

From Bazaar to Supermarket

BY MAJA NYBO
MAFCON

Bazaars and markets have been at the heart of Ukrainian consumer culture for centuries. The centrally located markets offer a wide assortment of fresh fruits and vegetables, chicken and hens are being slaughtered directly at the marketplace and various non-food items can be bought at favourable prices. However, as a new consumer culture is developing, these traditional colourful venues gradually surrender to large Western-style shopping centres and become symbols of the past.

Historical development

Ukraine's orange revolution may be the country's most published event, but it is definitely not the only one. A retail revolution has been under way for the last 12 years, ever since the country moved out from under the shadows of the Soviet Union.

During the period of Russian control, Ukraine suffered under the centrally planned economy and fixed supply structures. However, in spite of strict government regulations, the Ukrainian retail sector managed to evolve into primarily consisting of open-air street markets and bazaars.

Today, the traditional markets and bazaars are being replaced by multifunctional hypermarkets and supermarkets revolutionising the entire retail sector.

What drives the retail revolution?

The Ukrainian economy is growing like never before, with the retail sector growth rate reaching 40 percent in 2005 and sustained growth rates in 2006. From January to August 2006,

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the commodity turnover volume alone rose by 25,6 percent. This, along with low market saturation and little competition, makes Ukraine one of the most attractive retail markets in the world.

In Ukraine, the standard of living of the 49 million inhabitants is on the rise because consumers are now able to support

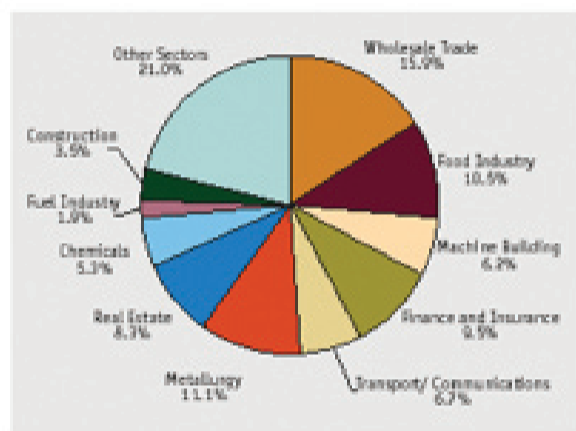
their own demand of goods and services with increasing purchasing power. Per capita nominal income is up 16 percent and real income is up seven percent on average. This steady increase in

What are the consequences?

The ingredients for

“The ingredients for retail success in Ukraine are coming together but challenges still remain”

Distribution of FDI Stock by Sector*, \$ million



*Excluding most of the amounts received from the sale of the metalurgical plant Kryvoruzhstal and Arzal Bank.
Source: State Statistics Committee

personal income has driven the rapid expansion of the retail sector. In 2005, Ukraine was ranked the world's third most prospective retail market in the World Global Retail. The country shot up an impressive eight slots within a few years and was surpassed only by India and Russia.

Despite these radical shifts, modern stores still account for a small share of total

retail turnover. In Kyiv, retail chains only make up 15 percent of total sales. If one compares Ukraine to Europe and the United States, where 60 percent of all goods are sold in retail chains, the potential growth in modern retail in Ukraine becomes clear.

underdevelopment of the food processing industry and outdated infrastructure are all bottlenecks as the retail revolution roars ahead.

The pull situation created from the rapid development in the retail sector works as a catalyst and will stimulate development on a larger scale. However, the large supermarket chains will demand standardised goods, and this demand will be difficult for

Ukrainian suppliers to satisfy because the current domestic conditions by no means match international standards. Therefore, increasing investments in both the agricultural sector and the processing industry will be necessary. Packaging, refrigeration and hygiene are all areas which so far have not been prevalent in the sector. With the entry of the large supermarkets, these areas need to be improved, leaving tremendous opportunities for foreign companies to export their goods and services to the expanding sector.

Particularly interesting is the market for industry-specific and technological

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machinery to support the rapid growth in the sector. The potential for foreign investment is promising and already on the rise. Developed countries make use of their competences and know-how as new standards and demands have to be set in Ukraine.

Most notably, many foreign investments have found their way to the agricultural sector, where some Ukrainian farms are now managed using more efficient Western European standards. Also, Ukrainian slaughterhouses increasingly capture the interest of Western investors as the demand from the large supermarket chains boosts.

What does the future hold?

We predict that the demand for retail premises in Ukraine, as a derivative from the demand of population, will continue to grow rapidly for at least the next five years. Retailers will benefit from raising incomes

in areas outside Kyiv, enabling them to expand their geographical reach.

Traditionally, Kyiv has been the natural centre of retail activity. Now, many retail chains are moving to other large Ukrainian cities, as the wage gap between Kyiv and other areas narrows down.

The number and density of Ukrainian supermarkets is still low, and predictions are that in Kyiv alone, another 400-500 supermarkets will have to be built within the next five years to satisfy consumer demand.

Although Ukraine still poses its fair share of challenges, it will not be long before international retailers begin to move even more aggressively into this promising space. The retail arena remains highly fragmented with chain stores controlling just nine percent of the market. Still, there is a huge potential, relatively high profitability, fast payback period and scarce competition, which make Ukraine an attractive destination for international retailers.

