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The Russian Fashion Retail Market

macro-economics / consumer behaviour/ retail development/ shopping mall expansion
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EUROPEAN FASHION AND TEXTILE EXPORT COUNCIL ITMM CPM IGEDO COMPANY

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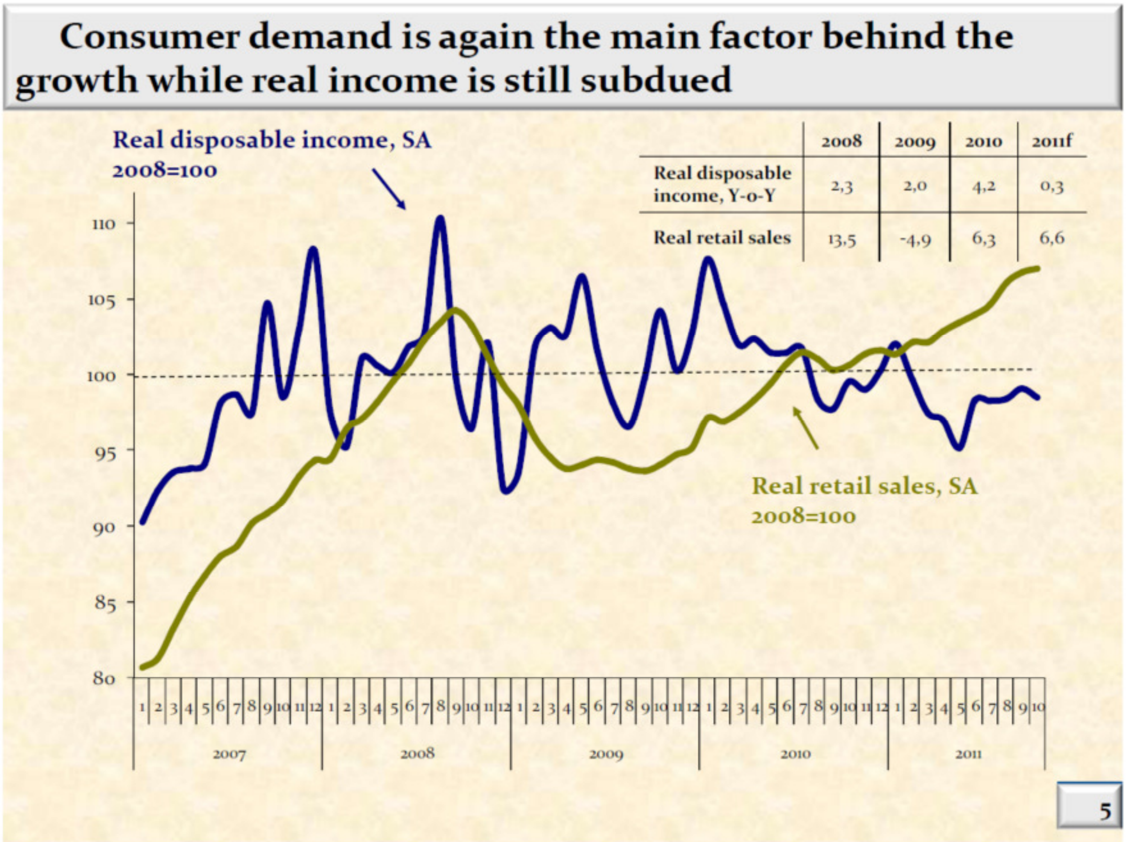
1.) Economics

1.1. Current Macro-Economic Situation and Outlook on Russia

November 2011, www.oenb.at

The Austrian National Bank has published a power point presentation on the web, which has been prepared by Oleg Zasov, head of macro-economics at the Federal Russian Ministry of Economic Development for a meeting of the Austrian National Bank in November 2011.
The very well layed-out power point presentation consists of 16 graphic charts illustrating development of all key macro-economic indicators in a comparison between pre-crisis years until 2011. As an example the flow chart-displayed below refers to the development of real disposable income in relationship to real retail sales. (source: http://www.oenb.at/de/img/zasov_russia_tcm14-241508.pdf)



1.2. Impact of WTO-Access of Russia on Textile & Clothing Trade remains unclear

December 15, 2011; kommersant /ITMM GmbH

Russia's formal access to the World Trade Organization, concluded in Geneva on December 15, 2011 after 18 years of negotiations has put an end on speculations whether Russia might stay outside WTO or join it. It is now the Russian Parliament to ratify the access protocol and to decide on specific measurements easing market access of a comprehensive range of imported goods including textiles and clothing. Whereas, two years ago, the Russian Government had unilaterally reduced duty rates to an average invoice value related 15 per cent, it is expected that a further cut of 10-15 percent of duty rates will be decided to be spread over a time period of three to four years. According to Kommersant, duty for children's clothes is expected to remain the only apparel category for which imports will continue to get taxed against the weight of goods at € 1,50-€ 1,75 per one kilogram. For all other clothing duty rates will be imposed on the invoice value.

Concerning liberalization of other trade barriers like country of origin labelling, textile fibre content labelling and consumer-safety oriented regulations like product certification or hygiene certification, experts believe that WTO access will not change the present rules.

It is further expected that any sector-related decisions on implementation of WTO-rules in Russia will be at the responsibility of the new Federal Government after the Presidential Elections in March 2012. Therefore, it may last another three months until the final results will get known, most likely on July 1, 2012.

1.3. New Government Plans to modernize domestic Light Industry until 2020

November 11, 2011; just-style.com/ December 19, 2011; rhtb.ru

"WTO access of Russia is expected to have a negative impact on the light industry, which is weak already" analysts with Fibo Group told Business.ru. It will make matters even worse, because competition (of imported clothing) will grow stronger. In an attempt to strengthen domestic apparel producers and increase their competitiveness relative to imports and foreign brands, the Russian Government has formed a Strategy Committee for Development of the Light Industry of Russia until 2020. Under the strategy, there are plans to modernize existing production facilities with a view on improving the quality of domestic manufacturing. The authorities hope, perhaps too optimistically, that more than half of clothing sold in Russia will be produced within the country by 2020, against 15 percent to-date.

1.4. A new EEC coming up in Eurasia

November 29, 2011; expert.ru/rbth.ru

The new Eurasian Economic Commission brings new business opportunities and increased financial security, and paves the way for the Eurasian Economic Union.

The creation of the Common Economic Space (CES) has begun. On November 18, the presidents of Russia, Belarus and Kazakhstan signed an agreement for the establishment of a central integration body for the three countries, the Eurasian Economic Commission (EEC). The EEC will replace the Customs Union Commission, which will cease to exist on July 1, 2012, and will be a supranational body for governing the integration effort. The commission should start work on January 1, 2012. The Kremlin has said that the EEC will be "a management body for integration processes in the format of the Customs Union and the CES". The structure of the EEC is similar to the European Union, with its European Council and European Commission. The EEC will have two tiers. The upper tier, its council, will include the deputy prime ministers of the three countries, with First Deputy Prime Minister Igor Shuvalov representing Russia. The lower level, the board, will be the EEC's main working body, with decision-making powers over customs duties as well as sanitary, veterinary, and immigration control. It will also oversee the allocation of industrial and agricultural subsidies. Viktor Khristenko, Russia's industry minister, is the appointed head of the EEC.

1.5. Enforcement on Tax Collection versus Increasing Tax Rates

November 21, 2011; RIA Novosti

Faced with higher spendings,the Federal Finance Ministry may be forced to raise taxes, despite the Kremlin's unwillingness to do so. Presidential Economic Aide, Arkady Dvorkovich, said in November. "I'm not just against raising taxes, I will do my best to prevent it," Dvorkovich told a tax conference. "The Finance Ministry is in a more difficult position and I understand it. Even if the Finance Ministry is against raising taxes, it could be forced to raise them due to budget expense growth." He said the real tax burden on the economy amounted to 40 percent of gross domestic product. "I think we must stop saying that we have an option to raise taxes. There is no such option, it is alleged," Dvorkovich said, adding that the government should improve tax collection. Acting Finance Minister, Anton Siluanov said that the tax policy should not be changed in the next five to six years, while Economic Development Minister, Elvira Nabiullina suggested to reduce the tax burden on business but to raise taxes on consumption. German Gref, head of Russia's top bank, Sberbank, said businessmen wanted a clear position from the government concerning further changes to the tax system. "We have heard promises from our political parties and the government. Businesses interpret all these promises as a promise to raise taxes. If this is not so, it is necessary to give an answer showing how these promises will be kept," Gref said.

1.6. New Tax Treaties to avoid Double Taxation between Russia and Countries

November 25, 2011; UFS Federation Circular / Olson Consulting

The Russian Federation has concluded so-called Double Tex Treaties with many foreign countries over the past decades. Several of such agreements go back to times when the Soviet Union existed, like in the case of Germany. Investors benefit from the low corporate taxes of 20 per cent in Russia against higher taxation abroad. One of the most important recent changes is the reduction of divided withholding tax rate from 10 per cent to 5 per cent in the Russia-Luxemburg Double Tax Treaty, introduced by an amendment protocol concluded on November 21, 2011. It will bring Luxemburg based holding structures in a more competitive position against those based in Cyprus or the Netherlands, as an example. The reduced divided withholding tax rate at 5 per cent will apply in cases in which foreign shareholders keep at least 10 % of shares in a Russian company and invested € 80.000,00 at least. The protocol is expected to apply as of 2013 or 2014. More detailed information on benefits resulting from Double Taxation Treaties between Russia and countries, related to income tax and corporate tax savings, may be obtained from Olson-Consulting.
(E-mail: thomas.olson@olsonconsulting.ru; Tel.: +7 495 9565622)

1.7. Russian Capital flees Russia

December 2, 2011; RIA Novosti

Russian authorities kept changing their forecast on flight capital several times over 2011. At the end of the first semester an amount of US $ 36 billion was quoted. In early November the Russia Central Bank projected capital flight to increase to US $ 70 billion. At the end of November 2011, the Federal Ministry of Economic Development announced that up to US $ 80 billion could flee Russia. According to Jewegeniy Nadorshin, AFK Sistema, the main reason for the increase of Russian Capital, fleeing the country over the third quarter is a high grade of instability of global markets combined with the European debt crisis together with the dependancy of the Russian economy on high oil-and gas-prices, combined with the fear on rising taxation. Insiders also point at the uncertainty arising from the unrest caused by the DUMA-elections, a phase of stagnation until the Presidential Elections and the forecast of foreign bankers that the Ruble may face a devaluation of up to 20 per cent against the US $ / Euro currency basket until July 2012.

1.8. Russia introduces V.A.T. Tax Refund

December 15, 2011; RBK Daily

After a test phase of six months Russian authorities plan to establish a V.A.T. Tax Refund scheme for foreign tourist with purchases in the minimum amount of Rub. 10.000 (€ 250,00/US $ 360,00). Around 200 selected trading- and retail companies may receive authorization to apply the Tax Free Russia scheme. However, the refund is not 18 per cent but 16 per cent, because the retailer is entitled to keep 2 per cent commission on the refund. Dealers criticize that the minimum amount is too high compared to Germany (€ 30,00), or Austria (€ 75,00). It is expected by Olga Maximova, project manager of Tax Free Russia organization, that only 30 per cent of a total of 6,2 million foreign tourists visiting Russia per year, may take advantage of the V.A.T. refund scheme.

1.9. Russian Legwear Market on the Way to Recovery

December 30, 2011; European Fashion and Textile Export Council (EFTEC)

The Russian Legwear market reached its peak retail market value in 2008, worth an estimated US $ 1,695 billion. This is the result of a market research study conducted by the European Fashion and Textile Export Council for the period 2007 till 2010, including a forecast on 2011. The study analysed officially registered exports from the main supplier countries to Russia for tights, knee-highs, socks and ankle socks for women and girls such as stockings and socks of Cotton, Wool and blends for men and boys.
According to EFTEC, China is the Key Supplier nation of legwear to Russia, followed by Italy, Lithuania, Germany and other EU member states. Whereas China serves the mass market, the Europeans sell branded legwear of the medium-to-premium priced market segments.
After a slump of 45 percent in China's legwear exports to Russia in 2009 co-inciding with a decrease of European legwear supplies at 24 per cent, the results of 2010 proved a significant double digit increase. "We expect a confirmation of this growth over the year 2011 and are quite confident, that European legwear exporters to Russia will regain their pre-crisis results" said Reinhard E. Döpfer, Chairman of EFTEC, who conducted the study. He expects further growth over 2013, but this will very much depend on the capability of suppliers to restructure their supply chain and to offer their Russian clients quick-response delivery procedures implicating fast replacement of sold-out styles, colours and sizes of legwear.

1.10 European Clothing Exports to Russia surging over first Nine Months of 2011

December 30, 2011; European Fashion and Textile Export Council

Exports of woven apparel and knitwear from the 27 member states of the European Union to Russia increased at 25 per cent, representing an ex-factory value of 2,154 billion € (US $ 2.800 bn.). This is the result of the traditional quarter-annual benchmark study of the European Fashion and Textile Export Council (EFTEC), published on behalf of IGEDO company, organizers of Collection Première Moscow (CPM).
"If we extrapolate this figure from nine to twelve months, we arrive at a total of € 2,872 billion" said Reinhard E. Döpfer, Chairman of EFTEC. As he further explained, this annual projection on the European export results to Russia, does

not yet reach the pre-crisis total obtained in 2008, which represented an ex-factory value of € 3.106 bn. As Döpfer further said, he is confident that the turn-around against 2008 will be "for sure" materializing in 2012 "because the Europeans just need a consistent growth at 8 per cent over 2012".
Concerning the individual export performance per European member states, Italy keeps its leadership at a growth of its clothing exports of 18 per cent accounting for € 817 million, followed by Germany (+ 22 %, € 465 mn.), France (+ 13 % , € 161 mn.), Lithuania (+ 42 %, € 143 mn.), Spain (+ 61 %, € 122 mn.) and the United Kingdom (+ 23 %, € 92 mn.).
Related to the product segments of men's and boys' wear, women's and girls' wear such as intimate apparel, the benchmark study of EFTEC assessed a growth of European men's and boys' exports to Russia at 32 per cent (€ 510,6 mn.). Supplies of women's and girls' wear increased at 25 percent (€ 1.041 mn.) and exports of intimate apparel rose at 23 percent (€ 319.8 mn.)

1.11 Prominent Participants register for Russian Fashion Retail Forum (RFRF)

December 30, 2011; IGEDO Company

The next edition of Russian Fashion Retail Forum (RFRF) will be hosted by IGEDO Company from February 29 till March 1, 2012 running in parallel to Collection Première Moscow (CPM), from February 28 till March 2, 2012, under the general theme of "*Multi-Channel Fashion Marketing Opportunities in Russia*".
According to the co-organizers of the Forum, Fashion Consulting Group (FCG), Moscow, and ITMM GmbH, Stuttgart/Germany, the event will open on February 29, 2012 with its traditional Executive Conference from 11:00 till 14:30 hrs. CEO's and Marketing Executives of Russian and international fashion brands, mono-brand and multi-brand Fashion Retailers, Department Stores and Distance Retailers will debate on "*Tools to increase deepen and widen market share through multi-channel fashion marketing strategies*" in the format of a panel session. As it was reported by Anna Lebsak-Kleimans, CEO of FCG, there is an important number of prominent companies which registered as panel speakers, among which to be found DHL, MARCCAIN Premium Women's Wear, KUNERT/HUDSON Legwear, Show-Room ATYPIK, YAKIMANKA Children's Gallery, SNOW QUEEN, BNS, the mono-brand store management group (MEXX, CALVIN KLEIN, PIMKO). The executive session will be followed by three conference theme cycle session dedicated to the issues of improving multi-brand store development, mono-brand shop-in-shop and franchise store development such as on B2C online retail practice.

1.12 CPM FASHION & DENIM attracting famous Fashion Casual Wear Brands

December 30, 2011; IGEDO Company

The new segment introduced as a separate show entity under the title of CPM FASHION & DENIM in September 2011 is building up well. According to CPM project director, Christian Kasch, many new world renowned brands like BEN SHERMAN, DESIGUAL, DIESEL, GUESS, LEE, PEPE JEANS, SCOTCH & SODA, TIMEZONE, WRANGLER and many others registered, some of them as repeaters, others as newcomers. In addition, other important casual and young fashion brands like DOCKERS, GAS, JOKER, MAC, MUSTANG, PHARD, RICH & ROYAL, TOM TAILOR, or TRUSSARDI JEANS participate in the large country pavilions of Italy, France, Turkey and Germany.

1.13. Relaunch of CPM STORE CONCEPT

December 30, 2011; IGEDO Company

Due to recent assessments made among CPM-exhibitors, there are more and more companies using CPM for the promotion of their space management systems in Russia. Be it corner-, shop-in-shop or franchised mono-brand store concepts.

To support exhibitors in this endeavor, IGEDO decided to relaunch elements of its CPM STORE CONCEPT, the last edition of which was held at CPM in February 2008, the pre-crisis year. According to Christian Kasch, project director of CPM, the CPM Store Concept initiative includes several options for exhibitors. Special large size illuminated show-cases are available for rent, all located in the mezzanine section connecting pavilions Forum and Pavilions 8 and 2, offering brands to visualize their store concepts in a generous way. The second element is free-of-charge publication of Store Concepts in the new CPM STORE CONCEPT MAGAZINE, published in co-operation with PROfashion, the Russian professional magazine. A third element is the option for exhibitors to introduce their space management systems and franchise formats during the second theme cycle session of the Russian Fashion Retail Forum (RFRF) on March 1, 2012.

2.) Consumer Characteristics

2.1. Consumer Confidence improved over Third October of 2011

December 2011; www.tradingeconomics.ru

In Russia, consumer confidence improved to the index of -7 in the third quarter of 2011 from −9 in the second quarter of 2011. The Federal Statistics Service Consumer Confidence index, which rated at -2 in July 2008 and went down to -32 in July 2009 is based on a survey of 5.000 people all across the nation. The survey measures the level of optimism that consumers have about the performance of the economy and their personal financial situation. Below is the chart with historical data for Russia's consumer confidence:

2.2. Demand for Children's Goods with Double-Digit-Growth

November 2011; russiaretail.com

In Russia there are about 22 million children under the age of 14, which constitutes a large group of potential customers for the country's children's goods market. . The sector includes clothing, footwear, toys, and food products for babies and has witnessed increases of 20-25% year on year. Moscow alone takes a 25% share of the country's total retail market of children's goods.
The sector is considered to be one of the most dynamic in Russia, with its double-digit year-on-year increase but relatively high level of saturation. Within the children's goods market, the toys sub-sector seems to be most promising in terms of business development dynamics. Simultaneously, the import-dominated toy market in Russia is witnessing market-share sales growth for domestic producers.

Speaking to Retail Update Russia, Mrs. Olesya Voropaeva of "Step by Step" research and consulting company said that currently the children's goods market in Russia is one of the most rapidly developing sectors of the retail market in the country, including clothing.

2.3. Citibank Russia: New Year's Holiday Spending surging to RUB 520 Billion

December 8, 2011; citibank.ru

The overall spending by Russians in December is expected to reach approximately RUB 2,6 trillion, with 20% of that being expenditures associated with the New Year season, representing an amount of RUB 520 billion (€ 1.300 million/US 1.690 million). According to Michael Berner, Member of the Board of Directors and head of Consumer Lending at Citibank Russia, said: "This year, we shall be seeing some of the highest levels of consumer activity that spread across all credit card spending categories, including online payments. For the first time ever, online spending has also been considered. The study found out that during the year, volume of online spending increased faster than other expenditures: online payments grew 7.6 percent faster than other spending. Despite this, according to the forecast, the volume of purchases through online stores is expected to increase at 17 percent in December, as opposed to 28 percent increase in credit card spending. Analysts believe that this can be explained by consumers' propensity to shop brick-and-mortar stores for New Year's and Christmas gifts in order to reduce the risk of late delivery of goods purchased online. In addition, starting mid-December, many online stores no longer accepted orders for delivery by the New Year. For the second year in a row, the study also considered the geographical aspect: once again, the expectation is that Muscovites will have a relatively quiet New Year shopping season (a 21% December increase over the monthly average is anticipated) while residents of St. Petersburg and regional cities of Russia will experience the strongest shopping impact (with 38% and 30% growth, respectively). Nevertheless, Moscow residents will spend approximately RUB 18.000 on average (RUB 2.000 more than last year) while residents of St. Petersburg and regional cities are expected to spend RUB 16.000 and RUB 11.000, respectively (RUB 4.000 and RUB 3.000 more, respectively, than in 2010). Clothing stores will remain in the top-10 spending categories (accounting for 11% of all expected purchases in December) as well as supermarkets and grocery stores (with combined share of 9%), hotels (5%), fast food restaurants (5%), and electronics & appliances stores (5%).

2.4. Russia's Social Network Usage on fifth Rank worldwide

December 27,2011; rt.com

Russian Consumers' participation in social networks is rising every day. Russian companies of the consumer goods' sectors respond fast. According to a recent study of Grand Thornton consulting, in which the heads of 2.700 companies were interviewed in 39 countries, twenty percent of Russian companies launch pages in social networks to promote their brands and products. This puts Russia on the fifth rank of social network commercial app-users after Mexico (80 %), India (64 %), the Netherlands (56 %). "We have customers in the most popular social networks as well as online-store applications for facebook users. Last year the amount of our social media customers doubled" said Anton Pantelev, PR Manager of MVideo. The company also intensifies online communication with such customers and plans to increase online sales by 30 % until 2015.

2.5. Private Bank Loans up by 63 Percent in December 2011

December 31, 2011; rt.com

Russian personal credit banks have reported a record number of loan requests in December 2011, which is called historical. The applications rose from 3,8 million in December 2010 to 6,2 million entries, last month, representing a growth of 63 percent. Experts explain the surge largely by spending ahead of the New Year and to benefit from high discounts offered by the retail sector.

3.) Retail Development

3.1. Finnish STOCKMANN increased Revenues in Russia by 49 Percent

November 2, 2011; russiaretail.com

The Finnish clothing retailer, STOCKMANN Group, increased its y-o-y revenue in Russia and Ukraine by 49 percent to € 220,9 million ($310m) between January and September 2011. Among the total international Stockmann's revenues, the Russian market contributes 16 percent, while the Ukrainian market less than 1 percent. Stockmann has been operating in Russia since 1989. At the end of September 2011, the company operated seven department stores, one shopping centre, 46 SEPPALA, 16 LINDEX and 20 BESTSELLER clothing stores in Russia. According to the company, consumer purchasing in Q4 2011 in Russia will be more challenging than ever before, and a weakening of the Russian ruble may negatively affect consumer behavior. However, at the same time, Stockmann predicts the Russian markets to grow faster than those in the Nordic countries.

3.2. Russian MELON Fashion Group Retail Chain rose to 548 Stores

November 18, 2011; russiaretail.com

Melon Fashion Group (MFG), opened nine new stores in Russia between October 21 and November 5, 2011. This included four BEFREE stores in retail centers in Samara and Moscow and two franchise stores in Ukhta and Yoshkar-Ola. Moreover, ZARINA stores opened in Samara and Kaluga, while LOVE REPUBLIC stores were launched in retail centers of Barnaul and Moscow. Finally, a WOMAN’S SECRET shop opened in Barnaul. As of 5 November, the company managed 548 stores, 492 of which in Russia and the balance in Ukraine. The total store count includes 442 company own stores and 106 franchise stores. As Retail Update Russia reported in July 2011, the Swedish Investment Fund East Capital acquired a 14,8 percent stake of MFG from Swedfund International, increasing its overall stake in the company to 43,1 percent. The value of the deal accounted for € 14 mn. ($ 20,2 mn.).

3.3. Eager Expansion Strategy of Russian DETSKIY MIR 2012-2016

November 3, 2011 russiaretail.com

The Board of Directors of DETSKIY MIR, Russia’s largest multi-brand retail chain of children’s goods has signed a new development programme for the next five years, according to which the number of stores is to double from the current 134 affiliates. The company also plans to double the annual revenue of 2010 at RUB 20bn ($664.4m) to RUB 40 bn in 2010.
To reach such goals, the company intends to accelerate goods’ turnover by a minimum of 30% and to reduce the present assortment from 80,000 to 45,000 items. This will allow DETSKIY MIR to order directly from producers, and to cut out third party importers and wholesalers. The company also intends to verticalize logistics, as well as to improve visual merchandising of goods in the stores.
The eager expansion strategy of Detskiy Mir began in the fourth quarter of 2011: The group opened two new stores in Russia in mid-November, a 1.500 square meter store was launched at MAXI-Shopping Centre in Syktyvkar. Moreover, a 1.100 sq. m. store opened in the SAMOLET Shopping Centre in Ulyanovsk. A further store of 1.700 sq.m. went under operation on November 26 at the MTV-Shopping Centre in Cheboksary. On December 3, 2011 the company opened a 1.100 sq.m store at OMSKIY Shopping Centre, the third multiple of its kind in the city of Omsk.

DETSKIY MIR-Group incorporates 141 large formatted chain stores in 73 cities of Russia on 285.000 sq.m. The group also operates the so-called luxury center CHILDREN'S GALLERY under the name of YAKIMANKA, in Moscow, as well as the company C-Toys, a leading distributor of children's goods in Russia. In 2010 the group reached revenues of RUB 20.023 billion (€ 500 million/US $ 667 million) at a net profit of RUB 33 million (€ 8,25 mn./US $ 11 mn.)

3.4. Russian DETI opened Stores in the Cities of Podolsk and Elektrostal

November 26, 2011; shopandmall.ru

The St. Petersburg based retailer of children's goods, DETI, which, to-date, incorporates a retail chain of 26 stores in St. Petersburg and 30 Stores in Moscow, continues to grow. On November 26, a store started operating in the city of Elektrostal. Earlier in November, the network had launched a multiple in the city of Podolsk. Prior to this, in September 2011, a large size DETI-store opened at the Shopping Centre DUBNA ORBIT in St. Petersburg. In August 2011, the company had opened a stand-alone store in Moscow, on Dmitrovsky Highway and a further object in St. Petersburg at LC PRISM Shopping Centre.

3.5. Russian COLIN'S Denim Chain expanding to four medium Provincial Cities

November 29, 2011; shopandmall.ru

The jeans wear label COLIN'S is a popular denim retailer in Russia, which started business back in 1993. At present, the chain operates 178 stores under COLIN'S in 82 Russian cities. This count includes four new stores, which were launched in November 2011 in the provincial cities of Astrakhan, Stary Oskol, Syktyvkar and Dmitrov. In Astrakhan the new store went into operation at the Shopping Centre SHOPPING FAIR, in Stary Oskol at the Shopping Centre MASQUERADE, in Syktyvkar at MAXI MALL and in Dmitrov at TRC Shopping Center. The company plans to open a total of 35 new stores under COLIN'S until the end of 2011 and in the near future. The company started its first flagships in Moscow and St. Petersburg in 1993, as a response to the opening of the first LEVI'S Store in Moscow, the same year.

3.6. Finnish FINN FLARE moved to LETO Mall in St. Petersburg

December 5, 2011; malls.ru

Finnish retailer of casual wear, FINN FLARE, continues its expansion in Russia. According to the Russian management of the company, FINN FLARE follows the objective to open its mono-brand chain under direct ownership and not any more with a focus on franchising these out. Following this policy, FINN FLARE operates 11 own stores in St. Petersburg. In November 2011, two further own stores were added to the portfolio in the St. Petersburg shopping malls GALLERY and CAPITOL. A third venture is being launched on December 5, 2011 at LETO ("SUMMER") shopping mall in St. Petersburg, and a fourth new store is to open on December 10 at the shopping center ACADEMIC PARK. Four more own stores under FINN FLARE were announced to open until the end of December in Krasnoyarsk, Ufa and Kazan.

3.7. French AUCHAN reveals Growth Objectives until 2015

December 5, 2011; Planet Retail

AUCHAN plans to open six of its grocery hypermarkets in Russia in 2012, and to increase its chain of ATAK supermarkets from presently 50 to 200 by 2015. This was announced by Jean Pierre Germain, CEO of AUCHAN RUSSIA. The hypermarkets, also carrying textile products through accredited AUCHAN buying agents, will be located in Nizhny Novgorod, Ryazan, Tyumen, Ulyanovsk, Volgograd and Rostov-on-Don. Novosibirsk is also on the agenda. "We are now looking at provincial cities in Russia with a population of more than 150.000 inhabitants", Germain said.

3.8. Russian CONCEPT CLUB/ACOOLA under one Roof in City of Lipetsk

December 15, 2011; russiaretail.com

The Russian clothing retail chain CONCEPT CLUB/ACOOLA operating 177 stores under the name of CONCEPT CLUB and 51 under the name of ACOOLA, enforces growth in the Russian regions. It also changes the marketing strategy and plans to increase its assortment by 30 percent and to start retailing footwear, beginning 2012. The company persues the idea to develop store locations in which both labels retail under a common roof. The first store unit of this kind opened in December 2011 as CONCEPT CLUB/ACOOLA in Lipetsk on 274 square meters. A second venture is to open in Ryazan at the shopping center VICTORIA PLAZA, on 280 sq.m. Over the first quarter of 2012, the company plans to launch the new format at OZ-MALL in Krasnodar, at CITY-PARK GRAD in Voronezh, as well as at the shopping center ARMAD and GULLIVER in Orenburg. In February 2012 CONCEPT CLUB will open a new store under this name at GREENWICH MALL in St. Petersburg. The company also focuses on the development of own stores rather than on franchising. At present the CONCEPT CLUB chain includes 57 stores under company ownership and management such as 120 under franchise. The ACOOLA-chain incorporates 24 own stores and 27 operated with franchisees.

3.9 Russian OBUV ROSSII Footwear Chain reports Profits up by 21 Percent.

December 12, 2011; russiaretail.com

The Russian footwear retail chain OBUV ROSSII, which operates the VESTFALIKA and PESHKHOD networks, increased its net profit by 21 percent year-on-year to RUB 66,5m ($2.1 mn.) in January-September 2011. In turn, its net revenues grew by 8 percent to RUB 1,2 bn ($ 38,3 mn.) year-on-year. During the period in question the company opened 47 stores, mainly within the VESTFALIKA chain, in new regional cities, including Kazan, Izhevsk, St. Petersburg, Moscow Province and Vladivostok. In addition, the number of VESTFALIKA stores in 2011 grew by 39 percent in comparison to the same period last year. As for the openings in Moscow Province, it is the company's second attempt of expansion to the Moscow region. OBUV ROSSII stores operated in the capital and its vicinities until 2008, but had to close stores during the financial crisis,
Currently, the company's total store count includes 158 stores in 51 cities in Russia. The company is planning to open 320 stores by the end of 2013 and 420 by the end of 2014. It is estimated that its net earnings will reach RUB 7,5 bn ($ 239,3 mn.) until 2015.

3.10. Swedish H&M to launch sixteenth Russian Store at OZ-Mall in Krasnodar

December 16, 2011; malls.ru

Hennes & Mauriz (H&M), the Swedish apparel retail chain, operating 7 stores in Moscow, 4 in St. Petersburg and one each in Rostov-on-Don, Krasnodar, Voronezh and Ekaterinburg, will open its second store in Krasnodar at OZ-Mall in February 2012. A decisive feature of this new store of H&M will be a separate entrance making the venue accessible to the public from the street. OZ-Mall will be one of the largest investments of its kind in Europe. It comprises a total are of 227.000 square meters and offices with a gross lease area of 164.000 square meters, it is planned to accommodate up to 250 retail stores. H&M started operating in Russia during the peak of the crisis, in 2009.

3.11 AFI-Mall in New Moscow City attracting new Tenants
December 26, 2011; malls.ru

Over the fourth quarter of 2011, the shopping center AFIMALL-CITY, located in one of the skyscapers of New Moscow City, close to Krasnya Presnya Expocenter, has attracted around thirty new stores as tenants. The number of store allocations including restaurants should now have reached more than 400. AFIMALL-City, which opened after several delays in May 2011, was heavily criticized at the time on the low frequency of visitors. Important tenants like UNIQLO, MARKS & SPENCER, ZARA, H&M, AMERICAN EAGLE, NEW YORKER, LACOSTE had therefore claimed reductions on rent in Summer 2011. Obviously, as sources say, attendance has improved during the fourth quarter of 2011 and the overall situation approaches "a normal" status. As a consequence the center management succeeded to attract additional clothing and lifestyle related tenants such as RESERVED, GIOVANNI BOTTICELLI, GIOVANNI GENTILE, such as footwear stores RENDEZVOUS, CITY SHOES and children's goods stores BORNSOON and CHOUPETTE, as well as McDONALD'S.

3.12. German RICH & ROYAL opened Mono-Brand Stores in Russia
December 23, 2011; Sportswear International

In November 2011, German fashion brand RICH & ROYAL celebrated two mono-brand store openings in Russia. In St. Petersburg the brand presents its "queens and kings" collection and accessories on 150 square meters in a mono-brand format at GRAND CANYON Shopping Mall. Previously, a boutique under this brand name opened as a stand-alone format on 60 square meters located on the Kuybishev Highstreet, next door to MAX MARA boutique and MONTE NAPOLEONE multi-brand luxury store. The successful market entry of RICH & ROYAL in Russia was initiated and supported by the company's first participation in Collection Première Moscow (CPM) in September 2011, where the company exhibited in the new CPM FASHION & DENIM section. RICH & ROYAL was introduced in Germany in 2005 by the designer Peter Stupp, based in Freiberg/Neckar near Stuttgart.

3.13. German PEEK & CLOPPENBURG DUESSELDORF eyeing again at Russia
December 31, 2011; retail.ru

As the Russian fashion retail market wins shape again over the past two after-crisis years at comparably high growth rates in the medium-to-upper-medium price segment, famous foreign apparel retailers are on the alert to explore market-entry prospects which may materialize over 2012. As an example, at the end of 2011, it became known that German Peek & Cloppenburg (P&C), with an independent branch, based in Duesseldorf and a further independent branch, based in Hamburg, are again eyeing at entering the Russian market. As sources say P&C Duesseldorf registered a trade mark "Fashion Family" at Soyuzpatent in Moscow, whereas P&C Hamburg registered its retail chain brand under the name of VAN GRAAF, in 2010. VAN GRAAF multi-brand stores are popular in Poland and other Eastern countries.

3.14. American VICTORIA'S SECRET retailing Fragrances instead of Lingerie
December 31, 2011; retail.ru

As it was reported in edition # 17 of this market monitor, the store openings of VICTORIA'S SECRET, master-franchised by MONEKS TRADING, focused on retail of lingerie. However, as it was immediately communicated by TRIUMPH INTERNATIONAL to the publisher, the stores sell perfume under this brand together with a very low share of accessories for ladies' night shirts. This was recently confirmed by an article in www.retail.ru/news/60473/on January 11, 2012 on market access of other US-apparel brands to Russia.

3.15. American GAP not satisfied with Sales Results in Russia

December 31, 2011; retail.ru

The popular US casual wear brand, GAP, which entered the Russian market, two years ago, is said to have registered a loss in Russian retail sales of 10-12 % in 2011 against 2010. According to the sector related consulting firm, Esper Group, the reasons behind the poor performance of GAP in Russia is the assortment of GAP offered in Russia. This is observed as being too basic, in average quality at comparatively high prices. Obviously, different to GAP's target group of consumers in the US, Russians when they buy every-day casual wear, expect more fashion content, above average quality at moderate prices as it comes with many Russian casual wear and young fashion retail chains like O'STIN and others.

3.16. German KUNERT-Hosiery Group set to deepen and widen Russian Distribution

December 31, 2011; ITMM GmbH

With a tradition of well over 100 years producing high quality and innovative legwear, KUNERT AG, based in Immenstadt, at the foot of South-Western Alps of Bavaria, 1.100 employees produce stockings and socks for men such as fashionable tights, knee-highs, ankle-socks and sockets for women. Such product lines are marketed under the brands of KUNERT, positioned in the upper-medium price level, JULIUS KUNERT (name of the former Chairman) rounding up the KUNERT range as well as under HUDSON, a moderately priced but rather trendy and young legwear label of the group. The laden-free CHINCHILLAN range of Legwear is a KUNERT sensation launched in 2010. KUNERT products retail in Russia since the mid-Nineties mainly through the SALAMANDER footwear chain and at AUCHAN hypermarkets.
"We have just now concluded decisions at corporate level, to expand our distribution in Russia, targeting different additional retail groups under a true multi-channel marketing policy" said Hermann de Jong, CEO of KUNERT AG. For the purpose of being better armed for the Russian market, the company has entered into reorganizing and verticalizing its supply chain to Russia with the objective to support customers by fast, reliable and fully transparent and risk-excluding deliveries with the option for customers to pay in Rubles, de Jong further explained. In order to better communicate the new competitiveness of KUNERT Group in Russia, the company will exhibit at the next edition of Collection Première Moscow (CPM) from February 28 till March 2, 2012. The company will also act as GOLD-Sponsor of the Russian Fashion Retail Forum (RFRF) and present its new strategy for Russia at several occasions during the programme of the forum.

4. Shopping Mall Expansion

4.1. Canadians planning Retail Parks around Moscow Ring Road

October 28, 2011; russiaretail.com

Two Canadian investment and development groups, TRINITY DEVELOPMENT and SHENKMAN, founded a joint venture in Russia under the name of TRINITY RUSSIAN RETAIL PARTNERSHIP to invest in the construction of retail parks comprising some 168.000 square meters near the Moscow Ring Road (MKAD). Currently, the new company is examining six land plots around MKAD, two of which are expected to be chosen by end of 2011. Over the first five years, Trinity plans to invest US $ 600 million (€ 429 mn.) in such projects.

4.2. Moscow fell back to Rank Seven for average Shopping Center Lease
November 18, 2011; shopandmall.ru

COLLIERS INTERNATIONAL conducted a review on lease rates and capitalization of shopping centres and key high streets in 52 of the largest cities of the EMEA-part of the world (Europe, Middle East, Africa). According to the results referring to the third quarter of 2011, the city of London kept ranking first at a fixed lease rate in shopping malls at an average of US $ 15.743 per square meter and year. Moscow, fell back to the sixth rank at an average of US $ 7.193, following after Paris, Zurich, Milan and Geneva. Remember that before the crisis, in early 2008, Moscow ranked second in the EMEA part of the world at US $ 15.000. this is seen as a major reason why investors and developers continue to keep fingers out of Moscow in the field of new shopping mall projects in the Russian Capital, besides the ban of the new lord mayor of Moscow on the construction of such ventures within the City Centre area reaching to Moscow Ring Road (MKAD).

4.3. Sochi dressing-up for the 2014 Winter Olympics
November 24, 2011; rbth.ru / ITMM GmbH

Although the 2014 games are still two years ahead, the Southern city of Sochi, hosting the Olympic Winter games, has already undergone a visible transformation. The initial cost was estimated in 2007 to account for a total of US $ 12 billion from which an amount of US $ 2,5 billion was set aside for the proper Olympic budget and the balance for the cost of building and changing the infrastructure of the city and its neighbourhood. At present, the overall expenditures are forecasted to more than treble. Sochi, which has only one main through-road, receives a bypass road which involves the construction of 15 bridges and five tunnels along 6 miles. The city also requires a new railway to carry nearly 100 million tons of cargo to the region, expansion of the Cargo terminal, building of six new power plants, sixteen new subway-stations plus a completely new airport which has already gone into operation in 2011. The hotel capacity together with retail capacities will have to be doubled if not trebled to accommodate 42.000 guests.
As the federal government initially committed to cover more than 58 percent of the budget, the balance is to be financed by the private sector, lead by Olympic Investment Corporation. Sochi is a tremendous financial challenge for Russia and the region itself. However, as a complete region is being ultra-modernized to become a key holiday spot right on the sea and at the foot of the mountains, possibly comparable to Beirut/Lebanon, experts believe in a high return of investment under a longer term perspective. Building of fashion and lifestyle retail presence in this region is more or less mandatory for everybody engaged in this sector.
Special retail opportunities for European fashion, footwear and lifestyle oriented products are under development. As an example there is a 1.000 square meter space for lease where selected European brands may display their master collection in combination with an IT-order point connecting customers to the company's own, or third-party operated foreign or Russian online store for placing their individual orders. The project is hosted by a German-Russian consortium. For further information interested brands are requested to contact the editor-in-chief of this market monitor.

4.4. Ukrainian Developers promoting OCEAN PLAZA Mall in Kiev at MAPIC
November 25, 2011; shopandmall.ru

The company UTG (Ukrainian Trade Guild) in co-operation with local developers presented the draft on OCEAN PLAZA MALL, which will be the largest shopping mall in the capital of Ukraine. The presentation at the real estate and franchise fair MAPIC, in Cannes included commercial real estate projects like MARMELADE

MALL, MANHATTAN MALL, LIFE STYLE MALL, GORODOK-MALL's second extension in Kiev, as well as projects in Kharkov and Simferopol. According to Vitaly Boyko, Managing Partner of UTG, international retailers interested in store spaces of in between 200-1.200 square meters lined up at the MAPIC presentation, including Russian and Turkish retailers, in particular. It is reported that 2012 will be a decisive year for new retail ventures in Ukraine.

4.5. URAL Shopping Center in Chelyabinsk attracting further Russian Tenants

December 5, 2011; malls.ru

The new shopping and entertainment complex, URAL, located in the center of the City of Chelyabinsk comprises a gross lease area of 34.000 square meters. The center mainly attracts Russian chained clothing retailers like INCITY which signed a lease contract for 320 square meters. Others partly having already moved in are CHAMPION, a sporting goods store on 1.000 square meters, VITO PONTI, HENDERSON, THE MESSANGER and CALZEDONIA, the Italian legwear chain, such as ELDORADO, consumer electronics and home appliances and McDonald's.

4.6. Construction of Shopping Centers in Moscow fell to a Ten Years' Low

December 6, 2011; shopandmall.ru; December 30, 2011, malls.ru

In 2011, construction of shopping centers in the city center of the capital reached a record low. In total there were just five objects released with a total capacity of 297.000 square meters, from which close to 170.000 square meters went on the account of retail space. Due to the ban of the new Moscow government on construction of new commercial real estate within the city center, developers move to Moscow regions. For example, in August 2011, the Moscow suburb of Lyubertsy commissioned construction of the shopping centre GRENADA. In December 2011 the first construction tranch of the shopping center JOY will get released in the suburb of Mitino.
As a consequence from shortage of retail space in Moscow waiting lists from chained retail have piled up for several years ahead at real estate agents. Vacancies of retail premises have fallen to an unexpected low of just 2,5 percent. Lobbyists on the side of developers have started claiming that the Eastern and North-Eastern urban parts of the capital lack provision of shopping centers and of sufficient retail space. Another area under examination is the Western suburban district, providing a comparatively low retail space availability of 846 square meters per one thousand inhabitants. The objective of developers is to build the average retail space capacity all across Moscow to at least 1.200 square meters per inhabitant.

4.7. New Shopping Center opened in Domodedovo

December 30, 2011

The Russian developer TORGOVIY KVARTAL opened a shopping centre under the name of DOMODEDOVO in Domodedovo (Moscow Airport) on 22 December 2011. The center comprises 31.000 m^2 and lets 22.400 m^2 for rent to more than 80 stores, including anchor tenants: VICTORIA (grocery supermarket), M.VIDEO (consumer electronics) and SPORTMASTER (sports' goods).

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