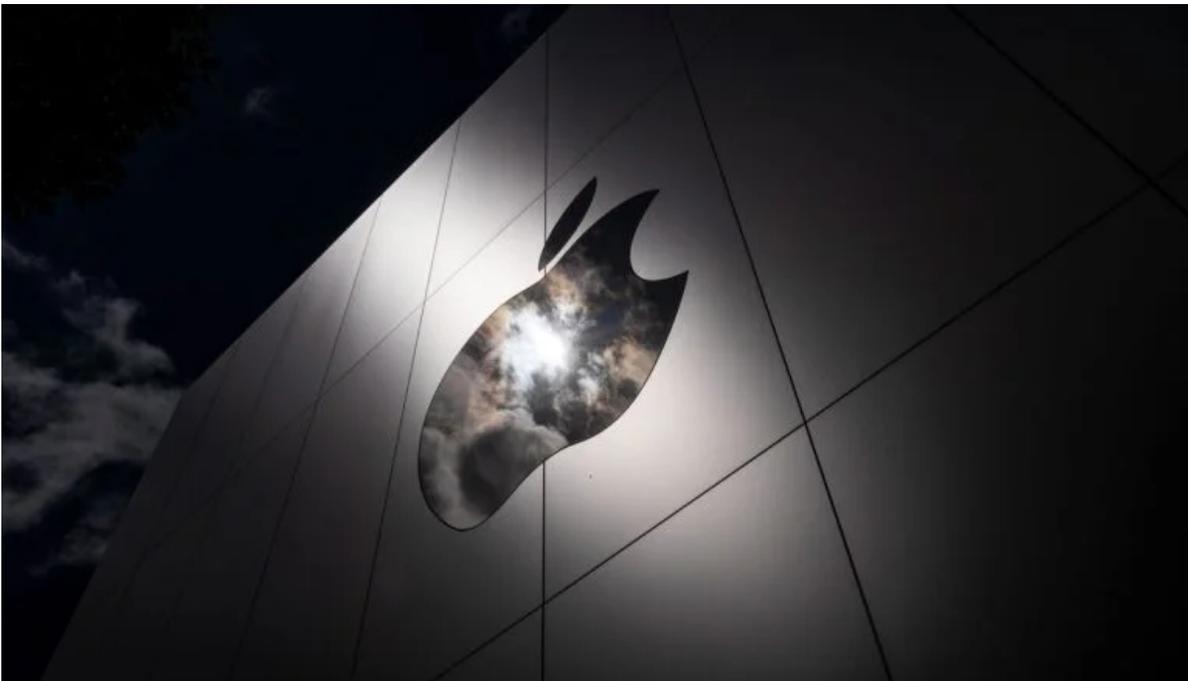




LOCAL

No Ikea shelves, no Levi's: the retail exodus from Russia is on

"It's a way of telling people that something is very wrong."



Last week, Apple, H&M Group, Nike, Ikea, LVMH Moët Hennessy Louis Vuitton, Hermès and Chanel said that they would temporarily close stores in Russia. *David Paul Morris/Bloomberg*

By Sapna Maheshwari and Vanessa Friedman, New York Times Service

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On Monday, the chief financial officer of Stanley Black & Decker told investors that the company was still figuring out whether it was going to keep its business in Russia given new sanctions affecting the country, or exit in coming weeks or months.

"That's something we're watching very closely to see how it plays out," Don Allan, the company's chief financial officer, said at a conference. The business, with about 100 employees, brought in \$150 million in annual revenue, he said, and the company had an estimated \$30 million to \$40 million in inventory there.





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Less than 24 hours later, the company said that it had decided to close.

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A growing number of American and European brands and retailers are changing their operations in Russia in response to the country's invasion of Ukraine, with mass chains and luxury brands closing stores and halting other business in the country. The actions are affecting hundreds of stores and thousands of Russian employees.

Last week, Apple, H&M Group, Nike, Ikea, LVMH Moët Hennessy Louis Vuitton, Hermès and Chanel said that they would temporarily close stores in Russia. This week, Levi Strauss & Co. and Adidas said that they were also stopping sales in the country. On Tuesday, McDonald's and Starbucks said that they would temporarily close their hundreds of stores in Russia.

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Retailers are concerned about the reputational damage of doing business in Russia, but they're also responding to practical challenges imposed by sanctions and the rapid decline in the value of the Russian ruble, said Tahlia Townsend, a partner and co-chair of the international trade compliance group at Wiggin & Dana.

"The sanctions on banks in particular have made it very difficult to get money into Russia to pay employees or pay utilities, landlords, suppliers," she said. "It's not straightforward to get money back out of Russia, and so, even if they can be paid for their goods they may not be able to then consolidate that revenue back into the United States or wherever else they're headquartered."

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Most major retailers have said that they would continue to pay employees in Russia. A few, like Levi's, specified that they would pay staff in local currency. It is not clear how those plans may be affected if the crisis continues for months and companies deplete their funds in the country.

Retailers are not just halting sales and imports and exports. Ikea, with 15,000 employees in Russia and its ally, Belarus, has paused production of wooden furniture. TJX, the owner of T.J. Maxx and Marshalls, said that it would divest its 25% stake in Familia, an off-price retailer with more than 400 stores in Russia, which it acquired for \$225 million in 2019. The carrying value of its Familia investment had fallen to \$186 million as of Jan. 29, based on the valuation of Russian rubles to U.S. dollars, according to its filing. Adidas also suspended its partnership with the Russian Football Union.

The shutdown of Western businesses and the inability to buy simple goods like American-made jeans or Swedish-made furniture may set off alarm bells for Russians, who are facing a walled-off digital state under President Vladimir Putin, according to Anna Nagurney, a professor in the Isenberg School of Management at the University of Massachusetts.

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"It's a way of telling people that something is very wrong," she said. "You begin to wonder like, what's happening, what's going on? Can you imagine that, you go to one store or another and can't transact. That's going to create a great deal of anxiety and uncertainty."

Still, other academics contend that the shutdowns from American and European retailers may feed into Putin's narrative about Western countries.

“It’s completely consistent with what Putin is telling them,” said Tymofiy Mylovanov, president of the Kyiv School of Economics. “It’s sending the message that the West is nasty.”

The actions taken by luxury brands have been particularly closely watched, especially after a **Bloomberg News report March 2** that wealthy Russians were racing to buy jewelry and watches to help preserve the value of their savings. Bulgari’s CEO told the news outlet that sales at Russian stores had increased in the prior days and that the invasion of Ukraine, which began Feb. 24, had “probably boosted the business.” He added that the brand was “there for the Russian people and not for the political world.”

Bulgari is owned by LVMH, which is estimated to have more than 120 stores in Russia, which it closed effective Sunday. Prada and Kering also said they would temporarily shut their shops.

Still, the brands received criticism on social media for what some saw as their tepid response. Several people criticized Hermès for its **store closing post on LinkedIn**, which said that the brand was “deeply concerned by the situation in Europe at this time.” They said that Hermès should have referred directly to the war and named Ukraine in the post.

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Townsend said that luxury brands may also be nervous about selling in Russia because, increasingly, many of the wealthiest people in the country were subject to sanctions.

“Typically, when you go in to spend a lot of money on a very expensive luxury brand, you don’t expect the store to take your passport and see if you’re on a sanctions list,” she said. “If they were to do that, they may lose customers.”

The escalating crisis coincided with a string of fashion shows in Milan and Paris this month, events that not long ago had front rows heavily populated with the young wives of oligarchs, who were lauded as influencers and proved catnip for photographers.

Now nearly all luxury executives were quick to say their main concern was for their employees in Russia, rather than to condemn the Russian government’s actions. Over the past week, however, designers moved from refraining from any comment to almost universally — and publicly — professing their support for peace in the form of voice-overs at shows or addenda to their show notes.

Most major retailers and brands, including Ikea and Apple, have announced donations to aid Ukrainian people driven from their homes by the conflict. At the Givenchy show, a note left on every seat stated that the brand had made a donation to the Ukrainian Red Cross and offered a QR code for guests to donate, too. At Stella McCartney, the show notes said that the brand was “dedicated to the people affected by the war in Ukraine,” and that it had donated to emergency crisis support for Ukrainians.

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Both brands are owned by LVMH, though the biggest runway statement was made by Balenciaga, which is owned by Kering: A giant T-shirt in the colors of the Ukrainian flag was placed on every seat, along with a personal statement by the designer, Demna, who had fled Georgia as a child. Salma Hayek Pinault promptly donned her T-shirt, and her husband, Francois-Henri Pinault, the CEO of Kering, draped his over his shoulders.

The show itself, which featured models clutching garbage bags and trudging into a snowstorm, was the only one to directly confront the plight of refugees. There was some criticism of the designer on social media, however, for dramatizing the ravages of war in what is, in the end, a commercial context.

Still, not everyone in the industry is leaving Russia.

Speaking before his fall 2022 show in Paris, designer Rick Owens said that he hadn't fully figured out what to do, but he did not think the Russian people "deserved to be punished."

Uniqlo, owned by the clothing giant Fast Retailing, plans to keep its **Russian stores open**, with its founder, Tadashi Yanai, telling a Japanese newspaper: "Clothing is a necessity of life. The people of Russia have the same right to live as we do."

Experts anticipate that the void left by Western retail businesses will be filled by China, which will likely work to cater to Russia's middle class and benefit in the short term. And some non-Russian retailers may route their goods through China to bypass Europe.

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"China is perfectly capable of mimicking brands, even IT brands, and it's a greatly grown economy," said Mylovanov, who is also a former minister of economic development in Ukraine. People may be "sort of annoyed" that they can't get American and European brands, but they'll likely hang on to what they own and hope that they can travel to buy such goods in the future, he said.

For most American and European retailers, their business in Russia is not so big that its loss will leave a major dent in earnings. Levi's, for example, **said that only** 4% of its net sales came from Eastern Europe, and only half of that was tied to Russia. Stanley Black & Decker said that its sales and inventory in Russia suggested that the conflict wasn't "a big risk" for the company. At Dries Van Noten, Axel Keller, the brand's president, said they had paused deliveries to Russia, Ukraine, Russia and Belarus, which together account for just 6% of revenue.

Companies that want to return to doing business in the country "don't want to offend Russian sensibilities," Townsend said. But, she added, "for many companies, the market outside of Russia is more important than the

market inside Russia and they want to be on the right side of the moral decision.”

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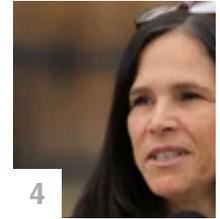
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