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Consumer Behavior as a Challenge for Foreign Retailers' Strategic Marketing Decisions in Russian Market

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Abstract:

The study aims to identify Russian consumer behavior dimensions in decision making with regard to the place and pattern of consumer products purchasing. The authors define contemporary trends in Russian retail sector. The study applies the AIO model as well as the OLI concept in analyzing foreign retail companies' penetration to Russian market. Based on a conducted Internet survey, the authors tested hypothesis about attitude of domestic consumers living in large cities towards foreign and local retailers, their marketing activities, and particular retail formats. The paper suggests some recommendations on strategic marketing decisions in Russian retail sector.

Keywords: *consumer behavior, emerging markets; marketing; retail internationalization; Russia*

1. Introduction

Value creation based on proper market research should generate strategic marketing decisions devoted to consumer satisfaction. This is true for retailing companies as well. The purpose of the study is to identify Russian consumer behavior dimensions in decision making with regard to the place and pattern of consumer products purchasing. Such findings might be useful both to domestic and foreign retailers.

Studies devoted to retail internationalization in emerging markets are relatively young compare to similar type of research conducted for mature economies (Alexander, 1990; Alexander and Silva, 2002; Trofimenko and Vorobieva, 2007). Therefore there is a room for identifying peculiarities of retailing in developing/transition countries.

Among other emerging markets, the Russian Federation is an attractive destination for foreign retailers. However, during last several years retail turnover in Russia have been decreasing. Economic situation in the country (overall macroeconomic slow down, sharp depreciation of national currency in 2014, economic sanctions and other factors) created certain challenges and opportunities for domestic and foreign retailers. Some companies facing increased competition made decision to leave the market; others continue to stay in, or rather to expand operations.

The paper defines recent trends in Russian retailing with a focus on foreign retail companies' activities. The research aims at developing better understanding the Russian consumers' decision-making process towards purchasing process in general, and in stores owned by foreign retailers in particular. The paper suggests some recommendations on strategic marketing decisions in Russian retail sector.

2. Methodology

The Dunning's (1977) Eclectic Paradigm (OLI, Ownership, Location, and Internalization) provides guidelines for strategic marketing decision-making for manufacturing and retailing companies. Even though all elements of the Paradigm are important, presented study mainly focuses on the "Location" pillar. The choice of the destination market (certain country or/and a part of it in the case if the country has a huge territory) belongs to one of the most important strategic decisions for retailers.

For consumer behavior analysis the authors apply the AIO model (Activities, Interests and Opinions). This approach is widely used to dissect consumer behavior among the consumer lifestyle analysis methods (see Engel, et al, 2006). Product and situation specific AIOs are used to acquire information on consumer purchasing behavior by product and brand (Hur, at al, 2010). The authors adjusted the model for consumer behavior analysis in retailing. The empirical data was gathered from Internet survey conducted in March - April 2017 among of large cities' consumers. The study developed convenience sample of 976 respondents, approached by one of the national social networks (VKontakte) and by e-mail. The respondents filled in a questionnaire on their attitude, opinions and interest in connection to retailing. The study is also based on scholars' publications in international marketing, as well as on analytics of market research companies, and national statistics data.

3. Empirical results and conclusions

In recent years, one could observe the decline in real consumer spending in Russia. Under the circumstances, price became crucial criteria for the choice goods and place of their purchasing (Sutyryn and Vorobieva, 2017). Today the bulk of Russian consumers can be described by the rational consumer model, which suggests that customers are sensitive to the price, and therefore choose stores with lower price. They also pay more attention to quality-price ratio and convenience of shopping. Consumers know what they want and are seeking to make the most of the available opportunities given the scarcity constraints they face.

This led to the expansion of so-called private label goods, as they are usually cheaper than comparable famous national and international brands. Therefore, the retailers in Russia are trying to increase their share on their shelves. Some sources indicate that 20% of the goods in 2016 were sold as private labels (Gramatchikov, et al., 2017).

In recent decades infrastructure in retailing has significantly changed in Russia and new retail formats have been emerged. At the same time, one could observe a shift between traditional formats and new ones, as well as the boost of non-store retailing. E-commerce is actively developing in Moscow, St. Petersburg and other major Russian cities.

Results of empirical research supported key trends in Russian retailing identified. With regard to the format of retailers nearly 40 % of respondents told that they prefer to make purchases in the territory of neighborhood supermarket. Other respondents were halved and gave the votes for shops near the house (shops of step availability or convenience) and hypermarkets. More than 55% of respondents told that they prefer shops with the wide range of goods and discounts. Nearly 19% make their purchases at shops with the standard range of goods and prices. About 12% told that they like discounters with the large assortment and rather low prices of all goods. The same percent of the respondents choose shops with the wide range of high-quality goods with the prices above an average. Retailers' origin country is not important for the bulk of respondents (66%), while 28% and 6% indicate that they prefer Russian and foreign chains correspondingly.

In order to minimize negative impact of the economic slow-down, the authors recommend developing differentiation strategy, paying more attention to branding, and reasonable quality-price ratio.

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