RESPONSIBLE CONSUMPTION:
NEW BUSINESS OPPORTUNITIES AND CASES
OF RUSSIAN COMPANIES

SKOLKOVO Institute for Emerging Market
Studies
Sustainable Business Centre
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Unilever is a leading global manufacturer of consumer goods, with products sold in more than 190 countries. Unilever employs about 119,000 people worldwide, with a turnover of EUR 52.7 billion in 2016. Unilever has four production sites in Russia, based in St. Petersburg, Tula, Omsk, and Yekaterinburg. In 2017, the company celebrated its 25th anniversary in Russia.

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Dear colleagues!

We are pleased to present this report titled Responsible Consumption: New Business Opportunities and Cases of Russian Companies, prepared by Sustainable Business Centre of the Moscow School of Management SKOLKOVO. This is the second report in a series of analytical publications by the Moscow School of Management SKOLKOVO analysing the challenges and opportunities faced by businesses in the context of the spreading concept of sustainable development, both globally and in Russia.

The report focuses on the phenomenon of responsible consumption and the emergence of a new type of consumer who approaches the selection of goods and services in a more conscious, environmentally and socially responsible manner. We believe that this trend is significantly impacting the business landscape, including new, rapidly growing market niches.

Personally, I find this study interesting for two reasons. Every year I strive to lead a healthier lifestyle, consume more rationally, and adhere to greater principles of social cooperation and support. In my opinion, this is the natural choice for every person in the modern world. Notably, responsible consumption is gradually transforming from a choice of values into one of the most significant market opportunities for the next decade. Economic viability is the primary driver of this trend and the sustainable development concept in general.

Secondly, the Moscow School of Management SKOLKOVO is a business school driven by the entrepreneurial spirit. We are convinced that entrepreneurs can change the world for the better. In support of this thesis, the authors of the report cite entrepreneurial success stories to illustrate the responsible consumption trend. We are accustomed to seeing remarkable success stories of large international companies doing business in sustainable manner. This report, however, focuses on the other end of the spectrum: small and medium-sized Russian businesses, including social entrepreneurs and companies run by the Moscow School of Management SKOLKOVO alumni and partners. As pioneers in their niches, they have shown that Russia already has a growing demand for sustainable products, which means that new business opportunities are emerging.

I am confident that this study will be of interest to entrepreneurs and heads of companies working on business growth strategies and strategic marketing, looking for new markets and market niches, and analysing trends in changing consumer preferences, as well as the associated opportunities and risks.

We hope that this report will not only give readers an insight into the phenomenon of responsible consumption, but will also inspire them to come up with new business ideas. The study will also benefit participants of SKOLKOVO educational programmes since it complements the database of applied research and management tools, developed on the basis of Russian business practices.

We are very grateful to Unilever — our long-time partner and co-founder of the Sustainable Business Centre — for its cooperation and support in promoting sustainable business development in Russia.

Dear colleagues!

On behalf of Unilever, as a partner, I am pleased to present the second report of the Sustainable Business Centre SKOLKOVO IEMS. The report addresses a very important issue that is becoming more pressing every year — responsible consumption and the opportunities it offers to companies, especially in Russia.

At Unilever, responsible consumption has always been an integral part of the product life cycle. The Unilever Sustainable Living Plan pursues business growth that ensures positive social impact while reducing our environmental footprint. Over the last six years, we have made great progress, especially in our greatest areas of influence. Nevertheless, reduction of the environmental footprint at the consumer product use stage remains a challenge.

This is why we are committed to the principles of a circular economy, which we apply in our production processes. This approach benefits both business and the environment because efficient use of raw and other materials cuts costs and reduces waste while creating new opportunities for customers and consumers. Following this principle, in January 2017 we announced our intention to switch to 100% biodegradable or recyclable plastic packaging by 2025.

Consumer behaviour is an important element of the circular economy, making the loop “close” in the right way. And Russia plays an important role in this process. The market offers an excessive variety of products and services. Legislative initiatives intended to create infrastructure for processing consumer waste are at the centre of discussions. Buyers are becoming more aware of products’ composition and showing more interest in their origin. Society’s priorities are changing, and therefore, I am confident that if more companies in Russia adopt values such as those described in this report, responsible consumption will soon become common practice and will no longer be underestimated by businesses.

I would like to thank the Sustainable Business Centre, SKOLKOVO IEMS, for its work and hope you will discover many new things as you read the report.

J. V. Raman

Unilever President in Russia, Ukraine, and Belarus

Yours respectfully,

J. V. RAMAN

UNILEVER PRESIDENT IN RUSSIA, UKRAINE, AND BELARUS

YOURS RESPECTFULLY,

Andrei SHARONOV

PRESIDENT OF THE MOSCOW SCHOOL OF MANAGEMENT SKOLKOVO
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EXECUTIVE SUMMARY

Today, there is growing concern in the international community about a wide range of social and environmental challenges resulting from human activity. This concern is reflected at various levels, from supranational agreements to individual lifestyles. The trend toward responsible consumption is growing globally. People are consciously opting for products and services with less negative impact on the environment and society. This is a clear sign of a pro-active attitude on the individual level. The emergence and development of the responsible consumer category are already significantly impacting companies around the world. This report examines the context, nature and development of responsible consumption, the new business opportunities it affords, as well as the business risks it reveals.

The key processes that set the context for responsible consumption in the past are still relevant and contribute to its growth. These include:

- generational shifts, including young people’s growing desire to take care of the environment and lead a healthy lifestyle, and their concern about manufacturers’ compliance with ethical standards;
- technological progress, especially the Internet and digital technologies, which provide consumers with: a) unlimited and instant access to information about products and services all over the world; b) the ability to purchase a product from virtually anywhere in the world, or globalisation of the consumer sector; c) the ability to instantly and publicly express their attitudes to goods, services, and manufacturers;
- development of institutional mechanisms such as legislative regulation and voluntary certification of products and services that comply with sustainability principles.

In practice, the expectations of responsible consumers worldwide are already a key incentive for raising business standards and implementing corporate sustainable development programmes. Responsible consumption and production patterns, along with related indicators, were included in the 17 Sustainable Development Goals of the United Nations 2030 Agenda for Sustainable Development. This attests to the global consensus on the importance of creating a culture of responsible consumption.

While there are different estimates of the proportion of responsible consumers to the total number of consumers, experts are unanimous in that their share is rapidly growing. This growth is determined by three interrelated processes:

- more consumers are opting for responsible consumption when choosing products and services;
- every responsible consumer is gradually “evolving” by expanding the range of goods that qualify for responsible consumption. In other words, their habits and lifestyles are changing;
- more companies are not only modifying their products and upgrading their processes, but are also posing additional requirements to their suppliers.

The growing number of responsible consumers and the related supply development processes are significantly transforming the global competitive environment, opening up new opportunities for business growth, and creating new risks. Growth is facilitated by the expanding differentiation of products and services created to suit the new consumer preferences. This report proposes a model of product and service differentiation, and looks at some companies already applying possible solutions, including: modification of the product composition to make it more consumer- and environmentally-friendly; optimisation of packaging and use of recycled and recyclable materials; shift from the product model (sale of products) to the service model (provision of services), where the recycling cycle concludes with the manufacturer rather than the consumer; new services for collecting, replacing, and disposing of used products; revision of production practices and certification that consumers can recognise, etc.

In addition, new niches are providing growth opportunities for companies targeting responsible consumers due to their higher growth rates than the related traditional market segments. The growth of individual niches can be as high as 15–20%, versus only 3–4% per year for traditional segments. The report illustrates several market niches, including food products, natural cosmetics, sustainable tourism and others, as well as the related changes that significantly impact the players.

Risks are another factor contributing to the transformation of business management. The key risks analysed in the study include a gradual evolution of the competitive environment, with a growing critical mass of companies relying on responsible consumption patterns, as well as additional reputational risks associated with responsible consumption.

Given the combination of opportunities and risks arising from the growth of responsible consumption, the study proposes a matrix of strategies with four possible options, namely:

- counter-trend play — investment in the creation and targeted positioning of new products and services within the old model;
- protection — preservation of the old business model while maximising the return on existing products,
modernisation — gradual development of the product portfolio to satisfy responsible consumers while preserving the old product counterparts, which is in effect a transition from one market segment to a corresponding niche;

début — entry into new markets and creation of new products for responsible consumers.

The report also examines the relevance of international responsible consumption trends and the possibility of applying international experience in the Russian market by reviewing the business environment and analysing 20 Russian companies.

Today, Russia already has several clear preconditions setting the stage for responsible consumption, including demand for sustainable products and services. In particular, compared to other developing countries, many Russian consumers are highly educated, live in cities, have Internet access and a relatively high income. This profile is typical for responsible consumers who make informed decisions about purchases and can afford to choose between goods and services offered on the market.

At the same time, there are significant limitations to the development of responsible consumption in Russia, including cultural features, underdeveloped regulation and infrastructure for responsible consumption, and lack of public awareness. These factors account for the current gap between Russian consumers’ potential to purchase sustainable goods and services and the actual consumption. Nevertheless, the situation is quickly changing in all areas, including informational, infrastructural, and institutional barriers, through business activities, the pro-active attitude of the non-profit sector, and government initiatives.

An analysis of Russian companies clearly confirms that opportunities are there for the development of responsible consumption in Russia. The long list of companies that took part in this study includes over 100 market players and over 20 market segments and niches. The report particularly focuses on seven niches targeted at the responsible consumer and 20 cases of Russian companies.

Niches in Russian market segments have high growth rates, just like abroad. At the same time, currently the niches are underdeveloped in terms of maturity of consumer demand, regulatory mechanisms, certification and other business standards, as well as availability of sales channels.

When analysing the success stories of 20 Russian companies targeting responsible consumers, we can distinguish two types of strategies on the basis of the matrix: business development from a market segment to a niche (modernisation), and creation of a niche business from scratch (début).

The key success factors common to all the analysed companies are:

- active efforts to raise consumer awareness;
- rigid quality control for ensuring that products and production processes comply with the stated objectives and positioning;
- partnerships — attracting and working with corporate partners that rely on sustainable practices in Russia.

The report presents a detailed description of the above success factors, including the cases of Russian companies. In addition, the study analyses the available external sources of financing, including Russian crowdfunding platforms and interest-free loans from the Our Future Fund. It also looks at the barriers currently faced by Russian businesses targeted at responsible consumers, including growing competitive pressure from followers and dishonest competitors, and limitations to business scaling.

The report as a whole addresses responsible consumption as a worldwide phenomenon, looks deeply into possible business strategies for ensuring growth and reducing risks, and also illustrates the emerging opportunities through original Russian material, including specific niches and real success stories.
INTRODUCTION

Over the last ten to fifteen years, the category of responsible consumers who approach consumption in a conscious, environmentally responsible and ethical way, is becoming more identifiable in international markets. Besides assessing goods and services for various traditional properties, such consumers care about additional characteristics when making a purchase. These include the origin of raw materials, industrial practices such as labour conditions and environmental impact, whether the goods are recyclable after use, and so on. Today, these requirements apply not only to goods and services, but also to the activities of companies. This is conveyed through consumer activism. With easy Internet access worldwide and the availability of free information, non-compliance with the expected norms of corporate behaviour in any market may reduce a company’s share of consumers in others. Today, the cost of an error in corporate social responsibility, corporate image, product quality, and transparency of business processes is much greater than twenty years ago. This affects, first of all, large transnational corporations (TNCs). Nike was one of the first companies to be affected by the public opinion. In the 1990s, it was publicly criticised for harsh labour conditions in its factories and exploitation of workers in developing countries. Protests against such practices began in the United States and spread to over ten countries. The company’s share prices were cut by half and it took billions of investment dollars to restore the company’s reputation.

At the same time, the emergence of the responsible consumer category brings not only business risks—it also creates new opportunities. The new requirements expand companies’ opportunities to differentiate products and services by appealing to the values of social and environmental responsibility. Although responsible companies and product types were around in the past, they were perceived as an exception rather than the rule, and few consumers preferred such manufacturers. In modern times, when sustainable development is becoming a global concept, there is more space for differentiation of sustainable products and services, making their production economically feasible for a broad pool of players.

In addition, responsible consumption has created new global market niches, including natural foods, organic cosmetics, sustainable tourism and many others, both for TNCs and small and medium-sized enterprises (SMEs). On the whole, these niches are growing several times faster than the traditional markets, with annual growth rates of up to 20–25% versus 3–4%. This opens up a window of opportunity for creating and developing companies. Such niches are global because responsible consumers are present in both developed and developing countries.

Notably, despite similar shares of the population being predisposed to responsible consumption (over 50% in both groups of countries1), there are currently a number of factors affecting the actual penetration of the trend. In developed countries, responsible consumption is already institutionally organised and relies on high living standards, consumer awareness and education, developed certification system, and the global supply. In this case, consumers make up a critical mass, being the main driver of the trend. The share of responsible consumers in these countries accounts for up to 30% of the national markets. They are able to choose between different types of products, have the means to distinguish between sustainable and ordinary suppliers, and consciously opt for sustainable products even if they are more expensive. These consumers pose high requirements to international companies, including to their production activities in other countries.

Developing countries, on the other hand, have a less resource-intensive consumption model due to the consumers’ constraints rather than their conscious choice. For instance, according to the Global Footprint Network, the ecological footprint per capita in the United States is almost seven times higher than the corresponding figure in India — 8.2 versus 1.2 hectares per person2. According to Greendex — a ranking of countries in terms of actual consumption of basic products and services per capita such as transport, housing, and food, India is number one out of 18 countries in terms of “green consumption”, while the United States is last on the list3. This is explained by low living standards, underdeveloped infrastructure, and scarcity of resources in developing countries. The public awareness about responsible consumption is also lower, and certification means are poorly developed, if at all. Consumers’ desire to support responsible producers is often fuelled by complex social and environmental challenges. However, consumers are often unable to act on this desire due to supply shortages, financial and other limitations.

In this respect, state bodies and large corporations that adhere to the same standards in different markets can provide incentives for responsible consumption in developing countries. For example, when China was faced with high growth rates of the overweight population, it responded by promoting a healthy lifestyle and more balanced diet. Singapore and Indonesia limit the use of private cars in order to reduce emissions. Here is one example of responsible corporate practice. In 2006, Danone and Grameen Bank launched a joint project in Bangladesh called Grameen Danone Foods Ltd. (GDFL) to combat malnutrition through local production of a new product — cheap and nutritional yoghurt. The project’s positive impacts for the local population included better health and nutrition, a higher employment rate, and women’s empowerment4.

A sustainability analysis of the Russian market shows good potential for sustainable products and services demand due to a high education level and relatively high income5. The rate of Russian consumers potentially willing to pay more for products manufactured by socially and environmentally responsible companies is also high — over 60%. At the same time, there are some setbacks for this trend, in particular, no system of legislative regulation and certification of environmentally friendly and organic products, as well as insufficient infrastructure such as separate waste collection, among others. Another important setback for responsible consumption is that Russian people have always thought of their country as a place rich in natural resources. Thus, rational use of basic resources such as water, forests, land, and electricity is not the typical subconscious model underlying consumer behaviour. Does this cancel out the opportunities for businesses targeted at the responsible consumer in Russia?

There is no simple answer to this question. In this regard, the report considers responsible consumption from three points of view:

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1 For example, Patagonia, an American company manufacturing clothes and sports equipment, has focused on being environmentally friendly since its inception in 1973.
— reflecting the general dynamics of the trend and best practices; market — using examples of individual market sectors and corresponding niches; Russian — focusing on the specifics of the Russian market. This is the first study to present a generalised summary of international approaches to analysing responsible consumption. The report presents the tools developed in the course of the study and an analysis of the Russian experience, which takes into account the data available to date.

The report has three chapters.

Chapter 1 systematises the subject and presents a study of the phenomenon of responsible consumption, in particular:

- an analysis of the international context for the emergence and development of responsible consumption patterns over the last 30–40 years;
- a review of approaches to estimating the trend’s penetration and segmenting consumer groups by their predisposition to responsible consumption;
- a study of the impact of responsible consumption patterns on markets and company performance, with examples of individual niches;
- a proposed model of sustainable product and service differentiation, and a matrix of alternative strategies for new and existing players.

Chapter 2 presents an analysis of the development of responsible consumption in Russia, including:

- a review of the pre-conditions and specifics of the trend’s development;
- analysis of the factors impeding the trend, including institutional, infrastructural, and informational restrictions;
- an analytical summary of the practices of Russian companies through a detailed study of 20 SMEs targeting responsible consumers.

Chapter 3 includes:

- an analysis of seven market niches offering sustainable products and services, including a review of international trends and examples, as well as some observations regarding the development of market niches in Russia;
- 15 examples of Russian companies targeted primarily at private consumers;
- five examples of Russian companies focused on responsible businesses and end users.

For the reader’s convenience, detailed cases of companies are presented together with analyses of the corresponding niches.

Chapter 3.1 Analysis of Market Niches and Cases of Russian Companies Targeting End Users:

- sports and healthy lifestyle (I Love Running, YOGA PRACTIKA);
- certified food products (LavkaLavka, AgriVolga, SAFA);
- natural cosmetics (Natura Siberica, Mi&Ko);
- sustainable fashion (TVOE, Charity Shop);
- sustainable transport (Anytime, Invataxi);
- sustainable tourism (Ethnomir, Absolute Siberia);
- purpose-driven consumption (Naivno? Ochen, Cocco Bello).

Chapter 3.2 Cases of Russian Companies Targeting Responsible Business and End Users:

- sustainable retail (4fresh);
- separate waste collection and recycling (Sphere of Ecology).

This report will be of interest to entrepreneurs, company owners, and managers who:

- are looking for new opportunities and market niches to create, develop, or transform their business;
- work in strategic marketing, brand development, and corporate social responsibility, and are adapting to the latest trends;
- work in strategic planning, risk management, and monitoring of changes in the external environment.
Until recently, no one thought of responsible consumption as a full-fledged trend with significant impact on markets and companies. Today, however, the trend is becoming more visible in market development, affecting the formation of new market niches, and opportunities for differentiation in the market and for receiving bonuses. Moreover, this is happening not only in developed countries, but also in many developing countries. More CEOs are now considering responsible consumption when assessing the competitive power of their businesses, developing a product strategy, and searching for new growth opportunities. At the same time, this trend is likely to continue developing as more consumers join in and responsible consumption spreads to a wider range of goods and services.

Responsible consumption characterises the behavioural patterns of consumers who consider a number of additional features when choosing products and services. These cover the entire value chain — from raw material extraction to product recycling. The responsible consumer pays attention to such aspects as minimum environmental impact, equal rights, healthy lifestyle, humane attitude to animals, and so on. For example, a consumer’s choice against purchasing goods produced by child labour or in favour of livestock products such as milk and eggs from animals kept in favourable conditions (free range) may first seem out of the ordinary, or a random exception from common consumer behaviour. In fact, however, such choices are grounded in a set of values shared by responsible consumers.

There are different approaches in the world to accounting for and classifying such values and consumer preferences. The following areas can be singled out as particularly important to responsible consumers:

- efficient and conscious consumption,
- conservation of ecosystems and biodiversity, humane treatment of animals,
- healthy lifestyles,
- fair labour conditions and no child labour,
- no social discrimination, religious and national tolerance, preservation of national cultures and traditions,
- inclusive environment and equal opportunities for all.

These priorities are by no means universal or compulsory criteria for all responsible consumers, but some combination of these values does influence the final choice of each individual buyer. This group of consumers is sometimes referred to by the collective term LOHAS (Lifestyles of Health and Sustainability), which can be interpreted as “lifestyles grounded in the principles of sound health and sustainable development”, or its synonym, “responsible consumers.”
The phenomenon of responsible consumption developed gradually over the last 50–40 years. An analysis of the context in which it emerged shows that a number of key international trends and processes can be singled out, which remain relevant to this day. Namely:

- a generational shift towards increasing environmental consciousness and importance of a healthy lifestyle;
- digital revolution, including the Internet, social networks, and globalisation of markets;
- new regulation that raises national standards and new supranational mechanisms;
- new international certification systems ensuring uniform requirements for goods and services worldwide.

In the 1970s, the concept of environmental education began to catch on. In 1970, the International Union for Conservation of Nature (IUCN) held the first seminar on environmental education. It was then that this discipline was officially defined. The seminar was followed by other international conferences, and soon general principles, approaches, and programmes were developed to disseminate knowledge about the environment and human impact on the environment. Gradually, new subjects — Ecology and Natural History — were included in curricula in industrially developed countries.

Millennials*, whose economic activity will peak in the near future, have grown up in times of a loud public outcry on environmental issues, activism of international organisations such as Greenpeace, widely reported environmental disasters, and tangible consequences of human impact on the environment. The ideas of environmental protection and responsible consumption are much more common among Millennials than in the previous generation. For example, research shows that in the United States, Millennials (the largest population group numbering 92 million people) tend to support more rigid environmental legislation, consider global warming to be a consequence of human activity, and advocate for such environmental initiatives as the development of green energy and tax incentives for hybrid vehicles*. Millennials are even willing to pay extra for sustainable products and services. According to polls, in 2014, about 50% of buyers in this demographic group were willing to pay a premium price, and in 2015 this figure was almost 75%. Importantly, this is the largest demographic group since the 1950s post-war spike in birth rates.

HEALTHY LIFESTYLE

Millennials also differ from the previous generations in that they often subscribe to the ideas of a healthy lifestyle (HLS). This is reflected not only in greater sales of sneakers and sports accessories (according to Goldman Sachs research, Millennials account for the success of sports brands today), but also by their attitude to smoking, for example. In 1998, the percentage of high school students who did not approve of adults (18 years and over) smoking was 69%, and in 2013, this figure reached 85% indicating that most high school students do not approve of adults who smoke.

The concept of a healthy lifestyle was also promoted by the negative consequences of the urban lifestyle. In the post-industrial society, which is 54% urbanised worldwide, the average person engages in less physical activity and the obesity rate is growing. According to the World Health Organization (WHO), 39% of people aged 18 years or older worldwide are overweight. Between 1980 and 2014, the obesity rate doubled and still continues to grow. According to WHO, this problem is caused primarily by growing consumption of high-calorie, fat-rich foods, as well as reduced physical activity due to a sedentary lifestyle and widespread transport availability.

Today, physical and psychological health is seen as an integral part of the sustainable development concept. As a result, the healthy lifestyle trend has affected many brands, markets, and industries. The global market for products in healthy lifestyles is growing at an annual rate of 10.6%, amounting to USD 3.72 trillion in 2015. At the same time, industry is growing primarily due to increased consumption in developing BRICS countries, in particular China and Brazil. Millennials became the main target audience of these industries and the driver for their growth.

According to the Nielsen study, the Millennial generation and generation Z following it are more willing to pay a premium for attributes related to health and healthy lifestyles.

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* Sociologists have different opinions on the age range of the Millennial generation. For the purposes of this report, the study was based on Nielsen’s approach, according to which Millennials were born between 1980 and 1995 (for more details, see Figure 1).
In early 2017, approximately 40% of the world’s population had Internet access\cite{15}. For comparison, in 1995, the proportion of Internet users was less than 1%. This rapid growth of the number of Internet users and tools at their disposal have turned digital technologies into a key driver for the spread of responsible consumption. Devices with Internet access have become the main tool for finding information about goods and services. Secondly, since their inception, social networks have become a key venue for expressing consumer activism, with virtually no geographic restrictions or time delays in information sharing. Thirdly, the development of Internet commerce has led to the globalisation of markets for goods and services, as well as of consumers.

**INTERNET AS A MEANS TO FIND INFORMATION**

People have always relied on information about goods and services to make decisions about their purchases. Now, in the era of information technology, the search for information is much faster and more effective. The new IT generation will be the one to determine economic trends. Millennials rely on the Internet as the main source of information not only for media preferences, but also for finding the information they need. Survey data vary, but on average, 8 out of 10 consumers look up the information they need on the Internet before buying goods. This applies both to expensive goods like electronic devices and household appliances, as well as to everyday goods and food products. Information posted on company websites, customer reviews, and word-of-mouth allow customers to form an opinion about a particular product or service without leaving home. Thus, a significant share of goods is purchased by well-informed consumers.

**DEVELOPMENT OF SOCIAL NETWORKS AS A SPACE FOR EXPRESSING CONSUMER ACTIVISM**

Today, informed consumers have access to social networks — a tool for instant sharing of information and opinions. According to some estimates, 97% of Internet users aged 10 to 64 years use social networks\cite{19}. Over the last few years, social networks have evolved from a communication platform into a marketing tool. Moreover, social activists and leaders in public opinion have gained a new public platform to air their views, with a virtually unlimited audience. The reputation of many companies now depends on the general mood in social networks. Therefore, they are allocating a fairly large share of their marketing resources to these venues. Any change in the users’ mood can affect the general marketing strategy of an entire company.

**GLOBALISATION OF MARKETS FOR GOODS AND SERVICES**

Consumers’ ways of buying goods and services have changed, too. E-commerce is growing: in 2013, 41% of all Internet users made at least one purchase on-line and, according to forecasts, in 2017 this figure will be 46.4%\cite{17}. The spread of e-commerce gives buyers a nearly unlimited choice of goods and services, adjusted for the cost of delivery. Markets and consumers are becoming more global every year. This means that the supply deficit of sustainable products in one particular local market will be compensated by the most active and solvent responsible consumers purchasing relevant goods on international markets via the Internet.

**DEVELOPMENT OF REGULATION**

**ENHANCEMENT OF NATIONAL STANDARDS**

Consumer activism and the predisposition of more people to a more sustainable culture of consumption and lifestyle are already clearly expressed in interactions with authorities, right down to electoral behaviour. Since the phenomenon of responsible consumption originated in developed countries, they were the first to face the ensuing consequences.

In many developed countries, the public holds the government responsible for environmental costs. For example, in 2015, citizens of the Netherlands filed a lawsuit against the government...
of their own country for failing to protect residents from climate change and insufficient efforts to curb CO2 emissions. The trial, held in The Hague, was the first case in history where citizens brought claims on these issues against the government. The court ruled that by 2020 the Government of the Netherlands was to reduce CO2 emissions by 25% compared with 1990 levels18. Another vivid example is the German Green Party, which has been around for over 50 years, but has achieved significant political success just recently. The party was the main force that promoted the law on renewable energy sources ten years ago, making Germany the world leader in this field.

The process of legalising norms that are consistent with the principles of sustainable development and the culture of responsible consumption is gradually unfolding. Specialists note that many ecological and social directives and laws have been adopted in recent years, for example, in the EU. When purchasing goods and services, EU authorities now adhere to the green procurement policy. This means suppliers must meet certain sustainable development standards. Responsible consumption principles are reflected both in new laws regulating consumer behaviour, and those setting requirements to the production and sale of goods and services. For example, since July 2015, large supermarkets in the state of California, USA are legally prohibited from providing and selling plastic bags to customers. In the EU, households are required to sort their garbage in an effort to promote waste recycling. In 2007, the EU adopted uniform rules that led to an increase in the share of recycled waste in Europe by 56% in 2007 to 46% (mainly due to increased recycling in Poland, Slovenia, Lithuania, and Latvia). The new set of regulatory documents will likely set a target of 70%.

In 2015, France was the first country to completely prohibit disposable plastic tableware19. Under the new law, by 2020 all disposable tableware shall consist of at least 50% organic materials (derived from natural components) that can be locally recycled. In 2025, this figure will increase to 60%. In addition, France was the first country to adopt a law on corporate social responsibility under which the country’s 100 largest companies20 are required to have a corporate social responsibility plan and to ensure that it is implemented in all their branches and subsidiaries. Failure to comply will entail a large fine.

Such laws institutionalise the principles of sustainable development and responsible consumption. In the future, they will likely be adopted in developing countries as well.

NEW SUPRANATIONAL MECHANISMS

In addition to the creation and consolidation of national standards, there is growing international dialogue on a wide range of issues related to sustainable development and the culture of responsible consumption and production.

The established paradigm of development under the brown growth model is undergoing significant changes in the 21st century as the world transitions toward the green growth model. In the past, support for the preservation of the environment was quite sparse, whereas today not only are public organisations and state institutions engaged in environmental discourse, but commercial structures are as well. New financial mechanisms and technological solutions are emerging, and progress is being made through international dialogue at the governmental level.

There is growing interest at different levels in alternative development indicators, such as adjusted net savings or the social progress index, as opposed to GDP estimates. Following the Millennium Development Goals (MDGs), on 25 September 2015, UN member states adopted the 2030 Agenda for Sustainable Development (hereinafter referred to as the Agenda). The new Agenda differs from the MDGs in that it sets specific environmental protection goals and provides for active participation of businesses to achieve the stated goals. Among other things, it contains provisions on responsible production practices, responsible consumption, urgent actions to combat climate change, conservation of the oceans, and responsible consumption of marine resources. The Paris Climate Agreement was signed in 2015, regulating measures to reduce CO2 emissions for the signatory countries. The Agreement is considered a successor to the Kyoto Protocol. Although the Paris Climate Agreement and other similar documents do not provide for any control and coercion mechanisms, they are an important step towards developing mechanisms of supranational regulation.

Another element of the global context for the development of responsible consumption was the creation of uniform standards for sustainable practices under international voluntary certification and labelling systems. Voluntary certification is a form of regulation where companies voluntarily pledge to follow the practices and standards established by the certifying authority. Over the last 20 years, a system was created for voluntary certification of food, pulp and paper products, wooden products, seafood, and other goods. The system requires the entire production chain — from extraction of raw materials to the final product — to meet certain criteria. The manufacturer then obtains a certificate informing partners and end users that purchasing this manufacturer’s goods is the right choice.

There are now expert centres, certifying bodies, and audit organisations. Certificates such as MSC (issued by the Marine Stewardship Council), FSC (issued by the Forest Stewardship Council), Fair Trade, and various regional eco-certificates allow modern consumers to distinguish between sustainable products and ordinary goods.

The Forest Stewardship Council (FSC) was founded over two decades ago, in 1993. According to the FSC, as of 10 October 2016, it had certified about 10% of the world’s forests and issued 31,296 supply chain certificates in 120 countries21. The FSC helps consumers and organisations make choices in favour of wood and cellulose from sustainable sources.

The Marine Stewardship Council (MSC) has been operating since 1997. An MSC certified product lets consumers know that the seafood has been produced in accordance with sustainable development principles and through sustainable treatment of marine ecosystems and their resources. When buying fish in the past, consumers had no way of knowing where and how the fish was caught, whereas now certification makes such information available to them. Moreover, the EU has new rules requiring all seafood to display information on where it was caught on its packaging.

The Aquaculture Stewardship Council (ASC) issues certificates for aquaculture products. The ASC certificate allows buyers to choose products produced in compliance with the best practices in the aquaculture industry.

The Fair Trade initiative, which began in 2002, is focused on manufacturers of various products in developing countries, especially farmers. The initiative aims to improve the product sale conditions (fair payment) and to promote sustainable development principles in agriculture. Fair Trade activists strive to optimise the social and environmental living and labour conditions for agricultural exporters in developing countries. By purchasing Fair Trade certified goods, the responsible consumer contributes to the economic growth of developing countries, where the certification process ensures that fair trading conditions are created for exporters of products.

The Rainforest Alliance initiative was launched in 1987. It operates in 78 countries with the aim of improving farming practices, consumer behaviour, and methods of doing business. The organisation’s mission is to preserve tropical forests by switching to sustainable development practices where local communities earn income through competent use of natural resources rather than deforestation.
CONCLUSION TO THE SECTION:
NEW CONTEXT FOR DOING BUSINESS

The trends described above, including the young generations’ pronounced predisposition to care for the environment and lead a healthy lifestyle, technological progress, globalisation of markets for goods and services, and the development of institutional mechanisms for ensuring social and environmental responsibility of society and business, will continue to set the stage for the development of responsible consumption.

The global consensus on the importance of a culture of responsible consumption is reflected by the inclusion of the goal of ensuring responsible consumption and production* and related indicators in the 17 Sustainable Development Goals of the United Nations 2030 Agenda for Sustainable Development.

In compliance with these goals, the largest multinational players are already elucidating and correlating sustainable development programmes. The development of responsible consumption will also be inevitably affected by the adoption of international voluntary certification standards as mandatory or recommended requirements for access to local markets.

Responsible consumption and related processes are setting a new context for doing business. This means that more companies will be affected by the trend and will have to examine its impact on particular businesses, markets, or segments, and then look for ways to make it work for them.

These and other certificates allow companies to be differentiated in the market and empower consumers to make informed choices. To be able to work with large corporations that impose stringent requirements on suppliers (such as Unilever, IKEA, Coca-Cola, etc.), SMEs supplying raw materials are improving their production practices to earn certificates, which then give them access to global supply chains.

* Goal 12: “Ensure sustainable consumption and production patterns”
Despite the established patterns of responsible consumption development and its impact on markets and players, there is no unambiguous approach to its assessment in world practice. This is due both to varying definitions of this phenomenon, and the difficulty of developing a unified methodology for qualitative and quantitative measurements able to account for many countries, demographic groups of consumers, and product categories.

Most international studies on responsible consumption are based on two approaches that are not contradictory to each other, but allow for a more detailed description and analysis of the trend:

- assessment of the penetration according to consumers’ predisposition to choose sustainable goods and services (make a choice in favour of sustainable producers) and willingness to pay an additional premium for sustainable products;
- segmentation of consumers by their predisposition to buy sustainable products and willingness to boycott suppliers whose products do not meet their expectations.

The results of an international survey of 30,000 people conducted by Nielsen in 60 countries in 2015 showed that the proportion of responsible consumers willing to pay a premium for products and services from socially and environmentally responsible companies averaged 66% worldwide. This figure is constantly growing: according to the same survey, since 2011 it has increased, on average, by 21% worldwide. Despite a debate about specific assessments, especially those pertaining to the average global share of responsible consumers, experts agree that the trend is growing.

At the same time, such international and national surveys typically reflect the declared or potential consumer behaviour patterns rather than the actual situation. In practice, there is a significant gap between the intended and actual behaviour of consumers, due to a number of factors. The first is price sensitivity if sustainable products are more expensive. The price difference between an ordinary product and a similar sustainable one can vary significantly depending on the segment and country. For example, a comparison of prices for some products in the UK reveals a gap ranging from several percent to several times. The mere presence of an eco-label increases the price of laundry detergent by about 10%. Eco-friendly detergents for cleaning household surfaces are four times more expensive.
than ordinary products, and the cost of shampoo by some ethical brands can be 9–10 times higher than the average cost of a non-sustainable product. At the same time, other goods, such as household appliances from responsible manufacturers are, on average, even cheaper than their counterparts from conventional brands.

The second factor is the existence of established preferences, certain expectations, and assessments of sustainable products, often at the subconscious level. For example, a study by Professor Michael Luchs of the Mason School of Business found that consumers tend to think of certain types of sustainable products as less durable (e.g., footwear made from recycled materials) or less natural (e.g., clothing made from recycled plastic that will touch the skin) and therefore, opt for traditional goods.

The third factor is consumer awareness and additional transaction costs associated with searching for and purchasing sustainable products. In many cases, purchasing sustainable goods and services involves searching for information, studying the labels, and/or visiting specialised stores. Many consumers are unwilling to spend their time and energy on this. In particular, according to one study, 40.9% of consumers will buy a sustainable product only if it does not require any additional effort on their part. Depending on the sustainable products supply in a particular country, they may be available on specially marked shelves in all shopping centres, while in others, they can only be bought by ordering online from foreign websites.

As a result, the gap between the declared willingness to buy sustainable goods and services according to market research data and the actual share of consumers buying them varies from two times in developed countries to ten times in developing ones.

**FIG. 3 APPROXIMATE COEFFICIENT OF THE GAP BETWEEN THE DECLARED AND ACTUAL RESPONSIBLE CONSUMPTION**

![Graph showing the gap between declared and actual responsible consumption](image)

Source: expert assessments by the Sustainable Business Centre, SKOLKOVO IEMS

**ASSESSMENT OF CERTAIN CONSUMER GROUPS’ PREDISPOSITION TO RESPONSIBLE CONSUMPTION**

The second approach is to divide consumer groups into categories according to their predisposition to responsible consumption. A study by CONE Communications, a consulting company specialised in sustainable development marketing, is one example of this approach. The company applied a complex approach, simultaneously considering demographic parameters, and consumer values and preferences. According to this method, all consumers fall into four categories, characterised by certain features of consumer behaviour when selecting products/services. The CONE Communications classification categories and their descriptions are presented below.

**OLD GUARD**

This group of consumers usually comprises men aged 55 years and older from the baby boomer generation. They account for 12.6% of all consumers. When buying goods and services, they usually stick to traditional values: the price/quality ratio, convenience of service, and availability. They are sceptical about corporate social responsibility programmes, and most (2/5 of the respondents) believe that their personal choice will not make any difference in the solution of global problems. They sometimes buy goods/services from sustainable producers, but usually do it for reasons other than belief in responsible consumption. According to experts, one of the few ways to attract members of this group is to convincingly demonstrate a company’s capability of solving local social and/or environmental problems.

**RINGLEADERS**

These are men and women over 55 who are eager to do something to change the world. They account for 20.8% of all consumers. Not only do they purposefully buy sustainable goods, but they also make efforts to convince others that this is the right approach. They are true leaders who successfully rally others to follow their lead. They will go the extra mile to encourage others to purchase responsibly because they strongly believe that individuals can have a significant impact on solving the world’s problems by making the right choices. When recommending a certain product to their social environment, almost all of them (92%) take corporate social responsibility programmes into account. 71% of them are likely

**HAPPY-GO-LUCKY**

Typically, these are men and women aged 18–34 years. This is the largest group, accounting for 40.9% of all consumers. They buy sustainable goods/services only if there is an opportunity to do so, and mainly because it makes them feel good about themselves. 51% of the respondents admitted that they bought environmentally friendly products to justify themselves. They believe that they can contribute to solving global problems, but this is not the main driver behind their choices when making purchases. Products and services that can give them moral satisfaction are sure to draw their attention. The key factor in the group is the convenience. These consumers will choose a sustainable product if it is convenient and easy to buy. At the same time, 9 out of 10 buyers in this group are potentially ready to boycott a brand/company if they learn about its unfair and/or environmentally irresponsible practices.

**BLEEDING HEARTS**

These are usually educated and well-informed women aged 18–54. This group accounts for 26.1% of all consumers. For them, the main incentive for choosing a sustainable product or service is the desire to save the world by buying the right goods, although they are unsure about how effective this approach really is. They actively seek out products from sustainable manufacturers and tend to buy them as often as possible. 92% of members of this group point out that they will boycott certain brands or goods/services for irresponsible practices, and 57% are already involved in such activities.

**RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES**

APPROACHES TO ASSESSING RESPONSIBLE CONSUMPTION AND CONSUMER SEGMENTATION
to change brands in favour of those that adhere to sustainable principles.

The above consumer groups are distributed differently among different geographic markets and market segments. Other studies also distinguish four (in some cases, up to six) consumer groups based on their predisposition to responsible consumption, relying on the model of the innovative products acceptance life cycle.

CONCLUSION TO THE SECTION:
EVOLUTIONARY NATURE OF RESPONSIBLE CONSUMPTION

Responsible consumption is characterised by two factors that determine its potential development. On one hand, there is a gradual increase in the number of responsible consumers. The above international surveys by Nielsen, also confirmed by surveys conducted by other companies (including in local markets), reveal an increasing proportion of buyers adhering to responsible consumption principles. On the other hand, each responsible consumer gradually goes through a learning curve — both in becoming more aware of the types of certification, sustainable brands, etc., and in terms of his or her actual behaviour, since responsible consumption entails a conscious adoption of new consumer habits. This is confirmed, for example, by increasing separate waste collection figures as appropriate practices are introduced in companies or entire countries.

When responsible consumption becomes part of the consumer culture and lifestyle, the list of goods and services to which appropriate requirements apply also expands. For instance, the organic foods market has been developing for a long time, along with the relevant certification standards. However, demand for sustainable tourism, including calculation and offsetting of each individual passenger’s carbon footprint, is a relatively recent trend. Thus, responsible consumption involves gradual evolution of the consumers, who gradually adhere to these principles more often when making decisions about purchasing goods or services. In some cases, a consumer is likely to be guided by an integrated package of goods and services. In the case of sustainable tourism, the responsible customer may prefer a travel agent’s offer that includes sustainable means of transport to offset the carbon footprint, a hotel with appropriate certification, a specialised menu relying on local suppliers and natural products, a chance to learn about the local customs and traditions, see the local nature, etc.
The favourable context and evolutionary nature of responsible consumption described above will determine the further development and spread of the trend. What impact will (or does) it have on business?

Responsible consumption is founded on additional principles of decision-making when purchasing a product. Moreover, inconsistency with these principles may not only lead the customer to choose another product or service from the competitors, but may also result in actions on the part of the consumer such as boycotting the brand, disseminating information in social networks, and so on. This change in consumer behaviour resulting in conscious consumer preference translates into new opportunities and challenges for businesses, including:

- an opportunity for differentiation in the market and additional competitive advantages through a modified product model, seen by responsible consumers as the company’s operating model;
- an opportunity to expand the company’s market share by occupying new niches with higher growth rates in the traditional markets;
- new business risks — both for companies that are considerate of the trend, and for those that deliberately ignore it.

A product targeted at responsible consumers has some notable differences from an ordinary product. The target audience’s values must be taken into account when developing and producing this kind of product. Moreover, these values should be integrated into the company’s business model and reflected in all the business processes, from operating activities to the communications strategy, since the product embodies the company’s operating model. The consumer is concerned not only about how a particular product is made, but also how the company manufactures other products and whether it meets corporate and social responsibility standards. Formatted and delivered to the end user in this manner, the sustainable product’s features differentiating it from a traditional product give it a number of competitive advantages. Depending on the structure of costs and the price policy of a particular company in a particular market, the price of sustainable products, as shown in the examples above, can be either lower than or similar to the price of traditional products. This will also draw the consumers’ attention and make it easier to choose the right products. Sustainable products can also be significantly more expensive due to the premium.

Philip Kotler’s Three-Levels of a Product can be helpful in analysing the differences involved in creating a product for responsible consumers. The changes concern both the product and the way it is produced and sold.

**Fig. 5** Differentiation space for products intended for responsible consumers

Source: Philip Kotler et al. Three-Levels of a Product, adapted by the Sustainable Business Centre, SKOLKOVO IEMS
THE FIRST LEVEL of a product is the Core Product, that is, a product designed to meet certain needs. Today, a significant share of products is developed accounting for not one, but several basic needs at once. For example, features considered simultaneously in clothing manufacture may include protection from cold temperatures, demonstration of status, adherence to a certain way of life, etc. In this regard, for responsible consumers, the basic need will remain unchanged, while additional requirements satisfied by the product (if it meets several requirements at once) can be significantly influenced by responsible consumption values. In the case of clothing, this can be expressed as a refusal to follow the latest trends and to purchase products for one season in boutiques in favour of buying more universal, high-quality models, and even purchasing clothes in specialised second-hand stores. An example of this is Goodwill, an American chain of stores that accepts used or unneeded clothes, and employs people who are in a difficult life situation.

THE SECOND LEVEL OF A PRODUCT, according to Philip Kotler’s model, is the Actual Product, representing a set of useful attributes or characteristics, from the consumer’s perspective, that are absolutely necessary for it to function, such as quality, exterior design, packaging, and functional properties. Below is a description of some attributes of this level that responsible consumers care about and that allow the manufacturer to differentiate the product from similar offers on the market.

- **No Harm or Possible Benefit to Health**
  Ingredients, materials used, and properties of the product. The healthy lifestyle trend means that responsible consumers carefully read the labels, check information about products on the Internet, and prefer healthier or less harmful products. For companies that produce unhealthy goods (such as carbonated drinks with high sugar content, hamburgers, etc.), this trend is a real challenge, posing the risk of losing a significant share of consumers. Coca-Cola was one of the first companies to take this into account and modify its product portfolio. In 1982, it launched a low-calorie Coca-Cola counterpart — Coca-Cola Light or Diet Coke — to provide a greater selection to consumers who care about this criterion. McDonald’s diversified its menu by adding salads and gave consumers an opportunity to calculate the number of calories in the food. Other major companies have adjusted their portfolios in similar ways, retaining the traditional product while creating a healthier alternative and providing additional information about product properties on the packaging and labels.

- **Specific Packaging Features: Biodegradability and Size**
  With developing culture of separate waste collection, buyers are becoming more concerned about the packaging of goods — whether the material is plastic or recycled, whether it will decompose after use, whether it is recyclable, and how economically the goods are packaged. For example, 10–15 years ago, mobile phones were sold in boxes much larger than the actual phone. This was common practice. In today’s phone packaging, however, boxes are only slightly larger than the product and usually do not contain any fillers. Some manufacturers even draw attention to this as a way to differentiate their goods in the market.

- **Impact of the Product on the Environment**
  Buyers are concerned about certain features of products they are offered — whether they are single-use or reusable, whether they can be repaired, and the service life. For example, the responsible consumer will choose a reusable product over a disposable one since single-use goods significantly increase the volume of household waste. Another important factor is how the product affects the ecosystem: whether its use leads to the accumulation of harmful substances, how long it takes to decompose after use, etc. This factor causes some companies not only to reconsider the product design, but to completely change the business model. For example, instead of offering its goods for sale, Desso, one of the largest carpet suppliers, now offers leasing services that include the selection, installation, cleaning, repair, and subsequent disposal of carpeting.

THE THIRD LEVEL, which regards the manufacturer or product seller, is the Augmented Product — the set of unique characteristics associated with the customer experience in the process of searching, purchasing, and using the product. Traditionally, this level includes the terms of service and warranty service, the delivery process, and the brand. This level provides the most additional space for differentiating sustainable goods and services in the market. In the 21st century, a product represents a company’s operating model. For example, if a large group of companies uses irresponsible and non-environmental practices when manufacturing a product, this reputation is likely to spread to other goods that it produces. Responsible consumers and environmentalists will boycott not just a specific brand, but all of the products manufactured by unscrupulous companies. The following are the aspects that responsible consumers normally pay attention to.

- **Production Technology**
  While at the second level consumers assess products’ benefit or harm to themselves personally, the third level is about aspects such as the origin of the raw material (whether it is renewable, how, where and by whom it was extracted, and the resulting environmental impact), production technologies (such as how much water and energy was used), the volume of greenhouse gas emissions and non-degradable wastes, fuel costs for transportation, deforestation, and much more. An example of this is Say No To Palm Oil — a widely-known protest campaign against cutting down tropical rainforests to clear land for oil palms. Buyers who support this campaign boycott products containing palm oil, one of the most common ingredients in the food industry that is frequently produced in violation of sustainable development principles. Besides receiving recommendations on which brands to choose, participants of this campaign are invited to sign a petition against producers who have not yet switched to raw materials from sustainable sources. As of April 2017, one of the companies included on the blacklist was Starbucks, amidst criticism for failing to comply with its 2013 commitment to fully switch to sustainable raw materials by 2020.

- **Transparency of Processes and Ethical Production**
  Before purchasing goods, many consumers want to know where, by whom, and how the goods were manufactured. One consequence of globalisation is that information about labour conditions in developing countries is now public. The fashion industry is a clear example. After the widely publicised 2013 tragedy in Bangladesh where over 1,130 people died and 2,500 were injured during the collapse of the Rana Plaza factory building, polls showed that negative media reports had a significant adverse impact on 64.7% of companies in the fashion industry.

- **Availability or Absence of Certification**
  The existence of a universally recognised voluntary certificate that meets international or national standards is a key factor guiding the responsible consumer’s purchasing decisions concerning certain product categories. The certificate allows companies to improve their reputation and confirm that their products meet the consumers’ expectations. It also provides them with opportunities to gain new customers. Certification is gradually changing the positions of market players, and in the long-term, it is ousting unscrupulous companies from the market. Some types of certification, nominally considered voluntary, are being included in the state policy on admitting producers to domestic markets.

- **Corporate Social Responsibility (CSR) Programmes**
  This feature is significant to consumers who are concerned about modern social and environmental problems and purposefully follow a particular company’s activities. In developed countries, the public already expects large corporations to run CSR programmes. The share of companies included in the Fortune 500 list that publish sustainability reports has risen from 20% in 2011 to 81% in 2015.

RESPONSIBLE CONSUMPTION AS AN OPPORTUNITY FOR DIFFERENTIATION IN THE MARKET
• Brand, Self-Identity, and Self-Correlation with Responsible Consumers

In the modern world, consumption is inextricably tied to self-identity or the sense of one’s individuality. In a market offering a virtually unlimited range of products and services, a product does much more than just satisfy a customer’s need. Today virtually all products bear additional identifying symbols and attributes, including certain lifestyles conveyed by the product and through associated marketing campaigns. This is most pronounced in the fashion industry, the automotive industry (personal vehicles), and in a number of other industries. Thus, the nature of consumption provides a means for individual consumers to communicate with society and demonstrate their belonging to certain social groups. In this respect, it is often important for responsible consumers to identify with a particular group by purchasing certain goods and services and to make sure they do not deviate from the respective practices.

NEW MARKET NICHES

The second aspect in the space of new opportunities for companies targeted at responsible consumers is penetration of new market niches. Niches of sustainable products and services emerge both within market segments / markets where the customer is an individual (the end user), and where customers are sustainable business companies and organisations guided by sustainable practices and setting high requirements to the suppliers.

There are practically no available open estimates of the cumulative global responsible consumption market. There are many reasons for this, including those discussed above, in the section on the degree of the trend’s penetration. According to some reports, the volume of the global market of LOHAS goods and services (including only end users and excluding the corporate sector) exceeded USD 550 billion in 2016.29

In the corporate sector, the share of sustainable supplies from individual companies, primarily large transnational corporations, can reach 100%. Therefore, a company that does not meet social and environmental standards will not be able to obtain the status of a supplier.

More importantly, the growth dynamics of sustainable product niches can exceed the growth dynamics of the market segments by several times and makes up 15-20% versus 3-4% per year, respectively. High growth rates attract the existing players’ attention and create opportunities for launching new companies, which, in turn, leads to significant changes in the markets. There is also no exhaustive list of markets in which the corresponding transformational processes are already observed. However, there are many examples reflecting the general nature and trend of the changes.

FIG. 6 NICHE OF SUSTAINABLE PRODUCTS INTENDED FOR THE END USER (EXAMPLES)

Markets and niches of sustainable products for end users include sectors such as certified food products, natural cosmetics, sports and leisure products, sustainable clothing, footwear and accessories, sustainable children’s products, household goods, vehicles, travel services, real estate, and so on.

Source: Sustainable Business Centre, SKOLKOVO IEMS

For more insights into the nature of the changes, below is a brief description of several niches with a focus on the end user, and a summary table of consumer preferences for two types of consumers — individuals and sustainable businesses.
Certified Foods (Organic, Religious, Fair Trade)

The niche of certified foods includes several segments that have formed under the influence of different trends. Thus, the volume of the global organic foods market is about USD 125 billion. According to forecasts, this market will grow on average by 15.9% annually, and by 2020 its volume will exceed USD 210 billion. The factors that contributed to the development of the organic foods market were, firstly, the transition of producers to more environmentally friendly farming methods, and secondly, the changing nature of consumer demand, including a growing desire to lead a healthy lifestyle. The second fastest growing segment of certified foods is religious foods. For instance, according to experts, halal food products, requiring certification of all technological processes, accounted for 17% of the global market in 2015–2016, and by 2020 the total halal food market may grow to USD 1.6 trillion and exceed 20% of the total food market. Considering responsible consumers' concern about fair labour conditions in all markets, goods produced in compliance with the Fair Trade standards fall into a separate category of certified goods. The market of Fair Trade products is concentrated in 19 countries, including the USA, Germany, Switzerland, Great Britain, and the Netherlands, where this trend enjoys the greatest popularity. However, despite the growing trend, global sales of such products are still extremely small and, according to various estimates, account for less than 0.1% of the total volume of food products.

Rapid development of demand for certified products has led to a number of changes in the food market, in particular:

- revision of food production models and supply chains by large businesses. Many transnational food producers are now adding new product lines to the existing portfolios to meet the needs of responsible consumers, including organic and religious foods. In addition, companies are making their supply chains more transparent and obtaining certification;
- development of niche manufacturers launching business from scratch, which is particularly important to the organic foods market;
- new ways of selling certified goods, including specialised departments and stands in traditional retail chain outlets, specialised on-line and off-line stores, farmers’ markets, etc.,
- HoReCa following new trends, including the expansion and individualisation of the menu in accordance with local preferences.

For more information, see the Certified Foods Niche section, p.79.

Natural Cosmetics

The growing consumer concern about healthy food and environmental aspects has impacted the cosmetics sector, setting the stage for a new niche of certified cosmetics. To date, the share of natural cosmetics accounts for about 8% of the global cosmetics market. In Europe, this figure is 4–5% on average, while in Germany alone it is 15% (including semi-natural cosmetics with up to 70% plant ingredients). At the end of 2016, Persistence Market Research (PMR) estimated the global market for organic cosmetics and natural personal hygiene products at USD 11 billion, with an average annual growth of 10%. In 2016, the main consumers by region were the United States, accounting for about 34%, the countries of Europe and the Asia-Pacific region, Japan, China, and India.

The main trends of the market transformation include:

- gradual consolidation of the natural cosmetics niche. This trend has been observed since the mid-2000s. By that time, many niche companies were already established in the cosmetics market, and when the major players noticed the growing demand on the part of responsible consumers, they began to acquire such companies;
- further segmentation of the product line with a focus on the needs of narrow groups of consumers, along with the consolidation of players in the certified cosmetics market;
- processes aimed at increasing the transparency of supply chains in the cosmetics market, similar to those occurring in the food market;
- development of new sales channels with a focus on specialised retail channels, and strengthening of direct communication with the consumer;
- launch of the next cycle of innovative developments. The key objectives are to upgrade the properties of products in order to make them more efficient, extend the shelf life, and enhance their visual appearance.

For more information, see the Natural Cosmetics Niche section, p. 93.

Sustainable Fashion

The notion of “sustainable” or “slow” fashion as opposed to “fast” fashion began to develop in 1990–2000, somewhat later than the food and cosmetics markets. Sustainable fashion respects the principles of ethics and fair trade throughout the supply chain, social responsibility, and reduced impact on the environment at all stages of the production cycle. Given the relative novelty of the niche, market estimates are blurred, but on the whole, there is evidence of growing consumer interest and number of people who adhere to this concept. For example, an online survey held in the US found that 5% of consumers buy only environmentally friendly clothes and accessories, 14% do it in most cases, 24% — half of the time, 27% rarely buy eco-friendly clothing, and only 27% of respondents do not care about this issue.

The concept of sustainable fashion has set the stage for significant changes in the fashion industry, the launch of another innovation and investment cycle, and review of the cooperation formats. Some of the key changes include:

- higher industry standards, revision of business models and processes by major producers, adoption of circular economy models, and higher transparency of the supply chains;
- development of innovative materials and dyes, reuse of raw materials, and complete voluntary refusal to use certain materials such as natural fur;
- changes in the market structure, including new alliances, the emergence of niche players, consumer activism through associations, etc.

For more details, see the Sustainable Fashion Niche section, p. 103.

Sustainable Transport

The significance of transport is being drastically revised, especially in the urban environment. Transport is now a key component of the global competitiveness of cities, and new requirements now apply to it. The search for more efficient and environmentally friendly solutions in transport infrastructure to meet long-term economic and social goals has led to the formation of an integrated field for sustainable transport development. The development dynamics and related changes in the key markets pertaining to transport infrastructure should be analysed by segment. Examples of actively developing niches include:

- transition to hybrid and electric modes of transport (electric cars, electric buses), including with government support. In particular, electric vehicle buyers in the US, China, Japan, and some EU countries receive tax breaks and subsidies from the state. In general, the share of electric vehicles today accounts for no more than 1% of the total number of cars sold. However, this figure is expected to increase to 5% by 2040;
- a tendency to give up personal car ownership in favour of shared vehicles, and a new niche of related services. Thus, people's desire to...
save money and, at the same time, to maintain the existing level of comfort, have served as an incentive for creating a new form of car rental — carpooling. By the end of 2012, the carpooling network covered about 1.7 million people in 27 countries39. The number of users is expected to exceed 12 million by 202040, and income from this type of service will approach USD 6.2 billion, with an average annual growth rate of more than 30%41. Another way of sharing cars that is also gaining popularity is platform services for finding fellow travelers. For example, BlaBlaCar, the world’s largest carpooling service launched in 2006, now has about 40 million users42.

Sustainable Tourism

Since the beginning of the 2000s, frustrated with overcrowding, air and water pollution, information noise, high speeds, and the resulting stress, the educated and well-off urban residents have opted more for outdoor recreation, stepping outside of their regular social environment. The traditional 3S (Sea-Sand-Sun) have been replaced by 3L (Landscape-Lore-Leisure), and a niche of sustainable tourism has emerged. According to experts, today responsible tourists account on average for 10% of all travelers. At the same time, one important factor contributing to the rapid development of this sector is the pronounced global demand, since responsible tourists traveling the world become agents of change in all areas they visit.

The emerging demand for sustainable tourism services has led to a number of changes in the market, including:

- “greening” of the existing tourism infrastructure and traditional hotel business players. According to the research results, 52%43 of tourists from developed countries prefer hotels that seek to minimise their impact on the environment.
- development of bike paths and cycling. To encourage more people to use this type of transport, city authorities, sometimes in cooperation with businesses, invest in the required infrastructure, such as bicycle paths, traffic lights, parking and rental stations. In cities that are most developed in this respect, the proportion of the population using bicycles as an everyday means of transportation exceeds 10%, and in some cases reaches 30–35% or more (e.g., Amsterdam and Copenhagen44).

For more details, see the Sustainable Tourism Niche section, p. 114.

Sports and Healthy Lifestyle

Currently, there is a global trend towards a healthy lifestyle. As stated above, the global market for healthy lifestyle products is growing at a rate of 10.6%, amounting to USD 3.72 trillion in 2015. The growth of individual sectors, such as the sector of sports gadgets, amounts to 15–20% per year or more. The key trends affecting the profile markets and players include:

- the development of healthy and certified nutrition;
- corporate strategies to promote a healthy lifestyle among employees, including the demand for preventive medical examinations of staff, fitness rooms in offices, services of invited coaches, etc.;
- expansion of the accessibility and prevalence of sports: in addition to the classic sport types, there are now mixed sports and street sports, while fitness centers are now an integral part of the infrastructure in almost any city;
- growing popularity of online sports training videos and sports apps to satisfy people’s desire for convenience and time saving.

For more details, see the Sports and Healthy Lifestyle Niche section, p. 69.

Purpose-driven Consumption

“Purpose-driven consumption” is a choice that the consumer makes in favor of products and services offered by enterprises with a social mission, instead of traditional suppliers of similar types of products. These products include, for example, food, clothing, footwear, souvenirs, and consumer services. Unlike the responsible consumption market as a whole, the purpose-driven consumption segment is associated with an individual choice in favour of a certain social history and the consumer’s desire to contribute to the solution of a specific social problem. In this case, the consumer may ignore all other criteria of sustainable products (such as raw materials, manufacturing practices, etc.), and the purchase may be spontaneous and non-recurring. This is the reason why the purpose-driven consumption niche covers a wider audience of potential consumers, and is rather difficult to assess. The second distinction between the purpose-driven consumption niche and the niches described above is a differentiation principle. This is, in fact, not one niche in a particular market, but a group of niches united based on a common feature.

Identifying a new differentiation method, coupled with a new category of consumers oriented towards purpose-driven consumption, has led to a number of changes in the developed markets, in particular:

- revision of practices and marketing strategies of large traditional producers; acquisition of brands with a social mission by transnational corporations. Over recent years, sustainable development values have become more important to businesses, with many global corporations now adding socially and environmentally responsible brands to their product lines. This is possible by acquiring niche players and/or investing in new product lines;
- an increase in the share of new private businesses with a social mission. More socially-oriented start-ups that rely on venture capital resources are emerging in the global market. The social businesses of the new millennium bring products with an obvious social mission to the markets, using resources such as seed investment funds and digital technologies;
- formation and improvement of self-sufficient operating models of charity organisations.

For more details, see the Purpose-Driven Consumption Niche section, p. 135.
### Table 1
Preferences of Categories of Responsible Consumers (Examples)

<table>
<thead>
<tr>
<th>Market / niche</th>
<th>Preferences of Categories of Responsible Consumers (Examples)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Certified foods</strong></td>
<td>- Organic, bio- and eco-certified foods</td>
</tr>
<tr>
<td></td>
<td>- Foods without GMs and/or synthetic compounds</td>
</tr>
<tr>
<td></td>
<td>- Fair Trade-labelled products, observance of fair labour conditions and ethical principles throughout the supply chain</td>
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<tr>
<td></td>
<td>- Vitamins and food additives</td>
</tr>
<tr>
<td></td>
<td>- Religious foods</td>
</tr>
<tr>
<td><strong>Natural cosmetics</strong></td>
<td>- Natural and organic cosmetics, certified cosmetics</td>
</tr>
<tr>
<td></td>
<td>- Cosmetics manufactured without animal testing</td>
</tr>
<tr>
<td><strong>Sustainable fashion</strong></td>
<td>- Ecologically clean and organic materials</td>
</tr>
<tr>
<td></td>
<td>- Materials based on recycled materials (e.g., plastics)</td>
</tr>
<tr>
<td></td>
<td>- Drop-off points in stores and special discounts for customers who donate unwanted clothes</td>
</tr>
<tr>
<td></td>
<td>- Observance of fair labour conditions and ethical principles throughout the supply chain</td>
</tr>
<tr>
<td><strong>Sustainable transport</strong></td>
<td>- Electric cars, hybrid cars</td>
</tr>
<tr>
<td></td>
<td>- Carsharing, Two-wheeled transport, including with electric motors</td>
</tr>
<tr>
<td><strong>Sustainable tourism</strong></td>
<td>- Sparsely populated areas rich in cultural and natural attractions, rural areas</td>
</tr>
<tr>
<td></td>
<td>- Ecological and national dwellings</td>
</tr>
<tr>
<td></td>
<td>- Certified facilities with resource-saving equipment, containers for sorting and processing garbage, local personnel</td>
</tr>
<tr>
<td></td>
<td>- Consumption of local and organic products</td>
</tr>
<tr>
<td></td>
<td>- Study of local culture, traditions, etc.</td>
</tr>
<tr>
<td><strong>Sports and healthy lifestyle</strong></td>
<td>- Fitness for all: accessible sports and an increase in the proportion of the elderly</td>
</tr>
<tr>
<td></td>
<td>- Mixed sports, triathlons, street sports, yoga</td>
</tr>
<tr>
<td></td>
<td>- Online sports: Internet training, training with fitness gadgets</td>
</tr>
<tr>
<td></td>
<td>- Sports tourism and therapeutic recreation (including detox-tours)</td>
</tr>
<tr>
<td></td>
<td>- Gyms in offices, contracts with organisations and fitness centres for employee discounts or free workouts</td>
</tr>
<tr>
<td></td>
<td>- Alternative medicine (such as acupuncture, naturopathy, etc.)</td>
</tr>
<tr>
<td><strong>Purpose-driven consumption</strong></td>
<td>- Goods and services produced by companies with a social mission</td>
</tr>
</tbody>
</table>

Source: Sustainable Business Centre, SKOLKOVO IEMS

### NICHES OF SUSTAINABLE PRODUCTS INTENDED FOR THE CORPORATE SECTOR (EXAMPLES)

Similarly, niches are emerging and changes are occurring in markets of products and services for the corporate sector. Goods and services intended primarily for corporate customers interested in sustainable practices may include different types of raw materials and consumables, separate waste collection and recycling services, eco-friendly packaging, consulting and certification services, certified printing services, green logistics, responsible investment, specialised on-line and off-line retail stores, and so on.

![Figure 7: Niches of Sustainable Products Intended for the Corporate Sector (Examples)](source: Sustainable Business Centre, SKOLKOVO IEMS)
RESPONSIBLE CONSUMPTION AS AN OPPORTUNITY FOR DIFFERENTIATION IN THE MARKET

New business risks

The third significant aspect of the changing business environment, influenced by the responsible consumption trend, is risks. In this case, a key role is played by a gradual change in the competitive environment, and additional reputational risks.

Gradual change in the competitive environment

As mentioned above, the responsible consumption trend emerged in the context of a number of international demographic, globalisation, technological, and institutional processes that are still underway and will continue into the future. Every new generation cares more about sustainable practices and a corresponding way of life. These processes not only contribute to the development of responsible consumption, but also create a new business context in which companies are expected to comply with higher requirements in social and environmental responsibility.

Each company that becomes considerate of these changes chooses an individual set of significant parameters for its products and its operating model as a whole. Importantly, by gradually implementing these changes, the business model, operational processes, and pool of partners and suppliers undergo a significant revision. A company usually goes through several stages as it implements sustainable practices, from raising the environmental standards of its operating activities to making more resource-intensive changes such as optimising the supply chain, revising the product portfolio, and so on. For companies with research units, a focus on the responsible consumer becomes an incentive for investing in innovative developments and restarting the innovation cycle.

Consistent implementation of such approaches gives an individual business a number of advantages, including reduced operating expenses due to resource savings and improved quality of risk management, greater customer loyalty and market share growth through differentiation, and opportunities to cooperate with government authorities and the non-profit sector by expanding the space of mutual interests with businesses that support the solution of social and environmental problems. These factors give successful players an objective competitive advantage in the market.

Overall, this has resulted in the following consequences: firstly, the formation of a critical mass of leaders that determine the new rules of the game; secondly, a gradual expansion of the qualitative gap in the level of competitiveness between players who are guided by new requirements and companies that adhere to the old rules.

Of course, these processes do not occur simultaneously and can have different dynamics in different sectors of economy. Moreover, in the short term, companies investing in responsible practices and products can incur costs without getting a quick return. At the same time, in the medium and long term, companies that deliberately or unconsciously ignore market changes and invest in the old paradigm run the risk of failing behind and completely losing their market share.

Additional reputational risks

Reputational risks related to responsible consumption affect both companies targeting responsible consumers and market players who do not take this trend into account. The higher the level of consumer awareness about sustainable practices in the market, the higher requirements will be imposed on companies and products, including companies’ activities in other markets. The active and even proactive position of responsible consumers makes them difficult to work with. On one hand, such consumers can be excellent partners who will attract new customers, but on the other hand, if responsible consumers are seriously disappointed with a brand, they may boycott it, which is likely to draw the attention of other consumers and the general public through social networks and other communication channels. Businesses targeted at responsible consumers should have a consistent strategy for implementing sustainable practices and an appropriate communications strategy for the product and the business as a whole. Important aspects include management of reputational crises in social and environmental areas, and readiness to take consumer opinions into account.

The above risks also affect companies that continue to operate under the old model, except when there are no disappointed consumers that were attracted by the company by positioning its products and services as sustainable.

Conclusion to the section: The matrix of strategies

In connection with the responsible consumption trend, each company can implement several strategies related to the following overlapping factors: acceptance / disregard of the responsible consumption trend; investment into developing the existing portfolio and/or creation of a new portfolio with or without focus on responsible consumers, opportunities for differentiation and the resulting premium. This matrix, presenting some “pure” strategies, can be helpful for analysing possible actions.
Companies investing in new products and services in markets with a growing share of responsible consumers may not consider this target audience at all. In this case, companies rely on the counter-trend based on the belief that there will always be a proportion of consumers who do not share responsible consumption value, and there will be room for implementing the niche strategy even if the consumption paradigm changes. At the same time, the refusal to follow the common practices and take on additional associated commitments provides a competitive advantage in terms of investment costs. These companies’ target audience comprises customers who are not aware about sustainable products and do not care about this issue, or are informed, but for whatever reasons do not share the corresponding values / do not trust the sustainable brands.

A company that implements this strategy has the opportunity to differentiate its products from those of competitors for its target audience, provided that its products are deliberately positioned in an appropriate way, e.g., as ordinary, simple, easy to understand, etc. At the same time, such a player does not get a lever to work with large transnational corporations and local players implementing sustainable practices. The above strategy, however, may be a risky investment if the market where the new business is being launched shows signs of developing responsible consumption. It also poses restrictions on entering markets in developed countries (such as in Europe, the United States, etc.) and in many dynamically growing markets where governments are paying more attention to corporate social responsibility and approaches to responsible consumption and production.

Players that already have a market share and offer products and services without considering responsible consumers can implement a protective strategy. Although they take note of the emerging consumer group with additional preferences, such companies choose to retain the existing product line and continue to capitalise on it in the medium term. At the same time, they deliberately refrain from investing in product portfolio revision towards increasing sustainability or launching new product lines under the old model. This strategy may work for companies that operate in developing countries and already have a significant market share, which allows them to reconsider their approach at a later stage without significant business losses, or for companies that cannot invest in creating a sustainable counterpart due to the characteristics of their products / markets.

To mitigate the possible consequences, companies following the protection strategy can run targeted communication regarding the positioning of their products, providing consumers with additional information about the risks involved, etc. At the same time, such companies still face restrictions entailed by the “risk investment” strategy on working in international markets and interacting with sustainable corporate players or various financial institutions.

An alternative strategy for existing companies is to supplement the product portfolio with products and services intended for the responsible consumer, while maintaining the basic product line. This transition from the market to the niche allows a company to balance its business and maintain the cumulative market share as the trend of responsible consumption penetrates, and also to differentiate its products in the market and receive a premium for the line of sustainable products relative to competitors. As noted above, large transnational corporations readily use this strategy, simultaneously raising the operational standards in social and environmental responsibility, improving the supply chain, and so on. In some cases, large businesses acquire niche companies that are operating in the same market, but are primarily targeted at responsible consumers, in order to upgrade their portfolios.

This strategy is also suitable for SMEs and local players, including through the launch of a parallel product line in pilot format without reference to the main brand. When there is no confirmation from the local market (the audience of responsible consumers), this helps to refrain from making significant investments into restructuring all company operations and managing reputational risks. When working with large corporate customers, the pilot format can be implemented under cooperation with a large corporation. As a rule, creating a pool of sustainable local suppliers is advantageous to large transnational corporations (TNCS). Therefore, they are willing to support local companies during the implementation of sustainable practices. The support may be provided in the form of audits or expert examinations under specialised programmes, selective consultations, and, in some cases, financial assistance in the form of loans, equipment leases, long-term contracts, etc.

Companies that have just been established and existing businesses entering new markets under a separate brand can first aim at responsible consumers and corresponding niches with higher growth rates than the market segment in which they operate, and then build their own product lines and operating activities accordingly. This is especially true for companies targeted at a younger audience since each new generation is more predisposed to environmentally responsible practices, a healthy lifestyle, and other aspects of responsible consumption.

In this case, companies get opportunities to differentiate their products and develop competitive advantages not only from the consumers’ perspective, but also from that of strategic investors, as well as a wider range of partners, including businesses, government authorities, non profit organisations, and other players supporting the concept of sustainable development.

The stability of niche businesses, especially in markets where responsible consumption is only beginning to develop as a trend, will depend heavily on geographic coverage, that is, on the opportunity to present products and services to the widest possible range of potential consumers. Companies can achieve this by creating their own e-stores, working under a franchise agreement while the brand is gaining strength, and cooperating with specialised outlets targeted at responsible consumers. Obtaining a certificate of compliance with standards and passing voluntary certification, if applicable to the given market, is absolutely mandatory for growth.

Other things being equal, this strategy can provide the maximum business development due to high growth rates and the evolution of the corresponding niches, which can occur in two areas: occupying the market niches and further fragmenting them into narrower segments. As the responsible consumption trend develops, the consumption paradigm in the markets may change, and the niche standards for responsible consumption will become a new norm. In this case, players who implemented a niche strategy at an earlier stage will be the trendsetters in an already mass market.
An analysis of the overall development of sustainable practices and the availability of a favourable business environment for their implementation in Russia — including social, economic, environmental, and governance factors — has shown that Russia ranks 50th among 142 countries. This reflects a transition period in the implementation of the sustainable development agenda, which also extends to the aspects of responsible consumption.

On one hand, Russia already has a number of prerequisites for the potential development of the trend and demand for sustainable products and services, both from end users and the corporate sector. On the other hand, a number of informational, institutional, and infrastructural factors constrain the development of the trend.

Firstly, there is potential demand for sustainable products and services in Russia due to a high education rate, large urban population, and relatively high average income as compared to other developing countries. 94% of Russia’s adult population aged 25 to 64 years hold higher education degrees. This figure is significantly higher than the average for the OECD countries, which is 75%. The share of the urban population is about 73-74%, which is very significant because the concentration of responsible consumers is usually highest in cities. Despite the crisis and the decline in real earnings of the population, Russia is still a country with relatively high incomes. Owing to its economic indicators, Russia ranks among the top 25% of countries worldwide in the Sustainability Composite Index compiled by IEMS.

Secondly, Russia is following the international trends that are setting the global context for responsible consumption growth, including the development of the Internet, participation in globalisation processes, and an increase in the share of goods and services purchased online, as well as growing environmental conscience and importance of healthy lifestyles, especially among young people.

Most Russians have Internet access. According to a GfK study, the share of Internet users in Russia is 70.4%, which is about 84 million people. Internet use among young people aged 16 to 29 years has reached the limit value of 97%. Just like consumers from other countries, Russians search for information about goods and services on the Internet. According to a Marketing Index survey for the first half of 2014, 60% of Russia’s population primarily look for answers online, which is quite an impressive figure since the average proportion of Russians who use the Internet monthly is 72%. When buying goods, over a third (36%) of Russians are guided by comments and reviews they read on the Internet, and every sixth Russian (16%) posts them online.

According to the Russian Public Opinion Research Center (VCIOM), in 2015 the number of Russians involved in sports has reached the maximum value for the first time in nine years. In particular, according to the survey results, 87% of young people...
and less than half of pensioners lead an active way of life, amounting to a total of 61% of Russians. For comparison, in 2014, the corresponding figure was only 58%. In addition, Russian youth is more inclined to lead an environmentally friendly way of life, sort waste (including taking it to remote waste collection points), purchase natural products, etc.

Thirdly, a large proportion of Russian consumers is willing to pay more for products manufactured by socially and environmentally responsible companies. Various surveys show that Russian consumers are inclined to buy sustainable goods. According to the Neilsen report for 2015, 61% of all Russian consumers are willing to pay more for products from companies committed to the principles of environmental and social responsibility. This group in Russia demonstrates fairly high growth rates, despite lagging behind the world’s average level. Consider the following: in 2014 the proportion of such consumers was only 38%, while in 2015 this figure grew by 23%.

According to a GfK study, 65% of Russians feel guilty when committing an environmentally harmful act. According to TNS Marketing Index, the trend towards purchasing more useful and high quality products is growing: the number of Russians willing to pay more for high quality (71%) and environmentally friendly (67%) goods grew by 4% in three years — from 2011 to 2014. When asked about goods they had purchased over the last week, 20% of Russian respondents noted that they opted for products from a company striving to make a positive social impact, 26% said they gave preference to a brand investing in the development of local communities, and 25% said they bought a product from an environmentally responsible manufacturer. 22% of Russians were attracted to organic packaging.

In line with the worldwide trend, the typical responsible consumer in Russia is a well-off resident of a large city (in this case, a city with a population of more than 500,000). According to the survey, Russians belonging to this group are more likely to choose products marked “bio”, “eco”, “organic”, “farm products”, “seasonal products”, “chemical-free”, or “with a minimum amount of packaging” than residents of small towns, urban-type settlements, and villages.

An important feature of responsible consumption in Russia at the current stage of development is the prioritisation of benefits and/or harm to health (the second level of a product, discussed in Chapter 1) as compared to the other aspects of responsible consumption. Despite the limited availability of data on Russian responsible consumers in general, this specific feature is confirmed by at least two studies.

In 2014, Synovate Agency conducted a survey, at Unilever’s request, on the importance of sustainable business development and social responsibility programmes to Russian consumers. In the course of the survey, 1,178 people were interviewed in 18 cities in Russia. Respondents were asked to assess the importance of features related to social responsibility principles as applied in business practice. These included health and hygiene, healthy foods, greenhouse gas emissions, water, waste, sustainable procurement, and an inclusive business model. To Russian consumers, the most important features were “health and hygiene” and “healthy foods” — 82% and 87% of all respondents, respectively. The least important issue was greenhouse gas emissions — only 05% of respondents classified this feature as “very important” or “somewhat important”.

Another study found that, according to Russian consumers, the most important factors affecting their purchasing decisions included such aspects as organic and fresh ingredients, health benefits, and high standards of brand safety. Consumers care less about the social practices of manufacturers such as fair labour conditions, exclusion of child labour and discrimination, as well as environmental protection issues such as environmentally friendly practices and organic packaging. Nevertheless, some consumers do consider these factors when making purchasing decisions.
FACTORS RESTRAINING THE DEVELOPMENT OF RESPONSIBLE CONSUMPTION IN RUSSIA

In some cases, Russian consumers will boycott brands that do not meet their expectations. According to 2015 data from the Centre for Civil Society Studies and the Nonprofit Sector of the Higher School of Economics, about 11% of the consumers surveyed regularly refuse to buy goods due to the producers’ violations of ethical, environmental, and other norms. The experience of Natura Siberica, which faced public condemnation by consumers, is an interesting example of the above. In March 2017, a Facebook user wrote on her page that although Natura Siberica positions itself as a manufacturer of natural certified cosmetics, it uses velvet antlers — the soft antlers of young deer that are cut off the animals every year — in its products. Pantocrin, extracted from the antlers, is used as a natural medical component, but the problem is that animals are hurt for its production. The post caused a public outcry in the social media against this practice, and was profusely discussed in the media. Many consumers publicly declared that they would stop using Natura Siberica products because of its unethical production methods. The company responded by conducting a public survey asking consumers to vote for or against discontinuing the production of the products in question. According to the company, over 70% of consumers said they no longer wanted to use cream with pantocrin, so its production was discontinued less than a month after the first Facebook post appeared.

Thus, we can conclude that the average Russian consumer is an educated, well-read person who makes informed purchasing decisions, can make the right choice among similar goods and services on the market, and is ready to respond to the supply of sustainable products. At present, Russian consumers particularly care about aspects related to the second level of a product, discussed above, especially benefits/harm to health. At the same time, additional information about non-compliance with environmental and ethical requirements may result in a boycott of the brand.

The Sustainable Russia: A Guide for Multinational Corporations report presents a list of key barriers to introducing sustainable practices in Russia, one of which is the low actual demand for sustainable products and services. The gap between the declared willingness to purchase sustainable goods and services and the actual level of responsible consumption in Russia speaks to a number of restrictions that impede the trend’s development.

First of all, the culture of responsible consumption is not typical for Russians. This means that at the subconscious level, it is not a generally accepted model of consumer behaviour. Due to the specifics of Russia’s culture and history, Russians think of their country as having unlimited natural resources. One clear example of this attitude is the Russians’ reluctance to save energy or use energy resources rationally. Only 28% of people regulate their heating appliances and/or air conditioners for energy saving purposes, and even this small proportion of the population does it primarily for financial savings rather than out of concern for the environment. In Russia, there are almost no consumers of electricity from renewable energy sources. Surveys conducted by VCIOM show that while over 75% of Russians are aware of the need to save energy for future generations, in practice, less than half of the country’s population actually consume it economically on a daily basis.

This is confirmed by a 2013 study conducted by Tetra Pak, which interviewed over 7,000 consumers and 200 stakeholders in the food industry. The study covered 13 countries, including the United States, Brazil, the UK, France, Germany, Belgium, the Netherlands, South Africa, Turkey, India, Russia, China, and Japan. The findings revealed significant differences in consumer behaviour patterns between Russia and other BRICS countries. Compared to China and India, in all the above categories, and Brazil, in most categories, Russian consumers were less consistent with the principles of sustainable development. At the same time, other countries, such as Turkey, had much higher figures in the categories of ethical consumption and ethical way of life. In particular, Russia is lagging behind other developing countries in terms of households’ efficiency of preparing household waste for recycling, with a very low figure of 13%.
Russian people’s lack of a basic predisposition to consume responsibly is aggravated by the following three factors:

- underdeveloped legislative regulation on the environmental responsibility of households and the consumption culture,
- lack of the corresponding infrastructure, primarily for private consumers,
- the population’s low awareness about sustainable practices, types of certification, impact of products on the environment, etc.

**UNDERDEVELOPED LEGISLATIVE REGULATION ON THE ENVIRONMENTAL RESPONSIBILITY OF CITIZENS**

Most Russians believe that responsibility for solving social and environmental issues, and producing goods that do not harm the environment, lies primarily with the government, and businesses, rather than individuals. While in Europe and the USA, consumers are obligated to sort waste and retailers are subject to restrictions on the use of plastic bags, there is currently no such practice in Russia. This means that for the Russian people, the consumption model, and in particular, waste disposal methods, are determined solely by personal convictions and the willingness to bear the additional costs it involves. The lack of generally accepted norms and standards of responsible consumption at the private level results in Russian consumers’ indifference towards aspects such as eco-friendly product packaging, the possibility of recycling and re-using it, use of recycled materials in products, etc.

Nevertheless, this practice may gradually change in the future. Over the last few years, Russia has already tightened some of the regulations on the consumption culture among individuals. In particular, steps are being taken to promote a healthy lifestyle and to fight unhealthy habits. Restrictions on advertising hard alcoholic beverages have been imposed in the country. There is a ban effective since 2012 on the retail sale of alcoholic beverages from 11 pm to 8 am. In 2013, an anti-smoking law was adopted banning tobacco advertising and smoking in public places. In line with this, new environmental protection rules and/or incentives for the population may soon be introduced, including those aimed at reducing the impact of individuals on the environment.

**LACK OF INFRASTRUCTURE**

Similarly, the development of responsible consumption in Russia is constrained by the lack of infrastructure available to the public, in particular, infrastructure for the collection of recyclable materials and separate waste collection. The infrastructure and mechanisms (e.g., for collecting paper waste and glass containers from the public) established in the USSR, which ensured greater collection of recyclable waste, ceased to function in the early 1990s, but a new system has not been created yet. Currently, a number of projects to create the appropriate infrastructure are being implemented in some regions, but these are only pilot projects.

Infrastructure also includes electricity sources and aspects such as undeveloped alternative energy, limited amount and high cost of residential real estate consistent with modern standards of environmentally friendly and resource-saving housing, and low accessibility of various types of services related to responsible consumption, such as transportation and tourism services.

At the same time, in a number of sectors, the infrastructure deficit is a window of opportunity for businesses, drawing Russian entrepreneurs’ attention, and a space for projects to be implemented by local non-profit organisations. Several dozens of stores for the collection and resale of clothing (e.g., the Charity Shop project) have opened all across Russia in recent years in the wake of consumers’ gradually growing interest in the ecological aspects of their lifestyle and a growing desire to declutter. Maps of separate waste collection have been developed in Moscow and several other cities, offering information on service providers. Business centres and shops sometimes accommodate containers for collecting used batteries, e.g., the Boxy project, which cooperates with Megapolisresource, a dynamically developing Russian group of companies based in Chelyabinsk that processes used batteries.

**LOW PUBLIC AWARENESS**

Among other things, Russia has low public awareness about sustainable practices in general, as well as about certain aspects of responsible consumption, such as the existing types of voluntary certification, the impact of various types of products and packaging on people’s health, etc. While concern about environmental issues in Russia as a whole is relatively high, with 80% of respondents saying they require this information. Russians are poorly informed about the environmental situation in their residential areas. According to the Centre for Civil Society Studies and the Non-Profit Sector of the Higher School of Economics, only 12% of Russian consumers reported that they had enough information to understand whether or not the goods they buy are sustainable.

In addition, Russian consumers are distrustful of eco-labeling. On one hand, eco-labeling allows them to make informed choices when shopping. On the other hand, according to Ecobureau GREENS experts, consumers are often misled by false information about environmental compatibility of products displayed on the packaging (a deceptive greening WR technique). In Russia, it is not illegal to mark goods as “eco”, “organic”, and so on, even if there are no sufficient grounds for it. For example, up to 45% of non-certified Russian enterprises in the market of farm and organic foods place “bio” and “organic” markings on the goods they manufacture.

In this regard, consumers who intend to buy sustainable products often purchase goods with eco-labeling that does not actually provide any guarantee of compliance with environmental principles. Disappointed after such purchases, the consumers become distrustful of all eco-labels, including those from officially certified producers. Despite consumers’ desire to lead a more environmentally friendly way of life, distrust of the stated information can cause them to give up sustainable goods and services.

To address this issue, Russian and international businesses, together with non-profit organisations, are implementing special partner projects aimed at increasing consumer awareness. In Russia, the most recognised international certification is probably the FSC (Forest Stewardship Council).
RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

CONCLUSION TO THE SECTION: ACTUAL LEVEL OF RESPONSIBLE CONSUMPTION

Given the relatively high penetration potential of the responsible consumption trend in Russia, the above constraints create a gap between the declared willingness of Russian consumers to purchase sustainable goods and services and the actual level of their consumption. As mentioned above, in other countries, the coefficient reflecting this gap between intention and action varies from two times for developed countries to ten times for developing countries. In Russia, this coefficient equals 5-6, taking into account that the adoption of sustainable practices is now at a transitional stage. Obtaining more accurate data on the actual share of responsible consumers will require a respective study of the target markets. Some of the estimates available in Russia are presented in the analysis of the relevant niches in Chapter 5 of this report.

At the same time, the dynamics of eliminating the existing barriers are notably positive. Gradual changes include developing national regulation of the culture of consumption and healthy lifestyles, emerging commercial infrastructures targeted at responsible consumers, growing public awareness through the efforts of businesses and non-profit organisations, as well as government initiatives to provide general environmental education to the public.

This means that the business environment is quickly changing and the most progressive companies can already use the space of opportunities to develop businesses targeted at responsible consumers in Russia. Confirming this thesis requires a study of the cases of Russian companies, the scope of their activities, and their growth dynamics.

ANALYSIS OF CASES OF RUSSIAN COMPANIES

This study of the Russian experience through open sources of information and expert surveys is based on a long list of companies in the niches of responsible consumption, targeting both individuals and corporate clients. Today, there are already quite a few specialised SMEs in the Russian market, even though responsible consumption is not widespread in Russia yet and the category of responsible consumers is still undergoing the stage of formation and self-identification. At the same time, greenwashing — the practice of using the words “eco”, “bio”, “natural”, etc. without appropriate grounds — is quite common in Russia, which hampers the recognisability of players that actually invest in the creation and certification of sustainable products. In this regard, a key aspect in the study of companies’ experience was the availability of direct or indirect confirmation that a business met the stated commitments. The list of companies was generally created based on the following criteria:

- a Russian private company;
- a company that was initially created as a business targeted at responsible consumers or intended to address social / environmental challenges, or that eventually supplemented its portfolio with relevant products / services and revised the production processes; a company that is building an infrastructure for resolving social and/or environmental problems;
- a company that has been operating in the market for three years or longer (since 2014 or earlier), with a consistent operating model and turnover, positive growth rate, is recognised by clients and partners, and is certified;
- in case there were several companies with approximately the same indicators in one niche, companies with larger revenues and staff demonstrating various business models were selected for the study.

The long list includes over 100 companies in over 20 markets and corresponding niches, including food, cosmetics, household chemicals, clothing and footwear, goods and services for a healthy lifestyle, children’s goods, retail, HoReCa, gifts and
souvenirs, wooden goods, packaging materials, building materials, design, electrical appliances, travel, transport and logistics services, consulting, certification, printing, collection and recycling of various types of waste, social services, and others. The significant presence of businesses covering diverse markets shows that there are many interested responsible Russian consumers willing to choose appropriate suppliers among the competitors.

Taking into account the restrictions on the scope of the study, the final list for detailed research included 20 companies, comprising:

- 15 companies that offer goods and services primarily to end users. For convenient reference, detailed cases of companies under consideration are presented together with an analysis of the respective emerging niches discussed in Chapter 1;
- 5 companies creating infrastructure for responsible consumers, both individuals and the corporate sector.

The cases of the 20 Russian companies presented in the report is by no means exhaustive. In most cases, these companies were the pioneers in their niches. When starting out, they often found themselves going against the flow of the market development, having no business standards to rely on, and actually established those standards, while lacking or having only a vague target audience that had to be generated and educated.

A study of these companies’ emergence and development reveals some common approaches and challenges to doing business targeted at the Russian responsible consumer. Below are some observations regarding motives to launch a business, as well as business strategies, sources of financing, success factors (including ways of communicating with consumers), and challenges faced by companies.

### TABLE 3 EXAMPLES OF RUSSIAN COMPANIES TARGETED AT RESPONSIBLE CONSUMERS

<table>
<thead>
<tr>
<th>Company</th>
<th>Field</th>
<th>Year of incorporation</th>
<th>City / region</th>
<th>Revenue (estimated)</th>
<th>Staff (estimated)</th>
<th>Social / environmental impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>YOGA PRACTIKA</td>
<td>Goods and services for sports and healthy lifestyle</td>
<td>2007</td>
<td>Moscow</td>
<td>&gt; RUB 100 million</td>
<td>n/a</td>
<td>Healthy lifestyle culture</td>
</tr>
<tr>
<td>I Love Running</td>
<td>Sports and healthy lifestyle</td>
<td>2012</td>
<td>Moscow</td>
<td>RUB 50–100 million</td>
<td>&lt; 50</td>
<td>Healthy lifestyle culture</td>
</tr>
<tr>
<td>Ethnosem</td>
<td>Tourism services (sustainable tourism)</td>
<td>2006</td>
<td>Kaluga Region</td>
<td>RUB 50 million</td>
<td>n/a</td>
<td>Reduced impact on the environment • National tolerance</td>
</tr>
<tr>
<td>Absolute Siberia</td>
<td>Tourism services (sustainable tourism)</td>
<td>2009</td>
<td>Irkutsk</td>
<td>n/a</td>
<td>&lt; 50</td>
<td>Reduced impact on the environment • Support for indigenous peoples</td>
</tr>
<tr>
<td>TVOE</td>
<td>Manufacture and sale of clothing</td>
<td>2001</td>
<td>Moscow</td>
<td>n/a</td>
<td>n/a</td>
<td>Environmentally friendly materials • Resource saving</td>
</tr>
<tr>
<td>Charity Shop</td>
<td>Collection, sale, and recycling of used or unwanted clothes</td>
<td>2014</td>
<td>Moscow</td>
<td>RUB 50 million</td>
<td>&lt; 50</td>
<td>Workplaces for vulnerable citizens • Reduction of waste • Redistribution of clothes</td>
</tr>
<tr>
<td>SAFA</td>
<td>Production and sale of halal foods</td>
<td>2005</td>
<td>Moscow</td>
<td>RUB 250 million</td>
<td>n/a</td>
<td>Certified supply chains</td>
</tr>
<tr>
<td>LavkaLanka</td>
<td>Sale of natural foods</td>
<td>2009</td>
<td>Moscow</td>
<td>RUB 250 million</td>
<td>50–100</td>
<td>Certified supply chains • Local producers</td>
</tr>
<tr>
<td>AgriVoices</td>
<td>Production and sale of natural foods</td>
<td>2007</td>
<td>Tomsk Region</td>
<td>n/a</td>
<td>&gt; 150</td>
<td>Natural products • Reduced impact on the environment</td>
</tr>
<tr>
<td>Natura Siberica</td>
<td>Production and sale of organic cosmetics</td>
<td>2008</td>
<td>Moscow</td>
<td>RUB 1,000 million</td>
<td>&gt; 150</td>
<td>Certified goods • Support for indigenous peoples</td>
</tr>
<tr>
<td>Mi&amp;Ks</td>
<td>Production of natural cosmetics and eco-friendly household products</td>
<td>2009</td>
<td>Kirov</td>
<td>RUB 50–100 million</td>
<td>15-50</td>
<td>Natural products • Natural raw materials • Workplaces for vulnerable groups of the population</td>
</tr>
<tr>
<td>Anytime</td>
<td>Short-term car rental services</td>
<td>2012</td>
<td>Moscow</td>
<td>RUB 50 million</td>
<td>&lt; 50</td>
<td>Reduced use of personal transport • Lighter traffic</td>
</tr>
<tr>
<td>Invotaxi</td>
<td>Transportation services for passengers with disabilities</td>
<td>2009/2012</td>
<td>Moscow</td>
<td>n/a</td>
<td>n/a</td>
<td>Services for and employment of people with disabilities • Inclusive environment</td>
</tr>
<tr>
<td>Cocco Bello</td>
<td>Manufacture of foods</td>
<td>2012</td>
<td>Maly Turysh</td>
<td>RUB 1,5 million</td>
<td>&lt; 50</td>
<td>Jobs and support for rural inhabitants • Natural product</td>
</tr>
<tr>
<td>Naures? Ochen</td>
<td>Retail sale of souvenirs and decorative and applied goods</td>
<td>2011</td>
<td>Moscow</td>
<td>n/a</td>
<td>n/a</td>
<td>Creation of jobs for vulnerable citizens</td>
</tr>
<tr>
<td>PiksPoint</td>
<td>Express delivery, sustainable logistics</td>
<td>2010</td>
<td>Moscow</td>
<td>RUB 250 million</td>
<td>n/a</td>
<td>Reduction of emissions • Cooperation with environmental organisations, e.g., • Svodka</td>
</tr>
<tr>
<td>OptiCom</td>
<td>Packaging and eco-friendly packaging, cleaning, sale of household goods and containers</td>
<td>1999</td>
<td>Moscow</td>
<td>RUB 250 million</td>
<td>&gt; 150</td>
<td>Environmentally friendly solutions</td>
</tr>
<tr>
<td>Sphere of Ecology</td>
<td>Waste management, collection and sorting of secondary raw materials</td>
<td>2010</td>
<td>Moscow</td>
<td>RUB 50–100 million</td>
<td>&lt; 50</td>
<td>Waste collection and Recycling • Waste sorting culture</td>
</tr>
<tr>
<td>Polygraph Media Group</td>
<td>Printing / environmentally friendly printing</td>
<td>2006</td>
<td>Moscow</td>
<td>RUB 100–250 million</td>
<td>&lt; 50</td>
<td>Environmentally friendly printing • Certification</td>
</tr>
<tr>
<td>4fresh</td>
<td>Sale of certified and environmentally friendly goods</td>
<td>2009</td>
<td>Oblomsk</td>
<td>n/a</td>
<td>50–100</td>
<td>Sale of certified and environmentally friendly goods</td>
</tr>
</tbody>
</table>

Source: Public data of companies, collected by the Sustainable Business Centre, SKOLKOVO IEMS when preparing the cases.
RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

The companies under analysis implemented one out of two types of strategies targeted at responsible consumers (see the upper quadrants of the matrix in Chapter 1): they either created a niche business or developed a line of responsible goods and services, relying on positions they had occupied and competences they had already developed in the main market.

The vast majority of players (15 out of 20) were established from the very beginning as niche businesses (the “début” strategy) and now offer goods and services to responsible consumers and responsible corporate clients.

In many cases, the businesses were launched by a responsible consumer who did not find an appropriate offer on the market. The battle against waste dumping, which the founder of Sphere of Ecology fought together with other residents, motivated him to start his own business for collecting, sorting, and recycling waste. Today the company provides services for large corporations, embassy buildings, and leading environmental organisations. The search for quality farm produce by the founders of Lavka Lavka and the absence of halal foods on the market faced by the founder of SAFA resulted in the creation of two niche companies, which a few years later, developed into a key trend. The desire of Mi&Ko’s founder to use only natural and tested toiletries for her child, and the search for sustainable products on foreign websites by the creator of 4fresh, prompted them to launch their own businesses to meet these needs.

Love of nature and a desire to develop sustainable tourism practices in Russia led to the establishment of Absolute Siberia and Ethnomir. The enthusiasm of the founder of the YOGA PRACTIKA about the benefits of yoga practice contributed greatly to the consistent emergence and development of this trend in Russia. Difficulties of getting around the city faced by people with disabilities and the founder of Invataa, in particular, motivated him to establish a company specialising in transport and tourism services.

Several other companies under analysis were established to address certain social problems. The founder of Charity Shop built her business based on the model of Goodwill — a chain of second-hand stores in the USA that has created 200,000 jobs for vulnerable groups. She adapted this model to the Russian market and, by involving stylists and photographers, as well as promoting sustainable fashion, she gave consumers a new perspective on the long-established format of selling second-hand clothes. The founders of the Naiveo? Ochen project wanted to provide employment for people with disabilities. They realised that the usual charity format wouldn’t work, and instead developed a commercial model and goods. The founder of Cocco Bellino, a company producing honey products and providing workplaces to the residents of Maly Turysh, offered consumers much more than delicious honey, not to mention that the market was already saturated with this product. She gave them an opportunity to make a contribution to the development and history of this Russian village.

Other companies that fall into the category of niche players based their business models on innovation.

In the beginning, the target audience of responsible consumers was not the main concern of these companies’ founders. Rather, they looked for new means of differentiation in the market and saw opportunities to transfer the latest Western models to Russia. Today, the goods and services they offer are in high demand, including by responsible consumers. Anytime (short-term car rental) and PickPoint (express delivery of Internet orders) were established based on the best international practices aimed at solving transport and logistics tasks in conditions of high traffic congestion in modern cities. In the wake of the development of the fitness industry, the founder of I Love Running introduced a new quality to individual running sessions and later, training in other sports, making them available to anyone.

The remaining five companies share the “from the market to the niche” development strategy. Developing their businesses in traditional markets such as food, cosmetics, clothing, packaging, and printing, they saw new opportunities for creating lines of products intended for responsible consumers. In their case, the traditional business exists together with the sustainable product line, ensuring business sustainability and allowing them to gradually expand and educate the target audience of responsible consumers. The founder of OptiCom revised the previously used approach to the production of packaging and, together with a partner, launched an entire cycle of innovative developments with a unique line of eco-friendly packaging. Natura Siberica — a brand of certified cosmetics — entered the niche when it was just emerging. Today it operates along with the other cosmetic brands of Pervoe Reshenie Group.

The history of the Ugleche Pole brand of certified foods, manufactured by AgrtVolga Agricultural Holding Company, is very similar. Polygraph Media Group introduced the certified FSC printing service only after firmly occupying its position in the printing market. Although it does not currently position itself in the sustainable fashion segment, TVOE, the Russian clothing manufacturer, has begun to gradually introduce environmentally sound technology for processing knitwear and resource-saving production technologies, as well as to consider methods of fabric recycling.

* All logos are registered trademarks of their respective companies.

Source: Sustainable Business Centre, SKOLKOVO IEMS
A distinctive feature of the represented companies focused on the development of responsible consumption is that, in addition to pursuing financial sustainability, they also address certain social and environmental issues. In some cases, this was the key motive and the foundation of the business model, and/or a guarantee for obtaining certification. In others, it created an additional positive effect. This feature always provides companies with additional opportunities for differentiation in the market to attract both consumers and certain categories of investors (for more details, see the Sources of Financing section).

Below is the scope of issues addressed by the companies under analysis.

### SOURCES OF FINANCING

When starting their businesses, most founders of the companies under analysis used their own funds and/or family savings, investments from friends and partners, and investments from the core / parent business. Only two companies used ordinary bank loans during their development, and one company used social grants for the self-employed. Far more companies used Russian crowdfunding platforms or obtained interest-free loans from the Our Future Fund for Regional Social Programmes.

Four successful fund-raising campaigns totaling over RUB 3 million, and Naivno? Ochen, which raised about RUB 500,000 through two campaigns on Planeta.ru. Invataxi had a much less successful experience: two campaigns brought in just 10–15% of the required funds.

**RUSSIAN CROWDFUNDING PLATFORMS**

The two Russian crowdfunding platforms used by the companies were Planeta.ru and Boomstarter. The platforms were launched almost simultaneously in the summer of 2012. Therefore, they were not available yet when many of the listed companies were being created. According to Planeta.ru, as of April 2017, this platform alone attracted over RUB 620 million in public funding and launched over 2,700 successful projects, which reached or exceeded the targeted amount of funds during the campaign. The average contribution per investor was RUB 1,500 (~20–25 USD).

Two of the companies under analysis relied on this means of financing: namely, Cocco Bello, which ran four successful fund-raising campaigns totaling over RUB 3 million, and Naivno? Ochen, which raised about RUB 500,000 through two campaigns on Planeta.ru. Invataxi had a much less successful experience: two campaigns brought in just 10–15% of the required funds.

**INTEREST-FREE LOANS FROM THE OUR FUTURE FUND**

Interest-free loans from the Our Future Fund are provided to winners of the annual Social Entrepreneur All-Russian Project Competition. Entrepreneurs who need funds to start or develop SMEs addressing social problems are eligible to participate in the competition. According to the terms of the Fund, in 2017 operating businesses can receive a loan of up to RUB 10 million, and start-ups — up to RUB 500,000.

Among the companies under consideration, Invataxi, Naivno? Ochen and Mi&Ko took advantage of this opportunity and received loans of RUB 1.2 million, RUB 4.2 million and RUB 5 million, respectively, for a period of five years.
SUCCESS FACTORS

Each of the companies succeeded owing to different factors that ensured the development and sustainability of their business. However, by looking into the experience of these Russian companies, which entered the niche of sustainable goods and services before other players, we can distinguish three key success factors: educating consumers and raising their awareness; actively engaging with partners implementing sustainable practices; exercising strict quality control of products to ensure compliance with the stated objectives and positioning, and promptly responding to consumer feedback, especially if it is negative.

EDUCATING CONSUMERS AND RAISING THEIR AWARENESS

Regardless of the initial launch model, most of the companies surveyed (16 out of 20) made efforts to attract and educate the target audience since their inception and consider this essential to their business. In addition to extensive work with social networks and appearances of the business founders with public statements at various venues, companies also use tools such as:

- issuing their own e- and print publications to raise consumer awareness of trends in the market niche, new products, and so on (e.g., LavkaLavka’s daily e-publication about food, farmers, ecology, and responsibility, the 4fresh eco-market’s quarterly magazine about natural products, etc.);
- publishing interviews and articles in thematic publications. For example, in order to generate general consumer demand for halal foods, SAFA cooperated with regular publications — Islam magazine and Tatar News;
- hosting workshops, organising tours of production facilities for schoolchildren and lectures on ecology (a tool used by Mi&Ko);
- cooperating with major thematic events and fairs for young progressive audiences. For example, Cocco Bello reached its audience through such platforms as the Khokhlovka Original show room, the Lambda Market online fair, and Usadba. Jazz. Naivno? Ochen launched a store inside the Artplay trade and exhibition complex and design centre; LavkaLavka cooperated with MEGA Khimki to open a farm market under the name “MEGA Farm LavkaLavka”;
- creating institutional mechanisms. In some cases, companies go even further and create institutional platforms or mechanisms that allow them to disseminate the relevant practices and approaches. For example, the founder of YOGA PRACTIKA took part in the establishment of the YOGA PRACTIKA Federation, a regional public sports organisation. OptiCom initiated the development of the Vitality Leaf standard — the Russian eco-certification standard for retailers, and launched the Green Cleaning Academy, an educational and training centre where representatives of client companies can learn about environmentally friendly methods of interior cleaning.

Most companies believe that promoting products through direct advertising is an expensive and ineffective method of working with niche consumers. Instead, they focus on spreading information through word of mouth marketing. According to LavkaLavka estimates, this medium accounts for up to 40% of the company’s new audience. This means that an educated consumer gets interested in the idea of the business and becomes its partner, regular customer and, in some cases, sponsor. Realising this, companies targeted at responsible consumers use various promotional campaigns to inform customers about their goods or services, and loyalty programmes to retain them. For example, Charity Shop holds “time shopping” days in its stores, where a customer buys a ticket for RUB 1,000 and can then take any goods he or she likes within an hour. I Love Running provides a good example of the use of loyalty programmes. According to the company, about 40% of clients who have completed the first training course come back to achieve new objectives. Such regular clients receive a 15% discount, and when they order the company’s services for the third time, they get a 50% discount.

WORK WITH PARTNERS IMPLEMENTING SUSTAINABLE PRACTICES

The cases of the companies presented in the study, which work with both end users and corporate clients, shows that it is effective to forge partnerships with players that adhere to sustainable development practices. In the examples analysed, such partners were global and Russian companies implementing integrated programmes or individual initiatives in corporate social responsibility and sustainable development; foreign embassies in Russia, especially embassies of developed countries, where the agenda for sustainable development and responsible consumption is often included in internal regulations and procedures and/or supported by the local head; and social and environmental non-profit organisations.

Different types of interactions are possible between a business and this type of partner. Below are examples of possible partner’s roles.

- Corporate customer for goods and services. For example, despite the lack of references at the beginning of its business operations, Sphere of Ecology established a relationship with a foreign corporation whose environmental policies and standards extended to its Russian representative office. This partnership not only provided the company with its first major client and relevant references, but also access to the client’s international expert experience in waste management, helping the company perfect its own competencies. Today, the client list of Sphere of Ecology includes such companies as Samsung, Nestle, LUKOIL, Oriflame, BP, Swatch Uniliver, Tetra Pak, Nespresso, Rockwood, Cisco, JTI, UNDP, Shell, British American Tobacco, Volkswagen, Greenpeace, WWF, as well as embassies of Canada, Australia, Great Britain, and other countries that practise separate waste collection.
- Financial sponsor. In 2015, Cocco Bello won the Lipton GOODSTARTER Social Entrepreneurship Support Contest and received a prize of RUB 500,000. The competition was held by the Lipton brand of Unlever in conjunction with Planet.ru, a crowdfunding platform, and the Moscow School of Management SKOLKOVO. However, further development of this partnership was even more exciting: Cocco Bello and Lipton agreed to produce a special batch of products — a Lipton tea set with Cocco Bello’s wooden spoons and honey-berry caramels inside.
- A reputational or in-kind partner interested in the development of the company and providing various types of non-financial support. For example, Charity Shop cooperates with large companies by placing boxes for clothing collection inside their premises. Such companies include Johnson & Johnson, MEDSI, ET Russia, Citi, Bayer, the Moscow School of Management SKOLKOVO, RUSAL, Pilk, OZON, SELA, and Respublica stores. LUKOIL and the Our Future Fund are implementing a partnership project under which Russian producers earn special status and the respective marking, “More Than a Purchase”, as well as an opportunity to sell their products at special stands in LUKOIL petrol stations. One participant of this project is Naivno? Ochen.

RIGID QUALITY CONTROL OF PRODUCTS TO ENSURE COMPLIANCE WITH THE STATED OBJECTIVES AND POSITIONING

The third aspect, typical to most of the companies under consideration, is strict quality control of goods and services, including checking them for compliance with the declared quality level, and individual work with suppliers. One of the main challenges of developing a business targeted at the present-day responsible consumer in Russia is the low level of public awareness and underdevelopment of the certification system, which blurs the boundaries of the concepts “green”, “natural”, etc., as well as the lack of business standards. At the same time, companies that produce appropriate products / services and position themselves in the niches of responsible consumption always face the risk of non-compliance with the stated commitments and reputation management. Focusing on long-term growth and business development, players investing in their customers’ education always care greatly about business standards and certification that conforms their compliance. They monitor the public space and respond to critical reviews. Depending on their business models, the companies under analysis apply several approaches in their business.
Voluntary certification. Certification can be carried out according to one of the relevant international standards and/or the Russian Vitality Leaf standard (for corresponding product categories). Natura Siberica, the brand included in the list of the reviewed companies, has earned three types of international and European certifications for cosmetic products, namely, Soil Association, BDIH, and ECOCERT. Polygraph Media Group has earned the international FSC certification confirming that its raw materials were produced using socially and environmentally friendly practices of forest management. SAFA has earned certificates for the traditional foods it manufactures, confirming compliance with the halal food requirements established by the Russian Council of Muftis.

Development of a corporate system for selection and/or certification of suppliers. While developing their business, the founders of LavkaLavka found that the suppliers had low business standards. As a result, the company set a mandatory condition for cooperation — its own certification, developed on the basis of European experience in product evaluation. The evaluation includes an inspection of the production processes, storage conditions, and quality of livestock feed and plant fertilisers. Despite this, LavkaLavka is sometimes criticised for having insufficient standards of cooperation with suppliers.

Indirect confirmation of compliance. Since it is impossible to apply certification to every type of businesses, some companies use indirect proof confirming the compliance of their goods and services with the quality standards. This includes working with large corporate clients that have a reputation for setting high demands to suppliers of all types of products. The key aspect is the company’s willingness to demonstrate its production processes “live”, to confirm the reliability of contractors and suppliers in the supply chain, and so on.

CHALLENGES FACING RESPONSIBLE COMPANIES

Just as the general success factors are common to the companies under analysis, so are two key challenges they encountered while building and developing their businesses. These include the emergence of followers-competitors and unfair competition, as well as constraints to / complexity of business scaling.

FOLLOWERS-COMPETITORS AND UNFAIR COMPETITION

All companies that are the first to enter a growing market and/or to generate it are faced with the challenge of followers that emerge and do not have to bear the costs incurred by the pioneers. Moreover, followers can copy and improve models, build on the established target audience, and avoid mistakes by studying the experience of the pioneer companies. For example, following in the footsteps of Anytime, a short-term car rental service created in 2012, four analogous services were established in Moscow alone in a just few years.

The analysed niche companies that work only with the audience of responsible consumers face increasing competitive pressure from the larger players. As a niche grows and becomes more clearly outlined, the larger players supplement their product lines with sustainable products. SAFA, a pioneer in the production of halal foods that started from scratch and worked its way up into such extensive networks as Auchan, now competes with large agricultural holdings, in particular Cherkizovo Group and Miratorg.

At the same time, a common challenge faced by all companies investing in the production of sustainable products is unfair competition from players that use greenwashing to attract consumers without due regard for the relevant standards.

CONSTRANTS TO BUSINESS SCALING

Limited business scaling opportunities are another challenge often faced by the companies in question. It is caused by several factors. The first is that the founders play a key role in the development of companies that are pioneers in the respective markets. Their exceptional qualities — such as persuasion skills, sincere confidence in their chosen business beyond the general trends, the ability to assess product quality at first sight and to know the best way to approach each client and partner — cannot possibly be transferred to hired managers. This means that many decisions and processes depend on the owner’s resources and ability to promptly react to the external environment. Interestingly, several of the companies under analysis tried out the franchising model, and they all had difficulties maintaining the business standards and corporate culture. The most successful company in this respect was I Love Running, which groups all potential partners into four categories: pioneers, entrepreneurs, businessmen, and investors. According to the company founder, “the most suitable category for a franchise is the pioneer — someone who will promote running not for money, but out of love. If the applicant has never run, we invite him to run his first half marathon to see whether it is the right fit for him. That way he can decide if he really wants a franchise.”

Secondly, companies face a shortage of trained personnel and misunderstanding on the part of employees of the principles underlying the business. It took 4fliesh, an e-store, several years to launch its first store in traditional format. In addition to funding issues, one of the limitations was the lack of qualified staff who could give competent advice to customers on the spot.

Thirdly, manufacturers of products face the challenge of managing risks related to resource dependence since they need suppliers that meet the relevant requirements. After undergoing a painstaking supplier selection process, SAFA focused on one key supplier. Some manufacturers chose to develop their own production of raw materials. For instance, Natura Siberica opened its own certified organic farm in Khakassia — the first of its kind in Russia.

Fourthly, the niche business strategy is a challenge in itself since it envisages a narrower target audience in a particular geographic market. At the same time, responsible consumption being a global trend, thus companies can reach consumers outside Russia not only through physical presence, but also through online sales. Only a few of the companies analysed (e.g., Natura Siberica) have so far managed to build international strategies for unlocking the global potential of the niche.

CONCLUSION TO THE SECTION: THE FIRST WAVE

Despite the Russian consumers’ sensitivity to prices, lack of awareness on responsible consumption, environmental protection and certification, underdeveloped legislation, and public distrust of eco-labelling, the first wave of companies targeted at Russian responsible consumers is already operating and developing in the market. Moreover, many of the analysed players have already dealt with the problem of followers and competition for responsible consumers. Further success and development of Russian SMEs targeted at responsible consumers will largely depend on their ability to overcome barriers and build a sustainable model. One of the key factors in this regard will be the companies’ ability to enter the global market of responsible consumers rather than limiting their business to Russia.
A healthy lifestyle (HLS) involving physical activity, adherence to a daily routine, proper nutrition, and giving up bad habits, is indispensable to people’s well-being and the sustainable development of the state and society. Issues related to sports and healthy lifestyle were included in the 2030 Agenda for Sustainable Development, adopted in September 2015 by the UN member states. Sports allow the body’s resources to thrive, which directly affects the quality of people’s lives. Sports also have a social and cultural function. While professional sports are important, for the purposes of this study, HLS is considered a business niche, with a focus on amateur sports.

In addition to efforts made by the government, a healthy national image is created by members of the private sector providing sports and health services, manufacturing or marketing sports foods, clothing, inventory, gadgets, and mobile apps that help people to stay physically active. The range of consumers in this segment is broad since the end users can be of any age depending on the type of service and health restrictions. When studying responsible consumption and a healthy lifestyle, these concepts should be seen as overlapping sets. While the two are not identical, more people striving to lead a healthy lifestyle are becoming responsible consumers. Supporters of a healthy lifestyle usually start by caring about themselves, and then, applying similar values elsewhere, begin to care about the environmental and social consequences when shopping for goods and services. For example, according to the Union of Organic Agriculture, the proportion of Russians who are willing to buy organic and environmentally friendly foods is 21%, of which 30% adhere to a healthy lifestyle. The share of vegetarians among Russians who practice yoga has increased to 10%.

Currently, the HLS trend is observed all over the world. By 2014, the volume of the healthy lifestyle goods and services market had reached USD 3.4 trillion. This exceeds the value of the pharmaceutical industry, estimated at USD 1 trillion, three-fold. Today more consumers are convinced that they can prevent diseases by staying in good physical shape. As a result, the sports industry is undergoing rapid development worldwide. In general, the world’s wellness industry, aimed at maintaining people’s health and longevity, increased by 10.6% between 2013 and 2015.

The HLS trend was prompted by a number of factors that are still present. Firstly, modern society has entered a new phase of development — excessive consumption, which has affected all areas of life. Excessive consumption of food has generated new...
diseases and aggravated the existing ones. In the 1970s, the US government began a campaign to popularise sports in response to the epidemic spread of various diseases and obesity among Americans. According to a 2015 Nielsen study, 49% of respondents from 60 countries reported that they were overweight, and a similar number of respondents (50%) said they were trying to lose weight. In addition, the excessive consumption of information and communications has contributed to new types of mental disorders. In 2013, the Oxford Dictionary introduced the term “digital detox” — a period when a person deliberately gives up the use of smartphones, computers, tablets, and other devices in order to relieve stress, spend more time communicating with others live, and engage in creative endeavours or work. Curiously, IT companies were the first to adopt this practice for their employees.

The second important factor that promoted HLS was the rising life expectancy rate and growing proportion of older people to the total population as a result of ongoing demographic changes. Experts estimate that between 2015 and 2050, the number of people aged 60 or older will grow by 56% from 901 million to 1.4 billion, and this figure may reach 2.1 billion by 2050. According to a study by the World Health Organisation, the average life expectancy rate in the world rose by five years between 2000 and 2015, which was the fastest growth rate since 1960. Society is thus faced with age-related shifts and related coping methods, including medical intervention and healthy lifestyles in an effort to ensure normal physical functioning so people will remain full-fledged members of society for as long as possible. In addition, with the advances in medicine and reproductive technologies, the natural selection mechanisms have grown weaker. If a person has poor health since birth, he/she has to maintain and develop the body’s functions through medicine and a healthy lifestyle.

Last but not least, another important factor contributing to the HLS trend is urbanisation, which has drastically affected traditional lifestyles, including reduced physical activity, environmental degradation, and greater stress levels. Currently, over half of the world’s population live in cities and, according to experts, this figure will reach 70% by 2050. The fast pace of city life and daily psychological pressure are leading people to choose healthy lifestyles as a means of relaxation and health improvement. Sport is now a tool to combat a sedentary lifestyle, which, according to studies, causes 3.8% of deaths per year. Between 2002 and 2011, the highest mortality rate caused by lack of physical exercise was recorded in the Western Pacific, followed by countries in Europe, the Eastern Mediterranean, the USA, and South-East Asia.

The above factors have brought about a number of changes in healthy lifestyles as a business niche. Having felt the harmful effects of overconsumption, people began to consciously restrain themselves from overindulgence in food and to strive for a healthier way of life, paying more attention to the quality of consumed goods. As a result of this trend, the global market of organic foods has grown from USD 15 billion in 1999 to USD 72 billion in 2013. Analysts estimate that by 2020, this figure will reach USD 212 billion. In the UK, the proportion of vegans who have deliberately given up animal foods has increased by 550% over the last decade. The HolReCa segment now features specialised catering establishments and services for the delivery of healthy meals and foods under detox programmes to homes and offices. One example is Lucky Leek, a vegetarian restaurant in Berlin, which was included in the Michelin Red Guide. Hiltl, a restaurant in Zurich that was founded in 1898, is listed in the Guinness Book of Records as the world’s oldest vegetarian restaurant. According to the Happy Cow service, there are over 20,000 restaurants offering vegetarian menus in North America, over 18,000 in Europe, and about 8,000 in Asia and the Middle East. Today, many traditional restaurants around the world have Gluten-Free sections in their menus and feature dishes made of organic products. In the US and Canada, the Panera Bread fast food chain, which offers an alternative healthy menu, has become so popular that it now numbers 2,000 outlets. In London, similar to many other large cities, healthy food delivery services are in high demand. These include, for example, the Spring Green London delivery service. Noah, which delivers products under detox programmes throughout the UK and has its own clinic, operates in the same market niche. A study of the 2016 Google search statistics reveals that queries related to healthy food are becoming more popular, with a tenfold increase since 2005.

Secondly, many companies around the world now adhere to a strategy promoting healthy lifestyles among employees. This includes preventive medical examinations, fitness rooms in office buildings, and yoga classes. All this has significantly influenced the HLS industry. For example, Unilever has launched the Lamplighter Programme, which provides for employee medical examinations, opportunities for physical activity, and better nutrition.

Thirdly, sports are now more accessible and more people are doing them. In addition to classical sports, there are now mixed sports and street sports, and fitness centres have become an integral part of almost any city’s infrastructure. The desire to save time and greater convenience has resulted in the growing popularity of online sports training videos, sports and healthy food apps for smartphones (e.g., Runtastic and Nike+ Run Club apps for running; and Fooducate and Chemical Cuisine apps for healthy food), as well as fitness gadgets (e.g., manufacturers of devices for athletes such as Fitbit and Mio Global). The growing popularity of HLS has also influenced the tourism industry, with various types of fitness and yoga tours now available.

<table>
<thead>
<tr>
<th>TABLE 4</th>
<th>KEY CHANGES ENTAILED BY THE HEALTHY LIFESTYLE NICHE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parameter</td>
<td>Traditional lifestyle</td>
</tr>
<tr>
<td>Accessibility of sports and affordability of a HLS</td>
<td>Fitness is a privilege of the healthy and sport is a privilege of the young</td>
</tr>
<tr>
<td>Types of sports</td>
<td>Traditional sports, running, fitness in sports centres, workouts in gyms</td>
</tr>
<tr>
<td>Meals</td>
<td>Overconsumption phase</td>
</tr>
<tr>
<td>Recreation and travel</td>
<td>Beach vacation, tourism, sports tours (including ski holidays), therapeutic recreation</td>
</tr>
<tr>
<td>HLS in the workplace</td>
<td>Not common</td>
</tr>
<tr>
<td>Sustainable practices</td>
<td>Not common</td>
</tr>
</tbody>
</table>

Source: Sustainable Business Centre, SKOLKOVO IEMS
Development of the Healthy Lifestyle Goods and Services Market in Russia

Although Russia picked up on the HLS trend later than developed countries, the trend is now apparent and rapidly developing. According to surveys conducted in 2015 by the Russian Public Opinion Research Center (VCIOM), the number of Russians who do sports has reached a maximum value for the first time in nine years. 87% of young people and less than half of pensioners lead an active way of life, with a total share of 61% of all Russians. For comparison, in 2014, the corresponding figure was only 52%77. The growth of the share of 61% in 2014, half of pensioners lead an active way of life, with a total time in nine years. 87% of young people and less than half of pensioners lead an active way of life, with a total share of 61% of all Russians. For comparison, in 2014, the corresponding figure was only 52%77. The growth of Russia’s fitness services market, with an annual increase of 20–30% in 2012–2015, has outstripped many of the leading countries in Europe and the USA78.

The main growth factors were higher incomes of the population and a favourable historical context. In the former USSR, authorities took great care to provide physical education and sports to the public. Successful athletes were the pride of the country and were regarded as national heroes. After the emergence of modern Russian entrepreneurship in 1986–1989, the private sector began to develop in this area as well. For example, in 1990 the first official fitness club in Russia was registered in St. Petersburg. Initially, fitness clubs developed mainly in the premium segment since a healthy lifestyle was a privilege of the wealthy. The Russian Fitness Group exclusively on a voluntary basis at the request of authorities has imposed restrictions on advertising hard-alcoholic beverages in the country. Since 2012, than has been imposed on the retail sale of alcohol products from 11 pm to 8 am. In 2013, an anti-smoking law was adopted that bans tobacco advertising and smoking in public places. In 2014, additional restrictions will be imposed on the advertising of beer and beer-based beverages. In 2014, Russian President Vladimir Putin signed the Decree on the All-Russian Physical Culture and Sports Complex, Ready for Labour and Defence (GTO), which aims to revive Soviet practices in physical education. In addition, the first government standard regulating the rules and norms for the provision of fitness services went into effect in Russia in 2016. However, the corresponding certification is provided exclusively on a voluntary basis at the request of entrepreneurs. The government will likely continue to make efforts in this area and in the future, will provide support to private companies offering HLS services.

In addition to fitness workouts, yoga, which was very popular abroad, also became popular in Russia. According to the Yoga Journal, almost 1.4 million Russians practice yoga20. In the 2000s when the country’s economic and political situation had stabilised, many Russians became interested in spiritual practices, and yoga became a mass trend. An important advantage of these types of physical activity is that they do not require any sports equipment or large financial investments. Moreover, after mastering the techniques, people who like fitness and yoga workouts can train by themselves.

For the same reason, another sport — the street workout — has become popular in Russia as well. Street workouts are now available in different cities. Interestingly, the basics of the street workout are similar to the general physical training system, Ready for Labour and Defence of the USSR, which existed in the country from 1951 to 1991 and covered a wide proportion of the population aged 10 to 60. In addition, more Russians have picked up on the global trend and now engage in mixed sports. For instance, triathlon, a multi-discipline race, has become popular in Russian business circles. Prosperous businessmen and corporate employees with successful careers set new athletic goals and take part in competitions. Between 2015 and 2016, over 25,000 people took part in the Race of Heroes sports project.

The government also takes measures to promote healthy lifestyles and combat bad habits. In particular, authorities have imposed restrictions on advertising hard-alcoholic beverages in the country. Since 2012, than has been imposed on the retail sale of alcohol products from 11 pm to 8 am. In 2013, an anti-smoking law was adopted that bans tobacco advertising and smoking in public places. In 2014, additional restrictions will be imposed on the advertising of beer and beer-based beverages. In 2014, Russian President Vladimir Putin signed the Decree on the All-Russian Physical Culture and Sports Complex, Ready for Labour and Defence (GTO), which aims to revive Soviet practices in physical education. In addition, the first government standard regulating the rules and norms for the provision of fitness services went into effect in Russia in 2016. However, the corresponding certification is provided exclusively on a voluntary basis at the request of entrepreneurs. The government will likely continue to make efforts in this area and in the future, will provide support to private companies offering HLS services.

Despite the development of the HLS niche, the share of organisations applying responsible practices in this area is still small in Russia, which is a challenge to be addressed in the near future. At the same time, it is a development opportunity for companies. The growing movement for environmental responsibility has created eco-rankings of fitness clubs, such as the Ecobureau GREENS ranking, compiled in conjunction with the World Wildlife Fund (WWF). A number of factors are taken into account when ranking fitness clubs, such as whether they have energy and water conservation programmes, practice economical paper use, separate waste collection, and so on98. In this regard, it is highly probable that in the future, businesses applying responsible practices will gain a competitive advantage in the market.

YOGA PRACTIKA

http://www.yoga.ru

Business scope: goods and services for sports and healthy lifestyle
Year of incorporation: 1997
Business launched in: Moscow
Founders: a proactive group of leading Iyengar Yoga instructors
CEO: Elena Ulmasbaeva
Financial performance: over RUB 40 million in revenues as of 2013
Number of employees: n/a

«Each practitioner makes an individual choice to experience the culture of India and the yoga philosophy. We wanted to create a very secular and, at the same time, technically correct way of teaching yoga.»

Maxim Yushko, CEO of YOGA PRACTIKA 81.

Biography

Elena ULMASBAEVA, Director of the Moscow Iyengar Yoga Centre and head of the YOGA PRACTIKA network, author of articles and books on yoga. Chief Consultant of the Yoga Journal. Elena first learned about the Indian culture when she was five years old, and has been interested in it ever since. Elena took up yoga in her childhood years and spent all her time practising yoga. During the Soviet times, Ulmasbaeva worked at the Scientific and Practical Centre for Unconventional Rehabilitation Methods, and took part in organising a visit to Moscow of the yoga guru B. K. S. Iyengar in 1989 at the official invitation of the Ministry of Health and the USSR State Committee for Physical Culture and Sports. During the visit, Elena gained an insight into the doctrine and met its founder, and in 1990, she began teaching Iyengar yoga to students.

Brief overview

Having begun practising yoga before it was officially permitted in the country in 1989, Elena Ulmasbaeva and other instructors did not consider their activities to be a business, and for a long time disseminated the doctrine without any business strategy. During the economic crisis of the 1990s, however, Elena and her adherents set commercial goals in addition to the spiritual ones, and went on to achieve them by opening the first yoga centre in Moscow in 1997. Since then, their business has grown into a federal network of yoga centres under the YOGA PRACTIKA brand, which currently comprises over 20 modern facilities in Moscow, as well as yoga centres in Kazan and Nizhny Novgorod.

1 Hereinafter, no public information is available on the company staff size and/or its financial performance.
The company’s experience

Although yoga was not popular in the USSR and there was little information about it available, the country’s leaders were interested in its health aspects. In 1987, the Ministry of Health of the USSR sent a group of specialists to India to study various yoga practices and trends. After the trip, the Soviet delegation analysed the diverse material they had collected in India and chose the training method of B. K. S. Iyengar from the Institute of Yoga for further study and dissemination in the USSR. Iyengar Yoga was considered the most effective, appropriate for Europeans, physiologically sound, and free of national and religious features type of yoga. The All-Union Yoga Association that was established for these purposes failed to unite the country’s yoga adherents, and eventually, various schools and styles of yoga emerged across the country.

At the same time, perestroika was gaining momentum, giving the Russian people freedom of speech, freedom of religion, and freedom of enterprise. Changes occurred in all aspects of life, which contributed to the growing popularity of yoga among the public. During one of Elena’s trips to India, B. K. S. Iyengar gave her his official permission to open a yoga centre named after him in Russia. The plan was implemented in 1997, when Elena Ulmasbaeva and Alexander Furashov, a novice instructor at the time, began teaching yoga in a rented space on Pyatnitskaya Street in the centre of Moscow. The enthusiasts had no guarantees or start-up capital, and invested all the income they received from teaching yoga into renovating the building. However, with time the demand for yoga classes grew and the instructors soon occupied the entire facility on Pyatnitskaya Street. In 2000, when the economic and political situation had stabilised, more Russians began doing sports and leading a healthy lifestyle, and a yoga boom swept across the country. Oriental practices were offered at almost all fitness clubs in Russia. All of this made it possible to open three more YOGA PRACTIKA centres in the centre of Moscow in 2003, to expand the range of services, and to launch separate classes for different audiences, such as English speakers, children, the elderly, and pregnant women.

The entrepreneurs put particular emphasis on the quality of the instruction. New instructors had to undergo a strict selection procedure. However, there was a shortage of qualified personnel in Russia since yoga instruction had not been regarded as a profession for a long time. In 2005, the founders of YOGA PRACTIKA launched a training course for new instructors and later hired some of the trainees to teach yoga in their centres. With the growing popularity of yoga and the emergence of a variety of yoga trends in the market, YOGA PRACTIKA faced a number of challenges. Instruction at other yoga schools was often incorrect. Therefore, in 2007, the organisers of the enterprise created a regional public sports organisation called YOGA PRACTIKA Federation to address socially oriented tasks, including promoting yoga in Russia, establishing uniform quality standards for training and certifying yoga instructors, and developing safe and effective yoga classes for different categories of yoga practitioners.

Part of YOGA PRACTIKA’s success came from its convenient location. The entrepreneurs opened yoga centres in residential districts, making them convenient for customers. To attract the target audience, they posted ads on notice boards in residential apartment blocks, which was a cheap but very effective advertising method. The ads pointed out the healing effects of yoga without focusing on its cultural or philosophical aspects. This attracted clients who were not interested in spiritual practices, but wanted to lead a healthy lifestyle and stay fit by doing yoga.

By expanding the package of services, the founders of YOGA PRACTIKA catered to both individual and corporate clients. They introduced massage services, consultations by psychologists and astrologers, and an e-store offering high-quality yoga clothing, mats, and books on the topic. Yoga styles and trends may intermix in the near future so that the owners of YOGA PRACTIKA will have to make a choice: to give in to the trend or to remain loyal to the original tradition, which will mean retaining the company’s uniqueness, but losing some clients who occasionally wish to try new types of physical activity. In addition, it is notable that since 2006, the number of Russians past retirement age has been steadily growing. In 2013, this figure exceeded the number of working-age citizens by 8.9 million people. This means that expanding programmes for this target audience and including older coaches in the staff may become a competitive advantage in the yoga instruction market.

Yoga styles and trends may intermix in the near future so that the owners of YOGA PRACTIKA will have to make a choice: to give in to the trend or to remain loyal to the original tradition, which will mean retaining the company’s uniqueness, but losing some clients who occasionally wish to try new types of physical activity. In addition, it is notable that since 2006, the number of Russians past retirement age has been steadily growing. In 2013, this figure exceeded the number of working-age citizens by 8.9 million people. This means that expanding programmes for this target audience and including older coaches in the staff may become a competitive advantage in the yoga instruction market.
The idea of I Love Running came as a result of Maxim's hobbies. When Maxim's body weight was approaching a three-digit number, he decided to get back in shape. He started training and ran his first marathon. Having become an avid runner, he decided to open a running school.

Biography

Maxim Zhurilo, the founder of I Love Running, was born on 10 August 1984. He graduated from the Cybernetics Department at the Moscow Engineering Physics Institute (MEPhI). Previously, he worked as a business coach at Business Relations, where he helped clients enhance their personal efficiency.

The company's experience

I Love Running (ILR) was founded at a time when many people in Russia were becoming interested in sports. According to statistics, in 2012 alone, the year when ILR was launched, the number of people who did sports on a regular basis increased to 22.5% and amounted to about 32 million. In 2008, that figure was only 22 million. In addition to the growing fitness niche, the culture of street training and sports clubs based on common interests began to develop in the country. From 2009 to 2014, the number of Russians participating in international marathons grew by an impressive 500%.

Maxim Zhurilo, the founder of the project, picked up on this trend, but he knew from personal experience that doing sports just for the sake of staying slim and healthy is usually ineffective because people tend to give up the training soon after starting it. At the same time, if people set a specific goal, such as taking part in a marathon, they tend to train more regularly and the process is more exciting and effective. As Maxim became more interested in sports, more people turned to him for advice and eventually, in 2012, he founded a school of running. His partners were Irina Moskovkina, his former colleague, and Vladimir Pasekunov, a fellow student from MEPhI. Each partner owns one-third of the company. The founders invested about RUB 100,000 in branding, presentation, a website, software, and T-shirts with the ILR logo.

The school of running did not require any significant start-up investments. Salaries were paid to coaches out of students’ fees. In the summer, classes were held in parks, and in the winter, the entrepreneurs rented an indoor track facility, using about 50% of proceeds from students’ fees to pay the rent. A year later, the school boasted 500 graduates.

The new school was unique because it gave clients an opportunity to train for marathons or half marathons held in different cities of Russia and Europe, so it satisfied people’s passion for sports as well as travel. The tourist packages are sold separately. The training takes a fairly short time to complete: seven weeks for a half marathon. During this period, clients can choose from individual or group training, regular medical check-ups, motivation via instant messengers, and they can attend meetings to meet other trainees, besides establishing business contacts.

The founders of the project focused on attracting novices, while most other clubs hosted professional classes. Maxim Zhurilo believes that ILR’s competition comes primarily from bars and cinemas, which offer an alternative pastime to sports, as well as remote training systems such as Cyclone or David Warden Coaching. ILR imposes strict requirements on its staff. All coaches must have completed specialised education and professional experience in the sport they provide training in. There have been cases of ILR trainers “stealing” students, offering independent training, and even opening their own schools. Despite this, no other schools or clubs have yet achieved the same level of success as ILR because, according to Maxim, his school stands out not only with its coaches, but also a special environment and proper management.

As the school of running expanded its range of services, Maxim Zhurilo was preparing for a triathlon competition and looking for a good swimming coach. Unable to find one, Maxim went to the USA to train using the Total Immersion method developed by the American coach Terry Laughlin. Inspired by his own progress, Maxim decided to introduce this method at his school. In 2014, after sending several coaches, including his father, to take the same training course, he opened the I Love Swimming course. The successful launch of the school of swimming was followed by the I Love Cycling, I Love Triathlon, and I Love Skiing training courses, which were launched in 2015.

In 2013, the company received the first request for a franchise from St. Petersburg, but the entrepreneurs were not ready for it yet. They turned to German consultants for help with compiling the necessary package of documents. Subsequently, the founders of the project began to open representative offices in other cities of Russia under the same scheme: first they would open a school of running, and then expand the package of services by adding other sports. Currently, the company receives 50-40 applications for new branches every month, but satisfies up to 10% of the requests. “We divide all applicants into four types: pioneers, entrepreneurs, businessmen, and investors,” explains Maxim Zhurilo. “The most suitable category for a franchise is the pioneer — someone who will promote running not for money, but out of love. If the applicant has never run, we invite him to run his first half marathon to see whether it is the right fit for him. That way he can decide if he really wants a franchise.”

When opening a representative office, the entrepreneurs allow it to use the brand name, share all of their know-how for launching programmes, provide permanent online support through the company's special IT system, and conduct regular sessions to ensure that the company's schools in the regions maintain the same image as the central branch.

Thus, I Love Running has become one of the most popular networks of running and sports clubs in Russia, providing training courses in five sports, and offering a unique combination of individual and group training.
with an annual revenue of over RUB 50 million as of 2015. Today, the company has 33 branches, including sports schools in Riga, Almaty, and Dubai. According to Maxim, most trainees are successful professionals aged 25 to 35. In addition to individual customers, the entrepreneurs have corporate clients, including banks, audit firms, IT companies, and international corporations such as Philips and Shell. Client organisations sometimes co-finance employee training by paying part of the training fees. The school’s programmes are designed so that about 40% of the students return for another course to achieve new goals. These students receive a 15% discount, and those who come back a third time get a 30% discount. Clients often switch from one sport to another.

The company expects to reach USD 1 million in revenues. In addition, the company plans to expand internationally: a lump-sum fee for foreign franchisees is USD 4,000, and the monthly payment is USD 250. In the long term, the ILR founders also expect to cooperate with the government. “Our project is beneficial to society. We are doing work that the government authorities should be doing, and we’ll do it even better if they support us, such as by providing infrastructure,” says Maxim Zhurilo. The I Love Running brand can develop further through government support, cooperation with international and local sporting goods manufacturers, and organisation of more marathons in different regions of Russia. At the same time, given the competitive nature of the sport types covered by the project, gamification of the business could give the company a competitive advantage and motivate the clients by allowing them to interactively compare their achievements to other members.

International trends

Agriculture and food are the key industries satisfying people’s basic needs for food. According to experts, by 2025 the world’s population will reach 8.5 billion. The need to feed a growing population in the face of constant depletion of natural resources, as well as contamination of soil and water as a result of agricultural activities, have led to a revision of the existing production model and gradual abandonment of intensive farming practices.

A comprehensive concept of sustainable agriculture arose out of the current situation and the social importance of an industry upon which over 2.5 billion people in rural areas rely directly or indirectly. This concept envisages an upgrade of the production system through the rational use of natural resources, reduced environmental impact, and decent labour conditions throughout the production chain.

This trend and increased information transparency have pressured manufacturers to follow stricter requirements to product quality and traceability of all the supply chains. Globalisation and increased competition in the market have necessitated standards for effective product quality assessment and regulation of the entire production cycle. The availability of certificates and labels confirming the compliance of products and technological processes with the established standards has become an important element of differentiation. Certified producers receive preferences from large processors in the raw materials market and from consumers in the final products market. These transformations and related trends in the food markets have resulted in new niches of certified goods.

A clear example of the emergence and rapid development of such a niche is the production of organic foods. Today the volume of the relatively new global market of organic foods is about USD 125 billion. With an average projected growth rate of 15.5% annually, it is expected to reach about USD 212 billion by 2020.

The organic food market is growing not only due to producers’ transition to gentler farming methods, but also in response to the changing consumer demand; especially with the growing popularity of healthy lifestyles. The spread of sedentary lifestyles and rising morbidity rate as a result of the rural population’s migration to urban areas have gradually brought awareness that taking care of one’s health is key to general well-being. Consumers are taking greater care of their health and changing their food preferences, adding more organic and environmentally friendly products to their diet.
According to the generally accepted definition, the term “organic food” does not imply only that the food is natural, but also suggests that the food is natural, but also a wide range of non-Muslim consumers, who choose halal foods mainly for their quality and safety.

In addition to the niche of certified organic and religious foods, there is a notable niche of foods produced in accordance with the Fair Trade standards. This niche developed due to growing free trade and the need to establish fair trade relations, in particular with developing countries, where child labour and high mortality rates among workers are prevalent. The modern principles of fair trade with these countries were elaborated in the 1970s at the United Nations Conference on Trade and Development. The Fair Trade certification and labelling system, established in 2002 by the Fairtrade Labelling Organisations International, is now used in more than 50 countries. It helps producers to optimise labour conditions and allows buyers to trace the origin of goods, making sure they benefit producers and contractors along the entire supply chain. The market of Fair Trade products is concentrated in 19 countries, including the USA, Germany, Switzerland, the United Kingdom, and the Netherlands, where this trend enjoys the greatest popularity. At the same time, despite the trend’s growth, global sales of such products are still extremely small and, according to various estimates, amount to less than 0.1% of all foods.

The surging demand for certified goods has contributed to the revision of food production models by large businesses. Today, many transnational food producers are adding new product lines to the existing portfolios to meet consumer demand. For example, Campbell, a major American company producing canned soups, acquired Plum Organics, which manufactures organic baby foods. Barilla, an Italian food manufacturer, now supplies organic pasta to the French market.

Large transnational companies were also affected by the growing demand for halal foods. More manufacturers are realising the importance of being sensitive to specific local preferences. One of the clearest examples is Nestle, which produces food for Muslims at 85 of its 456 factories. According to 2014 data, the turnover of the holding’s main halal unit alone, based in Malaysia, exceeded USD 1 billion.

Among other things, the demand for certified goods has become a driver for the development of niche manufacturers launching businesses from scratch. This is especially important in the market of organic foods, which are difficult to produce on an industrial scale.

Some new players develop individual niche productions, while others cross over from related industries. For example, retail chains are launching their own production and selling goods under their own brand. This model is present in many European trading networks, such as Sainsbury’s and Tesco in the UK, and Migros in Switzerland, which has been producing goods under its own brand — Migros Bio, since 1995.
For example, McDonald’s — an industry giant — lines and adapting the menu to local preferences. The catering market are expanding their product offerings to accommodate local tastes and dietary preferences. Trust by attributing the products to local farmers, which can be one of the most important factors in building customer loyalty. This demonstrates loyalty to customers. Making stores more attractive to consumers and demonstrating commitment to social mission and Fair Trade labelling. Companies are also opening name-brand shops next to their existing product lines and enhancing their visibility.

In addition to departments in network superstores, there are also new specialised retail outlets, including farmers’ markets, eco-markets, kosher food stores, and halal department stores. Examples abound include Whole Foods, Trader Joe’s, and Sprouts Farmers Market. Individual manufacturers are launching online sales of their products. These include Organic Eden Foods Inc. (USA), which offers organic, halal, and vegetarian products, and Equal Exchange, which produces foods with a social mission and Fair Trade labelling. Companies are also opening name-brand shops next to their production facilities. The new formats are being created as a response to a growing concentration of producers in the region, and the need to shorten the supply chain from producer to customer. This cuts the production costs and helps build consumer trust by attributing the products to local farmers, which can be one of the most important factors affecting purchasing decisions.

The HoReCa segment is also undergoing significant changes. Many major players in the catering market are expanding their product lines and adapting the menu to local preferences. For example, McDonald’s — an industry giant — now has over 50 kosher restaurants in Israel, where, despite global standardisation, the menu is developed to cater to local consumer preferences. The development of certified foods niches has also led to the emergence of new food outlets offering dishes prepared from certified ingredients. One striking international example is Nora — a restaurant in the USA with a 95% organic menu. The restaurant was the first establishment in world history to be certified by Oregon Tilth, a major private licensing authority in the United States. At the moment, however, such cases of entire restaurants and cafés undergoing certification are stand-alone signs of changes in the market. Many restaurants are taking their first steps in this direction and, in most cases, they offer stand-alone menu items to cater to a specific audience and stand out from competitors.

**Development of Certified Foods Niches in Russia**

The government policy aimed at saturating the domestic market with locally produced goods and strengthening its competitive positions in foreign markets gives Russia a great chance at succeeding in the development of certified food niches. However, unlike other countries, where demand for certified products grows largely through significant government support, Russia does not have a full-fledged regulatory system for any of the listed niches, which puts significant constraints on their development.

For example, despite its potential, Russia lags 15-20 years behind the developed countries in the production of organic products. In 2016, the volume of the Russian organic food market was USD 150 million, or 0.2% of the total volume of the country’s food market, of which almost 85% is imported goods104. The absence of a regulatory framework is one of the main obstacles to the niche development.

Over the past decade, Russia has made several attempts to ensure the development of the organic market. The first certified foods were produced and imported in the mid 1990-2000s. Nevertheless, the first eco-markets offering foreign certified foods, such as Ryzhaya Tykva (Red Pumpkin), were not a success with buyers. In the absence of a transparent and easy-to-understand certification system, unscrupulous producers illegally use eco-labels and raised prices by 20-30% without any justification, causing buyers to become distrustful of such products. Despite the positive trend, the proportion of Russia’s population consistently interested in such products is 10% at most. This consumer audience is concentrated mainly in premium retail chains such as Zeleny Perekrestok, Globus Gourmet, and Azbuka Vkusa, where the share of organic products is as high as 30-40%105.

In the absence of state regulation, voluntary certification systems have emerged in the organic foods market. Of the few domestic eco-markings, the international community recognises only the Vitality Leaf. Organic, developed in 2007 by the Ecological Union Non-Commercial Partnership of St. Petersburg. The first enterprise to be certified by Vitality Leaf. Organic was Alekhovschina, a Leningrad eco-farm. At the moment, only five farms certified to use the Vitality Leaf eco-label are listed on the Ecological Union website. It was not until 2015 that significant changes were introduced to the legislative framework. The national standard for organic foods was adopted, becoming the first official regulatory document in this area. In addition, the Draft Federal Law on the Manufacture of Organic Products was submitted to the government for review, but is yet to be finalised.

The development of the organic foods market gave impetus to a number of new niche productions, whose owners recognised the new business opportunities ushered in by changing consumer preferences. While niche economies with registered brands have long been established in developed foreign markets, in Russia this practice began to spread only with the imposition of the food embargo and government focus on promoting domestic production. The role of individual farms, especially small ones, has increased significantly, and farmers now have additional opportunities to enter the sales markets. In addition, the development of Russia’s organic market has resulted in new fast food restaurants for health-conscious consumers.

The market of certified halal products is also expanding. Taking into account the total number of Muslims in Russia, its aggregate potential is estimated at RUB 1.5-3 trillion106, making Russia a fast-growing market. Entering this niche allows companies to reduce the competitive burden, while certification not only gives them access to the market, but is also regarded as an additional marketing tool for expanding the target audience and promoting the company to potential consumers. Unlike the niche of organic products, where small enterprises account for most of the output, halal production has become an independent business area for many leading, large-scale agrarian holdings. For example, for Cherkizovo and Miratorg, the opportunity to operate in the growing export markets was a major incentive for developing the halal foods segment.

The introduction of special standards, such as Halal-PPT-SMR of the Council of Muftis in Russia, was a key step for the development of the halal foods market in the Russian Federation. In addition, committees and centres for the development of general requirements to the production, storage, transportation, and sale of halal foods were established at the Regional Spiritual Boards of Muslims. Total, over 500 enterprises in Russia manufacture foods in accordance with these requirements, although not all of them have the respective certificates.

In Russia, there is no niche of foods produced in the domestic market in compliance with Fair Trade principles. This may be because Fair Trade products are primarily commodities such as tea, coffee, cocoa beans, etc., which are mostly imported to Russia by large transnational companies. At the same time, small Russian enterprises rarely invest in the right to use eco-labels.

In general, despite the existing barriers hindering the development of the above niches, there are a number of factors that can facilitate this process. Firstly, creating a regulatory framework and developing standards to increase transparency in the market and win consumers’ trust. Secondly, strengthening the consumers’ social consciousness and promoting a healthy lifestyle. Educating the public and raising people’s awareness can be key to this process. This is important not only for the mass audience, but also for companies, because raising the knowledge and competences of manufacturers and other market players will contribute to the development of niches. Equally important is the emphasis on upgrading the infrastructure and facilitating producers’, especially small farms’ access to markets. Additional economic incentives for companies can come through enhanced financing instruments and preferences provided to manufacturers who are or plan to be certified.
LAVKALAVKA

http://lavkalavka.com/

Business scope: sale of natural foods
Year of incorporation: 2009
Business launched in: Moscow
Founders: Boris Akimov, Alexander Mikhailov, Vasily Palshin
CEO: Alexander Mikhailov
Financial performance: ~RUB 360 million in revenue as of 2016
Number of employees: 250 as of 2016

"I am confident that cooperation is essential to sustainable agricultural development and, in a broader sense, to the development of the country’s vast rural territories. Only a cooperative can turn a small family farm into a comprehensive supplier for urban dwellers."

Boris Akimov, LavkaLavka co-founder

Biographies

Boris AKIMOV is an artist and musician, holding a Ph.D. in Philosophy. He is the mind behind the project and the Creative Director of the LavkaLavka e-magazine. Before the launch of LavkaLavka, Boris worked as a journalist for Afisha and Snob. In 2013, he opened his own farming enterprise. Boris was a finalist in the 2015 Entrepreneur of the Year international contest in Russia.

Alexander MIKHAILOV is the company CEO. Formerly, he was an IT specialist. He was born in 1976 in Ulyanovsk and has been living in Moscow since 1993. He graduated from the Faculty of Computational Mathematics and Cybernetics at Lomonosov Moscow State University (years of attendance: 1995–1998), and holds an MBA from the Higher School of International Business (2004–2006). Before joining the company, he focused on automation of lending institutions and various integration projects.

Vasily PALSHIN is head of sales and development at LavkaLavka. He was born in Yuzhno-Sakhalinsk and graduated from the Leningrad Institute of Fine Mechanics and Optics. Before joining LavkaLavka, he worked for a youth clothing manufacturer.

The company’s experience

LavkaLavka was launched in the spring of 2009 in Moscow by three friends — Boris Akimov, Alexander Mikhailov, and Vasily Palshin. It started out as a farmers’ products delivery service. The founders thought of themselves as gastronomic enthusiasts. In search of delicious and natural foods for themselves and their families, they visited enterprises and talked to farmers, and then published their stories on a Livejournal blog. The virtual space soon became more interesting to the founders as they received feedback from potential consumers of farmers’ products. Communication with farmers and blog readers resulted in the creation of an e-store in 2010. This provided support to farmers because customers could place orders online for local products to be delivered right to their homes.

Later, the founders decided to systematise the cooperation with individual enterprises by creating a co-op that would regulate the farmers’ interest and grant various preferences such as financial assistance, legal and accounting consultations, and PR support, while providing a platform for direct interaction with consumers.

Interestingly, at the time, Russia had no similar organised structure connecting small and medium farmers with consumers. There was no separate segment of Russian farmers’ products either. Store shelves were packed with products of foreign origin. Moreover, the culture of consumption was not established yet. Therefore, the public was initially suspicious of LavkaLavka operating in such a narrow niche, to the point that it was regarded as a "sect." The founders, however, took this reputation in stride and continued investing efforts and resources into the project. They were confident that they were doing the right thing.

Later, the situation changed radically amid sanctions and LavkaLavka found itself in the avant-garde. The government’s focus on developing domestic production stimulated considerable interest in agriculture and the food sector among investors and business from other areas, who recognised attractive new market opportunities. By that time, LavkaLavka had become a recognisable brand and offered customer support. New co-op members began to join.

It took time for the founders to set up efficient operations and a sustainable business model. Interaction with SMEs involves certain specifics, such as supply instability, off-standard size products, absence of documents, and seasonal factors, which posed serious obstacles to guaranteed supplies of high-quality products.

Many farmers were unable to join the co-op. Becoming eco-certified required inspection of the production processes, livestock keeping conditions, fodder quality, plant fertilisers, and so on. After reviewing the European experience in product evaluation, an internal standard and environmental farming regulation system were developed — LavkaLavka Expertise. According to LavkaLavka management, the highest level of certification corresponds to the strictest international standards. Thorough individual checks of each supplier track the product origin, providing quality guarantees and forging a sustainable model for the co-op’s operations.

Unlike many other companies, LavkaLavka openly publishes information on its price policy. According to the founders, the final price of a product comprises the farmer’s proceeds, amounting to 50-70%, and those of the co-op (50-50%). The co-op invests its share of the income into logistics, leasing, operating expenses, and development. As a result, the mark-up is around 100%.

Work with consumers also involves certain specifics. Generally speaking, consumers were distrustful of farm products. The price category of these products is relatively high. Therefore, the company’s target audience initially comprised well-to-do citizens who care about healthy lifestyles. They opted for fresh, high-quality products and were ready to pay a premium for them. However, a fundamentally new approach to interacting with the target audience was required for Russian farm products to be able to compete successfully with the imported counterparts and to be attractive to mass consumers.

When addressing this challenge, the founders relied on transparency, personalisation, and power of personal farmers’ brands. Customers began caring not only about getting a high-quality product, but also about knowing its origin. Today, apart from the common umbrella brand, names of farmers and specific farms are indicated on each LavkaLavka item. Successful promotion of farmers became possible through the active application of various PR tools.
 RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

with farm produce and is widely recognised by investment funds. Companies financial independence from banks and farmers’ and customers’ personal investments example is a shop in Moscow that opened through funding. Customers would invest into the production or equipment that a farmer needed, and within a few months the trust between the co-op members and customers, but has also made farming quite fashionable. When developing the product sale system, the founders aimed for maximum diversification and creation of formats that help to stabilise the market while ensuring an amicable relationship between consumers and farmers. Initially, an e-platform was used for these purposes. After it become successful, the team of founders decided to try it offline as well. In August 2013, the first farm shop opened its doors at Patriarshiye Ponds in Moscow. Opening a restaurant business was the next step for the company. Today, restaurants such as LavkaLavka in Moscow and partner projects Mark i Lev in the Tula Region and Rublevka rank among the most popular establishments specialising in authentic Russian cuisine based on organic and farming products. The launch of the first co-op farm market in December 2015 was a significant milestone in the development of new formats. This was done in collaboration with IKEA Centres Russia in the MEGA Khimki shopping mall and united over 60 certified farming enterprises at one venue, reaching a vast number of consumers. The founders of LavkaLavka plan to further develop farmers’ markets across Russia, including by collaborating with large shopping centres. There are plans to build a farm cluster in the Zaoksky District of the Tula Region that will accommodate facilities for production, storage, and sales of farmers’ products. At the same time, a project is underway to create a production cluster in Teriberka, the Murmansk Region. This will include the construction of a salmon and a large workshop for processing berries, mushrooms and other offerings of the tundra. LavkaLavka also plans to continue expanding internationally and to enter American and European markets. It will start by presenting a limited product range such as berries and nuts.

www.lavkalavka.ru
http://agrivolga.ru/

AgriVolga
Business scope: production and sale of natural foods
Year of incorporation: 2007
Business launched in: Uglich District, Yaroslavl Region
Founder: Sergey Bachin
CEO: Vladimir Shakhnov
Financial performance: n/a
Number of employees: over 1,000

“At one point we realised that food in our country is of insufficient quality and often just mediocre. In the West, there is an organic food sector that we do not have. We also don’t realise that there are environmentally sound foods out there, and that there is a whole philosophy of production and consumption of non-industrial products. This is why we decided to take up agriculture along with the development of this segment.”

Sergey Bachin, Chairman of the Board of Directors of Agranta Group

Biography
Sergey BACHIN is the owner of the AgriVolga agricultural holding. Sergey graduated with honours from the Physics Department at the Lomonosov Moscow State University and holds an MBA from Harvard University in the USA. He holds the posts of Chairman of the Board of Directors of Agranta Group, President of ProfEstate—a development company, and Chairman of Commission of the Russian Union of Industrialists and Entrepreneurs for the Agro-Industrial Complex.

Brief overview
AgriVolga holding is one of the key assets of Agranta, a multi-business group. It incorporates 15 enterprises producing foods, including organic products, under the Ugleche Pole, Iz Uglicha, and Uglikhsky Kolbasy brands. AgriVolga is among the few large agricultural businesses engaged in niche production of organic foods. In a market where the output of organic foods is mainly concentrated in small farming enterprises, the company has managed to make Ugleche Pole one of the most recognisable organic brands in Russia.

The company’s experience
AgriVolga was created by Sergey Bachin over 10 years ago, in 2007, as an agricultural business under the Agranta Group. Its aim was to produce organic foods. Before launching the company, Sergey faced a deficit of high-quality, natural products for restaurants opening under development projects — in particular, the construction of a resort area in Yaroslavl Region. In order to ensure supplies to

LavkaLavka uses virtually no direct ads. Over 40% of clients get to know about the company through word-of-mouth marketing. The company also runs an e-newspaper and is active in social media and its website, where each farmer has his or her own page with stories, photos, videos, and feedback. This approach has not only facilitated a relationship of trust between the farmers and customers, but has also made farming quite fashionable.

The trust between the co-op members and customers has allowed money to be raised through crowd funding. Customers would invest into the production or equipment that a farmer needed, and within a few months the trust between the co-op members and customers, but has also made farming quite fashionable. When developing the product sale system, the founders aimed for maximum diversification and creation of formats that help to stabilise the market while ensuring an amicable relationship between consumers and farmers. Initially, an e-platform was used for these purposes. After it become successful, the team of founders decided to try it offline as well. In August 2013, the first farm shop opened its doors at Patriarshiye Ponds in Moscow. Opening a restaurant business was the next step for the company. Today, restaurants such as LavkaLavka in Moscow and partner projects Mark i Lev in the Tula Region and Rublevka rank among the most popular establishments specialising in authentic Russian cuisine based on organic and farming products. The launch of the first co-op farm market in December 2015 was a significant milestone in the development of new formats. This was done in collaboration with IKEA Centres Russia in the MEGA Khimki shopping mall and united over 60 certified farming enterprises at one venue, reaching a vast number of consumers. The founders of LavkaLavka plan to further develop farmers’ markets across Russia, including by collaborating with large shopping centres. There are plans to build a farm cluster in the Zaoksky District of the Tula Region that will accommodate facilities for production, storage, and sales of farmers’ products. At the same time, a project is underway to create a production cluster in Teriberka, the Murmansk Region. This will include the construction of a salmon and a large workshop for processing berries, mushrooms and other offerings of the tundra. LavkaLavka also plans to continue expanding internationally and to enter American and European markets. It will start by presenting a limited product range such as berries and nuts.

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its own catering facilities, the group purchased an asset that was non-core at the time: a farm for the production of meat and dairy products. The business expanded further amid the emerging trend of healthy nutrition and consumers' growing interest in organic products. The new company decided to focus on organic production. After considering the specifics of the young organic foods market, the management took careful and consistent action, both in production and the creation of a sales network, gradually strengthening its competitive positions.

The resources of Agranta, the parent company, gave AgriVolga a considerable advantage over many other small market players that were launching businesses in organic agriculture. Firstly, the company was able to afford sizeable investments in asset acquisition and creation of production facilities. At the initial stage, investments into AgriVolga exceeded RUB 1.2 billion, with a 10–15 year pay-back horizon111. Besides, as part of a multi-business company, AgriVolga was able to make use of land until for construction projects but suitable for agricultural needs.

Production was set up in the Ugliche District of Yaroslavl Region. The region was not chosen randomly. The company took account of several factors important to the production of organic foods: absence of large amounts of insects to avoid the use of pesticides, as well as a favourable climate and good soil conditions to achieve high crop yields.

Apart from selecting the region, it was necessary to arrange technological processes that would ensure compliance with all the quality standards and production requirements. From the very beginning, AgriVolga relied on advanced technologies and innovations. For example, in milk production, it was the first company in Russia to implement a bottling and packaging technology directly on the farm. Besides, the company adopted the principle of free grazing and loose housing of animals, which is one of the conditions of organic agriculture. Tight production control ensured high quality of the final products and compliance with organic production standards.

AgriVolga started out by producing organic milk and then expanded to the production and processing of beef and mutton. Today, it offers a wide range of goods, including dairy products, processed meat, eggs, and vegetables. The consistent increase in the share of organic products in its portfolio has ensured successful entry for the company into the Russian organic market and has earned the consumers' loyalty. At the same time, diversification and inclusion of non-organic products into the portfolio allow the company to follow a more flexible and sustainable business model, and to respond efficiently to market fluctuations and changes in consumer demand for organic products.

The AgriVolga sales system also developed gradually. In its infancy, the demand came from other projects that Sergey Bachin was working on: the supply of high-quality products to restaurants in resort areas. Later, the company entered the market through large premium-class retail chains such as Azbuka Vkusa, Zeleny Perekrestok, and Globus Gourmet. Today, apart from the traditional channels, AgriVolga is expanding the chain of its Ugliche Pole Organic Market stores. Opening its own e-platform under the same name was another development area. The company does not seek to conquer all Russian regions and operates on a stage-by-stage basis. Today, AgriVolga is focused on satisfying the needs of large sales markets in the capital region, Yaroslavl and Tver Regions.

The company pursues a conservative approach to interacting with consumers and the public. AgriVolga’s traditional outreach activities include participation in trade fairs and other events where it shares its experience and organic production methods. The views of the company and its owner Sergey Bachin on organic agriculture and its role in the Russian and global modern food industry are presented in the book, Organics: Myths and Reality published in 2016.

Today, only a part of the company’s products is positioned as organic, while all of them are produced under the Ugliche Pole trademark. Products of this brand are certified organic by Organic Expert, a private Russian company. Given the lack of a Russian system of government certification, this document gives the company a strong advantage over other producers in the market. Nevertheless, a growing number of companies that have earned international certification and use more recognisable labels may pose a serious challenge for AgriVolga in the future. For example, some small farming enterprises, including the Ryahniki and Konovalovo eco-farms, have already been certified by international agencies.
RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

The consumption of halal foods is on the rise. In my opinion, this is caused, firstly, by the inflow of migrants from Central Asian republics and, secondly, by the growing number of people who adhere to the norms of Islam. Today, probably every salesperson in every kiosk knows the term ‘halal’, whereas just 10 years ago, you would have to explain what it was.”

Rafael Nasyrov, founder of SAFA

Biography

Rafael NASYROV is the ideologist and founder of SAFA. In 1985, Rafael moved from Kazakhstan to Moscow, graduated from the Institute of Technology of the Meat and Dairy Industry, and was employed at the Planning and Economic Department of the Mikoyan Meat Processing Plant for some time. In the early 1990s, he turned to commerce, working in trading and the construction business. Six years later, in 2003, Rafael registered his company SAFA, which means ‘purity’ in Arabic.

The company’s experience

For Rafael Nasyrov, his personal beliefs and the need to satisfy his family’s need for high-quality foods complying with religious canons were an incentive to launch a business. He began thinking about launching his own production of halal products in 1997, when he noticed that demand for halal foods was emerging in Moscow while there was virtually no offering of such foods in the city. In 2004 he registered the SAFA Meat Processing Plant, located 100 km from Moscow, in Voskresensk District of the Moscow Region. He rented the premises of a former knitting factory for the enterprise. Later, the premises were renovated and upgraded with modern European equipment to allow for strict control of the product quality at all stages of the production process. In April 2004, the SAFA Plant produced the first three tonnes of products.

From the first day of operations, tight control of the product quality and production stability were unconditional priorities for Rafael Nasyrov’s business. The high quality of goods allowed the company to create a unique offering that ensured, from the very beginning, customer loyalty and the inflow of new customers.

Nasyrov personally evaluated the first suppliers for flavour characteristics as well as compliance of the slaughtering method with the laws of Islam. Halal requirements apply to all of the raw materials, ingredients, and materials of animal origin used in production. Fresh, chilled meat to be processed was delivered directly from cattle-breeding enterprises, ensuring that only the highest quality natural raw materials were used. Today, almost all of the raw materials are purchased from a single supplier — a dealer that buys meat from Tatar farming enterprises in Penza and Nizhny Novgorod Regions. Personal inspection and mandatory state sanitary control were confirmed by a certificate that not only confirmed responsibility on a fundamentally new level, but was also a clear and recognisable quality guarantee for consumers. Today, all of the company’s products are certified in compliance with the halal requirements of the Council of Muftis of Russia.

Apart from setting up sustainable production of high-quality products, another challenge for the company was to find its target customers and establish efficient sales channels, which virtually did not exist in Moscow when the business was launched. Initially, Rafael Nasyrov estimated his target consumers at two million — the number of ethnic Muslims living in Moscow. However, many potential consumers were indifferent to the origin of meat products. The situation was aggravated by the potential customers’ insufficient awareness. Few religious people knew about SAFA and the term ‘halal’ was unknown to many ordinary consumers.

Realising that they needed to build a sales network, SAFA representatives began offering their products in locations closest to the religious target audience. They made supply agreements with pavilions in Moscow markets selling halal meat, as well as with stores next to mosques. At the time, this was the main sales channel. In spite of its meagre budget, the company also made efforts to educate the public and attract new consumers by advertising its products in sales outlets and specialised publications such as Islam magazine and Tatarskiye Novosti newspaper, as well as holding promotional campaigns at thematic concerts. It is revealing that, for example, at a Tatar music concert with an audience exceeding 3,000 people, most spectators had no idea that Moscow stores sold halal products.

Only two years after the production launch, SAFA products began to be sold in supermarkets such as A Plus, the first Moscow halal supermarket. Later, as the ethnic public’s awareness grew and the trend of healthy lifestyle spread among ordinary consumers, the company’s products also began to appear on shelves of ordinary retail stores and non-halal supermarkets, such as Auchan and Bakhterie. Today, consumers of halal meat products include not only people who adhere to religious canons, but also those who strive to eat healthier. For example, non-Muslims buy a considerable portion of SAFA meat products in the Auchan hypermarket (the share of such customers reaches 50%). Retail stores were the next logical step in developing the business. The first store of this kind opened its doors in 2006 and today, the company has five sales outlets of its own.

Launching the production of halal products at the niche emergence stage has given the company a considerable competitive advantage. At the same time, in the context of a rapidly growing halal market, competition increased with the appearance of new players. Apart from small specialised shops such as EKol and Halal-Ash offering only halal products, large meat producers such as Cherkizovo and Mutatorg that launched separate halal production lines entered the market. Although agricultural holdings are mainly focused on export, a wide selection of their products is also available in the local market. In the new environment, SAFA had to compete not only with specialised halal companies, but also with industry giants holding strong positions in the market.

A large share of counterfeit products in the market was another challenge facing the company. In general, increase in the volume of counterfeit products affects all scrupulous players. However, it is particularly challenging for a medium business such as SAFA to maintain its positions and develop a marketing strategy to attract new customers, as
opposed to major companies that have much greater investment and marketing resources.

Nevertheless, despite all of the difficulties, SAFA currently maintains secure positions in the halal market, as confirmed by numerous prizes and industry awards. Its geographic coverage has expanded as well. Today, its products are sold in Tatarstan, North Caucasus, and Siberia, where the company cooperates with chains and retail shops. According to Rafael Nasyrov, the company regularly receives proposals for product supply to Europe, but international expansion currently appears inexpedient due to high costs. The products can also be purchased at an e-store with home delivery, although this format is not very popular with consumers yet.

The company plans to increase its sales volume and product range, commission new facilities, expand its coverage to new regions, and open new company stores. In the meantime, Rafael Nasyrov has no plans to open non-halal production lines and is not concerned by the considerable expansion of the pool of suppliers, wishing to preserve the quality and purity of the products.

The first efforts to make cosmetics more natural were made back in the late 1960s, with a transition from plastic packaging to cardboard. “Natural” cosmetics brands sold at pharmacies were already around back then, including Weleda (established in 1921), Dr. Hauschka (1967), and Patyka (1922). But the niche really came into being later, in the 1980s–90s. That was when A’kin (Australia), Anadolu Naturals (USA), Amala (Germany), and other brands appeared. Consumers’ growing interest in healthy lifestyle has also influenced the cosmetics industry since, relatively toxic ingredients consumed regularly can have an adverse impact on people’s health. The demand for natural cosmetics was stimulated by a mass media hype and popularisation of healthy lifestyle among celebrities who took care of their health and appearance. The beauty industry has established strict requirements to new products. Research centres under companies producing fast-moving consumer goods seek out active components made of safe raw materials. Such companies have created new product ranges that are positioned as eco-friendly (e.g., UNE Natural Beauty by Bourjois, BareMinerals by Shiseido, Origins by Estee Lauder, Sephora Natural & Organic Range by Sephora, etc.).

Natural (also green, organic, or eco-friendly) cosmetics consist of organic ingredients, do not contain any components of animal origin or toxic synthetic substances, and are not tested on animals. The term “organic cosmetics” is used in the USA, which, according to the United States Department of Agriculture (USDA), includes products made of at least 95% plant ingredients. The classification adopted in the USA divides products into natural (100% organic), organic (consisting of at least 95% organic components), and those made with organic ingredients (at least 70%). There are other standards and classification systems in the USA as well, including the Natural Products Association (NPA) and OASIS (Organic and Sustainable Industry Standards).

In Europe, such cosmetics are usually called “natural” or “bio-cosmetics”. The gradual transformation of the legal framework in 1980–2010 paved the way for this niche’s development in the EU. Assessment of the chemical ingredients safety was introduced in 2001 and a prohibition against animal testing of ingredients was established in 2013. In 2008, a classification of cosmetic products was developed in Germany on the basis of the stoplight colour signals, where red means ordinary cosmetics, yellow means semi-natural cosmetics containing up to 70% natural ingredients, and green means natural cosmetics with up to 95% natural ingredients, as well as natural organic cosmetics with ingredients obtained through controlled organic farming.
During the production process, not only are the ingredients used in the cosmetics important, but so is the packaging, which must be made of eco-friendly, usually biodegradable, materials and must display the complete information on the product composition and certification. Organic products are certified by well-known international agencies that include ECOCERT (EU), BDIH (Germany), NaTrue (Belgium), Vegan (USA), Cosmebio (France), One Voice (France), Leaping Bunny (USA), American Vegetarian Association (USA), Nordic Eco Label (Scandinavia), and others.

Currently, natural cosmetics account for about 8% of the global cosmetics market. In Europe, this figure is 4–5% on average, while in Germany alone it is 15% (including semi-natural cosmetics with up to 70% plant ingredients). In 2016, Persistence Market Research (PMR), a research agency, evaluated the volume of the global market of organic cosmetics and natural personal hygiene products at USD 11 billion, with an annual growth rate of 9.7%\(^\text{121}\). According to analysts’ forecasts, by 2024 this niche will double in volume, reaching USD 22 billion. The skin care products share will grow by up to 31%, and the share of hair-care products will rise as well. In 2016, the USA was the main consumer, accounting for about 34% of the market\(^\text{122}\), followed by Europe and the Asia-Pacific Region — Japan, China, and India\(^\text{123}\).

The development of the certified cosmetics niche has led to a number of changes in the market, with a significant impact on the market players. Consolidation of the Natural Cosmetics Niche

Compared to other sectors where the trend of responsible consumption is apparent, the niche of certified natural cosmetics has been forming over a long period and the trend became consolidated since the mid-2000s. Major players in the cosmetics market purchased small niche companies. For example, Clorox, a USA corporation, bought out Burt’s Bees in 2007; Colgate-Palmolive bought out the toothpaste producer Tom’s of Maine in 2006; L’Oréal bought out The Body Shop in 2006, Johnson and Johnson bought out Aveeno in 1999, and so on. In some cases, the product quality deteriorated after such deals because the parent company was not as conscientious about sustainable practices, replacing the ingredients with less eco-friendly ones\(^\text{124}\). After such deals, some corporations were criticised for purchasing an eco-friendly reputation. The trend has been preserved till now, and large businesses have become more conscientious about the assets purchased, expanding corporate sustainable development programmes, controlling the supply chains more tightly, and certifying their products.

Development of the Sales Channels and Interacting with Consumers

Unlike the mass market, producers of certified cosmetics sell their products through specialised shops, supermarkets of natural products, or large chains paying considerable attention to their range of certified products (e.g., Whole Foods Market in the USA, Tesco’s and Sainsbury’s in the UK, and DM in Germany). In addition, “fast” sales via multi-brand e-stores play an important role as well. Such e-stores include iHerb (USA), Eco Diva Beauty (Canada), Love Lula (the UK), Ecostreen (France), Amazingy (Germany), Ecco Verde (Austria), and Halai Cosmetics (Holland).

Interaction with consumers is now key in the marketing strategies of companies producing certified cosmetics. Companies analyse comments, including those collected via social media, and publish information on the product quality and composition, production processes and storage conditions, markings and certification. Among other things, a careful approach to communications with consumers involves responding to statements of activists, bloggers, and mass media. While their stance is not always scientifically grounded, its broad coverage may mislead customers and damage a company’s image.

Innovative Solutions Aimed at Product Improvement

Amid increasing competition, including with natural makeup brands such as Kjaer Weis (Denmark/USA), Axiology (USA), and Mirror and Makeup (the UK), companies are now investing in product development and improvement. One of the key goals is to improve the product properties in order to make the products more efficient — for example, the efficiency of anti-wrinkle agents. Much attention is paid to such aspects as extending the shelf life or improving the product’s visual appearance. This has caused product development and production processes to become more sophisticated and, as a consequence, to the establishment of more research centres and expansion of the scientific base. Discoveries made by biotechnological companies have made a considerable contribution to the development of the organic cosmetics niche. For example, Nuritas, an Irish company, has discovered plant peptides by applying artificial intelligence and DNA analysis methods\(^\text{125}\).

Further Segmentation of the Niche Through Product Range Expansion

Along with the consolidation of players in the certified cosmetics market, the product range is undergoing further segmentation. For example, according to Ecovia Intelligence\(^\text{126}\), companies are expanding product lines targeted at narrow audiences (e.g., teenage girls) and are now making ad hoc products — in particular, ones for extreme weather conditions.

Development of the Certified Cosmetics Niche in Russia

Green cosmetics came to Russia in the late 1990s from Europe, where a natural line by The Body Shop was selling well at the time. Other producers soon picked up on the trend. For example, Nicolas Megrelis, a French businessman, created Dlia Dusha i Dushi (1999)\(^\text{127}\), a multi-brand chain incorporating natural cosmetic products from 45 manufacturers in 30 countries. Foreign companies such as The Body Shop, Lush, and...
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In the mid-2000s, the cosmetics industry in Russia underwent rapid development, including through local players such as Faberlique (2001), Kalina (1942, with Unilever purchasing the concern in 2011), Nevskaya Kosmetika (1859), Red Line (the trademark of Russkaya Kosmetika, 2001), Green Mama (1996), Pervoe Reshenie (2002), and others. Russian companies started to compete with Western players, but were not interested in the natural cosmetics niche yet. The share of Russian producers’ value in the market reached about 25%, with foreign companies accounting for up to 30% in 2011. At the same time, the Russian market also appealed to new foreign players that noted an increase in the demand for natural cosmetics, continued benefit for cosmetics producers and contracted companies, as well as providers of raw materials and services (in areas such as certification, creation of formulas, and consulting). Given a rising birth rate and enhanced government support in foreign trade, Andrey joined the tourism industry, accommodating American tourists in Siberia. He then launched an alcohol business, and after its bankruptcy in 1998 he used the USD 5,000 earned by selling his Volga car to start the production of high-quality detergents, which evolved into the company Fratti NV. After selling his share for USD 200,000 in 2002, Andrey Trubnikov opened Pervoe Reshenie, a cosmetics company.

NATURA SIBERICA

http://www.naturasiberica.ru/

Business scope: production and sale of organic cosmetics
Year of incorporation: 2002 — Pervoe Reshenie
Business launched in: Moscow
Owners: Andrey Trubnikov (60%), Irina Trubnikova (40%)
CEO: Elena Bolshakova
Financial performance: RUB 2.67 billion in revenue in 2015 for Natura Siberica
Number of employees: 2,200 in 2017 for the entire Pervoe Reshenie Group

«What advice would I give to first-time entrepreneurs? Look for niches. Train your minds. Always be on the lookout for a free niche where something new may be devised.»

Andrey Trubnikov, CEO at Pervoe Reshenie

Biography

Andrey TRUBNIKOV was born into a family of researchers and graduated from the Economic Department at the Moscow State Institute of International Relations in 1998. After working in customs and gaining experience in foreign trade, Andrey joined the tourism industry, accommodating American tourists in Siberia. He noticed the global trends at the right time and occupied the natural cosmetics niche before domestic competitors appeared. The company’s brand, grounded in Russian traditions and Siberia’s image as an unspoilt corner of Russia with pristine wilderness, certification under international standards, and ingredients from the most remote, ecologically clean regions of the country — all this drew the clients’ attention and won their loyalty, both in Russia and abroad. New product lines and the company’s own raw materials, opening international certificates, occupied the niche.

In spite of the Russian consumers’ interest in natural cosmetics and preference for products marked “eco”, “bio” or “GMO free”, the problem of the lack of unified Russian environmental certification persists. Firstly, this is a barrier for manufacturers of authentic natural products and, secondly, it precludes the control of greenwashing on the part of unscrupulous manufacturers of non-organic products that use non-existent eco-markings to promote their brands. The high cost of international certificates renders them inaccessible to many SMEs producing eco-cosmetics. Therefore, such certificates usually cannot replace the lacking Russian certification.

The company’s experience

In 2007 Andrey Trubnikov, an entrepreneur, decided to launch a business in the natural cosmetics niche, started to catch on in Russia, and thus a category of consumers emerged interested in natural goods, including cosmetics. The Russian market attracted green Western brands such as The Body Shop, Lush,
Andrey Trubnikov was unable to enter the price market from sales via large chains such as Auchan (2012). In 2017, the number of single-brand outlets (2010) and a single-brand Natura Siberica shop of specialised shops: a multi-brand Organic Shop. Their high prices 134. The image of Siberia and wild Siberian nature became the basis for the Natura Siberica brand, with roseroot, also known as Siberian ginseng, as one of the main ingredients. This made the brand more attractive to Russian consumers who preferred local goods and were convinced that cosmetic products made of raw materials gathered in the deep Russian countryside were more natural. A relatively low price category made Natura Siberica cosmetics affordable for a wide Russian audience. This competitive advantage was especially important during the 2008–2009 crisis when, due to a decline in their purchasing power, consumers shifted from foreign competitors’ expensive segment to the more affordable one offered by Natura Siberica.

For Trubnikov, creating other eco-friendly brands was the logical continuation of Natura Siberica. Thus, he created Organic Shop (2010), Planeta Organica (2010), Organic People (2012), and Natura Kamchatka (2014). Still, the bulk of Trubnikov’s proceeds came from Natura Siberica (50%), Babuska Agafia (50%), and Planeta Organica (10%). Other brands account for the remaining 10%.135

Andrey Trubnikov was unable to enter the price category of chains such as Rive Gauche, Ile de Beaute, and L’Etoile. Retail stores did not bring a profit comparable to the one produced by Babuska Agafia136. Either, Therefore, Trubnikov decided to sell Natura Siberica products via his own chain of specialised shops: a multi-brand Organic Shop (2010) and a single-brand Natura Siberica shop (2012). In 2017, the number of single-brand outlets reached 34. Specialised shops became part of Natura Siberica branding and attracted responsible consumers, while allowing other customers to get to know about natural cosmetics. Today, Trubnikov receives the bulk of his proceeds in the domestic market from sales via large chains such as Auchan and Magnit (up to 60%)137, as well as distributors. Specialised shops account for a considerably smaller part of sales (10%)138. However, they ensure the inflow of regular clients who are responsible consumers, so Andrey sees great potential there. In addition, considerable growth of e-sales allows Trubnikov to develop trade via his own e-store. To enhance the Natura Siberica brand and promote his cosmetics, Andrey Trubnikov decided to diversify his business by opening spas that offer cosmetics and massage services using the brand’s products. The large-scale success of Natura Siberica cosmetics in Russia has allowed Trubnikov to expand globally. The company took several successive steps to reach its goal. In 2009, it obtained the IEC eco-marking (Italy) for certain products under the brand, and wild-growing ingredients such as roseroot, Cladonia Nivalis, Siberian Cranesbills, and others. Then, the Organic Make-Up line, Little Siberica children’s line, and plant raw materials were certified under the ECOCERT standard (France). Natura Siberica also obtained the Active Organics mark and was certified by the COSMOS STANDARD (a single European association) and BDIH (Germany).

The Natura Siberica production process was also certified by IECIA. The base for the cosmetic products is supplied from Germany and Italy, while the formulations are developed by Natura Siberica technologists at a Moscow laboratory139. Sibir 10% of the total revenue, in 2016 it reached 15%143. The brand’s success in Europe was consolidated by contracts with foreign chains, including DM (Germany), Monoprix (France), Harrods (the UK), Whole Foods (USA)144, and others. In 2015, in response to Natura Siberica’s, Andrey Trubnikov decided to localise the production in Estonia, where the company also has a farm, by investing EUR 5 million. He launched the production of Natura Estonica, cosmetics of a lower price segment that are supplied to European and Ukrainian markets. The company opened a warehouse in Germany through which products are supplied to China. Therefore, their sale there is prohibited. Trubnikov plans to register Natura Siberica in China and to offer the local population products made in line with Chinese traditions, bearing Chinese names and design. In Russia, Andrey also has ambitious goals: to create new lines of Natura Siberica products and develop retail sales, relying on foreign technologies.
Mi&Ko

http://www.mi-ko.org/

Business scope: production of natural cosmetics and eco-friendly household products
Year of incorporation: 2009
Business launched in: Kirov
Founders: Ekaterina Matansteva (co-owner, family business)
CEO: Ekaterina Matansteva
Financial performance: RUB 50 million in 2015
Number of employees: 60 persons as of 2017

«An eco-friendly approach is an additional burden for the entrepreneur, but at the same time, it affords additional opportunities for society and business. In the West, they have learned how to make money out of garbage long ago, but here, this niche is virtually vacant.»

Biography

Ekaterina MATANSTSEVA was born and grew up in Kirov, graduating from the Department of Applied Information Science in Economy at Vyatka State University46. Apart from managing Mi&Ko, Ekaterina holds the post of Director of the Social Entrepreneurship Committee of the Kirov Region Entrepreneur League “Business Vyatka”, a public organisation uniting a community of successful entrepreneurs who develop the Kirov Region economy.

The company’s experience

Ekaterina MATANSTSEVA and her parents founded Mi&Ko in 2009, when the country was gradually coming out of the crisis. At the time, in the context of a weakening rouble, Western products became more expensive and consumers opted for domestic counterparts. In regions such as the Kirov Region, the organic products niche was relatively vacant, while a group of interested consumers was emerging. International brands with eco-marking such as Weleda, Dr. Hauschka, and Himalaya, which came to Russia in the early 2000s, were the company’s main competitors. Competition among Russian brands was low. There was Natura Siberica, a large company, and small brands such as Botanicalife and SK Cosmetics, which were at the same stage of development as Mi&Ko and had a similar business strategy: they ordered ingredients abroad, expanded their range, started out with small volumes, and so on. Many Russian brands were not certified and therefore, their products were usually semi-natural, with greenwashing marketing.

Mi&Ko was a new Russian brand with a 100% harm-free composition. Ekaterina started out by making natural soap for her own use to care for her sensitive skin. Her family and friends immediately appreciated the products she was making. After the birth of her son, Ekaterina started paying special attention to the safety of her cosmetics, household cleaning detergents and dishwashing liquid. She already had experience working at the Vyatka Chamber of Commerce and Industry, where she became familiar with concepts used by local entrepreneurs and gained experience of working for an advertising agency. As she began thinking about environmental friendliness and the safety of cosmetic products, she was inspired by the idea of creating her own business.

Ekaterina Matansteva and her mother Svetlana Skryabina received a subsidy of RUB 126,000 in 2009 under a self-employment programme. They invested this money in setting up production in a venue of 30 square metres. Personal funds amounting to RUB 20,000 provided by Ekaterina’s spouse were invested in the procurement of ingredients and certification. Ekaterina studied the market rules, developed a mechanism to launch her production, and found the necessary specialists to set up the production. Then she began attending cosmetics forums in order to find expert herbal practitioners and biochemists. With their assistance, she developed formulas and, a year and a half later — in 2010, she produced the first certified eco-friendly cosmetics with natural ingredients under the Mi&Ko trademark.

The company’s cosmetics are based on traditional formulas and are developed jointly with Russian and French specialists to preserve all of the useful properties of the ingredients. Mi&Ko was the first company in Russia to start using cherinomya extract as a foaming ingredient in cosmetics. Ekaterina Matansteva then decided to diversify the product portfolio. In 2014, the Pure Water household detergent was launched — a powdered laundry detergent suitable for children’s clothes and people with skin diseases and asthma. The company chose a biodegradable detergent base that decomposes in water within a day. Production of tooth powders under the Ma.K trademark was the next stage. From the very beginning, the company ordered raw materials, including natural essential oils, vegetable oils, plant extracts, and mineral raw materials from proven certified suppliers in Europe, including French essential oils and Italian olive oil. Today, there are 300 all-natural goods for children and adults produced under the Mi&Ko brand. They contain no petrochemicals, artificial colours, flavourings or synthetic preservatives.

In 2012, the company received a five-year loan from the Our Future foundation in the amount of RUB 5 million148, which took the business to the next level. The company’s space was expanded from 120 to 1,400 square metres, accommodating the office, warehouses for raw materials and finished products, as well as packaging and production departments. The company by hand in small batches. To ensure environmental friendliness of the production, only natural (plant or mineral) raw materials from responsible suppliers are used. Quality control is exercised at each of the three stages: procurement, production, and final products. Eco-friendly, recyclable packaging — usually medical glass — is used for all products.

A positive trend in the natural cosmetics market observed before the 2014 crisis ensured considerable growth of the segment, along with a rise in people’s earning power, which allowed responsible consumers to shift to more expensive natural cosmetics. However, the share of the natural cosmetics niche was still small. 1%49. At the same time, this was an indication of its high potential for such players as Mi&Ko. The development of e-commerce and specialised retail chains, as well as expansion to the regions following saturation of the capital’s markets, facilitated growth of the niche. Mi&Ko products were sold primarily via the company’s own e-store, as well as via online platforms of its partners (4fresh, Bio Plus, Buy Soap, and others). As time went on, Ekaterina set up trade via specialised boutiques of partners, such as VuxutVill (2014) and LavkaLavka. However, the production volumes were insufficient for large chains. Through distributors that currently account for a considerable share of sales, Ekaterina
has reached other regions in Russia and the CIS, including Kazakhstan and Belarus.

Ekaterina makes efforts to promote the use of natural products. She appears on the radio, publishes articles in the mass media, organises aroma-clubs and tours of production facilities for schoolchildren, gives lectures on ecology, arranges master classes and presentations, takes part in conferences and exhibitions such as InterCHARM and EcoCityExpo (Moscow), sponsors environmental contests, and takes part in a project for planting greenery in Kirov.

The company currently employs about 60 people who share the values of responsible green business. Under the company’s social strategy, five workplaces are staffed by disabled employees or disadvantaged citizens. The employees have degrees in biotechnology from the Vyatka State University and gain practical experience during production.

Given the growing popularity of eco-friendly cosmetics and conscious living, the company’s future appears promising. The company may face the challenge of declining consumption of organic products during the crisis and higher retail prices due to the growing cost of foreign raw materials and packaging, causing customers to move to the economy segment. The company makes efforts to develop the emerging culture of organic products consumption in regions in Russia and the CIS where Mi&Ko products are sold. It also works to stimulate the promotion channels, including social media and forums. In the long term, Ekaterina would like to buy her own production building where all of the company projects may be implemented.

International trends

According to estimates, in 2016, the total income in the fashion industry amounted to USD 2.4 trillion. Compared to the GDP of countries worldwide, this global industry is the seventh largest economy. At the same time, it ranks third in the volume of environmental pollution, after the oil industry and agriculture. According to expert calculations, the world currently produces over 80 billion articles of clothing annually, which is 400% more than 20 years ago. For a long time, there was no public concern about the real cost of fashion, encompassing such environmental and social factors as volumes of pure water used and polluted in fabric production, the number of school hours missed by children working in factories in developing countries, noxious emissions into the atmosphere during product transportation, and so on. Textile manufacture accounts for around 25% of chemicals produced in the world and according to forecasts, the consumption of textiles will increase by 4% annually until 2025. It takes enormous quantities of water to grow cotton, which accounts for 90% of the total natural raw materials used in the textile industry. For instance, it takes about 2,700 litres of water to make one cotton T-shirt.

Moreover, the supply chains have low transparency under the traditional business model in the fashion industry. An article is often made of several fabric types and various garment accessories and consumables such as buttons, zips, threads, and so on, usually produced in various developing countries. According to the World Trade Organisation, in 2014 China ranked first in the export of textiles and fashionable clothes, followed by the European Union countries, India, Turkey, Bangladesh, the USA, Vietnam, Korea, Pakistan, and Indonesia. For a long time, basing manufacturing facilities in developing countries to cut production costs, and large producers’ efforts to maximise profits promoted the development of ‘fast fashion’: affordable, low-quality, seasonal apparel that quickly wears out and is replaced with new items. For many years, the marketing campaigns run by most major brands were aimed at maximising demand. The buyers’ pursuit of novelty, in turn, led to excessive consumption and greater environmental impact.

However, the fashion industry’s business model was undermined by information transparency, growing public consciousness and activism, and stricter requirements to compliance with sustainable development standards. Unlike many other types of goods, fashion goods, including clothes, shoes, and accessories, are closely tied to the consumer’s personal image, so any reputation crisis affecting a certain company leads to a sharp
The notion of “sustainable fashion” set the stage for significant changes in the industry, including new cycle of investments and innovation, and a revision of cooperation in the market. Some of the key changes include:

- higher industry standards, revised business models and processes by major producers, circular economies, and enhanced transparency of supply chains;
- development of innovative materials and dyes, recycling of materials, complete voluntary refusal to use specific materials, e.g., natural fur;
- changes in the market structure, including new alliances, niche players, consumer activism through various associations, etc.

A survey of companies in the fashion industry showed that negative press coverage criticising the outdated model and individual producers had a significant impact on the activities of 65% of companies, and led to a revision of business models and processes towards greater responsibility. In 2000, there were only 30 sustainable fashion brands in the market, while in 2016, hundreds of brands adhered to the principles of sustainable development.

Currently, most major manufacturers are monitoring and auditing the factories they work with. People Tree, a British manufacturing company founded 25 years ago, when sustainable fashion was just an idea, is now recognised as a pioneer in this field. People Tree was the first company to implement the full chain of organic cotton supplies “from grain to closet” and certified by the Global Organic Textile Standard (GOTS) for its entire supply chain in developing countries. People Tree produces wool without using the mulesing method, associated with cruelty to animals, and seeks to maximise the transportation of its products by sea in order to reduce harmful emissions.

H&M publishes a list of all audited and approved first-tier factories with which it operates in each region, and will increase the amount of information disclosed by including second-tier factories in the list. Nike and Adidas disclose statistics on the results of audits in their annual sustainability reports. In addition, these companies initiated the transition to automated production processes, which have resulted in the emergence of such large projects as Adidas Speed Factory and Nike Distribution Centre, developed under the concept of responsible supply chains. GAP publishes the results of its supply chain audits, including methodology, ranking of factories, and reporting on greenhouse gas emissions.

In addition to supply chains, manufacturers are revising their clothing lines and services. Since establishing Patagonia — one of the oldest responsible brands — its founder has invested in environmental education of consumers, including advertising campaigns with the slogan “Don’t Buy This Jacket,” and “Black Fridays”, contributing 100% of the proceeds to environmental funds. H&M and a number of other mass brands have clothing lines produced with responsible and recycled materials. Corporations launch campaigns to stimulate old clothing recycling. For example, some companies offer customers vouchers for discounts on new clothing in return for donating old clothing.

Innovative methods of fabric manufacture and recycling were key to the fashion industry’s development. The production of textiles from, fermented tea, and recycled coffee beans are among the most illustrative examples. For example, Levi Strauss began to use recycled plastic bottles as a component in denim fabrics, while Adidas manufactures sneakers and swimwear from recycled oceanic debris. Timberland has announced its own Timberland Environmental Product Standards (TEPS), which provide for the use of recycled, organic, and renewable materials in the manufacturing process. One of the main organic materials used in the modern fashion industry is organic cotton, the manufacture of which has less negative impact on the environment. At present, organic cotton accounts for less than 1% of the global consumption, but the gradual transition of producers to this raw material brings the growth rate of the niche to 15–20% per year. Sustainable fashion is also characterised by the growing use of natural materials suitable for responsible clothing, such as flax, hemp, organic wool, wild silk, etc. and, on the contrary, the rejection of materials of animal origin, such as natural fur and leather (e.g., the Stella McCartney brand).

New fabric recycling technologies are also being used. In particular, the innovative dyeing technology where a pattern is transferred from paper to fabric using hot air saves water and electricity, and eliminates harmful production waste. Another alternative method — digital printing — reduces water consumption by 95%, electricity consumption, minimises textile waste. Smart tailoring, also known as Direct Panel On Loom technology, developed by the Indian designer Siddhartha Upadhyaya, enhances the efficiency of cloth consumption by 15% and reduces the garment assembly time by 50%. In addition, sustainable fashion companies use solar energy in the manufacture of goods, choose fabrics that last longer, and are reverting to more expensive, but environmentally friendly materials, such as manual fabric dyeing and the use of natural dyes.

Innovative concepts in textile production and recycling attract investments from investors and corporate funds. For example, in 2016 the Walmart Foundation provided five US universities with grants amounting to a total of USD 3 million for research to enhance the ethics and efficiency of textile production. The University of Oregon received a grant for a start-up specialising in...
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Development of the Sustainable Fashion Niche in Russia

Representatives of the global fashion industry, especially its premium segment, view Russia as a growing market. More brands are being targeted at Russian buyers. Currently, sustainable clothing accounts for only a small market share, with a relative size so insignificant that, for the time being, there are no official statistics on it. Nevertheless, the Russian market of sustainable fashion is developing slowly but surely. This process is influenced by two tendencies: advanced practices of global corporations operating in the Russian market, and niche projects of Russian designers and entrepreneurs who have picked up the international trend.

International projects include Puma’s eco-initiative in Russia, becoming the first foreign brand to report environmental profits and losses. The Puma Creative Factory. Love Thy Planet event was held with the participation of a number of leading Russian designers. H&M, a global concern operating in the mass market sector, invites Russian consumers to donate their old clothes in return for coupons providing discounts on new garments, similar to its stores in other countries. Uniqlo has also installed special boxes in its stores for visitors to leave unwanted and worn clothes of this Japanese brand. The collected items are sorted and donated to low-income families and the homeless, or sent to orphanages and boarding schools. A similar initiative will be launched in Russia by Zara in 2017.

Vika Gazinskaya, a luxury Russian brand, has adopted the same approach as Stella McCartney, giving up natural fur and leather in its apparel collections. Norsnyan uses technological materials based on steel, coal, copper, and Kevlar — a material originally used for reinforcing tires. At the same time, natural knitted fabric coloured with organic dyes remains the brand’s signature material. An out-of-the-box solution was offered by COSTUME CODE, which specialises in custom tailoring of men’s shirts and suits: the company’s customers can now order new underwear made from their own recycled shirts. A company operating in the Russian market — EcoThani — offers buyers ecologically clean certified fabrics. Recently, Eco Fashion was founded, a new progressive, specialised brand manufacturing and selling ethical clothing. Russia also has a new e-store of ethical clothing and footwear called FAUN: ARNY PRAHT manufactures bags and other accessories made of faux leather. Anima manufactures ethical handmade designer footwear from ecologically friendly materials, including custom-made shoes based on measurements taken by a 3D scanner. Modress specialises in the production of high-quality maternity outerwear with an eco-friendly filler. At the moment, none of the large Russian clothing manufacturers (except for the TVG brand) work with environmentally friendly fabrics, produce green lines of clothing, or conduct eco-campaigns.

In 2013, the first Russian Eco Fashion Week was held under the RUSECOMODA project. This project was launched through the efforts of the ECA movement, whose mission is to use beauty to promote conscious consumption and an environmentally friendly way of life. The project seeks to provide support to eco-designers through eco-fashion shows and promote eco-friendly fashion in Russia. The term “eco-fashion” implies that the apparel is made from recycled materials, and refers to ethical and ethnic clothing. This year, the Eco Fashion Week will be held in Moscow for the fifth time, and is expected to bring together Russian and European designers. The Fashion Futurum international conference was held as part of the Mercedes-Benz Fashion Week Russia in March 2017, with the participation of industry professionals who discussed ethical fashion issues in a panel discussion, stressing that “fashion should be as transparent as possible, the chain of suppliers should be clearly traced, and all wishes of buyers should be taken into account.” In June–July 2017, Moscow hosted the Days of Eco-Friendly Fashion. There is one more trend in Russia where companies not engaged in clothing manufacture collect and recycle unwanted clothes.

At the moment, the expansion of the sustainable fashion segment in Russia is constrained by a number of factors. Firstly, the Russian market lacks environmental certification in clothing production and, unlike the Western market, does not provide for special labelling. As a result, responsible designers constantly have to prove the environmental compatibility of their clothes. This is also inconvenient for consumers who prefer responsible products since they cannot be confident about their choices. Secondly, the idea of sustainable fashion has not gained widespread popularity in the country yet. Some Russian consumers have certain prejudices, e.g., prejudices against plastic and other alternative materials. Thirdly, manufacturers have to purchase environmentally certified fabrics abroad, which significantly increases the production costs. The production of environmentally friendly fabrics made of hemp was organised in the USSR, but was subsequently suspended. However, it is notable that increasing consumer awareness leads to intensive market growth. For example, the sustainable fashion market in the UK grew fourfold as a result of information campaigns held from 2004 to 2008.
The company’s experience

When TVOE began its business operations, it only had a clothing factory in Smolensk and several stores. Igor Yushkevich, an entrepreneur who previously exported yarn from Russia to Europe, decided to develop business in his homeland and founded the Russian Knitwear Holding Company. In 2001, he bought four factories and registered the new trademark TVOE, specialising in the production of casual apparel for young people. The company soon presented the first collection under this brand. At first, the company sold its goods at wholesale markets. Since the brand’s target audience did not shop there, Igor Yushkevich realised that he needed to switch to sales through brand stores and invested a considerable amount of money into advertising the brand and developing catalogues. As a result, over a dozen TVOE stores opened in Moscow shopping centres by 2003, side by side with stores by Benetton, Nike, and other foreign brands. In 2005, the turnover of the Russian Knitwear Holding Company amounted to about EUR 80 million.168

After achieving certain sales volumes in its network, the company tried a new business approach — to involve anyone willing in the sales of its goods. Thus, it began sending out e-mail offers to sell clothing for young people under the TVOE brand. Anyone interested in the offer received a package for organising a turnkey sales outlet: a personal business plan, a template of a contract of sale, and a list of documents required to register a legal entity. The cost of opening such a store varied from RUB 1.5 to 3 million. If necessary, the company helped entrepreneurs obtain the necessary financing and gave them loans under a lending scheme. Future sellers were not required to pay any entry fees or monthly royalties. The only thing they had to do was sign a contract with the company. This development model allowed the brand to rapidly increase the number of outlets and, consequently, its presence in the market. On the other hand, it was so easy to open TVOE brand stores that they could soon be seen even at metro stations and next to fast-food restaurants, which undermined the brand’s image. Despite this, the company continued to operate through franchising until recently. Only in early 2015 did TVOE stop selling franchises for points of sale and kept only affiliate stores that complied with the business standards and brand policies.

A qualitatively new stage of the brand’s development began in 2008, when a new leader joined the company — David Wilkinson, a successful manager with work experience abroad. He promoted the implementation of international practices in the company, established contacts with leading international brands, and focused on environmental aspects.

The company began to develop licensing and to collaborate with licensed brands. Under joint projects, TVOE together with Hello Kitty, DISNEY, Marvel, Universal, Warner Bros. and Cartoon Network developed collections of themed T-shirts with prints. For example, in cooperation with Soyuzmultfilm, TVOE produced a collection of T-shirts with famous characters from Soviet cartoons, such as Cheburashka, Winnie the Pooh, and Little Lion (from the popular cartoon “How the Little Lion and the Turtle Sang a Song”). In addition, TVOE cooperates with Russian and foreign designers. Over the years, the company has produced a number of joint collections in cooperation with Yeugenia Gachkinskaya, Katya Dobryakova, Nina Doris, Konstantin Gaidai, and Sultana Frantsovna, as well as with the top graduates of the British Higher School of Art and Design, the Institute of Business and Design (Moscow), and Amis et Compagnie (Switzerland). Consumers reacted positively to these offers, resulting in stable demand for the company’s goods, both from existing and new customers. The brand’s product range gradually expanded. Today, TVOE collections include accessories, shoes, and children’s apparel. The high product quality and low prices are achieved through strict control over the entire production cycle — from the creation of fabrics to the manufacture of the final product. The company produces its own cotton, knitted fabrics, and hosiery.

TVOE relies on successful international practices in information technology and dialogue with the consumer. It is one of the few companies in Russia with its own data processing centre.169

Previously, the company had trouble managing the technological side of the business due to its rapid development. Eventually, it faced problems with the goods turnover because of slow generation of orders for shipment. Sometimes stores had insufficient stocks of goods, which adversely affected sales growth and reduced consumer trust.

As a result, the company created a corporate portal to solve reporting issues, automatically track the key performance indicators of employees and managerial documentation, and to consolidate important data. While developing e-trade, TVOE established a successful partnership with a large e-markets — wildberries.ru. This partnership allows the company to address a number of important tasks, including brand promotion, systematic data analysis, and expansion of the customer base. In 2015, the company opened its own e-store.

After David Wilkinson joined the company, TVOE began to develop innovative, environmentally sound technologies, and to implement responsible manufacturing practices. For example, when processing knitwear, the company applies biopolish — an ecological technology that makes the fabric softer and more pleasant to the touch, as well as more durable. The company is also investing in the development of textile recycling technologies.

In addition to other goods, TVOE manufactures garments and other made of 100% mercerised cotton. Mercerised cotton is an innovative material with unique properties. It is environmentally friendly, durable, resistant to wear and friction, and does not fade when washed, exposed to sunlight or sweat. Garments are manufactured from this material by Russia’s first specialised factory, owned by the company. The company’s customers that order mercerised yarn and products include many European brands from the medium and high price segments.

TVOE seeks to apply eco-friendly and resource-saving practices. In 2011, the company purchased an automated Class A warehouse in the PNK-
Chekhov Logistics Park. The warehouse was built using the build-to-suit technology per the company's order. Through a number of innovative solutions, TVOE significantly cut the warehouse operation costs. For example, LED lights with motion sensors reduced the power consumption three-fold. Since 2014, besides the usual shops with an area of 100–150 square metres, TVOE began to open superstores with an area of up to 1,000 square metres for family shopping. The key features of this concept include an eco-friendly design, large spaces, natural lighting, and a recreation area for children. The new approach is economically feasible since it is much cheaper to rent large trading floors, and modern buyers prefer the business model of a large store with an expanded range of goods. The superstores were designed by Reich und Wamser GbR, a German architectural bureau. The company took care to make its venues environmentally friendly, so its stores stand out from the competitors.

In 2015, TVOE network sales grew by over 30% versus 2014. In 2016, the brand had over 435 stores throughout Russia. The company intends to open 120 more outlets. TVOE’s main competitor is the retail clothing giant H&M. These two brands compete over keeping prices low in the Russian market. TVOE’s strategic goal is to continue working on its products and design in order to successfully compete with H&M in this area.

With the Russian consumers’ growing interest in responsible practices, TVOE could position itself as a company focused on responsible approaches in the fashion industry, develop in this area, and focus on core products. The company should also revise its current approach to its staff and pay more attention to communicating with the public on this issue. Today, negative feedback from former company employees appears on the Internet. They complain about the high staff turnover, low professional competence of some middle managers, and unsafe labour conditions in the warehouse, which suggests that TVOE is experiencing problems in this area. Another challenging task is to increase transparency and provide more public information since this is an important feature of companies that adhere to the principles of sustainable development.

Charity Shop

https://charity-shop.ru

**Business scope:** collection, sale, and recycling of used or unwanted clothes

**Year of incorporation:** 2014

**Business launched in:** Moscow

**Founder and CEO:** Darya Alekseeva

**Financial performance:** RUB 25 million in revenue as of 2016, including from stores and the Second Wind Foundation for Helping People in Difficult Life Situations

**Number of employees:** approximately 35–40 people

«We turn unwanted clothing into a valuable resource for social change, giving people who are in difficult life situations a chance for a better future.»

Darya Alekseeva, Founder and CEO of Charity Shop

**Brief overview**

Darya Alekseeva has created a unique business project in Russia where environmental and social missions are combined with well-established business processes. This allows the project to make a profit while helping people and improving the urban environment. Charity Shop is a unique network of second-hand charity stores in Russia that collects and sells clothing, donates funds to charity, sends textiles in poor condition for recycling, and employs people from socially underprivileged groups. A systemic approach to business development has resulted in three Charity Shop stores in the centre of Moscow, 3D containers for clothing collection around the city, a large warehouse, a well-coordinated team of 40 people, a well-established community of loyal customers, and successful partnerships with leading companies, large shopping centres, and art-clusters.

**Charity Shop**

[Image 1016x735 to 1137x771]

[Image 1016x735 to 1137x771]
In 2015, during a business trip to the United States, Darya Alekseeva visited Goodwill, a second-hand store, and saw firsthand how a social business works. In a large warehouse, employees sorted donated unwanted goods—clothes, books, equipment. The items were then distributed among stores and sold, and the company used the profits to implement social and educational projects for the benefit of vulnerable population groups. The company employed people from socially disadvantaged groups, including the homeless, ex-cons, disabled people, and people with developmental disorders. All in all, Goodwill provided over 200,000 people with jobs. Darya was so inspired by Goodwill’s experience that she decided to implement a similar project in Russia. A few years earlier, in 2010, after Yulia Titova from St. Petersburg had visited London, she opened Russia’s first charity store called Spasibo (Thank!). In recent years, the growing consumer interest in this topic and people’s desire to get rid of unnecessary things have resulted in the emergence of several dozen such stores all over the country, e.g., Lavka Radoshey (Shop of Joys), BlagoButik, Stil Zhizni (Lifestyle), and Glamcom in Moscow, Legko-Legko (Easy-Easy) in St. Petersburg, Tak Prosto (So Simple) in Chegopovets, BlagoDaryu (doing Good) in Volgograd, and Nadezhda (Hope) in Kirov. However, Charity Shop became a particularly recognisable brand and grew especially fast as soon as it went into business.

In 2014, Darya Alekseeva registered the Charity Shop domain, rented a basement near the Novokuznetskaya metro station, and organised the collection, sorting, and sale of used clothing, as well as its distribution among the needy. The employees, headed by Darya, repaired the basement on their own, starting from scratch. Darya used her personal savings of RUB 700,000 as the start-up capital to pay the rent and cover other costs during the first few months, while the project operated at a loss. It took the store just three months to reach the break-even point and for Alekseeva to start paying wages to her employees. During the next six months, revenues increased by 15-20% monthly. One point of sale brought in about RUB 450,000 a month. This money was used to pay the rent, wages, dry cleaning services, and consumables.

Charity Shop began hiring people who were in difficult life situations to perform the main production task—sort the collected clothes, and organise a retail training programme for children left without parents. Later, in November 2015, the company founded its own charity foundation—Second Wind—in order to offer employment to such people. In addition to distributing items to the needy and providing people from socially vulnerable groups with jobs, the project aimed to address environmental problems. Charity Shop reduces the burden on the city’s environment by using second-hand clothes as a resource: things that some people do not need anymore become useful to others.

Back in November 2014, Charity Shop found its first partner—one of the country’s largest banks. The bank assisted Charity Shop with installing clothing collection centers, which were necessary to expand the scope of activities. Soon the company’s containers were placed in the Mega and Atrium shopping centres in Moscow. Now Charity Shop has a fully developed infrastructure and a well-functioning operating model. There are 20 containers in different parts of Moscow for people to deposit articles of clothing in any condition. They are available in Sokolniki Park, Flacon Design Plant, the Legenda Tsvetnogo Business Centre, and other places.

The project’s warehouse, spanning 600 square metres, is central to the company’s operations. Here, the donated clothing is delivered, sorted, and divided into three categories. Fashionable designer and vintage apparel (20% of the total clothing) is sold through the stores. Articles of clothing in good condition (50-60%) are distributed to needy families in Moscow and the regions, while clothing in poor condition (50%) is recycled. To deal with the third group of used clothing, at the end of 2015 Charity Shop began collaborating with businesses that could recycle it. In 2016, the company established a new process in the warehouse, which also created additional jobs. Garments beyond repair are sorted by colour and fabric, and all garment accessories such as buttons and zips are removed. This raw material can then be purchased by recycling enterprises.

To increase the amount of clothing collected, Charity Shop has developed lightweight mobile containers that are installed in various offices for a certain period of time to make it convenient for employees to donate unwanted garments. About 20 companies, including Johnson & Johnson, MEDI, ET Russia, Citi, Bayer, the Moscow School of Management Skolkovo, Rusal, Pfizer, O2ON, SELA, and Republika have already taken part in the campaign. Garments in good condition are dry-cleaned by the project partner—Dry Harder, which provides services to the company on special terms and gives regular Charity Shop customers discounts on dry cleaning.

Most of the company’s income comes from sales in its charity stores in Moscow, as well as regional second-hand shops. The price of a garment is about 20% of its original value, if the original owner remembers the price or has kept the receipt. For example, a basic garment by a mass market brand such as Zara or TopShop costs about RUB 200-500, while a dress by a premium brand such as Karen Millen sells for RUB 2,000. Charity Shop’s ‘customers come from all walks of life. Most fall into three main groups. The first includes responsible consumers, who are often well-off and care about the environment. They consciously make a social contribution by purchasing items from a charity store and giving them a second life. The second category includes people who buy used clothing because they cannot afford new clothing, such as students and pensioners. The more expensive brands attract the third category of consumers—people who follow fashion, but are not always able to purchase expensive name-brand clothing in boutiques. To raise consumer interest, Charity Shop creates high quality catalogues and collaborates with stylists and designers. The store has a regular customer base, which brings in 70% of the project’s income. Charity Shop uses creative advertising to attract new customers and expand the audience of people donating clothing. For example, one ad showed two strangers wearing the same garment. Charity Shop regularly holds “time shopping days” in its stores where a customer buys a ticket for RUB 1,000 and can take any items he/she likes within an hour. In addition, the company cooperates with over 100 corporate partners, whose employees deposit unwanted garments into Charity Shop branded boxes. The company also collects donated clothes at large shopping centres.

Currently, the main objectives of Charity Shop are to improve the merchandising process, increase the number of regular customers, involve the widest possible range of people in donating used clothing, boost sales, open new clothing collection points for city residents, and promote the project through social and other media. Another challenge is that companies in Russia engaged in such activities do not receive any discounts on lease of premises. For comparison, the Charity Retail Association in the UK receives state subsidies that cover 80% of its rental costs. Therefore, Charity Shop is forced to engage in full-fledged competition with commercial companies selling new clothes.
SUSTAINABLE TRANSPORT

International trends

The transportation system, which includes road, water, rail, and air transport, is key to global economic growth, accessibility, and equal opportunities for all. At the same time, it is one of the most significant sources of environmental pollution, particularly greenhouse gas emissions. It accounts for almost 15% of global emissions, with a much higher figure in urban areas. Over 95% of the energy consumed by the transport sector is generated through the combustion of petroleum products. The growing world population, higher living standards, and increased mobility have resulted in more vehicles and passenger and freight traffic. According to experts, if the current growth rates persist, the number of cars may double over the next 30 years to reach 1.5 billion. Commercial freight traffic grows by over 3% annually.

In addition to the negative environmental impact and resource constraints, the development of modern transport is fraught with infrastructural issues, primarily in cities. The past infrastructure development and urban planning did not involve such high transport network expansion rates. The latter have raised the cost of infrastructure use and have entailed significant economic losses. Thus, according to experts, in 2011, the United States economy lost about USD 120 billion due to traffic congestion, including extra fuel costs and lost time, or about USD 820 for every resident who regularly uses transport. In the UK, the respective figures were USD 6.75 billion for the national economy, and about USD 770 and USD 1,570 for each car owner in the UK and London, respectively. According to statistics, residents of metropolitan areas spend between 50 and 100 hours per year in traffic jams, and residents of the UK spend almost a year of their lives searching for parking spaces.

For this reason, the role of transport is being fundamentally revisited, primarily in the urban environment. The current challenges of urban development have led to a fundamental rethinking of the links between transport and urban planning policies. It is no longer effective to solve problems by expanding the border areas and maintaining the main activity zones in the city centre. The agenda includes issues of density change, multipolarity or polycentrism (distribution of centres of economic and political activity throughout the city), mixed multifunctional use of infrastructure, aligning urban development with public transport systems (transit-oriented design), development of a pedestrian environment, and so on. Transport is now a key component of the Global City Competitiveness Index, and it has to meet new demands.

All of this calls for efficient, environmentally-friendly, integrated solutions in transport infrastructure that will meet the long-term economic and social growth targets while ensuring sustainable development. In general, the concept of sustainable transport or ecomobility covers the following approaches: the use of alternative fuels (solar batteries, biofuel, motive power), transition to hybrid and electric types of transport (electric cars, electric buses), the development of green transport infrastructure in cities (bicycle paths, pedestrian areas, areas for small-segment electric transport, lanes for public and electric transport), and a revision of personal transport principles (giving up personal cars in favour of shared cars or two-wheeled vehicles). Inclusivity or accessibility for various population groups, such as people with disabilities, is another important component of transport sustainability. Sustainable transport is a means to achieve a fundamentally new quality of urban life, a variety of transport options, and social integration.

TABLE B  KEY CHANGES ENTAILED BY SUSTAINABLE TRANSPORT NISHE

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Traditional transport</th>
<th>Sustainable transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Types of fuel</td>
<td>Petrol, Diesel, Gas</td>
<td>Solar energy, Biofuel, Motive power</td>
</tr>
<tr>
<td>Types of transport</td>
<td>Cars, Buses</td>
<td>Electric cars, Electric buses</td>
</tr>
<tr>
<td>Transport infrastructure</td>
<td>Roads, pavements</td>
<td>Bicycle paths, Pedestrian areas, Designated lanes, Incentive parking lots (park-and-ride facilities)</td>
</tr>
<tr>
<td>Main personal transport</td>
<td>Car</td>
<td>Shared car, Two-wheeled vehicles</td>
</tr>
<tr>
<td>Accessibility for low-mobility citizens</td>
<td>Restricted</td>
<td>Ensured</td>
</tr>
</tbody>
</table>

Source: Sustainable Business Centre, SKOLKOVO IEMS

* For the purposes of this report, the notion of sustainable transport is considered on an urban scale, while the study of niche solutions focuses on the private vehicle segment. This section does not cover urban policy issues related to public transport.
In 2015, the share of renewable energy in the transport sector was 2.5%, including: 1.4% of vehicles powered by ethanol, 0.8% — biodiesel, 0.03% — biogas, and 0.3% — other types of liquid biofuels. Despite the low growth rates, with a projected increase in the share of renewable energy to 5% by 2030L, this segment is one of the most promising. Year after year, the hydrids, electric cars, and hydrogen fuel cell vehicles occupy wider niches in the automotive sector. Since the appearance of the first affordable Tesla sedans, market players have also announced the launch of more expensive models. The manufacturer of exclusive Maserati sportscars plans to produce an electric vehicle by 2020. Mitsubishi has presented the concept of a new electric crossover with three electric motors, with an electric-only range of about 120 km. In 2018, the production of the first electric crossover will be launched at the Audi plant in Brussels, while Volkswagen has demonstrated a prototype of the electric version of the Crafter van, with a serial version due to appear in 2017. The electric vehicle fleet in the USA exceeds two million cars, and in the EU — it is over 800,000. However, despite the increased availability of this type of transport and people’s growing interest in it, its average share of global road traffic remains close to 1% or less. Nevertheless, this figure is expected to increase to 3% by 2040.

Apart from the design of new models, the development of electric cars largely depends on the availability of the required infrastructure and government support. In the US, China, Japan, and some EU countries, electric car buyers get tax breaks and subsidies from the state. Such cars often have the privilege of travelling on designated lanes, as well as free parking and charging. The governments of Norway and the Netherlands are considering introducing a moratorium on the sale of cars with an internal combustion engine in 2025. They are now just a step away from achieving zero emissions. The Indian authorities have announced their intention to have only electric cars in the country by 2030. Innovative electric transport is also emerging in the public transport segment, in addition to the usual trolley buses and trams. Analysis of the global electric car market by 2030. At the same time, owing to the use of Nissan electric cars, taxi companies in the UK have already saved over USD 400,000 on fuel and operating costs, and prevented the emission of about 809 tonnes of carbon into the atmosphere.

Besides green vehicles, there are now innovative road surfaces available. For example, Solar Roadways, a start-up in the US state of Missouri, produces a road surface that converts sunlight to electrical energy. The panels contain LED lamps made of special tempered glass that can withstand the weight of trucks. The project received USD 750,000 in funding from the US Ministry of Transport, and also raised USD 2.2 million through a crowdfunding campaign. Earlier, in August 2016, a plant producing Wattway road surfacing, based on photovoltaic panels accumulating solar energy by day, was opened in the French city of Tourouvre. The project is run by Colas with support from the French National Solar Energy Institute. According to the developers, the innovative Wattway road panels can be used in any climatic condition. Leading urban development centres around the world are researching new models of urban transport infrastructure.

In addition to new environmentally-friendly vehicles, responsible consumption in the transport segment has created a growing carsharing niche. In large cities, the tendency to give up personal cars in favour of public or shared transport is especially evident. People’s desire to save money while maintaining a high level of comfort became an incentive for a new form of personal car rental — carsharing. Carsharing gives people an alternative to personal cars and public transport, reduces traffic congestion on highways, and expands the possibilities for various population groups. This form of short-term rental claims to be one of the fastest-growing business niches. By the end of 2012, the carsharing network covered about 1.7 million people in 27 countries. By 2020, the number of users is expected to exceed 12 million, and the income from this type of service will reach USD 6.2 billion at a compound annual growth rate (CAGR) of 50.9%. Members of carsharing clubs can save up to 70% of the total cost of transport. In this case, each car in the carsharing community relieves roads of about 15 personal cars. In addition, consumers are using more various public transport types and formulating a new approach of using public transport. This is because more people are opting to use their cars only when absolutely necessary. In addition, it has been noted that carsharing helps to erase social inequality.

Another carsharing trend are platform services for finding fellow travellers. For example, BlaBlaCar, the world’s largest carpooling service, has more than 55 million users. The service allows drivers to save on petrol by sharing its cost with fellow travellers, while fellow travellers have the opportunity to benefit from lower tariffs than other modes of transport. This transportation option also reduces traffic congestion and harmful emissions. A similar platform solution, provided by Uber and similar services, forwards a customer’s request for a taxi to private drivers who have the app. This platform, however, is not responsible for the drivers’ qualifications. In both cases, the responsibility for the passengers’ safety and impact on passenger traffic in other means of transport, including municipal ones, remain widely disputed issues.

Another trend in modern urban transport are bicycle paths and cycling. To encourage people to use this type of transport, many cities are investing into the required infrastructure, including bicycle paths, traffic lights, parking lots, and rental stations. In cities, which are most developed in this respect, the proportion of residents using bicycles as a daily means of transportation exceeds 10%, and in some cases reaches 50–55% or more (e.g., Amsterdam and Copenhagen). The length of designated bike paths in European cities is now 500–400 km. These networks cover central as well as remote areas. The creation of more rental stations, which are primarily targeted at tourists and residents who do not use bicycles on a daily basis, is regarded as a separate development area. Today, bike rental systems that provide bicycles to anyone for a relatively small fee, operate in over 500 cities worldwide. The first successful bike rental system was launched 40 years ago in the French city of La Rochelle, and France still remains the leader in this area. For example, Vélib — a bicycle rental company with a fleet of 16,000 bicycles stationed at 1,200 rental points — opened in Paris in 2007 and now generates an annual profit of EUR 20 million. On average, there is one bicycle for every 97 city residents. The launch of the Bay Area Bike Share rental service in San Francisco in 2013 doubled the number of rental bicycles in the USA up to 18,000.

Development of Sustainable Transport in Russia

Russia, especially its large cities, is gradually adopting the main trends in urban transport infrastructure and personal modes of transport. Unlike Europe and the United States, the demand for electric cars in Russia is exceedingly small so far. According to expert estimates, only 722 electric cars were registered in the country as of mid-2016, with Moscow accounting for one-third of these cars. Recently, a number of initiatives have been launched to promote electric vehicles in Russia. Rosseti has launched a charging infrastructure programme, which currently covers Moscow and the Moscow Region, St. Petersburg, Kaluga, Yaroslavl, and Sochi. In 2016, owners of electric cars in St. Petersburg were granted the privilege of free parking in incentive and city parking lots. Parking fees were also revoked for electric car owners in Moscow. The programme for electric transport development in Russia envisages that by 2025, electric car owners will enjoy free parking spaces and the right to use lanes designated for public transport. Transport tax will be abolished for fully electric cars and reduced for hybrid vehicles. In addition, zero and reduced customs duties on the import of electric cars were introduced in 2016. The change affected passenger electric cars (a rate reduction from 17% to 0%), as well as trucks with electric motive power weighing up to five tonnes (from 15% to 0%).

The carsharing service, which first appeared in the market only a few years ago, has been developing quite rapidly. At the moment, it is being used by tens of thousands of people in Moscow alone. The average cost of maintaining a car in a Russian city is estimated at about RUB 600 per day. According to the British media, the cost of car maintenance in the Russian capital is among the top ten most expensive worldwide. As for the traffic congestion index, Moscow is ahead of all other cities worldwide. Estimates indicate that in a few years, about 4% of Moscow’s residents will use carsharing services. This will considerably reduce the amount of pollution and emissions (by 20% by 2020).
Today, bicycle rental services are already available in many Russian cities, although so far, such services are provided mostly by small companies. A centralised urban rental network — Velobike — was launched in Moscow in the summer of 2013 under the VeloRussia216 project. According to a statement by Velobike on its official website, the purpose of the urban public bicycle rental project is to provide an alternative to the use of cars and public transport, and to provide residents and tourists with affordable means of transportation for short trips. This is especially important considering the continued growth of traffic intensity and paid parking zones. Currently, the project is being implemented jointly by the city’s Transportation Department, the Bank of Moscow (VTB), and Sberbank. In its first year, Velobike purchased 1,000 bicycles, set up 79 rental stations, and rented out bicycles for over 70,000 trips217. In 2016, this figure exceeded 1.5 million218, the number of bicycles available for rent reached 2,600, and the number of rental stations increased to 330219. In 2016, the number of bicycles available for rent reached 2,600, and the number of rental stations increased to 330219. In St. Petersburg, a similar service appeared a year later. Having started out with only 28 rental stations, the system expanded to 57 stations in just a year219. Centralised rental networks are gaining popularity in other Russian cities, such as Kazan and Sochi. It is too early to hope, however, that bike rentals will soon be profitable in Russia220. The city authorities have contributed to these efforts through direct investments, creating more bicycle paths and bicycle parking facilities, and allowing people to carry bicycles in public transport. This has been a significant incentive for the organisers and customers of such businesses.

While issues related to creating an accessible urban environment, including transport equipment, have long been on the agenda in the EU and the US, Russia has yet to address this area. Unfortunately, even Moscow is still on the list of cities that are least accommodating for people with disabilities222. The top-rated cities in terms of accessibility for this category of citizens are cities in North America and Europe, as well as Israel and Australia. Nevertheless, the Accessible Environment state programme was launched in Russia in 2011223. One of its objectives is to give the disabled and other low-mobility groups unhindered access to transport, information, communication, facilities, and services. Under the programme, standardised mechanisms were developed for fostering an accessible environment for the disabled. This includes increasing the number of units equipped for transporting low-mobility citizens in the fleet of public urban motor and electric vehicles. In 2015, the programme was implemented in 71 regions of the country224 and was extended for another five years. In addition, in 2013 the Moscow Metro established the Passenger Mobility Centre to assist citizens with disabilities at metro stations. Passengers can request assistance and a Centre employee will provide them with the necessary support from the moment they enter the metro until they exit at the desired station. According to the Metro, over 540,000 low-mobility passengers were assisted since the project launch till early 2017.

Anytime

http://www.anytimecar.ru

Business scope: short-term car rental services
Year of incorporation: 2012
Business launched in: Moscow
Founder: Roman Ilkanaev
Owners: Sabina Yakubova (95%), Levi Ilkanaev (5%)
CEO: Ekaterina Nadtoka
Financial performance: about RUB 18 million in revenue as of 2013
Number of employees: as of 2014, the company employs 25 people, including eight mechanics and eight call centre employees

«For a long time, I was preoccupied with the question: how can traffic and traffic jams be reduced?»

Roman Ilkanaev, founder of Anytime225

Biography

Roman ILKANAEV is an entrepreneur who lived in Austria since the 1990s. At the time, he was an importer of spare parts and a real estate investor, which enabled him to build capital stock. In the mid-2000s, Roman created Kalim — a brand for exporting Russian foods to Europe226. In 2013, he was the first Russian entrepreneur to launch a business providing carsharing services.

Brief overview

In 2013, Citycar LLC (the Anytime brand) was the first company to provide carsharing services in Russia. It is intended for customers who need a car occasionally rather than on a daily basis. When developing his product, Roman Ilkanaev focused on automation, which accounts for 95% of its success, according to him. For example, a client can remotely turn on the car’s heating or air conditioner through a mobile app. Since the launch of the company, its fleet has expanded by more than six-fold, and by the end of the year, this figure is expected to increase by almost 45 times.

The company’s experience

In 2011, while in Vienna, Roman Ilkanaev saw a man approach a brightly coloured car, open it with a card, and drive off. His sons, one of whom is a co-owner of Anytime, explained that the car was provided by a rental service, which they have been using for a long time already. That’s when Roman came up with the idea of creating a similar service in Russia.

In the spring of 2012, Roman shared his idea with his friends Salim and Sabina Yakubov from Moscow. They decided to support him and established Citycar LLC227. Having invested RUB 60 million in personal and borrowed funds, the entrepreneurs purchased cars and equipment, and developed the Anytime app for smartphones228. In November 2012, the Anytime service with 22 Volkswagen
Polo cars was launched in pilot mode. With support from friends, the company owners tested the system, and in April 2015, the project was officially launched. Roman Ilkanaev leased 72 Volkswagen Polos, equipped them with GPSs and electronic locks, and distributed them throughout Moscow. Anytime leases out cars by several foreign brands, which fall into different categories: Chevrolet Cruze, Volkswagen Polo, KIA Rio, Hyundai Solaris, BMW 1 Series, and Renault Kangoo — a light commercial vehicle.

According to the entrepreneur, the first clients to test the project were expats, followed by Moscow residents who needed a car on occasion. On average, one car is used for 4–4.5 hours a day. According to Roman’s calculations, each car should be used for 6–7 hours a day to pay off the gasoline and leasing costs.

A trend has been observed over recent years in Europe and the USA, especially in large cities, where people have started giving up personal cars. According to statistics, one car used under a carsharing service replaces ten private vehicles in the world’s largest megacities, which significantly reduces traffic congestion. In Russia, the figures are yet to catch up. The short-term car rental service in Moscow is in demand, but only as an alternative to classic car rental rather than car ownership. However, surveys show that this service is still too expensive, even for Moscow. This was the opinion of 59% of Moscow residents, many of whom prefer to use a regular taxi when necessary. According to Roman, who has a passion for programming, developed it personally. “The most difficult task for me as a developer was to ensure that clients would be able to operate any company car using only the app on their mobile phones. At the same time, the system had to prompt their actions,” he explains. The entrepreneur decided that the entire transaction should be carried out automatically, without a dispatcher. Most carsharing companies issue a smart card to the customer, which is then used as a key to open the car and turn on the ignition. Roman Ilkanaev anticipated that an electronic card reader would not work well given the severe Russian climate, so he chose to transfer the key to a smart card and use an electronic card reader. By October 2016, there were five companies providing a similar service in Moscow so that its clients can park there for free.

The main difference between the service provided by Anytime and its Western analogues, as well as the Russian competitors, is an electronic control system, which customers find very convenient. According to the entrepreneur largely relies on partnerships. In August 2016, JSC Russian-European Investment Consortium and Anytime announced that they had concluded an agreement to establish a joint leasing company to expand the fleet up to 10,000 cars in 2017–2018 and to provide the service in 24 cities of Russia. As a result, Anytime will occupy the leading position in the Russian short-term car rental market and will start regional expansion. The company expects to receive financing for the leasing programme from major Russian banks.

Anytime, created four years ago, is a pioneer in Russia’s carsharing market. During this period, five more companies providing a similar service were founded in Moscow alone, owing to Anytime’s trailblazing experience. Nevertheless, to date, this service has not been sufficiently developed, despite the active involvement and support of the city authorities. There are still untapped opportunities of cooperation with large transport and passenger hubs (e.g., airports or stations) or public gathering places, such as business centres, stadiums, cinemas, theatres, museums, parks, shopping centres, including outside the Moscow Ring Road, and other social facilities. Neither has the company made adequate use of advertising and promotional campaigns, which could allow people to test the service for free and raise its popularity. Many city residents are still completely unaware of how a carsharing service works and what benefits it offers.
Invataxi
http://www.invataxi.ru

Business scope: transportation services for passengers with disabilities
Year of incorporation: 2010 / 2012
Business launched in: Moscow
Founder and manager: Roman Kolpakov
Financial performance: n/a
Number of employees: n/a

It would be great if all citizens with disabilities in our country became more mobile, like abroad, and other people — more considerate and helpful to the physically challenged." - Roman Kolpakov, founder of Invataxi

Biography
Roman KOLPAKOV was a manager at a publishing house until he was seriously injured in a car accident, which left him unable to walk. When he left hospital, he learned computer programming and started creating internet sites and launching projects for communication and on-line dating. He developed the Invataxi service and a new area — sightseeing tours for people with limited abilities and those who move around in a wheelchair.

Brief overview
The mission of Invataxi is to improve the quality of life for the disabled and to give them more social inclusion opportunities. The project began in 2010 as a private initiative. The business founder and his wife used their second-hand car, purchased with family savings, to help their friends and acquaintances when they needed it. Today, Invataxi has a fleet of five equipped vehicles, a customer support service, and a staff of drivers who have passed special training. Besides, the company employs people with disabilities and, in addition to providing transportation services, organises sightseeing tours.

The company’s experience
At the age of 21, Roman Kolpakov got into a car accident and completely lost the ability to walk. Despite the serious injury and long recovery period, Roman found the strength not only to go on with his life, but also to help other people with mobility issues.

The modern urban environment, even in the largest Russian cities, is still poorly adapted for people with disabilities. Despite certain improvements over recent years, there are very few metro stations, ground transport units, and public buildings that are equipped with specialised aids, while low-rise residential buildings usually have no elevators, and even if they do, the elevators are too small to accommodate a wheelchair. The cost of an ordinary taxi is usually very high, and a taxi driver’s job responsibilities do not include getting out to meet passengers and helping them get into the car. Municipal social taxis are available only in several cities. Moreover, an order for a trip needs to be placed a few days or even weeks in advance.

After personally encountering the challenges of getting around the city for people with disabilities, Roman and his family began to think of buying and equipping a private car, which they soon did. At first, it was Natalia, Roman’s wife, who drove the car. Almost immediately, their friends and acquaintances with similar problems started asking the Kolpakovs for help with transportation. Roman and Natalia could not refuse their friends, but they needed money to maintain the car and hire a driver. That’s when they came up with the idea of creating a specialised taxi service for people with disabilities as an alternative to the social taxi service. The problem was that they did not have enough funds to implement the idea. Thankfully, they were helped by their parents and friends. The couple took out a loan, purchased a minivan, and equipped it with parts ordered from Germany. Roman personally created the Invataxi website. Natalia left her job at a transport company, where she had been a manager, and began accepting orders by phone and providing customer support. All in all, it took about a year for them to launch the project. Later, sponsors pitched in when it was time to further expand the car fleet.

At the same time, Invataxi is still more expensive than a social taxi: it costs RUB 500 per hour for a minivan and RUB 600 per hour for a minibus with a minimum three-hour booking, versus RUB 210 per hour charged by the social taxi service. This is because 50% of the social taxi rates are subsidised, while Invataxi pays all of the car maintenance and operation costs. In this regard, one of the company’s priority tasks in order to make the service more accessible is to keep the rates as low as possible and to reduce prices through partnership programmes.

Invataxi gives discounts to regular customers. In addition, its services are free for low-income disabled citizens living alone, veterans of the Great Patriotic War, and disabled children from orphanages and boarding schools. This pricing policy does not always generate enough income for the company to cover its current costs, but it is a good step towards bringing in profits.

The project founder does not consider Invataxi to be a business since he struggles to maintain the company at the self-sufficiency level. Despite its important social mission and the absence of similar services in the market, developing and developing partnership formats have been challenging. Nevertheless, after prolonged negotiations, the company obtained free parking spaces for its first few cars. Invataxi made several attempts to raise funds for charity trips through the Planeta crowdfunding platform, but they were not particularly successful: the company collected up to 10-15% of the required amount, although other projects frequently raise up to 100% or even more. Roman believes that this is due to the Russian mentality: most people believe that it is the government’s responsibility to take care of people with disabilities and create the required infrastructure. For this reason, Invataxi receives most of its support from entrepreneurs and companies oriented towards people with disabilities.

To strengthen the business model and increase the company’s sustainability, Roman and Natalia began to develop a new area — sightseeing tours. Together with rehabilitation centres, Invataxi organises group trips — pilgrimages, tours, and excursions for the disabled and accompanying volunteers.

Such tours are more profitable for the company and beneficial for the passengers, who become more socially included. Invataxi has its own tour guide, who can accompany even foreign customers.
The company also has several corporate clients that can afford to pay 10% above the minimum tariff, providing considerable support to the business.

In 2016, Invataxi won the Social Entrepreneur All-Russian Competition of Projects and received an interest-free five-year loan from the Our Future Fund for Regional Social Programmes. The loan amount was RUB 1.2 million. The company plans to use this money to upgrade its fleet, install additional equipment for all disability groups, and purchase special crawler lifts to help customers living on the upper floors of residential buildings without elevators get to their apartments. Developing cooperation with airports and train stations to transfer passengers is another promising area. In the future, Roman wants to create an affordable specialised hostel for people with disabilities, since today specially equipped rooms are available only in expensive hotels.

Currently, Russia is implementing a number of state programmes to create an accessible urban environment, and the private sector is gradually becoming more involved in social projects. Taking these factors into account, the managers of Invataxi could consider further development outside of Moscow and the Moscow Region by providing franchises to other socially responsible entrepreneurs. There is no doubt that this idea will be met with enthusiasm in other regions as well because the disabled account for 9% of Russia’s population.

SUSTAINABLE TOURISM

International Trends

Tourism is a leading industry of the economy: people worldwide go on one billion international and 5–6 billion domestic trips every year. The growth rate (4% per year), share of global GDP (9%), total world exports (6%), and exports of services (30%) make tourism a leading global economic industry, surpassed only by exports of oil, oil products, cars and their components. However, despite its obvious economic benefits, the intense development of tourism has negatively impacted the natural and cultural environment, both locally and globally. For example, the construction of a network of 4- and 5-star resort hotels by transnational corporations headquartered in developed countries creates new jobs and investment inflows, but on the other hand, entails dramatic changes to the landscape and irrational use of local resources. Waste washing off the beaches creates “garbage continents” in the oceans, while air transport generates significant noise and chemical pollution, including 2% of global greenhouse gas emissions. Compared to local residents, tourists produce, on average, twice as much household waste and consume three to four times more electricity and water.

By the end of the 20th century, the aggravated environmental problems made people realise that their choices of location and ways to spend a vacation affects the environment, and its degradation, in turn, leads to a deterioration of recreation and vacation quality. In the 21st century, tired of overcrowding, air and water pollution, information noise, high speeds, and the resulting stress, educated and wealthy urban residents have been opting more for outdoor recreation, stepping beyond their customary social habits. The traditional 3S (Sun-Sea-Sand) have been replaced by 3L (Landscape-Lore-Leisure). People’s habits, mindsets, and ways of life have evolved considerably, with many now practising a new approach to children’s upbringing, based on closeness to nature. All of this has generated a new preference matrix in the tourism industry.

* In Myanmar, Kenya, and Tanzania, the local population was forcibly evicted from their traditional residential areas to attract tourists.
RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

This set of preferences, combined with an approach that minimises the negative impact of tourism on the economy, environment, and social life, both locally and globally, has been termed the sustainable or responsible tourism. This trend covers all types of tourism, and is particularly apparent in rural, social, ecological, ethnic, and volunteer tourism.

Responsible tourists strive to make positive changes. Comprising about 10% of the total number of travellers, such tourists become agents of change in all destinations they visit. Their activities encourage continued growth of the share of responsible tourists in some regions and in certain aspects, the growth rate reaches 75%. These consumers are rapidly transforming the 21st century tourism industry by proposing different models of tourism and setting global trends in all its aspects. At the moment, there are three main trends that open up a number of new opportunities for business development and are promising even in times of crisis:

- “greening” of the outdated 20th century infrastructure and traditional hotel businesses;
- adaptation of the tour operator, transport, and catering segments to new demands;
- development of hospitality networks.

### Development of Hospitality Networks

### "Greening" of the Outdated 20th Century Infrastructure and Traditional Hotel Businesses

This trend is expressed through three interrelated aspects growing demand for eco-hotels, increasing interest in international and national eco-certification, eco-labelling and environmental ratings, and expansion of “green” construction. This is happening because 52% of tourists from developed countries opt for hotels that seek to minimise environmental impact. 70% of these people are willing to pay USD 150 more for a two-week stay at a hotel where environmental standards are respected, and 75% opt for hotels that implement green initiatives. In response to this demand, Marriott International has created a green hotel prototype that saves USD 100,000 during the construction period, six months at the design stage, and up to 25% of energy costs. In an effort to attract responsible tourists, dozens of hotels worldwide have obtained environmental certification in line with the international ISO 14001 standard. The general decline in the popularity of large hotel chains, which favourably affects the environment, has motivated traditional hotel and tour operators (Marriott, Hilton, Intercontinental, Fairmont, AccorHotels, Royal Caribbean Cruise Lines, TUI Travel, Vail Resorts, etc.) to establish departments responsible for “greening” their image and to hire environmentists.

### Adaptation of the Tour Operator, Transport, and Catering Segments to the New Demands

This trend is associated with an increase in the number of responsible tour operators. Among the traditional major market players in this segment, TUI Travel has a particularly impressive sustainable development strategy. British Airways Holidays (BAH), which tracks and rewards hotels practising outstanding environmental management in the Caribbean, falls into the same category. A notable new market player is G Adventures, a well-known Canadian tour operator that launched the Planeterra project in 2005 to assist the population in areas visited by its tourists. The company focuses on developing long-term solutions, such as encouraging the local population to start their own businesses. In the food service segment of developed resort areas (e.g., the island of Aruba), there is a trend to give up the all-inclusive service since it has a negative impact on local companies and generates large amounts of waste.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Traditional tourism</th>
<th>Sustainable tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>Beach resorts with a rich entertainment programme</td>
<td>Sparsely populated areas rich in cultural and natural attractions, rural areas</td>
</tr>
<tr>
<td>Tour operator</td>
<td>A large transnational corporation able to offer low prices due to charter flights</td>
<td>A local company offering a sustainable tourism product with consideration for the region’s problems and needs</td>
</tr>
<tr>
<td>Transport</td>
<td>Aeroplane, bus, car</td>
<td>Train, electric car, bicycle, segway</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Large chain hotels with many rooms, multi-storey hotels with a fenced area, closed to local residents</td>
<td>Ecology, national dwellings, certified facilities with décor, furniture and textiles made of natural materials, water-saving plumbing, cleaning with non-toxic detergents, renewable energy energy saving, containers for sorting and recycling garbage, local staff</td>
</tr>
<tr>
<td>Meals*</td>
<td>AI, FB, exotic products in individual packaging, fast food restaurants, takeaway food</td>
<td>BB, organic, fresh, seasonal local produce from farmers’ markets, traditional local cuisine, minimum packaging, authentic cafés</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Discos, “postcard” facilities</td>
<td>Based on local traditions and culture</td>
</tr>
</tbody>
</table>

### Source: Sustainable Business Centre, SKOLKOVO IEMS

* AI — all inclusive, FB — full board, BB — breakfast.

**TABLE 9** KEY CHANGES ENTAILED BY THE SUSTAINABLE TOURISM NICHE

- **Accommodation**
  - Large transnational corporations are able to offer low prices due to charter flights.
- **Transport**
  - Large chain hotels offer eco-certification, eco-labelling, and environmental ratings.
- **Meals**
  - Eco-friendly dining options are becoming more common.
- **Entertainment**
  - Eco-certified accommodations are more popular.

This table highlights changes in the tourism industry in response to sustainable tourism trends. According to the Sustainable Business Centre, SKOLKOVO IEMS, these changes are supported by specialised non-profit organisations (NPOs) such as Responsedco (a training resource), Green Hotelier, and the International Tourist Partnership (professional associations) to help promote companies targeted at responsible consumers.
Виталий Лев (Corinthia Hotel в Санкт-Петербурге). В то же время, экологическая сертификация повысила и приоритеты туристов из развитых стран. Это особенно актуально для долгосрочной стратегии авторского туризма, который вносил вклад в культурное и духовное развитие в период Советского Союза, а также к дачному образу жизни. Можно сказать, что в ближайшем будущем Россия имеет хорошие шансы стать одним из десяти наиболее устойчивых туристических направлений благодаря своим базовым ресурсам. 

О значительном потенциале устойчивого туризма в России говорит факт, что в 2010 году, журнал Travel + Leisure, популярного журнала с тиражом более 1,5 млн экземпляров, включил Россию в десятку самых популярных туристических направлений благодаря въезду миллионов приезжих в сельскую местность, а также к «даче» — сезонной работе в деревнях, сезонной работе в деревнях.

Таким образом, Россия также является одной из самых популярных туристических стран. Однако, из-за недостатка профессионалов в этой области, а также недостатка информации о российском устойчивом туризме, рост устойчивого туризма в России является ограниченным. Однако, существуют инструменты и стратегии, чтобы преодолеть эти ограничения и развить устойчивый туризм в России.

**Ethnomir**

http://ethnomir.ru

**Business scope:** tourism services (sustainable tourism)

**Year of incorporation:** 2006

**Business launched in:** Petrovo, Borovsk District, Kaluga Region

**Founder and manager:** Ruslan Bayramov

**Financial performance:** over RUB 30 million in revenue as of 2011

**Number of employees:** n/a

«Our success testifies to the fact that yesterday’s underground is today’s avant-garde. We are simply moving forward with ideas that we believe are right.»

— Ruslan Bayramov, the founder of Ethnomir

**Biography**

Руслан Баяров родился 7 августа 1969 года в Петрове, Боровском районе, Калужской области.

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**Brief overview**

In 2005, Ruslan Bayramov resolved to create a “miniature world” — a theme park where visitors encounter objects of different cultures and as a result, adopt the idea of friendship between peoples. Ethnomir was meant to attract people no matter what their nationality. At the time, more people shifted their focus abroad and domestic tourism was unattractive to tourists as well as investors. Having started out with several yurts (nomadic tents) in an open field, over just ten years Ruslan has built a tourist cluster that attracts about 500,000 visitors annually and continues to grow.

**The company’s experience**

11 years ago, when Ruslan Bayramov stood on the shore of Issyk-Kul Lake and decided to create the Ethnomir Park-Museum, the model of a perfect world, Russia had no similar cultural or educational projects, and few people were interested in creating or visiting them. There were three reasons for this. First, the market growth of 6.4% per year provided an excellent opportunity to invest in projects with a short payback period. Second, the traffic of tourists travelling abroad increased annually by 15–20%, which made it difficult to develop domestic tourism — the sector that Ruslan Bayramov focused on. Thirdly, most entrepreneurs considered the idea utopian. All of
RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

Having bought 93 hectares of land at USD 200 per guaranteed. And that is exactly what happened.

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suit the demand and that it is the tourists who payback for his and their investments was Labour shortage. Therefore, Ruslan decided to create conditions that would enable permanent residence for employees who lived far away. In addition to reducing the transport load and environmental impact, this solution saved the entire time and money while increasing their loyalty to the company. This, in turn, stabilised the project.

To implement the idea, Ruslan had to abandon the traditional approach to the development of tourist sites and destinations. Most businessmen and officials working in the tourism industry are firmly convinced that infrastructure should be created to suit the demand and that it is the tourists who must prompt the businessmen and government officials where to build facilities. Similar to Walt Disney, who founded the world's most visited theme parks, Ruslan Bayramov decided to create a destination that would generate tourist traffic, while everyone else looked forward to this. He informed landowners in the Kaluga Region that the ripple effect of the project would greatly raise the value of land around Ethnomir, convincing them that his project would payback for his and their investments was guaranteed. And that is exactly what happened. Having bought 95 hectares of land at USD 200 per 100 square metres255, Ruslan set out to build the park of his dreams.

The project was launched with the support of the Governor of the Kaluga Region, who helped change the status of the land from agricultural to recreational. In addition, he helped resolve a number of legal issues. Nevertheless, the "international" project required funding to develop, so Bayramov decided to involve businessmen from other countries. He sent 147 letters to embassies of former USSR residing in other countries who share Ethnomir’s values, contribute to the establishment of "cultural bridges"256 and a flow of responsible foreign tourists.

For a long time, the facility's remoteness from Moscow and low attractiveness at the initial stages of construction restrained the growth of tourist traffic to Ethnomir. Nevertheless, as the park develops, distance is becoming less important. Firstly, this is due to the emergence of New Moscow, which is expanding the capital of Russia and the Kaluga Region. The park is gradually attracting more tourists, including school groups and families with children. Secondly, the company has launched its own shuttle buses from Moscow.

Ruslan Bayramov explains that his management follows a "strategy of reasonable responses to circumstances", which involves changing the concept as new ideas arise and not prioritising profits257. His business model is based on income from the various services operating on their territory. The range includes restaurants, hotels, spas, souvenir shops, etc. This approach was effective as entrepreneurs from Nepal, India, and China accepted the proposal. This started a chain reaction and representatives of other countries soon agreed to become co-investors of the project.

While creating the infrastructure, Ruslan was simultaneously addressing the issue of staff. The local population was not sufficient to staff the company, and the remoteness of the territory from Moscow and other large cities resulted in labour shortage. Therefore, Ruslan decided to create conditions that would enable permanent residence for employees who lived far away. In addition to reducing the transport load and environmental impact, this solution saved the entire time and money while increasing their loyalty to the company. This, in turn, stabilised the project.

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While creating the infrastructure, Ruslan was simultaneously addressing the issue of staff. The local population was not sufficient to staff the company, and the remoteness of the territory from Moscow and other large cities resulted in labour shortage. Therefore, Ruslan decided to create conditions that would enable permanent residence for employees who lived far away. In addition to reducing the transport load and environmental impact, this solution saved the entire time and money while increasing their loyalty to the company. This, in turn, stabilised the project.

For a long time, the facility’s remoteness from Moscow and low attractiveness at the initial stages of construction restrained the growth of tourist traffic to Ethnomir. Nevertheless, as the park develops, distance is becoming less important. Firstly, this is due to the emergence of New Moscow, which is expanding the capital of Russia and the Kaluga Region. The park is gradually attracting more tourists, including school groups and families with children. Secondly, the company has launched its own shuttle buses from Moscow.

Ruslan Bayramov explains that his management follows a "strategy of reasonable responses to circumstances", which involves changing the concept as new ideas arise and not prioritising profits257. His business model is based on income from the various services operating on their territory. The range includes restaurants, hotels, spas, souvenir shops, etc. This approach was effective as entrepreneurs from Nepal, India, and China accepted the proposal. This started a chain reaction and representatives of other countries soon agreed to become co-investors of the project.
We are guided by the principles of sustainable development based on a responsible attitude to nature and a balance of interests of the local population and travellers.

Alexey Nikiforov, founder of Absolute Siberia

Biography

Alexey NIKIFOROV graduated from the Irkutsk Institute of Foreign Languages and then received a degree in tourism. He started out by working for VAO Intourist. Later, Alexey was a Sales Manager at Green Express (2001–2005), Director of Baikal Discovery (2003–2008), and Director of the Baikal Business Centre — a hotel, travel, and conference agency. In 2009, Alexey Nikiforov founded the Absolute Siberia Events and Expeditions Bureau. In addition, he is a co-founder of the Siberian Tourism Organisation (the Siberian Institute for Tourism Planning and Development) and the Siberian Land Congress, the initiator and organiser of the International Clean Waters Conservation Run — the Baikal Ice Marathon (one of the world’s top 24 marathons), a member of the Siberian Baikal Association of Tourism (SBAT), and the author of projects that are completely or partially supervised by Absolute Siberia, namely, the International Siberian Baikal Nordic Games Festival, the Pole of Baikal Enchanted in Ice, the Caravan of Nomadic Art, and the Homestead of a Buryat Shaman.

Brief overview

Alexey’s extensive experience in international tourism, perpetual enthusiasm, and love of the Baikal region have allowed him to build a successful tourism business on a regional scale. Absolute Siberia, the company he founded and developed, was one of the first in Russia to offer eco-tourism and agro-tourism products. The company cooperates with tour operators from the United States and Great Britain, as well as the National Geographic Society, declaring its commitment to sustainable development principles based on a responsible attitude to nature and balance of interests of local people and travellers. In addition, Absolute Siberia organises sustainable tourism programmes such as the Baikal Ice Marathon, Tofalaria: Return of the Reindeer, and the Angara Triangle. In 2011, Absolute Siberia was nominated for the World Responsible Tourism award.

The company’s experience

During the first fifteen years of the 21st century, the Baikal area faced a paradoxical situation: although it is a UNESCO World Natural Heritage site, the outbound tourism figures in the region were almost four times higher than those of inbound tourism. Apart from individual hiking trips, domestic tourism was practically non-existent because of the high prices of organised tours of local attractions, underdeveloped transport infrastructure, and low service quality. At the same time, the small nomadic peoples of the region living in hard-to-reach areas, as well as residents of Baikalsk, where a quarter of the economically active population had lost their jobs after the closure of the Baikal Pulp and Paper Mill, needed a source of livelihood.

In the absence of a single long-term comprehensive state approach to the development of tourism in the Baikal area, the Irkutsk Region and the Republic of Buryatia were compelled to compete for federal resources instead of creating joint programmes. Alexey Nikiforov assessed the situation and decided to take action. At the time, very few tour operators considered establishing their own businesses to solve the region’s environmental and social problems. Alexey, however, did not hesitate to make a responsible approach to the development of local territories an integral part of his business model. His work is guided by the question, “How can tourism solve this problem?”

Alexey’s approach allowed him to differentiate the proposition locally and to gain a foothold in a niche that seemed too risky to other players. For instance, to promote the development of year-round tourism in the Baikal area, Alexey Nikiforov initiated Wintersada — the annual festival of winter games, offering tourists a programme for continuous participation in various projects for a month. In addition, Alexey decided to hold an international event on frozen Lake Baikal to draw people’s attention to the ecological problems it faces. Given the growing popularity of commercial races in Russia and the lack of competitors in this niche at the regional level, Alexey launched the Baikal Ice Marathon (BIM). The marathon, among other projects, is run by Absolute Siberia for over seven years now. The marathon was so successful that the “demand” exceeded the “supply” by more than three times. Over the 12 years that the marathon has been held, the BIM registration fee (including accommodation for two nights, breakfasts, two dinners, transfers, and insurance) for Russian citizens has increased from RUB 750 to RUB 3,500 per person. This gives the company a return on the RUB 2 million invested in BIM even if only a quarter of the admitted athletes actually take part in the marathon. In 2016, there were a total of 190 participants, half of whom were foreigners contributing EUR 563 per person.

The growing popularity of the marathon brings greater income to Absolute Siberia not only by raising the participation fee, but also by attracting environmentally responsible sponsors. For instance, in 2011, Huhtamaki, a Finnish manufacturer of biodegradable tableware, was the General Partner of BIM, offering an alternative to the dozens of tonnes of disposable tableware that ends up as litter on the shores of Lake Baikal every year. The marathon is steadily becoming more popular internationally because the company that follows the global trends, competently coordinates the event with other important world events, and popularises socially significant goals, stated in the UN Water for Life programme (2005–2010) and other documents.

BIM helps to resolve both environmental and social problems by creating up to 50 jobs every year and giving local tourist enterprises an opportunity to earn a quarterly revenue in just a few days. The number of participants and fans of the marathon is constantly growing, and providing them all with accommodations and meals requires not only the Irkutsk tourist infrastructure, but also that of Baikal, which is going through hard times. Since 2014, all participants of the event who support the sustainable development of the region make a point of staying in Baikalsk hotels. “We must do whatever we can to give jobs to the people of this town and support the local tourism business. The residents of Baikalsk should realise that closing down the pulp and paper mill was beneficial to Lake Baikal as well as all the people living on its shores,” explains
Alexey Nikiforov. In 2015, guided by the same principles, the company established the Baikal School of Marathon, open to both Russians and foreigners. Sustainable tourism, developed by Absolute Siberia in the region, can become a driver of growth in the transport, logistics, food, and light industries, creation of new cultural, entertainment, and leisure facilities, and expansion of the consumer market.

Absolute Siberia has yet another area of activity that strengthens its position in the international market of sustainable tourism. It provides jobs and revives the cultural traditions of one of the smallest nations of the world — the Tofalars or Karagas, who number only 657 people at the moment. 6.5% of them are unemployed, and only 16% speak their mother tongue.

In the past, these people led a nomadic way of life, but they settled down during the years of Soviet power. By organizing ethnographic tours to Tofalaria, Alexey Nikiforov engages these people in work with tourists, allowing them to fit into the new reality. Tofalars work as guides in the taiga, host tourists in their homes, take guests fishing on boats, and stage folk song and dance performances. At first, they doubted the benefit of long-term contact with foreign tourists, but two years after the start of the Return of the Reindeer project, launched by Absolute Siberia, they began to take nine groups, each comprising 10 to 17 people, for at least two nights during the summer.

Recently there was a rapid increase in tourist traffic from Asian countries, with 147,000 people in 2014 versus 80,000 people in 2013. Most of these come from China. In 2015, the number of Chinese tourists increased by 6.4% while the total number of foreign tourists fell by 12.9%. This trend may soon result in a deficit of Absolute Siberia’s Chinese-speaking personnel, as well as fierce competition from Chinese investors creating “closed systems” with their roads and hotels, which threatens the development of local business. On one hand, the arrival of competing companies can result in better service quality, expand the geography of routes outside the Baikal shores, and improve the situation in depressed areas; but on the other, billions in investments from Chinese investors creating “closed systems” can become a driver of growth in the transport, logistics, food, and light industries, creation of new cultural, entertainment, and leisure facilities, and expansion of the consumer market.

Incomes from this and other company projects are reinvested in the construction of ethnographic centres and the creation of new integrated tourism products in areas with pressing social and environmental problems (e.g., the Great Tea Route ethnographic complex of the Baikal area). Absolute Siberia’s proactive and productive activity has drawn the attention of regional authorities, which began to assist it in developing tourism in territories of indigenous minorities’ traditional residence by subsidising helicopter transportation and helping the company take part in foreign exhibitions. The state subsidies of helicopter transport make such tours more affordable for consumers from the middle price segment, while participation in foreign exhibitions promotes this unique tourism product to responsible tourists in the international market.

**International Trends**

The phenomenon of “investing in social brands” is an innovative form of charity based on market trade. Profit-oriented social organisations were first mentioned in relation to the activities of the church and workhouses. Thus, initially English workhouses were only there to provide jobs, food, and shelter to the disadvantaged, but in the 18th century, they began to focus more on the market and became competitive in traditional market segments such as the sale of wood fuel. In turn, in addition to collecting and distributing donations, the church — the oldest institutional donor — historically engaged in the sale of agricultural products produced in monasteries.

The emergence of second-hand and charity shops, opened for the first time in the US in 1895 for the resale of immigrant-repaired home goods, was an important stage in the development of the entire industry. In Europe, the first charity shops were created to raise funds for the Red Cross during the First World War. The Red Cross was likely to be the first charity organisation to begin selling souvenirs back in the early 20th century. Oxfam, the best-known network of second-hand shops to date, opened in Britain in 1947, after the end of World War II.

Mondragon, a Spanish cooperative founded in 1956 and operating to this day, was the first full-fledged social enterprise with all three of the components necessary to be included in this category — a brand, a business model, and a social mission. The founder was the priest José María Arizmendiarreta, who created the first cooperative for the manufacture of paraffin heaters in the small town of Mondragon with a population of about 7,000. The cooperative was established to mitigate the situation following the civil war: poverty, hunger, unemployment, and social tension. Today, Mondragon is the tenth largest company in Spain in terms of asset turnover and the leading business group in the Basque Country. It is considered one of the largest and oldest social enterprises in the world, with about 75,000 employees and over 250 organisational structures working in four areas: finance, industry, retail, and education.

Further development of socially-oriented enterprises with a commercial component led to the gradual formation of the concept of social entrepreneurship. Ashoka, the first foundation to provide support to social entrepreneurs,
was established in 1980 with an initial budget of USD 50,000. In 2014, it earned over USD 50 million. The conference on Social Needs and Business Opportunities held in the United States in 1982 was one of the first international conferences on social entrepreneurship. It was attended by heads of over 250 global corporations. In 1997, a new term was coined by practicing specialists — “operational philanthropy”, referring to a new form of business relations between private businesses and NPOs where the latter act as subcontractors or distributors rather than grantees. This gave the private sector additional mechanisms to support socially-oriented enterprises, which gradually developed and acquired new forms such as venture philanthropy, impact investment, and so on. In turn, consumers received an opportunity to purchase products made by socially-oriented companies.

Eventually, owing to a number of cultural, historical, and social trends coupled with technological and financial innovations in the global space of sustainable development, this led to the emergence of a new, clearly defined segment of purpose-driven consumption, which provides for:

- the expansion of corporate socially and environmentally responsible practices;
- the emergence of a more informed and responsible consumer who moves away from the values of consumerism and materialism;
- the formation and development of social entrepreneurship business models;
- the development of venture philanthropy and impact investment;
- the search for more financially sustainable commercial models by charity organisations and NPOs;
- use of crowdfunding platforms to achieve social goals.

Purpose-driven consumption is a choice that the consumer makes in favour of goods and services sold by enterprises with a social mission instead of traditional suppliers of similar products. These include food, clothing, footwear, souvenirs, and consumer services. Unlike the responsible consumption market as a whole, the purpose-driven consumption segment is associated with an individual choice in favour of a certain social history and the consumer’s desire to contribute to the solution of a specific social problem. In this case, the consumer may ignore all other criteria of sustainable products (such as raw materials, manufacturing practices, etc.), and the purchase may be spontaneous and non-recurrent. For this reason, the purpose-driven consumption niche is quite difficult to assess, although it covers a wider audience of potential consumers.

Social enterprises working in the purpose-driven consumption niche compete in traditional markets where consumers have a great selection to choose from. However, due to their social mission, such enterprises differentiate their brands at the stages of attracting investments and sales. The social component allows such enterprises to work not only with the end consumer, but also with other companies that seek to support social projects and position themselves accordingly, such as through corporate souvenirs and gifts.

The trend of purpose-driven consumption is common in more developed markets where consumers have a choice between traditional goods and goods with a social mission. The more developed countries have a supporting ecosystem comprising such elements as venture philanthropy, socially transforming investments, incubators for social projects, and Fair Trade and B Corp certification. This creates room for the evolution of the purpose-driven consumption segment. At the same time, social enterprises engaged in supply can address both local problems, such as jobs for people with disabilities, and problems in developing countries, such as support for farming in Africa.

Due to the vague terminology and segment boundaries, it is difficult to single out unambiguous examples of purpose-driven consumption even in the global space. The B Corp certification is a kind of filter for companies striving to make a social difference. The certificate is issued by B Lab, an American non-profit organisation, to commercial companies that meet strict standards of social and environmental efficiency, accountability, and transparency. One of the rare examples of a purpose-driven producer is Senda Athletics, based in California, which manufactures soccer balls and sports equipment certified by Fair Trade and B Corp. The social story that this company tells to its customers is the transformation of the football industry and making this sport accessible to all segments of the population. The creator of Senda Athletics believes that during the green PR stage, the company’s B Corp certificate was the main factor that motivated Target, the largest American retail chain, to include its products in the Made to Matter programme for the sale of goods manufactured by companies with a social mission.

Interestingly, among the roughly 2,000 organisations from 50 countries and 130 industries that have been B Corp certified, there are practically no transnational corporations (TNCs) at the parent company level. This is mainly due to the complex corporate legal procedures within TNCs. Even companies that hold leading positions in sustainable development often find it difficult to meet all the requirements under B Corp certification to operational processes entailed by the declared social mission. If a parent company earns a B Corp certificate, each of its branches and affiliates must also meet the minimum B Corp requirements in order to use the respective logo. Since it is currently easier for medium-sized businesses than TNCs to earn B Corp certification.

### Table 10: Key Changes Entailed by the Purpose-Driven Consumption Niche

<table>
<thead>
<tr>
<th>Parameter</th>
<th>One-time sale of generic souvenirs at charity fairs</th>
<th>Continuous sales of goods under a single brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social mission</td>
<td>Yes, it is primary</td>
<td>Yes, it is primary</td>
</tr>
<tr>
<td>Business model</td>
<td>No</td>
<td>Available</td>
</tr>
<tr>
<td>Method of participation in social projects by individuals</td>
<td>Charity</td>
<td>Buying and investing in social brands</td>
</tr>
<tr>
<td>Competition</td>
<td>With other charitable organisations</td>
<td>With businesses</td>
</tr>
<tr>
<td>Market</td>
<td>Narrow: concerned and sympathetic citizens</td>
<td>Wide: concerned and sympathetic citizens</td>
</tr>
<tr>
<td>Possibility of attracting venture investments and/or responsible investments from foundations</td>
<td>No, because there is no business model</td>
<td>Available</td>
</tr>
</tbody>
</table>

Source: Sustainable Business Centre, SKOLKOVO IEMS

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*One of the few examples of a B Corp certified TNC is Patagonia Inc.*
Unilever and Danone are working with the certification body in an effort to create procedures for making B Corp available to TNCs with their numerous lines of business, products, subsidiaries, and employees in different countries.

The emergence of new differentiation means and a category of consumers oriented towards purpose-driven consumption have led to a number of changes in the developed markets.

**Revision of Practices and Marketing Strategies of Large Traditional Producers; Acquisition of Brands with a Social Mission by Transnational Corporations**

In recent years, sustainable development values have become more important to business, motivating many global corporations to add socially and environmentally responsible brands to their product lines. Sometimes TNCs launch their own socially oriented brands, such as Danone-Grameen dairy products in Bangladesh. In other cases, large players buy brands with a pronounced social mission that already operate in the market and enjoy customer recognition. For example, the American ice cream producer Ben & Jerry’s Ice Cream was bought by Unilever, a global corporation, in 2000. Since its inception, Ben & Jerry’s Ice Cream has followed a business strategy based on a social mission and ethical principles. In addition to deducting a percentage of pre-tax profits for socially significant purposes, the company buys only environmentally friendly ingredients and harmless packaging materials. It also purchases goods from suppliers that employ ethnic minorities, the homeless, ex-convicts, and former drug addicts, thus incurring additional costs. As of 2017, Ben & Jerry’s Ice Cream was the only Unilever subsidiary to be B Corp certified (in 2012).

**Formation and Improvement of Charity Organisations’ Business Models**

The first examples of income earned from the sale of purpose-driven goods appeared in the segment of charity organisations. With the development of the non-profit sector and adoption of modern business approaches and tools, many NPOs began improving their performance and revising models in favour of greater financially sustainability. The emerging demand for goods produced by enterprises with a social mission has created additional opportunities for achieving these goals.

**Development of Purpose-Driven Consumption in Russia**

Initially, the most active players to begin selling goods with a social story in Russia were non-profit organisations. They regularly hold charity fairs to raise funds, with souvenirs being a significant source of their income. Consumers consider their participation in such initiatives — a donation in exchange for a small souvenir — to be a form of charity rather than a type of market relations and loyalty to a brand with a social mission. Many participants of charity fairs use classical fund-raising models instead of market-based business models of production and marketing. For example, in many cases, the charity activists personally manufacture technologically simple products, such as soap or biscuits, and donate all the proceeds from sales to socially beneficial projects. In this case, the ultimate beneficiaries of such activities do not take part in the production processes through employment.

One of the most significant events in the history of the purpose-driven consumption segment was the creation of the Our Future Fund for Regional Social Programmes in 2007 to develop social entrepreneurship in Russia. Throughout its nine years of operation, the fund has provided financial support to over 170 social business projects in 49 regions of the country for a total amount of RUB 421.6 million. Today, social enterprises striving to create decent labour conditions for vulnerable categories of the population such as the disabled, mothers with many children, and single mothers, are predominant among projects supported by the Our Future Fund through interest-free loans.

One of the main challenges faced by social entrepreneurs in Russia is gaining access to sales channels through retail networks and to the end customer. Traditionally, most goods produced by social entrepreneurs are sold directly to consumers, in many cases through social networks. In 2014, there was a breakthrough in this area: LUKOIL, the Our Future Fund, and social entrepreneurs successfully launched the More Than a Purchase! Partnership project. This was preceded by a pilot project implemented by two LUKOIL petrol stations in the Moscow Region, which sold, among other goods, products manufactured by social entrepreneurs. LUKOIL offered entrepreneurs preferential terms, including the right to install stands with goods in the sales area for free. The pilot project was a success and the Our Future Fund began holding regular competitions for social entrepreneurs. The winners received an opportunity to sell their goods under the More than a Purchase! logo in shops of the LUKOIL network of petrol stations in many regions of the country. All of the enterprises taking part in this project are required to meet the criteria of social entrepreneurship set out on the Our Future Fund website. It is still too early to tell how recognisable the More than a Purchase! logo is, which was developed by the fund to help customers easily find goods produced by social entrepreneurs and make an informed choice in favour of a social mission. Today, the project cooperates with five suppliers, and goods under this logo are on sale in ten suppliers of the country.

Another important step towards the development of a new niche was the launch of the BuySocial! me website in the summer of 2016, uniting social entrepreneurs and socially responsible consumers. The slogan of the e-store is “Every Purchase Helps!” In addition to offering goods with an easily understandable social mission, the website presents handmade souvenirs manufactured by a creative process with a focus on eco design. This can serve as a model of a niche product, but not a classic example of products made by social entrepreneurs.

In Russia, the segment of purpose-driven consumption is still at the initial stage of development. It is highly probable that in the future, this niche and the players’ approaches will evolve towards advanced foreign practices. The business model of TOMS, an American company, is already being applied in Russia: In 2016, Tihoo shoe factory launched the Pair for a Pair crowdfunding campaign under which the manufacturer pledges to provide footwear to a person in need for each pair of shoes sold.

At the moment, there are two main barriers to the purpose-driven consumption segment: The first is a limited market supply, insufficient representation of recognised brands, and lack of financially sustainable business ideas and models in the Russian social space. Many of the global models of social business have not been implemented in Russia yet. For example, there are no examples of Russian social enterprises where purpose-driven consumers are also the ultimate beneficiaries. The second barrier is associated with the extensive development trajectory of the niche in Russia. The existing business models of purpose-driven consumption emerged in territories and institutions with limited human capital. In the absence of free access to the key production factors, modern social enterprises face constraints on expanding production and growth, and entering new geographic markets.
In 2013, Guzel Sanzhapov and her father Ravil were at a crossroads: they had inherited an apiary in a village that was on its way to extinction. The social enterprise aids territorial development in a village that only about 50 residents still inhabited. The rest of the residents had moved to large cities, as people from Russian rural areas often do.

Guzel came up with the idea of making creamed honey by whipping honey for over 24 hours to turn it into cream and then adding dried wild berries to it. Cocco Bello’s main product was, on one hand, a reflection of global practices since Guzel first tried creamed honey while visiting Europe. At the same time, it relied on local resources. This business model proved more profitable than selling and distributing honey among neighbours and acquaintances outside the official sales markets and supply chains. In addition to developing the culture of honey consumption in Russia, the project was originally intended to revive the dwindling village of Maly Turysh where only about 50 residents still resided in 20 homes out of the previously inhabited 502. The rest of the residents had moved to large cities, as people from Russian rural areas often do.

The novice social entrepreneur Guzel Sanzhapova brought Cocco Bello products to the market guided by her intuition alone, without drawing up a business plan or conducting research. During her trip to Germany, Guzel bought compact honey-creaming equipment with a 100-litre capacity. Her father, Ravil, was the production technician. In 2013, the first pilot batch of the product — fifty 250 ml jars of creamed honey — was manufactured by trial and error. The Sanzhapovs hired three local elderly women to help with production. They picked five litres of berries a day each, earning about RUB 1,000. Little by little, according to Guzel, “all the pieces of the puzzle fell into place” and the entrepreneurs saw the complete picture: the manufacture of a useful product that also brings significant social benefits to the residents of a small village. In total, the production of the trial batch, including the purchase of equipment and raw materials, cost about RUB 50,000. The first jars of the company’s product were distributed at the Fair Fest in Yekaterinburg, in the immediate vicinity of the production and packaging location.

Using her personal savings, Guzel launched the pilot production and built basic production facilities: a storage for bees and two pavilions. To reach the target production scale and give jobs to more local residents, Cocco Bello needed special dryers for berries and a workshop for packaging honey. However, the entrepreneurs did not have any more personal funds for these investments. Since financing instruments such as venture philanthropy and lending to social entrepreneurs were not available in Russia at the time, Guzel turned to an alternative method — crowdfunding. In January 2014, Cocco Bello successfully completed its first campaign on Boomstarter, a Russian platform. 397 individual sponsors contributed a total of RUB 454,000 instead of the requested RUB 150,000. Everyone who contributed at least RUB 500 received a jar of honey mousse as a tangible reward for supporting Cocco Bello’s social initiative, “Let’s Give Jobs to Rural Residents Together”. Guzel used the funds raised by the first campaign to purchase German equipment such as drying cabinets, an agitator, and a honey extractor. The second campaign raised another RUB 650,000, which partially covered the costs of building a workshop, which cost RUB 1.8 million. As a result, the local residents were hired not only to harvest berries, but also for construction work and to staff the workshop and apiary.

After the product was tested at the Yekaterinburg fair, creamed honey was then delivered to the Moscow market. Honey fairs in Moscow had never been seen as possible sales channels. Cocco Bello began distributing its products in the Khokhlovka Original showroom and via social networks. In St. Petersburg, creamed honey was sold to the Double B network of coffee houses, and in Yekaterinburg — to the Breadbury coffee house. In addition, Guzel presented the company’s product at major metropolitan events, such as Lambada Market and Usadba Jazz, where she looked for potential buyers who would share the brand’s social mission. From the very beginning, Cocco Bello successfully occupied the niche of corporate gifts, with corporate orders accounting for a significant share of sales. The company’s corporate clients include leading Russian companies such as Rosatom State Atomic Energy Corporation and Sberbank. The sophistication of the capital’s customers prompted Guzel to branch out from an individual product to a diverse product line, including herbal teas with berries, also lovingly picked by elderly women from the village. Today, besides traditional berries and nuts, the honey products include more exotic ingredients, such as pistachios, cacao beans, cinnamon, lemon, orange, and ginger. Except for the Peroni Honey souffle series and honey sweetened chocolate by Shkolodaintsa Manufactura in Gagarinskaya Novoselka, Cocco Bello’s products have no counterparts on the Russian market.

Throughout its four years of operation, buyers, sponsors, and the professional community have shown great appreciation of Guzel Sanzhapova’s project. To date, the company has held four exhibitions and received awards at business events such as the Russian Startups in the Food Industry Fair, the 2016 Russian Startups Fair, and the 2017 Russian Startups Fair. In 2016, Cocco Bello became a participant in the second season of the competition for the best local product “The Most Delightful Product of Russia, the Best Product of the Region” organized by the Ministry of Agriculture and the Ministry of Food. The company’s honey was awarded the title of the Best Product of the Region and the Best Product of Russia. The company’s honey also received a “Green Award” at the Moscow exhibition “The Innovations in Food Manufacturing” organized by the Ministry of Agriculture of the Russian Federation. Cocco Bello has also been recognized as a Track A Finalist at the annual World Retail Awards competition. Guzel received the “Young Entrepreneur of the Year” award at the National Prize of the President of the Russian Federation for Support of Small Business. Guzel has also been listed in the “100 Most Influential Young Russians” competition organized by the Moscow Times newspaper. Guzel is known as a social entrepreneur, an advocate of small business, and an active participant in the social and business life of her region.
successful fund-raising campaigns to launch the production of various honey products in Maly Turysh. In November 2016, it completed the fourth campaign, which brought in over RUB 2 million from 513 donors. A part of these funds will be used to drill a drinking water well by the factory and to equip the street. In addition, the founder of the brand intends to build a caramel factory in the village, which will create even more jobs and expand the product line. Since establishing Cocco Bello, the owners have never applied for government grants for the support of social entrepreneurship. In 2014, the project received the Social Impact Award, and in 2015, it won one of the stages of the Lipton Goodstarter social contest. After the contest, Cocco Bello continued cooperating with Lipton and signed a partnership agreement with Unilever in the autumn of 2016 for the production of a joint product — 15,000 tea sets with three wooden candy spoons in each set.

While supporting territorial development, Guzel Sanzhapova has already created jobs for two dozen local residents and five permanent jobs, and financed the construction of a children’s playground in the village. Moreover, Cocco Bello’s founder has more ambitious plans — she intends to extend the development model of Maly Turysh to other semi-abandoned villages in Russia.

NAIVNO? OCHEN
http://naivno.com/

Business scope: retail sale of souvenirs and decorative and applied goods
Year of incorporation: 2011
Business launched in: Moscow
Founders: Nelly Uvarova, Elena Vakhrusheva
CEO: Elena Vakhrusheva
Financial performance: n/a
Number of employees: n/a

“It is not the ultimate mission of Naivno? Ochen to help people. Helping people is rather a result, so that anyone can earn a living, irrespective of one’s development, even if the state cannot provide them with jobs.”

Nelly Uvarova, co-founder of Naivno? Ochen

Biography

Nelly UVAROVA, a graduate of the All-Russian State Institute of Cinematography (VGIK) and a leading actress of the Russian Academic Youth Theatre (RAMT), was the mastermind and public face of the Naivno? Ochen project. Before launching the project, Nelly had taken part in various charity initiatives without making it publicly known. In 2009, the actress attended the annual charity fair of goods manufactured by the Special Workshops of Technological College No. 21, where people with severe psycho-neurological disorders undergo a six-year course of social adjustment and vocational training. Nelly was so impressed by what she saw there that she decided to do charity work on a regular basis. In 2012, Nelly received the People’s Choice Award in the Social Projects category at the New Intelligentsia Awards ceremony. In 2016, the Expert Council of the RBC Awards included Nelly Uvarova in a long-list titled, “For developing social entrepreneurship in Russia and helping people with disabilities.”

Brief overview

Naivno? Ochen project is a unique example of social entrepreneurship in Russia, while it is completely commercial, it has all the features of a traditional charity initiative. The key objectives set by the founders of Naivno? Ochen at the very inception were to ensure the sustainability of the business model and the self-sufficiency of the project. They achieved both in 2014. Over the last six years, this souvenir brand has found its target audience, becoming easily recognised and popular among customers. In December 2016, the Naivno? Ochen team realised how successful the project was before the New Year holidays, the company received over 1,100 orders in three days. The number of orders was 11 times higher than the forecasted figure and the production capacity of the social enterprise. The unforeseen surge in demand not only testified to the brand’s success, but also taught the company an important business lesson: in the future, it would have to adapt individual operating processes to seasonal changes.
The company’s experience

Naivno? Ochen was launched to address a pressing social issue — the challenges of finding employment faced by graduates of the Moscow Technological College No. 21, where people with severe psycho-neurological disorders undergo vocational training in pottery, carpentry, sewing, weaving, arts, and printing craft workshops. The Special Workshops Centre for Social Adaptation and Vocational Training at College No. 21 — the first structural subdivision of a state vocational education institution of its kind in Moscow and Russia — has been operating since 2006. After completing a college vocational training course, young people always faced the challenge of finding employment since there were practically no jobs available that were accommodating of their disabilities. Two friends, Nelly Uvarova and Elena Vakhrusheva, decided to support the development of the Special Workshops. They realised that selling students’ crafts at the annual fair did not thoroughly address the existing problem, so they set out to find another way to solve the issue.

They first made progress in 2010, when Nelly Uvarova organised the first fair of college students’ crafts at the House of the Actor. Several more fairs were later held at the theatre in the format of a friendly get-together: students who made the crafts were invited to the theatre, where actors performed short plays for them. Nelly Uvarova recalls that the actors never used the word “charity” at such meetings since charity was not the tool she had originally planned to use to solve the problem. Notwithstanding the positive results, neither open nor closed fairs had the capacity to become a permanent platform for selling the handicrafts. Therefore, on 25 December 2010, Nelly and Elena Vakhrusheva, decided to support the development of the project — self-sustaining. The year 2014 brought a breakthrough for Naivno? Ochen — the company received external financing, allowing it to lease premises of 140 square metres to accommodate artisanal ceramic, textile, printing, and carpentry workshops. At the same time, the employment model became fully functional, and the project — self-sustaining.

Initially, all of the production took place at the Special Workshops site at college No. 21. The project required additional investments to expand and scale. In 2014, Naivno? Ochen conducted two fund-raising campaigns, raising RUB 500,000 through the crowdfunding platform planet.ru and receiving another RUB 4.2 million as an interest-free loan for a period of five years from the Our Future Foundation after winning the Social Entrepreneur All-Russian Competition of Projects 2014. The aim of the planeta.ru campaign was to raise funds to open an off-line store, which would cover the costs of repairing the premises, rent, and operations during the first month. Each of the 194 donors was presented with special gift packages — books with autographs of famous people. A significant part of the loan (about RUB 1 million) provided by the Our Future Foundation was used to purchase a device for printing on natural fabrics. In the autumn of 2014, thanks to the new financing model, the project reached self-sufficiency, and on 5 July 2015, it opened its off-line store — Naivno? Ochen at the Artplay Design Centre.

To create a sustainable financial model, the project had to constantly expand its sales channels for mass-produced goods. Naivno? Ochen had been working for a long time with both physical persons (through its off-line and on-line shops), and with corporate clients. Elena Vakhrusheva recalls that the project had about 20 wholesale partners as of December 2014, but most of them abandoned the project during the crisis. In January 2014, immediately after the launch of the More Than a Purchase project by LUKOIL and the Our Future Foundation, LUKOIL petrol stations began selling goods produced by Naivno? Ochen. The partnership with Ozon.ru, a major e-store, was built based on

The social entrepreneurs Nelly Uvarova and Elena Vakhrusheva have achieved excellent results. The company’s experience has some significant differences from a traditional one. The experience of the Naivno? Ochen project has shown how difficult it is to achieve a stable monthly turnover. Thus, instead of financial targets, the company’s monthly plan specifies the number of contracts for wholesale orders and the number of fairs. The legal aspects of the business also involve many uncertainties due to the specifics of a social business. For example, the organisation faced a question concerning what type of contracts (civil or labour) it can conclude with the four “special” artists working for the project on a permanent basis. One of the artists was only 16 years old at the time of signing the contract. In addition, there is a legal concept of contractual capacity, which applies to Naivno? Ochen employees.

PURPOSE-DRIVEN CONSUMPTION
3.2. CASES OF RUSSIAN COMPANIES TARGETING RESPONSIBLE BUSINESSES AND END USERS

Development of Specialised Retail as a Niche Market, Based on a Case of 4fresh

https://4fresh.ru/

Business scope: sale of certified and environmentally friendly goods
Year of incorporation: 2009
Business launched in: Obninsk, Moscow Region
Founder and manager: Natalia Kozlova
Financial performance: n/a
Number of employees: about 60 people

“Our country has high literacy and education rates. We have always been interested in the western lifestyle, and we follow its examples in many ways. When we saw the way some people in the West live — organically and in harmony with the environment, we realised that we also have sufficient resources to live here that way.”

Natalia Kozlova, founder of 4fresh

Biography

Natalia KOZLOVA is the founder and mastermind of the 4fresh project. After graduating from the Faculty of Public Administration at Lomonosov Moscow State University, she took part in the election campaign of a candidate for the position of the people’s deputy, and also worked at BTL agency, where she organised various events. At some point, Natalia reconsidered her way of life and became an active supporter of the responsible consumption concept. Giving birth to twins strengthened Natalia’s personal convictions and determination, prompting her to launch her own business and supporting her at all stages of its development. Natalia’s motto is, “Create a company for a lifetime rather than just a business.” Completing the Startup Academy training course at the Moscow School of Management SKOLKOVO boosted Natalia’s entrepreneurial confidence and taught her to see the big picture in business.

Brief overview

4fresh is one of the largest and most recognisable eco-markets in Russia. It provides Russian and foreign producers with a platform for selling natural and organic foods, cosmetics, household detergents, children’s products, and many other goods for “responsible and natural lifestyles”. Currently, the 4fresh e-store offers customers over 200 brands, with over 60 brands available in the off-line stores. The e-store accepts over 200 orders a day and has over 50,000 buyers. 4fresh has become one of the key and most respected players in the market segment. It is important not only as a stand-alone business selling goods by environmental and responsible brands from around the world, but also as a company focused on developing the eco-market and responsible consumption in Russia.
The company's experience

The 4fresh eco-market was launched in 2009, becoming one of the first Russian projects for the sale of natural and certified products. Long before the project launch, its founder Natalia Kozlova had been searching for eco-friendly and natural goods for personal use, and had to use American and other foreign Internet resources that offered a wide selection of goods that she needed. The young woman realised that Russia sorely lacked such goods and websites where they could be purchased. That was when she came up with the idea of creating her own store for the Russian market.

The project developed rapidly as demand for sustainable products in Russia was emerging. Buying sustainable goods became more than just a fashionable trend — it became a systematic change and a new consumer mindset. Having launched a small website for the sale of eco-goods and investing all of her time and resources in developing it, Natalia Kozlova found that there were people — first her friends and acquaintances, and then a wider audience — who were very interested in such products. Thus, a hobby of searching for goods for personal use gradually developed into a full-fledged business project aimed at creating an efficient and convenient infrastructure for making ecological and sustainable products accessible to Russians.

Natalia drew inspiration for the project from international practices. She also found real-life examples of successful economically sustainable enterprises abroad. For example, small authentic stores, such as Organic Essence, gave her new ideas, while the volume and scale of activities of large companies such as iHerb demonstrated the efficiency of certain tools that could be applied by 4fresh. Russian projects also provided interesting examples of business development in the eco-segment, but, unfortunately, their lifespan was extremely short. It was not easy for 4fresh to achieve self-sufficiency and gain a foothold in the market, although it was one of the first companies to introduce organic and natural products to Russian consumers, which gave it a competitive advantage.

The 4fresh development strategy relied mainly on the e-store format. This choice not only differentiated the company among competitors in the market, but also significantly reduced the capital and transaction costs. Despite this, the company still operated at a loss during the first few years and began earning profits only recently. The online format helped Natalia to ensure high quality business management, as well as to train competent sellers and consultants. In 2015, once she had built a business model and created an appropriate corporate culture and a recognisable brand in the market, she opened the first traditional store in St. Petersburg.

In addition to organising all the business processes, the company had to survive in a rapidly changing competitive environment. In the wake of the emerging responsible consumption trend, new players were entering the market. Along with numerous on-line portals offering organic products, various brands — from inexpensive local ones to luxury ones — opened e-stores. In addition, new websites were launched for selling goods manufactured by social entrepreneurs. Traditional mass market players also began including eco-products in their product range, but many unscrupulous companies with large advertising budgets sold ordinary products with organic labelling, resulting in a setback to the eco-market. In spite of all these challenges, 4fresh found its niche, strengthened its position, and won customer loyalty.

Natalia Kozlova’s business model is based on multi-branding and working with suppliers that offer certified products with such eco-labels as EU Flower (EU), Blue Angel (Germany), ECOCOLOGY (Canada), NF Environnement (France), Green Seal (USA), and Vitality Leaf (Russia). 4fresh’s product portfolio also has goods without eco-labelling that are manufactured in accordance with ethical principles and contain few artificial ingredients.

Natalia started out by selling cosmetics and gradually expanded her store’s product range to include other goods for leading a “responsible and natural” lifestyle, such as household detergents, goods for children and mothers, and foods. At the same time, the price categories varied from inexpensive to the luxury segment. Today the store also offers products from such Russian brands as Mi&Ko, Natura Siberica, Bie, Organic Shop, and other well-known eco-labels. By offering a variety of goods, 4fresh meets the needs of the most demanding customers.

To ensure the availability of a wide selection of goods, the company constantly works with suppliers, checks brands, and conducts sample testing in focus groups. All these measures allow 4fresh to ensure high product quality and to avoid cooperation with companies that use environmental positioning without sufficient grounds for it.

Another important aspect of 4fresh’s sustainable business model is the emphasis on the customer, and in particular, assurance of a positive customer experience. The company has reduced the terms of delivery to a minimum and has fine-tuned the channels for customer feedback: 4fresh regularly holds promotions and announces new products for sale, maintains blogs, and publishes interviews with manufacturers. The customer loyalty system is also very effective: 4fresh offers customers a bonus programme and professional consultations from cosmetologists and other specialists. All this ensures high service quality, allowing the company to retain the existing customers and attract new ones.

In marketing, 4fresh adheres to the word of mouth principle. This policy is supported by intense efforts and wide coverage of the company’s activities in social networks, where different tools are used to attract people’s attention, such as highlighting names of celebrities who are eco-market customers. Competent PR coverage provides positive publicity and attracts more attention to social responsibility issues. Moreover, the company publishes its own magazine, 4fresh guide, with different articles, reviews and photos of its products. The publication is not only a channel to promote the store’s products, but also a way to build effective communication with consumers and a tool to increase customers’ awareness and consciousness.

In general, the company makes great efforts to educate consumers, which is especially important in the absence of transparent eco-certification in the Russian market and lack of awareness among potential customers. Besides attracting and retaining customers, such activities also generate a future target audience by promoting a qualitatively new, more conscious living standard and establishing a foundation for the development of the entire eco-sector.

Natalia places her full trust in her team for implementing the project. She is convinced that business development requires a team of like-minded people working to achieve shared goals. Today the company has about 60 employees who fully support the company’s mission and ensure the efficiency of its operations, marketing, and business processes.

The company plans to further expand the product range and to include new brands, as well as to continue working with partners and conducting various campaigns and events for further development of the eco-market and responsible consumption in Russia.
Anton Kuznetsov, the founder of Sphere of Ecology, was born and lives in Moscow. After earning a degree in Construction Engineering, he went on to earn an MBA from the Plekhanov Russian University of Economics and completed an advanced training course at the Panfilov Academy of Communal Services. By the time he established his own business in 2010, Anton already had over 15 years of experience in waste management.

Biography

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Development of Waste Recycling as a Niche Market, Based on a Case of Sphere of Ecology

http://www.se8.su

Business scope: waste collection and recycling
Year of incorporation: 2010
Business launched in: Moscow
Founders and owners: Anton Kuznetsov (50%), Evgeny Veprintsev (50%)
CEO: Oleg Rubenstein
Financial performance: RUB 60 million in revenue in 2016
Number of employees: 45 persons as of 2016

«It all started with a dump in the yard by our apartment building. Kiosk owners had a disgusting habit of leaving garbage right under our windows. My neighbours and I began to think of how to solve this problem. At first, we would burn the garbage, and then we started taking it to collection points for recycling. Then it suddenly occurred to me that this could serve as raw material for producing new goods.»

Anton Kuznetsov, founder of Sphere of Ecology

The company's experience

Anton Kuznetsov, the founder of Sphere of Ecology, encountered the problem of waste in Moscow and the Moscow Region in his childhood years. The land plot accommodating a summer cottage in the countryside where he used to spend his school vacations was situated near a large landfill of solid domestic waste (SDW). With the development of retail trade in the early 1990s, heaps of garbage appeared in yards by apartment buildings in Moscow. Living in such a building, Anton and his neighbours sorted the garbage and took it to points of collection for recycling. Time went on and the problem persisted, motivating Anton to launch a waste management business in 2010.

Anton Kuznetsov began his business with waste removal together with his friend Evgeny Veprintsev, he rented trucks and garbage press equipment293, and offered their services to Moscow recycling companies. Soon, however, they faced high competition and dumping. After a Sphere of Ecology client asked them to organise separate garbage collection, they included waste sorting in the list of services offered by the company. To provide this service, the partners took out a loan in the amount of RUB 5 million to purchase equipment, and hired loaders and drivers293. This was the first step towards building the company's competitive advantage over other market players. At the same time, Anton Kuznetsov understood that work had to be done not only with waste, but also with those who generated it, starting with responsible companies and then enlightening the rest. To do this, the company had to build its own competencies and develop a system of providing a package of services, which was impossible until they received the first orders. Despite the lack of references, the start-up cooperated with a foreign corporation294 whose environmental policy extended to its Russian representative office. Thus, Sphere of Ecology attracted the first large clients comprising companies managing Class A business centres and embassies, and also acquired the status of an environmental contractor. The services offered by Sphere of Ecology included organising a system of separate waste collection in offices, as well as waste sorting and removal for recycling. In exchange, the company gained access to international customer experience, as well as new clients — western companies, embassies, and organisations that introduced sustainable practices at their facilities. At the time, competition was not high in the “green” segment: large players were not satisfied with the relatively small demand, while others used outdated technology and could not guarantee high quality295. All these factors, combined with an individual approach to building partnerships, allowed the company to occupy its niche in the market segment.

Today, the full package of services offered by the company includes waste collection, sorting, pressing, and transportation to recycling plants. Sphere of Ecology optimises waste processing by extracting valuable materials that can be used as secondary raw materials (paper, plastic, and glass containers). Secondary raw materials are sorted manually on the company's conveyor belt, pressed to form briquettes, and sent for recycling in large batches. In addition, the company provides services for the collection and sorting of hazardous waste, such as mercury thermometers, batteries, office equipment, etc. However, this area is not profitable yet since clients have to pay extra for recycling such waste296.

Sphere of Ecology partners include ten recycling companies Piarus in Solnechnogorsk (plastic), Kotyakov plant in Moscow (paper), Megapolresurs in Chelyabinsk (batteries), as well as plants in Kazan, Tver, St. Petersburg, and Nizhny Novgorod. 80% of the company's income comes from provision of services and lease of equipment, and 20% from the sale of recyclable materials297.

Sphere of Ecology jointly with Ecobureau GREENS also offers eco-consulting services to representatives of the corporate sector. These include the development of greening programmes for offices (Green Office), stores, cafes, hotels, and other enterprises, the introduction of a separate waste collection system, and preparation for independent environmental certification. To ensure successful implementation of a separate waste collection system, such programmes include mandatory staff education and motivation elements. Depending on the type of premises and waste separation quality, implementation of such projects allows organisations to reduce the cost of waste management services by 20-50% of the initial payments.

Sphere of Ecology's total portfolio of corporate clients includes over 500 large organisations, including business centres, educational institutions, trade enterprises, embassies, environmental organisations, and others298. Foreign firms account for more than 80% of clients, and the remaining 15-20% are large Russian companies. The company's clients include Samsung, Nestle, LUKOIL, Oriflame, BP, Swatch, Unilever, Tetra Pak, Nespresso, Rockwool, Cisco, JTI, UNDP, Shell, British American Tobacco, Volkswagen, Greenpeace, WWF, as well as the embassies of Canada, Australia, Great Britain,
and other countries that have been practising separate waste collection for a long time.

As it developed and perfected its scheme for servicing the corporate sector, Sphere of Ecology also began working with individuals\(^2\). Opening separate waste collection points was the first step in this direction: in 2012, there were five of them, and soon their number reached ten. In addition, in 2015, the company opened mobile garbage collection points together with such large players as Tetra Pak, X5 Retail Group, and Volkswagen\(^3\). Since 2014, Sphere of Ecology has begun accepting hazardous waste from individuals\(^4\). When it first started working with the private sector, the company paid people for secondary raw materials in order to motivate them. Subsequently, the management revised this scheme since recyclables were collected and delivered primarily by members of socially disadvantaged groups, who saw it as an opportunity to earn a living. This did not allow the company to build a sustainable business model and to reach out to the category of responsible consumers. As a result, Sphere of Ecology soon switched to a gratuitous scheme and its target audience changed. Now it comprises responsible city residents who sort garbage themselves, encourage people from their environment to do the same, and bring waste from all parts of Moscow to the collection points. Currently, about 5,000 of the company’s customers are individuals. They can use fixed or mobile collection points, the latter being a truck that follows a certain route in the city according to a schedule. The mobile waste collection points were organised by Sphere of Ecology in cooperation with two other environmental companies — Recycle and Gruzovichkof\(^5\). Besides, individuals can become clients of Sphere of Ecology if their management companies conclude agreements with it for separate waste removal.

In addition to the activities described above, the company is actively involved in educational and environmental programmes. It places containers for separate garbage collection at many cultural events in Moscow and then sends the waste for recycling, teachers schoolchildren about separate waste collection, and partners with many environmental campaigns held by organisations such as Greenpeace (e.g., Green Weekend)\(^6\) and commercial enterprises.

All in all, Sphere of Ecology sends about 200 tonnes of separately collected waste\(^7\) per month for recycling, including waste from corporate customers and collection points for individuals. At the same time, however, the communal segment is gradually narrowing: the quality of separately collected waste it provides is lower than the corporate segment. Anton Kuznetsov is confident that the practice of separate waste collection will gradually develop in the municipal sector, but at the moment, this segment in Moscow and the region is distributed among five large waste removal operators that have concluded contracts for a period of 15 years\(^8\), which prevents smaller players from entering the market and promoting responsible practices. Despite this, the company plans to continue its work by opening new centralised waste collection points for individuals in a number of areas. To do this, it needs the support of local authorities or enterprises. Anton Kuznetsov’s plans for the future include creating a full-cycle company that will have a waste recycling plant to ensure independence from waste processing facilities and to provide corporate customers with a whole range of services.

**Development of Eco-Friendly Printing as a Niche Market, Based on a Case of Polygraph Media Group**

http://www.pm-g.ru

**Business scope:** printing services

**Year of incorporation:** 2006

**Business launched in:** Moscow

**Founders and owners:** Sergey Kolchin (50%), Elena Emelyanova — Chief Financial Officer (25%), Vyacheslav Emelyanov — Commercial Director (25%)

**CEO:** Sergey Kolchin

**Financial performance:** RUB 174 million in revenue in 2016

**Number of employees:** 25 persons as of 2016

“To us, being green is more than just printing on recycled or FSC-certified paper. Basing our production on eco-friendly printing practices, we support this initiative and promote it to our customers.”

Vyacheslav Emelyanov, co-founder of Polygraph Media Group\(^9\)

**Biography**

Polygraph Media Group was founded by Sergey KOLCHIN and Elena and Vyacheslav EMELYANOV, a husband and wife duo. Elena and Vyacheslav met in the early 2000s while working together for a large printing house as CFO and Commercial Director, respectively. Sergey Kolchin was the Chief Production Officer at one of the client companies and placed orders for printed products. After a while, the partners decided to start their own printing business. In 2006, the PMG Printing House was established. The partners work together to manage and develop the company.

**Brief overview**

Polygraph Media Group is an eco-friendly printing house that has been operating for over a decade. This company was one of the first to receive a FSC certificate and is the leader of eco-printing in Russia. It uses energy-efficient equipment and eco-friendly raw materials in the printing processes. Thanks to a variety of services, high-quality products, and great customer service, the company is now a proven, reliable provider of printing services. The ability to meet the requirements of customers, who come primarily from the B2B segment, and the certification process have allowed the company to participate in such significant projects as the XXII Olympic Winter Games in Sochi in 2014.
The company’s experience

Polygraph Media Group was founded in Moscow in 2006 with the personal funds of three partners: Sergey Kolchin, and Elena and Vyacheslav Emelyanov. Responding to the growth of the printing and direct marketing markets in the first decade of the 21st century, the company started its business with advertising and commercial printing services. The start-up’s launch coincided with the development of the green movement in Russia and the appearance of the first responsible consumers, in particular in the printing sector. Moreover, the country had already begun importing equipment and consumables from foreign suppliers who were committed to sustainable practices. The Russian printing industry, including Polygraph Media Group, was greatly influenced by the entry of the Forest Stewardship Council (FSC) into Russia in 2009. FSC initiated an aggressive campaign to promote FSC certification.

The transition of Polygraph Media Group to a sustainable model was strongly driven by the reduced demand for printed products, both in Russia and abroad, following the 2008-2009 crisis. In addition, many customers switched to electronic media, while marketing campaigns promoted products and services through the Internet and social networks. To attract customers, the printing house began offering goods and services with new features, including printing on eco-friendly or recycled paper, and certified printing. In an increasingly competitive environment, some customers became interested in certified printing, which would help them take their business to a new level. For some printing houses, environmental compatibility became a new marketing feature.

By implementing the new model, Polygraph Media Group was able to cooperate with the Organizing Committee during the preparation of the Winter Olympic Games in Sochi, since FSC certification was one of the Committee’s special requirements. In 2011, FSC certified the company’s supply chain, making it one of the first three certified printing houses in Russia, along with Line Print and Print Design. The certificate guarantees that the company uses recycled raw materials and paper made from wood that is legally harvested in responsibly managed forests in compliance with sustainable forest management standards, as well as with respect to the rights of employees, local residents, and indigenous peoples.

To develop and strengthen its business, Polygraph Media Group decided to purchase efficient Japanese and German equipment, which cut the costs of electricity and consumables, and reduced waste and the rejection rate. In addition, the printing house began using materials (paints, chemicals, etc.) that were not aggressive to the environment, resulting in a product that complied with environmental standards and sustainable development principles. The company works with responsible suppliers of FSC-certified paper. In 2015, in response to further decline in the market of traditional printed products, the company began to offer printing of customised small-size packaging materials, including those made of cardboard. For example, craft bags from recycled307 FSC-certified paper produced without wood are an inexpensive product.

At present, Polygraph Media Group offers a variety of custom-made products made of recycled or FSC-certified paper, including books, magazines, newspapers, advertising materials, reports, calendars, envelopes, business cards, folders, and so on. In addition, the company still provides traditional printing services to ensure sustainability of its business model in the emerging niche market. FSC-certified products make up 30% of traditional printing. According to Vyacheslav Emelyanov, for the end user, eco-printing costs about the same as traditional printing since almost all of Polygraph Media Group’s products are printed on certified materials. Through its approach and an extensive product line, the company reached a new audience of responsible consumers among Russian and foreign companies, both in the commercial and non-commercial sectors. These include Mail.ru, VK, WWF, Greenpeace, Lush, Disney, Eurocement, Faber-Castell, Metro, Tele 2, Tous, Urban Group, Russian Post, and others. For example, the company printed an Eco-Printing booklet for the Russian National Office of the Forest Stewardship Council and the FSC National Office for CIS countries. Polygraph Media Group keeps its corporate customers informed of new solutions, and advises them on design issues and technical features of materials. Individuals are mainly interested in printing business cards, postcards and wedding invitations on recycled paper.

Competition in the niche market is gradually growing. In the beginning, there were only three certified printing houses in Russia. By 2013, their number reached 17 (out of 7,500 printing houses), and exceeded 100308 by 2014. However, the recognisability of FSC labelling in Russia is still low. This is the key challenge faced by the company’s management, hindering the promotion of eco-printing services. Currently, recognisability in Russia ranges from 15 to 26%, as compared to much higher rates in Great Britain, Germany, India and China. However, a study conducted in 2013 by Tetra Pak demonstrates that eco-labels are recognisable and there is good potential for the development of eco-certified printing houses. Over half of the respondents (54%) said they trust eco-labelling, 57% regularly look for an eco-friendly logo, and one in five recognised the FSC label309.

As part of its efforts to promote FSC-labelled eco-printing, Polygraph Media Group is involved in environmental initiatives in cooperation with the FSC national office and the World Wildlife Fund (WWF). The initiatives supported by the company include the International FSC Friday campaign, round tables for discussing certification issues of paper makers, as well as communications and promotion of eco-printing services to new customers. In the future, the company intends to continue cooperating with the FSC representative office in Russia, WWF, and other responsible companies for local development of the eco-printing niche market in Russia.
«About 60% of the innovations we have used in our business over the last two years are somehow related to environmental issues. We simply look for and implement the ways in which ecology is equated to economy.»

Maxim Rogozhko, CEO of OptiCom

Biography

Maxim ROGOZHKO, co-founder and CEO of OptiCom, was born in 1977 and grew up in Moscow. In 1999, the future founders of OptiCom started a joint business for supplying packaging and consumables. In 2004, Maxim got married and his daughter was born. Today, Maxim has five children. According to the co-founder of OptiCom, the birth of his children stimulated him to diversify the portfolio by creating a green line and to develop the company as a socially responsible, sustainable business. He aimed to accomplish this by optimising processes, implementing environmental policies, and changing the business environment and the society.

Brief overview

Throughout the 18 years of its existence, OptiCom evolved from an importer of packaging materials to a diversified company that deals with distribution, logistics, production, and wholesale. The company’s core products are packaging materials, household goods and consumables. One of the strategic solutions that allowed the company to enter a new stage of business development and expand its pool of partners and customers was a gradual focus shift to eco-friendly products, new eco-products added to the product line under a unique trademark — OPTILINE, and launch of the Green Cleaning Academy to raise customer awareness.
RESPONSIBLE CONSUMPTION: NEW BUSINESS OPPORTUNITIES AND CASES OF RUSSIAN COMPANIES

When selecting products for its portfolio, OptiCom pays special attention to integrated environmental assessment of products. The company’s specialists analyse the life cycle of products and choose those with the smallest ecological footprint, taking into account such indicators as greenhouse gas emissions, depletion of non-renewable natural resources, and so on. This technique allows OptiCom to make scientifically sound decisions about the production of new eco-friendly products and to properly position them in the market. In an effort to popularise this approach, the company hosts educational events for its partners and the broader business audience.

Today, growing competition is encouraging OptiCom to improve the functional properties of its products and to develop a service package. One of the company’s key objectives is to reduce the cost of products in the green line, which is not the main source of income yet. Despite this, OptiCom plans to further expand the green line, including launching its own production of premium straw biopackaging as an alternative to foreign products in terms of price and quality, and developing recycled plastic products. The company seeks out Russian suppliers of eco-friendly products and invites them to cooperate.

In addition to producing and supplying eco-friendly products, OptiCom is developing a recycling business that will collect used raw materials to be recycled and used in production. This will allow the company to shift to closed-loop production in the future. OptiCom is also developing a project for collecting paper waste from its partners, mostly offices of large corporations.

division of OptiCom since 2007, trading firms and retailers (34%), agricultural holdings (11%), state-owned institutions (9%), servicing companies (4%), the food industry (4%), and business centres (2%) [314]. To date, the share of eco-friendly products in the company’s product line has grown to 12%.

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Development of Responsible Logistics as a Niche Market, Based on a Case of PickPoint

https://pickpoint.ru

Business scope: automated parcel terminals for goods purchased in e-stores and pick-up points
Year of incorporation: 2010
Business launched in: Moscow
Owners: 100% of the company is owned by PickPoint Delivery Sistem Ltd., Cyprus
CEO: Nadezhda Romanova
Financial performance: RUB 1 billion in revenue in 2015
Number of employees: n/a

«In my opinion, the key to any business’ success is not only the personal qualities of its top manager. What matters most is the team’s experience and professionalism as a whole, and an integrated approach to business processes. You have to believe in what you are doing and have a clear understanding of why you are doing it.»

Nadezhda Romanova, CEO of PickPoint

Biography

Nadezhda ROMANNOVA began her career at the Promsvyaz Plant, where she headed the Foreign Cooperation and Order Processing Department. After graduating from the Radio Engineering Department at the Moscow Technical University of Communications and Informatics in 1999, she moved to the Main Special Communications Centre and in 2001, to SPSR Express — the current leader of the express delivery market, where she built a successful career as Deputy CEO for Commerce. In this capacity, she was responsible for developing the company’s marketing strategy, including identifying priority areas for business development, until 2010. Since 2010, Nadezhda Romanova has headed PickPoint.

Brief overview

In 2010, PickPoint installed Russia’s first parcel terminal at the “Moscow City” International Business Centre. Six years later, the company was the leader in this segment of the express delivery market. Currently, it owns 1,800 parcel terminals and pick-up points in 460 cities and towns in Russia. This was accomplished through the vision and talent of the company CEO, Nadezhda Romanova, with financial and logistical support from the main investor, SPSR Express, as well as thanks to growing consumer interest in such features as cost-effectiveness and privacy. Walking distance location, the convenience of choosing the time, place and method of pick-up and payment, no need to wait for a courier or queue at the post office — all this made parcel terminals a very convenient way to receive deliveries. Minimum human involvement at the “last mile” stages makes the delivery process both economical and eco-friendly.
The company’s experience

The success story of the first company in Russia specialising in express delivery through parcel terminals began at the Post Expo 2009 in Hanover. It was there that Nadezhda Romanova, the Commercial Director of SPSR Express at the time, saw the value of the high productivity of Pickstation parcel terminals, developed by REBA for Deutsche Post, a German postal operator. In June 2010, the Network of Automated Pick-up Points was founded. Now it is known under the brand name PickPoint. Thanks to USD 10 million invested by the shareholders of SPSR Express — Russia’s largest express delivery service, the company immediately became the market leader and still retains this status, managing 80% of all parcel terminals in the country.

The creation of PickPoint parcel terminals solved some pressing problems of courier (expensive, uncertain) and postal (slow, uncertain) delivery in the fast-growing e-commerce market and therefore, proved to be well-timed. Consumers are not always able to wait for a courier or visit retail stores. Therefore, such a delivery format was revolutionary.

The parcel terminal was a convenient, economical and eco-friendly solution. It allowed consumers to not only plan their time more efficiently and save on the “last mile” (50% of the cost of courier service), but also to indirectly reduce their environmental footprint.

To ensure a quick launch, the young company offering a hitherto unknown method of delivery to customers had to gain credibility. Mrs Romanova’s long-standing cooperation with a global player, Yves Rocher, through SPSR Express, played an important role in this regard. Yves Rocher believed in the project. By raising confidence in the service through web platforms and consumers, after three years of cooperation with Otto Group, PickPoint became one of its key partners. The volume and number of deliveries through the parcel terminals grows by 40% annually. PickPoint now serves over 2,000 companies, including LaModa, Oriflame and Ozon. In 2015, AliExpress and JD.com accounted for 6% of PickPoint’s orders.

When building relationships with its partners, the company management always looks for unconventional and mutually beneficial cooperation. For example, in an effort to take over operations of SMEs in e-commerce, PickPoint is expanding its own network of shipping centres and, for the convenience of suppliers, consolidating flows of different delivery channels. The company accepts and sorts parcels, and then ships them through the Russian Post and courier services, allowing small stores to save on the “first mile” and integration with only one player.

Furthermore, in order to reduce the cost of logistics for the “first mile”, PickPoint provides retailers the opportunity for the delivery of only prepaid orders. In 2015, PickPoint decided to increase the number of orders transferred through its own delivery channel and, together with TelePost-Finance (TPF), a microfinance institution, launched the Overdraft Credit service, granting microfinance loans to e-stores against working capital for purchasing goods and business development. TPF deals with the financial aspect, while PickPoint manages the process, monitors all transactions, and acts as the loan guarantor. The product is in great demand thanks to its simplicity and convenience. The loan size depends on the number of orders transferred to PickPoint.

In an effort to establish closer cooperation with partners and customers, the company successfully overcomes the challenges that arise. For example, due to shopping centres’ initial reluctance to host parcel terminals (even though they occupy only four square metres), the company decided to install them in residential areas so that customers could pick up parcels close to their home. As a result, today about 65% of parcel terminals are installed in supermarkets. Moreover, in order to earn the customers’ loyalty, PickPoint launched a customer return service (for Quelle, OTTO, bonprix and Witt) and began to accept Mir payment cards in order to expand its customer base. In 2015, noting the growing popularity of parcel terminals, the company changed its positioning strategy and announced that PickPoint customers were now individuals rather than e-stores, since individuals are the ones to choose the place of purchase and delivery method. A focus on consumers’ needs contributed to a higher loyalty rate, even affecting their choice of e-stores. According to Mrs. Romanova, “One of the most frequently asked questions at our contact centre is: Where can I buy a certain product that will be delivered to a certain point?” This means that the consumer first chooses a product and delivery method, and then asks PickPoint to refer him or her to a seller. Currently, the company is upgrading its website and requesting search engine product tags from e-stores because the list of partners has become the most popular section of the site.

The service is also becoming more popular among responsible consumer groups. The principle by which a company operates often becomes the key motivator for developing cooperation with projects based on responsible consumption and care for the environment. For example, the Svalka project, which collects, resells and recycles waste collected from the population since 2015, cooperates with PickPoint as follows. A person can agree with a Svalka employee on a list of items to be donated. He then receives the code to a locker in a parcel terminal, places a packed parcel in it, tracks the delivery through a mobile app and, after evaluation by a Svalka employee, receives a symbolic reward for his or her contribution to environmental protection.

Throughout its six years of operation, PickPoint has created the largest network of automated pick-up points in Russia, connected about 65% of all pick-up points of logistics companies, and became a monopolist in the express delivery segment, with an 80%-91% share in the national parcel terminal market. In 2015, the company delivered over five million items (a 1.6-fold increase since 2014), with clothing and footwear accounting for 55%. The cost of PickPoint services is the golden mean between courier and mail services, while delivery to even the most remote locations is made on an express basis, in 48% of online purchases, the country use the service. This places Russia among the top ten countries with the fastest development of the parcel terminal network. The total revenue over the last year reached about RUB 1 billion.

The company’s competitors in the parcel terminal market either have stayed far behind and are gradually moving to the category of partners (Qwi-InPost), or have ceased to exist (Logbox), as it is impossible to launch a project in this market without close partnerships with logistics companies. PickPoint solves the main challenge of efficient long-haul deliveries primarily (70%) through SPSR Express, while InPost works with CDER, PDP and Pony Express. In order to retain its market share, the company needs to integrate logistics operations and information systems, which is a time and resource-intensive process. Competing with Russian Post for commercial shipments, PickPoint plans to gain a share in the market of shipments between individuals. For this purpose, it needs to solve the problem of simple customer identification.

In an effort to reach out to young, mobile consumers who prefer to avoid unnecessary communication, as well as more conservative older adults who are distrustful of machines, PickPoint is expanding its network of traditional pick-up points. It is also building partnerships with independent networks of pick-up points such as Maxima Express, a Wikimedia Express, Rostelecom — Retail Systems, Mostransagentstvo, Pro-Service, Yarkiy Mir, Multifoto, Neva-Press, Galileo, and others. By the end of 2015, the number of partners reached 715...
At present, the ratio of parcel terminals to pick-up points used by individuals is 70.8% to 29.2%, respectively. Competing in this market mainly with Hermes — a network of traditional pick-up points, when entering the regions, the company first opens a traditional pick-up point, then refines all of the business processes, and proceeds to install parcel terminals as the last step. Interestingly, in some cities the company has set up an experiment to see whether many orders would be placed via this channel even when there is an excessive number of points. As a result, not only was the channel saturated, but PickPoint services also became more popular. While expanding its network of parcel terminals located within walking distance, the company entered into a strategic partnership with Qiwi. Qiwi provides a compact parcel terminal and payment gateway, while PickPoint supports all of the logistics and delivery processes.

Since e-commerce in Russia currently accounts for only 2% of the total retail market, PickPoint has enormous growth potential. Realising this, the company started creating a regional logistics infrastructure and became the only integration and operating partner of AliExpress in Russia to successfully bring Russian retailers to the online hypermarket platform. Every month, AliExpress is visited by about 24 million Russians, 85% of whom reside in the regions. The company provides Russian sellers with technical and marketing support at all stages of their entry into the Chinese market by creating manuals and video blogs to simplify integration, rendering support services by personal consultants during store openings, and connecting additional delivery channels to PickPoint’s parcel terminals for products sold through AliExpress. Moreover, noting the great potential of Siberia, which accounts for 11% of the e-commerce market and 13% of total PickPoint sales, the company seeks to establish effective partnerships with local retailers. Currently, the share of online buyers is shifting towards the regions: towns and villages already account for 19% of this segment. Considering the needs of the e-commerce market and its IT-opportunities, and seeking to become closer to consumers, the company is developing its network of parcel terminals within walking distance. It has great chances of achieving its goal and replacing personal mail boxes so that any customer can pick up his or her parcel on the way home at the same location where they go food shopping. This not only reflects PickPoint’s responsible approach to the development of Russian regions, but also opens up great opportunities for the company’s sustainable development.
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