The Russian fashion market

Market Research Department
SCHNEIDER GROUP
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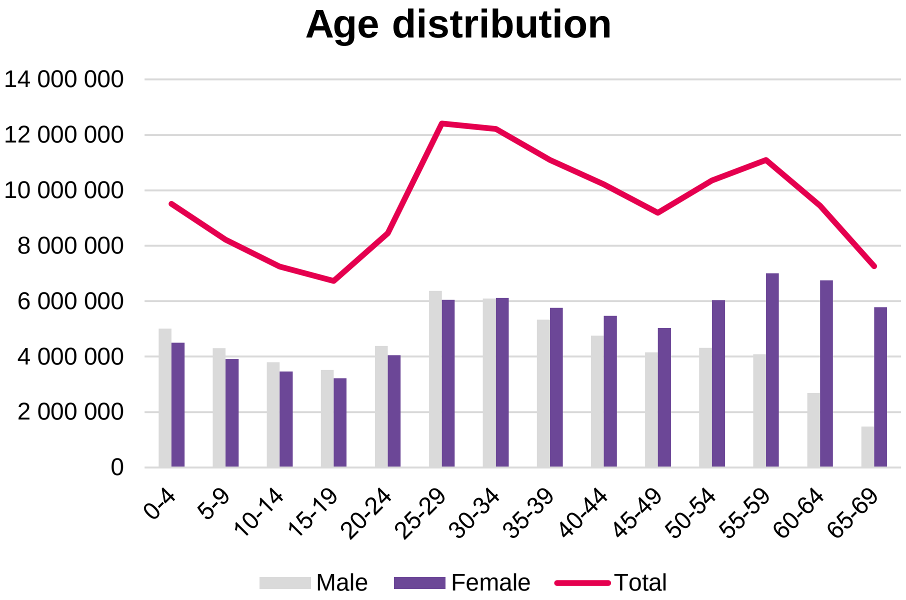
Russia – population

- Total population: 146m people
- Special characteristics:
  - Large target population for fashion
  - Centered around metropolitan areas
  - Attracted by Western life style through internet, social media, and television
  - Interested in modern shopping experiences



Russia – purchasing power

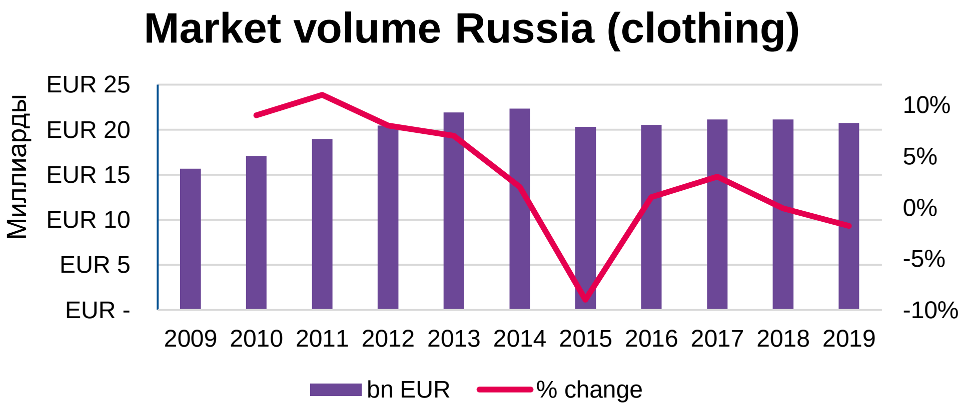
- Areas of prime interest for international brands are Russia's metropolitan areas, in particular Moscow and St.Petersburg
- Large purchasing power differences exist between regions, creating a favorable environment especially for companies serving clients in the **affordable segment**

Top-10 cities in Russia

City	Population	Average monthly salary in EUR
Moscow	12,615,279	1,298.62
- Moscow region	7,599,647	800.48
St. Petersburg	5,383,890	906.61
- Leningrad region	1,847,867	661.03
Novosibirsk	1,618,039	567.78
Yekaterinburg	1,515,832	598.52
Nizhny Novgorod	1,261,823	508.02
Kazan	1,251,969	549.41
Chelyabinsk	1,200,719	541.77
Omsk	1,164,815	507.53
Samara	1,156,644	528.41
Ufa	1,135,480	533.82

The Russian fashion market

- Market volume (2019):
  - 2.36 trillion Ruble (EUR 34b) (clothing, shoes, access.)
  - 1.45 trillion Ruble (EUR 21b) (clothing)
  - 235 billion Ruble (EUR 3.4b) online sales
- Segmentation:
  - 11% upper price segment
  - 24% in middle price segment
  - 65% affordable price segment



Brand penetration - entries

2019 Q1-3	14 entries	Balmain, DKNY Sport, Bape, Rains, Giorgio Magnani, Cult Gaia, Hackett, EA7, VFiles Yellow Label, Off-White, Loewe, Sandro Homme, Birkenstock, Jonak
2018	19 entries	Adolfo Dominguez, Agnona, Alpha Industries, COS, Nudie Jeans, Karl Lagerfeld, Liu Jo, Coach, Lipault, Gap Kids, GEOX Kids, Coccodrillo, Panco, Modern Easy Kids, NaturaPura, Orsay, Tommy Jeans, Billionaire Italian Couture, Dirk Bikkembergs
2017	22 entries	Ahimsa, Aquazzura, High be Claire Campbell, Koton Jeans, L.K.Bennet, Mandarina Duck, Mauboussin, MC2 Saint Barth, Mirdada, Peter Kaiser, Zanellato, Zlocci, Hanro, Barracuda, Il Gufo, Mimioriki, Comma, Larusmiani, Lescon, Under Armour, PleinSport
2016	15 entries	Charlotte Olympia, Demurya, John Varvatos, Ferutdin Zakirov Atelier, Ravazzolo, Love Stories, Veta, Victoria's Secret Pink, Aigle, Burvin, Armani Exchange, Lion of Porches, Barbour, Jil Sander Navy, O bag

Brand penetration – The year 2020

- In 2020 the following brands are expected to enter the Russian market: &OtherStories, WeekDay, Urban Revivo, Minimi, Poney Group, a.o.
- Financially strained customers represent a significant factor of growth in the affordable fashion segment in the foreseeable future, due to down-trading effects, as long as significant economic reforms remain in waiting.

Brand penetration

City	Number of int. brands, % of all	Number of outlets, int. brands
Moscow	86%	3,864
St.Petersburg	42%	1,233
Yekaterinburg	33%	348
Krasnodar	28%	357
Rostov-on-Don	25%	272
Kazan	21%	200
Novosibirsk	20%	238
Samara	18%	206

- The **affordable price segment** makes up 70%-85% of all brands in the country
- The **medium price segment** makes up 8%-15% of all brands in the country
- Except for Moscow, St.Petersburg, and Yekaterinburg, **luxury brands** are only represented in multi-brand stores throughout the country

Brand developments

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- The period between the years 2014-2017 was characterized by **rapid expansion** of foreign brands into Russia. Since then the pace has slowed and made way for **market share** rivalry.
- Between 2013-17 **significant revenue growth** had been recorded, e.g.: Kari (307%), H&M, Monki (177%), Reserved, Cropp, House (172%), Inditex (88%), O’stin (57%), Gloria Jeans (47%)

Russia’s fashion retailers

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Fashion retailers

Company name	Revenue in EUR
Sportsmaster	1.57b (+12%)
H&M	621m (+23%)
Zara	511m (+2%)
Uniquo	175m (+48%)
Massimo Dutti	163m (+8%)
Mango	155m (+35%)
Berksha	143m (+3%)
Pull & Bear	117m (+6%)

Online fashion retailers

Company name	Revenue in EUR
Wildberries.ru	1.05b (+74%)
Lamoda.ru	555m (+14%)
Bonprix.ru	162m (-6%)
Witt.ru	125m (-35%)
Kupivip.ru	96m (-13%)

Brand entries assisted by SCHNEIDER GROUP

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MARCCAIN

BOGNER

SWAROVSKI

DEICHMANN

olsen

KANZLER

Segment development

- While the high price segment managed to maintain its market share
- The low price segment has constantly increased its market share at the cost of the medium price segment
- Driver for differentiation was the economic crisis in Russian between 2014-2017 that shifted consumer behavior downwards

Year	High price segment	Medium price segment	Low price segment
2014	10%	39%	51%
2015	10%	30%	60%
2016	10%	25%	65%
2017	10%	25%	65%
2018	11%	24%	65%
2019	11%	23%	66%

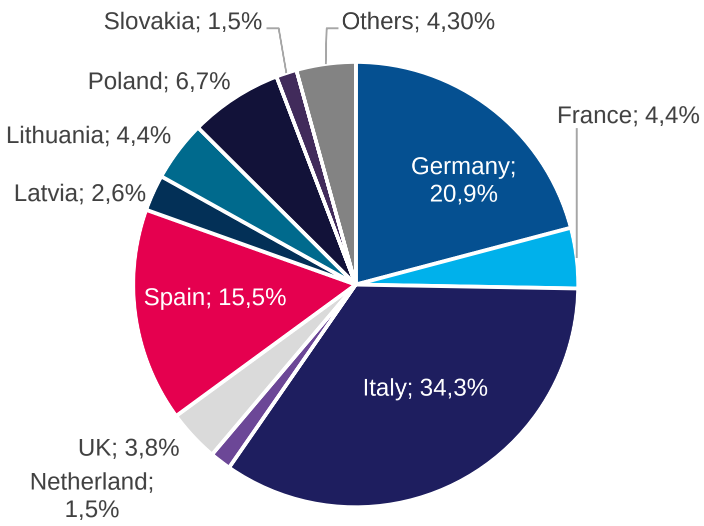
Import dependence

- The total value of imports of apparel from the EU to Russia was **EUR 1.14b** in the 1st half of 2019

Mayor categories for import

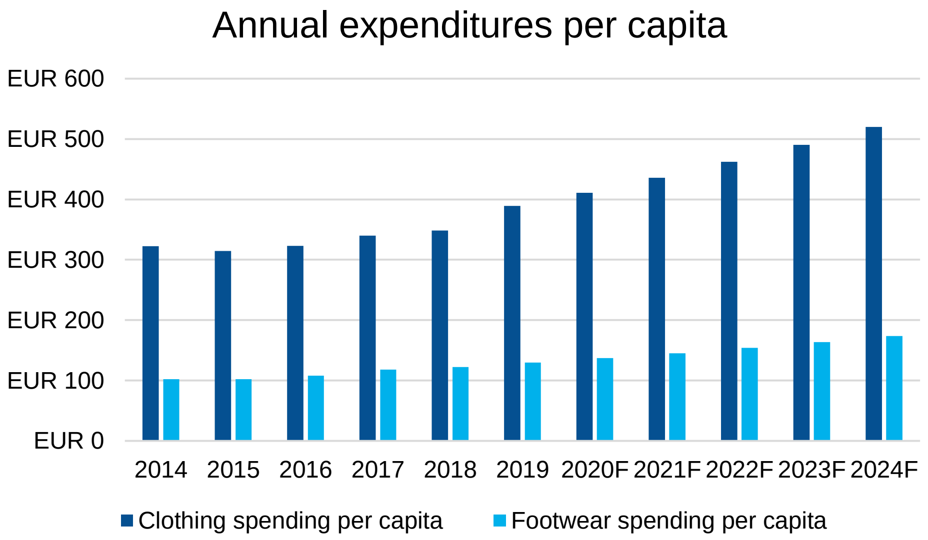
Women & girls	***Men & boys***
Coats & outdoor jackets	Coats & outdoor jackets
Dresses	Trousers
Trousers	Sweaters & cardigans
Sweaters & cardigans	Business shirts
Blouses	T-shirts
Brassieres	Suits & combinations
Singlets & undervests	Singlets & undervests

Import from EU-countries to Russia



Consumer behavior

- Russian consumers spend on average **EUR 389 on clothing** and **EUR 130 on shoes** p.a.
- **Consumer spending growth** is expected to be around **6%** p.a. in 2020
- Despite increasing online shopping activities by consumers, stationary retail outlets (e.g. in **shopping centers**) remain an important point of contact for consumers

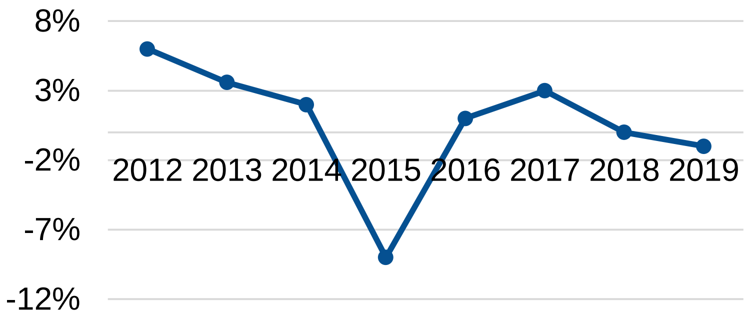


Market trends (1/2)

OFFLINE MARKET DYNAMICS

EUR 34b
Market volume

-1% (2019)



ONLINE MARKET DYNAMICS

EUR 3.4b
Online market volume

+ 27% (2019)

The growth of the Russian fashion e-commerce market in 2019 amounted to about + 27%.

Market trends (2/2)

55%

Exclusively Offline Buyers

47%

Multichannel Buyers

1%

Exclusively Online Buyers

Brands need to be present through different channels, and create a 24/7 and 360° experience for customers.

Browsing through collections, acquiring information about products, getting inspired is done through Instagram, YouTube videos, blogs and chat bots in instant messenger formats. Even payment is done through 3rd party applications.

Retail infrastructure

- 67% of brands new to Russian SCs in 2019 came from the apparel industry

Shopping centers (SC)	Moscow	St. Petersburg	Russia
Stock (GLA in million sq. m)	7.3	3.1	27.8
SC completions in 2019 (in sq. m)	540,000	129,000	972,000
Saturation (in sq. m per 1,000 of population)	534	574	190
Vacancy rate in SCs	8.6%	2.8%	-

- Currently smaller retail centers (<20,000 sq. m) are becoming increasingly popular, since more slots are available and customers dread long commutes to larger SCs. On average 2-3 of the former open in Moscow every quarter.

Retail infrastructure

- **Shopping centers** all over the country are currently redesigned to attribute to customer’s increasing demand for entertainment, in addition to the mere shopping experience.
- Cities in the **regions** continue to attract SCs of smaller scale, which often become main outlets for brands in these regions and attract a wide public from surrounding areas.
- Estimated **rental prices** in large SCs in Moscow for companies of the category of Primark and a 4,000 sq. m store*:
  - 8-10.000 RUB/sq. m/year (EUR 120-150)
  - Service fee ca. 6.000 RUB/sq. m/year (EUR 90)
  - 6% turnover share

* Commercial details subject to individual negotiations

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