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Rising Inflation Gives Boost to Russia's Discount Retailers

Surging prices and weak wages are a win-win for Russia's bargain stores, even as the wider economy slows.

By Jake Cordell

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Discount clothes chain Familia says it is well-positioned to benefit from high inflation. **Max Stoulov / Vedomosti / TASS**

Svetlana Mozhaeva, chief executive of the Familia discount clothes chain, pulls a ski helmet off one of the shelves of a central Moscow store and flashes the 1,500-ruble ($20) price tag.

"Look at that, it's an 85% discount!," she says.

As she checks the prices of everything from jeans and shirts to handbags and sports clothes while inspecting one of her 81 stores in the Russian capital, Mozhaeva's approach echoes that of the customers she calls "treasure hunters" — shoppers who spend hours scouring the racks of branded clothes to find a dream item at a knock-down price.

After seven years of economic crises and shrinking household incomes, it is a role that more and more Russians have been forced to take on — trying to maintain a comfortable standard of living as their pay packets and spending power shrink.

That dynamic has proved a boon for stores like Familia, a discount clothes retailer with a similar business model to U.S. chain TJ Maxx. Both buy end-of-season stock in bulk from major fashion houses, and resell it with a significant mark down.

"It sounds cynical, but our efficiency actually goes up in times of economic downturn," Mozhaeva told The Moscow Times. "Our figures show that the larger the dip, the greater the economic efficiency of our business. Although, it is important to add that we are well-positioned to thrive in any economic cycle."

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Now, with inflation running above 8% and independent surveys showing rising prices are Russians' number one concern, discount retailers like Familia are looking to capitalize on another round of belt-tightening, and say they are better positioned than their more expensive competitors to weather a period of accelerating costs.

"In volatile times, there are a lot of product offerings for us, since many traditional retailers make mistakes — first and foremost in forecasting, leaving a lot of stock leftover and priced well for us," Mozhaeva said. "In addition, customers rationalize their spending when times get tough and we see an influx of traffic from the higher price segments."

Familia reported revenue up 31% in the first nine months of 2021 compared with pre-coronavirus levels, and the chain has opened more than 57 new stores so far this year.

'Last resort'

Mozhaeva's optimism is shared by Dmitry Kirsanov, chief executive of Fix Price, another high street discount shop which sells a range of household goods including food, toys and cleaning products.

"In general I agree. Fix Price's flexible business model means we perform well in times of crisis, when the economy isn't doing so great, when there's inflation or other economic problems," he told The Moscow Times, saying the company's approach is to have "maximum stability and comfort in any macroeconomic situation — crisis or growth."

Earlier this year, Fix Price staged a $1.7-billion stock market debut on the London Stock Exchange (LSE) in the biggest ever initial public offering (IPO) for a Russian retail firm. Analysts pointed to pressure on Russian households as a big driver of the chain's rapid growth.

The chain has opened the equivalent of more than 10 new stores a week in Russia so far this year. Revenues are up 63% compared with 2019.

Rather than being a potential drawback, both Familia and Fix Price say their clear focus on price is helping them outperform their rivals at a time when inflation is running faster than at

any point in the last six years.

“We do everything we can not to raise prices on the shelves. If we realize we can’t sell the current product at its current price, first of all we work to change the packaging, color, design or size,” said Kirsanov. Around 75% of the products sold in Fix Price go for less than 100 rubles ($1.35).

“Raising the price of a good is a last resort. We have a reputation as the last retailer on the market to raise prices.”

While tinkering with products or reducing sizes is an option for Fix Price, which works directly with producers, clothes retailer Familia, which isn’t involved in manufacturing the products it eventually sells, says rising market prices increase its competitive advantage.

“Inflation only has a small effect on us. Sometimes in periods of explosive inflation, we benefit, because our pricing is based not on costs, but market prices,” Mozhaeva said. “If a traditional retailer raises prices, this helps us become even more price competitive, because we buy goods a little earlier in the cycle.”

Familia has typically “performed well” during periods of high inflation, she said, pointing to the 2015-16 economic downturn and devaluation of the Russian ruble. She expects no difference this time.

“Our costs are certainly growing — but the costs of traditional retailers are growing even faster.”

Fix Price’s Kirsanov said Russians’ shopping behavior has already adapted to the era of high inflation — a not unfamiliar feature of the Russian economy, which saw hyperinflation in the 1990s and the rate of annual price rises hit 17% as recently as 2015.

“At the start of the year we saw a negative reaction to rising prices, not just at Fix Price, but in the whole market. Now, the first shock of inflation has passed, customers have been able to study the market and have started to get used to higher prices.”

When prices first accelerated rapidly earlier this year, the share of essential goods in Fix Price’s sales mix shot up. But as customers have adjusted, demand has started to return across the board, he added.

‘Economic disaster’

Russia’s official inflation rate has doubled over the past year and is currently running at 8.1%. But perceptions of inflation are even higher than the statistical reality — especially for poorer Russians who spend a higher share of their income on food, which has been particularly volatile. Central Bank data shows that households with no savings — the majority — believe prices are rising at an annual rate of 18%.

The regulator has responded aggressively, hiking interest rates fast in a bid to kill off an “inflationary cycle.” Governor Elvira Nabiullina said earlier this week that rising costs were a “disaster for the economy that makes people poorer.”

Almost two-thirds of Russians cited inflation as the country's biggest problem in a recent Levada Center poll — ahead of the coronavirus, healthcare, corruption, education and a host of other hot-button issues.

Economists say inflation is just one factor sapping momentum from the Russian economy after an initially strong recovery after the first impact of the coronavirus.

In a recent research note, VTB Capital's chief economist Alexander Isakov pointed to higher interest rates on credit cards and consumer loans, a slowdown in wage growth — which is "becoming concentrated in particular sectors, rather than broadening" — and the fading effect of President Vladimir Putin's pre-election cash giveaways in September as already weighing on Russia's consumer economy.

The expansion of coronavirus restrictions and vaccine passports for entry into shopping centers and non-essential stores is also set to further hit the Russian economy in the final months of 2021 and into next year.

Related article: Russia Hikes Rates as Economists Warn of Triple Threat to Economy

But Fix Price's Kirsanov senses opportunities amid the slowdown.

"We strive to make any economic situation beneficial for our shoppers and for the company. For instance, conditions in the real estate market have become more attractive now, with fewer companies searching for new premises. That gives us more options to choose better locations to help new stores grow sales and show better results."

Fix Price makes only limited sales online, while Familia has no e-commerce presence, except for selling store gift cards — another way in which the two discount retailers have bucked the wider trends of Russian retail, which has seen explosive digital growth since the start of the coronavirus pandemic.

But both say that despite short-term obstacles like a further round of anti-coronavirus measures, they are set up to succeed during a period of stagflation — low growth and high inflation — which could beset the Russian economy.

"As people save more or cut spending, they come to us," said Mozhaeva.

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