

# AURALEE

Internationalising into emerging market; Moscow

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# CONTENTS

- Executive Summary
  - 1.** Brand Introduction
  - 2.** Reasons for internationalising
  - 3.** Why expand into Russia
  - 4.** Internal Analysis – Micro Factors
    - LE PEST CO
    - Market mapping – home market competitors
    - SWOT analysis
  - 5.** External Analysis – Macro Factors
    - LE PEST CO
  - 6.** Potential Threats / Barriers to entry
  - 7.** Opportunities
  - 8.** Entry method – Internationalisation Strategy
    - Place
    - Product/service
    - Price
  - 9.** Marketing & Measuring Success
    - Promotion
    - Marketing Metrics
  - 10.** Future Considerations
  - 11.** Conclusion
- References

## Executive summary:

This report provides an analysis into the Internationalisation of Japanese high fashion brand Auralee and their potential expansion into emerging market; Russia. Evaluating how beneficial expanding into the new market will be, thorough research into the push and pull factors for both the current and intended market will provide reasoning for Auralee's entrance strategy. As the Japanese economy begins to deteriorate, with real GDP in 2018 down 0.06% from the previous year (Euromonitor International, 2018), consumer trends throughout Japan become worrying for a brand like Auralee that specialises in luxury product.

A focus on the new location Russia, in particular the country's most prominent city; Moscow, will showcase the economies promising investments and future market growth opportunities, as their luxury fashion market continues to stabilise (The business of fashion, 2018) and economic development amongst urban areas accumulates (Cavusgil., S., N. Ghauri, P. and A. Akcal, A. 2013).

Potential threats and opportunities will be accessed, focusing on both micro and macro factors using LE PEST CO analysis and SWOT framework. Presenting possible risks and barriers to entry, to be able to establish strategic implementations. Reducing the probability and damage if an unfortunate circumstance occurs, inducing efficiency throughout the internationalisation process.

The internationalisation strategy will identify the key entry method into Russia. Providing detailed justification for choosing to operate as a concession store within one of Moscow's most prominent multi-store boutiques (The Business of Fashion, 2017). Whilst presenting the opportunities that the brand can acknowledge upon market entry. With the main focus of their expansion to increase their global recognition and establish brand loyalty within their new consumer market. To be able to confidently and successfully accomplish future considerations, such as further growth across Russia's regions. As well as increasing their accountability within their home and other foreign markets through affiliation with global success and attained appreciation for their quality design and manufacturing.

## 1. Brand Introduction:

Founded in 2015 by Japanese designer Ryota Iwai, AURALEE produces both menswear and womenswear, focusing around the concept of exhibiting contemporary cuts with unrivalled materials. With current production entirely based within Japan, original textiles are painstakingly developed in-house. The label has thrived within their home market; Tokyo, with the presence of their flagship store.

Along with current expansions into small concessions within European markets, UK and France as well as both Canada and Korea (AURALEE, n.d).

Marketing high end prices ranging between ¥ 32,464 – ¥ 106,597. Auralee maintains an undeniable Japanese sensibility in construction “utilizing the personality of the material, reflecting the mood of the times, we propose fine and refined clothes” (Neighborhood, 2017), their ethos of designing from scratch every season gives the collections an inherent quality that is unique to AURALEE.

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## 2. Reasons to internationalise:

Auralee has established a relatively strong presence within their local market; Tokyo. With investment into opening their first flagship store, within just a few years of launching the brand. With no further expansions across Japan, the only main source of local income originates solely through consumer expenditure in-store. With no current online presence either, Auralee is heavily reliant on the few international stockists they have, using their online distribution channels and overall management to reach foreign markets. Depriving the brand of potential gains in global recognition as an authentic and independent retailer.

As the brand prioritises driving in-store purchases, they are unable to recognise the potential growth an online presence could generate, with young adults across Japan becoming less reluctant to buying luxury products online. A 2018 survey by Criteo, revealed 69% of fashion, in particular luxury purchases were carried out online via mobile phones (Euromonitor, 2019). A consumer trend that could be detrimental to a luxury retailer so reliant on in-store revenue.

That being said, taking into consideration the risks of initiating multichannel operations with only limited recognition within overseas markets, the proposed internationalisation of Auralee into an emerging economy like Russia, seems ideal. Advancing their consumer reach beforehand will give the brand the confidence to effectively achieve longer-term goals that could motion their independent online presence and distribution channels.

A Contributing factor for Auralee's expansion into a new market is Japan's slowing economy, an external risk that would be heightened for the brand if to remain un-dividedly in one market. With GDP growth forecasts at 1.1% in 2018 and at 1.0% for 2019 (Euromonitor international, 2018), the economy has significantly weakened from its 2017 state. With Japan's economy also predicted to start feeling the effects of the ongoing China-US trade war (Euromonitor international, 2018), consumer spending throughout the country has become stagnant (Euromonitor 2019).

Japan's youth in particular becoming much more frugal with their money, through uncertainty in employment and relatively low wages depriving them of purchasing power, they prefer to save rather than spend (euromonitor 2019).

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### 3. Reasons to internationalise into Russia

Russia as an emerging economy presents itself as a market yet to be exploited. With real GDP continued to accelerate in 2018, showcasing 1.9% year-on-year growth, the economy is prosperously recovering from their previous two-year recession. With economic development concentrated in the larger urban areas (Cavusgil., S., N. Ghauri, P. and A. Akcal, A. 2013). Moscow, Russia's largest city and capital has seen great development in structure. With adequate investment into the cities infrastructure Russia has been able to manufacture truly global supply chains (En.investmoscow.ru, 2018), as the country benefits from its shared border with 16 other countries.

Since the collapse of the Soviet Union Russia has struggled to generate globally recognisable fashion brands or even commercially viable trends (forbes.com, 2018).

However, contemporary Moscow, like any urban capital, has become a site of constant aesthetic discovery, with a particular focus on expanding their fashion growth as of recent. According to Oban International, fashion revenue is predicted to reach £3.9bn, with a growth rate of 9.2% each year to eventually equate to £5.5bn by 2022 (Drapers Guides,2018).

Through the implementation of the National Technology Initiative (NTI) set by Russian president; Vladimir Putin, focused development for design and creative teams has become a high priority. As Russia emerged with its FashionNet project, launched throughout Moscow Fashion week in 2017. The initiative has produced a creative market place, to platform local design, as Russia attempt to relaunch its fashion economy (forbes.com, 2018).

However, notwithstanding the fact that Russia is still heavily reliant on foreign exports entering their retail markets, as 60% - 80% of their current fashion sector is imported (drapers 2018). Identifying this consumer demand for new entrants as necessary, Russia showcases its potential to be a promising investment for Auralee.

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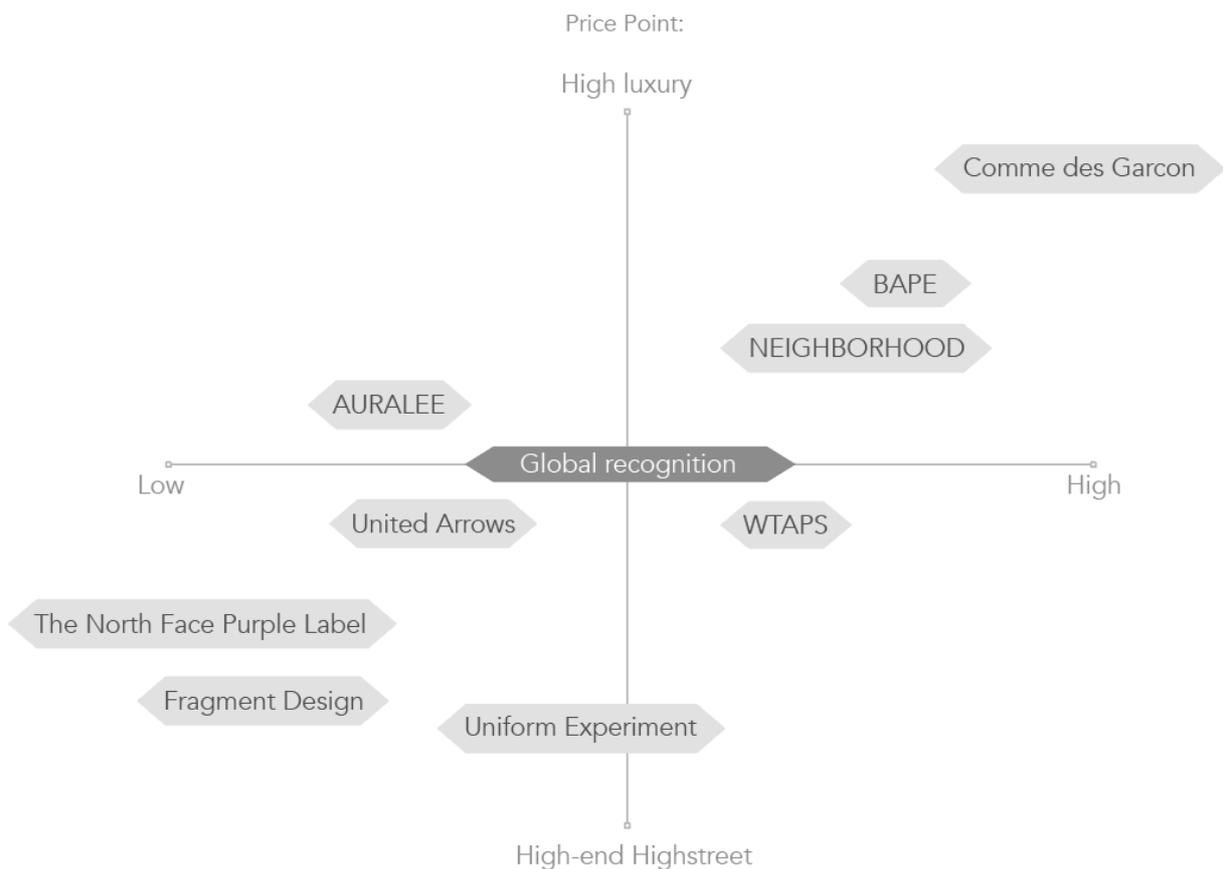
#### **4. Internal Analysis – Micro factors:**

In keeping with Auralee's design ethos, a heavy focus is put on research and development of raw materials and textiles that are obtained from specialized sources globally (Stanley, J. 2017). With designer Iwai personally selecting materials for upcoming collections from a variety of suppliers. Travelling to the likes of Mongolia to be able to source raw cashmere and wool is prioritised, with past trips taken to Australia and New Zealand for similar reasons (coverchord.com, n.d).

Although, committed to his method of delivering highly crafted, unique textiles for each collection, the efficiency of the manufacturing process is questionable. Iwai admitting in an interview with Coverchord to the process as "not very efficient...taking up a lot of time and money" (coverchord.com, n.d). Having such reliance on discovering new suppliers each season presents the company with many potential risks. To possibly halt production could be costly to a brand solely operating in-house where turnaround may not be as efficient, along with being deprived from negotiating power by purchasing from new relations that offer such specialized materials.

Having enamoured a dedicated following within their home market, Auralee has established a reputation for contemporary fusion of westernised aesthetic with Japanese design. Producing original textiles gives their brand a USP that differentiates their product from its direct competitors. However, Tokyo offering a fascinating and unique fashion environment, homes internationally recognised brands such as; Neighbourhood, BAPE and WTAPS (Highsnobeity, 2015). As they individually strive for constant innovation, high fashion throughout Japan has become a highly creative and competitive space to operate an emerging brand.

### Home Market Competitors:



During the expansion into Russia, Auralee may experience hyper-competition, not only from their familiar home market competitors, but facing disruption by globalised western brands that through flexibility and fast operations can establish themselves within the new market much faster (Hall, 2010).

Russian consumers continue to admire western product, in particular well recognized American brands taking a high interest (Cavusgil., S., N. Ghauri, P. and A. Akcal, A. 2013). As an emerging brand Auralee will have to focus on gaining consumer loyalty, with only 15% of Russians speaking a second language, they typically engage with culturally targeted product or marketing (Drapers Guides, 2018). A strategic implementation of localised marketing will prioritise their new audience. Delivering a level of engagement their competitors are yet to produce, as many established luxury brands entering Russia don't find it necessary to fully adapt to the diverse linguistics (wgsn, 2016).

### Summarised SWOT analysis:

S	<p>-Auralee has a refined USP, offering unique investment pieces that cater to the Russian luxury consumer.</p> <p>" [Russian] consumers are very demanding in terms of design, and always seek great quality" (Drapers Guides, 2018)</p>
W	<p>- A contributing weakness is the brands efficiency in sourcing its raw materials.</p> <p>- Dependency on new supplier relations presenting a possible risk, with a lack of negotiation power. No benefits from economies of scale.</p> <p>- As they begin to increase sales, production solely operating in house could prove un-proficient.</p>
O	<p>-There is current demand for foreign fashion imports within Russia, as their fashion economy continues to stabilise (Drapers Guides, 2018).</p> <p>-Adapting to localised marketing will differentiate Auralee from their competitors, as they engage with new market consumers effectively.</p> <p>- Initiating brand loyalty.</p>
T	<p>-Auralee face creative saturation within their home market, with innovation prevailing throughout Japanese design.</p> <p>-Emerging market Russia becoming more attractive to competitors also attaining global recognition.</p> <p>-As well as operating amongst established western brands that are currently thriving within Russia.</p>

## 5. External Analysis – Macro factors

### Legal:

The Russian federal law on foreign investment is increasing its protectionist measures (Cavusgil., S., N. Ghauri, P. and A. Akcal, A. 2013). to ensure stability and legal protection for businesses entering the state. Presenting advantages that include protection against property seizure, negative changes in tax and customs legislation during payback period of an investment project and ensuring the right to an unimpeded transfer of any monetary sums including profits and income for their investments.

In the circumstance of the brand choosing to further expand across Russia, significant divergences and contradictions within legal practices in differing regions will have to be identified and adopted (Gov.uk, 2018).

### Environmental:

Russia is a leading producer and exporter of minerals and fuels (Cavusgil., S., N. Ghauri, P. and A. Akcal, A. 2013). Dependent on resource-based industries, exports of mineral fuels, oils and distillation products made up 40.1% of total goods traded overseas in 2017 (Euromonitor, 2018).

Although agriculture exports are rising, Energy exports are in decline, as Western European markets attempt to reduce hydrocarbon energy significantly beginning to affect Russia's export revenue (Euromonitor, 2018).

The country continues to be among the world's largest polluters in terms of carbon dioxide (CO<sub>2</sub>). Although with current emission levels stabilized, to expect a future increase in levels is probable with Russia's unclear climate change policy remaining (Euromonitor, 2018).

### Political:

Political uncertainty is driven by the personality of Russia's dominant political figure; Vladimir Putin. Much of the Russian system remaining highly centralised, with emphasis on driving fierce nationalism and relaying its hostility towards the west BBC News. (2018).

Concluding from their suspension from the G8 in 2014 (The Independent 2017), Relations between Russia and the west have deteriorated due to corruption and government

interference, most recently revolving Moscow's alleged involvement with the attempted poisoning of a London ex-spy. With tensions heightened in November 2018 by the seizure of three Ukrainian warships in the Black Sea (Euromonitor, 2018). Assuming volatility will continue into 2019, these growing tensions could adversely affect the business environment.

### Economy:

Recovering from a two-year recession, real GDP elevated 1.5% in 2017, with an expected growth of 1.7% forecasted for 2018 (Euromonitor, 2018). Sustained by an effective policy response and higher oil prices. Foreign trade will also benefit the economy, as exports rose to 25.5% of GDP in 2017, with a similar percentage growth predicted for 2018 (Euromonitor, 2018).

Russia's residency of 144 million (Statista, 2019), although being the smallest population amongst the BRIC economies is the wealthiest in per capita terms by a considerable margin (Gov.uk 2018 & Cavusgil., S., N. Ghauri, P. and A. Akcal, A. 2013).

However, in 2016, public debt accounted to RUB16,056 billion, equivalent to 17.4% of their GDP. In 2017 with general public services absorbing the largest share of government expenditure at 40.5%, their budget deficit narrowed to 1.5% that year, with a deficit equal to 0.1% of GDP accounted for 2018 (Euromonitor, 2018).

### Social:

An increasing problem within Russia currently is the high and growing rate of young adults emigrating, with as many as 31% of 18-24 year olds indicating a strong desire to live in another country, according to a WCIOM survey of 2018. Slowly initiating a stunt in the population growth rate, the increase of emigration amongst Russia's youth is also depriving the country of adapting to new values from their more liberal views, that match similar to that of their counterparts in western countries (European social survey, Euromonitor, 2018), As 40% of 100,000 or so Russian emigrants to move to more developed countries left due to political reasons.

More positive attitudes towards LGBTQ and feminism identified as becoming increasingly popular among urban Russian youth in Moscow and St Petersburg. Still with differing views

and values than their parents, the belief in their ability to enforce change is strong (Fedorova, M. L:SN Global, 2018).

### Technology:

The trend of innovative payments is also gaining momentum throughout Russian culture, with many retailers operating within Russia under pressure to introduce new payment technologies (Euromonitor, 2018). Although there is still existence of financial literacy remaining rather low amongst communities in small, rural towns. Early adopters, typically well-educated young consumers primarily located in Russia's larger cities are increasingly interested in new innovative and convenient payment methods that are evolving their shopping experiences. Obvious solutions such as introducing Apple pay, Android pay and Samsung pay have been successfully implemented by many retailers. With a major innovation by wholesale distributor Lavka OOO accepting Cryptocurrency Bitcoins as a potential payment method, both online and in-store.

Cryptocurrencies, although with many steps to develop, through stages of framework, education and gaining enthusiasm among retailers is a trend spreading rapidly amongst Russia's early adopters, and is a prospect that is predicted a bright future in Russian retailing (Euromonitor, 2018).

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## 6. Potential Threats

Potential threats for Auralee's expansion into Russia will predominantly be the complexity of transporting its stock across such a vast landmass, being the largest country by land at 6.6 million square miles (BBC News, 2018). Spanning 9 time zones across all regions (export.gov, 2017), Russia's size presents a risk worth identifying with its potential to affect the efficiency of distribution and primarily heighten costs for transportation. Exportation costs continue with 1 standard container of goods imported into Russia costing an estimate of 272,693.60 ¥, equivalent to £1,930 (xe.com 2019 & Drapers Guides, 2018). Along with a predicted lead

time of 36 days (Drapers Guides, 2018), management will have to ensure production time is accurate and in order to meet schedules.

Trading may also be complicated by certain custom duties, acting as a potential barrier by halting the time scale of distribution. Russia's timely import procedures insist all importation must present a freight declaration accompanied by a variety of detailed documents (Russia-briefing, 2018). Auralee may also have to explore the use of a customs broker to carry out all of the formalities efficiently and without error.

Since Russia's entry into the WTO in 2012, provisions of the institution have all been implemented, including the average tariff of 7.8% for imported goods (Russia-briefing 2018). Another cost the company should prepare to encounter upon market entry.

## 7. Opportunities

Although a large proportion of wealth is typically concentrated around Moscow, with consumer expenditure per capita totalling RUB323,128 (£3,762) in 2017, as well as a predicted 1.7% annual average growth rate on expenditure between the 2018-2030 period (Euromonitor, 2018). Russia also offers a promising opportunity for store expansion outside of the largest core cities; Moscow and St. Petersburg. With 10 other Russian cities belonging to over 1 million potential consumers, the regions are described as lucrative for new entrants into the retail sector (Drapers Guides, 2018).

Similar to everywhere else in the world, Russian digital demand is advancing. Suggesting definite potential for growth throughout e-commerce, with 80% of the population adopting online channels. A considerable 66 million Russians are now shopping online each day, with the average daily time of 25 minutes spent browsing e-commerce platforms (Drapers Guides, 2018). Although still lagging behind Western Europe's vast use of online platforms, of present Russians use of e-commerce is rapidly growing (Drapers Guides, 2018). Presenting an opportunity for Auralee to introduce multichannel marketing, allowing maximization of interactions with their prospective customers, stimulating shopping experiences and enforcing brand loyalty.

## 8. Entry method

Auralee's initial mode of entry into new market Russia will be similar to their past internationalising strategy for their other oversea expansions. Auralee will begin by launching a concession store within KM20, one of Moscow's most prominent multi-brand boutiques situated within the city's popular shopping district; Stoleshnikov.

Kuznetsky Most 20 (KM20) began as a small concept store, yet at the forefront of the "post-soviet" fashion movement has been able to see rapid growth. With sales increasing at an average rate of 20% per annum, consumer demand has allowed the company to expand into their four-storey, 2,500 square meter space as of 2017 (*The Business of Fashion, 2017*).

KM20's new space offers shoppers an experience, through its location, architecture and interior, their parking garage offers an experimental space, intended for temporary exhibitions and product launches (*The Business of Fashion, 2017*).

Auralee will debut into Moscow by presenting a capsule collection across both their men's and womenswear sector. Hosting a launch party, open to the local community to enforce a strong introduction to the new market. Engaging with Moscow's culture with an exclusive launch will solidify their presence, to hopefully succeed with promising opportunities within the foreign market.

Also, beneficial to the brands transition into Russia will be KM20's online store, as an online channel is something Auralee is yet to invest in. Using KM20's distribution channels will broaden Auralee's potential market reach past just Russia, with the online store offering international shipping.

With such a diverse culture and language barriers between Japan and Russia, initial promotion through KM20's social presence will also be beneficial for the Japanese brand. With customer relations and feedback being more efficient and accessible for Russian consumers to communicate with fully localised media outlets.

## Considerations: Exchange rates & Labour costs:

Dependent on whether Auralee accepts a full managerial role regarding employment of local staff, national wages for Russia along with the factors of fluctuating exchange rates will have to be considered. Potentially exploring the employment of a foreign exchange specialist could be a useful way for the brand to effectively deal with currency differentials as well as sending money across borders.

### Exchange Rate:

1 RUB = 1.65625 : 1 JPY = 0.603775

### Average labour cost (monthly)

RUB 19900.00 = ¥ 32.959.30

(xe.com 2019 & Tradingexports 2019)

last updated 20/01/19

## Pricing Structure:

Russia's high-end fashion market is stable, as the sector is worth up to a third of total sales (Drapers Guides, 2018). Despite the fact purchasing power within Russia varies region from region (Drapers Guides, 2018), luxury is described to be the most stress resistant segment of the fashion market (The Business of Fashion, 2018).

Therefore, upon market entry, pricing structures will remain equivalent to home market offers. With Auralee operating within a competitive price point that matches their surrounding competitors.

	Minimum Price Point	Maximum Price point
JPY	¥ 32,464	¥ 106,597
RUB	RUB 19,596.04	RUB 64,347.34

(Xe.com & Trading exports, 2019)

last updated 20/01/19

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## 9. Marketing and Measuring success

Evaluating success will initially be focusing on the amount of sales taken through KM20's Moscow based store as well as looking at online sales revenue. Placing a concession within a prominent store such as KM20 comes with the disadvantage of high leasing costs, Auralee will need to access their annual profit margins for the first year. Operating within a new market, the brand should focus on their net margin to understand their residual earnings after all initial expenses of the expansion have been accounted for. From there the brand will be able to evaluate their objectives going forward. Forecasting future revenue to assess their potential of prioritising longer term goals for growth within the new market.

Success will also be measured through consumer engagement across KM20's social media outlets, recognising likes, comments and feedback on Auralee product focused posts. Auralee's current social media; 'AURALEETOKYO' mainly focuses towards their Japanese consumer, making it difficult for international audiences to engage directly with the brand. A strategic move would be to initiate a targeted Instagram; 'AURALEEMOSCOW' to connect with and understand their new audience. Enforcing brand loyalty within the Russian market by offering fully localised marketing, whilst further presenting their presence in Moscow.

Through new social media accounts, the brand will be able to then gauge the number of new followers gained from its time operating within the new location.

Qualitative data could also be gathered from customer feedback on online reviews. Auralee could also begin a mailing list by gathering contacts from online sales as well as obtaining customer information from e-receipts made on in-store purchases. The brand could then potentially send out specific feedback forms directly to their consumer base in order to engage and seek out improvements regarding in-store service, price structure and product quality.

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## 10. Future Considerations

Dependant on the success of the concession store and the demand for Auralee product within Moscow, a possible future growth consideration for the brand could be seeing expansion into its second flagship store outside of Japan. Opening an independent concept store within Moscow will project the commitment to its new market as well as giving the brand the opportunity to manage all customer relations first hand, building brand loyalty by offering a space exclusive to Auralee's unique collections and providing a prioritised shopping experience. However, consideration into expanding its manufacturing houses and distribution channels will be required to be able to sustain an efficient production line. With the opportunity of expanding production outside of their home market being beneficial not only to their Russian operations but could improve proficiency of exporting into their other present oversea expansions.

With these adjustments made to the brands format, to initiate an online store may also become a possibility. Auralee has the potential to succeed at global recognition, with the investment into providing omni-channel models to all their operations.

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## 11. Conclusion

Concluding this report, there is no denying the complexities Auralee may encounter by internationalising into Russia. However, as Tokyo's creative market continues to saturate and their developed economy begins to slow down. It is the brands best interest to expand their business into an unexploited market like Moscow.

As Moscow's unique subcultures thrive, so has the consumer demand for innovative design. Auralee's contemporary style already reflects the east meets west cultural dynamism that is appreciated throughout cities aesthetic and Russian youths style.

Suggesting as a promising investment, with the opportunity for Auralee to obtain the global recognition their quality craftsmanship is deserving of.

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