



Russian economy, tourism and luxury/premium goods consumption trends

Prepared for The Duty Free and Travel Retail Global Summit

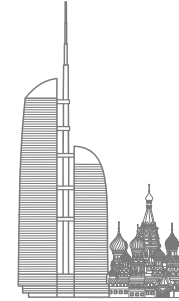
Presented by Irina Koulikova

Cannes
4th October 2016



THREE TOPICS TO COVER TODAY

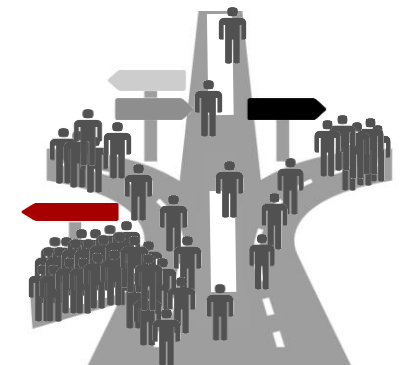
1 General trends in **Russian economy**



2 Changes in **Russian outbound travelling in 2014-16**

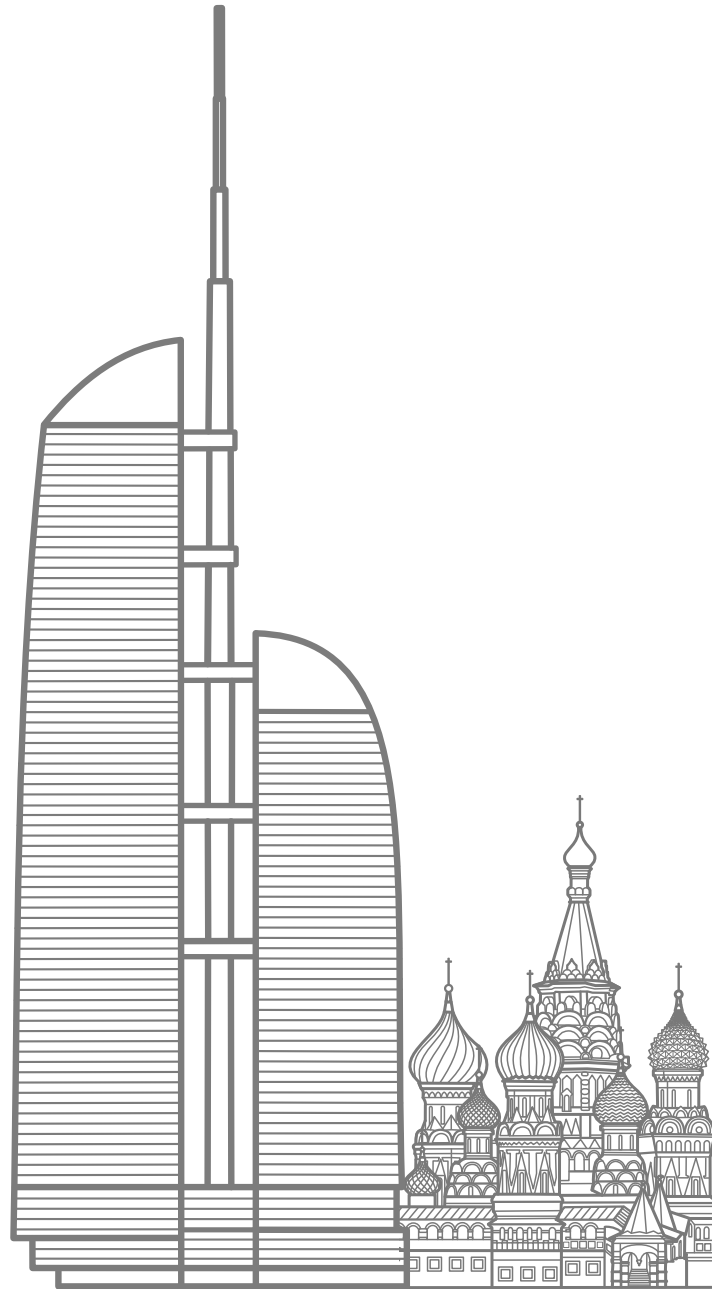


3 Trends in the **Russian consumption of luxury and premium goods**



1.

Russian macro economy outlook



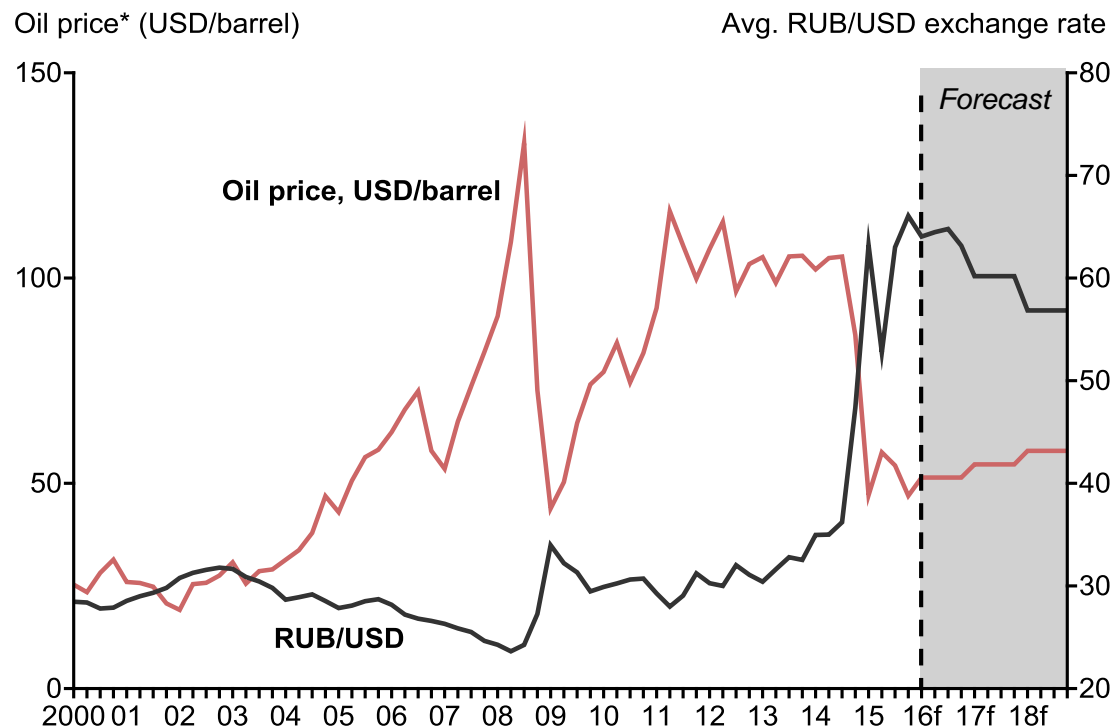
RUSSIAN ECONOMIC CRISIS IS WIDELY MENTIONED BY MAJOR PRESS IN 2014-2016



RUSSIAN ECONOMY CONTINUES TO BE HIGHLY DEPENDENT ON CRUDE OIL PRICES



SIGNIFICANT RUB DEVALUATION IN 2014-15



- **Sharp decrease of oil prices** from >100 USD/bbl in 2013 to ~50 USD/bbl in 2015 and ~30 USD in 2016
- Oil prices forecasted to stay **below 60 USD/bbl** in the midterm
- **Gradual RUB recovery** expected after 2016

Oil Price is an average of Brent, Dubai and WTI, equally weighted

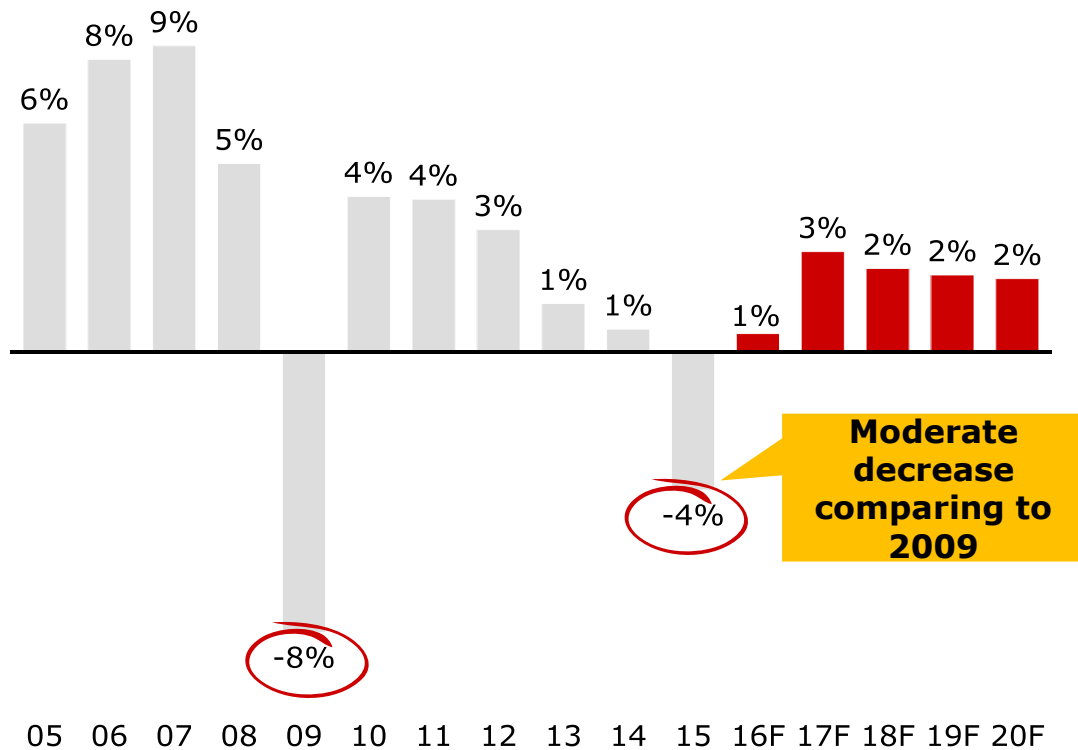
Source: Oil price: World Bank (January 2016 release); exchange rate: Economist Intelligence Unit (October 2015 release), Russian Central Bank (historical rates)



REAL GDP DECREASED BY 4% IN 2015; FORECASTED TO GROW ~2% ANNUALLY IN 2016-2020



Real GDP growth , %



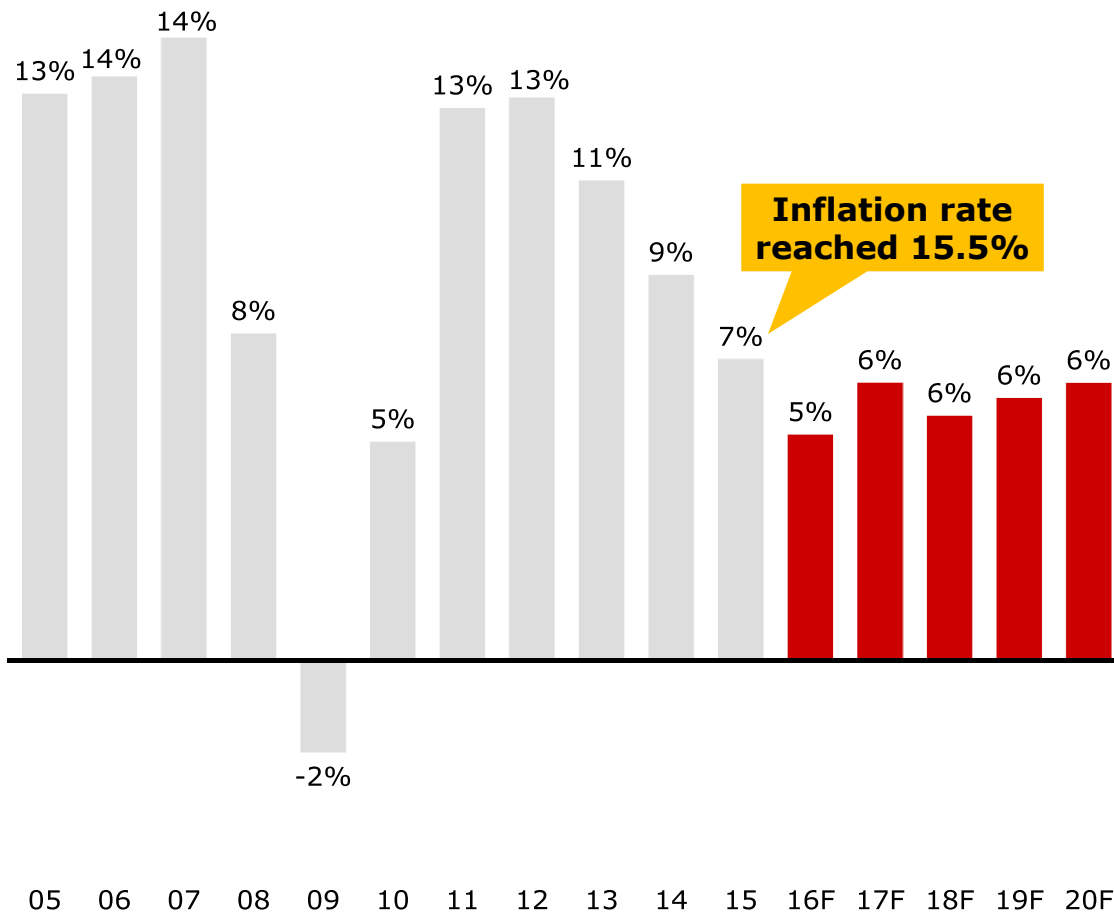
- **Real GDP decrease in 2015** mainly due to oil prices
- Forecasted **growth of 1.5-2%** in 2016-2020



GROWTH OF NOMINAL DISPOSABLE INCOME WILL SLOW DOWN JUST TO COVER INFLATION

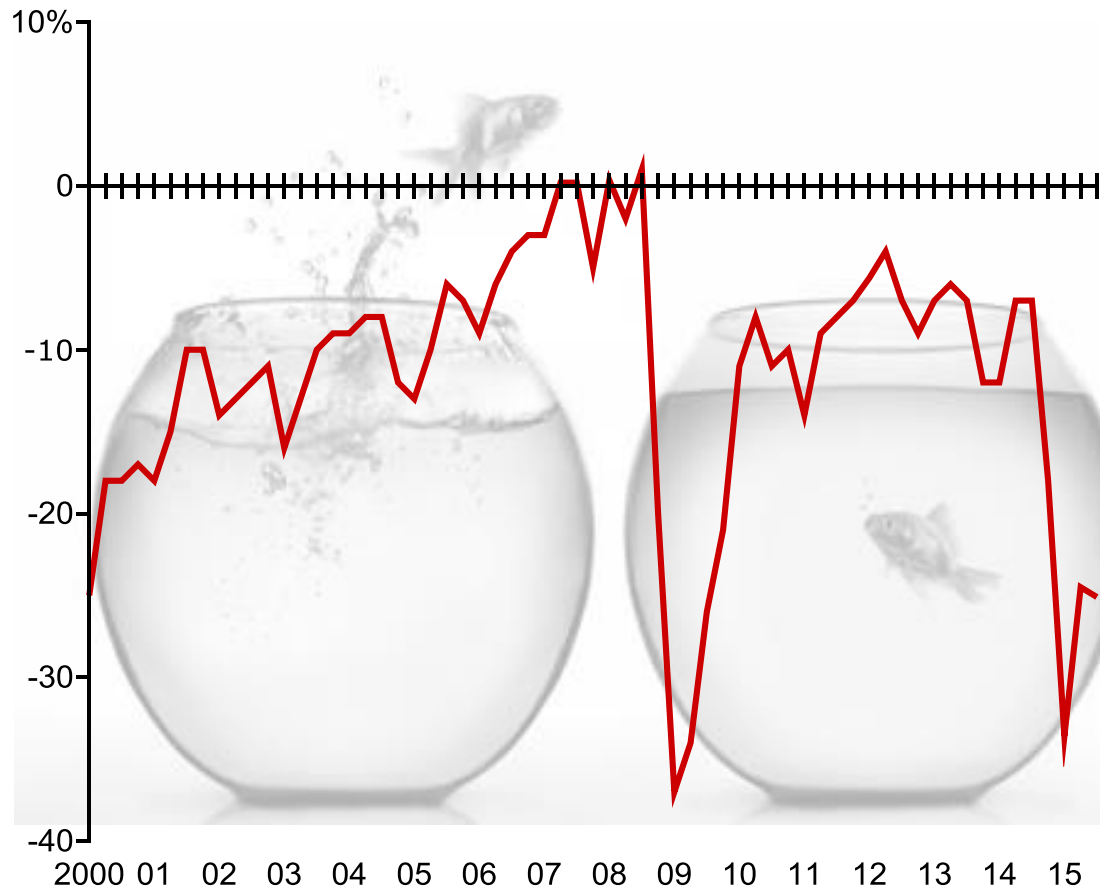


Nominal disposable income growth , %



- Russian population **real disposable income significantly decreased in 2015** due to inflation
- **Inflation rate is forecasted to stabilize at 6-7%** in 2017-2020

CONSUMER CONFIDENCE INDEX IS IN DEEP DIVE SINCE 2014 WITH MARGINAL RECOVERY IN 2015-16



— Consumer Confidence Index

- **Severe drop in 2009** after 8 years on stable upward trajectory
- **Fast recovery in 2010**, but not returning to pre-crisis levels
- Almost **reaching 2009 crisis levels in 2015** (-34% vs. -37%) after RUB devaluation in Q4 2014

Source: Ministry of Economic development, EIU, HSE forecast

2.

Russian travel market



KEY TRENDS IN THE RUSSIAN TRAVEL MARKET



1

Fall in the ruble value and a drop in the real income lead to **fewer Russians** going abroad for tourism



2

Tourist flows are redistributing due to ceased cooperation with Egypt and Turkey and other events (e.g. Transaero bankruptcy)



3

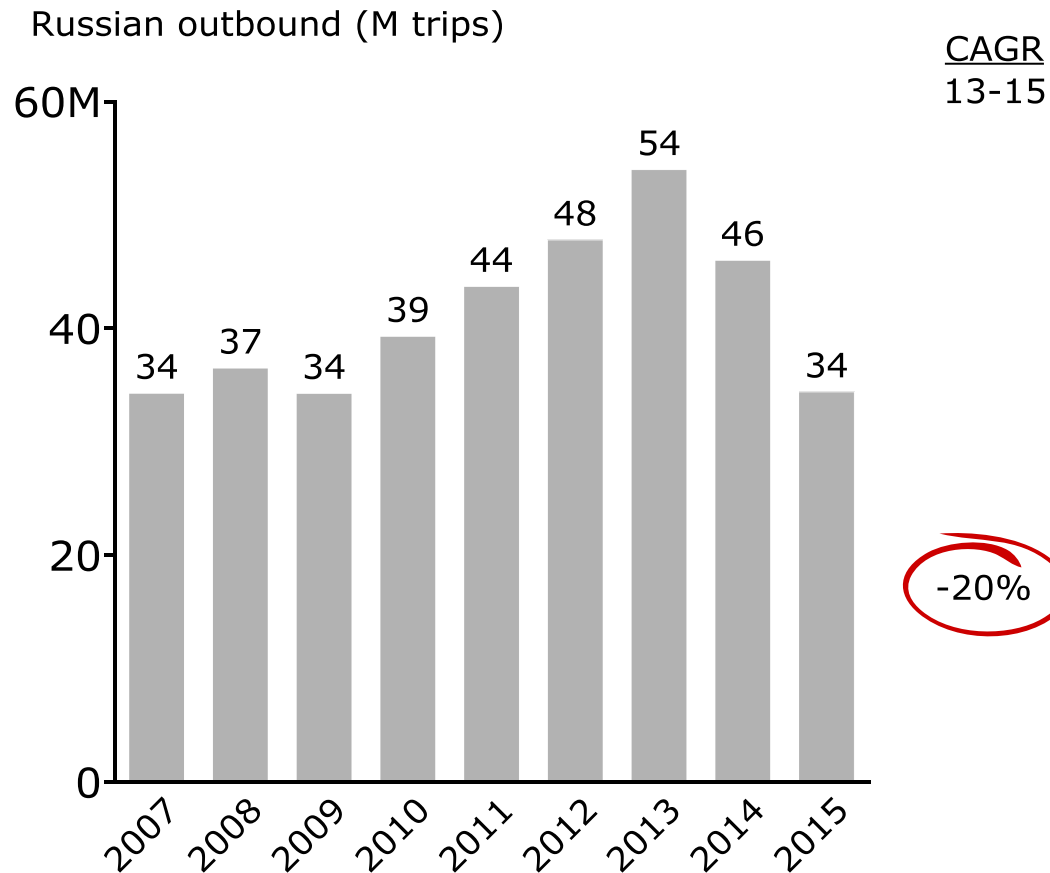
Russian tourists are shifting to domestic travel and discover new places inside the country



IN 2014-2015 RUSSIAN TRIPS DROPPED BY ~20% P.A., DECREASE CONTINUED IN 1H2016 AT SLOWER PACE ~13%

1

RUSSIAN OUTBOUND TRIPS DROPPED ON AVERAGE AT 20% PER ANNUM IN 2014-2015



DRIVEN BY WEAK RUBLE AND LOWER INCOMES

"Once Russian ruble exchange rate decreased in 2014-15 **people started to book less trips abroad**"

GM, Russian tour operator

"**Russians do less weekend trips** and prefer to choose cheaper destinations"

Manager, Tourist agency

"**Number of trips abroad in 1H2016 reached 13.2M**- 13% decrease comparing to 2015 according to Rosstat"

Interfax news, 2016



SEVERAL EVENTS IMPACTED THE CHOICE OF DESTINATIONS FOR RUSSIAN TOURISTS IN 2015-2016

2



- **Apr. 22: Employees of defence** and other government institutions **got recommendation not to travel abroad**

2014



- **Nov. 6: Russia-Egypt flights banned** by the government authorities
 - Most popular winter destination closed

2015



- **Nov. 28: Russia ceased cooperation with Turkey** in tourism
 - Tour packages are not available

2016



- **July- Sept.: Multiple bankruptcies** of Russian tour operators



- **Oct. 25-26: Avia transport. Russia-Ukraine stopped**
- **Transaero lost licence**
 - 10-15% increase in prices for most popular destinations













- **June 30: Russian government remove ban on selling tourist tours to Turkey**
 - Only regular flights, no charter flights













RUSSIAN TOURIST FLOWS IN 1H2016: **SOME COUNTRIES GAINED FROM ISSUES WITH TURKEY AND EGYPT**

2

TOP-10 DESTINATIONS, NUMBER OF TRIPS

	Abkhazia	~1.5M	↑ +21%
	Finland	~1.3M	↓ -17%
	Kazakhstan	~1.25M	↓ -12%
	Ukraine	~0.8M	↑ +8%
	China	~0.7M	↑ +45%
	Estonia	~0.7M	→ 0%
	Poland	~0.6M	↓ -11%
	Germany	~0.6M	↓ -11%
	Thailand	~0.44M	↑ +24%
	Spain	~0.32M	↑ +15%

NEXT 11-20 DESTINATIONS, NUMBER OF TRIPS

	Cyprus	~0.31M	↑ +50%
	Italy	~0.31M	↓ -2%
	Lithuania	~0.3M	↓ -8%
	Georgia	~0.3M	↑ +21%
	Azerbaijan	~0.27M	↓ -1%
	Greece	~0.26M	↑ +22%
	UAE	~0.24M	↓ -2%
	Tunisia	~0.19M	↑ +700%
	Bulgaria	~0.18M	↑ +24%
	France	~0.18M	↓ -6%

Source: Rosstat, Lit. Search



SOME **EUROPEAN COUNTRIES** LOST TOURIST FLOWS DUE TO STRONG EURO...

2

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Source: Rosstat, Lit. Search



...WHILE **OTHERS GAINED REPLACING TURKEY AND EGYPT** AS THE SPRING-SUMMER TOURIST DESTINATIONS

2

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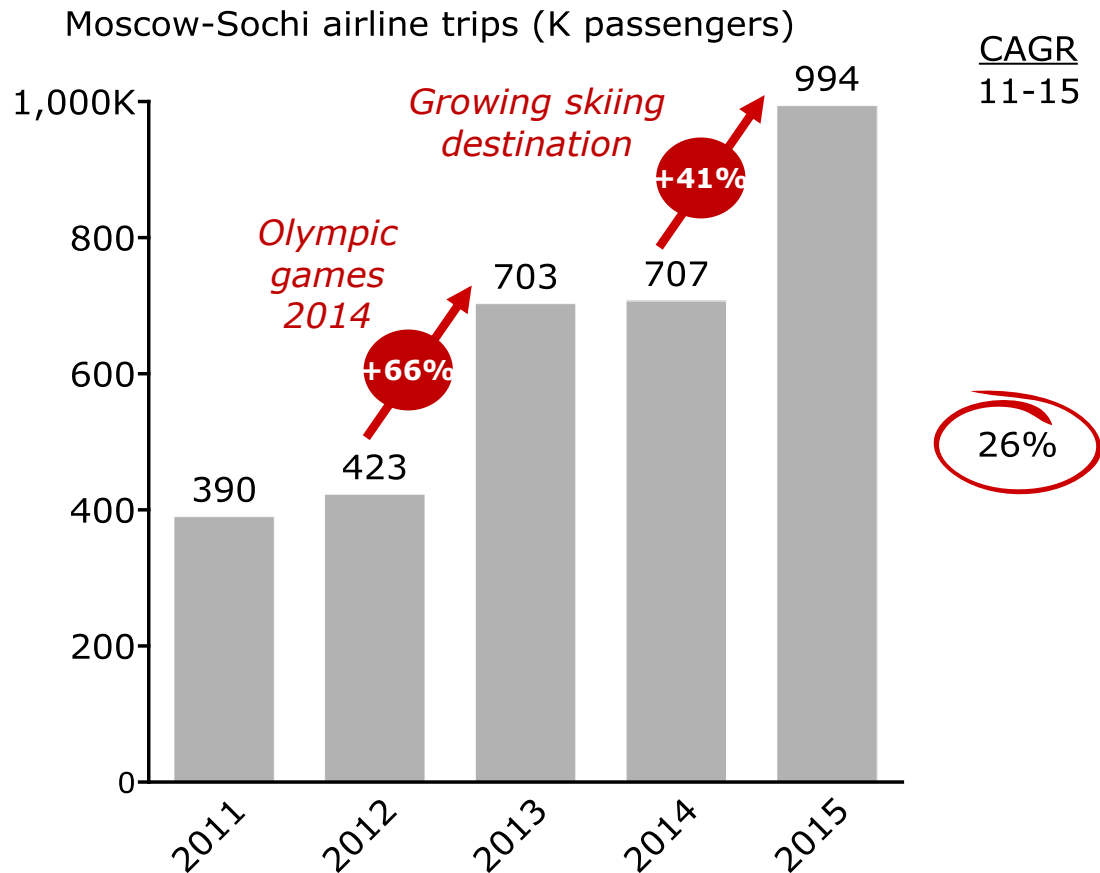
 Bulgaria ~0.18M  +24%



RUSSIAN TOURISTS **SHIFT TO DOMESTIC TRAVELLING**

3

NUMBER OF PASSENGERS FLYING TO SOCHI INCREASED BY ~40% IN 2015



OTHER DESTINATIONS ARE GETTING POPULAR AS WELL

*"At the beginning of 2015 2050 Russian tour operators provided tours abroad, by the end of the year the number decreased to 717. Many **companies switched to offering tourist services in Russia**"*

Russian Tour Operators Association, 2016

*"Head of Rosturizm announced that **in 1H2016 more than 1.5 million Russians visited Crimea** (20% increase comparing to last year); 4.6M people went to Krasnodarkiy Krai, **Far East is also getting popularity** among Russian tourists"*

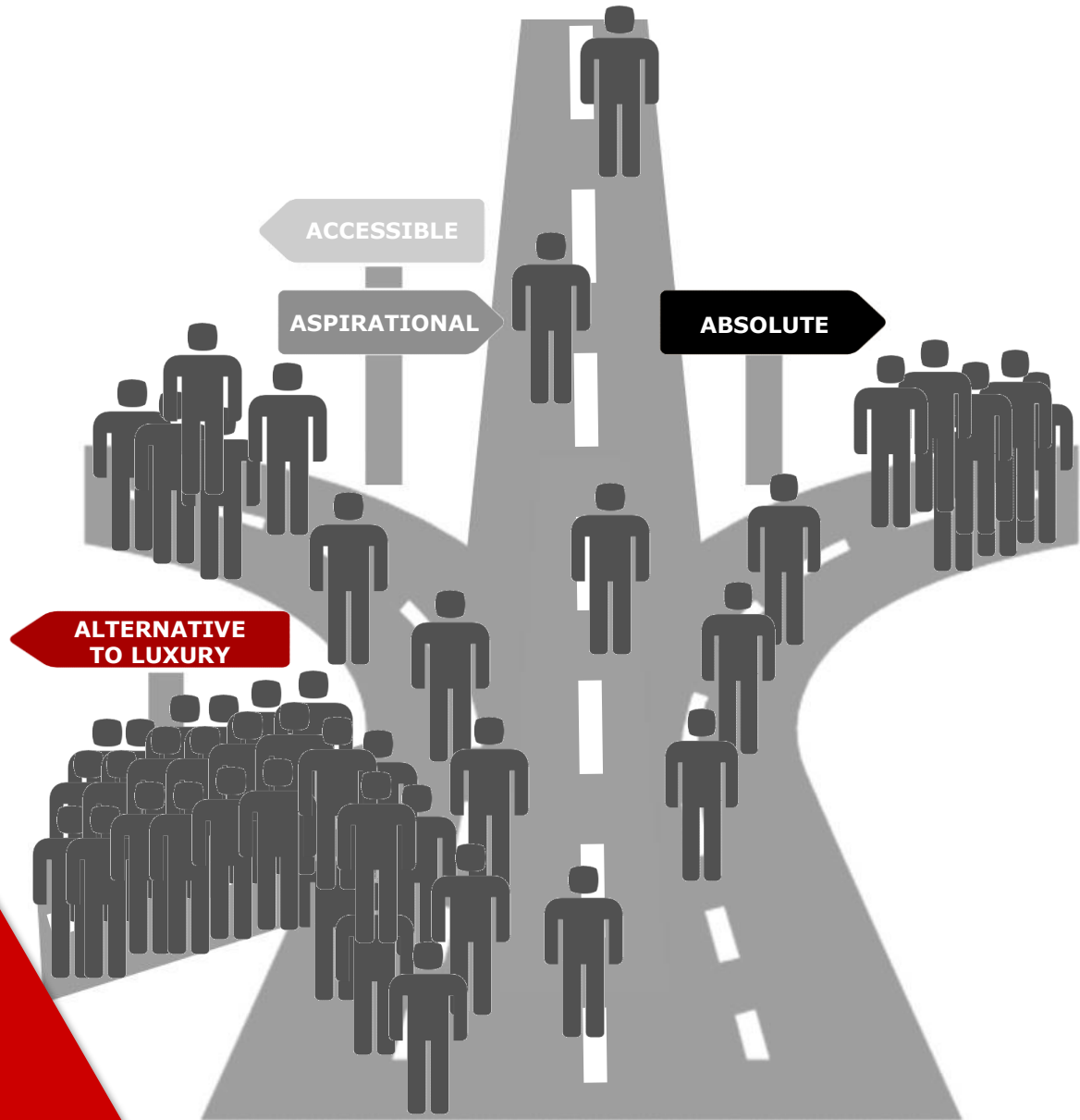
Federal news agency, July 2016



Source: Domodedovo airport presentation, expert interviews, Lit. search

3.

Luxury &
premium goods
consumption



CRISIS DIDN'T IMPACT ULTRA RICH, BUT **CHANGED** HIGH/MID INCOME CUSTOMER'S BEHAVIOUR

ultra rich customers

- **Didn't change shopping behavior** and continue to buy luxury brands
- **Civil servants began to buy more in Russia** due to the ban on travelling abroad
- **Continue travelling abroad** for business and leisure **without limitations** (except for those limited by sanctions)

High & middle income professionals

- **2015 - most difficult year** in terms of spending – lost in real disposable income and high uncertainty in future revenues
- **Getting used to new prices but remain highly price conscious** and look for better deals (lower price retail channels (online), seasonal sales)
- **Carefully make decisions on what is really needed** (e.g. buy classic clothing and postpone or refuse some expensive products)
- **Travel more in Russia and buy from local designers** (growing trend, although still not significant enough)

Source: Expert interviews, Bain analysis



SELECT MARKETS DEMONSTRATE SIMILAR TREND OF BUYING BEHAVIOUR RATIONALIZATION

Apparel, shoes, bags



- **Decrease in quantity** of purchased items
 - Middle income customers reduced or postpone luxury goods purchases and redistribute budgets towards more affordable brands
 - Ultra rich individuals continue to buy expensive luxury, positive impact of civil servants spending in Russian market
- **Customers spend time in the internet, compare prices** and buy through less expensive channels (e.g. online)
 - Price adjustments in Russia to better reflect European pricing (e.g. Milan prices at TSUM)

Diamond jewelry



- **Diamond jewelry consumption is decreasing:**
 - People are buying less diamonds and replace diamonds with other less expensive equivalents
 - Quality of diamonds is less important than total carats and price
- **Engagement rings is the only growing segment** in the market

Cosmetics & perfumery

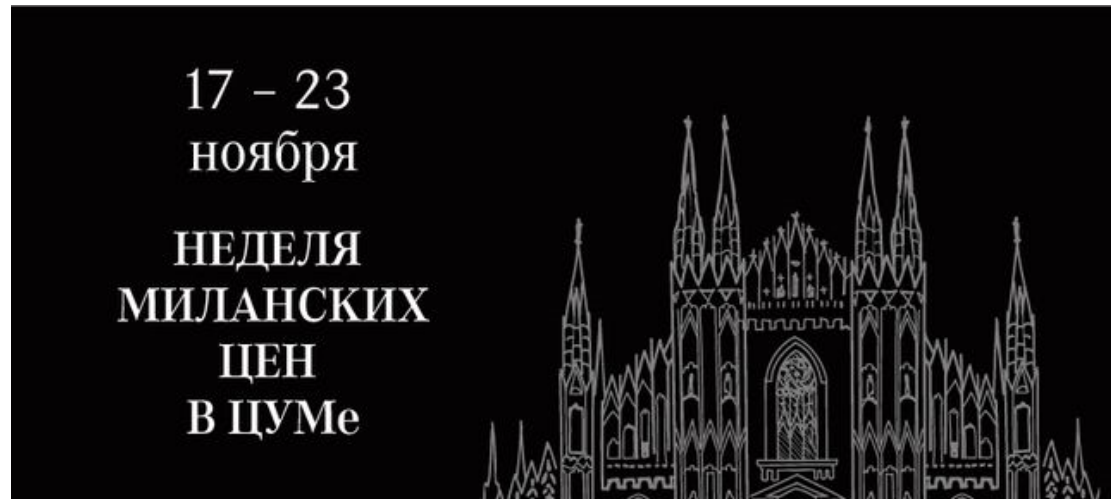


- **Decrease in volume** of purchases – people are **buying less and mainly necessary products**
- **Preference for branded products** (international brands) remains
- **Rational behavior:** high level of knowledge, “value for money”
- Consumers prefer to **buy premium products on promo/sales or through cheaper channels** but do not actively switch to lower price segments

Source: Expert interviews, Bain analysis



MILAN PRICES AT TSUM: MOSCOW LUXURY DESTINATION ADVERTISING CAMPAIGN



МИЛАНСКИЕ ЦЕНЫ
НА ВСЁ!!!




SAINT LAURENT

Цена в Санкт-Петербурге
55 450 РУБ (652 EUR)

Милан 650 EUR
Лондон 706 EUR (540 GBP)

DOLCE & GABBANA

Цена в Санкт-Петербурге
67 450 РУБ (794 EUR)

Милан 795 EUR
Лондон 908 EUR (695 GBP)

МИЛАНСКИЕ ЦЕНЫ
НА ВСЁ!!!
MILAN PRICES
米兰的价格



Dolce & Gabbana

Цена в Санкт-Петербурге 87 350 РУБ (1 149 EUR)

Милан 1 150 EUR - Лондон 1 274 EUR (995 GBP)
Дубай 1 535 EUR (6 370 AED)

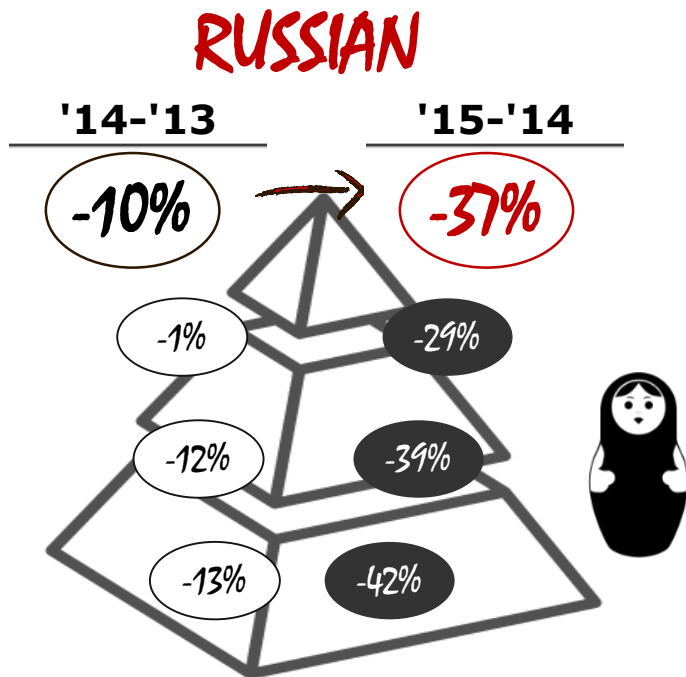
*Цены указаны в российских рублях с учетом НДС. Информация об официальных источниках на 01.10.2016 г. не дана.
1 Евро (EUR) = 70 рублей, 1 фунт стерлингов (GBP) = 15 долларов (USD). Все цены указаны с учетом НДС.
Для ценообразования использовались данные из открытых источников. Не являются официальными данными. Товары могут быть в наличии.

Source: Lit. search, Bain analysis



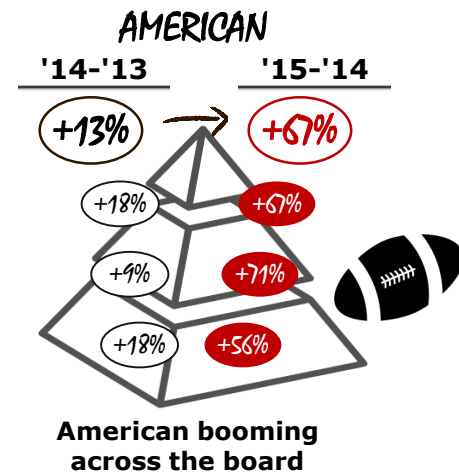
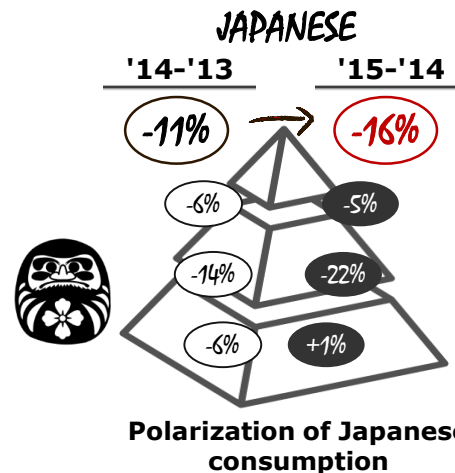
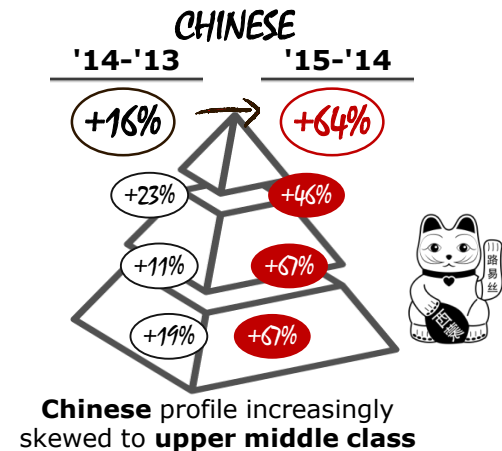
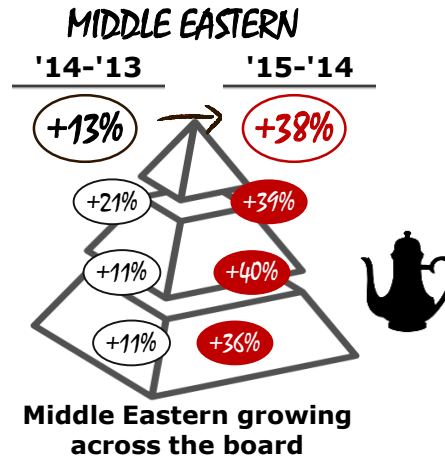
BAIN & GLOBAL BLUE RESEARCH in 2015: **RUSSIANS ARE DISSAPPEARING FROM GLOBAL MAPS**

EUROPEAN TAX FREE SHOPPING TREND BY NATIONALITY ('15 vs. '14)



Overall contraction, despite average ticket increase

Absolute
Aspirational
Accessible



Contact details



Irina Koulikova
Manager, Bain & Company
email: irina.koulikova@bain.com

Irina Koulikova is a **Manager in the Moscow office of Bain & Company**, one of the leading international strategic consulting firms. With several years in strategic consulting, she has **worked on multiple projects in luxury retail, beauty products and FMCG**. Her previous experience also includes several years in industry, including trade marketing in L’Oreal, as well as start-up online fashion retail in South Africa.

Irina holds an **MBA degree from INSEAD**, and two master degrees in Economics and Finance from the Higher School of Economics in Russia and from the University Paris 1 – Pantheon Sorbonne in France.

Irina was a **President of Retail, Consumer and Luxury goods club in INSEAD** helping to connect the students with top luxury manufacturers and retailers (incl. LVMH, Gucci, Richemont SA). She also **co-authored a book “Luxury brands in emerging market”** edited by G. Atwal and D. Bryson in 2014 and several articles focused on luxury consumption in Russia.

Irina has **worked and lived in several countries, including Russia, Ukraine, France, Singapore, UK and South Africa**, and speaks fluent Russian, English and French.