

Guest Editorial Page

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Growth and Development in the Russian Direct Marketing Industry

Liudmila Bolhovitina

For many companies national markets today are getting too small. Are you looking for new opportunities? Have a look to the East. Russia, is the country with the number one direct marketing potential in Europe. Remember how many dozens of mailings you get (or help to send) every day? Now just think an average Russian gets no more than 10 (!) mailings per year. That's why we open our mail, read and respond, more often than anywhere else.

The Country

Russia is the largest country in the world, with its territory of over 17 million sq. km. it covers 1/9 of the earth's territory. The population is 145.2 million; three-fourths live in bigger cities in the European part of Russia. 10.4 million people, or 7.2% of the whole population live in Moscow, according to official statistics. Yet the real number of people living in Moscow is even higher.

St. Petersburg has a population of 4.7 million, which used to be the capital of the country for almost 200 years. The city is often referred to as "the Northern Capital". In both St. Petersburg and Moscow and 11 other Russian cities, with populations of

over 1 million, reside one-fifth of all Russian citizens.

Russia survived the financial crisis of 1998 and since 1999 it is experiencing a significant upturn. During the last 5 years the Russian gross national product has been growing an average of 6.5% per year, i.e. about two times faster than the GNP of the USA.

The Consumer

The level of income differs significantly in bigger cities than in the countryside. Although it is steadily growing (by 8.8% in 2005), it is still much lower than in Western Europe or the USA. An average Russian earned about \$400 in 2005. However, this figure for big cities like Moscow, St. Petersburg, Nizhniy Novgorod, Yekaterinburg, and Samara is higher. According to the official statistics, in general, people living in Moscow earn 2.5 times more than in the countryside and experts say that their real income is even bigger – 4 times as much as that of the rest of Russia. Big cities offer big opportunities. During the last 4 years the number of wealthy people in Moscow increased from 16% to 28%, and the part of people considering themselves to be poor has decreased from 1/5 to 1/10.

The prosperity of the capital is proved by the fact that 40% of people living in Moscow either run their own business or are employed as managers. The employment market in

the capital is unsaturated, while 20% of New York citizens acknowledge fearing losing their job, in Moscow this figure is only 8%.

The growth of income in bigger cities results in highly active consumer behavior. As the economy has not yet undergone complete restructuring, most Russians do not have to pay off enormous mortgage credits or rent. As a result, they are free to spend about 80% of their salary, while in Western Europe people cannot dispose of more than 45% of their salary for consumer goods. An average visitor of an IKEA store in Russia spends as much money as an average visitor of this store in Sweden. Indirect proof of the high purchasing capacity is the penetration of mobile services. In 2005 it jumped to 86.6%. For Moscow and St. Petersburg these figures are 134.5% and 118.4% respectively (this is explained by the fact that wealthier people often find it necessary to have more than one mobile phone and also by a significantly larger number of people living in both St. Petersburg and Moscow, which may not be reflected in official statistics).

Advertising Market in Russia

The Russian advertising market is rapidly developing. According to the Russian Association of Communication Agencies in 2005 it has grown by 28% and its size is

evaluated now at \$5.1 billion. Specialists believe that this tendency will continue in the next few years. The latest forecasts estimate that by 2010 the media-markets will grow up to 10.3 billion.

Direct marketing in Russia

Russian direct marketing is 13 years old. During this time it has undergone amazing development from its basic forms like non-addressed mailings to complex multi-channel direct marketing campaigns. Direct marketing is growing even faster than the advertising market in general. Exact figures are not available, but according to experts' evaluation, direct marketing grows by 40-70% every year. According to an estimation by the Russian Direct Marketing Association, the size of the market in 2005 amounted to \$390 million, that is 7.8% of the total advertising market. During the last 6 years the market has grown 4 times: \$95 million in 2000, \$110mn in 2001, \$170mn in 2002, \$250mn in 2003, \$280mn in 2004, and \$390mn in 2005 (The Russian Direct Marketing Association). Mail order in Russia has grown from \$200 million in 2001 to \$1 billion in 2005.

Much has changed during these years. First of all, the attitude towards direct marketing. The companies understand that the Russian consumer is getting tired of excessive TV-advertising and that printed ads are no more effective than they used to be. That's why more and more companies start using direct marketing instruments to win and keep their customers.

The tendency already suggests that in a couple of years the share of personal communications in advertising budgets will be

comparable to the Western level. The Russian Association of Advertising Agencies says that Russia's biggest advertisers spend over 24% of their advertising budgets on direct marketing and other channels of personal communication, while 4 years ago only 5% of Russian companies were regularly using direct marketing as an instrument of communication.

The "Yellow Pages" of Russian direct marketing included about 400 companies in 2004. An overwhelming majority of them are situated in Moscow; also the level of services of direct marketing providers here is rather high. Most of these companies were working on the market in the early days and during these years have accumulated high professional skills in all the fields of operation starting from copy-writing to courier delivery. As an example, it is worth to mention such agencies as Argo Lines, M-City, 4sformula, Data Holding, and Connexions. Lately, direct marketing agencies appear in important regional centers like St. Petersburg, Nizhniy Novgorod, Novosibirsk, Yekaterinburg, and Krasnoyarsk.

One of the rapidly developing sectors of the branch today is courier delivery. It is more reliable than the services of the national post, time of delivery is much shorter, and prices are comparable to those of the state post. Fulfillment companies report growth by 50-70% per year. Call-centers have experienced a giant leap in their development, which has now slowed. Most of the big companies are creating their own call-centers. According to the information of the Russian Direct Marketing Association, today there are about 5 large call-centers in Russia with over

500 agents each, about 20 call-centers employ from 50 to 500 operators each, and about 200 companies have their own corporate call-centers with more than 50 employees.

Data bases in Russia today have reached a much higher level than a few years ago. However, address lists of good quality are usually created by companies for their own needs and normally are not available on the market. That's why companies coming to work in Russia prefer to create their own data bases. There are several ways to do that from non-addressed mailings and printed ads with a response form in non-expensive magazines to cross-campaigns with mail order companies. Address lists in companies are more available and can be rented through any list-broking agency.

The branches using direct marketing in Russia are the same as in the USA. The difference is that they are not as active and not all of them yet understand the advantages of personalized communication with customers. Today, most active users of direct marketing instruments in Russia are publishing houses, mail order and e-business companies, fundraising organizations, and FMCG-sector companies. Financial institutions, such as banks and insurance companies and top users of direct marketing in the USA, started to actively develop their DM strategies only in the past couple of years, but their activity is growing very fast. □

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