Report Russia 2007
Russian Luxury Goods Market
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Caption front page: shop window vis-a-vis Bolshoy Theater in Moscow, photographed by Julie Bächtold.
Prior to the Bolshevik Revolution, the Tsarist Russia was a major market for Western luxury goods. Tsar Alexander I was one of Breguet’s first and most influential Russian aficionados and, according to Emmanuel Breguet, curator of the Breguet Museum and Breguet brand manager in France, “until the revolution Russia was the main foreign market for Breguet. Pushkin even mentioned Breguet in _Eugene Onegin_ which makes him very important in Russian culture.”

During the following 70 years there was no public attempt to become wealthy, and the Soviet people were excluded from the world of fashion. After the collapse of communism the situation changed dramatically. Russians wanted to catch up on lost time and this trend still exists.

Russians are well known for their love of expensive luxury goods. Contemporary Moscow is frequently referred to as the fifth fashion capital of the world, following Paris, Milan, London and New York.

Well-to-do Russians generally like to show off. The new local wealthy class is used to spending its money wantonly. There is a psychological habit of consumption in Russia which can also be clearly seen in the luxury market. Due to the shaky history in Russia in the XXth century, when the road from fortune to misery was sometimes very short, putting money aside for the future was not a safe bet. The FT quotes Evelina Khromchenko, the editor-in-chief of the Russian edition of _L’Officiel_ magazine, who gives a great inside into the phenomenon: “You have to realise that the idea of ‘saving for a rainy day’ is frowned upon here. Russians believe that if you keep money for a rainy day, you’ll catch the rain. Instead, they think you should go out and buy a pair of Manolo Blahniks. Nobody allows a rainy day to happen to a girl in such shoes”.

The Russian luxury goods market is rather young because Russian wealth is new. The very first luxury shop opened in Moscow in 1993. At that time, the Torgovy Dom Moskva retail company offered goods from Chanel, Gucci and Jil Sander.

It is obvious that today the Russian luxury market has become vital for most luxury goods producers. The local luxury market has grown in size and has become much more professional. It has already developed its own structure and rules and is a promising and fast-growing market. The main problem is its lack of transparency. There are no official statistics about this market, only estimates. It is also sometimes difficult to identify and to have easy access to its real target group, since its income still often remains semi-official.

Despite these difficulties, we shall attempt to give a comprehensive overview of the Russian luxury goods market, to discover its most pressing issues and trends as well as to evaluate the relevant target group. We shall draw the profile of the main relevant actors and spot good opportunities for the promotion of premium goods in Russia.
1. Overview of the luxury goods market.

The Russian luxury goods market includes fashion, cosmetics, cars and yachts, jewellery and watches, food and wine, furniture and accessories, and many other products of exceptional quality and considerable price. There are no official statistics about the volume of this market, but some say that in 2005 it was worth between 7 and 9 billion USD with an annual growth of 20%-25%. The last estimate made by the Strategic Investment Group in 2006 was 9.2 billion USD for local turnover and 12.5 billion USD for off-shore purchasing by Russians.¹

By 2010, overall sales volumes for luxury items are expected to exceed 100 billion USD. In geographical terms, Europe accounts for 40 percent of the global turnover, while the U.S. accounts for 24 percent and Japan for 17 percent. However, the nation which tops the list of the biggest luxury goods consumers is Japan, making up 26 percent of global turnover.²

Experts estimate that the three most promising and fast-growing markets of luxury goods – China, India and Russia – will dramatically change the geography of luxury consumption during the next 5 to 8 years. China has already 300,000 USD millionaires, Russia has 88,000 and India has 70,000. According to the last World Wealth report by Merrill Lynch, there are 15 million consumers in China, Russia and India who can afford to buy luxury goods today, a larger number than those in the West. In fact, it is not uncommon for affluent Russians to spend 13 percent of their household budgets on clothes and shoes, which is more than double of that of the well-off Japanese and British. This certainly makes Russia, and especially Moscow, where 80% of the market is concentrated, a promising country in the eye of high-end goods producers and retailers.

According to the Financial Times, “upmarket clothes retailers are expecting to triple their sales in the next five years, and all the indicators show that producers of all luxury goods will have a great decade of sales in Russia.”

Nowadays, Moscow is one of the most fashionable European cities, with boutiques of all types, ranging from traditional shops selling designer clothes, shoes, accessories, watches and jewellery, to gourmet boutiques, offering exquisite chocolates, elite wines and seafood, operating across the city. There are also shops selling luxury furniture, cars, textiles and other upmarket items.

The Russian luxury market is currently shaped by retail. Luxury retailers have direct access to clients and leverage on this to put pressure on producers. There are many important local companies in every segment of the luxury retail. In fact, it has become rather difficult to make them interested in new brands, because they are “spoiled” by the world-famous brands which they represent and which can be promoted without

¹ Luxury Goods in Russia, August 2006. International Business Strategies. www.internationalbusinessstrategies.com

² Luxury goods: fashion houses are adapting executive recruitment to new consumer trends. Egon Zehnder Int. http://www.egonzehnderknowledge.com/knowledge/content/
any significant effort. If a new brand is launched, it takes time, money and energy to reach a certain level of acknowledgement from the target group. This is why, in order to attract the attention of a major Russian luxury retailer, one has to offer either an outstandingly interesting product or service or very special conditions of cooperation. Yet this situation is also changing.

Today, approximately 120 major international luxury brands have already established their direct presence on the Russian market. In the early-mid-90s, the first typical step of international companies was to make a contract with a Russian distributor. Those were often exclusive contracts. This form of cooperation was beneficial for both sides during a long period of time. Some Russian distributors with exclusive rights to 30-50 luxury brands for Russia almost monopolized this market. But this situation did not worry the international luxury goods producers until the perception of local operational risks started to change a few years ago.

One of the first attempts to operate independently was made by the Richemont Group in 2002. This Group had the courage to set up its business directly. During the course of four years Richemont opened six of its own boutiques, and today it is one of the most successful foreign companies on the Russian luxury market. The most beautiful boutiques in Moscow – those of Cartier and Vacheron Constantin - belong to the Richemont Group.

The same year, 2002, LVMH opened its first Louis Vuitton Boutique in Stoleshnikov Pereulok which is one of the most popular shopping streets for luxury goods in Moscow today. The experts predicted that this bold step would either prove to be disastrous and this boutique would be closed within a year or it would set an outstanding example for others. Actually, the second boutique of Louis Vuitton was opened one year ago in Russia. LVMH made another important step in July 2006. It bought the Russian company Seldiko, known as a well-experienced cosmetics distributor of numerous luxury brands. This means that LVMH is taking over the whole distribution of cosmetics and will be directly involved in the distribution of some apparel brands.

The next important example is the Swatch Group. Last year Swatch cancelled its exclusive contract with the Russian distributor JamilCo and set up a subsidiary in order to better control the process of distribution in Russia. The strategy of Swatch is to develop regional distribution for mass market products and to open own boutiques for luxury brands in the future.

2006 has been a particularly challenging year for Russian distributors. The first company to cancel its contract with Mercury and open its own boutique in Moscow this year was Chanel. Also, Christian Dior announced its “independence” from JamilCo last July. Other companies to have cancelled their contracts with Russian exclusive distributors including the Valentino Group and Gucci.

All these developments prove that the challenges to deal with Russian customs or with the Russian tax system can be managed by a subsidiary of a foreign company. In fact, operational problems were always the argument presented by Russian distributors to foreign companies in favour of working through local distributors. The situation is gradually changing as the market is becoming clearer and more transparent. Yet it is
still a major challenge for small companies going direct locally without a Russian
partner.

2. Target Audience of the Luxury Market in Russia

The luxury market includes different market segments with different structures,
different market players and distribution channels, different promotion channels and
opinion leaders. All market segments, however, are united by one important factor –
the target audience, which namely consists of luxury goods consumers.

Target group profile

Based on various information sources, the consumer group of the luxury goods market
includes not only millionaires and the upper class, but also members of the upper-
middle class. It is also common to see consumers who according to all obvious
parameters do not belong to this target group due to their financial condition, purchase
luxury goods. It is clear that this phenomenon can not be considered as a significant
factor in influencing consumption in Russia, but it does represent a certain potential for
the expansion of the consumer audience in the future, since the level of income in
major Russian cities is constantly increasing. Experts estimate that there are between
300,000 and 500,000 such consumers all over Russia. With time, this consumer group
with an ever-increasing income will be able to enjoy a higher level of financial well-
being and become a regular member of the target audience in the Russian luxury
market.

As far as the social structure of this consumer group is concerned, it is essentially
made up of businessmen, half of which live in various regions of the country, but
actively consume luxury goods and services offered in Moscow. Representatives of
the entertainment business, the political elite and governmental officials also belong to
this group. Yet most officials and politicians usually make their purchases far from their
native land, in order not to draw attention to themselves. However, when it comes to
luxury tourism, such individuals are less secretive about their spending habits.

The general director of De Luxe Alliance, which publishes a catalogue of expensive
goods with a minimum price of USD 1 million, has divided up luxury goods consumers
into the following age categories: “4% percent of consumers are under 30 years old,
29% are 30 to 40, 32 % are 40 to 50 and 35 % are over 50.” Despite these statistics,
all of the companies which participated in the Luxury Forum, which is part of the most
important luxury exhibition at the Moscow Millionaire Fair, believe their ideal
consumers to be young men between 25 and 30.

While a certain psychosocial profile of the luxury goods consumer is already formed
abroad, in Russia it is rather difficult to create such a profile because of the “tight-
circle” characteristic and inconspicuous nature of this target group.

Income level of the target audience

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In 2006, the Russian population experienced a substantial growth in its wealth. Incomes in Russia grew by 12.7%. Last year, the growth was by 9.3%. The same or perhaps even more impressive trend can be observed in the improvement of the financial well-being of Russia’s luxury market target group. The annual report of the Merrill Lynch and Capgemini, published in 2006, states that the number of people with a fortune of at least USD 1 million also grew by more than 6.5%, amounting to 8.7 million people. Although the majority of rich people still lives in North America and in Europe, Russia is one of the leaders in terms of the rising number of millionaires (17.4%). The only other countries preceding Russia in this category are India and South Korea.

**Millionaires headcount progression (%) 2005**

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South Korea: 21.3
India: 19.3
Russia: 17.4
South Africa: 15.9
Canada: 7.2
USA: 6.8
Germany: 0.9
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Source: Merrill Lynch/ Capgemini

"The rapid increase of Russian millionaires is promoted by high oil prices and the corresponding inflow of financial resources into our economy," states Grigory Guselnikov, First Vice-president of BIN-BANK. "Moreover, many economic and social processes in our country are far from the finishing phase. Thus, in our society it is easier to achieve significant success than in the society of a well-developed country, where both the economy and the social system have been well established for a long time."

Here are some statistics about the incomes of luxury goods consumers.

**Upper-middle class**

The income level is at USD 6,500 per capita per month or higher. According to Magram Market Research, the number of families with an income exceeding USD 10,000 per capita in Moscow is about 1%, which is more than 100,000 people. These successful people are seen as an example for the rest of the middle class, which consequently often makes attempts at imitating them. Therefore, members of this class are acquiring the attributes of the so-called successful life, such as cars, accessories, etc.

We estimate the borderline between the middle and the upper class to be USD 1 million of total wealth.

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Upper class
1. Recently acquired property worth at least USD 1 million or the same amount in money.

2. Income level of at least USD 500,000 dollars p.a.

According to Forbes magazine, the capital of 53 billionaires in 2006 exceeded USD $282 billion. According to the Analysis of Russian Luxury Market, made by Strategic Investment Group, there are about 88,000 millionaires.

The upper class is composed of consumers of ultra-luxury goods such as high-class real estate, yachts, business aircrafts, rare and expensive cars, objects of art and jewelry.

While representatives of the middle class are guided in their consumption by the optimal choice, those of the upper class are essentially guided by the best choice. If they are purchasing cars, they must only be premium brands. If they are dining out, not only is the quality important, but also the ambience. If they are shopping for clothes, they must not simply be of high quality, but also from well-known and trendy brands.

Consumer behavior, preferences and motivation of the target audience

Russians have a history for the love of expensive things. There is a proverb: “We are not rich enough to buy cheap stuff.” According to experts in the field of social psychology, the purchase of elite goods or services is always a question of prestige, of special status as well as a sign of the social "elitism" of its owner. Unlike any other consumer, the Russian consumer of luxury goods is the most glaring example of the concept of conspicuous consumption and status-seeking, concepts formulated by the economist Thorstein Veblen. There is a number of explanations for such behavior. First, the wealth has been acquired during the last 10-15 years and is therefore quite "young", and in Russia there are absolutely no traditions for the financial management of such million-dollar fortunes. Such traditions are usually formed over centuries. The second important factor influencing people in the average age category is backlog demand. The generation of today's successful 35 to 45 year-old businessmen grew up in the period of total deficiency in the country and was denied free access to information available in the rest of the world. In this consumer group the exaggerated consumption and desire to show off is a natural psychological response to its current rise in its financial status and its awareness of global fashion trends. Essentially, Russian consumers are easily influenced by public opinion, and it is therefore important for them that the product they choose is recognized by others. Thus, in order to determine the current fashion trends in clothing, cosmetics, vacation, etc., interviews with prominent personalities, who express their consumer preferences, are frequently used.

However, the influence of glossy magazines on the VIP-audience is effective only to a certain extent, since the level of trust for these glossy editions in the target group is generally quite low. This, consequently, distinguishes Russian consumers from their western counterparts who use glamorous information sources as a manual for forming a certain lifestyle. An interesting study has been conducted by the marketing agency
"DYMSHITS & PARTNERS" for the investment company “TROYKA DIALOG”. Without going into details on every type of media, it can be noted that wealthy people in the Russian capital tend to watch less TV and listen more to the radio. The most popular magazines and newspapers include issues with a rather simple content, namely the so-called "yellow" issues such as “7 Days”, "Sport-Express", “Karavan”, “ZR”, etc.

The next level of consumption of unique and tailor-made products and services is currently developing in Russia among the most progressive luxury consumers and will soon become a trend. The consumers must first go through certain stages in order to reach a new level of non-branding, but unique consumption. Taking into account the incredibly rapid changes taking place in Russia, both on macro- and micro-economic levels, it is clear that the same changes are taking place in the field of consumption. Gone are the times of wild consumption of goods, including even fake goods purchased on the market by customers with no idea of quality. Today, Russian consumers are ready to spend more money, but they want to receive the whole spectrum of the necessary accompanying services for their money’s worth. The Russian client has become more sophisticated and particular and is not ready to pay more without good reason.

3. Luxury Fashion

According to the research company Fashion Consulting Group, the most expensive segment of the Russian apparel market makes a turnover of approximately 2.5 billion USD p.a., which is 25% of the retail apparel market. At the same time, the volume of the apparel market for the middle class, according to experts, is about 12-13 billion USD. Moscow is a leader in the distribution of clothes, be it for the middle class, the upper class or for children. The capacity of the Moscow market totals approximately 4-5 billion USD p.a.

Nearly the entire luxury fashion pie (at least 80%) is taken up by merely five Russian distributors: “Mercury”, “Bosco di Ciliegi”, “JamilCo”, “Crocus group” and “Podium”, followed by such companies as “Caesar”, “Russian Gold”, “Seventh Element”, “Caligula” and others.

Today, there are several boutique shopping zones in Moscow: Tretyakovski Proyezd, Stoleshnikov Pereulok, Kuznetski Most, Petrovka, Kutuzovski Prospect and Bolshaja Nikitskaya. For example, Stoleshnikov Pereulok is home to such boutiques as Burberry, Emanuel Ungaro, Escada and Christian Dior. Ermenegildo Zegna, Giorgio Armani, Brioni, and Roberto Cavalli are situated on Tretyakovski Proyezd. Gianfranco Ferre and Versace are located on Kuznetski, while Kutuzovski Prospect has Gucci and Prada.

At the same time, according to expert opinion, luxury brands are gradually leaving Tverskaya Street, where a high number of expensive shops were formerly located. Exceptions are still made. For example, the luxury jewelry boutique Arcade Grand Exclusive has recently opened a boutique on 6 Tverskaya, and Ferre Forma has opened a boutique on 27 Tverskaya. The decline in interest is caused by small shop

http://www.fashionconsult.ru/researches/
spaces and the lack of parking. Other popular shopping areas among sellers of luxury goods are the two largest Moscow shopping centres: GUM (Bosco) and TSUM (Mercury).

**Main Luxury Fashion Distributors**

In the early 1990s, “The Big Five” fashion distributors (Mercury, Bosco and Crocus entered the market in 1991, JamilCo in 1992 and Podium in 1994) dominated the market. As time has shown, these companies made the right step during negotiations with leading fashion houses by insisting on the exclusive sales rights in Russia. Nowadays, the top four luxury dealers have exclusive sales rights for 42 apparel brands. The only company out of five which did not officially sign an exclusive rights agreement with suppliers is Podium.

**Mercury**

Co-owners: Leonid Strunin and Leonid Fridland  
Vice-president: Alla Verber, fashion-director of TSUM

This company holds the first place for the volume of sales and includes boutiques such as Prada, Armani, Fendi, TOD’S, Ermenegildo Zegna, Dolce & Gabbana, Tiffany Co, Gucci, Brioni, Jil Sander, Bulgari, etc. According to different estimates, it has a market share of 25% to 35%. It also includes the largest distributors of watches and jewelry such as Breitling, Girard-Perregaux, De Grisogono, Longines, Omega, Rolex, Breguet, Patek Philippe, Bulgari, Chopard, Jacob and Co, Blancpain, Ebel, Zenith, Hublot, FP Journe, Van Cleef and Arpels.

One of the first luxury shops was TDM, “Trading House Moscow,” established by Mercury in 1993. Today Mercury is a network of several dozen firms founded either as open companies or joint-stock companies. The policy of Mercury was to monopolize the most prestigious brands such as Chanel (until February 2006), Giorgio Armani, Todd’s, Dolce & Gabbana etc. According to contracts with western suppliers, no one in Russia had the rights to sell these brands except for Mercury. Thus, the niche for the most popular luxury clothes was occupied.

Mercury owns numerous boutiques in Moscow, the most famous of which are located on Kutuzovski Prospect, in “Slavyanskaya” Hotel and on Tretyakovski Proyezd. Tretyakovski Proyezd is a boutique trading zone, where such brands as Ermenegildo Zegna, Giorgio Armani, Brioni, Roberto Cavalli, Dolce and Gabbana are situated. Moreover, in 2002 the company became owner of one of the largest shops of Moscow - TSUM. At that time, the shop value, according to Incorporated Financial Group (IFG), was about 60 million USD. After the shareholders changed the value of the shares, the enterprise has been growing at a rate of approximately 30% p.a. Mercury has completely renovated the department store and significantly updated its product selection. This has transformed this popular shop with reasonable prices into a luxury one, analogous to the French “Galeries Lafayette”. According to market shareholders and experts, the current value of TSUM is estimated at 180 million USD.
Since 2003 the company has also been the distributor of four luxury car brands, Maserati, Ferrari, Bentley and Lamborghini. The first Lamborghini shop opened at the end of April 2006 on Tretyakovski Proyezd, near the Maserati, Ferrari and Bentley show rooms.

Two years ago, the company opened the Barviha Luxury Village in the most expensive area located several kilometers outside of Moscow, where prestigious country houses are located. It started with Mercury’s acquisition of a little narrow meandering site along the most prestigious highway in the country, where the company decided to build “a Village of the Future”. The architecture company “PROJECT MEGANOM“ headed by Yury Grigoryan and his partners won the tender, getting ahead of such international architecture stars as Jacques Herzog, Pierre de Meuron and Raphael Vinoly.

The Barviha Luxury Village houses all the renowned brands of clothes, footwear, accessories and jewelry such as Gucci, Bottega Veneta, Brioni, Dolce&Gabbana, Ermenegildo Zegna, Giorgio Armani, Prada, Loro Piana, Chopard, Tiffany&Co, Bvgari, de Grisogono as well as the multi-brand jewelry shop Mercury and the Bentley, Lamborghini and Harley-Davidson shops.

**Bosco di Ciliegi** (in honor of Chekhov’s “The Cherry Orchard”)
www.bosco.ru

President and Founder: Mikhail Kusnerovich
Development Director: Konstantin Andrikopulos
Staff: more than 1500 people.

Bosco di Ciliegi represents a network of boutiques with more affordable brands than Mercury such as Givenchy, Marina Rinaldi, Max Mara, Nina Ricci, Kenzo, Mandarina Duck, Pomellato, the multi-brand shops “Bosco di Ciliegi” and the “Articoli” galleries for perfume and accessories.

The Bosco di Ciliegi Group was founded in 1991. The selection of shops was made from a list of second line brands. The company successfully occupied niches, which were still empty at the time. Now, Bosco di Ciliegi owns more than 50 single-brand boutiques in Russia (Moschino, Marina Rinaldi, Max&Co, Etro, Kenzo, MaxMara, Alberta Ferretti, Ermanno Scervino, Pomellato, Mandarina Duck, etc.)

The philosophy of the company consists of creating “critical mass supply”. Bosco offers not a single brand, but several brands under one roof. Instead of offering specific brands of clothes, Mikhail Kusnerovich, president of the company, and his wife created their own brand. In the centre of Moscow, they opened multi-brand boutiques such as Bosco Donna, Bosco Uomo and Bosco Bambino, a shop of prestigious clothes for children. In their opinion, the concentration of supply as well as providing other services such as cafes or pharmacies in the vicinity allows them to exceed the limits of the clothing and accessories market.

The Bosco di Ciliegi team decided not to stay within the limits of fashion. Through their Articoli shops for cosmetics, perfume and accessories, they have launched on the
market such well-known perfume brands as Ermenegildo Zegna, Boucheron, YSL, Van Cleef&Arpels, Roger et Gallet, Alexander McQueen, Rance, Stella McCartney, E.Coudray, L'Artisan Parfumeur, etc. Bosco has also opened the Italian jewelry shop Pomellato on the Russian market.

Bosco di Ciliegi owns GUM, one of the main competitor shops of TSUM. Most of Bosco di Ciliegi shops are located in shopping centres such as GUM, Petrovsky Passage or Trading House Vesna.

The Bosco di Ciliegi Family is the general partner of the Russian Olympic Team and was its official supplier of equipment for the Olympic Games in Salt Lake City (2002), Athens (2004), and Turin (2006). Under the brand name BoscoSport the company produces a collection of exclusive sportswear and official sports equipment for the Russian Olympic Team.

JamilCo

Owner and President Khaled Jamil
Vice-president: Olga Mamonova

The company JamilCo positioned itself on the market at the right time and in the right way. It takes the first place in the market for democratic brands or casual wear and the second or third place in the luxury market. JamilCo was founded in 1992 and is currently a holding company. At the beginning, it opened an authorized Levi’s shop. In 1995, the company signed a contract with the French company Naf-Naf and the brand Chevignon. Thus, the niche was occupied.

In 1996, the company continued to innovate and united all the brands geared towards youth under the concept shop “Base 14”, offering an Internet Café, a French restaurant and a music shop in addition to clothes. In 1997, JamilCo adopted “variety” as one of its most important strategic principles. The company, therefore, signed a contract for exclusive franchising of the Wolford shop, taking another step towards a higher product quality. In 1998, JamilCo bought the Guy Laroche boutique, but it has not brought much success, and the shop had to be closed.

Today, the company works exclusively with Burberry, Hermes, Dormueil, J. M. Weston, Salvatore Ferragamo, Sonia Rykiel and is the largest dealer of Escada. It sells its own brands such as James and St.James. The LVB company, which belongs to JamilCo, deals with democratic brands such as Levi’s, Guess, Chevignon, Naf-Naf and Timberland in other Russian cities such as Kaliningrad, Kazan, Krasnodar, Ekaterinburg and Krasnoyarsk. In Moscow and St. Petersburg, JamilCo operates more than 30 boutiques and 48 casual wear shops. The turnover of JamilCo is estimated to be 120 million USD.

In June 2006, Christian Dior, which used to provide about 10% of the company's turnover, refused the services of JamilCo. Now the French company works in Russia independently. Christian Dior is not the first loss for JamilCo. At the end of 2005 the Swiss Swatch Group ended cooperation with this distributor and now also operates independently.
Before March 2007, JamilCo plans to open 15 of its own shops in Rostov-on-Don and Krasnodar. Currently, the company is represented by more than 30 shops in Moscow and Saint Petersburg.

**Crocus Group**

www.crocus-city.ru/group

Owner: Aras Agalarov
CEO: Emin Agalarov

The company Crocus Group represents such brands as Sergio Rossi, Emanuel Ungaro, Iceberg, Pal Zileri, Lanvin, Vicini, Byblos, JLo, Calvin Klein, Chloé, Cerruti, Celine, Casadei, Trussardi, Emilio Pucci, etc.

The Crocus Group, founded in 1991, became an important player in the development of Russian business. The company worked its way up from retail trade of fashion clothes and footwear to specialized fields including the construction of commercial real estate and the national and international fair business. Today, the Crocus Group consists of the affiliated Crocus Bank, occupying the area of 300 ha in the business, the shopping centre Crocus City, the exhibition centre Crocus Expo, a network of department stores like Tvoy Dom, the Crocus City Mall, Crocus Fashion Retail, the Agalarov House Condominium and the magnificent Agalarov Estate. The total number of employees is more than 4000 people.

The successful boutique park at the Crocus City Mall covers more than 60 000 sq.m. During the construction and decoration of the shopping mall, materials of the highest quality were used. For example, a special quality of sandstone, which costs more than marble, was used for interior decoration. Inside the shopping mall there is a pool, where swimwear fashion shows are held. Boutiques line the glass gallery, and there is a garden with 5000 tropical plants there as well. The most famous designer boutiques can be found here. They include Gucci, Prada, D&G, Versace, Cartier, Chopard, Tiffany, Bulgari etc.

Crocus Group belongs to the Agalarov family. It deals with the development and exhibition business as well as the luxury goods trade. Based on statistics from 2005, Forbes Magazine has estimated the personal wealth of Aras Agalarov to be 540 million USD, making him number 84 in the list of the 100 richest businessmen in Russia, The estimated turnover of Crocus International, the head company of the group was 250 million USD in 2004 (number 145 in the list of 200 largest private companies).

Similarly to JamilCo, Crocus Group has started to develop a more democratic segment. One example is Jennifer Lopez’s fashion line JLo. From approximately 150 brands, which are sold by Crocus, exclusive distribution is stipulated only on several brands, one of which is JLo.

**Development Trends of the Luxury Fashion Market**

Over the last two years the Russian luxury fashion market has been marked by numerous exclusive rights contracts being broken. Examples include contracts
between Chanel, Valentino, Christian Dior, and Gucci and their Russian distributors. Some sources predict similar plans from Hermes, Burberry and possibly other important market players in the near future. These changes indirectly usher in a more mature stage for the market and show that the market mechanism is becoming more and more clear and transparent to foreign companies.

Evidently, this situation will lead to subsequent changes in the Russian luxury market as a whole. As large Russian distributors are losing important suppliers, they are looking for ways to make up for their losses. They have already started to show interest in second-line brands and to develop more democratic youth styles by diversifying and taking more risks. The current situation allows new brands to find interested partners among the largest Russian distributors which seek to be their exclusive representatives on the market.

The direct presence of large fashion houses on the Russian market will make it more transparent, as western companies will not understate the invoice value of imported goods, which is frequently the case with Russian companies trying to reduce the taxable base when paying import duties.

4. Luxury Watches and Jewelry

According to expert estimates, the jewelry and watch sector accounts for about 30% of the Russian luxury market. Companies such as Lux Holding, Mercury, Jamilco and Kosmos-Zoloto are the main importers of luxury jewelry. A number of major Russian importers such as Consul, Chronolux, Da Vinci, Primetime etc. focus solely on premium watches. The most significant player of this market is the Mercury Holding Group which dominates the market in terms of advertising budgets, revenues and distribution channels. Mercury also has the largest portfolio of luxury watch and jewelry brands which might worry some producers looking for more focus on their own products.

Major trends

The Russian market is both growing and being re-shaped. Three major trends of the watch and jewelry market have affected the situation lately: retail trade consolidation, demand shift towards more expensive goods and increased competition. Growing demand for expensive products was one of three trends within the Russian market in 2005-2006. The growth is explained by several factors such as global fashion trends, a changing attitude to watches and jewelry and an increase in purchasing power in large Russian cities. There is also a new trend – the arrival of unique and tailor-made jewelry. Retailers had to revise their assortment to upgrade their products to meet more of the demand. Another new trend is already appreciable – the development of the fashion watch segment. Russian watch importers try to diversify their range of goods to enlarge the target audience.

Most premium watches and jewelry are sold in multi-brand stores. Experts attribute the slow development of the mono-stores to the policy of the current distributors. Producers and distributors differ in their approach to the sales channels. Distributors are very reluctant to open the mono-brands boutiques. It is estimated that an average
watch store sells from about USD 500,000 to 2 to 3 million per annum and that a multi-
brand store outsells a mono-brand boutique by about 50 to 100%. Producers see
opening mono-brand stores as a powerful tool of building recognition and boosting
brand image and sales. The development of their own stores will be fueled by the
producers’ desire to walk away from partnerships with local distributors and go direct.
The Richemont Group pioneered this approach. And after the world’s largest watch
producer The Swatch Group opened its first mono-brand Omega store in Moscow in
November 2006. It is assumed that the Swatch Group will also take control of the sale
of its other luxury brands.

The Local Challenges

Russia is a promising market for Swiss watch and jewelry producers as the demand
for luxury products is very high with no real local competition except just few Russian
Jewellery Houses like Ananov Jewelry and JuTE. Until one year ago the Russian
watch and jewellery market was showing a steady annual growth of about 20%. Yet,
there are major local challenges. The distribution channels are a major one as most
watch importers are at the same time official distributors and often even have their
own retailing chains.

The years 2005-2006 have brought many changes. One is a changing attitude of the
customs authorities towards undervalued declaration of imported goods and more
intolerance towards “grey” imports. In fact, due to high import duties, too high
overheads and the habit of usually very high margins of some Russian importers, the
majority of goods were supplied through “grey” channels (not only watches and
jewelry, but also mobile phones, TVs, furniture etc.). The Russian customs office
hasn't officially paid full attention to this issue before and now there is a campaign to
oblige Russian importers to declare imported goods properly. Since November 2005
representatives of the tax authorities have inspected most watch retailers almost on a
regular basis. As many companies break the import rules they run into problems
during these inspections. The first victim of such changing customs policy was “Ego
Elite” (importer and distributor of Audemars Piguet). Later on other companies were
penalized: “MTT” (ex-importer and distributor of Ulysse Nardin), Da Vinci (importer and
distributor of Gerald Genta) and “Cosmos-Zoloto” (importer and distributor of Carrera y
Carrera and Van der Bauwede). While the last three companies have managed to
overcome the problems and continue to operate “Ego Elite” was shut down and had to
declare bankruptcy.

Another important feature of the current situation is the attempt of the Russian
authorities to fight counterfeit goods. The Russian customs has confiscated a big
delivery of “Swiss” watches – top-quality counterfeits - last spring which was the first
sign of the declared changes.

This situation has made a considerable impact on the market. Local importers don’t
exclude the possibility that the major watch companies may start direct operations in
the near future as it already happened in other segments of the luxury market in
Russia.

This has severely impacted the industry statistics. The first four months of 2006 have
seen the number of imported Swiss watches drop by more than 50%. The recovery
trend has started from May last year. Major imports were done last June and July which have allowed the annual turnover for 2006 to beat the very successful results of 2005. Noticeably, the reason is the average Swiss watch price declared at customs has almost doubled. As of the end of 2006 Russia has become Switzerland’s 12th most important export market of watches.

The latest analysis of FHS shows that while the imports of mass market watch brands go through a crisis the sales of the premium and super-premium brands are in sharp progression. For instance, FHS reported that last November alone about 45,500 Swiss watches were imported in Russia for an estimated amount of CHF 37 Million. That was an absolute record in the recent history of the import of watches into Russia.

<table>
<thead>
<tr>
<th>Year</th>
<th>Item amount</th>
<th>Total (CHF)</th>
<th>Average price/item (CHF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>220 377</td>
<td>155 679 883</td>
<td>706</td>
</tr>
<tr>
<td>2005</td>
<td>247 972</td>
<td>184 183 878</td>
<td>743</td>
</tr>
<tr>
<td>2006</td>
<td>178 758</td>
<td>198 443 136</td>
<td>1100</td>
</tr>
</tbody>
</table>

Source: FHS, 2007

However, despite the declared struggle with the “grey” imports and the latest customs changes, “grey” channels have not vanished. As duties on properly imported watches can reach 50-60% (incl. excise-duty) the local distributors hold on to “flexible” import channels to keep the profit levels they are used to. Market players hope that the upcoming entering of Russia into WTO will trigger a reduction of import duties. The producers are also not satisfied with the current situation as the sale of their products can be paralyzed for weeks due to the problems between the Russian distributors and authorities (customs). A clear strategy of international producers will also effect the market situation in the future. And all of them use almost the same strategy – they try to keep only one distributor to control prices and promotion. They also require distributors to refuse “grey” channel of import in order to secure their operations in Russia. As the Russian watch and jewelry market has been changing during 2005-2006 some new market players can appear - foreign producers which distribute directly and we might witness the appearance of new Russian importers.

The Moscow World Fine Art Fair and Luxury Gifts in Moscow are considered to be the best events for luxury watches and jewelry. The organization mode of those fairs match the spirit of luxury and a high level of participants and visitors is guaranteed.

**The Moscow World Fine Art Fair**
[www.moscow-faf.com](http://www.moscow-faf.com)

Organiser: *ArtCultureStudio, S.A.*
6, avenue de Sécheron
CP 24
CH – 1211 Genève 21
[www.artculturestudio.com](http://www.artculturestudio.com)
5. Luxury Cosmetics

Major features

The Russian cosmetic market still shows a high growth rates. However, according to the company “Staraya krepost” (Old fortress), the market growth in 2005 generally slowed down compared with 2004, having added in 2005 only 12.9%, whereas in 2004 the branch has grown by 24%. In the last period decorative cosmetics, cosmetics for men and skin care were best sellers. However, experts start to speak about saturation of the Russian market, predicting that further growth will be caused by switching to more expensive brands and products which is an additional driving force for a further development of the luxury cosmetics market.

According to "Staraya krepost", the volume of the cosmetic market in 2005 was app. $7 billion, which is 24% more than in 2004. As predicted, in 2006 the market has grown by 12% and amounted to $7.9 billion.6

"The growth rate has really fallen", says Anna Dycheva, organizer of the largest international exhibition in Moscow „Intercharm“. “However, in comparison with the European markets which have an average growth rate of 2-3% p.a. the Russian market nevertheless develops much more dynamically“. She said that the basic market growth in the future will be guaranteed by a greater demand for expensive cosmetic brands: "Consumer will be guided not anymore by price, but by properties declared by manufacturers as well as by brand quality".

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6 Russian Market of perfumery and cosmetics. ABARUS Market Research. 2006
Based on data of the expo-media-group "Staraya krepost", the most dynamically developing market categories are men's cosmetics, decorative cosmetics and skin care, professional salon cosmetics. Also, SPA and Wellness are getting more and more popular. "Popularity of men's cosmetics is a global trend; men give more attention to their appearance. As to professional salon cosmetics and anti-age skin care, their development is caused by people's income growth. Generally, the market is characterized by increased spending on cosmetics and switching to more expensive brands. Generally Russian women spend a significantly higher portion of their income on cosmetic products in comparison to Western consumers. According to COMCON Agency, an average Russian woman spends 12% of her income on cosmetic products which is 1,5 - 2 times more than an American or European woman.

**Consumption of different categories of cosmetics**

<table>
<thead>
<tr>
<th>Category</th>
<th>Moscow</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass market</td>
<td>36%</td>
<td>49%</td>
</tr>
<tr>
<td>Middle market</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Prestige</td>
<td>24%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Comcon-pharma, 2005

**GROWTH OF SPENDING ON COSMETICS AND TOILETRIES in 2002-2005, %**

The luxury cosmetics segment develops as strongly as the whole cosmetics market in Russia. The competitors in this segment are only foreign companies. The market
leaders are companies like LVMH, Chanel, Shiseido, L’Oreal, YSL, and Sisley, all of them present on the Russian market for a long time. Within the last 2-3 years, all leaders of the luxury cosmetics market have opened branches or affiliated firms in Russia, thus strengthening their position. In the near future the last of the above named companies, Shiseido, plans to open its own branch. The fact that the biggest players of the luxury cosmetics market open their own agencies is evidence of the positive market development trend and proves that big companies have believed in its potential.

Distribution channels

Excepting some companies which work directly with distribution channels, there are today companies in this segment which import from 3-5 up to 20 luxury and premium brands as well as Russian companies owning networks of cosmetic shops and simultaneously being exclusive importers of some cosmetic brands. The largest luxury cosmetics importers are the following companies: “Uniform Europe Holding” (holds 20-25% of the market), HERMITAGE&STAR BEAUTE (belongs to LUXE-HOLDING group, holds another quarter of the market) and IFD, distribution division of the "Kurs" group. The turnover of the “Uniform Europe” group in 2004 was about $150 million. Among the holding’s clients are such chains of shops as “Arbat Prestige” (20% of its assortment is supplied by "Uniform Europe"), L’Etoile (15-20% of assortment), “Articoli” (17-18%), DOUGLAS-RIVOLI (17 %) and the holding’s own retail network ILE DE BEAUTE, through which 8,2% of all products are sold. The annual turnover increase is 70%. IFD, distribution division of the "Kurs" holding closes the leaders’ group. Its market share, according to experts of the company TECHNOLOGIES OF BRANDING, is app. 15-20% of the market. This company represents 35 brands in Russia.

Another important company - “ParfumStandart” – is supplier of niche cosmetics and perfumery to DOUGLAS-RIVOLI, “Arbat Prestige”, ILE DE BEAUTE, ARBOR MUNDI, BROCARD, ARTICOLI and CHANTAL. It also owns its own retail chain RIVE GAUCHE.

The basic players of the retail cosmetic market are L’Etoile, Arbat Prestige, Ile de Beauté, Articoli, Douglas Rivoli, and Rive Gauche. Basically, these retail networks sell luxury cosmetics. Using the example of Ile de Beauté makes it possible to observe the sales structure of shop chains. Based on the result of 2006, the turnover of goods can be broken up as follows: perfumery (48.5%), skin and hair care (25.2%), colour cosmetics (26.3%). The share of premium brands amounts to 90.8% of the total sales value.

Profile of cosmetic retail chains

<table>
<thead>
<tr>
<th>Company</th>
<th>Turnover in mln USD 2006</th>
<th>Number of shops</th>
<th>Presence in Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbat Prestige</td>
<td>346</td>
<td>64 (55 Moscow, 8 St.Petersburg, 1 Kazan)</td>
<td>1989</td>
</tr>
<tr>
<td><a href="http://www.arbat-prestige.ru">www.arbat-prestige.ru</a></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L’Etoile</td>
<td>180</td>
<td>270 (90 Moscow, 180 regions)</td>
<td>1997</td>
</tr>
<tr>
<td><a href="http://www.letoile.ru">www.letoile.ru</a></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ile de Beaute</td>
<td>75 (2005) 150 (plan)</td>
<td>60 (14 Moscow, 46 in 29 Russian cities)</td>
<td>2001</td>
</tr>
<tr>
<td><a href="http://www.ldb.ru">www.ldb.ru</a></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The market demand for professional salon cosmetics and skin care used in SPA and Wellness-facilities is satisfied by small importers who specialize on 3-5 luxury cosmetic brands. These companies conduct an integrated promotion program, including training for cosmeticians, marketing and advertising. This market niche develops with active participation of foreign manufacturers, their comprehensive support of Russian distributors with both information and marketing know-how.

The basic information source for novelties on the luxury cosmetics market for main Russian importers is Tax Free World Exhibition Fair in Cannes (www.tfwa.com), followed by Cosmoprof (www.cosmoprof.com). The role of Russian cosmetic exhibitions has considerably changed. Participation even in the largest fair in the field of cosmetics in Russia, which is InterCHARM (www.intercharm.net), can be useful only for those companies which are already established on the Russian market, have exclusive importers and want to expand the their activities in Russia.

6. Luxury Furniture and Design Services

The Russian furniture market has been experiencing a long-term growth. However, this growth is slowing down. The average growth rate of this market segment is about 12-13% in Moscow and about 5-8% in St. Petersburg. Experts predict a drop in the growth rate down to 7-8% in the Russian furniture market for 2006.

Only three to four years ago, import accounted for more than half of the Russian furniture market. Now, the share of Russian manufacturers has significantly grown, although import still holds the leading position. Russian manufacturers in this segment are currently no competitors for foreign manufacturers, although some local producers are trying to eliminate Western competitors in particular segments (ex. bathroom furniture).

According to dates of the Russian association of furniture and wood processing enterprises regarding the volume of furniture production in Russia and furniture import and export, the furniture market was worth USD 6.6 billion in 2005.7 This figure takes into account both official dates and an unofficial estimation because most goods are supplied by means of “grey” import and declared at underestimated costs. According to official statistics of the State Customs Committee, furniture was mainly imported

from Italy (market share of 35% in 2005), China (23.3%), Poland (19%), and Germany (18.2%).

Italy remains the world’s leader in the prestigious furniture market. However, according to data collected between 2003 and 2005, the share of Italian furniture in the Russian market has decreased by 12.5%, while the share of Chinese furniture manufacturers has increased by 12%. These figures do not indicate that there is an increase in the import of cheap furniture from China, but that there is a substantial increase in imports of fakes of well known but Chinese-made brands. Russian consumers are ready to sacrifice product quality in order to have a “brand”. During last years, the share of Swiss furniture products increased impressive but it still makes up a small segment of the market (0.4%).

Currently there are several important tendencies in the development of the luxury furniture market:

1) Important qualities for prestigious furniture are still originality, novelty, beauty and, above all, functionality;

2) Customers are following the latest fashion trends such as classical luxury. They are purchasing glamorous and often superfluous pieces of furniture and are frequently using baroque styling, brilliant finish, handicrafts and big dimensions;

3) Interior pieces are acquired from well-known designers;

4) Interior pieces made of rare woods such as mahogany or black wood, or with the use of expensive or exotic materials are also being acquired. Other unique pieces may include rare kinds of marble or leather, namely an armchair with catfish upholstery, an interior piece made of shark leather or a table with pony fur.

There is a special website dedicated to luxury furniture: [http://www.mebillioner.ru/about/common_info](http://www.mebillioner.ru/about/common_info). Although useful information on this website is scarce, luxury goods consumers use it to learn about leading manufacturers of premium-class design furniture from different countries.

**Distribution Channels**

Traditional furniture distribution channels consist of wholesalers and regional dealers, large specialized shopping centers, networks of furniture stores, individual retail outlets, individual furniture shops, furniture fairs and agents.

1) Furniture stores (“salons”)

Furniture and accessories are most often sold through furniture stores. Furniture pieces can be ordered by catalogs. In Moscow there are many furniture stores specializing in luxury furniture. There are even special streets of furniture boutiques, such as the Frunzenskaya Embankment, which is the main “interiors” street in Moscow. Virtually every building in this street is a furniture store offering high class products of different styles.

In Moscow and Saint Petersburg furniture stores basically sell several specific brands and do not specialize in a particular kind of furniture. What is displayed in the shop is...
often quite different from what is offered in the catalogs. The shop’s displays usually reflect the owner’s taste and can represent either one style (ex. classics) or a mixture of styles (ex. modernist style and classics). There are also specialized stores for kitchens, fireplaces, sanitary equipment and tiles, fixtures, fabrics, gifts as well as stores specializing in English, German or American furniture. (American furniture is offered only in such specialized shops, since delivery is very expensive). Swiss furniture is sold in the Neuhaus furniture store. Detailed information can be obtained at http://www.galerie-neuhaus.ru.

The main leaders have been present on the market for about 10 years. To become acquainted with the latest furniture style trends, shop owners and directors regularly visit exhibitions in Milan, Verona, Paris, etc. (see below). During exhibitions they often also visit factories and choose collections for their stores.

In the last years, many furniture store owners started a new trend of including well-known design salons or interior decoration studios on the premises of their furniture stores. This kind of cooperation between companies rendering support services facilitates the acquisition of loyal customers.

Thus, there is a great opportunity to render a full set of services in one place, from selecting the architect (Russian or foreign) and developing a design-project to the construction and delivery of the finishing materials (ex. parquet, wall-paper, paint) as well as the selection of bed linen, utensils and other interior accessories.

Moreover, additional services are offered such as post-guarantee service on the acquired goods without time-limit or free consulting by designers or in-house managers at the client’s home with samples and catalogues.

2) **Design studios**

There are several different types of design studios:

a) Design studios, which carry out only architectural and design projects;

b) Design studios, which supply furniture and supplementary items to the above listed services;

c) Design studios with and without show-rooms (which may include furniture on display).

Design studios render a wide spectrum of services from supervising an architectural project to fully supplying a project with interior pieces (including curtain tassels, chinaware, table cloths, etc.). Some of these studios import goods independently; others order them from stores specializing in interiors. A designer often guides his client’s tastes and is usually the main “customer” in an interior store. In order to attract clients’ attention, interior stores arrange special events, dedicated to a special topic or simply for entertainment, and invite well-known designers and architects. The best known and well-established luxury market players are Nadine Design Center, Il Centro Nuovo
Design Studio, the architectural bureau of Levon Ayrapetov and Pavel Romanov and architectural and art workshops by architects Velichkina and Golovanova.

3) Representative offices and agents

Factory representatives, or agents, are usually Italian companies with offices in Moscow which deal on B2B basis. The main players have been on the market for several years. The most known names are W.W.T.S (10 years on the market), Spazio, Archistudio and Key Italia. Some of them conduct their own commercial activities in shops and design studios, sometimes without the factory’s permission. Others act only as agents, receiving commission from each sale. As a rule, they represent factories on an exclusive basis in the Russian Federation and the CIS countries.

4) Regional market

The demand for luxury furniture in other Russian cities has significantly grown. Over the last three years large cities such as Yekaterinburg, Saratov, Perm, Nizhniy Novgorod, and Novosibirsk, to name a few, have started to generate more and more demand for this kind of luxury furniture. Marketing research which focuses on this type of furniture is conducted in these cities in order to categorize interior stores depending on product range, price and service quality as well as to create store profiles which reflect their strong and weak sides.

Design Service Market

The Russian design service market generates more than USD 15 billion p.a. The design service market for residential and public premises is also getting more and more important. This market is poorly structured and shows significant price differences for similar services. According to some estimates, designers and architects rendering services in designing residential and public premises achieve more than 65 % of sales of building and finishing materials, furniture, equipment and accessories for domestic use. The specific role of a designer as an intermediary between the seller and the client is a prominent feature in the Russian market. The development of the design market is closely related to the development of the construction market which is booming in Russia now.

The design service market is rather multi-faceted and non-uniform. If classified under “services rendered”, four types of companies can be distinguished: design studios, architectural companies, building and renovation companies, and furniture and interior stores.

In addition to the standard Russian practice of selling new apartments without a finished interior or equipment, there are new services in the real estate luxury market, which include sales of apartments on a “turn-key” basis, which means a completely finished interior and full furnishing. The result of this concept is the creation of a multi-level contract market, which represents interests of furniture manufacturers and suppliers as well as builders and realtors.

For the most part, the ideas and styles of Russian designers tend to be quite commonplace and ordinary. Therefore, the demand for services of foreign professional architects and designers is growing.
Having exclusive luxury projects or furniture is a strong feature of the Russian customer. Therefore, quite often this demand for specific top-quality design sketches for furniture manufacturing, carpets and other interior items can only be met abroad.

**Promotion Channels**

International exhibitions are the main source of information about novelties in the furniture and design market for Russian companies and individuals. The most important exhibition for Russian clients is “SALONE DEL MOBILE”, held in Milan in April of every year (http://www.cosmit.it). This exhibition is a trend-setter for styles, colors, shapes, etc. and is visited by all well-known Russian architects and designers, shop owners and managers as well as by individual clients, who often choose an interior solution or purchase selected items directly at the exhibition. “Abitare Il Tempo”, held in Verona in September, (http://www.abitareiltempo.it) is the second most important exhibition with an accent on Italian manufacturers. Máison Object (www.mamaison-mesprojets.com) is known to be a trend-setter for accessories and fabrics.

In Moscow there are two important annual furniture exhibitions. The largest one is “MebelExpo”, which is held in November at the Expocenter (www.expocentr.ru). Another one is Fidexpo, housed at the Gostiny Dvor (http://www.restec.ru/fidexpo-m). These exhibitions have recently lost their importance in comparison to previous years.

The main professional interior magazines are Architectural Digest (AD), Salon (The Private Interior of Russia - www.salon.ru) and Interior+Design. These magazines are popular among both professionals and private clients and play a significant role as market leaders.

### 7. Luxury food

In the last five years the retail sales have grown by almost three times, from about 2352.3 billion rubles (85.2 billion USD) to 6934.3 billion rubles (251.2 billion USD). However, it is the luxury retail, which has recently shown the highest growth rate. According to the AC Nielsen research company, this market is going to experience a consolidation. As it has been seen in other countries, in order for the market to develop, three main players are required, which take up about 40% of the market.

Active development of the premium food products niche should be expected in Moscow only in one or two years. In other Russian cities this segment will develop much later. Macroeconomic analysis shows that the premium food products niche starts to develop intensively when pro capita income in a city, a region or a country exceeds USD 1000.

Currently the pro capita income in Russia is at 9928 RUR (USD 380). This means that the time for real development of the premium segment in the food products markets has not yet come.

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9 Business newspaper “Vzglyad” (“Look”) 02.06.2006
The pro capita income of Moscovites has crossed the threshold of 1000 USD in 2006 and reached 30486 RUR (1163 USD).\(^{10}\) At that point, the premium food product segment is expected to experience a rapid growth. The winners in this situation will be those who have been ready for the "massive attack" on the premium segment and have prepared a portfolio of goods and brands, focused on the most demanding consumers.

Over the past few years, the Russian food products market has experienced a number of substantial changes. For example, a tendency to reduce the consumption of vodka is under way in Russia at the moment. Meanwhile, consumption of cognacs, whisky and other spirits is on the rise. Consumption of meat products has been redistributed in favor of more expensive segments. Fruit consumption is also growing.

Market research shows, that the main reason for these changes is the growing income of the population.

In 2006 the Russian food market entered a new development phase. This phase is marked by a sharp change in the consumers' tastes and requirements. Consequently, consumers are starting to buy entirely different products and sales in the expensive and luxury segments are, therefore, rapidly growing, while the competition in all sectors of the market is intensifying.

As a result, a paradoxical situation has been created. Many companies have no time to react to changing requirements, and much of the demand is, therefore, not met in the market. The new market structure will most probably finally be generated by 2013-2017, when the income of Russians will hopefully reach USD 800 pro capita.

**Main players of the premium retail trade market and HoReCa.**

One of the main challenges in the premium retail trade is the conformity to requirements of elite-class clients. Currently, four retail chains claim to be ranked as elite-class retailers. Only such chains as Globus Gourmet (4 shops, planned 12 in 2007), Kalinka-Stockmann (4 shops), Azbuka Vkusa (Alphabet Of Taste) (17 shops), 7th Continent - 5 stars (27 shops) meet the basic criteria of an elite-class grocery shop. Based on their performance in 2005, these chains have grown by an average of 35%, and the lifestyle of well-to-do Russians has been enriched by a new feature – the gourmet boutique. Boutiques which are already present on the market include the Hediard franchise (September 2005), two Fauchon shops (October 2004), the French boutiques Vatel and Provence, several boutiques of the premium Russian chocolate Confael and A.Korkunov as well as the Belgian chocolate shops, BACCARAT Chocolatier and Godiva.

Undoubtedly the market will grow. The Italian company Peck, which already has boutiques in Milan and Tokyo, has recently announced its intention to open gourmet boutiques in Moscow. The first Petrossian boutique, the world famous premium caviar retailer is expected to open soon. The Austrian firm Julius Meinl also announced its plans to open shops in Moscow.

"The fast growth of the sector is clear to everyone", Mr. Filatov from BBPG says, “This information, namely the 30-40 % p.a. growth, is reliable, although the potential for growth is still limited. The saturation period is much shorter than for other mass markets. At the current rate of store openings this will happen in two or three years."

There is a particularity in the Russian food products retail market. Either elite-class supermarkets chains import only a small share of the products or the purchasing function is transferred to the head company, as in case of Kalinka-Stockmann. The necessity of organizing an appropriate logistical chain, product customs clearance and maintenance of large warehouses in Russia is often an obstacle for elite-class supermarket chains in their purchasing activities. Usually products are delivered to elite-class supermarkets by the largest importers of food products in the HoReCa segment. Alongside with delivering to traditional clients - restaurants, hotels and catering - importers in the HoReCa segment also deliver fine foods to supermarkets because of the exclusive basis of distribution of these products.

The selection of products of a large company supplying to HoReCa enterprises, usually exceeds 1000 items. Most of them, about 55-60%, are ordinary products of standard quality, and about 40% of the selection is made up of gourmet products bought from manufacturers or distributors under an exclusive-basis agreement. Complementary goods make up about 2-5%. The trading margin is about 25%. However, it varies depending on the quality and uniqueness of the product. The greatest margin can reach 50-70 % and is made for such rare and exclusive products as exotic seafood, fresh goose liver, bison meat and truffles, to name a few. Another feature of this market is specialization. Some firms are engaged only in seafood, others in the French delicacies or deep-frozen products. This is sometimes the only opportunity for small firms to find a niche in the market. Specialization is also beneficial for other reasons. First of all, in this business, as everywhere else, the Pareto principle (when 20% of the selection makes up 80% of the profit) is at work here. Secondly, the specialized companies can set a higher margin for products. And at last, working in a narrow niche can become the main competitive advantage for a company. The largest importers with a wide specialization are Global Foods, Dimarko Trade, Marr Russia, Emborg A.O. and MBF Products.

**Main trends of the luxury food market**

1. The share of expensive and exotic goods in many product groups grows, as a rule, due to the expansion of the product selection. A good example of such expansion is spirits. Over the last few years, the selection of exotic and expensive alcoholic products significantly expanded, which completely changed the profile of this product group. There are numerous new, unusual products appearing on the market such as the meat of exotic animals or unusual fruit and plants. For approximately 10-15 % of consumers, exoticism is a strong additional stimulus for purchasing goods.

2. High-quality processed foods and ready-to-serve foods as well as ingredients for exotic recipes are becoming popular. People have started to save on time spent in the kitchen, since their growing salaries have allowed them the convenience of buying ready meals in a shop instead of cooking.
3. Various health products such as food additives, sugar substitutes, vitamin-enhanced foods are also gaining popularity. A person with a high income, who simply has no time to eat a healthy diet, is ready to pay for it. This trend supports the development of the organic food market. This market has just been born, therefore, each manufacturer or importer of organic products should contribute formation to the market and to education the consumer. Today the consumer needs information support and professional explanations of the organic food concept. Among the main "players" of this segment in Moscow are the Gruenwald store chain, Globus Gourmet, Fushi and Grain Open Company. In April 2006, the first organic food café.

8. Luxury services for Russian clients abroad

**Medical Services**

Based on results of a study carried out by the Russian medical association among professionals, 93,14 % of experts estimated the present condition of public health services as critical. Experts listed several reasons which caused the crisis: lack of moral and material motivation of medical staff; backlog of the Russian medical production, inefficient work of the state management of the Russian health care.

The state of the Russian public health is generally described as being very discouraging. The death rate of the Russian population exceeds 1,6 times the birth rate. One third of all deceased people didn’t reach retirement age, the death rate of men among them exceeds 1,2 times the death rate of women (men – 59 years, women – 72 years). In terms of the current life expectancy, Russia lags 19,1 years behind Sweden, 17 years behind France, 15,4 years behind the USA. In 1965, the backlog compared to these countries was 7,2, 3 and 2,3 years respectively. The main diseases being reasons for an early death are ischemic head and cerebrovascular diseases and cancer diseases. The average life expectancy of Russians with chronic respiratory disease is 10-15 years less than in European countries.  

Health care is classified by the government of Russia as a priority branch which needs to be reformed. The government of Russia allocates additional funds for the “National Health” project. These measures are aimed at raising the common level of medical services, which still will not meet the demand of the most exacting consumers.

The current state of health care stimulates the interest of wealthy people to seek medical treatment abroad. The main problems in the Russian health care are:

- Lack of information and promotion of medical services among the population.
- Insufficient introduction of modern, innovative technologies for check-up, treatment and after-care.
- Poor infrastructure in hospitals, except a few private clinics.
- The medical malpractice insurance is not implemented either for patients or doctors.

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There is also a psychological reason for choosing medical services abroad, as Russians are used to consider medical treatment abroad as the best solution with the best result. Besides, this is prestigious. The target group of consumers of medical services abroad doesn't differ from the consumers of other luxury products.

In Russian clinics these people are called VIP – clients. These clients have certain health problems caused by their life style, which one has to take into account. According to information sourced from private clinics in Moscow, wealthy Russians suffer from stomach ulcers, bilious complaints, osteoporosis, osteochondritis, hypertonia, heart coronary disease, injuries and depression. There are often social reasons behind these diseases, like a constant overloading of a top manager, high responsibility, work, etc. A common feature of wealthy patients with any disease is the belated apply for medical assistance and their neglect of prophylaxis. Many injuries of Russian middle or higher class patients are caused by mountain skiing and surfing, but also by doing sport in general without regular training.

VIP clients are frequently not satisfied with the level of health services in Russia. Their main reasons are mistrust of doctors, lack of information on the best experts in each medical area, low service level in Russian clinics and sometimes lack of the appropriate level of medical assistance. A certain correlation between the estimations of health services and the financial power of Russian respondents can be observed: the better the financial status of respondents, the lower the level of satisfaction with the quality of services.

Seen in this light, medical treatment abroad is logical, besides just being fashionable.

At present, university and private clinics of Germany, Switzerland, and France, and thermal resorts of Italy and Switzerland are mostly in demand. A client prefers to combine a health check or treatment with his vacation or business trip.

In Russia, there are three distribution and promotion channels for medical treatment abroad. The first one, most obvious and actively used channel consists of specialized agencies engaged either in just facilitating medical services abroad or representing the interests of several clinics. There are also travel agencies which are specialized in organizing medical treatment abroad. When clients come to specialized agencies they are offered a choice of different countries for treatment. However, if clients belong to the VIP category they usually choose Switzerland. Their choice is based on the idea that the highest level of health services and diagnostics can be found in this country and because of its geographical affinity to Russia. An important reason for this choice is time saving. Many people have business contacts in Switzerland, and, at the same time, they want to have medical examinations or receive medical treatment in this country.

The second channel, less developed but with more potential is the promotion of health services abroad through Russian medical institutions. Usually, it happens when Russian doctors cannot render the necessary assistance and have by chance some information on the work of their colleagues from other countries. This often occurs in the case of blood diseases, oncology, and diseases of the musculoskeletal system. Patients in such cases are recommended to contact clinics abroad directly, mostly in Germany and the USA, as there is more information exchange between professionals of these countries.
The third, most insignificant and least perspective promotion channel of health services are insurance companies. Insurance policies of voluntary medical insurance schemes where separate clauses of health services abroad are included are very rare. As a rule, these are exclusive policies for the top management or owners of big companies. Such insurance policies are rarely used in Russia and have doubtful prospects for a wider circulation. The normal package of a voluntary medical insurance which may be offered to an employee usually does not even include treatment in hospitals in Russia and never includes the treatment or diagnostic in medical institutes of the Academy of medical sciences which are known as the best establishments of this kind.

According to the survey results among leading companies engaged in the granting of treatment and health improvement abroad, the most claimed services in Switzerland are the following:

1. Medical check-up. The most required areas are cardiology, oncology, gynecology
2. Anti-age program
3. Treatment of diseases in such areas as cardiology incl. cardiosurgery, oncology, diseases of the digestive system, urology, gynecology, orthopedics (usually post operative care)
4. Recovery after operations, orthopedics (manufacturing of artificial limbs), varicosity.
5. The new trend is health improvement as a whole, e.g. recovery from heavy work. Not only spa treatments are required, but also serious programs with medical supervision (anti-stress programs etc.)
6. Plastic surgery is in popular demand, since traditionally, Switzerland is renowned for it.

Usually, a treatment or medical supervision lasts from 1 week to 1 month.

Switzerland tends to become more affordable, not just for very rich people. Many people prefer Swiss clinics to treatment in Germany or Austria.

The best fairs to promote luxury medical services in Russia are Millionaire fair, Luxury Leisure (conference SPA & HEALTH), and Extravaganza.

**Millionaire Fair**
http://millionairfair.ru/eng/main/

Organisers:
*GMG Events B.V.*
Noordhollandstraat 71, 1081 AS Amsterdam
Tel: +31 20 30 11 700
Fax: +31 20 30 11 701
www.millionairfair.com

*Independent Media Sanoma Magazines*
127018 Moscow
Polkovaya ulitsa 3, building 1
Tel: + 7 495 232 32 00
Fax: + 7 495 232 17 61
www.imedia.ru

Periodicity: annual
Last show: 27-30.10.2006
Venue: Crocus-Expo
Participants: 200 companies
Visitors: 38 500 guests
Date of next trade show: 22-25. November 2007

Extravaganza
www.extravaganza.ru

Organiser:
Shorex Limited
1A Harmood Street
London NW1 8DN
UK
Tel: +44 20 7482 1000
Fax: +44 20 7482 1100
www.shorex.com

Periodicity: annual
Last show: 26-28.10.2006
Venue: Manege
Participants: 130 participants
Date of next trade show: 25 - 27 October 2007

Luxury Leasure
2nd SPA & HEALTH
International Conference

Organiser:
MSI Expo / ZAO Euroexpo
119002 Moscow, ul. Arbat 35, office 440
Sales Director
Anna Belokoneva

Tel.: +7 495 105-6561/62
Fax: +7 495 248-0734
spa(at)msiexpo.ru

Venue: International Exhibition Centre “Crocus Expo”, Pavilion 1
Date of next trade show: 25.-27. September 2007
Services in educational field abroad

The education system has also become a priority for the Russian government. In 2006 it launched the "Education"national project. This project is aimed at solving the problem of lacking qualified personnel, introduction of new examination standards etc. However, this project doesn’t address to the reasons, which increase the demand for education abroad.

The growing interest for international education among the Russian public can also be explained by the generally known prestigious status of international education, its superior quality and, as a consequence, better career prospects.

The most demanded are the following types of education:

- academic education (study at school or in college, preparation for university admittance, university programs, including master and postgraduate study);
- additional university education (MBA, LLC, MSC, etc);
- language study (various programs, starting from upgrading of informal conversational skills to specialized courses such as language skills for academic purposes or for professional work; academic year programs for schoolchildren and school graduates);
- vacation courses, summer schools, programs on regional geography (combination of language study with cultural and entertaining program, to become acquainted to the country, its sights and customs).

The Grint Centre for Education considers Great Britain, Switzerland and Germany as the most attractive destinations in 2005 – 2006. (www.studyabroad.ru). The interest for such countries as Spain, France and Malta has been significantly growing during the mentioned period of time, too.

According to the British Council, the number of Russians studying in the UK will increase between 1700 and 2500 students a year by 2020. It is expected that Russians will constitute the biggest group of participants of the British distance learning programs: it is forecasted that by 2020 this form of training will by chosen by app. 33000 Russians (currently - 11500 people).

According to research, the demand for second higher education will double in the next years: the majority of students will study subjects connected to business. Popularity of the humanities will fall, but, nevertheless, they will stay on the second place of popularity. It is also expected that demand for IT education will grow fast. The most popular subjects in the field of short-term professional programs are art and design.

The market of Education services is well developed and organised in Russia. To sell the services in this field and to offer educational services abroad, a company has to apply for a license. Thus, this line of business is very professional, as most companies are specialized in educational services abroad. The input of Russian universities to promote educational services is very limited.

We have conducted numerous interviews with Russian agencies offering education services abroad and have compiled the following list of services in Switzerland which are the most interesting for potential Russian partners:
1. Summer camps with language training (English, German, French)
2. Higher business education (biennial programs) - demand exceeds offer. Agencies don’t have sufficient information and contacts to offer business education. The demand for business education (not necessarily MBA) grows.
3. German language courses for adults (in Zürich, St.Gallen, and Bern), French courses (in Geneva, Lausanne) - demand exceeds offer.
4. Hotel management courses
5. College training for children of 14-18 years. There is a service offered by specialized agencies, whereby parents and children go together to a country to choose a suitable college from a number offered by an agency
6. Preparation for application to high schools - information on possible courses is needed.
7. Application to universities.

Promotion channels

According to our research, 90% of agencies pay special attention to advertising online, participating at education exhibitions and doing presentations. 40% of our respondents pointed out that along with internet resources they place information about the programs they offer in specialized printed newspapers and magazines. A very useful tool is the placement of information about education services abroad in the colourful guide “Study abroad”. The guide is distributed at different education exhibitions and seminars as well as at leading universities, colleges, secondary schools, banks, international and Russian companies, and educational agencies.

60% of agencies believe that in order to successfully promote an educational institution on the Russian market an advertising budget of 20.000 Euro is needed. 40% of respondents have agreed that 10.000 Euro would be a sufficient amount.

International Education Fair
www.iciep.ru

16-17 February 2007 - Moscow
Moscow State Exhibition Hall "Noviy Manezh"
Address: 3/3 Georgievsky Pereulok, Moscow 125009, Russia
Tel.: (+7-495) 692 4459
Web site: www.new-manege.ru

18-19 February 2007 - Saint Petersburg
Russian Museum of Ethnography
4/1 Inzhenernaya Street,
Tel.: (+7-812) 313 4768
Web site: www.ethnomuseum.ru

ORGANISER
Interuniversity Centre for International Educational Programmes in co-operation with Marketing Agency StudyAbroad.ru.
Sergei G. Kulik, ICIEP Director
Phone: +7-495-609-2315
Fax: +7-495-744 7063
E-mail: iciep@aha.ru
Web site: www.iciep.ru

MAIN SECTIONS OF THE EXHIBITION
- Universities and Colleges
- Language Schools
- Private Secondary Schools
- Distance Learning
- Postgraduate Studies and MBA Programs

VISITORS
Usually, the total number of visitors is about 8,000-10,000 in each city. Most visitors are high school, college and university students aged 15-25.

International Exhibition "Education and Career"
http://www.znanie.info/eng.html
13th-15th MARCH 2007
Venue:
Moscow, “Gostiny Dvor”
30th MARCH-1st APRIL 2007
Venue:
St.Petersburg, Central Exhibiting Hall Manege

Organizing Committee in Moscow:
RTV-Media,
4, Vostochnaia str., office 419,
Telephone/fax:
(495) 950-51-13, 950-51-14, 675-18-95, 675-49-76
E-mail:
rtv@znanie.info

Over 350 universities and colleges participate in the exhibition. 25% are international institutions. The estimated number of visitors exceeded 50 thousand people. The majority of visitors were students and their parents. The exhibition lasts 3 days. According to statistics, there was a 150% increase in the number of visitors as compared to the previous years.

9. Practical guidelines to Luxury goods promotion

The target audience of luxury goods consumers can be divided into two basic groups. The first group includes real connoisseurs appreciating quality, exclusiveness and the value of goods. The driving motivation of buyers for making such purchases is their absolute confidence in the product quality as well as their conviction that the chosen manufacturer displays his much respected know-how in this particular product.
The second group consists of people who are concerned with showing off their consumption. In their environment it is considered appropriate to buy cars of certain brands or to visit certain clubs and shops. All this forms their lifestyle and determines their social behavior. There are more people who consume ostentatiously in Russia than there are true connoisseurs. It is easier to communicate with members of this group, because they seek status products which will serve as symbols of their belonging to high society.

Russia has only recently overcome the period of "wild" luxury consumption. The promotion of luxury goods is based on a simple idea created by the audience - there are just a few specific fetish-brands which are “must-haves”. A demand for a set of objects is generated, thus creating a simple guideline for the target audience with high opportunities, demands and incomes. The promotion process is rather clear and simple in Russia: to promote certain luxury brands and to create a link to the target audience. However, it is not so easy to find the right access to any given target group and to make them loyal to certain brands.

To be able to work with a given audience one has to find the locations, the people and the communication channels that the target group trusts. To combine them all is high salesmanship. To implement this strategy in Russia, first you need a good experienced local trading partner. You have to rely on the local partner, otherwise it's rather difficult to start. The advertising campaign and the marketing budget in Russia is a matter of mutual understanding and financing of both sides – producer and local distributor in case he is available. Any experience of Russian partners shouldn’t be underestimated because the promotion of luxury goods in Russia slightly differs from Europe.

Glossy magazines have always been and remain a classical communication tool for companies working in the luxury segment. Even if exact audience targeting is impossible, this type of mass media is particularly capable of supporting the image of a premium brand. Owners and distributors of elite brands are always searching for alternative ways to direct their marketing expenses on their own audience. One version of redistributing media budgets is the actively developing segment of corporate editions. Such magazines are issued by the Mercury company, one of the leaders of the luxury market. They publish two editions each quarter, namely “TSUM” (a shopping centre analogous to Gallery Lafayette) and "Mercury". Both magazines have a circulation of 30,000 copies each. The goal of these magazines is to be associated with a certain lifestyle, to observe the newest fashion trends, and to present new products available to customers in boutiques and shops of the company. However, according to expert opinion, such editions do more to highlight the company’s status rather than serve as target communication with the necessary audience.

It is commonly believed among the most successful players, who speak from experience, that traditional communication tools will never reach the efficiency achieved by building a personal relationship with the client. Furthermore, no subtleties in the VIP-service can be effectively realized without what is called the human factor. For example, many boutique managers agree that clients frequently visit shops without the intention to buy, but simply to communicate. There have been cases when shop-assistants, who changed their workplace, would take a lot of regular clients with
them, because the basis of loyalty to one or another brand or boutique is the trust in a specific person.

All over the world there is a practice of "recruiting" clients through direct mail when unique goods are offered. According to Alexander Ivanov, President of the Russian Association of Distance Trade, "such sale schemes do not work yet in Russia". Russians are quite a closed society in terms of disclosing financial information. "The upper class, capable of spending lots of money, is especially closed. A purchase solicitation, delivered by mail, will cause them to be on their guard, rather than to consider a purchase."

Alexander Ivanov's opinion is shared by a representative of an international bank located in Moscow who spent half a year and nearly USD 30,000 to get "a correct database of the Moscow VIP audience". The Bank mailed rather attractive offers for the purchase of credit cards to private addresses of potential VIP clients. However, as a result, he received violent and indignant telephone calls from individuals demanding for the source of this personal information.

This inclination to conceal any financial or private information is caused by the memories of wild times in Russian business in the early 90's and the lack of trust in the government, which was on the side of the people. The times have changed but this attitude still remains.

Therefore, promotion of expensive Swiss watches, unique residences or cars is just as delicate a handicraft as the manufacturing of a complex product. However, marketing specialists of "luxury" companies cannot use tools other than those used by their colleagues from the mass-market segment, since "nothing else is available".

The fact remains that the advertising of inexpensive watches will undoubtedly be different from the promotion of luxury goods. However, some advertising tools are used in both cases, such as billboards or magazines (for a list of widely used tools in magazine advertising see Appendix 1). The importance of advertisement placement in glossy magazines shouldn't be overestimated in Russia. It is certainly a must for luxury brands to be seen using certain media tools to support their image. As some studies have shown, wealthy people surprisingly do not read many glossy magazines. The most popular magazines and newspapers among such people are the so-called "yellow" issues. It does not mean that luxury companies have to place their advertisements in these issues, because the level of these magazines does not correspond to the concept of luxury. This fact proves, however, that the producers of luxury goods must find some sophisticated and effective tools in order to reach their target group.

The creation of private clubs for the "elite" can be considered an example of successful marketing. The well known Moscow publishing house "Terra" founded a special exclusive readers club called Monplaisir and a catalogue of the most expensive books, which are published for club members. The total edition of these books does not usually exceed 100 copies, which are numbered and personalized. If necessary, a trade mark of the company is placed on the issues, making the rare edition a business gift.

The Monplaisir Club is little-known among the general public and is hardly advertised. Its members do not only include the first president of Russia Boris Yeltsin, but also the
owner of the English football club "Chelsea" Roman Abramovich and other representatives of the local political and business “beau monde”. On average, a book costs about EUR 5000. For example, the binding of A. Shilder’s “Alexander I” (EUR 5600) was decorated with Swarovski crystals.

Another example is a project launched by the company De Luxe Alliance, which created a catalog of goods for millionaires (www.vladenie.ru). De Luxe Alliance represents the interests of many well-known international companies in different fields - real estate, distributors of luxury yachts, private aircrafts, exclusive cars, jewellery and antiques. The company set up a call-center for VIP-clients, which provides a full range of services including guarantee, financial and consulting services regarding the products they sell. Alliance De Luxe is responsible for the framework for cooperation with foreign companies. It is seen as an expert in the Russian luxury market, providing a full range of services to insure that the interests of a foreign company are represented in Russia. Such services include anything from the marketing research of a specific market segment to the elaboration of the legal and financial plans for the development and sale of goods as well as the implementation of promotion and advertising strategies.

A very useful tool to reach clients is cooperation with existing concierge services in Russia. An exclusive member club “Quintessentially” has already set up its branch in Russia. This club provides full range of exclusive services abroad, as holiday arrangement, medical treatment, entertainment etc. The Russian partner of Quintessentially has also built up a special structure Primeconcept for VIP clients, which is becoming more exclusive and exceptional. The cooperation with such private clubs can give direct access to the VIP audience in Russia. Such a concierge club as Quintessentially may be interested in cooperation with exclusive private clinics, luxury hotels and SPAs as well as the creators of tailor-made jewellery.

Popular and obvious tools for promoting goods in this market include several exhibitions, which need to be mentioned. Their role is not to be overestimated, as participation in an exhibition in Moscow can hardly help in finding a trading partner. However, exhibitors get direct access to their clients, especially if there is an opportunity to sell the products directly. The most recommended exhibitions for luxury goods are the “Millionaire Fair” and the “The Moscow World of Fine Art” Fair.
Appendix 1

Top magazines for luxury goods and services

Robb Report
www.robbreport.ru

- Luxury lifestyle magazine (in Russian)
- since 2004 (Independent Media Sanoma Magazines)
- some selected items from Robb Report USA + materials crafted by the Russian editorial team (Oxana Robski)
- published monthly (11 numbers a year)
- 20'000 copies

Content

Jewellery, classic watches, fine dining, exclusive destinations, premier cru wines, cigars, home entertainment, collectible cars, or mega yachts

Distribution

- subscription (12 months – 120 euro, own unique reader's database updated every 3 months)
- presidential suites of 5-star hotels in Moscow and St. Petersburg
- VIP-zone of golf and yachts clubs
- international flights (first class and VIP lounges)
- Millionaire Fair in Moscow
- Russian Economic Forum in London
- since 2006 at some BP patrol stations and at the supermarkets premium class
- Boat shows in Monaco

Kak potratit (How to spend)
http://www.vedomosti.ru/supplements/how2spend.shtml

- glossy colour supplement to the special issue of the newspaper Vedomosti (in Russian), magazine A3.
- project of The Wall Street Journal, Financial Times and Independent Press
- since 2000 (Independent Media Sanoma Magazines)
- 8 issues a year
- 3 supplements (Fashion Business, Watches & Accessories, Auto)
- 55 000 copies (Moscow, St.Petersburg)

Content

Shopping, travelling, interior, fashion, luxury goods, food and drink, sport, life of famous persons etc

Distribution
With the newspaper Vedomosti:
- all distribution partners: shops, newsstand, kiosks,
- post subscription,
- messenger delivery to the offices of the famous companies,
- cafes,
- top-universities

Salon
www.salon.ru
- Magazine about private architecture and interior design, luxury goods
- Since 1994 (Publishing House “Salon-Press”)
- Published monthly
- 70 000 issues

Content
Elite interiors of the Russian architectures, trends in interior objects design, furniture, kitchen, home accessories, models of prestigious trademarks, being offered in the salons of Moscow and other Russian cities, overseas interior, landscapes

Distribution
- supermarkets (67%),
- newspaper kiosks and stalls (25%),
- subscription (2%),
- special exhibitions (2%),
- direct mail (2%),
- hotels and business centers (2%)

Regional distribution
- Moscow and Moscow region (37%),
- Russian regions (53%),
- CIS, Baltic and foreign countries (10%)

Millionaire Guide
www.millionairefair.ru
- Guide for the luxury lifestyle (in Russian, about 240 pages)
- normally 1 number a year, (twice in 2007 year: one in May – dedicated to the jewellery and watches and another in October – to all luxury brands and services)
- 25’000 copies
- free of charge
- special issue (September 2006 “Hundred Most Invited”)
Content

Autos, collection of vines and champagne, holidays and exotic adventures, close clubs, business school worldwide, clothes, watches, jewellery

Distribution

- 7000 copies as a present for the guests of the VIP night at Millionaire Fair
- among the Millionaire Fair’s participants and VIP base.

Target

National and international luxury consumers, business elite, representative from the luxury business, celebrities, government representatives

Elle Deluxe

- Luxury lifestyle seasonal magazine (in Russian)
- since October 2006 (Publishing House « Hachette Filipacchi Shkulev”)
- published 5 times per year (March, April, September, October, December)
- circulation 90 000 copies

Content

Jewellery, classic watches, exclusive destinations, design and interior trends, home and hi-tech accessories, luxury cars, fitness centres, restaurants

Distribution

- Exclusive supermarkets chains (mostly centre location)
- Exclusive partners and their VIP customer database (real property, mobile network operators, etc)
- Luxury boutiques (as a present with the purchase)

Architectural Digest (AD)

- International Magazine
- since 2002 in Russia (Publishing House Conde Nast)
- published monthly (11 issues a year)
- circulation : 60 000

Content

Leading international magazine about design and architecture, tells about the most beautiful houses of the present, about last architectural and design masterpieces, about tendencies in interior fashions, about fascinating exhibitions and auctions.

Distribution
- supermarket chains, mini-markets
- big newspaper kiosks and stalls,
- Luxury hotels,
- International airports,
- main furniture and design exhibitions,
- large gas-station networks (BP, TNK etc)
- furniture shops

Regional distribution

Moscow - 56%
St.Petersburg - 10%
Russian regions - 30%
CIS - 2%
Foreign Countries - 2%

Interior+Design

- magazine about interior decoration and design
- since 1996 (Publishing House "OVA-Press")
- monthly
- circulation 95 000
- 6 supplements: "100% Country House", "100% Furniture", "100% Kitchens",
  "100% Bathrooms", "100% Office", "Antiques", as well as regional publication
  "Interior+Design.St.Petersburg."

Content

Actual trends about private interior and design, news from the top-class furniture
shops and international exhibitions, advices for the good choice of the furniture and
household appliances, practical decisions for the interior.

Distribution

- supermarket chains,
- kiosks,
- shopping centers
- bookstores,
- international airports in Moscow and St.Petersburg,
- large gas-station networks (BP, TNK etc)
- direct mailings for the architects and designers, foreign furniture representatives, VIP
  individuals, large banks and insurance companies
- subscription in Russia and abroad

Elle Dekor

- magazine about interior design (in Russian)
- since 2001 in Russia (Hachette Filipacchi Shkulev)
- published monthly (11 issues a year)
- circulation 75 000 copies

Content:

ELLE Decor is a magazine about beautiful life in beautiful interior. It is the most popular interior magazine in the world. The international network comprises twenty countries. The magazine has been published in Russia since 2001. ELLE Decor is a monthly. The main motto of the magazine is: House style is lifestyle. Popularity secret of the magazine underlies in the equality of these two elements. The magazine is invaluable for those people who equip their house. ELLE Decor readers are always aware of the latest tendencies in the field of design, architecture and space decoration. Luxury lifestyle and home environment, latest furniture design and decoration trends, practical information on stores and prices for luxury items.

Distribution:

- supermarket chains,
- kiosks,
- furniture luxury shops (as a present to the purchase),
- international airports in Moscow and St. Petersburg,
- large gas-station networks (BP, TNK etc)
- direct mailings for the architects and designers,
- furniture and design exhibitions

Regional distribution

Moscow – 48%
St. Petersburg – 8,4%
Russian regions – 39%
CIS – 4,2%
Foreign countries – 0,8%
Appendix 2.

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