

Features of warehousing in Russia



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While increasing trade and developing infrastructure in Russia, foreign companies face challenges establishing a distribution centre. In some cases, they consult with a real estate agency or directly contact the owner of a logistics park. For small inventories, the developer redirects the firm to a logistics provider that operates on its premises. Rental rates vary depending on the location, area of leased space, lease term and other commercial conditions. In other cases, companies plan the construction or purchase of a warehouse.

The warehouse market in Russia is highly developed. According to Knight Frank market research, the total quality warehouse stock in Russia reached about 23 million sq m in 2017, where 58% (13.4 million sq m) were located in the Moscow region, 14% (3.2

million sq m) in St. Petersburg and the Leningrad region, and 28% (6.4 million sq m) in the other regions of Russia. More than 350,000 sq m of quality warehouse space were put into operation in the Russian regions in 2017 (excluding the Moscow region, St. Petersburg and the Leningrad region), which was 27.7% higher than the delivery rate for 2016. Retailers historically formed the largest demand for warehouse space in Russia. Second place is occupied by the logistics operators segment.

According to forecasts by Knight Frank analysts, the volume of new construction in the regions in 2018 will exceed that of 2017. In 2018, the average Class A rental rates in the regions of Russia will be RUB 3,500/sq m per year, excluding VAT, operating expenses and utility payments. It should be noted that the construction cost of a built-to-suit warehouse complex for sale with an area of less than 10,000 sq m was RUB 35,000-40,000/sq m, excluding VAT.

570,000 sq m were delivered to the warehouse real estate market of the Moscow region in 2017, which is 20% less than in 2016. The total supply area reached 13.4 million sq m. At year end of 2017, the average rental rate for quality Class A warehouse space was RUB 3,700/sq m per year, excluding VAT, operating expenses and utility payments. The highest rates were

recorded in the western, northwestern and southern areas, and the lowest in the eastern and southeastern areas of the Moscow region. In 2017, the selling price of a built-to-suit project from 10,000 sq m was in the range of RUB 30,000-35,000/sq m.

In practice, many foreign companies outsource warehousing to a third party logistics provider instead of owning warehouse space in Russia and managing a distribution centre on their own. Choice between outsourcing and insourcing depends on a company strategy and differentiates by market. Some uses 100% in-house warehousing or minor outsourcing, others—major outsourcing. Generally companies develop their own warehousing on mature markets while outsourcing on small and emergency markets. Outsourcing warehouse operations they avoid many risks associated with low warehouse utilization and downtime, or the need to quickly increase the warehouse space. As a result, foreign companies benefit of one hand service, flexibility and space adjustment in line to the demand. They do not have headcount responsibility, non-core assets and equipment ownership.

The task of the third party logistics provider is to ensure uninterrupted shipments and high quality of service regardless of an increase or decrease in the customer's warehouse stocks.



Using internal reserves, the provider can quickly adapt to changes in the volume of the customer's products in order to provide the logistics service to meet their needs. In an unstable economic situation, outsourcing of warehouse logistics reduces risks and saves resources. This is very important for companies with seasonal business.

It is recommended to study the third party logistics market in Russia in order to find a professional and reliable logistics partner. Until the 2000s, foreign brands preferred to collaborate with a provider whose headquarter was located in the brand's country. This was due to the low quality of warehouse services in Russia. Today, the situation has changed dramatically. Logistics services market in Russia

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is characterized by a strong competition. Logistics operators have implemented European quality standards and adopted the best warehousing practices. There are large, medium and small-sized logistics companies on the Russian market. Some own warehouses in different Russian regions, others operate on the leased warehouse area. Large logistics companies provide a full range of services for all

industries, while small ones specialize on a limited range of services with particular kinds of goods.

The difficult 1990s in Russia left a negative impact on the logistics services market as well. There are still many firms that violate the legislative norms regarding taxation, labour laws, fire safety, etc. It is recommended to verify the company's constituent



documents, balance sheet, financial status, prompt submission of reports to the tax authorities, liability insurance coverage, etc.

Today, logistics providers in Russia use similar progressive technologies as their colleagues in developed countries, increasing the efficiency and improving quality of warehouse operations. They focus on increase in labour productivity, maximum utilization of warehouse space, and improving business processes. They implement software tools, install new warehouse equipment, broadly use lean manufacturing methods, expand the functionality of the warehouse management system, etc. As a result, logistics companies in Russia propose competitive commercial conditions. Furthermore, while collaborating with foreign customers they follow company's policies and Code of Conduct, work in company's IT system, fulfill company's Quality Standards, work on efficiency of projects, adopt and share best practices, fulfill agreed targets.

The project management team plays a special role in managing multi-client warehouses. It launches the operations of new customers, analyses the possibilities of automation and new equipment, and develops a description of work processes, storage and replenishment technologies. Large logistics companies in Russia have an internal department for software development. This makes it possible to quickly introduce IT tools and improve efficiency of business processes at all stages.

A convenient tool for requesting proposals of potential logistics partners is IT platforms such as Ticontact, Ariba, etc. The cargo owner downloads tender documentation, which is available to the selected list of candidates. On the first stage of the selection procedure called Request for Information (RFI) a candidate provides detailed information about a company: resources, warehouse space, location of facilities, work experience, references, required documents, etc. At the next stage, Request for Quo-

tation (RFQ), the candidate forms a tariff proposal in accordance with the specifics of the client's business. At this stage, it is extremely important to provide candidates with the most complete and detailed requirements for the warehouse, planned turnover of goods, particulars of processing, seasonal fluctuations, and characteristics of the goods. It allows the partner to plan his resources properly, form a competitive tariff proposal, and avoid the risk of disruption of operations during seasonal fluctuations. Oftentimes the cargo owner announces several rounds of RFQ. The last stage is personal meetings and visits to warehouses. Selection procedure of logistics partner is different for companies with small or medium stocks. Instead of using global IT platforms they address directly to logistics providers.

It is recommended to clarify a partner's expertise in storage and handling of similar products. The value of this factor increases if the goods are complex in terms of storage and shipping or require special permits and licenses. For example, parts, clothes, shoes, oversized equipment, fresh food, etc. There are a lot of peculiarities in the logistics operations for online stores as well. It is also recommended to find out which goods will be stored close to yours. Sometimes storage near a competitor's products or the strong smell of other goods is considered a negative factor.

A logistics company provides the client with a full range of services, as well as value added services. But usually cargo owners use services of several providers at the same time. Value added services include: delivery of products to retailers, information support for the sales network on

warehouse issues, handling returns, disposal of defective goods, packaging/repackaging, printing labels and labeling, preparation and promotion kits, assembly of goods, and pre-sale preparation. In the warehouse, a cargo owner can organise an exhibition or service centre, as well as additional production processes.

The key to the successful operation of the warehouse is uninterrupted data exchange with the customer's ERP system. In some cases, the logistics provider maintains accounting in its automated warehouse management system, which simultaneously transfers information to the customer's system via the data exchange interface. The client is also provided with a set of reports on his stock, balances, inventory results, etc. But usually when working with a large foreign client, the provider works directly with the client's ERP system.

When looking for a warehouse in Russia, special attention should be paid to security issues such as the security of the facility, the presence of video surveillance systems, fire safety systems, compliance with legislative standards in occupational safety and health, fire insurance, and a high level of information security.

In recent years, in addition to commercial conditions and quality, security requirements, global companies assess candidates based on such criteria as ISO 9001 certification and developed corporate social responsibility. Unlike developed countries, Russian firms often do not pay much attention to environmental aspects of activities. The provider's responsible approach to the environment is expressed in the transfer of waste for recycling only to licensed



firms, implementation of a plan to reduce waste volumes, raising the level of environmental culture of its personnel, and separate collection of production waste.

Warehouses use a lot of packaging. Tonnes of packaging material, cartons, wooden panels, and pallets get scrapped. Tablogix takes a non-typical packaging approach in the Russian market, reusing inbound packing material by making durable containers. Tablogix develops its own joinery and packaging production from used wooden and carton materials. It reduces the packaging cost and negative impact on the environment.

In recent years, warehouse facilities meeting high green construction standards have been built in Russia. They have been constructed in accordance with BREEAM or LEED international systems for environmental assessment of buildings. New facilities are characterised by high energy effi-

ciency and a healthier environment for staff. Foreign companies are usually among the investors or the tenants of this type of construction.

Despite some challenging political and economic conditions Russia remains a promising market for foreign companies. Development of logistics infrastructure is the priority of the government for the coming years. Market of quality warehousing in the country is relatively new and has specific features. Based on the strategy foreign companies establish their own distribution centres or outsource warehousing to the third party logistics provider. Outsourcing warehouse operations consider not only commercial conditions and priority location but also security issues, experience, technical equipment and advanced business processes. International quality standards, innovation technologies, lean engineering methods and ongoing improvements make warehousing in Russia an efficient part of a company's supply chain. ■