

Press Distribution in Russia

Ladies and gentlemen!

I would like to present you a brief overview of the Russian retail press distribution market, including press distribution in supermarkets.

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Printed Media Market in Russia

I'll start with the general characteristics of the market. Sales of printed products in Russia has continued to decrease, the number of press and books distribution points has also reduced, but taking into account the growing ruble prices, the market has shown a positive trend. Compared with 2010, the market growth is 3.7% (in rubles). The volume of the printed media market is 3.87 billion dollars.

This was encouraged by the growth of the Russian economy, and, therefore, recovery of the advertising market, including press advertising. Revenues from press advertising in 2011 amounted to 1.6 billion dollars and increased in ruble terms by 7%. In the 1st half of 2012, the volume of print advertising in mass media increased by 3%, according to the Association of Communication Agencies of Russia.

The retail press and subscription segments have not changed. The volume of the retail market of press in 2011 was 1.5 billion dollars, subscriptions - 0.76 billion dollars.

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Retail press market in Russia

Before 2008, the retail market of print media trended to expand: the market volume in monetary terms, the number of registered print media, and the number of media points of sale were increasing, mainly through developing retail chains (supermarkets segment).

However, the 2008 financial crisis corrected this trend. In 2009, the market lost about 4% in value terms. The main factor here was lower consumer demand conditioned by the reduced income of people.

Since 2009, no major changes have occurred in the market. In value terms, the market grew by 0.5-1% per year, but this growth may be considered nominal because of inflation.

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Negative Factors for the Print Media Market

The crisis became an inflexion point from positive market dynamics to the negative one. In addition to the financial crisis, the main factors that have a negative effect on the print media market in Russia are:

- Internet. The number of readers of electronic mass media and digital publications grows with the number of Internet users in Russia, and the audience of print media falls down.
- Growing mobile and tablet PC market and increasing availability of mobile Internet also boost the digital mass media audience.
- Growing digital distribution market. Most publishing houses have digital versions of their publications. However, despite the growth of the digital market, sale of digital versions of newspapers and magazines does not bring much profit to their publishers.
- Lower number of retail press sales outlets. In particular, demolition of press kiosks in many major Russian cities, including Moscow, for various reasons: construction of roads, non-compliance with new standards, etc.
- Changing consumer preferences: shift from press media towards entertainment press; younger people loose interest in the press.

The circulation of print media in Russia has declined for several years in a row. On average, the market loses about 5-10% of circulations per year.

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Print Media Circulation Trends

According to the Federal Agency for Press and Mass Communications, the annual circulation of periodicals decreased by 6-7% in 2011. In 3 years (2008–2011), circulations of the federal print media (about 1000-1500 magazines and 300-500 newspapers) fell by nearly 15-20%.

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Sales of Periodicals by Subject Group

Sales fall in almost all subject groups. The growing segments, based on the results in the 1st half of 2012 in Russia, according to the largest distributors of the market, are 'Puzzles' (+9%), 'Cooking' (+7%), 'Villa, Orchard, Garden' (+6%), 'Horoscope, Astrology' (+6%).

The largest drop in circulations was in ‘Advertisements’, ‘Computer Publications’ and ‘Interior and Design’. In these groups, circulations fell by 20% or more.

Negative dynamics of circulations was typical for ‘Crosswords & Crossword Puzzles’, ‘Information and News Media’, ‘Automotive’, ‘Technology’, ‘Publications for Children’. Circulations decreased by 10-20% compared with 2011.

The most stable segments were women's magazines and TV guides. No significant drop in this category, largely due to a variety of special editions, including those in low and medium price segments.

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Retail Press Distribution Market

The main segments of the retail press distribution market in Russia are kiosk networks, networks in food supermarkets, press pavilions / minimarkets and mobile retail.

Press kiosks remain the main channel of retail sales of printed media in Russia. Their share in the total Russian sales is 60% in value terms.

The sales share of the growing media segment (supermarkets and hypermarkets) accounts for 25% in value terms.

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Share of Supermarkets in the Retail Press Distribution Market

This sector has seen active growth in recent years, and now it plays a major role in the entire sales not only in Moscow, but in all major Russian cities as well.

Provided that the Russian economy will develop according to the innovation scenario, by 2020 the share of modern retail frames, including supermarkets, hypermarkets, shopping malls and convenience stores will increase from 35 to 70%.

As before, in 2012, the fastest growing press distribution segment is supermarkets. The share of supermarkets is about 25%.

Since 2006, the segment has increased by 11%, from 14% to 25%.

How will this segment develop?

Against the background of the negative dynamics of the print media market, will the print products of FMCG networks be interesting?

Will the share of supermarkets grow further, together with the share of modern frames, in the retail turnover?

These are the questions we would like to ask you, ladies and gentlemen.

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Leading Subject Groups of Periodicals in Kiosks / FMCG Networks

The assortment of press in kiosks includes 500-700 names; in FMCG networks, it is relatively small, from 70 items in discounters to 350 in hypermarkets, and is represented mainly by magazines of the middle and high price category. Newspapers, socio-political publications and inexpensive mass market weeklies are usually not represented in the networks.

In terms of subject groups, there are significant differences in the assortment. The leading subject groups in kiosks are partworks (40% of sales), TV guides (12%), information and news media (newspapers and weekly magazines, 11%), for children (10%), for women (5%).

In supermarkets and hypermarkets, women's magazines (24%), TV guides (16%), partworks (13%), publications for children (7%), automotive publications (6%) are in high demand, information and news media accounts for only 5% of sales.

As the number of supermarkets grows and the number of kiosks declines (mostly, due to demolition), the product range at the press market will change:

- Circulations of information and news papers and magazines will fall not only because of lower demand, but also because of shrinking points of sale.
- The range of printed publications in the points of sale will decline, mainly publications of low and medium price categories.
- The range of partworks will decline in the points of sale.

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Pricing at the Russian press market

Pricing in Russia is free, and final retail prices are determined by sellers. Costs of sales process are borne by distributors. Distributors' extra charge varies from 21 to 40%, and that of retailers' - from 32 to 50%.

The publisher-distributor economic model in Russia is based on sales contracts, i.e. transfer of title to goods. Today, for networks, press is still attractive in the non-food segment. The average sale time of press is 18-20 days, while the payment deferral in networks is 90 days, sometimes 120 days. So, a network is able to turn the sale revenue few times and to use it for its own development.

In kiosk networks, the extra charge is 70-120%.

Costs of sales process in Russia are borne by distributors. The revenue sometimes is not enough to cover the costs of sales due to low market prices for periodicals.

The average retail price in Russia:

- Daily newspapers - \$0.47
- Weekly news media - \$1.5
- Glossy magazine - \$2.8

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Press distribution in supermarkets

The Russian market has some fundamental differences from the European one. They include:

- Work basis: purchase and sale contracts.
- Remission basis: repurchase agreements.
- Pricing basis: extra charges.
- No price indication on the cover sheet
- Merchandising is at the expense of distributors
- Supplier must pay for services when entering the network.

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Advantages of the Russian press distribution market in supermarkets

This system has its pros and cons. The shortcomings were mentioned above, and now I would like to highlight the positive aspects of the Russian market:

- Pricing and extra charges are at the discretion of distributors.
- Distributor is the owner of the goods.
- Variety of agreements and compromises with publishing houses and retailers.

- The rate of return is 25-30%.

In Russia, a publisher and a distributor do business on the basis of the contract of sale, i.e. when the goods are transferred from a publisher to a distributor, the publisher is no longer controls such goods. It cannot control either the retail extra charge, or delivery to retail outlets, or display places.

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Innovative Tools to Promote Press. 'Promotion Ring'

According to the Public Opinion Polls Fund, the Russians have become more efficient in their buying behavior, and their sensitivity to promotion actions, especially with special prices, has increased significantly. Over 70% of consumers are actively interested in promotion actions.

In order to increase sales, press distributors use new methods of promotion: cross-marketing or 'Promotion Ring' (the complement goods are displayed alongside each other).

The promo action idea is to bring together a retailer, a printed media distributor, a publisher, and a producer/distributor of subject goods in one promotion action carried out in supermarkets and hypermarkets.

Each party does the following:

A **retail network** ensures adequate amount of goods in the selling area.

A **publisher** produces a publication dedicated to the promoted goods (cover, feature articles, insertion).

A **distributor of press** delivers printed materials to the retail network.

A **manufacturer/distributor** provides advertising support for promoted goods in print press and ensures goods delivery to retail outlets.

Each party benefits from the 'Promotion Ring':

A **publisher** earns from increased sales of magazines used in the action, public awareness of the publication, inflow of advertisers.

A **retail chain** earns from increased sales of both promotional products, and magazines used in the action, higher customer loyalty.

A **distributor of printed materials** earns from increased sales of magazines used in the action.

A **manufacturer / distributor of goods** earns from increased sales of magazines, public awareness and customer loyalty to the brand, references in mass media.

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Governmental Support of the Press Distribution Market in Russia

In many countries around the world, including Russia, governments regulate their printed media markets.

In Russia, the governmental support is sporadic and inconsistent, in terms of both publishing business and distribution.

The governmental support in Russia includes:

- Subsidies to support subscriptions. 106 million dollars are allocated annually in order to keep the rates for delivery of printed products.
- Lower VAT on printed materials - 10% (standard rate - 18%). It applies to periodic print media, except advertising or erotic publications.

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Outlook

- Printed media sales will drop by 5-10% annually.
- Revenues will drop by 3-5% annually.

Solution:

- Governmental support for the industry.
- Development of multimedia technologies and frames of press distribution.
- Increased income of press distributors from diversified range of products and services.

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THANK YOU