

[Business](#) » Economics

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## VODKA, CAVIAR AND SOM TAM, ANYONE?

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So much has happened in the world since the tanks rolled into Red Square in August 1991. We all remember Boris Yeltsin standing on a tank in Moscow while Mikhail Gorbachev was being held under house arrest at his dacha.

Amazingly, just four months later, the Russian republic was born and began embarking on a decade of economic reform.

The Russia that we see today is dramatically different from the one that emerged from the 1991 coup. This is due in the most part to an economic boom over the last eight years. This has created a confident, wealthy and sophisticated economy to emerge from the Soviet era.

Modern Russia is a huge, complex country that in many respects is somewhat of an enigma. There are huge gaps in wealth and living standards between different regions, as well as between social groupings.

The downturn in the Russian economy in the second half of last year has been well documented. After a boom for eight years, with annual GDP growth reaching 8%, Kremlin officials now say GDP will "probably" shrink by 2.2%. Investment in 2009 is expected to fall by more than 13%.

Many independent analysts feel that the price of crude oil will continue to be the key driver and that a fall of between 5% and 10% is more likely than the 2.2% shrinkage forecast by the Kremlin. The Russian economy remains heavily dependent on natural resources, which we all know are becoming increasingly scarce. While oil prices plummeted last year, we already see signs of prices recovering to levels that will lead to renewed investment and growth.

Add to this the fact that the two main stock market indices have lost 80% of their value since their peak in 2008, and the rouble losing 30% of its value against the dollar, and it is easy to see why Russian consumers confidence continues to plummet. In a February 2009 Synovate survey, more than half of those Russians polled were afraid of losing their jobs (in contrast, 14% were not worried about anything).

Clearly the economic crisis has had an impact on the Russian people, and yet there still remains this huge marketplace that presents great opportunity for Thai businesses.

But what exactly does all this mean for Thai companies? Is Russia no longer the lucrative market that it once was? On the contrary. While Russia is undoubtedly going through a lot of economic pain, many Russians have not cut back on their expenditure. And when they do cut back on expensive goods and services, many seek to protect their "little joys".

When asked what they have had to give up during this crisis, items such as expensive electrical items, leisure travel and foods that are considered "treats" top the list.

Asked by Synovate in February this year, 67% of Russian respondents agreed with the statement "I will always find a way to afford some items that make me feel good" - up 7% from November 2008.

While we have seen Russian consumer behaviour become more rational and deliberate, this has largely affected impulse buys and luxury items. When it comes to essential commodities, the percentage of expenditure on these items has remained fairly constant.

What we do see in Russia is that they are spending less on soft drinks, alcohol, canned goods, health care products and cosmetics. Where a product has a cheaper alternative in the market, it is being used to reduce expenditure on these categories. But it is worth noting that the majority of Russians do not plan to change their usual assortment and manufacturer for most product categories.

Thai companies that have been considering Russia as an investment opportunity may find that this is a good time to implement their plans. However, to do so they will need to achieve best quality at reasonable prices. It is worth noting that the current economic crisis does not appear to have changed the attitude of Russian consumers to foreign brands since our 2006 survey, when 61% of respondents agreed with the sentiment, "If a local and international brand are of equal quality and price, I would prefer the local brand".

Perhaps the most important factor - and biggest risk to a successful market entry - is the sheer size of Russia. Stretching from Europe, across 11 time zones all the way to the Pacific Ocean, Russia is a vast country that has a complex administrative structure. This includes seven federal districts and 83 smaller entities of different status. To be successful in taming the Russian bear, Thai investors need to make sure that they have robust, well-thought-out regional strategies.

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