

# X5 Retail Group Builds a Post-Merger Unified Multiformat Organization

**Capgemini helps Russian food retailer X5 achieve a smooth integration toward a “single business” following the merger of two independent companies**

## The Situation

X5 Retail Group N.V. is Russia’s largest food retailer in terms of sales. It was formed in 2006 through the merger of two independent companies: Perekrestok, which operated convenience stores, standard supermarkets and city hypermarkets; and Pyaterochka, which operated “soft-discount” neighborhood stores.

The new company wanted to increase profitability while minimizing merger disruption and ensuring a smooth integration toward a “single business.”

## The Solution

Capgemini worked with X5 Retail Group to develop a standard and efficient multiformat regional organization, providing cost reductions and enabling the company’s aggressive growth strategy.

## The Result

The new unified organization is helping X5 achieve its integration objectives:

- implementing best practices from both companies
- finding and implementing synergies to increase operating profit and reduce expenses
- creating organizational structure and business processes (including multiformat regional offices) to support a high company growth rate
- creating a mechanism to integrate all companies from future merger and acquisition deals to support growth and consolidation of the sector.

## How X5 Retail Group and Capgemini Worked Together

Russia’s food retail market is attractive, large, unsaturated, with high growth potential and low competition. It is the fifth largest food retail market in Europe and the ninth largest globally, with an estimated value of US\$141 billion.

X5 executives believe that the new organization will enable the regions to be more efficient without delaying the company’s expansion plan. In addition, the unified structure enables cost reduction in the regions through staff restructuring (costs were reduced by 40% in the pilot region).



Rapid growth is expected as the Russian food retail business shifts away from the traditional open markets, pavilions, kiosks and traditional grocery stores toward modern retail formats such as supermarkets, discounters and hypermarkets. X5 forecasts the average annual growth rate of the total Russian food retail market for the coming five-year period at 12% per year. X5 predicts that by 2011 the modern formats will account for about 35% of the total Russian food retail market, up from 15% today. It is expected that the fastest-growing market segments during that period will be hypermarkets and discounters (with a compound annual growth rate of 39% and 33%, respectively).

Driven by an ambitious expansion goal, X5 Retail Group was created in 2006 through the merger of two independent retail companies: Perekrestok and Pyaterochka. Following the merger, X5 is now Russia's largest food retailer measured by sales and is the only retail operator in Russia with a multiformat range catering to the full consumer spectrum. With more than 1,000 stores operating under its banners, the company is the market leader in both Moscow and St. Petersburg, with a large and growing footprint in the Russian Regions, Ukraine and Kazakhstan.

Perekrestok operates convenience stores, with an average trading area of 400 to 600 square meters and 7,500 stock-keeping units (SKUs); supermarkets, 800 to 1,600 square meters with 20,000 SKUs; and city hypermarkets, 4,000 to 7,000 square meters with 35,000 SKUs. Most Perekrestok stores are open 24 hours a day.

Pyaterochka soft discounters are conveniently located predominately in Moscow and St. Petersburg, open seven days a week from 9 a.m. until 11 p.m., and offer 4,500 SKUs. The average trading area is approximately 600 square meters. The stores are operated with an "everyday low price" strategy.

The merger of the two organizations led to several key challenges, including instability at the headquarters level due to the fact that each region was organized in a different way. Capgemini was asked to help X5 develop a standardized, efficient multiformat regional organization. Four questions were addressed:

- what tasks have to be performed at the regional level?

- how many people are required for those tasks?
- what should be the relationship between headquarters and the regions?
- who should be hierarchically and functionally responsible for the people in the regions?

X5 and Capgemini carried out a series of interviews and workshops with the directors at headquarters and in the regions, established internal benchmarks in the different regions, and incorporated best practices from Capgemini's retail experience in France, in particular.

This process resulted in the production of several documents that serve as the foundation for the new structure:

- organization chart for the regions
- staffing model
- business processes, with a clear split of responsibilities between headquarters and the regions

- high-level management links between the directors of departments at headquarters and in regions, and with the directors of the regions.

X5 executives believe that the new organization will enable the regions to be more efficient without delaying the company's expansion plan. In addition, the unified structure enables cost reduction in the regions through staff restructuring (costs were reduced by 40% in the pilot region).

Capgemini provided X5 Retail Group with the necessary elements to complete implementation of the target structure across the company. These included a roadmap of all the projects to be launched, the corresponding action plan and the description of the required program management. The new structure has allowed the company to finalize the integration process and build a solid multiformat platform for further growth.



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In collaboration with



X5 Retail Group N.V. is Russia's largest food retailer in terms of sales. As of 30 September 2007, the Group had 573

company-managed soft discount stores located in Moscow (256), St. Petersburg (234) and other Russian areas (83); 163 company-managed supermarkets across Central Russia and Ukraine, including 101 stores in Moscow (Moscow region and Yaroslavl region); and 13 company-managed hypermarkets. As of 30 September 2007, X5's franchisees operated 627 stores across Russia and Kazakhstan.