# PRO fashion

Regional Report

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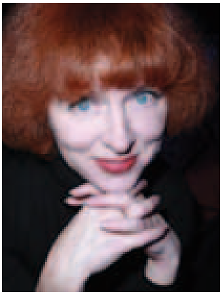

# Cut the expenses!

There is a reason why 80s style wide belts became so trendy last summer – in fashion retail they served as a literal “stop dreaming” sign, which warned that tough times were waiting ahead. Overall picture in Russian regions shows that while purchasing power index of the population decreases, the consumer culture, on the contrary, flourishes and people gradually start accepting civilized shopping formats – dynamics in the growth of saturation of retail space in some regions of our country is virtually the best in the world, the only state ahead of us is probably China. In real life this means that retailers have to come up with a way to low the prices on their product without it losing in its quality. Unfortunately, it is easier said than done, considering that China produces copious amounts of counterfeit goods right next door to Russia. Thus, while our customs try to stop the contraband, distributors of Western fashion brands shift their attention to other former republics of the USSR – their laws are somewhat different from those in Russia and guarantee more stable trade conditions – in particular, to Kazakhstan and to the Ukraine. Hence the content of this issue: several articles with overviews of retail trade in the major cities of those two countries.

YUNA ZAVELSKAYA

**editor-in-chief**

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AUTHOR: **ROMAN SIDOROV**

# COLD LOOK

According to Sir Charles Dilke, there are three kinds of lies: lies, damned lies, and statistics. Today it seems like this saying has outdated, and the quintessence of lies is marketers' analytics. From season to season "market experts" keep telling us tales about the mythological growing prosperity in Russian regions, about an average income of 70 thousand rubles, etc. But is all of this true?

Unlike marketers, even if statistics "lies", it does so impartially by the means of outgoings and restrictions that mathematical apparatus lays on it. Marketers, on the other hand, mainly lie intentionally, in order to satisfy someone whose interests are at stake. We could give them credit for the fact that they try to present our country in a better light in order to attract potential international investors and to lure them into our regions, however, it would be nicer if the distortion of reality did not exceed the notorious 3 sigma. At least then it would be somewhat close to the truth.

However, one does not simply criticize the existing analysis and provide nothing instead. Fortunately, it is not too hard to conduct your own research. Massive amounts of data about practically anything concerning national welfare are available through the Federal State Statistics Service, which annually issues a complete guide "Russian Regions: major economic indicators" as well as publishes lots of useful information online. According to the data received by questioning an improvised focus-group during the research for this article, such statement as "an average income in Russia in 2012 was 23 thousand 369 rubles" did not raise any red flags, such statement as "according to the company N, an average income in Russia in 2012 was about 60-70 thousand rubbles", on the contrary, caused resentment and objections.

## OVERVIEW

Let us start with general information and gradually move on to the specifics. One of the key factors that quite eloquently describes the situation as a whole is the budget (both the national one and the one of any given region), or if we want to be more precise, the hackneyed "debit to credit" ratio. According to the RFSSS (Russian Federal State Statistics Service), in the last few years our country has been spending more than earning. For example, in 2011 the national budget deficit was 86.09 billion rubles, and in 2012 it was already 105.42 billion rubles. There are virtually no profitable regions. Out of all the regions only four have finished 2012 with positive outcomes, among them were Kabardino-Balkaria (+204 million rubles), Murmansk oblast (+135 million rubles), Ingushetia (+15 million rubles), and Saint-Petersburg (+841 million rubles). However, the success of the Northern capital can be explained by the federal decision to relocate there the head office of the country's major mining company, which, according to the law, has to pay taxes in the region where it is currently registered.  The rest of Russian territories are unprofitable. Among those that spend more than earn were Moscow oblast (-9696 million rubles), Tatarstan republic (-8853 million rubles), Khanty-Mansi autonomus okrug (-5803 million rubles), as well as Krasnoyarsk krai, Tyumenskaya oblast, Chelyabinskaya oblast, and Samarskaya oblast – their budgets' deficit was more than 4 billion rubles. Overall tendency shows that positive outcomes mostly come to the rural areas, however, their profits are not enough to pull out economy of the whole region.

As of 2012, there were 143.056 million people living in Russia, 67.727 (47%) of them participated in some form of economic activity. 64.9% of them were working people within the 15-72 age range – 70.4% - male, 60.1% - female. Unemployment rate (in this excerpt) was 5.5%, with no definitive difference between men and women. However, the alarming numbers are the following: 12% of young people within the 15-24 age range were neither working, nor studying in 2012 (14.4% among them were girls, 9.7% - guys). Although the dynamics of this index since 2001 showed that it had been decreasing. An average income in our country in 2012 was 20755 rubles (18881 rubles in 2011). An average salary had also increased from 20952 two years ago to 23369 in 2012.

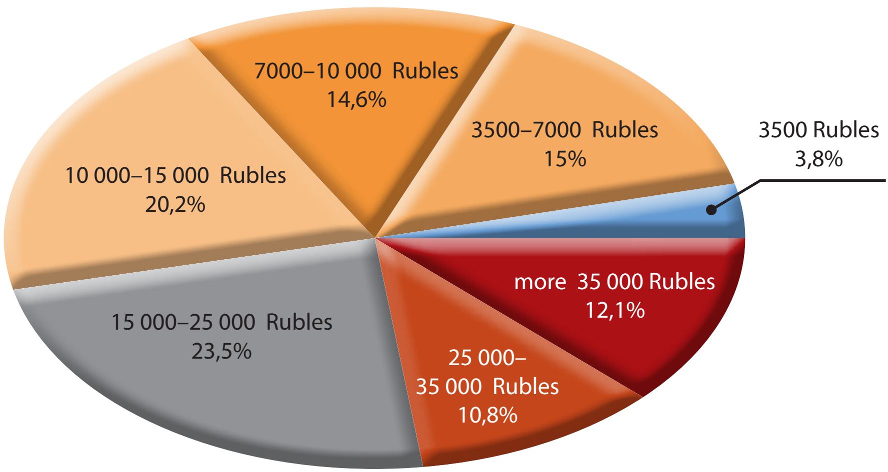
Residents of the Far Eastern federal okrug got the highest average salary in the country – 29319 rubles, especially this concerned people living in Chukotskiy autonomus okrug (53369 rubles), in

Magadan oblast (41.9 thousand rubles), and in Kamchatskiy krai (39.3 thousand rubles). Predictably, it was closely followed by the Central federal okrug – average salary here was 28.5 thousand – thanks to Moscow and Moscow oblast. Among others who could show the salary above the country's average were residents of Ural federal okrug with 28.1 thousand rubles (thanks to Tyumenskaya oblast), and residents of Khanty-Mansi autonomus okrug and of Yamalo-Nenets autonomus okrug with up to 59.1 thousand rubles. As for the regions with the lowest average salary – take a note of North Caucasian federal okrug where it did not exceed 13.9 thousand rubles in 2012.

## PERSONAL ACCOUNTING

Picture number 1 shows how Russian population is divided according to the income levels. We can see that 33.4% of Russian earned no more than 10 thousand rubles a month, and almost 19% of the population earned less than half of an average subsistence level in 2012 (6520 rubles).
Picture 1. The distribution of Russian population according to average per capita incomes in 2012. Source: Russian Federal State Statistics Service, 2013
If we look carefully at the poverty level, we can see the following regularities (based on the research of households conducted in 2011): firstly, two thirds of poor people live in the cities, furthermore, the less is the city's population, the more there are those who live in poverty. For example, there are 28.3% of poor people in cities with population under 50 thousand people, at the same time in the cities with population over 50 thousand there are no more than 9.1% of poor people. Secondly, 59.7% of households living beyond the poverty line include children under 16 (!).
But let us go back to the income levels. In comparison with 2011, the percentage of those earning more than 35 thousand rubles decreased from 14.5% to 12.1% (see pic. 1). In 2011 (no data for 2012) this category had three groups: those who earned from 35 to 50 thousand a month – 7.9%, those who earned from 50 to 75 thousand a month – only 4.1%, and the lucky 2.5% ones who made more than 75 thousand a month.

**Fig.1 Distribution of the population of Russia in terms of per capita income in 2012.** *Source: Federal Service of State Statistics, 2013.*



Another peculiarity of the Russian labor market is that men earn more money in all researched by the RFSSS areas. On average, women's salary in 2011 was just 64.1% of the men's one. The smallest difference was noticed in such spheres as education, healthcare, and construction (where women earned 20% less than men), and the biggest imbalance – in wholesale and retail trade, as well as in mining and in manufacturing areas. However, those discrepancies can be easily explained.
According to the RFSSS, in comparison with 2011, an average growth of real white salary in the country was 2.8%. Far Eastern federal okrug showed the highest growth rates of this index – 5.4%, specifically Sakha republic and Chukotskiy autonomus okrug, where salaries jumped up 11%. Nonetheless, there are regions where salaries decreased – for instance, Chechen republic and Astrakhan oblast with -6.4% and -4.8% respectively.
On the picture number 2 we can see graphs that demonstrate the change of prices for food and non-food products, as well as of the cost of primary housing from 2002 to 2012 (in % compared to the previous year).
Picture 2. The change of prices for food and non-food products, and of the cost of primary housing from 2002 to 2012 (in % compared to the previous year). Source: Russian Federal State Statistics Service, 2013
Change of prices in different groups; years
Food
Non-food products
Primary housing
Indexation of salary in 2012
We can see that growing prices for those three major categories at least twice cover the growth rate of salary in Russia. Such dynamics questions the possibility to develop consumer markets in the country, because the purchasing power of the population does not grow – in the best case scenario it just stays on the same level year after year. The seeming growth in mass-market retail sales, according to the experts, can be explained through three major factors:

- Firstly, in the last few years has been noted the growth of consumer lending and the increase of credit debts (in 2011, according to the RFSSS, it was more than 1.58 billion rubles);

**Fig.2 the Variation of prices (in relation to the previous year) on the go-ods, food and non-food, and on the first house in the period from 2002 to 2012.** *Source: Federal Service of State Statistics.*

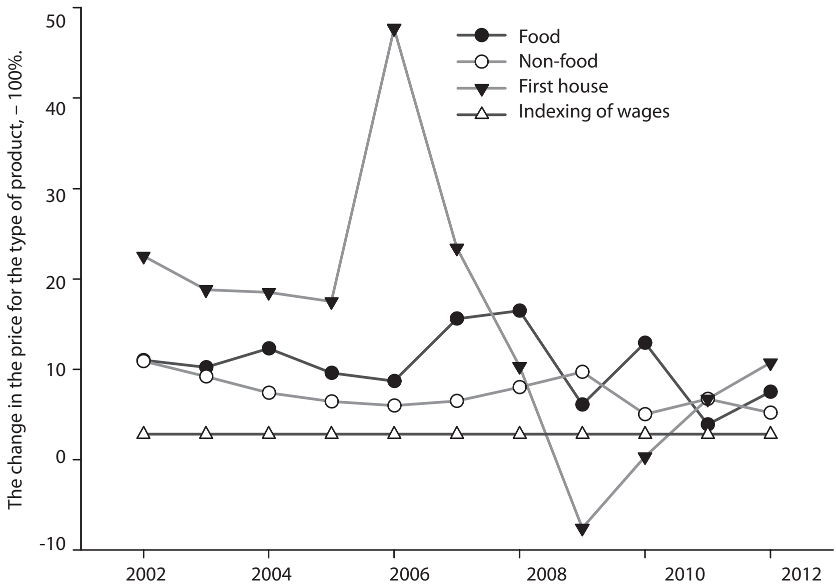
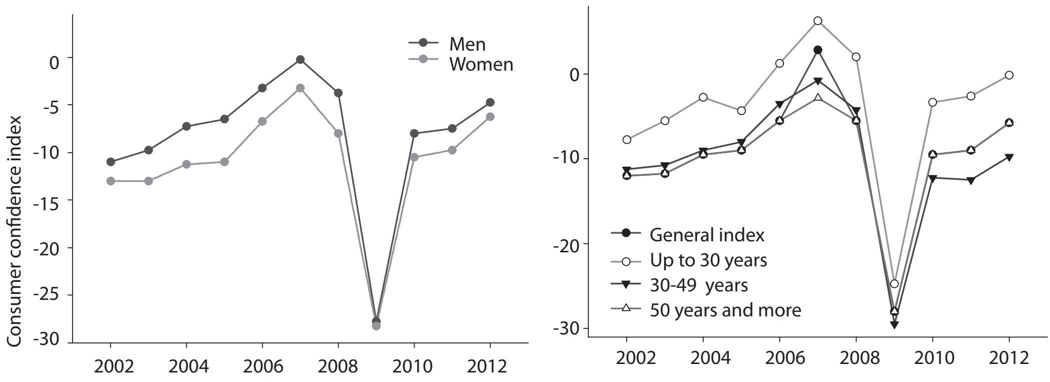



**Fig.3 consumer confidence Index for the period between 2002 and 2012 with respect to the different social groups.** *Sources: Federal Service of State Statistics, 2013.*



«Tropical sales night» in the shopping centers «Oasis» and «Forum Vologda»

- Secondly, the growth of retail sales is directly related to the change of shopping formats – Russians go from street markets to malls;
- Thirdly, the growth happens due to the family budget reformatting.

Analysts notice the tendency of cutting the expanses in some spheres in order to spend more in the others. For instance, Russians often choose Egypt and Turkey over other more expansive tourist destinations, and spend saved money on other goods – and this has nothing to do with an actual growth of their incomes.

## UNCERTAIN SPENDERS

All those factors affect one of the key marks – index of consumer confidence. This indicator measures how people feel about the economy of the region through the population's consumption and saving levels.

Picture 3. The consumer confidence index in the period from 2002 to 2012 in different social groups. Source: Russian Federal State Statistics Service, 2013

Picture number 3 shows how the consumer confidence index has been changing over the last 10 years. Several regularities can be distinguished: firstly, women's index levels are lower than men's – this shows that they are more careful when it comes to spending and saving. The biggest financial optimists are young people under 30. This group's consumer confidence index even showed positive results – this was right before the crisis of 2008. The older the person, the lower is his/hers index – this tendency can be noticed on the second graph. All people over the age of 50 in the researched segment have shown lower levels of consumer confidence index. All in all, this index in Russia has barely reached its pre-crisis 2008-2009 levels. At the same time, according to the RFSSS data, last year this indicator has started decreasing again: from 4 and 5 in the first and the second quarters of the year to 6 and 8 points in the third and the fourth quarters. The least optimistic group is represented by people of working age, i.e. the major fashion customers. However, the industry itself has no connection to the situation. ■

AUTHOR: **TATIANA MEDOVNIKOVA**

# Luxury, sport... and video

By the beginning of 2013 Russian market of textile and clothing retail has finally overcome all the after-crisis hardships and entered the phase of active growth. Naturally, this stage of development in fashion economics demanded companies to show higher levels of professionalism in every business field.

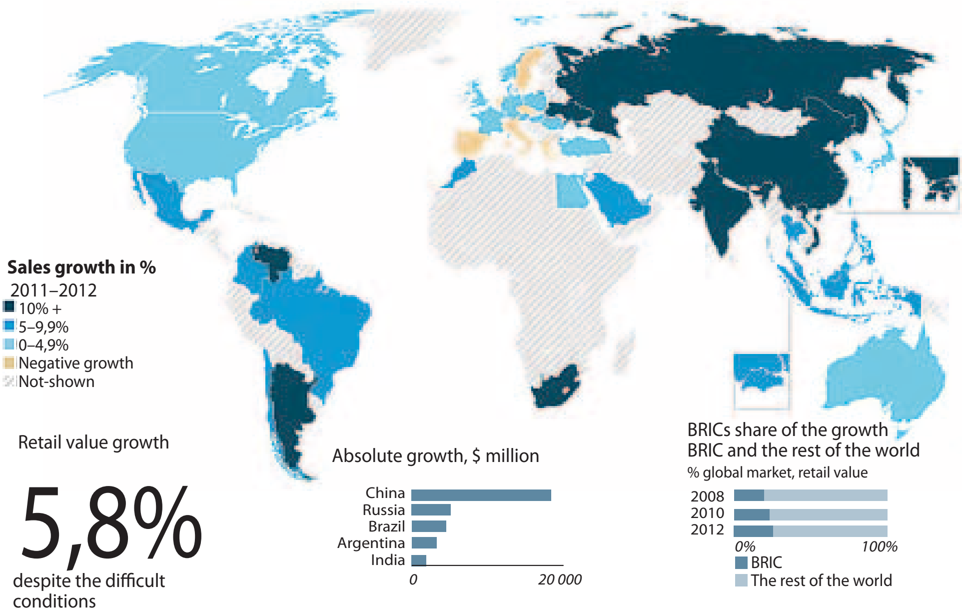
According to the European Fashion & Textile Export Council (EFTEC), Russian retail clothing and accessories market will be worth about 40 billion euros by 2015 (in comparison, in 2009 it was worth only 27.4 billion euros). "The new development phase has started after 2009 – it is called the phase of 'organic growth'. Export of textile products from 27 EU countries to Russia has grown by 15% in 2012. If things keep going this way, export volume of textile goods from EU to Russia will be 3.5 billion euros by 2015," – says the chairman of EFTEC Reinhard Doepfer.

At the roundtable during the Winter session of the Collection Premier Moscow the CEO of the Fashion Consulting Group Anna Lebsak-Kleimans gave a speech about the key development tendencies of Russian fashion market: "Russian fashion retail market has finally entered the stage of stable growth after the last financial crisis. One of its key trends is the idea to raise professionalism. For the past two years most companies have been working on their intensive growth instead of the extensive one: making changes in the organizational structure, replacing the top-management, reorganizing the personnel selection system and the product management system, etc." Next section will explore the customer behavior in the given conditions, according to the Euromonitor International research published last April.

## CONSUMER WAY OF LIFE IN RUSSIA

According to the Euromonitor International, recent economic downturn had no significant impact on most of the European Union economies, as well as on the Russian one. After dropping by 7.8% in 2008-2009 Russian GDP soon started growing and reached 61.4 trillion rubles in 2012

***Sales growth on global clothing market***



Zara, fall-winter 2013/14

(59.2 trillion in 2011, and 56.8 trillion in 2010). The research predicted that in 2013 Russian economy would continue to grow, however, at a slower pace.

The economic growth is accompanied by the increasing income and expenditure rates. For instance, the annual per capita income in Russian Federation went up from 223693 rubles in 2010 to 241211 rubles in 2011 to 259672 rubles in 2012. At the same time, the expenses kept growing as well: they went from 184868 rubles in 2010 to 197601 rubles in 2011 to 212183 rubles in 2012. According to the Russian Federal statistics bureau, those numbers are directly related to the increasing wages in the state sector of our economy – hence the growing consumption in small cities where most residents work for the public sector.

The rise of this index is expected to keep up Russian economic growth in the future. Representatives of “Sberbank CIB”, an investor of the biggest bank in the country “Sberbank Russia”, have predicted recently that Russian consumer market will be the biggest in Europe and the fourth in the whole world by 2020. “Sberbank CIB” research also shows that customer-oriented sectors of economy make up to two thirds of GDP and have been ensuring 80% of the economic growth in Russia since 2004. Furthermore, the spendings are expected to double up by 2025 and reach 3 trillion dollars. Russian middle-class with annual income between 6000 and 15000 dollars makes 55% of the country’s population, which is higher than in any other BRIC country (middle-class in Brazil – 30%; in China – 21%; in India – 11%).

***Consumer spending rates on clothes and shoes***

8,9

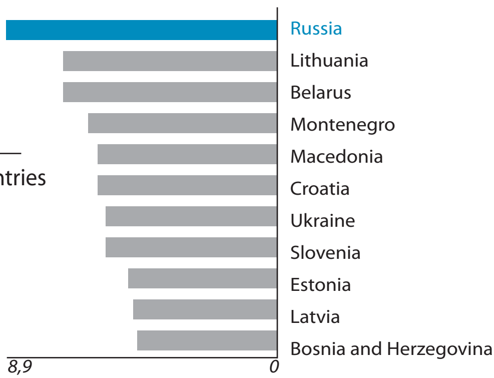
2011

% out of the total volume of consumer spending rates

Selected Eastern European countries

-15,5%

2006-11 growth



## FASHION HABITS

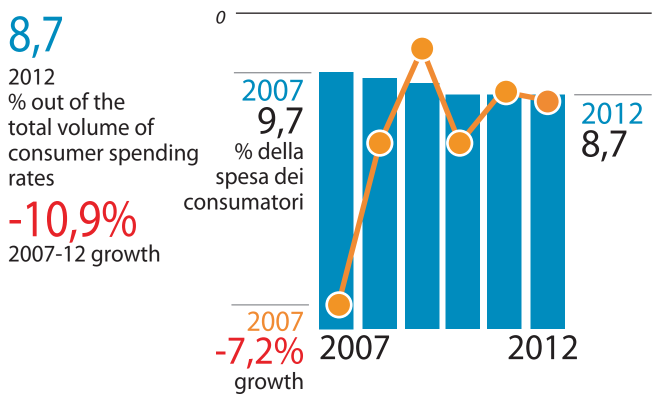
### *Attitude towards clothes*

Cold climate causes the popularity of outerwear, as well as of any kind of sweaters, hoodies, knitted hats and gloves. When it comes to materials, Russian customers prefer everything to be natural: cotton, silk, wool, fur, and real leather. Moreover, the latest healthy lifestyle tendencies brought public's attention to special outfits for different types of sports – now those are being bought not only by professionals but also by regular people who prefer sport style in their everyday clothes.
For about 70 years Soviet ideology has commanded people to wear only simple clothes made of cheap materials, because that suited the working class picture. Women were expected to look clean, professional, and modest. However, the past two decades of "freedom" completely changed people's attitude towards clothes – now Russian women prefer to dress up according to the latest trends. Furthermore, fur keeps its place as one of the most popular materials for the making of outerwear, hats, and accessories.

### *Attitude towards shoes*

According to the Euromonitor International, the latest statistic data shows that an average Russian customer buys 3 pairs of shoes a year. Thus, in 2011 we witnessed the increase in demand for all types of shoes, including shoes for children. Among the most popular kinds were knee-high laced boots with studs and boots with stable heels. Moreover, the cold winter of 2010-2011 brought the popularity of all sorts of felt boots. The warm winter of 2011-2012, on the contrary, brought up the topic of suede shoes and boots made of reptile leather. Another trend of the past few years is the gumboots, preferably of some bright color or with an artsy pattern.
Unfortunately, many consumers buy contraband, because it is cheaper. On the other hand, illegal products tend to have a shorter life. According to the Ministry of Industry and Trade, quality of domestic produce is significantly higher than that of imported shoes, most of which do not even meet the Russian manufacture standards.

***Consumer spending rates on clothes and shoes***



Sport shoes used for everyday activities present another big trend. As a result of its popularity the Adidas company became the second biggest player on the Russian shoe market. In 2012 Adidas chain expanded to 800 stores, and by 2015 the company plans to open 400 more.

***Jewelry***

Golden jewelry is the most popular gift in Russia. Therefore, many jewelry retailers work extra hours in October and November in order to sell more before the Holidays. According to the sources in the industry, an average sale is about 15000 rubles, and the most popular pieces are pendants, necklaces, and bracelets.

The gloss is one of the key features that attract Russian customers. For example, the number of wealthy consumers who have golden watches decorated with diamonds in Russia is a lot higher than in other countries. The specialists see the cause of the problem in the fact that Russian luxury market is developing too fast. Add to this the fact that Russians have been cut off from the global luxury industry for more than 70 years and you will get the current situation: people who see luxury goods as their new toys. Europeans have been developing good taste for decades, unfortunately, Russians have been doing so just for a couple years, hence the huge demand for the show-off type of jewelry.

## ACCESSORIES AND LUXURY GOODS

Demand for luxury goods was negatively affected by the recent economic downturn. However, it quickly started growing as soon as economics recovered and income levels increased. According to the experts from the Euromonitor International, today the sales growth in the luxury segment is stimulated by the restored interest in it of Russian middle-class. Although the demand has not reached the pre-crisis level in all the sectors yet, we notice a significant raise in the sales of beauty and personal hygiene products, designer clothes, leather goods, watches, and jewelry.

Most Russian customers prefer to buy luxury goods in monobrand boutiques, or from independent retailers, or in specialized divisions in few Russian department stores. Naturally, the biggest portion of luxury-retail is based in Moscow and Saint-Petersburg, because rich public mostly lives there. In Moscow most luxury boutiques can be found in Stoleshnikov pereulok, on Kutuzovskiy prospekt, in Tretyakovskiy proyezd, and in Barvikha Luxury Village.

Specialists from the Euromonitor International classify Russian customers into the following categories: “demonstrative dreamers”, “dependent demonstrative consumers”, and “mature demonstrative consumers”. Typical “demonstrative dreamer” is usually a highly-educated young woman with an average or above average income. She follows fashion, keeping tabs on news and trends through social networks, blogs, magazines, web-sites, advertising, and live-streaming of Oscar and Grammy. She also takes into consideration her friends’ opinions. Normally the “dreamer” is practical and will not buy things impulsively. If she purchases luxury goods, she will most likely choose perfume, cosmetics, accessories, shoes, clothes, or a watch. Another popular attraction is staying at luxury hotels.

A “dependent demonstrative consumer” is typically less practical and wastes a lot of money. For example, she can spend her monthly salary on one purse. Representatives of this category buy a lot of the same stuff as “demonstrative dreamers”: accessories, cosmetics, perfumes, shoes, clothes, and watches. They also like to visit expensive restaurants and resorts.

“Mature demonstrative consumers” have high incomes, but they do not always follow fashion trends. Instead they choose quality. Clients of that type prefer classical style and elegance to quickly changing fashion tendencies that inspire younger customers.

Incity, fall-winter 2013/14

## EVERYDAY CLOTHES: FROM FASHION TO FUNCTIONALITY

According to the Euromonitor International, today Russian textile and clothing market is the seventh biggest in the world and its total volume, as of 2011, is 71 billion dollars. Moreover, if in the nearest future its average annual growth rate reaches 7%, it will become the fourth biggest market by 2016, following China, the US, and Japan.

The increase in the consumption of clothes is supported by several economic factors – since 2010 the income growth rates have been exceeding the consumer confidence rates in Russia. Russian customers prefer to spend, not to save their funds – thanks to the low faith in our banking system and the belief that money should be spent before the inflation dissolves their value. For example, it has been noted that I terms of value in 2010 and in 2011 Russian market of sport and everyday clothes has grown by 17% and 18% respectively, which is significantly higher than in other European countries. Moreover, it seems like those numbers will continue to grow in the next couple of years. It is interesting though that despite this data only 10% of Russians actually do sports or have memberships in fitness-clubs. Hence the peculiarity of Russian taste in sport clothing: while British and Americans look for hi-tech fabrics that will make their work-out session more comfortable, Russians choose sport outfits that will show off their style. Therefore, sport style is highly popular among consumers: as of 2011, sport goods make up to 45% of all clothes and 33% of all shoes on the market. The bottom-line is – any brand that wants to sell successfully in Russia has to accentuate the latest trends in its collections, not the functionality of its clothes, and to focus on using sport elements in its everyday models instead of making outfits for a specific sport.

According to the head of the Euromonitor International "Clothes" department Magdalena Kondej, the growth in sales in the sport and everyday clothes segment has been noted at all researched markets in Eastern Europe. The most dynamic growth has been noticed in Russia and in the Ukraine, where in terms of money it reached 20%. Naturally, among the reasons that cause the huge demand for sport clothes, especially the ones produced by such brands as Nike and Adidas, are recent big sport events: Euro2012 conducted in Poland and in the Ukraine and the 2013 Summer Olympics conducted in London.

Besides, the success of those brands is widely based on the growing popularity of the healthy lifestyle, which brings more and more people to taking up sports in all Eastern European countries. Other factors in the equation are the enhancement of retail chains of such key players on the sport goods market as Decathlon, Intersport, and Sportmaster, and the rising number of such big international brands as Adidas and Nike.

adidas Originals Bedwin, fall-winter 2013/14

## SPORTSWEAR TRENDS

It is no secret that Eastern Europeans prefer to wear sport clothes during leisure time – this tendency, obviously, will not go anywhere any time soon. Moreover, sportswear and clothes inspired by it become more and more popular, because it proves to be cheaper and allows spending less on everyday clothes. This trend goes as far as introducing sportswear as everyday clothes during winter.

It is interesting that global sport brands are not the only ones that try to widen their sport style lines, big fast fashion retailers, such as Inditex and H & M, also show interest in working the segment by launching new collections inspired by sport. Obviously, those retailers cannot compete with professional sport brands in quality and innovation aspects, however, they have advantage when it comes to distribution and low prices.

## ACCESSORIES MARKET

Restoration of the Russian economy has started in 2010. The present rise is not as steep as it was back in 2003-2008 though, then the market was developing fast and the GDP was about 6-8%, in 2010 it has reached only 4%. The most important thing, however, is the fact that positive dynamics has been noticed in the retail trade, which just happens to be one of the biggest pieces in the industry puzzle. As reported by the Russian Federation Central Bank, the sector grew on 6% in 2011(as opposed to dropping to 5% in 2009). Furthermore, the inflation in 2011 was only 6%, which shows significant improvement in comparison with 14% in 2008 and 12% in 2009.

However, the accessories segment is highly fragmented, and it shows no leaders. Domestic manufacturing volume is quite shy in comparison with the volume of imported goods. Moreover, Russia joining the WTO might be a potential problem for some local companies. Open import borders will cause price competition, which will force smaller players off the market or into conjunction with bigger companies. Furthermore, the growing import of cheap goods from Asia will negatively affect the volume of manufacturing inside the country.

Today people can finally afford to buy nice things, as their finances are growing in the light of the economy restoration. Moreover, recently Russians have been noticed to gain more and more knowledge about fashion, its history and its trends – following which, men have started to look after themselves and to invest into their personal appearance by carefully choosing what to wear. For example, the luxury bags sector, which is usually favored by women, in 2012, has shown high growth rates in the men's segment.

Russian women, many of whom actively work in business, on the other hand, recently have been showing more interest in watches, IT-bags, and stationary. Luxury brands respond to such shifts in demand by launching collections targeted for specific groups. For instance, many companies have started selling luxury watches for women and beauty and personal hygiene products for men. However, those trends are integrating into the industry slowly, because despite the changes most people still stand by gender stereotypes.

adidas Originals Bedwin, fall-winter 2013/14

## DEVELOPMENT OF SPECIALIZED CHAINS

Up until 2012 the growth of real incomes and the rising standard of living of Russian consumers created favorable conditions for development of specialized sales channels in the country. Customers were looking for a wider assortment of goods and welcomed openings of new bags and accessories stores. However, locals have been pressured by international retailers: international retail chains have always earned more money than the Russian ones. Therefore, in order to successfully promote a local company, one needs not only to take into account its potential clients preferences, but also to optimize business processes so that the company reaches the needed profitability and keeps the regular seasonal sales on the level with the international retailers.

## NEW FORMATS AND SHOPPING CENTERS

Russian consumers have always loved shopping – no surprise there. The growing incomes made this way of entertainment more affordable for most Russians. GUM, TSUM, and many other splendid malls that have been built in cities around the country provide people with countless shopping options, as well as allow customers to entertain themselves otherwise by the means of food courts, cinemas, and skating rinks.

At the same time, analytics compare the current Russian passion for shopping with that of Americans back in 1960s and 1970s.Thus, it is reasonable to suggest that in the nearest future habits of many Russian consumers may change and copy the present American ones – especially considering the fact that the number of shopping centers per person in our country has reached the saturation point. It is possible that soon many Russians will get tired of "Disney surroundings" and come to a rational American realization that good bargain is worth more than an opportunity to skate between stores.

According to the Euromonitor International, at this point of market's development a significantly bigger amount of consumers check prices before buying anything and plan their shopping trips more thoroughly. Customers start to select where to shop more carefully, considering such logistic factors as easy access and convenient parking. Consequently, all this should push malls to cut their entertainment sectors in order to review and improve their retail options. Nevertheless, today Russians are still in love with shopping centers, and their attraction to style is stronger than common sense and the desire to save their funds. Specialists from Euromonitor International suggest that this tendency will stay alive for at least several more years.

Бутик Prada в Столешниковом переулке в Москве

Boutique Prada in Stoleshnikov lane in Moscow

# Dnepropetrovsk clothing market review

TC «Karavan», Dnepropetrovsk

Dnepropetrovsk has always wanted to be the second most important city in the Ukraine. Historically, there have been perfect conditions for that. Since the reign of Catherine the Second people have been predicting this city the glory of the third Rome; moreover, thanks to French and German money, there have been built first metallurgy factories in the region, those facilities have been functioning since the 19th century. Since the beginning of the 20th century the city has been the major metallurgy and mechanical engineering center; and since the 1950s it has been the center of aerospace as well. Dnepropetrovsk is the main trading and manufacturing center in the Eastern Ukraine.

As of July 1st, 2013, the population of the city is 1 000 111 people, constant population – 989 178 people. In the last two years Dnepropetrovsk has lost the million-city status a couple of times – according to the Businessinsider, the population decline tendency there will go on and it may reach a catastrophic level of 16.8% by 2025. Nonetheless, most experts note that Dnepropetrovsk has a big economic potential. Leading positions among other regions in the number of working people (average salary – 400-600 dollars), the investments volume, and the commodity turnover make possible high activity of the retail market and intensify development of the commercial real estate market.

As of today, Dnepropetrovsk has the biggest volume of commercial real estate in the country (the saturation of retail space is 336 square meters per 1 thousand residents). Retail commodity turnover in the period between January and November 2012 was 55 175.5 hryvnias – this number exceeds 2011 marks by 15%. There are more than 25 shopping centers in the city, their overall rentable area is about 355 thousand square meters; furthermore, 10 malls are scheduled to be open in 2014-2015, their overall rentable area will be 290 thousand square meters. Low vacancy levels (0-4%) and relatively high rent rates (30-80 dollars per square meter a month, including the VAT) in successful Dnepropetrovsk shopping centers show that those qualitative commercial areas are in great demand. Almost all major retail operators that work in the Ukraine have stores in Dnepropetrovsk and plan to explore the city further (among those are Inditex Group, L'etual, GAP, Mark & Spencer, etc.).

Dnepropetrovsk has spoiled its residents by giving them a huge number of stores with great assortment in all the price segments for all consumer groups. Qualitative shopping culture has been developing there since Soviet times, thanks to the local tradition to travel to the Russian capital for shopping. All innovations and fashion trends have been absorbed into the local environment. Private multibrand stores in the city center (Karl Marx prospekt, Centralnaya street, and square of Lenin) have pleased locals with the diverse brand portfolios and the quality of service since the first days of independence. Some brands (AirField, CopCopine, Juicy Couture, etc.) opened their first Ukrainian boutiques in Dnepropetrovsk, and only then went on to explore Kiev. Many malls show how much they care about their customers through a thorough selection of tenants – those should fall into the price segment in which the said mall works.


TC «Karavan», Dnepropetrovsk

For instance, “Atrium Fashion Park” (Calvin Klein, Dirk Bikkembergs, Yohji Yamamoto, AIRFIELD, Vogue, XZ Helen, GINGER, Pinko, CHICCO, etc.) and “Grand Plaza” (Wolford, Paul & Shark, MarcCain, BGN, Chester, Fabiani, Nando Muzzi, Gery Webber, Juicy Couture, JOOP!, Neri Karra, 4YOU, Giorgio ARMANI Store, Moschino Jeans, and DSQUARED2) are meant for the customers of “middle+” segment.
The “LIBRARY” (placed at the restored house that first belonged to the merchant Shishman and then was turned into a library) has gathered under its historic roof many premium brands: ARMANI COLLEZIONI, PAL ZILERI, SALVATORE FERRAGAMO, LARUSMIANI, VILEBREQUIN, Van Laack, etc.
Middle and low price segment brands are presented at the “Most-City” mall (Antonio Biaggi, Baldinini, Luciano Carvari, Carlo Pazolini, “Intertop”, Lagerfeld, Calvin Klein Jeans, Marc Aurel, Mexx, Benetton, Mango, Monton,Motor, Lee Cooper, Bershka, Pull & Bear, ZARA, L'etude, DIM, LTB, Adidas, Puma, Reebok, etc.) and at the “Karavan” center with the similar brand selection. Next in line is new highly successful and fully saturated mall the “Passage” with GAP, MARKS & SPENCER, MARCOPOLO, LACOSTE, TALLY WEIJ, TIMBERLAND, NOA-NOA, FrankWalder, Lerros, RoyRobson, NAVIGARE, PierreCardin, INWEAR, NAF-NAF, INWEAR MATINIQUE, BOSCO Sport, STEP IMAGE, INTERTOP, Monarch, Respect, A.BIAGGI, LINE, WELFARE, AVNET, CHESTER,CENTRO,LUCIANO CARVARI, MIRATON, OBUVE, Steve Madden, TANGO, Accessorize, Claire's, EvitaPeroni, PANDORA, and ALMAZ jewelry.
No discussion of Dnepropetrovsk fashion retail market can go without mentioning the Luciano Carvari chain and the Gianni Group. The first shoes and accessories Gianni store in Dnepropetrovsk was launched in March of 1999. At the time, shoes of that type were a novelty. However, that novelty was quickly accepted and brought lots of customers into the store. So in October of the same year the second Gianni store was opened – new boutique displayed shoes and accessories for women only, therefore, the assortment was more diverse than in the first store. In November of 2000 the company launched new luxury shoes boutique Shabelski and started officially presenting such brands as Roberto Botticelli, Baldinini, Aldo Brue, Vicini, Fabi, Casadei, Calvin Klein, Costume National, GFFerre, Alberto Guardiani, Prima Base, Just Cavalli, and Kenzo. In April of 2004

| Dnepropetrovsk | Numbers (January-November 2012) | Dynamics (by 11.2011) |
|---|---|---|
| Population | 1000238 | -0,2% |
| Average monthly salary | 3117 | +10,5% |
| Retail commodity turnover, grivnas | 55 175,5 mln | +15,9% |
| Commercial real estate market in Dnepropetrovsk | | |
| Rentable area in existing malls | 335 750 | +3% |
| New offers in 2012 | 11 000 | |
| Saturation of retail space (sq.m. per 1 thousand residents) | 336 | |
| Rent rates for areas of less than 100 sq. m. (sq.m./month, with VAT) | $30-80 | +5% |
| Vacancy in the best malls | 0-1 % | |
| Future shopping center projects for 2014-15 | 290 000 $m^2$ | |

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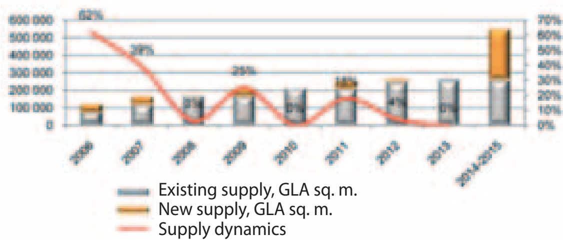
TC «Karavan», Dnepropetrovsk

the company presented on the Ukrainian market its new fashion shoes brand Luciano Carvari. At first, collections were sold through the chain of wholesale distributors, but then in November of 2005 the first Luciano Carvari boutique was opened (it presents the produce of Medium-High segment). Today, the brand has 21 stores in the Ukraine and one in Russia; the company plans to further develop itself through franchising. In order to open the store under the Luciano Carvari brand, one will need investments of minimum 96 thousand dollars, as well as a qualitative commercial space with an area of no less than 80 square meters. Interior redesigning and purchase and installation of the equipment usually cost 350-450 dollars per square meter, and the collection itself demands investments of 800 dollars per square meter and more.

***Dynamics in the shopping center supply in Dnepropetrovsk***




*Source: UTG 2012*

# Kharkiv
## Fashion clothes market review

As of January 1st, 2013 Kharkiv has a population of 1 million 451 thousand people. This city is the main science, industrial, transport, and student center in the Ukraine; the biggest manufacturing companies of the country are also located there (in the base of the manufacturing potential are hi-tech industries). 30% of the population work in science and industry.

TC «Magelan», Kharkiv

"Barabashovo", the biggest clothing market in Eastern Europe, has been successfully functioning for 18 years. Residents of the city often travel to Russia to work there temporarily (according to the official data, an average income of a Kharkiv citizen is 250 dollars a month, however, in reality average wages is around 400-600 dollars a month). The distance between Kharkiv and Russian border is only 50 kilometers – this proximity brings additional consumers in different spheres.

The presence of the biggest market in Eastern Europe, which successfully implements fashion goods (such as clothes, shoes, bags, and accessories) through both wholesale and retail in different price segments, created a perfect base for the development of textile industry, and for the development of manufacturing by private labels, in particular. Outerwear is among the most popular goods: classic coat assortment includes Yemets, Mila Nova, Nui Very; duvet and sintepon jackets and coats are presented by Nui Very, Origa, Barbarris. Furthermore, locals actively practice producing inexpensive mass-market clothes under the world famous brands. Overall big number of clothes and shoes manufactu-

TC «Karavan», Kharkiv

ring companies makes Kharkiv the leader of the country's textile industry.

Unfortunately, because of the "Barabashovo" market shopping centers started opening there later than they did, say, in Dnepropetrovsk. For the same reason big chain operators did not include Kharkiv into the top-five list of cities for potential launching of their stores. Therefore, up until 2005 there were only two zones of fashion retail on the "fashion map" of the former Ukraine capital:

- "Barabashovo" market – included full range of fashion goods in almost all price segments: from the lowest (common street market assortment) to the highest (clothes by worldwide known brands – although quality and authenticity of products have always been under question there);
- Street-retail (Sumskaya street, Konstituciya square, avenue of Lenin, Geroev Truda street, and Tractorostroiteley street) – presented premium-segment (the Symbol chain and MainStream Fashion Group stores), chain stores (Energie, Miss Sixty, BGN, Laura Ashley, Incity, Kenvelo, Promod, Dan Mark, Sinequanone, Geox, Parfois, Mango, Benetton, Tatuum, etc.), and stores of Kharkiv own manufacturers.

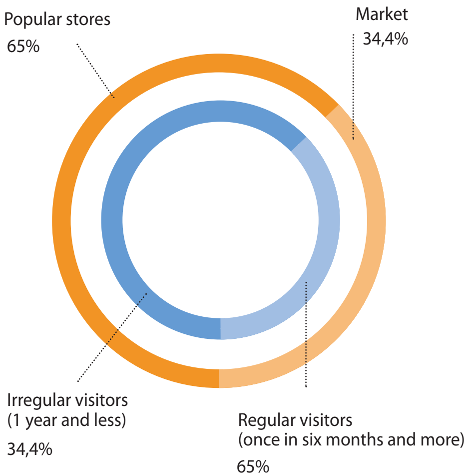
First mall "Ukraina" (overall area – 27000 square meters) has been opened in Kharkiv in 2005 at the intersection of 50-letiya VLKSM prospekt and Tractorostroiteley street, which made it easy accessible for the whole city. For a long time many Ukrainian retailers believed that all popular items from new collections launched in shopping centers showed up at the "Barabashovo" market in a couple of weeks with a "half-off" price tag. The availability of Chinese and Turkish fabrics and implements has made it possible to "clone" popular models of clothes and shoes locally. Unfortunately, the long-awaited opening of the "Karavan" mall in 2006 (the project has been frozen for a long time; overall area – 86000 square meters) has not changed anything. The only way out of the loop was to educate customers and wait for them to respond with rational choices. Rent rates at the "Ukraina" mall and at the "Karavan" mall at the time of their launchings were the same as those were in Poltava (population – 350 thousand people) or in Sevastopol (population – 300 thousand people) – $20-50 per 1 square meter. However, even the affordability of those conditions (in comparison with, say, Kiev or Dnepropetrovsk) did not guarantee the anticipated financial outcome for a city with a population above million.

Today, there are 220 square meters of shopping-entertainment center space per 1 thousand Kharkiv residents. It has become prestigious to shop at the malls, the customers' level of confidence in chain stores has increased. Rent rates in big shopping centers are about 20-60 dollars per 1 square meter a month (including the VAT). In comparison, in Kiev rent rates for the same type of space and for the same period of time are about 70-100 dollars per 1 square meter, and in the most popular malls they even go up to 160-200 dollars. According to Jones Lang LaSalle, the volume of commercial areas in Kharkiv has expanded by 42% in 2011-2012. Among Kharkiv biggest commercial real estate projects are "Duffy", "Karavan", "Magelan", and "Frantsuzskiy bulvar". Overall, there are 17 shopping centers in the city. Because of the wide selection of already existing malls and the constantly opening of new ones rent rates do not grow. Fortunately, they do not go down either.

Most leading shopping centers in Kharkiv do not relate to any particular price segment. Good owner tries to zone different segments, dividing them by floors, for example. A typical scheme included representatives of the "middle" segment (Mango, Monton, Naf Naf, etc.) joining first, and the "middle+" segment following it – in theory, both groups did not cross "Barabashovo" assortment. Cheaper segment was at first reluctant to join in, but the launching of the Inditex group (Zara, Bershka, Pull&Bear, etc.) on Kharkiv market saved the day. Kidswear and shoes are presented in "middle" and "middle+" segments: Zara kid's, Benetton, Chicco, Mothercare, Intertop, etc. Cheaper things can be found at local manufacturers' stores or at the "Barabashovo" market.

Brands presented at the "Duffy" mall (overall area – 56 000 square meters): A.M.N., Airport, Amadeo, Ambriella, Baurotti, Benetton, Zara, Bershka, Bugatti, Calliope, Climber, Denim, Jennyfer, Pull&Bear, Linna Cara, L'etude, Juliette, Adidas, Adidas kids, Mango, Massimo Dutti, Mirror, Miss Sixty, Monton, Mondo Moda, Olko, Oysho, O'stin, Promod, Reebok, S-Pass, Sassofono, Seppala, Stradivarius, Tara, Terranova, Tiffi, Timberland, Triumph, VTR, Zingal Riche, "Accent", "Gorod", "K-Market", "Mir Dublenok i Kozhi", Antonio Biaggi, Carlo Pazolini, Clarks, Crocs, Geox, Ditto, Mario Muzi, Niko's, Respect, Skechers, Timberland, "Intertop", "Monarch", "CenterObuv".

**_Kharkiv residents favorite shopping places_**




Brands presented at the "Karavan" mall (overall area – 86 000 square meters): Balizza, Be-Free, Denny Rose, Fashion, Incity, Kira Plastinina, Magenta Moda, Mark Aurel, Maxa, miss Elizabeth, Miss Poem, Naf Naf, Natali Bolgar, New York, Oasis, Orsay, Pimkie, Sassofono, Seam, Tago, Tally Weijl, Warehouse, "Modnaya Mama", Arber, Best Bip&Tucker, Cacharel, Crane, Emilio Guido, For Men, Franttini, Lagerfeld, Makgardi, Pierre Cardin, Time of Style, Vaismann, Vuldi, Big Star, Calvin Klein Jeans, Colin's, Cropp Town, Ecko Unltd,

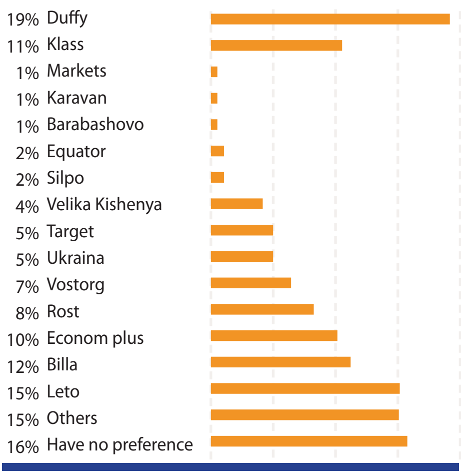
TC «Duffy», Kharkiv

Esprit, Gant, Garcia, Guess, Lacoste, Lerros, Levi's, LTB, Marks&Spencer, Mexx, Next, oodji, Olko, Ostin, Polo Garage, Reserved, Savage, Tom Tailor, Tommy Hilfiger, US Polo Assn, "Marathon", Adidas, Arena sport, Nike, Puma, Reebok, Aldo, Alibi, Carlo Pazolini, Centro, Chester, DiarDo, Ecco, Epiffani, Fabi, Fellini, Gilda Tonelli, Goover, Lepido, Plato, Ralf Ringer, Respect, Solemate, Urban United, Vitto Rossi, Walker, Welfare, "Intertop", Ajour, Dim, Etam Lingerie, L'etude, Atlantic, Milavitsa, Paloma, Bilizna Street, Bustier, Chicco, Mothercare, Wenice, Derby, Ladies' cases, City Line.

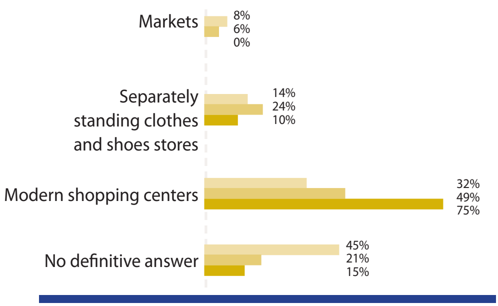
Brands presented at the "Magelan" mall (overall area – 93000 square meters): In-City, Kira Plastinina, Naf Naf, Sassofono, Tago, Arber, For Men, City Line, De Esse, City Vision, Colin's, InWear Mantinique, Benetton, Art Milano, Top Secret, Villona, Tago, Enjoy, Reserved, Gorod, Avva, Vittio Rossi, Carlo Pazolini, Antonio Biaggi, Bugatti, Accessorize, MegaSport, Adidas, Reebok, Columbia, Lerros, Etam, Atlantic, Dim, Milavitsa, Welfare, etc.

Brands presented at the "Frantsuzskiy bulvar" mall (overall area – 65000 square meters): 911, Amnesia, Arena, Atlantic, Barista, Denny Rose, Benica, Bluberry, Chester, City Line, ClubDonna, Fellini, Ican, LoriBlu, Milavitsa, Mimo, Plombiro Italiano, Sasha Fabiani, US Polo Assn, Step Image, etc. As of today, only 50% of

***Most chosen by residents shopping centers in Kharkiv***




***Different income groups' opinions on trade formats***



the shopping center is filled (it has been opened in the first quarter of 2013), there are virtually no menswear and kidswear sectors, and womenswear segment is poorly represented as well. Typically for this region, chain retailers hold back and wait for the mall to start fully operating in order to be able to judge its management and marketing policies, before deciding to join in.
Today, owners of the “Barabashovo” market prefer to call it a shopping center – some areas were reconstructed and re-systematized in order to fit the name (“Barabashovo” is the 14th largest market in the world). “Barabashovo” is known in Russia, in some countries bordering the Ukraine, and in Turkey. Consumers often travel to Kharkiv from the former USSR countries for both wholesale and retail purchases. “Barabashovo” is like a city within the city, it has several separate districts where live people of different nationalities from Asia, Africa, and Uzbekistan (market employees). Kharkiv clothing market targets those who balance between low-middle and poor segments. Those who favor boutiques will not find anything there. In comparison with Kiev, prices in Kharkiv are lower on practically everything: underwear, socks, leather shoes, jackets, bags, purses, demi-season coats, and fur coats. Stockings and t-shirts cost about 40-65 hryvnias (in Kiev the same thing costs 150-200 hryvnias). Prices for the same item can range from 80 to 200 hryvnias depending on the sales conditions (200 is for the things available in different sized and colors, 80 is for the last two items left). Capital’s citizens rarely visit the market, but people from the suburbs are frequent guests at the “Barabashovo”. Usually they come once a year with their whole families. At the same time, luxury category develops in parallel with the cheap segment. Conditions for its blossoming are obvious: Kharkiv is a transit city located close to Russia. Many Russian luxury customers living in a 300 kilometer radius prefer to go shopping to Kharkiv instead of Moscow, because the brand range, assortment, prices, and service are on quite satisfactory there. First group to enter the premium segment stage was menswear. Factory owners and the political elite have had a weakness for chic clothes since 90s. Expensive suits, ties, shirts, and cufflinks sold out completely every season. Women, on the other hand, at first had to order their clothes, however, as soon as the solid client base was formed, operators started opening conceptual multibrand stores in the city. The wide assortment of goods and the number of luxury brands presented on the market show how popular this segment is in Kharkiv region.

Today, there are two successful luxury operators in Kharkiv:

- MainStream Fashion Group – started working in 1996; has 9 stores: Daniel (Luisa Spagnoli, Karl Lagerfeld, Daniel Hechter, Versace collection, Antonio Fusco, Cavalli Class, Pennyblack, Marina Yachting, Polo Ralph Lauren); Alter Ego (Joop, Rene Lezard, Pal Zileri, Salvatore Ferragamo, Corneliani, Zilli, Armani Collezioni, Bilancioni, Missoni, Cortigiani, Dior, Ballantyne и Ralph Lauren); Christi boutique; Escada; «86Sumskaya Egle» (Yohji Yamamoto, Dirk Bikkembergs, Cesare Paciotti, Jil Sander, Viktor&Rolf, Martin Grant, Peter Pilotto, Pirelli, Ralph Lauren, Studio Pollini); Vilebrequin; Corso (Armani Jeans, GF Ferre, Just Cavalli, Versace Jeans, Roccobarocco, Sweet Years); Corso Uomo (Armani Jeans, GF Ferre, Just Cavalli, Versace Jeans, Sweet Years); Emporio Armani.
- Multibrand chain Symbol – started operating in 1999; has 6 stores: Symbol Luxury (Cacharel, Agnona, Allude, Brunello Cucinelli, Cruciani, John Smedley, Johnstons); Symbol Plaza (Chloe, Dior, Dolce&Gabbana, Gucci, Jimmy Choo, Lanvin, Loro Piana, Miu Miu, Prada, Valentino, Vionnet); Symbol Accessory (Burberry, Dolce&Gabbana, Giuseppe Zanotti, Gucci, Jimmy Choo, Miu Miu, Prada, Santoni, Sergio Rossi, Tod’s); Symbol Gold (Wolford, Fendi Active, Manoush); Symbol Men (Kiton, Smalto, Canali, Gucci, Prada, Dolce & Gabbana, Burberry, Billionaire Ita-

TC «Ukraina», Kharkiv

lian Couture, Brunello Cuccinelli, Loro Piana, Moncler, John Smedley, Johnstons, Tod's, Santoni); Symbol Gallery (Alberta Feretti, Balmain, Burberry, Dolce & Gabbana, Ermanno Scervino, Herve Leger, Roberto Cavalli).
Surprisingly, with so many luxury stores opened around the city there is nothing in the premium kidswear sector.

It is expected that in the nest 3-5 years retail trade in Kharkiv will shift towards street retail and popular malls. Next project with big potential is the Central Park shopping center (overall area – 108000 square meters; commercial area – 77000 square meters; should be launched in the first or the second quarter of 2014; rent rates – 12-60 dollars per 1 square meter), which will be located close to Kharkiv's Central park – this will allow to integrate it into the traditional recreational and business zones of the city center. Nevertheless, considering the crisis and the overall economic situation and conditions in the region, retail operators will have to come up with elaborate discount programs in order to support their customers' loyalty. Organized "Barabashovo" market actively works with wholesale consumer, nonetheless, it is not likely that it will ever be able to let go of retail trade completely. ■

# Oskemen: region with big potential

Oskemen is considered to be the administrative center of Eastern Kazakhstan oblast, besides, it is a popular tourist destination in the Kazakhstan part of Altay. The city is surrounded by beautiful nature: it is located on the edge between hot deserts and chill mountains. Nevertheless, the nature is not the only thing Oskemen is known for, it is also famous for its industrial facilities, and for its textile industry factories, in particular. Big potential of the region attracts the investments, which, in its turn, help to improve local standards of living and attract big fashion retail players to the market.


TSUM, Oskemen

Overall area of the city that is located in the North-Eastern part of Kazakhstan near the confluence of Irtysh and Ulba rivers is 54.4 hectares; its population is more than 300 thousand people. Big part of the region's commodity turnover comes through Oskemen – retail trade efficiency on average grows 15% every year. Population density rates, growth of income levels, proximity of the Russian border, and lack of competitors in the fashion segment create ideal soil for the creation of independent local clothes and shoes market. Moreover, additional significance to everything fashion-related in Oskemen gives the name of its ex-citizen Ulyana Sergeenko, whose work has conquered the catwalks all around the world and inspired New York Times to come up with a term 'the Russian pack'.

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TC «Imperator», Oskemen

## STARTING POSITIONS

Interestingly enough, the development of fashion retail in the city has been caused by the crisis. The drop of residents' purchasing power index inspired major players of Kazakhstan market to review their sales policies and to use new marketing strategies in order to attract customers. Another problem was the lack of qualitative commercial areas where big retailers could put their stores. Today, the administration of the city actively fights the street clothing markets, many of which should be closed simply because they do not even follow elementary sanitary regulations. This policy has already given some results: the commodity turnover grows, because shady sales have been cut down and because people have started to accept civilized formats of trade. Brands are coming to the city, companies open new stores, street retail develops. The market is at its initial stage of development: the basic mall tenant pool is being formed, stores around the city extend their working hours – this is not always understood by customers though – more attention is given to the service and the training of the employees. Many stores even have their own training systems and periodically make their personnel take proficiency tests, plus some stores arrange special business-trainings for those who want to improve their skills further and to be promoted.
As of this moment, there are several shopping centers around the city that offer goods in several different price segments. The leading mall is the "Imperator" – it is the only place in the city that offers its tenants spaces that satisfy global standards. The complex has practically no competitors, which happens to be a problem since lack of competition prevents it from intensive development. Among the anchor tenants of the mall are KIMEX, Pierre Cardin, Boss, Mango, Kira Plastinina, Promod, OTTO, Elegance, and Oggi – all of them have been functioning there since the opening of the complex. According to the administration of the center, recently most customers in the age range between 18 and 45 have become very selective in their shopping; they prefer to choose collections by famous brands.

## THE TURNING POINT

Today, Oskemen fashion retail market is still developing. Mass-market brands gradually gain popularity, however, shady sales are still active due to the specifics in price formation in Kazakhstan – difference between the item's value in these two trade formats sometimes reaches 35-40%. Traditionally, this concerns kidswear the most. "Oskemen kidswear market is characterized by the pre-

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sence of many non-brand goods from China, Turkey, and Kyrgyzstan, – says Larisa Sorokina, the head of the “Kidswear and shoes” department of the “VITAMIR” chain. – Naturally, the number of new brands and specialized stores grows every year, but it is hard to pick out any leaders – it is more like the whole brand clothes and shoes segment that belongs to the average price niche is the leader. Customers are more selective today, they pay more attention to the product’s quality, however, they are not ready to pay significantly more for the brand’s name because kidswear is short-lived – children grow fast and constantly need new clothes and shoes. Most parents are not ready to spend lots of money on premium clothes and shoes that most probably will not fit their kids next year: in the regions only 10% of the population purchase kidswear of premium and luxury segments.” Nevertheless, there is a positive shift towards the attention to the quality: “consumers still follow the general guidelines for the purchase of kidswear: safety, hygiene, physiological and psychological specifics of child’s development at a certain age, comfort, and beauty. Nonetheless, in the past few years there has been a definitive change in the parents’ purchasing habits.”
The possibility of ordering inexpensive goods from, say, Russia still creates competition to the organized local trade. The crisis made Kazakhstan residents more demanding to the quality of clothes, and this continues to play the key role in their choice. The demand for globally known brands keeps growing. For instance, the “VITAMIR” chain has in its stores such brands as Lemmi (Germany), ELSY, Baby A(Italy), Silver Spoon, Pulka (Russia), Color Kids(Denmark), Charmante (Russia), shoes “Kotofey” (Russia), Pablosky (Spain). Additionally, the British brand Pepe Jeans has joined the portfolio of the chain in October 2011. “We are one of those family-oriented companies that try all its products first, carefully choosing the best options for customers in the process, - continues Larisa Sorokina. – This is why we guarantee the flawless quality and style. In order to satisfy all of our customers we present brands of different price segments.”
Specialists say that in the nearest future the kidswear market will keep growing. It is expected that the number of stores with clothes and shoes for children in the average price segment will increase significantly, including the stores opened through franchising.

## RESULTS

Nevertheless, marketers work hard to get positive results now. In order to stimulate the sales and to attract customers companies use elaborate discount systems. Official stores conduct pre- and post-seasonal sales; many mono- and multibrand boutiques have cumulative discounts directly related to the purchase’s volume. Traditionally, customers react positively to such actions. Therefore, many brands that have stores in malls make accents on these marketing moves as well. Usually all the sales are conducted at the same time. This total seasonal discount boosts sales levels and helps stores to sale things that they could not sell before. According to the information from the biggest shopping center in Oskemen, consumers are most active in December. Pre-newyear period attracts the biggest number of customers, therefore, an average receipt during those days is the highest in season. As for the kidswear, it has been noticed that two major factors that contribute to successful sales are seasonality and holidays. For instance, July and August show growth in school supplies sales; and October and November demonstrate the sales peak of outerwear and winter shoes.
Nonetheless, we can say that the process of attracting consumers to comfortable shopping has been launched and progresses successfully. Middle segment continues to grow, however, the reality is that this niche is not even half-filled. In the last few years big players only had a chance to explore the markets of two Kazakhstan capitals. Today, retailers work directly with suppliers and

orient on Russian and global tendencies. Companies participate in specialized international trade shows that are conducted locally and abroad – this allows them to follow global trends and to form the assortment of goods that meets high quality standards.
This is a serious step forward, especially considering that not that far ago big market operators have not even thought of Kazakhstan market as of a perspective one. In the meantime, after exploring two central cities, they have decided to enhance their participation on the Eastern-Kazakhstan market, and on Oskemen market, in particular. In theory, the expansion of fashion retail borders should lead to the growth of competition in the city and to stimulate the process of trade as a whole. "As of today, Oskemen fashion retailers do not compete within the limits of one brand, each of them has its own brand portfolio. All players on the market hold their niches and have their clients. However, this does not mean that retailers are passive. Each of them works on increasing customers' loyalty to its store, thus the marketing activity is quite high," – says Larisa Sorokina.

## DEVELOPMENT PERSPECTIVES

However, while marketing have been flourishing, another problem has arisen: local designers and clothing manufacturers become less and less competitive every year. Nobody knows why, but for the most part Kazakhstan designers create luxury collections, even when they try to be closer to regular people and to produce more democratic lines, they end up with big price tags. Thus, even if Kazakhstan citizens wanted to support domestic manufacturers, they would not be able to do so, because it would cost them too much. The only affordable local brand is Salta; and it makes a nice competition to the trendy clothes sold in official stores of other brands. In the kidswear segment

## MIMIORYKI IS THE ONLY COMPETITIVE BRAND.

For Oskemen this situation is quite unpromising. People are not ready to buy clothes produced by local designers yet. Another problem is that market's price segments are somewhat conditional in Oskemen: since luxury and premium segments are practically non-existent there, people have no clear idea of what luxury goods are and what their value is. As a result, people get their information from what they see on TV and online. Thus, Oskemen can compete neither with Almaty retailers, nor with Russian operators who offer assortment that is a lot more diverse.
In most cases, development plans of international trade chains that explore Eastern-Kazakhstan region depend on class and location of its key shopping centers. Therefore, the more qualitative malls open in Oskemen, the more globally known brands (of all segments: from luxury to mass-market) will come to the city. ■

TEXT /FOTO: **MILENA ERSHOVA**

# Mission: possible


The International Fair of Fashion «Central Asia's Fashion»

The end of winter and start of spring is traditionally busy time for the professionals of fashion-industry. Owners and managers of trendy shops and showrooms, business vendors and retailers, buyers and distributors – everybody starts to travel across the world within the beginning of the exhibition season. Theoretically, the main mission of these fashion-tours is to get acquainted with the collections of the next season, pre-order or purchase the trend models, develop business cooperation. However, in practice, everything is much more complicated.
«PROfashion Kazakhstan» asked the regional visitors of the international exhibition of fashion «Central Asia Fashion» about feasibility of the professional bayers' mission.

Main people of the event - fashion industry professionals (buyers or purchasing agents) -are already able to appreciate the new format of the «Central Asia Fashion». The event organizers, exhibition company «Catexpo», made a breakthrough, dramatically changed the style of the expo and made the priority to the business component of the fashion market. One of the main trait of the event was a special buyers' program. Professionals from the major cities of Kazakhstan and remote corners of the country as well as Central Asian neighbors Tajikistan, Kyrgyzstan, Uzbekistan, Turkmenistan have the chance to attend the event at no cost within this specialized program. The organizers confirmed the status of hospitable hosts Almaty, taking on the transport costs and accommodation in the best hotels of the city. However, a special response from trade visitors is the opportunity to use a service called MatchMaking in which participants of Buyers Program could organize individual meetings with top officials of the exhibiting companies in advance .
Buyers from different Kazakhstan cities told us how the cooperation with "Buyers mission professional care" helped them .

***Madinara Dyusembaeva - shop of women's clothing and accessories «Flirt in fashion» owner (Almaty)***

Of course, a showroom will never replace even the biggest booth. But personally, I really like the general trend of European brands - to come to the region where they want to find the customer. It means that our European partners are ready to trust us enough to bring us there. 15 years ago working with buyers from countries with frightening ending "STAN" (KazakhSTAN, TajikiSTAN, TurkmeniSTAN, KyrgyzSTAN) didn't look serious for a lot of brands. It was impossible to negotiate with major European brands on special conditions of minimum purchase even 5-7 years ago. But now everything is different. Even Italians became more accommodating, especially to regular partners.

What is the special feature of the Kazakhstan fashion-market? I think, the fact that each region has its own brand preferences. For example, south sluggish consumer perceives European brands, but loves Turkish and Russian clothes. In Almaty and Astana there is a spoiled buyer, who not only selects the brand, but also carefully studies the label.

It would be interesting to see manufacturers from India, Korea, China and Bangladesh. Historically, Kazakhstan customers like serious brands of these countries intuitively. I am sure that they would be able to submit an alternative not only to the range, but also on pricing.

***Zada Medeubaeva - owner of a menswear shop «Piccadilly» (Almaty)***

Before, when traveling abroad was indulged for units, it was convenient to do pre-order collections on display. But now, all the borders are open and it`s rather easy to go to Europe for business. Another thing is that on this exhibition you can discover some new brands and look at the product without wasting time and money. Perhaps it's the main advantage. Also, we consider that all participants of «Central Asia Fashion» focused on the Asian region, and this positive attitude to business contacts is another advantage.

Did I like the new format of the exhibition? Definitely, I did. Asian region needs such a platform for communication. I gladly discovered the business program. I could not think that I would listen seminars and trainings with such an interest, but I did. In Kazakhstan, there is the acute shortage of experts and training subtleties of fashion- business, that`s why I am ready to visit show every season.

***Aliyam Shamsutdinova - shopkeeper of Spanish women's shoes «Corrida» ( Aktau)***

I communicate a lot with colleagues from Aktau and I would identify the lack of sales growth as one of the main problems in the region. Many fashion–retailers have problems with the level of sales. Such a «protracted stability» is worse than crisis, because normal business needs development. During the seminars on the exhibition it was suggested that the situation could be changed. It is sufficient to expand the range of the store. I wanted to test the theory in practice.

I have formed certain portfolio of regular brands, but occasionally I do a rotation. Now, after the crisis, not everyone can afford to experiment with new brands. In this case, a win-win business expansion - add fashion accessories: large attachments are not required and the trendiness isn`t lost quickly.


I'm glad I was not too lazy and came to the exhibition, despite the fact that it is far enough from Aktau. Now to make the purchase, only place your order and you can even find partners without leaving the house - on the internet. But really to feel, to evaluate the quality of the goods, to hear the opinion of professionals about a particular issue, to get answers to your questions, is only possible to do off-line.

***Elmira Barker - owner of the network of shops Boutique «ELLE» (Almaty)***

"What is not enough for me in the Central Asia Fashion as for a buyer? Perhaps the scale and selection of proposals. I regularly visit the largest international exhibitions of fashion, which stands can`t be evaded for a week. I am impressed with the choice of partners and companies! Kazakhstan has to grow in this regard.

In my opinion it`s not enough proposals from mass market, yet. Most of the brands are designed for shops with customers with above-average income. It is not clear for me why Kazakhstan is usually associated with a consumer of Luxe class? The running of Essentay moll and the entry of several premium brands - is not a reason to talk about the whole country. I`m sure, that the most promising fashion formats in Kazakhstan are outlet centers. Drains and remains are the biggest headache of many shops` owners and if everything fell into a particular shopping center, both the consumer and the seller will only win. Europe has a lot of outlets, there are some special villages which are located somewhere in the countryside and are popular with the economy-class population. Sure, that these formats are for future fashion- retail.


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› B2B program
› Business-seminars
› Hosted buyers Program
› Fashion parade: standart and buyers fashion-shows
ADVERTISING
Official professional partner PROfashion Kazakhstan

***Lyudmila Kelesidi - owner of a chain of women's clothing stores (Shymkent)***

What constitutes brand and country preferences of buyers in different regions? The main point is customers` opportunities. For example, I would gladly have tried to bring the French and Italian brands, but I foresee difficulties with their implementation. In Shymkent, with its million population and with an average salary from 40,000 tenge, famous European brands can afford not more than 2 or 3 thousand people. The highest European brand in Shymkent is Canali, everything else is made in Turkey, India and China. Another situation is in Almaty, Astana and Aktau - consumers` demand for famous European brands is much higher in these cities.

I don`t not confuse with the brand-market newcomers whose names even in their own countries are known only for a few people. The main thing is their quality and price. I am sure that any user can gradually accustom to the new brand. Buyers just need not to be afraid to try to show more. In any case, from 10 to 20 new orders don`t take the store to a loss, but will help to expand the range and gain new customers .

My shop now presents three main brands: Turkish - Gizia, SASSAFONO and Italian clothes from CRISTINA EFFE. Every season I try new brands, and now the collection of Didier Parakian is on display. I've seen this brand on CPM in Moscow and Paris. But I was not ready to make a deal immediately - needed time to think, to ask the price, to examine brand in details. So, when I knew that the company would be on show in Almaty, I specifically came there to order the collection.

In the nearest future I plan to open a large underwear store and now I`m actively collecting portfolios of suitable brands. I hope to find something interesting here at the show. In my opinion, in the southern regions the niche of quality underwear is empty, so it's an ideal situation when demand creates supply. ■

# PROfashion

# BUSINESS PROGRAMS

**1. BUSINESS MEETINGS WITH BUYERS IN RUSSIA**

- PR and advertising campaign
- Organization of transfer and accommodation
- Informational support for the participants
- Invitation of buyers/manufacturers
- Organization of the meetings with companies
- Hiring of the translators, hostesses
- Press-clipping with the results of the PR and advertising campaign

**2. BUSINESS TRIPS FOR RUSSIAN BUYERS**

- Formation of the list of participants
- PR and advertising campaign
- Organization of transfer and accommodation
- Organization of the group
- Informational support for the participants
- Press-clipping with the results of the PR and advertising campaign

**3. PROFASHION MASTER CLASS IS AN** educational program from PROfashion, where fashion industry professionals share their practical business experience with the participants.

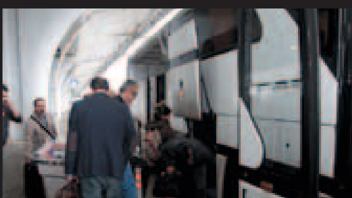
CONTENT

- Theoretical information
- Practice
- Expert consulting and recommendations on the tasks set by the listeners

DURATION: from 2 to 5 academic hours

In the end listeners will get a certificate acknowledging their participation in the master class.

COST: from 1250 to 3000 euros



**4. PRESS TOURS**

- PR and advertising campaign
- Formation of the list of participants
- Organization of transfer and accommodation
- Organization of the group
- Press-clipping with the results of the tour

The cost is calculated individually.

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