

# "Erkapharm" significantly strengthened its positions in Volgograd in less than one year

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Last year, *Erkapharm* Group entered into a strategic agreement with the Volgograd supermarket chain *MAN*, to open its pharmacies in each of the 68 existing shopping malls and in all the chain’s stores that are going to open. By the end of the summer of this year, *MAN* had only 47 stores left; it is not planning to open any new ones. PhV’s correspondent got some insights into how this would affect the development strategy of *Erkapharm* in the Volgograd region.

## A *MAN* can always hope

Initially, the regional retailer *MAN* tried to diversify its business by creating its own pharmacy chain on its own retail premises. It was assumed that they would work in the format of a discounter. In 2015, six pharmacies were opened, not only in the regional center, but also in the nearby *Volzhsky*, *Akhtuba*, *Frolovo* and *Kamyshin*; in the first half of 2016, four more. It is difficult to tell how successful they were, however, it became known in October that pharmacies would be transferred to the management of *Erkapharm* Group, and the remaining 58 supermarkets’ pharmacies will work under the brand *Doctor Stoletov*. After signing of the relevant partnership agreement, *Erkapharm*'s General Director *Anastasia Karpova* said that the contract would enable the company to fulfill its intention to enter the top three leaders in the Volgograd region

Meanwhile, the chain of supermarkets *MAN* started optimization, closing its unprofitable stores. According to the official version, these shopping malls did not attract enough customers. However, it is not clear why such unsuitable venues immediately attracted other retailers, *Pokupochka* and *Radezh*. Today, in the Volgograd region 47 *MAN* stores remain, 31 of them hosting the pharmacies *Doctor Stoletov*. According to *Anastasia Karpova*, the business process optimization of *Erkapharm*'s Volgograd partner had virtually no effect on the plans of the Group.

“The closing of a part of *MAN* stores did not affect our pharmacy chain,” says *Ms. Karpova*. “The stores belonging to the chains *Pokupochka* and *Radezh* were opened there instead. The pharmacies *Doctor Stoletov* continue to work in these outlets, which was agreed with the new retail operators. In addition, after the acquisition of the retail business of the *Rosta* Group, 1,500 pharmacies in the Southern Federal District and in the North Caucasus Federal District will come under our management, including 37 pharmacies in the Volgograd Region. That already makes us one of the most important players on the market. Our goal is to establish effective work in the region. We do not plan active development.”

TOP10 pharmacy chains in Volgograd region by turnover, in August 2017					
Rating	Name	Number of pharmacies	Share of retail commercial market (rubles), %	Total value of sales, million rubles	Average value of sales in 1 pharmacy, million rubles
1	Volgopharm (Volgograd)	138	21,60	262,69	1,90
2	Vita (Samara)	58	9,08	110,43	1,90
3	Doctor Stoletov & Ozerki (Moscow)	67	8,61	104,74	1,56
4	Implosion (Samara)	50	6,40	77,76	1,56
5	Pharmacevt+ (Rostov on the Don)	21	3,79	46,08	2,19
6	Flora (Volzhsky)	9	3,34	40,59	4,51
7	Rigla (Moscow)	19	3,15	38,28	2,01
8	Pharmsklad (Saratov)	15	2,52	30,60	2,04
9	Stivi (Volzhsky)	21	1,60	19,44	0,93
10	Medunitsa (Volgograd)	11	1,52	18,51	1,68

## On all Fronts

It should be mentioned that the company *Erkapharm* succeeded in making its ambitions come true, entering the top three players of the regional market in a very short time. According to AlphaRM, in the first half of this year, the pharmacy chain *Doctor Stoletov & Ozerki* had 23 pharmacies in the Volgograd region, which earned 2.62% of the region's turnover, while *Pervaya Pomosch & Raduga* earned 5.31% of the regional turnover, with their 31 pharmacies. Based on the results of the third quarter of 2017, the combined *Erkapharm* had 70 pharmacies with a total turnover of 8.54% of the regional turnover.

In August, State-owned Unitary Enterprise VO *Volgopharm* was traditionally the leader by the volume of trade turnover, with a fifth of all pharmacy sales in the region (Table). However, the corporatization of SUE VO initiated by the regional authorities can slightly change the balance of forces. While *Volgopharm* will register a new legal entity, reissue all licenses for pharmaceutical activities and enter into new contracts, it may well lose some of its customers. Especially since the previous regional authorities had badly damaged the company's reputation, accusing it of unreasonably inflating prices. On the other hand, the opening of 25 more retail outlets planned by *Volgopharm* for this year, will further exacerbate competition in individual districts.

According to the results of August 2017, the number of pharmacy outlets in the Volgograd region reached 919, of which 738 are chain pharmacies. The regional pharmacy retail turnover reached 15.9 billion rubles in the last 12 months (September 2016 to August 2017). The turnover of federal networks amounted to 27.6% of the regional retail pharmacy market (Fig.). The "super-profitable" pharmacies accounted for 18.7% of the turnover.

Volgograd dwellers prefer closed-type merchandise display. However, the share of medicinal products in the sales structure reaches 77%, and of dietary supplements, 4%. The average check in the region remains at the level of 319.3 rubles.