FULL REPORT SHORT PRESENTATION

RETAIL TRADE SECTOR IN ARMENIA

FAST MOVING CONSUMER GOODS (FMCG) MARKET

YEREVAN/MAY 2014

Ameria CJSC continues the series of researches on different sectors of Armenian economy.

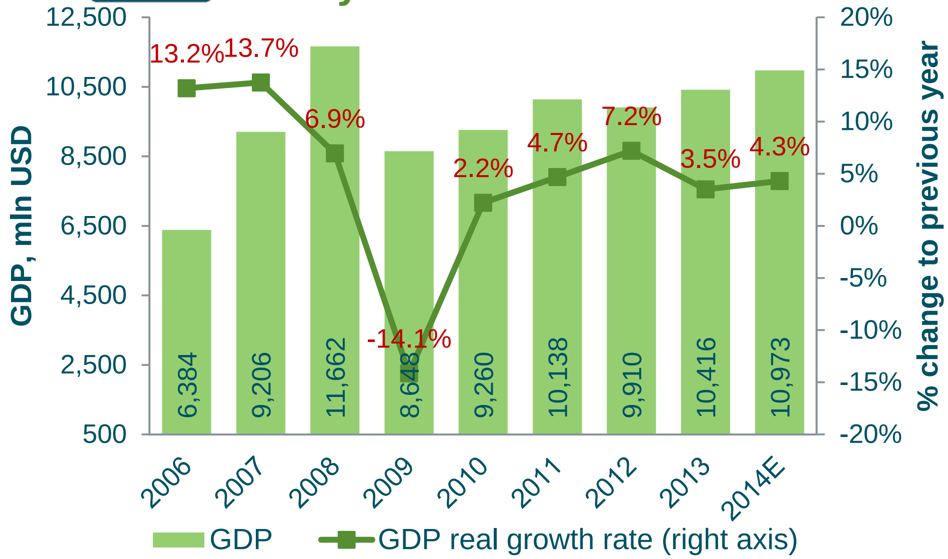
Already conducted researches include the sectors of *retail trade*, *hotels and tourism industry*, *food processing*, *industrial agriculture*, *telecommunications*, *etc.*

These results of the research aim to enable all stakeholders to assess the current market trends, peculiarities of demand and supply in that specific sector, key market players, their weaknesses and strengths, as well as emerging opportunities.

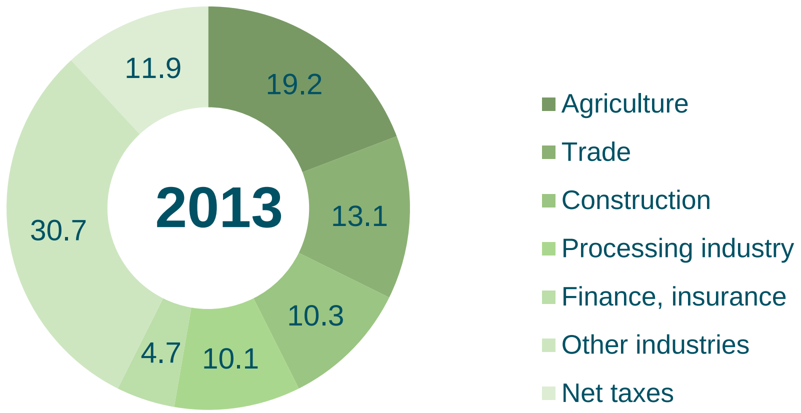
This report presents the results of the second comprehensive research on Retail Trade Sector in Armenia, with focus on FMCG market. The first research on this sector was conducted in 2012, which enabled to not only present the results of 2014, but also make comparisons with 2012.

FULL REPORT CONTENT

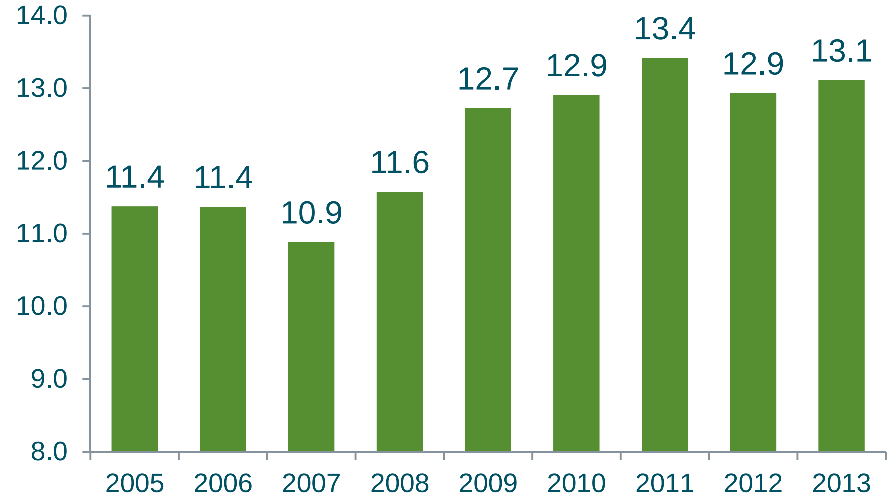
GDP Dynamics and Growth



GDP Breakdown by Industries



Share of Trade in RA GDP



➡Financial services and trade are the main ones that constantly grow in GDP structure since 2001.

Source: RA NSS

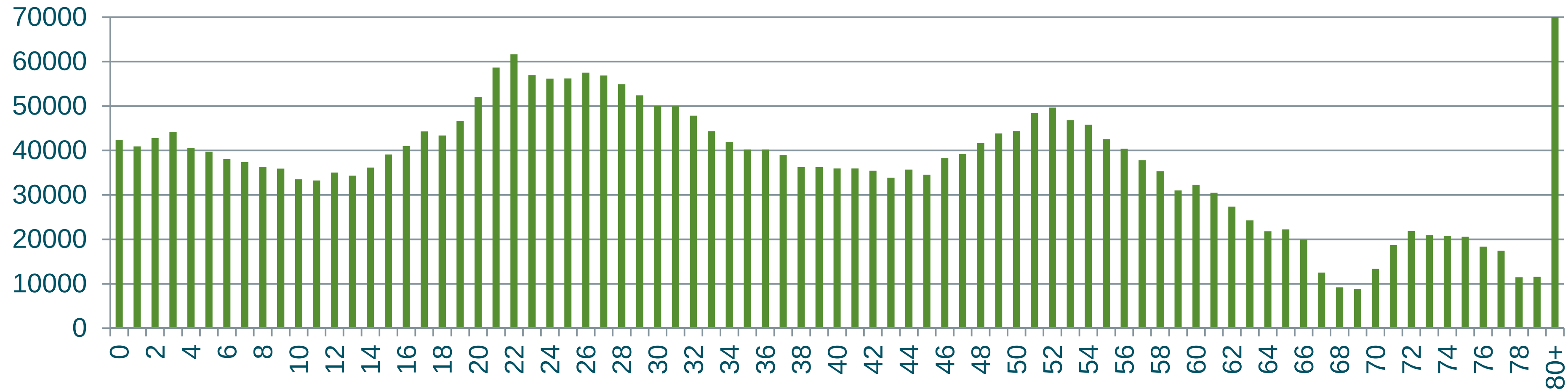
PART1

Natural Change and Migration in Armenia

	2010	2011	2012	2013	4 year
Births	44 825	43 340	42 333	41 770	172 415
Deaths	27 921	27 963	27 514	27 165	110 648
Migration	-46 684	-43 820	-42 811	-31 188	-164 503
Total changes	**-29 780**	**-28 443**	**-27 992**	**-16 583**	-102 736

- De jure population in Armenia for 2014 is estimated at 3.0 mln.
- During the last 4 years the population number decreases on the average approximately by 25.000 people.
- The trend of population decline is also forecasted by UN in other countries of the region (except Central Asia).

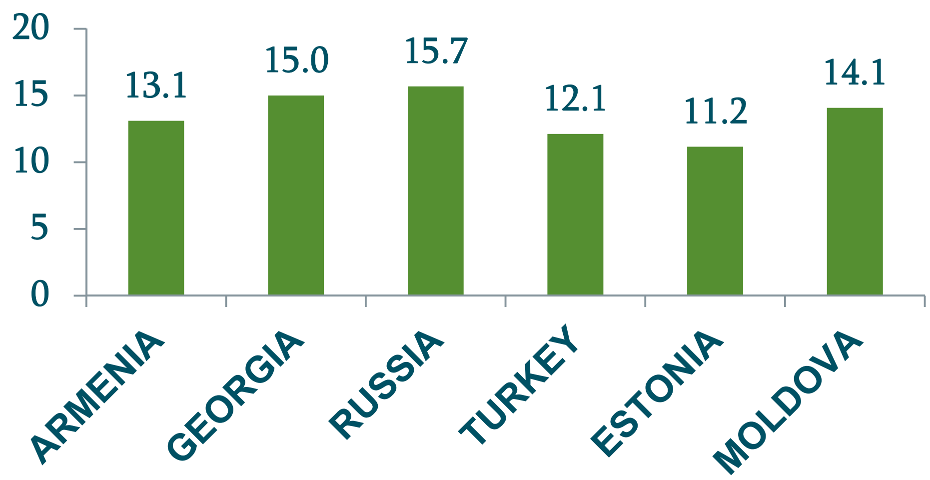
Population for 2013 per age



Source: RA NSS

DOMESTIC TRADE: COUNTRY-BY-COUNTRY COMPARISON

Share of Trade in GDP (2013)



- Per its trade share in GDP Armenia is on the mean place among the considered countries.

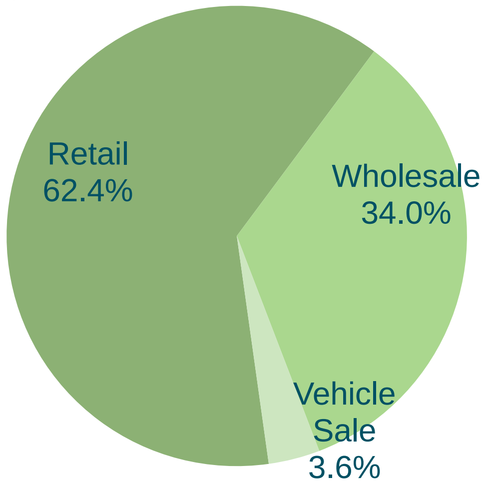
Per capita Value Added in Trade, USD

	2007	2008	2009	2010	2011	2012	2013
Russia	1 185	1 568	1 841	1 501	1 676	2 055	2 251
Estonia	2 003	2 058	1 490	1 484	1 808	1 818	2 070
Turkey	1 131	1 278	930	1 100	1 253	1 253	1 307
Georgia	297	413	320	382	471	508	540
Armenia	**311**	**417**	**339**	**366**	**424**	**426**	**452**
Moldova	155	220	201	209	266	281	314

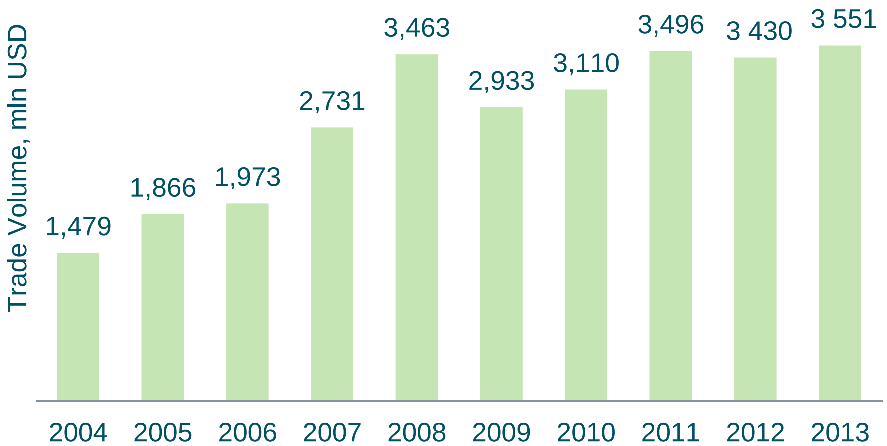
- According to per capita value added in trade Armenia is ahead of Moldova and behind Georgia.

Source: National Statistical Services

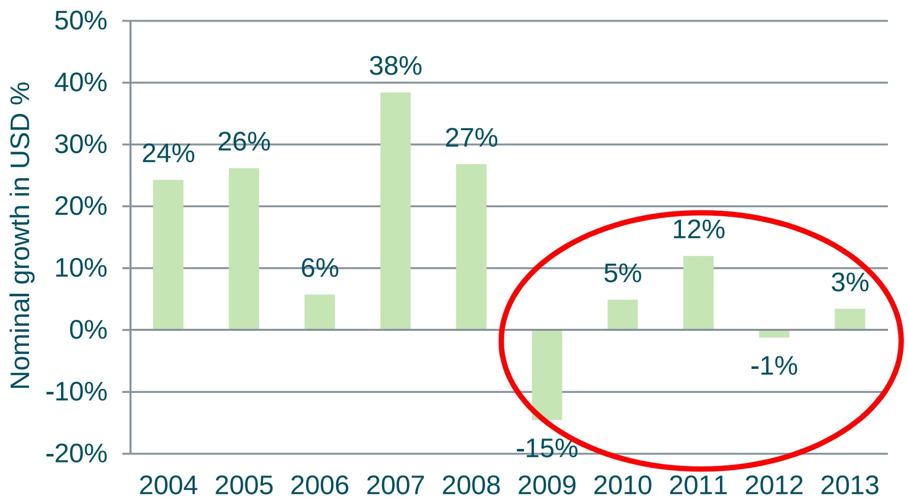
Trade Structure, 2013



Retail Trade Turnover Dynamics



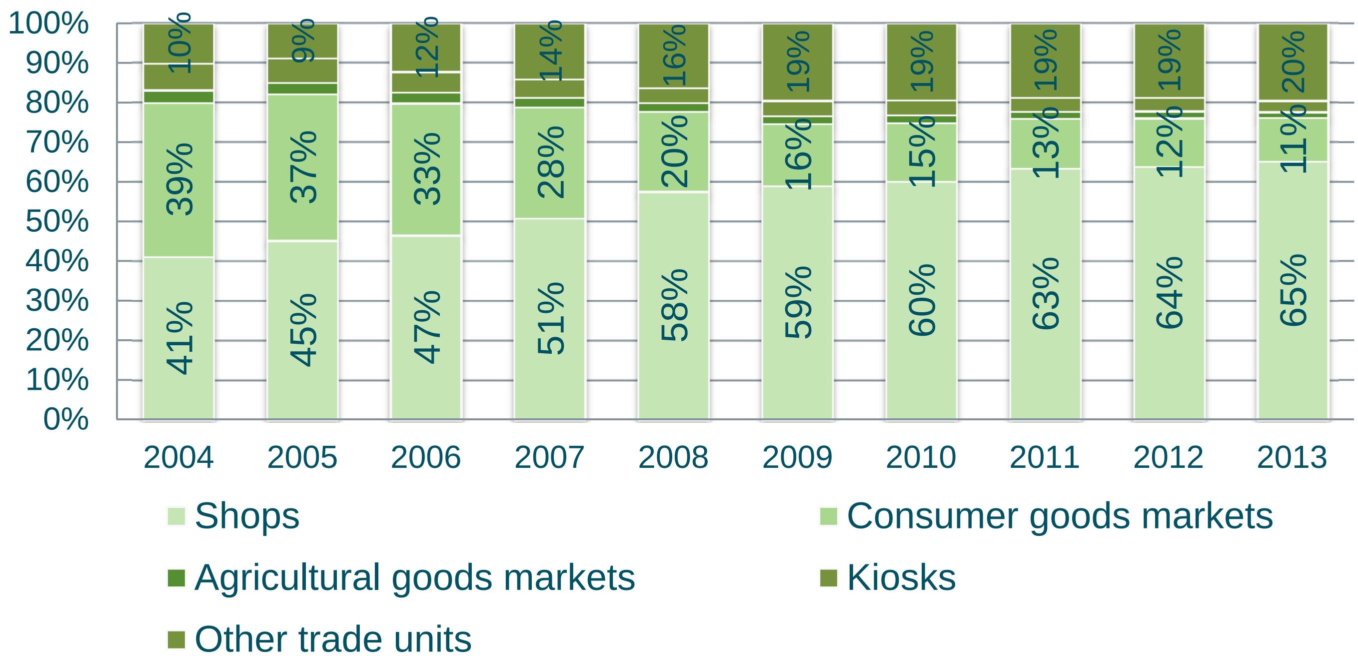
Retail Trade Turnover Dynamics in USD



- In total trade turnover the highest share belongs to retail trade.
- 2013 – Trade volume expressed in USD finally substantially exceeded the pre-crisis index.
- **Significant growth slow-down is observed:** 2004-2008: 23.8% (real – 7.6%), 2010-2013: 4.9% (real – 1.4%).

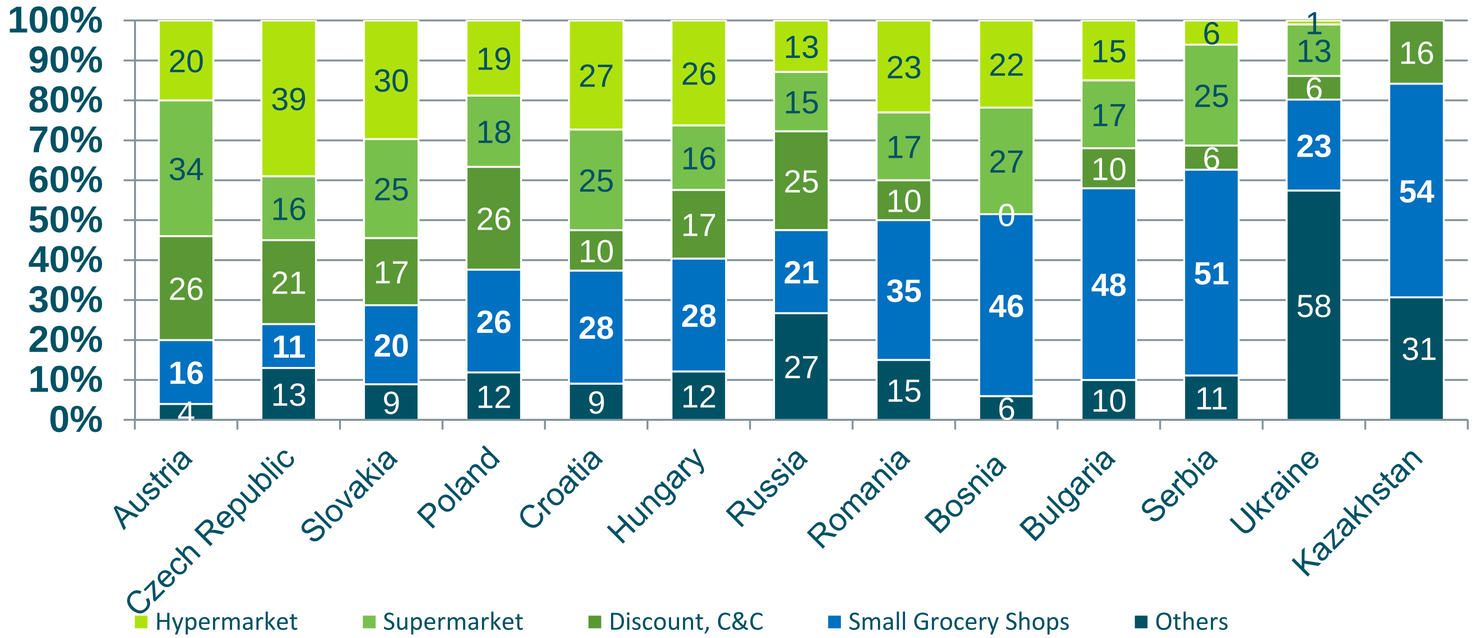
Source: RA NSS

Retail Trade Turnover by Merchants (% of total)



- The concentration of retail trade in shops is observed.
- The shops' share is gradually growing (2004 – 41.0%, 2013 – 65.1%).

Main food merchants in Central and Eastern European countries, 2012-2013



* Source: Consumer Trends in CEE, 2013, GfK

The decline of small stores’ share has significantly slowed down within the last 2-3 years, probably due to economic growth slow-down. Such trend is also observed in Armenia.

Includes the results of 2 surveys – of 2012 and 2014. The surveys were conducted in Yerevan among the people above 18.

For the results to be impartial the survey was conducted away from the shops – at the respondent's house or public places.

	2012	**2014**
Sample volume	1026	1008
Realized	July-August	February-March

Several criteria was defined prior to the survey to ensure the representation of population general structure:

- Regional distribution according to the number of Yerevan population by communities,
- Distribution by gender-age groups according to official statistics for Yerevan (re-weighing of sample was also performed).

FMCG average monthly expenditure for one household in Yerevan in 2012 and 2014

	2012	2014	Nominal change	Price changes* (for 2014/2012 research)	Expenditure in 2014 (at 2012 prices)	Real change
Food, beverages	109 272	108 559	-1%	+16.3%	93 356	-15%
Alcohol, tobacco	19 509	17 957	-8%	+12.1%	16 021	-18%
HH goods	20 897	17 444	-17%	+4.2%	16 742	-20%
Total	**149 678**	**143 960**	-4%		126 118	-16%

- By nominal value the expenditure has decreased on the average by 4%, but in reality, taking into account the price change, consumption has dropped by approximately 16%.
- Thus, on the average families allocate almost the same amount for FMCG acquisition, but in reality they consume less. Such behavior can be due to the fact that under the conditions of price growth the income of the population has remained unchanged or even decreased.

** Calculated on the basis of RA NSS Consumer price index per different groups. Statistics show the price change (growth) in February-March 2014 compared with August-September 2012 .*

FMCG monthly average expenditure (per year) for HH in Yerevan by income groups

Income Groups (Monthly average income (thousand AMD) per 1 adult)	TOTAL 2014	TOTAL 2012	Change 2014/2012
<=30	105 238	101 586	4%
30.1-45	128 063	124 815	3%
45.1-62.5	131 421	136 664	-4%
62.6-124.9	158 110	155 814	1%
125+	210 227	189 265	11%
YEREVAN	**143 960**	**149 678**	-4%

- FMCG (food, beverages, HH goods) monthly average consumption in Yerevan amounts to 84.9 mln USD, annually – 1.018 bln USD. *Annual average data were estimated based on the results of research for February-March 2014 and seasonality index typical of retail trade in recent years*.

- In comparison with annual average data for 2012 the market volume has decreased by 4.2% in AMD or by 6.5% in USD. *This calculation is only based on the expenditures of households living in Yerevan, and does not include the expenditures of the population from other regions of Armenia or expenditure of non-residents in Yerevan.*

HOUSEHOLDS' EXPENDITURES

Market expenditure distribution by merchants

Yerevan households general expenditure distribution on FMCG market (mln USD/ in annual equivalent)

	2014	2012	Change, %
Total	**1018.3**	**1088.5**	-6%
Supermarkets	482.5	563.7	-14%
Small shops	196.2	161.6	21%
Big food stores	217.4	186.3	17%
Large HH goods shop	51.3	62.5	-18%
Kiosk, street merchants	27.2	42.7	-36%
Market	36.0	49.8	-28%
Trading centers	7.2	22.0	-67%

- **The presented calculation was based only on the expenditures of Yerevan households. The calculated volume does not include the expenditures of the population from other regions of Armenia or expenditures of non-residents in Yerevan.**

- **Proceeding from the results of general expenditure distribution by merchants, it is possible to combine total annual expenditure at merchants. It turns out that the costs of Yerevan households at supermarkets have decreased by 14 % (in USD), instead the volume of expenditure in large and small foodstores has increased.**

A series of other comparison tables on the following subjects

- **Distribution of HH expenditures on FMCG by merchants in Yerevan**

Decrease of supermarket share (52% – 2012, 47% – 2014) and correspondingly increase of big foodstore and small shop share are observed.

- **FMCG expenditure distribution by the administrative districts of Yerevan**

For example – the share of supermarkets has increased in Kanaker-Zeytun, Shengavit and Nor-Norq.

- **Average slip value by merchant types**

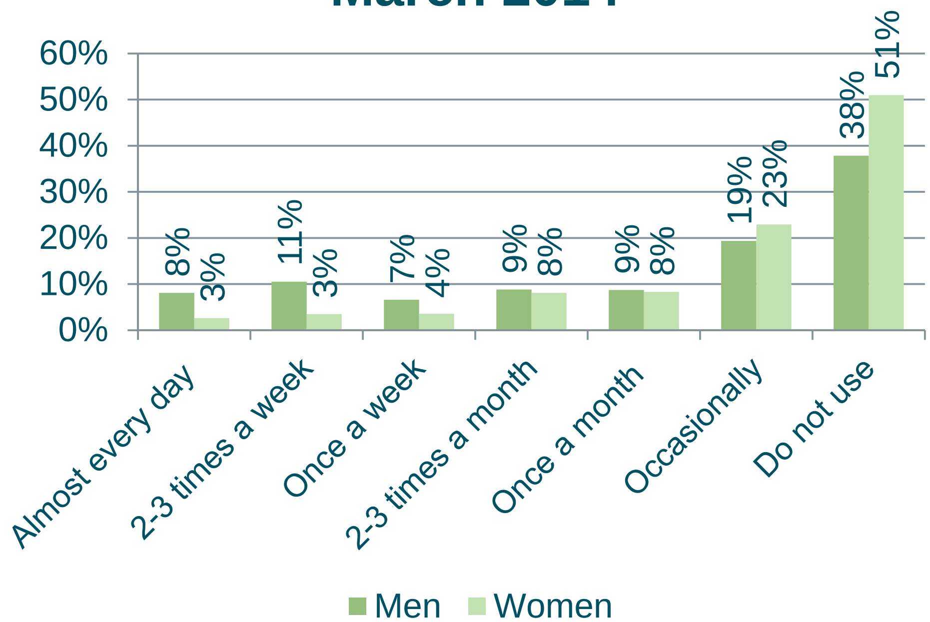
*The calculation is based on a**/** merchant visit frequency (per 1 adult/monthly),* ***b/*** *average number of adults in one family in Yerevan,* ***c/*** *monthly average expenditure on FMCG (per one family), with the use of the number of people above 18 in the population structure of Yerevan (according to RA NSS).*

Together with the decrease of supermarket visits the value of 1 slip has increased by approximately 17%.

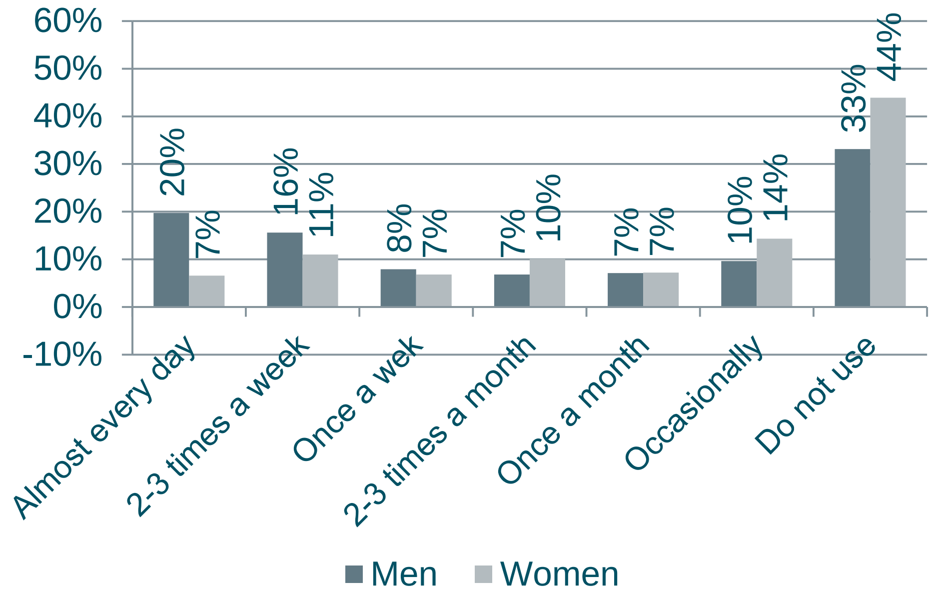
- **Change of merchant type preference by population income groups**

For example – expenditure volume in big food stores was particularly increased among households with low income.

March 2014



September 2012

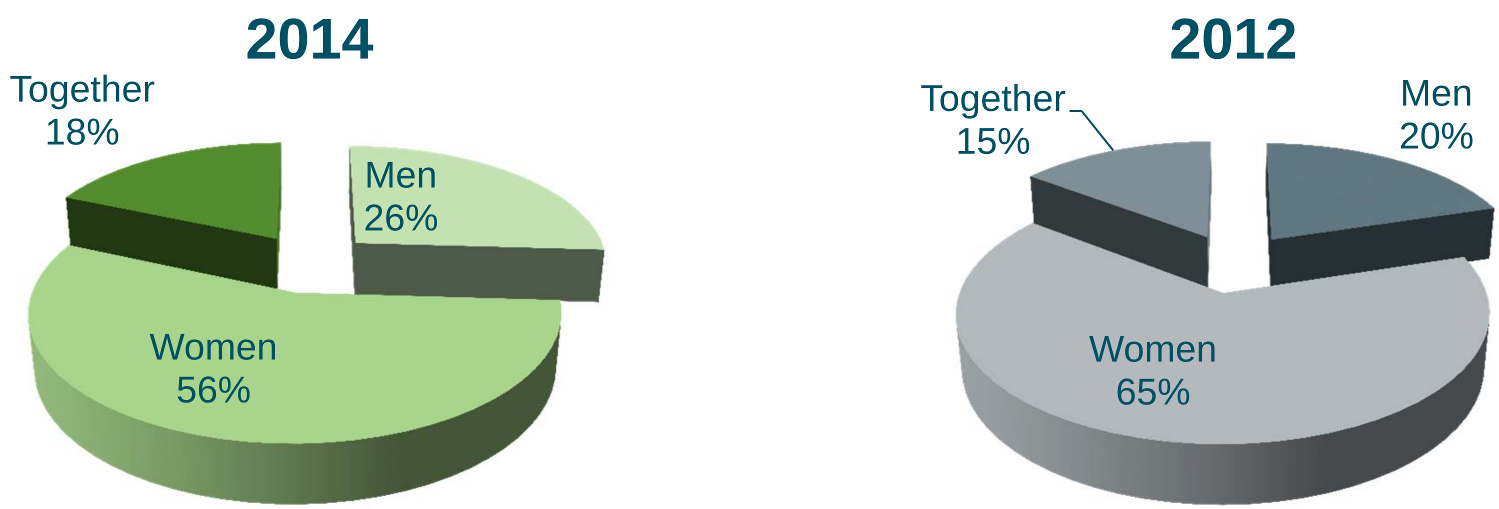


- <u>As compared with 2012,</u> the decline of frequency of eating outdoors is observed, which is mostly conditioned by the seasonality factor. After corresponding adjustments it turns out that **during these 2 years visits to restaurants, cafes have declined by 10.7%.**

- There are also other comparisons by age, gender, economic status, income groups.

PART 4

SHOPPERS CHARACTERISTIC
Who makes purchases in household – men or women?



- Women are more active in FMCG purchase.
- If compared with 2012, the involvement of men in the purchase process has somehow increased.

- There are also other comparisons: by age, gender, economic status.

For example – if compared with 2012, there was a sharp decline in the number of women above 56 making purchases.

PART 4

RETAIL MERCHANTS: CUSTOMER FLOW

Frequency of visiting merchants

Frequency of visiting merchants for the purpose of FMCG purchase (% of respondents by type)

	Number of monthly visits (per 1 adult)
Supermarket	**8.5**
Big food store	**8.8**
Large stores	**2.8**
Small shops	**10.0**
Kiosks, street merchants	**2.2**
Trade centers, fairs	**0.5**
Market	**2.0**

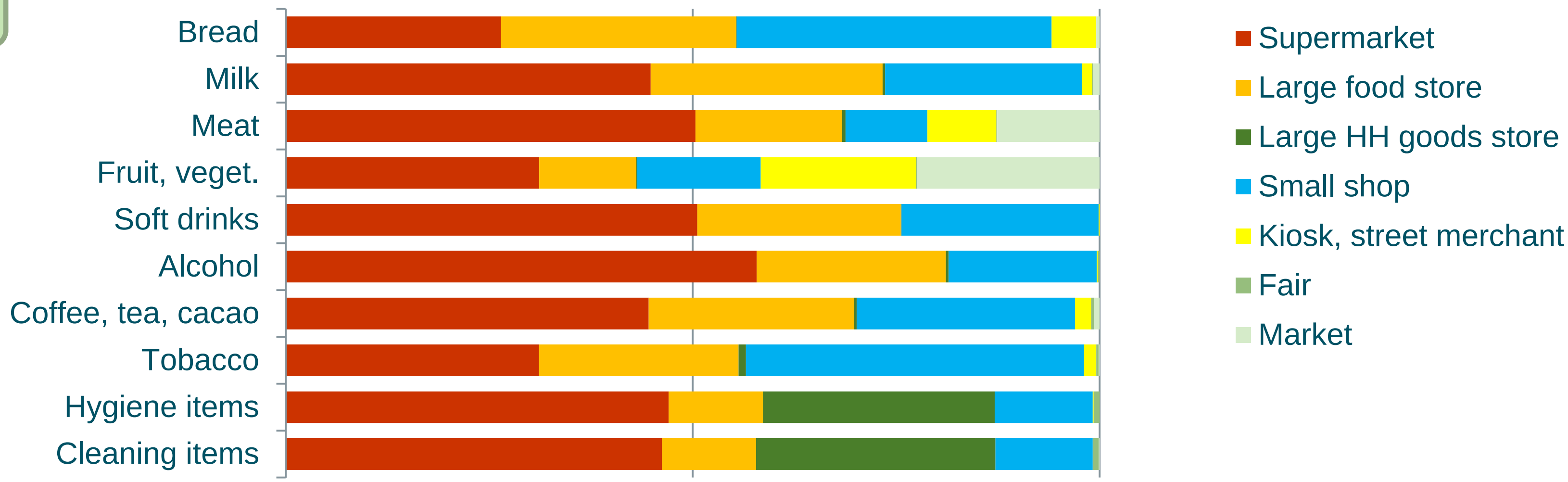
- Approximately 90% of the respondents uses supermarkets, but from the point of view of their visits' frequency they more often visit small shops.
- As compared with 2012, a significant decline in the frequency of visiting supermarkets is observed.

- The marks the customers gave to the merchant types were calculated and compared with 2012 by day, week, etc.

** The statistics were compared with due account for the factor of seasonality during the year .*

2014

Main shopping place for goods (total % among buyers) – Yerevan



- During the research each product group is compared with 2012.
- Preferences for each product group are presented by different groups of the customers: gender, age, income.

For example – as far as fruits and vegetables are concerned, young people prefer supermarkets, the lower the HH income, the higher is the volume of purchase from the market; women use the market more often than men.

The importance of the factors for supermarket choice (average mark)

2014 classification by importance	compared with 2012	Factor	Research (average mark)	
			2014	2012
1	0	**Assortment existence**	4.65	4.75
2	0	**Service quality**	4.62	4.72
3	2	**Price level**	4.60	4.50
4	-1	**Convenient location**	4.54	4.63
5	1	**Time waste**	4.48	4.46
6	-2	**Trust towards merchant**	4.38	4.61
7	0	Discount system availability	3.31	3.52
8	0	Merchant trademark	3.02	3.04
9	0	Possibility of paying with card (non-cash)	2.08	2.65
10	0	Advertising	1.98	2.52
11	-	Online shopping possibility	1.77	-

- The importance of the factors is also presented by the customers' gender, age, income groups, etc.
- The importance of small shop selection factors is also presented in the same way (the most important factor is the convenient location).
- The factors affecting the choice are presented for all product groups (example – on the next slide).

The respondents assessed the importance of the factors affecting their choice of the supermarket according to five-point grading scale: 1 – is not important, 5 – is very important.

PART 4

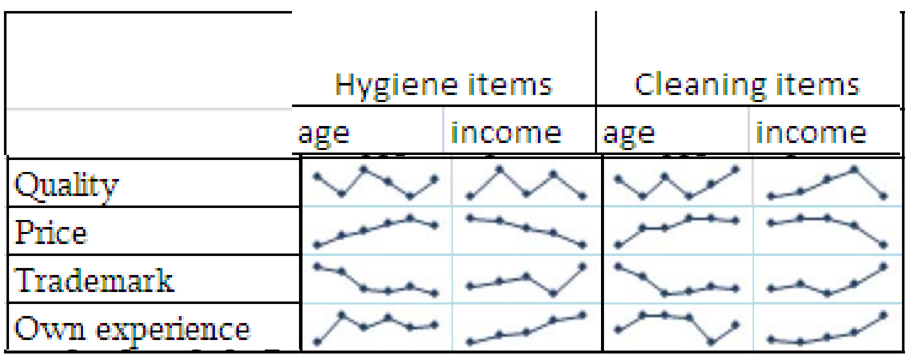
GOODS SELECTION FACTORS

Hygiene items, cleaning items

The influence of the factors on goods selection

	Hygiene items	Cleaning items
Quality	38.9%	38.2%
Price	20.2%	20.2%
Trademark	15.6%	15.9%
One's own experience	21.5%	21.9%
Advice of acquaintances	1.2%	1.7%
Product freshness extent	1.4%	1.5%
Attractive appearance	0.3%	0.2%
Product advertising	0.8%	0.6%
Other	0.0%	0.0%

- This product group selection is based on 4 factors. The quality is the main factor here too, however, if we assume that the buyers determine it in combination with other factors, then we can state that one's own experience and the price are the main factors influencing the selection of the goods.



- The price is paid much attention to among the grown up buyers, and the brand – among the young people.
- Parallel to the income growth more attention is paid to the brand and one's own experience, and the importance of the price decreases.

The respondents have specified up to 3 factors they find important when purchasing corresponding food product.

- **Comparative analysis of the customer number of certain supermarkets (17 supermarkets)**

In 2012 the leading supermarket was “Star” (from time to time visited by at least 54% of Yerevan’s population, and “Star” had 1/3 share of supermarket visits in Yerevan), in 2014 the leading supermarket is “Yerevan City”.

The first 5 supermarkets possess 75% of total supermarket visits (in 2012 – 80%).

Significant changes are observed in the table of supermarket classification by visits number.

- **Characteristics of the customer of each of the leading 9 supermarkets**

by customer age, gender, income group

For example, answers to the following questions are given:

- Which supermarket is preferred by the customers of different income groups?
- The average customer of which supermarket is the youngest?
- Which is the most preferred supermarket for women at the age of 46-55? etc.
- The customer base structure of which supermarket is closest to that of the population of Yerevan, etc.

- **Comparative analysis of the customer cards number**

Supermarkets' customer distribution by income groups (through the example of Yerevan City)

	Total		Supermarkets
Income group*	Yerevan	Customers	Yerevan City
<=45	34%	33%	32%
45.1-62.5	30%	30%	32%
62.6-124.9	24%	24%	24%
125+	12%	13%	13%
Average cutomer income index**		3.07	3.07

- If compared with other examined supermarkets, the structure of the customers of "Yerevan City" is the closest to general population structure of Yerevan in terms of income groups.
- The main customers of 4 supermarkets out of the examined 9 supermarkets are from high income groups, of 3 supermarkets – from low income groups.

Supermarkets' customer distribution by age groups (through the example of Krpak)

- In case of "Krpak" the main customers are women aged 46-55. The average customer is the 2nd oldest one if compared with other 8 supermarkets.
- 2 out of the 9 examined supermarkets are obviously more preferable for women, other 2 – for men. In case of the other 5 supermarkets the preferences of both men and women are similar.

	Total		Supermarkets
Age group	Yerevan	Customers	Krpak
18-25	16%	17%	18%
26-35	22%	23%	12%
36-45	16%	17%	14%
46-55	17%	17%	25%
56-65	15%	14%	16%
66+	14%	12%	14%
average age**		43	46

The research presents the assessment (given by the customers) of the 9 leading supermarkets by 3 main criteria:

- Comparison is made with the results of 2012.
- The marks of different age, gender, income groups are examined separately.

Service quality

The average extent of the customers' satisfaction with the supermarket service quality **has increased** if compared with 2012.

-The leading supermarket has changed.

Quality/Price ratio

As for the average extent of the customers' satisfaction with quality/price ratio offered by supermarkets, it **has not changed** if compared with 2012.

-The leading supermarket is the same.

Assortment

The average extent of the customers' satisfaction with the assortment offered by supermarkets **has increased** in comparison with 2012.

-The leading supermarket has changed.

** The average mark was calculated on the basis of the marks given by the customers of the considered supermarket. The respondents evaluated the supermarket service quality, quality/price ratio, and assortment according to the 5-point grading scale, where : "1 – completely dissatisfied", "5 – very satisfied".*

KEY MARKET PLAYERS

- **Main supermarkets**
- **Malls**

- **Allocation of main supermarkets across the administrative districts of Yerevan (maps)**

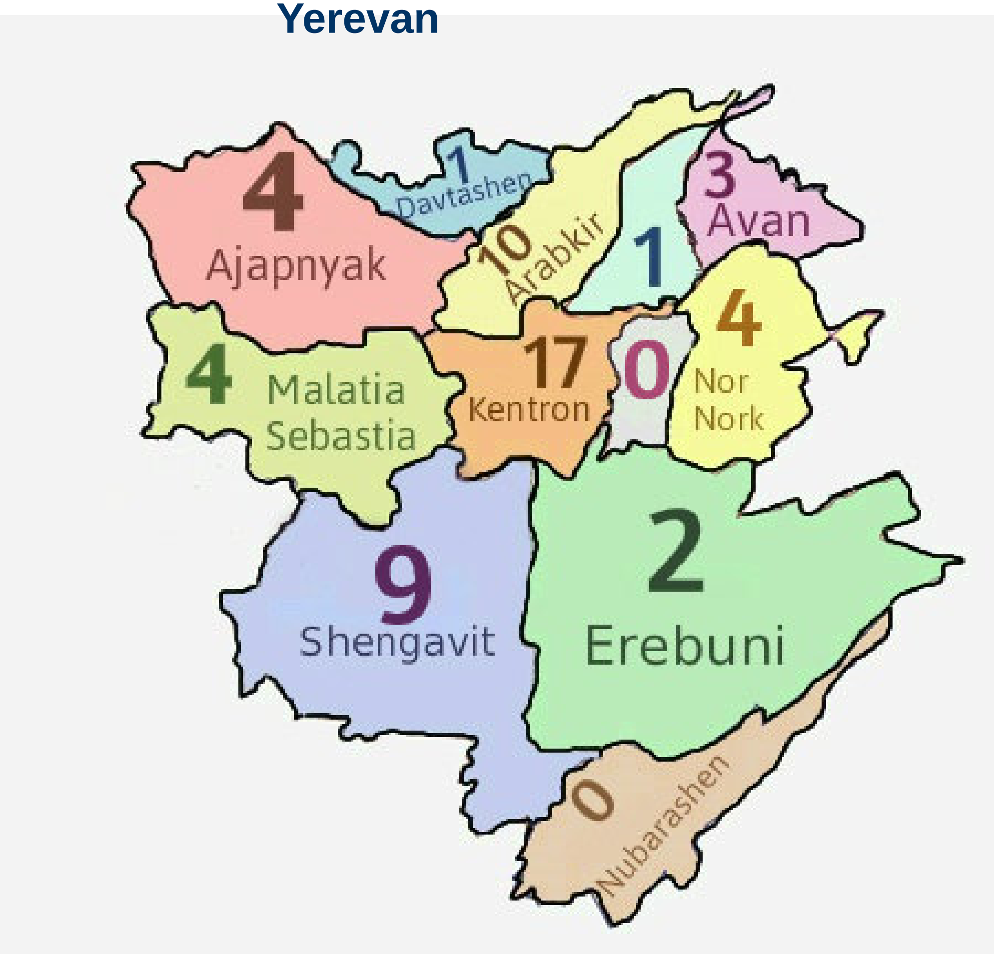
- **Distribution of main supermarkets’ customers and visits number by administrative districts (according to research data of 2012 and 2014)**

    - Which are the leading supermarkets (according to customer number) by the administrative districts of Yerevan?
    - What value does the population of each administrative district represent for separate supermarkets?
    - How did the customers change by administrative districts if compared with 2012?

PART 5

MAIN SUPERMARKET ALLOCATION: YEREVAN

Distribution of total number of 8 supermarkets having the largest number of customers across the administrative districts of Yerevan



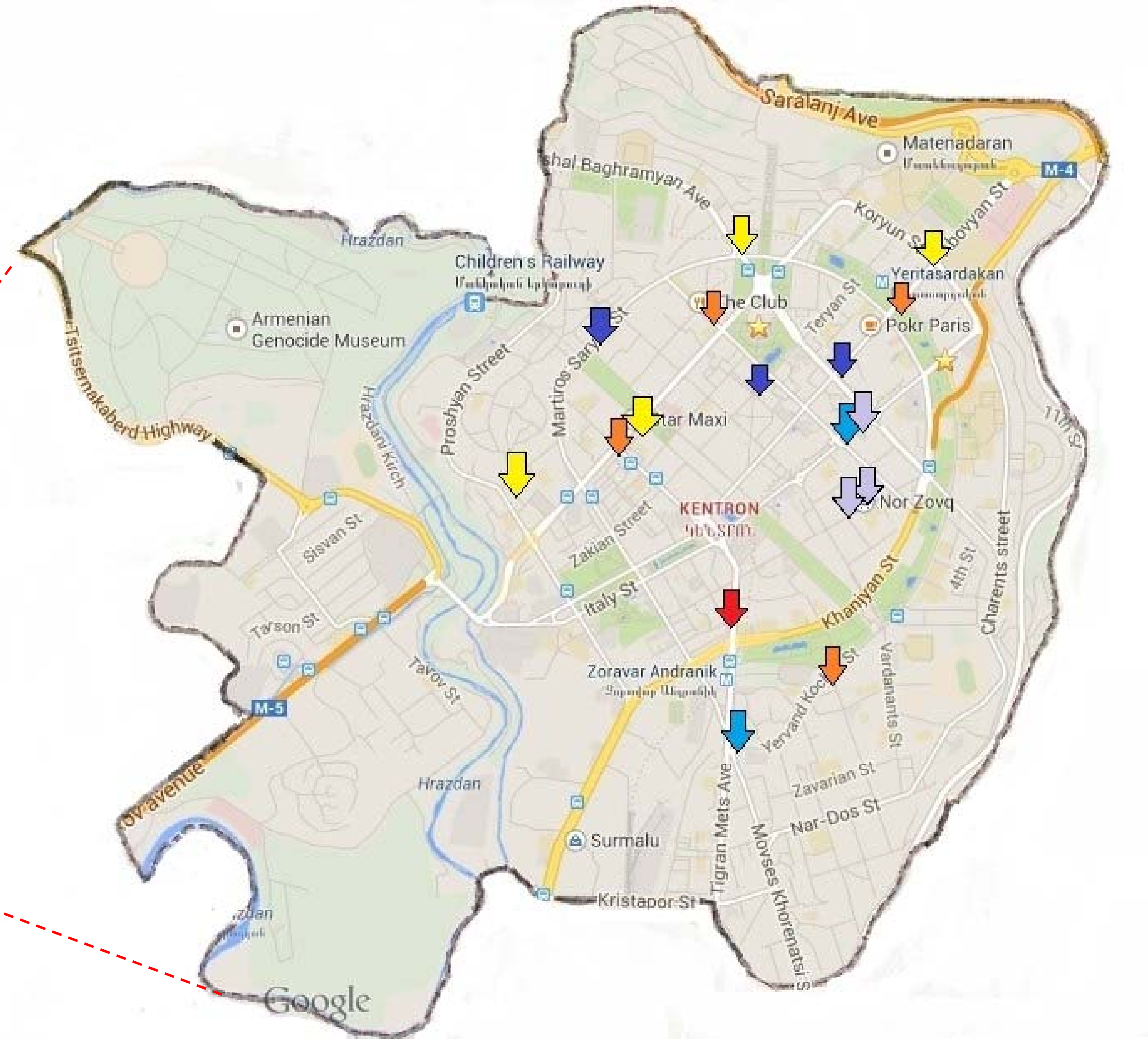
- Kentron administrative district is the most plentiful of main supermarkets. 6 out of the examined 8 supermarket chains have shops in the centre.
- 5 different chains are presented in Arabkir, 4 – in Shengavit.
- In Nor Nork 34% of supermarket visits falls upon other supermarkets (Arev, VAS, etc.)

PART 5

ALLOCATION OF MAIN SUPERMARKETS

Kentron administrative district

- Yerevan City
- SAS
- Evrika
- Krpak
- Moskvichka
- Nor-Zovq

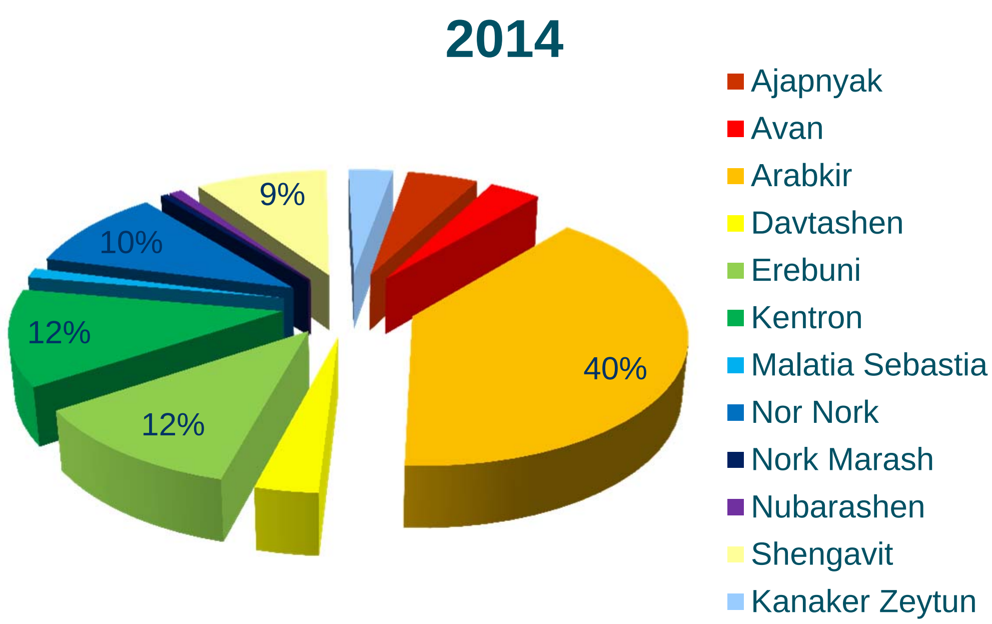


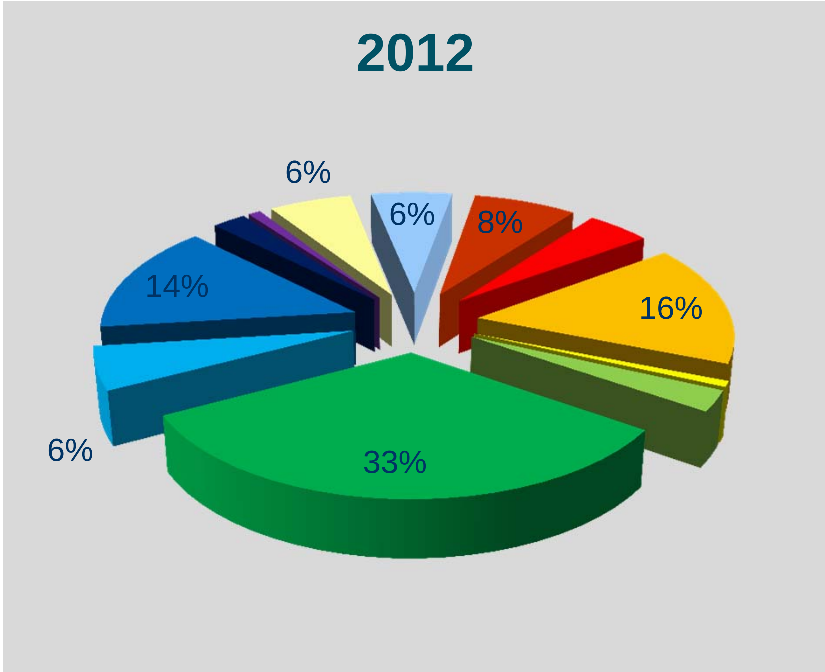
PART 5

USING SUPERMARKETS
CUSTOMER FLOW BY RESIDENCY

SAS

(by total visit number)

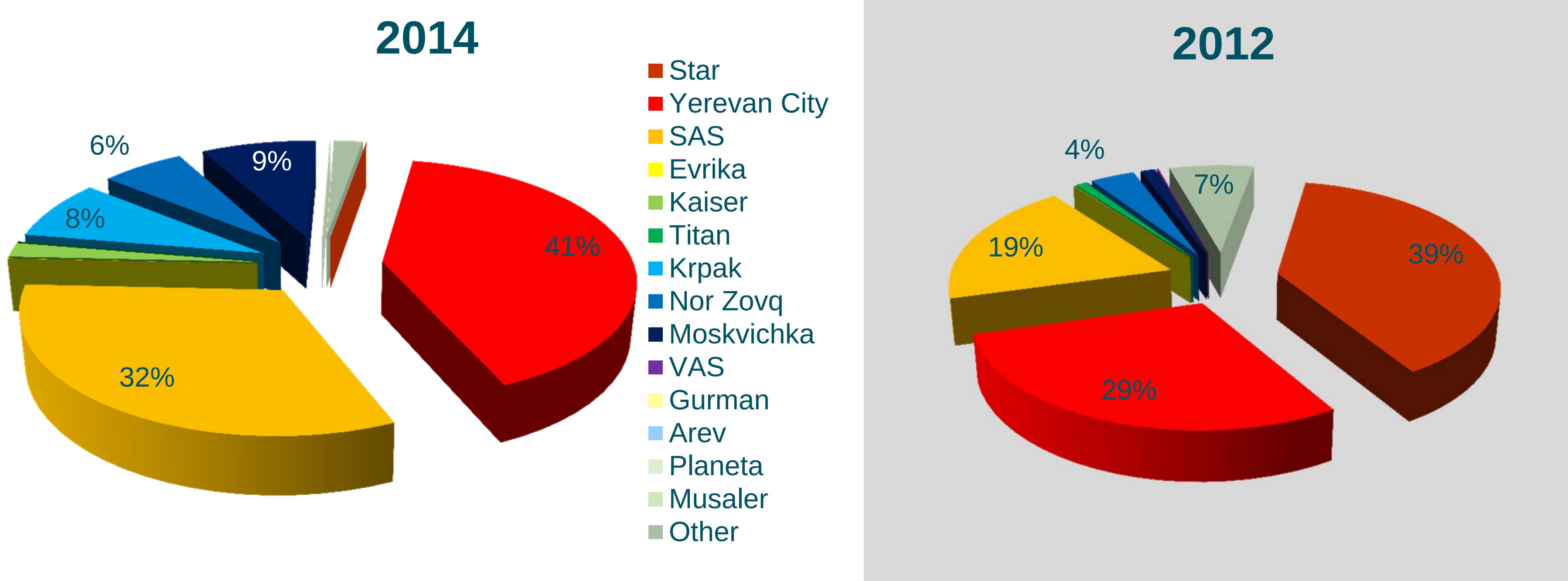




- If in 2012 the residents of Kentron were prevailing by their number among general customers of “SAS”, in 2014 the residents of Arabkir are definitely prevailing.
- By total visit number the prevalence of the residents of Arabkir in 2014 is more obvious, than in case of the comparison by customer number.
- Unlike 2012, according to data of March 2014 on the average the residents of Arabkir have visited SAS more often than the residents of Kentron.

Arabkir

(by total visit number)



- The main supermarkets for the residents of Arabkir are "Yerevan City" and "SAS". The third is "Moskvichka".
- In comparison with 2012, the visits of "SAS" and "Yerevan City" have significantly increased, which took place mostly due to the shift of the previous customers of "Star". The weight of "Moskvichka" and "Krpak" has also increased due to new shops.

The volume of FMCG market in Yerevan has decreased by approximately 4% (and in USD terms – 6%).

- FMCG market decrease is mainly dictated by the reduction of FMCG expenditure of population, which can be explained by other expenditure priority under the conditions of no growth in general income. In particular, starting from the second half of 2013 tariffs of gas and electricity have significantly increased.
- It is also notable that on the whole HHs of highest income groups have not reduced FMCG expenditure as opposed to lower income groups. Taking into consideration also the fact of a certain growth of income and expenditure of population according to macroeconomic data, it can be stated that the process of population polarization increase still goes on in Yerevan.
- FMCG expenditure reduction by population, as well as termination of business by “Star” – the largest supermarket chain in 2012, lead to a situation, in which the share of supermarkets and hypermarkets declined from 52% to 47%. The share of large and small food stores grew instead.
- Trends of global development in mid and long term (including peer countries) show that the development of supermarkets and hypermarkets has a bigger potential (of course, with the expectation of population income increase).
- Thus, increased competition is expected on this market, especially taking into account the expected entry of “Carrefour” to the market. Most likely the entry of “Carrefour” will especially increase competition for the supermarkets, which are the leaders in terms of assortment and service quality. If “Carrefour” opens several shops, then competition will also become fierce for those supermarkets and small shops which are currently leaders by quality/price ratio.

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