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# Foreign market entry strategy for the Russian retailer Magnit

Final project paper by

4rh year bachelor student

«International management» program

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## The statement about the independent nature of annual course work.

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# Introduction

Nowadays companies especially actively strive to grow not only the number of services they provide or goods they produce but also their presence on different geographical markets. Depending on the type of market strategies might be very different. Moreover, massive trade liberalization and financial integration, as well as technological advances, have made globalization easier and more affordable for companies.

Basing on Forbes article[[1]](#footnote-1) there are 5 most important reasons why companies internationalize:

1. Increased sales are possible ­or a must.

2. Diversifying firms activities ­and the risks that come with it

3. Increasing its connection to its customers

4. Labor production or supply­cost reduction

5. Compensating for a fall or saturation in the home market

I have chosen Magnit company for my further analysis as they have strong logistics system and low cost of opening a store in comparison with other retailers. For Magnit reasons for internationalization mean that company may increase their sales by entering new market, however, they are already a quite successful company. Other four factors are also applicable to the case of Magnit. According to the company’s site, Magnit is a unique retailer in Russia. In addition to selling products, the retail chain sells food under its own brands. Several vegetable, grocery, and confectionery businesses are owned by the company. Magnit is the owner of one of Russia's biggest greenhouse and mushroom complexes. The logistics system of the organization consists of 38 distribution centers and about 4,400 vehicles.

Moreover, Magnit is a chain of small supermarkets with a low price policy. If we take into account the low PPP rate of Belarus, Kazakhstan and Ukraine, we can conclude that the goods of this category are most in demand by the population of these countries. Unlike Azbuka Vkusa, Magnit occupies a price niche which is in demand in the above countries and has a better chance of success with internationalization. It should be emphasized that it is much easier and demands lower investments to develop a chain of small stores in a new market, unlike a chain of hypermarkets such as Metro, Lenta or Okey, therefore Magnit was chosen to enter the market of Kazakhstan and this choice will be justified in comparison with other CIS countries in second chapter of my work.

The logistics system of Magnit is very strong and can potentially hold more workload that it holds now. That fact pushed me to choose this topic as Kazakhstan, Belarus and Ukraine potentially can be integrated into logistics system of Magnit.

To sum up, due to large volumes and efficient logistics, Magnit can provide high price competitiveness, which is especially important for new markets occupied by other players. In addition, their small store format allows for diversified point investments in selected locations and avoids significant one-time investments in insufficiently explored markets. For example, if it is necessary to close a store due to an unsuccessful location, their losses will be less than they could have been for a chain that operates in a hypermarket format. This makes it possible to diversify the risks of entering new little-studied markets.

Important to mention that when it comes to entering international markets, retailers have been found to stick to their business models (Roberts 2005). That fact will be evaluated as effective or not for Magnit in further parts of my work.

In this work I made an analysis of three major markets which are geographically and legally close to the Russian Federation market. These geographical markets are Kazakhstan, Belarus and Ukraine. Further I will provide analysis of Magnit company and industry it operates in, literature review and analysis of each chosen market as well as justified choice of the entry market with solutions and recommendations on how to internalize Magnit efficiently.

## Object and subject of analysis

Object of this work is Magnit retail activities which might be expanded to the Kazakhstan market. Subject of the paper is to analyze internal and external environment of Magnit as well as Kazakhstan and competing markets in terms of geographical location and legal restrictions and make literature review in order to give necessary recommendations on how to improve Magnit efficiency and how it will affect company in terms of profitability and improving logistics processes.

## 

## Goal of the project

This work is a consultancy project for retail industry company and the main goal is to elaborate recommendations on internationalization of Magnit into Kazakhstan market. The following objectives should be completed:

1. Analyze internal environment of Magnit and identify its current competitive positions

2. Analyze retail industry and market environment in CIS

3. Analyze chosen country market and legal specifications

4. Conduct literature review on internationalization strategies

5. Provide recommendations on strategy development in internationalization into chosen country

6. Evaluate costs of internationalization

7. Evaluate risks that might arise on the new chosen market and provide recommendations on how to lower them

## The paper is consisting of 3 parts:

- Chapter 1 is focused on the analysis of the company and the industry;

- Chapter 2 is focused on analysis of CIS geographical markets and analysis of the chosen country

- Chapter 3 is focused on the literature review of internationalization strategies, provides recommendations for the company about internationalization into the chosen market and evaluates and loweres potential risks

I used primary and secondary sources in this diploma thesis. As for secondary sources I used academic literature, databases mentioned in reference list and different articles. Primary source is annual report and official presentations of Magnit.

# Chapter 1: analysis of PJSC Magnit company and industry it operates in

## **Description of PJSC Magnit**

By number of stores, selling space, revenue, growth rate, and efficiency, it is Russia's largest food retailer. The first “Magnit” convenience store opened in Krasnodar in 1998. The “Magnit” supermarket chain has evolved to become Russia's biggest grocery store 15 years later (in 2013). “Magnit” has risen to the top of the national sector. The chain has 9 020 locations in 2 019 Russian cities. The bulk of the stores are in the Federal Districts of Southern, North-Caucasian, Central, and Volga. The North-West, Urals, and Siberian Federal Districts are all included in the geography. Markets are being opened in both major cities and rural towns. Two-thirds of the stores are situated in towns with a population of fewer than 500,000 residents. The delivery network infrastructure includes 25 distribution centres, an integrated product replenishment system, and a truck fleet of approximately 5,674 cars. Magnit is the main food importer on Russian Federation soil. In 2020 Magnit’s revenue was about 21,510,076 000 USD, EBITDA around 2,417,545 000 USD with Net income equal to 456,750 000 USD. Magnit is a reputable and stable supplier for national farmers and international firms, supplying large quantities of fresh fruits and vegetables, meat and milk products, canned food, supermarket and confectionery, frozen fish and seafood, as well as nonfood products, to minimize costs. Magnit is one of Russia's biggest employers. The company's overall headcount is approximately 300000 people.

## **History of PJSC Magnit**[[2]](#footnote-2)

From 1994 to 1998

Tander, a wholesale distributor of cosmetics and household cleaning products, is founded by Sergey Galitskiy. The wholesale company grows fast, and it soon ranks among the top ten Russian distributors of cosmetics, cleaning supplies, and perfumery objects. As a Cash&Carry operator, the company enters the grocery distribution business.

From 1998 to 2001

The “Magnit” brand (an acronym for “Magazin Nizkikh Tarifov,” a low-tariff store) debuts, and the chain begins to grow under the new name. The company launches Selta, its first private label range, and Magnit moves to a discounter format. Magnit opens its first 160 stores, making it one of Russia's biggest supermarkets by store count.

From 2002 to 2005

In Kropotkin, Krasnodar area, the first fulfillment center is built, and all stores are remodeled as convenience stores, which is still the company's primary format today. At the end of 2005, the store chain had grown to 1.5 thousand locations. Magnit discontinues its wholesale market of cosmetics and household cleaning supplies in order to concentrate solely on its retail activities.

From 2006 to 2009

The Company's initial public offering (IPO) on the London Stock Exchange is completed. Magnit is named the world's fastest-growing business by Deloitte, and new models, the Grocery and Hypermarket, are added. The company completes secondary public offerings (SPO) on the London Stock Exchange and uses the proceeds to expand its retail network.

From 2010 to 2015

Magnit Cosmetic is the company's first drogerie department. In the Krasnodar city, the company opens the Zelenaya Liniya Greenhouse Complex to grow its own vegetables and greens. Magnit became Russia's biggest private employer, a position it holds to this day. Magnit Family is a modern format that has been developed. Magnit is the world's largest retailer in terms of store count, retail space, performance, and sales volume. Magnit has a market capitalization of more than RUB 1 trillion on the Moscow Stock Exchange. Magnit Cosmetics becomes Russia's biggest drugstore chain. Magnit retailers begin accepting credit cards, and the first self-service checkouts are introduced. Magnit stores number in the tens of thousands. The company begins construction of its own industrial park, Krasnodar Industrial Park.

From 2016 to 2018

Magnit Pharmacy and Magnit Cash&Carry are two new formats that have been introduced. Murmansk receives the Company's 37th distribution centre, the first outside the Arctic Circle. In the Krasnodar area, Magnit opens its own champignon mushroom growing facility. Sergey Galitsky resigns after VTB Group buys 29.1% of Magnit's stock. The plan for growth until 2023 is addressed. Kubansky Kombinat Khleboproduktov, the first occupant of the Industrial Park Krasnodar, begins operations. Magnit Cosmetics has evolved to become Russia's largest cosmetics and perfumery retailer.

2019

Jan Dunning has been elected President and Chief Executive Officer of the Group. Magnit launches a new cross-format brand for all of its stores. The 20,000th Magnit grocery store and the 5,000th Magnit beauty store both open their doors. Konditer Kubani, the second occupant of the Industrial Park Krasnodar, has begun operations. The superstore and Magnit City are two new formats that are being tested. Magnit announces the introduction of a multi-format loyalty platform. Magnit is a partner of the Russian Football Union and the Russian National Team. Start of the "Freshness" Chain, a new logistics strategy.

2020

The reward scheme has been fully implemented in all of the Company's markets. Partnership with P&G to develop Russia's largest reverse vending machine network. Magnit's Executive Officer, Florian Jansen, has been hired, and the company's large-scale digital transition has been accelerated. Up to 2025, the Sustainability Plan will be implemented. The MGNTech corporate accelerator was launched to find new concepts. The first My Price discounters open their doors. Start of six internet distribution programs leveraging both in-house and supplier capabilities in the development of e-commerce and e-pharma. Novosibirsk gets a new delivery center, and Voronezh gets a revived one. Adherence to the United Nations Global Compact. The opening of a metropolitan Magnit Convenience Store. The ERP transition program's deployment stage has begun. The first thematic superstores open their doors. The Green Office scheme is officially launched. The Republic of Ingushetia's first stores open their doors. Magnit Pay is now available. Relex Solutions' software was used to incorporate a single forecasting and replenishment framework.

## **Board of directors structure of Magnit**

General Meeting of Shareholders

Corporate Governance Department

External Auditor

Sole Executive Body - CEO

Internal Audit Department

HR and Remuneration Committee

Audit Committee

Board of Directors

Audit Commission

Strategy Committee

Capital Markets Committee

Collective Executive Body - Management Board

Accountability Election, establishment Administr. subordination

According to the company's site[[3]](#footnote-3), the supreme governing body of the Company is the General Meeting, at which all shareholders of the Company are represented. The Board of Directors, which is elected by the shareholders at the general meeting and is accountable to them, exercises strategic control and controls the activities of the executive bodies: the General Director (Chairman of the Management Board) and the Management Board.

The executive bodies carry out the day-to-day management of the Company and perform the tasks assigned to them by the shareholders and the Board of Directors.

The Company has established reliable systems of corporate governance and internal control of its financial and economic activities in order to protect the rights and legitimate interests of its shareholders.

The Board of Directors has an Audit Committee, which, together with the Internal Audit Department, helps the management bodies to ensure the effective operation of the Company, including the organization and functioning of the internal control and risk management system. The Audit Commission monitors the Company's compliance with regulatory legal acts and the legality of operations.

To verify and confirm its financial statements, PJSC Magnit engages an external auditor who has no significant interests in the Company or its shareholders.

The Board's Human Resources and Remuneration Committee makes recommendations on key appointments and incentives for management.

The Capital Markets Committee of the Board of Directors was established to ensure high-quality interaction with investors, coordinate the Company's efforts to protect the rights and interests of shareholders and provide information about the capital markets to the Board of Directors.

## 

## **The market Magnit operates in**

Following France and Germany, Russia is Europe's third-largest retail trading market. Today, retail trade accounts for around 16 percent of the country's GDP, making it one of the most important sectors of the economy. In December 2020, Russia's retail trading turnover equalled to 3 547.674 RUB bn[[4]](#footnote-4). Potential retail market growth to the end of 2021 is 2.2 trillion RUB[[5]](#footnote-5). According to “INFOLine,” the top ten big FMCG chains in Russia (including “X5 Retail Group”, “Magnit (Magnet)”, “Auchan Retail Russia”, “Lenta (Ribbon)”, “Dixi”, “Metro Group”, “O'key”, “Krasnoe&Beloe (Red&White)”, “Globus” and “Monetka (Little Coin)”) account for 29.3 percent of the food As Ivan Fedyakov, General Manager of “INFOLine,” points out, Russian FMCG companies have grown large and new, and can now compete effectively, especially with foreign retailers.

According to McKinsey report[[6]](#footnote-6) there are changes and challenges on the Russian retail market. For a multitude of causes, the Russian financial crisis has caused chaos on consumer-goods margins. For one thing, a weakened ruble ensures less raw materials can be imported, increasing the cost of products sold. Retailers have increased their sales activity significantly. Consumers haven't been able to pass on increased prices, and any price rises have been outpaced by inflation. Manufacturers' profits have been squeezed ever further by the rise of modern commerce, which is a lower-margin industry for them. Modern retail now accounts for 68 percent of the Russian grocery industry, and it is expected to continue to expand. Consolidation of modern grocers persists, with the top five grocery retailers holding a total market share of about 27%, up about 6% between 2014 and 2016. The soft-discount style, which already has a 22 percent share of modern trade, is the country's fastest growing and most lucrative modern format: Russia has 112 soft-discount stores per million people, which is the third-highest density among European countries.

Another source[[7]](#footnote-7) states that in recent years, the share of new formats in the Russian food retail industry has increased considerably, reaching 73 percent. However, in emerging markets such as North America, Western Europe, and Australia, where new formats account for 87 percent, 81 percent, and 81 percent of the food retail industry, respectively, this level also falls short. We expect that one of the growth factors in the years ahead would be the proliferation of new retail formats. In 2015, modern formats accounted for just 64% of the food retail market; by 2018, that figure had risen to 73%. Although this represents significant expansion, new retail models are projected to gain much more ground in the coming years, with an estimated 82 percent share of the overall Russian food retail market by 2021.

Due to the COVID-19 pandemic, there was a drop in foreign traffic in early 2020 as a result of quarantine measures in China and other countries, shipping lines reduced container ship tonnage by the summer of that year. Trade imbalances between Europe and Asia, as well as between North America and Asia, remained, resulting in a container machinery shortage in Asia. Remember to factor in the seasonal rise in the number of goods exports by container from Asia during the autumn-winter season. All of the above developments have resulted in a significant rise in the cost of sea and rail freight on foreign routes between Asia and Russia and other areas. Many lines, primarily from the Asia-Pacific region and South Asia to North America and Europe, have seen a rise in the cost of container freight shipping, with an increase in both ocean services and multimodal and direct rail shipments from Asia to Europe. This fact directly impacts retail industry in Russia and pricing policy among retailers, thus it impacts PJSC Magnit.

## **Magnit Business Model Canvas**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Key Partners**  Investors  Subsidiaries  Suppliers  Vendors  Farmers  Manufacturers  Brands  Financial  institutions | **Key Activities**  Procurement  Logistics  Distribution  Supply chain activities  Pricing  Negotiation with vendors  Customer service  Customer data processing  Payment processing  Marketing  Campaigns  E-commerce operations  Human resources  R&D | **Value Propositions**  To save people's money  To provide customers with fresh goods | **Customer Relationships**  Benefits for the loyalty program card owners  Online catalogue  Online shopping  Self Service  Automation  Convenience  Customers service | **Customer Segments**  Mass market in grocery  Mass market in cosmetics  Mass market in pharmacy |
| **Key Resources**  To sell fresh products for the low price strategy  300 000 employees  Logistics network (38 distribution centers (DC) throughout the country, with a total area of more than 1.7 million square meters, as well as our own fleet of about 5,700 trucks)  Production of food products under its own brands  Growing vegetables, producing groceries and confectionery  Greenhouse and mushroom complex, which are among the largest in Russia  21,564 retail stores in 66 regions of Russia | | **Channels**  Convenience Stores  Supermarkets  Drogerie  Online shop  Social networks  Events  App Store  Google Play | | |
| **Cost Structure**  Cost of goods  Logistics and Distribution  Stores maintenance  Inventory management  Advertising  Customer Q&A  Taxes  Salaries  Infrastructure and distribution network | | **Revenue Streams**  Retail Sales  Online Sales  Advertising fees | | |

The business model canvas would be used to represent the existing business model of the Magnit group. This method was selected because it allows the company's business model to be divided into many parts, each of which will be represented in a more ordered manner. This tool is also useful for identifying areas that can be strengthened or updated before entering a new market. Furthermore, it can assist in revealing a direction on which to develop a new approach or a new market, as well as offering a mixture of parts in the realization of economic benefit on the new market.

## Key Resources, Activities and Partners

Magnit is Russia's biggest employer, company employs 308 thousand people, created 10.7 thousand of jobs and 65 thousand of employees were trained by Magnit.

Magnit's own manufacturing facilities are scattered throughout the country in six areas, where the firm has developed new greenhouses and industrial complexes. Magnit is responsible for delivering the best goods to any customer within its service area. Through using more eco conscious vehicles and speeding up the distribution process, the organization is reducing the environmental effects. Magnit keeps track of each product's path to the shelf and ensures quality control at each point. To ensure that local neighborhoods profit from the organization's operations, the company collaborates with local vendors, creates opportunities, and organizes employee education.

Magnit is Russia's leading retailer in terms of consumer proximity and regional scope. In the Russian Federation, Magnit shops can be found in 3,742 cities and townships. The stores range from Bryansk to Krasnoyarsk in the west, and from Murmansk to Vladikavkaz in the north. The Southern, North Caucasus, Northern, and Volga Federal Districts have the most shops. About two-thirds of the Company's shops are in towns with populations of fewer than 500,000. Magnit also has a presence in townships with a population of 3,000 or more inhabitants.

Magnit makes cooperative schedules and predictions with suppliers, optimize procurement sizes, produce the right goods at the lowest expense, and negotiate favorable business conditions by working closely with them. Supplier conferences are held by the organization to exchange strategies and create a cohesive approach to dealing with different challenges in retail in order to establish close relationships. More than 350 manufacturers attended the “On the same wavelength” conference in 2019 to discuss market developments and accomplishments. During peak season and intensive advertising activities, the organization exchanges details with vendors and associates to promote close collaboration. Closer coordination also allows for a more coherent and transparent preparation process over a three-year term.

Magnit unveiled the one-of-a-kind "Implant" project during the reporting year. Magnit allows staff from major vendors to work from its offices so that both parties can collaborate together and analyze operations from both internal and external perspectives. The business piloted this project with Baltika, a logistics and supply chain management specialist, in 2019. Following that, big collaborators Procter & Gamble and Danone joined the program.

Magnit released its digital portal at the end of 2019 with Microsoft's technological assistance and in cooperation with Aggregion, where retail market participants will track and download anonymized data focused on over a hundred criteria and thousands of products. Local and foreign marketing agencies and brands are targeted by the network. It will allow for the tracking of a customer's journey from the first mention of the brand to the final transaction. Magnit intends to expand the platform's capabilities and add tools for automatic segmentation and targeting in the future. Customers will benefit from the app as well, as they will get a more customized product deal.

Magnit's emerging innovations and projects include cooperation with vendors on analytical instruments. Via a special portal, the company offers sophisticated analysis to vendors for distribution, marketing, and logistical preparation. This knowledge is given on a brand-by-brand basis. Forecasting with main vendors and collaborators focused on shared results. The project assists in the optimization of the entire supply chain by enhancing order forecasting accuracy, enabling manufacturers to schedule their production and logistics accordingly. In December of 2019, a digital marketing initiative was introduced. The tool will be used to define target audiences on websites like VK, Yandex, and Odnoklassniki, as well as Facebook and Google, and to serve tailored ads to each of these groups depending on the criterion selected. Machine learning-based estimation of promotion efficacy. We aim to create a single service that can be used for a range of items, including product reservation, pricing, marketing management, product availability evaluation, modelling, and so on. Project to determine stock levels, which will help us to identify and respond to sales anomalies in real time. Machine learning and predictive analytics are used to optimize the entire ecosystem.

In 2019, Magnit was the one to launch digital contracts with suppliers. The verification time has been slashed from 40 minutes to just 2 minutes. In addition, the Company verifies contracts using electronic signatures. Magnit deals with over 6 thousand vendors, so a simple and easy paper flow process is crucial.  During the pilot project's four months, 700 vendors entered the scheme. For the next ten years, the aim is to save more than 1 million working hours. Magnit's automated contracting framework was named "The Best Innovative Case" at the Efficient Consumer Response (ECR) competition.

## Channels

Magnit runs a multi-format business model with the goal of satisfying all major consumer demand. All formats run under the same name, with the same product and service standards and a similar loyalty scheme. This combined model is referred to as one brand – multi-formats. Multiple formats enable the Magnit Family of Stores to capitalize on synergies, provide differentiated offerings, and improve overall consumer loyalty. Meanwhile, One Brand guarantees that consumers remember you and that you are well-known to all markets. Cross-format branding promotions, cohesive loyalty scheme, and a special cross-category private label assortment built on Magnit's own high-quality manufacturing capabilities are all based on this customer-centric approach.

The most common format is Magnit Convenience, which is a grocery store for daily shopping with a wide selection of the most popular food and non-food items at reasonable prices. New dairy products, fruits and vegetables, pasta, dried foods, flour and confectionery products, and household cleaning products are all available here. Magnit is the biggest and most available supermarket chain in Russia in terms of regional reach, with outlets in both cities and rural areas. Small pilot stores like Magnit City and Magnit Evening are also convenience stores. Thus, Magnit Evening format provides a wide range of alcoholic and non-alcoholic beverages from a number of local manufacturers, private labels, and imported brands. Basic food options from the fresh and ultra-fresh types, desserts, confections, and non-food staples make up the rest of the assortment.

Magnit Family Supermarkets, which have a greater selection than convenience stores, are conveniently situated in suburban and commercial districts, as well as shopping centers, within walking distance. This format stresses the customer's convenience and a friendly retail experience while preserving reasonable pricing for the whole assortment. Superstores are small city hypermarkets that have new, high-tech retail for the whole family. They are spread across the city. Such stores provide a larger selection of items in all categories, including Magnit's private brands, concentrate on new and ultra-fresh products, have useful amenities, provide dedicated children's and healthy living departments, and provide their own cafés and food products cooked in-store. Magnit Cash&Carry is targeted at individual consumers and small companies looking to make bulk orders at low rates. In 2017, the organization began developing the Cash&Carry format.

The drogerie style refers to the Company's non-food outlets, which debuted in 2010. A beauty store's selection covers mass-market make-up and personal care pieces, as well as private brands, cleaning goods, perfumes, health products, and household objects. These shops are conveniently situated near your home or office, making everyday shopping a breeze.

The Company introduced the Pharmacy format in 2017. Affordable costs, simple navigation, a comfortable and accessible view, and staff that can assist with product selection are only a few of the benefits. Apart from pharmaceuticals, the range covers prescription makeup, family goods, beauty and personal care products, baby food, medical products, and seasonal offerings, among other things. Stores with a basic range in Russian post offices, and rural regions with a population of fewer than 3,000 people, and shops with basic food and non-food items at gas stations, are examples of ultra-small format stores.

## Value Propositions

Magnit aims to transform its business in a strategic manner to consumer conditions and challenges in order t o ensure continuous high quality, this involves adjusting assortment to customer demands and upgrading capability in the processing, distribution, and storage of fresh and ultra-fresh items. Magnit is the only retailer in Russia that can manage food output from field to plate due to its own greenhouses and agricultural facilities. Magnit is launching a CVP (customer value proposition) for various customer formats in order to keep up with current trends. In 2019, the organization launched a cross-format loyalty platform that helps it to treat customers directly, taking into account all of their needs. During the year, Magnit also initiated e-commerce ventures in Krasnodar and Moscow. The company aims to provide goods at fair prices for budget-conscious customers, and it continues to be a sales pioneer in this category. Magnit, in particular, has implemented a programme of exclusive discounts for seniors since 2018.

## 

## Customer Relationships

Magnit has loyalty program, which helps members to get special bonuses and earn points for their next purchase. Magnit created an interface where consumers can access their account, view all of their orders, see all of their accrued points and how to spend them and see what's at stock in a specific store. Customers will also vote on their favourite foods and comment about foods they don't want, which is beneficial to Magnit because it helps to increase customer service.

Magnit has social media accounts on Instagram, Twitter, and Vkontakte, in addition to the app, where consumers may comment about the food they didn't want. Magnit takes all complaints seriously and always compensates consumers if the complaints are warranted. Magnit's online presence helped in the growth of two-way, dialogic interaction, enabling them to increase interest in their organisation, raise awareness and information about it, and strengthen communication between the public and the group, promoting trust and respect.

## Revenue Streams

Magnit gets its revenue predominantly from sales from their retail chains (Magnit near home, Magnit Family, Magnit Pharmacy, Magnit Cosmetic, Online Pharmacy).

## Customer Segments

Magnit's fast growth has resulted in the emergence of new consumer groups. Magnit's target audience is now very hazy. However, there are elderly and young people who are worried about getting fresh food at a reasonable price, as well as people shopping for medicines (Magnit Pharmacy) and cosmetics (Magnit Cosmetic). It's also worth noting that Magnit goods are less costly than the typical retail price, making them available to those of middle and low incomes. Furthermore, since Magnit provides delivery services and builds their brand, businesses who want to offer fresh food to their staff and people who don't have time to prepare become their customers (Magnit Delivery, Magnit Wholesale).

## Cost Structure

The bulk of a company's expenditures are based on the construction and renovation of its stores, as opening a new store costs between $60,000 and $75,000. The company also spends a lot of money on publicity and advertisement. Magnit, on the other hand, does not waste any time searching for potential vendors because, due to the company's market name, suppliers discover them on their own, and Magnit also sets the terms of the deal.

## Magnit's Business Strategy

Magnit conducted a quarterly strategic review in October 2019 during which the emphasis turned to productivity and the group reconsidered its growth goals and capital allocation approach. Magnit examined its investment process, particularly the store opening scheme, and made improvements to all elements in order to ensure an acceptable return profile and a stable financial position. Via the deployment and modification of CVP, the company remains entirely committed to meeting consumer needs. Magnit is focusing on addressing and strengthening key market end-to-end systems while also enhancing cross-functional coordination to ensure successful decision-making.

Magnit will invest in human capital development, private label offerings, direct imports, and IT technology upgrades and modernization to improve business processes. The organization is taking the first steps in creating an omnichannel concept based on emerging developments and the overall consumer path with all related instruments allowing to recognize consumers and their usage habits, structure proper advanced analytics and personalization, and enrich the overall OMNI experience with numerous future ecosystem components. To allow this, the organization successfully launched a multi-format loyalty platform in the first quarter of 2020.

Magnit's strategy is focused on delivering fundamental changes in the value proposition for customers, and the company has adopted a customer-centric decision-making approach. The organization is attempting to thoroughly comprehend customer desires in each area and adapting its strategy to satisfy those needs. Magnit wants to change its image with consumers from that of a low-cost supermarket to that of a vendor of the best quality at the same price. They're doing so by revamping corporate practices in order to get a greater understanding of their customers and get decision-making closer to them. Based on these insights, the organization plans to invest in private label, direct import, and local goods in order to enhance shelf supply, consistency, and freshness. Around the same time, Magnit would guarantee that a good variety of entry-level goods is maintained to ensure that new existing buyers are well represented. Magnit is now focused on enhancing customer experience by ensuring that staff have high levels of friendliness and approachability. The business is now introducing this well-defined CVP, which will be tweaked on a daily basis based on consumer reviews to address evolving customer needs.

Magnit is investing in end-to-end enterprise process optimization to increase operational performance. The company is concentrating on optimizing the implementation of key business functions, such as workflow optimization, streamlining cross-functional collaboration, end-to-end analytics, and open cross-functional connectivity. Magnit also hopes to introduce more successful IT technologies in the medium term.

Magnit has a variety of key strengths and distinguishing characteristics from which to develop. The company can retain its strategic advantages, which include the country's widest regional coverage and supply chain network. Around 20 thousand stores in 3.7 million cities and townships; 38 logistics centers; over 5,700 trucks; and a special direct import infrastructure and own manufacturing plants make up the operating model. All of these assets combine to create a structure that will enable the organization to become the efficiency leader.

Customer interaction across digital media is growing every year as emerging platforms become more widely adopted, opening up new possibilities for finding and engaging with consumers, as well as optimizing overall processes. Magnit is developing new digital and big data capabilities, as well as expanding its digital team, in order to maintain an omnichannel partnership with consumers – an integral aspect of the company's long-term strategy – and to improve operations. Magnit successfully launched a multi-format loyalty platform in the first quarter of 2020 to allow this.

## **Need for internationalization**

It's vital to know if the organization can internationalize at all before proposing a specific business strategy on a new market. Magnit's expansion opportunities will be measured using Solberg's method, which incorporates two factors: market globalization and internationalization readiness.  This framework was selected because it helps to see if business has the ability to succeed in a global market and what sort of plan you might use to internationalize.

Since retailers are capitalizing on opportunities to grow into new markets, the retail sector, in which Magnit operates, may be considered potentially multinational. Retailers are reducing their reliance on the domestic market and seeking to reach into more lucrative international markets. Retailers now have access to a new client base as well as new resources as a result of globalization. As a consequence, it can be argued that the supermarket sector is globalized. Magnit, on the other hand, exists in a niche retail market, that of low-cost, fresh goods.

Food and cosmetics, which are two of the Magnit's main products, are more culturally bound, making this industry more local. Magnit's vendors are also predominantly from Russia. To conclude, such an industry may be called ready for globalization because retail is extremely globalized, and globalization is advantageous, but Magnit operates in a niche market, making the industry more local.

The company's preparation for internationalization will be measured in order to further explain Magnit's need for globalization. Magnit has little international background yet, with the exception of foreign vendors. To conclude, considering the fact that Magnit possesses many attributes that contribute to their internationalization preparation, they are insufficient since Magnit lacks a proper international footprint and is not internationally identifiable. As a result, Magnit's maturity level is somewhere between adolescent and mature. Also  the system reveals that Magnit has two internationalization choices, based on the degree of business globalization and the company's preparation for internationalization. As a result, Magnit should either consider international expansion or prepare for globalization. Finally, Magnit should accept internationalization.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Industry Globalism | | |
| Local | Potentially Global | Global |
| Preparedness for internationalization | Mature | Enter new business | Prepare for globalization  Magnit | Strangthen global position |
| Adolescent | Consolidate export markets | Consider expansion in international markets | Seek Global Alliances |
| Immature | Stay at home | Seek niches in international markets | Prepare for a Buyout |

***Solberg nine strategic windows (Solberg, 1997)***

### Conclusion on Chapter 1

The first section of the paper was devoted to introducing the Magnit organization. Many principles and structures were used to provide understanding of the company's internal climate, to explain which variables and parts of the internal market environment may be used in new international business models, and to build understanding of the Magnit company's business philosophy and nature. For the Russian market, the organization is very ambitious.  They provide significant value not only to their clients, but also to all of the partners with which they work. Magnit has a broad supply chain, and all of its vendors follow Magnit's specifications. Company appeals to a wide variety of consumers in the market of fresh and low-cost foods. This strategy enables them to succeed effectively in the present market and to expand efficiently when adapting to the ever-changing external climate. Magnit also benefits from the country of origin influence, as Russians have a high level of confidence in local grocery producers. Furthermore, amid all of the challenges, the management board's capabilities and skills have contributed to this performance on the Russian market. Magnit has a reputation for being a trustworthy, accessible, and fair organization that cultivates long-term relationships with all of its stakeholders. Even if some of the company's key advantages are fixed to the Russian market, a review of internal factors indicated that the company has scope for growth on the international market. Goods, management expertise & talents, public picture, and information technology are all can be moved to the new markets.  All sustainable competitive advantages proved to be very successful on the Russian market, and thus, entering a similar market may have the same impact for Magnit.

To sum up, Magnit should think about spreading geographically or preparing for the globalization. Because of the degree of business globalization and the company's readiness for internationalization, the Solberg nine windows revealed that Magnit should think about internationalization. It demonstrated that the organization could consider entering other markets and justifies the need for new market business model creation. The following pages of the project would concentrate on market assessment and research. The research would reveal the market's distinctive characteristics, which will be used to create the business model.

# 

# Chapter 2: Analysis of CIS geographical markets and analysis of the chosen country

## **Countries among which the choice on internationalization will be made**

Magnit products have a country of origin impact that can be used to improve a Russian brand's placement on the international market, but Magnit currently has little foreign experience, suggesting that they lack adequate business awareness. In order to be successful, Magnit should focus on sectors that are culturally relevant with a favorable mindset toward Russian firms in order to increase positive benefits from this impact while mitigating negative consequences. According to the firm internationalization model, companies considering expanding internationally should start with markets that are geographically and culturally similar to them and work their way outwards[[8]](#footnote-8). Such a plan would allow the organization to gain foreign expertise and understanding first, before moving on to more specific markets. As a result, some CIS countries were selected for expansion because they are culturally and physically near Russia.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | GDP by PPP per capita (USD) 2019 | GDP Absolute (USD) 2019 | Population 2019 | GDP Growth (%) 2019 |
| Azerbaijan | 15,041 | 40.75 billion | 9,845,320 | 0.10% |
| Armenia | 14,258 | 11.54 billion | 2,944,791 | 7.50% |
| Belarus | 19,997 | 54.46 billion | 9,450,231 | 2.42% |
| Georgia | 15,655 | 15.08 billion | 4,008,716 | 4.83% |
| Kazakhstan | 27,517 | 163 billion | 18,080,019 | 4.10% |
| Kyrgyzstan | 5,485 | 7.56 billion | 6,189,733 | 4.58% |
| Moldova | 13,627 | 8.13 billion | 4,059,684 | 4.50% |
| Tajikistan | 3,529 | 7.15 billion | 8,880,268 | 7.62% |
| Turkmenistan | 15,207 | 37.93 billion | 5,757,667 | 6.50% |
| Uzbekistan | 7,308 | 49.68 billion | 31,959,785 | 5.30% |
| Ukraine | 13,341 | 112 billion | 44,487,709 | 2.52% |

***Macroeconomic indicators of CIS countries[[9]](#footnote-9)[[10]](#footnote-10)***

According to the table with macroeconomic indicators of CIS countries a number of countries have more optimistic macro-indicators, which will help Magnit build on their economy. Part of the list ordered by value is considered appropriate. Countries with more favorable macroeconomic metrics were selected. Kyrgyzstan, Armenia, Moldova and Tajikistan have only one positive factor in comparison with other countries. Turkmenistan market is not big enough to enter as population is very low. Uzbekistan has small purchsing power parity per capita which means that products of Magnit will not be affordable for the most of population. In Geogrgia population is very small which tells us that market for Magnit products will be small as well. Azerbaijan, Belarus, Kazakhstan, and Ukraine are among the countries that remained in first elemination step due to their positive macroeconomic indicators.

Now I will analyse remaining countries using CAGE comparator approach, this approach will help to look at Azerbaijan, Belarus, Kazakhstan and Ukraine from the point of Cultural, Administrative, Geographic and Economic indicators and compare them by two metrics: CAGE distance and Geographic distance. The lower is sum of these two factors - the better.

|  |  |  |
| --- | --- | --- |
| Country | CAGE distance | Geographic distance (km) |
| Azerbaijan | 1004 | 2078 |
| Belarus | 772 | 1495 |
| Kazakhstan | 946 | 2153 |
| Ukraine | 797 | 1557 |

***CAGE comparator[[11]](#footnote-11)***

I would also like to compare countries by the indexes of political and governmental stability and screen them more in details before making final decision in which geographical market Magnit should internalize.

|  |  |  |
| --- | --- | --- |
| Country | Government Effectiveness: Estimate | Political Stability and Absence of  Violence/Terrorism: Estimate |
| Azerbaijan | -0.1 | -0.7 |
| Belarus | -0.2 | 0.3 |
| Kazakhstan | 0.1 | -0.1 |
| Ukraine | -0.3 | -1,5 |

***Political stability indeces[[12]](#footnote-12)***

As we can see from CAGE analysis, results of all 4 countries are more or less comparable and indicators are near each other. However, Political stability indeces table shows us that Azerbaijan and Ukraine are unstable countries and it might be very risky to internalize into their geographical markets. Thus, Belarus and Kazakhstan will be further analyzed by other parameters in order to make a justified choice on market entry.

Comparison of Belarus and Kazakhstan

Now I will compare Magnit's potential competitors on the Belarus and Kazakhstan market, evaluate how hard or easy is to enter these grocery retail geographical markets and look deeply into grocery retail opportunities.

## 

## **Belarus**

**Belarus PEST Analysis**

|  |  |
| --- | --- |
| *Political*  Government  Laws  Customs Union  Protests | *Economic*  Currency stability  Trade with Russia  Retail development and competition |
| *Social*  Low Population growth  Healthcare  Education | *Technological*  Communications  Energy  Main fields of production |

***Belarus PEST analysis***

*Political*

Belarus' political climate used to be stable due to the country's authoritarian rule, but a highly centralized government might lead to unexpected changes, such as laws changing rapidly without adequate democratic debate. It's also worth noting that the Customs Union has improved Russian firms' competitiveness in the Belarusian industry (as well as in Kazakhstan). However, due to the protests in 2020 and 2021 Belarus can not be considered as politically stable country. According to the source[[13]](#footnote-13), hundreds of thousands of people have taken to the streets in Belarus since the presidential elections in August 2020 to protest Alexander Lukashenko's government. According to official estimates, the current president received 80% of the vote in the race. However, recent allegations of election irregularities and widespread protests against the outcome point to a different fact. The state retaliated with a barrage of abuse, but this just seemed to entice more protesters to take to the streets. Six months later, the demonstrations were still going on, but demonstrators have changed their tactics in reaction to the crackdown and are now focusing on fewer local marches and neighborhood activities. At the moment the situation looks more stable with less protest activities and announced constitutional reform but it may get escalated if political reform is not moving forward and vilolence is back to the streets.

*Economic*

The exchange rate of the Belarusian ruble is still a source of uncertainty. To escape this possibility, some businesses conduct transfers in euros or dollars Belarus economy is largely dpendant on Russia market, Russia fiancing and energy supplies often provided at below the market prices. Russia is the biggest external market for Belarus production companies including food producers. Russia represents 49,7% of total foreign trade of Belarus in 2019. Belarus is an imporetant transit territory for Russia imports from EU. In that sense local reail market is enjoying sufficient supply of goods and efficient logistics. In general, Belarusian competition on the retail market is regarded as medium. Belarusian retail chains lag behind their Western counterparts in terms of growth, with just a few chains operating across the whole country. Small shops and market retail spaces play an unusually large part, indicating the retail network's underdevelopment and preferences of local consumers.

*Social*

As stated in the source[[14]](#footnote-14), Belarus was one of the world's fastest shrinking counties after collapse of the USSR. Belarus' population has been decreasing since the 1990s until 2010. However the population rose from 9.42 million to 9.45 million between 2010 and 2019. From 2019 to 2020, the population started to decline again. By 2099, the population is expected to drop to 7.45 million inhabitants, according to recent estimates. In 2020, the population growth rate is expected to be -0.03 percent negative. While this is a low pace of decrease, it is predicted to rise in the coming decades.

Over the past three years, 4% of GDP has been allocated from the state budget to health care, which corresponds to the social security threshold proposed by the World Health Organization and the Concept of National Security of the Republic of Belarus.

Belarus ranks 9th out of 149 countries in the 2019 Access to Basic Knowledge Social Progress Index suggesting good opportunities for education and supporting good supply of skilled work force. Belarus has long had one of the best adult literacy rates in the world. It currently stands at 99.7%. About 98 percent of the population has attended elementary, secondary, and vocational classes. In terms of primary and secondary school graduation rates, Belarus is comparable with the world's most developed countries. Education has received approximately 5% of GDP in recent years, which is about the same as in developed European countries. General schooling, continuing education, and special needs education are also part of the educational system. Overall, Belarus has over 8,000 educational institutions that provide general schooling, continuing education, and special needs education*[[15]](#footnote-15)*.

*Technological*

Belarus has developed industrial sector representing 26% of its GDP in 2019. Main industries include agricultural machinery, automotive industry, electrical equipment, chemicals, fabrics. In particular, well-known BELAZ heavy trucks are one of the main trucks in Russian mining industry, MAZ trucks are well-known in CIS, BELARUS tracktors is a famous brand in agriculture with significant exports potential. Belarus ranks 32 in the ICT (by International Telecommunication Union) development index. In the IT space CAGR of the Belarusian IT undustry amounted to 30% for 5 last years.

According to the most recent ceicdata report before COVID-19 for March 2020[[16]](#footnote-16), retail trade in Belarus was growing, with an increase of 7.9%.  Groceries account for about 51% of all retail sales and are primarily made up of Belarusian products. Euroopt is the Republic of Belarus's major grocery supermarket store. It has the most evolved network system and is available in such formats as hypermarket, grocery, cash & carry, Euroopt Prime, and discounter in all regions of Belarus. Korona goes after Euroopt by the number of shops and sales. It includes different types of retail services, such as a supermarket, hypermarket and others. Korona is expanding with new Korona Bistro grocery stores. Almi network ranks third among Belorussian grocery supermarket chains. The rivalry in Belarus' food retail industry is fierce, and it is dominated by Eurotorg. Other  networks have a much lower market share, which can be seen as a chance to get into the market. Belarus' population decreased by 0.07 percent to 9,442,862 residents in 2021[[17]](#footnote-17). However, economists predict that by 2025, population growth will be around -1.40 percent, implying that Belarus' demographic condition is worse than Kazakhstan's, and that the retail size will gradually shrink in Belarus.

## Kazakhstan

**Kazakhstan PEST Analysis**

|  |  |
| --- | --- |
| *Political*  Executive Power  Legislative Power  Corruption  Conflicts, wars, and terrorism | *Economic*  Export-oriented economy  Inflation rate is 6.18%  Gas and oil sales account for a significant portion of the economy's growth  Trade entry point to a market of about 150 million customers |
| *Social*  Culture  Big percentage of people from 0 to 14 years old  Languages | *Technological*  Major producer of oil, gas, and coal  Rapid growth of telecommunications |

***Kazakhstan PEST analysis***

*Political factors*

The President of Kazakhstan is also the head of state and the army's commander-in-chief. He has the power to propose constitutional amendments, select and dismiss the government, dissolve the legislature, and call a referendum. The Prime Minister is the government's leader. The President appoints him and the Council of Ministers. Talking about the Parliament it is divided into two committees. The lower body, the Mazhilis, has 107 members, 98 of whom are chosen on party lists. The Assembly of People of Kazakhstan appoints the remaining 9 members. The upper house, the Senate, is made up of 49 people, 34 of whom are elected. The President appoints the remaining 15 members*[[18]](#footnote-18)*.

Kazakhstan has moved up 19 places in the 2020 Corruption Perceptions Index, to 94th place out of 180 countries and territories (CPI). Kazakhstan's CPI ranking has strengthened despite an emergency situation in the healthcare sector and challenges to the security of political institutions as a result of the country's efforts to combat corruption. The experts praised the Kazakh government's efforts, which included steps to assist citizens and enterprises during the pandemic, as well as amendments to improve accountability for corruption of the public sector[[19]](#footnote-19).

Kazakhstan currently has quite stable political system with limited protest and unpredictable changes in legislation although democratic institutions are at the developing stage.

*Economic factors*

Kazakhstan is the most economically developing geographical market in Central Asia. Oil, uranium, coal, natural gas, and wheat are among the country's main exports. Kazakhstan's actual GDP growth increased from just above 1% in 2015-2016 to over 4% in 2017-2019[[20]](#footnote-20), after a spell of declining oil prices and currency depreciation linked to foreign sanctions on Russia, the country's largest trading partner (Foreign trade with Russia amounted to $19.6 billion in 2019). Nonetheless, the country's reliance on oil exports makes it vulnerable to external shocks and has significant impact on its currency stability. The current Coronavirus Disease 2019 (COVID-19) pandemic, as well as the resulting drop in oil prices, are putting a strain on the economy.

*Social factors*

Kazakhstan is home to some of the world's most ethnically and culturally diverse people. This is due in part to its geographic location, sandwiched between the world's main faiths, as well as Soviet ethno-policies and the settlement of European migrants throughout the twentieth century. Kazakhstan has a long history of ethnic and religious tolerance: the Sufist tradition of Islam flourished in this region of the Islamic world, and Kazakh nomads are noted for their generosity and openness to outside influences.

There is huge potential in Kazakhstan market from the point of view of demographics. Part of population from 0 to 14 years old by approximately 4 times exceeds population from 65 and older[[21]](#footnote-21). For Magnit it means that market will likely to grow in terms of number of potential customers.

Talking about demography, Kazakhs account for 58.9% of the population, with Russians accounting for 25.9%, Ukrainians 2.9 percent, Uzbeks 2.8%, Uighur, Tatar, and German 1.5 each, and other communities accounting for 4.3%[[22]](#footnote-22). Russians being the second most huge nationality in Kazakhstan are tend to trust Russian products as we discussed before which is another positive factor for Magnit in terms of internationalization into Kazakhstan. Most population is fluent in Russian.

*Technological factors*

Kazakhstan is a major energy exporter, with substantial crude oil, coal, and natural gas production. Crude oil accounted for about 58 percent of Kazakhstan's exports by volume in 2019, according to the UN Trade Statistics Database. Kazakhstan controls 12% of the world's uranium reserves and has been the world's top producer since 2009.  According to estimates, the country has the world's 12th largest oil reserves and 15th largest natural gas reserves. The United States, Europe, Russia, and China are all interested in Kazakhstan's oil and gas resources. In 2019, Kazakhstan accounted for 43% of global nuclear supply, according to the World Nuclear Association. Kazatomprom, Kazakhstan's nuclear energy enterprise which is state-owned, and China General Nuclear Power Corporation formed a joint venture to construct a fuel fabrication plant in 2016.

Kazakhstan's telecommunications services industry is expanding at a fast rate. The government is working to upgrade the country's telecommunications infrastructure, including IP telephony and digital radio. Internet service providers are also extending their activities in Kazakhstan, a number of private firms compete with Kazakhtelekom to deliver connectivity to a wide range of customers. E-commerce is rising, despite the fact that it is still in its infancy.

In March 2020, Kazakhstan's retail sales dropped by 4.5 percent driven by COVID-19 limittions with further decline in April. Retail sales in Kazakhstan was 549,657 tenge per capita in 2018, according to the National Statistical Committee of the Republic of Kazakhstan. Furthermore, between 2009 and 2018, the overall annual growth rate was 7.2 percent. As a result, the growth rate in the grocery goods sector was 5.5 percent, and the growth rate in the non-groceries goods sector was 8.2 percent. According to the source[[23]](#footnote-23), when compared to 2009, supermarket products accounted for 30% of all retail revenue in 2018, with non-grocery goods accounting for 6% of total sales. Since examining the supermarket industry structure for specific types of products over the past ten years, it is clear that the bulk of grocery goods have lost market share. When comparing measures from 2009 to 2018, it was discovered that the only area where development was seen was in the selling of fresh fruits and vegetables.

Magnum Cash&Carry, Anvar, Small&Skif, Metro Cash&Carry, Interfood, Esentai Gourmet, Stolichny, and Silk Way Supermarket are the major retail distributors of food, clothes, perfumery, household, and other consumer goods.  Foreign distributors have begun to invest heavily in Kazakhstan: Metro has 6 stores in the country (according to the distributor's website), and Fix Price, according to the Russian market player's website, has 3 stores in Kazakhstan in 2021. Ramstore, Gourmet, and Macrocenter are among the grocery retailer chains that are projected to continue to grow. Magnum Cash&Carry is the market leader in Kazakhstan and one of the country's top ten firms. According to Euromonitor International, the company's popularity can be credited to its ability to provide high-quality goods at reasonable prices. Bakery products, beef, seafood, gastronomy, groceries, cookery, confectionery, cheese, baby food, salads, bread, dough, desserts, and semi-finished products are all available in the company's shops. Almaty, Astana, Kaskelen, Karaganda, Taldykorgan, Shymkent, and Petropavlovsk are among its 89 shopping centers. Magnum is yet the only competitor of Magnit on the Kazakhstan market in terms of the market size and business model.

As we can see, it is still not very clear whether which country should be chosen to enter the geographical market. Now I will provide a table which compares Kazakhstan and Belarus by several factors.

|  |  |  |
| --- | --- | --- |
| **Parameter** | **Belarus** | **Kazakhstan** |
| Population (2020) | 9,449,323 | 18,776,707 |
| GDP Total (2020) | 57.71 billion | 165.73 billion |
| GDP Growth (2021) | 2.21% | 3,03% |
| Price for similar grocery products | Low, prices are lower than in Kazakhstan | Medium, higher quality than in Belarus |
| Demographic trends | Negative | Positive, popluation grows, what means that market grows as well |

***Belarus and Kazakhstan comparison***

Due to the fact that in both countries entry barriers are similar I made a decision to enter Kazakhstan market given the fact that there is bigger population, higher GDP, higher PPP per capita and demographic trends are positive, comparing to the negative demographics in Belarus. Moreover, political situation in Kazakhstan is much more stable than in Belarus and this fact was also important when I was choosing market to enter.

### Analysis of Kazakhstan retail market

**Kazakhstan's retail sector**

Kazakhstan's GDP was 58.8 trillion tenge in 2018, with retail accounting for 16.7% of the total. Kazakhstan saw a trend toward modern trade growth in 2018. Retail turnover in Kazakhstan was 549,657 tenge per capita in 2018, according to the National Statistical Committee of the Republic of Kazakhstan. Furthermore, between 2009 and 2018, the overall annual growth rate was 7.2 percent. As a result, the growth rate in the grocery goods sector was 5.5 percent, and the growth rate in the non-groceries goods sector was 8.2 percent.

The metrics in 2018 were, however, substantially different. The growth of the grocery products industry hit 6.6 percent, non-groceries 5.2 percent, and the overall growth of the retail industry 5.7 percent. According to research, a steady upward trend was expected in 2019. Thus, growth rates in January hit 4.4 percent, and this measure rose to 5.4 percent over the next six months. These metrics, however, were smaller than in the same timeframe for the previous year.

*Growth by regions*

Kazakhstan's average retail growth rate was 13 percent in 2018. As a result, the top five leaders in terms of monetary growth in 2018 are:

1) The North Kazakhstan Region (-18.8%)

2) 17.5 percent in the Atyrau Region

3) 17.3 percent in the South Kazakhstan Region

4) Shymkent - 16.4 percent.

5) Almaty has a 16 percent share of the market.

In Kazakhstan, traditional retail structures are being replaced by aggressively developing network retail, a development that has been witnessed in Russia and Belarus for several years. However, in the Republic of Kazakhstan, it has yet to take shape. There are also many areas where network retail is practically unrepresented. In other Eurasian Economic Union countries, the growth of small cities in food retail is mostly focused on discounters and format stores close to home. Kazakhstan's discounter format lags behind that of the rest of the EEU. At the same time, it's worth mentioning that Russia's biggest chains, Magnit and Pyaterochka, have produced retail pioneers in the Magnit and X5 groups as discounters. Kazakhstan has lagged far behind Russia and the Republic of Belarus in terms of network retail growth. Kazakhstan lags behind Russia and Belarus in terms of growth, according to analysts, by at least 7-10 years.

In Kazakhstan, both major multinational chains and local retailers currently work in the retail sector. Companies such as Migros with the brand "Ramstore" (Turkey), Carrefour (France) left Kazakhstan market in last year with METRO Cash & Carry (Germany) remaining and being the major foreign retailer on Kazakhstan market.  Foreign DIY retailers Leroy Merlin (France) and OBI (Germany) are reportedly preparing to join the Kazakhstan market as well. There is also information on ongoing negotiations on entering Kazakhstan market of multinational retailers Auchan (France) and IKEA (the Netherlands). Taking into account foreign players' increasing presence in the Kazakhstan retail industry, as well as the prospect of continued growth in customer activity in Kazakhstan, the company forecasts continued growth in Kazakhstan retail. The prospect of a steady rise in demand for integrated retail would inevitably pique foreign and regional investors' interest in the food retail market.

One thousand Kazakhstanis are now represented by 42 square meters of retail space. For contrast, the highest density is 857 square meters per thousand people in Norway, and 234 square meters per thousand people in the United Kingdom. Ukraine and Greece, at 59 sq. m. and 56 sq. m., respectively, are among the countries with the lowest density. Furthermore, the number of these areas has remained virtually stagnant for many years, indicating a lack of retail growth. As a result, the number of retail facilities with an area of more than 2000 square meters has declined by five since 2016, resulting in a gross area reduction of 28.5 thousand square meters. There are currently 263 such facilities in Kazakhstan, covering 1.1 million square meters. 136 (630.6 thousand sq. m.) was dedicated to food retail. Nur-Sultan and Almaty – 116 – contain the huge majority of big stores.

According to the Agency for the Protection and Development of Competition, the Kazakhstan market has four major networks that are actively expanding, including in the regions. SMALL (with 96 locations in 17 cities), Magnum Cash & Carry (with 83 locations in 9 cities), Anvar (with 37 locations in 7 cities), and the German METRO Cash & Carry network are among them (6 branches in 6 cities). Carrefour and Ramstor, two more international retailers, have left Kazakhstan. Green, one of the leading hypermarkets, has rebranded as "convenience stores." According to market participants, the abolition of price restrictions (threshold prices for socially significant food goods) and the implementation of new industry technology that have already been established by the largest international retailers would aid the growth of retail. For eg, it was suggested that a "Price Platform" application be developed, in which the addresses of points with minimum prices are given out from images, as well as open hard discounters with a warehouse-style sales system.

**Potential competitors**

*SMALL[[24]](#footnote-24)*

SMALL & SKIF is the biggest retail chain in Kazakhstan.

From 1999 to 2003, Almaty, Astana, and Karaganda were the first cities in which SKIF shops were opened. In Almaty, the first online beverage store has been opened.

From 2004 to 2009, the chain expanded and developed, with the first Small Wholesale store opening in Taraz.

Between 2010 and 2015, six new stores in Nursultan, Pavlodar, Taldykorgan, and Kyzylorda were opened.

From 2016 to 2021, The network is expanding at a high pace, with an average of 10 new stores opening each year. Development of a modern Premium format store with a design interior.

In Kazakhstan company has 4 million store visitors per month, 35,000+ items of the assortment of goods, 8000+ professional employees in the Republic of Kazakhstan, 1200+ suppliers, 100+ own vehicles, and 90+ stores

*Magnum Cash & Carry[[25]](#footnote-25)*

Magnum is the second biggest retail chain in Kazakhstan.

Magnum has opened 93 branches in ten cities across Kazakhstan over the last 14 years. The Magnum network employs 10.5 thousand employees who work for a company for a long time.  Kazakhstan produces about half of all products which are sold in Magnum stores. The business works with over 1,100 suppliers, with over 700 of them providing products manufactured in Kazakhstan.

Revenue for 2019 amounted to 187 billion tenge.

*Anvar[[26]](#footnote-26)*

ANVAR is a large wholesale and retail network with branches in Aktobe, Astana, Atyrau, Aktau, Uralsk, Karaganda, and Kyzylorda in the Republic of Kazakhstan (Western Kazakhstan). In 1993, the supermarket chain was established. Food and household goods exchange, as well as items of own manufacture — meat and semi-finished products, bakery and confectionery products, and cooking — are the major directions. ANVAR shops are situated in different districts of the city for the convenience of supplying the community, and they have flexible operating hours.

Today, ANVAR encompasses 34 756m2 of retail space in seven Kazakhstan regions.

*METRO[[27]](#footnote-27)*

The expansion of the business in Kazakhstan started in 2008. METRO was the first foreign retailer to open a store in Kazakhstan. The company's headquarters opened in Almaty, Kazakhstan's cultural and financial capital, in July 2008, and in September, an agreement was signed between the group and the government, as well as arrangements for launching operations.

The capital's first wholesale center in the "cash and carry" model opened in September 2009.

During German Chancellor Angela Merkel's visit to Kazakhstan in July 2010, METRO Group signed a Memorandum of Cooperation with the Ministry of Industry and New Technologies. As a result, the company "METRO Kazakhstan" became a strong example of the authorities' willingness to draw foreign investors to the republic's economy, while also strengthening bilateral links between Kazakhstan and Germany.

In Kazakhstan, the METRO network has 6 cash & carry stores, as well as 6 warehouses. The company has 1,000 employees and has attracted 200,000 customers.

## Porter's five forces analysis

Porter 5 forces model will be used to assess the business landscape of the Kazakhstan retail industry and what market factors will potentially influence the company's growth and possible profitability. The study was selected because it allows for the evaluation of the industry and the disclosure of various facets of the industry that may impact the company's entry into the market. As competitors on the Kazakhstan retail market, hypermarkets, convenience stores, supermarkets and conventional retail outlets will be examined.

Hypermarkets are self-service stores with a selling area of more than 2500 square meters that offer a diverse selection of food and non-food products.

Convenience stores are small self-service convenience stores found in high-traffic areas, cities and towns. Convenience stores also have fewer than 400 square meters of retail space and offer a large variety of foods, beverages, tobacco, groceries, and other goods.

Supermarkets are mainly self-service shops with 400-2500 square meters of retail area. Supermarkets often have a large grocery selection as well as a small selection of non-food products, which account for less than 10% of overall sales.

Outlets, kiosks, and autoshops are examples of traditional trade outlets that offer over-the-counter service. The majority of them are concentrated in small towns and suburbs.

1. Competitive rivalry

In Kazakhstan, there are nine big food supermarket chains that account for half of all modern trade formats, and they compete fiercely with one another. The biggest grocery merchant, though, is SMALL & SKIF, which has a slightly larger network than its nearest rival, Magnum. In addition, there are a vast variety of niche and independent shops that compete with the big retail outlets. However, there isn't as much rivalry between them as there is between major retailers. However, because of its penetration and specialization, the traditional sector can pose a threat to the country's modern trade sector.  Due to high brand recognition, large players can have a higher degree of consumer retention. They can also benefit from economies of scale and the potential to take advantage of competitive pricing strategies that local retailers cannot. When it comes to grocery shopping, price is one of the most significant factors for shoppers. Big supermarkets have a major advantage is that they can impose affordable pricing, which increases competition.

1. Threat of a new entry

The retail sector in Kazakhstan is competitive, as there are many major players that have been on the market for a long time. SMALL & SKIF is a major retailer that, along with Magnum, controls a significant portion of the overall market. The two firms have about 90 stores in Kazakhstan and are represented in all regions of the country. Large retailers may benefit from economies of scale in this case, and they may also use an aggressive pricing approach. There are also traditional retailers, which also account for a sizable portion of the retail industry. As a result, the retail situation is very different in Kazakhstan.

# There is a huge probability of new foreign entrants from Europe and Asia on the Kazakhstan market. We can already see a trend of importing goods from China and Korea on Kazakhstan market. However, it will be hard for foreigners to supply their stores with cheap and fresh food due to the lack of suppling power on the new market. In that case their products will cost more than Magnit's for comparably same positions. Magnit, on the other hand has strong logistics center in Chelyabinsk after acquiring Diksi which is 1029 km far from Nur-sultan, which means that products from Russia can arrive to Kazakhstan fresh without significant costs raise, moreover, there will be limited need in local suppliers.

# Traditional retailers can quickly enter the market due to their low fixed costs and low capital spending in their own manufacturing. There is a small chance that such a format will evolve into a supermarket, but it is not widespread, so new conventional retail outlets would not be a thread for modern trade outlets.

# Since the industry's demand growth is very strong, new entrants will be attracted, increasing the threat. Furthermore, the industry's attractiveness is enhanced by rising consumer demand and buying power.

The Kazakhstan government's policy of encouraging new industries is becoming more and more significant, as well as governmental subsidies and privileges. There are 13 special economic zones of various sectoral orientations, each with its own legal regime and more favourable conditions for the adoption and growth of entrepreneurial enterprise for its residents. As a result, the number of new entries from local residents is increased in these zones. However, the government has imposed certain limitations, such as an anti-monopoly law reducing the level for foreign entry.

Lack of high quality infrastructure is another obstacle to entry, which can be challenging for outsiders to handle. Thus, new entrants must be prepared to build a new supply chain.

1. Threat of substitutes

Food service is widely regarded as a viable alternative to grocery retail.  Quick food corporations' effective publicity campaigns praising restaurants and cafes can reflect a viable food alternative. The majority of people, however, also feel that food service complements and cannot entirely replace food retail, so the threat is diminishing.

Kazakhstan has established its agriculture, and as a result, there are many local farmers who can replace grocery retail by farming for their own needs. This practice is particularly common in small towns and cities where modern trade retailers are scarce. Household ingredients, which people cook themselves, may also be substituted in this case; however, this procedure is time intensive, and it is not always easy to make precisely the same meal as in the supermarket. As a result, the threat is reduced.

1. Buyer power

Since the shoppers in this situation are end users, their bargaining power is limited, since a loss of one customer in typical food retail would not have a major impact on total retail sales due to the sheer number of possible customers. Consumers, on the other hand, reflect a broader market concern, so retailers must respond to customer desires. Big retailers like SMALL and Skif use tools like loyalty programs to keep customers from leaving and to ensure customer satisfaction, which can decrease buyer power in the long run.

The growing popularity of multi-channel shopping often increases shoppers' control by allowing them to move between various shopping formats. The coronavirus, for example, made all shoppers to turn to online grocery shopping and limit purchases in supermarket stores.

In Kazakhstan, there is also a large number of local trade stores, which encourages shoppers to shop there rather than using modern trade alternatives. Furthermore, the rise of social media and smartphone use allows customers more leverage in terms of providing input and ratings if they choose to assess a service. As a result, shoppers can band together to build a counter-voice to a single retailer, influencing brand awareness and even demand.

1. Supplier power

Food and grocery producers represent suppliers among retailers. The agriculture industry in Kazakhstan is one of the most developed and largest in the world. Kazakhstan exports grain to over 70 countries, making it one of the top ten grain exporters in the world. Furthermore, Kazakhstan's food production is advanced, and the country is one of the top exporters of food in the CIS, indicating that this industry is developed. Aside from the large corporations, there are also independent local producers and vendors that sell food to supermarkets. Owing to the complexities of food certification, these producers have much less capacity and quantity.

Major suppliers typically retain close relationships with a large number of supermarkets in order to maintain operational security, allowing them to prevent price volatility and mitigate the risks of local procurement issues.

To hold switching costs to a low, retailers should not maintain long-term partnerships with suppliers. Since they may lead to a greater proportion of the sales of suppliers, if the merchant has a primary delivery platform, it may dominate deals with them. Smaller or niche retailers, on the other hand, cannot afford to do so because they are not called key suppliers and therefore have less power. Furthermore, since small stores have less specialized suppliers, their switching costs are higher.

Suppliers, especially small farmers and manufacturers, will be able to benefit from forward integration as they not only produce but also export their goods. Backward integration of major retailers, on the other hand, is a possibility. Supplier power is declining in this situation.

**Conclusion on 5 Porter's forces analysis**

Increased competition and entry barriers are seen as major forces that may impact Magnit's internationalization on the Kazakhstan market. The industry is dynamic, and there are a few big players who own the bulk of the market share, resulting in fierce competition. They still have a solid reputation and a dedicated consumer base, as well as an ambitious pricing policy and economies of scale to keep price-conscious consumers. Government enforcement of retail store assortment, as well as a lack of existing infrastructure, are the most important entry barriers. As a result, businesses must invest time and resources in developing supplier partnerships and establishing facilities. Because of the low swapping cost, buyers are considered powerless, but they can also choose where to buy groceries based on price and product quality. When suppliers are small and valuable for a specific supermarket chain, they can be extremely powerful for grocery retail. Nonetheless, amid the presence of some strong powers, the Kazakhstan market offers some opportunities. Owing to the lack of mature industry in certain markets, there is a potential to compete on a niche market. Since market switching costs are minimal, loyalty schemes and social media campaigns can be used to both maintain and attract new customers.

### Conclusion on the 2nd Chapter

Kazakhstan has the most attractive market for Magnit internationalization, according to a comparison of CIS countries based on selected KPIs. The retail industry in Kazakhstan is influenced by political interference, government regulation, and funding for local producers, according to a market analysis. Furthermore, the country's economic condition contributes to a rise in consumer buying power, allowing consumers to spend more. The rise in Kazakhstan people salaries has also had an effect on this factor. Moreover, the five forces study revealed that there is no major power in the overall picture, and the majority of the powers are medium. Major retailers may use technological advancements to distinguish themselves on the market, lower costs, and acquire more clients. One of the potential issues is the coronavirus and its effects on future economic growth and consumer behaviour in countries, as it could have a detrimental impact on global development in general and Kazakhstan in particular.

On the Kazakhstan market, however, there is fierce competition and strong entry barriers. Despite the fact that the retail sector is competitive, there are still opportunities to develop. In addition, Kazakhstan has a range of popular supermarket chains. SMALL & Skif is the largest grocery retail company, with the majority of shares and a strong footprint around the country; Magnum is the second largest player. The majority of Kazakhstan's retailers are based on price and, in general, do not specialize on certain types of products. Supermarkets and convenience stores are among the most popular retail formats. Overall, the Kazakhstan market offers Magnit growth possibilities and can be found appealing.

The next chapter of the paper will be devoted to business literature review, market entry guidelines that Magnit will adopt when expanding on the Kazakhstan market, as well as international strategy selection.

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# Chapter 3: Business Literature Review, Recommendations and Risk Assessment

### Business Literature Review

**Entry mode choice**

In order to successfully conduct its commercial operations abroad, a company entering an international market must find an appropriate entry mode. An institutional arrangement that enables a business to enter a market with its goods, technologies, human expertise, management, or other resources has been described as the entry mode [Root 1994]. Firms can choose from a variety of entry modes, like exporting, contractual arrangements including authorizing, franchising, or subcontracting, and acquisition entry modes (equity-based modes) like joint ventures or wholly-owned subsidiaries, which can be created either from scratch or by purchasing an established local company. The degree of a firm's capital contribution to a global market, the extent to which it is exposed when conducting foreign activities in a developing country, and the amount of influence it has over its foreign operations are important factors when choosing mode to enter [Hill, Hwang, Kim 1990; Anderson, Gatignon 1986]. They are strongly correlated; greater control necessitates greater resource commitment, and greater resource commitment is associated with an increase in risk.

To justify a firm's international entry mode option in foreign markets, a variety of ideas have been applied [Canabal, White 2008; Laufs, Schwens 2014]. Transaction costs theory, eclectic theory of international production, internationalization theory, structural theory, and the resource-based view theory are the most often used theories to understand entry mode choice.

Further I will describe Uppsala model of internationalization, Behavioral approach to internationalization and Internationalization theory in order to understand which entry mode should be chosen.

**Uppsala internationalization model**

According to the source[[28]](#footnote-28), The decision to go international reflects a significant undertaking to enter a new field of business, which is why it should be approached in stages: gathering data, reviewing it, and formulating alternative action plans. The method of entry into a global market is an integral aspect of the foreign direct investment policy. Companies should choose a new sector, determine the types of activities that will be built on these markets, and choose an entrance strategy – greenfield projects, acquisitions, or joint partnerships. Regardless about how an organization enters a market, it would have significant competitive implications.

The Uppsala Model is a model that focuses on the complexities of the internationalisation process. The biggest benefit of using the Uppsala Model is the ability to forecast a company's evolution on global markets. The paradigm is built on two concepts: the attributed process' secventiality and the concept of physical distance. The Uppsala Model, which minimizes the uncertainties associated with the new market, guides a global company's internationalization step by step. As a result, the corporation is increasingly becoming involved, eventually leading to the creation of a manufacturing division that also guarantees the sale of the goods on the new market.

Stage 1

Export

Stage 4

Production Subsidiary

Stage 3

Commercial Subsidiary

Stage 2

Commercial

Agent

Reduced Level Engaging Resources High Level

**The stages of internationalization process**

The Upssala Model's second aspect, physical distance, decides which businesses can choose, in the first instance, neighboring countries in order to minimize cultural, economic, and political differences. According to this approach, the greater the physical gap between two points, the greater the uncertainty about the emerging competition and the greater the uncertainties associated with it.

According to another source[[29]](#footnote-29), Uppsala Model must change over time and in response to changing circumstances. For example, the Johanson and Vahlne article was written during the global financial crisis of 2008–2009, when world markets were in turmoil. The model included subtle tweaks and logical modifications based on what was needed at the time. The issue for the future is whether the Uppsala Model will have explanatory and forecasting strength in the trade and development age of tomorrow, as businesses face a revolt towards globalization, rising protectionism and nationalism, as well as a rise in populism against consumption and foreign travel.

Uppsala Model might not be able to incorporate strategically relevant themes such as the UN Sustainable Development Goals while providing a stable outlook in multinational market for firms. Other factors linked to global performance that could have an effect on the Uppsala Model's sustainability include service-focus, digital presence, and technological upgrades. Such a refined understanding must be applicable to all, or at least the majority, of the world's continents, nations, and guiding powers.

**Behavioral approach[[30]](#footnote-30)**

*Deviation in Entry Mode*

Another model of market entry is behavioral approach which states that many companies choose entry modes that do not conform with internationalization theory, according to Brouthers (2002), and firms that do comply perform better than firms that choose other modes. Elia et al. (2014) found a favorable association between entry modes that are consistent with internationalization theory and performance, since there is an asymmetric impact depending on the expected entry mode and the type of output assumed. According to Lu & Hebert (2005), several joint ventures are formed using equity models that are not consistent with internationalization theory, and these ventures are more likely to fail than those formed using aligned equity modes. Due to their idiosyncratic characteristics in terms of corporate objectives (being driven not just by profit-seeking reasons, but also by political and ideological goals), risk preferences (beijing et al., 2019), Grogaard et al. (2019) show that state-owned enterprises (in contrast to privately owned enterprises) deviate systematically from the rational action paradigm of internationalization theory (being longer than privately owned enterprises).

When markets in intermediate goods are imperfect, policy makers want internalized forms of foreign penetration, according to internationalization theory, since there is an opportunity to circumvent them and create an internal market (Buckley & Casson, 1976: 33). Since nuanced, specific, and ambiguous practices in foreign markets are vulnerable to opportunistic actions and moral hazards, it is argued that they are best organized within a hierarchy (Brouthers, 2002; Hennart, 1977; 1982). Although the assumptions of internationalization theory about entry modes have been predominantly empirically confirmed (Brouthers & Hennart 2007; Zhao et al., 2004), there is evidence that companies choose entry modes that deviate from those predictions.

In the face of substantial business imperfections, policy makers want an internalized governance system that safeguards the firm's properties from opportunistic actions and moral hazards (Buckley & Casson, 1976; Hennart, 1977) while still increasing technology transfer opportunities (Buckley & Casson, 1976; Hennart, 1977). When market imperfections are limited, decision makers can profit from developing a potentially compliant market mode (e.g., exporting or outsourcing) in which they can take advantage of additional market advantages including lower manufacturing costs, access to external expertise, and competitiveness (Doh, 2005). When decision makers choose entry modes that deviate from internationalization theory, though, the operations are at risk of experiencing worse output than those driven by ideally compatible entry modes.

|  |  |
| --- | --- |
| **Market mode deviation**  When market imperfectations are high, deviant entry modes (for example, outsourcing and exporting) are linked to:  • Cases that cause delays  • Moral hazard and the risk of opportunistic conduct  • Costs of inappopriate contracts | **Hierarchical mode that is compliant**  Compliant entry modes (e.g., wholly owned subsidiaries) are linked to:  • Wealth protection  • Increased control  • Knowledge sharing methods that are effective |
| **Business in a compliant mode**  Where business imperfections are small, compliant entry modes (such as outsourcing and exporting) are linked to:  • Lower costs  • Access to external knowledge  • Large-n vendor advantages | **Hierarchical mode deviation**  Where business imperfections are minimal, deviating entry modes (for example, wholly owned subsidiaries) are linked to:  • Possibility of falling into an inefficiency trap  • N-I-H syndrome  • Learning myopia |

**Low Market Imperfections High**

**Market Selected entry mode Hierarchy**

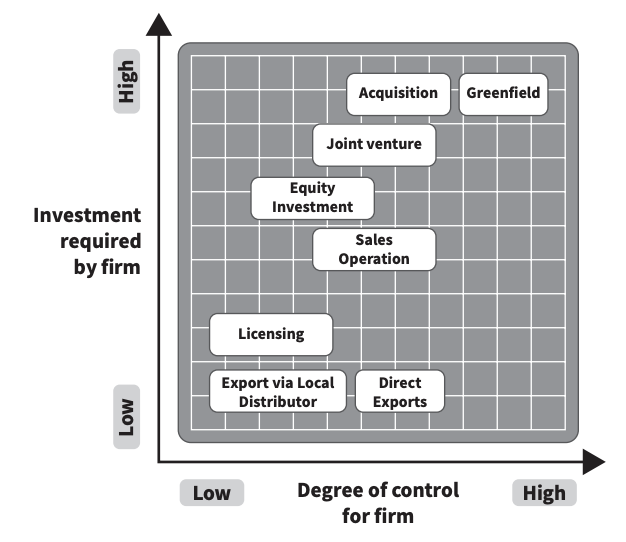
When decision makers choose externally focused entry modes (such as exporting or outsourcing) in markets with strong market imperfections, they deviate from internationalization theory (i.e., deviating market modes). Hold-up, opportunistic conduct, and moral hazards in foreign markets are more likely in these circumstances (Buckley and Casson, 1976; Hennart, 1977, 1982).

**Internationalization theory[[31]](#footnote-31)**

It is likely that any of ostensibly novel and unconventional, but highly adaptable organizational forms of the past will resurface in the twenty-first century as a response to a wide range of risks—legal (e.g., taxation), political (e.g., war, terrorism, nationalism, and populism), economic and business risks (e.g., trade protectionism and weak intellectual property protection) (e.g., floods and tornados). Although local entrepreneurship offers versatility in the host country, corporate headquarters will almost certainly need to adapt as well. The practice of ‘unbundling,' or spreading headquarters operations, is now widespread. In popular discourse, it often has derogatory connotations, such as the phenomenon of offshore tax havens and the accumulation of financial resources in "major cities." Unbundling headquarters operation, on the other hand, has a bright side. The importance of a business history study of these risks, and more generally, of elements of structural consistency, in explaining MNE entrepreneurial positions in host country and the allocation of headquarter roles, cannot be overstated. The suggested expansion of internationalization theory considers a host of competitive and managerial problems in addition to business imperfections. As a result, it encourages organizational creativity. Internationalization theory can be enriched, according to Verbeke & Kano (2015), by "the infusion of a substantial market history viewpoint." Proposed extensions, on the other hand, have continued to rely on the administration of the invention process (Rugman, Verbeke, & Yuan, 2011; Verbeke, 2009; Verbeke & Kano, 2012).

**Market entry modes[[32]](#footnote-32)**

Another source differentiate between entry modes and makes it clear on which to choose. The various market entry strategies are summarized in the table below, with the necessary investment on one axis and the degree of control on the other.



***Entry mode types by G. Fisher***

*How to make a choice?*

1. Examine a company's desire for control in a foreign environment. Is absolute control needed or desired in the new industry, or is there a willingness to sacrifice control in order to reduce costs and/or increase learning?
2. Determine if the company is able to invest in the new market. Is it ready to compete in order to gain a foothold in the industry, or would it want to keep costs down and regard new market presence as an experiment?
3. Examine the firm's past market entry successes and losses. Determine what lessons should be drawn from recent efforts to break into new markets.
4. Use the results from the past measures to narrow down the firm's options. If you've narrowed down your choices to two or three, do further analysis to see what rules or restrictions might apply to each option, what solutions are available under each option, and what other considerations might influence each option.
5. Debate the advantages and disadvantages of each alternative based on the insights gained from the original and more comprehensive analyses, and use this information to help you make a strategic decision.

**Risks related to the entry mode choice**

One of the difficulties with using the market entry approach is that choosing the best choice for entering a new market is highly context based, and the framework does not adequately allow for the complexities of each context. Every scenario is different and requires evaluation depending on a variety of considerations, but the framework is inadequate to effectively account for all of them.

Implementation and execution are important factors that determine the effectiveness of a market entry strategy. To be successful, whichever alternative is selected must be applied and executed effectively; however, the method outlined in the table higher does not account for execution effectiveness. For example, if managers plan to purchase a foreign subsidiary in order to reach an overseas market, how they integrate the acquisition would have a significant effect on the decision's effectiveness. As a result, even though the correct logical option is made, it can fail due to poor execution.

### Conclusion on Business Literature Review

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As Uppsala model showed itself as quite outdated in the world of globalism, I will use predominantly entry modes comparison in order to find proper entry mode for Magnit in Kazakhstan in recommendations part of my work.

Further analysis will be made according to the entry modes comparison and. I will provide recommendations based on analysis and calculations as well as business model Canvas which will be adopted to Kazakhstan retail market and provide risk assessment.

# Recommendations

Basing on the business literature review further analysis will be made. Magnit's desire for control in a Kazakhstan environment will be examined, will be determined whether the company is able to invest in the new market activities, firm's past successes and losses will be covered (if there are such). Basing on this analysis each entry mode will be evaluated and all modes will be compared in order to make justified choice on entry mode to the Kazakhstan market of Magnit company.

**Types of entry modes**

*Exporting Directly*

Direct exporting entails selling directly into the market of your choice, first and foremost using your own funds. When a sales processes has been developed, sometimes businesses turn to agents and/or distributors to represent them in the market. Agents and distributors serve company's interests in near collaboration with it. They are the public face of the business, so selecting agents and distributors is very important.

*Franchising*

Franchising is a common method of rapid business growth in North America, but it is gaining popularity in other regions of the world. Franchising is a good option for businesses with a repeatable business strategy that can be quickly transferred to new markets. When contemplating the franchise model, there are two things to keep in mind. Ccompany's business model should be special or have a good name awareness that can be used globally, and company might be developing potential rivalry in its franchisee.

*Licensing*

Licensing is a more complex arrangement in which one company sells the rights to use a good or service to another. It's an especially effective approach if the license buyer has a sizable market share of the market company plans to join.

*Joint Venture*

Joint ventures are a type of partnership that entails the formation of a third company that is run separately. Two firms plan to collaborate in a certain market, either geographically or in terms of product, and form a third company to do so. In most cases, risks and profits are divided equally.

*Greenfield Investments*

Greenfield investments necessitate the most international involvement. A greenfield project is one in which company purchases land, builds a building, and runs a company in a regional market on an ongoing basis. It is undoubtedly the most expensive and risky, but government legislation, delivery charges, and the ability to access technologies or qualified labor may force company to take on the expense and risk in certain markets.

*Acquisition*

An acquisition occurs as one company buys the majority or almost all of the shares of another company in order to take control over that company. Buying more than half of a target company's stock and other properties helps the acquirer to make decisions over the newly purchased assets without the company's other shareholders' permission. Acquisitions may take place with or without the consent of the target organization.

*Equity investment*

A financial deal in which a certain number of shares in a company or fund are purchased, entitling the investor to be rewarded ratably according to his ownership amount, is known as an equity investment. In other words, it is a process in which a person or a corporation invests money to become a shareholder in a private or public company.

**Justified choice of entry mode**

In May 2021 Magnit announced the purchase of Diksi, a retail chain of 2,651 locations, for 92.4 billion rubles (approximately $ 1.25 billion). The deal is expected to close on August 31, 2021, with the option of extending it until September 30, 2021. Magnit's available cash (RUB 6.6 billion as of March 31, 2021) and credit lines will be the primary sources of funding. The contract must be authorised by Russia's Federal Antimonopoly Service before it can be closed.

Due to the fact of major purchase made by Magnit, they will not have enough funds to acquire another chain in Kazakhhstan, then acquisition will not be selected as entry mode.

Joint venture is also not an option for Magnit in Kazakhstan due to the fact that Magnit has well-known recognisable brand in CIS community and it will be one of the strong factors while entering the new market.

Franchising and licensing demand high control over operations of each store which will be separately or grouply established by other companies as brand image can be damaged due to the poor execution of stores operations opened by franchising and licensing programs.

Any type of exporting is also not applicable to this case as despite the fact that Magnit has its own grocery and non-grocery production, the main activity of firm is retail.

Magnit after acquiring Diksi increased the presence on the Russian market and also got additional logistics centers, two of which are located near Russia-Kazakhstan border (one of them in Chelyabinsk). Adding to this a fact that Magnit has its own logistics centers near the border with Kazakhstan and a fact that richest Kazakhstan region is North region, Magnit has an ability to start expansion on Kazakhstan market from this region using the powers of its logistics centers. It means that in the first years of expansion Magnit can rely on Russian logistics centers without a need to establish new ones in Kazakshtan. In that case main expenditures will be marketing and opening of stores. Such approach also helps to differentiate risks by opening stores step by step and moving from North Kazakhstan to other regions. Greenfield project in this case will not demand significant investments comparing to the acquisition, and according to the business literature review will still guarantee higher level of control over operational processes than any other entry mode. Basing on this fact, I have chosen Greenfiled project for my further recommendations and risk assessment.

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| **Key Partners**  Advertising agencies  Investors  Subsidiaries  Suppliers  Vendors  Farmers  Manufacturers  Brands  Financial institutions | **Key Activites**  Procurement  Logistics  Distribution  Supply chain activities  Pricing  Negotiation with vendors  Customer service  Customer data processing  Payment processing  Marketing  Campaigns  E-commerce operations  Human resources  R&D | **Value Propositions**  To save people's money  To provide customers with fresh goods | **Customer Relationships**  Benefits for the loyalty program card owners  Online catalogue  Online shopping  Self Service  Automation  Convenience  Customers service | **Customer Segments**  Mass market in grocery  Mass market in cosmetics  Mass market in pharmacy |
| **Key Resources**  To sell fresh products for the low price strategy  300 000 employees  Logistics network (38 distribution centers (DC) throughout the country, with a total area of more than 1.7 million square meters, as well as our own fleet of about 5,700 trucks)  Production of food products under its own brands  Growing vegetables, producing groceries and confectionery  Greenhouse and mushroom complex, which are among the largest in Russia  21,564 retail stores in 66 regions of Russia | **Channels**  Convenience Stores  Supermarkets  Drogerie  Online shop  Social networks  Events  App Store  Google Play |
| **Cost Structure**  Cost of goods  Logistics and Distribution  Stores maintenance  Inventory management  Increased Advertising  Customer Q&A  Taxes  Salaries  Infrastructure and distribution network | | | **Revenue streams**  Retail Sales  Online Sales  Advertising fees | |

***Magnit Business Model Canvas for Kazakhstan market***

# Customer segments

Same as on the Russian market, except cosmetics and pharmacy.

**Key partners**

In order to compete on the Kazakhstan market, a company's product line must include items made in Kazakhstan. As a result, it is advised that partnerships be established with Kazakhstan suppliers of locally produced groceries, which might be exploited as a competitive advantage. Magnit may sell Kazakhstan products and benefit from the country of origin impact in Kazakhstan, just as it does in Russia.

Magnit may use the same supply chain strategy as in the Russian market. As a result, the corporation will require at least three suppliers for each food category. This strategy is deemed flexible since it allows a firm to manage supply chain risks.

**Value Propositions**

The company's key value proposition is the offering of inexpensive, fresh food at affordable prices. Because these value proposition corresponds to existing trends in the Kazakhstan market for low-cost grocery products, it may be useful in Kazakhstan. Magnit may achieve advantage on the Kazakhstan market due to offering grocery products from Russia for reasonable prices and become the market leader in this category as a result of this value proposition. Magnit should also maintain a relationship model based on trust and openness, since this will boost the value of the Magnit brand identity. Magnit, on the other hand, must include Kazakhstan products in their range, thus the Russian Products cannot be used for all product positions. Magnit might leverage the store's local production image and sell Kazakhstan's affordable and fresh items. Because Kazakhstanis esteem their country's goods, it may provide value to Kazakhstan's clients.

**Channels**

Magnit is advised to focus initially on physical stores, since this is now one of the most popular formats for retailers in Kazakhstan. Magnit will need to rent a commercial space of 150 - 300 square meters because the size of the shop corresponds to the trend. The establishment of a small store will initially help to reduce expenditures.

Customers should be able to recognize the company's shop design, thus it must be maintained. It means a minimum ceiling height of 3 meters, a walk-through supermarket, a supply of products zone that does not interrelate with the buyer's doorway, sewerage, an area of 150 m2 to 300 m2, cold water.

Because most people are staying at home due to the present coronavirus outbreak, delivery services are in great demand; consequently, website development is necessary in order to provide e-commerce and delivery services. Magnit still has to rely on main channels like the app and social media for marketing and client connection building. It will be used to communicate with the audience, perform surveys, and collect feedback.

**Revenue streams**

Main revenue stream still will be purchases by consumers in stores, however, delivery of products will also help to increase revenue.

**Customer relationships**

Changes in the customer relationships are not necessary, because Magnit's approach to building customer relationships in Russia can be effectively reproduced in Kazakhstan. Furthermore, such efforts may benefit in the expansion of a firm's client base by allowing the organization to establish a trust connection with customers. It is advised that the app be preserved and that new social media groups be created exclusively for the Kazakhstan market in order collect feedback, which will be beneficial since it will assist to better represent client demands and to engage with consumers. Furthermore, the loyalty program does not require any alterations because the only thing that will change is the store's assortment and location.

**Key Resources**

*Warehousing and transporting*

After deal of acquiring Diksi by Magnit, Magnit company got new logistics centres, one of which is in Chelyabinsk (1029 km from Nursultan). I recommend to use this logistics centre to deliver goods from it to Kazakhstan using new transport which was also part of the deal when acquiring Diksi. Magnit will need a warehouse near Nursultan to store goods which come from Russia by Magnit's trucks. Lower I will compare possible warehouses for rent near Nursultan. As it is planned to open 1 store in the first 3 months of Magnit on Kazakhstan market (opening a store demand about 2 months of preparation and construction) and expand further depending on the profitability in the first two years, warehouse should fit its needs and needs of delivery service. It should have stable electricity, heating, water, be close to Nursultan or in the city borders and have space from 500 to 1500 square meters of storage space and at least 200 square meters of production space.

|  |  |  |  |
| --- | --- | --- | --- |
| Address | Total space in square meters | Cost for square meter per month in tenge | Communications |
| A 185 street | 1200 | 2500 | light, water, telephone, internet, sewerage, heating |
| A 355 street | 1200 | 1500 | light, water, sewerage, heating |
| Alash highway - Sholokhova | 1500 | 1500 | light, water, sewerage, heating |

***Comparison of warehouses[[33]](#footnote-33)***

I would recommend to choose warehouse located at A 355 street as it is newer than warehouse at Alash highway, closer to the city center and cheaper than warehouse at A 185 street. Telephone and internet can be connected extra.

*Number of employees per store and their salaries*

Magnit needs to appoint subsidiary managers who will be in charge of the company's future development in Kazakhstan, including personnel recruiting. Because the corporation will have a decentralized organizational structure, the store managers will be in charge of employing additional linear and office staff. The chief manager can be offered from Magnit present managers through internal promotion in order to offer additional control over the new subsidiary. There is also a need for technicians to give quality control, as well as personnel to supply packaging, both of which will be also engaged by the subsidiary management.

Personnel for following positions needs to be hired:

Manager of a store, Human Resources manager, Merchendiser, Security, Inventory manager, Financial manager, Cleaner, Shop assistant, Technologist

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Name of position | Number of employees | Salary per month in tenge | Individual income tax (10%) | *Total in tenge* |
| Manager of a store | 1 | 250 000 | 25 000 | 275 000 |
| Human Resources manager | 1 | 220 000 | 22 000 | 242 000 |
| Merchendiser | 2 | 150 000 | 15 000 | 330 000 |
| Security | 1 | 140 000 | 14 000 | 154 000 |
| Inventory manager | 1 | 180 000 | 18 000 | 198 000 |
| Financial manager | 1 | 240 000 | 24 000 | 264 000 |
| Cleaner | 2 | 90 000 | 9 000 | 198 000 |
| Shop assistant | 5 | 165 000 | 16 500 | 907 500 |
| Technologist | 2 | 160 000 | 16 000 | 352 000 |
| *Total* | 16 | 1 595 000 | 159 500 | 2 920 500 |

Information about salaries was retrieved from https://kz.jooble.org/ and https://nur-sultan.hh.kz/

*Store equipment suppliers*

Despite the fact that most of the resources shifted from the original business model, the firm need additional resources for its support operations. Human resources, store equipment (an essential aspect for stores because the quality of the products offered is dependent on the quality of the equipment), and logistical facilities are the most essential resources. Commercial property  will be rented according to already existing business model.

Two main companies which provide store equipment in Kazakhstan are presented below:

BIO

The company has been operating since 1992. Has been presented on the market for over 24 years. Offers services from project calculation to service maintenance and provides delivery to any place in Kazakhstan.

Klen

KLEN company has been operating in the Russian HoReCa market for more than 25 years, specializing in complex equipment of restaurants, cafes, bars, canteens, food production facilities and stores of various formats, and the company is also represented in other CIS markets.

1. More than 30,000 items of goods for any business processes
2. More than 20 services for the food, trade and hospitality industries
3. Direct regular deliveries of equipment and inventory from Italy, China and Russia
4. More than 30,000 items of goods for any business processes

I recommend to choose BIO company because of the two facts:

1. Lower prices for the comparably same positions
2. BIO's clients are among low-cost retailers, fastfood restaraunts and medium price level restaraunts when high cost restaraunts and hotels are KLEN's clients

**Key activities**

First and foremost, the organization has to identify a new pool of suppliers that can offer them with high-quality and not expensive groceries. Apart from suppliers, the company requires logistic providers and the establishment of a distribution center, where Magnit products will be packaged and quality verified. Magnit has the option of using its own logistical services which will allow for a reduction in the cost and time required to create infrastructure prior to establishing a stable presence on the Kazakhstan market.

The most significant modifications will be made to the sales and marketing activities. The actual sales will take place in shops, on the Internet, and via the mobile app. Magnit should focus on the primary shops and Internet sales, since they must first establish a firm position on the market by executing fundamental forms of activity. Marketing operations will not be altered; nonetheless, there will be a significant requirement to develop brand recognition in the new market, making this one of the most costly operations.

*Which product to sell?*

Same range of products that Magnit sells on the Russian market.

*How to promote Magnit in Kazakhstan?*

Magnit should advertise their supermarket in Kazakhstan in accordance with consumer behavior what means that company  needs to raise brand recognition in the new marketplace. I  suggest company to focus on Internet marketing, since this sort of marketing has shown to be effective on the Russian market. Magnit may also apply marketing techniques such as target advertising and social networking page postings. Magnit may expand their social media profiles not only to communicate with the general public, but also to advertise their brand.

Magnit may also build public relations campaigns. Consumer PR will be associated with sponsored and organic advertising, but it may also incorporate news portals in addition to specialized websites and forums. It might be customized projects that include public. Moreover, corporate public relations may be beneficial in raising brand recognition among Kazakhstanis.

In addition, the corporation may seek help from advertising or communication firms to coordinate the process of raising brand recognition and developing a digital strategy for the Kazakhstan market. The following agencies have office in Kazakhtan and are among top 4 companies on the market according to the source[[34]](#footnote-34):

Artox media digital group

The agency specializes in providing services in the field of search engine optimization, reputation management and crediting funds to advertising accounts on favorable terms.

Services:

Strategy, PPC advertising, Advertising Platforms, SMM Creative and Strategy, Video Production, WEB Development, Strategy and Audit, Content Marketing, Influence marketing, PR&SMM, Video Advertising, Video Production, Digital PR

Netpeak

3,087 projects are made up of experience and knowledge of all the necessary details,

1,315 online stores increase their sales thanks to the results of the company's work. Company is represented in 5 countries and 8 cities: Kiev, Odessa, Kharkiv, Almaty, Sofia, Moscow, New York, Varna

Services:

SEO 2.0, PPC 2.0, Email Marketing, SMM, Mobile app promotion, Web Analytics and Business Intelligence, SERM

Webcom

Services:

Website Promotion, SEO Site Audit, Contextual advertising audit, Business consulting, Business promotion Analytics, Video advertising on the Internet, Contextual advertising, Mobile Advertising, Comprehensive promotion, Copywriting, Advertising on social networks, DoubleClick, Remarketing, Mobile app Ads, Training

I recommend to choose Artox Media Digital Group due to the fact that this agency can be contacted in Moscow, has the most experience in digital marketing and has experience in working with retail groups. SMM and Web Development are among the services that will be purchased from AMDG.

*Where to expand?*

Nur-sultan will be chosen as place for expansion as it is the richest city in North Kazakhstan region with biggest population in this region. Other regions will not be evaluated as they will demand logistics outsourcing or establishing new costly distribution centers in Kazakhstan which can not be afforded by Magnit in 2021 due to high-cost acquisition of Diksi on Russian market.

Potential places for opening new store in Nur-Sultan are described in the table below.

|  |  |  |  |
| --- | --- | --- | --- |
| Address | Price in tenge for all per month | Size (square meters) | Transport and activity nearby |
| 26/1 Mustafina Street | 600 000 | 270 | bus  hospitals, schools, big resedential complexes |
| Syganak 14 | 1 200 000 | 188.7 | bus  first floor of high class big resedential complex, restaraunts, different services nearby |
| Kayima Mukhamedkhanova 9 | 1 100 000 | 144 | bus  first floor of high class big resedential complex, restaraunts, different services nearby |
| Narkesken 1 | 1 000 000 | 179 | bus  first floor of high class residential complex, restaraunts, different services nearby |

I recommend to choose place at Kayima Mukhamedkhanova 9 because it is located in the center of residential hood where is a high need in buying groceries. Moreover, due to the Russia country of origin, Magnit products will be more expensive if we talk about ones which come from Russia (predominantly because of the logistics). It means that it makes sense to choose richer neighbourhoods in Nur-Sultan with high population and Kayima Mukhamedhanova street is in the centre of such neighbourhood.

# 

# Cost Structure

Magnit must estimate future expenses on the market and investment expenses in order to expand on the Nur-sultan market. The company's cost structure on Kazakhstan market is comparable to the Russian market's cost structure.

I'll start by calculating fixed costs, such as store employee wages and rent payments (amortization and depreciation rates are not included in the calculations). Utility bills, supplies, phone and internet bills, as well as advertising and marketing costs, will all be included in this category. Rent payments are considered to include utility expenses. The average price per month for Internet connection is about 6000 tenge, and the Internet provider was picked based on price comparison. The cost of rent includes the rent for the shop and the rent for the warehouse. Plus according to the price list of chosen advertising agency I added promotion expenses.

|  |  |
| --- | --- |
| Fixed costs | Amount of cost per month in tenge |
| Rent | 2 900 000 |
| Supplies | 11 000 |
| Marketing and Advertising | 2 500 000 |
| Internet and telephone | 6 000 |
| Salaries | 2 920 500 |
| Total | **8 337 500** |

***Fixed costs***

# Now I will calculate variable costs. Inventory or product costs from suppliers, as well as transportation charges, are variable costs.  The goods cost will be picked from company's annual report for 2020. I will also calculate CAPEX.

|  |  |
| --- | --- |
| Variable costs | Amount of cost per month in tenge |
| Transportation | 30 000 |
| Raw Materials | 2 000 000 |
| Total | 2 030 000 |

***Variable costs***

|  |  |
| --- | --- |
| CAPEX | Price in tenge |
| Racks | 450 000 |
| Baskets | 240 000 |
| Weighting machines | 90 000 |
| Store design | 220 000 |
| Refrigeration machines and other tools for refrigeration | 1 600 000 |
| Refrigerator showcases | 1 820 000 |
| Receipt printers | 140 000 |
| Furniture | 280 000 |
| Office equipment | 140 000 |
| Packaging materials | 250 000 |
| Computers | 1 100 000 |
| Uniform | 34 000 |
| Cashier tables | 540 000 |
| Safety tools | 405 000 |
| Repair of store space | 1 685 000 |
| Total | **8 994 000** |

# By comparing prices from various stores and suppliers, all of the costs were calculated as an average on the Kazakhstan market. Prices from the specified equipment shop were used for the business's equipment. Magnit is expected to require around 6 refrigerators, 5 refrigerator showcase units for placement in the trade zone, 8 racks for various product categories, and 4 cashier desks. Magnit will also require security gear such as 6 security cameras and other safety equipment to ensure the store's security. The amount of pieces of equipment required will vary depending on the store's location and design. Office furnishings, as well as office equipment, are also essential. Magnit cashiers are required to wear uniforms in order to appear professional to customers.

# Talking about investments, Magnit must register their service on the Kazakhstan market, which necessitates the formation of a limited liability company (LLC). Magnit can take advantage of several governmental subsidiaries and tax benefits by registering as an LLC. Because the procedure of registering a company on the new geographical market can be expensive and time-consuming owing to government regulations, it will be easier and more convenient to apply for a special firm, which will cost approximately 160 000 tenge together with licensing.

|  |  |
| --- | --- |
| Cost of investments | Amount in tenge |
| Licensing & Registration | 160 000 |
| Rent | 2 900 000 |
| Marketing and Advertising | 2 500 000 |
| CAPEX | 8 994 000 |
| Total | 14 554 000 |

***Investment cost***

After all calculations I can conclude that opening a store in Nur-sultan is cheaper than opening a store in Russian city with population of 1 000 000 citizens or more (14 554 000 tenge is approximately 2.5 mln rubles according to the data from 31.05.2021) what means that Magnit can afford such investment.

### 

### Risk Assessment

In the risk assessment part of my project, I'll identify potential risks that a firm may encounter in the Kazakhstan market. First, some of the significant risks will be evaluated, followed by more detailed and narrowly focused risks.

**COVID-19**

Magnit products are ones of the most important on the Kazakhstan market, since Magnit sells groceries hence there is little possibility of stores closing. However, the pandemic period may have an impact on people's wages, since many individuals may lose their jobs or face work losses. Also, because switching costs are minimal, consumers may pick low-cost, low-quality items in order to eat during the epidemic. Furthermore, the fact that people are attempting to avoid going to public locations must be taken into account. All of this might have a harmful impact on the demand for Magnit items that are offered in stores. As a result, Magnit will need to make certain modifications in order to adapt to the present market condition.

Magnit may boost its online presence, which includes social media and online purchasing. If the Coronavirus situation worsens, Magnit may enhance the online store's product selection while reducing the physical store's. Furthermore, delivery providers must lower the minimum order price, and adopt contactless delivery.

Magnit has to raise brand recognition in the new market. I propose to implement new social media campaign which will advertise Magnit as a firm that cares about its clients and helps them to save money. Overall, such efforts may be useful for a company's marketing on the Kazakhstan market, because during the pandemic there is a chance not only to establish a strong company's brand image, but also to demonstrate that brand image and attract new regular customers.

**Risks of entering new market**

Since Magnit has entered a new market, various risks associated with being in a new environment may arise. It may necessitate more development expenses and, as a result, the country's potential may be undervalued. This risk might pose a threat to Magnit's expansion in Kazakhstan, necessitating rigorous response.  For example, due to a lack of proper infrastructure, such costs may include the expense of obtaining the optimal location. This risk may be mitigated by understanding and responding the business strategy to the local context, making cautious entry mode decisions, and selecting local executives to carry out decisions. That is why, the initial decision on which country to choose was based on the short distance between markets, which allowed Magnit to anticipate probable market disparities that may result in additional expenses. The entry option was adopted to lower the company's entry barriers and to gain further government support.

**Risks connected with saving and gaining reputation**

On the Russian market, the firm is known for its low-cost, fresh products. In order to enter the Kazakhstan market, the firm will need to establish a new reputation based on the same philosophy (Russian firm with low-cost, fresh items). The necessity to identify new suppliers among Kazakhstan producers may result in additional costs and effort, and untrustworthy suppliers, who, for example, disguise the true components of their goods and the manufacturing process, may severely undermine the company's reputation. Then, at the time of signing the supplier agreement, quality control is required. Magnit must inspect the quality of the product and do all necessary analyses, showing any discrepancies with the information provided on the label. Magnit must conduct a partial manufacturing quality check without notifying the supplier after the signing. The company may use the same quality control procedures as in Russia, like on-site inspection of the manufacturing plant.

**Other risks**

Natural catastrophes, vandalism, and other types of damage may all be minimized by insurance, and vandalism may also be reduced by enhancing security. Active marketing campaigns, promotions, new loyalty programs and discounts may help to manage the risks of high competition or low demand. However, major political or social instability in Kazakhstan will force the project's termination.

### Conclusion for the 3rd Chapter

The fourth chapter focused on the implementation of the Magnit business model in Kazakhstan. However, before developing a business model, it was necessary to determine the best entry mode and strategy, which was done in line with the Internationalization theory.

The most acceptable solution for Magnit internationalization has been selected as a wholly owned subsidiary (possible due to the greenfield project). It was chosen because it allows for a stronger market presence, government assistance, and a better relationship with customers. Furthermore, the establishment of a subsidiary on the Kazakhstan market enables the product's quality to be maintained at a high level due to a more accurate control.

Due of Kazakhstan's proximity to Russia, Magnit may attempt to reproduce many key aspects of their business strategy that have proven effective on the Russian market to the Kazakhstan market. Customer connections, and resources are only a few of the company's long-term growth opportunities.

Adapting to changing market conditions resulted in the creation of a new business model. However, key components of the model remained unchanged since they reflect the firm's fundamental business concept, and if they will be modified, the firm will lose its essence. In general, the corporation will need to open a new store in Nur-sultan. The core value offer will be similar to that of the Russian market, namely, low-cost, fresh goods and the same market sector will be served. Customers' one-time purchases will be the major source of revenue. The major operations will be adjusted in marketing and sales to conform to the Kazakhstan market circumstances. The cost structure remained unchanged, however the amount of the costs was determined for Kazakhstan market.

According to the risk assessment, political instability is one of the primary dangers that a firm may encounter when entering the Kazakhstan market, which might cause them to cease operations. There are also certain hazards associated with increased demand and competitiveness as well as with Coronavirus situation. As a result, approaches for enhancing brand awareness and outsourcing a delivery service with strenghtening online activities of firm were offered respectively. Some danger of shop damage may also arise, and the best ways to deal with this situation are to purchase insurance and increase security.

# Conclusion

Paper goal was to elaborate recommendations on internationalization of Magnit into Kazakhstan market. Below I will summarize findings from each part of this work.

Magnit is successful on the Russian market and has a strong presence on the market, according to the first chapter of the work. The company's key value offering is low-cost, fresh food. The Magnit firm can think about internationalization because it was recognized using the concept of internationalization, which reveals that the food retail market is potentially global, even though the firm has no overseas presence. As a result, while entering international markets, the firm may look for chances in the market for low-cost, fresh grocery and non-grocery items.

In the second chapter Kazakhstan was chosen as a market to enter based on the elimination analysis between CIS countries, as Kazakhstan has the best indicators among the CIS countries. Kazakhstan was investigated to see what external factors might have an impact on the development of a possible business model. According to the PEST analysis, government support for business, population growth, and economic growth are all positive features for Magnit in Kazakhstan. Kazakhstan has large food retail chains on the market, according to a competors analysis (both Kazakhstani and foreign). Kazakhstani products are highly valued by locals and have a reputation for good quality.

In the beginning of 3rd Chapter theoretical foundations for retail internationalization were presented. This section looked at a variety of research, ideas, and articles, with Internationalization Theory being chosen as the most general and comprehensive theory for the internationalization process.

Following the literature review, it was determined that Magnit should pursue a Greenfield project as an entry mode because it ensures the highest level of control over new subsidiary operations and activities, and Magnit gained new logistics centers as a result of the Diksi acquisition, one of which may serve Magnit's needs in North Kazakhstan. Furthermore, the company's choice of international strategy revealed that it might adopt a new approach with some overlap with the copying of Russian market model . As a result, the Kazakhstan business model was determined to require some repeating parts from the Russian business strategy.

Market analysis was used to create a new business model. Resources that reflect customer segments, cost evaluation, value proposition, and revenue raising principles were standardized and hardly altered. The execution of a marketing campaign for Magnit on the Kazakhstan market affected key activities.

I advise that the subsidiary should be located in Nur-sultan city center and that the equipment provider BIO be contacted. The warehouse was chosen based on a comparison of warehouses available for long-term rent.  The cost of creating a new store on the Kazakhstan market was determined to be comparable and cheaper than cost of constructing a store in Russia.

Risk assessment is the final chapter of the project. Low demand for Magnit products, reputation losses, and new market threats, as well as political instability and coronavirus, were identified and mitigation suggestions were made.

Although the thesis work's purpose was achieved, the coronavirus crisis created significant challenges for future market forecasts. Regardless of this implication, specified objectives were met, resulting in the Magnit business strategy being created on the Kazakhstan market.

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