RUSSIAN MARKET: MYSTERY OR LAND OF FORTUNE?

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**RUSSIAN MARKET: MYSTERY OR LAND OF FORTUNE?**

1. **Beauty undustry: drivers on the rise**
   
   The Russian cosmetic market is the second biggest after Asian and still growing (in local currency) in spite of the slowdown in the economy. Being saturated and highly competitive it demonstrates for the last two years slight decrease in dynamics – by mere 2.3%. In 2014, the growth rate of the market, according to analysts RBC.research, rose to 13.2%, while market volume amounted to 552-555 billion rubles. Market turnover totaled USD 14.6 billion (the rate – 38 rub./Dollar in 2014). According to Amico consulting company forecast, in 2018 the growth might be 13% compared to 2014.

   One of the trends for 2014-2015 is a slight decrease of export and considerable rise of contract manufacturing in Russia. The main international companies or distributors of European cosmetics invest more in outsourcing production of their brands in Russia.

   Another trend of the last two years is a sufficient price increase caused by currency fluctuation. Although many of the international manufacturers have production facilities in Russia the industry depends on imported raw materials and packaging. Analytics stress that in 2016 price increases will not be as dramatic as they were in 2015. Moreover, local production of ingredients for cosmetics is growing, and Russia already has its own manufacturers of extracts and essential oils and other active and basic ingredients.

   The best performing categories in 2014, according to Euromonitor data, were oral care and deodorants. The culture of oral hygiene dramatically increased in Russia and has strong potential for the future as consumers are increasingly concerned about their health, especially their oral health. In addition, professional and medicated oral care products are expected to post the most positive performances. Unlike other categories, the performance of deodorants was unique due to consumers’ loyalty to formats rather than brands. Due to the growing number of promotional activities and price offers, consumers were buying those deodorants that were on special offer at the time of purchasing.

   The main growth came from the key segments of the market – skin care, hair care, colour cosmetics and fragrances. Euromonitor forecast for 2015 is as follow: skin care – 85.4 bln rubles in current prices, hair care – 74.3 bln rubles, fragrances 69.3 and colour cosmetics – 62.4 bln rubles.

   Direct sales companies also reported good results. According to statement of Tamara Shokareva, the President The Direct Selling Association (Russia), (DSA), Executive Director of Mary Kay (Russia), in the first half of 2015 volume of sales grew up by 7.8% thanks to beauty care products.

2. **Consumers spends more on cosmetics**

   Another trend is a rational consumption. Now Russians are switching to mass market and to professional cosmetics. The study of Magram Research company notes that in 2014 low-priced segment grew by 3.4% and in 2015 in 2.8%. Premium segment of professional cosmetics demonstrated stable volume of sales as well as cosmeceuticals in pharmacies – 3%.

   Despite of cutting budget expenses for FMSG products by 22%, Russian consumers of cosmetics increased their purchase by 15-20% in monetary terms, say analytics from Russian research company Romir. The less affected were low-priced and premium segments.

   The segment that demonstrates stable results is colour cosmetics. According to Synovate Comcon research company, in 2014 Russian women spent an average of RUB1,174 ($16.30) on make-up, while at the end of the first quarter of 2015 this spending amounted to RUB1,160 ($16.12). This determination to continue buying colour cosmetics gave companies the confidence to continue introducing new products to the market in 2015 despite the challenging economic situation.

   Surprising for many experts popularity of natural cosmetics shows that despite of economy slowdown and prices increase organic cosmetics is one of the categories that records current growth and will be the biggest rising in coming years. For the last years the market was fulfilled with local Russian organic certified cosmetics and imported brands.

   Among the other recent trends on the Russian market is the growing use of the internet to buy cosmetic products.
**3. International brands come to Russia**

Sanctions did not affect the cosmetic sector in Russia that is highly attractive for the cosmetics companies. Swiss, Scandinavian and American brands of professional cosmetics have a particular interest in Russian market. Among the new comers of the last year are Neocutis, Elizabeth Arden PRO and Ioma.

European brands are not pulling out of Russian market, instead many are increasing investments and keep the profit at the 2014 level. So, this year Lush Russia plans to build up facilities production nearby Moscow.

Henkel’s sales in the second quarter 2015 in the Eastern Europe region was positive. Despite the challenging market environment, a strong organic sales increase of 5.5 percent was achieved. Among the main drivers were the businesses in Russia, with the two-digit sales growth.

Beiersdorf increased sales in Russian by 20% for the same period. While Eastern Europe delivered sales growth of 6.4%, sales in Western Europe were down 1.4% on the previous year. Strong growth rates were achieved in Russia in particular.

“We were expecting troubles in Russia but now we work better than ever and we are expecting further accelerating growth in the second half of the year,” said Stefan F. Heidenreich, CEO of Beiersdorf AG.

Avon Products Inc. boosted sales in Russia, increasing its ranks by tens of thousands in the second half of last year as the plunging ruble prompted more people to seek additional income selling goods door-to-door.

“Our sales have been growing both in volume and value,” Avon country chief Elena Starkova said in an interview in Moscow. “December was magnificent, exceeding our forecasts.” The additions swelled New York-based Avon’s labor pool in Russia by more than 10 percent, Starkova said, declining to give the exact number. Smaller competitors Oriflame Cosmetics SA and Herbalife Ltd. said they also added representatives in the country in 2014, without being specific.

**4. The biggest on-line retail market in the world.**

On-line retail in Russia continues to grow at double-digit rates despite the overall economic downturn. Russia is one of the largest business-to-consumer (B2C) ecommerce markets in the world. In 2014, it ranked ninth worldwide, fourth in Europe and second among the BRIC countries in terms of online retail sales, according to yStats.com’s findings. Despite the economic crisis, Russia is predicted to see B2C ecommerce sales grow at double-digit rates and maintain its global rankings for the foreseeable future. According to RBC research, in 2014 online retail of cosmetics amounted app. To $750 mn.
1. Market Size

Russian women have been known to spend a considerably higher share of their income on personal care products than women in many other countries of Europe. According to surveys in other countries, in the crisis, the cosmetics expenses dropped, but only Russian women continued to spend the same amount of money to look beautiful. The face has always been an object of close attention.

The growing aging population of women and the subsequent demand for appearance-enhancing skin cosmetics and anti-aging products such as creams, moisturizers contribute to significant demand in the market. The female population aged 25 and above also constitutes a major section of the country’s working population. The market is characterized by pockets of regions which are un-penetrated, more scope of introducing new products in existing large and mid-sized city markets.

Russian skin care market is very mature and saturated. According to Euromonitor, in 2013-2014 it rose by 4.4%, in 2015 – 2.8%. The local brands have strong position. In 2014 the volume of production skin care in Russia increased by 585.6 mln SKU (+14.3%) in the first half of 2015 drew up even more – by 346.9 mln SKU.

2. Consumer Habits

As for actual market trends, the consumers’ behavior has changed: they became more sensitive when buying skin care products and are reluctant to waste money when they doubt the effect. Today, they pay more attention to formula, ingredients and quality, in other words, they are looking for products that fit their age and skin problems.

The consumers continue to be price-cautious. The consumers’ preferences are shifting towards domestic products. However, even in this case the consumers are not inclined to save on face care. When selecting products, they pay attention not only to the price but also to the brand.

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According to Synovate Comcon, 85.4% of women and 14.7% men used facial care products in 4H of 2015. The main groups of facial care consumers are women aged 25-34 and 45-54. Over the last 6 years, the share of women aged 55 or older using skin care products tends to climb. Domestic brands are on demand in Russia. Chistaya Linia has proved to be the most popular brand in the face care segment with 24.3%; Nivea – 21.4%, Cherny Zhemchug – 18.4%, Avon – 17.2% and 100 Receptov Krasoty – 15.1%.

Day creams are gaining popularity in Russia as many of them now combine several different functions. It was one of the most dynamic subcategories within facial care – 53.2% used this products in 4H of 2015.

Customers are increasingly looking for value for money products which are natural and beneficial for the skin, provide a range of combined benefits of high priced premium products, at a lower than premium cost. This product class has been dubbed “masstige”.

3. Key Players

L’Oréal keeps the key position in the segment with 14% of market share and compete with others multinational corporations such as Unilever, Procter&Gamble, Beiersdorf and direct sales. The company maintained its leading position due to a wide portfolio of brands, new product launches and strong pro-
counterparts. In this way, Russian brands entered into more sophisticated products categories, which was not a core category for national companies.

4. Distribution Channels
As far as the distribution channels for face care products are concerned, the specialized shops remain predominant, however the best sales dynamics are seen in pharmacies, despite the fact that the average rate of surcharge collected at pharmacies might be higher than in other distribution facilities.

Pharmacies demonstrating a sustainable growth are seen as a most promising distribution channel for cosmetics with a 10% share of face and hair care products in their portfolio.

5. Trends
Consumers in Russia increasingly prefer products that incorporate natural ingredients such as minerals, proteins, and herbs from traditional Russian medicine. The remarkable fact is that, during two crisis years, the sales of organic and other bio-products have not declined, but even increased in some cases. The market players agree that in contrast to mass-market cosmetics consumers, the fans of “organic” products managed to preserve their buying power and did not search for cheaper stuff. There is growing demand for specialized shops that offer organic products; however, online shops have become the primary channel for these products in Russia. This trend is gaining increased foothold in the market because of growing concern among consumers about their health and the environment, and rise in awareness about the latest developments in the Russian cosmetics market.

Another important trend of the market progress is the search of unconventional solutions for the package. Many manufacturers of cosmetics have launched the lines of their products in user-friendly and compact packages, which are very convenient for traveling. Sprays and serums with dosing gadgets have been on the highest demand recently.

6. Forecast
According to Euromonitor, Russian consumers will continue to seek quality at reasonable prices over the forecast period. Affected by the economic recession, as during the previous crisis in 2009, they are not tending to purchase cheap products, but are studying ingredients and making rational purchasing choices on this basis. Over the forecast period, consumers are expected to choose products with natural ingredients, which are offered by local companies at reasonably attractive prices.

Market players and experts believe that the future of this segment rests on totally innovative products, both in terms of formula and packaging and evolution of distribution channels (e.g. promising drogerie format), mastering of regional markets, higher level services, competent advice at stores and marketing efforts of interested companies.

The only possible way to survive in this highly competitive segment of face care is to create products that can satisfy the global market trends. The drive to natural products is seen as a major developing trend in several years.

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1. Market Size

It seems that hair care segment has suffered less from the slowdown as compared to other cosmetic sectors and not only because the shampoo is one the key categories belonging to the list of daily essentials, but also because the manufacturers seek to expand the boundaries of this segment by going beyond its limits.

Consumers in 2014 purchased more natural hair care products because they believe that it will affect better. The Russians think of the hair health and realize the need to invest in a complex and effective care. As a result product that designed to improve the health of hair showed strong growth in 2014.

According to Euromonitor, sales of hair care in terms of value increased by 3% in 2014 year – slightly lower than for the previous period (5%). This is due to the slowdown of the Russian economy and the ruble devaluation. These factors along with the development of modern retail have led to the expansion of customer loyalty programs and more rational behavior consumers while they were choosing brands. The biggest rise in the category of hair care products in Russia have shown hair loss treatment – the dynamics was 17% in 2014.

Due to the growing consumer loyalty to natural products and natural look the sales of hair styling declined slightly but continued to show dynamics – +4% in 2014. Hair spray is still the largest group in the category of styling products – 45% in 2014. Mousse and gel also demonstrate a significant share of the market – 37% and 15% respectively.

2. Consumer Habits

The current economic situation affects the consumer who tends to choose a quality product at an attractive price. Therefore the product quality and price are the main criteria of the consumer.

The following consumer properties contribute to the stable demand for hair care: attractive package and marking, colour, scent, texture, designation, medicinal properties, comfort, user friendliness as well as optimal value for money of these products. All above said properties create an additional stimulus for purchase, stabilize the demand, increase the number of trial purchases and popularity rating.

According to Synovate Comcon data, the proportion of consumers of shampoos, conditioners and hair masks in 2014 increased. The most actively growing category was hair masks: it share increased by 6%. Top-demand hair care products are shampoos – 94% of Russians use them; balms – 41% and hair masks – 21%.

The most popular brands of shampoos and conditioners for hair were Head & Shoulders – 19%, Schauma – 16%, “Chistaya Linia” – 14%, Nivea – 13%, and Pantene Pro-V – 11%.

The proportion of women using hair dye in 2014 was reduced by 5%. The majority of them (70%) dye their hair at home, 29% of Russian women visited beauty salons. In 2014 the women has continued to use resistant hair dyes. But shading and highlighting products are used less. The most popular brands of hair dye were Palette – 25%, Garnier – 19%, Estel – 17%.

3. Key Players

Russian market of hair care divided by several big companies: Schwarzkopf&Henkel – 25.1%; L’Oréal – 14.3%; Unilever – 12.1%.
Procter&Gamble – 12.3% and others – 29.5%. Schwarzkopf & Henkel remained the undisputed leader within hair care in 2014 with a value share of 25%. The leading position of the company was due to its strongly diverse portfolio, a presence in various categories and new product launches supported by strong marketing promotions. The company has a wide portfolio of brands, the most popular of which are Syoss, Schauma, Schwarzkopf Gliss Kur and Taft.

The leading local hair care manufacturers are “Narodnye Promysly”, “Pervoye Reshenie”, “Yunikosmetik” and “Svoboda”. Last year Russia produced 95 million units of hair dyes and most of them were launched at “Yunikosmetik”. Today it is one of the largest manufacturers of hair coloring agents in Russia. The distribution network includes more than 150 representatives in Russia, the Baltic states, Ukraine, Belarus, Kazakhstan, Moldova, Armenia and other CIS countries.

Currently, the market of hair care products is observed rebranding – producers seek to position their products as “professional” or “salon”. Growing competition, new brands, manufacturers from other countries are the segment landscape. The market is seen growing categories such as “medicated shampoo”, “hair styling” and “hair conditioners.” The main distribution channels for hair care in Russia are in super and hypermarkets, and specialized perfumery and cosmetics chains. The premium segment share is 5% (according to Discovery Research Group).

4. Distribution Channels

As Discovery Research Group states, the main retail channels for hair care in Russia are super and hypermarkets that followed by perfumery and cosmetics chains. Specialized stores are likely for premium products with its 5% of market share.

5. Trends

In addition to the overall promotion of healthy lifestyles the major trend in hair care is increasing interest in natural products. The consumer pays more attention to the ingredients and the quality.

The main trend: positioning and repositioning of brands as professional, but affordable in terms of prices and salon level for home hair care. Consumers are interested in these products and are prepared to pay more so as to get an effective care without visiting beauty salons. Large companies that are market leaders are aggressively developing portfolios of well-known consumer brands and invest in new products together with necessary marketing support.

6. Forecast

According to Euromonitor, naturalness and professional positioning are expected to be long-term trends within hair care, and are set to be the strongest influences on the performance of the category. Treatment products will remain the key area of category development during the forecast period. Consumers will become even more educated in terms of ingredients and the influence of these on the health of their hair. In terms of this growing interest in products and their ingredients, reviews of products from all available sources will become strong influences on consumers.

The growth rate of the segment is expected to decline by an average of 1% in retail prices of 2014. Saturation of the category as well as the impact of the economic slowdown will affect the segment. In addition, consumers are expected to be looking for the best offer and discounts. Hair loss treatment products will show the best results, sales will grow by an average of 6% in constant prices in 2014.
1. Market Size

Euromonitor claims Russian body care is one of the accessible types of indulgence products and therefore Russians continue to increase their purchases of them. Women are ready to pay extra for premium facial skin care products, while they tend to look for cost-saving solutions for hand or body care products.

Looking into figures from Euromonitor. Deodorants recorded 6.9% current value growth in 2014, which was lower than the current CAGR of 9% over the review period but higher then in 2013 (6.2%). This was due to the gradual saturation of the category. There was still a continuous inflow of new consumers, but this slowed down towards the end of the review period. Price increases were kept moderate due to the expansion of modern retailing and very high competition within the category.

As far as specialized products are concerned, the products with anti-cellulite effect are recognized as the undisputable leaders in the Russian market of body cosmetics. Unlike 2-in-1 in Russia these products remain on the top list. Today, the anti-cellulite cosmetic products are included in the range of virtually all domestic and foreign companies offering the body cosmetics to the Russians, whereby women are becoming more aware about cellulite agents. More and more of them understand that the cream as such is not a magic stick: a noticeable effect can be obtained only through combination of diet and sports. In recent years, related topics were often discussed on specialized forums for cosmetics consumers.

2. Consumer Habits

It is evident that consumers have reduced spending on products that they consider unnecessary for everyday and regular use, notably body firming and anti-cellulite products. Another factor affecting consumer spending habits was price, which especially impact on the anti-ageing and skin-protective category. On the other hand, there is a group of products that consumers do feel are necessary and are willing to spend money on, such as moisturizers.

Consumers considered roll-ons as the most effective, while manufacturers concentrated the most on development within this category. Natural deodorants continued to show growth due to health concerns; however, the share of such products remained very low in 2014, and they are not expected to develop further due to low awareness of the advantages of such products and poor belief in their effectiveness.

Depilatories recorded a 7% current value increase in 2014, which was 1% more than in 2013. The gradual saturation of the category and the increasing accessibility of salon services led to more-restrained growth.

Women blades continued to record a positive performance in 2014, as these are perceived as timesaving products. They were also very important in the case of holidays due to their quick and easy use. These were the least painful and thus the most common way of removing hair from intimate areas and from sensitive underarm skin.

More than 70% of Russian customers believe natural ingredients to be safe and suitable for skin. That's why the market for organic cosmetics in Russia is on the rise: in 2014 it grew by 10%. Customers’ loyalty to pharmacy products is also very high.

Along with increasing concerns about appearance, more Russian women are looking for professional solutions for solving particular problems. Consumers are more often choosing special services for
their face and body care. Anti-ageing procedures remain one of the most popular within the high range of services that were on offer. Sales of professional cosmetics to beauty salons may become an increasingly important niche area.

3. Key Players

L’Oreal Russia led sales of skin care in 2014 with a 14% value share. The company maintained its leading position due to a wide portfolio of brands, new product launches and strong promotional activities. In addition, the majority of the company’s brands have a presence in almost all modern retailing channels and the rapid development of beauty specialist retailers, hypermarkets and others directly supported sales of the company.

In the market of body care are actively developing Russian companies – “Pervoye Reshenie”, “Magrav”, “Fratti NV”, “Floresan”. Russian companies are constantly updating their product offerings, introduce new technologies, develop new categories, in particular, the segment of natural and organic cosmetics. Pervoye Reshenie is one of the most powerful players, and other companies try to mirror their experience. The company product range features several lines of care positioned as organic, and even certified by relevant standards.

4. Distribution Channels

Body care presented in all retail formats. For the premium products specialized stores and pharmacies are more preferable while for mass market the main channels are supermarkets and drogeries.

5. Trends

The economic situation in the country in 2014 affected consumer preferences regarding body care products, as well as their purchasing decisions. On the one hand, due to inflation, consumers’ purchasing powers slightly declined and they became more sensitive to prices, resulting in more interest in economy products.

On the other hand, this moved them to more-rational choices, as well as increasing their education regarding products. In this way, consumers started to display more interest in products and their ingredients, as they wanted to be satisfied in advance that they were making the right purchase.

Consumers started to read different webpages, social networks such as Instagram, Facebook and VKontakte, and watched educational videos from popular Russian bloggers, who accounted for half a million subscribers and were very powerful in terms of not only their reviews of products, but also in terms of marketing.

6. Forecast

Body care segment is one of the biggest and most saturated. Having overcome the economic recession, the market is entering a new age expecting a 6-8% rise by 2018 according to Russian experts.

For the moment Russian customers act more rationally choosing the budget product and searching special promo for better price but some analytics that

Experts also predict consumers will return to buying more expensive premium body care brands.
Crisis brings good times for Internet stores and network marketing. Shopping in virtual space has an evident advantage: prices are usually lower than in conventional retail outlets. For some products, savings via the Internet may reach 30-40%. However, this is not the only advantage of off-line. In beauty shops, sellers promote one brand and are interested in boosting sales. Should you ask to choose a moisturizer, they will always offer a product of the employer brand because it is profitable; besides, they have a poor knowledge of the rest portfolio. “Often, when talking to a consultant in the corner, a woman feels compelled to make a purchase, and this causes discomfort,” – explains creative director of Pudra online store Sergey Ostrikov. “Therefore, we employ independent experts to advise the better sex visiting our shops. Pudra has four consultants on duty seven days a week; if you need a concealer for example, they will offer products ranging from Yves Saint Laurent to Max Factor, show their properties and prompt, which product will fit you best. Product catalog covers 250 brands, including world-famous Estee Lauder, Lancôme, La Prairie and niche segment, eyebrow care products from Anastasia Beverly Hills, adored by Hollywood stars or producers of Skindinavia spray fixer of makeup.

Today, virtually all cosmetics companies develop Internet sales schemes, both in the form of in-house and partner resources. Cosmetics and perfumery account for about 10% of Internet market. Absolutely all brands officially presented in Russia, sell online through websites of expert perfumery and cosmetics stores such as Ile de Beaute, “Rive Gauche”, “L’Etoile” (etoya.ru, shop.rivegauche.ru, letu.ru). Many brands have their own online presence (clinique.ru, mac-cosmetics.ru, esteeleauder.ru); some brands not represented in Russia offer direct mail delivery (illamasqua.com).

Estee Lauder was among the first luxury brands to offer on-line services in addition to traditional orders of products in the network in late 2012. Website resources and state-of-the art online tools are designed to enable customers to pick up the right thing in the pool of products, choose customized skin care system and suitable make-up. This unique service allows to create your own image with makeup by Estée Lauder or, in a single click, replicate make-up campaigns, using your own photo. The image can be saved and published in social networks. Training videos will help to create a diverse make-up for every day step by step. On top of these functions, website visitors have an opportunity to post their comments, make rankings of the most popular products and get advice, as if they have visited an expert.

The company offers attractive bonuses including free delivery of orders worth 3,500 rubles and two Estee Lauder miniatures as a gift, whereby, a customer can choose the product from the list.

Brand Clarins opened its online store in Russia in 2014. Its loyalty program worth noting among other advantages. Each 10 Rubles of the purchase price are converted into 1 point. Every 1000 points entitle you to discounts in the amount of 1,000 Rubles for next purchase exceeding 2,200 Rubles. As regards the delivery, your favorite beauty products may be delivered to any corner of Russia. If the amount of your order in the Clarins Internet store exceeds 4000 Rubles, you will be entitled to a pleasant surprise, namely, free delivery. On top of that, when you shop via the Internet, you can add 3 free samples in the basket with any order. Moreover, Clarins Internet store will grant a 10% discount for every registered user. The most convenient way is to keep track of new collections or brand hits at the website, for example trident eyeliner or cream shadows that run out in chain stores within few days.

Some time ago the first official online store of Kérastase with already proven marketing tools was opened in Russia. There, you can buy this brand products and get all necessary information about them, get an idea about new products, watch video tutorials for creating images of famous hairdressers or find the nearest beauty salon. On a monthly basis, customers receive special offers, unique gift baskets and shopping surprises. Delivery is on next day after ordering.

Cosmetics and perfumery belong to TOP-5 goods purchased in the Internet in Russia; last year such products were purchased by 31.4% of consumers aged 18 to 54 years (5.2 million Russians).

According RBC.Research, in 2014, the costs for one-time purchase of cosmetics and perfumery through online stores amounted to 50 Euro; the highest average cheque was reported in Moscow and Moscow region (57 and 68 Euro respectively) in St. Petersburg – 56 Euro, but in megacities, the average cheque was significantly lower – 48 Euro. Frequency of purchase averaged to 6.6 times per year, naturally, with lion share of women – 77.3% of the total number of buyers.

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Despite certain difficulties, the segment of e-commerce of perfumery and cosmetics is evolving very rapidly – about 38% in 2014, while sales approximated to 7.2 bln Euro, or 7.2% of total retail perfumery and cosmetics market.

Use of social networks is among distinctive features. Russian Internet users visit such networks more often, and this is characteristic not only for young people (75% of Internet users aged 18 to 24 years old use it every day), but for elder (and wealthy) people (43% of Internet users aged 35 to 44 years old use them daily).

Over the past two or three years, the rules of game in Russian beauty market have changed considerably. Absolutely new forms of brand promotion have emerged. OCC lipstick, Trish McEvoy, Carmex, Caron, Hakuhodo, Lucas Papaw, Tangle Teezer, Urban Decay, Tarte, Kevyn Aucoin – these are just a few cosmetic brands, which were pushed into Russian market by the bloggers.

Of course, higher exchange rates impact sales over the Internet. This fact is confirmed by all interviewed market players. For example, online shop of professional cosmetics ShopHair.ru has lifted prices by 10-15%. According to representatives of another online store, “Barber TD”, they adjusted product prices following Ruble exchange rate; thereby, the cost of some cosmetics soared by 20-30%.

“Korean cosmetic products also depend on exchange rate, i.e. their purchase price has climbed, but originally they worth half or two times cheaper than comparable European counterparts” – explains Dmitry Kim, founder of Internet store of Korean cosmetics SashaLab. In SashaLab, prices have risen by an average of 15-30%. Kim admits that the store had to sacrifice margins to win customers. He hopes that those who cannot afford European mass market will visit his store.

Aside from raising prices for products, Internet retailers have increased the amount of minimum purchase, for which delivery is free; moreover a customer can also get free samples. If earlier the ceiling of luxury cosmetics was about 3,000 Rubles, today it is 3,500-4,000 Rubles depending on the brand.

Besides, brands are trying to beat the price hike by way of higher quality of service. Many players have improved their logistics systems, and now products can be delivered in one day, and in some cities, you can get the order on registration day.

In addition, technological payment options have been streamlined. If previously only cash or bank card were accepted, currently, the range of cashless payment methods has expanded. The number of customers picking their orders themselves has increased by 59% in pick-up stations (vs. 51% in 2013).

In response to foreign currency upturns, the market rolls out new formats of cosmetics and perfumery sales via the Internet. In late 2014, new project was launched – beautydiscount.ru in cash & carry format, which was never employed by anyone at perfumery and cosmetics market. Internet stores offer three price categories depending on purchase volume: retail, wholesale or small wholesale. The latter two are designed for those who are prepared to order a lot. Co-founder of the project Elena Drovozova believes that this format has a promising perspective: “Aside from classic shoppers, we have customers joined together by virtue of our office – friends or moms walking with their children; they come together and make a big purchase. Accordingly, the price for them is lower”.

Today, the portfolio beautydiscount.ru features approx. 20 thousand items: perfumery, skin and hair care, decorative cosmetics, male grooming. By the way, 30% of Internet shoppers are men.

“Our next step is to develop the loyalty program to retain customers, streamline our corporate identity, package, brand awareness and so on. Incidentally, we are actively working with beauty bloggers. This is an outstanding phenomenon now; they have a very large number of subscribers, especially in regions where they are treated as gurus. Accordingly, if a guru demonstrates something – a brand or a product – all girls will be happy to try it. Beauty bloggers boast realty amazing loyalty”- concludes Elena Drovozova.

Comments Oleg Kravchenko, a partner of non-food group Nielsen Russia: “Averagely 20-25% of Russian consumers of cosmetics and personal care products shop via the Internet. Lotions, creams, shampoos are presented in a huge range in legacy retail stores where you can buy them quickly and at an attractive price, so, it is not always reasonable to use the Internet. Shops in Russia have an essential fragmentation (mass market, luxury, single-brand stores), so that every consumer can choose a convenient channel for shopping. Internet is used to find information about this or that product: averagely, 75% of consumers try to get an idea about products online and read reviews before they actually decide to buy. Opinions of beauty bloggers and users who share their impressions about products prove to be serious arguments in favor or against the product”.

By 2015, revenue from e-commerce channels will double. Proceeds from mobile sales by 2015 will increase slightly, but active use of mobile devices by shoppers and trade staff both on trading floors and outside the stores will grow.

At the same time, all market experts are unanimous: sales of perfumery and cosmetics via the Internet will be safe from any, even abrupt exchange rate fluctuations, which are unlikely in the future. Moreover, online shopping will grow in a dynamic manner both in Russian Internet and English-language resource of global brands.
Organic or “natural” cosmetic products are contemplated as an independent and very lucrative segment of cosmetics and cosmetology market. According to Transparency Market Research survey, the global demand for these products in 2012-2013, totaled to USD 7.6 billion, while as per 2018 bottom line, sales may boost to USD 13.2 billion.

The upsweep behavior is affected by such factors as higher purchasing power of consumers around the world, expansion of distribution channels for such products and zooming of product lines on the back of new ingredient sources. Europe and Asia are among the largest consumers of organic cosmetics.

Consumers appreciate the benefits of such products (i.e. low allergenicity, almost complete absence of potentially harmful elements and high promise-result ratio) and implant them in their lifestyle alongside with fitness and healthy nutrition.

According to various estimates in Russia, the share of organic cosmetics accounts for about 1%; however its potential is definitely higher, i.e. 3%, without any doubt that the market will steadily move towards this indicator. This trend is supported both by consumers’ growing concerns about their health and the environment as well as the latest developments in the Russian market.

Firstly, given that a few years ago the industry was represented by Internationals brands only, today, “green” Russian-branded cosmetics certified by European standards or alleging that their formula has relevant “organic” labeling are appearing in the market. These are well-known trademarks such as Natura Siberica, Organic Shop, Green Mama and some young brands – Greencaress, Joli, Organic People...Secondly, new retail distribution channels promote the development of natural cosmetics segment. As we know, some time ago, the bulk of such products was distributed via the Internet, a small number of pharmacies and the flagship store of Russian organic market – Biomarket. Certainly, such weak retail infrastructure was no good for “green” cosmetics sales. But today the situation is changing rapidly.

Cosmotheca is one of the most fashionable and creative chains, which actually has become a cult. Its stores offer the most innovative products for beauty, skin, face and hair care. For example: Japonesque 150 Degree makeup brushes designed to make the application of light natural cosmetics makeup easy and comfortable. Toothbrushes with natural bristles Acca Kappa, Malin + Goetz with SPF protection, miracle soap COR, which restores the skin secre-

tory ability, especially in the T-zone. Beautician, hairdresser and manicure expert will be at your service at Cosmotheca corners, in particular, you can enjoy absolutely safe ZOYA nail polish.

Organic Shop is a cosmetic chain established by a major Russian manufacturer of certified natural and organic cosmetics – Pervoye Reshesnie. (Natura Siberica). Actually, Organic Shop is the only place, where are presented all natural brands of this company, including eponymous cosmetics.

The most of Russian-made organic products are attested by Italian independent certification company ICEA. Products originating in Switzerland or other countries boast their Ecocert mark (French independent agency). It has become known that in the near future, Organic Shop products will be awarded with German certificates for natural cosmetics – BDIH. Other brands (Eco Hysteria, Organic Shop, Planeta Organica, etc.) are not awarded with such certificates, but the manufacturers’ packages always read that their products are free from harmful ingredients prohibited by natural products standards. The company shop offers brand-made soap and bath salts – you may wash your hands right there in a sink next to which the samples of creams, balms, etc. are lined up. Near cash register you will find Natura Siberica makeup stand. If the queue is too long you can have an apple or drink herbal tea – these are complimentary from Organic Shop.

Apart from in-house products, the company sells other organic and natural brands including Avalon Organics, Aubrey Organics, Dr. Hauschka, EcoKids Friendly, Lava, Sanoflore, Weleda and others.

Morisania boutique of natural and bio-goods has been operating in...
Moscow historical downtown for almost two years. The project is aimed at a safe alternative to virtually all things needed in everyday life. Two floors of the boutique offer cosmetics awarded with international ecological certificates.

Today, the store range covers organic cosmetics brands for bath and shower, body care, personal care, a male line and various accessories (natural sponges, brushes and towels), products for children (handmade toys, hypoallergenic cosmetics), household eco-goods (cleaners, detergents, etc.).

Organic cosmetic products are represented by such famous brands as Dr. Hauschka, Alpha Nova, Aubrey Organics, Logona, Born to Bio, Pangea Organics and many others.

In the area of children’s cosmetics you can find Alphanova Bebe, Weleda baby, Wiona and Helan.

Bath & Fun Island is a special place in the shop, where the process of bath taking is a real spectacle. This include the most incredible and all-natural products for bath, relaxation and pleasure: bath oils Calendula Nativ and EcoWorld, made in the form of confectionery, Atlantic salt Les Fleurs de Bach with healing essences of flowers, Moroccan black soap Kae, cream bath Green Energy Organics and much more.

This is a perfectly organized and arranged store; cosmetics and female hygiene products are offered on the ground floor, household and children’s goods – on the first. Gentlemen will find a special dedicated corner with natural deodorants, shampoos and shaving products.

Morisania has a substantial benefit, i.e. detailed labels with the descriptions of each item; moreover, qualified consultants will update you about any product and help to choose the best one.

Organic FAN – a cozy “all-in-one” shop has settled in Moscow suburb – not only sells bio cosmetics and household but even has a coffee bar. Friendly hostesses will serve tea, delicious pastries made from bio-flour and other bio-ingredients, tell about their products and share the secrets of self-care. Moreover, this store hosts Saturday customer events featuring master-classes for seeds germination, tasting of “most natural” Tuscan products, “customer days” of PHYT’s cosmetics line, which offers a wide range in the store. Here you can find French crystal deodorants OSMA; Aubrey Organics, Weleda, Logona and some other cosmetic brands are presented selectively. A separate place is devoted to household eco-aids: DM Sodasan and Klar, Canadian EcoMax and French Etamine Du Lys.

Lemongrass store has been operating in Moscow downtown for two years. The store specializes in spa-cosmetics and aromatherapy offering a wide spectrum of Thai handmade cosmetics – essential, basic and massage oils. Although there are not ecologically certified cosmetics here, all products are manufactured of herbal ingredients without sulfates, parabens, colorants or preservatives. On top of oils, Lemongrass House offers products for face, body, hair, bath and shower, natural repellents, cosmetics for moms and babies, and even various products for pets (shampoos, paw care, glossy fur, etc.) as well as herbal teas.

In 2014, a showroom of L’Origine Naturelle was opened in Moscow downtown to offer small family brands, producing delicious natural foods and cosmetics.

The key brand, which L’Origine Naturelle has brought to Russia, is Famille Mary – a family of beekeepers from France, which has created its own organic cosmetics Abellie based on royal jelly and top qual-
itly honey with most incredible additives, including truffle, brandy or 24-carat gold.

Krasnopolyanskoе Mylo is the family brand comprehensively displayed in the Showroom: soap of all possible fashions, creams, shampoos, hair balms and even dishwashing liquid manufactured by a small family in Krasnaya Polyana, near Sochi.

MamaBio – a small shop of organic baby goods offers a broad range of cosmetics both for women and children.

BioStoria supermarket has been operating in Moscow since 2013 offering almost everything that you can imagine including farmer and bio-products, natural and organic cosmetics as well as household chemicals. The main message for BioStoria is to provide a complete assortment for Russia including in-house bakery that makes bread from organic flour and, finally, biomeat.

Cosmetics portfolio includes French brands Coslys and Cattier, German brand Lavera, as well as Russian BotanicaLife. The company plans to launch organic and decorative cosmetics.

Near Taganka district, which is a part of Moscow historical center, operates Biozka – a showroom and shop offering an exclusive and complete range of selective organic cosmetics, including French brands Cattier, Florame, Santa Verde and ZAO.


Eco-world in Strogino, near Corinth Expo International Exhibition Centre, is a small corner-shop with a huge product range: natural cosmetics from Natura Siberica to Dr. Hauschka, eco-friendly household for all occasions, a variety of toys, eco-napkins, and eco-nutrition. You can also find a handful of non-traditional products here, including Indian Ayurvedic things: toothpaste with pepper, Chyawanprash and rose water, “pure mud” from the Dead Sea of Israel. It is worth to drop here for household cleaning products and cosmetics: in addition to those mentioned, Eco World offers Born to Bio, Little Siberica, Dr. Hauschka, Weleda, Organic Shop and rare in Russia – Danish Urtekram, French Coslys and German budget brand Nonique.

Following the enormous interest to bio products InterCHARM exhibition launches this autumn new project Green Valley – one of the most expected premierses of the Russian perfumery and cosmetics market.

Full breadth of organic products’, natural cosmetics’, environmentally friendly cleaning products, cosmetics for home care, food supplements and nutraceuticals will be shown during 4 days of exhibition. Moreover, certification authorities and specialized media will exclusively represent their activities and principles.

Following ecological trend, InterCHARM organizers created ECO-HOME during the last year’s exhibition. That was a section dedicated to eco-friendly products for home care. This platform aroused great interest among the visitors, including retailers and media representatives. In 2013, natural cosmetics products manufacturers were firstly awarded by the new BIO.RUS Award, organized by the Perfumery and Cosmetics Association of Russia (PCAR), with support of InterCHARM.

InterCHARM continues following this direction. Jury of BIO.RUS Award will determine the best organic products and natural cosmetics manufacturers this year, and diversity of eco-friendly cosmetics will be exhibited in one of the four halls called Green Valley.

InterCHARM visitors will familiarize with natural cosmetics brands represented by local distributors, as follows: Florame, Santaverde, Eco-doo, Cattier, Acorelle, ZAO, Bocoton, Zeitoun, World of Medical Cosmetics, Natural Cosmetics, and many others.

Demonstrate the cosmetics inspired by nature from:
- Germany (Dr. Hauschka, Lavera)
- Poland (AVA)
- Belgium (Pranarom, Ecover)
- Denmark (BAMBO, ABENA)
- Czech Republic (UNION)
- Italy (NATURE’S, CELL-PLUS, BIOKAP)
- UK (NATRACARE)
- Israel (DR.DABOUR)
- India (KHADI, Biomui)
- Indonesia (BY – cosmetics), etc.

Unique part of this section is a group of certification authorities, where industry professionals will note the main principles and standards of the CAs in natural cosmetics. ECOCERT (France), the first independent CA to develop standards for natural and organic cosmetics, and BDIH (Germany) will exclusively take part into InterCHARM’s Green Valley.

Traditionally, years of InterCHARM’s experience guarantees contacts of exhibitors with their target audience – cosmetics distributors, retail chains and stores representatives, pharmacies – all market players interested in natural cosmetics. Effectiveness of participation in the exhibition annually proved by its results – up to 80% of contacts throughout the Russian perfumery and cosmetic industry concluded here at InterCHARM.
INTERCHARM professional

XV INTERNATIONAL EXHIBITION OF PROFESSIONAL COSMETICS AND EQUIPMENT FOR BEAUTY SALONS

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Professional hair care
Professional skin and body care
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Green Corner – Natural cosmetics
Cosmetic and hairdressers equipment
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Solariums, tanning apparatus
Permanent make-up equipment
Fashion accessories

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Despite challenging economic environment, the retail sector continued to grow throughout 2014. According RBC.Research, the number of perfumery and cosmetics stores increased by 26.6% (in 2013, the upside was 25.3%). The number of professional supermarkets has enlarged by 38.3%; concept-stores by 31.8% and multi-brand stores – by 25.3%.

Analysts noted an interesting trend: networks tend to close their outlets in Moscow, St. Petersburg and in a number of megacities to open up new outlets in medium and small cities. For example Ile de Beaute network closed several shops in Moscow, St. Petersburg and Samara but created outlets in Ufa, Tyumen and Yaroslavl. Similar situation is seen in “L’Etoile” network; in Moscow, St. Petersburg and Kazan it closed over 20 outlets to open some stores in small and medium-size cities across various Russian districts. “Rive Gauche” follows similar strategy. Cities located in Volga, Central and Siberian Federal Districts are the most popular expansion route for three major networks.

On the other side, experts reported two trends: price upturn by the end of 2014 and simultaneous surge in demand. Despite prices were escalating in November and December by 15-30%, there was a shopping buzz because people were hoarding at “old” prices. In many ways, the heating demand was supported by promo campaigns. Many companies are extremely negative to such moves of retail, but such slogans as “40, 50%, etc. down for everything” contribute to the growth of traffic and the amount of average check. As a result, thanks to the last quarter indexes, total annual sales figures have topped all optimistic forecasts.

“Unfortunately, we are absolutely dependent on our partners and have to adjust prices according to changed purchase price, – says Irina Mironova, head of Articoli Sales Department. – We have a large number of suppliers, and prices vary in different ways. For instance, niche brands whose foothold in the market is limited pushed the prices up in December and January averagely from 5 to 40%. Thanks to loyalty scheme, we are trying to create a family atmosphere, whereby the crisis prices are becoming a bit more attractive”.

We don’t see a slowdown in niche segment as a whole. However, there are some brands in high price category, for which the demand has decreased. Most likely, we can predict a reorientation of customers from expensive niche perfumery fragrances to more affordable price range. But it is too early to drive to any conclusions because the elapsed time is insufficient to figure out sales analytics”.

Earlier this year, many analysts asked operators about their plans to attract customers who made large stocks of products. In this context, even substantial discounts are unlikely to recover customers in two or three months.

“L’Etoile” was the first company to announce its plans – from April 1, it cut prices 25-60% for consumer goods with value below 1,000 Rubles. The reason for this measure was economic crisis and Ruble downfall triggering higher prices in the shops. According to Tatiana Volodina, Network Director General, “we seek to go through this difficult way together with our customers and will meet their concerns”.

63 cosmetics brands, i.e. some 8200 products or about a third of the entire portfolio were covered by this unprecedented continuous campaign. Of these, 1200 products are “L’Etoile Selection” own brand. Innovations extend to all 900 stores in 200 cities of Russia. From the technical side by virtue of this
campaign the network reduces the margin, i.e. refuses from a portion of profit so as to retain the customers, engage new clients, and eventually succeed on the back of larger sales volumes. The prices of products in higher price category, luxury, for example, will not change in the short run. But this does not mean that they will remain frozen – there still will be an imperceptible upturn, however, as in the past.

Moreover, the company plans to revise its portfolio drastically: skin care products and color cosmetics remain in the same volume, but new brands will rollout in the segment of hair care and nail polish. The company has some plans for perfumery including the launch of “L’Etoile Selection” fragrances and special corners with niche perfumery. These will be arranged under unique concept, where flavors will be the “book”, while specially trained consultants will be librarians. Children’s cosmetic products are not forgotten as well; the network will open a special “L’Etoile” corner for moms and babies in new “Children’s World” mall on Kuznetsk Bridge and launch an additional loyalty program associated with discount cards.

“Ile de Beaute”, well-known for its high quality service, employs it as a major tool to compete for customers. In order to improve the quality of customer service, the company has provided tablet computers to its consultants allowing access to corporate website and information resources through special application. Thus, the retailer is going to speed up the customer service and enhance its quality. On top of that, the company has vigorously expanded the geography of products. Currently, the orders placed via the Internet are delivered to over 1.5 thousand localities, including rural areas lacking network trading.

Despite that “Ile de Beaute” prices for some brands are higher as compared to other networks, the company does not report any outflow of customers. Comments Irina Vasinskaya, Marketing Director: “We were expecting a decline in January – none; we expected it in February – none again. Actually, we have not felt the crisis yet. We operate in luxury price segment compared to other players; our customers are wealthy people and they do not save on expensive cosmetics, or at least do will do this as the last resort.

Russia is a “market of recommendations”. Russian customers are demanding more attention; they get interested in more efficient and, consequently, more expensive products. And they still expect more service from us. In Europe, shopping is a very fast process, in this country people just love to spend a good time in a store. And we provide this opportunity. For example, we have the Visage School for shoppers. It is absolutely free; we do not force to make a purchase once the make-up done, though we hope that the customer will do this. Or let’s take another option, namely, Perfume Bar, where a person can test aroma without seeing it: the consultant brings the customer to the brands line and shows the chosen scent.

By all means, consultants play a key role in our outlets. Therefore, we arrange intensive training for them. We pay more attention to servicing and communications between clients and consultants as compared to our counterparts. A consultant should be unobtrusive, but always at the client’s hand. And, certainly, they must offer assistance. The main thing is to create a user-friendly atmosphere, be hospitable and open.

70% of our customers buy products in stores or via our website, 30% use online stores only, mainly in the cities where our stores don’t operate. In addition to product catalog, you may get a lot of services and information. For example, you can upload your photo and “try on” a makeup. You can watch video tutorials and master classes for make-up, body care or perfumery. Our competitive advantage is our brand with an absolute guarantee of authenticity. Exclusive brands build another advantage of Ile de Beaute: Make-up forever, Benefit, Clarisonic – more than 20 all in all”.

Experts would say that various loyalty programs, in particular the so-called network “golden cards” granting 25% discounts, inflict damage on luxury brands. However, networks are not going to give them up. “We have a system of savings, – explains Irina Vasinskaya. – For the first purchase, we give a 10% card, then, by accumulating bonuses, you can receive 15% and 25% cards and eventually become a VIP-customer. On top of discounts, we arrange premiere sales to VIP-clients, additional gifts, visits to “star” specialists. Such customers have priority notification about all network campaigns.

“Rive Gauche” chain is the third, most flexible player in the market responding promptly to changes in demand and adjusting its portfolio to meet the market realities. From the very start, its stores offered cosmetic products of “luxury” major brands mainly; then the share of mass-market cosmetics share went up from 20% to 40% to people with lower revenues. In 2014, the company, in spite of difficult economic situation, decided to increase the share of premium brands. Drogerie networks development, expansion of assortment matrix of cosmetics in super and hypermarkets forced the company to revise its strategy. Today, the share of luxury brands account for about 60% of the product range.

According to Rive Gauche Vice President Corinne Jacques, the company has not seen a significant reduction in demand. “Women would not reduce their spending on perfumery and cosmetics and they always seek to turn their shopping into a holiday. So this year, the retailer focuses at services and activi-
ties in the shops, including master classes, presentations of fashion magazines and so on. We will also push up the share of high-end price segment, whereby the share of more affordable brands, which can be found in drogerie networks, will go down. We don’t care about price wars”, – said the top manager.

Chain actions include a joint campaign with woman.ru portal designed for girls graduating from schools. The organizers proposed to develop applications for the website or mobile to create a fashionable image and put it in social networks. The winner will get a prize, i.e. certificate for purchase of tailor-made designer dresses or Cacharel fragrances.

In recent years, the concept shops have emerged and successfully develop in Russia. They don’t seek to win all buyers or plan a broader expansion. On the contrary, their task is to remain exceptional and exclusive. They cater for specific and sophisticated customers, very demanding esthetes able to understand and evaluate the “taste” of luxury.

St. Petersburg Euforia Boutique puts special emphasis on the method of selective picking the best fragrances of well-known and not famous masters of modern alchemy, for example, Fuego 1833 Patagonia, Au Pays de la Fleur d’Oranger, House Of Sillage, Jardins d’Ecrivains, Jul et Mad, Mona di Orio, Phaedon Paris, Friedemodin, Demeter, and others. Moreover, the boutique sells fragrances and aromatic candles for households. The first boutique was opened in late 2014 in the shopping mall of St. Petersburg; the second – in 2015. Natalia Dyakonenko, owner of Euforia scents boutique network comments: “Frankly speaking, prices rose by 10-20% for almost all fragrances, except those, which have been acquired by us before the price hike. We did not raise prices for old products, while new ones will be offered at distributor’s prices. Now we have a special offer for customers – minus 10% on everything, in this way we are trying to compensate price rise. Niche perfumery is a very peculiar; with a perfume, you can compose a legend, tell about your desires and make a declaration of love. Despite the crisis, this story will live forever”.

The first salon of selective perfumery “Parfumer” appeared in St. Petersburg, 7 years ago. Today, this network has 7 stores. “Ten years ago, only few knew about niche perfumery in Russia, but it is becoming increasingly popular; this is a natural process triggered by enhanced consumer culture thanks to sophisticated Russian consumers, their desire and ability to afford something better. Accordingly, niche perfumery share in the market is just beginning to grow”, said Pavel Timofeev, owner of the network.

The company’s website features over 100 brands covering perfumery, body care products, household fragrances and candles. Among them, Ivo Pitanguy, Japanese soap Arsoa, skin care products from St. Barth, male grooming Eight and Bob with prices ranging from 10 to 2,000 Euros.

“We do not set prices in our salons, – explains Pavel Timofeev. – Manufacturers or distributors appoint the recommended retail price, which we follow. Some brands have elevated prices by 10-50%, and we changed the labels on our shelves. Evolving consumption culture implies that more and more people will prefer selective perfumery. In this new environment, customers are becoming more demanding for all categories of goods, including perfumery; they seek better, appealing, persistent and buoyant scents. As a result, selective perfumery has a chance to enter a new level of fame.

Our salons belong to premium segment, and in terms of competitiveness, we feel very important to support the quality of “Parfumer” salons. I mean the professionalism of consultants, de facto extensive portfolio as well as special services for our customers. In a crisis, you can go along without cuts of spending or staff reduction, but rather you need to push up the potential of each employee and each Ruble spent. My belief is that a crisis brings an opportunity and a ground for mobilization, which eventually ensures progress. For the time being, we have no intention to expand, but the development is inevitable and necessary in a crisis. Our customers are becoming more particular about quality and more rational spending. Therefore, we must enhance both our competitive edge and professionalism”.

“Parfumer” offers tailor-made services. For example, a perfume stylist is salons can select a fragrance for a client in accordance with his/her style and way of life. Perfume stylist gives consultation to VIP-card holders only; advance appointment is needed.

If for some reason a customer wishes to select a fragrance at home, or if he/she wants to make an original party at home, the company’s specialists can arrange a fragrance “road-show”. Selected scents will be delivered free by courier next day after testing. By the way, all orders made through the company website will be delivered to the customer free of charge. Moreover, they can be packed in a gift box also free. “Perfumer” has redesigned another marketing tool widely used in perfumery and cosmetics networks, i.e. gift certificates. And it’s not denomination, just because it is much more expensive: from 3,000 to 30,000 Rubles (55 – 550 Euros). When a client purchases a certificate totaling to 15,000 Rubles (270 Euros), he receives a certificate for a free testing of individual perfume. Individual perfume testing is arranged as a small get-together with cocktails and champagne for the customer entitled to a gift. Experts will prepare a story about the culture and history of flavors, based on customer preferences.
1. Market Size

Russian makeup market is huge and potentially lucrative for many cosmetic brands. According to Euromonitor International, in 2014 the segment of color cosmetics in Russia continued its dynamic development with growth of 4% and reached to 65 billion rubles. The market is close to saturation, experts say as in the previous years figures were slightly higher – 6% annual growth. Among other reasons are slowdown in economy and consumers’ product price sensitivity.

There was a high increase in demand for nail polish in 2014. The key trend in the category was gel nail polish; however, this procedure is provided by salons where prices are relatively high. As a result, a budget brand, Essence, responded by launching a gel nails-at-home kit, an affordable way to achieve a gel manicure at home. The traditional lipstick effect was replaced with a nail polish effect. This means that women wanting to buy something for themselves tended to choose nail polish rather than the previous choice of lipstick.

Consumers focused their choices on more-essential products such as mascara, foundation and powder; however the key factor remained quality, and even during challenging economic times, consumers still looked for quality. As a result, premium products performed better than mass-sales goods in 2014. Premium colour cosmetics increased by 9% in current terms in 2014, versus a 3% rise for mass colour cosmetics. Being rational and influenced by the international trend towards natural make-up, they preferred to purchase one premium product rather than several basic items. Their purchasing choices could be characterized as deliberate, as before the purchase they studied the range of potential products and chose the most suitable that they considered was value for money.

2. Customer Habits

According to research Russian Target Group Index (Synovate Comcon), over the past 5 years, the share of consumers of colour cosmetics is growing. The share of consumers of premium segment also continues to grow gradually, mainly in the big cities. The proportion of consumers of premium brands in the cities 1.6 times higher than in medium and small cities of Russia. At the same time, residents of cities with populations of 1 million people more likely to use mass-market brands (Art-Visage, Ninelle, Beautycycle, Divage etc.)

In addition, the slowdown in 2014 prompted consumers to reduce their claims to colour cosmetics. Russian consumers switched to more-rational purchases. Therefore, consumers are expected to be more selective in their purchasing choices, searching for the best products and waiting for discounts before making a purchase. Quality will remain the most important factor in the purchasing decision.
An average Russian woman annually spends around RUB 730 for make-up with lip cosmetic products in the vanguard – 38% of total spending. Typical trend of recent years is the growth of premium products segment, which proves to be the most promising in terms of future development. In value terms, the share of premium color cosmetics increased by 7% totaling to 13% of aggregate sales. Luxury products segment grew faster versus mass segment. Dior, Chanel, Yves Saint Laurent and some other brands are among the leaders of color cosmetics sales.

Lip gloss and lash mascara are the best sellers followed by eye shadows and powder. However the use of makeup foundation is still inferior to them, although over recent years, it has become more popular.

Russian women’s preferences vary from those in Europe, although we should not generalize Europe, since tastes differ considerably, say, in France or Sweden. But there are some general trends in terms of women’s preferences in various countries. First, it concerns lipstick shades. Russian women are very particular about their lipstick shades. According to various experts, pastel shades of gloss, lipstick and nail polish enjoy higher demand in Russia, whereas in France, Italy or Spain saturated colors are on the top charts.

The second difference comes with the willingness to use challenging and flamboyant makeup. In this respect, the market players emphasize both the choice of eyeliner shades (pencils, liquid eyeliner, etc.) and false eyelashes.

### 3. Key Players

Colour cosmetics in Russia continued to be led by the multinational company L’Oréal Russia in 2014. It increased its value share by one percentage, from 21% in 2013 to 22% in 2014. The company constantly increases both its value sales and its value share. Throughout its presence in Russia, L’Oréal Russia has built a strong image as well as the loyalty of its customers. It strengthened its leading position in 2014 due to offering a wide portfolio of brands within the various price ranges, developing its distribution and new product launches supported by strong promotional activities.

National producers such as Art-Visage, SM-Michel, Divage and some others are worthy competitors with the volume of Russian-made color cosmetics.
4. Distribution Channels
Over half of consumers buy cosmetics in specialized perfumery and cosmetics chains, 31.3% – in super/hypermarkets, 23.8% prefer direct sales and 11.2% visit drogeries.

Distribution of color cosmetics is developing on the back of expanding drogerie chains. Retailers seek to reach more customers by virtue of loyalty programs including discount cards, various promos and expanded online stores so as to facilitate consumers’ choice and price comparison as well as to find the best deals.

5. Trends
Mineral or natural makeup remained a niche area within colour cosmetics in Russia. Despite the fact that consumers are becoming more educated, the majority of them have very limited knowledge concerning such products. In addition, mineral and natural cosmetics are quite expensive and unpopular in Russia. Instead, consumers would rather purchase widely known premium brands, which they rely on.

The demand for other make-up products, including BB and CC creams, decreased in 2014. Consumers doubted the universality of these products and were more likely to purchase separate products, such as moisturisers, foundation and others; however, Faberlic introduced a novelty DD cream, which was described as a multi-active high-tech corrective beauty balm. Yet, BB, CC and novelty DD creams offered a very limited product range and were mainly only present in large cities.

Premiumization trend is seen as the most prominent in the market of color cosmetics. Sometime ago, the “demonstrational consumption” was a kind of premiumization driver, but today people need high and guaranteed quality. Nevertheless, the evident “rational consumption” of a part of popula-

tion in the crises aftermath forces some women to buy products in more democratic price category provided they satisfy their quality needs.

Multifunctional products such as creams with moisturizing, sun-screen and anti-aging effects, decorative face care “3 in 1” (base, tinting cream and powder), lipstick or lip gloss to moisturize lips, etc. are winning popularity.

Recently, a new tendency was revealed in Russia, i.e. make-up demand is being generated thanks both to national and global trends. Currently, Russian women go shopping consciously focusing at specific products that available brands can offer to them.

6. Forecast
Experts expected that mineral and organic colour cosmetics in Russia will become more and more popular thanks to the emergence of a large group of consumers preferring natural foods and healthy life style. However, while this category continues to be a niche.

The mass segment will remain popular in the literal sense of the word – experts predict the emergence of a huge number of new launches of the most smart formats and colours.
SERIOUS APPROACH

1. Market Size

Russian men have been actively interested in cosmetics and toiletries, so this segment is growing significantly and male grooming is a driver of the Russian market.

Growing interest in premium products encourages men to buy luxury cosmetics supposed to be more efficient and able to confirm the social status that men value most.

The experts note the current rise in the cost of men’s deodorant, which also showed a movement towards premiumization. Premium bath care also show steady growth, and will increase by an average of 1% over the next five years. More and more Russian men begin to regularly use toiletries and cosmetics. At the same time, experts believe that the male cosmetics sales may decline in the near future due to the economic situation.

According to Euromonitor, In 2014, men’s shaving performed less positively than men’s toiletries. This was the result of several factors. First of all, men’s grooming was a rather saturated category and there were no significant product launches towards the end of the review period. Moreover, the key leader of the category, Gillette Group, accounted for the largest share of category men’s shaving sales, and put in such a strong performance that other players could barely compete with it. Finally, there was a trend towards beards, which came from Europe. More men started to have beards, which reduced the potential number of consumers; however, this trend influenced launches of new products designed especially for beards, including balm, oil and special products to stimulate growth of beards.

2. Consumer Habits

For the male audience effectiveness of the product is still more important than fragrance. Russian men annually increase spending on the cosmetics purchase for more than 40% – about $115 per month – it is twice more than in the US.

TOP-5 skincare brands: Nivea was used by 17.9% of men, “Chistaya Linia” – 11%, Avon – 8.3%, Oriflame – 7.7%, and Clearasil – 6.2%.

TOP-5 perfumery brands: Adidas – 14.3%, Avon – 11.9%, Hugo Boss – 11.3%, Gillette – 10.9% and Oriflame – 7.3%.

TOP-5 aftershave brands: Gillette – 35.9%, Nivea – 31.5%, Arko – 23%, Old Spice – 9.6%, and Arko Men – 8.5%.

The traditional consideration of Russian men that they take care of themselves the least amount possible is being replaced with growing health concerns and a culture of hygiene. As a result, men’s bath and shower and men’s hair care recorded the highest current value growth within the major categories of 6% and 7% respectively in 2014.

According to GfK, with young men actively researching and choosing between different personal care products, it is essential that manufacturers understand how to engage with them. Although a large number of young men are visiting stores to view products, in general they are less likely to browse in a store than women. The exceptions to this trend are young men in Russia where 46% browse in a store, compared to 42% of young women, and in Brazil where browsing is relatively equal at 50% for young men and 56% for young women. For manufacturers and retailers targeting those markets, promotion and clear packaging are essential to help young male shoppers choose between products when they are in a shop, as well as to encourage impulse buys and new product trials.

When we compare what information sources young men and women are persuaded by when considering a purchase in the personal care category, there is a strong bias amongst men towards traditional media, most notably advertising. Men’s opinions are significantly more likely to be shaped by advertising than women in all markets as our results show four in ten (41%) young men versus 29% of young women in Russia. Google and other Internet search engines play a major part in the research phase for young men. In the majority of markets, men aged 16-21 are significantly more likely than women to use search engines: 41% of young men use search engines compared to 29% of young women in Russia.

3. Key Players

The Russian male grooming segment is dominated by the key international players like P&G, Gillette, Beiersdorf. However, local manufacturers extend their male collections and launch new products.

Gillette Group maintained its leading position with a value share of 39% in 2014. This was due to the long presence of the company’s brands in men’s grooming and a high amount of loyalty to them. In addition, the company has well-built distribution channels and implements strong promotional activity to drive sales.

4. Distribution Channels

Men prefer to buy cosmetics and perfumery in specialized stores (52%), in super- and hypermarkets...
(38%); the share of buyers from individual distributors is small – just 6%.

5. Trends
Consumers have started to trust the Russian brands, it is a current trend. This perception influenced by the Russian designers like Alexander Terekhov or Uliana Sergienko became fashionable in Europe. They have begun to change the view of the Russian fashion, beauty and quality. This is happening now in the field of beauty.

Men seek to look well-groomed so as to achieve their career goals. Decade by decade, they invest in cosmetics and perfumery to create the image of a successful business man regardless of country, political regime or climate.

Russian men pay more attention both to customary and specialized products for skin and hair care. To date, virtually all cosmetic brands offer lines for men. Moreover, manufacturers of mass products pay particular attention to anti-aging aspects including cosmetics to recover freshness in the morning, relieve baggy lower eyelids, anti-age creams, etc. Men wishing to say goodbye to gray hair have a range of brands offering both dyers and toners. Experts believe that these product categories are very promising.

As before, Russian men opt for simple and universal hair care products. Shampoos for hair and body "two-in-one" have become widespread lately. A man would need just one bottle to refresh his body and hair. As before, the stronger sex is neglecting conditioners or extra care products – they simply do not see them necessary. Russian men are rational and conservative in their choice: having tried a product once, they would become an addict.

6. Forecast
Men’s grooming recorded a value sales increase of 3% in current terms in 2014. This growth was only half the current CAGR of 6% registered over the last five years. The reduction in growth was due to category saturation, as well as the new trend towards beards and a lack of novelties; however, the culture of hygiene and self-image was still important among men, resulting in support for sales in 2014.

The target audience for male care is expected to grow because more and more Russian men will buy and regularly use cosmetics and personal hygiene products.

Experts underline the increase knowledge of consumers, careful attention to the ingredients, popularity of the products positioned like natural. As forecast predicts mass market and private label, especially shampoos, shower gels and shavings will be on the rise.

### Market Sizes | Historic/Forecast | Retail Value RSP | RUB bn | Constant 2014 Prices

<table>
<thead>
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<th>Categories</th>
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<td>Men’s Shaving</td>
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### Market Sizes | Historic/Forecast | Retail Value RSP | RUB Per Capita (Male Population) | Constant 2014 Prices

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### Market Sizes | Forecast | Retail Value RSP | RUB mn | Constant 2014 Prices | Year-on-Year Growth (%)

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### Men’s Grooming Company Shares (Global - Historical Owner) | Retail Value RSP | % breakdown

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<tr>
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© Euromonitor International
1. Market Size

Analysts say that in the past years consumer’s behavior of bath and shower changed – it has become more rational. Each purchase demonstrates a balanced and sensible solution. Today, they are looking for high quality brands at a reasonable prices. The choice is made in favor of the main products: shower gels, liquid and bar soaps and intimate washes while others products such as salts, foams, fizers are purchased less frequently or as a gift.

As a result, categories such as foam, bath salts showed a slight decrease in sales. But thanks to a growing culture of personal hygiene and demand basic products the segment as a whole, according to EuroMonitor, in 2014 increased by 4 %, which is slightly lower than the GAGR. Experts attribute this not only to the economic slowdown and changing consumer behavior, but also to the saturation of bath and shower segment.

Bath and shower premium products, as well as premium segment on the whole, are gaining demand especially in large cities, where premium cosmetics and perfumery chains are relatively well developed and residents have enough money to spend on premium brands. L’Occitane with a market share of 37% is the leader in premium segment of bath and shower products.

One of the major categories showing the most impressive growth is soap. According to Russian Statistics, the Russian market of soap in 2014 increased by 11 % compared with 2013 year. The increase marked in domestic production (12%) and in imports (9%). The share of imported soap was 32 % in volume terms.

The volume of production of soap in Russia in 2014 reached up to 98.5 thousand tons, which is 12 % more than in 2013. The volume of imports to the Russian market on the basis of the soap in 2014 amounted to 41.8 thousand tones, which is 9 % more than in 2013. In January-May 2015 the volume of imports of toilet soap in Russia amounted to 15.6 thousand tons, which is 4% less than the same period of 2014.

The main importers of the Russian market of soap Turkey (18.3 thousand tons, or 40 %). This is followed by Ukraine (9.5 thousand tons, or 21 %), Germany (8.5 thousand tons, or 19 %), Poland (4.9 thousand tons, or 11 %), USA (0.7 thousand tons, or 2 %) and Egypt (0.6 thousand tones, or 1 %).

2. Consumer Habits

According to Synovate Comcon data, the most popular product for bath and shower are gels: in I half of 2015 they were used more than half of the urban population in Russia –
56%. Foams and bath salts used by about 15% of the Russians.

In the TOP-5 brands of bath and shower are Nivea, Avon, Palmolive, Dove and Camay. Market leader brand Nivea, 55% of users are aware of means for bath and shower; 22% used it at least once in 3 months.

When making the consumer profile in terms of bath and shower, Synovate Comcon experts found that women using bath or shower products are more sociable. They like social events and strain after organizational activities. They tend to be optimistic, cheerful and welcome changes. Users of soaps and bath salts are also somehow careless and addicted to spontaneous actions. Therefore, manufacturers and suppliers of these products should use not only bright and glamorous package, but also game patterns of marketing communications, blogosphere and tailor-made promotions to awake the audience interest.

Following global trend consumers prefer natural products that do not contain artificial additives, dyes and perfumes. However, often such products not presented in the economy segment.

3. Key Players

Unlike other categories, bath and shower in Russia is quite fragmented due to many international and domestic companies having a presence; however, Avon Products led bath and shower in Russia in 2014 with a value share of 8% (Euromonitor data). This direct seller maintained its leading position due to affordable prices, attractive discounts and offers, and a wide portfolio of different types of brands.

According to Step by Step GC, every sixth customer prefers to purchase products through individual consultants. Direct sales players have evident strong footholds in this segment, e.g., Avon, Oriflame, as well as Russian company Faberlic. Among local manufacturers are “Pervoye Reshenie”, “Magrav”, “Nevskaya Cosmetics”, “Floresan”, “Mylavorov” and “Lauren Cosmetic”.

Products for traditional Russian banya take a special place in the Russian market. Domestic manufacturers are producing more and more new products in this category.

Manufacturers in mass market segment have adopted the popular concepts of aromatherapy, spa and wellness reflected in product names, dressing and advertising. Obsession of exclusivity, naturalness and uniqueness of ingredients give a push to the segments of solid soaps, shower gels and bath products.

4. Distribution Channels

As bath care is quite fragmented segment it gives the distributors bug fortune to place the brands in a wide range of retail format – from supermarkets and drogeries to specialized perfumery and cosmetics chains and organic shops.

5. Trends

Year after year, Russians concentrate on premium and organic products as well as cosmetics positioned as natural. Consumers have become much more aware of the impact on health and well-being inherent in various ingredients used in bath or shower products, and manufacturers try to respond quickly so as to meet the demand for products with natural ingredients and organic cosmetics.

Russian consumers are not strongly focused on gender division of bath and shower products. In Russia, the share of specialized cosmetics for men is small, although this segment is steadily growing. Manufacturers amaze customers with new products, scents and textures. Shower gel, bath foam, soap, scrub and even jelly and smoothie have found their place on home bathroom shelves.

An interesting trend in recent years is a higher consumption of bubble bath and salts among Russian men suggesting that today men and women tend to transform regular bath or shower procedure into a ritual seeking to cherish their bodies with nice texture or flavor.

6. Forecast

Experts stress that the growing demand for basic products will remain a long-term trend. Consumers are becoming more discerning, sensitivity to price and promotions. However, small towns in the regions will show better results in sales compared as the market there is not saturated and interest in the products of various formats, including non-essential is very high. Therefore, there is expected to increase sales of foam, salt, bombs, oils and other unusual tools for bath and shower.
1. Market Size
Perfumery is one of the biggest segments of the Russian market. In 2014 it reached 72.2 bln rubles – 1% more compared to 2013. Russian market will always be attractive to the perfumery brands, because Russia is a country with enormous resources, and the priority of most perfumers is to conquer the Russian market. The crisis has not affected this phenomenon in any way, currently, the shoppers are seeking more exclusive fragrances, as every consumer is striving for individuality; therefore, the niche perfumery is progressing most actively.

Euromonitor experts reported a continuous trend in the fragrance market, i.e. consumers’ migrating from mass fragrance trademarks to established premium brands. Regional expansion of specialized networks is one of the main reasons. L’Etoile, Rive Gauche and Ile de Beaute, with their presence both in big cities and across regions, became accessible to a broader circle of consumers.

2. Consumer Habits
According to Synovate Comcon 2014 survey, 38.3% of Russian girls and women aged over 16 years use perfume (2013 – 37%); their share in Moscow is 45.1%; the figure in Saint Petersburg increased either – from 34% in 2013 to 35.6 in 2014. Eau de Toilette is a more affordable product and thus has significantly more users – 58.4% (2013 – 57%) in Russia in general.

Perfume buy girls 16 – 24 years and mature women aged 45 to 54 years. Eau de toilette is more popular among women aged 25 – 44 years. Representatives of these groups are qualified professionals with higher education. Those who prefer eau de toilette are married mostly and among the users of perfume are single. Their income is higher than Eau de toilette consumers.

Users of toilet water more cautious than perfume consumers – they plan their actions, they like to be organized and follow a certain order. As lovers of perfume and eau de toilette lovers aspire to leadership and career development. For those who prefer perfume, is not peculiar to pay attention to the price and is characterized by focus on the brand and quality. They are more likely to buy imported products. They are less likely than toilet water users plan their purchase.

These groups are characterized by the following fashion and pay great importance to their appearance, but the toilet water users are focused on fashion less.

About five years ago, Russian consumers passionately rushed to niche fragrances. Many Russian fashionistas are crazy about Kilian Hennessy and Geza Schönau, creators of Kilian and Escentric Molecules brands. Some stores don’t even offer testers of these fragrances since they fly away in seconds.

3. Key Players
Three overseas players, i.e. L’Oréal, LVMH and Procter & Gam-
ble lead the sales in volume terms; in value terms, Estée Lauder Companies, Coty, Puig Beauty & Fashion Group, Shiseido, Chanel are in the vanguard. Leader domestic producers is Novaya Zarya.

According to Euromonitor, Seldico led fragrances in Russia with a value share of 16% in 2014. The company has a wide portfolio of brands and generally operates within the premium price range. Its most popular brands are Bvlgari, Guerlain, Kenzo, Christian Dior and Givenchy. The company’s brands are well known and mostly recognised by Russians. In addition, the company invests heavily in promotions and its brands are sold through the most popular channel of health and beauty specialist retailers.

4. Distribution Channels

The most popular channels of distribution have not changed for the last decade. Consumers buy perfumery in specialized stores (20.7%), or super/hypermarkets (14.6%); this trade channel is becoming increasingly popular, and for the past ten years, the proportion of perfumery buyers has nearly doubled. Department stores sell 7.3% of perfumery while individual distributors/consultants slightly lost their share – 6.8% in 2014. Shopping at kiosks or in the market is only 1.1%.

The key distribution channel for fragrances in 2014 was health and beauty specialists. The rapid development of modern retailing and promotional activities run by such outlets positively influenced the development of premium fragrances in Russia. Due to frequent offers and products sold with up to a 50% discount, consumers shifted their preferences from mass brands to premium goods. Fragrances were also sold via internet retailing; however, direct sellers faced difficulties towards the end of the review period as they mainly operate within mass fragrances. Due to constant discounting campaigns for premium products, there was a narrowing of the gap between mass and premium fragrances. As a result, an increasing number of consumers preferred premium brands to mass products (Euromonitor).

5. Trends

As far as geographic market concentration is concerned, we see a downward trend in the total share of federal cities in perfumery and cosmetics sales by reason of aggressive expansion of metropolitan networks into regions and the development of local operators. In the medium term, the share of Moscow and Saint Petersburg will go down against the backdrop of higher share of big regional cities, which are actively developing professional perfumery and cosmetics networks. “Aroma obsession” is an essential feature of Russian consumers.

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<td>Puig SL</td>
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</table>

© Euromonitor International
According to perfume brands representatives, tastes in this country often conflict with global preferences. Russian women have their priorities with regard to Dior. Nowhere in the world Miss Dior or Dior Homme Sport enjoy such furor, however Hypnotic Poison line adored by French and Italian women is neglected here.

About five years ago, Russian consumers passionately rushed to niche fragrances, Jo Malone, first and foremost, whose sales in 2012 rocketed by 40% (a cosmetic brand generating a gain of 5%, is considered victorious). Many Russian fashionistas are crazy about Kilian Hennessy and Geza Schönaus, creators of Kilian and Escentric Molecules brands. The last ranked seventh in Ile de Beaute network standing in a row with such megastars as Dior, Chanel or Guerlain. Some stores don’t even offer testers of these fragrances since they fly away in seconds.

Female tastes are evolving and becoming more subtle; light and fresh flavors are among favorites. Our ladies pay close attention to latest launches in search of trendy flavors for their collections. At the same time, as I have said, authentic classics are evaluated high. The everlasting success of Guerlain represents a palette of deep flavors demonstrates that Russian women thirst for such products. They try to be successful, attractive and preserve their individuality”.

Russian perfumery market is booming in terms of players and brands saturation. In this regard, the below trends should be highlighted.

Consumers are becoming more scrupulous and particular about quality.

Female perfumery remains the main segment in the market accounting for a larger portion of sales, while about one third belongs to male perfumery.

Today consumers seek male premium brands; their potential is impressive.

Mainstream consumers are getting closer to more expensive, premium brands thanks to numerous promo campaigns in professional retail chains.

New segments have emerged in the market recently, i.e. fragrances for children and teenagers promoted by pop stars, new product forms and formats (e.g. hair perfume and perfumed soap).

6. Forecast

Fragrances in Russia is set to record a slow decline at constant 2014 prices over the forecast period; however, premium brands are predicted to record the healthiest performance due to strong recognition and traditions. The development of modern retailing and active promotional activities will be key factors in the category’s performance over the forecast period.
Cosmetic Market Today

Beauty industry from within
1. Market Size

Currently, the range oral care is extremely broad covering toothpastes, rinses, balms, toothbrushes, flosses, fresheners and many other items, but toothpastes undoubtedly make the bulk of the market. Today, consumers seek professional products, and this is the main trend in oral care market. Now people can afford to pay more for high quality products to get excellent results.

Moreover, plain toothpaste is not enough for consumers, since they need high quality and effective product; so, in recent years, premium and super premium segments responded with strong sales.

This factor alongside with a variety of others (e.g. population size) makes the Russian toothpaste market promising and attractive for manufacturers. Indeed, it is growing steadily and it did not shrink even in crisis, one of the few, by the way.

Overall, oral care in Russia was one of the best performing major category within beauty and personal care in Russia in 2014. The culture of oral hygiene dramatically increased in Russia. Oral care products became more accessible, thus increasing the diversity of additional oral care products, such as mouthwashes and floss. As a result, consumers, concerned about their health and oral care hygiene, showed extremely high interest in oral care products.

In 2014, the market of oral care advanced by 9%. Toothpastes hold the lion’s share of oral care segment; however Russians are focusing more at oral care products. First and foremost, the substantial upturn of dental floss and mouthwash sales is attributed to Russians’ care for health lifestyle and desire to have flashing smile as well as approaching to European consumption model, where such products are quite popular. The markets of dental floss and mouthwash have advanced by 15% and 13% respectively.

It should be noted that oral care segment has an enormous potential. As we know, this market is one of the most competitive since low primary cost of toothpaste allows manufacturers to gain good profit from the end-product.

2. Consumer Habits

According to Synovate Comcon, in the first half of 2015, 94% of Russian families used toothpaste, with Colgate (47.1%), Blend-a-Med (42.1%) and Aquafresh (14.3%) in the lead.

The headliner, in terms of volume of course, is toothpaste (63%), followed by toothbrushes (23%) and mouthwashes (10%) with a large gap. The growth rate of dental floss category slowed slightly but remains at a very high level (+11%). Reduced growth rate is attributed to more sophisticated systems and innovations in toothbrushes as well as increased popularity of mouthwash, which are seen as a certain alternative to dental floss. Toothpaste for comprehensive oral hygiene (40%) enjoys the top demand; the second place holds whitening toothpaste (13%) and the third – paste for base oral care (10%).
The share of toothpaste users is gradually zooming. An average family buys about 3 packs of toothpaste for 3 months. Over one half (64%) of people using toothpaste brush their teeth two times a day. The purchase share in super- and hypermarkets as well as via the Internet is escalating. On the other side, markets, supermarkets and kiosks are gradually losing their ground.

Despite the broad range of toothpastes, most Russians prefer products for comprehensive oral care, which account for 40% of the total market; whitening toothpaste enjoys a high demand as well.

3. Key Players
Colgate-Palmolive (Russia) led oral care in 2014 with a value share of 28%. The company has a wide brand portfolio and operates mainly in the economy and mid-priced ranges, but despite this, it is responsible for innovations. In 2014, the company launched the innovative toothpaste Colgate Total Pro Whitening. This mid-priced product includes the special ingredient silica pro, which helps to deal with certain issues.

4. Distribution Channels
So today consumers concentrate on dental products offered in pharmacies. On the one hand, when suffering a problem people visit pharmacy in search for a remedy, and on the other, they dream about toothache prevention given the high cost of medical and dental procedures and emotional aversion (despite state-of-the-art anesthesiology and technologies). Manufacturers of innovative oral care aids take this factor into account and actively promote them in pharmacies and advanced clinics.

Today, approx. 20-25% of the total volume of toothpaste sales account for pharmacies. However, there are brands selling via either pharmacies or retailers only. Therefore, we cannot pinpoint a universal leader for these products, but the main players, foreign and Russian inclusive, are evident. These, of course, include Colgate, Procter & Gamble (Blend-a-Med, Blendax), GlaxoSmithKline (Sensodyne, Parodontax and Aquafresh), Dr. Theiss Naturwaren GmbH (Lacalut), Betafarma (President) and Rembrandt accounting for about 55% of the total toothpaste market and 95% of the pharmacy sector. Among Russian producers, experts highlight “Neva Cosmetics”, “Svoboda”, “Splat – Cosmetics”, “Torn”, “Vesna” and “Avanta”.

5. Trends
In analyzing fundamental trends, we must highlight the increasing fragmentation of this segment. The most noticeable positioning is seen in the field of gender and age differences. Steadily growing child population in Russia and substantial interest towards baby products had an inevitable impact on the toothpaste market. Oral care for children of all ages are becoming more and more popular including special products for infants, schoolchildren and teenagers and dictating a growing demand for smaller packaging format, for example, 50 ml, and Mickey Mouse drawings.

The so called “premiumization” is among fundamental trends as well: Russians increasingly opt for professionally positioned products as they are now prepared to pay more for high quality. For example, “Splat – Cosmetics” and “Diarsi” GC are notably increasing their market share producing specialized and relatively expensive products under Splat and R.O.C.S brands.
But often, oral care novelties can be distinguished just by a new flavor or position in the market. Any new product launch always entails significant development and promotion costs. Despite the majority of new products are entering the market thanks to overseas companies’ efforts, domestic companies are aggressive on the toothpaste market as well. For example, “Splat – Cosmetics” Co. has presented dentifrice foam and develops product lines aimed at specific problems and offering peculiar flavors and formats.

This segment is moving towards professional home dental care thanks to a plenty of teeth care equipment designed for ultrasonic whitening and polishing. Moreover, in recent years, the market welcomed irrigators, i.e. devices enabling teeth cleaning by means of water or air jet without toothpaste or brushes, which is ideal for people with sensitive teeth or gums or suffering from other oral problems. However, meanwhile this sector is developing in big cities only and its share is modest.

Mousses and indelible multipurpose balms have joined the range of customary products – pastes, rinses and refreshing sprays alongside with so-called oral deodorants, which are gaining demand.

Baby hygiene products gave a push for current oral care market. Innovative and absolutely safe products, even if swallowed, can be recommended right after an infant has first teeth. Today, parents nourish a habit for their children to brush teeth right from the cradle.

Homeopathic products form another direction of high demand and popularity. For example, “Doctor H” for the first time implemented an original formula of homeopathic ingredients of essential oils and herbal extracts (dandelion, comfrey, arnica, parsley, cilia, etc.).

And a few words about toothbrush market. According to Step by Step GC in 2013, trade volume in Russian wholesale toothbrush market soared by over 10 times. Currently, a lot of companies operate in this field, but it is controlled by two multinationals, i.e. P&G and Colgate-Palmolive. Direct import of major retail players in the retail trade network is becoming a notable feature of Russian toothbrush market. Step by Step GC experts highlight the below trends:

- Market growth;
- Higher market saturation;
- Declined share of electric toothbrushes – from 2% to 0.99%;
- Intensified competition in the segment of conventional toothbrushes;
- Higher average price of electric toothbrushes and
- Broader consumption of electric toothbrushes for children.

6. Forecast

Most experts agree that oral care products have huge market projections. Their assessments account for changed attitude towards oral hygiene – this is no longer a “hygiene measure” but rather a standard treatment procedure.

Euromonitor analytics say, despite the economic downturn, oral care has strong potential for the future as consumers are increasingly concerned about their health, especially their oral health. In addition, professional and medicated oral care products are expected to post the most positive performances over the forecast period, as consumers are more likely to trust and follow the advice of professionals and dentists.

Step by Step GC experts predict that market volume will reach its maximum by 2020 provided that current growth rate persists.

The message of today’s manufacture is not to sell toothpaste but rather help people to be healthy, handsome and successful; concentrate on the most popular toothpastes; never frighten the consumer; seek unsatisfied needs and respond to customers’ covert desires. Moreover, today, consumer’s satisfaction with toothpaste is not more than illusion, while winning a competitor is only possible by producing appealing innovative products because only such goods can agitate high-fed consumers in this sector.
ST. PETERSBURG 
RUSSIA

- Professional cosmetics
- Professional skin care
- Medical cosmetics
- Equipment for clinics and beauty salons
- Hardware cosmetology
- Injection cosmetology
- Aesthetic medicine
- Laser cosmetology
- Anti-age
- Nutraceuticals
- Pharmaceutical chemicals
- Trichology
- Permanent make-up
- Spa
- Consumables

Professional Congress on Cosmetology and Dermatology

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MOISTURIZING AND TANNING

1. Market Size

Sun care segment has not undergone any significant changes or appearance of bright novelties. Since 2012, despite the relatively strong growth (+6% in turnover compared to 2011 – according to Euromonitor), the growth of the category is starting to slow, which is a clear sign of market saturation. The main driver of the segment remain self-tan due to desire of women to have bronze skin, not only after the holidays. Many customers find that self-tans are much more accessible and safer than solarium.

Volume of sun care in 2014, according to Euromonitor, was 4576.4 mln rubles – 3.8% more compared to 2013 sales.

Mass products dominate the market with over 80% of total sales value in 2014. Premium brands continue to expand their market share. L’Oréal Russia dominates both in the mass and premium segments having a portfolio of established brands such as Vichy and La Roche-Posay.

2. Consumer Habits

People are becoming more educated on the issue of protecting the skin from harmful sun rays. Consumers have realized that tan – not a harmless phenomenon, and the threat to health. They understand that a reliable sunscreen – a necessary attribute and cosmetic companies launch products with sunscreens designed for everyday use. Especially popular are the day cream with SPF. Russian consumers are looking for products that contains natural ingredients that are beneficial to the skin.

Consumer behavior is changing. Consumers have become more aware of what kind of sun care is the most suitable for their type of skin. For example, many already know that not all sun cosmetics is suitable for children and people with sensitive skin. A healthy trend of recent years – to use sunscreen in summer and in the cold season. This applies not only to the people who are leaving for a vacation to a warmer climate. Winter sun is dangerous as well and people use skin care and makeup with a light SPF.

According to Synovate Comcon 2014 survey, 12% of Russian population use sun care. As to protection level preference (SPF), 29% buy SPF 30, 24% – SPF 20, 17% – SPF 15 and 12% – SPF 50.

TOP-5 sun care brands: Garnier Ambre Solaire prefer 23% of Russians, Nivea sun – 19%, “Moye Solnyshko” – 12%, L’Oréal Sublime Sun – 8% and Johnson’s Sun Care – 8%.

In terms of sales channels preferences, the situation is as follows: 31% of Russians buy sun-protection cosmetics in professional stores, 20% in super/hypermarkets, 14% – from individual consultants/distributors and 13% in pharmacies.

The most popular level of SPF in Russia is 15-30, as local residents still use sun care irregularly. Most regions of Russia have a modest number of sunshine days, holidays are short and not all consumers can afford a travel to southern countries for rest and revitalizing. As a result, every sunny day is extremely important for anyone intending to sunbathe, swim or tan. Some consumers believe that sun protective products with high protection level prevent tanning. However, given that consumers are now more skilled, manufacturers are launching products that cover the entire range of SPF, starting from SPF 2 for consumers seeking quick tan, to SPF 50+ for those with sensitive skin and for children. Alongside with products with various SPF levels, sunscreen manufacturers offer aids with extra features, such as BB-cream (e.g., Garnier Ambre Solaire BB), or products designed for specific body parts such as the legs, décolleté, etc.

3. Key Players

The leaders of the market are international companies: L’Oréal, Beiersdorf, Ales Groupe Lierac), Sarantis SA Group (Kolastyna) and Avon. Perhaps the most saturated segment of the market “solar” cosmetics is a mass segment. It is available for most consumers, sold in pharmacy chains and other retail outlets (supermarkets and hypermarkets, specialized stores, etc.). In this segment, successfully competing with each other brands such as Nivea Sun (Beiersdorf), Garnier Ambre Solaire (L’Oréal), Yves Rocher, as well as the products of Russian companies – Kora, Floresan, professional cosmetics manufacturer Salon Cosmetica, direct sales Mirra and Faberlic and others.

It seems that only local company Floresan can offer the widest line of sun care among national manufacturers, which comprises more than 20 products. A series of two- and three-phase oil for immediate and safe tan, solid oil Body Butter line, products for the body after sun se-
ries Panthenol and a variety of sunscreens – this is not a complete list of assortment.

According to different surveys, the level of trust to Floresan products is very high. The consumers evaluate the product range as more attractive as compared to the offers of foreign manufacturers emphasizing that the formulae contains ingredients for oily problem skin, which are not offered by other producers.

Company’s experts say, the category of sun protectors enjoys the highest popularity among their products; the second place is occupied by tanning activators, after-sun cosmetics demonstrate a slightly lower demand and tanning accelerators have a noticeable lag. Recently, the Russians tend to give preference to multi-function products, the so-called “two in one”. Depending on the region the popularity in this category varies.

4. Distribution Channels

One of the key distribution channel for sun care is pharmacies – 55 brands and about 430 SKU are sold there. Analytical company DSM Group estimates this segment in the last year 9.4 mlн euro in value (+16.9% compare to 2013). The leaders are La Roche-Posay with Anthelios (24.2%), Vichy with Capital Soleil (22.9%) and Garnier Ambre Solaire (10.3%). The TOP-3 brands in terms of volume are Floresan line (22.5%), Vichy (11%) and La Roche-Posay (10.8%).

5. Trends

The retailers, particularly federal chains, launched the sales of sun care cosmetics as early as at the end of winter. For example, some brands appeared on the shelves not in April or May, as usual, but in February. Moreover, on top of traditional market leaders, i.e. multinational companies Beiersdorf and L’Oréal had a considerable display in the stores.

There are several reasons for that. Firstly, the customers remain very price-sensitive and prefer to buy good quality stuff at more affordable price. Secondy, the Russian producers have responded to the demand and offered some product lines to the market whose quality is not inferior as compared to well promoted foreign brands. Thirdly, the development of retail formats, in particular the emergence of new drogeries and their expansion, enabled the domestic producers of sun-protection cosmetics to present a wider range of their products to the consumer and to funnel the raised moneys into the product range diversification.

Sales of sunscreens are growing quite rapidly. Russian consumers have more information about when and how to protect the skin. Together with medical research on the subject, confirming the increased risk of photoaging and skin diseases by UV, nude skin becomes fashionable.

Protecting hair from the sun is another trend. Manufacturers are developing special products to protect hair during sun bath (sun pro tective veil, jelly, sunflower oil with SPF) and after sun exposure (moisturizing sprays, masks, special shampoos “fitopyazh”). In addition, we note a growing interest in children’s sunscreen cosmetics. Baby products are often have colored texture and bright packaging to make children happy while using products.

6. Forecast

According to Euromonitor, the sun care segment is expected to show a 3% CAGR upturn in value terms over the forecast period (2012-2017).

The market has a strong growth potential. Its development will be stimulated by several factors including promising macroeconomic environment with higher consumer incomes, deeper penetration of retail business in the regions, higher awareness of local residents of sun harm and accelerated evolution of tourism in warm and sunny regions, both abroad and in Russia.

Experts predict that self-tanners will attain the most dynamic growth of 4% CAGR in monetary terms for the forecast period and may account for 18% of sales of sunscreen cosmetics by the end of 2017. This category will definitely benefit from the consumers’ desire to have tanned skin even in cold or cloudy weather because self-tanners enable to tan their skin quickly and comfortably without tedious visits to solariums.

In the future, leading manufacturers of sunscreen cosmetics will concentrate on innovations and as a result, will develop a range of new products with sun protection as the main function and an extra feature. The first property would be useful for people traveling in sunny regions and resort areas, while the second will be handy for consumers living in the southern regions and using sun protectors daily.

Some experts predict that economic slowdown will influence the sun care segment as many people will stop travelling abroad for summer vacation. However, this factor will not dramatically decrease the volume of the market. Insipe of coming to abroad Russians are willing to spend their time at the local resorts in Sochi and Krasnodar kray, Crimea and Southern regions.

Another factor that is supposed to support the sun care is changing climate that becomes warmer and the more aggressive sun.
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