

Chapter 27

The Luxury Fashion Market in Russia: Evolution and Future Opportunities

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ABSTRACT

The aim of this chapter is to provide an overview of the luxury fashion goods market in Russia in order to help international brands develop appropriate retail strategies. Russia is one of the so-called “emerging markets” and offers several opportunities for fashion companies. The chapter examines the historical and economic situation of Russia in order to explain the efforts being made by companies currently operating in this market. This chapter largely relies on theories from the field of distribution and retail management, applying them to the Russian luxury fashion market in order to better understand the strategies currently in use by both local and international actors. Potential opportunities that may arise in the Russian luxury fashion market in the near future are analyzed. The chapter is useful for managers of international luxury fashion companies who are interested in understanding the evolution of this market in order to enter it.

INTRODUCTION

Nowadays, luxury has become an important part of human and social life (Chandon, Laurent, & Valette-Florence, 2016). Generally speaking, “luxury” refers to products or services that adhere to a very high standard and elicit strong involvement, social standing and value recognition from others (Shukla, 2011; Wiedmann, Hennigs, & Siebels 2009). As such, luxury goods are typically characterized as being more costly yet more valuable than many “ordinary” goods. Despite their cost, luxury goods are in great de-

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mand because they provide customers with special emotions and experiences (Amatulli & Guido, 2011): According to scientific findings, consumers associate the term “luxury” mainly with values like quality, craftsmanship, experience, and uniqueness. In the Russian vocabulary, in particular, the term luxury is explained as: “External splendor, wealth, opulence. Extravagance in living comfort and pleasure, with a wasteful abundance” (Vinogradov, 2005). Indeed, luxury goods are often considered as “a clear indicator of knowledge and social class” (Okonkwo, 2007), and hence a means by which individuals try to satisfy their need to belong to a reference group (Kapferer & Bastien, 2009).

According to Bain & Company (2015), the growth of the luxury market in the next half-decade (2015-2020) will be around 9% annually. Such growth is also manifested in the increasing number of consumers, which is expected to reach 465 million by 2021 (compared to 390 million in 2014). In terms of value, the luxury goods market generated €224 billion in revenue in 2014, an increase of 3 percent since 2013. The overall European market had a good start in 2015, fueled by rising touristic spending (especially from China and the US) and a weak Euro; in the Americas, meanwhile, 2015 growth is set at 1-3% in real terms, softening with respect to 2014 (Bain & Company, 2015).

In terms of merchandising and product types, the market for luxury goods is typically divided into four categories: fashion (specifically, couture, ready-to-wear and accessories), perfumes and cosmetics, wine and spirits, and watches and jewelry (Jackson, 2004). Other categories are sometimes added to this list, such as luxury automobiles, hotels, tourism, private banking, home furnishing and airlines (Chevalier & Mazzalovo, 2008). However, within the luxury market, fashion represents the most relevant portion: According to data from BrandZ, which ranks luxury companies by earning and revenue potential, the top three luxury companies are in the fashion business (i.e., Louis Vuitton, Hermès and Gucci) (MillwardBrown, 2015).

Even if traditional, advanced economies still represent the main source of luxury expenditure worldwide (accounting for almost 73% of total value sales in 2012), their performance is expected to be considerably weaker than that of emerging economies over the next five years. Indeed, according to Euromonitor International (2014), BRICs accounted for 12% of the global luxury market’s 2013 total sales, and this figure is expected to continue growing.

Given this basis, the present chapter aims to analyze the main characteristics of the luxury fashion market in one specific and evolving country—Russia. Our focus will be on the retail and distribution models and strategies that have been adopted by the most relevant local and international players. Thus, we hope to provide an overview of how the most successful luxury fashion brands entered Russia and developed their retailing strategies. Our decision to focus on Russia is motivated by four main reasons. First, before the global crisis of 2008, Russia was one of the strongest and most attractive markets for luxury goods (Bain & Company, 2009). Although various geographical and macroeconomic events caused stagnation in the demand for luxury products in 2014, the forecasts for upcoming years are still positive. Second, Russia has recently become a more mature market for luxury goods (Atwal & Bryson, 2014): more consumers are moving beyond the status-signaling value of luxury items in favor of finding memorable experiences and satisfying their personal tastes and style (Hoffman & Coste-Maniere, 2011). Third, there is a limited understanding among international luxury fashion players regarding how to do business in Russia (Atwal & Bryson, 2014). In particular, luxury fashion companies—both those who have invested in Russia and those who are interested in doing so—need to improve their knowledge about recent market developments in the country and how these relate to retail and distribution practices. Forth, the luxury clothing and fashion market is the second-largest retail sector in the country after the food and beverage segment (McKinsey & Company, 2011).

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