The Future of the Fashion Market in Russia: Belt-Tightening or Fashion without Borders?

December 2023
Key messages

1. The development of the fashion market in Russia is driven by affordable supply and online growth

   The Russian fashion market is shrinking (by an average of 3.5% per year in rubles) in line with the global trend, with its specific feature being that the low-end price segment is growing.

   The share of online sales in the domestic fashion market tends to match the leading countries’ figures and is growing twice as fast as in most of these countries (average growth of 35% per year vs. 10–15% abroad).

2. In the new reality, the market is consolidating around major Russian players

   Russian companies have expanded their footprint among the major players, successfully capitalizing on the departure of more than 70 foreign brands.

   Key success factors include affordable products, federal coverage, and a diversified business model.

   Retailers that kept Western brands on their shelves and offered Russian brands in low-competition niches were able to boost growth rates in 2022.

3. Further reshaping of the Russian fashion market is expected over the next five years

   Under the base case, a new landscape of players and import-export chains will emerge, and the market will eventually show a moderate growth of 5–7%, primarily due to the middle price segment.

   Mass market diversified retailers and marketplaces will be the most resilient to market turbulence.

   At the same time, it is essential for all players to reorganize themselves for a successful race in the new reality of the domestic fashion market.

* Here and hereinafter, the fashion market is understood as the apparel and footwear market.
The fashion market in Russia has been actively developing for more than 20 years.

**2000s**
A surge in brand popularity

In the 2000s, the fashion market in Russia was on the rise: new shopping centers were being built, and space was filled by both large Western brands and new domestic players.

**2010s**
Development of e-commerce

In the early 2010s, the online sales channel began to develop rapidly in Russia. In the fashion market, it grew primarily through marketplaces, which got buyers accustomed to the highest level of service. Try-ons, partial payment, payment on delivery – such options are rarely available in other countries.

In this context, retail stores expanded the range of sales channels. Having successfully overcome the 2014 crisis, the fashion market kept evolving.

**2020s**
Turbulence

The 2020s kicked off with a market decline of more than 10% due to COVID-19 pandemic-related restrictions, to which the market proactively adapted: already in 2021, there was a 9% growth due to pent-up demand.

**2022**
New reality

In 2022, the Russian fashion market again underwent significant structural changes, this time related to geopolitical events. The new reality affected the operations of all players. And since many global players left Russia, great opportunities opened up for the remaining retailers.
However, demand for fashion is declining, with similar dynamics in the world’s major markets.

![Fashion market size and dynamics in Russia](image)

**Fashion market size and dynamics in Russia¹, RUB bn**

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>2360</td>
<td>2290</td>
<td>2035</td>
<td>2225</td>
<td>2045</td>
</tr>
</tbody>
</table>

¹ Excluding gray market turnover
² Figures for foreign countries are based on Euromonitor data; Russia’s figures are based on data from Fashion Consulting Group and the Central Bank of Russia
³ Compound Annual Growth Rate

### Fashion market size and dynamics in the top five countries¹²³

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Fashion market in 2022, USD bn</th>
<th>Fashion market dynamics, CAGR³ in 2018–2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>USA</td>
<td>414</td>
<td>3.3%</td>
</tr>
<tr>
<td>02</td>
<td>China</td>
<td>359</td>
<td>−1.2%</td>
</tr>
<tr>
<td>03</td>
<td>UK</td>
<td>70</td>
<td>−0.6%</td>
</tr>
<tr>
<td>04</td>
<td>Germany</td>
<td>67</td>
<td>−4.2%</td>
</tr>
<tr>
<td>05</td>
<td>India</td>
<td>61</td>
<td>−1.2%</td>
</tr>
<tr>
<td>06</td>
<td>Russia</td>
<td>RUB 2,045 bn</td>
<td>−3.5% (in RUB)</td>
</tr>
</tbody>
</table>

### More facts

**Key drivers of demand decline in the fashion market**

1. Socio-economic crises (the fashion market is among the first to feel the downturn in consumer spending)
2. Trend towards conscious consumption
3. Attention to sustainability and environmental agenda

**The 2021 growth of the fashion market in Russia was largely attributed to pent-up demand from the 2020 pandemic year**

**Between 2018 and 2022, only three markets out of the top 30 saw annual growth of more than 3%: Argentina, Taiwan, and USA**

Source: Fashion Consulting Group, Euromonitor, Central Bank of Russia
Unlike other major markets, it is affordable fashion that drives growth in Russia.

Key drivers

Purchasing power is the key factor in the distribution of price segments.

Since 2014, the shares of both the middle and high-end price segments have been declining in Russia due to both falling purchasing power and shrinking supply caused by the following factors:

1. Price hikes due to ruble depreciation
2. Restrictions on imports of high-value goods
3. Logistics challenges and departure of international players operating in these segments in 2022

In major developed and emerging markets, purchasing power is either stable or growing and therefore the opposite trend is observed – a decline in the share of the low-end price segment.

Source: Fashion Consulting Group, Euromonitor
Another important driver of fashion development is online sales, and conditions and prerequisites are in place for their further growth in Russia.

Leading countries in 2022 by online fashion market share, %

Key insights

1. The maximum coverage of the online sales channel in most of the leading countries was observed during the COVID-19 pandemic-related restrictions.
2. Only the Netherlands has so far managed to surpass the 41-44% threshold.
3. The share of online sales in the Russian fashion market is growing more than twice as fast as in most leading countries (in 2018-2022, the annual growth rate reached 35%, which is on par with that of Indonesia).
4. In the coming years, the online fashion market share in Russia has the potential to grow by more than 10%:
   - Marketplaces are growing at a rate several times higher than offline stores.
   - Large digital ecosystems are actively investing in the development of online marketplaces.
   - High level and a wide range of online sales services: delivery within hours, an extensive network of pick-up points, payment after try-on, installments.
   - An important constraint to growth without compromising service quality is the current shortage of couriers.

1. Compound Annual Growth Rate

Source: Fashion Consulting Group, Euromonitor
Against this background, major Russian companies are strengthening their market positions.

Share of major retailers in the fashion market, by revenue, RUB bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Retailers</th>
<th>Russian Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2,360</td>
<td>2,225</td>
</tr>
<tr>
<td>2021</td>
<td>2,225</td>
<td>2,045</td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fashion Consulting Group, SPARK, Forbes, Yakov & Partners analysis

More facts

More than 70 large foreign brands, which in 2021 had a share of more than 20% and generated revenue totaling more than RUB 450 bn, have left the Russian market.

Amid a market slump, the market share of large companies is growing, which indicates market consolidation.
Success factors for the top 30 players: an affordable product, a diversified business model, and federal coverage

1. The chart shows the top 30 retailers as of 2022. The largest marketplaces are not shown, as the bulk of their sales are under the 2P/3P model and are already accounted for in retailers’ revenue (2P – the marketplace as an intermediary, may be responsible for delivery and storage, the merchant owns the goods and is responsible for fulfillment; 3P – the marketplace as a sales platform, the merchant owns the goods, is responsible for fulfillment, delivery and storage), and sales under the 1P model (the marketplace buys and sells goods itself) are internal marketplace data.

2. Including downturn / market exit

Source: SPARK, Yakov & Partners estimate

Key insights

01 Major federal players with a multi-channel/format/brand business model show high growth rates

02 In 2022, retailers selling foreign brands that left the market suffered losses, while players that kept Western brands on their shelves and niche Russian brands grew at a higher rate

More facts

Marketplace business model stands out from the models used by other fashion market players
In 2021–2022, it delivered rapid GMV growth in the fashion category

<table>
<thead>
<tr>
<th>Lamoda</th>
<th>Wildberries</th>
<th>Ozon</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;35%</td>
<td>&gt;95%</td>
<td>&gt;130%</td>
</tr>
</tbody>
</table>

Source: SPARK, Yakov & Partners estimate
Within five years, the Russian fashion market will undergo a wide range of transformational changes.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Scenario conditions on a 5-year horizon</th>
</tr>
</thead>
</table>
| 01 Belt-Tightening | - New crisis  
- Significant decline in consumer demand  
- Worsening global logistics challenges  
- Increased restrictions on trade, tourism and cooperation with Russia |
| 02 Affordable Wardrobe | - Moderate decline in consumer demand  
- Continued global logistics challenges  
- Continued restrictions on trade, tourism and cooperation with Russia |
| 03 Reshaping the Fashion Reality | - Minimal recovery in consumer demand  
- Less severe global logistics challenges  
- Optimized production chains and cost of production  
- New foreign players entering the market  
- Growing tourist traffic from friendly countries |
| 04 Fashion without Borders | - Recovery of consumer demand and further growth  
- Resolution of global logistics problems  
- Complete lifting of restrictions on trade, tourism and cooperation with Russia  
- Return of foreign brands  
- Unblocking of foreign social media and marketplaces |

1. Relative to the 2022 level  
2. Relative to the 2021 pre-crisis level

**Changes in the fashion market**

- **Reduced affordability** of apparel and footwear, **declining quality and reduced variety** of brands and assortment
- **Stabilization of affordable prices** by market players at the expense of quality and style
- **Fundamental changes in the market landscape in favor of low-end and middle price segment players that have built the most efficient production chains**
- **Popularity of returning fashionable and pricier global brands with proven quality and high recognition factor**
Under the base case, demand is expected to recover and imports from friendly countries are expected to rise, reshaping the landscape of players and brands.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Demand</th>
<th>Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchasing power</td>
<td>Demographics</td>
</tr>
<tr>
<td>01 Belt-Tightening</td>
<td>• New crisis</td>
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<tr>
<td></td>
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<td></td>
<td>• Continued global logistics challenges</td>
<td><img src="#" alt="Red" /></td>
</tr>
<tr>
<td></td>
<td>• Continued restrictions on trade, tourism and cooperation with Russia</td>
<td><img src="#" alt="Red" /></td>
</tr>
<tr>
<td>Base case</td>
<td>• Minimal recovery in consumer demand¹</td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td></td>
<td>• Less severe global logistics challenges</td>
<td><img src="#" alt="Green" /></td>
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<tr>
<td></td>
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<td>03 Reshaping the Fashion Reality</td>
<td>• Recovery of consumer demand² and further growth</td>
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</tr>
</tbody>
</table>

¹ Relative to the 2022 level ² Relative to the 2021 pre-crisis level

Potential impact on a five-year horizon

<table>
<thead>
<tr>
<th>Market size</th>
<th>Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>-10–15%</td>
<td>Growing low-end segment at the expense of the middle segment, and a shrinking high-end segment</td>
</tr>
<tr>
<td>-3–5%</td>
<td>Moderate growth of the low-end segment at the expense of the middle segment</td>
</tr>
<tr>
<td>+5–7%</td>
<td>Moderate growth in the middle segment</td>
</tr>
<tr>
<td>+20–25%</td>
<td>Middle segment growth at the expense of the low-end segment, and recovery of the high-end segment</td>
</tr>
</tbody>
</table>
Diversified retailers and marketplaces will be most resilient to further market turbulence

**Scenario**

**Most favorable conditions**

- **For whom**: Large diversified Russian retailers that mainly operate in the budget segment
  - **Why**: 
    - Redistribution of market demand in favor of affordable fashion
    - Ability to offer customers a familiar assortment at affordable prices
    - Quick response to external changes

- **For whom**: Large diversified international retailers with a balanced assortment in the budget and middle price segments
  - **Why**: 
    - Growth in the middle price segment
    - Global retailer scale advantages: fast opening of outlets, up-to-date collections, international brand marketing, sustainable online infrastructure

**Least favorable conditions**

- **For whom**: Remaining international retailers in the middle price segment
  - **Why**: 
    - Declining market demand in the middle price segment
    - Limited opportunities to realign the offering in line with the global positioning of the brand

- **For whom**: Non-diversified retailers that mainly operate in the budget price segment
  - **Why**: 
    - Partial contraction of demand in the affordable fashion market
    - Lack of supply in the middle price segment
    - Limited ability to respond to external changes

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**Marketplaces**

Marketplaces are outside the scenarios due to their flexibility

- Flexibility allows them to quickly adapt to changes in the fashion market
- Active rebalancing of price segments
- Adaptation of assortment within segments
It is essential for all players to reorganize themselves for a successful race in the new reality of the domestic fashion market

Possible courses of action for players

<table>
<thead>
<tr>
<th>01 Domestic multi-brand retailers</th>
<th>02 Domestic niche brands</th>
<th>03 Remaining international brands</th>
<th>04 Newcomers from friendly countries</th>
<th>05 Marketplaces</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strengthening CVP(^1) for the mass segment and differentiation through phygital experience(^2)</td>
<td>• Positioning in vacated scarce niches</td>
<td>• Adapting CVP(^1) in view of the new “rules of the game” in the market</td>
<td>• Rapid definition of a successful go-to-market strategy (portfolio, sales channels, promotion, etc.)</td>
<td>• Bringing new brands to the marketplace, including through integration with international fashion marketplaces</td>
</tr>
<tr>
<td>• Balance of competition and partnership with marketplaces</td>
<td>• Launch of limited/designer collections to increase margins</td>
<td>• Optimization of current and creation of new supply chains for current collections on the Russian market</td>
<td>• Rapid development of recognition and loyalty among local customers</td>
<td>• Development of an omnichannel customer service model (partner and/or in-house retail, etc.)</td>
</tr>
<tr>
<td>• Consolidation of retail space and market players</td>
<td>• Entering international markets with a wide Russian audience</td>
<td>• Focusing on building a community around the brand</td>
<td>• Adaptation of collections and size ranges to Russian preferences and market requirements</td>
<td>• Launch of PLs(^3) in different price segments</td>
</tr>
<tr>
<td>• Development of small/partner formats for remote locations/small markets</td>
<td>• Focusing on building a community around the brand</td>
<td>• Placement of merchandise on marketplaces and/or offline</td>
<td>• Development of omnichannel customer experience</td>
<td>• Adapting to changes in purchasing power – increasing the number of affordable offers</td>
</tr>
<tr>
<td>• Reinvestment of operational efficiency in the customer (product, prices, promotion)</td>
<td></td>
<td>• Revision of marketing tools in the context of sanction restrictions imposed by brands’ HQ</td>
<td>• Revision of marketing tools in the context of sanction restrictions imposed by brands’ HQ</td>
<td>• Developing mail forwarding(^4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Ensuring rapid scalability</td>
</tr>
</tbody>
</table>

1. Customer value proposition
2. Integration of digital technologies into the physical world to create an innovative customer experience
3. Private label
4. Service for ordering products from stores that do not ship products to the customer’s home country
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