Russian beauty market review:
dynamics, trends and perspectives

Cosmetics and toiletries market in Russia saw notable growth in the past several years. In 2007 increase in incomes together with intensified promotion activity led to estimated 9% growth of the market. Total cosmetics and perfumery value is expected to reach $8.5 bln . The forecast for 2008 and 2009 is $9.3bln and $10.2bln correspondently. As the majority of Russian consumers experience an improvement in living standards, a middle-income segment is expected to continue developing.

Added value products at competitive prices are in high demand especially in such areas as skin care and colour cosmetics. As lifestyle changes and living pace accelerates, spa procedures, aromatherapy bath and shower products as well as effective solutions in skin and hair care become more popular. Products with natural ingredients remain to be in high demand.

Perfumery and cosmetics sales 2006 – $7.8bln
Growth 2005/2006 - 12%

The fastest segments:	The largest segments (2006):
Male grooming - 24%	Colour cosmetics - $1.4bln
Depilatories - 23%	Hair care - $1.3bln
Sun care - 15%	Skin care - $1.1bln

Potential market capacity: $15-18bln

Perfumery and cosmetics sales forecast:

2007 - $8.5 bln

2006/2007 growth – 9%

2008 - $9.3 bln

2009 - $10.2 bln

Perspective segments are sun care, depilatories and baby care.

Sun care

Sales value 2006 - $42mln, 2007 (forecast) - $50mln. The sales are expected to exceed $65mln by 2009. The most active sales are envisaged in self-tanning products. The growth is to reach 70% by 2009.

Body care with bronzing effect is one of the most promising niches.

Depilatories

Sales value 2006 - $26mln, 2007 (forecast) - $32mln. By 2009 the sales are to reach $50mln. Deodorant depilatories, professional products for home using, depilatories for bikini zone, hair growth inhibitors for sensitive skin are among the most perspective products.

Promotion will emphasize caring quality of depilatories.

Baby care

Sales value 2006 - $139mln, 2007 (forecast) - $151mln. Sales will add 20% by 2009. Popularity of baby massage oil, wipes, body milk and seasonal creams protecting from frost and sun will grow.

Adults will continue to use 60% of baby care products.

Major tendencies:

- Market players consolidate
- New companies come to Russian market
- Natural and organic cosmetics sales grow
- Interest to niche brands increases

Consumer preferences

- Consumers prefer maxi-packaging in shampoos and shower gels.
- In skin care, colour cosmetics and perfumery brand promise and friends recommendation is more important than price.
- Russian woman buys cosmetics in pharmacies and specialized stores.

Tendencies in ingredients

- Aphrodisiacs for cosmetics.
- Flower water stepped down to massmarket.
- Convenient and understandable ingredients (pomegranate extract, coffee, vine, chocolate, yoghurt).
- Foreign companies discover local Ingredients (Rhodiola rosea for anti-ageing).

Tendencies in packaging

- Plush toys for perfumery packaging
- Hi-tech packs
- Eco-packs. Bio-plastics.
- Increase in supply from South-East Asia

Tendencies in manufacturing. Russian manufacturers started to undertake voluntary efficiency tests to gain consumer attention.

- Intuition gives place to market research.
- The number of private label manufacturing offers increases.

Cosmetics expenditures

52 mln Russian women at the age of 15-64 spent for cosmetics each averagely

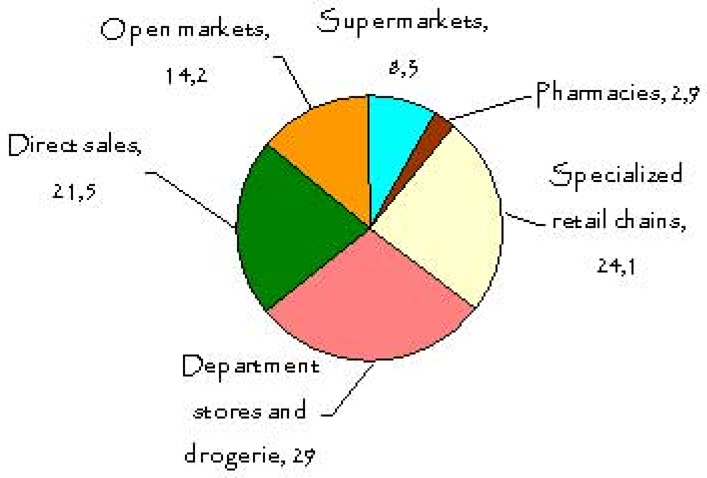
1995 - $40

2000 - $61

2004 - $109

2006 - $130

Retail channel share in the total value of sales, 2006, %



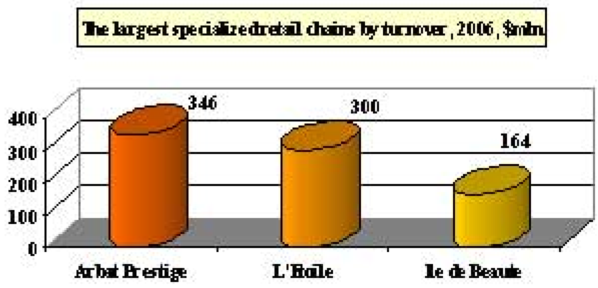
The three largest retail operators make 43% of the total sales through specialized retail chains:

Arbat Prestige – 94 stores

L'Etoile – 352

Ile de Beaute – 73

(data for August 2007).



Over 20 local specialized retailers made about $600mln total turnover.

Tendencies:

1. Retail expansion.

Specialized retailers splashed out of Russia borders to Ukraine and Kazakhstan. Amount of pos grow, while trade area of newly opened stores decreases.

2. Drogeries proliferate.

Ol!Gud (Mak-Dak company)

- Established in 2004
- 2006 turnover – $90 mln
- POS amount – 100
- Total trade area – 10 000 sqm
- Assortment – over 15 000 skus

Podruzhka

- Established in 2005
- POS amount in 2006 – 24
- 2006 turnover – $6 mln
- 2007 plan – 80 stores in Moscow and Moscow region with $30mln turnover
- 200 – 300 consumers every day
- Over 7 000 skus are sold in each store

Other players

36,6 pharmacy chain with Mila project, Pigmalion, Kalinka-Malinka, SKM-Trading company with Top-Mart project (Yekaterinburg), Norma company with stores under Vivat-Uyut banner (Perm), Trade house Finist (Voronezh), Parfum (Kirov).

3. New formats of trade develop.

- Monobrand boutiques: L'Occitane, Lush, Fresh Line, Beauty Cafe
- Concept Stores: Makeup Station, Micallef Perfumery Bar, Make-up store
- Organic supermarkets: Grunwald, Biogourment

4. New retail players enter the market.

Russian companies enter the markets occupied exclusively by foreign companies. In 2007 new brand of tasty cosmetics, BeautyCafe , unveiled its plans to open over 70 doors by year-end 2008 in Moscow, Saint-Petersburg and regions.

Price positioning – upper-middle massmarket

Assortment is over 200 skus of facial, body and hair care

The brand aims at women of 20-30 years old with middle income.

5. Cosmetics in pharmacies

Sales through pharmacies add 40% annually and are expected to reach $700 mln by 2009. Large players increase the amount of pos and enlarge their market shares. Pharmacy chains open their own logistic divisions and launch specialized cosmetics retail projects.

Dynamics of medicated cosmetics consumer share among women over 16 years old

Region	Consumer share, %		
	2003	2004	2005
Total Russia	3.1	3.9	5.1
Moscow	6.4	7.1	10.1
Source: Comcon Pharma			

Pharmacies believe they can sell more cosmetics, so they launch own specialized retail chains. 36,6 lanced regional drogerie chain under Mila banner. Three doors have been opened in Nizhniy Novgorod region.

Tendencies in direct sales:

- Advertisement budgets increase.
- Assortment shrinks.
- New heavy companies enter Russia (Jafra, Natura Cosmeticos)

Russian beauty salon industry in facts and figures

Russian beauty salon market value is estimated at $5 bln. The total number of beauty salons reached 25000. 15% of them (3500-4000) work in Moscow. Premium class establishments and SPA take 20-25% of the market. 30-40% share is seized by middle-class salons.

The largest beauty salon chains in Russia:

- Persona – 33 salons in Moscow
- Mone – 10
- Alexander Todchuck's Beauty Parlor – 8
- Jacques Dessange – 7
- Misin Studio – 5
- Aida – 5
- Amsterdam – 4
- Vash Stil (Your Style) – 4
- Wella Dolores – 3

SPA parlors location

- 50% Moscow and Moscow area
- 25% Krasnodar area
- 10% Siberia and Povolje area
- 7% St. Petersburg
- 8% other regions

Professional hair care and skin care

The value of professional hair care cosmetics in Russia in 2006 is estimated at $500 mln. Segment has added 300% since 2003. The market of professional skin care products is reached $1bln.

Major trends in Russian beauty salon industry

- Beauty salons shift from barbers' services to aesthetic ones.
- Hair therapy becomes more popular.
- Demand for middle-class city SPAs increases. In Russia prices for spa services start from 100$. Niche of more affordable spa parlors is free.
- Massmarket companies and distributors open beauty salons.

For more information on beauty market in Russia and countries in the vicinity search www.CosmeticsInRussia.com