



Reaching the Readers – Press Distribution in Russia

Erkki Järvinen
President and CEO
Rautakirja Corporation

September 18, 2006

Rautakirja's Strategy

Mission

Added value, convenience and little extras for our customers.

Vision

Rautakirja will operate, develop, and make use of the best media distribution channels in its chosen market areas. At least one-fourth of Rautakirja's net sales will be derived from outside Finland by the end of 2008.

Basic Strategy

Rautakirja is an increasingly international Finnish trade and service company operating close to consumers, and specialising in the following core areas:

- distribution and retail sales of newspapers and magazines, and
- specialised retail trade based on a firm foundation of:
 - nationwide reach
 - chain operations
 - centralised chain management
 - a strong market position
 - effective utilisation of selected distribution channels

Rautakirja as Part of the SanomaWSOY Value Chain

SanomaWSOY

Rautakirja

Publishing

Distribution

Retail



Net Sales by Business

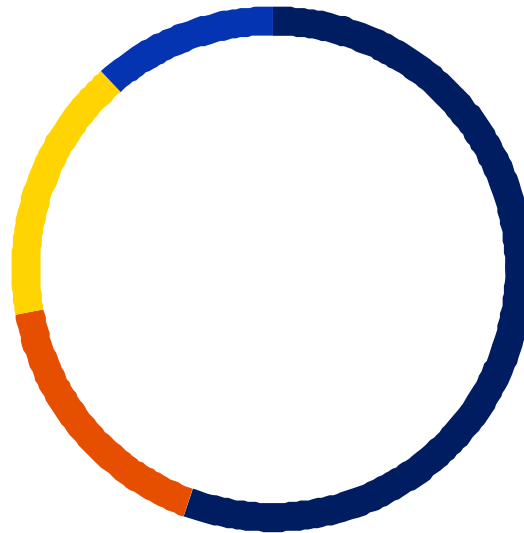
in 1-6/2006, EUR million



● **Entertainment**
35.7 M€, 11.3% of net sales



● **Bookstores**
52.7 M€, 16.6% of net sales



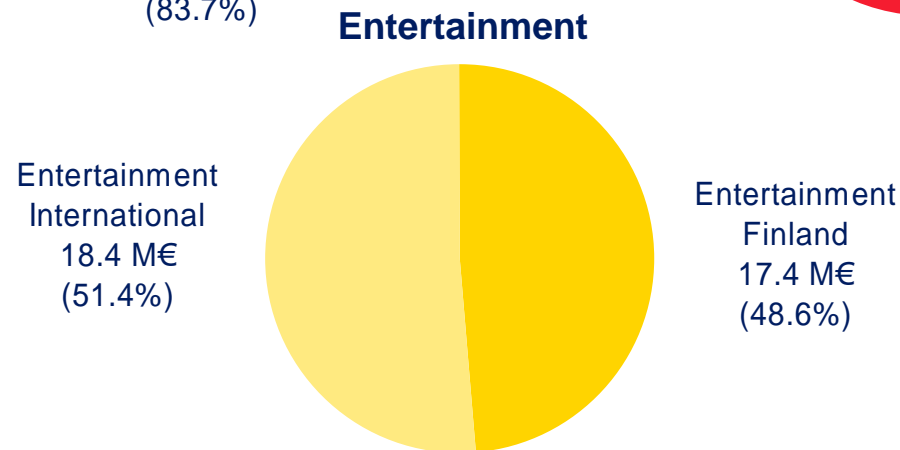
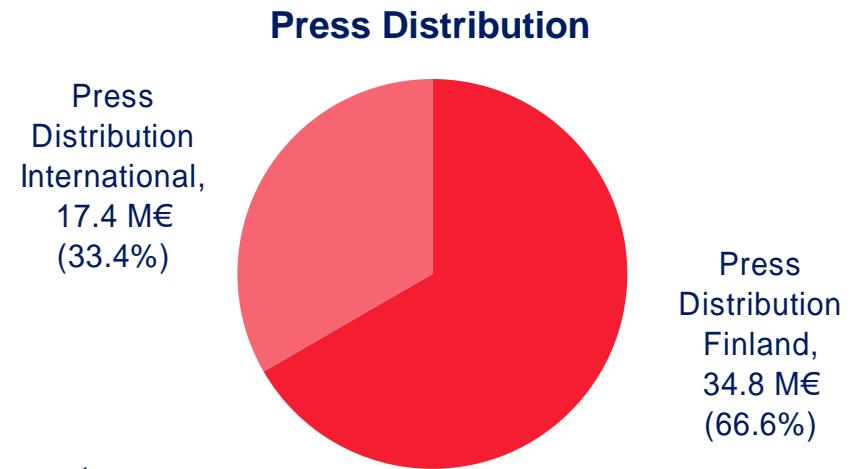
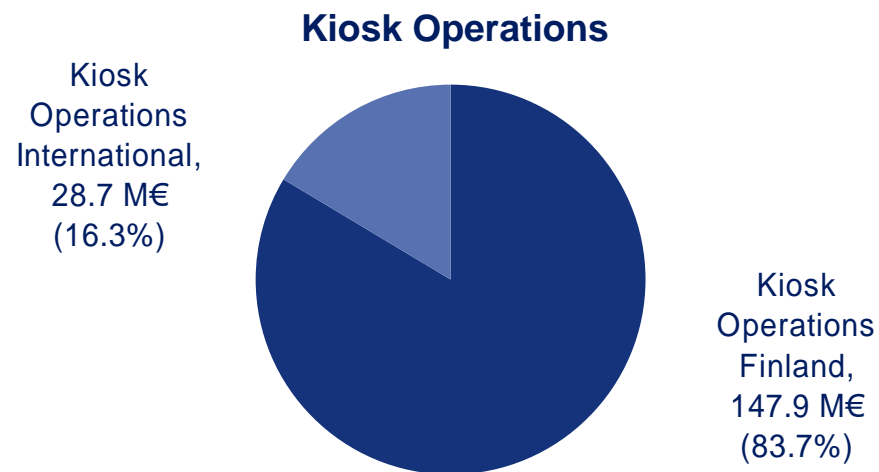
● **Kiosk Operations**
176.6 M€, 55.7% of net sales



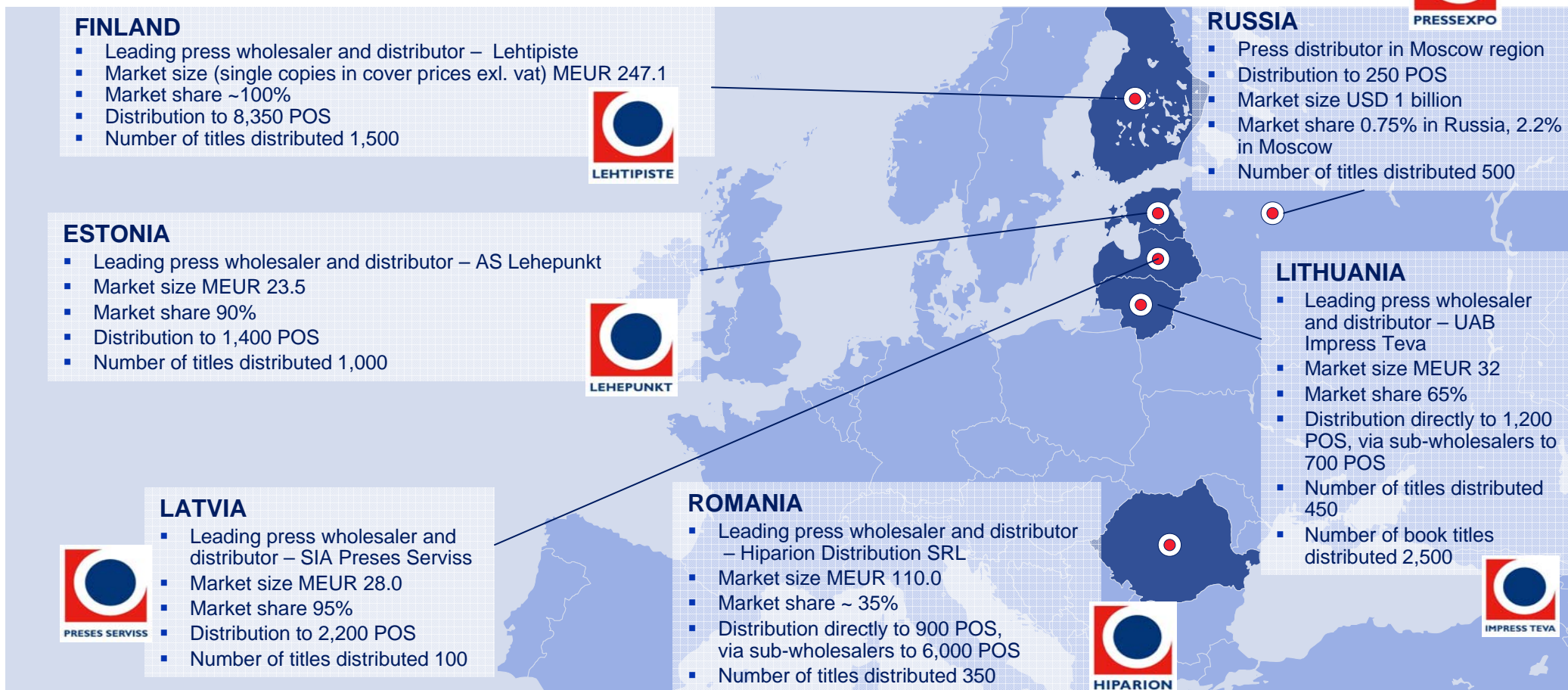
● **Press Distribution**
52.1 M€, 16.4% of net sales

Share of International Business

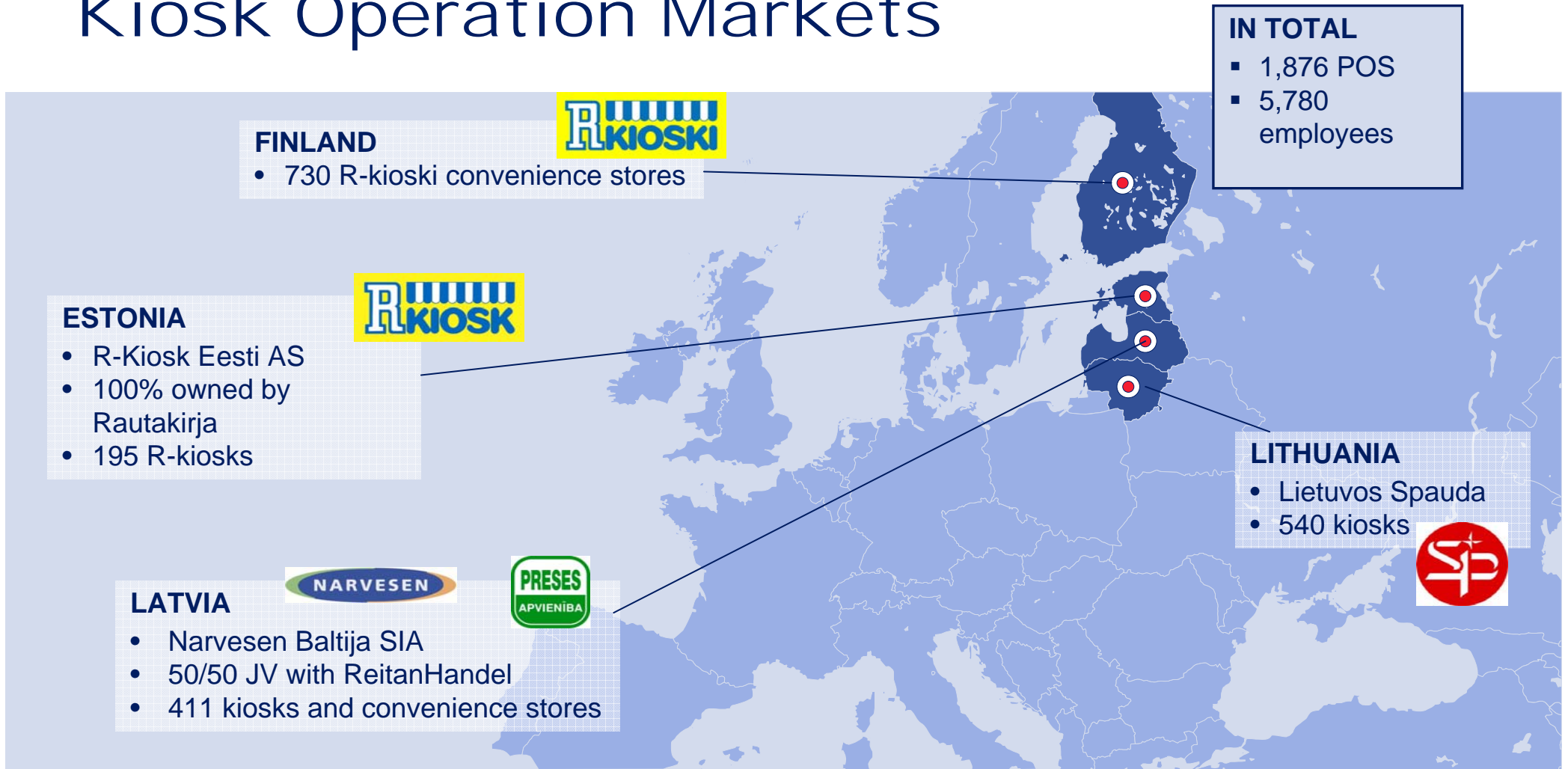
in 1-6/2006, EUR million (%)



Press Distribution Markets



Kiosk Operation Markets



Strategic Background 1/2

- Rautakirja has good track record in its existing markets and the appetite for bigger target markets has grown
- A thorough market analysis of press distribution in Europe has been made:
 - possibilities in the central eastern and eastern European economies



Major business opportunities exist in Russia & CEE countries

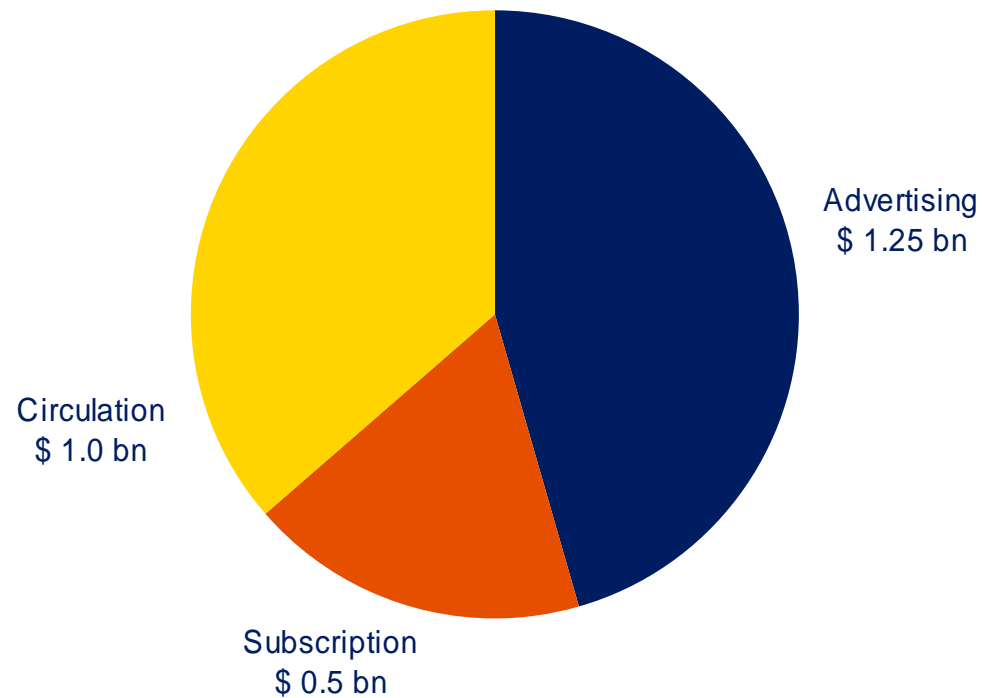
Strategic Background 2/2

- In the developing economies
 - the markets – retailers and publishers – are in need of a professional press distributor
- In the developing economies
 - the retail connection for press distribution is a must to strengthen the market position (more important than the connection with the publisher)
 - the markets are retail-driven
 - press distribution is "winner takes it all" business
- **For Rautakirja, press distribution includes both press retail and press distribution**

Strategic Fit to the SanomaWSOY Strategy

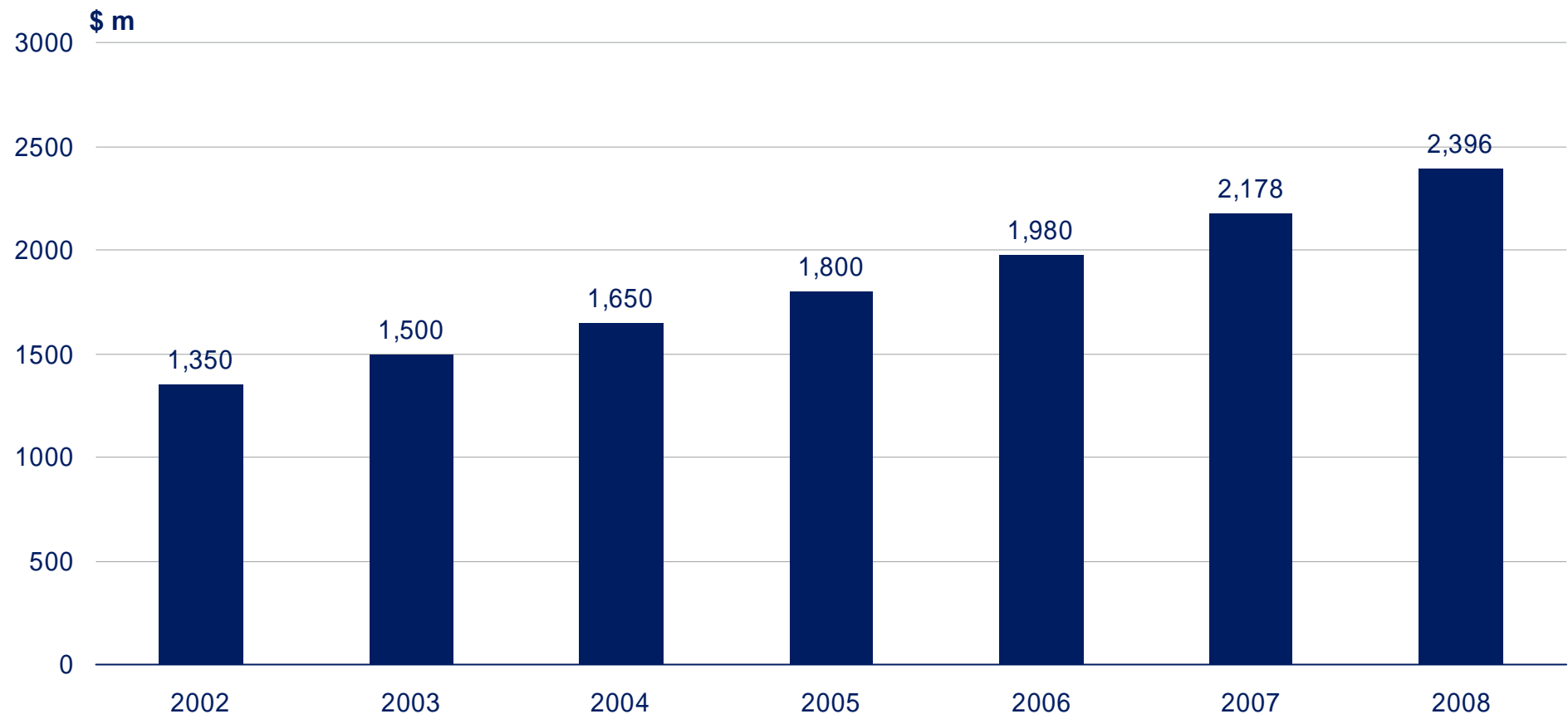
- SanomaWSOY already has strong presence in the CEE countries and in Russia
- The Russian press distribution and retail market is currently highly complex
- The state of press distribution is highly important to Independent Media and Sanoma Magazines
- There is major potential on the Russian market both in press distribution and in retail
 - ➔ possibility to achieve a strong market position
- The winner on the Russian press distribution market is the player, who has
 - a strong role in press retail
 - big volume
 - a strong market position
 - the ability to be the best partner for both publishers and retailers and able to strongly develop the business
- Rautakirja's entry to Russia successfully could create for SanomaWSOY a good position in the entire value chain: publishing – distribution – retailing

The Russian Press Market in 2004, \$ billion

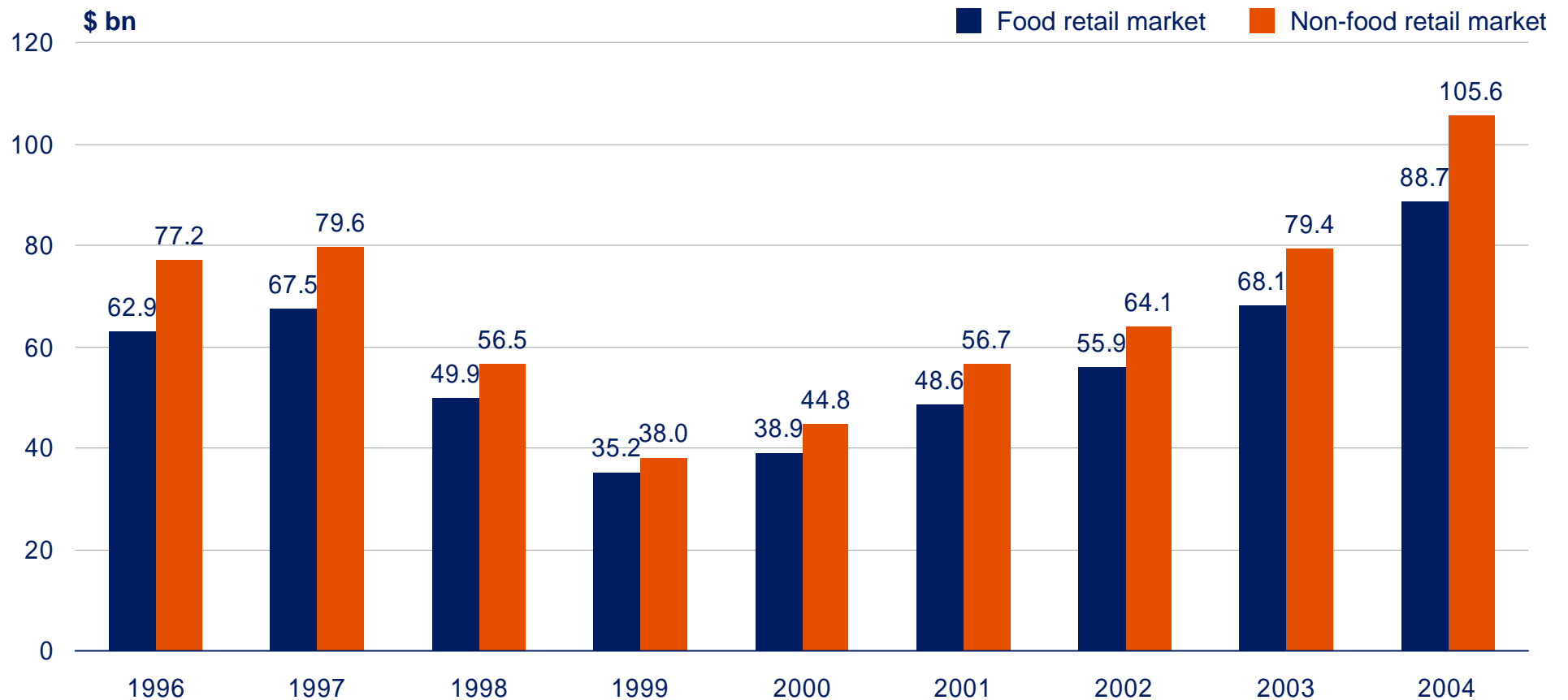


Forecasts of the Press Market Value

2002–2004 Actual, 2005–2008 Forecast



The Russian Retail Market



Press Distribution Channels in Russia

Traditional Press Distribution Channels

Kiosk

- a closed structure, one sales assistant
- assortment: periodicals and office materials
- press assortment: 300–400 titles
- Transport stop kiosk
- a kiosk under the same roof with a stop of above-ground city transport

Press stand

- easily erected construction equipped with a counter, one or two sales assistants
- assortment for one day is placed within
- press assortment: 300–400 titles
- position – preferably near metro stations and railway terminals

Autotonar

- a movable press kiosk
- normally truck body remodelled as a counter

Tonar

- a motor-vehicle trailer equipped for press sales

Street vendor

(a purely Russian phenomenon)

- a private tradesman selling newspapers and magazines “from hand to hand”
- press assortment: 30–40 of the best-selling items of newspapers and magazines
- selling – in the “rush hours” in metro, at the railway terminals, in commuter trains

Press Distribution Channels in Russia

New Formats of Press Distribution

Hypermarket

- a big self-service store, shopping area >2500 m²
- non-food items 35–40% of the assortment
- press assortment: 1,000–2,000 items

Supermarket

- a big self-service store, shopping area ≥ 400 m²
- non-food items about 30% of the assortment

Press mini-market

- a moderate self-service, area on average 60–80 m² (even up to 300 m²)
- specially equipped for selling books, newspapers, and magazines
- supplied by a distributor or a big wholesaler
- positions: at gas stations, in shopping centres, near metro stations and railway terminals
- press assortment at the gas stations: > 150 newspapers and magazines
- minimarkets are sometimes used not only for retail sales, but also as “Cash&Carry” stores

Pavilion

- a closed structure with sales equipment including shopping area and storage premises
- something like “information centres” have appeared where a visitor, besides purchasing newspapers and magazines, can pay for his mobile and access the internet

Press vending machines

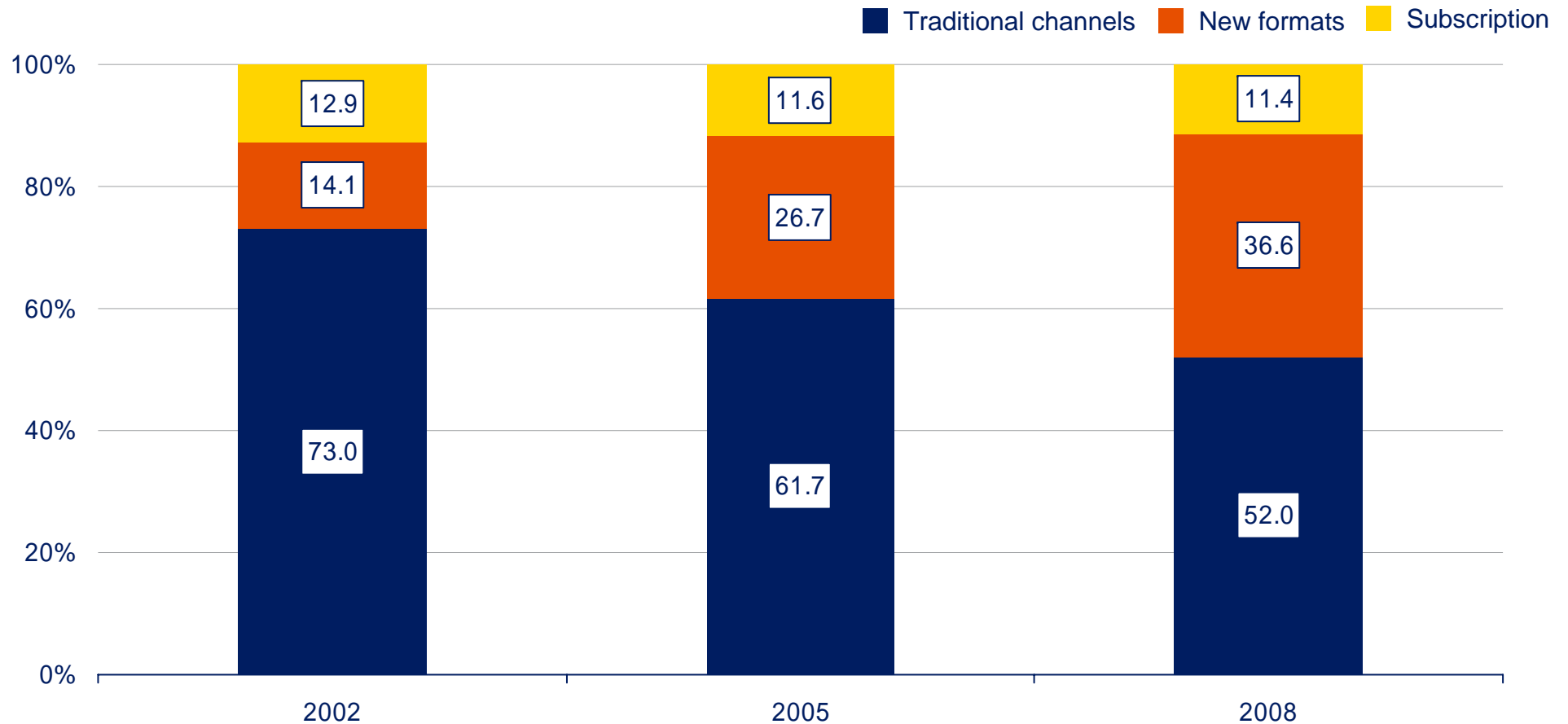
- placed in the Moscow metro and business centres
- offer 6 window-trays for newspapers, each tray holding up to 80 copies of each newspaper

Press supermarkets of “Cash&Carry” format

- supermarkets of this kind with an assortment of books, newspapers and magazines, office materials were opened by one of the largest book distributors, the “Top-Kniga” company, in Moscow, Jekaterinburg, and Rostov-on-Don

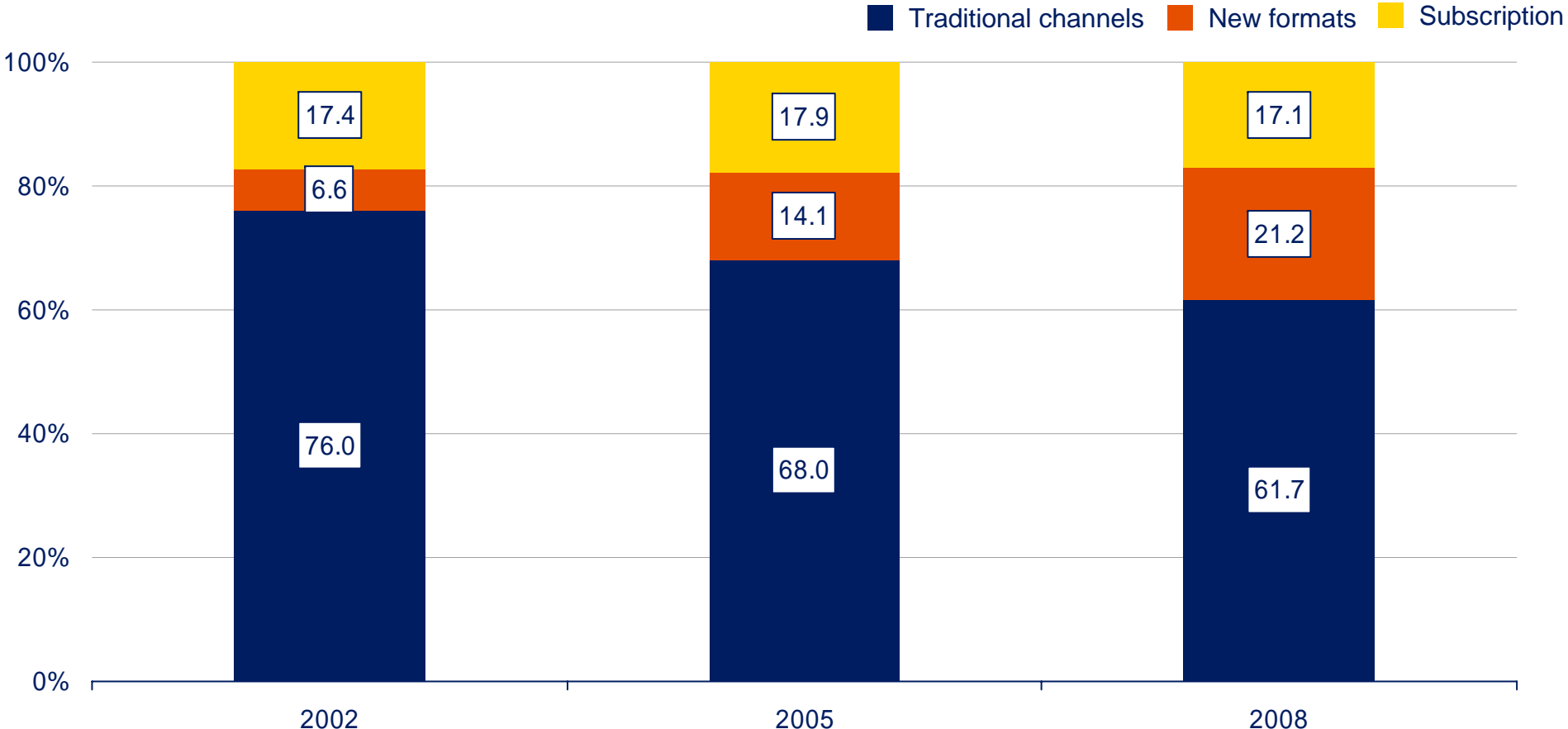
Press Distribution Channels

Moscow, %

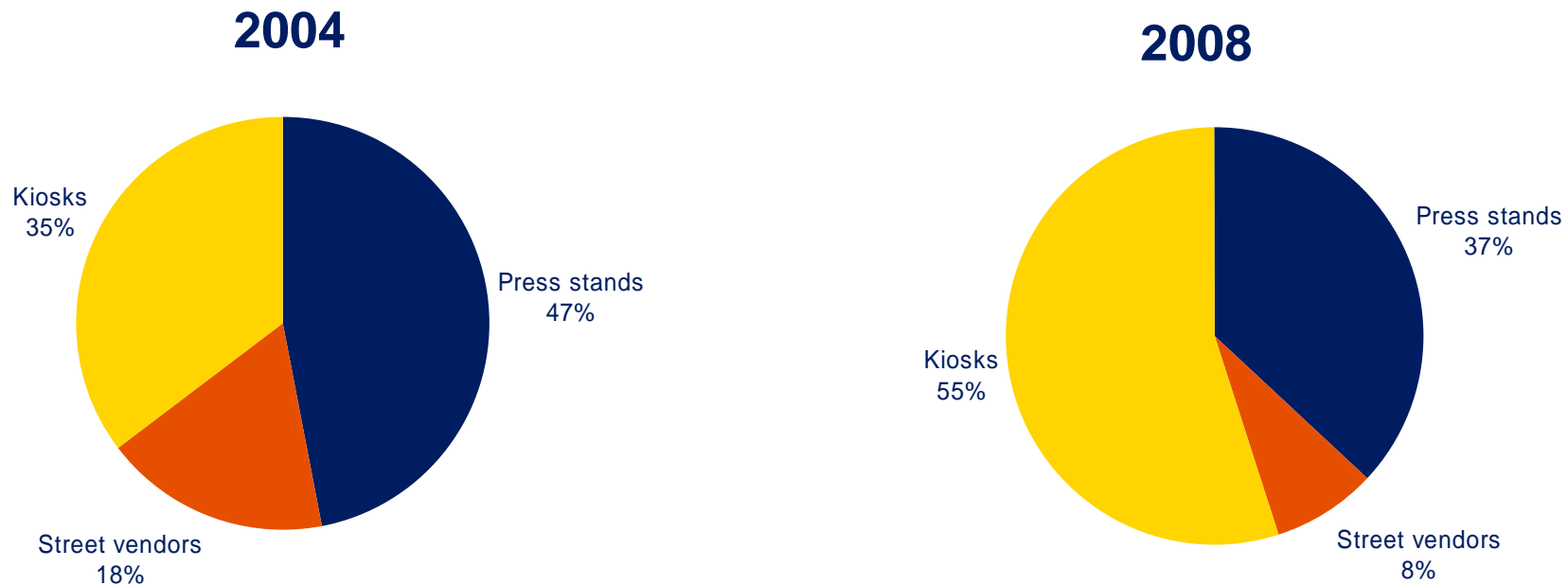


Press Distribution Channels

Expert Evaluation, Regions, %

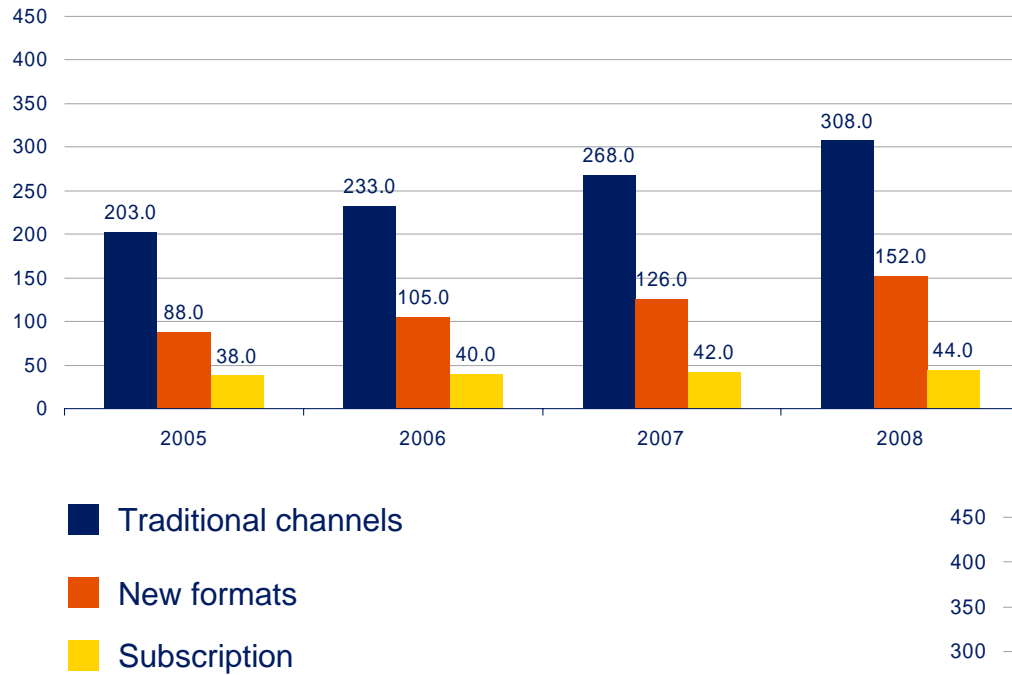


Forecast:
Press Distribution Segmentation
Traditional formats



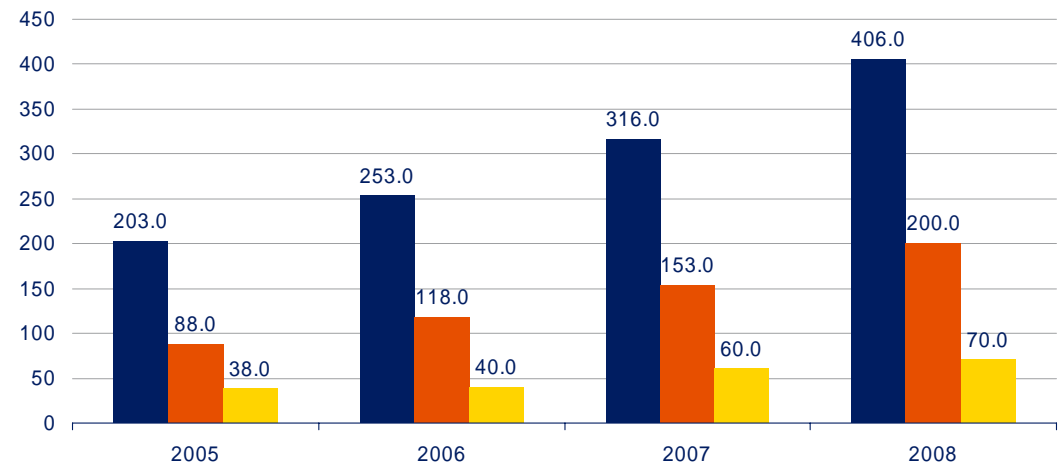
Although the share of the traditional market will decrease, the share of kiosks within this segment will grow significantly.

Press Distribution Market Growth in Moscow (\$ m).
Moderate Growth Scenario

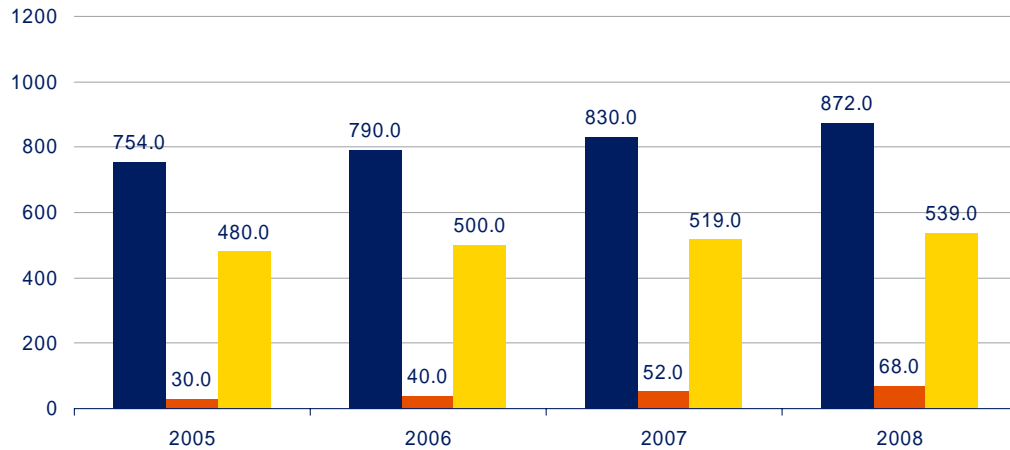


**In absolute terms,
the traditional market will
generate the highest
growth**

Press Distribution Market Growth in Moscow (\$ m).
Rapid Growth Scenario

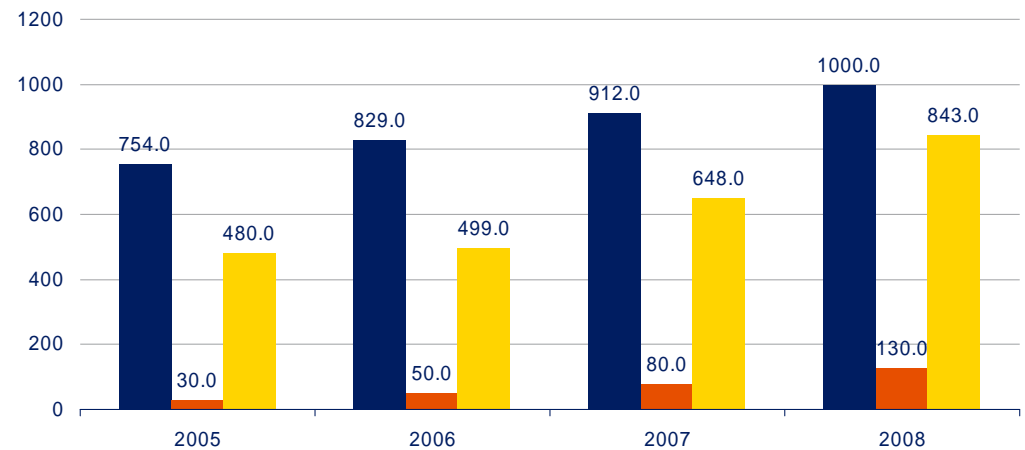


Press Distribution Market Growth in the Regions (\$ m).
Moderate Growth Scenario



**In the regions,
the role of new formats
will be modest**

Press Distribution Market Growth in the Regions (\$ m).
Rapid Growth Scenario



Conclusions on the Market Analysis

- The total market for press will **grow significantly** during the foreseeable future both in Moscow and in the Russian regions
 - Moscow now accounts for some 25% of the Russian press distribution market
- **The role of kiosks will remain important for several years to come**
- Press sales in kiosks will not decrease in absolute terms in the foreseeable future
- **Press sales in kiosks has potential for growth**
- NB! in the current market situation it is not advisable to acquire in Moscow a major network of traditional kiosks only
- Modern press retail will grow more (in percentages) than the traditional press retail
- The share of unorganized traditional press retail will decrease
- **Subscription business** in its current format will not grow significantly

Competitive Situation

- **Only one truly nationwide operator** in press distribution and press retail in Russia
- There are local competitors, some of them operating in more than one city
- On the whole, **the Russian press distribution market** is highly complicated and it can be divided into **three layers**:
 - **wholesale**
 - wholesalers deliver to smaller wholesalers and to retail chain customers who further distribute the press products within their own chains
 - **distribution**
 - distributors offer direct deliveries to retail clients such as supermarkets, gas stations, kiosks, cash&carries etc.
 - **retail**
 - includes traditional kiosks, modern kiosks, convenience stores etc.

Conclusions

On the Market Situation

- There are very many operators
- No single wholesaler controls big volumes
- Everyone talks about the regions and their importance – however, it seems that Arbi Sibir is the only one that has been able to achieve anything here
- Logistics is a real challenge with the regions
- Modern retail is growing rapidly with the aid of retail chains, whose expansion to the regions is under way
 - the impact of the western players is important
- Different publisher consortia have been created – two of them are clearly distinguishable on the market
- Publishers' greatest dilemma is to moderate the power of the retailers – and to make distribution more reliable and modern

Conclusions

On Subscriptions

- Subscriptions are underdeveloped in Russia
- Consumers get their subscriptions to the local post office, where they have to pick up their magazines themselves
- Many people subscribe their private magazines to their employers' address
- Interesting business potential is available through the modernization of the process

Conclusions

On Retail Chains

- Entry fee is a must everywhere
- A wide spectrum with numerous shades of marketing fees is quite commonly in use
- As no general cover price is used, the prices of magazines vary by retail chain
- According to normal practice, mark-ups are used; in this system, the wholesaler is the least guarded and even retro-bonuses are used
- Retailers mainly view the wholesaler only as a mere somebody taking care of logistics and who can be easily bypassed if need be
- Besides kiosk trade, press is a small product group with an insignificant role in the retail assortment and the store layout
- Press in store is generally taken care of by merchandisers who work for the wholesaler – not the store personnel; for this reason the wholesalers cost-structure is heavy

Challenges of the Russian Market

- Division of the market amongst the Russian players
- There are also development-minded Russian operators in press retail and distribution
- Nationalism vs. foreign investors?
- Statistic validity/credibility of data – challenges to valuation
- Differences of culture and of the negotiation culture
- Choosing/getting the right local partners
- Political climate
- Legislation and its development

Rautakirja's Vision of 3rd Party Distribution in Russia

- **Why 3rd party distribution?**
 - Supermarkets will create more and more customer flow and play a bigger role in press sales
 - Publishers are interested to be present in supermarkets
- **Why go to regions?**
 - Growth potential is bigger than in Moscow – in 2006, supermarkets have a 3% market share in the regions, and it is estimated to increase up to 17% in 2008
 - In Moscow, pressure by the supermarket chains to their supplier to move along with them to the regions
- **Which regions?**
 - St. Petersburg, Vladimir, Kostroma, Tula, Rjazan, Kaluga, Tver, Kazan, Nizhni Novgorod, Thselyabinsk – pressure from the chains to expand
 - altogether 28 regions (+ Moscow and St. Petersburg) could be interesting for business

Vision and Strategic Targets for Rautakirja in Russia

- To become **the leading company in single copy press distribution**
 - servicing all major modern retailers and all major Russian regions
 - creating a the strongest concept for press distribution, which meets with the needs of publishers, retailers, and our own retail
- To provide **for customers good accessibility to press products** by becoming **a major operator in press retail**
- To leverage **subscription business**
- **To profitably grow sales annually**

Through operations in both press distribution and retail, Rautakirja constitutes in Russia a superior and reliable distribution and marketing channel for press products.



LEHTIPISTE



LEHEPUNKT



PRESES SERVISS



IMPRESS TEVA



HIPARION



PRESEXPO



FINNKINO

