DROGERIES GAIN GROUND IN RUSSIA

In the past five years Russian perfumery and cosmetics market grew by 15–20% annually. In 2004 sales value was equal to $6.2 bln (growth 2004/2003 – 15%). In 2005 and 2006 the market added 13% and 12% correspondently to reach $7.8 bln in 2006. Cosmetics and perfumery sales in Russia are expected to amount to $8.5 bln in 2007 (8.5–9% growth).

Retail chains and pharmacies were the most actively developed distribution channels last year. The fact that open markets loose their positions is not news any more. The more astonishing fact is shrinking share of department stores, as they cede their positions to drogeries, pharmacies and specialized retail chains. In department stores sector the majority of players are small and medium sized shops selling over the counter. Popularity of this trade format decreases. On the contrary, drogerie is regarded as a very perspective channel. Affordable prices, assortment variety and home proximity make drogerie to be a very attractive format for Russia. Unlike traditional European drogerie, Russian stores refuse pharmaceuticals and food. Russian people are acquainted to purchase pharmaceuticals only in drugstores, while food is usually bought in supermarkets. 70% of Russian drogerie turnover is made by cosmetics and household detergents. One store makes 20000 rubles (average $800) from 1 sqm of trade area. Average size of drogerie in Russia is 100-300 sqm.

Average growth of non-pharmaceuticals sales through drugstores is 40%. Though sales through pharmacies constantly increases, large drugstores are not satisfied with cosmetics sales and open their own cosmetics chains. For example, 36,6, one of the largest and best known pharmacy chained develops Mila, a drogerie chain in Nizhnii Novgorod region. 8500 skus assortment is offered at 150 sqm. Average check is amounted to 135 rubles (about $5.4).

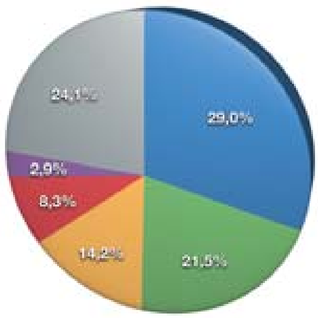
One of the clearest trends is an active development of large specialized chains in Russian regions. Three largest specialized operators make 43% of total specialized retail turnover. Arbat Prestige took the first position with $346m

The first Kosmetichka store was opened in July 2004 to launch its 30th store in 2006. Each store is of 150 sqm floor space. About 350 people visit each store daily. The company plans to divaricate up to 100 doors in the next five years.

Podruzhka (Girlfriend) is positioned only for women. A new player on the Russian drogerie market made $6m turnover in 2006. Next year the company claims to reach $30m.

Perfumery and cosmetics sales breakdown by channel of distribution, 2006, %

Source: ExpoMediaGroup Staraya Krepost



- Department stores, drogeries
- Direct sales
- Open markets
- Supermarkets
- Pharmacies
- Specialized perfumery and cosmetics chains

turnover in 2006, L'Etoile made $300m, while Ile de Beaute ranked the third with $164m turnover.

Despite the gap between variety of goods in Russian regions and in the capital, regions are not a consumer desert. According to moderate estimations, the total turnover of the regional specialized retail exceeds $600m.

Feeling the growing consumer power of the Russian regions, professionals try to reach as many regional buyers as possible. For example, EXPA Foundation in cooperation with ExpoMediaGroup Staraya Krepost organized a Buyer Program in the framework of InterCHARM 2006. 435 professionals from 38 Russian cities and 12 cities of Ukraine and Kazakhstan participated in the program. The buyers visited InterCHARM and took part at Professional Meetings organized especially for direct seller – buyer communication. The majority of buyers (47%) comprised representatives of distribution and retail companies. 33% of the Buyer Program participants were beauty salon managers.

Large local retailers actively investigate the map of Russia. They search opportunities to set on regional markets and decrease the variety of local competitive milieu. For example, Mak Dak has bought Svey, a six doors chain in Kazan, to open Ol!Good stores on its basis, while L'Etoile acquired Laguna, a three store retail chain in Togliatti. National retail giants seem to grasp the total market. However, small mono-brand boutiques and concept stores have their consumers and their popularity increases. Recently the list of L'Occitaine, Lush, Fresh Line, Makeup store, Makeup Station and Micallef Perfumery Bar has widened with a new Russian player, Beauty Cafe. The company has already opened 7 doors in Moscow and plans to develop its chain up to 70 boutiques till the end of the year.

Civilized cosmetics and perfumery retail has a lot of advantages as compared with open markets and street kiosks. Convenient trade environment, consultant assistants, loyalty programs and exclusive representation of foreign brands are among them. Russian people have already understood the difference and prefer quality proved products in specialized retail chains and pharmacies to cosmetics sold at open markets even at a lower price. In the nearest future local retailers promise to offer Russian consumer new interesting formats of trade and loyalty programs.

For more information on retail search www.cosmeticsinrussia.com