



Yakov and Partners

**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

# 1 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

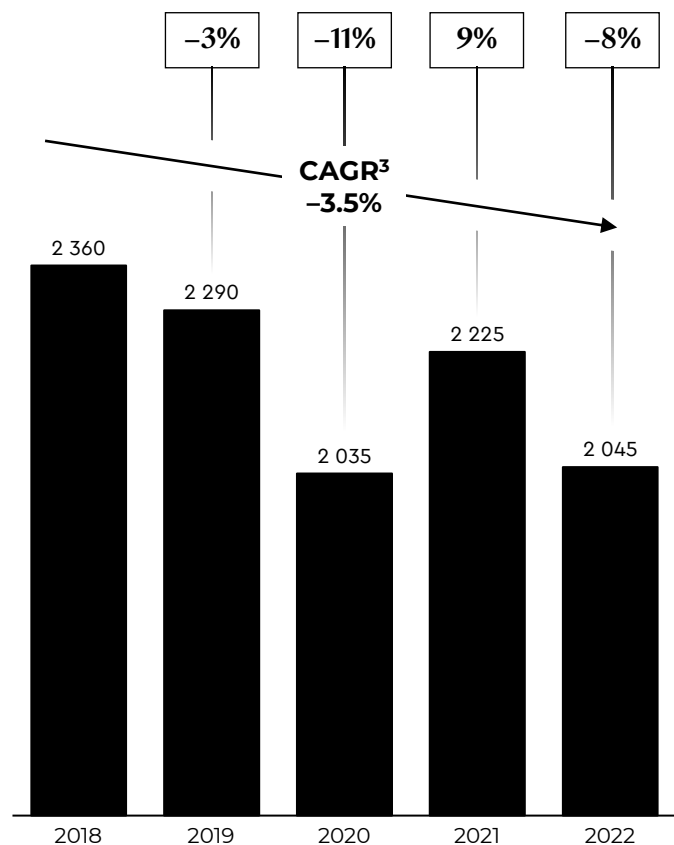
In 2022, the Russian fashion market again underwent significant structural changes, this time related to geopolitical events. The new reality affected the operations of all players. And since many global players left Russia, great opportunities opened up for the remaining retailers



# 1 However, demand for fashion is declining, with similar dynamics in the world's major markets

XX% Year-on-year change

Fashion market size and dynamics in Russia<sup>1</sup>, RUB bn



Fashion market size and dynamics in the top five countries<sup>1,2</sup>



Rank	Country	Fashion market in 2022, USD bn	Fashion market dynamics, CAGR <sup>3</sup> in 2018-2022
01	USA	414	3.3%
02	China	359	-1.2%
03	UK	70	-0.6%
04	Germany	67	-4.2%
05	India	61	-1.2%
...			
15	Russia	\$ 30 RUB 2,045 bn	\$ -5.6% -3.5% (in RUB)

## More facts

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

#### Globally

- Socio-economic crises (the fashion market is among the first to feel the downturn in consumer spending)
- Trend towards conscious consumption

#### In developed markets

- Market saturation
- 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

1. Excluding gray market turnover

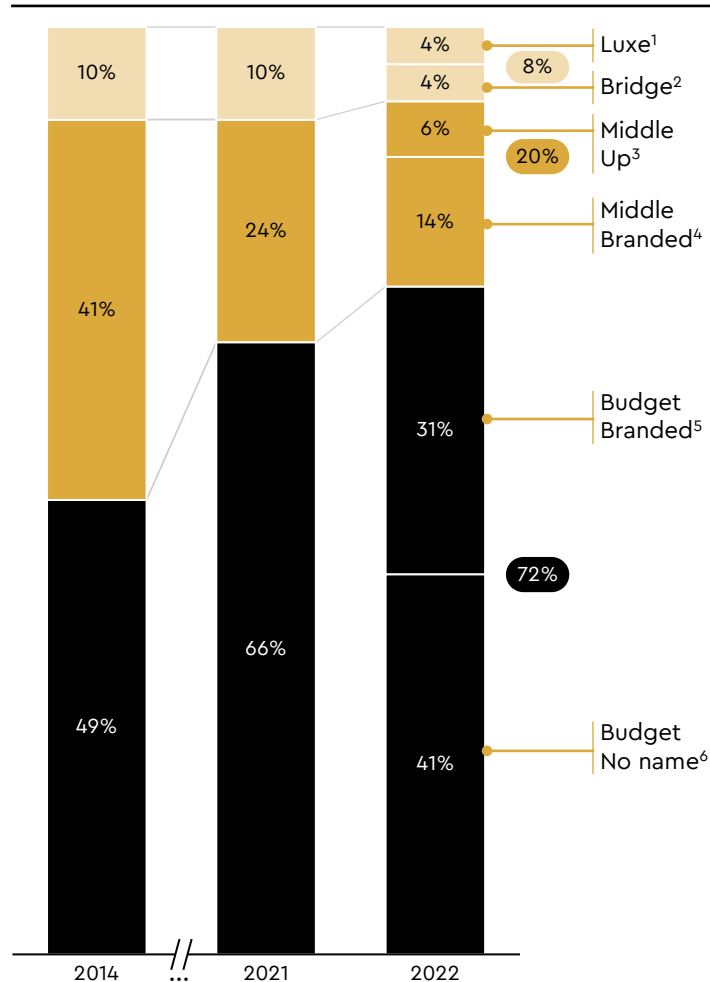
2. Figures for foreign countries are based on Euromonitor data; Russia's figures are based on data from Fashion Consulting Group and the Central Bank of Russia

3. Compound Annual Growth Rate

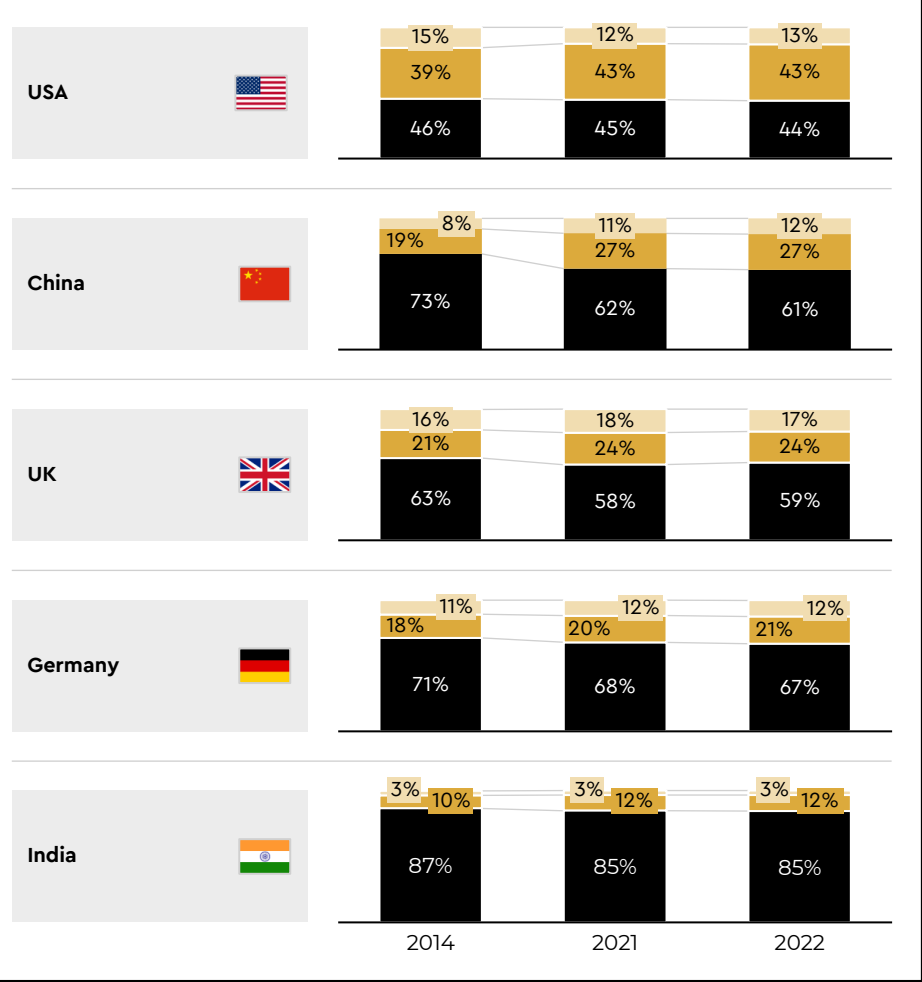
Source: Fashion Consulting Group, Euromonitor, Central Bank of Russia

# Unlike other major markets, it is affordable fashion that drives growth in Russia

Price segments of the fashion market in Russia, shares by size of segments in monetary terms



Price segments in major fashion markets, shares by size of segments in monetary terms



## 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:

- 01 Price hikes due to ruble depreciation
- 02 Restrictions on imports of high-value goods
- 03 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

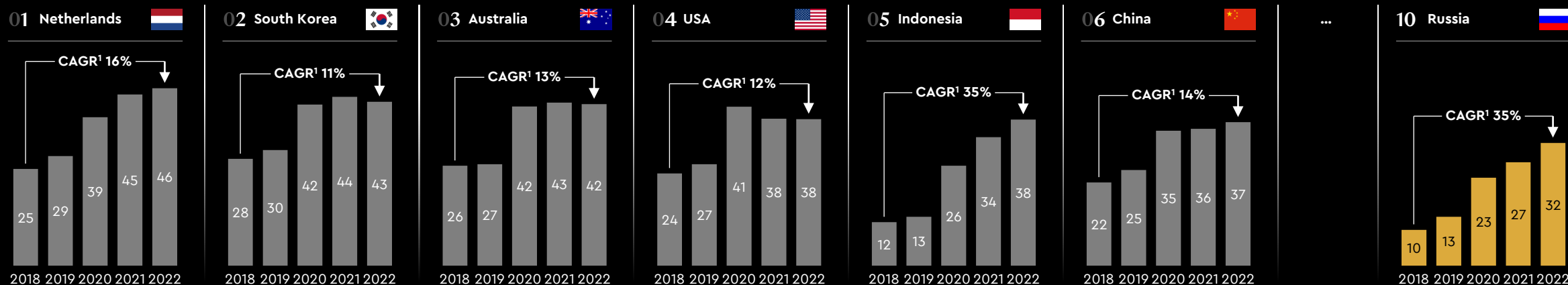


1. Luxe – luxury brands from Europe and the U.S. 2. Bridge – international premium brands 3. Middle Up – mid-priced brands with premium branding elements 4. Middle Branded – mid-priced brands with a focus on value for money 5. Budget Branded – well-known brands in the low-end price segment 6. Budget No name – little-known brands in the low-end price segment

# 1 Another important driver of fashion development is online sales, and conditions and prerequisites are in place for their further growth in Russia

XX Country ranking for 2022 in terms of online sales share in the fashion market

## Leading countries in 2022 by online fashion market share, %



### Key insights



**The maximum coverage** of the online sales channel in most of the leading countries was observed during the COVID-19 pandemic-related **restrictions**

Only the Netherlands has so far managed to surpass the **41-44% threshold**



**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)



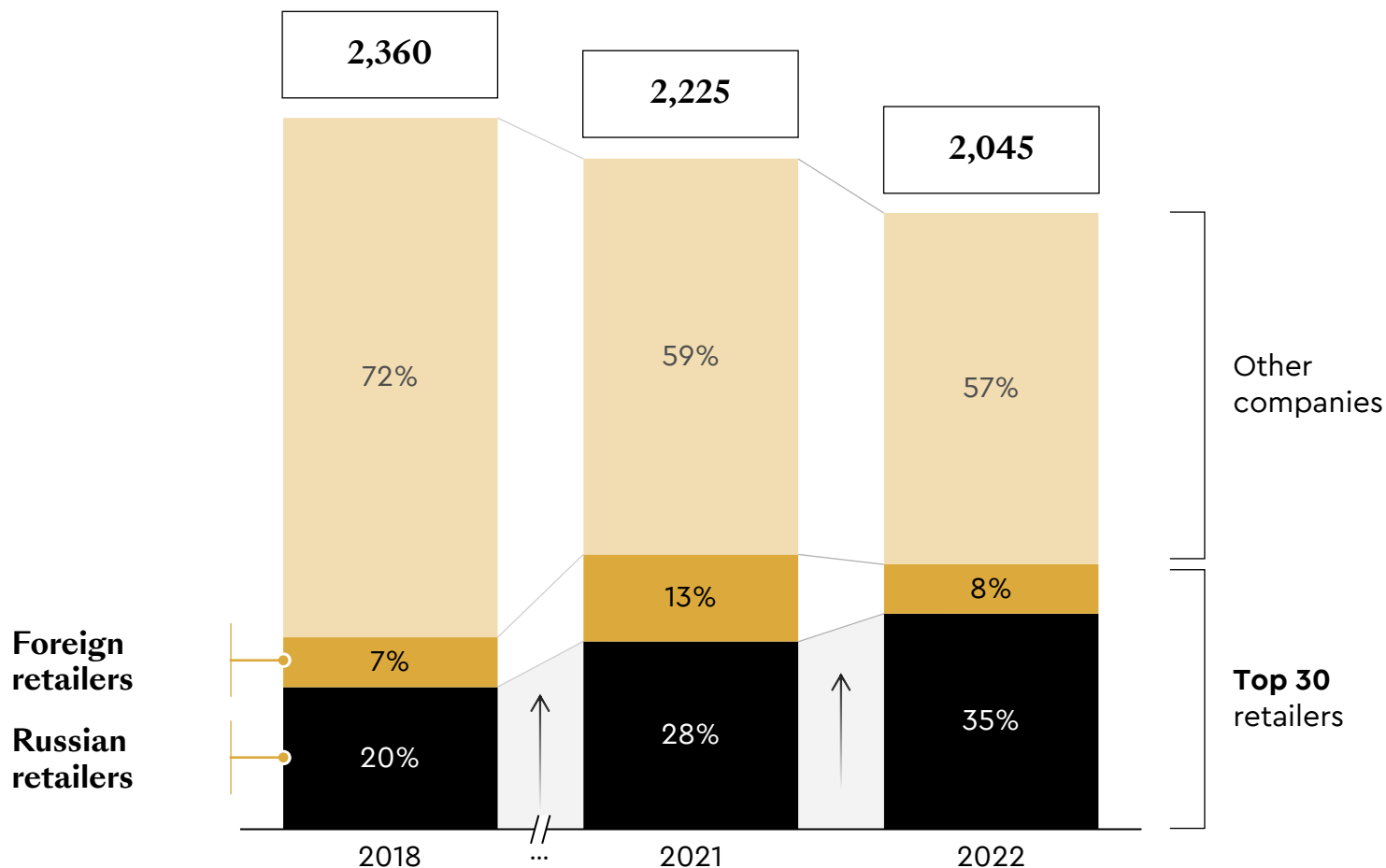
In the coming years, the online fashion market share in Russia has **the potential to grow by more than 10%:**

- 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



## 2 Against this background, major Russian companies are strengthening their market positions

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



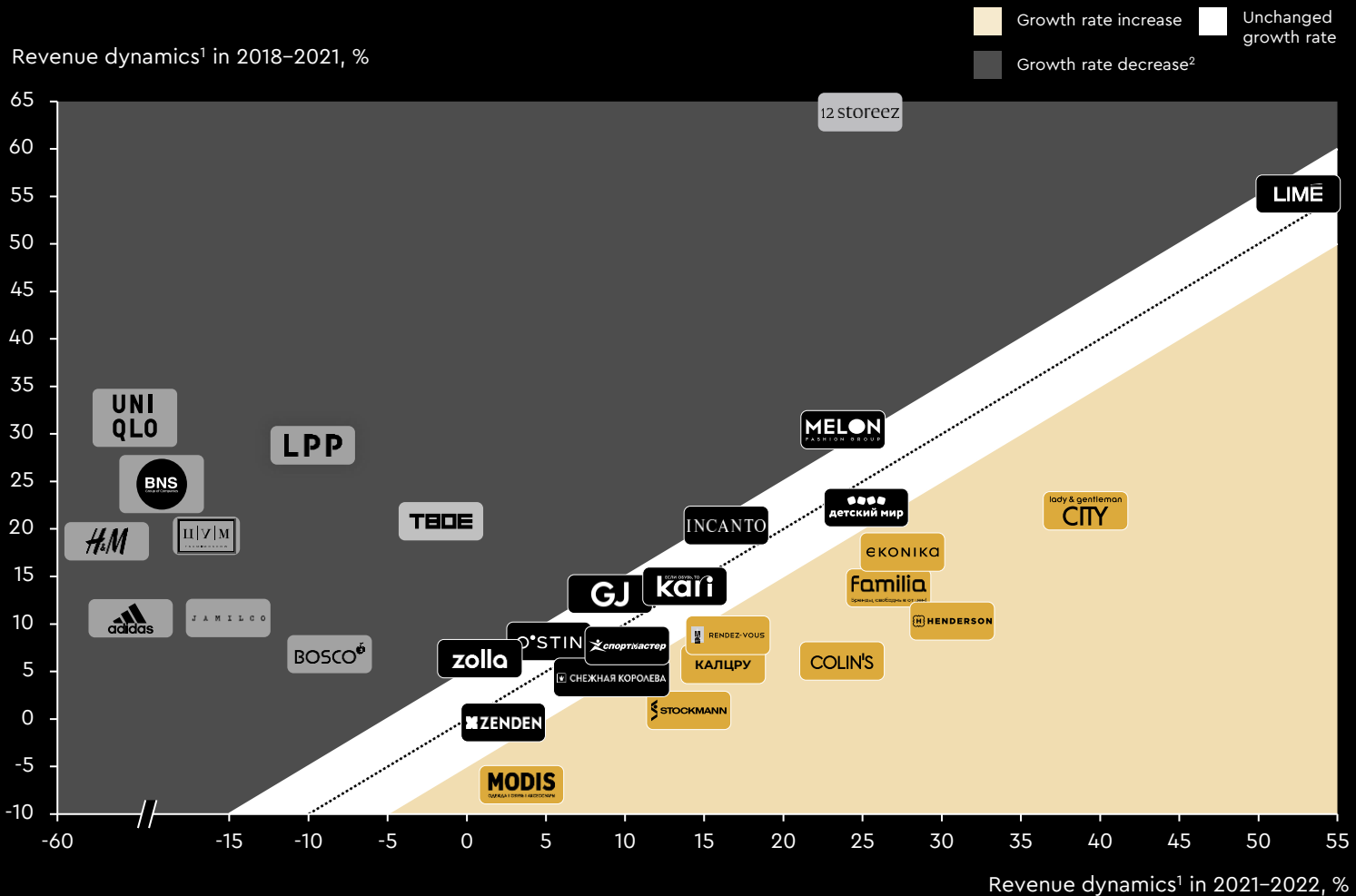
### More facts

#### 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**

# 2 Success factors for the top 30 players: an affordable product, a diversified business model, and federal coverage



## 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

lqmoda	WILDBERRIES	OZON
> 35%	> 95%	> 130%

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



# 3 Within five years, the Russian fashion market will undergo a wide range of transformational changes

## Scenario

## Scenario conditions on a 5-year horizon



- New crisis
- Significant decline in consumer demand<sup>1</sup>
- Worsening global logistics challenges
- Increased restrictions on trade, tourism and cooperation with Russia



- Moderate decline in consumer demand<sup>1</sup>
- Continued global logistics challenges
- Continued restrictions on trade, tourism and cooperation with Russia



- Minimal recovery in consumer demand<sup>1</sup>
- Less severe global logistics challenges
- Optimized production chains and cost of production
- New foreign players entering the market
- Growing tourist traffic from friendly countries



- Recovery of consumer demand<sup>2</sup> 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

## 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

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

# 3 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

⬆ Significant growth
⬆ Moderate growth
↔ No significant changes
⬇ Moderate decline
⬇ Significant decline

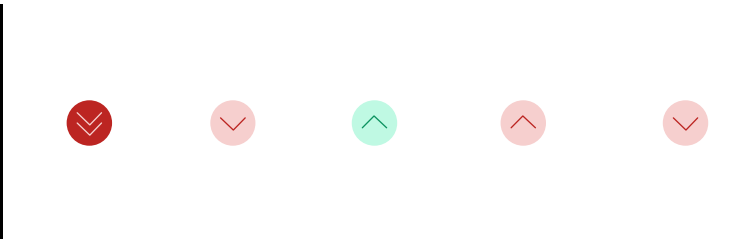
**Demand**  
 Purchasing power    Demographics    Online sales  
**Supply**  
 Production cost    Competition

## Scenario



### 01 Belt-Tightening

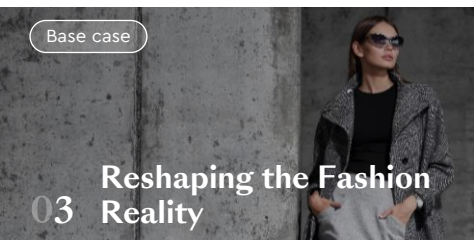
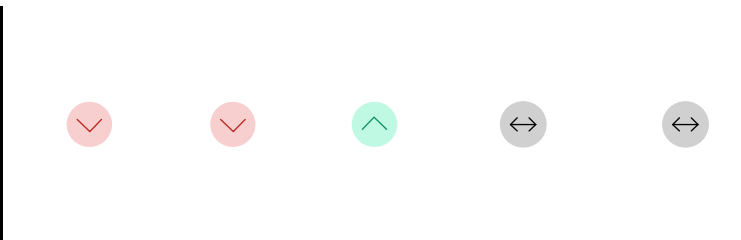
- New crisis
- Significant decline in consumer demand<sup>1</sup>
- Worsening global logistics challenges
- Increased restrictions on trade, tourism and cooperation with Russia



As of 2022

### 02 Affordable Wardrobe

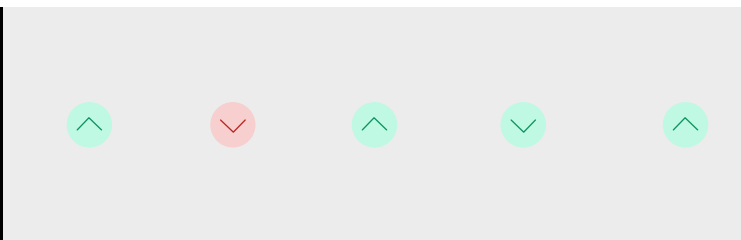
- Moderate decline in consumer demand<sup>1</sup>
- Continued global logistics challenges
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Base case

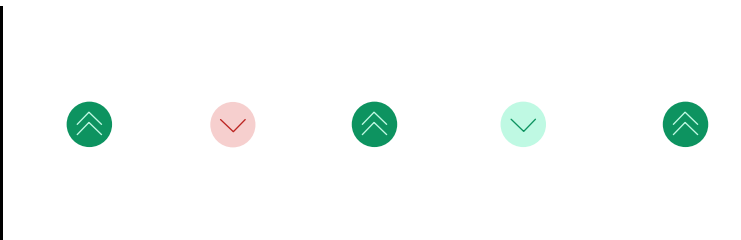
### 03 Reshaping the Fashion Reality

- Minimal recovery in consumer demand<sup>1</sup>
- Less severe global logistics challenges
- Optimized production chains and cost of production
- New foreign players entering the market
- Growing tourist traffic from friendly countries



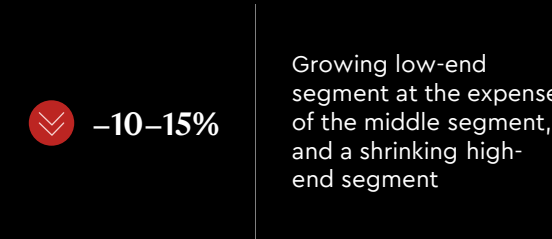
### 04 Fashion without Borders

- Recovery of consumer demand<sup>2</sup> 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



## Potential impact on a five-year horizon

Market size    Segments



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

# 3 Diversified retailers and marketplaces will be most resilient to further market turbulence

## Scenario



**Most favorable conditions** +

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**For whom**

**Large diversified Russian** retailers that mainly operate in the **budget segment**

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**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

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**For whom**

**Large diversified international** retailers with a balanced assortment in the **budget and middle price segments**

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**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** -

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**Remaining international** retailers in the **middle price segment**

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**Why**

- **Declining** market **demand** in the **middle price segment**
- **Limited opportunities to realign** the offering in line with the global positioning of the brand

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**Non-diversified retailers** that mainly operate in the **budget price segment**

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**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


## Marketplaces

**Marketplaces** are outside the **scenarios** due to their flexibility

Flexibility allows them to quickly adapt to changes in the fashion market

## Advantages of marketplaces

 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

## 01

### Domestic multi-brand retailers

- Strengthening CVP<sup>1</sup> for the mass segment and differentiation through phygital experience<sup>2</sup>
- Balance of competition and partnership with marketplaces
- Consolidation of retail space and market players
- Development of small/partner formats for remote locations/ small markets
- Reinvestment of operational efficiency in the customer (product, prices, promotion)

## 02

### Domestic niche brands

- Positioning in vacated scarce niches
- Launch of limited/ designer collections to increase margins
- Entering international markets with a wide Russian audience
- Focusing on building a community around the brand
- Placement of merchandise on marketplaces and/or offline

## 03

### Remaining international brands

- Adapting CVP<sup>1</sup> in view of the new "rules of the game" in the market
- Optimization of current and creation of new supply chains for current collections on the Russian market
- Adaptation of the pricing policy to match the customer segment's shopping capacity
- Revision of marketing tools in the context of sanction restrictions imposed by brands' HQ

## 04

### Newcomers from friendly countries

- Rapid definition of a successful go-to-market strategy (portfolio, sales channels, promotion, etc.)
- Rapid development of recognition and loyalty among local customers
- Adaptation of collections and size ranges to Russian preferences and market requirements
- Development of omnichannel customer experience

## 05

### Marketplaces

- Bringing new brands to the marketplace, including through integration with international fashion marketplaces
- Development of an omnichannel customer service model (partner and/or in-house retail, etc.)
- Launch of PLs<sup>3</sup> in different price segments
- Adapting to changes in purchasing power – increasing the number of affordable offers
- Developing mail forwarding<sup>4</sup>
- Ensuring rapid scalability

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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