

Are Italian companies ready for the Russian fashion market?



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Milan, November 22 2016



IC&Partners offices in Moscow:

- IC&Partners Russia
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It is not (only) a matter of sanctions and worldwide crises



The drivers that have influenced the Russian economy over the last three years



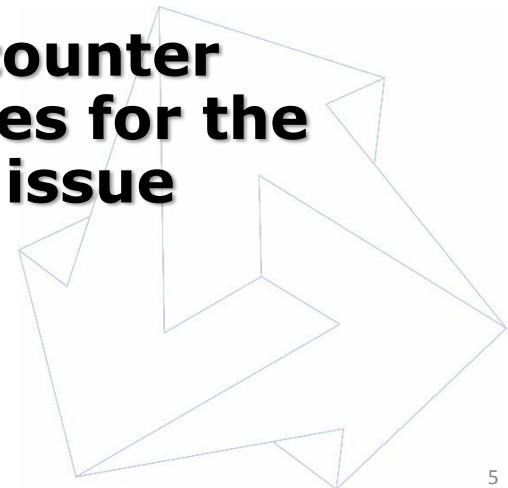
Fall of oil price over the world



Rouble devaluation



Sanctions and counter sanctions policies for the Russia-Ukraine issue



The Russian intervention in Ukraine prompted some Governments to apply sanctions against certain subjects and goods



Subjective

They refer to **149 people and 37 entities** that are subject to a freeze of their assets in the EU.






Objective

Restrictions on economic relations with Crimea and Sevastopol: **import ban on goods** from Crimea and Sevastopol, restrictions on trade and investment related to certain economic sectors and infrastructure projects, **export and import ban on trade in arms, export ban for dual-use goods**, curtail Russian **access to certain sensitive technologies and services** that can be used for oil production and exploration. In general: fruit, vegetables, dairy products, fish, treated meat.

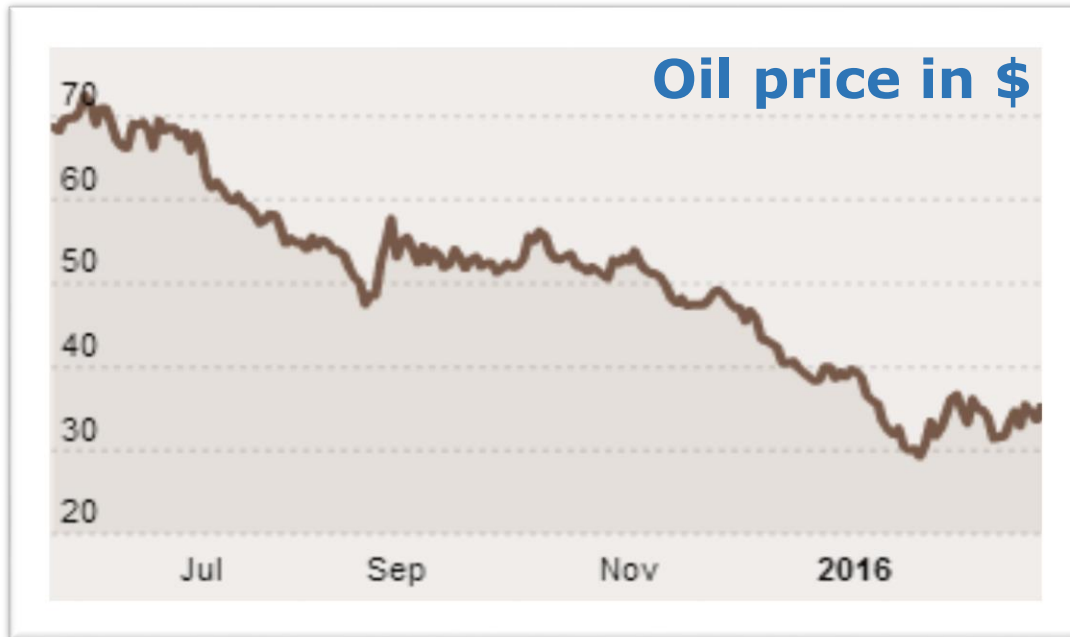
On 1 July 2016, the Council prolonged the economic sanctions targeting specific sectors of the Russian economy until **31 January 2017**.

Russia, starting from 16 September issued a special Law Decree (no. 233) stating a «preference» for the Russian products with respect to imported ones especially for tendering and auction procedures. Moreover, starting from 2017 the «preference» towards Russian production shall amount up to 15% on the bid presented in tenders and auctions.

To check the updated list of subjects and goods involved in sanctions:

-  http://europa.eu/newsroom/highlights/specialcoverage/eu_sanctions/index_en.htm
-  http://www.ambmosca.esteri.it/Ambasciata_Mosca
-  <http://www.mid.ru/bdomp/sitemap.nsf>

- 🇷🇺 Counter-sanctions applied by Russia are against a number of **countries**: EU, USA, Canada, Norway and Australia
- 🇷🇺 Counter-sanctions refer especially to Russian **public institutions** that cannot purchase certain goods from the above Countries:
 - 🇷🇺 Apparel, fabrics, shoes, leather, luggage
 - 🇷🇺 Means of transport
 - 🇷🇺 Medical devices
 - 🇷🇺 Medicines, according a special list of them
 - 🇷🇺 The Russian Government bans the export of leather from
Russia



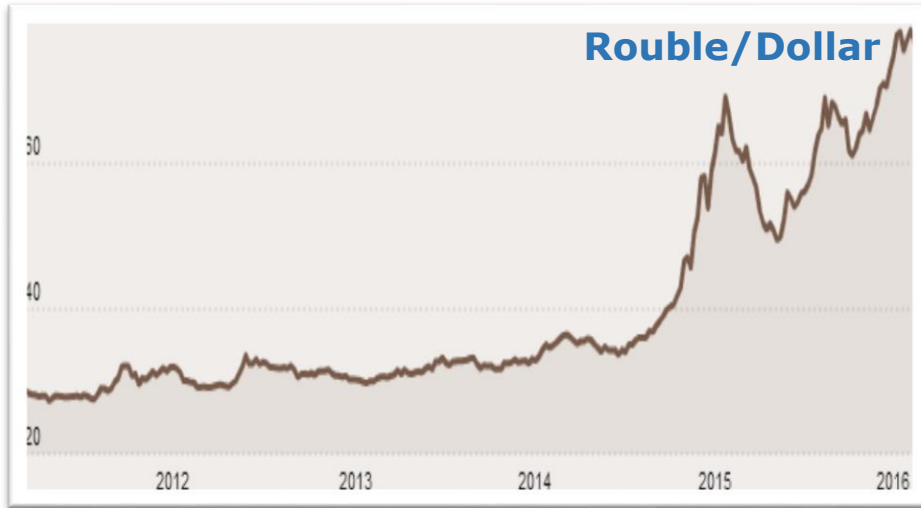
Source: Sole24ore

- 🇷🇺 The fall down of oil price the most important financial source of Russian economy

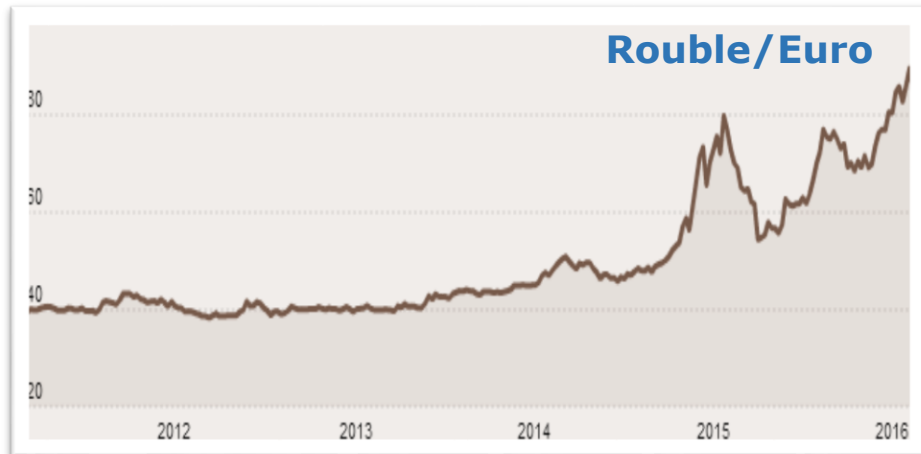


- 🇷🇺 Lower revenues from the sale of petroleum
- 🇷🇺 Higher price of foreign goods – that have a strong appeal on Russian consumers
- 🇷🇺 Higher interest rates from the banks to companies
- 🇷🇺 The first fall down of Russian GDP after 5 years of growth

Rouble, Euro and Dollar

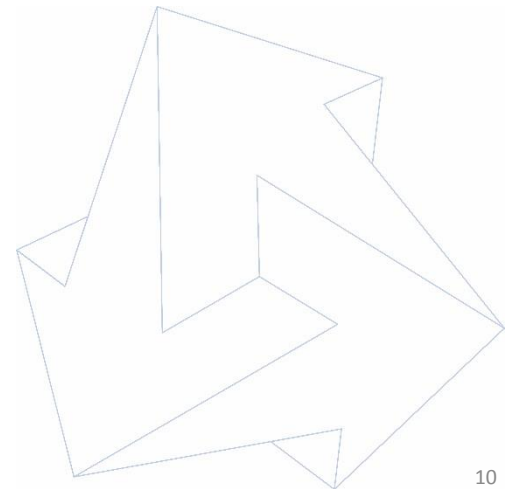


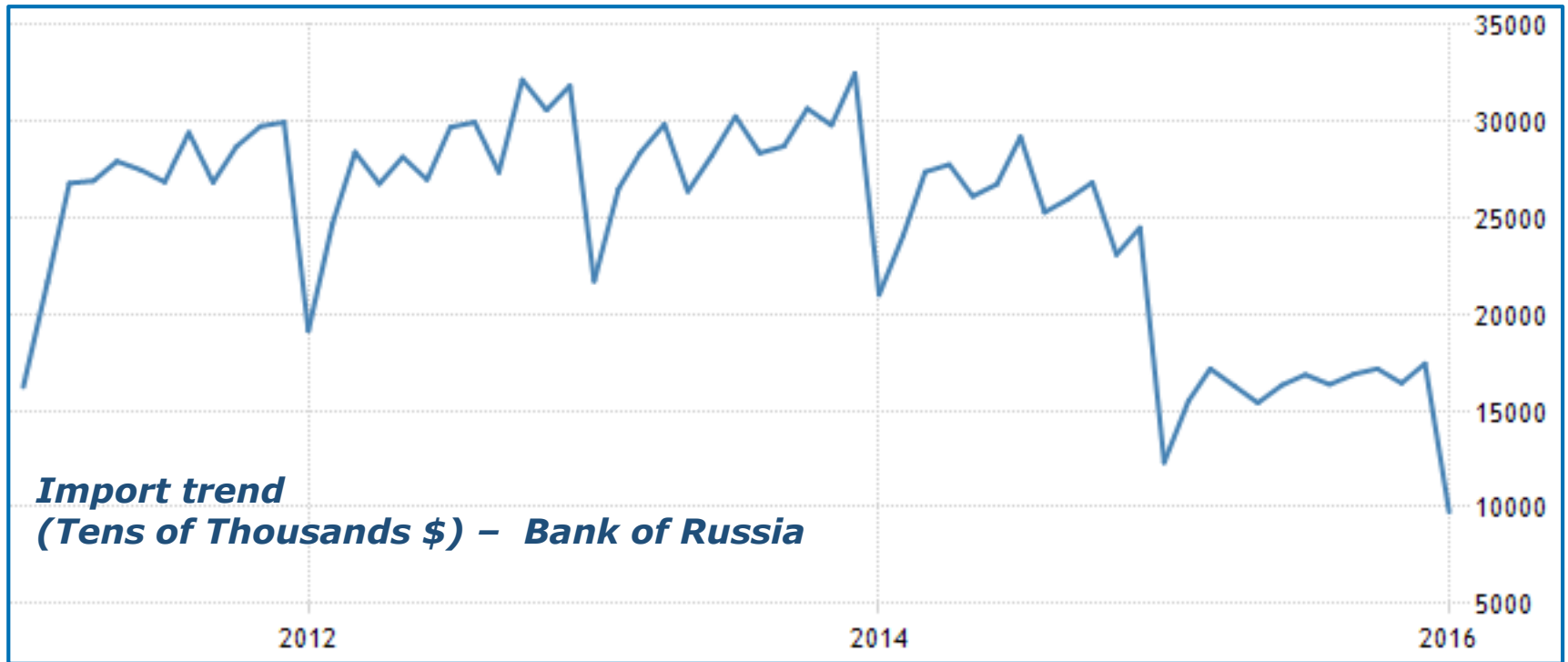
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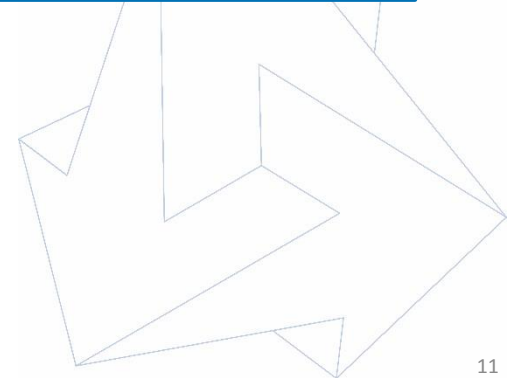
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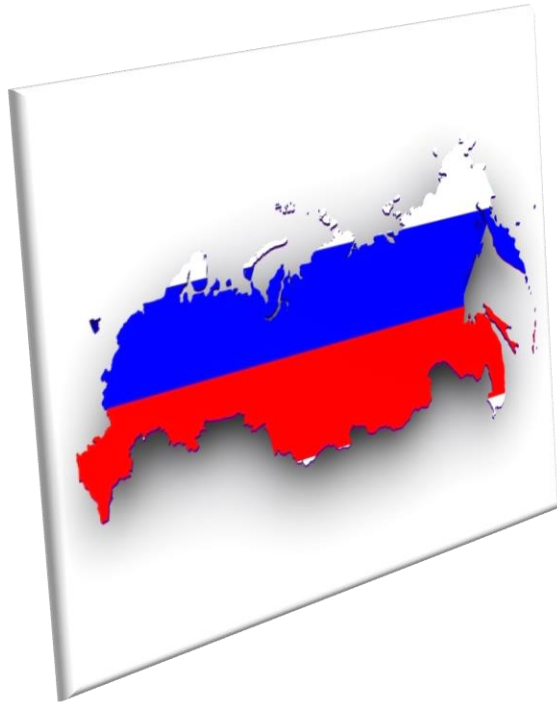
The devaluation of Russian Rouble in relation to US Dollar and Euro – has brought about more problems to export and the reduction of purchasing power





Import Substitution Policy





The entry of Russia in the WTO - World Trade Organization - on 22 August 2012 means:

Reduction of customs duty 10% to **7,8%** - average value

- 🇷🇺 Reduction of customs duty in the fashion sector **19,6%** to **14,5%** - average value
- 🇷🇺 Import quota system
- 🇷🇺 Re-scheduling of the rates: ad valorem/not ad valorem

Formal reduction of non tariff barriers:

- 🇷🇺 **Sanitary and phytosanitary measures** – SPS – agreement
- 🇷🇺 **Technical barriers to trade** – TBT - agreement encourages members to base their measures on international standards to facilitate the trade:
 - 🇷🇺 to refer to international standards, like ISO
 - 🇷🇺 to define a unique certification organization on national basis – and to avoid proliferation of “un-official” organizations

Reduction of support from the Russian Government

EAC, the new product certification process

-  The certification process has changed from GOST to **EAC** system in 2010 with the birth of the **Eurasian Custom Union** - Russia, Belarus, Kazakhstan, Armenia, Kirghizstan (Vietnam in progress) – with the aim to facilitate the economic exchange among these countries.
-  The EAC certification of products is mandatory and for each kind of goods there is a specific **Technical regulation system** to refer to: **TR TC 07/2011-17/2011** – that refers to adults and children wear.
-  For apparel and fashion items the transition period finished on July 2014.



- 🇷🇺 The Applicant is a representative for the foreign producer and this is a brand new role requested by the Technical Regulation System of the EAC. He is a legal Representative.
- 🇷🇺 The Applicant must be a Russian entity/subject – or from one of the Countries of the Eurasian Economic Union.
- 🇷🇺 The Applicant bears legal responsibility in front of the relevant Russian Authorities with regard to conformity and marking of the goods, as well as any possible damage to consumers caused by those goods introduced into the Customs Union.
- 🇷🇺 The Applicant had better be defined with a special Contract between the Producer and the Applicant himself – this is actually a proxy which is valid solely for the Certificates in respect of which they are issued. But if the Contract becomes invalid, also the related Certificates become invalid.



Pambianco, 15th November 2016

"Starting from this summer, we have evidenced a certain increase in the presence of Russians back in Italy. The Russian Rouble exchange rate is getting higher, thanks to oil price that is gaining ground, and this is a positive effect on the Russian economy. And more, sanctions will stop after January 2017"

Russian import: Products and Countries

- Mechanical tools and Machinery (30,1%)
- Chemicals (12,8%)
- Means of transport (11,5%)
- Metals(6,4%)
- Agricultural products (6%)
- Plastic (5,6%)
- Agri-food and wine (4,7%)
- **Fashion (4,5%)**

Import by Product

- China (19%)
- Germany (10%)
- USA (6%)
- **Italy (4%)**

Import by Country

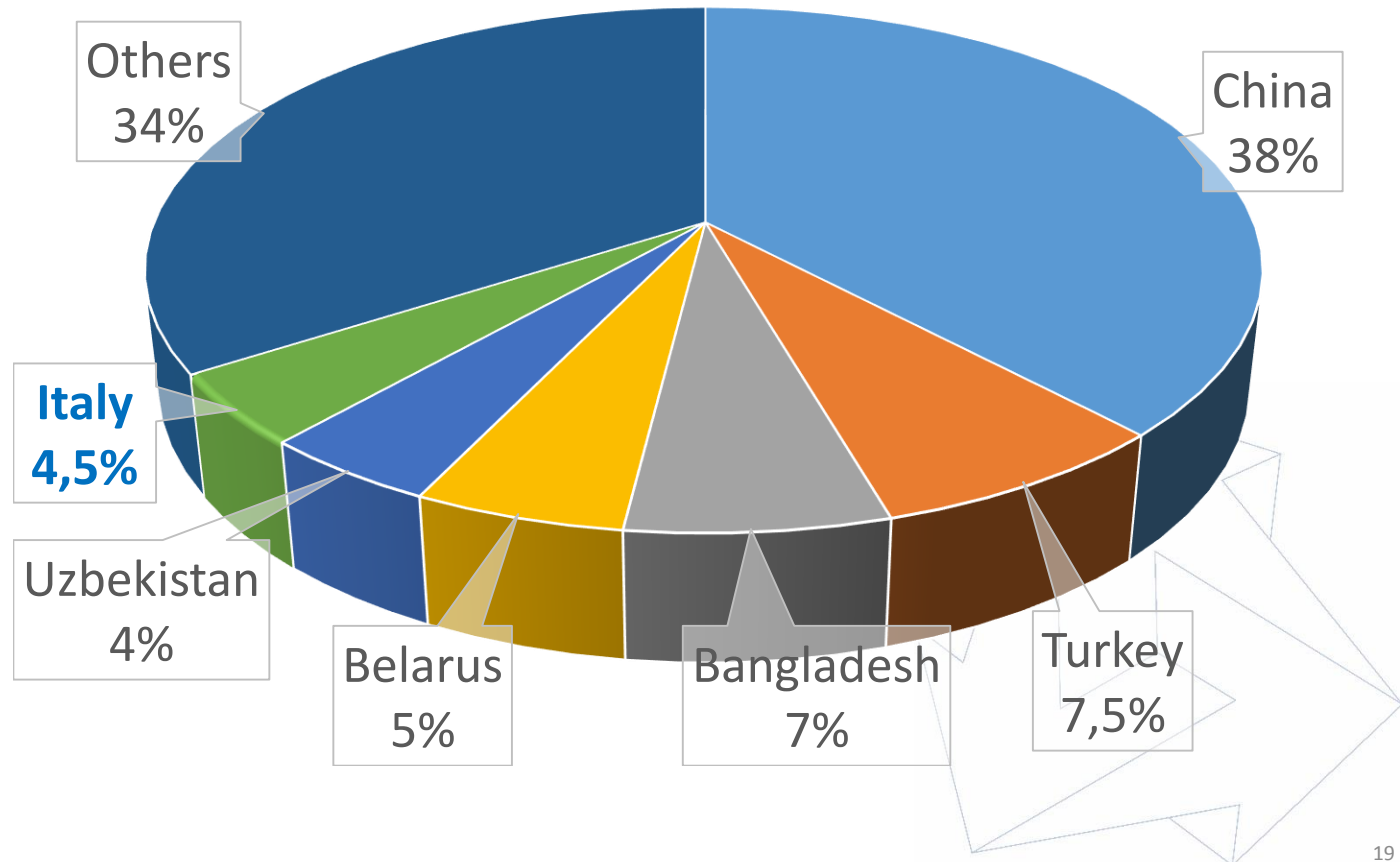
Export by Product Group Italy to Russia

%	Export from Italy to Russia - 2015
11,3%	Machinery
9,4%	Textile and clothing – except fur products
16,2%	Special machinery
6,4%	Furniture
4,7%	Footwear
3,2%	Parts and accessories for metalworking machine tools
3,1%	Pharmaceutical
2,4%	Motors/engines
2,2%	Chemicals
2,1%	Plastic
2,0%	Detergents and Cosmetics

Russia: Import of fashion/apparel

Import of textile and clothing is 4,5% (2105) of the total Russian import with a share of more the 8.2 Billion Dollars

Countries -2015



Market structuring

Market Share

Retail average price

Retail Channel

Country of Origin

15%

Luxury
150-300 €

Luxury mono-brand shops
and multibrand boutiques

Italy

Premium
150 €

Monobrand Luxury
multibrand boutiques

**Italy, France,
Germany, Switzerland**

20%

150€
Medium -High
50 €

Specialized mono and
multibrand shopt,
department stores,
independent shops

**Italy, France,
Germany, UK, Finland,
Austria**

30%

50€
Medium price
20 €

Retail chains mono-brand
and multibrand, dep
stores, distance retailers

**Russia, Spain, Sweden
Germany, Italy,
France, Turkey, UK,
Finland, USA, Poland**

25%

20 €
Medium low price
10€

Local retail chains
monobrand and
discounters

**Russia, China Turkey,
Bielorussia Eastern
Europe**

10%

10€
Mass market cheap price
5 €

Open air markets

**China, Turkey, Russia,
Central Asia**

Main retail channels in Russia: where are they going?

Category	Price range	Market share	Estimated POS	Trend
Open-markets, Mass Market and kiosks	Low	20 %	> 3,500	↘
Discount multibrand stores and hypermarkets (METRO, REAL, MARKTKAUF) Russian Discounters , Russian casual cheaper clothing chains , clothing chains like (SELA)	medium-low	19 %	> 2,000	↗
Overseas and Local mono-brand retail (ZARA, H&M, MANGO, BENETTON, RESERVED, NAF NAF, OLSEN, NEW YORKER, TVOE, OODJI, GLANCE, INCITY, SAVAGE, BAON, O'STIN, GLOOM, MODIS, BEEFREE/ZARINA, VESH...)	From medium low to medium	24 %	> 5,000 (1,000 foreign)	↗↗
Distance retail, postal catalogues and online retail (Otto Group, KupiVIP, lamoda.ru, wildberries)	Medium	2 %	> 15	↗↗
Multi-Brand chains and Department Stores (HOLDING CENTER, LADY & GENTLEMAN CITY,PODIUM, FASHION CONTINENT, SNOW QUEEN, MODAMO, MOSKOVSKIY, PROKOVSKIY, MARKS+ SPENCER, new: DEBENHAMS)	From medium to medium-high	15 %	> 600	↗
Multibrand specialty stores and boutiques, small regional chains	From Medium to High	12 %	> 3,000	→
GUM, TSUM, LEIPZIG, VESNA, CALIGULA	da premium a lusso	8%		→

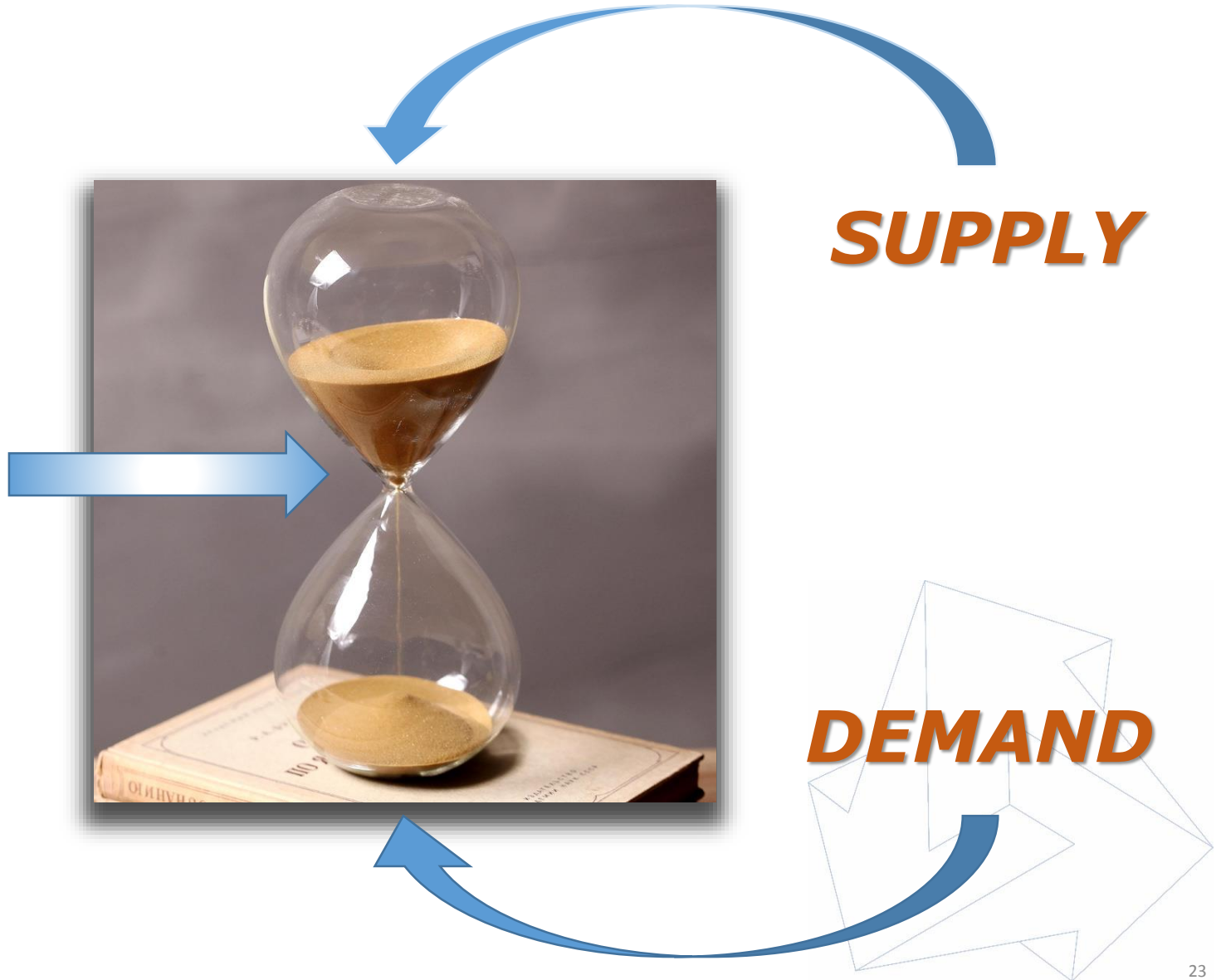
Elab. IC&Partners su dati EFTEC

The Russian Middle Class:

- represents 30% of the population, and it has grown 3 times in the last 6 years.
- Increase in the average salary scale and differences from area to area (Moscow 1.700\$/month versus a 843\$/month Russian average). Salary increase by 14 times between 1999 e 2014.
- Cash flow rapid growth (3rd retail market in Europe).
- Very low attitude to saving (especially bank saving): 80% of a family earnings are spent on consumer goods.
- Very attracted by medium-high products and Western way of life.

The hourglass model in the Russian distribution

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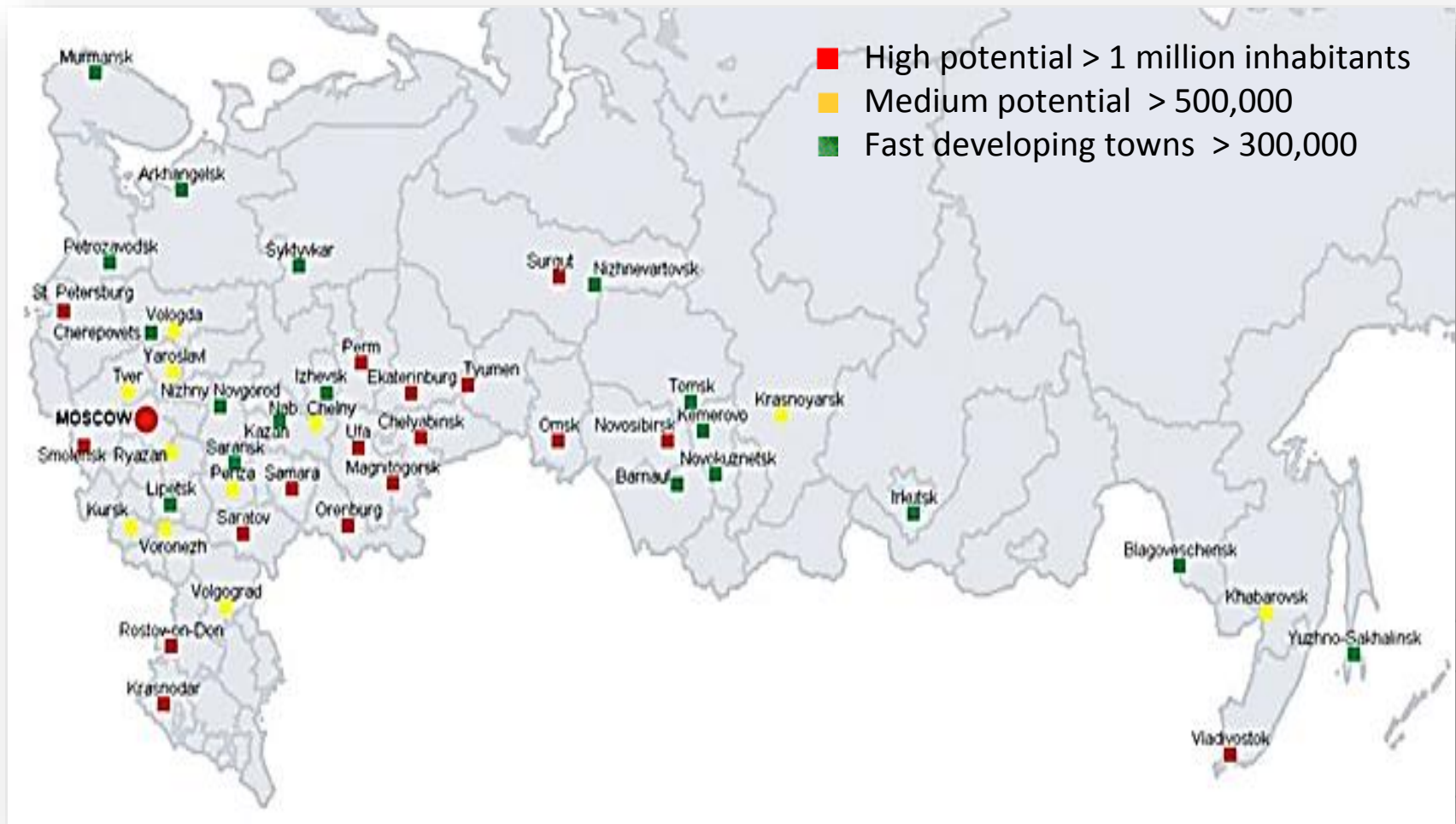
Not only Moscow is all that glitters

Moscow and Saint Petersburg are the main luxury fashion targets, but they are highly competitive and next to market saturation




Not only Moscow is all that glitters

There are at least a dozen of towns with more than 1 million inhabitants offering good chances for development



► LUISAVIAROMA

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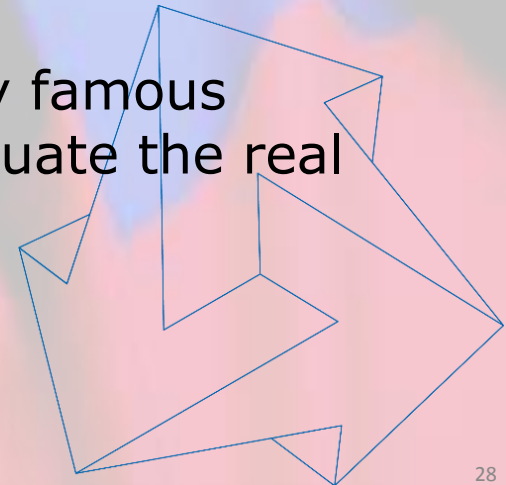
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The first 20 Merchants in Russia

#	Site	Segment	Net sales (online sales incl. VAT, in million USD)	Average monthly traffic (million unique users per month)
1	Ulmar.ru (1)	Home appliances & Electronics	684	7 000
2	Svyaznoy.ru	Home appliances & Electronics	507	8 000
3	Wildberries.ru	Apparel & Footwear	487	13 000
4	Citilink.ru	Home appliances & Electronics	383	2 900
5	Exist.ru	Auto parts	364	2 700
6	Ozon.ru	Diversified assortment	289	8 100
7	Quelle.ru	Apparel & Footwear	229	1 900
8	Lamoda.ru	Apparel & Footwear	191	5 600
9	Mvideo.ru	Home appliances & Electronics	186	8 800
10	Bonprix.ru	Apparel & Footwear	185	2 900
11	Komus.ru	Diversified assortment	181	900
12	Kupivip.ru (2)	Apparel & Footwear	170	2 600
13	Enter.ru	Diversified assortment	169	4 200
14	Eldorado.ru	Home appliances & Electronics	151	5 200
15	Wikimart.ru	Diversified assortment	150	4 100
16	E96.ru	Diversified assortment	144	2 100
17	Sotmarket.ru	Diversified assortment	132	5 850
18	Yseinstrumenti.ru	DIY	115	1 400
19	Dns-shop.ru	Home appliances & Electronics	104	4 900
20	Holodilnik.ru	Home appliances & Electronics	101	1 300

Source: EWDN, Enter Vision 2014, NetCom

- 🇷🇺 Rouble instability, lack of liquidity, high bank rates.
- 🇷🇺 Traditional distribution channels with financial problems/financial shortage.
- 🇷🇺 Franchising system is decreasing.
- 🇷🇺 Economic operators are not used to doing business according to new rules and scenarios, (i.e. WTO new EAC certification).
- 🇷🇺 Made in Italy is still highly appreciated, but operators are evaluating the Made in Russia opportunity too (import substitution).
- 🇷🇺 The average end consumer is very attracted by famous (Italian) brands but is not yet fully able to evaluate the real quality and content of the product.
- 🇷🇺 E-commerce in the fashion sector is growing.

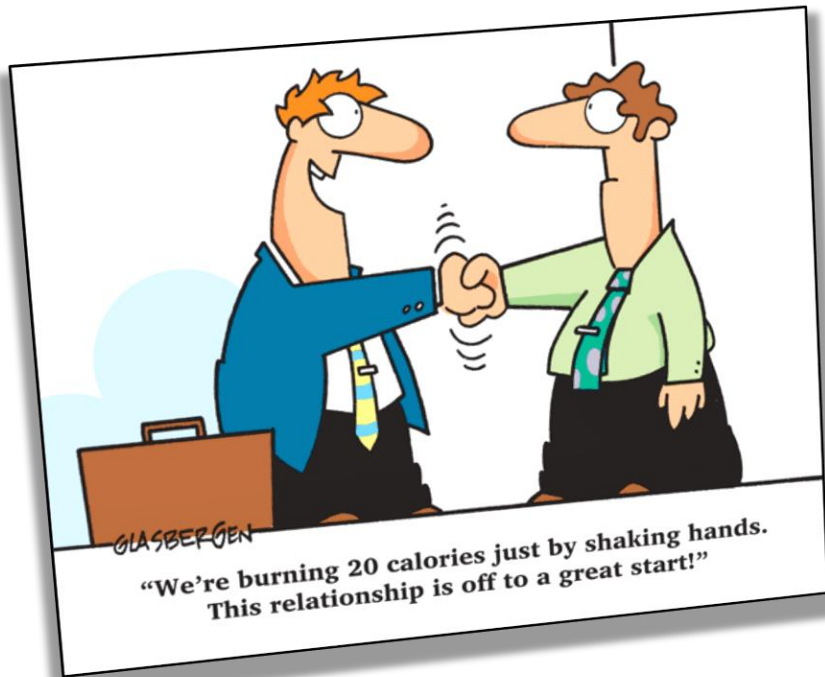


10 tips for the Russian market

1. It is important to understand the Russian attitude and the Russian cultural heritage

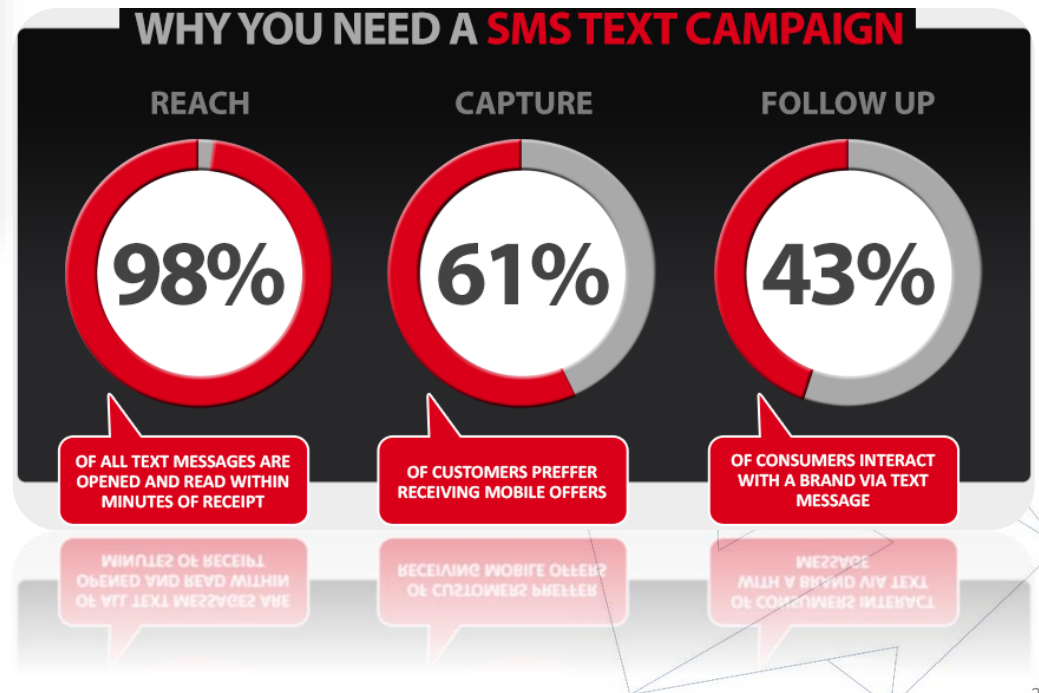


2. During business talks it is advisable to use a formal language and avoid jokes and easy humour

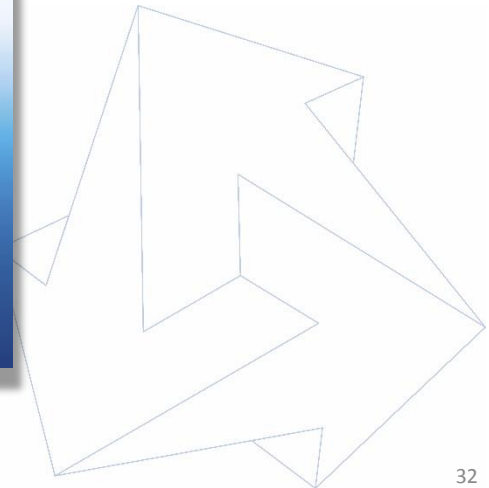


10 tips for the Russian market

3. Be prepared to handle the dealings with your counterpart, showing numbers, statistics, price lists, case histories



4. The Russians are usually very status-conscious and they prefer to meet people at the same range



5. Even if in the world of fashion the knowledge of English should be a must, for important business talks you had better to use an interpreter



6. Promotional and communication materials should be well translated into Russian as well as the information contained in your web site



7. Be always acquainted with the legal environment and customs regulations



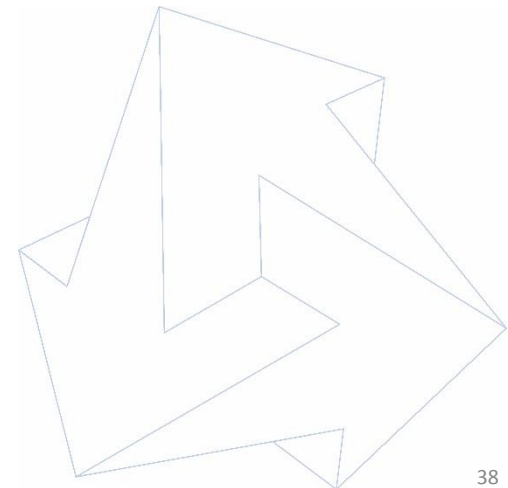
10 tips for the Russian Market

9. Pay attention to all the terms of contract that you give or you are imposed upon by agents, representatives, importers, franchisees, landlords etc. Pay attention to the translation of those contracts (English/Italian version = Russian version)



10 tips for the Russian Market

10. Last but not least: your Client IS NOT your business advisor (especially on the matters 7,8,9)





Thank you for your attention

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