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CONDÉ NAST RUSSIA

MATHEMATICS OF THE LUXURY MARKET IN RUSSIA:

GROWTH POTENTIAL AND CONSUMER BEHAVIOR

IN PARTNERSHIP WITH

FARFETCH

DOUBLE DATA

MATHEMATICS OF THE LUXURY MARKET IN RUSSIA: GROWTH POTENTIAL AND CONSUMER BEHAVIOR

KT AULETA, VOGUE RUSSIA

ANITA GIGOVSKAYA

PRESIDENT, CONDÉ NAST RUSSIA

Since its flagship magazine VOGUE US launched in 1892, Condé Nast titles attract hundreds of millions of affluent readers worldwide. Over time we built a reputation of top authority in luxury lifestyle. Having launched in Russia 20 years ago, our media provide Russian luxury consumers within guidance in latest trends in fashion, beauty, hard luxury, travel, design, and decoration.

We build strong purchase demand and collect valuable consumer and brands insights. The collaboration with McKinsey is the first serious study of consumer behavior for the Russian Millennial luxury audience, based on Condé Nast's expertise on the luxury value chain, insights from top players, and real consumers — feedback collected by advanced social data analysis.

ALEXANDER SUKHAREVSKY

SENIOR PARTNER, MCKINSEY&COMPANY

Advanced analytics methods, which were used to create this report, can no longer be considered magic or even art — the global trend shows us that it is increasingly becoming a science, even a skill — which all brands should develop if they want to succeed in the shifting landscape of modern fashion. Required competences are quite difficult to develop — yet the rewards by far outweigh the efforts.

Brands finally have an opportunity to discover who their customers are and what truly drives them, which was almost impossible with only traditional methods of research. The availability of data and the willingness of the younger generation to create a digital presence generates unparalleled opportunities for brand strategies — market players would be wise to take advantage of them.

VITALY GORDON

PARTNER, MCKINSEY&COMPANY

The research conducted for the purpose of creating this report is unique in the context of the Russian luxury market. Not only does it access incredibly large data sets and use advanced analytics methods to identify patterns in consumer behavior — it does so much more. It utilizes multiple sources of information, cross-references them, uses hypotheses formed within one to test data sets in others, and finally arrives to a conclusion about the identities of Russian luxury consumers supported by a variety of arguments.

Such studies are becoming increasingly more relevant worldwide due to the quality and definitiveness of answers that they provide — and we think of this one as just the beginning for the Russian market.

DISCLAIMER

This report was prepared primarily for information and research purposes and as a demonstration of currently available big and small data analysis capabilities pertaining to the Russian luxury goods and services market.

We have used only publicly available data or data collected by us or our partners with the owners' consent. All data was anonymized and aggregated before being used in this report.

This report does not intend to promote or to place at an advantage or disadvantage any company, individual, brand, goods, or services. All ratings and comparisons contained herein are prepared based on the limited data available to us and using a simple and objective methodology. Such ratings and comparisons do not claim to be correct from all possible perspectives.

The information contained in this report does not constitute legal or professional advice, nor is it conveyed or intended to be conveyed within the framework of any adviser-client relationship, but is intended as general information concerning broad business issues. This report shall not be construed as a recommendation to pursue any particular business transaction or as a price recommendation.

If you use this report or any information from this report, you do it at your own risk and we are not responsible for any losses or other negative consequences you may suffer as a result.

OBJECTIVES & METHODOLOGY

In this research we attempted to define Russian luxury market growth drivers and to study luxury consumer behavior and preferences across all stages of relationships with luxury brands — from awareness to loyalty.

A multidimensional advanced analytics study, built from the most valuable sources of information, was used to achieve such a complex goal: initial research questions and hypotheses were shaped through interviews with top market leaders, and a detailed portrait of consumer segments was developed through a combination of real luxury consumer survey and advanced analytics of consumer digital interests, discussions, and actions.

Such studies, which are based on enrichment and cross-validation of information from different sources through advanced analytics, are becoming increasingly relevant and soon will be the "golden standard" of consumer research since they provide a higher level of precision and depth of consumer insight.

IN-DEPTH EXPERT INTERVIEWS WITH MARKET LEADERS

35

executives from the luxury industry in Russia[1]

SOCIAL MEDIA PROFILE ANALYTICS

1,800,000

luxury brand lovers

14,000+

luxury consumers

FARFETCH

DOUBLE DATA

SURVEYS OF REAL LUXURY CONSUMERS

1,000+

luxury shoppers in Russia identified through actual purchases on Farfetch.com

SEMANTIC ANALYTICS OF DISCUSSIONS ABOUT LUXURY IN SOCIAL MEDIA

100,000+

comments on and mentions of luxury brands

1 Top managers — CEOs or Heads of Functions in Russia

KEY DEFINITIONS

CATEGORIES OF LUXURY GOODS

Target categories and brands for the research were selected to represent the core luxury market audience without risk of focusing on niche segments (for example, art and yachts) or the mass market (cosmetics or premium-to-luxury fashion).

FASHION

CLOTHES, SHOES, BAGS AND ACCESSORIES

JEWELRY & WATCHES

LUXURY BRANDS

Two hundred top brands were selected for the research with a threshold of more than 50% of items priced more than $500.

KEY CUSTOMER GROUPS

Target customer groups were first defined by experts in accordance with luxury players' growth strategies. Then real customer polls and social media analytics were used to validate, enrich, and challenge experts' opinions.

GENERATION X

Consumers aged 30–50 years old

CORE AUDIENCE FOR LUXURY GOODS
Play a dominant role in the luxury market as a loyal audience who make the majority of repeat purchases and spend the largest amount on their purchases.

MILLENNIALS

Consumers up to 30 years old

Millennials and Generation X were studied across all stages of their relationships with luxury brands, which led to focusing on two distinct groups inside each segment:

LUXURY BRAND LOVERS

A follower of at least one of the luxury brands on social media (Instagram or Facebook)

LUXURY CONSUMERS

A person who made a luxury purchase in the past 12 months

ONLINE AUDIENCE WAS SELECTED FOR THIS RESEARCH AS THE MOST ACTIVE AUDIENCE ON THE FRONTIER OF LUXURY MARKET'S DEVELOPMENT. THEY ARE BECOMING THE DOMINANT GROUP ON THE RUSSIAN MARKET — MORE THAN 50% OF ALL LUXURY CONSUMERS TODAY MAKE PURCHASES ONLINE.

CONTENTS

KT AULETA, VOGUE RUSSIA

MARKET EXPECTATIONS & CONSUMER REALITIES

MARKET EXPECTATIONS & CONSUMER REALITIES

Luxury market players have an optimistic perspective of the luxury market's future development — but consumers are more cautious in their spending projections.

Differentiated approach to core customer groups is believed to be the most important driver of future growth. Experts outline Millennials and Generation X as groups that are both distinctly different and critical to address for success of luxury brands.

There are also two additional important drivers of growth identified by players. The first is switching customers from shopping abroad — brands seem to be focused on factors of secondary importance for consumers. The second is developing online channels — value of online seems to be underappreciated by top market players.

LUXURY MARKET PLAYERS EXPECT GROWTH, HOWEVER CONSUMERS ARE NOT READY TO MAKE ANY PROMISES

> **TODAY WE BELIEVE THAT THE MARKET IS COMING BACK TO LIFE. THE REVIVAL IS MODEST BUT NOTICEABLE, AND WE UNDERSTAND THAT WE HIT A RECORD LOW IN THE PAST FOUR YEARS, AND NOW, THE ONLY WAY FORWARD IS TO GROW.**
>
> INDUSTRY EXPERT

Market leaders believe in continued growth but market unpredictability leads to short planning cycles — most players are only ready to plan within a one-year horizon.

Consumers, however, are not ready to support the growth expectations: a vast majority are not going to change their consumption patterns or will just change the structure of their spending — split between different luxury brands and share of foreign purchases.

85%

OF EXPERTS EXPECT THE LUXURY MARKET TO GROW IN THE NEXT THREE YEARS

VS.

14%

OF CUSTOMERS PLAN TO INCREASE THEIR LUXURY SPENDING

95 PERCENT OF FASHION EXPERTS PREDICT GROWTH, WHEREAS JEWELRY & WATCH EXPERTS ARE MORE DISPERSED IN THEIR PROJECTIONS

CLIENTS ARE BEGINNING TO BUY MORE IN RUSSIA, BECAUSE FROM A PRICE POINT OF VIEW IT NO LONGER MAKES SENSE TO SHOP ABROAD — AND THAT'S A GREAT TREND.

FASHION EXPERT

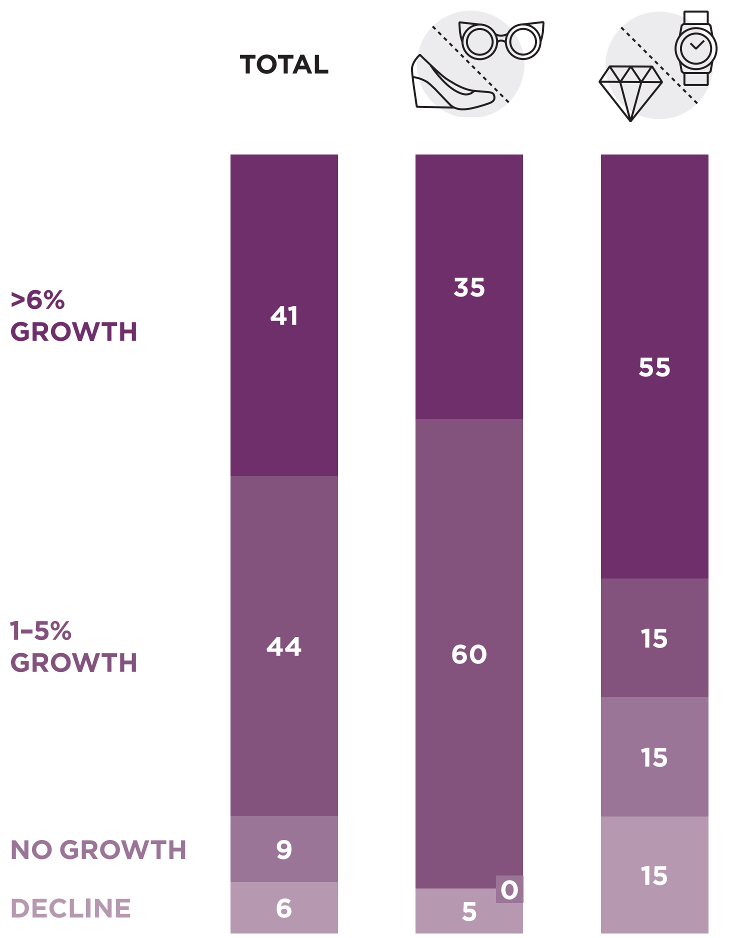
I THINK THERE WILL BE NO GROWTH — ONLY RESTRUCTURING OF THE MARKET BETWEEN BRANDS AND CUSTOMERS — THE WEALTHIEST CONSUMERS ARE LIKELY GOING TO SPEND MORE.

JEWELRY & WATCH EXPERT

EVERYONE IS DECLARING PLANS FOR GROWTH BUT I THINK NO ONE IN THE MARKET IS ACTUALLY BUDGETING FOR IT.

JEWELRY & WATCH EXPERT

Industry players' expectations on annual category growth,[1] percent of experts

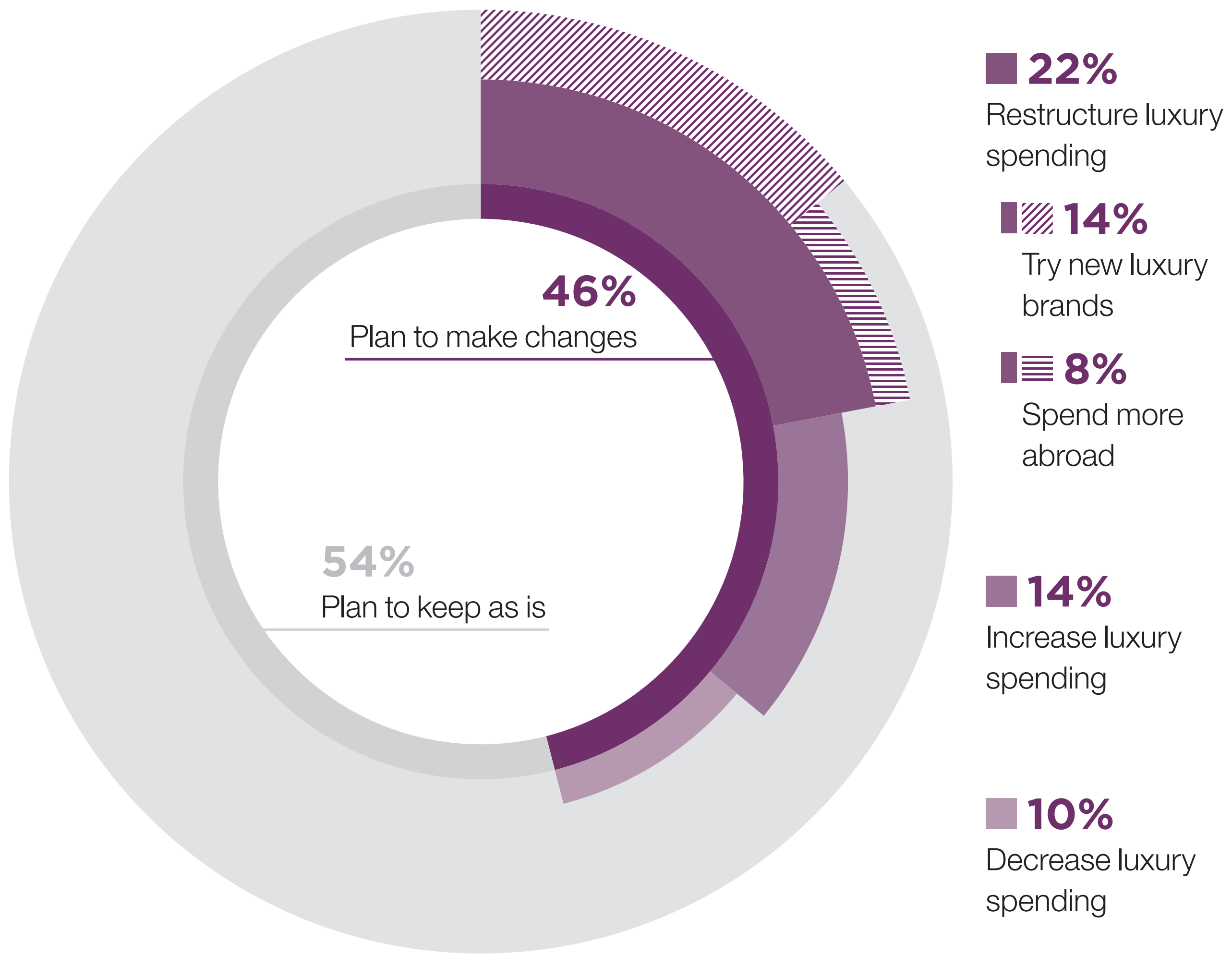


MOST JEWELRY EXPERTS EXPECTING GROWTH LINK IT WITH CHANGES IN CUSTOM DUTIES AND TAXES, WHILE THOSE PROJECTING DECLINE ANTICIPATE OVERALL NEGATIVE MACRO TRENDS

1 Question: What cumulative annual growth rate do you expect for your luxury category in the next one to three years?
SOURCE: McKinsey Condé Nast interview of 35 top luxury players in Russia (December 2017–March 2018)

ONLY 14 PERCENT OF CONSUMERS PLAN TO INCREASE THEIR LUXURY SPENDING WHILE ALMOST HALF CONTINUE SHOPPING ABROAD

Luxury consumers' expectations of spending changes,[2] percent of respondents



35%

SHARE OF LUXURY SPENDING ABROAD ESTIMATED BY EXPERTS

45%

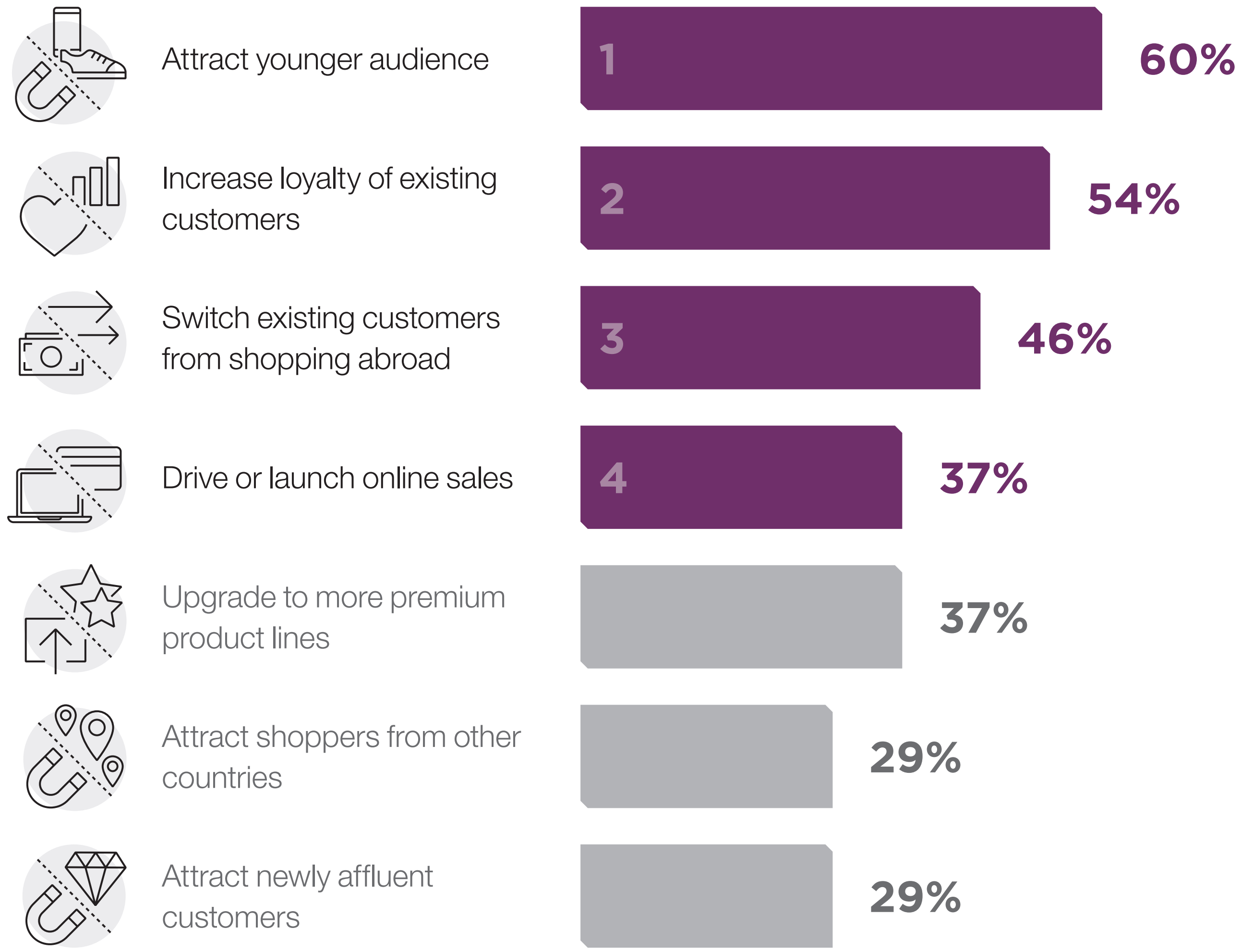
SHARE OF LUXURY CONSUMERS CONDUCTING MAJORITY OF SPENDING ABROAD

1 Question: In the next twelve months do you plan to change anything in your approach towards luxury purchases?
2 Farfetch customers.
SOURCE: Online survey of Farfetch customers with >1000 sample

WINNING MILLENNIALS AND BUILDING LOYALTY WITH CORE CUSTOMERS ARE THE KEY PRIORITIES FOR MARKET PLAYERS

Market leaders link their growth expectations with two key sources: targeted approach to consumers of both generations and restructuring of the market through shifting to domestic consumption and increasing share of online.

Luxury experts' expectations of key growth drivers, percent of respondents



1 Question: What are your business growth drivers for the next one to three years?
SOURCE: McKinsey Condé Nast interview of 35 top luxury players in Russia (December 2017–March 2018)

1 DESPITE BEING THE FIRST PRIORITY, MILLENNIALS ARE STILL AN UNNERVING UNCERTAINTY

Despite the overall luxury market being fairly static, market players see the new segment of consumers — Millennials — as a key source of growth. They, however, have a somewhat limited understanding of the new customer profile and how to address them. A majority of experts mention the same generic set of directions, such as changes in product assortment and media mix — but these directions are typically based on global strategies, not local knowledge, and are rarely detailed to the level of concrete initiatives.

> **IT IS NOT CLEAR HOW THEY PERCEIVE LUXURY OR WHAT THEY EXPECT FROM THE BRAND. MOREOVER, THEY DO NOT SEEM TO RESPOND TO TRADITIONAL MARKETING METHODS THAT HAVE ALWAYS WORKED FOR OLDER CLIENTS.**
>
> INDUSTRY EXPERT

<25% OF MARKET PLAYERS HAVE DETAILED INITIATIVES TO ADDRESS THE NEW GENERATION

>70% OF MARKET PLAYERS USE ONLY INTERNATIONAL GUIDANCE WHEN WORKING WITH MILLENNIALS

<10% OF MARKET PLAYERS CONDUCTED LOCAL STUDIES OF MILLENNIALS

2 MOST LUXURY PLAYERS ARE CONFIDENT THAT THEY KNOW THEIR LOYAL CUSTOMERS INSIDE OUT AND HAVE A CLEAR WAY FORWARD

The situation is completely different with Generation X: 90 percent of market players claim they know their loyal customer base in great detail and have an in-depth understanding of future initiatives. Non-financial incentives and experiential marketing are at the top of experts' agendas.

> **I KNOW MY CLIENTS IN DETAIL, RIGHT DOWN TO EACH FAMILY MEMBER'S NAME AND BIRTHDAY... I KNOW WHICH FLOWERS ARE HIS WIFE'S FAVORITE, WHICH RESTAURANT OR MUSICIAN HE PREFERS.**
>
> INDUSTRY EXPERT

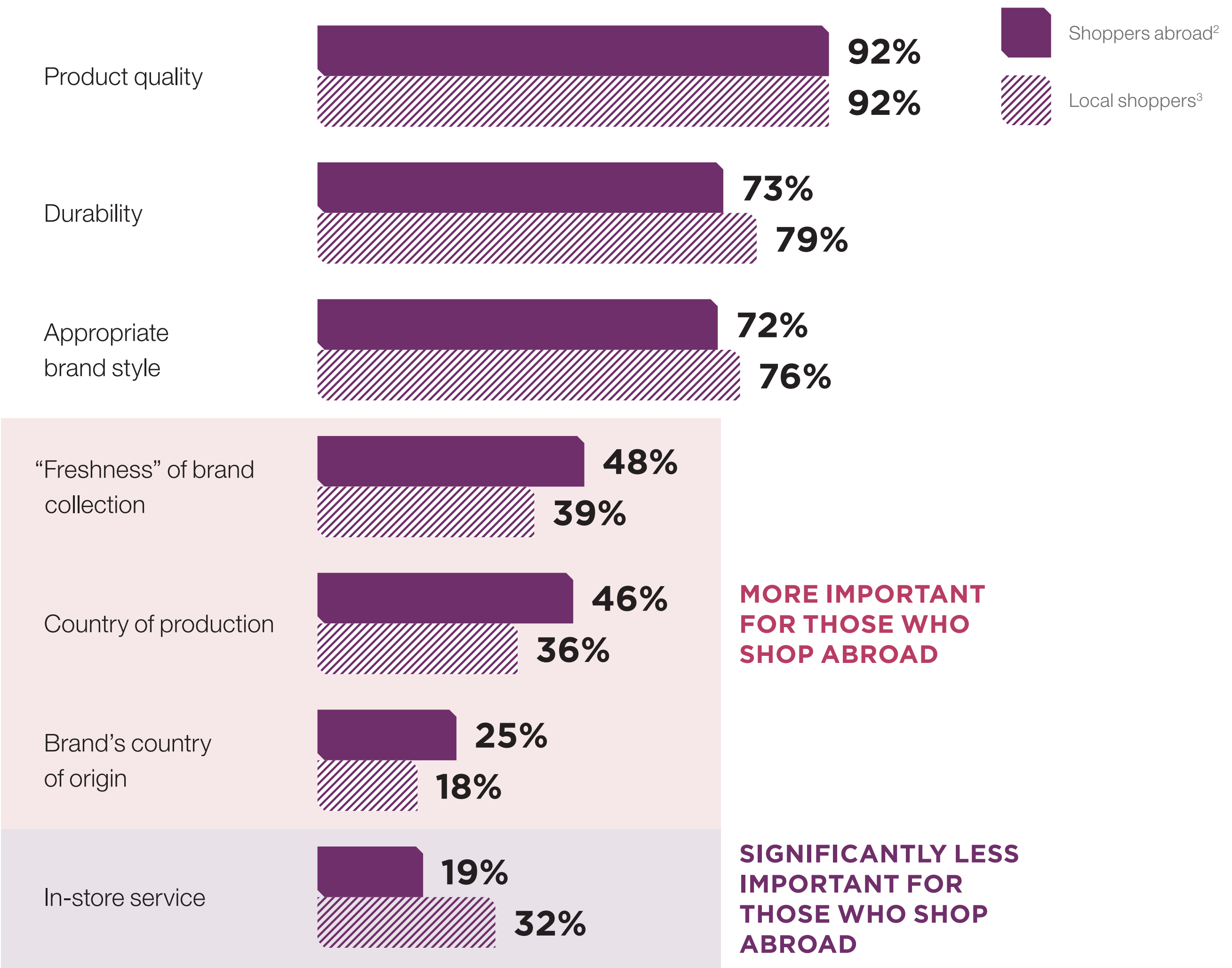
Share of industry players that indicated activity as a significant factor,[1] percent

1 Question: What actions focused on inspiring loyalty do you plan to take? Among experts who indicated "increasing loyalty of current audience" as an important business driver.

3 IN ATTEMPTS TO BRING LUXURY SHOPPERS BACK TO RUSSIA, PLAYERS DO NOT ADDRESS THE MOST RELEVANT FACTORS

Those who shop abroad significantly differ from domestic consumers, placing increased value on recently released collections (freshness), the country of the brand's production, and its country of origin. However, there are also similarities. For instance, they still care a lot about basic product attributes, quality, and fashionability. Despite that, most players — especially in the jewelry and watches category — focus on improving in-store service instead of communication of equal value of shopping in Russia and abroad.

Key influence factors for decisions on luxury purchases,[1] percent



1 Question: Which factors have utmost importance in choosing the luxury brand for apparel/footwear/accessories/jewelry/watches? Online questionnaire of ~1,000 luxury buyers on Farfetch.ru (March 2018).
2 Customers with >60% of luxury shopping done abroad.
3 Customers with >40% of luxury shopping done locally.

4 MANY BRANDS PLAN TO DEVELOP ONLINE RETAIL, BUT MAJORITY STILL UNDERESTIMATES ITS ROLE AS AN INFORMATION CHANNEL

Market leaders expect the share of online retail to increase from 7 to 10 percent in the next three years, which is in line with global trends.

However, Millennials and Gen Xers go to online stores not only to shop, but also to study the new collections before making offline purchases. Only one-third of retailers currently plan to develop online stores or partner with online multibrands, which seems to not reflect the channel's importance in the overall customer journey.

THE BORDERS BETWEEN OFFLINE AND ONLINE ARE FADING. OUR CUSTOMERS BUY INTO THE BRAND THROUGH DIFFERENT CHANNELS, AND WE'RE TRYING TO CREATE EXPERIENCE IN SIMILAR CONCEPTS. OUR WEBSITE AND OUR STORE NEED TO COMPLEMENT AND NEVER CONTRADICT EACH OTHER.

FASHION EXPERT

82%

OF CONSUMERS TREAT ONLINE STORES AS ONE OF THE MOST IMPORTANT INFORMATION CHANNELS

VS.

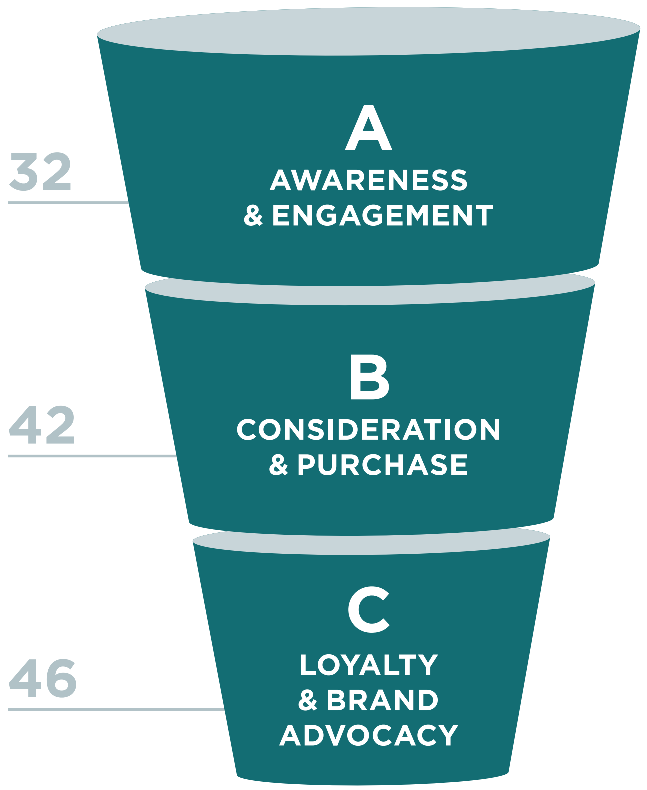
37%

OF EXPERTS PLAN TO DEVELOP ONLINE RETAIL

RESPONDING TO A NEW CONSUMER PARADIGM

ELLEN VON UNWERTH, VOGUE RUSSIA

RESPONDING TO A NEW CONSUMER PARADIGM



A differentiated approach to key customer groups is the main driver of growth for luxury brands. The need for detailed research of two customer groups — Millennials and Generation X — is definitive.

We defined Millennials and Generation X as consumers less than 30 years old and from 30 to 50 years old respectively. This slightly differs from the traditional definition of Generations X, Y, and Z and allows us to capture the differences between two key 2 customer groups most distinctly.

These two generations are quite different both in their customer profile and their relationship with luxury along all stages of the purchase funnel, from awareness to loyalty.

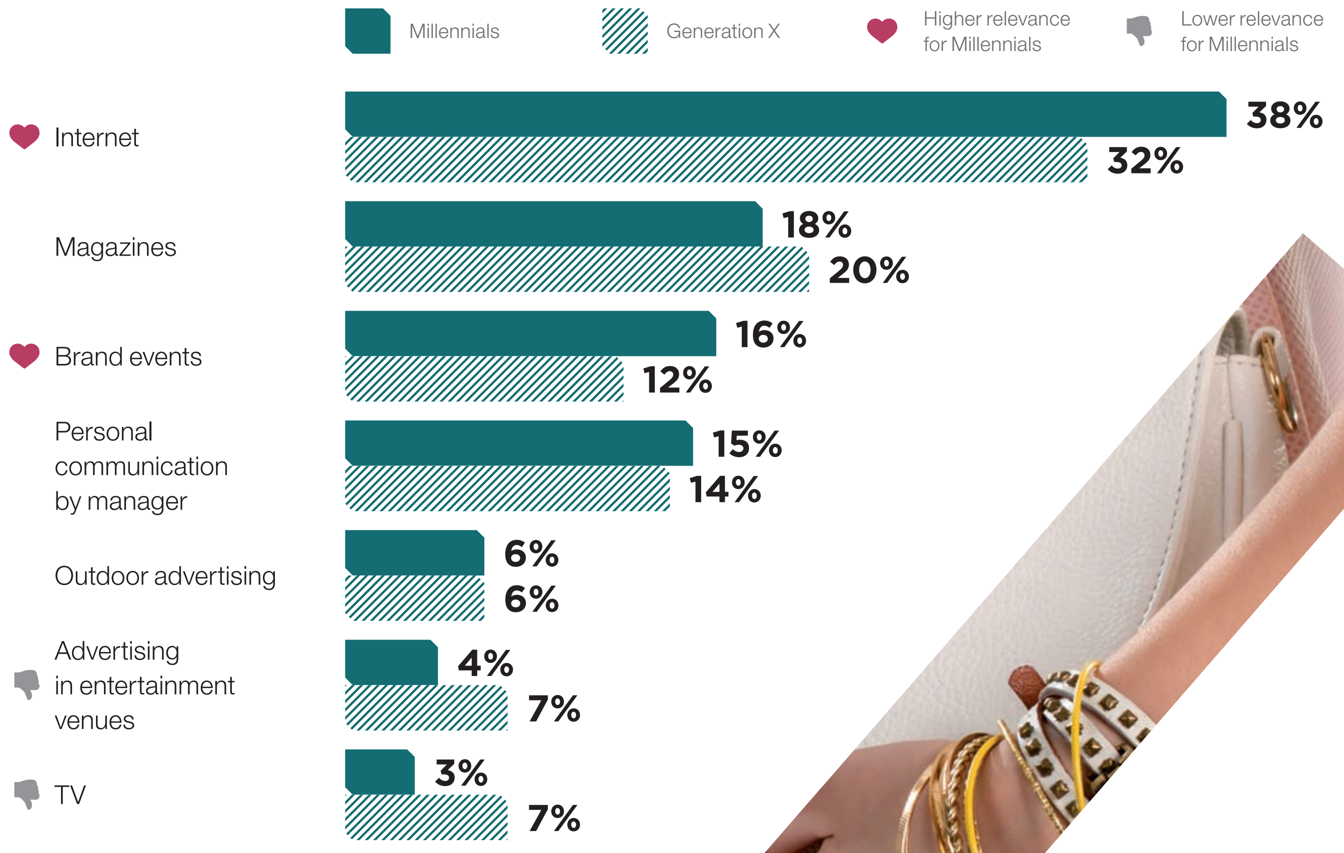
Some of the findings reflect experts' opinions, for example, the importance of online channels and the continued relevance of traditional media. The majority of findings, however, make significant corrections to the experts' hypotheses — such as the importance of product quality as a value driver for Millennials and lower significance of local celebrities and bloggers for improving consideration.

INTERNET AND PRINT REMAIN THE MOST IMPORTANT CHANNELS FOR ALL CONSUMERS

As originally predicted by experts, online is the best way to reach customers from both generations. However, print remains an important information about luxury both in the eyes of market players and consumers. Experts explain its continued relevance by the fact that reproducing the feel of thoroughly crafted paper is hard to achieve using online channels.

The relevance of brand events for Millennials, is an interesting finding since they're currently mostly tailored toward Generation X. Thus it makes sense for luxury brands to create events specifically tailored toward Millennials as well as consider their interests when organizing larger scale ones.

Share of luxury consumers who indicated a channel as an important source of information about luxury,[1] percent



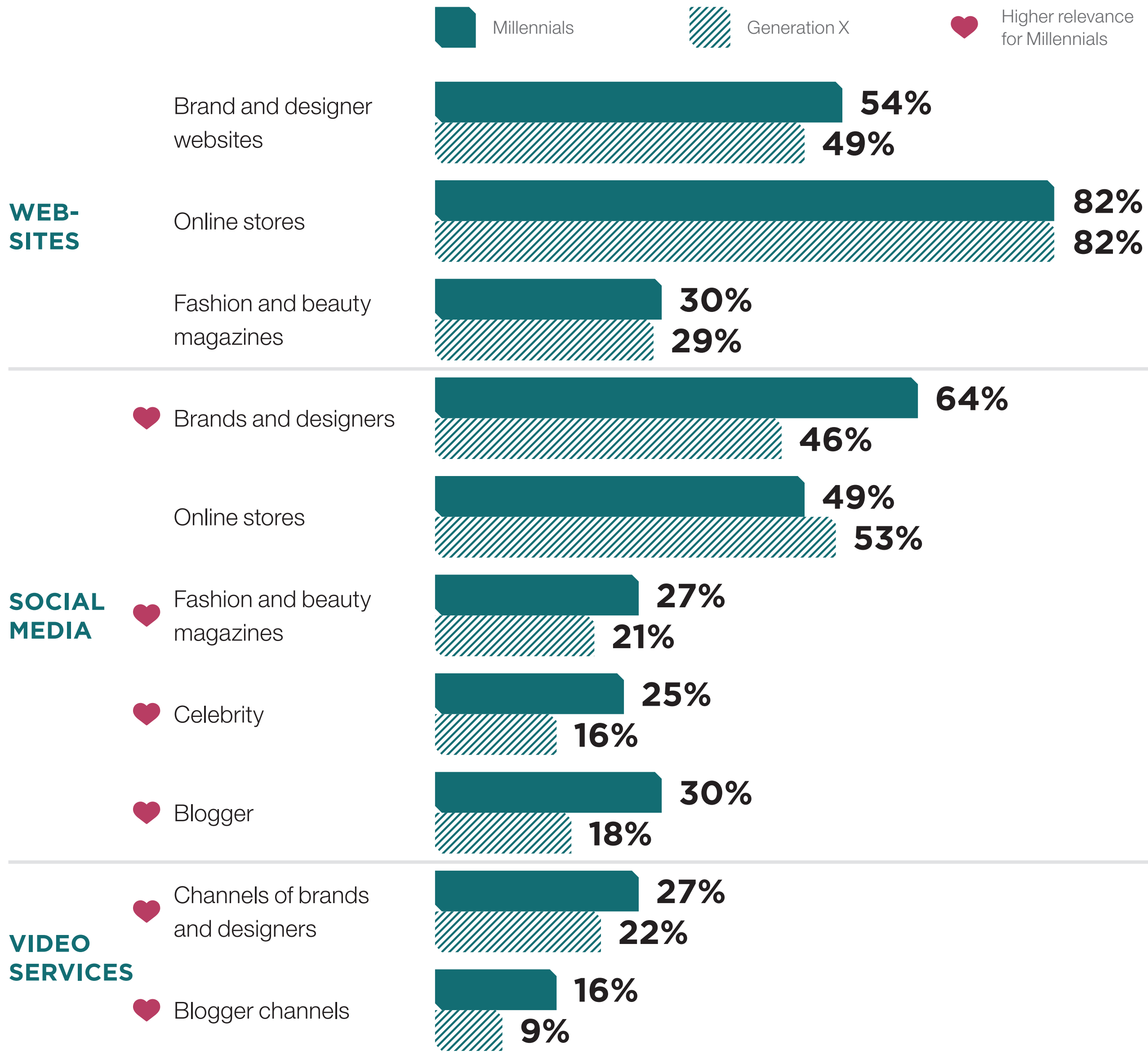
1 Question: What are the most relevant sources of information about luxury for you?
Share of consumers who put score above 3.75 out of 5 max
Online questionnaire of >1,000 luxury consumers of Farfetch.com in Russia, March 2018

ON THE INTERNET, BRANDS' OWN CHANNELS AND CELEBRITIES MATTER TO MILLENNIALS MORE THAN TO GENERATION X

Contrary to the expectations of experts, brands' own online channels — websites and social media accounts — have a higher relevance, especially for a younger audience. Thus their content and promotion becomes crucial for luxury brands.

Online stores also deserve close attention as an information channel. Most customers turn to them precisely to get information or make brand and model choices for future purchases. Therefore, smart presence and positioning in this channel can significantly affect offline sales.

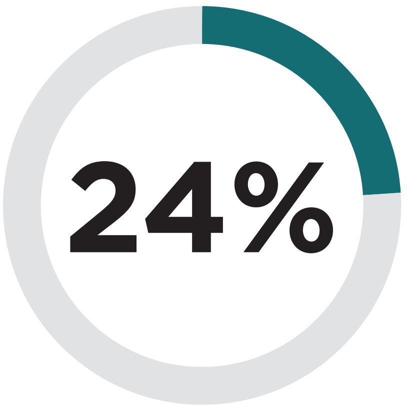
Share of luxury consumers who indicated a channel as an important online source of information about luxury,[1] percent



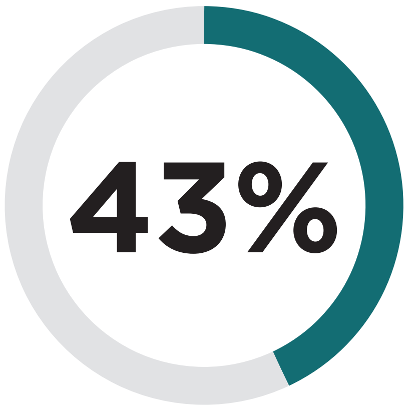
1 Question: What are the most important internet media channels?
Online questionnaire of >1,000 luxury consumers of Farfetch.com in Russia, March 2018

TODAY BRANDS DO NOT SUFFICIENTLY CAPTURE BOTH GENERATIONS WITH THEIR OWN ONLINE CHANNELS

Despite brands' own accounts on social media being a crucial source of information for Millennials and Millennials actively discussing luxury brands online, they are not covered by brand accounts as well as Generation X.



OF MILLENNIAL LUXURY CONSUMERS



OF GENERATION X LUXURY CONSUMERS

IN RUSSIA TODAY ARE SUBSCRIBED TO LUXURY BRANDS ON SOCIAL NETWORKS[1]

56%

OF SOCIAL NETWORK USERS INVOLVED IN DISCUSSIONS OF LUXURY PRODUCTS ARE **YOUNGER THAN 30 YEARS**

1 Share of Luxury consumers who are also subscribed to one of the luxury brands on Facebook or Instagram.
SOURCE: Social-demographic parameters identified on social networks (Facebook and Instagram) by Double Data, March 2018, Farfetch userbase

INCREASING ENGAGEMENT OF CUSTOMERS FROM BOTH GENERATIONS THROUGH DIRECT CHANNELS IS VITAL FOR LUXURY PLAYERS — SEARCHING FOR POINTS OF CONNECTION ON SOCIAL MEDIA IS THE KEY TO SUCCESS.

MILLENNIALS AND GENERATION X CAN BE ATTRACTED THROUGH SOCIAL MEDIA ACCOUNTS OF RELEVANT PROJECTS

Fashion and lifestyle media are relevant for both generations — more so for Millennials. Business media are more relevant for men than women and Gen Xers than Millennials. Internet media — a relatively new generation of media projects that was originally developed only in digital format — have captured a major share of Millennials' attention.

Share of luxury consumers subscribed to media projects on Facebook,[1] percent

MILLENNIALS / GENERATION X

TRADITIONAL — FASHION & LIFESTYLE

Millennials, female		Millennials, male		Generation X, female		Generation X, male	
Vogue	**15%**	Esquire	**15%**	Vogue	**15%**	Esquire	**10%**
Tatler	**9%**	GQ	**9%**	Esquire	**6%**	GQ	**9%**
GQ	**8%**			Tatler	**5%**		
Esquire	**8%**			Elle	**5%**		
L'Officiel	**5%**						

TRADITIONAL — BUSINESS & OTHER

Millennials, female		Millennials, male		Generation X, female		Generation X, male	
Vedomosti	**6%**	Vedomosti	**16%**	Vedomosti	**8%**	Vedomosti	**12%**
Forbes	**5%**	Forbes	**12%**	Forbes	**5%**	Forbes	**9%**
Kommersant	**5%**	Kommersant	**5%**	Kommersant	**6%**	RBC	**7%**
RBC	**5%**	RBC	**5%**	AD Magazine	**6%**	Kommersant	**6%**
				RBC	**5%**		

NEW MEDIA

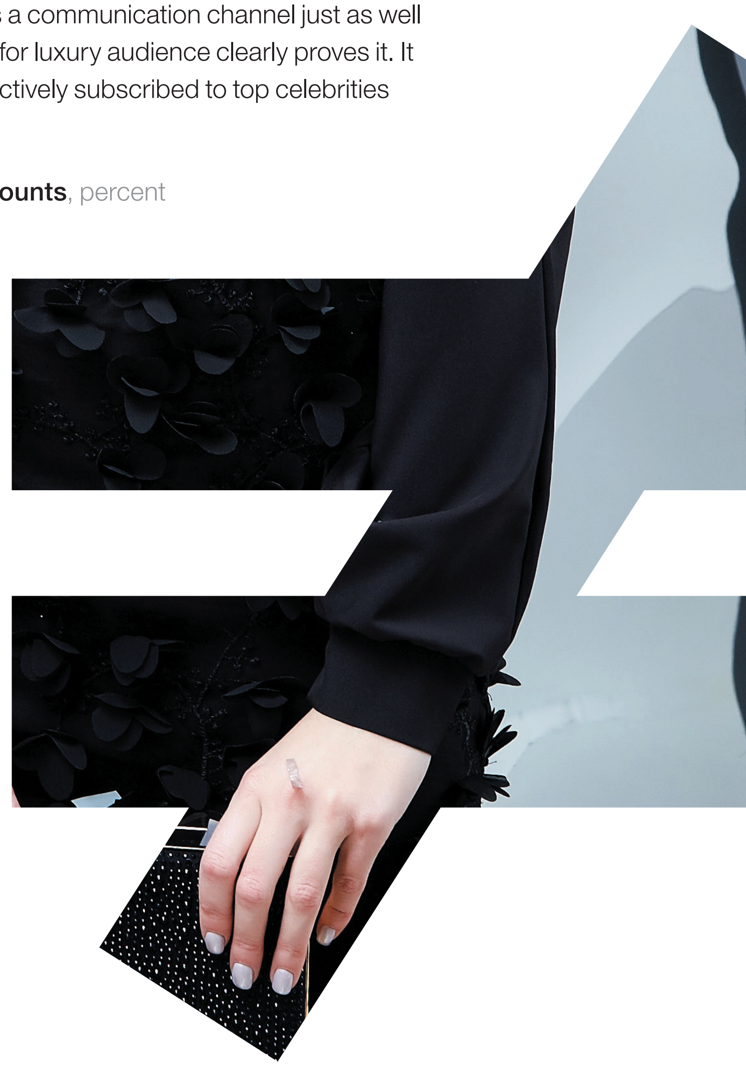
Millennials, female		Millennials, male		Generation X, female		Generation X, male	
The Village	**23%**	The Village	**13%**	Lady-4-Lady.ru	**18%**	The Village	**12%**
Afisha	**16%**	Meduza	**11%**	The Village	**12%**	Afisha	**11%**
Snob.ru	**13%**	Afisha	**11%**	Snob.ru	**11%**	Snob.ru	**9%**
Buro 247	**12%**	KudaGo	**8%**	Afisha	**11%**	Meduza	**8%**
KudaGo	**11%**	Snob.ru	**6%**	KudaGo	**10%**		
Lady-4-Lady.ru	**11%**			Buro 247	**5%**		
Meduza	**10%**						

1 Focused on FB due to GQ and buro24 being the only media with >10% followers on Instagram in analyzed customer groups
SOURCE: Subscriptions on social media (Facebook) for users from Farfetch database with identified sociodemographics

...AS WELL AS THROUGH RELEVANT CELEBRITIES AND BLOGGERS

Celebrity social media accounts can be used as a communication channel just as well as a media project — their reach and relevance for luxury audience clearly proves it. It especially concerns Millennials, who are more actively subscribed to top celebrities in a more concentrated pattern.

Share of luxury consumers subscribed to Instagram accounts, percent



SOURCE: Subscriptions on social media (Instagram) for luxury consumers

MILLENNIALS AND GEB XERS HAVE FUNDAMENTALLY DIFFERENT INTEREST PRIORITIES

Share of luxury consumers subscribed to media projects in social networks,[1] percent

Most interested group of consumers

		Millennials – Women	Millennials – Men	Generation X – Women	Generation X – Men
ART AND DESIGN	Art	17	18	21	17
	Design	4	2	5	5
TV SERIES	Foreign	13	16	6	10
	Russian	4	6	6	10
AUTO BRANDS		5	9	5	16
TRAVEL		10	8	17	15
GAMES AND SOFTWARE		8	18	6	14
FINANCE		2	6	3	7
BOOKS AND EDUCATION	Books	8	9	6	7
	Education	6	5	7	4
MUSIC		7	4	5	3
BEAUTY		6	3	5	2

1 Facebook and Instagram

SOURCE: Subscriptions of luxury consumers identified on Facebook and Instagram

Unlike the case of celebrities and media projects, interests popularity is based on cumulative read of various, sometimes small media groups and accounts on selected topics. Thus, it is harder to use Interests alone to develop effective reach strategy in social networks.

The value of interests lies in the domain of catered strategy as they inform on most up-to-date communication topics and relevant "micro-influencers" that could be further used for media-based branded special projects.

- Building an understanding of relevant content for these topics by brands through continuous monitoring of social media groups will allows for the creation more effective content strategies and more powerful creative messages.
- Revealing opinion leaders and key interest groups may allow brands to later bring them on board on larger-scale media projects, increasing their efficiency by building on trust the opinion leader has already developed within a target audience.

WOMEN

1.7 TIMES MORE INTERESTED IN MUSIC AND **2.2** TIMES MORE IN BEAUTY

MEN

2.3 TIMES MORE INTERESTED IN GAMES & SOFTWARE AND **2.5** TIMES MORE IN AUTO BRANDS

MILLENNIALS

1.3 TIMES MORE INTERESTED IN TV SERIES & GAMES

GENERATION X

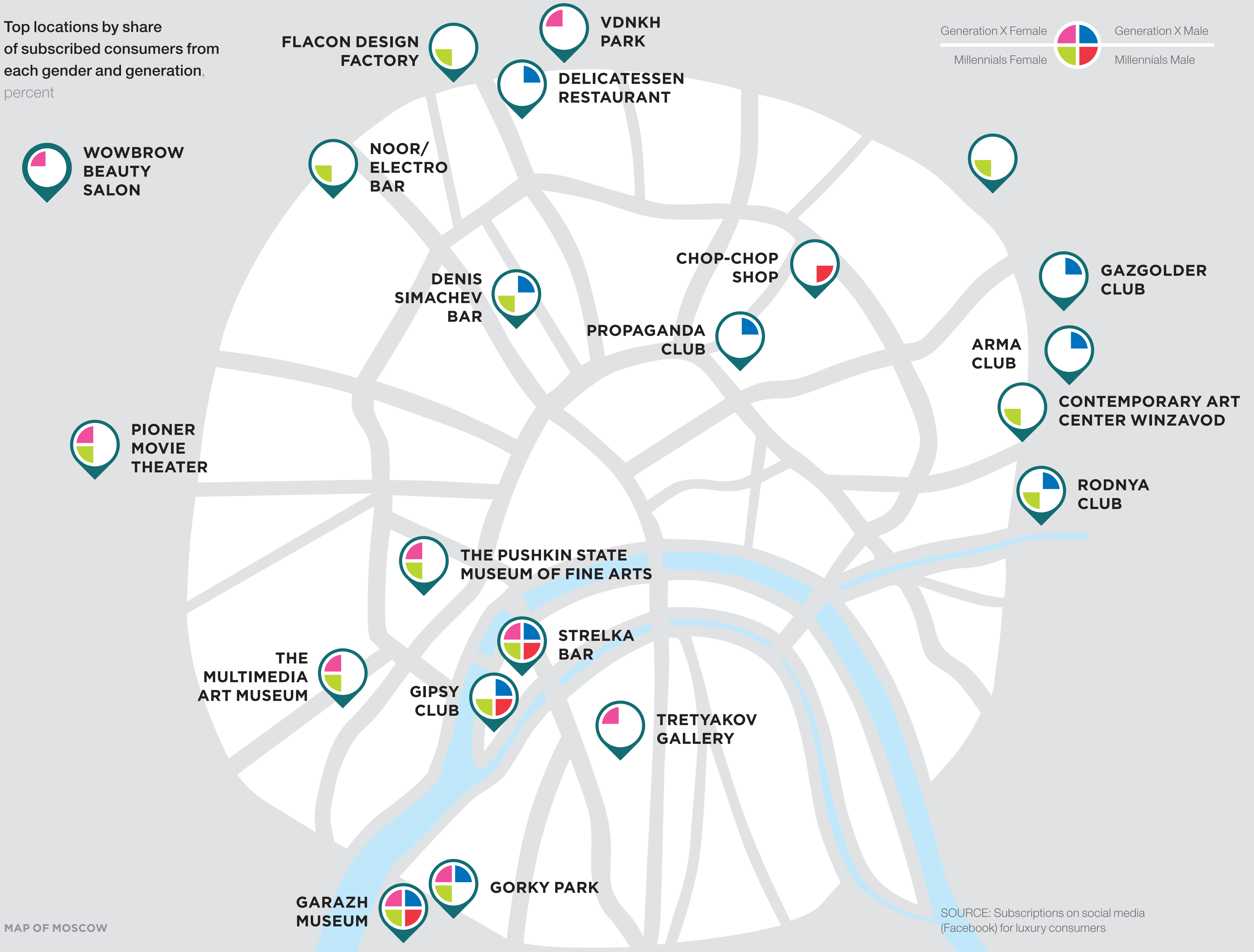
1.2 TIMES MORE INTERESTED IN ART & DESIGN AND **1.7** TIMES MORE IN TRAVEL

SOURCE: Subscriptions in social network analysis; the same proportion in the overall sample was used for weighting generations: 80% women, 20% men

IDENTIFICATION OF THE MAIN LIFESTYLE LOCATIONS ALLOWS TO BUILD OMNICHANNEL COMMUNICATION FOR BOTH GENERATIONS

Subscriptions to social media accounts of leisure locations inform brands on audience urban life footprint and could be used for development of holistic online-offline engagement strategy and tactics. Analysis of generational and gender differences allows to identify locations highly relevant for all luxury consumer groups (upscale but diverse-format museums, clubs, parks, etc.) or targeted locations (such as young male targeted barbershops).

Top locations by share of subscribed consumers from each gender and generation, percent

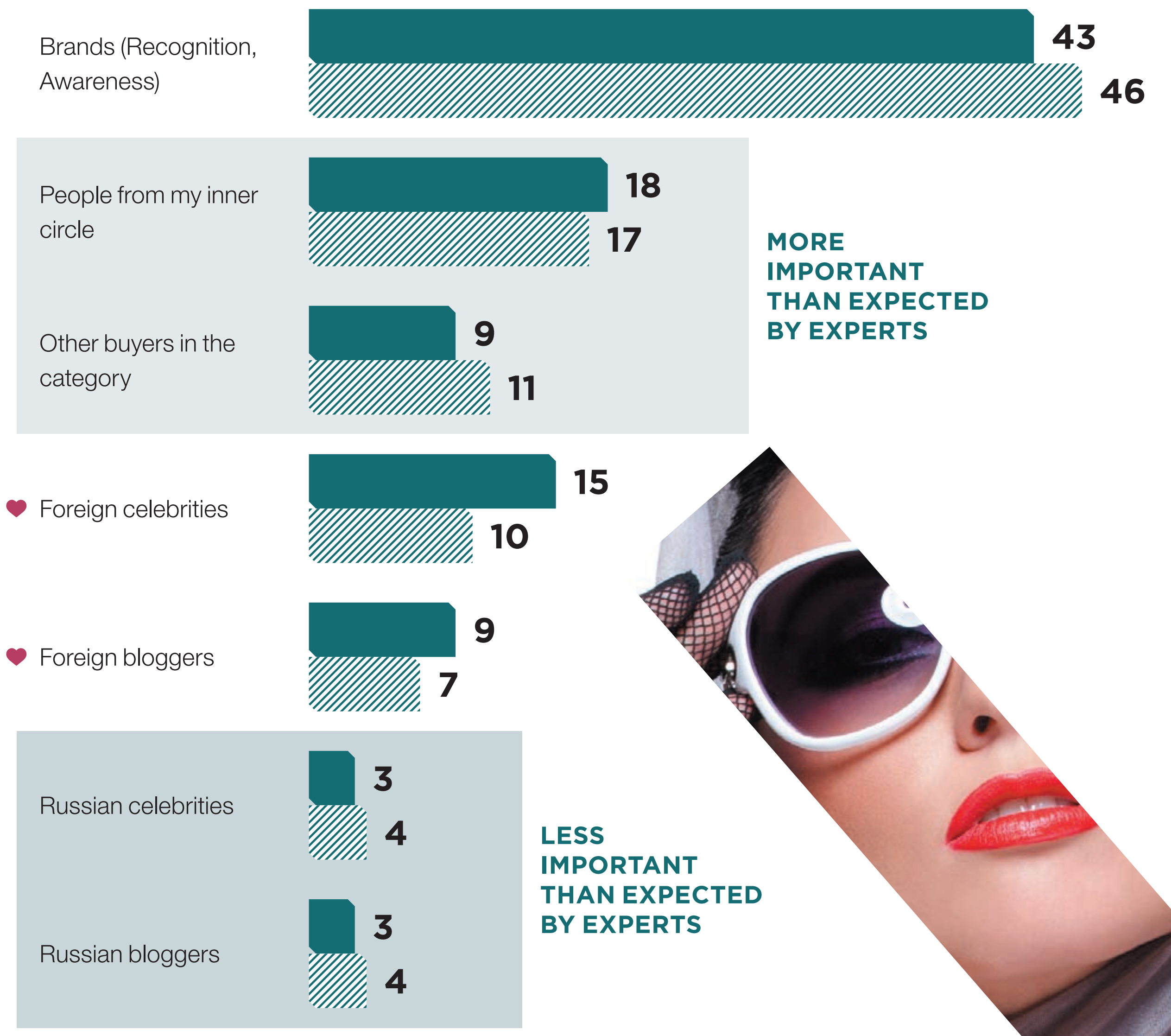


SOURCE: Subscriptions on social media (Facebook) for luxury consumers

CONSIDERATION AND PURCHASING IS DRIVEN LARGELY BY PEOPLE IN ONE'S INNER CIRCLE RATHER THAN CELEBRITIES AND BLOGGERS

Experts believe that brand faces are the key driver of increasing conversion from the first to the second stage of the purchase funnel and brands are very focused on developing their ambassadors. In reality, however, peer recommendations have much more influence on consumers' choices of luxury products.

Share of luxury consumer responses indicating an influence factor as important when choosing luxury brands,[1] percent



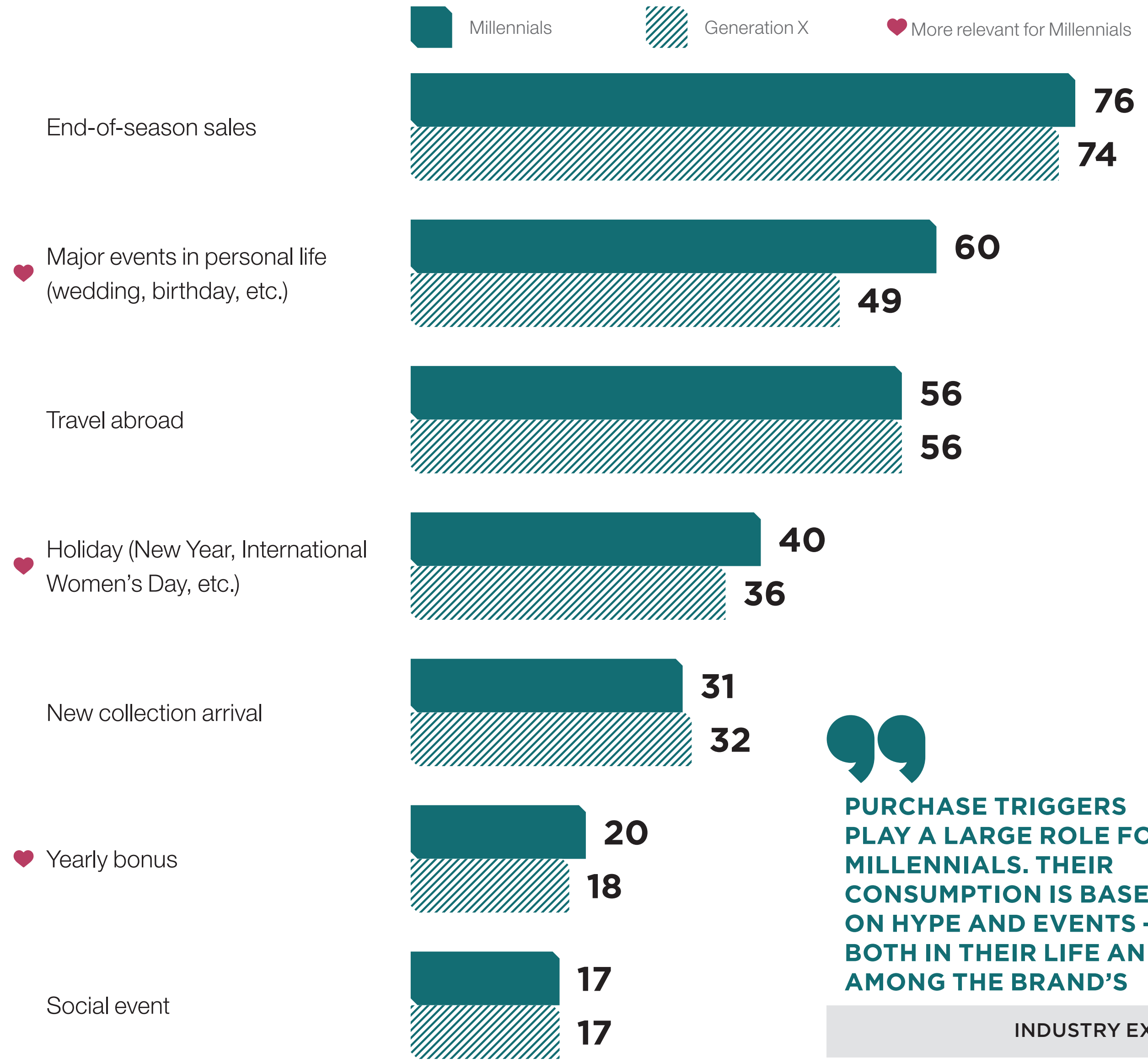
Question: Which of these has the greatest influence on your decision to buy luxury goods?
Share of consumers who put score above 3.75 out of 5 max.
Online questionnaire of >1,000 luxury consumers of Farfetch.com in Russia, March 2018.

ADDRESSING THE AUDIENCE AT THE RIGHT MOMENTS OF RECEPTIVITY CAN INCREASE PURCHASES, ESPECIALLY FOR MILLENNIALS

Today a lot of players invest in CRM to address their Generation X customers, whereas understanding important events in Millennials' lives has a much higher potential for increasing their involvement, since they are much more eager to provide additional information about themselves.

As it turns out, all customers are equally driven by end of season sale and travel abroad, but Millennials are much more stimulated by personal events and holidays and therefore well-timed communication efforts could create additional sales for luxury brands.

Share of luxury consumers who indicated receptivity moment as an important factor when purchasing luxury brands,[1] percent



> **PURCHASE TRIGGERS PLAY A LARGE ROLE FOR MILLENNIALS. THEIR CONSUMPTION IS BASED ON HYPE AND EVENTS — BOTH IN THEIR LIFE AND AMONG THE BRAND'S**
>
> INDUSTRY EXPERT

1 Respondents who purchased only apparel and shoes/only bags and accessories (not incl. watches and jewelry during last 12 months).
Respondents who purchased only jewelry and watches are excluded from analysis due to low number of responses.
Question: When are you usually open to consider purchasing luxury brands?
Online questionnaire of >1,000 luxury consumers of Farfetch.com in Russia, March 2018.

WHILE PRODUCT FUNDAMENTAL CHARACTERISTICS ARE THE KEY DRIVERS FOR BOTH GENERATIONS, SECONDARY REASONS OF PURCHASE VARY

Quality, style, and durability are by far the most important purchase drivers for Generation X and Millennials alike. This reveals a critical gap in understanding the younger customers by industry players as the vast majority believe quality is less important for Millennials.

At the same time, importance of secondary factors influencing purchases differs substantially between generations: for Millennials exclusiveness, brand history, and brand faces are more important than for Generation X customers, whereas Generation X is more concerned with country of origin and manufacture as well as technological effectiveness.

90%

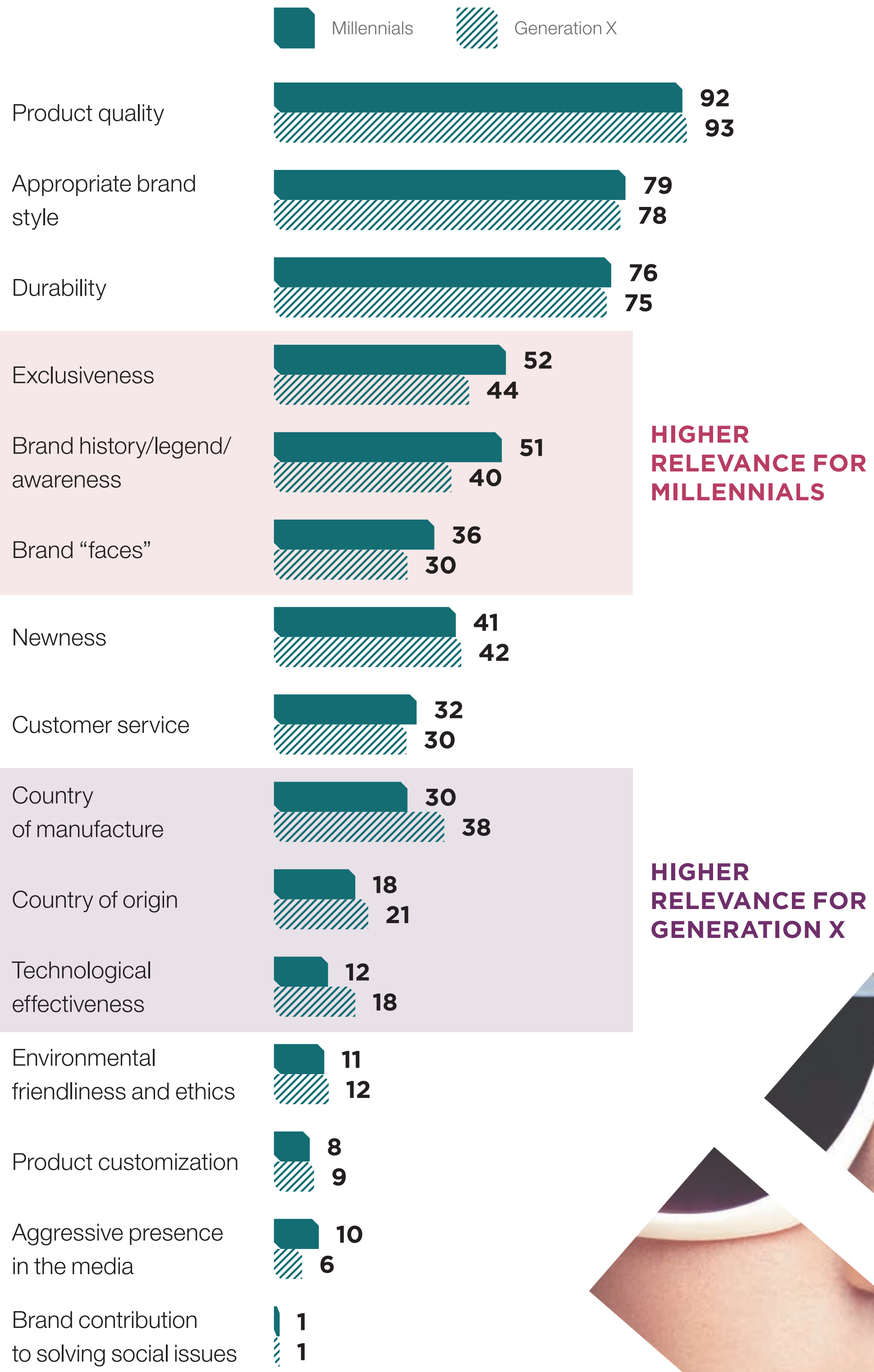
OF EXPERTS BELIEVE THAT QUALITY IS NOT A KEY PURCHASE FACTOR FOR MILLENNIALS

VS.

>90%

OF LUXURY CONSUMERS OF BOTH GENERATIONS SEE PRODUCT QUALITY AS A KEY DRIVER OF PURCHASE

Share of luxury consumers in each segment who indicated attribute as an important purchase driver,[1] percent



Question: What factors are most important when choosing a luxury brand?
Online questionnaire of >1,000 luxury consumers of Farfetch.com in Russia, March 2018.

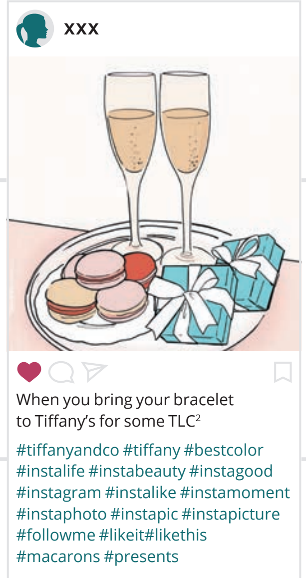
MILLENNIALS HAVE A HIGHER SHARE OF PERSONAL POSTS...

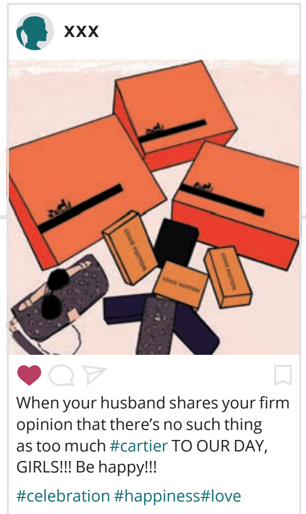
For Millennials, luxury brands are even more important (83 percent) in the context of personal events and experiences with the brand, while they are less likely to be influenced by standard factors such as industry news and new product announcements. Experts are right to emphasize the importance of service — yet it needs not just improvement, but to become exceptional to be featured in Millennials' Instagram posts.

Share of Millennials' posts on social media by topic,[1] percent

♥ High affinity toward Millennials

High affinity	Topic	Percent
	PHOTO LOOK	
♥	Look without specific topic	22
	Personal thoughts	2
	Holiday celebration look	2
	Look with quotes	2
	Other	4
	PERSONAL OCCASION	
♥	Visiting boutique	7
♥	Post with an impression of the gift	8
♥	Post with an impression of purchase	5
	Dressing up for event	3
	Other	2
	WITHOUT EVENT	
	Reminder about a product or collection	3
	Fact from the history of fashion/brand	3
	Discussion of trends	4
♥	Post about boutique	4
	Citations of the brand's founders	2
	Audience polls	1
	Other	5
	BRAND EVENT	
	Fashion show	6
	Announcement of brand event or promotion	3
	New collection lookbook	2
	Announcement of new advertising campaigns	1
	Introduction of new product	1
	Invitation for brand event	1
	Announcement of partnership with designers / brand	1
	News about the founder or ambassador of the brand	1
	EXTERNAL EVENT	
	Appearance of a celebrity in brand clothing	2
	Publishing about a brand or collection	1
	Other	1





1 Posts on Instagram categorized through semantic analysis. 2 Tender love and care

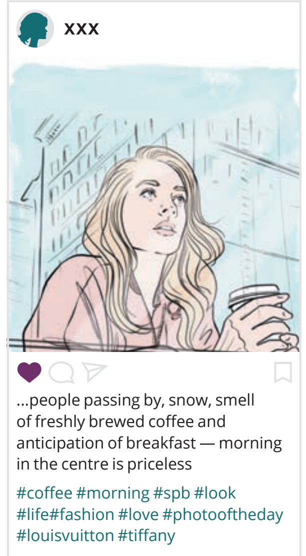
...WHILE GENERATION X CONSUMERS ARE MORE DRIVEN BY BRAND EVENTS

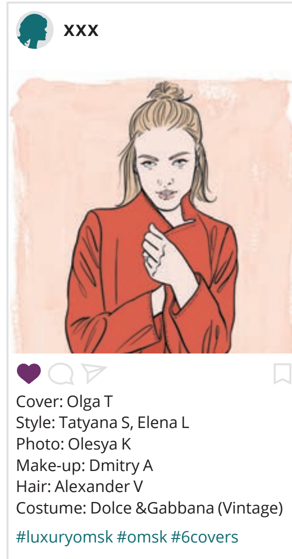
While personal events remain the key word-of-mouth driver (74 percent), Generation X consumers post more on brand and industry events, e.g. fashion shows. They also tend to reflect more fashion history and heritage.

Share of Generation X posts on social media by topic,[1] percent

♥ High affinity toward Generation X

High affinity	Topic	Percent
	PHOTO LOOK	
	Look without specific topic	15
♥	Personal thoughts	3
	Holiday celebration look	2
	Look with quotes	1
	Other	5
	PERSONAL OCCASION	
	Visiting boutique	6
	Post with an impression of the gift	3
	Post with an impression of purchase	2
	Dressing up for event	3
	Other	1
	WITHOUT EVENT	
♥	Reminder about a product or collection	6
♥	Fact from the history of fashion / brand	6
	Discussion of trends	4
	Post about boutique	3
	Citations of the brand's founders	2
	Audience polls	2
	Other	6
	BRAND EVENT	
♥	Fashion show	13
♥	Announcement of brand event or promotion	4
	New collection lookbook	2
	Announcement of new advertising campaigns	2
	Introduction of new product	1
	Invitation for brand event	1
	Announcement of partnership with designers / brand	1
	News about the founder or ambassador of the brand	3
	EXTERNAL EVENT	
	Appearance of a celebrity in brand clothing	2
	Publishing about a brand or collection	1
	Other	1





SOURCE: Mention of luxury brands in social networks Facebook, Instagram, VKontakte (December 2017–March 2018)
1 Posts on Instagram categorized through semantic analysis.

Loyalty & Brand advocacy

CUSTOMERS’ OWN IMPRESSIONS FROM EXPERIENCE WITH A BRAND ARE THE MAIN REASON FOR POSTING ABOUT LUXURY

Personal impressions that influence the desire to post can be quite varied: a visit to a boutique, special treatment (for example a glass of champagne), and getting a present — brands can and should use this opportunity to directly influence their customers and create post-worthy experiences.

76% — A PREDOMINANT SHARE OF LUXURY DISCUSSIONS — IS FOCUSED ON PERSONAL EVENTS RATHER THAN BRAND NEWS

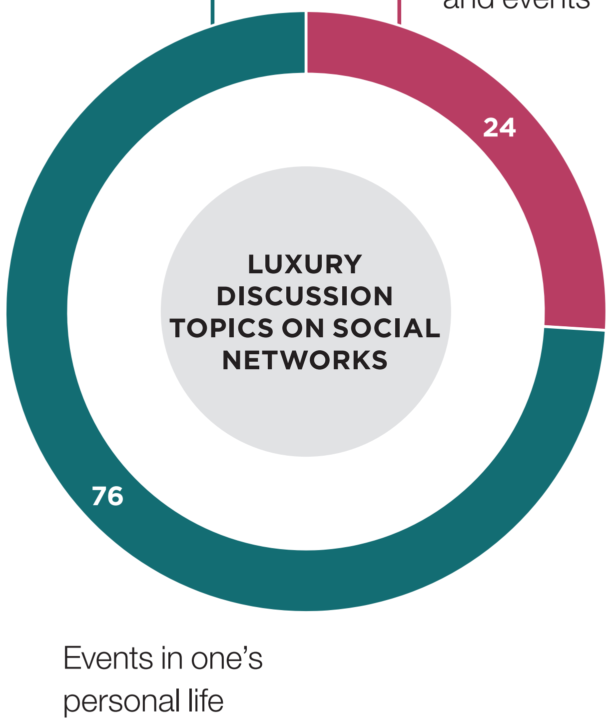
24% OF USER-GENERATED POSTS ARE REACTIONS TO BRANDS’ COMMUNICATION

xxx

My head is gonna turn into a house soon...
#headexplode #alotofstuff #work #business #chanel #chanelboy #elevatorlook

xxx

Briefly about my day
#mydiagnosis #shopoholic #spoiled #shoppingoftheday #photooftheday #today #cool #llikeit #happyhappy #hermes #birkin #hermesbirkin #hermesbirkinbag #louisvuitton #lv



xxx

Gucci is a-head of the curve: social media flashmob with "severed" heads takes off

xxx

Drones and podium. Yesterday in Milan a new collection of luxury bags was shown by Dolce & Gabbana using drones

SOURCE: Semantic analysis of luxury brand mentions by consumers in social networks — Facebook, Instagram and Vkontakte, December 2017–March 2018

BRANDS TODAY ARE OPERATING IN A HIGHLY COMPLEX ENVIRONMENT: DIFFERENT AUDIENCES AND CHALLENGES REQUIRE TAILORED APPROACHES AND MESSAGING. ONE-OFF RESEARCH CAN NO LONGER BE THE ANSWER.

A MORE HOLISTIC SYSTEM OF CUSTOMER DATA ANALYSIS IS NECESSARY — IT WOULD ALLOW BRANDS TO GET THE REQUIRED DATA WITHIN A DEFINED TIMEFRAME AND FOR A SPECIFIC PURPOSE. DEVELOPING THIS KNOWLEDGE BASE WILL BECOME A COMPETITIVE ADVANTAGE FOR ANY LUXURY BRAND.

LEVERAGING ADVANCED ANALYTICS TO SHARPEN LUXURY BRAND GROWTH STRATEGY

NACHO ALEGRE VOGUE RUSSIA

LEVERAGING ADVANCED ANALYTICS TO SHARPEN LUXURY BRAND GROWTH STRATEGY

Research conducted for the purpose of this report was focused on the overall luxury consumer profile and the differences between generations. However, brands can leverage similar data to get a better understanding of their selected target audiences.

One of the most frequent applications of Advanced Analytics in retail globally is supporting growth strategy decisions: from identifying priority consumer segments to formulating communication tactics, including relevant channels and timings.

BRANDS CAN LEVERAGE ADVANCED ANALYTICS TO ACHIEVE GROWTH THROUGH TWO DISTINCT STRATEGIES

Consumer-oriented growth strategy can be aimed in two directions: at original target audience and customers beyond core. Methods and instruments used in this report can help with achieving growth in both directions.

More specifically, enrichment and cross-validation of sociodemographic, purchasing, and online behavior data can be used to create communication strategies with both an extensive reach and high efficiency, due to a previously unachievable precision in definition of target audience.

1 DEVELOPING CUSTOMER BASE WITHIN CURRENT CORE SEGMENTS

- **A** DRIVING PURCHASES AND LOYALTY OF CURRENT CLIENT BASE
- **B** ATTRACTING NEW CUSTOMERS WITH A SIMILAR PROFILE

2 EXTENDING BEYOND CURRENT CORE SEGMENT

- **A** REACHING FOR SELECTED COMPETITORS' AUDIENCE
- **B** GOING AFTER NEW CUSTOMER PROFILES

TO DEVELOP CUSTOMER BASE WITHIN CURRENT CORE SEGMENTS BRANDS NEED TO CREATE A COMPLETE, DETAILED CONSUMER PROFILE

CASE

A luxury watch brand A intends to create an additional line of accessories to increase sales among the current customer base and potentially attract new clients with a similar profile.

To achieve this goal, in addition to conducting traditional research, brand A can use advanced analytics solutions to develop a holistic marketing strategy. By combining different sources of data, brand A can gain insights into what messages, at what time and to which specific groups of consumers should be communicated to achieve maximum impact.

Customer profile based on share of audience and luxury consumers, percent

RECEPTIVITY MOMENTS[1]	
Major events in personal life	61
Yearly bonus	36
Travel abroad	27
Holiday	20
End of season sale	16

INTERESTS	
Art	50
Tourism	39
Auto Brands	33
Finance	25
Foreign TV series	25
Handwork	25
Cooking	22
AUTO BRANDS	
Mercedes	33
BMW	28
Porsche	17
FINANCE	
Sberbank	25
Investments	8
Financial literacy	8
FOREIGN TV SERIES	
Top Gear	6
Boardwalk Empire	6
The Big Bang Theory	6

MEDIA	
ACCOUNTS OF TRADITIONAL MEDIA	
National Geographic	31
GQ	28
Esquire	28
Forbes	28
ACCOUNTS OF NEW MEDIA	
The Village	39
Snob	28
TVrain	25

CELEBRITIES & BLOGGERS	
RUSSIAN	
urgantcom	24
xenia_sobchak	22
novikov_arkadiy	18
timatiofficial	12
INTERNATIONAL	
davidbeckham	17
beyonce	12

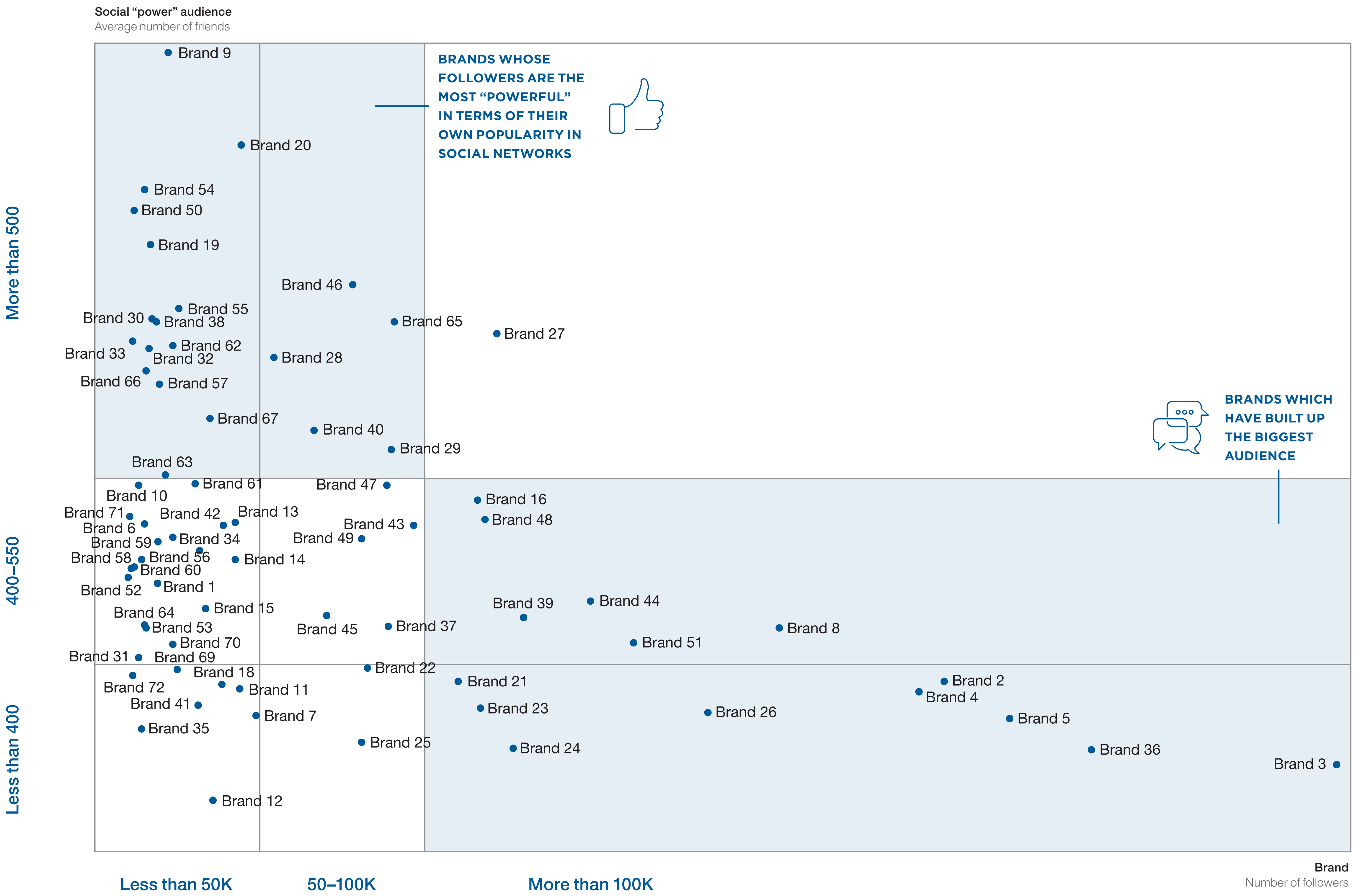
1 Illustrative: Share of luxury consumers who indicated receptivity moment as an important factor when purchasing luxury brands, percent
SOURCE: Study sample: Profiles of luxury consumers for the last year on the Farfetch website, identified in social media (Facebook, Instagram) with Double Data technology, March 2018.

Share of audience following social media account

17%	GARAZH MUSEUM
17%	GIPSY CLUB
14%	GORKY PARK
14%	TROYKA MULTISPACE CLUB
11%	SAXON + PAROLE RESTAURANT
11%	PROPAGANDA CLUB
11%	UGOLËK RESTAURANT
11%	LUCH BAR
11%	BOSTON BAR

BRANDS CAN ACHIEVE A BREAKTHROUGH IN THEIR CUSTOMER BASE DEVELOPMENT THROUGH A BETTER UNDERSTANDING OF MARKET LEADERS — BOTH IN REACH AND QUALITY OF AUDIENCE

Results of online presence analysis: power & influence[1]



CASE

Brand X has not yet established a significant foothold in Russia and wants to create a customer base both quickly and efficiently.

A potential approach to step-change is creating a detailed customer profile for successful competitors and look-alike targeting of their consumers, based on their preferred channels, influence drivers and moments of receptivity.

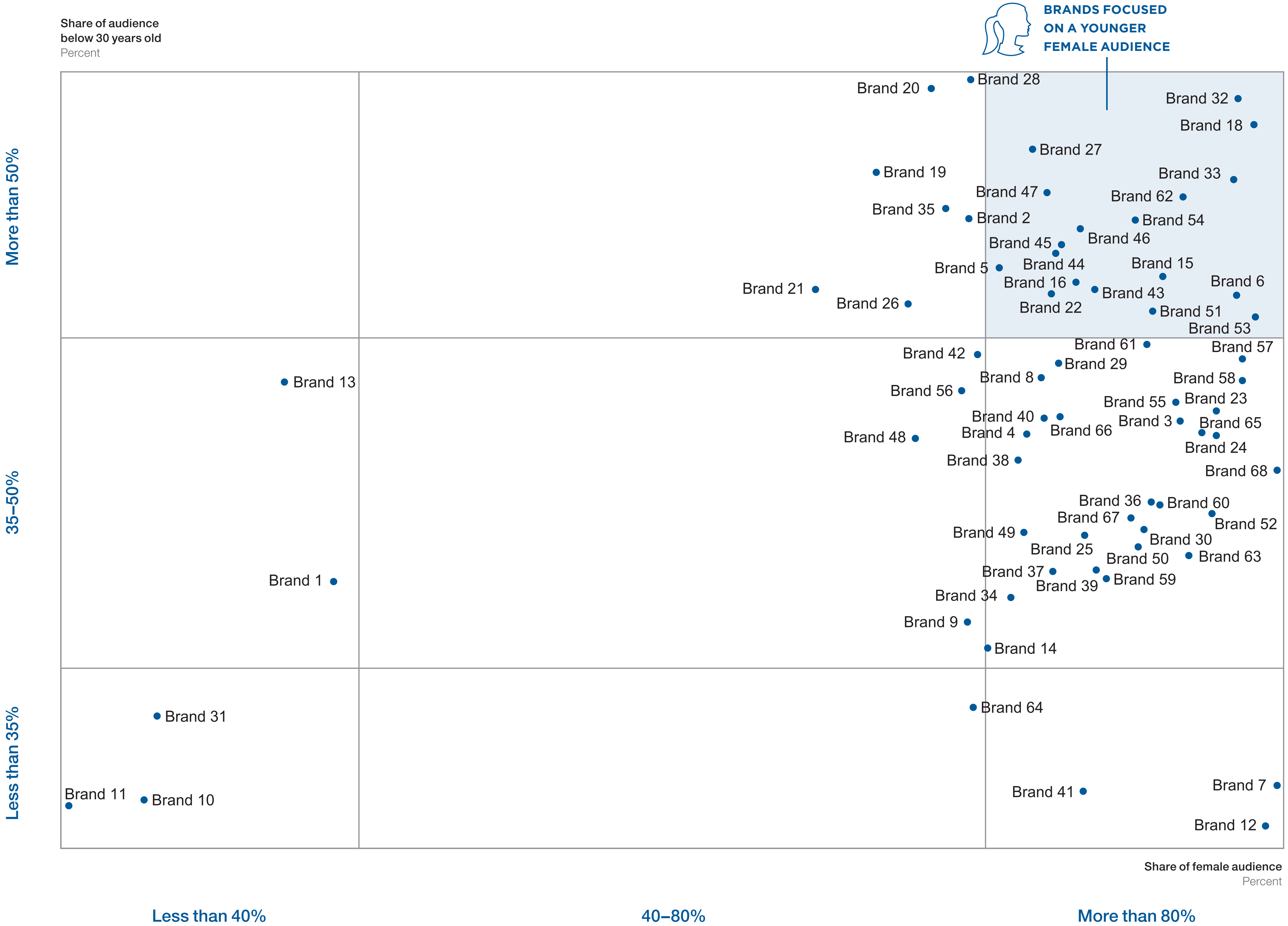
To understand the competitive dynamics in the chosen segment, it is crucial for a brand to develop an understanding not only of its target audience profile, but also consider the social power of the brands it seeks to challenge.

1 Cumulative analysis of luxury consumer profiles on social networks (Facebook and Instagram) subscribed to luxury brands

SOURCE: profiles of luxury brands' fans identified in Facebook, Instagram, by Double Data (March, 2018)

HOLISTIC CUSTOMER PROFILING CAN INCREASE REACH AND IMPROVE EFFICIENCY OF BRAND COMMUNICATION

Results of online presence analysis: target audience sociodemographics[1]



1 Cumulative analysis of luxury consumer profiles on social networks (Facebook and Instagram) subscribed to luxury brands

SOURCE: profiles of luxury brands' fans identified in Facebook, Instagram, by Double Data (March, 2018)

CASE

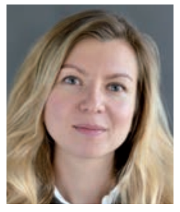
The Russian luxury market today is made up of a variety of players: some are universally popular across all audiences, some have achieved leadership within specific segments through rigorous focus.

Brand Y has a large established audience of Generation X consumers, but wants to branch out and capture Millennial female customers.

A successful approach to developing a new segment strategy includes holistic profiling with an embedded consideration of competitive dynamics in the chosen customer segment.

PROFILING CAN REFLECT A MULTITUDE OF FACTORS, SUCH AS SOCIODEMOGRAPHICS, ONLINE BEHAVIOR, AND GEOLOCATION, WITH VARIOUS LEVELS OF DETAIL

MILLENNIALS AND GEN-XERS WHO CREATED THIS REPORT



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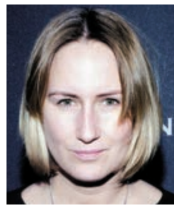

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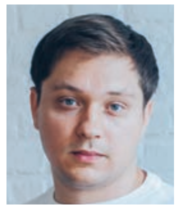

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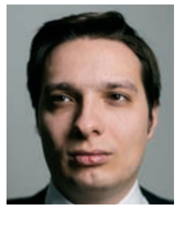

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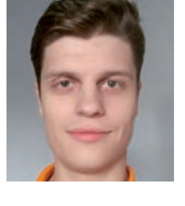

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May 2018