

Top 10 consumer trends in Russia

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In the eight years of President Putin's "managed democracy", Russia has become a consumer power to be reckoned with. The economy is growing at an annual rate of 6.9% since 2003, and Russian consumers are chiselling away at the "sleeping bear" image. With Russian elites already overtaking Europeans in terms of conspicuous consumption, the consumer potential "and with it the scope of Western brands" is boundless once wealth trickles down to the bulk of consumers. 1. The credit bonanza is financing consumer desires

Russian economic growth is expected to accelerate further as consumption remains the main engine of this boost. A steady increase in real disposable income thanks to strong economic expansion gives consumers a firm base: on average, the economy grew 6.9% annually from 2003 to 2007. Moreover, abundant liquidity and structural changes in the financial sector have supported rapid credit growth, which provides households with a newfound ability to spend. In her publication, "The Russian Consumer", Dr. Sigrid Schmid finds that after many years of post-soviet experience with cheap imitations, Russian consumers are prepared to pay good money for good products: "Quality is worth the money" is the consumer mantra now. The growing availability of consumer credit coupled with strong increases in real disposable income give substance to this belief. The growth of retail trade turnover, the increase in spending among consumers, and visits to caf  s and restaurants are becoming the principal motors of the Russian economy. However "rising inflation is already putting the brakes on growth: prices for daily FMCGs grew by 13% in 2007, with the overall rate of inflation at 9.0% in 2007.

  Credit card transactions and disposable income: 2003-2007 Source: Euromonitor International from trade and national sources Note: Credit card transactions - Retail Value RSP2. Strong retail growth for Russia

Russia has experienced a strong growth of retail trade that goes in hand with its rising consumer income and expenditure. In 2007, Russia was ranked the world's 10th largest retail market. Russian consumers have a higher purchasing power since the majority of the population own a house without the burden of mortgage repayments, having inherited their housing from the state following the collapse of communism. As well as the grocery and fast food sector, retailers of durable goods have benefited the most, starting with a boom in video recorder sales in the early 1990s. The strong demand for all things electronic and "most importantly" portable, i.e. visible, continues. Since all Western products are assumed to be of the same high standard, it is not the brand that is of principal concern, but the product's novelty value - a gimmick, a strong advertising campaign - which indicates the product's avant-garde status.

By 2015, the highest average annual gross income (in 2007 prices) " Rb317,778 " will be enjoyed by the 40-44 age group, closely followed by those aged 35-39 with Rb316,945. However, as the trend in falling birth rates continues, the proportion of the population below 20 years of age will decrease. More sophisticated and material-oriented youth will be a good target for companies offering branded and fashionable products in the medium term. As incomes rise, spending patterns are expected to shift, with more attention paid to communications and fashion trends.

For further information on Retail Research please click here. Retail sales and disposable income growth: 2002-2007 2002 = 100 Source: Euromonitor International from trade sources/national statistics Note: Data are in 2002 prices 3. Conspicuous consumption

One of the most striking developments in Russia is the growth of the new elites who draw upon a traditional status culture. Luxury car sales are booming. Despite the catastrophic traffic situation in Moscow, the streets are cleared as if by magic when one of the new oligarch's cavalcade of limousines arrives. A look at Rubljovka Street shows that the old Ladas, Wolgas, half-trashed Vectras or Ford Mondeos are a thing of the past. More than three quarters of the passing cars are black: armoured Audi A8, Mercedes S-class, 7 series BMW and a plethora of accompanying dark SUVs dominate the streets. The bestselling Mercedes is the S 500 L 4Matic, of which more than 3000 were sold during the first nine months of 2007. In addition, the streets of Moscow boast more than 130 Maybach limousines. A Moscow car dealer says that "most of our exclusive customers are between 30 and 50 years old." Despite a Maybach costing at least Rb25 million "there are customers who pay cash for their new limousines". Since 2002, new registrations of passenger cars in Russia rose 61% to 1.7 million in 2007.

Russians are also becoming more exotic in the types of pets they own. This is due mainly to the ostentatious tastes of the expanding higher income consumer groups. It is often the case that rare breeds are purchased as accessories or status symbols, when the new owner has no idea how to care for them. The main owners of exotic pets are so-called "new Russians" with extremely large incomes. People with high levels of disposable income also tend to own racehorses.

  Expenditure on selected items by income: 2006 % of total national expenditure Source: Euromonitor International from

national statistics Note: Households are ranked by their disposable income in ascending order. This is then divided into 10 equal parts, with the 1st decile representing the 10% of households with the lowest income to the 10th decile which represents the 10% of households with the highest income.⁴ Health issues contributing to a shrinking population

Russia's population structure is changing, with lower life expectancy, especially amongst men, which could affect the size and strength of the labour force and with it, the country's future economic growth. Russia's population decline has been persistent and is caused by the changes in lifestyle since the start of the transition from a central to a market economy in 1990. In Russia, this decline has been predominantly caused by falling births rates and rising death rates due to heart disease, alcoholism, smoking, violence, traffic accidents and poor dietary habits. Currently, the official population figure stands at 142 million, a reduction of more than six million since 1996. By 2050 some forecasts see the population shrinking to about 108 million – making for a shrinking consumer base.

Russian men had a life expectancy at birth of 59.0 years, compared to 62.3 years in Ukraine and 71.4 years in Poland in 2007. According to 2007 figures, Russian women outlive their men by almost 14 years. Due to low fertility rates, Russia's youth population is shrinking and as a consequence, the proportion of people aged 65+ is growing.

For further information on Health Research please click here. Population change: 1990, 2000 and 2010 – Source: Euromonitor International from national statistics⁵. The prospects for young Russians are improving

With Soviet nostalgia seemingly gone, young Russians are prepared to study and work hard to realise their aspirations for prosperous lives. As the economic situation improves, labour market demand for graduates is expected to increase. This will raise the disposable incomes of the younger sectors of the population and affect overall spending patterns. Strong economic growth, declining unemployment and rising disposable incomes are reflected in the growing optimism of Russia's youth: Real annual disposable income per capita grew by 66.5% between 2001 and 2007 to reach an average of Rb113, 322. At the same time, the unemployment rate has been falling, reaching 7.1% in 2007. Russia's higher education system will become more efficient and in line with the rest of Europe, following a new federal law signed in October 2007 by President Putin. By 2009, most universities are set to replace the existing 5 year diploma curricula with –four plus two– programmes (equivalents of Western bachelor's and master's degrees). The new system will modernise Russian education and will enable more educational exchanges with Western Europe. Russia has one of the most educated populations in the world, with a strong emphasis on higher education. However, this new Western-style system could also encourage more graduates to seek work abroad. Current demographic trends also mean a sharp decline in the future number of graduates, which will dampen economic growth and investment prospects.

– Average gross income of young people: 2001-2007 Rb per capita Source: Euromonitor International from national statistics Note: Data are in 2001 prices⁶. Burgers versus Pirogi: the growth of fast food

Since its 1990 Russian launch, McDonald's has opened close to 150 restaurants in Moscow and more than a dozen Russian cities and has plans to open a restaurant at every Moscow metro stop. Moscow's Pushkin Square continues to be the busiest – and largest – McDonald's restaurant in the world, adding to the company's 30% share of the Russian chained fast food market in 2006. Baskin Robbins is one of Russia's largest franchises, benefiting from the traditional Russian passion for ice-cream, with street kiosks operating even in sub-zero temperatures. Other franchises such as Pizza Hut, its sister company KFC, Sbarro's, and Subway all have smaller presences and have faced more problems in the market. One of the problems for Western brands has been successful Russian competitors, such as the Georgian chains Moo-Moo and the salad bar-based Yolki-Polki, which appeal to Russian nationalism and offer traditional dishes in a rustic atmosphere. Rostik's (Russia's KFC) has become a market leader in drive-in restaurants. But the most widely available fast food comes from kiosks on the streets of the big cities serving Kroshka-Kartoshka (stuffed baked potatoes), Russkoe Blini (filled Russian pancakes) and hot dogs at Stop Top. The Rostick chains selling roast chicken rank second in popularity behind McDonald's. McDonald's Russian menu is mostly the same as in the USA, with the addition of cabbage pies and some other traditional Russian food items.

According to information from the School of Russian and Asian Studies, half of men and women aged 16-50 buy fast food at least once a week. Most of this clientele considers location (64%) and cost (54%) most important, while fewer regard quality (43%) and cleanliness (25%) as important factors. This means that rapid expansion, even with cut corners, is likely to be rewarded.

– Burger fast food outlets and transactions: 2001-2006 Source: Euromonitor International from trade sources⁷. Russian tourism at home and abroad

Some of the new wealth in Russia is percolating down from the cities to the countryside, with –œatschnikis– buying old houses or building new ones. Local people build houses for the rich or sell them to the growing number of city dwellers who are increasingly looking for nostalgic country residences: –œthey come here with their money and spend it here–, as a local puts it. But the new Russian money also gets spent abroad. German and Austrian skiing resorts have observed that –œthey love to spend money and lots of it–. Russians spend an average of CHF400 per day, compared to CHF150-250 spent by tourists from other parts of Europe. Some hotels in Zermatt have reported 80% of their guests coming from Russia in January 2008. About one third of the 143 million inhabitants of Russia are now in a position to afford a foreign

holiday, putting Russia in the top ten of foreign tourists in Switzerland. In Austria's top ski resorts SÄ¶lden and Mayrhofen, they represented the third-strongest national group in 2007. While nearly two thirds of Russian tourists travel in organised groups, the really rich arrive in their own helicopters. The downside for hoteliers (something of a sore topic) is that too many Russians drive away their traditional clientele – Europe's old money and aristocracy.

For further information on Travel And Tourism Research please click here. Russian tourist departures 2006% of total departures Source: Euromonitor International from trade sources/national statistics8. Plenty of room to grow into fashion

Per capita spending on clothing and footwear has grown by almost 30% since 2000. In Russia, the majority of professions require specific clothing. Teachers, management personnel, bank employees and magistrates wear business suits; doctors, policemen and firemen wear uniforms. During their leisure time, Russians prefer comfortable casual clothes. Most often these are jeans and/or sportswear, even if the relaxation is not active. When going out, people wear smart clothes. The further east and south the person is, the more often gold, diamonds and furs are worn. The richest consumers buy the clothes of the famous Russian and global couturiers.

The style of clothes worn in Russia is similar to the rest of Europe, with young people following fashion trends. Celebrities, particularly those on TV, always signal the latest fashion trends. The population at large buys clothes and footwear in specialised shops, paying attention not only to fashions, but also to whether it suits them or not. Price and quality are important, with approximately 60% of the Russian population shopping for clothing and material in discount shops. Only about 6% of the population buy goods in supermarkets and/or newly constructed malls. A large segment of the population still continues to shop in open markets.

The luxury segment of the Russian clothing and footwear market is highly developed, making it one of the most dynamic luxury markets in the world. The majority of the global luxury brands which have already established a strong presence in Russia are now launching their own distribution networks.

Â Expenditure of the richest 10% of households in BRIC countries: 2006US\$ per household Source: Euromonitor International from national expenditure Note: Data refer to decile 10 households, i.e. the 10% of households with the highest annual disposable income in 2006.9. The growing importance of advertising

Most insiders agree that the main concern of Russian consumers is to feel part of the global product world, and to shake off any remaining “third world” associations. Consequently, consumer goods manufacturers, distributors and, very importantly, advertisers, are showing increasing interest in the structure of the Russian consumer market.

Region-Media, specialists in Russian advertising, have conveniently identified seven types of consumers in this market. The growing group of “Innovators” are mainly based in Moscow, prefer to spend their free time involved in sports activities and active leisure and eat out in restaurants featuring exotic cuisine. The second largest group, the “Spontaneous”, is dominated by men and singles, and they often buy goods impulsively. The cluster of the “Ambitious” is smaller, and relies on advertising when looking for a product. The “Self-realised” are middle-aged people, with a higher proportion of women, and a high consumption potential. This important group tends to be irritated by advertising, valuing quality and pays attention to healthcare. The largest group are the “Settled” (25% of consumers in Russia and 21% in Moscow), a rather traditional group with great brand affinity: innovations barely interest them. The “Traditionalists” pack a low consumer potential, as half of them are retired and loyal to retail outlets that have survived since Soviet times. The last and smallest cluster, “Thrifty”, mainly shops in discount shops.

Over the past few years, national entrepreneurs have adapted their advertising strategy to Russia's changing consumer environment. Consumer preferences in advertising have gradually changed in favour of ads that are interesting, involving and humorous – according to Dr. Sigrid Schmid, these are mostly home-grown ads. Campaigns such as the one for Dove cosmetic products, which uses ordinary women with “imperfect” bodies, are perceived as repulsive by Russians. This is because for Russians, advertising has to be aspirational, and shouldn't confront them with their own failings.

Â Adspend: 2002-20072002 = 100 Source: Euromonitor International from World Association of Newspapers Note: Data in 2002 constant prices10. Communication is all

The number of mobile phone users in Russia has grown by 757% between 2002 and 2007. This equates to a nationwide penetration rate of 106.2% in 2007. The level in Russia's two largest markets – Moscow and St. Petersburg – stood at 156% and 139% respectively in 2006 according to AC&M Consulting. There is also a wide discrepancy in ownership based on income, with over 87% of high-income earners using mobile phones compared with just 41% of low-income earners. Over summer, many people move to their summer homes in the country, boosting mobile phone subscriptions. As the majority of the time is spent outside the house in the garden, it becomes difficult to reach a person through landlines.

Internet penetration is lower than in Western countries, although it is developing at a fast pace in Russia, and is currently at 30.2%. The number of internet users has risen from just 220,000 in 1995 to 42,936,000 users in 2007. Service providers are expanding beyond their traditional markets in Moscow and St. Petersburg into Russia's regions. Although

still low at around 38%, PC penetration improved rapidly from less than 1% in 1990. Continued growth in the home ownership of PCs will spur further development in the number of internet users as PC ownership and internet development are closely linked. [Related Links](#)

Countries and Consumers Possession of PC and growth of internet users: 2002-2007 Source: Euromonitor International from national statistics/ITU

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