ESPER TIMES

NO. 40
19/04/2011
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ESPER GROUP - MOSCOW - N. SIROMYATNICHESKAYA STR., 10 - BUILD 7, OFFICE 203
WWW.ESPER-GROUP.COM

SHIFT HAPPENS

LUXURY BRANDS CHOSE TO OPERATE DIRECTLY IN RUSSIA AND THEIR EX-OPERATORS ARE IN PURSUIT OF NEW INCOME SOURCES

Feels like Trauts' warning of Differentiate of Die! is most burning again. Having scraped through the crisis with their partners in Russia many luxury brands decided to let go and operate independently in the recovering market. As a result luxury operators practically dividing the market in four had to search for new profit sources. So, Crocus Group eliminated its fashion department completely. Instead of apparel and footwear the company took to focusing all efforts on commercial property developments. Its ex-surfaces were given for rent to Prada – lost by another market player – Mercury. Mercury by now is attracted to regional expansion, and the first step will be to launch a store in Krasnodar which is according to Esper Group experts estimates by far the most promising regional city in terms of luxury in Russia for the past five years. Apart from that Mercury is launching partnership corners – TSUM recently acquired Stella McCartney's corner. Another participant which is JaMilCo has a stake in most significant commercial surfaces in Stoleshnikov lane but has recently lost Hermes when the brand took to free flight. However, Bosco feels it could be the winner to take it all. Lately the company has been engaged in forcefully promoting its private label of Bosco Sport. Winning the contract for the Olympics sports equipment the retailer paid back for all the immense investments in regional expansions up to launching a franchised store in Kiev in 2010 and a stake in a largest commercial property project in Sochi. Besides, apart from Hugo Boss which is leaving Bosco to start its own stores while keeping partnership albeit secondary Bosco signs up with new cooperators – Guess by Marciano has been recently opened in GUM. Besides, commercial rent itself is still profitable and promising. However, compared to other retailers Bosco is in now way intending to lose exclusivity contracts even diversifying at most – Bosco Fashion Week starts with new partner already attended personally by Paul Marciano to underline the importance of this cooperation. And following "the winner takes it all" Hugo Boss is also to take part in the catwalk. Let business be business.

Luxury segment in Russia in 2010 made 8.2 bln. real USD

AND FINALLY COMES… KAZAKHSTAN

MAJOR MASS MARKET PLAYERS' ARRIVAL TRIGGERED CIVILIZED RETAIL BOOM IN KAZAKHSTAN

A few years ago it would seem unbelievable to name Kazahkstan among promising markets for global retailers as the country could only boast low population density, huge regional inequalities and up to 90% of grey imports not in the least because of being close to China, favorable terms of delivery from Beijing country for physical persons, labeled chelnoki (suitcase traders) and there were up to a third of economically active population of them in the country – all these factors summed up brought up low purchasing capacity, low-quality goods mostly no-name oversaturating the market at low prices, lack of quality commercial surfaces and reluctance to sell in civilized formats and, equally, purchase in civilized formats.

Presently the trend's changing – more than 30 mass-market brands launched business in the country with leader of Inditex opening stores for the range of its portfolio in the country in 2010 in Almaty – Zara, Massimo Dutti, Bershka, Stradivarius. By now the following leading retailers are featured in the Kazakh market – Mango, Mexx, United Colours of Benetton, Motivi, Promod, Savage, Naf Naf, Jennifer, S. Oliver, Monsoon, Accesorize, La Senza, Gap, Cartefiel, BHS, Marks&Spencer, Oggi, Springfield. The market might be well saturated but bear in mind these brands came just a year-two ago and the number of POS is still low with only two cities of Almaty and Astana engaged. The competition is therefore still rather low and with consumer confidence and income on the increase there is still the problem of obsolete consumption pattern as Kazakhs still prefer shopping uncivilized for apparel, footwear and accessories.

It is to note that mass-market retailers in Kazakhstan also face distorted price perception meaning customers tend to view these stores as classy and expensive closer to the boutique level notwithstanding the fact that players in the market quote prices by 15-20% lower than in Russia and some 5-7% lower than in Ukraine. The reason for lower prices is in lower rents for professional commercial surfaces offering only moderate services and facing low demand for civilized formats as it is which certainly does not encourage them to invest more in developing. This vicious circle might be broken with international heavy-weights arriving as they demand more from POS. It is to forecast new modern-type shopping centers' construction especially with anchor leaseholders paying cozy rents for present surfaces will allow for new investment in future projects and fashion retail market extension potential is on the run for offsetting the shortage of shopping areas.

Shopping areas deficit in the country is one of the reasons for weaker development of more expensive price segment in the country. Apart from low density of population and inadequately scaled segment for luxury brands there isn't basically anywhere to open a store of the corresponding level. In absence of quality shopping areas required for upper-market and premium stores most luxury operators opt out for street retail, which is not to say they do not face problems. Abroad most city buildings were erected bearing in mind that first floors are used for shopping areas while in Kazakhstan such projects are made only now. New buildings will eventually take place of the older Soviet-type shops in the near future and that is where most street retail is located today. In some cities street retail format is supported in line with historic traditions attracting tourists but Kazakhstan is hardly a touristic attraction center. Besides opening a street retail store requires substantial investment not only to open but to exploit as well, i.e. solving all the municipal problems and take care of the surroundings of the store as well.

Low demand for luxury along with opening and exploiting barriers in the segment hinder massive presence of brands in the market, and hardly any heavy-weight is to be mentioned here. Besides, coming back to distorted price positioning it is to bear in mind that brands type Benetton are perceived as luxury in the country.

AVERAGE PRICE POSITIONING

BRANDS	RUSSIA ($)	UKRAINE ($)	KAZAKHSTAN ($)
ZARA	60,6	51,5	48,4
MANGO	82,9	70,5	67,5
MEXX	168	142,8	138,7
M&S	59,4	50,5	47,02
BERSHKA	53,01	45,1	43,7
SAVAGE	71,5	60,8	57,8

Major Kazakhstan problem lies in shortage of high-quality professional commercial surfaces

Even though purchasing capacity is not that high it is offset not only by lower costs and prices but by various sales promotion activities conducted by brands. Apart from a hanful of discount stores spread in 2009-2010 extensive discount programs are applied along with seasonal and out-of-seasonal sales and promotion offers. March still offered autumn-winter sales with 30%, 50% and 70% discounts. And it is to say that despite still having stocks before sale the statistics of after-sales show only small dead loss which allows to sell at 30% discount well after the season is over.

International retailers appearance in the Kazakhstan market will certainly lead to harsher competition in the internal market and competitive offers of good value for money and wider range are to push less efficient local operators out of the market in the mid-term. On the one hand, it "rinses" the market and creates higher consumption standards, on the other – it does not foster customers switch to world brands which perceive them as luxury and overpriced often even not knowing what is really written in the price tag of a global retailer. Discounts are applied to narrow the gap of distorted perception inviting customers to store during sales to get familiar with the range and evaluate all the advantages of civilized retail. However that is not to happen fast. Not less than five years will have to pass before open air market will leave more space for professional shopping surfaces and by 2016 uncivilized format's share is to make less than 40% compared to 76% at present. However, the good news is this process has already started, for instance a year before open air markets accounted for 85% of all apparel sales in the country.