

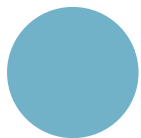
Russia Trendvision 2016

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RUSSIA TRENDVISION 2016

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SOCIO – ECONOMIC CONTEXT



MARKET CONTEXT



CONSUMER TRENDS

SOCIO-ECONOMIC CONTEXT

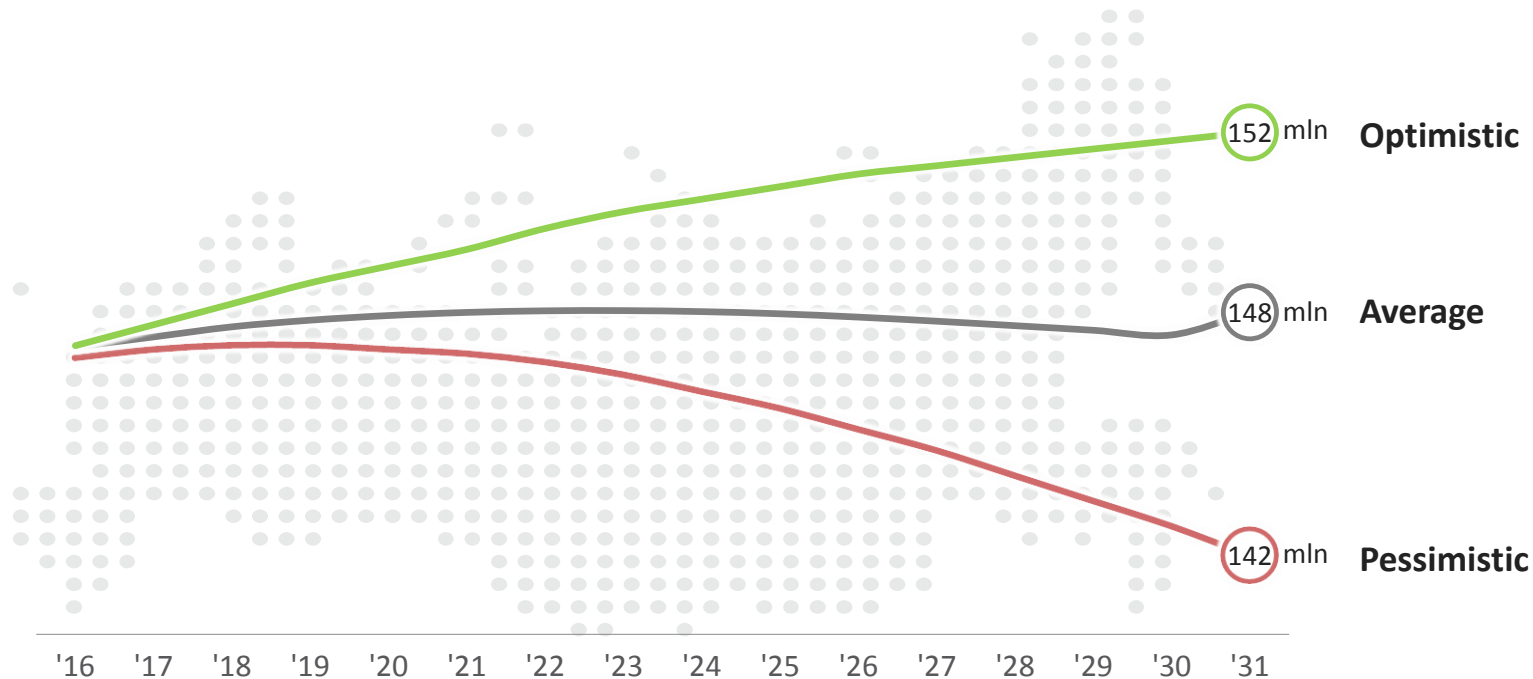
ST PETERSBURG

- People
- Economy

GAME CHANGERS

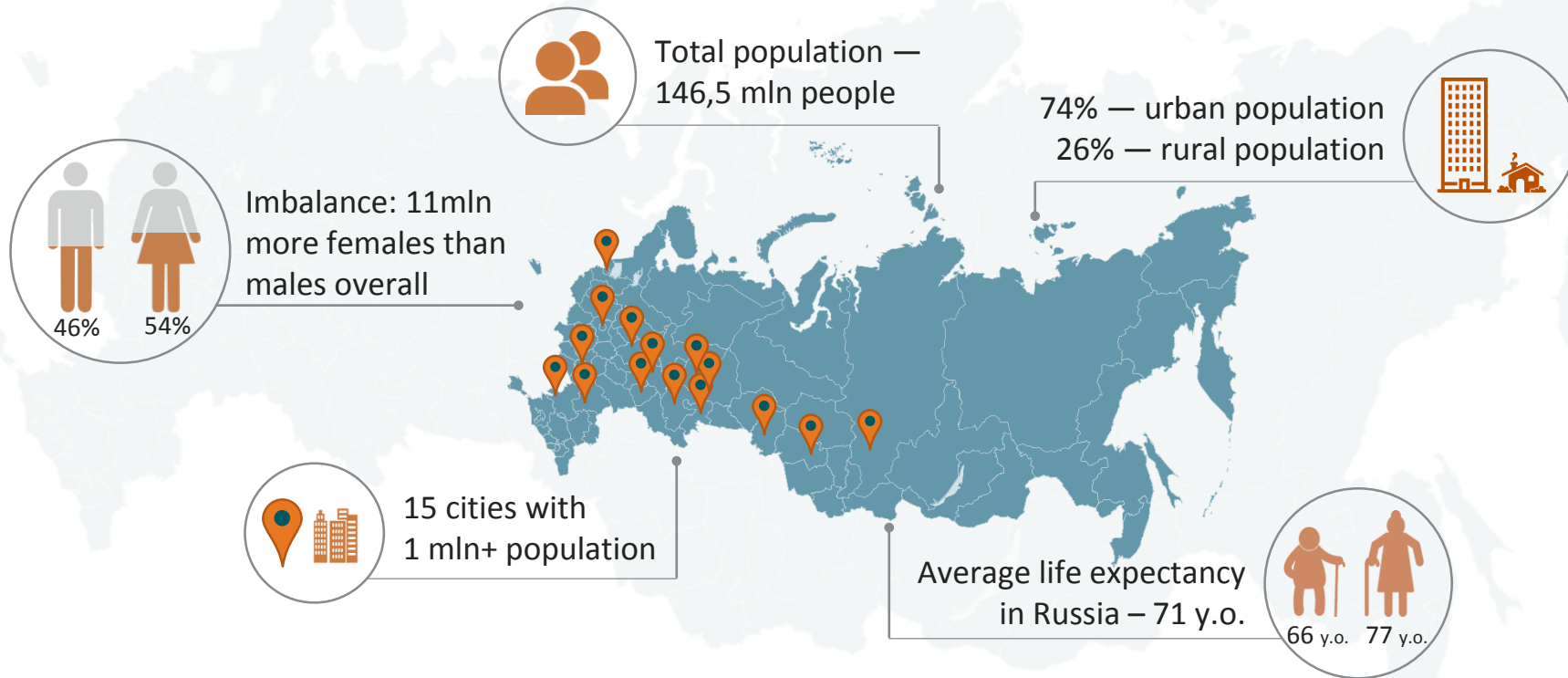
SOCIO-ECONOMIC CONTEXT

With 146,5 mln Russia is #9 in population



SOCIO-ECONOMIC CONTEXT

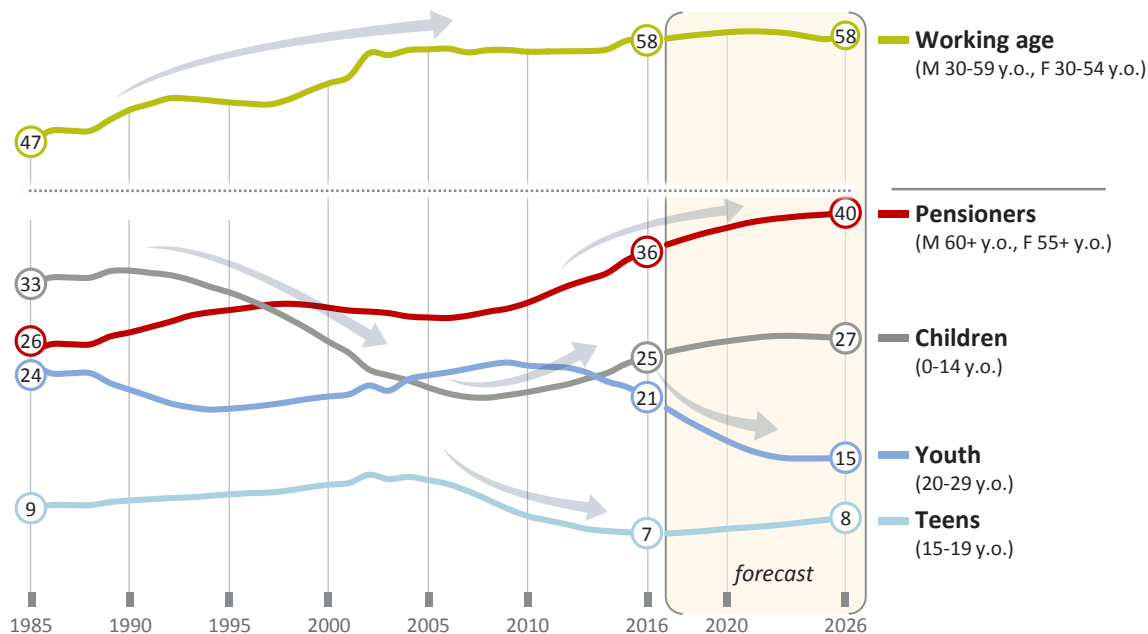
Urban citizens and females prevail



SOCIO-ECONOMIC CONTEXT

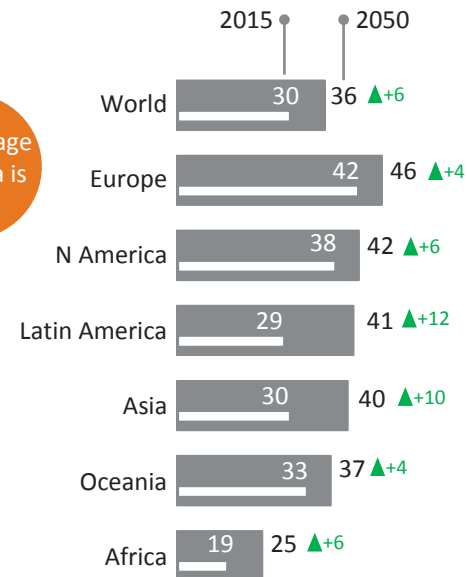
Aging population & tax burden on working people

Number of people of different age (mln)



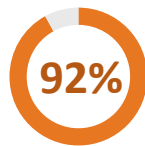
Median age by world region

Median age
in Russia is
41



SOCIO-ECONOMIC CONTEXT

Russia is in need of blue collars



92% of Russians are not satisfied with the profession choice they've made

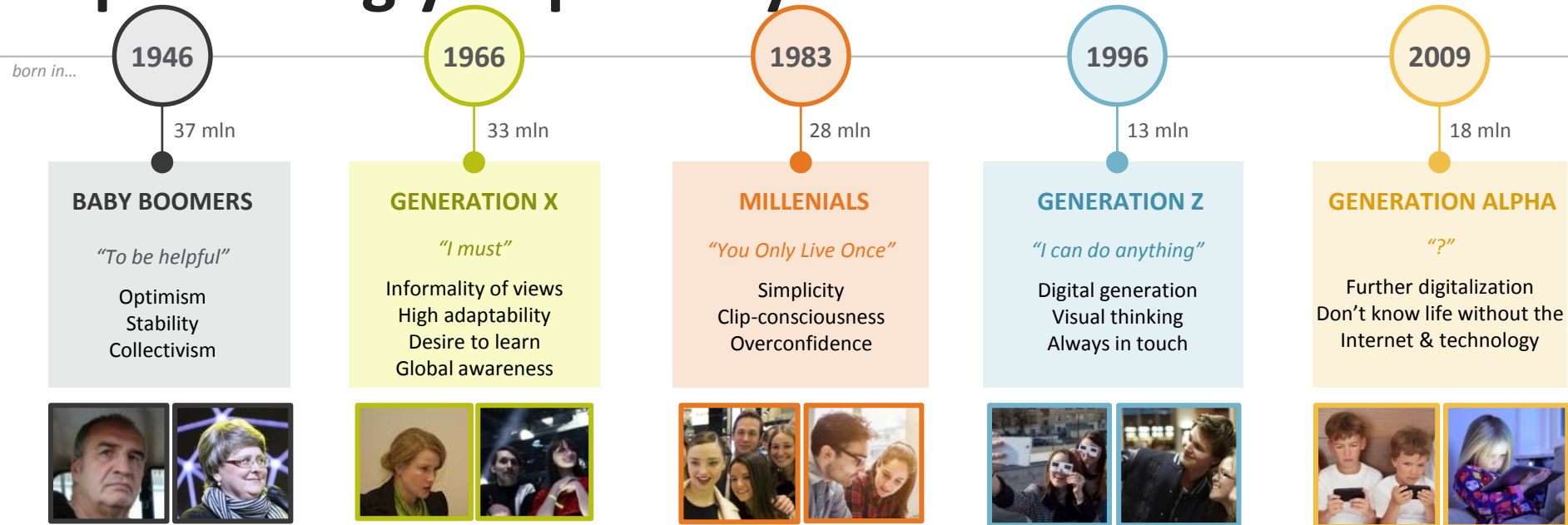


30% is a **the share of excess** specialists with higher education vs. labor market needs. At the same time, there is a deficit of manpower.

- “Atlas of new professions” (atlas100.ru) helps navigate in labor-market and shows what specialists are needed.
- Administration of secondary education structures is delegated on regional level so regions can balance human resource development with their needs.
- Some factories take colleges under the patronage – i.e. Center of metallurgical education is based on cooperation of Joint Stock company Chelyabinsk Pipe-rolling plant and metallurgical college.
- Russia takes part in Worldskills championship to bring more interest to working professions. Russia is hosting next competition in 2019 in Kazan.

SOCIO-ECONOMIC CONTEXT

As Millennials enter labor market, Gen X remains a promising yet quite mysterious cohort

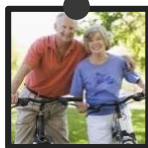


SOCIO-ECONOMIC CONTEXT

Generation stereotypes that are not true

born in...

1946

**MYTH**

Traditional and save money

FACT

BABY BOOMERS

There are “new” baby boomers who are still working and enjoying active life

They like to indulge themselves from time to time

1966



“Lost generation”, unhappy

GENERATION X

Majority of successful entrepreneurs are representatives of this generation

They are pragmatic, appreciate quality and are not ready to over-pay for brands

1983



Materialistic, addicted to gadgets

MILLENIALS

Do not reject material goods but try to have something standing out to express themselves

Prefer to have here and now, gadgets help them to find information quickly

1996



Spoiled and selfish

GENERATION Z

Volunteers, “green” generation

Online shopping, price sensitive and great impact of word of mouth

2009



Don't buy anything themselves

GENERATION ALPHA

Kids have pocket money

Prefer big packs for sharing, make purchases at checkout zone

SOCIO-ECONOMIC CONTEXT

Russia: Long Journey to Recovery

- In 2016 The IMF has repeatedly improved its forecast for Russia's GDP dynamics. It expected Russia's GDP to decline by 0.8% in 2016 and to grow by 1.1% in 2017. In July, in its regular annual review of the Russian economy, the IMF named less optimistic figures - the decline of GDP by 1.2% in 2016 and GDP growth by 1% in 2017. Those July figures were also revised upward in comparison with the outlook released in May.
- The IMF also improved the inflation outlook to 5.9% in 2016 and 4.9% in 2017. This is much better than July expectations, which totaled 6.6% for this year and 5.2% for 2017.
- Predictions regarding Russia's labor market have also improved. The IMF expects the unemployment rate to amount to 5.8%.
- Nevertheless, the prospects for growth in Russia in 2017 and in the following years remain suppressed in particular due to the impact of sanctions on productivity and investment.



SOCIO-ECONOMIC CONTEXT

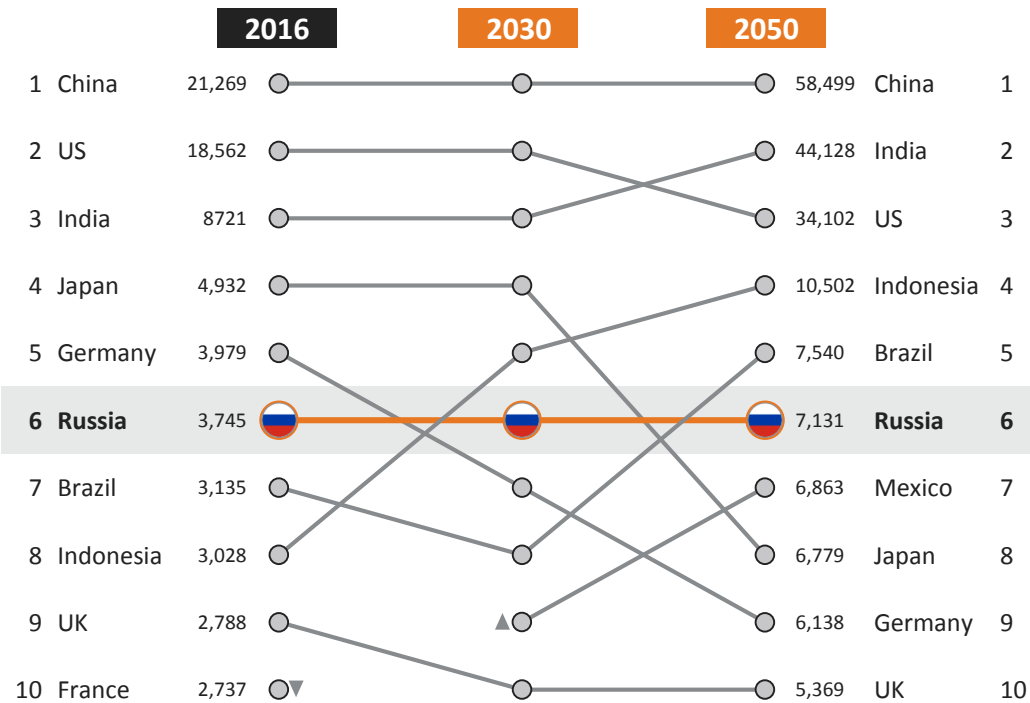
Short-term economy forecast scenarios imply economy growth

	2016	2017			2018		
	Actual	Basic	Basic+	Target	Basic	Basic+	Target
Inflation rate, %	5.8	4.0	4.5	4.3	4.0	4.3	3.9
GDP growth rate, %	-0.6	+0.6	+1.1	+1.8	+1.7	+1.8	+3.0
Unemployment rate % of economically active	5.9	5.9	5.8	5.8	5.8	5.8	5.7
Capital outflow, bln \$	18	20	15	10	25	15	5
Retail turnover growth rate, %	-4.6	+0.6	+2.0	+1.5	+1.1	+2.7	+2.3
Real disposable income growth rate, %	-5.6	+0.2	+1.2	+0.9	+0.5	+1.8	+1.5



SOCIO-ECONOMIC CONTEXT

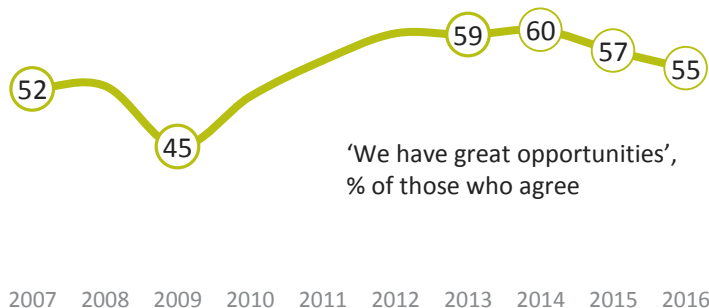
Long-term Russia is stably #6 in GDP ranking



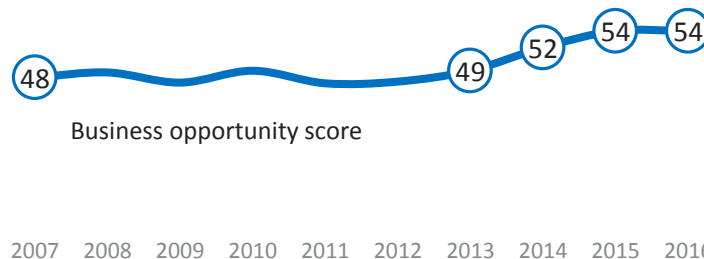
SOCIO-ECONOMIC CONTEXT

Though people feel less opportunities, business gains room for growth

People feel that their opportunities have narrowed down a bit during the crisis

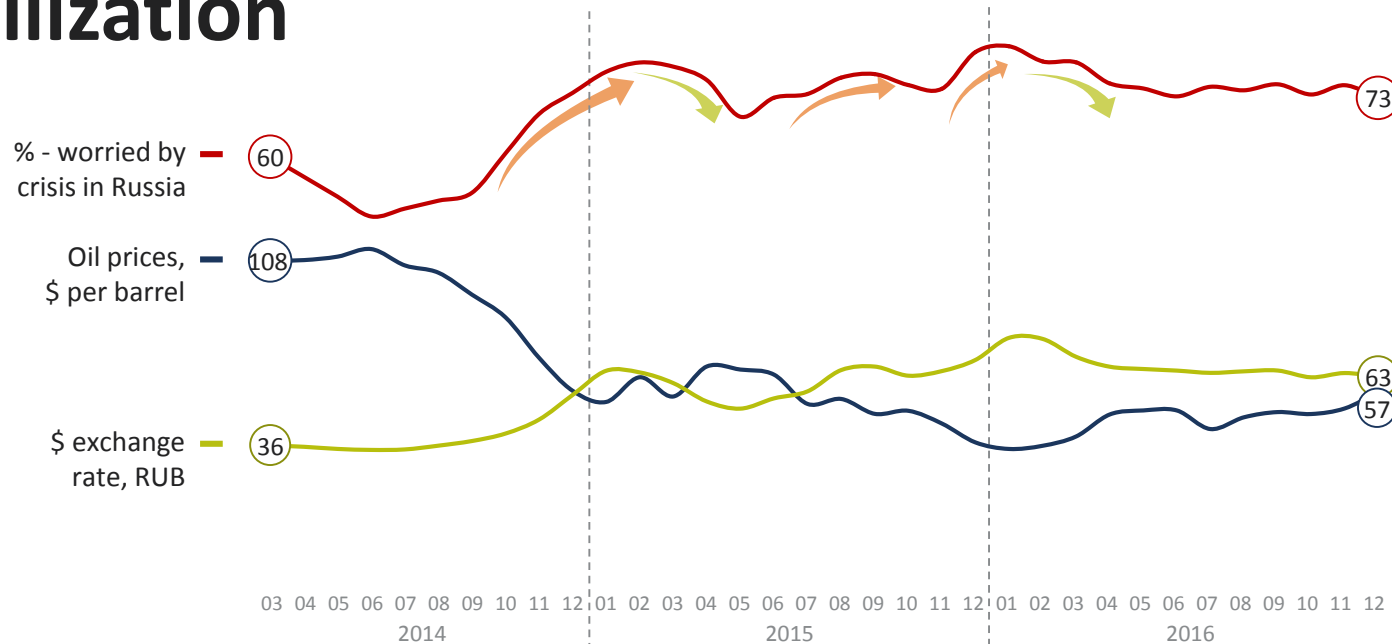


Business climate has been getting better since 2014 when Russia concentrated on its internal production



SOCIO-ECONOMIC CONTEXT

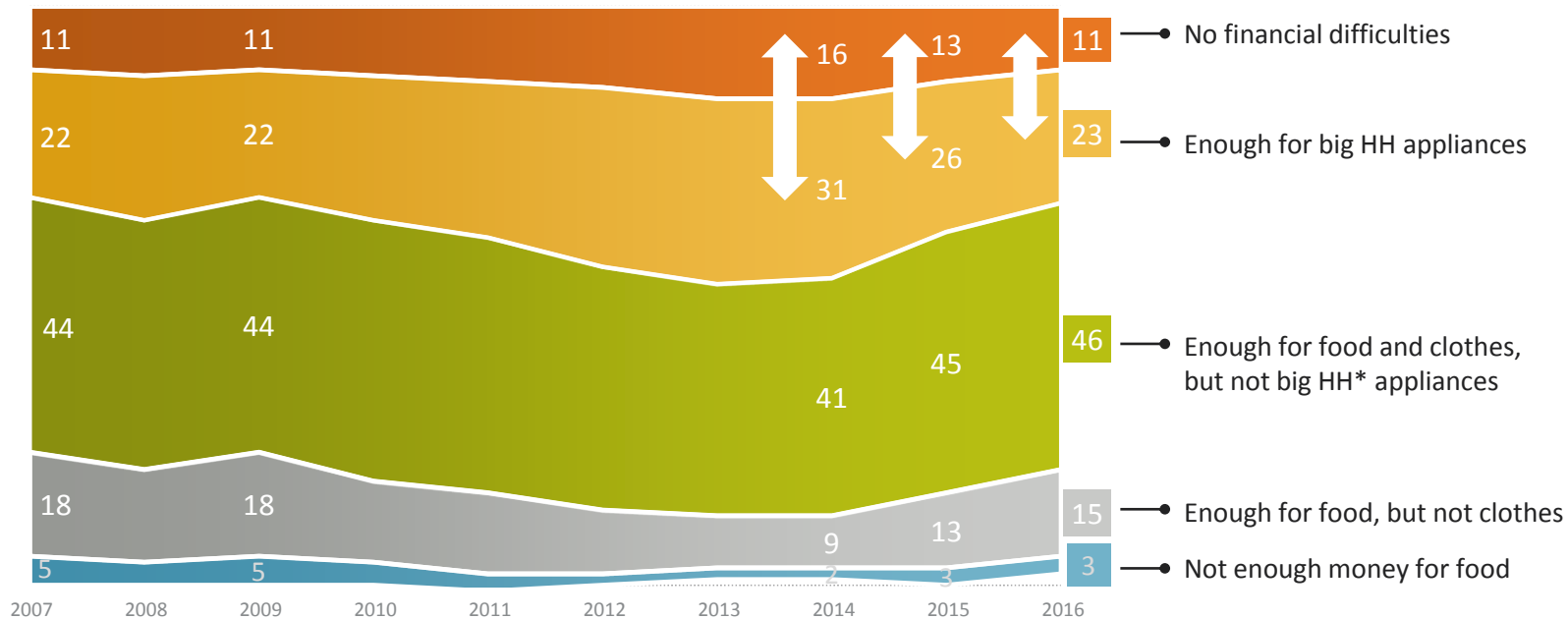
Level of concerns has subsided with ruble stabilization



SOCIO-ECONOMIC CONTEXT

Though number of well-off people shrank...

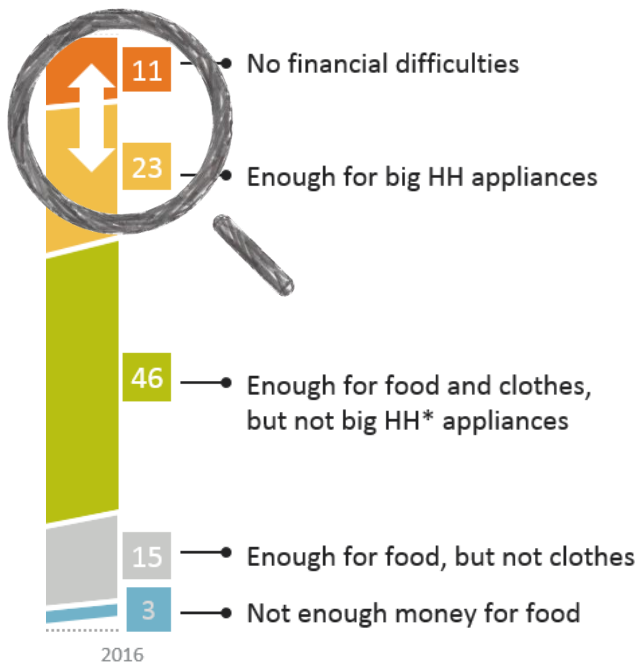
Financial status by self-estimate



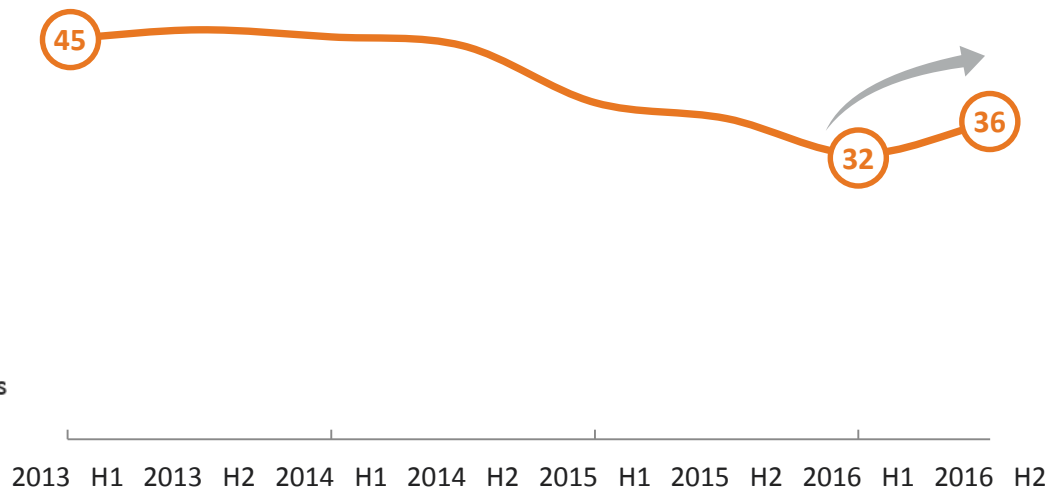
SOCIO-ECONOMIC CONTEXT

... in HY2 2016 financial self-estimation improves

Financial status by self-estimate



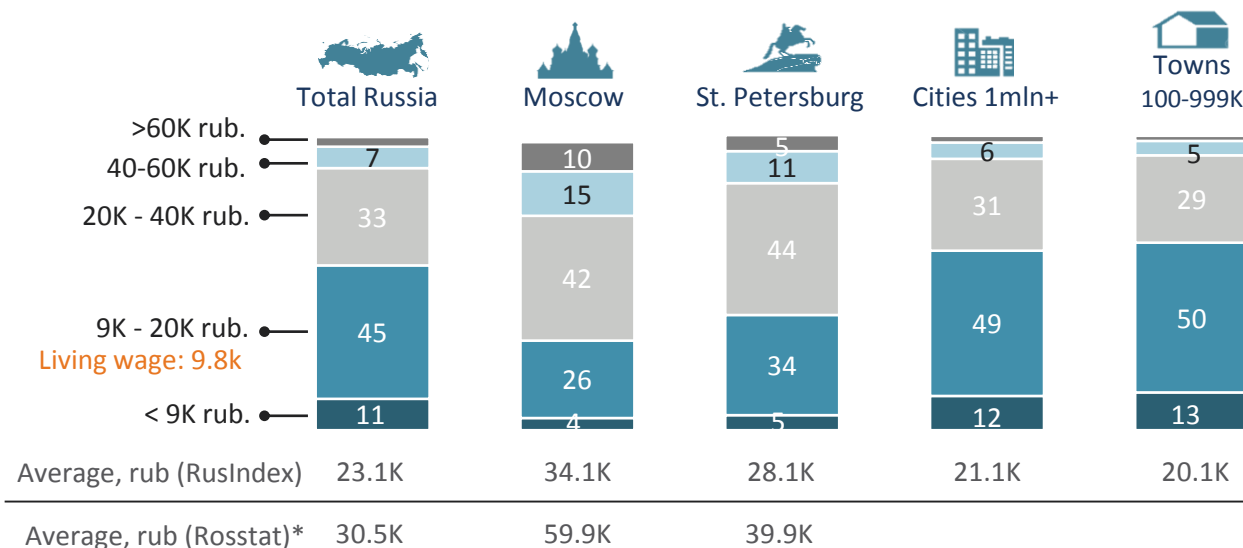
In 2016/H2 financial situation of Russian households stopped falling and came back to 2015 H2 level



SOCIO-ECONOMIC CONTEXT

Regionality matters: outside of capitals over 60% have monthly income under 20K per capita

Monthly income per capita split by strata (2016), %



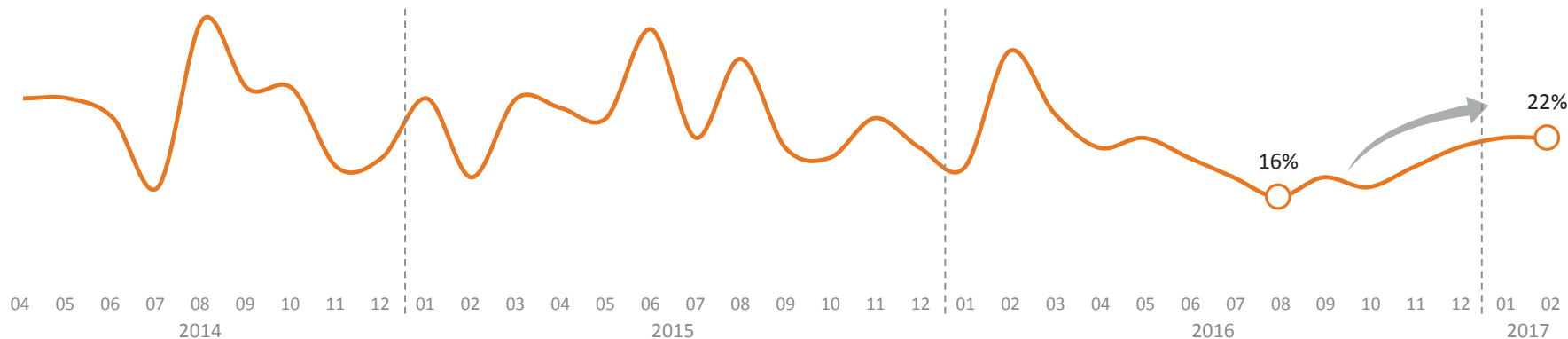
We recommend focusing on RusIndex data for targeting design for the consumer surveys as Rosstat numbers are always higher and are not based on consumers' answers about their incomes

SOCIO-ECONOMIC CONTEXT

Consumers are becoming more optimistic about near future

Looking ahead 6 months from now, do you expect the economy in your local area to be much stronger, somewhat stronger, about the same, somewhat weaker, or much weaker than it is now?

% Much Stronger / Somewhat Stronger



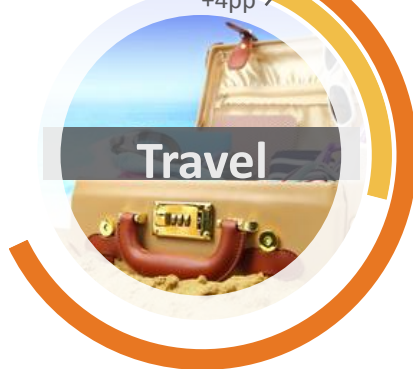
SOCIO-ECONOMIC CONTEXT

Top3 lifetime goals

*“Does anybody know what we are living for?”**

HY2 2016, %

Traveled outbound — 68
All 16+ — 29
+12pp — Comp to '14/H2
+4pp



MARKET CONTEXT

KALININGRAD

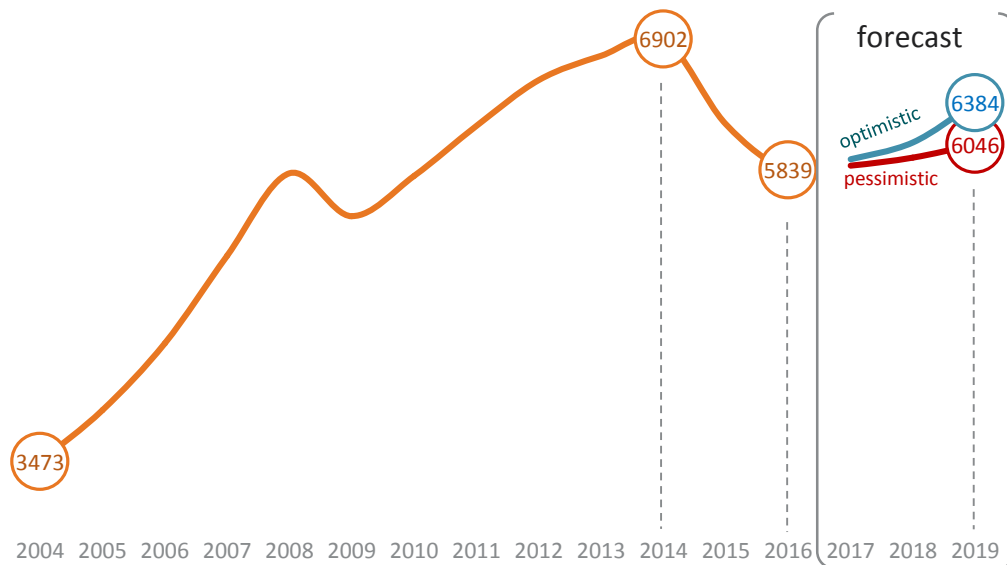
- Retail
- Automotive
- Finance
- Technology

GAME CHANGERS

MARKET CONTEXT: RETAIL

With retail sales affected in 2015/2016, forecasts are rather positive

Retail annual turnover, bln rub

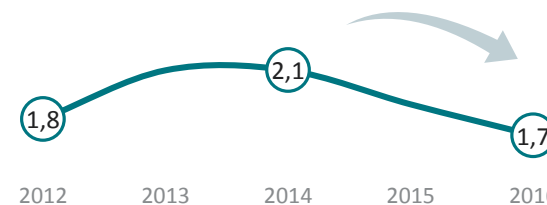


Number of visits per person per month

Super/hypermarkets



Shopping malls



MARKET CONTEXT: RETAIL

Key retail trends in 2015-2016

More Russian products in assortment

Growth of discounter segment

Further integration of chains into holdings

Growth of STMs shares in sales of majors retailers

Geo expansion: Ural and Siberia are in focus

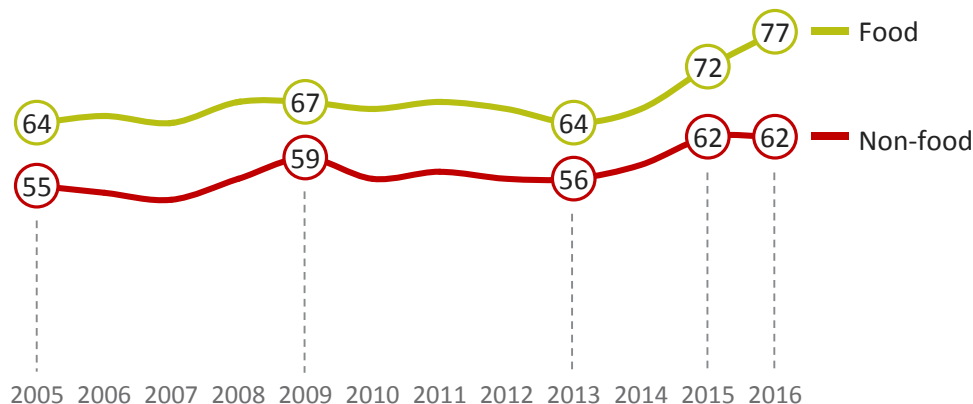
Active development of on-line sales segments, development of courier services

In Million+ cities megamalls actively develop hobby-centers services

MARKET CONTEXT: RETAIL

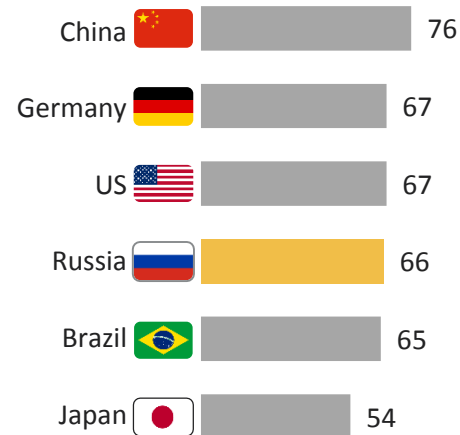
After 2014's embargo, Russian products gain more market share, supported by consumers

Share of Russian products



Locally grown matters, %

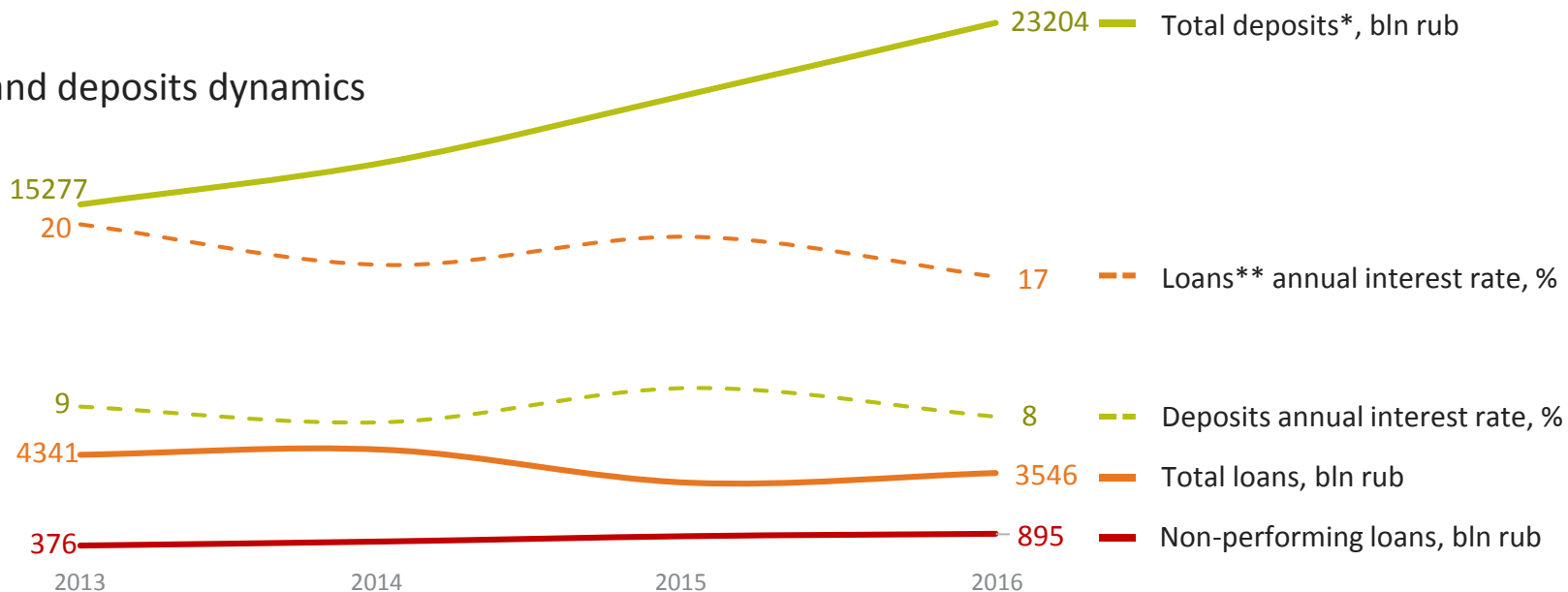
I am more likely to buy products that are locally grown than those that are grown elsewhere



MARKET CONTEXT: FINANCIAL SECTOR

Loan activity decreased in 2015 recovers

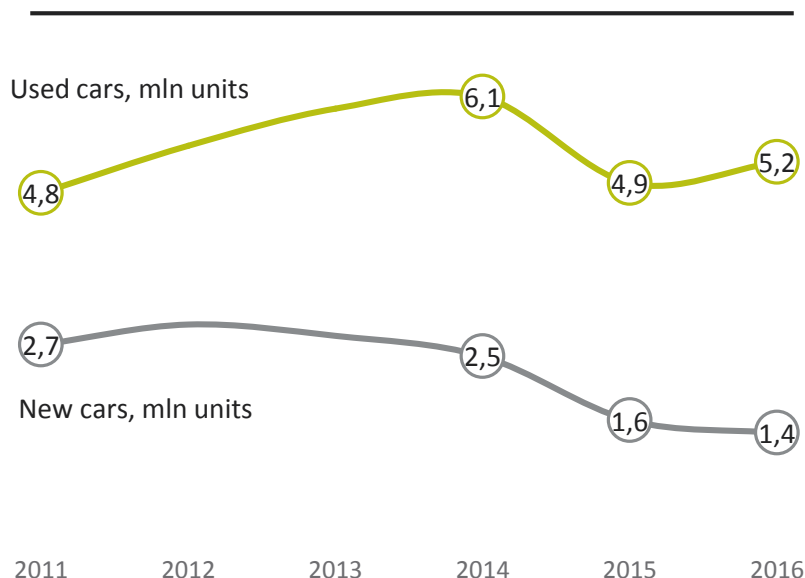
Loans and deposits dynamics



MARKET CONTEXT: AUTOMOTIVE

According to forecasts automotive market potentially completes the 4-year decrease and starts going up again

Car sales in Russia, units



2014 – sale of cars in Russia decreased by 10% in quantitative expression. One of the key aspects that affected the car market in 2014 (and determines the situation in 2015) is a significant drop of ruble exchange rate.

2015 – The drop of Russian auto market is the biggest one among major players. The main reason - deteriorating macroeconomic environment. Number of sold cars in Russia decreased by ~40% at the end of the year. Used car market was not so affected by the situation and helped the dealers to adapt to new conditions and continue to evolve (with a significant support of internet technologies and growing transparency of used car market).

2016 – Russian auto market dipped by 11%. Nine models of top-10 purchased cars were of local production.

MARKET CONTEXT: TECHNOLOGY

Technology development brings new questions

**The future of work**

When machines become workers, what is the human role?

**The future of smart**

What real intelligence will we need to create a smart future?

**Urban world**

In a fast changing world, can cities be built with long-term perspective?

**Behavioral revolution**

How will individual behavior impact our collective future?

**Health reimagined**

With limited resources, is digital the best medicine?

**BY 2020 THERE WILL
BE CLOSE TO SEVEN
TIMES THE NUMBER
OF CONNECTED
DEVICES AS PEOPLE
ON THE PLANET**



CONSUMER TRENDS

Vladivostok

- Technology adoption
- Spending optimization
- Battle for attention
- Healthy & responsible

GAME CHANGERS

1

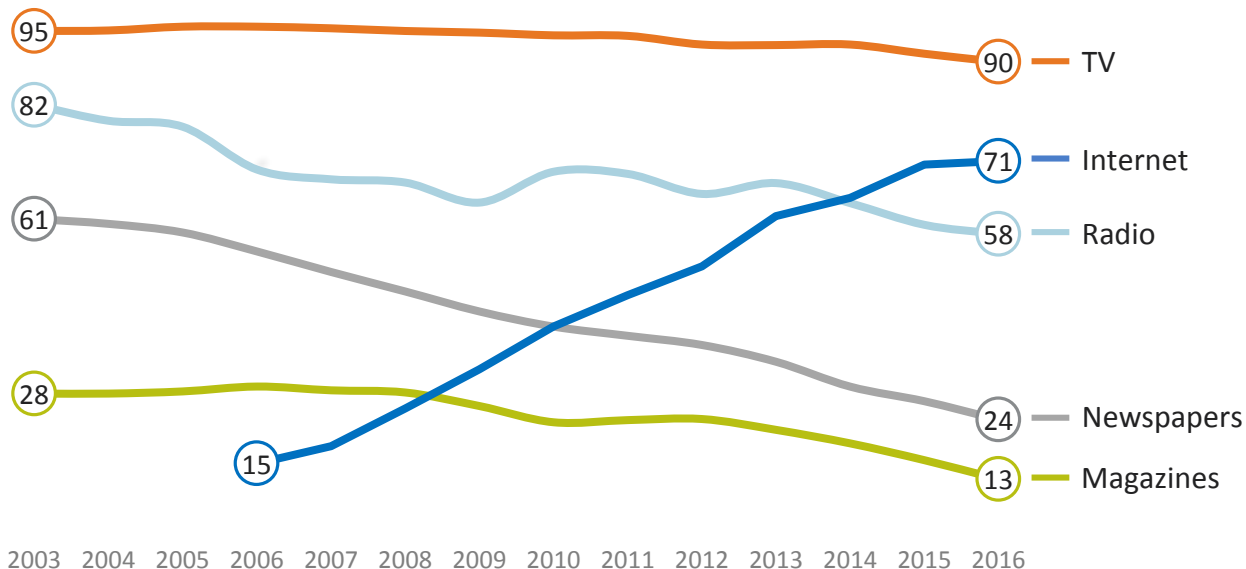
Technology adoption

Rapidly evolving communication landscape changes the way consumers communicate with each other and with brands

CONSUMER TRENDS: TECHNOLOGY

Internet continues to grow

Weekly+ audience, %



TV turns into a background media

Do something in parallel with watching TV

59%

Use gadgets while watching TV

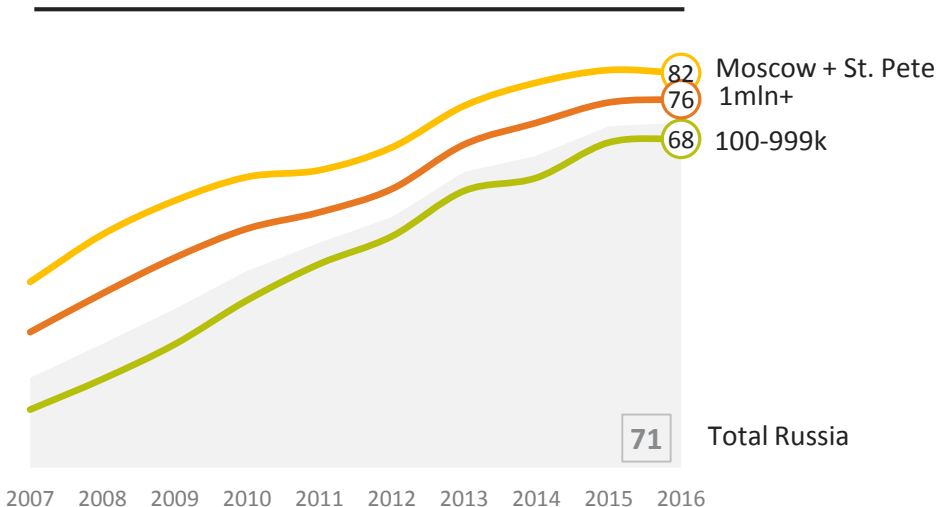
25%

CONSUMER TRENDS: TECHNOLOGY

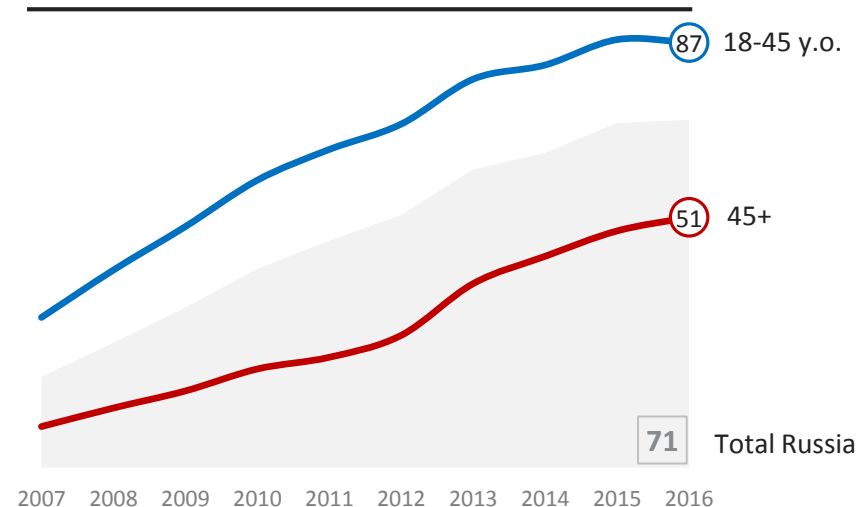
... among all groups

Have gone online P7D, %

By strata



By age



CONSUMER TRENDS: TECHNOLOGY

There are more smartphones each year



Mobile OS 2016



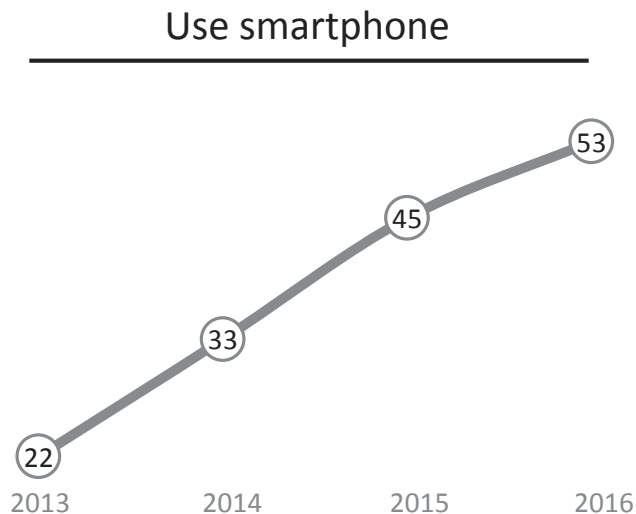
74%



9%



7%



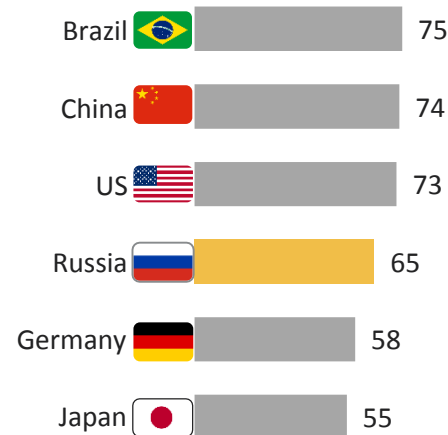
CONSUMER TRENDS: TECHNOLOGY

We are constantly looking at screens these days



Attitudes towards technology, %

I am constantly looking at screens these days

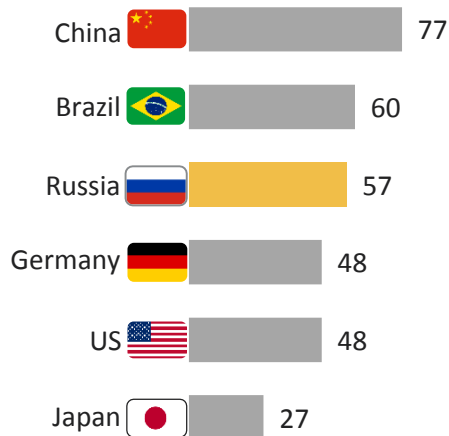


CONSUMER TRENDS: TECHNOLOGY

Mobile phone may soon substitute a wallet

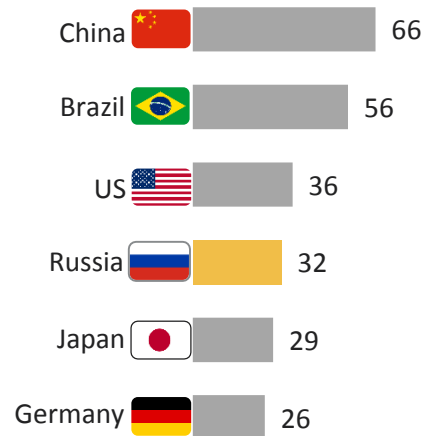
Awareness of payment options, %

I know which types of mobile payment services are available to me today



Awareness of shops using contactless, %

I know which shops and retailers will accept contactless payments using a mobile phone



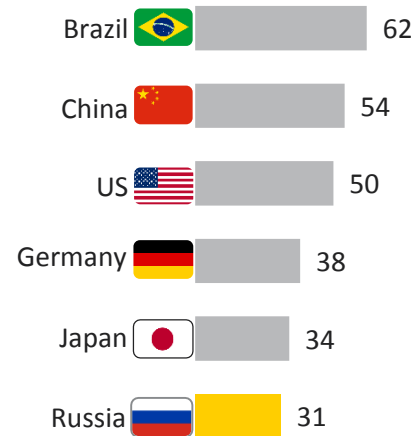
CONSUMER TRENDS: TECHNOLOGY

Though we are not yet afraid of what technology can bring to us...



Fear about technology, %

I fear that technical progress is destroying our lives



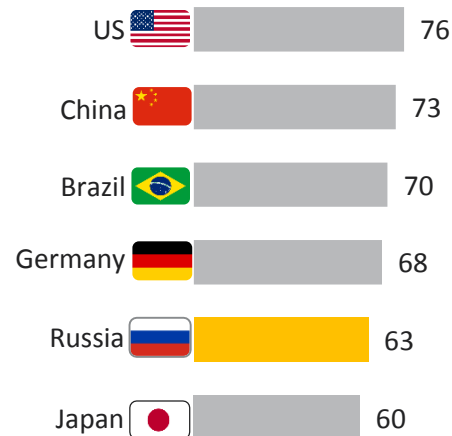
CONSUMER TRENDS: TECHNOLOGY

... we start getting concerned on how the information is being used by companies



Fear about technology, %

Concerned about how information being collected about me when I go online is being used by companies



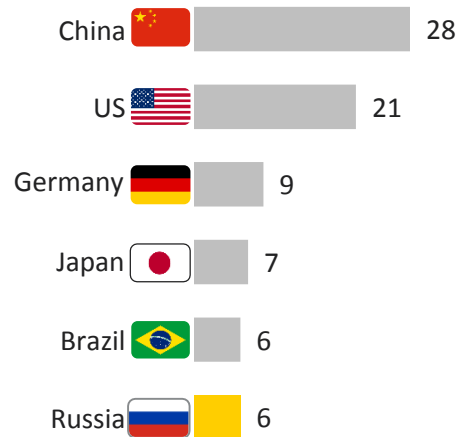
HEALTHY & RESPONSIBLE

There is a great potential for connected health devices



Who is using a connected health device?

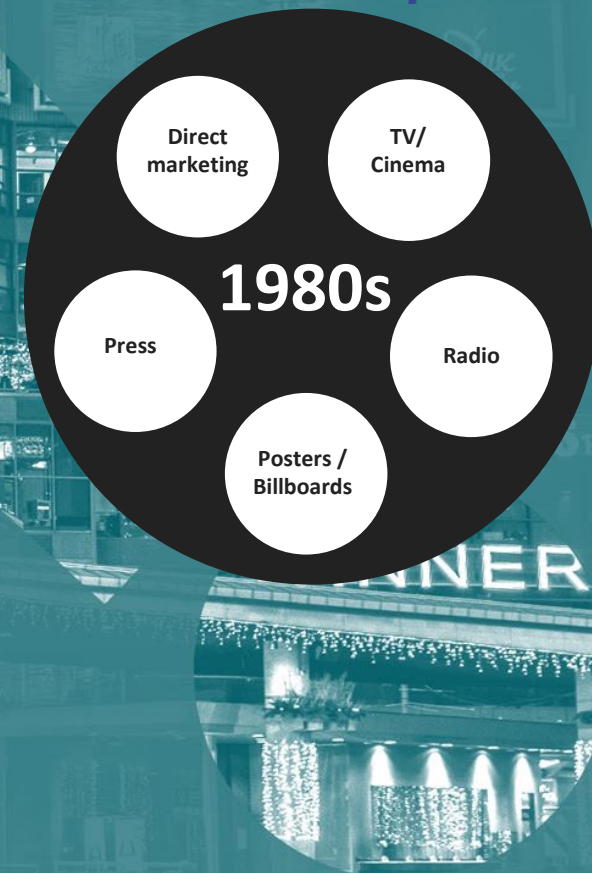
Do you currently, or have you ever, use(d) a connected health device or tool to manage your health?



2

Battle for attention

The time we spent looking at media is increasing and fragmenting simultaneously. This is all part of the growing up process and digital itself a place and role in the media ecosystem



CONSUMER TRENDS: BATTLE FOR ATTENTION



“The level of interrupt, the sort of overwhelming rapidity of information... is in fact affecting cognition”



Eric Schmidt

CONSUMER TRENDS: BATTLE FOR ATTENTION

Overwhelmed by life? Consumer search for simplicity & control



76%

I wish I could slow down the pace of my life



84%

the world is moving too fast



81%

there is so much contradictory information that it is hard to know who or what to trust



61%

today we need guidance and mentors more than politicians

CONSUMER TRENDS: BATTLE FOR ATTENTION

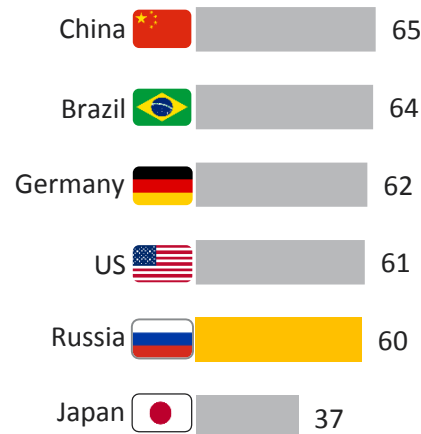
Current consumers' behaviors suggests there is great potential for digital marketing effectiveness

75%

**Russians say the ads
they are served
are often irrelevant**

% using ad-blockers

Concerned about how information being collected about me when I go online is being used by companies



3

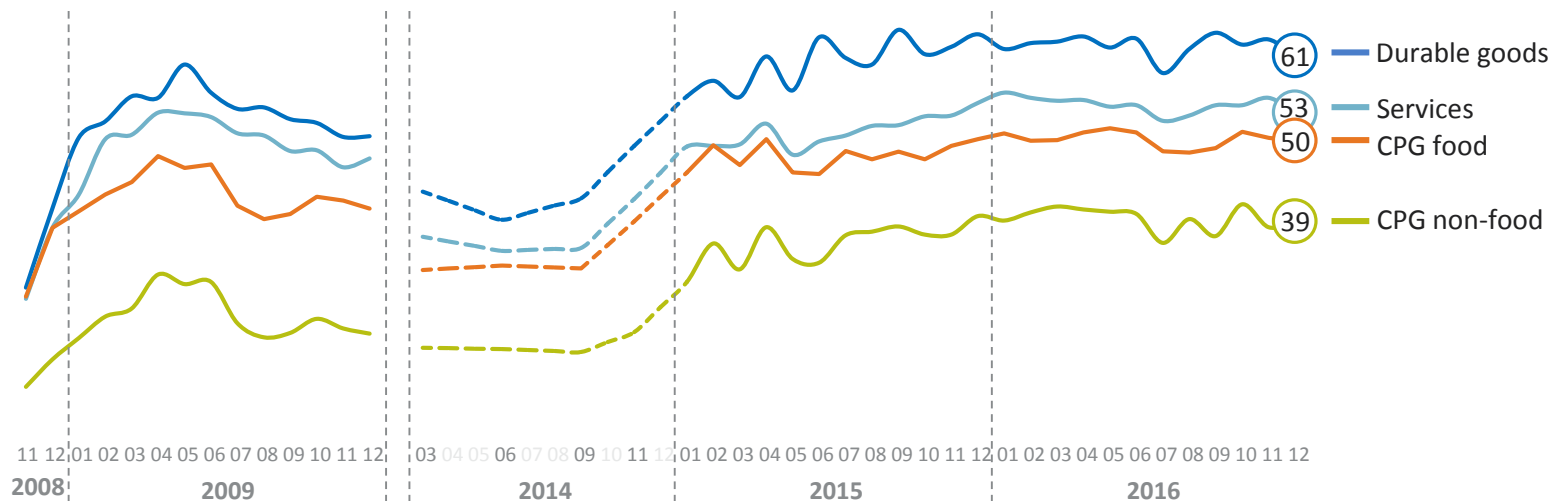
Spending Optimization

While savings stabilizes, consumers actively seek for opportunities to optimize their expenses becoming smart shoppers

SPENDING OPTIMIZATION

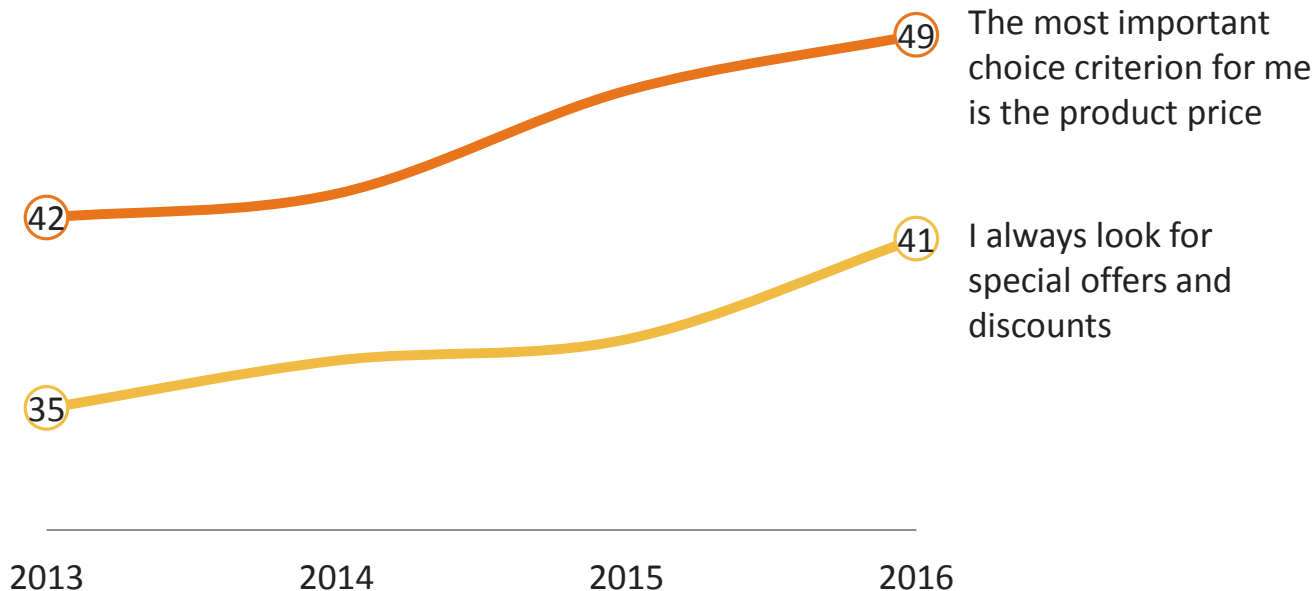
Impacted by the economic situation consumers continue saving on major categories

What are you saving money on?



SPENDING OPTIMIZATION

Becoming more price conscious, shoppers look for special offers and discounts



SPENDING OPTIMIZATION

Mobile apps make it quicker and easier to search for the special prices



EDADEAL

Aggregates promo offers from major national CPG retail chains

2.5mln

regular users per month
(1 mln. in Moscow)

4th

in Google Play rating in category
"Best from Russia 2016"

Top 100

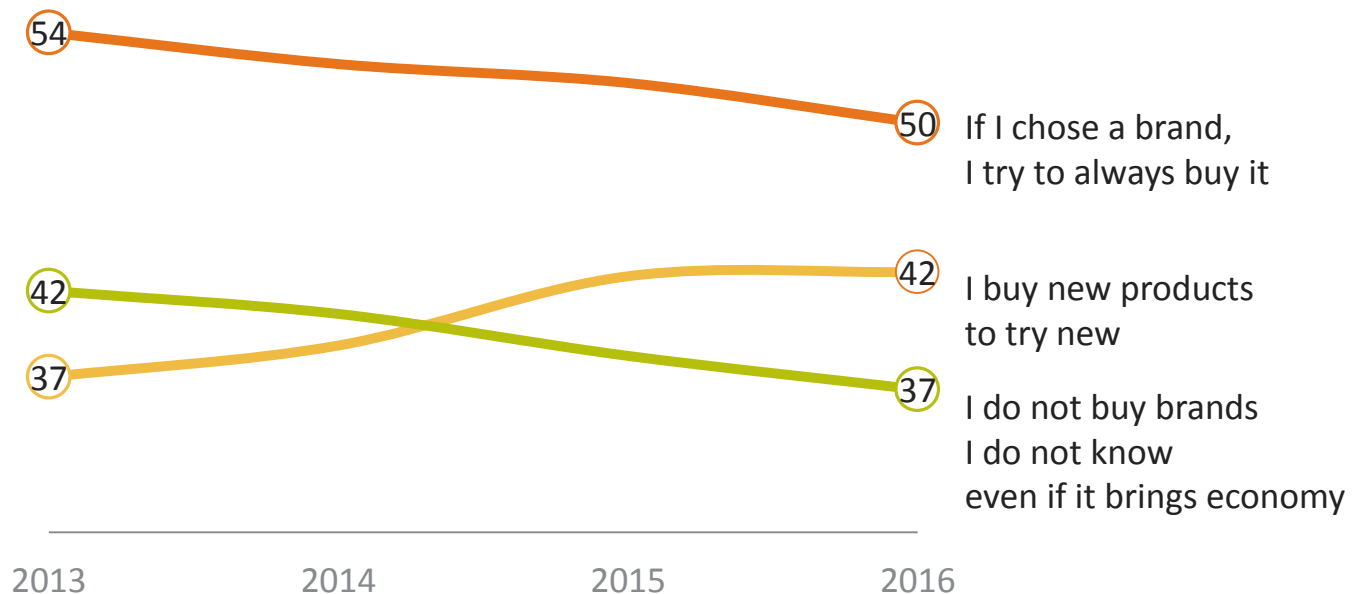
in AppStore and Google Play in Russia

Other retailers create their own apps where they are providing information about the promos



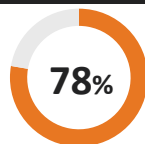
SPENDING OPTIMIZATION

Crisis hits loyalty and pushes consumers to try new brands and products

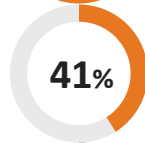


SPENDING OPTIMIZATION

Private labels expand to major CPG categories as price becomes more important



Used at least 1 private label L3M



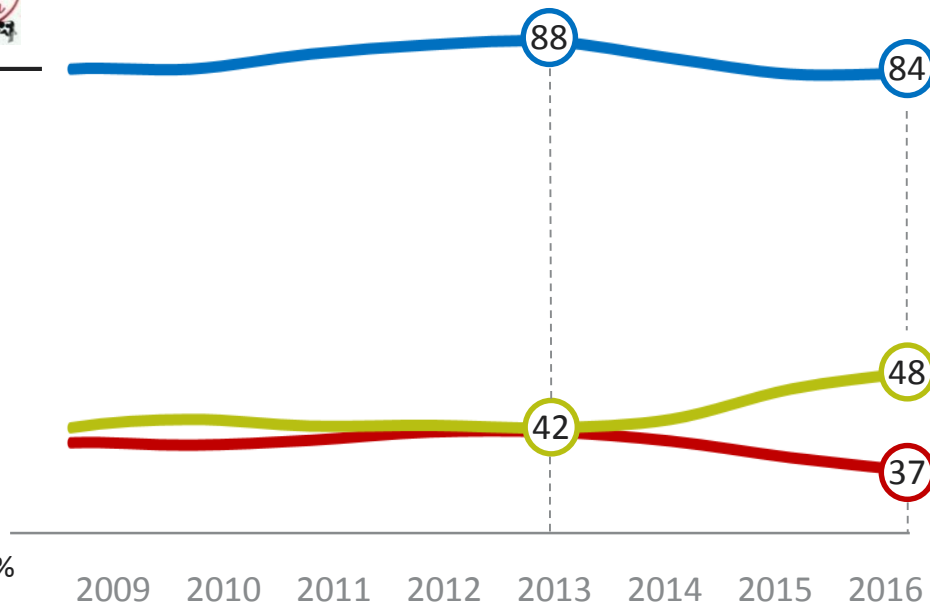
Used at least 1 private label L3M In grocery category



Used at least 1 private label L3M In dairy category



According to expert evaluations, STM share is 5%



Quality is the main factor when I choose products

Price is the main factor when I choose products

I don't buy **brands**
I don't know

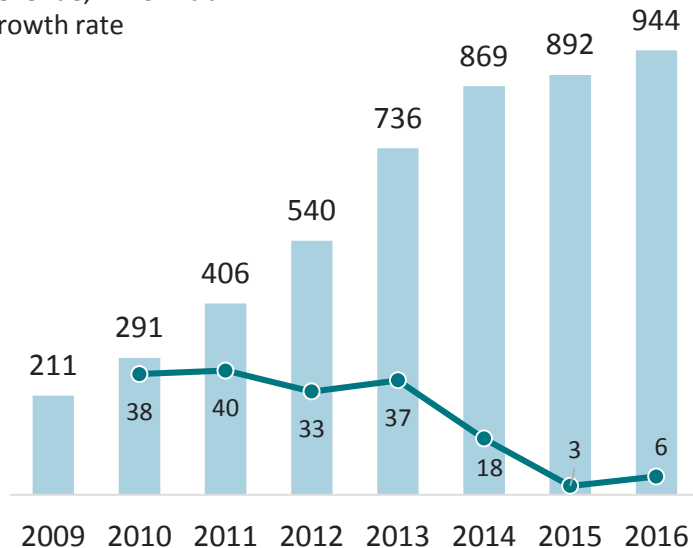
SPENDING OPTIMIZATION

Online shopping helps to optimize expenses

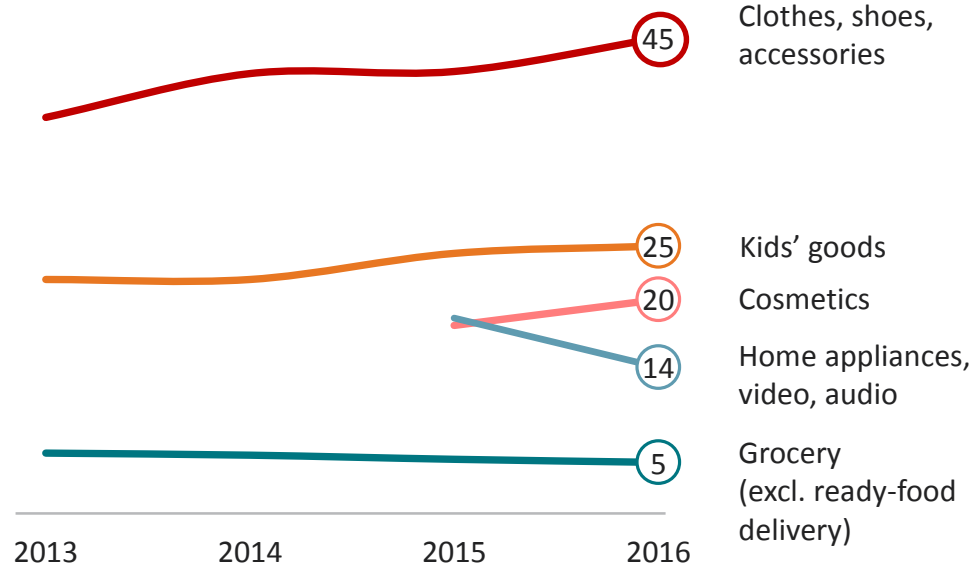
E-commerce is growing



Revenue, Billion rub.
Growth rate



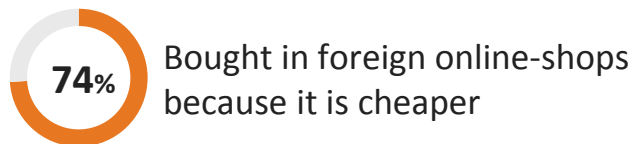
Items purchased online, %



SPENDING OPTIMIZATION

Trans-border shopping is emerging

Trans border online trading, quick facts



AliExpress has nearly tripled its number of shoppers in 2016

% of all online purchasers, who put goods into a cart



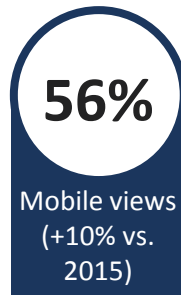
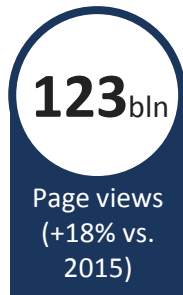
SPENDING OPTIMIZATION

Peer-2-peer commerce not only helps to save, but also is an additional income source

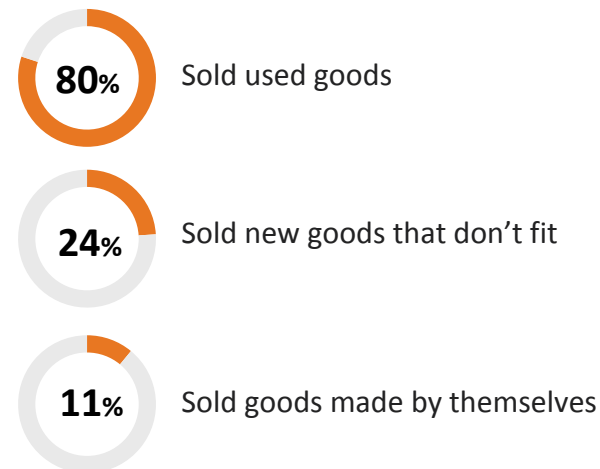
Russians actively buy and sell used goods via special platforms



4th most popular website in RuNet



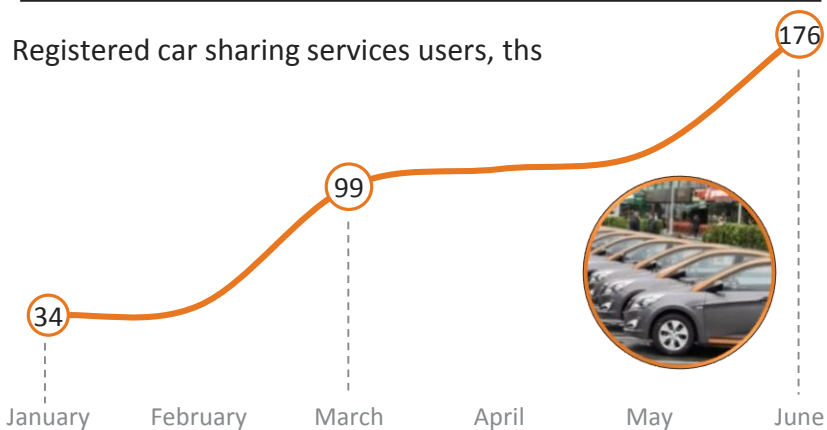
Almost 50% of online goers tried to sell something via the Internet



SPENDING OPTIMIZATION

Car sharing as a replacement to car ownership

Monthly number of car sharing rides
increased six-fold within half a year in Moscow



Car sharing services



Ride sharing in Russia



- Generally is less expensive than a train or a bus



- Several millions users in 2016
- First million was acquired less than in 10 month in 2014



- Launched in February 2017
- Over 2 mln. visits in the first 30 days

SPENDING OPTIMIZATION

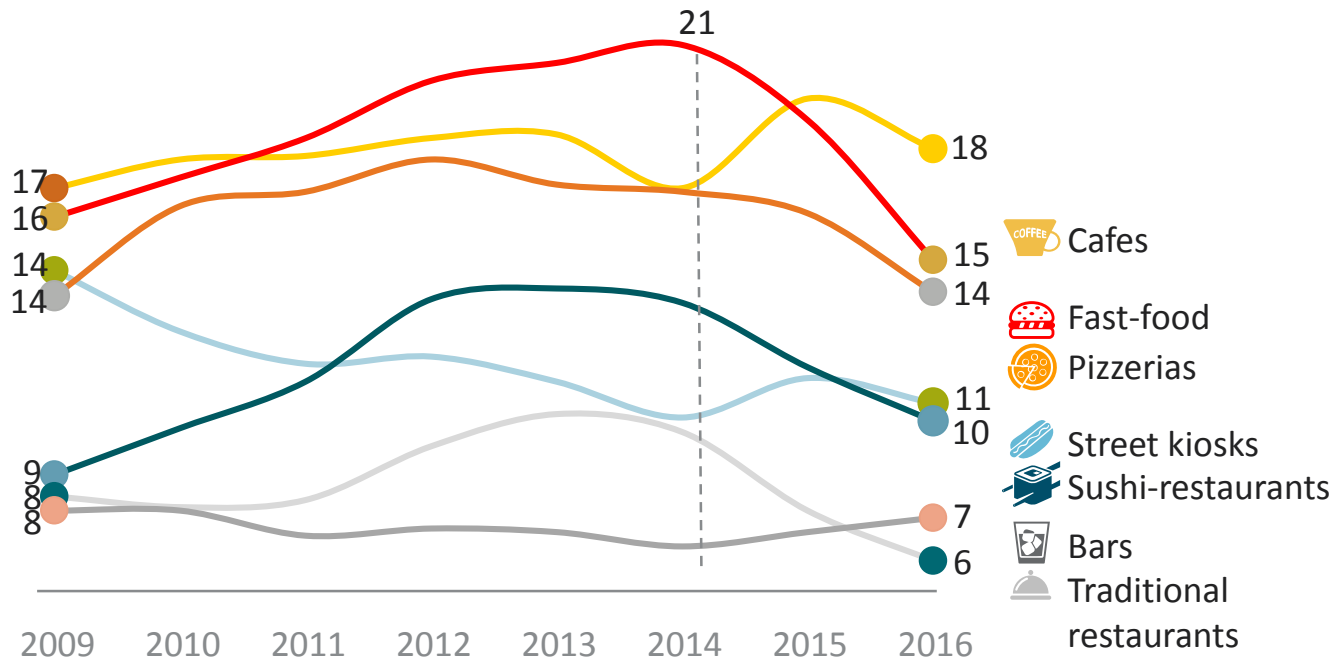
People continue saving on eating-out, less visits to almost all HORECA types

% of past 3 months visitors



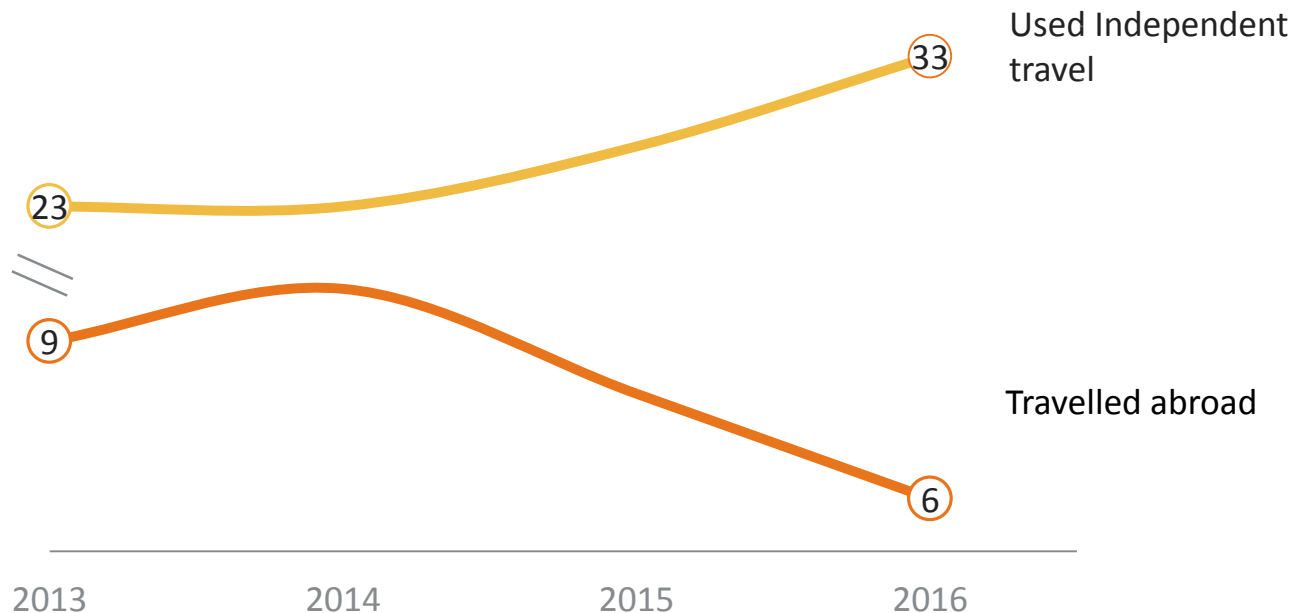
40%

Russians visited HORECA within the last 3 months (2016)



SPENDING OPTIMIZATION

Different scenarios of optimization in travel: some travel less, others stop using travel agencies



4

Healthy & responsible

Though economic crisis has slowed people on their way to healthier and more responsible consumption, the rising concerns present new opportunities in promoting “green” strategies

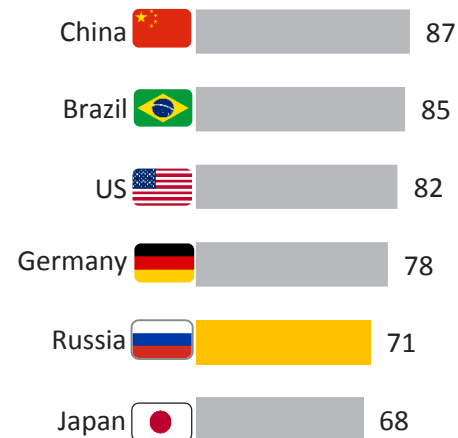
HEALTHY & RESPONSIBLE

We understand that eating healthy food is important



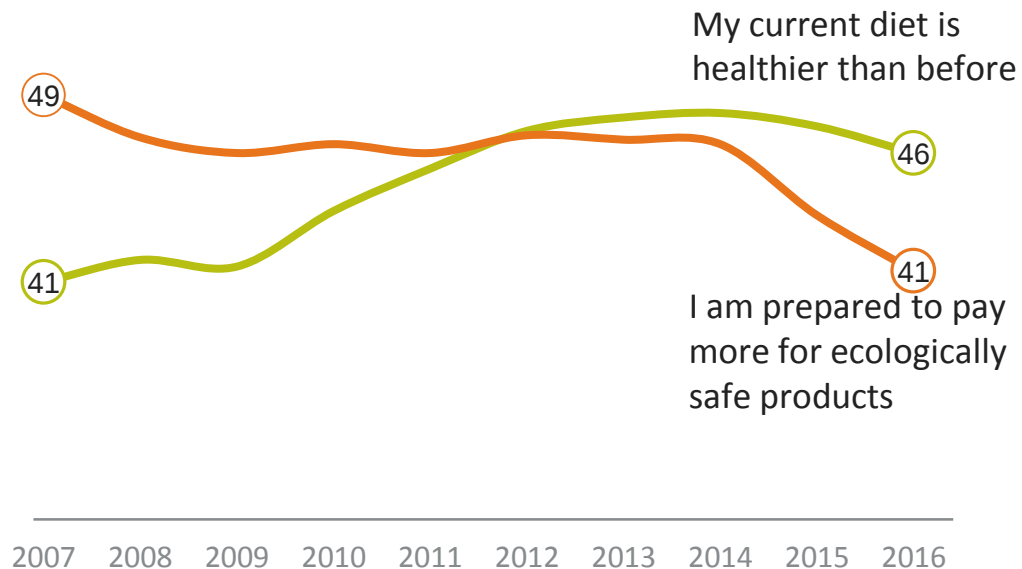
Eating right, %

of all the things I can do to maintain good health, eating right is the most important



HEALTHY & RESPONSIBLE

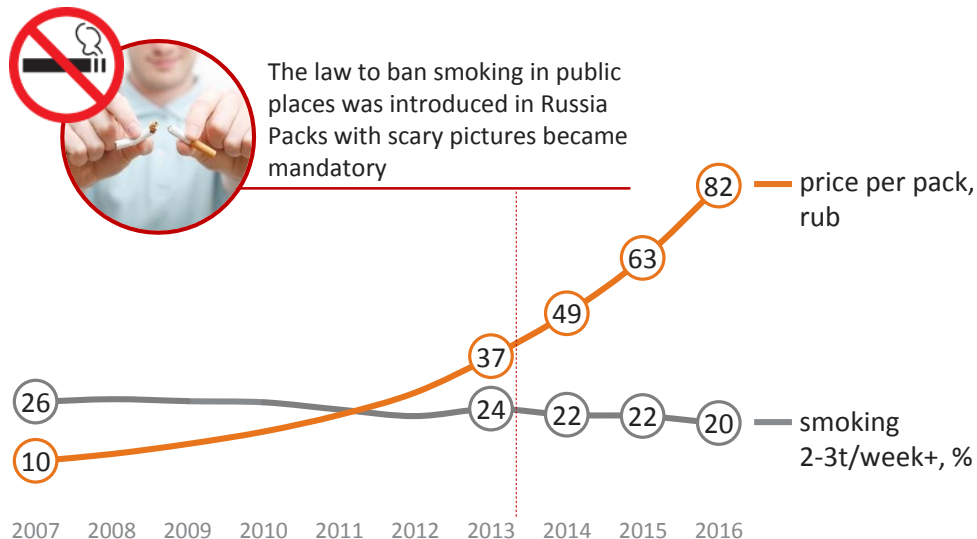
... and though readiness to pay more for ecological products subsided, majority sticks to healthy diet



HEALTHY & RESPONSIBLE

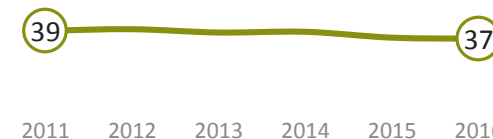
As prices increase, number of traditional smokers slowly goes down, e-cigarettes come as replacement

Regulation activities are helping lower the number of smokers



Tried giving up smoking, %

among those who smoke at least occasionally



Nearly 1% of Russians were e-cigarettes users in 2015, which is almost double the number in 2014.

In 2016 Russian vape market was estimated at about \$317 mln

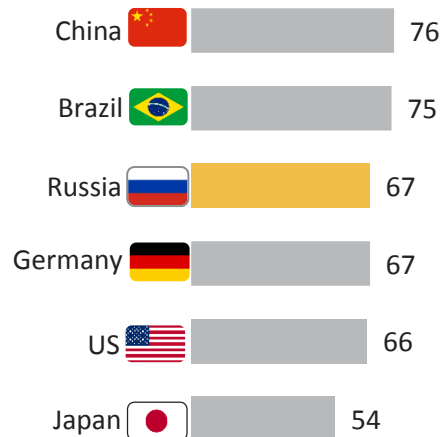
70% of people are dual users of e-cigarettes and the usual cigarettes

HEALTHY & RESPONSIBLE

We appreciate and readily recommend socially responsible brands, yet aren't quick to change our habits

Supporting good brands, %

I am more likely to recommend a brand that supports a good cause than one that doesn't



I prefer to buy products from a socially responsible companies



I'm ready to change my habits to improve ecology



2013

2014

2015

2016

HEALTHY & RESPONSIBLE

We should turn to responsible utilization

78%

**We are heading for
environmental disaster
unless we change
our habits quickly**



Every time I throw garbage away I feel pain of remorse, too much of waste! We are only three people, but we produce garbage every day and there is no option, everything we buy is packed into something, sometimes in several wrappers.

Everything gets outdated quite quickly, before I wore a coat for ten years, now it is one maximum two seasons, and everything is like that – outfit, home appliances.

Life turns into a run between shops and home and then between home and garbage bin.





THANK YOU!

KRASNODAR REGION

GAME CHANGERS