Interview with Group CEO Enrique Fernandez →

Enrique
FERNANDEZ

**Chief Executive Officer
of PJSC M.video**

Mr Fernandez, how has the integration of the Eldorado network gone within the merged company, and what are the results of the process?

The main strategic goal of our acquisition of Eldorado is to create value for consumers and for all Group stakeholders. This deal enabled us to gain full coverage of the entire customer range and all segments of the Russian market. Therefore, the key objective in integrating M.Video and Eldorado is to strengthen the competitive advantages created as a result of the deal and to realise our long-term growth potential.

Eldorado is one of the strongest and most recognisable brands in the Russian market. Therefore, for the purposes of integration, we chose what we call the 'one-one-two' approach: one company, one business model and two brands. We began by combining the key support functions of M.Video and Eldorado, including procurement, inventory and product mix management, as well as all logistics, while maintaining two independent retail chains and two competing brands. We essentially restarted Eldorado's operating model based on the M.Video business model, retaining all the best that Eldorado had before the merger. At the same time, strategic projects that have proven to be effective at M.Video were successfully implemented within Eldorado. These include dedicated areas of digital goods (m_mobile project), a credit platform in both online and offline formats (m_credit project) and many others. We see that the transition to a single company and business model is creating significant synergies and economies of scale in relation to rental costs, procurement efficiency, logistics, business costs and others. But the main thing is that both networks continue to grow and attract new customers thanks to our dual brand development strategy.

What are some of the key differences in brand positioning within the Group and in the market as part of the strategy? Do you give either of the brands a priority?

Strategically, both brands are equally important for the Group, because our strategy for further growth is based on their complementarity. At the same time, M.Video retains its role as industry leader, aiming to maximise its market presence. Eldorado plays the role of a tactical brand, targeting those customer segments where the M.Video brand and formats are less competitive.

In terms of external positioning, M.Video targets consumers who are prepared to pay for an outstanding customer experience. In turn, Eldorado focuses on those who are looking for the best bargain here and now, a combination of simplicity and store accessibility. To improve performance in this segment, we expanded Eldorado's retail concept by launching the Eldorado 600 format, which involves stores with a sales area of up to 600 square metres that operate on the 'neighbourhood store' principle, including in small towns with populations of over 50,000 people. The project has been successful. In 2018, we launched 16 stores in this format, and we plan to increase the number to 25–30 in 2019.

What changes have taken place in Eldorado's product mix? To what extent do M.Video and Eldorado differ in this area?

We have done quite a bit of work to optimise Eldorado's product mix, clearing it of non-core categories and placing significant emphasis on digital products, which is the fastest-growing segment in the Russian market. This optimisation, along with the development of the m_mobile format at M.Video, has made it possible to increase sales of the Group's digital products by 34.3% year-on-year, as compared with average market growth of 17.3%.

Now the M.Video and Eldorado product lines overlap by about 70–80%, which is an important element in economies of scale. At the end of 2018, we increased our EBITDA margin by almost 1 percentage point by expanding gross margins. The main drivers of this were more efficient inventory and procurement management.

The M.Video–Eldorado Group is developing as a digital retailer. What steps are you taking in relation to digitisation?

Our main goal is to move from the current omni-channel approach to the ONE RETAIL model, which means the complete digitisation of customer experience, erasing all boundaries between online and offline sales channels. To achieve this goal, we are solving the problem of building a state-of-the-art organisation based on data, introducing digital technologies into all of the Company's business processes and personalising customer relations to the maximum extent possible. For us, ONE RETAIL is an opportunity for every customer to create their own retail ecosystem.

In terms of specific steps, M.Video has, in the past two years, successfully launched its m_RTD project, which is an internal web app that allows our sales staff to identify customers, help them choose a product and make the most advantageous personal offer based on each customer's relationship history with our network. This year, we will be even closer to our customers thanks to the launch of a state-of-the-art mobile app with a full set of personalised services.

Our next steps will be to completely centralise purchasing data and introduce advanced systems based on machine learning and data analysis technology. In 2018, we created a special division called the Digital Retail Data Science Centre, which is responsible for introducing mathematical algorithms into all of our business processes and switching to automated smart services in marketing, online sales, logistics, HR management and other areas of our business. As part of our efforts to implement data-based approaches, M.Video switched, at the end of last year, to a new technology for self-delivery of online orders in stores using machine learning and a chatbot that connects customers with sales staff. Results include reduced waiting time for receipt of orders and a process that is more convenient and personalised for our customers. We believe that this is the future, and we plan to continue investing in innovative development.

If the range of products is so similar, then what is the difference in what each brand offers its customers?

The difference in the M.Video and Eldorado approaches is how they sell their product mix. For M.Video, the priority is to create a long-term relationship with customers, which will ultimately benefit customers. M.Video is building an ecosystem that offers customers a loyalty programme and additional personalised services that include warranties, insurance and digital content. For example, the Sony PlayStation gaming system is sold by all major retailers, but M.Video holds about 40% of the market in this segment because we have built an ecosystem for gamers, which is a very specific customer audience. M.Video is looking to introduce this approach in all product categories. Eldorado, on the other hand, is more focused on products for everyday needs, although we are introducing elements of the ecosystem approach in this network as well.

If the M.Video–Eldorado Group is a digital company, then why are you investing in such an expansive network of stores? What are your plans for growing this network in the future?

First, stores are the centre of the customer experience, something that cannot be provided in an online format. People who purchase equipment like to touch or test a product and speak with a sales assistant regardless if they are making a purchase online or offline. While about 65% of our customers use the Internet in one way or another to make a purchase, only around 5% of our customers do not visit our stores at all, relying on the website and courier delivery instead. The rest of our client base prefer to pick up their purchases in-store. Thus, stores and retail personnel play a key role in the transition to the ONE RETAIL model. Moreover, stores are an essential element of our logistics system, which makes it possible to significantly reduce the costs of delivering goods to customers.

The conclusion from this is obvious: our network is a decisive competitive advantage over retailers that operate exclusively online, and it serves as an important basis for the development of our online business. Last year, the Group's acquisition of 42 MediaMarkt stores in 22 Russian cities was a strategic project to expand our network. At the end of 2018, M.Video and Eldorado stores opened in place of the majority of them. With the opening of 10 additional stores, the complete transformation of the MediaMarkt chain will be completed in 2019. In general, as a result of both M&A activity and organic growth, the Group had opened a record number of stores by the end of the year, increasing its network by 102 sales points to 941 stores. This year, we are planning to open about 100 new stores, with an emphasis on strengthening the network of individual m_mobile stores, which have proven themselves as a state-of-the-art digital retailer. I am certain that effectively growing our network is the key to success for the Group as a digital business in a world where online and offline will be a single retail space. It will be a world in which the only retailers that will be competitive are those that can provide a service in any format that is convenient for customers.