Consumer Behaviour in Russia

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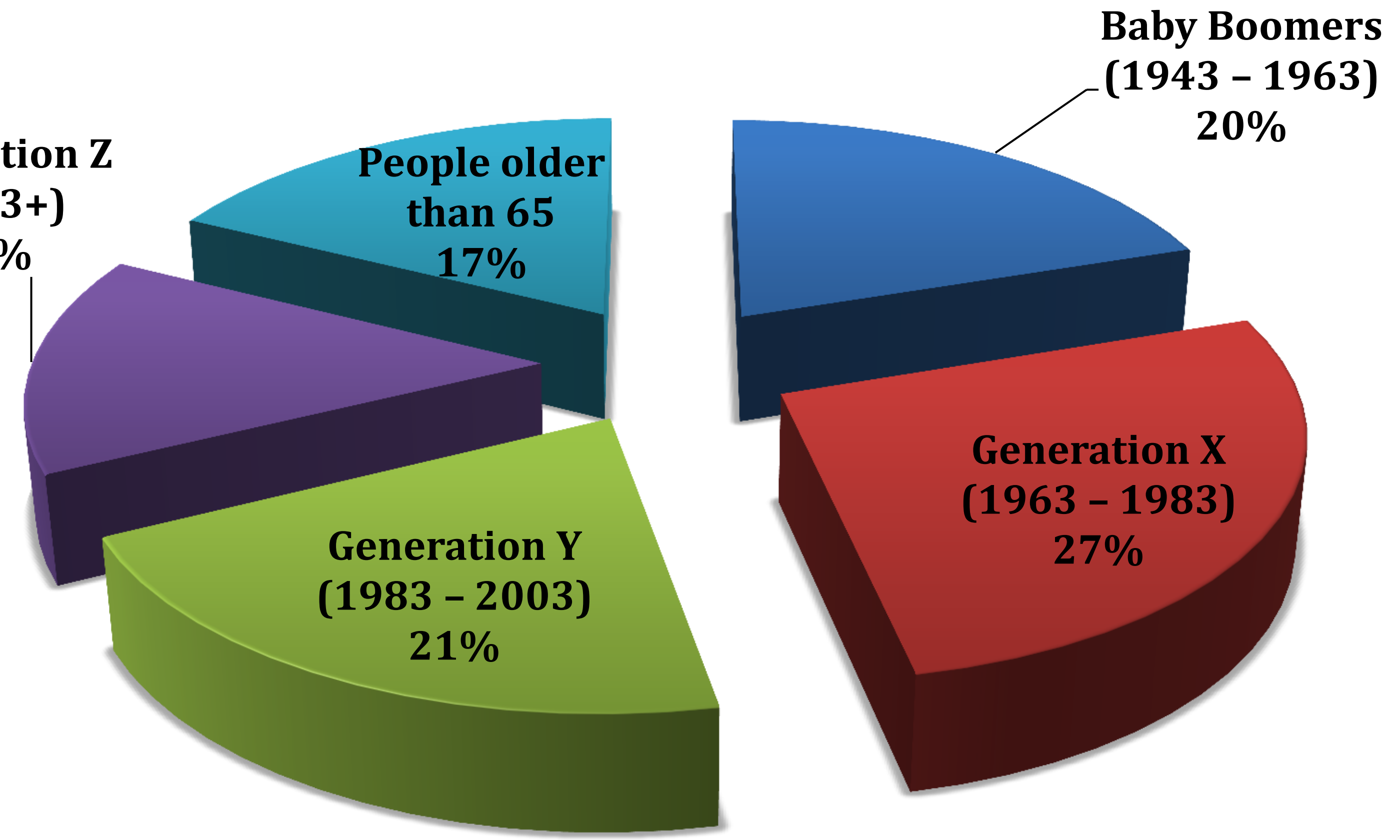
Content of the Presentation

- Different Generations of Russian Consumers
- Primary Consumption Styles
- Russian Consumers vs. the Rest of the World
- Regions versus Large Cities
- Trends in the Russian Consumer Market
- Digitalization of Russian Consumers

Different Generations of Russian Consumers

Generation	Period	Events in the US	Events in Russia	Other designations
G.I.	1900-1923	First World War and end of isolationism	First World War, Revolution and Civil War, NEP	Greatest generation / Generation of victors / Generation of heroes
Silent Generation	1923-1943	Great Depression and beginning of Second World War	First 5-year plan, industrialization, repression and collectivization, beginning of the Great Patriotic War	Broken generation / Lost generation
Baby Boomers	1943-1963	End of Second World War and post-war expansion, Cold War, Carabbean Crisis and beginning of Vietnam War	End of the Great Patriotic War and beginning of Cold War, Krushchev thaw, Gagarin's space flight, Carabbean Crisis	Boomers / Generation of demographic explosion
X	1963-1983	End of Vietnam War, power crisis, world crisis, disengagement	Period of stagnation, African War and Summer Olympics in Moscow	Unknown generation / Thirteenth generation / Latch-key kids
Y	1983-2003	End of Cold War, American global leadership, 9/11	Chernobyl disaster, perestroyka, transition from socialism to capitalism, default, terrorist acts	Generation network / Millenium generation / Noughties / Generation Next
Z	2003+	Intervention of international coalition troops in Irak, global financial crisis	Global financial crisis	Digital generation / Generation XD (Digital children of generation X)

Share of Total Population %



Primary Consumption Styles

7 Types of Russian Consumers

Innovators

Achieved

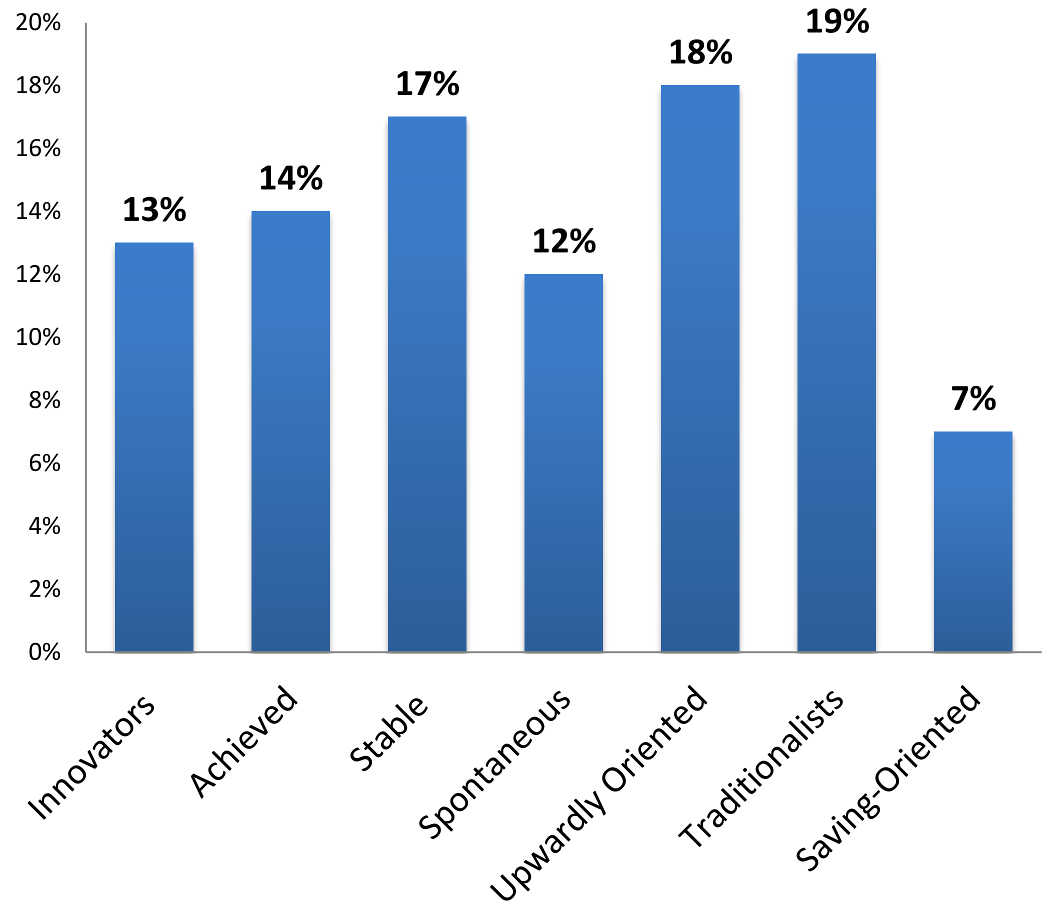
Stable

Spontaneous

Upwardly Oriented

Traditionalists

Saving-Oriented



Innovators (13%)

- High consumption potential
- Focus on novelty, as well as reliability, product quality, health care and active leisure
- Enjoy life (concerts, theatres, exercise)
- Travel in search of new sensations and adventures
- Social status is an important factor so they still prefer quality products of famous brands; favourite and trusted brands
- Do not lose optimism, confidence and self-confidence (48% under the age of 30)

"I am sure I can always provide for my family”

Achieved (14%)

- High consumption potential
- Continue fulfilling their consumer needs
- Focus on reliability, product quality and health care
- To meet their consumer needs, continue using traditional quality products and do not pursue novelty
- Most are sensitive to changes, regretting the destruction of established habits
- Still select famous brands, but from the mid-price range
- Ready to visit several stores to find the best deals; discounts are an important factor
- Avoid risks in their life and choose well-established brands

Stable (17%)

- Consumption potential slightly above the average
- Traditional consumer behaviour
- Focus on reliability, product quality, but choose cheaper options.
- Not interested in novelties as such
- Inclined to purchase famous and established brands
- Started to stick to a strict purchase plan and leisure activities to maintain usual quality of life (favourite brands, natural products and healthy food)
- Shop only when necessary and avoid spontaneous purchases
- Value simplicity and brand continuity

Spontaneous (12%)

- Average consumption potential
- No any pronounced consumer preferences
- Consumer behaviour is spontaneous and impulsive
- The most important factor is time
- Minor changes in leisure, but not change in format (prefer active leisure)
- Still take into account special offers, advertising
- Rarely forego favourite things (for example, food) for the sake of saving money

Upwardly Oriented (18%)

- Low consumption potential
- Focus on more prestigious consumption
- Prestige is more important than reliability and product quality
- Income above the average / around 30 years old / single – self-reliant people confident in themselves and the future
- Continue buying advertised and new products
- Reasonably involved in leisure activities (theatres, concerts) and can also easily reduce the frequency of their visits
- Visit stores in search of discounts (limited by time) and happily purchase over the internet
- As previously, not ready to spend a lot of time purchasing

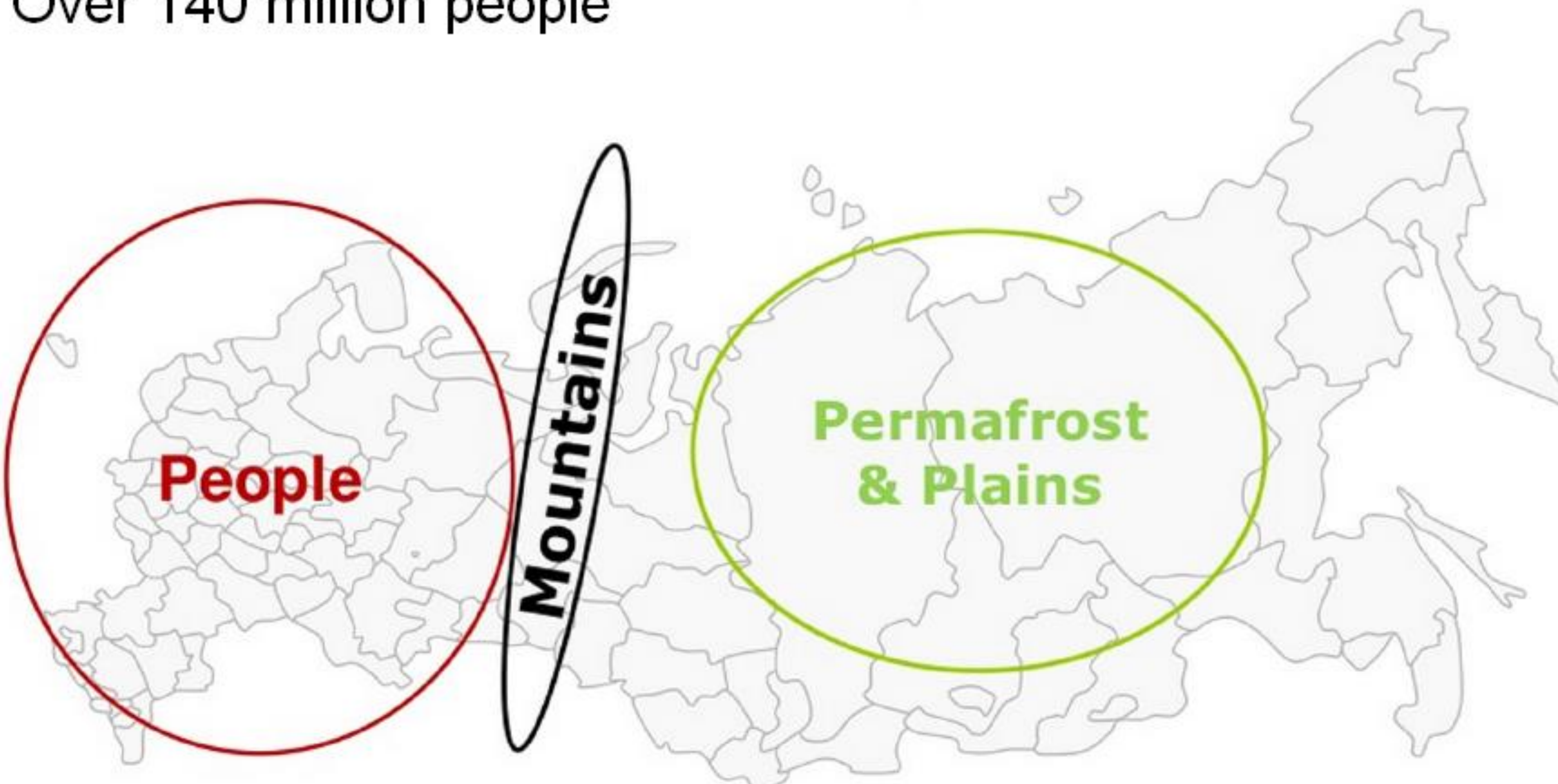
Traditionalist (19%)

- Low consumption potential and focus on traditional values
- Least affected by changes
- Still choose traditional, established products
- Do not chase after novelty and advertised products
- Local buyers purchasing in “Soviet” retail structures and discount stores, such as “Pyaterochka”
- More inclined to buy for future than for everyday consumption
- Moderate leisure involvement; cheap hobby
- Usually pensioners and people with low-income

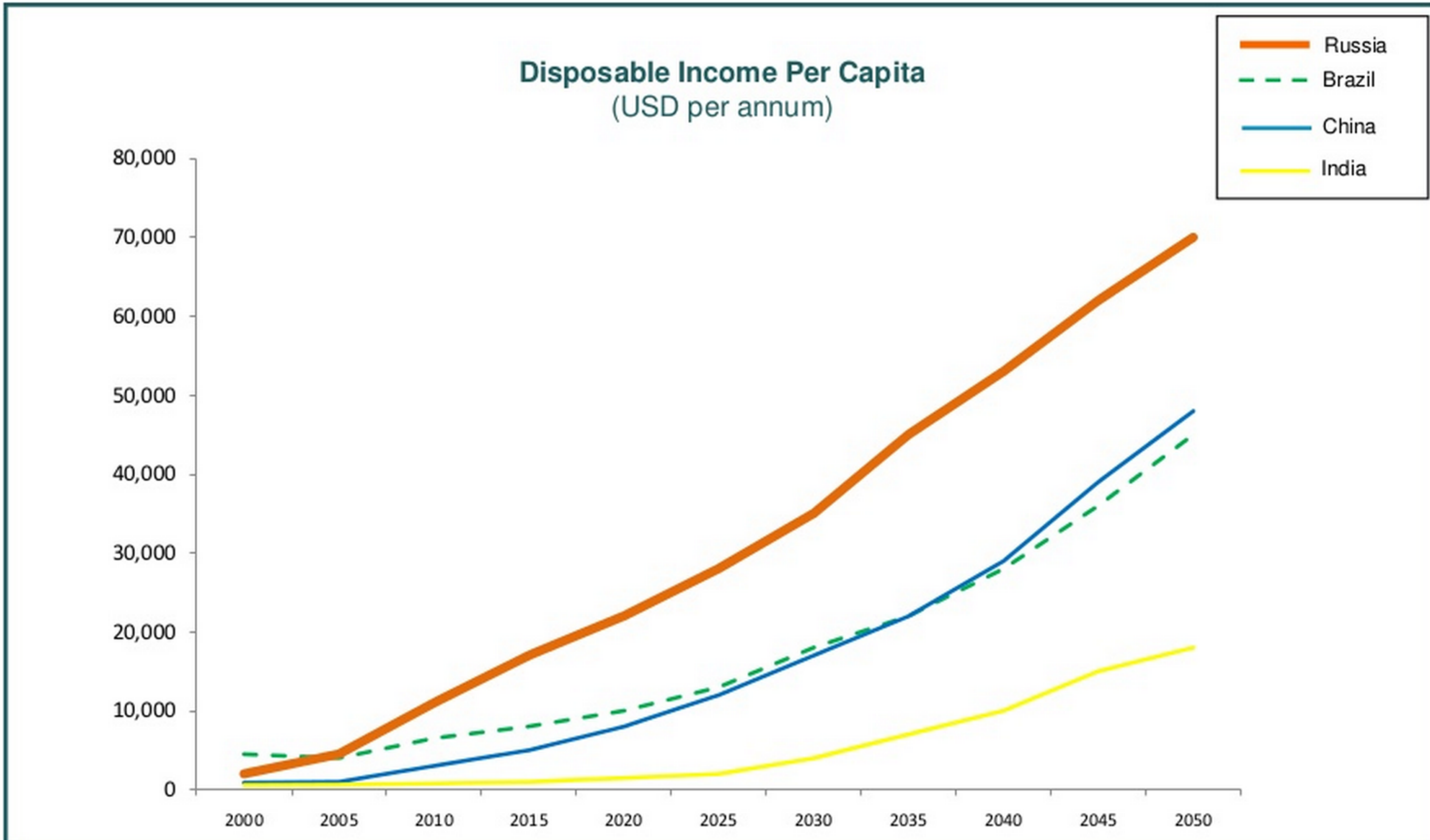
Russian Consumers versus the Rest of the World

80% Population in West … East Largely Uninhabitable

Over 140 million people



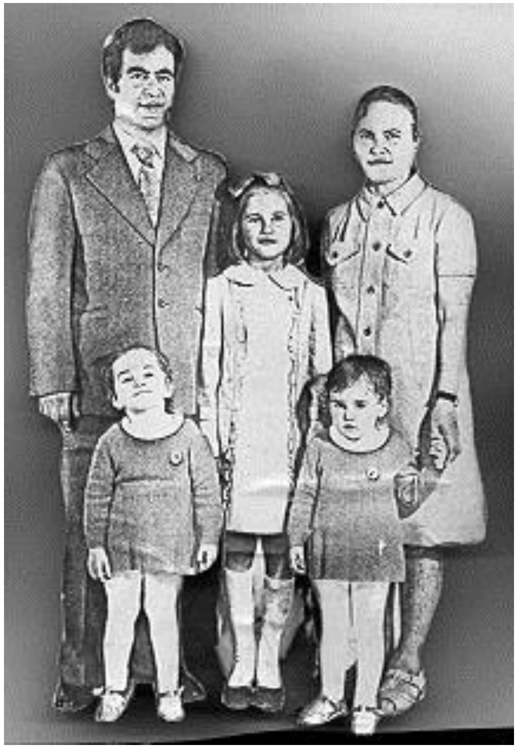
Per Capita Disposable Income Growing at Average 6% Per Annum



SHARE OF MONEY INCOME IN RUSSIA BY INCOME TIER 2012

Average of one person has 21 sq. of living space (in Japan this is 32-34)

Almost 50% of Russians have a car, but half is more than 10 years old



Food takes an average of 32% of the income of Russian family (in Europe 15-20%)

Russians buy new car every 8-12 years, Europeans 5-6 years

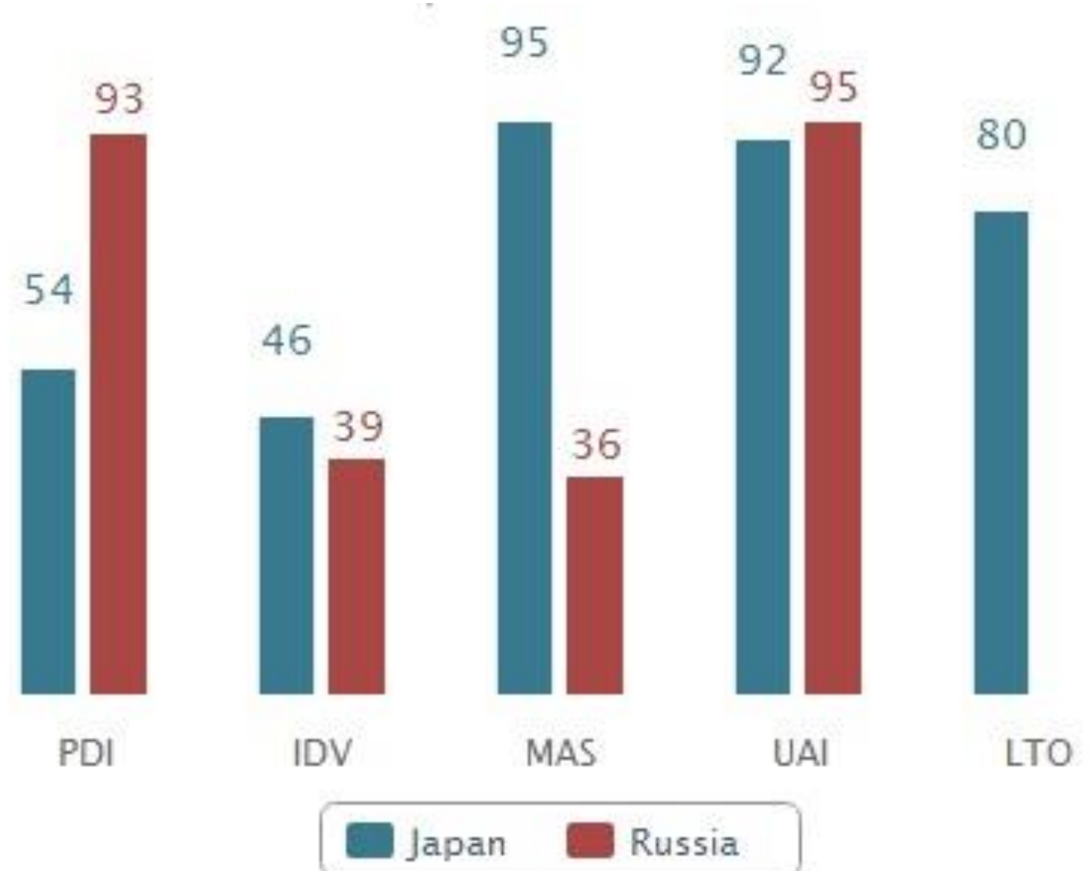
Russians renew their mobile phone every 3 years (Europeans 2 years)

In Russia men are more active in shopping than in the developed countries, however, range of products designed for men is less in Russia

Male life expectancy in Russia is 59 years old, whereas in Brazil it is 68 years old

Hofstede's Cultural Dimensions

Power Distance = PDI
Individuality = IDV
Masculinity = MAS
Uncertainty Avoidance = UAI
Long Term Orientation = LTO



Consumer Market = Cities

- Russia has about 140 million inhabitants
- 73% of inhabitants live in urban space
- Size of country and weak infrastructure = most urban space is province = difficult for retailers to explore
- Moscow & St Petersburg: Western-oriented, income 2 x national average
- In rural areas, standard of living is much lower (involves own cultivation of food) – but point out that it is growing fast, etc.

Russian Consumers vs. The Rest of the World

- Domestic consumption contributes more than 60 % of the economic output and is the main driver of growth
- By far the largest of the BRICs which include Brazil (31 percent), China (13 percent) and India (3 percent)
- Russia will maintain the highest GDP per capita of all of the BRICs
- Russian consumers have no significance debt
- The average mortgage debt in Russia is negligible (€130 per person) compared with €12,370 in the Eurozone and €26,040 in the USA

General Characteristics

- Reluctance of Russians to borrow in the past changing → interest rates declining to more affordable levels
- Russian incomes have risen significantly
- The average monthly income, was less than US$200 per month in 2003
- This is now more than $1,000 per month
- Low personal income tax (flat) rate at only 13% + very little debt = Russians have very high levels of disposable income

General Characteristics

- Russia leads the whole of Europe in the sale of key consumables
  - Pharmaceuticals
  - Mobile phones
  - Broadband
  - Beer
  - Retail sales in Moscow now exceed Paris and London
- Russia is expected to be the largest consumer market in Europe by 2025
- Russians are travelling and spending a significant amount of money overseas
- Russians spend on average US$1,000 per head on their holidays and 72 % of tourists pay for their holidays in cash!
- Men tend to pay more for goods, especially if they are designed specifically for them (47% vs. 40 % among women).
- Men are more likely than women to pay attention to the brand (51 % vs. 43 %) and more likely to try new products (40 % vs. 34 %)

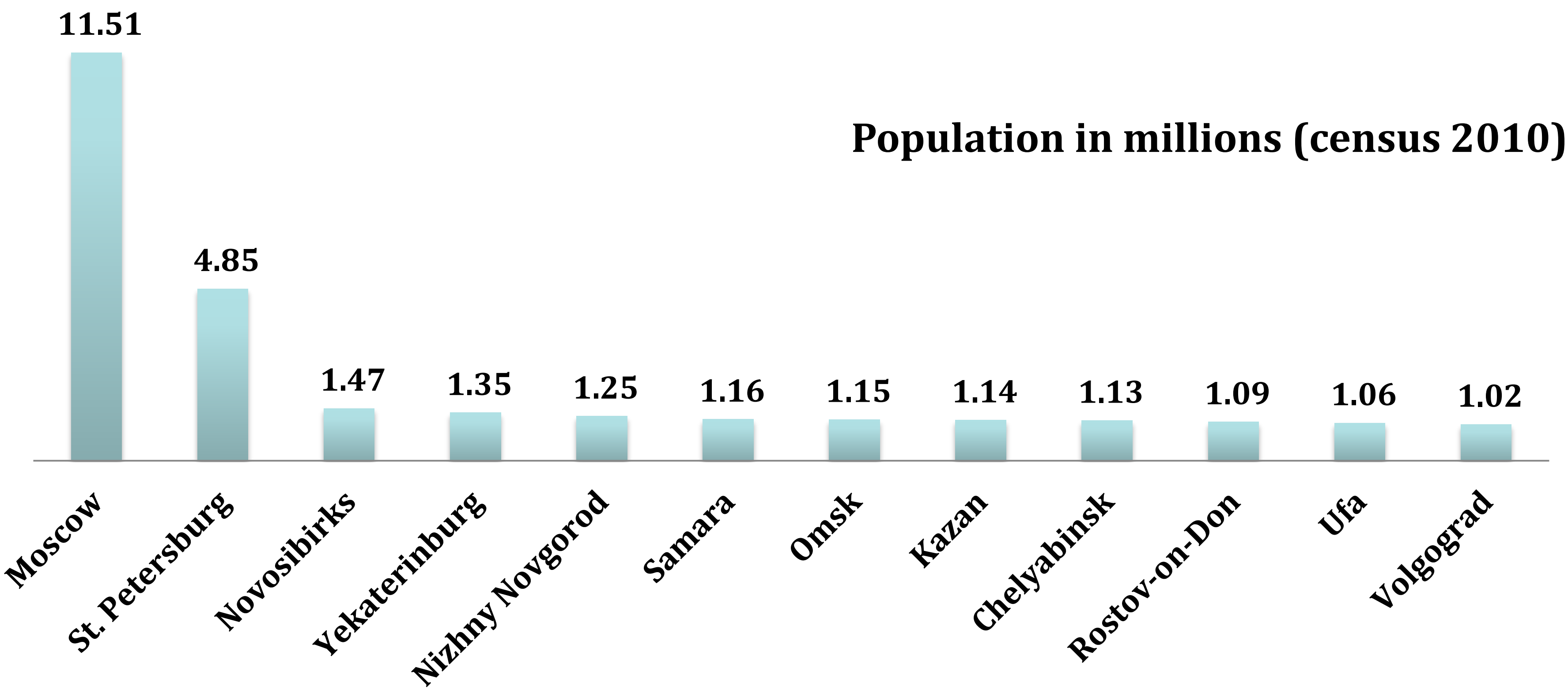
General Characteristics

- Russians are well educated, demanding and skeptical in relation to the information provided
- Example: Russian consumers read the labels on shampoos more than any other in the world. → 45% of Russian women have higher education degree
- Russian consumers have very strong loyalty to premium brands
- Level of luxury consumption is very high, and not only by the wealthy class
- Russians are slow to trust new companies and won’t easily divulge their credit card details
- Russian consumer is not as developed and accustomed to e-commerce as the Western one (Moscow is different)

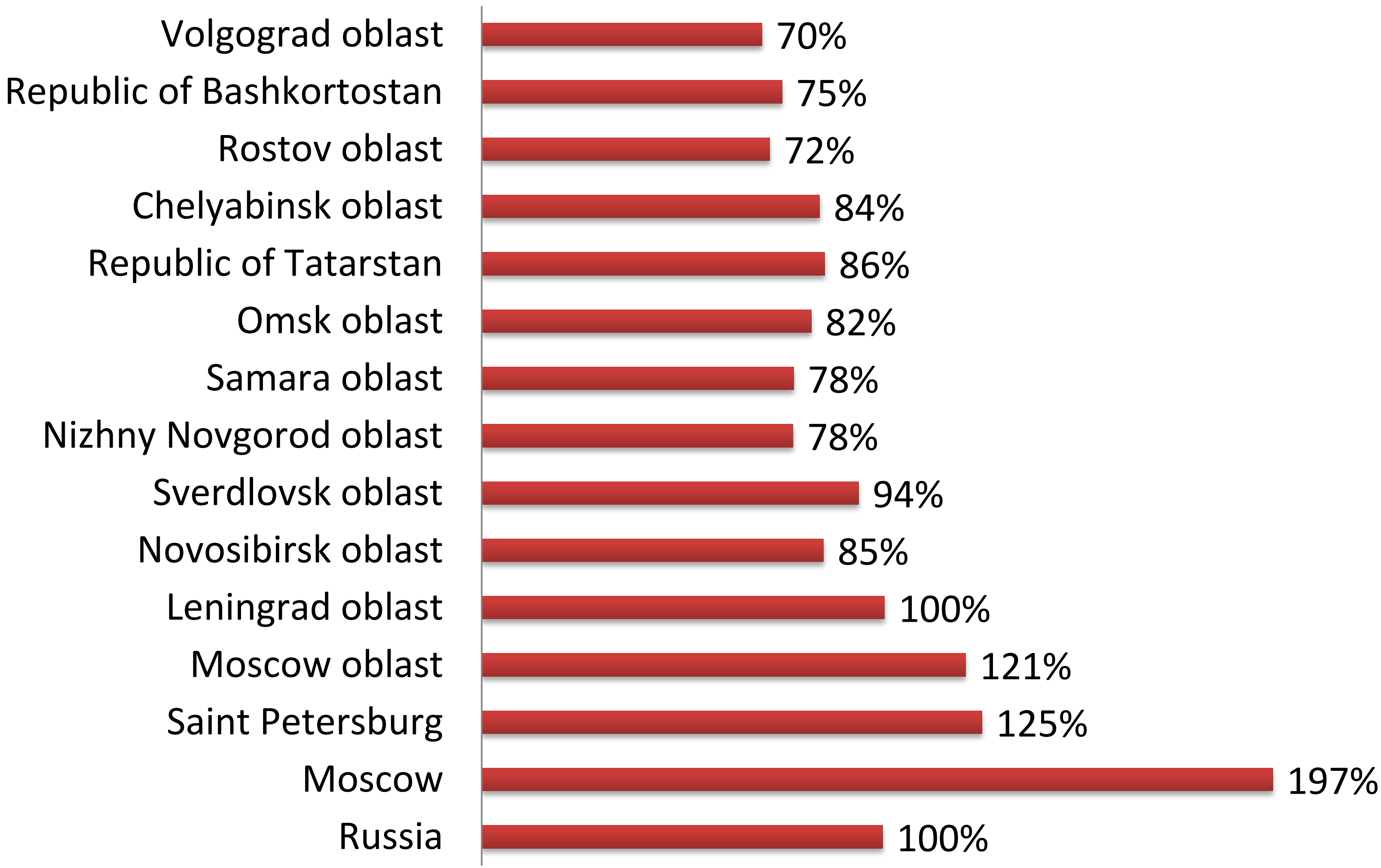
Regions versus Large Cities

12 Million Cities in Russia

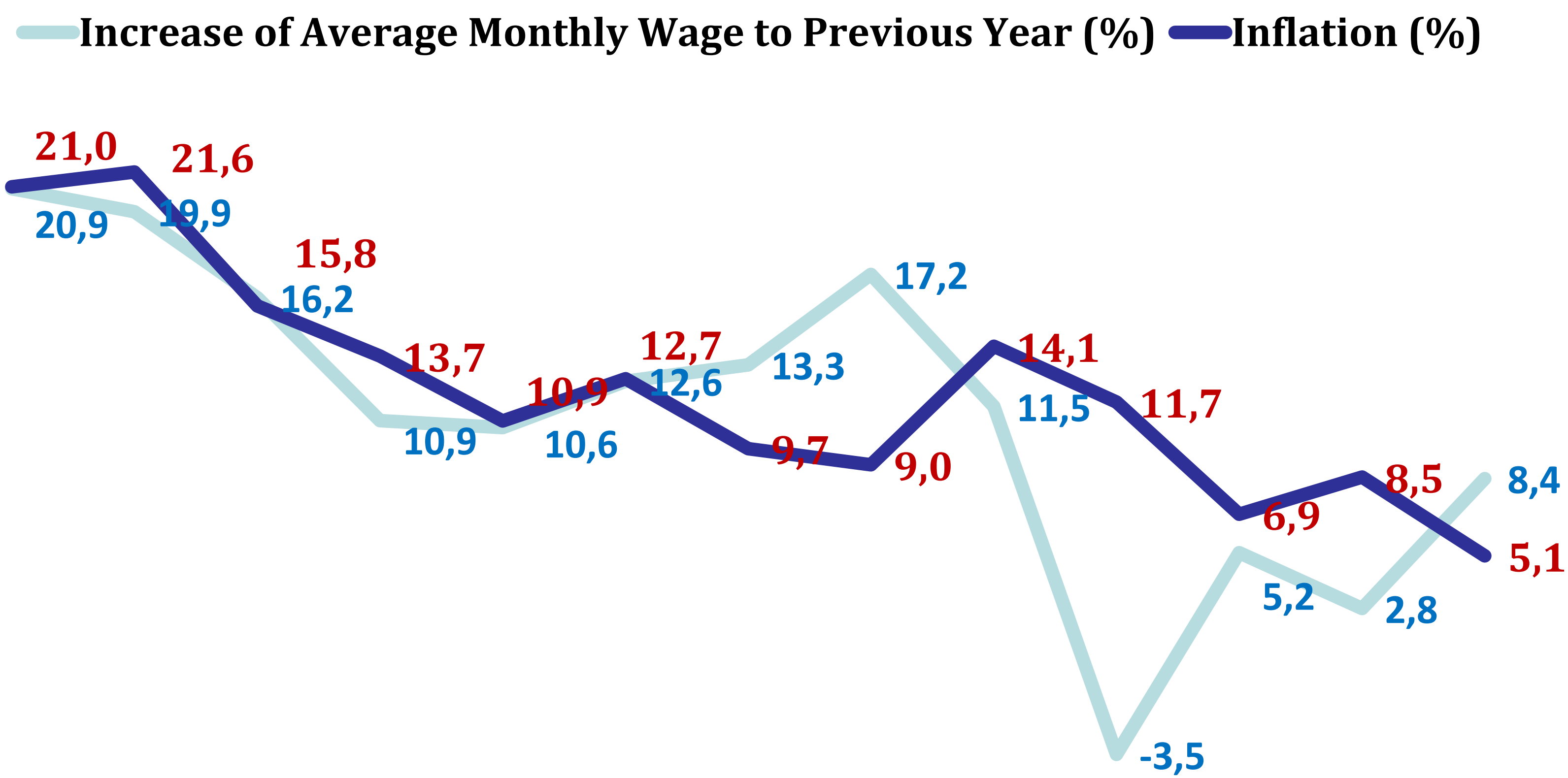
Million Cities in Russia



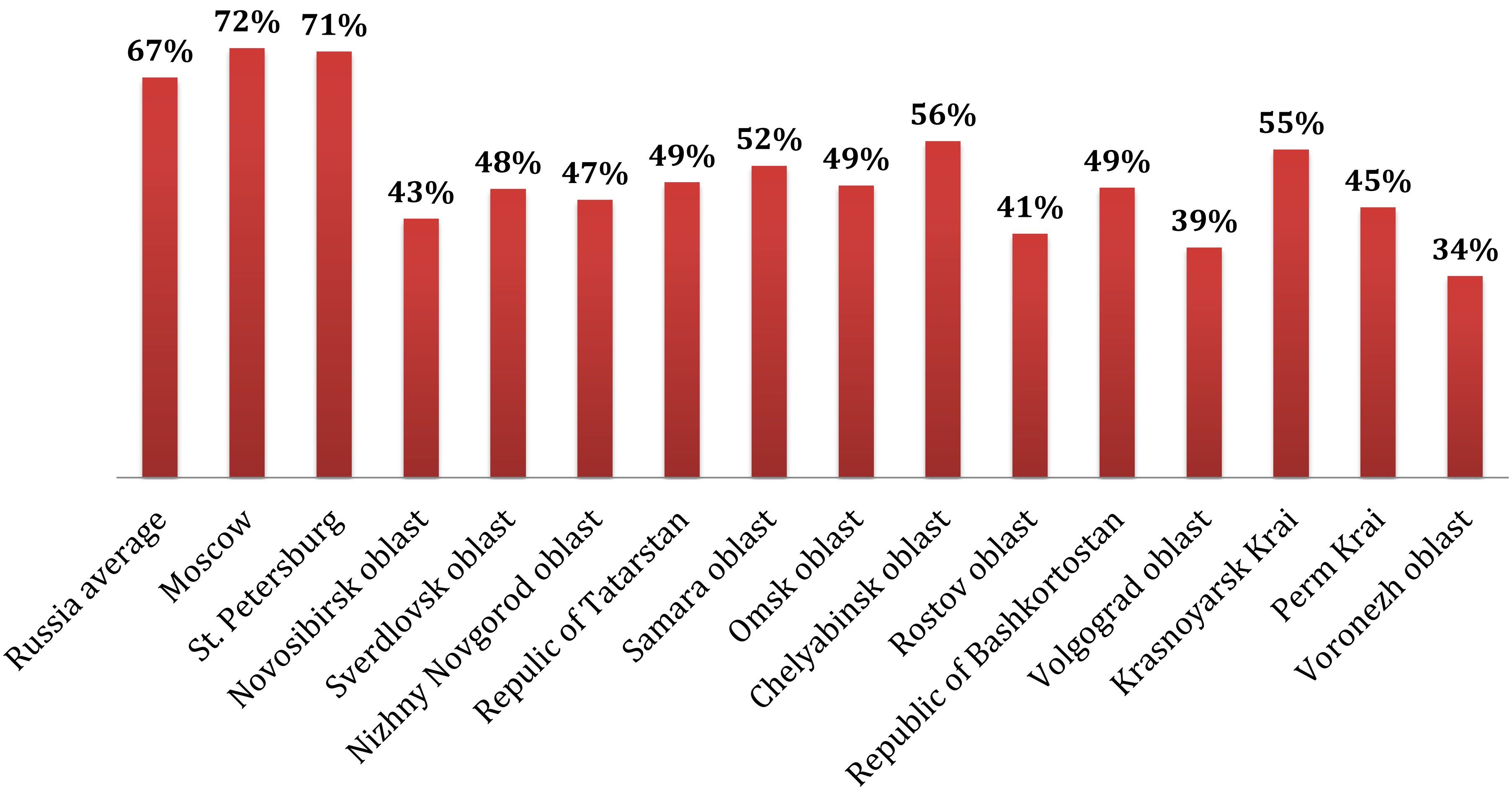
Salary Index in Russia (Russia average 100)



Increase of Wage to Previous Year vs. Inflation 2000 - 2012

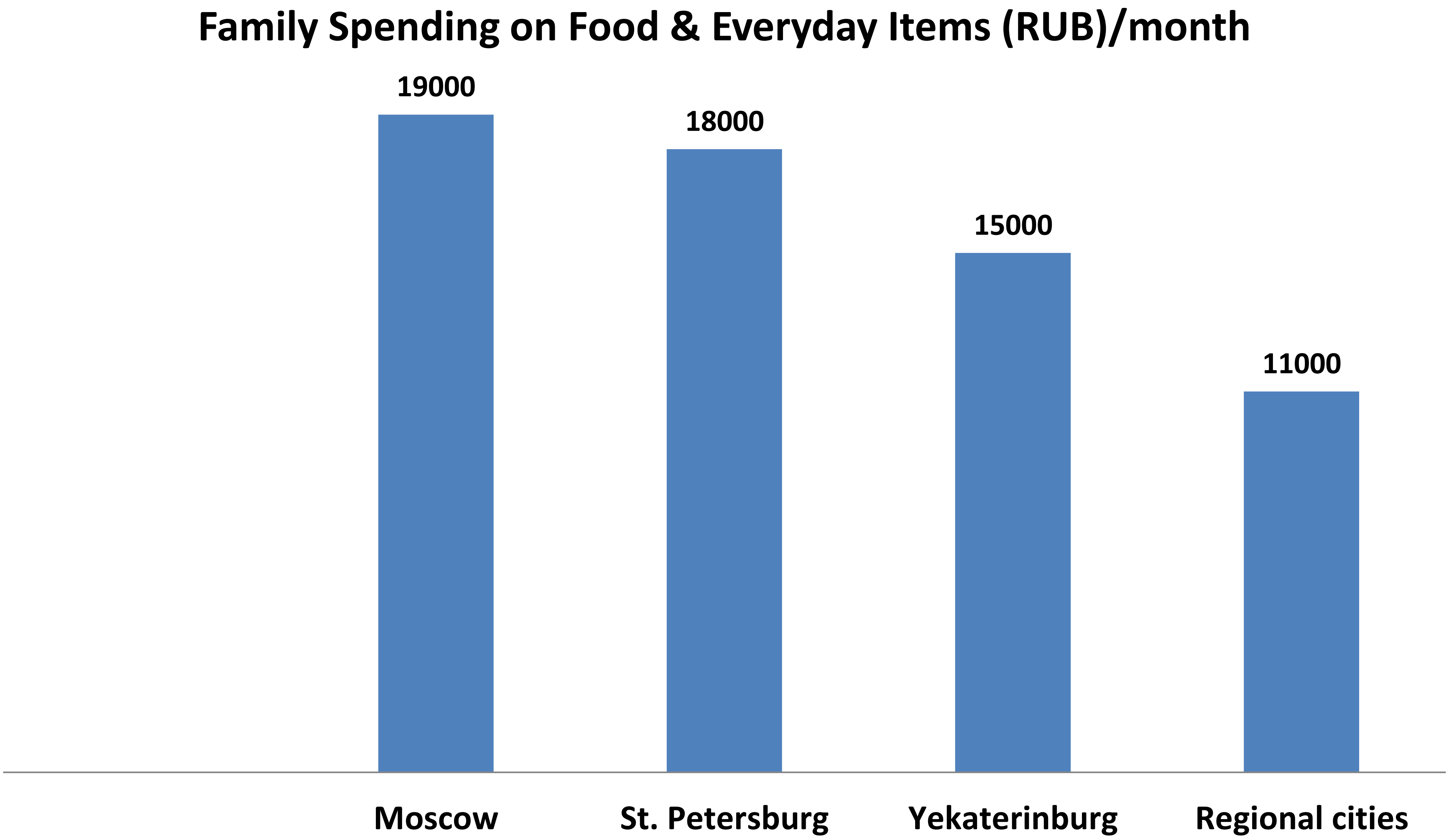


Internet Penetration Rate



Trends in the Russian Consumer Market

Food and Everyday Items



Food and Everyday Items

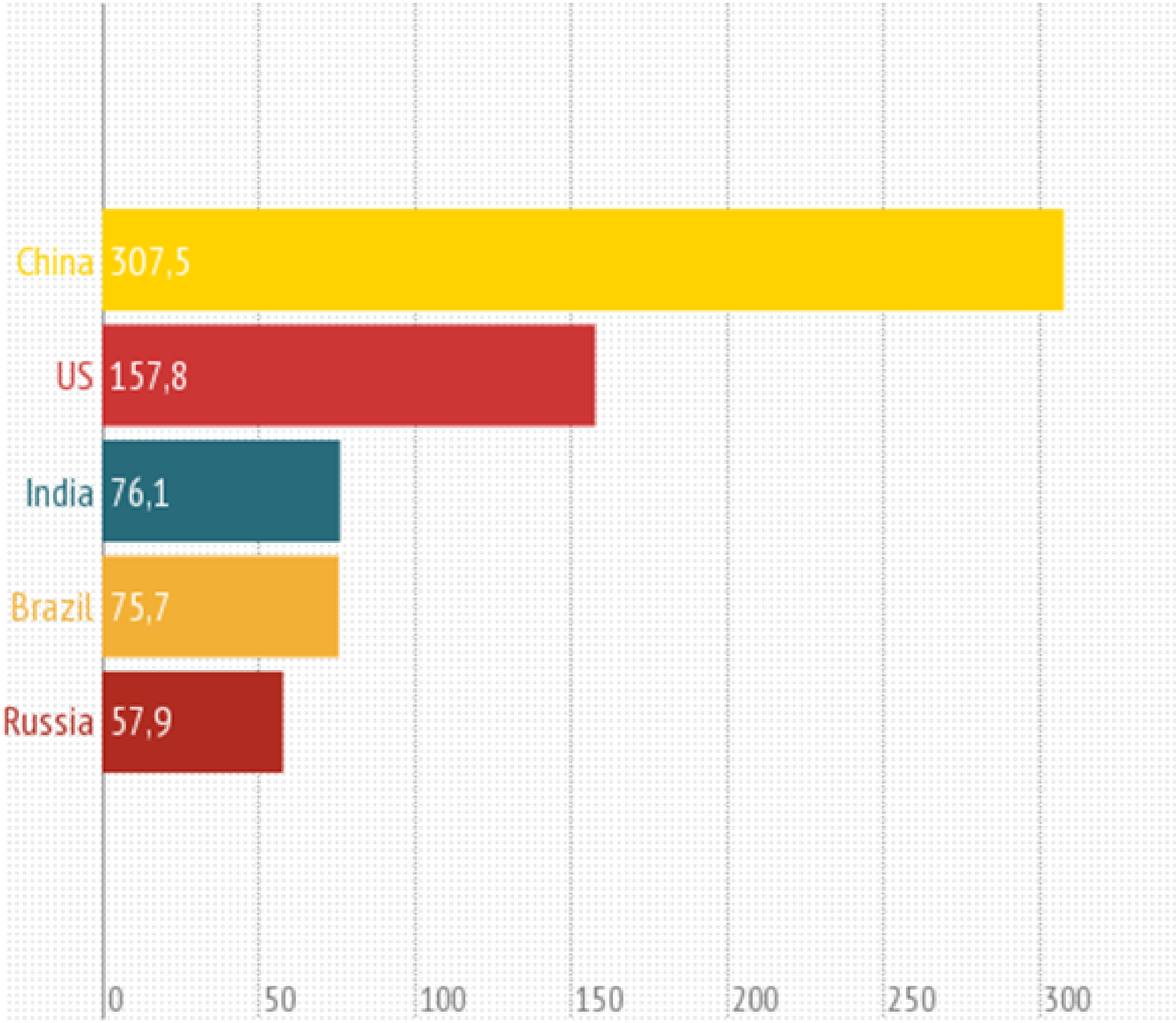
- Purchasing fresh food (meat, fish, vegetables and fruit) accounts for:
  - Over half the monthly expenditures in Moscow, Saint Petersburg, and Nizhny Novgorod
  - It is merely 40% in the other cities
- From small stores and markets → large and modern formats of stores carrying a wide choice of goods, everything at one place
- Russians are inclined to go either to a supermarket (43%) or a hypermarket (38%) as the main place for shopping

Consumer Choices

- Low prices for most goods does not rank first any longer.
- Coming increasingly important:
  - Easy and quick to find what one needs
  - Constant product availability
  - Good quality-price ratio
  - All at one store
  - friendly shopping environment
  - good service: Russians want to enjoy their shopping
- Mostly Russians do their shopping for their everyday needs (29% on average)
- Trend toward larger purchases for future use and additional purchases
- Majority of Russians consider overseas brands in clothing and footwear more fashionable and of higher quality (except from Turkey and China).
- In food products this is more often vice versa, as Russians value more local food products

Digitalization of Russian Consumers

Russia was the 5th largest socially connected country in the world in 2012

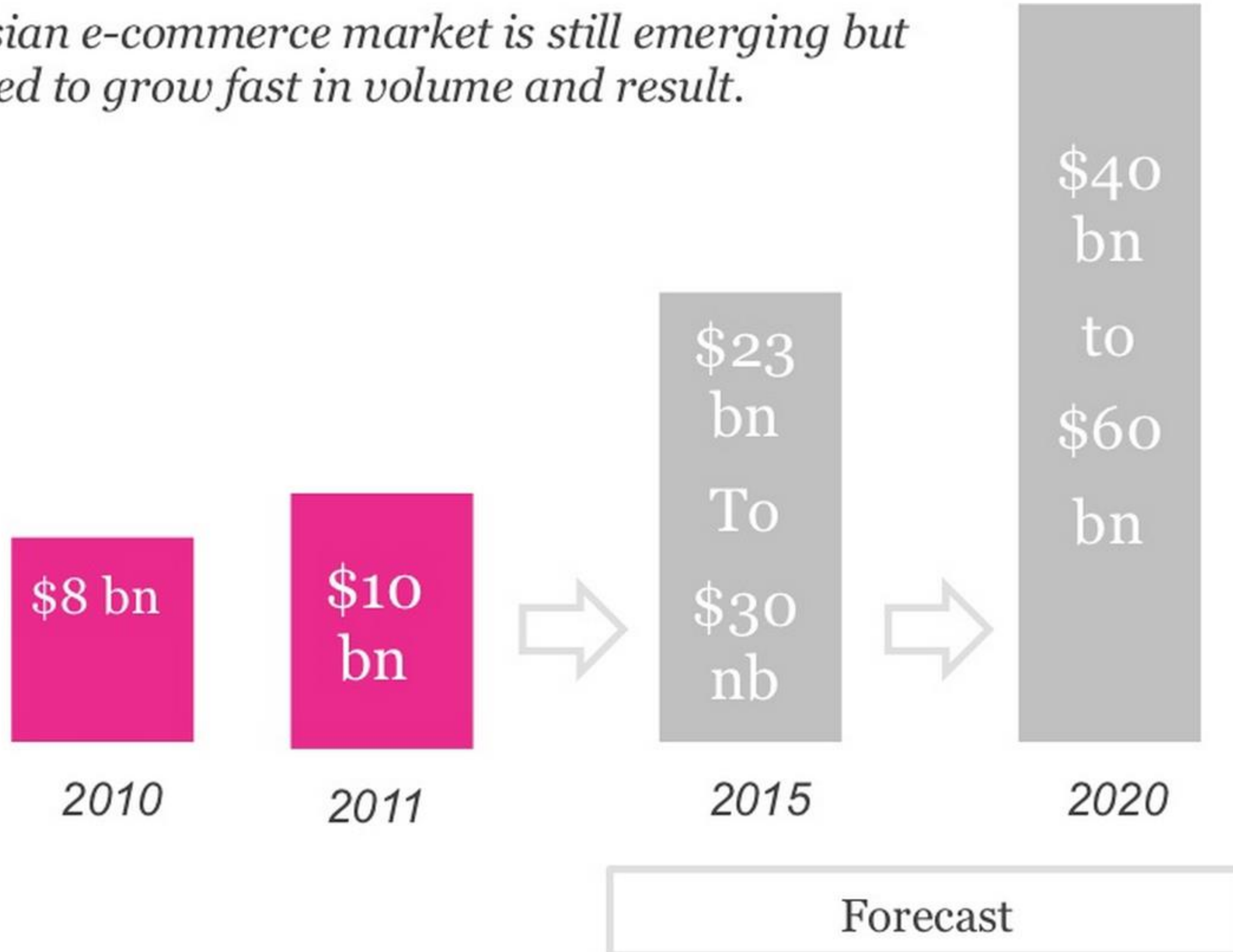


5 / 10 most popular websites in Russia are social networking sites

Digitalization in Russia

- Biggest online audience in Europe:
  - Now 60 million users
  - in 2015 80 million users
  - in 2025 130 million users
- 90% use social networks
- Russian services are more popular than Western:
  - Yandex search engine 65%, Google 25%
  - Vkontakte social network 3x bigger than Facebook
  - Professionali.ru 4x bigger than LinkedIn
- Already 50% of internet users are buying online
- Mobile payments actively in use (e.g. train tickets)
- Key drivers are increasing broadband penetration and credit card usage. Distribution remains major barrier to growth for ecommerce.

The Russian e-commerce market is still emerging but is expected to grow fast in volume and result.



Sources: 2012 e-commerce report by EWDN.COM

E-Commerce Trends

- The market is growing by at least 25% each year
- The regions still lag behind the capitals
- Major offline retailers are now coming to e-commerce while online-offline concepts multiply
- Logistics and delivery are still bottlenecks for e-commerce in the regions
- Cash-on-delivery is the rule for physical goods and will remain so for a long time
- The lack of qualified human resources appears to be one of the most painful issues,
- Cross-border sales have grown considerably over the last few years
- Foreign e-merchants' two biggest problems: customs clearance & delivery across Russia

E-Commerce Trends

- Moscow and St. Petersburg represent 15% of the country's population, they account for ~60% of Russia eCommerce sales.
- This is due to:
  - Higher broadband penetration
  - Higher disposable household income
  - Higher population density
  - More favourable postal and logistics infrastructure
- Moscow and St. Petersburg will be able to sustain eCommerce sales growth of 30% through 2020 vs. the broader country at 20%

Russian Online Shoppers

- An online shopper in Russia is more likely to be female (64%)
- In the age between 30 to 39 years old (72% vs. 62% for 18 to 29 year olds and 66% for 40 to 49 year olds)
- Online shopping is also significantly more prevalent among households with higher incomes (household income of RUB 30K+)
- The average age of an online shopper (who shopped in the last 12 months) is 44 (vs. 45 in the US)
- Key reasons why Russians shop online are:
  - Lower price (47%)
  - Saves time (36%)
  - Convenience (location, time) (33%)
  - Online customer reviews (32%)

Russian Online Shoppers

- Consumer electronics and books have the highest eCommerce penetration rate now and in the future
- Over 60% of shoppers bought a product from each of these categories online and plan to make purchases within these categories online in the next 12 months
- 48% of Russians had their first eCommerce transaction in the last two years (vs. the US at 10%)
- Only 16% of Russians have been buying products for over six years (vs. 62% in the US)
- Additionally, ~63% of Russian Internet users bought a physical good online in the past12 months vs. 85% in the US market

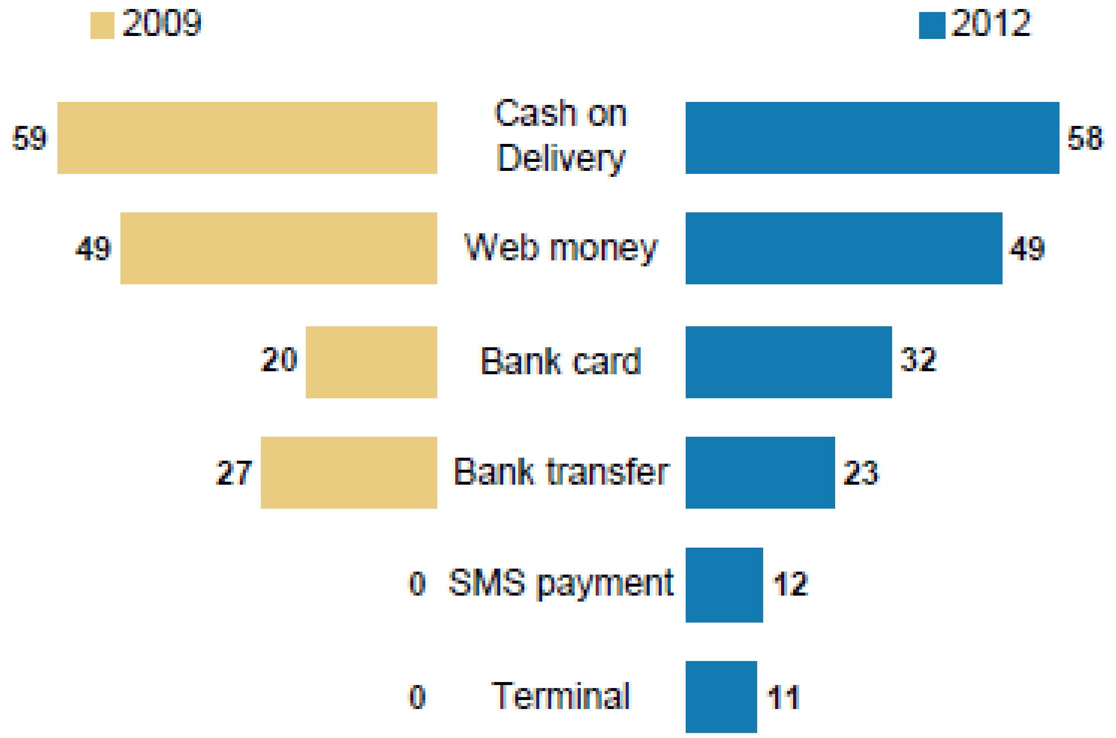
Russian Online Shoppers

- Average Russian online shopper has been shopping online for 3 years (vs. eight years for a US online shopper).
- Higher income demographic has been shopping online longer, 5 years
- 54% of those who have not purchased online in the last 12 months cited the need to see and touch merchandise before purchasing (vs. 38% in the US).
- This will decline as more commoditized product categories shift online and consumers become more accustomed to shopping online
- Other friction points include:
  - Lack of trust in online payment security (27%)
  - Product quality (28%)
  - The online retailers themselves (27%)
  - Product returns / exchanges are also seen as a drawback (29%)

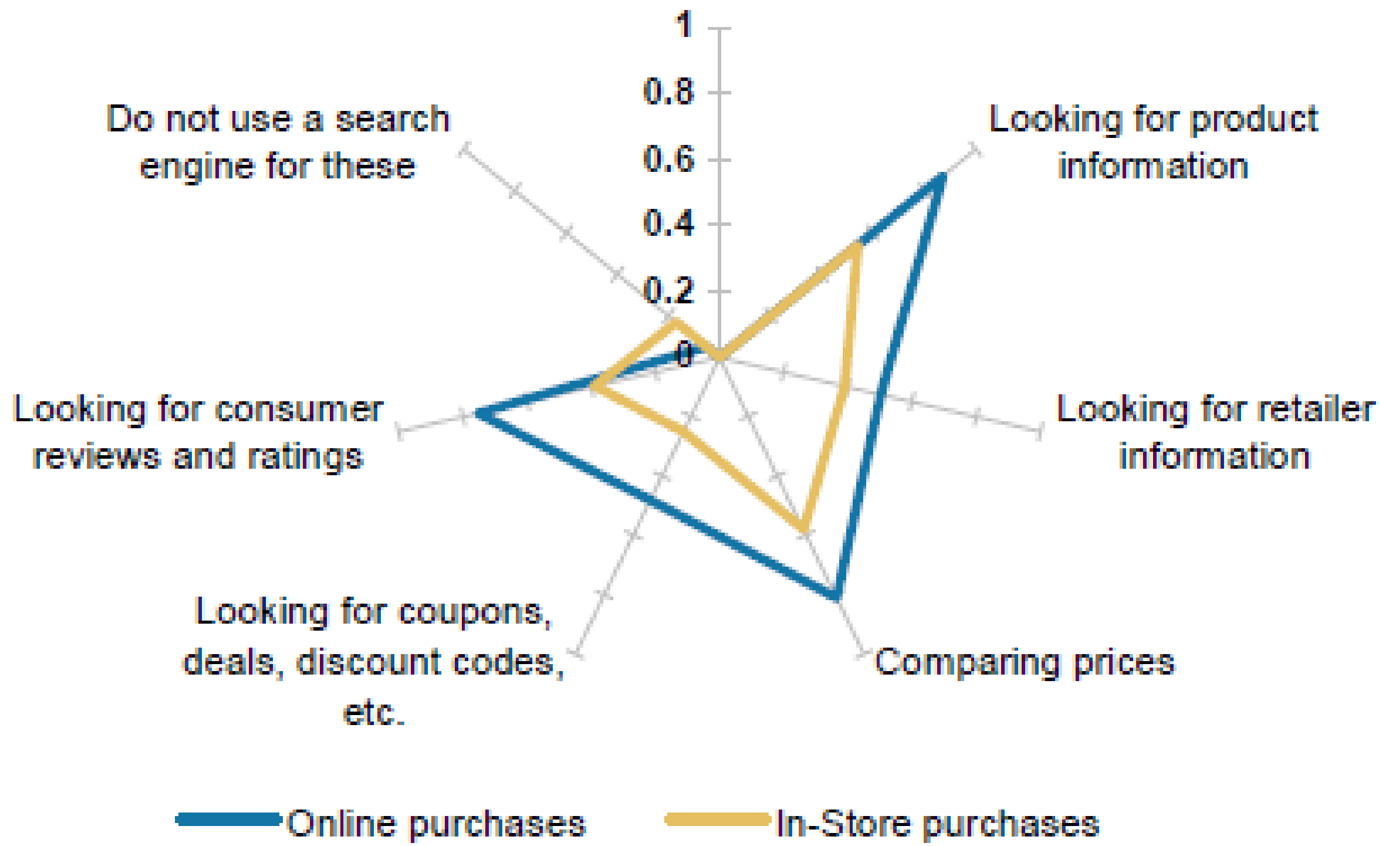
Key Differences in Consumer Demand

- Only 19% of Russian online shoppers consider convenience of delivery as a benefit (in the US a top reason for eCommerce)
- Lack of merchandise selection in-store accounted as a more important driver (27%) in Russia
- Russia's online sales for the following categories is higher than the US:
  - Auto parts
  - Home appliances
  - Home furnishings
  - Home improvement products
  - Personal care and sporting goods
- Clothing and footwear are more popular online categories in the US vs. Russia.
- Clothing and footwear are two of the fastest growing categories for Ozon, according to its management
- Key frictions to broader eCommerce penetration: low access to credit cards and safety of online payments

Russian consumers favor COD as their method of payment for eCommerce shopping



Use of search engines for online and in-store purchases



Key Russian eCommerce and other Internet-related sites

Thank You! Any Questions?

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