Haircare Industry In Russia
Consumer Analysis, Industry Analysis, Market Analysis, Country Analysis

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1. INTRODUCTION

This research is on the haircare industry in Russia. The purposes of this research are to analyze the haircare industry in Russia with all aspects. This research is not done for an academic purpose. It is done for the personal enthusiasm and aspiration of cosmetic industry in Russia.

The haircare industry research is one part of my all research, which consists of make-up, fragrance, haircare and personal hygiene, for the cosmetic industry in Russia

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2. EXECUTIVE SUMMARY

Market value
The Russian haircare market grew by 6% in 2009 to reach a value of $1,294.8 million.

Market value forecast
In 2014, the Russian haircare market is forecast to have a value of $1,672.2 million, an increase of 29.1% since 2009.

Market volume
The Russian haircare market grew by 5.6% in 2009 to reach a volume of 602.4 million units.

Market volume forecast
In 2014, the Russian haircare market is forecast to have a volume of 767.8 million units, an increase of 27.4% since 2009.

Market segmentation I
Shampoo is the largest segment of the haircare market in Russia, accounting for 46.8% of the market's total value.

Market segmentation II
Russia accounts for 10.1% of the European haircare market value.

Market share
Procter & Gamble Company, The is the leading player in the Russian haircare market, generating a 20.6% share of the market's value.

Market rivalry
The Russian haircare market is fairly concentrated with P&G, L'Oreal and Henkel collectively accounting for 53% of the market value.
3. COMPETITIVE LANDSCAPE

Key Players
- Individual consumers and the retailers as the key buyer
- The manufacturers of chemical ingredients as the key suppliers
- The manufacturers of haircare products will be key players

The Dynamics of Industry
- The Russian haircare market is fairly concentrated with P&G, L'Oreal and Henkel collectively accounting for 53% of the market value.
- Large MNCs whose scale economies and investment in product development and brand identity are formidable incumbents for prospective new entrants to challenge. This weakens the retailers' buyer power to some degree.
- Manufacturers of surfactants are the main suppliers to the market. Steady growth in the Russian market value reduces rivalry between the market leaders, who offer a broadly diversified portfolio of personal care segment products, in an attempt to reduce dependence on haircare product revenues alone.
- The wide range of available products with an accompanying variance in quality and price means that buyer power is prevented from becoming disproportionately strong in this market.
- New entrants have the chance to enter a market even on a modest scale by offering the hand-made specialty haircare products.
- Substitutes to the market are other home made hair products.

Buyer Power
- The major retailers in the Russian haircare market are supermarkets/hypermarkets, pharmacies and drugstores. These buyers have considerable bulk-purchasing power, and are in a position to negotiate favorable prices.
- It is often a practice of buyers to provide private-label brands which can be considered as a form of backwards integration. Forward integration is less likely; however, some market players enter the retail market with specialized services, for example Schwarzkopf and L'Oreal not only offer a wide range of specialized haircare products but also have many salons.
- The main players have developed broad portfolios of brands targeted at different consumer segments and price points.
- End-user loyalty to manufacturer brands tends to weaken the buyer power of retailers even further.
- The fact that buyers offer a wide range of products, with the haircare segment constituting only a small part of their business, strengthens buyer power.
- Overall, buyer power is moderate.

Supplier Power
- Suppliers in the haircare market include manufacturers of chemical ingredients, such as foam boosters, thickeners, conditioning agents, preservatives, modifiers, and special additives, and packaging materials.
- The main active ingredients of haircare products are surfactants, which are typically derived from petrochemicals.
- The increasing scarcity of oil and subsequent increases in the prices of surfactants have led some players to increase their use of palm oil as an alternative raw material.
- It is important for market players to focus on environmentally friendly; ingredients which perform well whilst at the same time follow the latest trends.
- This heightens the need for research, which is costly, decreasing supplier power.
- Plastic, glass and metal (aerosol) packaging is an additional input for the industry; companies offering these products are generally small in comparison to major personal products companies, and their supplier power is correspondingly reduced.
- Haircare products constitute a relatively small part of the chemical and packaging companies' total market, strengthening supplier power.
- Overall, supplier power is moderate.

The Threat of New Entrants
- The main manufacturers are large, international companies. These players sell their products on a global scale, and invest heavily in both product innovation and building wide brand portfolios. Thus, new entrants face formidable competition.
- New entrants may be able to start on a small scale as niche companies, selling only handmade products.
- Major players, by applying the strategies of micro-segmentation, are able to launch niche products into new markets and narrow down the opportunities for new entrants.
- Entering the market requires a new player to establish production facilities, which means significant capital outlay on machinery and factories.
- Potential new entrants will also need to persuade stores, aware of their importance in the distribution chain, to stock their products.
- Haircare products are generally sold in high volumes to virtually all consumers, and this, alongside the high level of consolidation seen in most haircare markets, suggests that scale economies in manufacturing are likely to be important to the margins of players.
- Overall, likelihood of new entrants is weak.

The Threat of Substitutes
- Substitutes for consumer haircare products include soaps and traditional or homemade hair cleaning agents.
- Any substitutes prepared at home are relatively time-consuming, and may have unpredictable results.
- This kind of substitute may be significant in some undeveloped markets. Furthermore the use of domestically made haircare products may prevent the consumer from exposure to some potentially allergic ingredients.
- Overall, the threat of substitutes is assessed as very weak.

Rivalry
- The Russian haircare market is fairly concentrated with P&G, L'Oreal and Henkel collectively accounting for 53% of the market value.
- As most players own their own production facilities, fixed costs are relatively high, and, as a successful presence in the market requires significant capital outlay for financing fixed assets, the rivalry level is increased.
- The switching costs may not be high but retailers are usually unwilling to switch between market players, as their customers will seek the leading brands they are used to.
- The diverse product range produced by the leading market players, including not just other personal care products, but also household products and food, reduces their reliance on the haircare market, and so eases rivalry.
- The market's innovations, like ethnic haircare, decrease the degree of rivalry and may help to strengthen the position of established players or facilitate the entrance of players into the Russian market.
- Steady market growth over recent years helps to reduce the level of rivalry even further.
- Overall, rivalry is moderate.

4. MARKETING STRATEGIES
In this research, there is no custom made or generic marketing mentioned, because each organization has its own mindset and culture, which affect the strategic decision. Therefore, some tactics are mentioned which might help decision makers tailor their strategies better for Russian market.
The Relationship Between Consumer Involvement and Brand Perceptions of Female Cosmetic Consumers

There are five cosmetic consumer types: uninterested and casual, cautious and confident, aspiring, interested and carefree, and enthusiast. Each differing in their perceptions related to personal interest and importance, enjoyment and pleasure associated with the product, sensitivity to making the ‘right’ cosmetic product choices and confidence in cosmetic buying decisions. Each of these consumer types was significantly different in their product involvement.

Although similar general impressions can be formed, not all consumer types view the same brand alike. Within each brand, each consumer type showed a different set of brand personality traits that predicted brand attitude, furthering evidence of distinctive consumer behavior based on product involvement. For the marketer, understanding the patterns of brand perceptions based on brand and consumer type will provide valuable information to formulate appropriate marketing strategies related to developing brand images and appeals. By understanding how involvement with cosmetics relates to brand perceptions, marketers can pinpoint a specific consumer market, uncover the brand personalities associated with a positive brand attitude and construct the cosmetic brand marketing strategy accordingly. Additionally, brand personality can be used to measure how market segments perceive competitor brands. Freling and Forbes maintain that the strong, positive brand personality, which creates a more favorable brand attitude, should be used to differentiate products to consumer markets. Aaker suggests assessing the effect of marketing variables (for example, advertising, packaging, price and so on) on perceptions of brand personality dimensions, as well as manipulating brand personality dimensions to determine their influence on marketing variables.

Women’s Perceptions and Use of “Anti-Aging” Products

The most common reason women reported in the qualitative data for using anti-aging products is to achieve or maintain a youthful appearance. However, very few women perceived anti-aging products to be effective. It was more common for women to report their skepticism about the effectiveness of these products and believe them to be gimmicky. Despite questioning the effectiveness of these products, the majority of women in the sample were at least somewhat likely to purchase anti-aging products. Perhaps this finding can be seen as parallel to findings regarding health locus of control and health behavior. Those who feel they have more control over their health will engage in more health related behaviors. A feeling of control over the aging process may explain why women purchase anti-aging products despite questioning their effectiveness. Of course, the paradox described could simply be associated with some degree of risk management. While the effectiveness of the anti-aging products may be suspect, women may still purchase them just in case they turn out to be effective. In other words, doing something may be perceived as a better strategy than doing nothing.

Binstock and his colleagues identify consumer protection as an important social concern of the anti-aging movement because the efficacy of some products and interventions has not been established with traditional clinical evidence. However, they also suggest that we cannot discount the beneficial results through placebo effects. While participants discussed using
products to reduce fine lines and wrinkles, they more often focused on how using these products, in conjunction with a healthy lifestyle, helps them to both look and feel better. Despite scientific claims being increasingly embedded in the marketing of anti-aging products, research has found that individuals are often skeptical of these claims. When women reported the product factors that are influential in their decision to purchase anti-aging products, scientific testing of the product was the least important factor. This seems to parallel the finding that women generally question the effectiveness of these products. Female consumers report desiring more information about product effectiveness, while simultaneously remain skeptical about the information provided.

**Natural Product Packing**

In today’s crowded marketplace, it is extremely difficult for a cosmetic product to stand out among the many others on the shelf. The current rise in popularity of natural products makes today the perfect time to introduce a whole new experience to beauty product packaging. It is imperative that companies place emphasis on packaging for subtle yet strong brand execution, and in so doing, communicate a contemporary philosophy while ensuring their distinct place in the natural cosmetics market.

Getting back to what is natural is not just a short-term trend; it has a promising and profitable future in the cosmetics business, to which many companies have already caught on. However, with the recent influx of organic and natural cosmetic lines, it is tiring for the customer to visually differentiate between the natural cosmetic brands and their generic counterparts. Differentiating between various levels of quality within the natural sector is yet another challenge.

Research shows that approximately 70% of consumers’ product-buying decisions are based on presentation. So how does a product grab the consumer’s attention? To say it simply—it is the packaging, with all of its subtle cues and subliminal communication, that makes the customer notice a product on the shelf, pick it up, take it to the register and swipe her credit card. It can be asserted, without equivocation, that the lifestyle, tastes and purchasing psychology of today’s consumers have changed vastly in the past 25 years. As that is the case, why then does much of the cosmetic industry turn to the same outdated packaging design that has ruled the marketplace over the past two decades? Products in the natural arena have changed yet the packaging hasn’t—it is like draping a drab old cover over a swanky new couch.

To improve and support the differentiation between natural and generic brands, packaging design must focus on two areas: the container structure and the graphic art. In order to achieve concrete and innovative results, these two aspects of packaging must blend seamlessly during the process of creating a brand identity.
Consumers seeking organic and natural products look for brands that speak to their lifestyle approach. The packaging of such products must appeal to this contemporary mind-set.

**Packing Trends**

Trend #1: Geometric/ Deconstructed Shapes

Alternative shapes, in both primary and secondary packaging, is one of the newer trends in beauty packaging. Many of these packaging identities are nontraditional in form, and have characteristics such as severe angles, geometric forms or deconstructed approaches to the form of the package. Many of the examples in this trend category are the packaging equivalent to a Frank Gehry building in architecture. In some packages within this trend, both symmetrical and asymmetrical geometric forms are utilized in the primary packaging to give the component visual interest.

Trend #2: Japanese

Japanese culture has been incredibly trendy in America for quite some time, and many lifestyle and beauty brands have been popping up that utilize the unique and distinct visual style of Japan as their brand identity. These package designs are bold, fun and unapologetically cute. The identities are often driven by Anime-inspired cartoons; bright, unexpected colors; and high-contrast graphics.

Trend #3: Gothic

Rock ‘n’ roll has been a trend going on in the beauty industry for several years, and lately the identities have been skewing more dark and gothic in appearance and tone. The heavy use of black, gothic typefaces and edgy punk rock-inspired embellishments are all characteristics of identities in this trend. The gothic packaging identity is generally utilized when a product or brand is intentionally portrayed as edgier or darker than its competitors.

Trend #4: Pop Culture

The connection between beauty and pop culture has been growing significantly as the lines between marketing and entertainment are becoming more and more blurred. The trend of fusing entertainment and pop culture themes into beauty packaging is becoming a staple in the color cosmetics industry, with popular television shows and movies serving as inspiration for beauty products and resulting in licensing relationships.

Trend #5: Novelty

Novelty shapes and packaging concepts is another recent trend in beauty. This trend has been seen for quite some time in collectible or limited edition packages, but more recently it is being seen in permanent collections and products. Most of the packages categorized in this trend have some kind of gimmick to either the product shape or the packaging technique itself to create a
distinct visual brand identity. A tongue-in-cheek approach is often taken in brands with this packaging identity to draw attention to the uniqueness of the company or product.

Trend #6: Tropical/Beach
Many current examples of beauty brands utilize tropical-inspired packaging identities to communicate a lifestyle or scent of the product inside. Some of these identities are seasonal or have to do with the scent inside, while others communicate a beach-centric lifestyle in general. These packaging identities typically include bold, bright colors, tropical flowers and fruits and environmental references such as palm trees or beaches.

Trend #7: ’60s Era
Earlier decades are constantly coming in and out of style when it comes to fashion, and beauty is no stranger to this principle. The look of the 1960s seems to be widespread across many packaging identities in the beauty industry. These packaging identities can include organic forms, funky and offbeat colors, rounded shapes, psychedelic patterns and ’60s era typography.

Trend #8: Logo Pattern
The logo pattern is another fashion trend that has been seen in premium luxury fashion brands for decades, but is more recently being used as the primary identity for beauty packaging. Not surprisingly, many of the brands within this identity have roots in fashion.

Trend #9: Industrial
Another recent trend, particularly in men’s products, is using strong industrial influences as the packaging identity. These packages can allude to industrial elements and objects in form, material or embellishments, and can also have a novelty effect. The overall feeling of brands within this packaging trend is cold, masculine, and often mechanical, with many of these packages produced in a silver color and stainless steel finish.

The most compelling beauty advertisements appeal to consumers’ confidence rather than their insecurities—and offer free samples, according to About.com’s 2010 Beauty Study. The study also revealed that beauty products are considered a necessity, with more than two-thirds of respondents willing to purchase products even while watching their budgets.

There is a significant number of intent-driven consumers willing to pay higher prices for quality, brand products that satisfy specific beauty needs. This presents brands with the opportunity to truly engage this audience by emphasizing the relevance of their products to consumers’ core beauty goals.
A study revealed that beauty products are non-negotiable, regardless of budget, because consumers view them as an important part of life and necessary to help maintain their look and skin/hair health. Eighty percent of respondents plan to spend more or the same in 2010 on skin, hair, male grooming, teeth-whitening and cosmetic products. The study concluded that consumers prefer ads that appeal to their confidence, rather than to perceived insecurities. They also prefer ads that present brand and product benefits in an informative, intelligent way, and are receptive to ads that stress quality over price. The most compelling ads offer free samples or trials (cosmetics, 71%; skin care, 64%), printable coupons (cosmetics, 58%; skin care, 56%) and product information (cosmetics, 49%; skin care, 44%).

More than 50% of consumers prefer well-established brands because they are more reliable and are perceived to have higher value. Consumers prefer well-established brands over generic for cosmetics (73%), skin care products (72%) and hair care products (67%).

Now more than ever, consumers are looking for innovative, value-oriented cosmetics that contain advanced technologies to fulfill a commitment to healthy living. While the beauty sector is struggling overall, consumers continue to spend money on small indulgences. And although the oft recession-proof lipstick registered a dip, it seems that the indicator in today’s economy is foundation, which has been faring better. Consumers are looking for an inexpensive but effective boost in a down economy. At the same time, anti-aging, wellness and natural products are crossing over from luxury to necessity as lifestyles shift toward healthy living.

According to Janelle Rogers, director of product development at Lady Burd Cosmetics, there are two types of customers: one wants to be able to look at the ingredients and see that they are as natural as possible while still being effective; the other wants to know that the products have the most new and advanced scientific technologies available. “There are products to satisfy each and some that satisfy both,” she explains. A recent innovation from the private label manufacturer is Anti-Aging Foundation, featuring duo-peptides, natural extracts and antioxidants while offering the same benefits as the company’s Anti-Aging Moisturizer. Simply, color cosmetics that offer specific skin benefits help justify consumers’ “indulgence.”

Nutraceuticals are becoming a focal point for product innovation among both food/drink manufacturers and supplement players alike. The segment is currently the hot topic for the beauty industry, and, as a result, has produced a mass of new product innovations—all with the common goal of enhancing beauty from within. The question remains: Are consumers buying it? Euromonitor International takes a look at key trends, the major new developments in the category, who the key players are and how the performance of the beauty industry measures up compared to the areas of fast-moving consumer goods that nutraceuticals essentially compete against. Part of the problem of selling nutraceuticals in many markets is that many consumers regard beauty foods, drinks and supplements as being chemically altered rather than natural. This means that the image of nutraceuticals does not sit entirely comfortably with the boom in sales of natural and organic foodstuffs and beauty products and the
Trends

• Market your beauty product as trendsetting by consistently changing colors and features. Provide information on the newest trends in beauty on your product packaging, in magazine advertisements and through personal sales representatives. By providing beauty products that tie to the latest styles and trends, you will attract customers who make frequent beauty-supply purchases. You will be seen as a trendsetter by providing helpful information on these new styles.

Print Advertising

• Increase the status of your beauty products by having models and famous actresses use your products. In magazines, try to get your products used on the cover model and in featured articles. Fashion magazines, teen magazines and magazines for women typically describe the makeup and beauty supplies used to create the model's appearance. When customers want to replicate the look, they will look for your products.

Boutique

• Market your beauty products as prestige items by limiting sales to boutiques or limited retailers. Train the sales associates in these locations on the high-quality ingredients used in your products, special techniques and how to select the best product to enhance a customer's appearance. Offer demonstrations, makeovers and beauty training sessions for your customers. Make sure the ambiance of the store enhances the prestige image of your products through a clean, upbeat atmosphere. With a prestige, boutique-marketing strategy, you can command a premium price for your beauty products.

Wide Distribution

• Go for high-volume sales through wide distribution of your beauty products. If you sell a routine product that is not suitable for prestige pricing, try to obtain as much market share as possible. Place your products in mass-market retailers, in convenience locations and in stores where your competition has not targeted. If you offer a quality beauty product at a highly competitive price and it is readily available, you will increase customer loyalty and repeat sales.

Private Label

• Expand your sales by offering private-label options to stores, salons, spas and other beauty retailers. These locations can increase their profile by offering your products with their branding on the label, and you can increase sales of your existing product. Consider making small formula changes such as the fragrance to help sell your private-label services to multiple beauty vendors.
5. CONSUMER ANALYSIS

Consumer Trends

According to in-depth market studies, young Russian girls start to use make-up products regularly when they are 16-17 years old, 14-15 in Southern Russia. Thirty years ago research showed Russian women bought their first make-up set at 18-20 years old.

Another new recent trend in the market development is a shift in the market shares from Moscow to the Russian regions. In 1999, 80% of the sales of cosmetic products were in Moscow, 10% - in St. Petersburg, and 10% - in the regions. Currently, the ratio between the large cities and the regional cities is 50/50. With 12 cities in Russia with more than 1 million people, the regions are becoming a crucial business opportunity for Western companies. Major international chains are in the process of either expanding or launching their Russian operations starting from marketing goods in regional capitals, where the level of competition is lower but middle class consumer spending is booming.

High stake in middle class

As the society develops, the layer of middle class people is forming. The criteria of middle class status differs depending on a source. All in all, the majority of sociologists believe the middle layer exists. Some analytics consider the main criterion is financial status, without taking into consideration educational and cultural level. They describe a middle class representative as a person having an apartment or a house, a car, modern home video and acoustic equipment, as well as a tidy penny in a bank and regularly spending a vacation abroad. To afford all this comfort a person should earn $10’000-20’000 per year. The amount of such people in Russia does not exceed 3 mln (6% of population), sociologists claim. Other sociological institutions, for example, Federal Service of State Statistics, believe financial status can not be the only feature of middle class in Russia. Educational and cultural level should be also taken into consideration, because they influence greatly consumption behavior and do not always correlate with the income. In fact the main criterion is self-determination of a person, whether he regards himself as a middle class representative. Following this point of view, 20% of the Russian population are considered as the basis for Russian consumerism and the power of gradual economic development.

Russian middle class people want to have more than they can actually afford. That is why they purchase premium perfumery and colour cosmetics. Together they spend for cosmetics “deluxe” almost as much as the thin layer of upscale people. Certainly middle class representatives are the main consumers of middle price goods and everything called mastige, because they want value for money, but they are not ready to pay too much for branding. One should remember, the parents of contemporary middle class people spent their lifetime in financially constrained circumstances, that is why new generation like to show off its achievements, welfare and good taste for clothes and cosmetics.
The majority of middle class people are at the age of 30-40 years old, working as a manager, law consultant or a journalist for a private enterprise. In Russia the number of employees among middle class representatives is higher than in Western Europe. At the same time 15% of Russian middle class people are owners of private companies or small businesses. 68% of employees dream about their own company and 80% would like their children run a private business.

**Russian Women Love Cosmetics**

Russian women value very highly cosmetics made in France. The worship of French cosmetics among Russian women is passed from one generation to the next. Even representatives of the middle class who can't allow themselves to enjoy very many luxuries will occasionally buy at least a lipstick or an eye-shadow, mascara or powder of one of the luxury brands such as Dior or Givenchy, etc.

But a couple of years ago French cosmetics got a competitor - from some various Japanese cosmetic products. The demand for Japanese cosmetics is rapidly increasing. Japanese companies use traditional ingredients while European companies offer original recipes. European companies are very careful about the safety of cosmetic products. They frequently update the list of ingredients that are prohibited to use and it imparts a great deal of trust among Russian women.

So called pharmacy cosmetics is getting popular too. And it is thanks to the belief of Russian women that pharmacy cosmetics are tested in clinics and meet higher requirements and standards. It seems to be true given that the same Authorities who control the manufacturers of pharmacy cosmetics also control medicine in Europe.

But the most dynamic cosmetics market in Russia is the middle - market. The most popular cosmetic brands are Nivea, Oriflame, Avon, Garnier, Max Factor, L’Oreal. In Russia cosmetics are usually bought in specialized shops and pharmacies. Supermarkets occupy third place. Only a few Russian women buy cosmetic products on the internet. The attitude of Russian women towards cosmetic sales assistants is rather unusual. If they receive too much consultation and information, they often do not buy. Statistics show that a Russian woman will purchase more products if she is not approached and interfered with too much by a shop assistant.

The average Russian woman is not devoted to a particular brand, but prefers to experiment with various brands of cosmetics. She is always interested in new products. In the case where some new and revolutionary cosmetic product appears on the market she will be ready to buy it. How could she allow herself to miss a product that everybody already knows about or her friend has already tried. She is profoundly influenced by advertising and starts using anti-age cosmetics in her early thirties. A Russian woman believes that her beauty and youth are a must for her success. But Russian women are very cautious about plastic surgery. Russian beauties seldom say "yes" to aesthetic medicine and procedures. Russian women cosmetics - our preferences.
Wealthy Russian women buy only luxury products. Skin treatment is chosen very carefully. They choose professional creams that are made by specialists in spa-salons. Many Russian women prefer to purchase cosmetics abroad. They believe that if they buy in foreign beauty salons and clinics, they will be advised more appropriately which cosmetics exactly suit them. Also buying cosmetics overseas is more reliable because of quality and identity. In most Russian shops the shop assistants don't really know the products they sell. And a client may receive different answers for the same question in different shops. The only thing in which they all seem to agree: there should be a few bottles of different perfumes on a woman's dressing table.

Business women have a different approach when purchasing cosmetic products. They use more lip gloss than lipstick and prefer natural makeup. They update their cosmetic set when necessary. Sometimes they buy something "innovative" but often a wonderful item will not live up to their expectations and will not suit their style. Because a business lady can't change her style and image radically she must be conservative in her choice of products. They don't consider morning make up as a necessary ritual and don't pay too much attention to it. It's more reasonable for them to spend more time taking professional skin care in a beauty salon that will help them maintain the health of their skin as opposed to camouflaging "traces of passing years".

Many Russian women are contradictory in that they share the opinion that a man's opinion is not important for them when choosing cosmetics. But at the same time they try to look beautiful for men. Through the advice of their female friends, acquaintances, female co-workers they find their guide for action

**Beauty is in the eye of the consumer**

Kolesnikova said that her department has boasted the highest sales in this massive 600,000 sq. ft. store since the economic downturn began. Last year, the Cosmetics and Perfumery Department which sells more than 200 brands, mostly premium ones, launched three new luxury titles – Dolce & Gabbana makeup, Bobby Brown and MAC. All three turned out to be hits, helping TsUM rise to third place in revenues among the world’s department stores. Only New York’s Saks Fifth Avenue and Milan’s Rinascente were more profitable.

“It turns out that Russians find it hard to stay away from luxury, even these days,” Kolesnikova said, smiling. “And Russian women have always had to look their best, no matter how difficult the times were.”

“Russian women are addicted to cosmetics,” she said. “They can save on food and other necessities, but they’d still manage to buy themselves mascara and lipstick.”
Jacques, a French national who has worked more than a dozen years in Russia’s beauty industry, observed that Western European women are not as focused on their looks and the impression they make as Russian women are. Western European women, she said, also tend to be much more conservative when it comes to beauty shopping and tend to become even more cautious and reserved when times get rough. Not Russians, though.

One recent consumer trend here, perhaps brought on by the recession, has been women switching to a slightly less expensive brand still within the premium span, such as Clinique, whose market share has increased lately, or quality mass-market products, such as L’Oreal.

Mascara and lipstick are the religion in this country. If a customer used to buy a new mascara once in three months. She might now switch to buying once every five or six months, or turn to a cheaper brand.

Life is hard in Russia, and for many women, shopping for beauty product and self-pampering is the ultimate stress-reliever. Many women stop by cosmetics shops on the way home from work just to look around.

In fact, I think Russian women often use make-up more as therapy, because physically they are very beautiful already.

**Consumer Dynamics**

- Consumers are becoming less price sensitive, choosing quality over price
  - As regional centers develop, consumers are actively switching from low cost generic products to higher cost branded products
- Consumers previously were drawn to colorful packaging but are now more interested in the ingredients and functional characteristics
- Consumers consistently choose locally made skin care as they believe they are more natural and better suited to Russian skin. This belief is slowly changing.
- Russian consumers can be characterized into two distinct segments:
  - The older generation believes natural ingredients are more healthy, is skeptical of foreign-made products containing chemicals, and does not trust advertising or salespeople
  - The younger generation tends to want the advice of retail store staff, is heavily influenced by western advertising campaigns, and buys popular brands as a status symbol
- There is increasing interest in health care, naturalness and new technologies
General Consumer Trends

GfK RUS one of the leading market research firms in Russia, recently conducted a study that revealed seven primary consumption profiles in the Russian consumer market. Between August 2001 and August 2002, practically all of these consumption profiles underwent radical changes. The three most promising segments for foreign firms entering the market do not represent the largest consumer segments but offer the strongest potential because of their consumer behavior.

First, the advanced consumer group known as innovators is people who are seeking the best of the best. They are not traditional “luxury customers” in the Western sense, not only because big money suddenly became available for a few Muscovite families (around 18%, in comparison with an average of 8% for the country as a whole) but also because many new developments altered Russia’s notoriously dull retail industry. This group consists of the very young: Russians under the age of 30. These consumers generally are involved in business or in top intellectual occupations. Often single, they are highly educated, have well-developed tastes, and are well traveled and fairly sophisticated with regard to the global market’s offerings. They demand that everything be unique, exotic, and super-luxurious in their dynamic lifestyle, which is characterized by enjoying abundant leisure time, pursuing physical fitness through sports or training, dining in “hot” restaurants, traveling in style in private jets, attending “members only” clubs, arranging and attending exclusive parties, and giving impressively expensive gifts. They are not satisfied with foreign brands alone. They want more customization, limited editions of everything, and “impossible-to-get” products and services. In many ways they are ahead of the average Western consumer in purchasing objects of art, custom-made jewelry, luxury homes, exotic cars, unique yachts, and elaborate personal services. Ostentatiously consuming items that are unavailable to or unaffordable for the general public, they drive the entire Russian market in the direction of ultimate luxury. The advertising media are working hard to promote many luxury products through the innovators, as they are much better informed, thanks to a variety of global media sources.

The second large group of Russian customers might be called impulsive shoppers (about 12% nationwide and 8% in Moscow). This cluster includes, along with many females, a number of single men, generally with secondary education. Some of these consumers are quite likely to shift into group one, the innovators, when their income level allows such upward mobility. They tend to make purchases impulsively without much thought or advance planning. They are proud to be capable of such behavior, and they treat shopping as a form of self-therapy, reward, and fun. This is a golden opportunity for advertisers, who can capitalize on it and lead impulsive shoppers into a new, more sustainable category of big spenders and luxury shopaholics.

Another significant cluster—motivators—is much smaller (11% in Russia and 15% in Moscow). They may be Muscovites but often are residents of the oblast centers and other big industrial cities. Though their incomes are far more modest, they are swayed by advertising messages and are subject to other consumer influences (collective, family, group, and
Haircare Industry In Russia

subcultural). They are prone to change their consumption behavior if the influencer suggests doing so. There is a huge potential for advertisers to target this specific group and reach the desired sales goal by showing the motivators newer and more exciting products and services that are available locally.

**Discriminating** customers (12% nationwide and 8% in Moscow) are normally conservative and mature; many of them are female. Though their consumer potential is high, they see no value in advertising and instead feel annoyed by it. Discriminating customers consume quality and solid products but not necessarily innovative ones. They pay special attention to health products and the health-care industry’s services. They might react more favorably to less-aggressive messages that feature members of their age group in a traditional social setting in their lifestyle context, and might be motivated by messages featuring mature celebrities.

**Indifferent** consumers (25% countrywide and 21% in Moscow) tend to feel comfortable with their choices of product categories and brands. Their income category is average or slightly above average. Indifferent consumers are highly skeptical of the claims made by advertising but do not mind advertising as such. They are very difficult to influence through traditional means of salesmanship-based advertising. Their consumption is driven mainly by habit rather than by necessity. Advertisers must work harder to solve the rejection problem by providing more infomercials and generating excitement as a part of the shopping experience.

**Traditionalists** (16% in Russia and 20% in Moscow) are primarily retirees or people about to retire; most live in Russia’s urban centers. Their incomes are miserable, and they rely heavily on material assistance from their relatives and family members. Their consumer choices are driven by the survival mode of their existence. The product selection is limited and based mainly on nostalgia for the good old Soviet days. They prefer drab, old-fashioned retail establishments with affordable prices and gloomier lines of inferior products. Traditionalists decline to shop at modern stores out of a wish to protest against new societal values and the booming culture of materialism. They may not be swayed by advertising at all. Attempts should be made to change their shopping behavior by offering promotions and low-cost or discount shopping opportunities.

And finally, there are the *kolkhozniki* (former members of collective farms): a tiny group (11% in Russia and 1% in Moscow) of mature village and small-town residents with below-average educational backgrounds. They are just scraping by and do not fit into any of the known income categories. They are true relicts of the past, trying hard to make ends meet. Many grow agricultural products in their backyards or on tiny parcels of granted land at *dachas* (modest countryside households). They can afford almost nothing offered by modern retailers and must look for possible bargains by going from store to store. Many discount opportunities might appeal to this group through appropriately structured guilt-free messages related to appreciation of past glory and Russian-made products exclusively.
Russian versus Foreign Brands

As purchasing power among Russia's various consumer segments has increased, a preference for domestically produced items (Russian brands) has also increased. Some foreign manufacturers have sought to become more competitive on the market through local production of "Russian" brands, creating "national" brands, which have gained popularity among Russian consumers. Meanwhile, as incomes have grown, some consumers have started to turn back to international brands, while keeping their positive attitude towards local brands intact.

It is also worth noting that promotion and advertising of international brands has increased. Aggressive advertising, promotion policy, and slight decrease in prices are currently the three most important factors shaping consumer choice.

Competition between local brands and international brands is intense. International brands, particularly in the fast-moving consumer goods market, have benefited from a recognized reputation and the improved financial situation of Russia's consumers. Meanwhile, local brands are currently perceived as high quality, a good value-for-money, and benefit from Russians' patriotic impulse to buy "Russian-made" products.

Retail Stores and Russian Consumers

Household spending habits for Russia's urban populations, particularly for such consumer goods as food, cosmetics/toiletries, and household supplies, illustrate the role of the primary retail channels in Russia's grocery stores, produce markets, and supermarkets. Currently, some 37 percent of such spending takes place at small, multipurpose grocery stores, while "wholesale" produce markets (or farmers' markets) account for 24 percent of such spending, and another 12 percent of these purchases are made at large-scale grocery stores, or supermarkets.

Retail trends suggest that large-scale stores will become increasingly popular. However, most Russians outside Moscow and other major cities still do their shopping at small grocery or convenience stores or other specialized stores because of their convenient location, as well as at consumer goods markets, because of low prices. At the same time, Russia is witnessing the rise of a new consumer channel--medium-sized discount supermarkets, such as Piaterochka, Kopeika, and Aldi in Moscow.

Regions versus Moscow

Given the growing number of regions beyond Moscow considered to have relatively high business development potential--including St. Petersburg, Rostov, Krasnodar, Nizhny Novgorod, Tatarstan, Bashkortostan, Samara, Yekaterinburg, Krasnoyarsk, and Irkutsk--a final but important note related to consumer behavior in Russia for any company considering market entry is that significant differences exist from region to region. It may come as a surprise, but
some businesses report finding that the real differences between neighboring regions in Russia may in fact be greater than between neighboring European countries. Pakistani Companies considering entry into the Russian market in several regions should prepare not just one nationwide plan, but several business plans or a multifaceted plan to reflect the unique aspects and demands of different regions. Russia's current experience suggests that those who go to the regions first and use local resources effectively are most likely to become market leaders.

**Russian Women’s Buying Behavior**

To understand the motives in selecting consumer durables, the research were isolated issues that characterize the values of Russian women belonging to middle class. Continue, remain a priority: "children" - 86%; "family relationship" - 75%; "material wealth" - 74%. Therefore, women are actively responding to suggestions on products and services that preserve health and family, provide security. The "healthy lifestyle" mentioned only 57%. A small number of women among the values named: "Sports, hobbies, entertainment - 39%, and" career "- 22%. It should be noted that women throw the concept of "career" and "work." Gainful employment is perceived as a source of material wealth in the family, rather than as a way of succeeding in society.

"How do you usually spend your free time?" woman replied: "socializing with friends at home, away," "housework and children," "a TV and reading." Only 8% of respondents named the "shopping", 5% - "Sports" and "night club, restaurant, cafe.

During individual interviews trial participants named as significant purchases (just 450 titles), they have acquired during 2007, the goods, which were then divided into 4 main groups:

- Consumer electronics, computers, mobile phones - 38%;
- Furniture and home goods - 20%;
- Clothing, Shoes & Accessories - 19%;
- Others - 23%.

Russian women are not prone to spontaneous purchases when choosing durable goods. Only when it comes to jewelry, women predominate in their natural emotions, and they are ready to make an unplanned purchase

The process of buying in this group is as follows: 47% of the cases decided on their own woman, a 26% - a male companion, 25% - together.
<table>
<thead>
<tr>
<th>Question, &quot;Are you planning to make this purchase?&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Furniture, household goods</strong></td>
</tr>
<tr>
<td>YES</td>
</tr>
<tr>
<td>NO</td>
</tr>
</tbody>
</table>

It can be assumed that the lack of spontaneity in the behavior of Russian women shoppers due to the fact that their contribution to the family budget is significant. 40% of respondents make to the family budget is more than 50% of household income (18% of them are above 70% of revenue) and only 26% - 30% of family income.

Emotional rewards for shoppers is much more important than the propensity to risk when choosing a new brand. 62% of respondents stated "any bargain elevates mood, and only 10% of cases - like to try new brands." 66% of study participants reported, "for me it is important that," while only 9% agreed that "willing to pay more for a prestigious brand." All this speaks in favor of rationalism in women during shopping. For Russian women - middle-class - a priority that the subject liked her and then she is ready to buy it, paying no attention to the prestige of the brand.

<table>
<thead>
<tr>
<th>2001</th>
<th>2007</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Question: &quot;What is important to you when choosing a product?&quot;</td>
</tr>
<tr>
<td>25%</td>
<td>23%</td>
<td>Value for money</td>
</tr>
<tr>
<td>19%</td>
<td>11%</td>
<td>Price</td>
</tr>
<tr>
<td>12%</td>
<td>15%</td>
<td>Quality</td>
</tr>
<tr>
<td>8%</td>
<td>11%</td>
<td>Trademark</td>
</tr>
<tr>
<td>7%</td>
<td>3%</td>
<td>Country of origin</td>
</tr>
<tr>
<td>6%</td>
<td>10%</td>
<td>Good thing itself</td>
</tr>
</tbody>
</table>

The parameters characterizing the marketing impact on customers

| 3%   | 5%   | Vendor Recommendations   |
| 3%   | 4%   | Discount                 |
| 2%   | 1%   | Previously looked to advertising |
| 1%   | 0%   | Advertise in the store   |

Question, "Where did you do your purchases?"

| 30%  | 25%  | Shopping center           |
| 19%  | 30%  | Company Store             |
| 15%  | 3%   | Clothing market           |

Consumer Behavior in Russian Social Media

Despite some optimistic improvements in the consumer confidence index in Q3 2009, Russian consumers have shown low readiness to increase spending in the next 12 months. According to PWC survey, the majority of respondents cite travel and entertainment as the most popular categories to cut-back in spending in the year ahead. Over a third (38%) of respondents plan to further reduce expenses on travel, and 33% of them are going to cut back on outside entertainment including cinema, theatre, concerts and restaurants. A quarter of consumers surveyed intend to lower expenditure level on consumer electronics next year.
Goods on which over half of respondents plan to keep expenses at the same level include groceries (65%), cosmetics and beauty care (59%) and books, periodicals, CD/DVD (57%). Meanwhile, 42% of consumers surveyed are ready to increase spending on home improvements, apparel and footwear (39%) and groceries (26%) in the next 12 months.

According to the survey, almost all respondents regularly spend online time on searching for information or e-mail communication. Almost three quarters of them (73%) cited that they usually access the Internet for social networking - the third most popular result followed by instant messaging. The survey also revealed high readiness of Russian consumers to purchase online, with about 80% of respondents reporting that they have made at least one purchase over the Internet. For respondents whose monthly income is above RUB 25,000, this figure reached 90%.

In the decision-making process, online shoppers tend to rely on personal recommendations from people they know or recommendations of other users. Consumers’ choice is least of all affected by online advertising (only 18% of respondents). Compared to other age groups, middle-aged consumers are more inclined to trust search results rather than personal recommendations. People with monthly income of over RUB 25,000 make decisions after speaking to friends and acquaintances, and then studying online consumer opinions.

Context ad in search results leads among consumers as the main way they prefer to get online advertising - 42% of respondents voted for it. Young respondents (aged 18 - 25) are even more loyal to e-mail marketing than context advertising (39% against 36%).

Almost 60% of consumers surveyed still prefer to examine goods in person before buying anything, and nearly as many respondents have concerns about the condition of goods delivered and difficulties associated with their return.

Benefits of making purchases online compared to traditional shopping include saving time (74%), home delivery services (65%), possibility to avoid offline shops crowds (61%) and ability to shop 24 hours a day (58%). For cities except Moscow and St Petersburg, finding something that is not available locally was recognised as one of the key benefits of online retailing

**Consumer Behavior Volatile in Russia**

Brand owners in the FMCG sector remain cautiously optimistic about their prospects in Russia, despite the fact shopper behavior has been "inexplicably volatile" during the financial crisis. Ernst & Young, found growth rates typically moderated dramatically in the recession and trading patterns regularly appeared "inexplicably volatile".
Consumer Behavior Drives Change

According to the Global Entertainment & Media Outlook 2010-2014 from PricewaterhouseCoopers, the compound annual growth rate of the Russian E&M (entertainment and media) market is expected to reach 9.3% as a result of two-digit growth rates in such sectors as Internet advertising, TV subscription spending and consumer spending on Internet access and video games. Consumer spending (excluding Internet access) will rise at a compound annual rate of 5.9%, while the advertising market will grow by 10.2% until 2014. Therefore, by 2014 the two segments will virtually even out, reaching USD 9.9 billion and USD 9.6 billion respectively. The Russian E&M market in 2009 is assessed at USD 16.38 billion, and by 2014 it is expected to grow to USD 25.58 billion.

The Internet

In 2009 Russia became the largest market for Internet access in Central and Eastern Europe (CEE), and the seventh among EMEA countries. Consumer spending on Internet access last year stood at USD 2.9 billion and the sector is expected to grow at a compound annual rate of 15% over the next five years.

TV and Radio

The Russian market occupies the leading position among CEE countries in terms of households with TV subscriptions (12.7 million subscribers). By 2014 this number is expected to rise to 19.7 million, placing Russia third among EMEA countries, after Saudi Arabia and Germany.

Out-of-home advertising

Central and Eastern Europe will become the fastest growing region in the out-of-home advertising sector in EMEA, mostly due to the large revenues in the Russian market. The lack of economic stability in 2009 caused the market to fall by 40.5% to USD 858 million, which was the greatest decrease among all EMEA countries. Nevertheless, in 2014 the market is forecast to rise to USD 1.3 billion, with a compound annual growth rate of 9.5% (40% of total EMEA market growth).

Print newspapers and consumer magazines

The Russian newspaper market in 2009 was USD 1.6 billion, while as a result of the economic crisis the print newspaper advertising market was down 35% on previous years, to USD 280 million. By 2014 the print newspaper advertising market is forecast to reach USD 421 million. Advertisers will switch their attention to digital newspaper formats, and the compound annual growth rate for the next five years is forecast to be 23.6%, which will enable this market to reach USD 26 million by 2014.
Consumer outlook

- Consumer spending growth was largely driven by the growing economy, employment and wages. Given the gloomy outlook for these, consumption looks set to suffer in the short term.
- Russian households are not generally heavily in debt, suggesting that the effects of the financial crisis on them will be quite moderate, supporting recovery of spending.
- The recent devaluations of the rouble have added to inflationary pressures, as well as weakening households’ purchasing power.

Age Distribution

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-14</td>
<td>10,666</td>
<td>10,158</td>
<td>20,824</td>
<td>14.7</td>
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<tr>
<td>15-24</td>
<td>11,665</td>
<td>11,306</td>
<td>22,971</td>
<td>16.2</td>
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<tr>
<td>25-44</td>
<td>20,440</td>
<td>21,034</td>
<td>41,474</td>
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<tr>
<td>45-64</td>
<td>16,696</td>
<td>20,455</td>
<td>37,151</td>
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<tr>
<td>65+</td>
<td>6,250</td>
<td>13,339</td>
<td>19,589</td>
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<tr>
<td>Total</td>
<td>65,717</td>
<td>76,292</td>
<td>142,009</td>
<td>100.0</td>
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# Geert Hofstede Cultural Dimensions of Russia

<table>
<thead>
<tr>
<th></th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
<th>LTO</th>
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<tbody>
<tr>
<td>Russia</td>
<td>93</td>
<td>39</td>
<td>36</td>
<td>95</td>
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<tr>
<td>US</td>
<td>40</td>
<td>91</td>
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<tr>
<td>UK</td>
<td>35</td>
<td>89</td>
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<td>35</td>
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<td>Germany</td>
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<td>67</td>
<td>66</td>
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<tr>
<td>Italy</td>
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<tr>
<td>France</td>
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<td>71</td>
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<td>China</td>
<td>80</td>
<td>20</td>
<td>66</td>
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<td>Japan</td>
<td>54</td>
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<td>95</td>
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<tr>
<td>Brazil</td>
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<td>38</td>
<td>49</td>
<td>76</td>
<td>65</td>
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<tr>
<td>Turkey</td>
<td>66</td>
<td>37</td>
<td>45</td>
<td>55</td>
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<tr>
<td>Arab world</td>
<td>80</td>
<td>38</td>
<td>52</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

Source: [www.geert-hofstede.com](http://www.geert-hofstede.com)

- **Power Distance Index (PDI)**
- **Individualism (IDV)**
- **Masculinity (MAS)**
- **Uncertainty Avoidance Index (UAI)**
- **Long-Term Orientation (LTO)**
6. MARKET FORECAST OF THE INDUSTRY AND KEY FINANCIAL RATIOS OF THE LEADING COMPANIES

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<thead>
<tr>
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<tbody>
<tr>
<td>Annually Growth (CAGR)</td>
<td>6.60%</td>
<td>5.20%</td>
<td>4.80%</td>
</tr>
<tr>
<td>Value in Last Year</td>
<td>1.3 bn</td>
<td>1.7 bn</td>
<td>0.618 bn</td>
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<tr>
<td>Anually Average</td>
<td>$80,000,000</td>
<td>$22,200,000</td>
<td>$18,400,000</td>
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<tr>
<td>Change in Value 09-14</td>
<td></td>
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</table>

Source: Datamonitor

Market Segmentation

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Shampoo</td>
<td>46.80%</td>
</tr>
<tr>
<td>Hair colorants</td>
<td>30.40%</td>
</tr>
<tr>
<td>Styling agents</td>
<td>12.00%</td>
</tr>
<tr>
<td>Conditioner</td>
<td>9.30%</td>
</tr>
<tr>
<td>Perms&amp;Relaxers</td>
<td>1.50%</td>
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Source: Datamonitor
Market Shares

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<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>P&amp;G</td>
<td>20.60%</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>L'Oreal S.A</td>
<td>17.00%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Henkel KgaA</td>
<td>15.30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>47.00%</td>
<td></td>
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</table>

Source: Datamonitor

Selling Point Segmentation

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Super/Hypermarkets</td>
<td>48.50%</td>
</tr>
<tr>
<td>Specialist Retailers</td>
<td>20.40%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>9.50%</td>
</tr>
<tr>
<td>Others</td>
<td>21.60%</td>
</tr>
</tbody>
</table>

Source: Datamonitor

P&G

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Margin</td>
<td>12.20%</td>
<td>12.70%</td>
<td>13.80%</td>
<td>14.80%</td>
<td>17.00%</td>
<td>14.10%</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>10.40%</td>
<td>20.20%</td>
<td>9.70%</td>
<td>9.20%</td>
<td>-3.30%</td>
<td>9.24%</td>
</tr>
<tr>
<td>Asset Growth</td>
<td>7.90%</td>
<td>120.50%</td>
<td>1.70%</td>
<td>4.30%</td>
<td>-6.40%</td>
<td>25.60%</td>
</tr>
<tr>
<td>Liabilities Growth</td>
<td>8.30%</td>
<td>69.10%</td>
<td>-2.10%</td>
<td>4.60%</td>
<td>-3.70%</td>
<td>15.24%</td>
</tr>
<tr>
<td>Debt/Asset Ratio</td>
<td>70.00%</td>
<td>53.60%</td>
<td>51.60%</td>
<td>51.70%</td>
<td>53.20%</td>
<td>56.02%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>11.70%</td>
<td>8.80%</td>
<td>7.60%</td>
<td>8.60%</td>
<td>9.60%</td>
<td>9.26%</td>
</tr>
<tr>
<td>Revenue Per Employee</td>
<td>$515,827</td>
<td>$494,362</td>
<td>$542,261</td>
<td>$592,377</td>
<td>$585,400</td>
<td>$546,045</td>
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<tr>
<td>Profit Per Employee</td>
<td>$63,955</td>
<td>$62,928</td>
<td>$74,928</td>
<td>$87,500</td>
<td>$99,526</td>
<td>$77,767</td>
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<tr>
<td>Revenues (million)</td>
<td>$56,741</td>
<td>$68,222</td>
<td>$74,832</td>
<td>$81,748</td>
<td>$79,029</td>
<td>$72,114</td>
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Source: Datamonitor

L'Oreal S.A

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Avg</th>
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<tbody>
<tr>
<td>Profit Margin</td>
<td>13.60%</td>
<td>13.10%</td>
<td>15.60%</td>
<td>11.10%</td>
<td>10.30%</td>
<td>12.74%</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>6.50%</td>
<td>8.60%</td>
<td>8.10%</td>
<td>2.80%</td>
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</tr>
<tr>
<td>Asset Growth</td>
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<td>Liabilities Growth</td>
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<td>Debt/Asset Ratio</td>
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<td>41.80%</td>
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<tr>
<td>Return on Assets</td>
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<td>8.50%</td>
<td>11.10%</td>
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<td>Revenue Per Employee</td>
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<td>$360,819</td>
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<td>$371,453</td>
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<tr>
<td>Profit Per Employee</td>
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<td>$47,096</td>
<td>$58,291</td>
<td>$40,039</td>
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<tr>
<td>Revenues (million)</td>
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<td>$21,956</td>
<td>$23,725</td>
<td>$24,392</td>
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Source: Datamonitor

Haircare Industry In Russia 30
### Henkel KGaA

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<tr>
<th>Ratios</th>
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<td>59.00%</td>
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<tr>
<td>Return on Assets</td>
<td>5.60%</td>
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<td>3.80%</td>
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<tr>
<td>Revenue Per Employee</td>
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<tr>
<td>Profit Per Employee</td>
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<td>Revenues (million)</td>
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<td>$17,715</td>
<td>$18,179</td>
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Source: Datamonitor

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<th>Average(2005-2009)</th>
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<th>Henkel</th>
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<tr>
<td>Asset Growth</td>
<td>25.60%</td>
<td>3.00%</td>
<td>4.04%</td>
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<tr>
<td>Liabilities Growth</td>
<td>15.24%</td>
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<td>1.88%</td>
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<tr>
<td>Debt/Asset Ratio</td>
<td>56.02%</td>
<td>42.50%</td>
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<td>Return on Assets</td>
<td>9.26%</td>
<td>8.96%</td>
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<tr>
<td>Revenue Per Employee</td>
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<tr>
<td>Profit Per Employee</td>
<td>$77,767</td>
<td>$47,261</td>
<td>$22,941</td>
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<tr>
<td>Revenues (million)</td>
<td>$72,114</td>
<td>$22,915</td>
<td>$18,213</td>
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</table>

Source: Datamonitor

### 7. SWOT ANALYSIS OF THE LEADING COMPANIES

#### P&G

**Strengths**
- Leading market position garnered on a strong brand portfolio
- Significant R&D and marketing investments Robust cash productivity

**Weaknesses**
- Increasing instances of product recalls

**Opportunities**
- Future growth plans with focus on increasing concentration on its core attractive businesses and enhancing its customer base
- Increased investment in manufacturing capacity in developing countries Acquisitions to expand portfolio
 Threats
- Competitive industry landscape pose challenges for profitability
- Rising inflation could cause substantial rise in the operating cost
- Counterfeit goods Volatility in currency exchange rates

L’Oreal

Strengths
- Leading cosmetic company with portfolio of strong international brands and presence in all distribution channels
- Accelerating globalization and internationalization of the brand portfolio
- Focus on innovation and differentiation through robust R&D efforts

Weaknesses
- Heavily dependent on third party retailers
- Destocking of luxury products as the consumer preference shifts to value products

Opportunities
- Focus on niche segments like anti-ageing and men products
- Growing presence in emerging markets
- Strategic acquisitions to expand the company's business operations

Threats
- Growing counterfeit goods market
- Increasing competition across product categories

Henkel

Strengths
- Broad product portfolio with strong focus on big brands
- Strong orientation towards R&D
- Early implementation of restructuring measures
Weaknesses

- Overexposure to Europe and North America under unfavorable economic circumstances

Opportunities

- Focus on developing and emerging economies
- Growing personal care industry
- Positive market outlook for the laundry and home care segment

Threats

- Rising inflation could cause substantial rise in the operating cost
- Increasing competitive pressure Changing global retail scenario

8. KEY FACTORS OF GLOBAL COSMETIC MANUFACTURERS

Key Sensitivities

The key sensitivities affecting the performance of the Global Toiletries and Cosmetics Manufacturing industry include:

Age Group (5-19)

Baby care products, along with those targeted at the "tweens" segment in line with the 'age compression' phenomenon are another growth area being targeted by various industry participants. Thus this particular age cohort is of growing importance.

Age Group (50+)

The other key age cohort is the baby boomer group with manufacturers producing an ever increasing array of products targeted at this particular age group. Thus continued growth in this age cohort will impact upon industry performance.

Per Capita Disposable Income

In general, the higher the level of disposable income, the larger the amount spent on cosmetics and toiletries. In addition, as income rises, sales of higher priced, higher value added cosmetics and toiletries also tend to increase.

World price of crude oil

Description: The world price of crude oil; US$ per barrel; historical and forecast data analysis. With a number of key raw material inputs ultimately derived from petrochemical feedstocks,
which are derived from petroleum, fluctuations in the price of crude oil can have a significant bearing upon the cost structure of industry participants via their flow through effects.

**Key Success Factors**
The key success factors in the Global Toiletries and Cosmetics Manufacturing industry are:

- **Production of premium goods/services**
  Customers will often purchase premium goods in this industry if they are perceived to be quality goods.

- **Having contacts within key markets**
  High brand visibility is important in increasing sales of mass-market cosmetics and toiletries.

- **Access to niche markets**
  If not a major player, niche/ultra-niche positioning is important for success in this industry.

- **Having a clear market position**
  In this highly competitive industry, marketing and brand awareness are very important in gaining market share.

- **Production of goods currently favored by the market**
  Manufacturers must be aware and be able to adapt to fashion trends in order to remain competitive, although some of the larger manufacturers may set trends rather than follow them.

- **Ability to accommodate environmental requirements**
  The rise of ethical-consumerism means that environmental concerns/issues are becoming of increasing importance.
9. LOCAL AND GLOBAL MANUFACTURERS

Global Manufacturers

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales</th>
<th>Employee</th>
<th>Profit</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Procter &amp; Gamble Company</td>
<td>82,559.00M</td>
<td>129,000</td>
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<td>Cincinnati, OH</td>
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<tr>
<td>Kimberly-Clark Corporation</td>
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<td>57,000</td>
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<td>Kao Corporation</td>
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<td>34,743</td>
<td>57.96%</td>
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<td>Avon Products, Inc.</td>
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<td>42,000</td>
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<tr>
<td>Alticor Inc.</td>
<td>9,200.00M</td>
<td>14,000</td>
<td></td>
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<tr>
<td>The Estée Lauder Companies Inc.</td>
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<td>Beiersdorf Aktiengesellschaft</td>
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<td>SCA Hygiene Products SE</td>
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<td>Smithkline Beecham Americas Inc</td>
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<td>LG Household &amp; Health Care Ltd.</td>
<td>1,541.44M</td>
<td>3,156</td>
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</tr>
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</table>
10. THE TAKE-AWAYS of BRANDED BEAUTY

- Cosmetics have been linked with fashion for decades, but what make-up artists brands offer apart from the stardust of their links with designers, photographers and models is a promise of professionalism. If the products have been designed for the hectic, artistically demanding environment of the runway, there is no reason they shouldn't deliver in everyday life: creativity and efficiency in one slick package.

- Some consumers are tired of conventional brands. Therefore, they are rediscovering perfumes first launched in the 18th century.

- Beauty companies tend to promote active ingredients with language that reflects their brand DNA. For instance, La Prairie (owned, like Nivea, by Beiersdorf) makes much of its Swiss origins, equating the pure air and snows of its homeland with health and purity. Thus it assures us that its Cellular Power Infusion contains 'the stem cells of Swiss red grapes and extract of Swiss snow algae'.

- Wherever the plant was discovered, it lay at the intersection of three marketing imperatives: the desire for new active ingredients, the need for compelling stories, and the increasing demand among consumers for natural products. Dior has what it calls 'gardens' dotted around the world: protected areas from which it sources natural active ingredients.

- Luxury skincare is outrageously expensive, but let’s not forget Helena Rubinstein’s theory that fashionable do not want to buy anything affordable.

- It's the familiar luxury marketing equation: you can't afford it; you're not worthy; availability is limited - therefore you want it very much indeed.

- The journalists were wooed with drinks and nibbles and handed branded La Prairie notebooks and pens. The products being launched included Cellular Radiance Emulsion SPF 30 (US$425), Anti-Ageing Neck Cream (US$200) and two holiday gift sets (US$950 each). A New York Times reporter described the brand as 'the Apple computer of the beauty world', adding, 'Its packaging is gorgeous: silver, white, clear and sleek.

- The easy relationship between beauty brand PRs and beauty journalists smoothes the marketing process.

- Consumers buy not only efficacy, but also experience: the retail environment, the packaging, the fragrance, the texture.

- Consumers also buy status: beauty is a high-margin business because many consumers are willing to pay for a luxury cream or unwilling to pay for a cheap one.

- A beauty brand may launch two or three products based on the same story, with others to follow if it proves successful. For anti-ageing product this might be one serum, one cream and maybe a serum for the skin around the eyes. If the product is focused on hydration, the range might be larger because of the different skin types: dry, oily or combination. A range...
Haircare Industry In Russia

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can gradually expand to embrace 10 or more products. “Lately there has been a trend for launching the range with serum,” says one of the top manager in a famous cosmetic company. Women are getting into the habit of applying a serum that prepares the skin for other beauty treatments.

- The packaging is also a vital part of the storytelling process, so it is important to get it right.
- The language of beauty marketing is a kind of surreal poetry. 'Natural', 'radiance', 'flawless', 'visibly reduces', 'enhances', 'renews', 'boosts', 'rejuvenates', 'revitalizes', 'replenishes', 'exclusive', 'patented', 'tested', 'proven', 'advanced': choose from a smattering of these, and add some science (extra points for the use of the words 'cells' or 'cellular') and preferably a few French words too. Many US beauty ads still prefer the word 'creme' instead of 'cream', because regulations once forbade the use of the word 'cream' unless it related to a dairy product.

- The manager believes most consumers are willing victims. 'They're never 100 per cent convinced it will work. They're perfectly aware that there's an element of fantasy.'

- Very often, that fantasy is symbolized by a celebrity. Some lines have an established star endorser, such as Sharon Stone for Dior's Capture Totale, in which case you just need to shoot her for the latest product, But if you're launching a new line - or relaunching an old one - you need a fresh face.

- The combination of a big star and an intriguing science story will also attract the attention of the press. The manager acknowledges the importance of beauty journalists- and, more particularly, of the awards handed out by glossy magazines. In France, the Marie Claire Prix d’Excellence de la Beaute is considered particularly prestigious. I was told major brand owners put pressure on magazines if their products are overlooked by such prizes. The conglomerates that now own the bulk of the world’s luxury beauty brands wield tremendous advertising clout.

- With positive press coverage in hand and a dazzling VIP figurehead beaming down on a whey-facey populace from posters, the product is ready to fly from shelves. According to the manager, the journey from concept to launch takes 18 months.

- The launch of a new cream begins with a concept - literally, a story - built around the latest research.

- The skill of beauty marketers is to “dramatize science” in a way that convinces consumers the cream will improve their looks.

- Celebrity endorsers embody the fantasy element of beauty branding- although they are also considered important for a brand’s prestige within the industry.

- Interestingly, when the women were asked their opinion about the effectiveness of the creams tested, they found it difficult to judge, 'and their opinions bore no relation to how well the products performed based an objective measures'

- In a 1989 forum, the Japanese brand Shiseido (see Chapter 12, 'Beauty goes global') proposed the term 'successful ageing', instead of 'anti-ageing', suggesting that it believes in prevention rather than cure.

- The research by Mintel in 2011 found that 69 % of consumers in the United States- where the anti-ageing skincare market is worth US$ 832 billion- believed that “how you age is mostly genetic, and external products are more hope than help”. Eight in 10 consumers said diet and exercise were the most important factors associated with ageing skin; 78 % said using sunscreen was the real key to preventing visible signs of ageing. While many consumers felt ageing was governed by diet, exercise and genetics, 69 % said the earlier you
- Beauty analyst Kat Fay said: 'There’s a sizeable gap between opinion and practice. While there are no guarantees when it comes to anti-ageing skincare purchases, many women buy the products anyway with the hope of achieving visible results. They adopt the “it’s better to try something than do nothing” approach.

- Just 24% of US consumers reported using anti-ageing skincare products. “Respondents aged 25-54 report the most likelihood to use facial skincare products with anti-ageing, wrinkle-reducing, and skin rejuvenating properties”. This makes sense, as at age 25 many people are likely beginning to see the first signs of ageing and want to prevent further signs. Though middle age they are trying to reverse the signs; and after age 55 they are likely more resigned to ageing and less inclined to spend.

- Much of beauty marketing is based on the quest for eternal youth—an age-old yearning.

- Attitudes to race and beauty had changed, but the traditional beauty companies were slow to catch on. Their narrow perception of beauty in their domestic markets was mirrored abroad. This enabled local brands to assimilate their ideas and adapt them more effectively to local tastes.

- Brands from Japan and Brazil have successfully repackaged elements of their local cultures for Western consumers: 'art, design and health practices' from Japan; 'natural beauty' from Brazil.

- Far more brands now use local celebrities in advertising—but international stars have by no means disappeared.

- Door-to-door or 'direct' selling has proved hugely successful for brands in Brazil and South Korea.

- Spa culture also helped to spread the message about both local and global brands.

- China is the boom market for brands from Europe and the United States as well as from Japan and South Korea.

- Actives first introduced into Western products are being repurposed for local formulas, especially whitening creams.

- When two marketing experts launch a beauty brand—watch out. For a start, they have a tendency to take a close look at what the rest of the market is doing with the sale aim of disrupting it, which was more or less the approach of Isabelle Carron and Arnaud Pigounides, founders of the emerging brand Absolution.

- New entrants to the beauty market need unique ingredients, compelling stories and disruptive strategies to stand out.

- Customer relationship management vitally important, urging customers to get in touch via coupons within products and a club that can be joined via the internet. Its award-winning 'click to call' service offers personal consultations at the click of a mouse,

- Australia's Aesop has taken an intellectual approach—something notably lacking in the beauty industry: Rather than insulting the intelligence of customers, it suggests that they are part of a global creative community,

- Upmarket beauty brands set great store by department stores, where their counters and beauty consultants add to the impression of status created by other elements of the marketing strategy.

- The UK’s Boots the Chemist sells mass-market health and beauty products in a self-service environment. Its loyalty card is one of the most generous in the sector and has been widely adopted. It enables the company to tailor its offering to the shopping habits of customers.
A head of digital department of a leading French cosmetic brands complaint that many beauty company executives, particularly at the luxury end of the market, were uncertain about the possibilities of digital, which they regarded as a bolt-on resource rather than a central pillar of their marketing strategies. He added that digital agencies were not used to the extreme sense of detail that luxury brands required when communicating with their audience: historically the web had not been an aesthetic environment.

He mentions the social networks, which have exploded since our last meeting. Like most brands, the French cosmetic company has a fan page on Facebook. Unlike many of its competitors, however, it has a coherent strategy: announcements on Facebook are planned months in advance to reflect the entirety of the brand's communications: product launches, advertising, competitions and so on. Comments posted by consumers are monitored, and responses are carefully thought through rather than being dashed off. 'The trick with Facebook is controlling the conversation rather than letting consumers run away with it.'

Facebook has evolved into a valuable customer relations marketing tool. 'Visitors to the fan page are interested just as much in what other customers are saying as in what we're saying. There is a research suggesting consumers have only about 20 per cent confidence in a product that's been advertised; but they have 80 per cent confidence in one that's been recommended by another consumer online.'

Social networks resolved a problem facing many beauty companies: a lack of direct contact with the customer. Their brands are often sold through retailers rather than from an owned environment, so it's difficult for them to develop relationships with those who buy their products, or to build customer databases. Thanks to loyalty cards, the distributors have a great deal of data, but they keep it to themselves because they see the brands' e-commerce sites as competitive with their own online operations. Social media short-circuit the distributors and put brands face to face with customers again.

Another advantage of Facebook fan page is that it's entirely transparent: consumers know that it is being run by the brand. "There was always something manipulative about brands commenting on forums or blogs about beauty issues. There was a temptation to arrive in disguise, to chat with customers without saying you were a brand. On the occasions consumers found out they considered it extremely intrusive.

Consumers like to engage with brands. The companies not necessarily seeking advice that will enable us to develop or change products. Therefore, the luxury brands are supposed to be one step ahead of consumers in terms of innovation.

The use of Facebook will evolve- or maybe it won't. One of the problems of this job is that ground is always shifting beneath your feet.

The relationship between brands and bloggers is almost as vexing as the one between brands and journalists. Traditional beauty journalists are in thrall to their advertisers and deluged with free cosmetics. Any hope that bloggers might represent an independent voice beyond the controlling arm of the brands' PR departments has long gone - they too receive free products and invitations to chic launch parties, making them as straitjacketed as their print cousins when it comes to offering an objective viewpoint.

The problem with recruiting bloggers for PR purposes is that there are just too many of them; says a manager of a well-known French cosmetic company. 'Even the best ones don't rise to the surface in Google searches, so you have to stumble across them or hear about them from someone else. Strategically, that doesn't make much sense for the brands. There's also the fact that, as soon as they're regarded as being too closely tied to one particular
brand, readers begin to feel that they're too commercial and move on.
- Still, he acknowledges that brands should work with bloggers. 'The question for me is: are they part of social media, or are they press? Most brands treat them like journalists but, since brands have recruited social media specialists, responsibility for building relationships with bloggers could move out of the PR department.
- That manager was grappling with the implications of the IPhone and the iPad. Beauty brands swarmed into this new media space with applications. Nail products brand OPI, for example, launched a free virtual nail bar allowing users to access the whole range of more than 200 colours and match them with their skin tone. The result could be saved and the phone could then locate the nearest OPI retailer. L’Oreal also plunged in with a free app allowing users to browse make-up looks, watch tutorial videos and receive personalized product recommendations after providing details about their skin and hair.
- He believes a mobile site that can be accessed via myriad devices is far more interesting. Mobile communications, in general, interests beauty brands a great deal. For example, the L’Oreal app included a barcode scanner allowing users to access product-related tips and advice in-store. Once again, this kind of application allows brands to bypass the retailer. As we have established, vendors at retailers tend to recommend whatever product they have been told to push that week. Barcode scanning devices that link consumers directly to brands’ websites could be the answer.
- A humble website is a hub: the departure point for all the content the brand creates. It should also provide unique content: science videos, launch videos, tutorials and son on. And e-tail, presumably? Yes, but for him the main vocation of a website is one of image building. E-tail is important, but an online shop usually achieves the equivalent in sales of a single flagship store, so it is never going to replace your other points of sales. That is why you have to be careful to provide other content. A purely commercial site would have a negative impact on your image.
- The internet has also allowed beauty companies to address the sensitive problem of ethnicity: it is easier to depict different skin types online than in a costly traditional advertising campaign.
- Websites have been used as a way of prompting potential customers to ask for samples. But the manager says postage cost and logistics make this a daunting exercise for all but the biggest brands. An alternative has emerged in the United States in the form of a beauty club called Birchbox (www.birchbox.com). Membership costs US$10 a month. For that, members receive every month an elegant brown box containing four or five product samples: not sachets of foil, but the kind of mini bottles and tubs that end up travelling to exotic climes in your toiletry bag. If they like a product, customers can buy the full-sized version from the brand's site via a link on the Birchbox website. Each box is based on a theme - for example, organic products - and customers can also ask for boxes tailored to their needs.
- Unilever’s chief marketing and communications offer Keith Weed told a conference: “The most challenging thing I see right now is the amount of choices out there… You physically cannot get through the day without being bombarded with all of these messages, and the way you get through the day is by engaging with brands you want”
- Social media is the new playing field, but brands worry that consumers 'control the conversation'.
- Brands have recruited social media specialists to ensure posts are in line with overall
marketing strategy and to monitor comments.
- Social networks are seen as valuable customer relationship management tools that enable brands to bypass retailers and talk directly to customers.
- Beauty bloggers are useful for PR, but are seen as difficult to manage. Most of them are not well referenced by Google, meaning that they do not appear high up their objectivity.
- Readers are turning off beauty blogs as bloggers from closer relationships with brands, limiting their objectivity.
- Online “sample clubs” may provide an alternative way for brands to reach potential customers.
- Mobile devices and tablet media have potential, but a “me too” effect has led to clutter. It is difficult to design a compelling app.
- Mobile may be another way of bypassing the retailer by allowing users to consult directly with brands while browsing in-store.
- Websites are becoming portals giving customers access to a wide range of digital content created by brands.
- Even the biggest beauty companies worry that the digital world is too vast and unpredictable to master. They need to approach digital as a “tool kit”, selecting the elements that enable them to build their story without feeling obliged to leap into every new digital space.
- Its research found that the impetus for purchasing men’s grooming products usually comes from their female partners - either because women are fed up with men furtively borrowing their moisturizer, or simply because they want their man to look and smell better.
- Men are changing because the context in which they live their lives is changing. They are evolving because of the evolution of women. This is a huge chance for men to change the identity and roles that have been imposed on them for centuries. They will retain their masculinity, but it will be a new kind of masculinity. We have lived through the era of emancipation for women; now we are witnessing the emancipation for men.
- Going into more detail about the range, O’Brien said, ’While men's overall interest in personal care is not as strong as women, men are becoming more sophisticated in grooming desires, but still want a simple routine. We also know that 51 percent of men are already using women's skin care products and many men trust and use Dove.’
- The real growth opportunity in men’s care is outside of shaving. But marketing to men means focusing on their centers of interest, and in the bathroom their center of interest is often their razor blade, which is why men’s skincare lines tend to start with a core shaving product and then swirl outwards in constellation of post-shave healers, moisturizers and anti-wrinkle potions. The P&G-owned Gillette dominates the shaving business, with 70% slice of the market. It also has a vast range of skincare products for “before, during and after the shave”, from balms and lotions to face washes and scrubs. And of course it is skilled at using the language and imagery of sport, having signed faces ranging from David Beckham to Roger Federer and Thierry Henry over the past decade.
- The depiction of male role models in advertising has created problems of its own. Men are increasingly being confronted with inadequacy of their own bodies - something only women had to put up with until the 1990s. The turning point is generally cited as 1992, when Calvin Klein launched a poster camping featuring the rapper “Marky” Mark Wahlberg clad only in briefs, his muscled body taunting the flabby executives who strolled past the giant billboard in Times Square. The casual clothing brand Abercrombie & Fitch deploys similar imagery. The “perfect” male body is now gym-honed yet sexually ambivalent, as it is entirely free of
body hair. Sales of depilatory products for men are up, and body hair removal is a feature of
a new generation of male-oriented spas. Having successful traumatized women all over the
world. The beauty industry now seems determined to standardize make attractiveness too.

- A quirky French brand called Nickel, launched by Philippe Dumont in 1996, has become an
expert at speaking men's language. An admirer from a rival brand told me: 'Men aren't really
interested in hearing about the universe of a brand or being told the story of a product. They
just want to know what it does. Nickel realized that straight away. Its flagship product is
called Morning After Rescue Gel. It ditched the whole language of claims that had been
adopted for women's skincare in favor of a chatty, amusing style, as if you're talking to your
best pal in a bar. Even the packaging looks indestructible.'

- Christian Courrin-Clarins, the chairman of Clarins, told me: 'The trend really began with
sunscreens; even if they weren't convinced by other products, men got into the habit of
protecting themselves in the sun. This convinced the beauty companies that there was a
wider market for men's skincare. It did well among early adopters: people who worked in
sport and entertainment, and of course gay men who already purchased cosmetics but were
attracted by packing and formulations that better suited their needs. After that slightly later
adopters came along.

- Men like straightforward information about products. Tell them what it does-no
preposterous claims, no frills.
- Humor doesn’t hurt: it helps men feel less awkward.
- The shaving ritual is the ultimate “ man moment” of the day and a good place to get them
started on a skincare regime.
- Women are legitimate target for products aimed at men- but there are more single men
around these days.
- Men use the internet as a discreet shopping channel and are open to advice about products.
- On the street they prefer a separate retail experience, tailored to their needs and interests.
- The rapid growth of the men's skincare sector has eased, but an ageing demographic and a
mainstream adaptation of products offer plenty of room for optimism.
- The trend for natural and organic products gained impetus after the turn of the millennium,
driven by a number of factors. The first was a growing interest in preserving the
environment amidst anxiety over climate change. This led consumers to look closely at the
chemicals used in a wide range of products, including cosmetics. Concern about the future
of the planet was accompanied by a more inward-looking contemplation of health and
wellness, as an ageing demographic in the west began considering kinder, gentle lifestyle.

- This may be good news for the beauty industry as well as consumers. Rising demand for
natural products is providing an opportunity for cosmetics marketers; it has created a niche
for entrepreneurs as well as a new generation of brands that will become targets for
acquisition by the global beauty giants; shelf space devoted to naturals and organics is
increasing, and there is room for new distribution channels, such as stores devoted entirely
to natural beauty. Regions where the trend has not yet fully taken hold - such as Central and
Eastern Europe - also offer growth potential. Above all, natural provides a fertile new
territory for marketers looking to weave stories and claims.

- They call them 'neutriceuticals' or 'nutricosmetics': and functional foods that make us
beautiful from within. The trend comes from Japan, where herbal remedies have been linked
with beauty for centuries. In more recent years, it has pushed the boundary with products
such as collagen-enriched soups and drinks and yoghurts containing hyaluronic acid (which
promotes tissue repair) and ceramide (lipids found in the skin's protective upper layer).
- The trend crossed to Europe with Danone's Essensis 'skin-enhancing' yoghurt, introduced in France, Spain, Belgium and Italy in 2007. Containing vitamin E and green tea antioxidants, among other ingredients, the product was said to nourish the skin from within. However, it was shelved in France two years later amid flagging sales. This raised the possibility that the potential of functional foods had been exaggerated — but there was also a distribution problem.
- There are a number of obstacles — an uncertain regulatory framework, distribution challengers and consumer’s skepticism — but the market for beauty from within is ripe for exploration.
- If you feel good, there is a better chance that you will look good. That is highly simplistic way of looking at neurocosmetics, or beauty products that enhance your mood. Aromatherapy promises similar benefits, but here we are talking about skincare that promotes well-being. Some products claim to generate left-right brain exchange or increase serotonin levels. Others boast active ingredients that stimulate the cutaneous nervous system — the thing that makes you itch — triggering the neurotransmitters that ensure that the skin receives the right balance of nutrients.
- Nanotechnology was first adopted by the makers of sunscreens, which for years had been using titanium dioxide and zinc oxide to block UVB and UVA radiation. These ingredients are oat water soluble, meaning that sun creams felt thick and cloying, leaving greasy white streaks on the skin when applied. By using “nanoparticulate” titanium and zinc, cosmetics companies were able to create thin, transparent, easy-to-apply sunscreens that were much appreciated by consumers.
- The question, though, is whether nanoparticles can penetrate the outer layer of the skin and get into the bloodstream, eventually damaging cells or turning up in the lungs, brain and other organs. There have been calls for stricter regulation of nano-ingredients. Indeed, there are no rules about labeling products that contain nano-ingredients.
- A report in April 2011 by the Nanodermatology Society conceded that, when exposed to UV radiation, nano-sized titanium and zinc generated free radicals and reactive oxygen species — which can damage proteins, DNA and fats within cells. The level of toxicity depended on their size, structure and coating; particles are often protected by swathes of manganese and other materials. Crucially, the report added, “damage associated with free radical formation is dependent on their ability to interact with living cells”. In order to do so, they first had to penetrate the skin. It concluded formally: “nano-titanium and zinc do not penetrate the outer layer of human skin, even through hair follicles’ and that “nano-titanium and zinc do not reach living cells, and therefore pose no risk of toxicity.”
- Unless strict legislation emerges, it is unlikely that cosmetics companies will hack away from the use of nanoparticles. They're just too useful. For a start, nanotechnology allows more active ingredients to reach the skin; smaller particles also limit the clogging of pores; and 'nano-encapsuled' active ingredients have a longer shelf life. Hair dye is another area that benefits from nanotechnology: nano-sized colorants penetrate the hair more easily, meaning that the color lasts longer.
- American Academy of Dermatology in March 2010 confirmed that nanotechnology would improve the delivery of anti-aging ingredients to the skin. But he also raised a marketing issue. 'Since anti-aging products that contain nanoparticles of antioxidants will be harder to make, we expect that these products will cost more than products using traditional
formulations ... Once these products are determined to be safe, the consumer will have to decide if the increased costs are worth the added benefits.'
- Nanotechnology has the potential to transform the beauty industry. The researcher Thomson Reuters confirmed as much in 2009, when it produced a report called 'Can nanotech unlock the fountains of youth?' This quoted James Canton of the Institute for Global Futures, a San Francisco think tank. 'Nanotech is one of the key design tools that will be used to create the largest industry of the 21st century: health enhancement. As human beings yearn to improve themselves, they will be attracted to solutions that give them an edge.'
- Functional foods and “beauty from within” are an emerging category that has not yet been fully exploited.

11. RETAIL DISTRIBUTION

Retail development
- The Russian beauty retail market has been restructuring since the nineties
- Retail focus shifted to the regions as a new market to conquer, leading to fast expansion and many door opening especially in the last three years.
- Open markets are constantly losing their market share to other channels especially mass merchandisers
- Department stores are facing tough times especially the lower end ones
- Specialty stores channel reshuffles as giant Arbat Prestige left the market in 2008
- New distribution channels for cosmetics and toiletries, such as the Internet and drogueries or drug stores, have appeared and are growing in popularity
- Pharmacies are increasing their focus on parapharmaceuticals, in particular skin care products, with non medical products reaching as much as 40% in some pharmaceutical chains.

Direct marketing: the biggest winner
- The bulk of sales is generated by person-to-person sales represented predominantly by Avon and Oriflame.
- Makeup is the leading product class in this channel followed by skin care.
- The economic crisis has had a positive effect on the direct sales channel as many manufacturers such as Avon and Faberlic have witnessed a significant increase in the number of their consultants.
- The boom in sales through the Internet as a way of direct marketing also played a role in the growth of the channel.

Specialty stores: fast expansion through the regions
- Second largest distribution channel for cosmetics and toiletries in Russia
- The big expansion in the regions and the increase in the income of the Russian consumer were the main drivers for the channel’s growth
- Offer a special shopping experience as well as in-store beauty treatment corners and
beauty institutes
• Professional aestheticians, consultants, and makeup artists provide clients expert advice on various products
• Big focus on online sales and loyalty programs
• Main channel for sale of prestige brands
• Share of mass brands is growing

Department stores: interesting format but losing popularity
• Specialty department stores repositioned themselves as luxury destinations
• Traditional department stores are facing many difficulties in Russia mainly the lack of interest among the Russian consumers to such store formats as it reminds them of the “Univermags” of the Soviet era and the poor quality of products that these were offering
• Lower end department stores, “Univermags”, are facing increasing competition from shopping centers and mass merchandisers
• Other toiletries and hair care products are the dominating product categories in this channel and they are sold mainly in low end department stores

Opportunities
• The increasing wealth and purchasing power of the Russian consumers will boost the sales of cosmetics and toiletries
• Beauty retailers will continue expanding in the regions and differentiating themselves
• Big opportunities in emerging channels of distribution such as drogueries and mass merchandisers
• Expansion of mass merchandisers and supermarkets in the regions will provide additional opportunities and convenience for consumers to purchase products
• More opportunities for private label, exclusive, and niche brands
• The aging of the Russian population will further boost the demand for anti-aging products
• Interest in niche brands will continue increasing
• Interest in natural and organic cosmetics will keep on growing
• Men’s products will continue to grow as an important target segment across categories
• Demand for added value products at competitive prices will further grow
• With changes in the lifestyle, spa procedures and professional hair care and skin care products will become even more popular
• Experts see the future of Russian cosmetics in niche marketing and narrow customization. Good opportunities for Western manufacturers are in the field of natural cosmetics, curative and professional products, beauty and spa salons and direct marketing.
• The large success and expansion of retail chains opens the door to contract manufacturing, which according to experts holds enormous potential for development. 46
• In terms of geographic opportunities, the interest of large cosmetics companies is shifting towards the Russian regions. Beauty professionals are paying special attention to cities
with a population of over one million – Novosibirsk, Nizhni Novgorod, Ekaterinburg, Samara, Omsk, Kazan, Cheliabinsk, Rostov-on-Don, Ufa, Volgograd, Perm. These large cities have a substantial number of people with high purchasing capacity, and local specialized retailers, both standalone and chained.47

- Russia is one of the most attractive markets in the world, and the continued growth and expansion of its retail sector represents an enormous opportunity for international companies. Low competition and the growing middle class’ purchasing power make Russia an ideal target market for U.S. companies with a global vision.

**Hot product trends and key new launches**

- Products with natural ingredients are increasingly in demand
- Beauty salons and spas are becoming an increasingly important part of the market
- Major shift toward unscented deodorants, as consumers can now afford to also buy a luxury fragrance
- Value-added products in demand (e.g., color cosmetics, men’s grooming products, baby care, anti-aging, and anti-cellulite products)
- More sophisticated and niche products are gaining market share (e.g., shampoo and bath and shower products for men)
- Baby fragrances from local manufacturers emerge as a new segment
- Lip balms containing a patented combination of ingredients claims to curb appetite and leads to weight loss
- Cosmeceuticals and nutricosmetics both gaining ground

**12. ASSOCIATED INDUSTRY CODES**

NAICS Codes

- 446120: Cosmetics, Beauty Supplies, and Perfume Stores

**13. RELATED INDUSTRY**

- Drug Stores & Pharmacies
- Hair Salons
- Internet Retail

**14. INDUSTRY WEBSITES**

http://www.abacanada.com/
http://www.beautystorebusiness.com/
http://www.cctfa.ca/site/cctfa/index.htm
http://www.cctfa.ca/site/cctfa/index.htm
15. NEWS

- Procter & Gamble Broadens Online Ad Initiative With Total Beauty Media (November, 2011)
- The Estee Lauder Companies Reports Outstanding First-Quarter Results (November 2011)
- Retailers shift strategy as middle class turns away from name brands (October 2011)
- P&G to increase prices next year (October 2011)
- The Estee Lauder Companies And Tory Burch Announce Fragrance Partnership (October 2011)
- Unilever aims for 'more magic, less logic' (October)
- Unilever commits to Russian agriculture and Tula (October 2011)
- Unilever unveils purchase of 82% of Kalina for €390 million (October 2011)
- Oriflame 5% sales growth in CBS/Baltic region and Russia in 2Q 2011 (August 2011)
- French LVMH got control under Russian Ile de Beaute (June 2011)
- Russia became a member of WTO (November 2011)
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