International Marketing in Russia

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• Introduction
• International Marketing in Russia: Brief History
• Marketing research
• Russian market entry strategy
  • Product Policy
  • Price Policy
  • Distribution
  • Advertising and Promotion
Saint-Petersburg State University was founded in 1724
30,000 students, 6,000 lecturers
Faculty of Economics
Nobel Prize Winners in Economics

Wasssily Leontief (1973)

Leonid Kantorovich (1975)

Cristopher A. Pissarides (2010),
Head of Economic Growth Laboratory,
SPSU (since October 2013).
International Marketing in Russia: Brief History

Soviet period

• International Marketing and Foreign Trade Organizations
  *(indirect export)*

• Marketing section
  in Chamber of Industry Commerce
  contacts with ESOMAR (www.esomar.nl)
  (European Society for Opinion & Marketing Research)
Russia

• Transition to **Market Economy**

Education: marketing courses - Where?

- a lot of publications
- journals on Marketing (examples)
Event-маркетинг
Бренд-менеджмент
Бухгалтер в издательстве
Интернет-маркетинг
Клиентинг и управление клиентским портфелем
Личные продажи
Логистика сегодня
Маркетинг и маркетинговые исследования
Маркетинг и финансы
Маркетинг розничной торговли
Маркетинг услуг
Маркетинг-дейджест
Маркетинговое образование
Маркетинговые коммуникации
Менеджмент инноваций
Менеджмент качества
Менеджмент сегодня
Менеджмент-дейджест
Мотивация и оплата труда
Поиск и оценка персонала
Промышленный и b2b маркетинг
Реклама. Теория и практика
Стратегический менеджмент
Управление каналами дистрибуции
Управление корпоративной культурой
Управление корпоративными финансами
Управление продажами
Управление проектами и программами
Управление развитием персонала
Управление финансовыми рисками
Управление человеческим потенциалом
Управленческий учет и финансы
Marketing research

Market research company

- Foreign

- Local
• The fieldwork in Russian regions - hundreds of interviewers
RosBusinessConsulting

- www.rbc.ru
- a leading Russian multimedia holding.
- operates in the Internet, television and print media segments
Marketing research: COMCON

www.comcon-2.com

- & ESOMAR
- a part of the international research network Ipsos

- consumers` behaviour and motivations
- test ideas for advertisement, concepts of brands and products
- strong expertise in media research

RusIndex National Survey

- wide scale survey of goods and services consumption and media audiences
- Annual sample is made up of 14,800 households (28,000 individuals).
- Survey is conducted in 50 cities, accounting to all 12 macro regions of Russia.
Over 100 St.-Petersburg companies purchase GORTIS information products every year

2000 companies use GORTIS market research data
Marketing research

Environment factors:

• Political and legal environment factors
• Economic environment factors
• Social & Cultural environment factors
• Technology environment factors
Political and legal environment factors

• Law
Economic environment factors

GDP per capita, 2013

Source: European Commission and International Monetary Fund

© GFK 2014 | European Retail 2014 | April 29, 2014
Social & Cultural
environment factors
The example of consumer behavior research
St. Petersburg market prospects
of furniture

Statements that describe consumer behavior
(% of families that agreed with the statements)

• «We have to save money even for one piece of furniture»
• «We do not have problems to buy separated furniture pieces, but we have to save money even for a cheap set of furniture»
• «We can buy furniture of middle price level, but we cannot buy expensive»
• «We cannot buy a new flat, and for the old flat the old furniture is sufficient»
• «We buy new furniture when we furnish a new flat»
• «We buy furniture with help of designers»
• «When we buy new furniture we try to follow fashion»
Evolution of Middle Class

Russian Middle Class USD disposable income + 630% in 2006 vs. 2000

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>High - Enough money for everything</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Above average - Can afford household equipment</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>Average - Enough only for food and clothes</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Below average - Enough money for food only</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>Low income - Can hardly buy food</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: R-TGI, households in cities with 100 ths.+
• headhunting agency Superjob.ru = 37% of respondents identified themselves as middle class

• a Russian's average monthly wage = 29,900 rubles ($860) in 2013, (compared to $4,300 in the U.S.)
Russian culture

- included cultures of dozens other peoples

- connected to the nearest cultures of Scandinavia, Southern and Western Slavs, Germany, Italy, peoples of East and Caucasus

- universal and tolerant to cultures of other peoples

(D.Lihachev 1990)
Russian market entry strategy

• Russia is not one market, but a number of regional markets cannot be covered from one entry point

• Decision:
where to start
where to expand the company's activities and sales
Population: 143 million people.
Territory: 17 125 17 km²
Russian market entry strategy

Market entry strategy

- Exporting
- Investment
- Licensing
Mg-mix

Continuum

Adaptation (of Marketing Mix)

Standardization (of Marketing Mix)

INFLUENCED BY ENVIRONMENTAL FACTORS
Product policy

- Adaptation or Standardization
- Country-of-origin image
- Brands and Trademarks
- Package
- Service
Product policy

• country-of-origin image

most Western goods are associated in the minds of Russian consumers with quality attitude towards branded clothing and consumer durables
Product policy

• food
  - to emphasize local roots

Local and Global brands
Local FOOD products are believed to be healthier than international ones.

- they are made of domestic ingredients and habitual for local consumers.
- they don’t need long transportation or preservatives.
Local brands are considerably cheaper

Consumers feed their patriotic feelings when buying Russian brands (original or perceived)

“I prefer to buy “our”, domestic milk: Domik v derevne
Product policy

• *adapt* and *tailor items* to local markets

• A domestic competitor to the *Snickers chocolate bar* - *Shok*
the leading confectioners

- Soviet-era brands of chocolate remain the key players on the market,
- the aging consumer base is starting to lose its nostalgic pull to the Soviet names (many have grown up on them and love them).
- foreign producers are also attracting a bigger following by introducing Russians to new tastes (preferring to put their money into innovations)
• Nestle = new variations of the Rossiya-Shedraya Dusha (Russia - Generous Soul) chocolate bar
  - the packaging for its premium chocolate Komilfo won a marketing prize in 2007.
  - offer the customer the best quality for a rational price

• Russian consumers are hungry for new ideas, new tastes and experiences

• Chocolate consumption per capita in Russia: the average Russian consumes 5 kilograms of chocolate products per year
Product policy

- Ex. Nestle the purchase of Saint Springs, one of the nation's most recognized brands
- about $50 million for the trademark
The Coca-Cola Company

- Coca-Cola
- Fanta
- Sprite
- Powerade
- Фруктайм
- Nestea
- Кружка и бочка
- Schweppes
- Botaniq
- Добрый
- Rich
- Nico
- BonAqua
- Burn
- Gladiator
- Моя Семья
Actimel - adaptation

Russia

Germany
• 2000
• Ehrmann starts its international expansion and officially opens the OOO Ehrmann production facilities in Raos near Moscow.
• Ehrmann rapidly advances to the number two on the Russian market.
Rastishka vs. Frucht Zwerge

Brands & Package
Сметановна
Вкусная «Сметановна»
k вашему столу!
Competition between local and international brands

Global brands
- Recognized reputation of international brands
- Prestigious image speaks of a user’s status and prosperity

Local brands
- High quality of local brands
- Good Value-for-money
- Image of “Russian-made” products, closer to consumers
Interbrand.com 2013

1. Apple
   +28% 98,316 $m
   TOP RISER

2. Google
   +34% 93,291 $m
   TOP RISER

3. Coca-Cola
   +2% 79,213 $m

4. IBM
   +4% 78,808 $m

5. Microsoft
   +3% 59,546 $m

6. GE
   +7% 46,947 $m

7. McDonald's
   +5% 41,992 $m

8. Samsung
   +20% 39,610 $m

9. Intel
   -5% 37,257 $m

10. Toyota
    +17% 35,346 $m
### Brand value Interbrand Zintzmeyer&Lux AG

«BusinessWeek Russia» 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>Industry</th>
<th>Brand value ($ mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MTS</td>
<td>Telecom</td>
<td>7,753</td>
</tr>
<tr>
<td>2</td>
<td>Beeline</td>
<td>Telecom</td>
<td>6,323</td>
</tr>
<tr>
<td>3</td>
<td>Baltika</td>
<td>Alcogol (beer)</td>
<td>2,284</td>
</tr>
<tr>
<td>4</td>
<td>Lukoil</td>
<td>Oil</td>
<td>1,173</td>
</tr>
<tr>
<td>5</td>
<td>Megafone</td>
<td>Telecom</td>
<td>634</td>
</tr>
<tr>
<td>6</td>
<td>Sberbank</td>
<td>Finance</td>
<td>591</td>
</tr>
<tr>
<td>7</td>
<td>Pyaterochka</td>
<td>Retail</td>
<td>379</td>
</tr>
<tr>
<td>8</td>
<td>TNK</td>
<td>Oil</td>
<td>373</td>
</tr>
<tr>
<td>9</td>
<td>Rosneft</td>
<td>Oil</td>
<td>370</td>
</tr>
<tr>
<td>10</td>
<td>Domik v derevne</td>
<td>FMCG</td>
<td>309</td>
</tr>
</tbody>
</table>
Package quality:

- Packing has considerably improved.
- Package of Russian leading brands is an equal competitor for the international brands.

This situation is mainly observed on soft-drinks, milk, yogurt, confectionery, mayonnaise, ketchup, tea, pasta markets.
MÉLE
želejá
language in jelly
CUSTOMER CARE

Instruction in Russian Language

Ex. HP
Product & Price policy

• after 1998 the impact of devaluation on consumer purchasing

• Smaller packages

Cheaper packs

• 2008-2009
Penetration Pricing

- Charging a low price in order to penetrate market quickly

- Benefits

Low living standards of the major part of Russian population
Market Skimming

• Charging a premium price

• Risks and benefits

• The target market problems
Price policy

• Ex. Mediamarkt
Format and price segment
за БЫТОВОЙ ТЕХНИКОЙ - только в КАЛИНКУ!

**Panasonic**

ПЛАЗМЕННЫЙ ТЕЛЕВИЗОР

Panasonic Viera TH-37PA60R

- контрастность: 10000:1
- HDMI

**Canon**

Цифровая фотокамера

Номер модели: 2901 (ния)

- 5 Мпкс.
- 3,6" ЖК-дисплей
- 7x оптический ZOOM

**Dell**

Ноутбук E6410

- Latitude E6410
- Сіст. Нав. 2,5 ГГц
- В пам'ять: 253 Мб

**Калинка**

всегда низкие цены

Цены:

- 3990 р.
- 26990 р.
- 15990 р.
- 5890 р.
- **colour**: raspberry and white
- **stress on German quality and brand origin**

(«Das nennt man Schwein» ???)
Фантастиш предложения!

Телевизоры Samsung -50%

С 22 мая по 4 июня покупай любой телевизор Samsung, болей за наших на Чемпионате Мира по футболу, а в случае их победы получай 50% от стоимости телевизора в подарок!

До окончания: 10 дней, 07:36:30
Distribution: Russia’s Retail Sector

• the development of large retail formats (hypermarkets and malls) to dominate Moscow gradually move to the regions

• expansion by foreign retailers into Russia primarily in Moscow and St.Petersburg
foreign fashion retailers

- Mango, Promod and New Yorker prefer to develop corporate stores along with the franchising program

- 40 percent of the franchise market belongs to U.S. and European brands

- recent entrants: Dunkin' Donuts, GAP, Wendy's and Victoria's Secret
• difficult for a foreign company to manage its stores remotely and handle logistics without a local partner
• managing a few stores is not a problem,
• if a well-known brand is expanding it's very difficult to cover the country's territory with its remote cities without a franchising program
• **Gucci, Prada and Tiffany & Co.** were represented in Russia by the local luxury giant Mercury,
• **owns high-end department stores: TsUM in Moscow and DLT in St. Petersburg**

• **As Russia has become an increasingly important market for high-end luxury goods, many major Italian firms have decided to develop independently**
  • Recognizing the local market's potential, **Gucci** will begin managing its operations in Russia without intermediaries
  • **Prada**, has recently set up nearby, opening its own directly operated 1,700 square-meter store on Stoleshnikov Pereulok, Moscow
  • New York's **Tiffany & Co.** announced that in 2014 it would open its own store at GUM on Moscow's Red Square
  • **Hermes, Chanel and Louis Vuitton** have each decided to manage the Russian market directly rather than franchising
German denim brand Mustang

- a subsidiary in Moscow in 2009 after its contract expired with local distributor Jeans Symphony,
- the company was in charge of Mustang's local supplies and developing the brand's franchising program locally.
- Mustang has 19 stores in Russia, was satisfied with its local partner's work,
- but decided to take the business to the next level
Russia: Distribution of Packaged Food by Type of Outlet

<table>
<thead>
<tr>
<th>Type of Outlet</th>
<th>2003 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets/Hypermarkets</td>
<td>12.4 (23%)</td>
</tr>
<tr>
<td>Independent food stores</td>
<td>57.0</td>
</tr>
<tr>
<td>Convenience stores</td>
<td>3.3</td>
</tr>
<tr>
<td>- Standard convenience stores</td>
<td>3.0</td>
</tr>
<tr>
<td>- Petrol/Gas/Service stations</td>
<td>0.2</td>
</tr>
<tr>
<td>Discount stores</td>
<td>2.4 (14%)</td>
</tr>
<tr>
<td>Others</td>
<td>24.8</td>
</tr>
</tbody>
</table>
Stationary retail turnover, 2013

Top 10 according to turnover volume in 2013:

<table>
<thead>
<tr>
<th>rank</th>
<th>country</th>
<th>stationary retail turnover in bil. €</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Russia</td>
<td>465</td>
</tr>
<tr>
<td>02</td>
<td>France</td>
<td>417</td>
</tr>
<tr>
<td>03</td>
<td>Germany</td>
<td>412</td>
</tr>
<tr>
<td>04</td>
<td>United Kingdom</td>
<td>365</td>
</tr>
<tr>
<td>05</td>
<td>Italy</td>
<td>253</td>
</tr>
<tr>
<td>06</td>
<td>Spain</td>
<td>184</td>
</tr>
<tr>
<td>07</td>
<td>Turkey</td>
<td>154</td>
</tr>
<tr>
<td>08</td>
<td>Netherlands</td>
<td>91</td>
</tr>
<tr>
<td>09</td>
<td>Poland</td>
<td>86</td>
</tr>
<tr>
<td>10</td>
<td>Switzerland</td>
<td>83</td>
</tr>
</tbody>
</table>
Per-capita sales area provision in 2013
• Russia ranks only 28th in Europe in terms of retail space per citizen,
• with only 111 square meters of shops per 1,000 people.
• Norway and Luxembourg came first and second, respectively, having 632 and 538 square meters of retail space per person.
• More than 1,000 new stores were opened nationwide by foreign retailers = 2013
Advertising and Promotion in Russia

- Global/Local in Marketing Communications
- Advertising Concepts & Basic Approaches to their Implementation
- Advertising Channels & Ad Strategies: New Media challenge in Russian Market
Reasons for failure in international marketing

- Unwilling to adapt to local needs
- Not having a product that is regarded as sufficiently valuable by local customers
- Lack of long-term commitment
- Inability to manage local stakeholders
- Inability to transfer ideas from one market to another
Managing international communications is a crucial task in international marketing.
“Marketers need to replace their vertical perspective of the customer with a horizontal perspective” (Kotler and Kartajaya (2011) Marketing 3.0):

- becoming a culturally fluent
- demonstrate good corporate citizenship
- knowing the best practice in the market
Distinguishing international advertising management

- The principles of advertising are the same for international and domestic markets
- The differences are mainly contextual:
  - larger scope and magnitude of ad activities
  - level of complexity and risk
  - mind-set and orientation (symbols, colors, values)
Owl – ambivalent symbol

Russia: Wisdom

Germany: ?

France: ordinary bird with limited intelligence

Middle East: bad omen/bad luck
Understanding of the value “freedom”

RUSSIA = Independence
FRANCE = Dependence
NETHERLANDS = Belonging
JAPAN = Harmony
GERMANY = Order
Color symbolism across various cultures
Source: De Bortoli, Moroto (2010): Colours across cultures: Translating Colours in Marketing Communications

Western cultures: Death, mourning, business, formal, elegant, sexy, luxury
African and Islamic Cultures: Age, maturity, modesty
Asian cultures: Water, life, stability, the unknown

Western cultures: clean, pure, natural
African and Islamic cultures: Victory, purity, mercy, wisdom
Asian cultures: Death, mourning, respect

Western cultures: Environment, outdoors, freshness, health, jealousy, inexperience
African and Islamic cultures: Fertility, Islamic faith
Asian cultures: Youth, fertility, desirability

Western, African and Islamic cultures: Calm seas, Clear skies, soothing, safe, fidelity, truth, sadness
Asian cultures: Sadness, mourning
“Matryoshka-look”
Ad Channels: New Media vs Mass Media in Russian Market

The Internet is the fastest again

Market Share in %
- Digital: 21.8%
- TV: 12.5%
- Outdoor: 6.5%
- Radio: 5%
- Newspapers: 6.1%
- Magazines: 1.7%
- Movies: 1.7%

Growth in % to 2012
- Digital: 28%
- Radio: 15%
- Movie: 15%
- Outdoor: 10%
- Newspapers: 2%
- Magazines: 0%

Average: 11%
Internet Advertising

- 2.5 billion people (World) & 50 million (Russia)
- Rapidly Increasing (28% growth in Russia, 2012)
- Media, Contest, Social Networks (SMM), Mobile, Native (79% growth in the World)
“Make the politicians work” – 5 “Cannes’s Lions” awards in 2013:
Can’t wait for the morning TO GO BACK TO WORK!
НЕ ЖДИ, ЧТО РАБОТА СВАЛЯТСЯ НА ГОЛОВУ.

ИЩИ ВАКАНСИИ НА JOB.RU
НЕ ЖДИ, ЧТО РАБОТА СВАЛЯТСЯ НА ГОЛОВУ.
ИЩИ ВАКАНСИИ НА JOB.RU
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Idea: “Don't expect jobs to fall from the skies”
Thank you for attention