated at 20%-25%.

Since the beginning of 2014 prices for petrol and diesel have increased by 40% and 50% respectively because of currency depreciation and the conflict with Russia. According to data provided by UPECO, the drop in fuel sales involved almost all traders except for those trading at a discount to the market. Some consumers shifted to gas stations owned by the Private group, as Private's prices are 10%-15% lower than those of other large players.

By the end of 2013 the OKKO chain of gas stations included about 400 fuel stations, with a market share of over 15% of the national fuel market (based on data provided by the Psicheia research organization). OKKO was very active in 2013 in terms of opening new stations, putting 45 stations into business. BRCM-Nafta and ANP were in second and third places in terms of opening new stations, with 43 and 16 stations respectively.

There is a positive trend towards an increase in retail sales of related products and services at gas stations. Currently, the share of such sales has reached 20% of total income at the largest gas stations. In upcoming years we expect continuing growth in sales of related goods and services at fuel stations, in particular FMCG goods, small fast-food restaurants, car washing, technical assistance, hairdressing and more.
EY Transaction Advisory Services

EY is one of the leading international companies in audit, M&A advisory, tax structuring and operating efficiency advisory. EY professionals will help you to gain a competitive advantage and assure the growth of return on equity by improving your decision making process regarding any issues related to raising and managing capital.

EY in Ukraine has offices in Kyiv and Donetsk with around 500 employees. It has the most developed transaction advisory services practice among the BIG-4 companies in Ukraine. Its more than 50 professionals provide the following services:

Our services:

- **Mergers and acquisitions, sales and divestment of assets:** target search, capital raising and implementation of business development strategy.
- **Transactions in real estate:** conducting transactions for the purchase and sale of real estate, including transactions with funding from private equity funds and sale and leaseback.
- **Transaction advisory and tax structuring:** comprehensive examination (due diligence) of the transaction object, risk management at all stages, tax structuring of the transaction.
- **Valuation and business modelling:** valuation of business, real estate, stocks, intellectual property, fixed assets, brands and other assets.

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Oleksandr has more than 12 years of experience in corporate finance. Prior to joining EY Ukraine he led the investment practice at a Ukrainian investment group and worked at an international investment holding company on projects related to mergers, acquisitions and project financing. Oleksandr's clients are companies in such industries as retail, agribusiness, telecommunications and food processing. He also has clients among private equity funds, international financial organizations and the public authorities.
Operational model of the retail business: ways of improving efficiency

The list of key challenges which retailers face at different stages of business development is presented hereafter. Preparing an action plan for each challenge will help a manager to avoid ineffectiveness. These are key marks indicating the points which should be foreseen and considered.
Effective operational retail model

- Effective store
- Planning and forecasting
- Supply chain management
- Chain development
- Category management
- Sales integration
1. Creating Effective Store

**Industry case: Effective Store**

**Task.** A large CIS retail chain acquired a competitor’s chain in 2011. This integration led to the new entity’s taking third place among national retailers in terms of sales turnover, sales area and quantity of stores (over 1,000). EY consultants were engaged to perform the operational integration and diagnostics of the in-store logistics processes of the two companies.

**Performed during the project:**
- analysis of goods acceptance process from the moment of receipt till distribution on store shelves.
- monitoring of compliance with rules for presenting goods on store shelves, of whether the planogram was followed and of the relevance of price tags.
- calculation of stock shortages (out-of-stock) occurring due to untimely short replenishment of store shelves.
- monitoring of the process of shelf life date control (stock, shopping space) and methods of working with perishable product displays.
- analysis of the work process as regards returns and expired goods.

**Result:**
EY’s consultants identified 5% growth potential in terms of sales turnover and decreased sales losses by 15% and the salary fund by 15%.

**Opening stores**
- Find good premises in which to open a sales point and calculate what percentage of sales turnover lease will constitute.
- Realistically plan your sales and procurements for new sales points so as not to violate terms for building and installation works and vendor deliveries.
- Perform business-planning reasonably to prevent mistakes in the range of products and inventory needed to open new sales points.
- Set time to train sales staff in a quality manner.
- Consider developing dozens of design projects under conditions of limited time and resources.

**Personnel**
- Allocate sources for recruiting qualified personnel.
- Calculate the salary fund and other compensation to personnel.
- Establish the basics for an effective educational system.
- Take measures to decrease sales personnel turnover.

**Internal processes**
- Implement control of compliance with the store’s retail and client service standards; sustain the CRM system.
- Set up the reporting system and the system for retail indicator management.
- Organize effective processes for receiving, displaying, re-evaluating and returning goods, and for stocktaking.
2. Planning and forecasting

Industry case: Optimizing the Planning System

**Task.** Increase the accuracy of annual sales turnover planning, identifying and taking into account factors most influencing sales turnover during annual forecast preparation for a large retail chain in the CIS.

**EY consultants did the following:**
- Developed a system which reflects anticipated sales growth due to effective management of present and new stores.
- Increased the specification level for accounting factors that influence sales turnover in the store chain.
- Calculated lifecycle profiles during a new store opening.
- Graded the stores and effected a transition to planning for a variety of indicators according to grade.

**Result:**
EY’s consultants developed and automatized a model for planning annual sales turnover that led to a 10% increase in goods turnover and a 15% decrease in inventory and surplus stock in stores.

It is not obligatory for you to know where and when the meteorite will fall, but you should be ready to sell photo cameras to all interested at that time and in that place. If the management understands the priority directions of its business and has instruments to monitor promptly changes at its stores, the probability of overlap decreases and work gets a lot more effective.

**Planning sales turnover**
- Develop a common approach to planning sales and procurements in different company departments to avoid incompatibility.
- Specify the planning procedure - this will help in avoiding communication difficulties and mistaken results.
- Institute grading (categorization) of stores so as to understand priorities and to distribute company sources properly.

- Set up an automatized planning and forecasting model to increase the accuracy of plans and to consider properly the following factors:
  - seasonality;
  - influence of promotional activities;
  - absence of models on store shelves (out of stock);
  - store’s work schedule, work on public holidays and weekends.
3. Supply chain management

It’s time to evaluate critically the effectiveness of expenses and processes. There’s always room for optimization. Have a look at global retail leaders - the recipe for their success is optimal expenses and processes, and, to be sure, effective management.

Which factors should be considered and what should be analyzed to help an organization obtain a leading position among its competitors?

Supply chain design
- develop an appropriate supply chain design from the point of view of expenses and service level.
- define the optimal amount of warehouses and establish their locations to ensure minimal expenses and the desired service level in stores.
- take into account the following factors while designing the supply chain:
  - warehouse and transport facilities requirements for a two- to four-year period of supply chain work.
  - changes of logistics costs for all possible scenarios of chain development.

Increasing warehouse service levels
- minimize the number of mistakes that occur during the packing of orders.
- reduce the normative period for delivery from warehouse.
- decrease the number of violations of delivery terms from warehouse to store.
- distribute human resources effectively.
- use warehouse areas in a reasonable manner.

Developing supply routes and schedules
- Calculate the most appropriate supply routes and corresponding schedules to minimize transport expenses.
4. Category management

The main objective of any business is to gain the most profit from each goods category. But that’s impossible to achieve without an experienced and effective team. Here are the main success factors: common goals, coordination of actions, knowledge of customer and market, and, of course, the desire to win.

Product proposal management
- create an assortment matrix according to the peculiarity of demand and segmentation of customers in different regions and store locations.
- on a permanent basis, monitor changes in demand and adjust the assortment matrix expeditiously.
- plan thoroughly and agree the actions of all company departments (logistics, procurement, marketing, sales, etc.).
- effectively manage product display planograms.
- use modern price management technologies to stay competitive and to react quickly to price changes and competitors’ promotional actions.

Action assessment and qualification of personnel
- increase qualifications for category management specialists, hire experienced employees who can manage the team effectively.
- optimize operational expenses in view of goods categories.
- establish operational reporting with explicit detalization to foster more accurate assessment of results of actions and initiatives.
5. Integration of sales channels and IT solutions

Industry case: Integration of Sales Channels

Task. Improve online trade results for a major Ukrainian retail company. EY consultants were engaged to integrate sales channels.

EY consultants did the following:
created a model of business processes, scenarios and initiatives to increase retail chain sales;
developed requirements for the electronic commerce platform and for the selection of the most appropriate one.

Result:
Integration of sales channels and implementation of personalization and behavior analysis techniques increased retail chain sales by more than 10%.

Is your chain capable of becoming everything for the consumer? An information desk, a show-room, an online shop, a 24/7 service center, plus free delivery? If you don’t understand what a consumer needs in a specific period of time, it’s unlikely that he will give you his money. Modern IT and telecom technologies come to the rescue, making it possible to analyze information about the consumer and to provide services at a high level.

Web platform selection and initialization and integration with the back office
- select and develop a reliable web platform offering the possibility of online payment.
- ensure the relevance of website information and the possibility to order the goods.
- make the goods-sorting process maximally convenient.
- adjust call-center work so as to process online orders.
- perform in-system maintenance to bring high-quality traffic to the website (SEO, SMM, CPA).

Organizing delivery of Internet orders
- define target delivery routes.
- propose different payment options and make it possible to perform payment at the moment of delivery and goods return.
- conclude delivery service agreements with logistics companies.
- make it possible to perform payment at the moment of delivery and goods return.
- manage orders and work proactively with them.

Boost conversion of the website to the market level
- adjust the web analytics and optimize landing pages.
- perform the system maintenance as regards usability and UX-interfaces (start page, category page, promo pages, product page, trash, checkout).

Creating and constantly improving website content
- organize the content production for the website; set up a photo studio.
- create descriptions of products that customers can understand and that are SEO-optimized; align connections with related products.
- define marketing and product hierarchy.
- optimize filters for website searches.

Creating a unified customer database
- personalize website.
- configure the sending of personalized e-mails/sms.
- set up a loyalty program and manage it using modern CRM systems.
6. Chain development

The basis of the success of an off-line store is its location. Look around - define who your clients are and how to attract them and manage their expectations.

We offer directions to which you should pay attention when searching for a profitable location.

Directions for chain development

• develop a methodology for the evaluation of regions and establish target parameters for searching for objects.
• prepare an economic model to justify opening new stores in two variants: purchase or lease.
• develop a methodology for the evaluation of potential goods turnover at new locations.
• prescribe recommendations on the organizational structure of the development department, on internal processes, on the key performance indicator system and on motivation.
EY Performance Improvement Advisory Services

Whatever your goals are - to increase profitability, develop a flexible supply chain, develop a retail network, efficiently allocate human resources or implement information technology - we are ready to help you solve your problems.

Our services
EY advisory professionals possess a wealth of experience and knowledge that will help in the following areas:
- organizational modeling and business process improvement;
- corporate governance and strategic management; supply chain management and logistics;
- reducing costs and increasing profitability;
- increasing profitability by integrating sales channels and e-commerce;
- optimizing working capital.

Our team
- more than 70 professionals, led by a partner with more than 15 years of experience in enterprise performance improvement and management consulting:
  - a qualified local staff
  - a specialized retail group
  - a comprehensive IT-system consulting and support practices.

Contact person
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Egor has over 10 years of professional experience in consulting and has performed more than 20 projects in strategic management, developing operational and business models, optimization and automation of business processes, implementation of profitability improving programs, optimization of supply chains and logistics and more.
Retail labor market: facing the customer

Retail represents one of Ukraine’s largest labor markets (according to official data the sector employs more than 4.5 million people).
Retail labor market trends

According to EY research, the annual average salary in the commerce sphere is $10,525 per single full-time employee, which is one of the lowest indicators in the country. A salesman working in a shop might earn UAH 2,000-4,000 per month (when the minimum salary is UAH 1,218). However, leading companies revise salaries yearly (increasing them by an average of 8%-10%). Considering comparatively low salary levels, a sales staff salary package usually includes variable compensation, which is often paid monthly and is 20%-40% of retail employee salary.

Taking into account hard market competition in every segment of commerce, companies more often pay attention not only to store pricing policy but also to the quality of customer service. Such business objectives affect HR policy priorities. Thus, participants in compensation and benefits surveys for retail and wholesale that EY has performed for several years running indicate that staff education and development as well as work effectiveness are HR policy priorities.

Leading retail networks usually have complex sales staff educational programs and use such popular valuating tools as “mystery shopper” programs and valuation centers to check the knowledge, skills and behavior of their employees.

On average 70% of retail companies’ employees are sales staff, on which the welfare of the company largely depends. Typically, these employees have secondary educations and a range of relatively simple professional skills such as knowledge of product assortment and the ability to communicate with customers.

Frequently future employees come to large cities from villages and small towns (hence the popularity of providing accommodation as an element of benefit packages among retailers). The influx has a seasonal nature, because usually sales staff tends to use the opportunity of the “high” agricultural season to make additional income. This provokes high employee turnover exactly during this time interval. The academic year also influences seasonality if retail companies engage students.

The retail sector is characterized by high employee turnover (voluntarily, caused by difficult working conditions, and on companies’ initiative). Annual employee turnover is approximately 40%, but at some companies this indicator runs up to 70%-80% (for comparison’s sake, generally across the market it is not less than 20%). Also remarkable is the indicator of turnover of workers who had one year of work experience at a company: at retail companies this indicator is 25%, as against 8% for the overall market.

Besides difficult working conditions, employee turnover is influenced by other factors, too, such as salary levels, modes of salary payment and compensation package.

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Retail labor market trends

Despite that the major market players are Ukrainian companies, foreign retailers set the style in HR management. They have brought to the Ukrainian retail labor market a wide range of benefits for employees, such as medical insurance, discounts for food products, social benefits and presents for children.

According to EY’s “Best Employer 2013” research project among students and professional candidates, retail is still far from popular, outclassed by the consumer goods sector, the IT market, banking and heavy industry. The fact that no retail company was among the top 20 best employers of 2013, according to EY research in Ukraine, indicates this.

In addition, foreign companies are among those retail companies that are taking a leading position, which suggest that their employees appreciate their more transparent and full compensation packages and opportunities for dynamic personal and professional growth.

As a result of the situation in the country in the first half of the year 2014, 25% of retail companies reduced staff (this was mostly a function of the closing of stores in Crimea and difficulties with working in the eastern part of Ukraine). However, research respondents plan no changes for the second half of the year.

It is interesting that due to the situation in the country some retail companies are offering their staffers job in other regions and even providing additional help in terms of moving employees and their family members to other areas of the country.

Concerning salaries, more than half of retail companies raised salaries (by an average in 8%) and at the moment plan no changes before the end of the year.
EY Human Capital Practice Services

Our multidisciplinary Human Capital team focuses on facilitating effective human resources management.

Our practice in Ukraine launched over 15 years ago. Today the company is the market leader thanks to a holistic approach to human resources management, as well as to a comprehensive set of services that are provided by professionals in different subject areas.

In Ukraine a unique team of more than 30 professionals who work on projects in Ukraine, Belarus, Georgia, Azerbaijan, Armenia, Kyrgyzstan, Kazakhstan and other CIS countries is at your disposal.

Main EY Human Capital practice services:
- talent management and reward
- global mobility and staff rotation
- HR performance improvement

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With more than 15 years of experience in professional services, Olga provides staff management advisory services (from individual tax planning to the development and implementation of HR strategy) to a number of large foreign and local clients. Olga is a successful business coach who has extensive experience of teaching at universities and business schools and who has conducted a variety of corporate and public training programs in various areas of staff management (from employment law and staff administration to management of performance and staff loyalty).
About the global EY organization

The global EY organization is a leader in assurance, tax, transaction and advisory services. We leverage our experience, knowledge and services to help build trust and confidence in the capital markets and in economies all over the world. We are ideally equipped for this task - with well trained employees, strong teams, excellent services and outstanding client relations. Our global purpose is to drive progress and make a difference by building a better working world - for our people, for our clients and for our communities.

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY works together with companies across the CIS and assists them in realizing their business goals. 4,800 professionals work at 21 CIS offices (in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg, Kazan, Krasnodar, Togliatti, Vladivostok, Yuzhno-Sakhalinsk, Rostov-on-Don, Almaty, Astana, Atyrau, Bishkek, Baku, Kyiv, Donetsk, Tashkent, Tbilisi, Yerevan, and Minsk).

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