

## Foreign Luxury Brands on the Russian Market

Svetlana Ivanovna Koroleva and Daria Goulko

Moscow Academy of Entrepreneurship under the Government of Moscow, 36 Planetnaya street. 125319, Moscow, Russia

**Abstract:** The article describes the possible ways of foreign luxury brands entering the Russian market as well as their advantages and drawbacks. Authors of the article point out a number of difficulties that need to be considered at a startup stage in order to ensure the smooth business operations in future. Special attention is given to the issue of creation of an optimal organization structure and employment of the right startup team.

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### 1. Introduction

Several years ago the leading world brands preferred to study the Russian market without entering it directly – they acted through the partners, selling the brand products on the basis of distributorship or franchise agreements. Many luxury brands have entered the Russian & CIS markets though one of these ways since the middle of 90-ties. Decision to test the Russian & CIS territory through the partners was taken for numerous reasons: due to unstable political and economical situation in the region, complexity of legal and administrative procedures, lack of the luxury market in the zone, unwillingness to risk significant assets on the unknown market.

Granting the distributor the right of purchase from the brand and selling the goods on the Russian & CIS markets foreign brand fulfills without major risks several tasks at a time: sales of products and avoidance of excessive costs. The brand does not bear the costs of products transportation, customs clearance, lease of retail premises or payroll, but the clients have the possibility to get acquainted with the brand's collections and the first clientele on the needed territories can be built. At the same time it is more difficult for the brand to ensure the control of the distributors' activity, of the retail spaces used for products selling, of the means of products promotion on the market and presentation to the clients of the information about their unique characteristics and qualities [1].

Choosing a franchise way of operation on the Russian and CIS markets the brands also fulfill their initial tasks without significant investment: franchisee buys the products, receives from the brand a license for the use of the trademark, complies with the brand requirements on certain points, pays the royalty to the brand, independently takes care of the

retail premises lease and fit-out, hires and trains the staff, settles all legal and administrative formalities and creates the first database of clients loyal to the brand.

However, both variants – work through a distributor or through a franchise partner – have apart from the obvious advantages also serious drawbacks, which become evident on the following stages of development on the market of Russia & CIS.

Firstly, the companies do not receive the profit which they could receive operating the brand independently. Secondly, many retailers selling the luxury brand products under the distributorship and franchise agreements are interested mainly in receipt of profit from sales and development of their shopping malls. They do invest also in brand development but only within the minimum established by a franchise agreement. Thirdly, it is difficult for the brand to distantly control the partners' activity. Often it turns out that some retailers breach the conditions of the agreements signed with the brand, e.g. grant unauthorized discounts on products, do not provide for the due training of the retail staff or do not ensure the due level of the clients' servicing. All this can cause damage to the brand reputation and be an obstacle in increasing the clients' loyalty. It is even more difficult to gain the clients loyalty in conditions when some distributors and franchisees establish overprices for the products in order to compensate its expenses. Currently many local clients have the possibility to travel abroad and buy their favorite brands e.g. in Paris or Milan at European prices and receive the VAT return. Overpricing in local boutiques leads to the clients' discontent and may provoke the negative attitude to the brand.

At present the luxury market in Russia has matured and demonstrates the stable growth [2].

Even in crisis times, when other retail segments faced significant decrease of sales volumes and suffered big losses, luxury segment kept relatively stable positions. Russian clients nowadays make impressive percentage of all sales of the brands – in Russia as well as in other countries where the brands are represented. During the last years the number of clients who are ready to make shopping locally without travelling abroad has increased. This is to a great extent due to the fact that more and more luxury brands commence direct operation on the market of the zone, open their mono-brand boutiques, create the masterpiece elegant interiors [3], ensure the professional and in detail training of the boutiques' teams, take all possible measures for ensuring the high end service, invest in clientele development, carry out exclusive events aimed at brand popularization, deepening of the clients' knowledge about the brand's history, values and unique features [4]. Moreover, the best professionals from various spheres prefer to work in the subsidiaries of foreign brands. Direct business is much easier to control at all stages and progressive methods of management are implemented with less efforts.

However, despite the fact that the legal and economical climate in Russia and CIS has currently become more favorable for foreign investors, there are still difficulties, which a brand can face in course of direct entering the market [5]. Thus, the brand has to take care of all organizational processes – from subsidiary creation retail premises search and negotiations with the landlords to going through numerous legal and administrative procedures, building of products supply schemes and staff recruitment. This of course demands sufficient investment at startup period. But all these difficulties can be solved within the first year of work and within the decreased budgets in case their settlement is assigned to a professional outsourcing company, specializing in this sphere.

Decision regarding the way of the brand's entering the market and further development shall be taken based on the priority business tasks and analysis of the exact market. But in any case the successful implementation of each chosen way depends to a high extent on the choice of the right business partner as well as on the detailed planning and professional filing with regard to the brand's interests and legislative specifics of each region.

Preparing for the new market penetration it is important to realize that the choice of the right startup team is a key to the successful development of the brand in the future [6].

When a foreign brand takes a decision to enter the Russian market directly, it starts to get ready for this, study this market in more detail, plan

its investment, recruit the team, which will be working in this territory. Certainly, most of the brands already have experience of entering the markets of other countries and have the qualified specialists who know the company's activity specifics and are able to calculate the startup costs. However, it is not possible to prepare a correct and effective business plan without taking into account the specific features of the local market, legislation, taxation, administrative and logistics procedures, level of prices for lease of necessary premises, prices for various, needed at startup, services, without understanding the potential clientele as well as without realizing the potential problems and difficulties, which a foreign brand can face [7]. That is why foreign companies refer for the corresponding advice to the specialists of the Russian market – to lawyers for information on legal specifics, to real estate experts – for information on real estate objects process and availability of retail premises for lease, to recruitment agencies – for information regarding salaries level and for services on key personnel search, to logistics companies – for information on importation procedures and customs clearance etc. Advantage is on the side of those brands, having business connections with companies from analogical sphere of activity, which have already had the experience of Russian market entering – thus, they can ask such business partners for information and advice regarding various services providers as well as to compare the information received from different services providers.

In case there are no such contacts or in case when due to the specifics of the brand, information received from business partners or friends cannot be fully applied to this brand, the company which plans to enter the Russian market has to base on a big scope of various information obtained from different sources. However, obtaining of such information, i.e. search of all needed contacts, referring for advice, explanation of the brand needs and specifics, negotiating the price of the services without the experience and knowledge on the local market prices for such services, signing contracts and payment of services etc. usually takes significant time, the joint price of all services rendered by different services providers in the end is very high, the client needs to independently analyze and summarize all the received information and make a business plan based on it: calculate the budget, determine the number of employees, decide on the events related to the brand launch etc.

After collating of information required for taking a decision and planning of a new market entering strategy the brand faces a new, and no less complicated, task – hire a startup team, which will

directly implement the strategic decisions of the brand. The key figure to be found is, of course, the General Manager (Country Manager), i.e. a person who will manage all brand's activity on the Russian market and in future on the markets of all other CIS countries. Usually brands start the search of Country manager in parallel with the above described "preparatory" stage. In case a good candidate is found and has experience of work on the Russian market, he can help the brand in obtaining of the needed information and make a correct business plan. In case the candidate is a foreigner who has never worked in Russia, all the earlier mentioned difficulties remain. Different brands have different approaches to the choice of the Country Manager. One brand prefers to hire a foreign manager, having working experience in Russia and having some knowledge about this market as well as useful contacts. Other brands decide in favor of a Russian manager who has excellent understanding of the local realities, business community and traditions, market of services providers etc. Some brands take a decision to hire a foreign manager without experience of work in Russia, but having excellent and in-depth understanding of the brands specifics, knowledge of internal brand policies and European methods of company management. The approach of each brand is individual and certainly depends on the availability of the right candidates on the market, values and priorities of the brand itself. However, it is obvious that a foreign manager without the due experience in the Russian realities and especially not speaking Russian is likely to be in the most difficult situation and needs most of all a strong, professional and fully reliable team. Thus, we come to an issue of building of a "key employees" team.

The team is usually built by the Country Manager with the help of a local HR (in case such position is planned for startup period and who also needs to be found first) and the local recruitment agencies. And the most complicated decision at this stage is how to determine a list of such "key" positions which shall be in the company from the very beginning. It is very typical of many retail brands, that the retail positions are usually planned in advance and the member of employees is carefully calculated based on the brand requirements and experience of activity in other countries – certain retail space requires certain number of retail personnel in order to cover all the zone and ensure the impeccable service. It is also clear that a boutique needs a manager and a stock controller. All retail processes are usually managed either by a Retail Manager or by the Country Manager personally at the startup stage. In case the Retail Manager's position is budgeted from the beginning, the issue of boutique

personnel becomes easier. Depending on the size of the boutique, brand's plans of development, products assortment specifics and brand requirements there can be planned also other positions, such as Deputy Boutique Manager or Assistant Manager, Manager for certain product categories, visual merchandiser etc. All brands tend to achieve the maximum compliance of retail processes in Russia with the retail processes and service level of the country of the brand origin and that is why retail positions are considered very carefully.

As for the office positions, situation here often turns out to be on the contrary [8]. The tendency is to budget for the first time only minimum office positions – it is not rare that the office starts to work, consisting only of the Country Manager, Office Manager and Chief Accountant. In this case the Office Manager usually combines the functions of the Personal Assistant to Country Manager, secretary at the reception, translator, assistant for all current administrative and organizational issues and the Chief Accountant has to combine multiple tasks of the accountant, finance manager, HR, lawyer and responsible for all administrative and organizational current issues. A number of brands are ready to employ at once a PR Manager, who often has to combine the functions of a Marketing Manager. Some, but far not all, brands from the very beginning hire an HR Manager, but some postpone this position introduction for the time when the number of employees and sales volumes increase to a certain level [9]. Depending on the chosen model of products importation some brands introduce positions of logistics specialists. Only few brands initially budgets such positions as Legal Manager, Lawyer, Financial Controller and even Finance Director.

As a result it happens on practice that the office starts its work being short of qualified resources. Thus, office manager is busy solving the current organization and administrative issues, translations for the whole office, hardly having time for fulfillment of the Country Manager's assignments and for answering the phone calls. It is obvious that finally the whole scope of tasks cannot be handled by only one person and the office is not able to function smoothly and in accordance with the brand level – reception, i.e. "face of the office" becomes disorganized, the phone calls are answered by all office employees, information and correspondence can get lost, office equipment is malfunctioning, the terms and quality of important Country Manager's assignments fulfillment is endangered, very little time is left for helping other team members (hotels reservations, tickets booking, couriers organizing etc.). Finally there can be created an atmosphere of chaos, which negatively influences the working mood

of the company's employees, both office and boutiques personnel.

As for the Chief Accountant, this position is for many brands "all-inclusive" and "multi-functional" – they realize that a company cannot exist without the Chief Accountant and try to hire a person with excellent experience and knowledge, who is not only professional in the accounting sphere, but also has rich practice of settlement of many other related issues. These additional skills are actively used by the employer. Chief Accountant not only fulfills his or her direct duties, but also helps the Country Manager in budgets preparations, planning, reporting, participates in commercial negotiations, revises legal contracts, works with employees, files employment relations and their termination, calculates and pays the salary, controls the boutiques activity from the financial side, prepares accounting and tax reports for the foreign head office and fulfills many other tasks. And all the above is done by one person, who has to work overtime and often on weekends. It is natural that finally one specialist cannot cope with the complex of all issues to be solved – as a result there appear mistakes, delays, absence of required documents what in its turn negatively affects the company's activity and can cause sanctions from the side of the state authorities. Apart from that the Chief Accountant can get tired of such pressure and leave the company.

Lack of due organization of legal work also seriously endangers the company's activity and can lead to incorrect filing of the important contracts and transactions, missing the terms for fulfillment of legally mandatory actions, absence in the company of necessary permits as well court disputes with the state authorities and the company's counterparties. It is worth mentioning also, that the consequences of mistakes done at the initial stage of the company's work can be discovered not immediately, but some time later and at the very unexpected and unsuitable moment.

A list of positions, which have to combine the functions of different specialists, can be prolonged and the sad consequences of situations when the companies apply purely commercial approach to positions budgeting – first profit, then – increase of employees' number – can be described even more. However, the result will be the same in each such situation – the lack of qualified and timely actions will show itself for sure in process of the further development of the company in the form of mistakes and incompliance detected in course of audits and checks, in the form of the wrong image of the employer, in the form of loss of valuable and professional specialists as well as in the form of the lack of balance between the high requirements of the

brand regarding the level of service in the boutiques and the low level of corporate organization in the office. Besides, the unjustified economy, reached at the startup stage can finally result in necessity for the company to pay significant fines and penalties as well as to recover within the tight terms all the mistakes.

## 2. Conclusion

In order to avoid such situation it is very important to carefully study the Russian market specific features, understand the requirements of the local legislation, realize the actual scope of works to be done for securing the smooth and lawful operations on the market, and based on this analysis take decisions related to the number of professionals to be employed and their functions [10]. As an alternative it is also possible to outsource the part of work, handing it over to the competent specialists. It is necessary to realize that the boutiques are managed from the office, that is why it is important to ensure such level of office operations, so that it demonstrates the example of high level of a luxury brand both to its employees and potential candidates as well as has the real possibility to effect the due and timely control of all areas of the company's activity.

## Corresponding Author:

Dr. Koroleva  
Moscow Academy of Entrepreneurship under the  
Government of Moscow, 36 Planetnaya street.  
125319, Moscow, Russia.

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