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Project “European Footwear: More than Fashion”

ANNEX I: Market Study _ 1st revised version

Submitted by



Confédération Européenne de l'Industrie de la Chaussure
European Confederation of the Footwear Industry



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INTRODUCTION

The purpose of this study is to carry out research and market intelligence, in order to get an understanding of the local fashion and footwear business culture in Kazakhstan and be able to identify suitable local distributors/retailers.

For the proper conduct of the market study the following issues were taken into account:

- a. The specification of the criteria for the market analysis (e.g. targeting specific kind / categories of products and possibly focus on a small number of selected products)
- b. The issues of standardization and certification of the products, especially regarding certain products (e.g. children's shoes)
- c. The country's mentality/culture/modus vivendi and dress code and business habits (e.g. payment conditions, terms of products deliveries etc.)
- d. The potential of the market and its macroeconomic aspects, the existing competition, in particular, which is the origin of products sold in the country
- e. The existing Kazakh government procurement rules
- f. The impact of the Customs Union rules and norms on Kazakhstan
- g. The issues of intellectual property

The research process was comprised of seven steps:

Step 1. Definition of the research objective

Step 2. Selection of the research methodology

Step 3. Preparation of a Market Research Plan

Step 4. Collection and selection of data

Step 5. Data analysis and drawing conclusions

Step 6. Transformation of data into intelligence

Step 7. Establishment of an ongoing, systematic process.

1.EXECUTIVE SUMMARY

Kazakhstan is one of the most developed countries in Central Asia, with a rapidly developing political and economic nature. Being a ninth largest country in the World, Kazakhstan has a fairly low population – 17,5 mln of inhabitants.

The Republic of Kazakhstan, rich for oil and natural resources, is an oil – driven and export oriented country, importing most of the consumer goods and services from abroad.

Kazakhstan is an initiated member of Eurasian Customs Union, and one of the main trend-setters for the internal procedures and inner trade of the Union. The recent few years in the region has changed the import map significantly, the share of Russian goods' flow to the market is growing rapidly.

Footwear market of Kazakhstan is going through the developing stage in terms of the competition of the suppliers and growing customer preferences of the main population of the country.

Footwear industry in the country is presented by less than 55 entities, producing anywhere from 20 to 200 pairs of shoes on daily basis. More than 78% of the manufacturers produce shoes for the specialized institutions under the public procurement, such as medical and healthcare centers, military, detention facilities, construction companies and other state and social projects.

The inner competition among the local shoe manufacturers is quite insignificant, as the market share of the local producers does not exceed 2% of the total market turnover.

High prices of the output materials, outdated technologies and relatively low quality of the product are main weaknesses and disadvantages of the local producers compared to the importers.

More than 6.1 mln pairs of footwear were imported in Kazakhstan in 2014, which is 18% more compared to the previous year.

The total official retail turnover of the footwear in the country amounted to USD 885 mln, including 52% of retail trade in the officially registered sale points such as branded stores, boutiques and representative stores. Remaining portion of the country turnover is accrued to the local private merchants on the open-air bazars and pavilions. The mentioned number, however, does not include growing share of the e-commerce in the country. Due to the large number of spontaneous and unregistered deals, the total turnover of the online trade is hard to be determined but can be estimated at the level USD 110 mln in 2014.

1. EXECUTIVE SUMMARY

The footwear market of Kazakhstan is import-oriented, almost entire consumer market is brought to the country from abroad mainly China (46%) and Russia (14%). The rest of the market import share is allocated among number of different countries of South-East Asia and Europe.

Nevertheless the large proportion of the imported goods on the footwear market and government intentions to support the local producers, the market entry for the new brands and foreign manufacturers still remain unhindered and smooth.

The tax burden for the businesses in Kazakhstan is relatively low, which gives a supportive field both for merchants and manufacturers to establish either sale points or production lines. The customs and VAT tax burden are approximately on the level of 10% and 12% relatively. Once the tariffs for entrance duty are paid, the goods are subject to free circulating within the countries – members of Customs Union.

The situation with the certification of goods still remains weak, less than 40% of the merchants and producers on the market certify their production, despite the reasonable standards and regulations, that are fairly easy to meet. The cost of certification can reach as much as 2-2,5 % of the production cost, thus, many of the entrepreneurs try to avoid such additional expenses.

The distribution of the goods on the territory of Kazakhstan are going through the official stores, multi – brand stores owned individual entrepreneurs or official retail companies.

Opportunities on the footwear market in Kazakhstan:

- The majority of the country population are historically oriented to be more depending on their appearance rather than Europeans and Western inhabitants. Thus, locals spend more on the apparel, footwear and accessories, compared to other well-developed countries.
- Consumer habits of the majority Kazakhstanees are going through the “spending stage”, rather then “saving culture”. Less then 5% of the income of the average citizen is dedicated to future savings, rest of the monthly income is spent for food products, services and non-grocery items, such as clothing and electronics.
- Low tax burden, uncomplicated quality standards, absence of trade and import limitations provide absolute business – friendly environment for new market entries.

1. EXECUTIVE SUMMARY

In spite of the number of advantages for the new market players, there are few challenges to face:

- Growing customer preferences force the supplies to find new ways to attract buyers.
- Quite complicated nature of preferences depending on the age and the spending capacity, as younger population are more fashion addict, rather than price or quality oriented, while middle and upper age clients are divided to those who chase the price or the quality in priority.
- Increasing variety of choices for the buyers lead merchants spend more on advertising and promotion to win the battle over customers, while the number of those are relatively limited due to the low population in the country and restrained spending capacity of citizens.

Kazakhstan, being a rapidly developing state, in the middle of Central Asia, is one of the most opportunistic markets with a high growth potential. Flexible customers and regulations along with the open-market positioning on the international arena combined together gives a number of advantages for the new market entries.

2. RESEARCH SCOPE and METHODOLOGY

The research scope of the market study include:

- Statistics Data of the Official Statistics Department of the Republic of Kazakhstan.
The data is available on the official sources and upon request for the detailed information.
- Customs data for the import and export information.
- The Ministry of Justice open source information.
- The trade turnover of the main retailers.
Concealed and non-public information. Can be used only for the analysis output.
- Customer preferences, shopping and consumption habits.

The methodology of the preparation of the study include:

- Analysis of the official data available on the open sources or upon request.
- Analysis of the concealed information from the personal and business links on the turnover of trade.
- Qualitative research and studies based on the customer interviews and questionnaires.
- Qualitative research and studies based on the retailers, wholesalers and merchants interviews.
- Field investigations and desk studies of the market of shoes: trade, distribution, logistics, customs legislative platforms.

3. MARKET OVERVIEW.

COUNTRY'S ECONOMIC AND POLITICAL SITUATION

The Republic of Kazakhstan is a transcontinental country in Central Asia and Europe. It is ninth largest country in the world by land area, bounded by Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan and the Caspian Sea. Kazakhstan is the most economically advanced of the post Soviet countries, after Russian Federation, heading itself to uniquely prosperous and modern Eurasian nation.

Country is rich for oil, gas, coal, minerals, metals and other types of natural resources. Mostly oil-driven economy depending on commodity prices on international markets.



	2014	2013	2012	2011
Population	17,608,200 (2015)	17,160,774	16,909,800	16,673,000
Area	2,724,902 sq.km			
Capital	Astana			
GDP, mln USD	227,439.2	243,773.9	215,906.0	200,380.4
GDP/capita, USD	13,155	14,310	12,858.1	12,102.8
Public sector balance, % of GDP	6.7	6.6	6.6	6.4
External Trade Turnover, mln USD	120,755.3	133,506.0	132,807.2	121,241.7
Export, mln USD	79,459.8	84,700.4	86,448.8	84,335.9
Import, mln USD	41,295.5	48,805.6	46,358.4	36,905.8
Currency	Kazakh Tenge (KZT)			
Membership	CIS since 1991, OSCE since 1992, EACU since 2010			
Parliament	Presidential Republic			

The devaluation of the national currency in August 2015 and the return of the Tenge to a free-float exchange rate later in November did affect household incomes and the prices of the imported goods however government still relatively controls the currency market to minimize the risks and damage for the local population.

Nevertheless an ongoing crisis, political situation in the country remains stable and unchanged.

3. MARKET OVERVIEW.

BUSINESS, DEMOGRAPHIC and CULTURAL ASPECTS

Kazakhstan is a ninth largest country in the World, however, with a fairly low number of population. Thus, population density in most of the regions is less than necessary level to unfold wide merchandising fields.

Main retail markets of the country are concentrated in the capital city Astana with a population of nearly 1,2 mln and former capital and remaining financial center Almaty with a population of 2,1 mln inhabitants. These two markets combined together make up to 44% of the whole retail turnover in Kazakhstan.

Population	17,608,200 (August 2015)
Astana, (incl. registered and nonregistered)	1,200,000
Almaty, (incl. registered and nonregistered)	2,100,000
Population Density, inhabitants/sq.km	6.44/sq.km
Urban Population, %	57
Target group for footwear market: Economically active population, %	50.9
Literacy, %	99.6
Education Index, UN rating	0.762 *
Average number of schooling, years	10
Average number of years in High Education	4
Average monthly income, October 2015, KZT	122,422
Average monthly income, October 2015, USD	445.2
Inflation (YY)	8.2
GDP growth rate,%	1.0

* Australia being the top with an index of 0.927 and Niger being last with an index of 0.198

Kazakhstan is a progressive country, actively involved and heavily integrated with the World economy and politics. Thus, the Republic of Kazakhstan is a member of number of International Institutions, the capital of Astana is to be a hostess of EXPO 2017, Almaty is preparing sport and recreation facilities for Universiade the same year.

Historically, country was touched by different cultures and movements through out years, but most of all was strongly influenced by Soviet regime. Nowadays it can be observed in the administrative and political hierarchy of the country, in the structure of education, healthcare and more.

Social and cultural effect of the Soviet period is mostly observed among the older population and younger 1990's generation grown up in the Soviet – type families. Russian remains the second state language after the native Kazakh.

Modern Kazakhstan today is a synergy of the traditional history of the native Kazakhstan and ethnic diversity, which accounts to as much as 120 different groups.

One of the specific characteristics about Kazakhstanees today is the ability to adopt new trends and culture streams quite fast, which gives a good platform for development and growth. Thus, present society is a mix of traditional and modern European standards and principles.

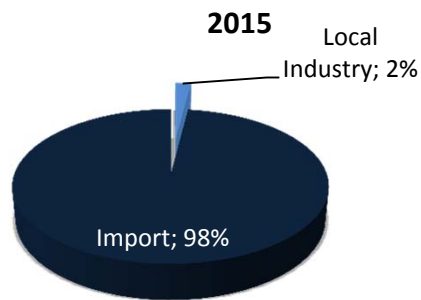
3. MARKET OVERVIEW.

FOOTWEAR INDUSTRY IN KAZAKHSTAN

Footwear industry in the country is a challenging field of business for local clothing and footwear industry. The production of shoes and leather items account to 7.5% out of all consumer non-grocery manufacturing in Kazakhstan, which includes all of the non-food products: apparel, furniture, home ware goods, textile and more, excluding the raw materials and natural resources segments.

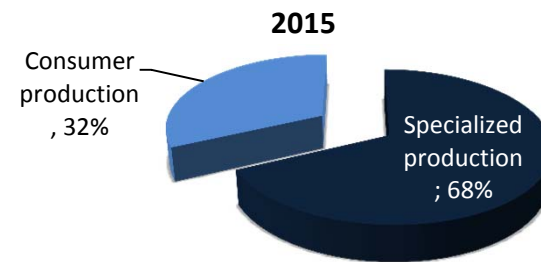
- Footwear industry in the country is presented by less than 55 entities, producing anywhere from 20 to 200 pairs of shoes on daily basis.
- More than 78% of the manufacturers produce shoes for the specialized institutions under the public contracts, such as medical and healthcare centers, military, detention facilities, construction companies and other state and social projects.

Footwear market breakdown by suppliers,



Source: Statistics dept. of Kazakhstan

Local production breakdown by purpose,



Source: Statistics dept. of Kazakhstan

The total industry output has shrunk almost twice over the last 4 years.

1,389,000 pairs in 2011



- Membership of Kazakhstan in the Eurasian Customs Union has opened the borders for new neighboring markets lowering the final price of good due to absence of the custom burden
- Large share of the locally produced are less competitive compared to the imported footwear, from the factories that has a wide range of models, new technologies and large experience in manufacturing leather and non-leather goods.

713,000 pairs in 2014

Footwear production challenges in Kazakhstan:

- Despite the availability of the row animal skin in the country that is exported to other countries in large amounts, the processed leather for production is imported back from abroad, mainly China and Turkey, which increases the cost of goods.
- Skin processed in the country by local entities can not be used for consumer model shoes, it is a low quality leather used in manufacturing the specialized footwear.
- Deficit of the qualified specialists ready to be working in the relatively low paying industry. The textile and leather industry professions are not popular among younger generations.

4. MARKET CHARACTERISTICS.

4.1 DEMAND. FEATURES of DEMAND

The demand for the footwear in Kazakhstan is a reflection of the overall consumer market development stage with the growing and shaping consumer preferences and shopping habits in common. Within the past two decades, the demand for goods and services has changed and gained certain features, that were inevitable due to the rapidly forming markets, open borders and active international integration along with the entrance of number of world-known brands in clothing and footwear segments.

Main features and drivers of demand for footwear in Kazakhstan:

- **Fashion oriented nation.**

Main population of the country is more concerned about their appearance and attractiveness compared to the European and Western people. The roots of such attitude goes deeply into the history and traditional culture. The majority of the society spend more of their income and time to assemble number of different looks and images for work, leisure and activities. Usually, none of the groups of clothes mix with each other, they are strictly divided based on the purpose and environment. Thus,

- **Higher demand for fashionable goods.**

Demand for more modern type and fashionable shoes is higher than the demand for more comfortable and practical items. Worth to mention, that the difference between urban and rural areas of the country does not significantly affect the preferences.

- **Brand addiction.**

Growing brand awareness, that is usually associated with the modern looks and high quality, nevertheless the price and accessibility, has led to the forming of the brand dependency trend in the country. A purchase of the good of the well-known brand in any segment, whether it is mass or premium market is usually thought to be a better deal.

- **Spending nation.**

Kazakhstan society is going through the stage of spending a larger proportion of income rather than saving for future needs. Savings for the majority of population have relatively short-term experience, when the certain amount of money is saved for exact purchase whether it is an expensive outfit, branded foreign shoes, accessories, or home goods. Anywhere from 28% to 31% of monthly income is dedicated for non-food goods, including clothing, textile and leather goods, footwear and home goods.

- **Climate.**

Well-defined four seasons throughout the year, with a different set of weather and environment conditions force people to have at least one pair of appropriate shoes to every season (in ex. warm boots for winter, mid-weight shoes for autumn and spring, light sandals for summer).

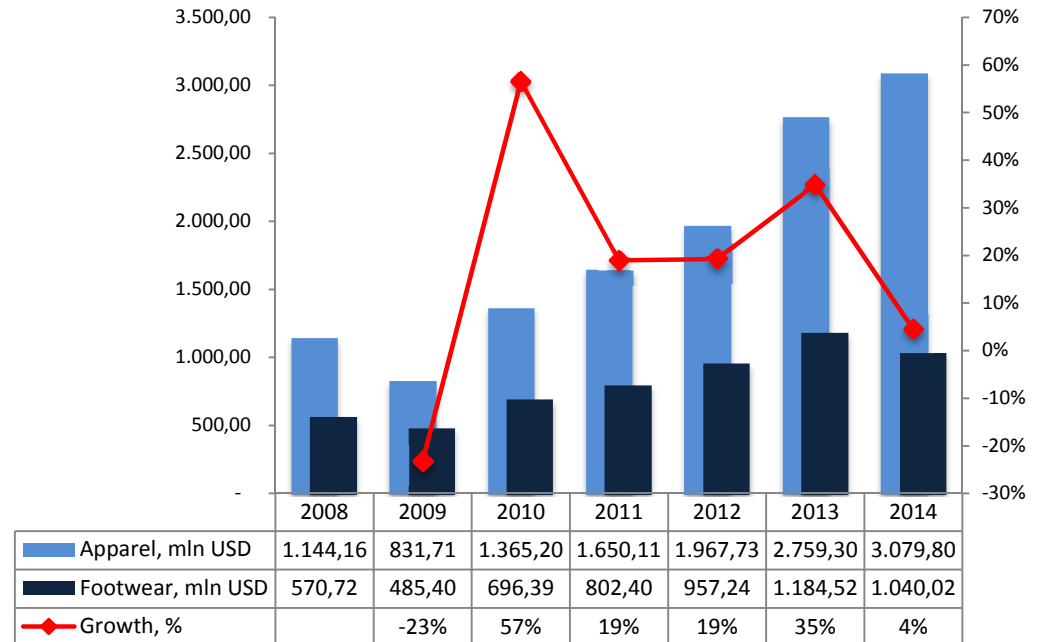
4.1 DEMAND. PERSPECTIVE on DEMANDS

The demand for footwear has been rapidly growing over the last 7 years, twice showing either negative or slowing rate due to the devaluation of national currency up to 30%. In the nominal ratios the expenditures for footwear has been raising steadily.

The peak of the demand growth rate falls to 2010 and 2013, when the exchange rate was more or less stable within two years in a row showing the most unbiased measurements, 57% and 35% respectively. Dramatically dropped in 2014, the demand growth rate reflects the currency rate again, taking into account the devaluated Tenge up to 27% from 148 KZT/USD to 188KZT/USD.

Despite the currency rate fluctuations, the demand for footwear in Kazakhstan remains significant, and accounts for 25.2% of the whole retail clothing and footwear turnover. Thus, quarter of the spent amount for appearance is dedicated to foot gear.

Footwear and apparel turnover



Source: Statistics dept. of Kazakhstan

The forecast for the demand growth, despite the decreasing value of the national currency and devaluation of people's income, is still expected to be positive, closely to 7-9 % limit. The net growth rate during the year of 2015 more possibly will show the negative growth rate due to the 65% currency value drop in August, as much as 26% in USD being a net growth of 30% in national Tenge. But this will more likely to recover within the first half of 2016 and go to the positive two digit value growth in 2017 with a condition of relatively stable exchange rate.

Certainly, in a case of devaluation of Tenge up to 350 KZT/USD from the current free float rate at 305 KZT/USD the demand nominally can be higher than expected because of the increase in the price per footwear items. But this purely arithmetic effect should not confuse the data, as the demand for footwear in pairs should remain the same with a slight surplus.

Overall demand for footwear on the market in 2015 is estimated at **6,117,764** pairs of all kinds of shoes both imported and produced in the country.

Expected demand for consumer footwear in 2016 is expected at the level **6,515,000** pairs, including 600,000 locally produced pieces.

4.1 DEMAND.

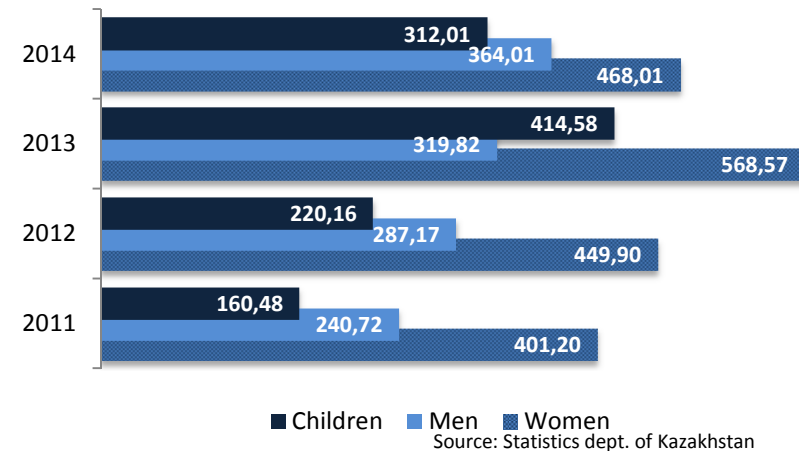
STATISTICS ON SALES per CATEGORY of PRODUCTS

The breakdown of the sales by category of the target group remains relatively stable from year to year, representing overall demand characteristics for footwear items in the country.

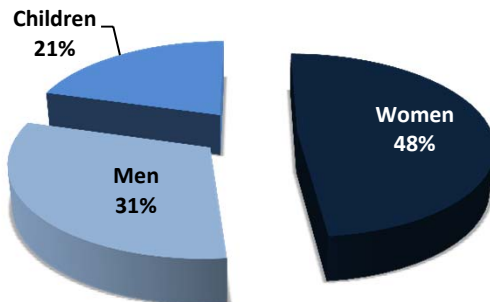
Women's high heels and fashionable shoes are obviously the leaders of the top popular footwear types on the market. Men's formal shoes take as much as half of the women's shoes' share, due to the lower number of shoes in the men's closets.

Among the groups of categories, children's shoes are less diversified and differs by seasonal features, however usually are the most frequent purchases on the footwear markets, as for fast growing kids there is a need to purchase pair of shoes every season as they grow out of the previous pair.

Sales by category, mln USD

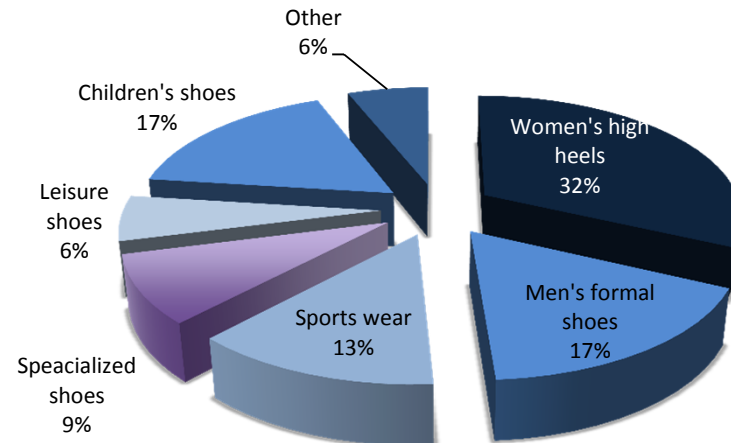


Footwear sales breakdown, 2011 – 2015



Source: Retail turnover analysis of main retailers

Footwear sales by category, 2014



Source: Retail turnover analysis of main retailers

4.1 DEMAND.

NUMBER of PAIRS of SHOES per PERSON

* Average numbers, the lowest being rural areas and the highest being urban cities as Almaty and Astana.

Category	Number of pairs of shoes in the closet		Frequency of purchase	
	Pairs	Comments	Once in a period of	Comments
Women				
Dress shoes for events (may be high heels or other)	1-2	At least 1 pair before 18 and after 65 years old	At least once a year	Usually bought for certain event and remains useful for long time
Winter shoes	1-2	Can be high-heeled or flat	Once a year	Renewed almost every year
Spring/Autumn shoes	1-2	Can be high-heeled or flat	Once every other year	Demi-seasonal shoes renewed less often, due to the relatively short period
Summer shoes	1-2	Can be strapped sandals and high heel shoes	Once a year	Renewed almost every year
Flat shoes	1	Used for every day in-house or non-fancy out events	Once a year	Renewed with the wear out of the existing pair
Sports shoes	1	Used for sports or outdoor special activities, rarely used for every day life	Once in several years	Renewed with the wear out of the existing pair
Men				
Dress shoes for events	1-2	More often can be one pair, other formal shoes can be used as a dress shoes	Once every other year	Usually bought for certain event and remains useful for long time
Winter shoes	1-2	Formal or casual	Once a year	Renewed almost every year
Spring/Autumn shoes	1	Formal or casual	Once every other year or two	Demi-seasonal shoes renewed less often, due to the relatively short period
Summer shoes	1-2	Can be sandals and formal	Once a year	Renewed almost every year
Sports shoes	1-2	Used for sports or outdoor special activities, can be used for every day life	Once in several years	Renewed with the wear out of the existing pair

4.2 MARKET ACCESS.

TARIFFS and NON-TARIFF BARRIERS, QUOTAS AND TRADE REGULATIONS

The access to the Kazakhstane market is considered to be fairly low-duty and non-problematic.

- There are no certain restrictions and quotas for the import of goods and services, unless they are included in the list of the prohibited items for entry, such as explosives, poisons and other harmful substances.
- The barriers for the entry to Kazakhstan are limited by customs tariff and tax duties.
- Other non-tariff barrier are very rare to occur, they are strictly tied up to the international economic and political activities of the country at the certain period of time.

Tariffs are regulated by the Code of the Republic of Kazakhstan dd 30.06.2010 №296 – IV “About the Customs Affairs in the Republic of Kazakhstan”.

Custom duties and taxes:	Cost, EUR
• Entrance or import duty;	For the footwear: 10% of the declared and proved cost of the imported goods, but not less then EUR 1.0 – EUR 1.8 per pair of shoes
• Export duty;	Calculated upon exit
• VAT, charged at the entrance to Kazakhstan once,	12%
• Excise duties (charged at the entrance to the Custom Union territory);	Applicable to the products made from the rare materials or alcohol, usually is not applicable to the footwear items
• Other customs collections:	
- customs declaration	EUR 60 for the main page, EUR 25 for additional pages
- customs support	From EUR 11 up to 50 km and EUR 878 up to 2,500 km
- customs preliminary approval	EUR 70

4.2 MARKET ACCESS. FOOTWEAR IMPORTS

The imported goods on the footwear market in Kazakhstan take up to **89%** share, taking into account the specialized production in the country.

The consumer footwear market for sale is imported at the level of **96%**.

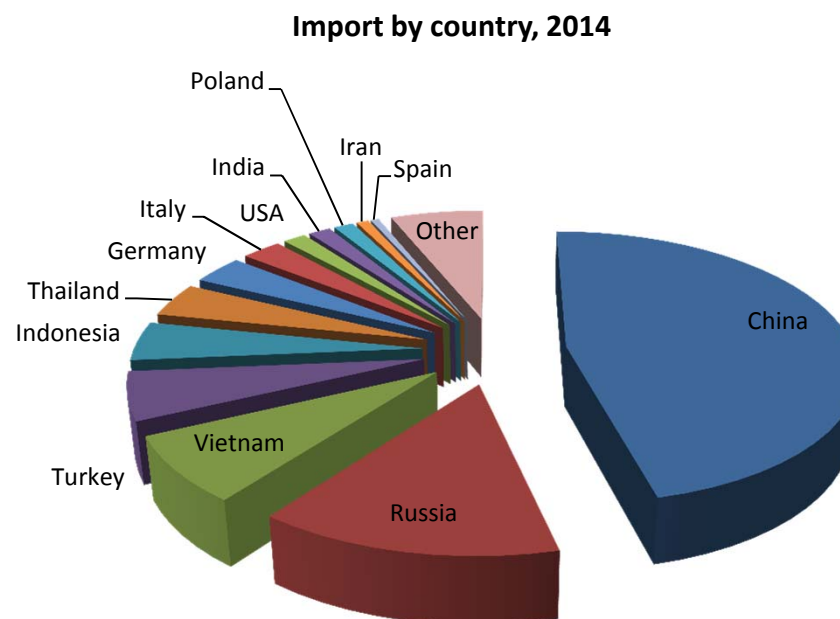
The official data estimates the share of the footwear items produced in **China** are the level of **46%**, which means that every second pair of shoes sold in the country is produced under the Chinese labels, or factories of the international brands located in the region.

The import from **Russian Federation** increased rapidly over the past few years and reached **14%** reflecting the highly advantageous market accessibility through the Eurasian Customs Union.

Should be noticed, that the official data does not include the black market transactions within the country as well as the unofficial import of goods. Thus, the black market is estimated as a 30-35% surplus, mainly from China and Russia, while illegal and individual hand delivery of good for merchandize purposes is fairly insignificant, but still can take up to 3-4% of the whole market and is mainly from Turkey, Thailand, Indonesia and India.

Country	Import share, %
China	46.00%
Russia	14.00%
Vietnam	7.64%
Turkey	5.60%
Indonesia	4.57%
Thailand	4.00%
Germany	3.40%
Italy	2.61%
USA	1.50%
India	1.45%
Poland	1.30%
Iran	0.80%
Spain	0.54%
Other	6.08%

Source: Customs data for the import of shoes

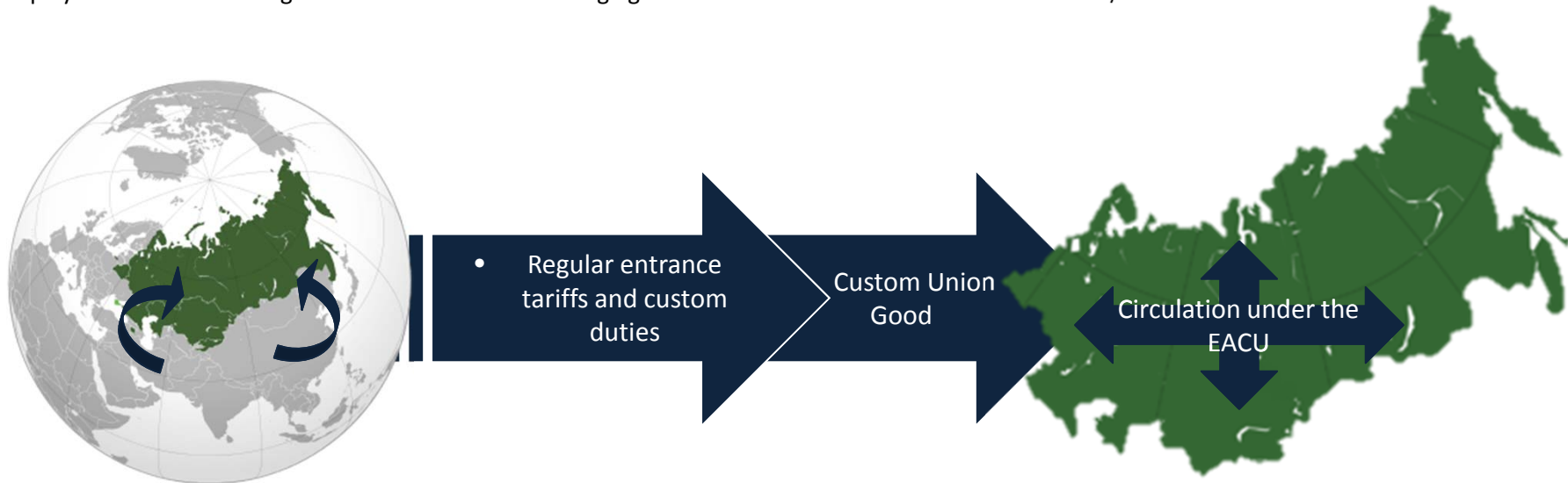


Source: Customs data for the import of shoes

4.2 MARKET ACCESS. EURASIAN CUSTOMS UNION

Eurasian Customs Union (EACU) is a customs union established on 1 of January 2010, includes Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, that are also members of the Commonwealth of Independent States, formed after the collapse of Soviet Union.

- The main idea of the EACU is to establish a tariff free zone for the mutual trade of the mentioned countries to create a Common Economic Zone.
- It also implies the Common Certification Regulations, when unified requirements are applicable in the countries of trade. Once the product is proved to be compliant with the Customs Union Technical Regulations, it is granted to have an access to the market of the countries – members of the Union.
- Non-tariff conditions apply for the goods produced in either of the country – member of the Union. Once the product is manufactured and met the required certification procedures, it is supposed to be a Custom Union Good, that can be exported and imported to either of the country-member of the Union.
- For any goods entering either of the countries – members of the Union from third party, the tariffs and custom duties, along with certification procedures are applied under the regular basis of the legislative platform. Passed through all of the requirements, the product is considered a Custom Union Good, which allows any further circulation within the Union market. Thus, any of the members of the CU, including Kazakhstan, can play a role of the starting hub for the entrance of foreign good and be farther distributed in the territory of the CU with no additional barriers.



4.3 PRICES.

CURRENT PRICING AND TRENDS

* Average numbers, the lowest being rural areas and the highest being urban cities as Almaty and Astana.

Category	Higher Quality/Upper segment		Mass market	
	Price, USD	Trends	Price, USD	Trends
Women				
Dress shoes for events (may be high heels or other)	120 - 220	<ul style="list-style-type: none"> Imported mostly from Italy, Germany, Spain, USA, Turkey Higher quality goods, fashionable Not of the international premium or luxury brands 	30 - 90	<ul style="list-style-type: none"> Imported mostly from China, Vietnam, Indonesia, Russia Partially non-official import More spontaneous trade on bazars and outdated shopping facilities
Winter shoes	270 - 420		45 - 260	
Spring/Autumn shoes	200 - 360		30 - 180	
Summer shoes	150 - 300		30 - 120	
Flat shoes	150 - 290		30 - 120	
Sports shoes	120 - 200		22 - 80	
Men				
Dress shoes for events	90 - 180	<ul style="list-style-type: none"> Imported mostly from Italy, Germany, Spain, USA, Turkey Higher quality goods, fashionable Not of the international premium or luxury brands 	28 - 80	<ul style="list-style-type: none"> Imported mostly from China, Vietnam, Indonesia, Russia Partially non-official import More spontaneous trade on bazars and outdated shopping facilities
Winter shoes	220 - 360		30 - 200	
Spring/Autumn shoes	180 - 360		30 - 160	
Summer shoes	120 - 300		28 - 80	
Sports shoes	140 - 280		30 - 90	
Children				
Winter shoes	110 - 300	<ul style="list-style-type: none"> Specially designed under the need of children using best materials and technics Better quality orthopedic 	50 - 100	<ul style="list-style-type: none"> Low quality material Mostly does not meet the orthopedic requirements
Spring/Autumn shoes	100 - 240		30 - 90	
Summer shoes	90 - 150		20 - 80	
Sports shoes	100 - 150		15 - 90	

Prices as of 3Q2015, EXR = 310 KZT/USD

4.3 PRICES.

PRICING TRENDS AND MINIMUM ADVERTISING PRICING

The price fluctuations on the market are based on the number of conditions:

- **Level of the demand for the goods.**

Since there is no price regulation for footwear in Kazakhstan, the final sale price is set individually by merchants based on the high demand or low interest for the certain items;

- **Currency rate.**

Since the market of footwear in Kazakhstan is highly dependent on the imported goods, the final price for the footwear items are directly linked to the value of dollar, based on the national currency. The price set in the store and sale points are strictly in Kazakh Tenge, while the cost of goods are all determined by US Dollar or Euro, depending on the country of origin. Thus, further lowering power of Tenge predicted for the first quarter of 2016 will push the prices up in proportion with the devaluation;

- **Point of Sale.**

The rent level in the modern facilities, such as large-scale malls and shopping centers, are much higher, that old-type facilities. Instead, modern shopping malls can offer a better experience for the customers and record high customer traffic for tenants, so the majority of merchants are keen to locate their stores within the most popular projects. Thus, the higher level of the comfort is offered to the client, the more of the expenses for it will be included to the final price of the good.

- **Season and new collections.**

The average life of the goods on the shelves is approximately 1 -2 month, depending on the traffic and converse rate. Up to 60% of the collection is sold at the regular price in the multi-brand leading stores in the country, the rest of the stock is sold under the sales anywhere from 10% - 20% price reduction.

The legislative basis for trade in Kazakhstan does not include any requirements on the advertising and marketing strategies.

The experience on the market show that the more successful merchants dedicate at least 4% of the turnover to advertising and marketing expenses. It is proved to be satisfying share to unfold the advertising and promotion campaigns to reach the target customers and support the interest to the brand.

4.4 TRANSPORTATION & LOGISTICS.

COMBINED TRANSPORTATION and LOGISTICS EXPORTING FROM EU TO KAZAKHSTAN

The location of Kazakhstan, being in the middle of Eurasian continent, has number of both advantages and disadvantages. Even though there are number of surface transport types, country has no access to the World water carriage lines, which limits the delivery options.

Main delivery ways to Kazakhstan:

- **Auto transport.**

Kazakhstan is well linked to the main European and Asian highways and federal roads. The external access of loads to the country is fairly unhindered and easy.

- **Air carriage.**

The air transportation is also a commonly used delivery option. Kazakhstan has two international airports in the capital Astana in the Northern part of the country and Almaty – southern side of the republic.

- **Railway transport.**

The internal road system is well developed and linked by railways, that is proved to be one of the most convenient ways to delivery goods in terms of price, accessibility, security and delivery time.

- Country having a large territory and the specific area spread widely both from North to South and from West to East, makes it more complicated to establish the effective system of inner delivery among the stores in the main cities and regions.
- There are more than 80 companies in the country, besides the available Global Carriers such as DHL, UPS, FedEx and others, offering delivery services for large amounts both from Kazakhstan to the countries of EU and back.
- Up to **70%** of the imported goods are delivered to the country by auto vehicles.
- Up to **40%** of the internal country deliveries are done through railways and **50%** on the auto vehicles.

4.5 DISTRIBUTION CHANNELS. ROUTES TO MARKET

Once the imported goods have reached and passed the border of the country, they are relocated among the logistic hubs or directly for the further transportation to the sale points. The logistics schemes within the country depends on the merchant type and the nature of trade.

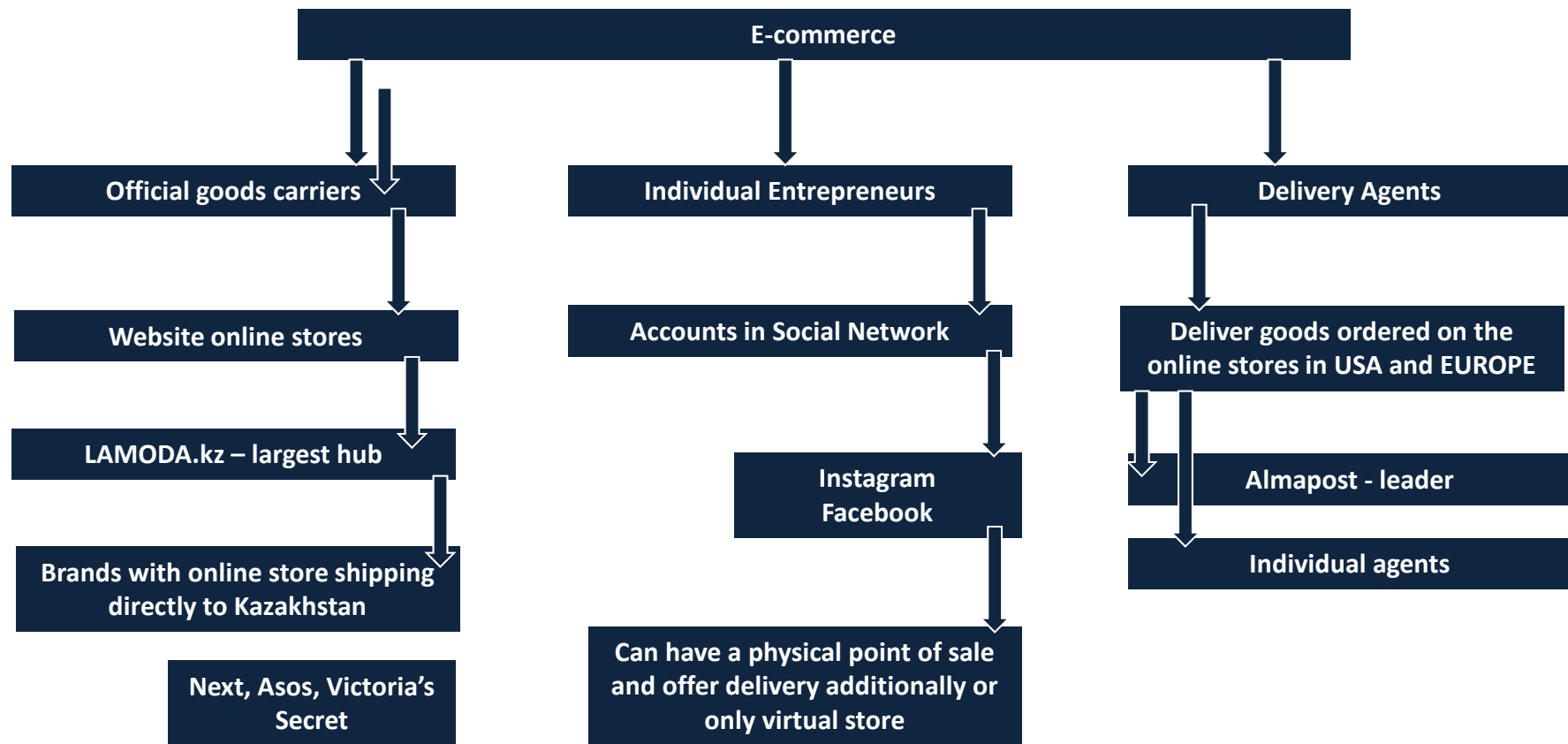


4.5 DISTRIBUTION CHANNELS.

STATISTICS on ON-LINE SALES and EXISTING E-PLATFORMS

Online commerce is a rapidly growing direction of retail trade, gaining popularity among the younger and middle aged population. The official statistics institutes do not keep the track of the e-transactions in the country, because of the lack of the valuation experience and unimplemented technics. However, partially, the online retail turnover can be estimated roughly based on the data of the main e-carriers of goods.

The total turnover of the online trade on the footwear market is estimated at USD 112 mln in 2014, with a tremendous potential growth rate up to 30% annually.



4.6 PRODUCT CHARACTERISTICS. QUALITY REQUIREMENTS

First legal base for the certification was issued in 1995 under the Law of the Republic of Kazakhstan “On the Standardization and Certification”. In 1999 the Law was renewed and developed to the Law “On Certification”. At the present time, the certification of the goods and services is administrated by the Law “On technical regulation” developed in 2004 and completed with the appropriate list of goods and services obligated for the certification in 2005.

Today the regulations for quality standards set the legal base of the state technical regulations addressed to secure goods, services and processes in the Republic of Kazakhstan.

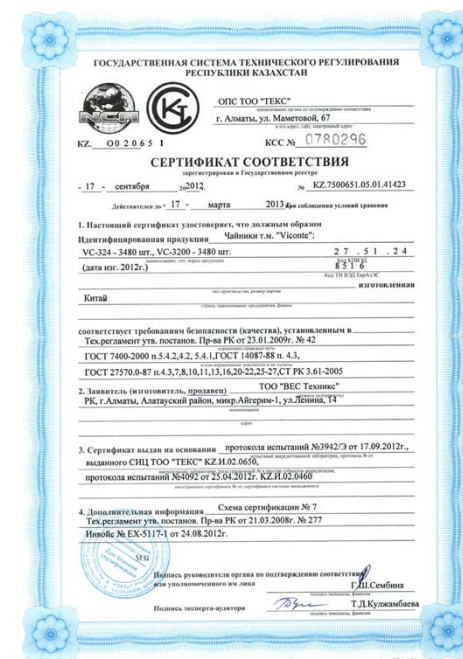
GOST – is a system of standards conducted in Kazakhstan. This system is an analogue for the Russian Standardization System.

The confirmation and standards approval is performed in the frame of the mandatory and optional certification or declaration of goods and services.

Footwear and leather accessories, are included in the list of *mandatory certification* along with most of the retail goods in apparel, jewelry, electronics, furniture and more.

The quality certificate has to include:

- Title of the good (service),
- Country of origin,
- Information on the producer,
- The GOST standard number and article for the good,
- Title of the merchant,
- Details of the commission of testing and the document issued for the testing result,
- Date and place of issuance, stamp and signatures,
- Standard mark and official letterhead.



4.6 PRODUCT CHARACTERISTICS.

QUALITY REQUIREMENTS and CERTIFICATES REQUIRED FOR IMPORTED PRODUCTS

The quality requirements of Kazakhstan are regulated based on the two documents – list of goods and services that are obligated to go through the certification.

- “National catalogue of the goods and services subject to mandatory certification №367” dd 20.04.2005 (<http://www.adilet.gov.kz/>) – eligible on the territory of Kazakhstan
- “Unified catalogue of the goods and services subject to mandatory valuation and certification with the issue of the unified certificate of quality of Customs Union” decision of the EACU Commission №620 dd 7.04.2011 (<http://www.adilet.gov.kz/>)
- Additional document is implemented for children’s goods: “About the quality and security requirements for the goods designed for children and adolescents” finalized on July 1, 2012.
- All of the catalogues are subject to changes and additions based on the experience of the import and export of the countries within the CU.

Certification still remains an issue for the footwear market in Kazakhstan. Based on the Quality Control Institutions, **more than half** of the merchants do not have Certificates of Quality, or have outdated documents, that are not renewed from one arrival of goods to another.

More exact estimations show, that within the number of complaints for the quality of shoes brought to the Quality Monitoring Committee, more than 90% of the merchants do not have appropriate documents for the quality control.

The required Certificate of Quality for trade in Kazakhstan can be issued either to the certain period of time, or certain load of goods, going through the Customs at one time.

Main reasons for the wide quality control deviation:

- Failure to meet the quality requirements,
- The cost of certification of goods can reach as much as **2%** of the cost of goods,
- Fairly time consuming process of the certification due to the high level of bureaucracy in the state institutions.

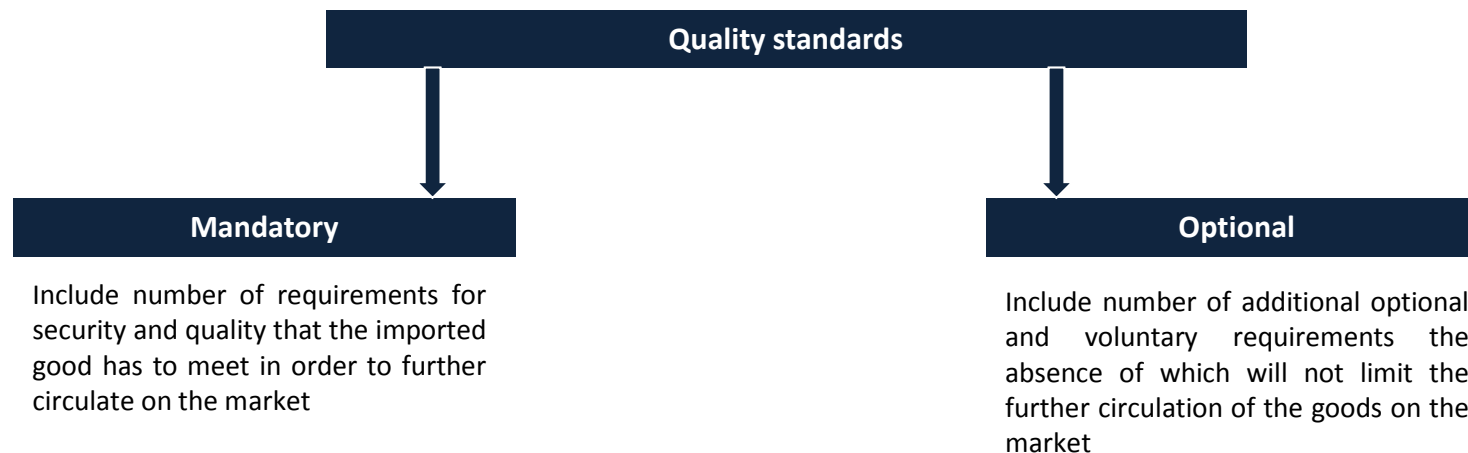
Number of legal companies are available on the market, offering agent services for certification and registration of goods in the price range from USD 2,000 up to \$9,000 depending on the range of the certified goods, diversity, completion of the pack of the documents, and any of the additional circumstances that may occur.

4.6 PRODUCT CHARACTERISTICS.

EXISTING STANDARDS and COMPARISON with EU STANDARDS

The intentions of Kazakhstan to enter the World Trade Organization led to the comprehensive and detailed preparation of the legislative platform besides all, to the quality standards and regulations.

As a result of the application sent in 1996, the WTO is ready to accept Kazakhstan on the 10th WTO Conference in Kenya, in December 2015. The main product of such event is certainly considered to be a Law for Regulation of Technical Requirements, that was fully brought to the high level of European Regulations Standards.



Thus, with the 19 years of the way to WTO, Kazakhstan has developed the standards that are fully correspondent with the World and European standards in particular.

Today, this advantage allows Kazakhstan not only export an import goods and services abroad, but also act as a transit hub for goods from EU further to Asian countries.

4.7 PACKAGING AND LABELING. STANDARDS AND REQUIREMENTS

Packaging and labeling standards and requirements are set by the Resolution of the Government of the Republic of Kazakhstan dd 21.03.2008 №277 under the statement on technical regulation “The requirements for packaging, stamping, labeling and their appropriate writing”.

Among the number of requirements listed in the statement, main and prior are:

- The information on the goods are provided either by the manufacturer of the good, or the merchant in the point of sale;
- Labeling should be done in two languages: Kazakh and Russian;
- Should contain information on the manufacturer, materials used for the production;
- Labeling has to be done either directly on the good, or the package (shoe box or bag);
- Should contain the information on the standards of production and marked appropriately (whether it is local GOST standards, or European or other). The copy of such certificate should be presented to the buyer upon request;
- Detailed information of the manufacturer or the licensed representative in Kazakhstan, such as address, phone number and web-site should be given on the label. Such information should be applicable in case of any complaints of the buyer.

Requirements for packaging include:

- The material of packaging should be in a minimum weight and volume, not more than enough to provided secured and hygienic transportation, as well as loading and reloading of goods.
- The packaging should be produced from the decaying organic materials, if the material can not be recycled.

4.8 COMMERCIAL PRACTICES.

ORDERING PROCEDURES, PAYMENT METHODS, CONTRACTUAL AGREEMENTS

Category	Ordering procedures	Payment Methods
Brand stores (direct presence on the market or operated by the franchisee)	Direct orders and established logistics	Can be both prepaid orders or consignment contracts with the post-payment from one to three months after the delivery of goods
Wholesalers	Online purchase from the country of origin or country of distribution	Can be both prepaid orders or consignment contracts with the post-payment from one to three months after the delivery of goods divided by two or more tranches
	Self purchase (wholesaler travels to country of origin and load the goods on place for the further delivery to Kazakhstan)	Usually fully prepaid orders
Individual Entrepreneurs	Online purchase from the country of origin or country of distribution	Usually full prepaid orders due to the high frequency of orders and smaller amounts compared to the wholesalers
	Self purchase (wholesaler travels to country of origin and load the goods on place for the further delivery to Kazakhstan)	Usually fully prepaid orders
	Purchase from wholesalers in Kazakhstan	Can be both prepaid or consignment orders. Some can start the business relations with a wholesaler from the prepaid orders, eventually leading to the more trustful relations of consignment contracts

4.8 COMMERCIAL PRACTICES. COUNTERFEITING AND PROTECTION OF IPR

Counterfeiting and protection of Intellectual Property Rights are fully administrated by the Law of the Republic of Kazakhstan “On the Intellectual Property and Associated Rights”.

The law determines number of acts, that can be valued as a breaking the law and violation of the authors rights, along with the pains and penalties, such as:

- The acknowledgement of copyright,
- Reconstruction of the previous states – in case of the shoe design or idea rights violation – withdrawal of the goods,
- Refunding of the proved indirect losses and damages,
- Withdrawal of the income accumulated from the sale of counterfeited goods.

Even though the law is well defined and proves to be an effective tool, the number of cases are low and limited mainly by the local producers of goods and services, while the wide spread trade of the luxury brands copies remain unpunished. The claims for the Intellectual Property Rights from the World Brands do not take place in Kazakhstan yet.

- Counterfeiting is mainly brought to the country from China, labeled as usual nominal goods with no brand name.
- Mostly counterfeits are spread on the accessories and bag markets. Footwear markets suffers from the illegal copies less, however the share of the counterfeited goods still remains significant.
- By the estimations of the state authorities up to **22%** of the imported shoes are counterfeited.

The government of Kazakhstan actively strive against the import of goods violating the author rights of the international brands, however, the priority sectors remain pharmacy, food products and chemicals, which illegal production and consumption harm more than other goods or services.

4.9 MARKET PROSPECTS FORECAST

The Kazakhstan footwear market is a submarket of the apparel and fashion retail, increasing along with the growth of the retail turnover in this field.

Main drivers of the growth:

- Growing and shaping consumer preferences towards fashion and stylish looks,
- European direction of the appearance and style development,
- Maturing habit of having a wide range and variety of choice on the market,
- Growing attractiveness of Kazakhstan for international retailers,
- Increasing number of brands entering the market.

The forecast for the market can be characterized by the following:

- The period of fluctuations of the currency exchange rate and decreasing value of Tenge, does not allow any of certain forecasts. However, the footwear market, in the condition of further devaluation of national currency is predicted to demonstrate at least 9-11% negative growth rate in 2016.
- First positive signs of the demand growth rate recovery is expected in the period of 6-9 month after the exchange rate is set to a certain level. Thus, 4-5% positive growth rate of the footwear market is expected by the end of 2016 towards the 2017-2018.
- Taking into consideration these conditions, the share of the mass market producers is expected to grow and invade the majority of market at the time of crisis.
- Previous periods of economic recessions in the country demonstrate the growth of the black market transaction and increase of the unofficial and illegal trade, which is also expected to boost in the next few years.
- The economic downturn, however, offers opportunities to those market existing or newly coming players, ready to supply items better fitting in the concept of 'decent price=decent quality". Affordable good quality shoes will be the most demanded on the footwear market in the next few years.

4.10 TRADE and SALES PROMOTION

The retail market in Kazakhstan is rapidly increasing sector of economy, quickly picking up new options and abilities of the media and advertising tools. Today, marketing and promotion operate most modern tools to reach customers and motivate for purchase.

Best practices of the sales promotion and marketing activities include:

Outdoor advertising	<ul style="list-style-type: none"> • Effective for the launch of brand, new market entry to introduce new title and form the association with a label and logotype • Effective for the introduction of the new product of the existing brand • Forms brand awareness and brings indirect benefit to sales
Social network promotion	<ul style="list-style-type: none"> • Facebook and Twitter mainly used for the brand promotion, rather than certain item • Instagram is an effective tool for actual sale of certain items along with the brand promotion
Public promotion in media	<ul style="list-style-type: none"> • Publics in the main magazine and other publications depending on the target group of customers • Forms reputation and brand profile
Trade festivals	<ul style="list-style-type: none"> • Widely spread “Nights of Sales”, when the store announce up to 70% sale for all items for customers at the set date/night • Effective for the “shelve cleanups” prior to new collection • Short – term direct tool to increase sales
Coupons and Special offers	<ul style="list-style-type: none"> • Effective for direct sales increase • Offers allow to introduce the product to the new group of customers • Tool to attract risk-averse customers, willing to try the purchase of new brand only in the condition of the favorable deal

4.11 ISSUES of INTELLECTUAL PROPERTY COPYRIGHT PROCEDURES

The copyright procedures in Kazakhstan are regulated by the Law “On license” for the goods and the National Institute of the Intellectual Property of Kazakhstan.

The procedure of the brand or trade mark registration is a fairly easy and feasible process, requiring only accurate and appropriate steps to follow:

- Application is submitted to the Committee of the Intellectual Property with the list of goods or services being registered for the label.
- The tariff paid for application in accordance with the standards – USD 80
- The tariff paid for the expertise – USD 200
- The additional payment for the procedures acceleration – USD 155
- Once the expertise has passed on the subject of the usage of the label and prove of the legal rights, the license is given for 10 years with an option of further prolongation
- The whole process of the new trading mark can take from 2 to 12 months.



5. IMPLICATIONS for EXPORTERS

FOCUS AREAS, IMPLICATIONS FOR THE BUSINESS and OPERATIONAL MODELS

The retail in Kazakhstan is a market of growing potential and opportunities. The main reasons of the country attractiveness for exporters:

- The footwear market of Kazakhstan is highly dependent on the import of goods.
- There are no significant barriers for the import of goods to Kazakhstan.
- Country operates a high quality commercial real estate fund ready to offer best development projects for new brands.

Best operational models for exporters ready to enter Kazakhstane market:

- **Direct entry to the market**
Foreign brand owner enters the market by own investments to the stores. Highest risk model. For the effective operation local specialists should be either hired in-house or external consultants. It eliminates the risk of the new market mistakes, such as limited knowledge of the local culture, preferences and habits.
- **Franchise scheme**
Entry to the market based on the franchise agreements. At this stage of development, there is a large number of potential operators ready to invest into the retail business, also with experience in the associated fields. Low risk for the brand owner. A supervision for the local operator is essential along with the strictly developed operational and administrative framework of the master franchisor.
- **Multi-brand carriers**
Low risk option of the market entry trough existing networks of multi-brand stores in the country. Contact can be both consignment or fully prepaid orders. Might also be a model for the beginning of operating in the country with a further mono-brand business, however slowly increasing brand awareness due to the lack of direct brand promotion on the market.

The economic recession in the region should also drive the focus of the potential market player for more detailed and rationalized choice of the product. Since the existing market is diversified and familiar with all of the niches of the footwear lines, the category of goods should be chosen based on the preferences and spending capacity of the main population.

5. IMPLICATIONS for EXPORTERS PUBLIC PROCUREMENT

The public procurement takes up to 78% of the local production, offering standard medium quality goods for state institutions.

The main drivers for the public contacts are:

- Quality of the goods,
- Competitive pricing,
- Support for the local producers, which can be downgraded in the decision making process if the first two conditions significantly prevail over the pears.

The tenders for the public procurement is an open format procedures, with no limitations subject to the country of origin of goods and services. As long as any of the tenderers can offer better deals with economic benefit for the organizer of the tender, the chances for the successful results are high.

The government of Kazakhstan has successfully launched an on-line hub for the tenderers and tender organizers, where both parties search better deals. The information and the access for the tenders is free and available to any company registered on the territory of Kazakhstan.

6. CONCLUSIONS

The study of the footwear market of Kazakhstan show number of basic ideas and conclusions:

- Footwear market in terms of demand and sales is rapidly increasing with a further potential for growth.
- Target group of the footwear market include economically active population which accounts at 51% of the total population. Basically considered as the part of the population capable to pay for the goods. However, need to consider the younger population with no income, but with the demand for footwear, that add up about 22% of the population to the target group of 12.8 mln of inhabitants.
- Growing retail turnover and market capacity are capable to welcome new traders in the country.
- The market is fairly diversified in terms of choice of different categories of shoes and brands.
- Footwear market of the country is almost entirely formed by imported goods, mainly from China and Russia.
- The regulations for quality standards in Kazakhstan are close to the European level, which can lighten the mutual trade.
- The local market creates a business-friendly environment for the new brands, due to the relatively low tax and tariff burden and easy access to the country.

The success of the new market players depend on the throughout strategy and accurate choice of the category of goods. The main population of the country is easily motivated to try out any new directions in fashion and style, giving an opportunity for merchants to widen the assortment of goods and experiment on the people's taste and preferences.

Despite the upcoming economic downturn in the next 6 to 12 months, the overall forecast for the spending and consumption remains positive, due to the cultural features of the main population, which is more keen to spend rather than save their income. Appearance and style remains priority to the majority of population nevertheless possible income drop, trying to adopt for the less known brands and lower prices, with no harm to the fashion preferences.

A. USEFULL ADRESSES

Link	Description
http://stat.gov.kz/	Kazakhstan National Statistics Center
http://www.keden.kz/	Customs Information Portal
http://egov.kz/	State Legislative Portal
http://www.eurasiancommission.org/	Eurasian Customs Commission
http://zakupki.kz/	Tender Hub of Kazakhstan
http://www.damu.kz/	National Welfare Fund
http://www.adilet.gov.kz/	Ministry of Justice of Kazakhstan

Additional Information was gained during the interviews with

- The retailers on the Market of Kazakhstan
- Retail experts
- Developers of Shopping and Entertainment Centers
- Individual Entrepreneurs on the footwear market

B. ADDITIONAL INFORMATION

Main retailers list

Retailer	Address, main contacts
AB Retail Kazakhstan LLP	Zholdasbekova 111, Almaty, Kazakhstan, (702) 763-80-90, www.kz.antoniobiaggi.com
Adis & K LLP	Al-Farabi Ave., 19, (727)311-3-54 , www.kimex-grazie.kz
Ait Shoes LLP	Keremet mkr, 22, Almaty, (727) 315-09-79, +7(727) 292-02-35, www.aitshoes.kz
Akko Company	Panfilov St, 20, Almaty, Kazakhstan, akkokz@online.ru
Aray LLP	Zhibek Zholy Str., 1, Shymkent, (7252) 55-41-67
Belfast LLP	Rozybakiev Str., 263, Almaty, +7 (777) 276-02-02, www.kz.baldishoes.com
Chester LLP	Zhibek Zholy Ave., 104, (727)234-76-52
ECCO – ROS Kazakhstan LLP	Zhandosov Str., 200B, Almaty (727) 349-44-99, www.ecco.kz
Fashion Retail Kazakhstan LLP	Rozybakive Str., 247, Almaty, www.fawazalhokair.com
Fortuna brands LLP	Rozyvakiev Str., 263, Almaty
G&G Glamour LLP	Dostyk Ave., 34a, Almaty, (727) 293-85-06
Innova trade LLP	Samal-2, 111, Almaty, (727) 222-15-88
Intertop LLP	Shevchenko Str., 90, Almaty, (727) 313-76-67, www.intertop.kz , info@intertop.kz
Leather Shoes LLP	Akan-Sery Str.,13-A, Almaty, (727)235-68-22
Lutshaya obuv LLP	Rozybakiev Str, 263, Almaty, www.mascotte.ru
Respect Kazakhstan LLP	Gogol Str., 74, (727) 273-00-58, www.respect-shoes.kz
TarazKozhObuv LLP	Sypatay Batyr Str., 2, Shymkent, (726) 243 8001, www.tko.kz , tko@tko.kz
Torre LLP	Dostyk Ave., 9, Astana, (7172) 791 007, www.torre.kz
Wholesaler	
Bender LLP	Aykosan Str., 6/170, Istanbul, (902)125172701, benderayakkabi@hotmail.com
GREXXON, S.L.	Pol.Ind. El Cabezo, Calle Siete 2-A Bajo, 03650, Pinoso, Alicante, +34965258399, www.sabbionishoes.com , info@sabbionishoes.com
Ledo - net LLP	Markov Str., 22/37, office 4, Almaty, (727) 390 14 61
Mida LLP	Olzha3/9, Almaty, (707)4936653
Nice One LLP	Furmanov Str., 262, Almaty, (727) 264-61-29
Shagoboom LLP	Beruta Str., 37, Shymkent, (705) 313-49-13, rds_bk@bk.ru
VB Fashion Trade	Bülöw Str., 56-57 10783, Berlin, +491784640339, vaxer76@mail.ru
ThaiSupra	242 Thonglor tower, 18 soi 55 sukhumvit Bangkok,(705)500-04-68, liga_100@mail.ru

All of the other importers in Kazakhstan are Individual Entrepreneurs or medium scale wholesalers

C. MAJOR TYPES OF POINTS OF SHOE SALES

Shopping and Entertainment Centers

Shopping and Entertainment Centers in Kazakhstan – are the most popular leisure destination for the main population. Being the most modern and upgraded types of commercial real estate, the Malls are gaining popularity both among the visitors and retailers. Today, more than 40 modern-type Shopping facilities are operated throughout the country, more than a half of those combined are located in Almaty and Astana.



MEGA is a network of Shopping and Entertainment Centers in Kazakhstan, Including malls in Almaty, Astana, Shymkent and Aktobe.



Shoes stores in the MEGA Malls



Shoes stores in the MEGA Malls

C. MAJOR TYPES OF POINTS OF SHOE SALES

Shopping and Entertainment Centers



Dostyk Plaza is a network of Shopping and Entertainment Centers in Kazakhstan, Including malls in Almaty and Shymkent.



Aport Shopping Mall in Almaty



The biggest mall in Kazakhstan Khan Shatyr, Astana

C. MAJOR TYPES OF POINTS OF SHOE SALES

Trading Houses

Trading house is a common type of commercial real estate for the merchandising purposes in Kazakhstan. Built mainly in the Soviet Union period or shortly after, those facilities can not offer a wide range of activities and anchors, such as Shopping Centers, however still remain popular among population due to the decent prices of the offered goods in the multi-brand stores and non-branded boutiques.



Adem Trading House in Almaty



Type of trade in Adem



Eurasia Trading House in Almaty



GUM Trading House Almaty

C. MAJOR TYPES OF POINTS OF SHOE SALES

Bazars

Bazar and open-air pavilions have historically traditional roots in Kazakh culture and trade. With the appearance of the better quality shopping facilities the popularity of the bazar has shrunk, but still takes up to half of the retail turnover in the country.



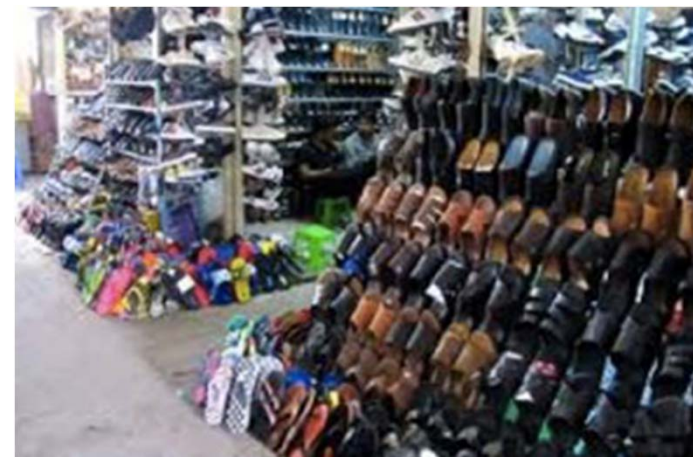
Barakholka, the most famous bazar in Almaty



Shoe boutique on Barakholka



Zeleniy Bazar in Almaty



Shoe sale on the bazar