



Luxury Watch Market in Eastern Europe April 2008

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Luxury Market

Since 1996, the number of millionaires in the world has doubled and the resulting swell of spending among newly rich consumers has pushed up prices on “everything from watches to rooms at five-star hotels.”¹ As would be expected, this rise in luxury *spenders* has helped to foster the rise in luxury *spending*. According to Greg Furman, Chairman of the Luxury Marketing Council, luxury sales have outperformed the booming global retail market, which has grown in the range of 4% - 6% annually. For the last decade, the luxury category has grown anywhere from 20% - 32%.² The U.S. alone supports a \$400 billion luxury market and authorities estimate that it will grow at a rate of 15% a year, becoming a \$1 trillion market by 2010.³

Luxury consumers are also demonstrating growth in their propensity to spend. In 2006 the typical consumer’s spending on luxury items rose 6.6% to reach \$56,065, following an increase of 3.8% in spending in 2005.⁴ With consumers willing to spend more, the opportunities for luxury brands are incredibly promising. Those companies focusing on a single brand will benefit the most by avoiding the “brand bloat” that comes from overseeing several brands and thus diluting the power of each.⁵

¹ Telis Demos. “Does Bling Beat the Market?” *Fortune* : The Luxury Issue 17 Sep. 2007: 77-78. [ABI/INFORM Global](#). ProQuest. University of Portland, Portland, OR. 4 Mar. 2008 <<http://0-www.proquest.com.clark.up.edu:80/>>

² Nucifora, Alf. “Why the Luxury Market Continues to Roar”. <http://www.nucifora.com/art_272.html>

³ Ibid.

⁴ Linda Foster. “Luxury: What They’re Buying.” *Gifts and Decorative Accessories*: 109.1 (2008): 14-15. [Business Source Premier](#). University of Portland, OR. 4 Mar. 2008

⁵ “Report: Luxury Spending to Triple by 2010” (6/6/2006) available online at: <http://www.professionaljeweler.com/archives/news/2006/060606story.html>

Luxury Watch Market

One of the luxury goods categories to see the largest increases in sales is fine watches, which rose 39% in 2007.⁶ According to the Federation of Swiss Watch Industry, there has never been a better time for luxury watches. In February 2007 exports of Swiss watches increased 22.7% from the previous month due chiefly to the most expensive timepieces.⁷ Executives describe market conditions as phenomenal; their most expensive luxury products have reached unprecedented levels of success due in part to ever-expanding wealth worldwide and soaring demand in Asia, Russia, the Middle East, and the U.S.⁸

Russian Market

Since 1999, Russia has experienced outstanding growth rates, constantly improving macroeconomic conditions, and a growing involvement in the global economy. These achievements, together with high world oil prices, political and economic stability, and skyrocketing foreign direct investment have all contributed to the growth of the country's economy.

Russia's growth: Russia is the fastest growing economy in the G8 group of industrialized nations. Over the last seven years, Russia's economy has grown by an average rate of 7% each year and is projected to grow at the same or higher rate YOY through 2010.⁹ In 2007 Russia's growth exceeded all expectations (7.6% GDP growth), accelerating in several key economic sectors such as retail, real estate, tourism, and communications.^{10 11}

Russia's stability: Russia has a very stable macroeconomic situation. Inflation runs below 10%, foreign currency and gold reserves have increased to around \$400 billion and are now the world's third largest after China and Japan.¹² The strength and stability of the economy was noted by the major credit rating agencies (S&P, Moody's, and Fitch), all of which awarded Russia an upgraded investment rating in 2006.¹³ In addition, the stable political environment has contributed to make the country one of the favorite destinations in the region for foreign investors.

Investment: The excellent macroeconomic conditions make Russia a thriving capital market that foreign investors are increasingly finding more attractive. Foreign investment for the first half of 2007 totaled \$67 billion¹⁴, compared, for instance to

⁶ Linda Foster. "Luxury: What They're Buying." *Gifts and Decorative Accessories*: 109.1 (2008): 14-15. *Business Source Premier*. University of Portland, OR. 4 Mar. 2008

⁷ Robert Murphy "Good Times Roll On: Luxury Watch Sales Reach Record Height" *Women's Wear Daily*: 193.85 (2007): 1-13. *Business Source Premier*. University of Portland, OR. 4 Mar. 2008

⁸ Ibid.

⁹ Available online at: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>

¹⁰ Ibid.

¹¹ "Russia's GDP grow 6.8% in 2006 - economics ministry" (2/26/2007)<http://en.rian.ru/business/20070226/61255713.html>

¹² RIA Novosti, May 21, 2007. Available online at: <http://www.cdi.org/russia/johnson/2007-115-4.cfm>

¹³ Russian IT quarterly. Available on-line at: http://www.reksoft.com/misc/reksoft_co/files/137/Russian_Economy_Outlook.pdf

¹⁴ Kommersant July 23, 2007. The Russian Investment Boom Continues

\$14 billion in Poland in the entire 2006.¹⁵ Economists say that, “unlike in China, there are no signs of overheating of the economy detectible. Modern Russia has never before seen such a growth rate and economists expect the tendency to continue.”¹⁶ Given the most favorable conditions offered by the Russian market, the size of domestic investment is soaring as well, with local entrepreneurs reinvesting their capital in the country’s economy.

Consumer demand: In the past years, Russia’s model of economic growth has notably changed, with retail, telecommunication, and construction, among others, becoming key drivers of the country’s booming economy.¹⁷ Citizens’ real incomes have doubled over the past six years and consumer demand is thriving. The flourishing Russian economy has given rise to a growing middle and upper class that “has caused an explosion in all types of consumption.”¹⁸ Not only is Russia’s per-capita income, at purchasing power parity (PPP), well above that of Mexico, Brazil, Turkey, China, and even EU members Romania and Bulgaria¹⁹, but also “70% of Russians’ income is disposable, vs. around 40% for a typical Western consumer,”²⁰ making it a very attractive market for FMCG, food and beverage products, apparel, and luxury goods.

Luxury Goods in Russia

Russian consumers are now the world’s fourth biggest spenders on high-end goods, behind the US, Japan, and China.²¹ By 2009 they are predicted to account for 7% of global luxury goods sales which would make Russia the fastest growing emerging market.²² According to the head of JamilCo, a distributor of European brands, the luxury goods market will expand at an annual rate of about 20% in the years ahead.²³ 2007 was an especially high growth year, when demand for luxury goods in Russia went up 60% in that year alone.²⁴

Besides Russia’s accommodating macroeconomic environment, there are two other factors affecting Russian consumers that will support the growth of luxury goods in the future. Russia has become an extremely individualistic society after 70 years of conformity. Consumers are looking for ways to express their individuality, which is apparent in the way they dress, the cars they drive, or the jewelry they buy.²⁵

¹⁵ Polish information and Foreign investment Agency. Available on-line at:

http://www.paiz.gov.pl/nowosci/?id_news=1350&lang_id=1

¹⁶ Kommersant July 23, 2007. The Russian Investment Boom Continues

¹⁷ “where until 2004 and largely 2005 the growth model was based on an accelerated extraction of natural resources. Primarily hydrocarbons, in recent years the structure and sources of growth have absolutely changed. Exports, including the exports of hydrocarbons, have ceased to be the main motive force of economic development, being supplanted by investment demand and the end household demand.” Interfax News Agency. Source: The Financial Times Limited. Available on-line at: <http://www.tmcnet.com/usubmit/2007/05/21/2641275.htm>

¹⁸ Business Week, “Russia: Shoppers Gone Wild,” February 20, 2006 Available on-line at:

http://www.businessweek.com/magazine/content/06_08/b3972071.htm

¹⁹ International Monetary Fund, World Economic Outlook Database, April 2007, for the year 2006.

²⁰ Business Week, “Russia: Shoppers Gone Wild,” February 20, 2006. Available on-line at:

http://www.businessweek.com/magazine/content/06_08/b3972071.htm

²¹ available online at: <http://www.rferl.org/featuresarticle/2007/06/afc96606-b3aa-4844-9401-9d0b7815b23d.html>

²² Available online at: <http://www.iht.com/articles/2005/09/29/opinion/rforeign.php>

²³ Available online at: <http://www.moneyweek.com/file/3101/luxury-goods-sector.html>

²⁴ Available online at: http://nymag.com/daily/fashion/2008/02/americans_are_over_bling_but_c.html

²⁵ Ragozhina, Elena. “Insider’s View: Russia”. Campaign (UK). 11/3/2006. Issue 44, p17

Luxury goods will benefit immensely from this trend with consumers spending money on big names and labels that convey a unique message about who they are.

While both economic growth and wealth creation are increasing at a fast rate, Russians are still not inclined to put anything away. After their banks all but disappeared during the financial crisis in 1998, Russians decided to keep their savings much closer to home. Merrill Lynch calls Russia “a young consumption economy unwilling to save.”²⁶

Luxury Watches in Russia

In 2005, growing demand for expensive watches was the third main trend within the Russian market.²⁷ Russian spending on jewelry and watches surged 664% from 2000 to 2005, with an average annual growth of 50%.²⁸ The main factors for this growth include:

- Russian consumers conforming to a global trend of increased demand for luxury watches;
- Increases in income;
- Easier access to international travel;
- Increases in marketing directed specifically on Russian consumers by foreign luxury good companies.

Although these elements began to change long ago, it was in 2005 when a visible change occurred.

Ukrainian Economic Overview

“Market growth and a relative lack of market saturation make Ukraine the third most attractive consumer market in the world.” -A.T. Kearney

After Russia, Ukraine is by far the most important economy in the Commonwealth of Independent States (CIS), producing four times the output of the next ranking country. Its population is nearly 50 million people and its GDP (at Purchasing Power Parity) is more than \$350 billion.²⁹ With rich farmlands, a well-developed industrial base, highly trained labor force, and a good education system, Ukraine has become a major Eastern European power. Ukraine has experienced rapid growth since the turn of the century and these trends are expected to continue into the future.

The annual economic growth has averaged 7.4% per year since 2000, reaching 12.1% in 2004 and 7% in 2006.³⁰ GDP grew by more than 50% from 1999 to 2004, which, in

²⁶ <http://www.iht.com/articles/2005/09/29/opinion/rforeign.php>

²⁷ Available online at:

http://www.europastar.com/europastar/magazine/article_display.jsp?vnu_content_id=1002273655

²⁸ Fitzgerald, Nora. “Wealthy rediscover aristocratic tastes.” *Financial Times* [London (UK)] 4 Apr. 2008, 14. *ABI/INFORM Global*. ProQuest. University of Portland, Portland, OR. 5 Apr. 2008 <<http://0-www.proquest.com.clark.up.edu:80/>>

²⁹ “Country Report: Ukraine,” The World Bank. November 1, 2007. Available online at: www.worldbank.org

³⁰ U.S. Department of State: Bureau of European and Eurasian Affairs. March 2007. Available online at: <http://www.state.gov/r/pa/ei/bgn/3211.htm>

combination with significant improvements in the country's fiscal position, led to a dramatic decrease in its debt-to-GDP ratio. Personal incomes are also rising rapidly and real disposable income grew 18.3% in 2007 after growing 20.3% the previous year.³¹ Consumer spending in Ukraine has increased by 25% YOY to \$50.7 billion in 2004 and expanded by an estimated 35% to \$68.5 billion in 2005.³² 2007 saw a rise in consumer spending of 33%.³³

Ukraine actively encourages foreign trade and investment. Their foreign investment laws allow Westerners to purchase businesses and property, to repatriate revenue and profits, and to receive compensation in the event that property is to be nationalized by a future government. Ukraine passed more than 20 laws in 2006 to bring its trading regime into consistency with the World Trade Organization standards. These changes are validated by positive indicators such as dramatically heightened investor interest, a surge in foreign direct investment (FDI), sales by financial and industrial groups of subsidiaries and banks, continued growth of services, increases in light industrial production, and continuous entry of small and medium enterprises. In 2007, net foreign direct investment increased 61% to a record high of \$9.2 billion, bringing the total foreign direct investment to \$38.5 billion.³⁴ Russian and European exporters dominate the Ukrainian market, while US exports are steadily climbing, reaching over \$500 million in 2006.³⁵

Luxury Market in Ukraine

Ukraine is outpacing the world in annual growth of the luxury retail market. In 2006, while worldwide luxury retail market's annual growth was estimated at about 10%, Ukraine was growing four times faster, reaching a 40% growth rate.³⁶ The Ukrainian luxury market is projected to increase by nearly 125% between 2006 and 2012.³⁷ In fact, Ukraine's average spending in luxury stores is higher than Russia's.³⁸ Given their propensity towards luxury spending, they make an excellent market for luxury watches.

³¹ <http://www.ukraine-arabia.ae/economy/market/>

³² McNabb, Mark. "Reaching Out to the World". 22 Jan 2008. <
http://www.google.com/search?q=cache:z6Yrlyqxq3YJ:www.autonews.com/Assets/ppt/08_anwc/pres_mcnabb.ppt+ukraine+luxury+market&hl=en&ct=clnk&cd=84&gl=us>

³³ <http://www.ukraine-arabia.ae/economy/market/>

³⁴ Olearchyk, Roman. "Ukrainian Investors Undeterred by Credit Squeeze" 4/1/2008. available online:
http://us.ft.com/ftgateway/superpage.ft?news_id=fto040120082037256678&page=2

³⁵ McNabb, Mark. "Reaching Out to the World". 22 Jan 2008. <
http://www.google.com/search?q=cache:z6Yrlyqxq3YJ:www.autonews.com/Assets/ppt/08_anwc/pres_mcnabb.ppt+ukraine+luxury+market&hl=en&ct=clnk&cd=84&gl=us>

³⁶ http://www.bucurestiwww.ro/index.php?option=com_content&task=view&id=46&Itemid=2

³⁷ McNabb, Mark. "Reaching Out to the World". 22 Jan 2008. <
http://www.google.com/search?q=cache:z6Yrlyqxq3YJ:www.autonews.com/Assets/ppt/08_anwc/pres_mcnabb.ppt+ukraine+luxury+market&hl=en&ct=clnk&cd=84&gl=us>

³⁸ Available online at: <http://www.cnbceb.com/Articles/2008/March/39/the-future-of-luxury.aspx>

Luxury Watches in Ukraine

Ukraine is a promising market for luxury watches. In 2005, Ukraine was the 30th biggest importer of Swiss watches; in 2006 they rose to the 24th biggest importer. Dollar sales also show the increase in demand for watches, due to the rise in sales of 50% in 2006. According to the President of the Federation of the Swiss Watch Industry, Jean-Daniel Pasche, Ukraine is the second largest market for watches among the Eastern European countries.³⁹

Luxury watch purchases in Ukraine have become more prevalent due to an enhanced product offering and easier access to the top producers. Watch consumption is dominated by men in Ukraine, who prefer classical watches, which accounts for 60-70% of watch purchases. The technical aspects of watches are generally most important to consumers.⁴⁰

For additional information about the luxury goods market in the former Soviet Union, please contact the Aginsky Consulting Group at info@aginskyconsulting.com or visit us on the web at www.aginskyconsulting.com.

³⁹ Available online at:
http://www.europastar.com/europastar/magazine/article_display.jsp?vnu_content_id=1003657306

⁴⁰ Ibid