

# Case studies (continued)

## Expansion of the My Price soft discounter chain

In 2022, Magnit opened more than 500 My Price soft discounters across 62 regions of Russia. The new stores feature an area of 100–300 sq. m, easy-to-navigate zoning and an assortment of about 2,000 SKUs.

The new soft discounters were launched both in large cities and small towns with a population of up to 2,000 people, helping to improving the availability of products and enhance food security. Most stores opened in Tatarstan, the Chelyabinsk region and Krasnodar territory, and their total number went up to as many as 700 discounters.

Soft discounters offer a variety of special price value packs in the following categories: fruit, vegetables, dry foods, dairy, confections, baby food, drinks, pet food, household chemicals, and others.

This store format is popular with customers and meets the prevailing trend of lean consumption. Its prices are on average 15% lower than those in convenience stores, and may be 30–40% lower in some product categories. The soft discounters also benefit from optimised headcount (an average of up to 5 employees compared to 11 employees in convenience stores, without compromising the

quality of service) and improved efficiency of retail space utilisation, which helps them save costs on purchasing additional equipment. The discounter segment is underpenetrated in Russia compared a number of other developed markets where they are often seen as market disruptors, providing considerable room for growth. In 2021, hard discounters had 3.3% penetration in Russia, and their share is expected to grow to around 11% by 2025<sup>1</sup>. Given the continued contraction of the real disposable income of households in Russia since 2012, the macroeconomic conditions are also conducive to the development of this format. Discounters fit well in small and remote locations, where opening a convenience store may be inefficient, and where consumer income is lower than average.

Approximately 20% of the My Price sales come from Magnit's private labels. Going forward, we plan to increase their share to 50% and launch a dedicated range of private labels for our discounters.

**40%**  
less investment in new discounter openings vs similar-size convenience stores

**52%**  
LFL sales growth in 2022

**x2**  
higher sales density vs first launches

### 2022 performance

- ▶ Higher sales productivity despite the limited product offering.
- ▶ Better merchandise margin vs convenience stores thanks to a significant share of private labels.
- ▶ Higher profitability of discounters converted from convenience stores vs their performance as convenience stores driven by higher sales density and lower SG&A.
- ▶ Higher inventory turnover owing to the assortment of highly rotated products.

<sup>1</sup> Alfa-Bank, INFOLine, December 2022.

## Efforts to streamline logistics

For a retail business of our scale, efficiency in logistics is a key success factor. In 2022, we focused on achieving logistics efficiency gains and tested new logistics formats, which may soon become industry best practices.

### Product deliveries via the Northern Sea Route

In November 2022, Magnit became the first Russian grocery retailer to test the Northern Sea Route. Six 40-foot containers with goods were shipped from China on a Russian Arctic container ship, Monchegorsk, directly to a port in St Petersburg.

Following the test shipment, Magnit evaluated the economic effect of launching the new

logistics corridor and is currently fine-tuning operational processes as needed. Regular shipments via the Northern Sea Route may begin as early as spring 2023.

Potentially, Magnit can use the new logistics corridor to source large quantities of nonfood products from China and other Asia-Pacific countries and distribute them across its major logistics hubs in central and southern Russia.

### Supply chain logistics improvement

The Company and its partners embraced an end-to-end supply chain to streamline product shipments in a meaningful way. Magnit took over part of the suppliers' logistics functions to increase delivery speed, improve inventory turnover and reduce distribution costs.



**~30**  
days delivery time

**10 days**  
faster delivery vs intermodal runs

**up to 15 %**  
cost saving for Magnit

**>5.5%**  
of potential average cost efficiency gains across some product categories

Cost savings in logistics unlock additional opportunities for lowering the price of products, thus improving their affordability and value for customers. The end-to-end supply chain helps harmonise all logistics processes from manufacturer to buyer, while also reducing inventory levels, improving delivery times and increasing turnover.