TREND VISION RUSSIA. 2019

RUSSIAN ECONOMY OVERVIEW

GAME CHANGERS Ipsos

MAIN EVENTS IN 2018 AFFECTING THE ECONOMY OF RUSSIA

May 2018

The Decree «On the national goals and strategic objectives of the development of the Russian Federation for the period up to 2024» was signed

October 2018

Pension Reform for 2018-2028

The gradual increasing of the retirement age from 55 to 60 years for women and from 60 to 65 for men within 2018-2028 .

November 2018

VAT to be increased from 18% to 20% starting from January 1st 2019

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PLANS AND REALITY

2018 Current situation and trends

2024 Goals set by the Decree to 2024

After almost ten years of the population growth Russia again faces decline in 2018. Natural decline in 2017 was compensated by migration. But in 2018 birth/death gap grew further with no compensation.

THE GAP

Sustainable natural growth of the population of Russia. Increase to 1.7 in the Total fertility rate

Rosstat forecasts life expectancy to grow by 2024 as 77 years at high forecast; 75 years at middle forecast; 73 at low. The goal is aimed at the most positive of the existing scenarios, which also gives accurately the targeted 80 years by 2030.

✔

Life expectancy growth to 78 years (by 2030 – up to 80 years)

Growth of the financial well-being of Russians stopped in 2014. During 2015-2018 the share of people with the highest financial self-esteem scale was declining. The share of those with the lowest financial self-esteem scale was increasing.

Financial self-esteem is inflation sensitive, first of all for the lowest income groups. In 2018, the inflation rate again returned to growth – 4,3% compared to 2,5% in 2017. For 2019 Bank of Russia forecasts the level of inflation between 5-5,5%. But by 2020 it is expected to return to ~4%.

THE GAP

Sustainable growth of real incomes of citizens. Inflation at the level not exceeding 4 percent

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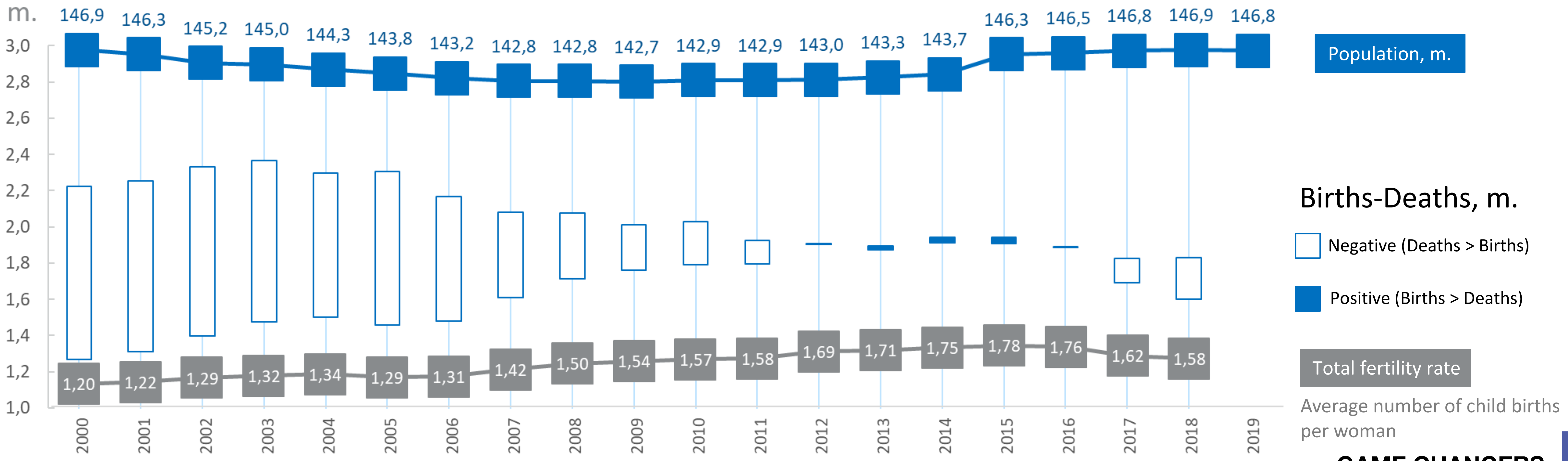
AFTER FIVE YEARS POSITIVE TREND OF POPULATION GROWTH TURNED TO NEGATIVE

After the 5-year period 2012-2016 when the number of births was slightly higher than the number of deaths, in 2017 and 2018 the numbers show a decline of the population again. It was compensated by migration in 2017, but not in 2018, according to Rosstat. The Pension reform of 2018 should compensate the decrease of working population.



Source: Federal State Statistics Service of Russia (Rosstat)
Starting 2015 data includes the population of the Republic of Crimea and Sevastopol, Federal city

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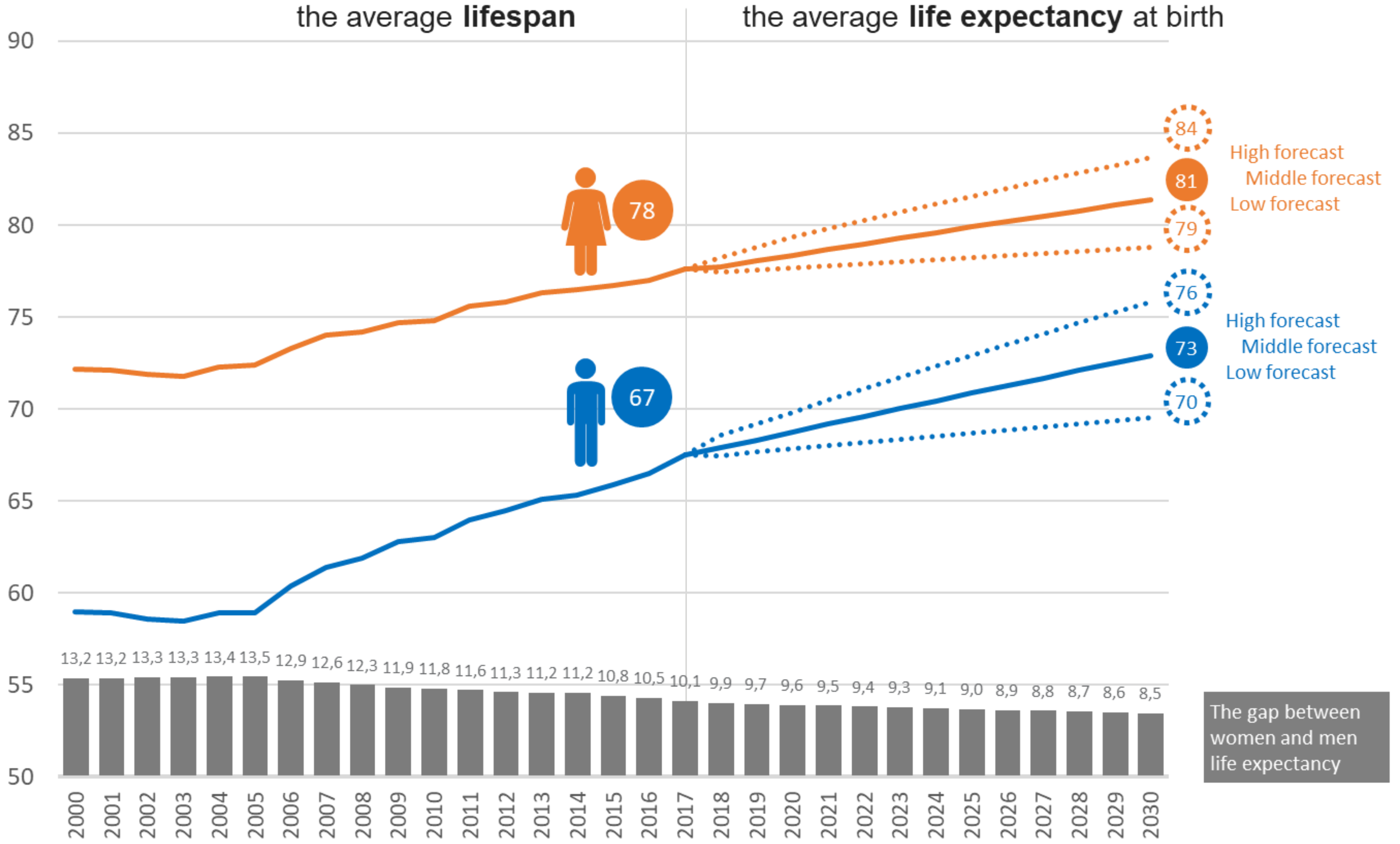
LIFE EXPECTANCY GROWS

According to Rosstat forecast, life expectancy will be between 74-80 years by 2030 (depending on the forecast). This was the reason to announce Pension reform in 2018 with a gradual increase of the retirement age from 55 to 60 years for women and from 60 to 65 for men until 2028 .

Year by year the gap between life expectancy of women and men is declining from 13 years in 2000 to 8,5 years forecasted by 2030.

At the same time active longevity is strongly supported at state level by activities and information campaigns for the elderly people.



Source: Federal State Statistics Service of Russia (Rosstat)

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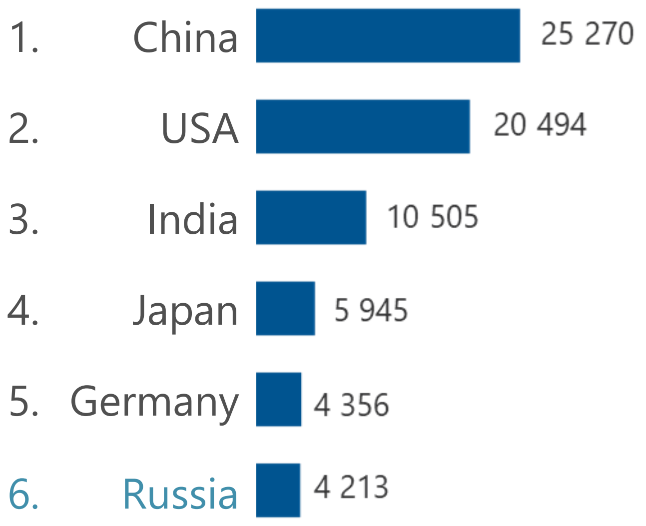
ECONOMY OF RUSSIA SLOWS DOWN IN EARLY 2019

The Economy of Russia has slowed down due to the effect of VAT increase, which forces business to restrict activity and decreases domestic consumer demand. International Monetary Fund (IMF) projects GDP in Russia will grow only 1,6% annually till 2024. Russia's goal to reach top 5 world largest economies seems unrealistic without additional measures. IMF forecasts in 2024 Russia will return back to the 12th position as South Korea will gain back its 11th line already in 2019.

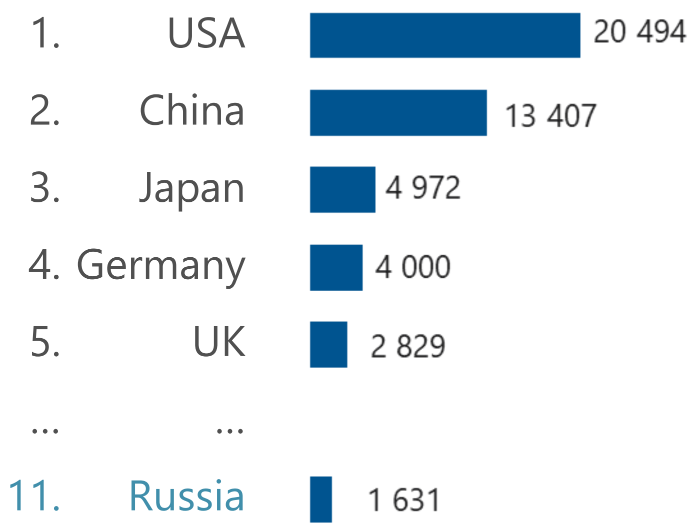
GDP based on PPP

Billions of international dollars



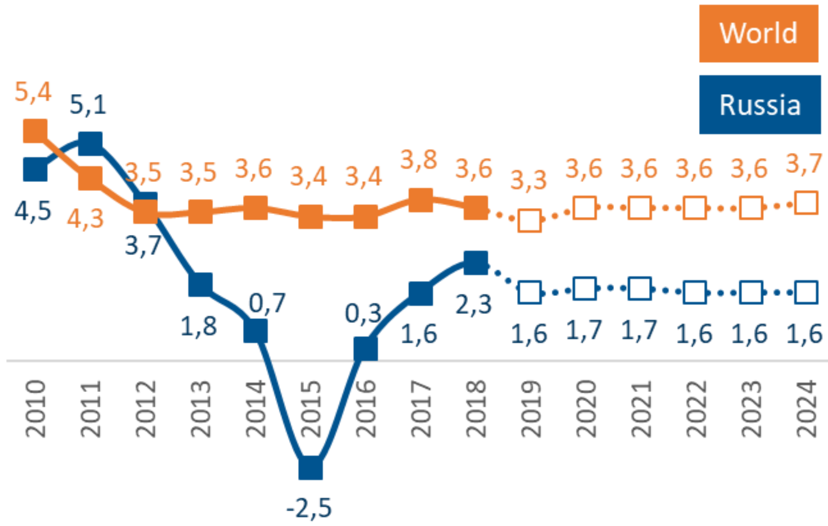
Real GDP

Current prices (Billions of U.S. dollars)



Real GDP growth

Annual percent change (%)



Source: International Monetary Fund

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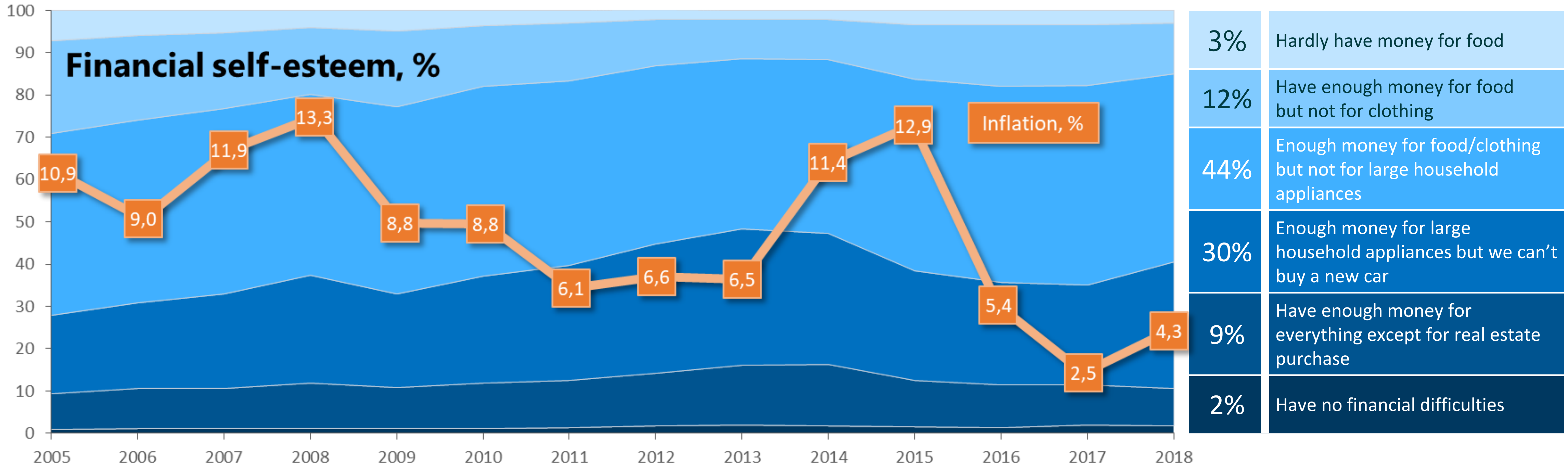
INFLATION IS BACK TO GROWTH CHALLENGING FINANCIAL WELL-BEING

After the drop in 2015-2017 a share of the most affluent consumers almost came back to the level of 2014 and reached 30% in 2018.

Financial self-esteem is inflation sensitive indicator primarily for the bottom two groups with a delay about a year. For 2019 Bank of Russia forecasts the level of inflation to reach 5-5,5% that may have a negative impact on consumers well-being.



Sources:

- Financial Self-esteem - Ipsos Comcon. RusIndex 2005-2018. Base – Russian cities 100K+, Russians 16-70 y.o.
- Inflation – calculated based on consumer price indices by Federal State Statistics Service of Russia

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GROWING TREND OF NEGATIVE EXPECTATIONS BOTH FOR ECONOMY IN RUSSIA AND FOR PERSONAL INCOME

How the economic situation in Russia will change in one year?

How your monthly income will change in one year?

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VALUES AND ASPIRATIONS OF A MODERN CONSUMER

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VALUES AND ASPIRATIONS OF A MODERN CONSUMER

Time

Time is a new value, people are more conscious about their effectiveness

Emotions

People are concerned about their emotional state – fight stress and give preference to the things that help them be positive. People choose to do what feels good to them & truly live their life

Serenity

The more we move forward in life, the more responsibilities we have and the more routine our days become. Too fast changes, too high tempo – thus possibility to make a stop became a new luxury

Upgrade/development

People are trying to reach out and recuperate kindness and empathy, they are looking for positive changes – better variant of me, better world around. As an answer to this need brands innovate and create ways to transform our reality in a smarter way and inspire people to reconnect with their humanity

CONSUMER TRENDS

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NEW RETAIL


SAVE 25%
BUY NOW
BUY 1
GET 1 FREE
BEST PRICE
GUARANTEE
GAME CHANGERS
Ipsos

NEW RETAIL

The boundaries between online and offline trade are blurring. The modern consumer is very time conscious and too attached to the smartphone: choosing goods online, comparing the prices, searching for all the needed information.

Retailers increasingly need to offer seamless solutions; "fluidity" is becoming a new "currency" that can differentiate retailers.

True omnichannel retailing means shopper can buy online, on a mobile or in-store and is free to choose either to collect or have these items delivered to him or at a location that's convenient to him. It also means he can manage returns through multiple channels. Therefore omnichannel provides ultimate convenience and reduces barriers to purchasing. Physical locations allow shopper to view, touch, try and evaluate products (an important factor in many categories) while digital channels provide access to inspiration, information and, of course, efficient remote purchasing.

Physical stores are changing – shopping there is becoming more emotional, stores are not longer seen as a place for shopping, but to satisfy the need for communication, entertainment, meeting, having fun. Competing with online retailers need to promise consumers a unique and engaging experience.

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BLURRING OF BOUNDERS BETWEEN ONLINE AND OFFLINE

Evolution of online trade: Russian retailers adopt *Dark store model* (warehouse-store to serve online orders) to support online trade growth and increase its operational efficiency.

X5 RETAIL GROUP

Brick2click

Scan and pay: Pay on-the-go with just a few taps./ Scan & go solution makes mobile payments simpler – almost any mobile phone owner can use it.

Ашан

Delivery services evolution: Big aggregators create their own delivery services allowing to shorten the delivery time

Delivery Club Express

Яндекс Еда

13% *Delivery service apps usage past month*[1]

[1] Ipsos Trend Survey

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NEW WAYS OF TRADING

S-Commerce

Social media platforms seek to bridge the eCommerce gap by becoming transactional

«VKontakte» launched VK Pay – a platform for paying goods and services within the social network

Tech solutions

Marketplaces boosting

AI-based solutions will increasingly robotize the creation, optimization, classification, translation and syndication of the product content which, combined, have become a must to keep up with consumer demand for more product information.

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FAST AND EASY SHOPPING

Micromarkets and self-service: Due to the growing popularity of healthy food and constant speedup "quick stations" perfectly meet consumers need for fast and easy access to goods and minimize time for a shopping routine

Projected growth of micromarkets in Moscow in 2019

from **10** *to* **1000**[1]

Take-away and to-go format

High tempo leads to growth of take-away options, especially in food & beverages segment. Modern retailers and HoReCa provide take-away options to meet consumers need for the purchase on- the-go

Pick-up services

Courier delivery is declining – people don't want to spend hours expecting and prefer delivery services that provide more flexibility. Click&collect service is in high demand. PickPoint and Utkonos launched postamats with temperature conditions to make the service more relevant for grocery shopping

Monthly growth of PickPoint users in 2018

150k[2]

boxberry

[1] Forbes
[2] PickPoint CEO

GAME CHANGERS Ipsos

ENTERTAINMENT AS A NEW MISSION OF SHOPPING

АЗБУКА ВКУСА

Comfort time spending

Premium retailers organize shopping place with maximum comfort to make the process relaxed and pleasant – coffee point in retail space or co-working area with the opportunity to have a drink while choosing Moleskine.

Retailtainment

Unique features and highlights

Canada Goose wants its customers to know what real cold feels like to test its $1,000 parka. The company is adding in-store frigid rooms where shoppers can test the coats in temperatures as low as -25 C

CANADA GOOSE ARCTIC PROGRAM

Not only point of sale, but a community

Points of sales become thematic clubs, the places to meet alike minds and soulmates

NESPRESSO IQOS RUN LAB NIKE

51% *Often go to the shopping malls not to shop but to hang out*[1]

[1] Ipsos Trend Survey

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AGING CONSUMER

AGING CONSUMER

The long-term demographic trend will lead to the increase in the number of seniors against the background of the overall population decline. Seniors will increase their demographic and economic role in the mid-term and will form ¼ of the population by 2025.

People live longer and more actively today. In modern flat age society being older doesn't mean acting old,
since 60 is the new 40. Brands need to stop turning their back to seniors and have to examine how "age friendly" their products are and learn how to appeal to an older audience. Seniors could stay loyal to a brand for decades and be powerful advocates for products and services.

Brands need to value this expanding demographic group and adapt to seniors' needs, wants and aspirations – stop stereotyping older people and start taking a real interest in them. Seniors now are more active and aspiring than ever. They want to keep enjoying life and have large cumulative purchasing ability.

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SENIORS INCREASE THEIR ECONOMIC IMPACT

Age agnostic

In a modern flat age society the borders of age are transparent. Companies more often invite senior models as their ambassadors.

Powerful seniors

Local government initiatives to increase social involvement of seniors

«Moscow longevity» program involving 130 ths. seniors with the average age of 67 y.o. aims to provide new opportunities for an active lifestyle and self-improvement for seniors.

МОСКОВСКОЕ долголетие

Московский Серебряный Университет

Great cumulative purchasing power and aim to self-improvement

Seniors have great cumulative purchasing ability. They are able to earn money and spend money. They are engaged in tourism, shopping, sports.

25% *bank deposits owners*

11% *car owners*

14% *of domestic tourists*

Source: Ipsos Comcon. RusIndex 2018

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HEALTHY CONSUMER

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HEALTHY CONSUMER

Growth of material well-being leads to higher value of health. Rapid development of technologies and opportunity to get more information about health increases consumers' involvement and nurture self care / health commitment. The responsibility grows and leads to the active use of diagnostics and monitoring. People are getting more conscious about early revelation and preventing the progress of fatal illnesses because now there is an opportunity to get a consultancy in a short period of time regardless the location and daypart.

Advanced control and monitoring don't any longer require serious efforts and don't change a regular life-style. Smart technologies come to daily life and now on top of blood pressure and glucose monitor people, track sleep phases and level of stress.

The notion of health is getting vaster - balance, mental health and nutrition are perceived as essential components. Healthy lifestyle is not a trend but a reality, it is available for mass consumers and doesn't require serious investments. Sugar free and dairy free products are perceived as a new norm as ever-increasing numbers reporting diabetes and allergic diseases make people scared and more conscious about their nutrition.

Modern healthy lifestyle is associated with simple solutions that make life easy with no sacrifices, pressure and restrictions. The overall image of medicine has became brighter and lighter and this change helps to make people more relaxed and engaged, bringing new habits into consumers routine easily.

TECHNO-HEALTH DRIVES PATIENT OWNERSHIP

11% *In Russia use some device for tracking / monitoring* [1]

Connected Health

Technology wearable devices that track information related to health and fitness etc. can provide remote control and improve overall quality of life

Technologies

Tele Health:

The use of telecommunications and electronic information to deliver healthcare outside of traditional healthcare facilities and make early / timely diagnostic accessible for distant regions and for busy white collars.

Яндекс Здоровье

30% *more people used tele health in 2018 vs 2017* [2]

Increased responsibility and ownership over personal health:

Easy access to information and recommendations makes patient more educated and proactive, (especially among group 25 – 34 year old), leads to moving from short-term restrictions to general change of life style. Today, the industry predicts that as the technology becomes more passive, frictionless and seamless, the adoption curve will expand and increase across demographics[3].

[1] Ipsos Global Advisor 2018
[2] Forbes
[3] Ipsos Connected Health Trends 2018

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POWER OF NUTRITION INSTEAD OF MEDICINES

ne moloko

Plant-based products

Dairy free products are getting more popular and available now not only in premium but also in mass-market segment. Plant-based origin continues its expansion in many categories.

Nutrition

Reinventing snacking

Fight against sugar and fats leads to spreading the healthy trend of snaking and dramatically changes the image and structure of the category

Superfood

Using of superfood is terra incognita – people are looking for the guidance regarding shopping, storage, cooking, serving. The accessibility in traditional retail is rather low – the main channel is online with specialized e-com sites. Home cultivation and production of superfoods is a way of leading a healthy lifestyle.

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STRESS UNDER CONTROL

Sleep as a part of healthy routine

People consider sleep as a part of healthy routine – they pay more attention to its quality and quantity and tend to improve sleep parameters in order to be more effective during a day and postpone aging.

47% *aged below 39 y.o. suffer from sleep deprivation* [1]

Balance

46% *pay attention to mental health* [2]

Anti-stress practices

High level of stress is considered as one of the main threats to health. People are eager to control and fight it. People are searching for a chance to step away from the “rat race”. Re-load practices (meditation and relaxation) are getting more popular.

[1] Levada Center
[2] Ipsos Trend Survey

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CONSUMER IN SEARCH FOR SIMPLICITY

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CONSUMER IN SEARCH FOR SIMPLICITY

People feel more and more tired of the hectic lifestyle and often wish their lives to be more simple. We look for easy entertainment that offers a retreat from a daily hassle. Consumer starts to value simplicity in material things around and desperately needs to simplify life by discovering new shortcuts to decision-making.

The complexity of choice becomes an increasingly important issue for people who often feel overwhelmed by large and small choices they face every day. Trying to consider all options is a tough cognitive task. Therefore, consumers look for shortcuts and smart solutions that will help them navigate through the vast number of available options.

In response, brands start to offer solutions that help to cope with complexity by quick and easy 'de-selection' for consumers. Nowadays an app, a gadget or an expert can make a purchase decision for us, helping to filter out irrelevant options. Hypermarkets offer services that gather "typical cart" and deliver it just in one click, so that shoppers don't even have to think about their purchase. Or, one can create a "subscription" in order to get the good without keeping it in mind.

Digital innovations simplify and support consumers in their routine tasks. With increasing adoption of technology (like AI, chat bots and voice activation) and the increasing demand for convenience and simplicity from consumers this trend will become more pronounced.

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FREE ME FROM THE BURDEN OF CHOICE

Purchase for me: Get meals and goods by subscription. Service will gather your "usual cart" and deliver it by one click.

УТКОНОС:
онлайн-гипермаркет

Autopilot

Think for me: "Smart home", Siri, Yandex.Alisa – robots, gadgets and AI will think for you.

23% *want smart home* [1]

SIRI

Yandex has introduced Yandex Module for management of smart house functions

Choose for me: Ask the expert to buy new clothes or a new car for fair price. Use the app to choose the wine when being lost in huge assortment

[1] Ipsos Trend Survey

DO WHAT YOU REALLY LOVE TO DO

Take it easy: People often wish their lives were more simple. We look for light entertainment, we start to value simplicity around us.

71% *prefer light entertainment to intellectual*

27% *value simplicity and care less about material things* [1]

Simplify my life

Escape from routine: People appreciate time and don't want to spend it on the things that don't bring pleasure. They are open to solutions that help them to get rid of daily cooking or utility payments.

mos.ru Opportunity to pay the bills by QR code

32% *Gosuslugi users growth*

EASY MEAL

Monthly turnover [2]

3,5 *mln Rub*

[1] Ipsos Trend Survey
[2] The-village.ru

GAME CHANGERS Ipsos

CONSCIOUS CONSUMER

GAME CHANGERS

CONSCIOUS CONSUMER

Active development of technologies, new capabilities and opportunities that come to consumers daily life make people more conscious – they start to worry about producers responsibility expecting that modern companies have an ecological production process, with no negative impact on the environment. Choosing Eco brand is the easiest way to make a step towards improving the ecological situation and it doesn't require big efforts from consumer. "Green" brands and even those who do baby steps minimizing plastic pack by selling "naked" products or providing paper bag instead of plastic are worthy of respect.

Starting with responsible producers and retailers consumers are increasingly thinking about personal responsibility. The belief that every person can contribute to the solution of a global problem is becoming more relevant. Consumer became more conscious – concerned with future and well-being more than momentary pleasure and show-off.

The development of the sharing economy is a good example of social consciousness when people are driven not only by saving patterns but by the aspiration of conscious usage of resources, making world and each person in it better.

Charity, benevolence and humaneness are the new aspirations of the modern consumer.

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ENVIRONMENTAL CONSCIOUSNESS

Recycling: Many big retailers started collecting solid waste such as batteries, plastic bottles, cans, lamps, textile for recycling. Textiles are collected in exchange for a discount

М.видео ВкусВилл IKEA H&M

Ecology

Fight against plastic: Answering the plastic pollution problem producers try to minimize plastic packaging and retailers try to decrease the amount of plastic packaging; almost all of them refused to give free plastic bags, offering paper and eco-bags instead

Waste sorting Active promotion of waste sorting via government and business organization in order to increase social responsibility – educated and engaging flesh mob and campaigns

ЭКОВИКИ RECYCLE map

75% *Ready to sort garbage if there is a separating waste bin system*[1]

[1] Ipsos Trend survey

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PERSONAL INTEGRITY

#ЩЕДРЫЙВТОРНИК

МОСВОЛОНТЁР

Charity and volunteering: Charity is evolving from targeted help into the culture of regular donation often using technologies and automatization. Volunteers are not perceived as free labour, but people who have the mission to help the others

34% *Participate in charity* [1]

In 2018 number of volunteers in Russia increased

from 7 *mln* *to* 14 *mln*

Better me

Declutter services evolution: Answering consumers' desire to declutter their homes market of both garage sales, second-hands and warehousing is growing. Most of the services will come and take the things, even pack them at the customers' wish. Decluttering makes people turn to classifieds that now provide financial guarantees for transactions

чердак

32 *mln* Avito

Monthly traffic

Sharing: Started as sharing of cloths, books, music and films, sharing is evolving to sharing transport, houses and offices. People believe that this approach leads to more effective and ecological life

BELKA CAR

Growth of Belkacar auto park

from 100 *to* 1150

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[1] Ipsos Trend survey

TECH POSITIVE CONSUMER

TECH POSITIVE CONSUMER

Consumers tend to minimize interactions with any bureaucratic or state organizations and have more control and transparency in the processes.

Online interactions between different actors (users-to-user, brand-to-user, opinion leaders-to users) give and opportunity to reduce personal involvement, decrease numbers of mediators and exclude cash element from value chain via digital environment specifics (transparency, speed, auto-recording).

Russian internet audience combines a **high level of trust into different specific tech innovations** with a low level of concern about legal regulations and speed of tech development. Audience tech optimism growth supported with big data usage stimulates the development of p2p digital products and services.

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TRUST TO TECH ASSURES CONSUMERS OPENNESS TO EXPERIMENT WITH NEW SERVICES

E-learning, online courses and how2 videos: Online education of various formats attracts attention and engages different audiences. Additional education online market in Russia exceeded 1B RUB in 2018[1]. The trend involves solid educational platforms and non-professionals who shoot easy and fun how2 videos on different topics (handmade, makeup, cooking etc.)

Tech positive

Big data and personalized offer: Big data owners and specialized IT companies develop behavior adapted promo offers and programs. In October 2018 Megafon, Mail.ru, Yandex, Tinkoff-bank and oneFactor established the Association of Big Data Operators. The market size is about 10-30B RUB.[2]

Фоксфорд – E-learning for children (preparation for Unified State Examination)

skyeng – Language school

ACCEL – Online school accelerator

CleverDATA, Segmento, (ONE)FACTOR – Tech companies specialized on Big Data solution

[1] Sostav.ru
[2] Kommersant daily newspaper

INFLUENTIAL CONSUMER

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INFLUENTIAL CONSUMER

Bloggers and celebrities have become a significant part of the media landscape. Users are paying more attention to them, instead of brands.

Celebrities recommendations about goods, places and services are very popular, however there is a significant decrease in the level of trust to these recommendations. Top-bloggers and celebrities have achieved the status of traditional media channel that works mainly on awareness, instead of brand linkage and brand trust. Influencer marketing involves niche opinion leaders with smaller N of subscribers and focuses on a specific topic (that helps to save the nativity of the promotion).

Organic reviews made by ordinary consumers are in great demand. Consumers pay high attention to online reviews choosing different types of goods and become more involved in review production. For lots of consumers it has become a hobby or even a profession. Reviewers appear in every strata by gender, age and income starting from 5 y.o. children.

SOCIAL MEDIA CAMPAIGNS BASED ON INFLUENCERS MARKET

Influencers paid posts as the main part of promo campaign: Promo posts made by top bloggers working on awareness became an essential part of many campaigns for variety markets (from fashion to automotive). Especially essential for dark markets.

IQOS BELUGA L'ORÉAL PARIS

Viral activation/ contests supported by influencers: Promos that combine influencers posts and engaging activities for audience are more effective and drive not only awareness, but connection with brand

Influential consumer

Stimulation of trial users review: Some brands start to work directly with the consumers audience by stimulating them to write reviews on free trial samples.

Lay's team campaign with O.Buzova and many other celebrities

Weekly watering with S.Shnurov

Ancient secrets promo with "Followmeto"

82%

Rely on other customers online reviews[1]

Gift for a review on retailer's website

[1] Ipsos Trend survey

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IPSOS TREND SURVEY DESCRIPTION

Ipsos Trend Survey

Who?

Men / Women
Aged 18-55
Representative
to the Russian population

When?

March, 2019

Where?

Russia
Cities, 100K+
Representative
to FD and stratum

How?

1500 online interviews
25 minutes long

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