

# ECONOMIC CRISES:

A LONG-TERM PERSPECTIVE IN HOW THEY TRAIN CONSUMERS

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The current economic crisis caused by coronavirus is the third in a decade in Russia. All these crises, despite various roots, have the common problem of outstanding debts and rising prices that follow an increase in the Dollar and Euro. People usually face job losses, reduced salaries and bonuses at the onset of crises. In the future, the contribution of these factors decreases, but steadily throughout the 10 years of measurement, most consumers will notice price increases<sup>1</sup>. Here is a brief overview of the crises that Russia has already faced in the 21st century.

- **The crisis of 2008** stemmed from the collapse of the US mortgage market, which spread globally. It put an end to a period of glamour and ostentation, and it brought the term “new poor” - as opposed to the word “nouveau riche” (new Russian, new rich) from the 90s.
- **The crisis of 2014** unfolded locally after Crimea joined Russia, which led to international sanctions, counter-sanctions and import substitution.
- **The crisis of 2020** is once again a global crisis. The epidemic has brought the physical isolation of consumers who have suddenly lost the power to move freely and maintain their usual purchasing behaviour.

Each crisis is usually seen by brands and consumers as an unpleasant force majeure that must be overcome with great effort and patience – followed by “new normal”. The duration of the medium-term economic cycle is 8-12 years. The cycle begins with a crisis (recession), passes through depression and recovery, then concludes with a rise. Considering that the average life expectancy in Russia is now over 70 years, so the average Russian adult in their lifetime will live through at least five economic cycles (and, therefore, crises).

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**In fact, our life today is a series of short breaks between the economic collapses. Therefore, we need to look at crises as a systemic phenomenon.**

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<sup>1</sup> The conclusion is based on “The New Reality” economic monitoring by Ipsos, which has been carried out in Russia since 2008 among the population of 18-45 year-old, cities 1mln+ (since 2020, the age brackets have been expanded to 18-60)



# LEARNING EFFECT OF CRISES

Repeated regularly, crises have a huge learning effect. It works on the principle of training of conditioned reflexes “stimulus-reaction-reinforcement”: The shock occurs with a crisis, a person reacts and sees the result of his actions. If this is a positive result, the action is reinforced, and the experience is remembered. So new habits are formed. With each new crisis, consumers receive a reinforcement of experience and patterns of behavior that were useful and helped. When we look at the long-term data, we see that a complete return to the “consumer of the previous normal” does not occur. Some consumers, hardest hit by the crisis, do not return to pre-crisis behaviour patterns and emerge from the crisis “with a new version of oneself”.

And if our modern life is a move in short dashes “from crisis to crisis”, then it is important for brands to understand the mechanism of how crises train consumers, capture these lessons and take them into account in their development strategies.

## LESSON 1. STOCKPILING

This includes the habit of saving money and buying goods in advance for future use.

### SAVING MONEY

If we look at the dynamics of people's understanding of the need to have savings (Fig. 1), we see an interesting pattern: during the crisis of 2008, the percentage of people who believe that savings are necessary increased by 4pps, and then after the crisis ended and we entered the “new normal”, a rollback to the pre-crisis level did not happen. On the contrary, it saw a slight growth. And by the beginning of the crisis of 2014, we saw this rise by another 5%, on top of those who thought so before the 2008 crisis. The crisis of 2014 “trained” another 2% of consumers.

As a result, when the next crisis arrived, Russia already had 43% of residents of large cities saying they believe that it is necessary to save more. We have such data from our RusIndex regular survey.<sup>2</sup> It is likely that the crisis of 2020 will provide another reinforcement

We can define at least **five repetitive lessons**:

1. **Stockpiling**
2. **Spend wisely**
3. **Re-evaluate**
4. **The value of health**
5. **Use new technologies**

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**By understanding the mechanics of training consumers by crises, a business has the opportunity to look further ahead and secure greater sustainability in the long run.**

of this pattern, and we will again see a rise in people savings.

*As of April 2020, from our Adapt!<sup>3</sup> monitoring study of the effect of coronavirus on consumer behavior in Russia, we know that only a quarter of the population of 1mln+ cities have savings to live on for 3-6 months: 13% have savings to live on for a year; 7% more than a year. At the same time, 27% of the population will be able to live no more than 1-2 months on their savings, and 29% of respondents, unfortunately, do not have savings at all.*

### BUY “IN-RESERVE”

A similar mechanism works for buying “in-reserve”, where consumers buy now, but will not use until a later date. Under the influence of the 2008 crisis, the share of people buying food “in-reserve” increased by 10pps in three years and reached 70% in 2010 (Fig. 1).

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<sup>2</sup> Source: RusIndex survey, 2005-2019. Russians 16-75 y.o., cities 100K+, N = 25 000

<sup>3</sup> Source: Ipsos Adapt! weekly monitoring. 3rd wave 2020. Quantitative survey: cities 1 million +, 18-65 years old, 1000 interviews per wave. Fieldwork: April 13-15 2020.

Further downward movement followed, but it was slower, and the value did not drop to its pre-crisis level. The 2014 crisis witnessed the same trend again, but the impulse was weaker than in 2008. So between 2008 and 2018, the number of people who are buying “in-reserve” is 7pps higher. In 2019, before the virus spread to Russia, we saw a significant increase from our RusIndex survey in the proportion of people who prefer to shop “in-reserve”.

This cannot be attributed to coronavirus, since the information field related to COVID-19 was activated only in January 2020. Rather, it is a consequence of the deterioration in consumer sentiment caused by echoes of previous events – the pension reform and higher VAT – which we saw in the New Reality monitoring in the 4th quarter of 2019 with the growth of +6pps of the share of people who rated the economic situation as deteriorating compared to the previous month.

At the beginning of 2020, as the global crisis rapidly began to unfold, consumer sentiment fell further.

*In April 2020, according to Ipsos Adapt! because of the declared non-working days and self-isolation, 34% of residents of million-plus cities stocked up on food, a quarter (24%) made stockpiled household chemicals and personal hygiene products, and 16% bought medicines for the future.*

**What does our knowledge about buying “in-reserve” mean for brands?**

## LESSON 2. SPEND WISELY

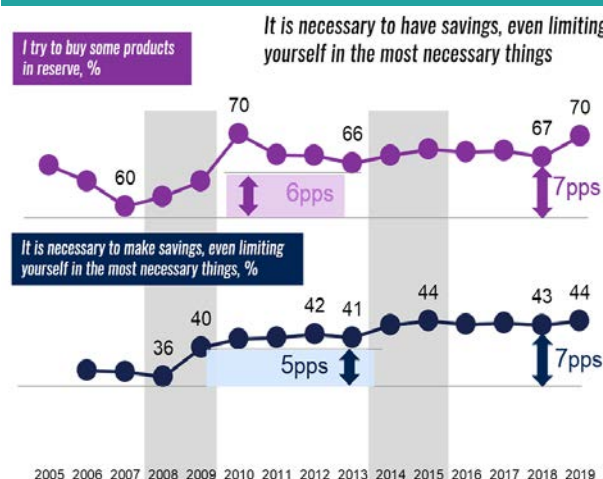
Each crisis creates change through the fight against excess, training consumers to save and look for more attractive prices. According to the same scheme, as we saw above with purchases for the future, there is training for insuring you get the best deal.

After each wave of the crisis, the proportion of those who continue to choose products only based on the price, or search for a cheaper product, increases. According to the RusIndex study, the crises of 2008 and 2014 trained 5% of consumers to buy goods, primarily focusing on price, and 7% to look for less expensive products and goods (Fig. 2).

This is an opportunity for brands to ask themselves several questions. Does the packaging of products with a long shelf life optimally place them in storage in the limited space of urban apartments? What is the optimal packaging size for long-term purchases? Should manufacturers and retailers create ready-to-go sets of FMCG goods, the volume of which has been calculated in advance for a certain period — for example, enough to be consumed during two weeks of quarantine without the need to buy more?

Finding answers to these and similar questions turns crises for brands from a threat to a new opportunity.

**Figure 1 Crises train the habit of making savings and buying «in-reserve»**



Source: Ipsos RusIndex 2005-2019. Russians 16-75 y.o., cities 100K+, N=25 000

The crisis of 2008, led many consumers to hypermarkets and discounters – Metro, Auchan, Pyaterochka. Over the past decade, high-income consumers now regularly make purchases there. Already in 2008, supermarket chains were thinking about creating its own private labels in FMCG categories. However, these did become widespread later on. This also became a respond to the desire of consumers to buy cheaper.

Manufacturers responded differently to Russian consumers saving more. For example, the company “Russian Alcohol” (now - “Rust Russia”) followed the principle “The core thing in

a crisis is quick sales. The product must not hang on the shelves.”<sup>4</sup> At the end of 2008, “Russian Alcohol” decided to focus on promoting their discounter brands that were already well-known to consumers: Zelenaya Marka and Zhuravly. As a result of a wisely chosen marketing strategy against the background of a decrease in the advertising activity of competitors, the consumption of Zhuravly increased by 5pps from 2008 to 2009, and the consumption of Zelenaya Marka increased by 4pps<sup>5</sup>.

**This is a good example of when a company followed a way of simplifying consumer choices: in times of crisis, too many new obscure, frightening things fall upon a person. Simple solutions in already familiar categories work best.**

In the crisis of 2014, Russian consumers learned about downsizing. Instead of raising prices, brands reduced the volume of packaging. For example, litre boxes of milk on the shelves were replaced by boxes of 950 ml. This format became permanent and to this day they are sold in 950ml packs.

In times of crisis fever, consumers in many categories choose cheaper brands. Responding to this, retail began to actively tempt

consumers with promotions and discounts. As a result, from 2008 to 2019<sup>6</sup>, the percentage of people who prefer to buy goods on special offer increased from 34% to a record 62% in 2019<sup>6</sup>. The curve goes up steadily, although price declines as a determining factor for consumers after a crisis ends. However, it does not return to its pre-crisis level.

In 2019, we again saw a trend reversal and price becoming a greater influence on shoppers, leading them to buy cheaper items (Fig. 2) - the data suggests that Russia entered the economic crisis at the end of 2019. The epidemic will soon lead to new consumers turn to the religion of “rational spending”.

**Figure 2 Crises train the habit of buying cheaper and looking for a reasonable price**



Source: Ipsos RusIndex 2005-2019. Russians 16-75 y.o., cities 100K+, N=25 000

## LESSON 3. RE-EVALUATE

Crises train the consumer not to stay loyal to their current brands, but to regularly review what they use and seek out new options.

On the one hand, the search for the best price and the desire to gain value for money is leading to re-evaluation. On the other hand, consumers are forced to try new brands replacing those withdrawn

from the market due to the crisis. Over the same period, the desire to try a new brand was intensified by an additional 14% of consumers. In total, as of 2019, half of the respondents showed a desire to try new things out of curiosity, and the same percentage of consumers was not inclined to remain committed to previously selected brands (Fig. 3).

<sup>4</sup> The Secret Firmly Magazine by Kommersant. No4, 04/06/2009. “Nothing extra”

<sup>5</sup> Source: The Ipsos RusIndex survey, Russians 18-75, cities 100K+, consumers of vodka or bitter tinctures

<sup>6</sup> Source: Ipsos RusIndex survey, 2010. Russians 16-75, cities 100K+.

Some consumers choose not to form an attachment to one particular brand as a defense mechanism in case it disappears and is no longer stocked.

Brands that do not withstand crises free up space on the shelf for others. Brands that reduce their marketing activity and fall into the shadows allow competitors to attract the attention of customers. A good example of such a crisis substitution was the entry in 2009 of the Rodniki Rossii brand<sup>7</sup> of bottled water onto the market. Thus, the Wimm-Bill-Dann company (now owned by PepsiCo) saw for itself the opportunity to enter the segment of bottled table drinking water, in which it was not present before. Already by the end of 2010, according to the RusIndex survey, every fifth consumer of the category was aware of this new brand, consumption reached 5%, and the brand continued to grow<sup>8</sup>.

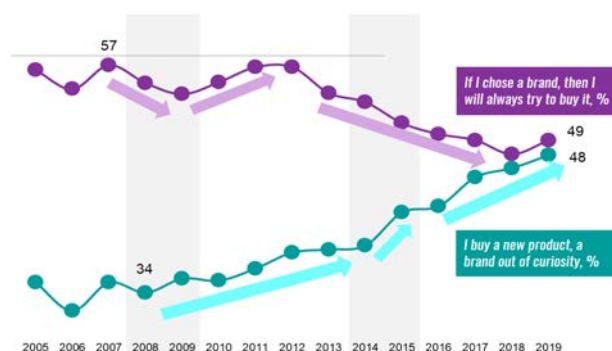
## The search for the best price and the desire to receive value for money is pushing consumers to re-evaluate.

In 2014, to satisfy this curiosity to try new products and brands, Russian products came to the fore as part of the import substitution campaign. Over the year, the desire to try new things grew by 3pp. Products from local manufacturers began to appear on the shelves, which competed with well-known federal brands (those that are

sold throughout the country) due to lower prices or acted as an alternative to imported products that disappeared from the shelves. Unfortunately, over the past five years, the proportion of people who prefer to buy domestic products and goods has not increased. Shoppers are actively trying, but we haven't sourced enough new products with a strong unique local offer, which could become local substitutes for "jamon" and "parmesan". Even despite all the efforts of domestic farmers.

Products in small packages also stimulate the switching and give the opportunity to try new brands - so the consumer can actively conduct experiments, adding variety to their consumption.

**Figure 3 Crises train not to be loyal and try new options**



Source: Ipsos RusIndex 2005-2019. Russians 16-75 y.o., cities 100K+, N=25 000

## LESSON 4. THE VALUE OF HEALTH

Crises increase the value of health – 75% of Russian respondents in our recent global study, Earth Day 2020, said that after the epidemic consumers will be looking for healthier and more environmentally friendly products. Globally, this figure is 79%. For comparison, in China, where quarantine had already ended at the time of the survey, 91% of respondents agree with this point of view (Fig. 4).

In a crisis the value of health rises, as there is the foundation in maintaining quality of life.

In addition, crisis situations are accompanied by increased levels of stress, so you need to talk not only about physical health, but also about mental health.

<sup>7</sup> The Secret Firm Magazine by Kommersant. No9, 01.09.2009. "The wet place"

<sup>8</sup> Source: Ipsos RusIndex survey, 2010. Russians 16-75, cities 100K+. Consume bottled drinking water

The current crisis caused by the epidemic will be a very powerful catalyst for increasing the importance of health. It clearly demonstrates the difficulties in obtaining medical care not only for patients with coronavirus, but also for those suffering from other diseases due to the strong focus on coronavirus treatment by the healthcare system. And that means – it trains the consumer to try live a healthier life.

The health of those in self-isolation is also at risk – people move less, are limited in the amount of outdoor exercise they can do and eat more. As a result, there is a growing demand for healthy food, remote fitness and home exercise equipment. However, it is highly likely that this need is “of the moment”.

**However, the growth in demand for healthy, dietary, eco- and bio-food products will undoubtedly continue.**

## LESSON 5. USE NEW TECHNOLOGIES

Consumers who use modern technology are in a better position during a crisis than those who did not master them beforehand.

The push for technology is happening from two sides. Technology-based businesses are more likely to survive. Consumers who use technology have more opportunities to find and compare products and to get more attractive prices and discounts.

The 2008 crisis spurred the growth of search engines. According to the results of a 2009 survey into Russia's most dynamic companies, Yandex was third in the ranking and Mail.ru was in the top 20<sup>9</sup>. A year later, Mail.ru was ranked third in the most dynamic companies, but Yandex remained in the top 20<sup>10</sup>. The weekly internet audience has grown almost one and a half times<sup>11</sup>.

<sup>9</sup> Top 300 most dynamic companies in Russia 2009 (based on 2008 results). The Secret Firm Magazine. 10/05/2009

<sup>10</sup> Top 200 most dynamic companies in Russia 2010 (based on 2009 results). The Secret Firm Magazine. 10/08/2010

<sup>11</sup> Source: Ipsos RusIndex survey, 2008-2009. Russians 16-75, cities 100K+

<sup>12</sup> 2015. RBC rating: 50 fastest growing companies in Russia

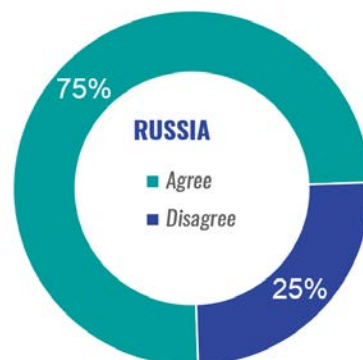
<sup>13</sup> AliExpress has become the most visited online store among Russians. E-pepper.ru. 24.02.2016

<sup>14</sup> Source: Ipsos RusIndex survey, 2005-2009. Russians 16-75, cities 100K+.

Perhaps in six months we will see an excess of ads for the sale of home fitness equipment on classified sites.

**Figure 4 Actions after the coronavirus pandemic**

*«I will seek out products that are healthier and better for the environment»*



Source: Ipsos Global Advisor. Earth Day 2020. Online-Survey in 14 countries. Age 16-74, 500 respondents surveyed in Russia. Fieldwork: April 17-19 2020

In the crisis of 2014, the development of digital technologies was driven by banks that reduced the number of offline branches – it turned out that for many financial operations that being in a branch isn't crucial. And, of course, there was a huge leap in online trading – in 2015, the Wildberries.ru online store was in second place in the RBC rating of the fastest growing companies<sup>12</sup>. But here consumers went even further and learned to buy online. These online purchases were not only from Russian retailers, but abroad also – at the same time AliExpress became the most visited online store among Russians<sup>13</sup>. By 2015, one in five residents of large cities in Russia bought goods on the internet<sup>14</sup>, internet coverage was at 70%, and almost in one in two of those who lived in big cities had a smartphone. The sharing of information on how best to spend and buy was facilitated by social media.

It has also become commonplace to buy and sell used items through classified sites. In 2016, Avito.ru entered the global list of 500 fastest growing companies according to Deloitte, becoming the only Russian business in the ranking<sup>15</sup>.

The 2020 coronavirus pandemic gives a powerful impetus to the development of digital learning in a variety of formats. For those with a computer and internet access at home at least in general terms understand what Skype or Zoom are. It is much easier now to survive self-isolation and switching education to online.

Businesses with offline activities will only be able to survive the current crisis thanks to their online channels. The demand for courier delivery and the simultaneous request for contactless services stimulate technology giants such as Amazon, Google and Alibaba to test solutions for the delivery of goods using drones.

In Russia, with the active role of Yandex, KamAZ, Sberbank and the GAZ group, the Ministry of Economic Development is considering the possibility of starting commercial use of driverless vehicles<sup>16</sup>.

Further development is received by non-cash payment, contactless trade and telemedicine.

## CONCLUSION

We are standing at the beginning of the next economic cycle. We see that our clients are particularly interested in discoveries where meta-analysis of data is carried out, and workshops and foresight sessions are used to generate insights to anticipate changes in consumer behaviour already at the end of the pandemic. But for businesses

The pandemic will lead to greater demand for services which bring about increased digitalisation of the home – the demand to increase the comfort of everyday life of people who have been in lockdown with entire families in confined spaces of apartments for a long period. Self-isolation can be expected to increase demand for smart home technology. Moreover, with a high probability employees – at their own choice or by the decision of the employer – will be forced to continue working from home even after the easing of lockdown restrictions due to the cost of maintaining office spaces in cities.

Thus, the cyclical nature of crises requires businesses to implement technologies, even if everything works fine so far without online stores, robots and artificial intelligence. The consumer needs to follow the technology, even if at the current stage of their life they can do without it.

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**The adoption of technology between crises is the same “insurance for a rainy day” as buying “in-reserve” and saving.**

focused on long-term development, we suggest that we do not stop at the way out of the crisis. Instead they should take into account the lessons of consumers, look further into the future and consciously prepare themselves for the next cycle in advance.

**Mila Novichenkova**, Head of Marketing Ipsos in Russia | May 2020

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<sup>15</sup> Only one Russian company entered the top 500 fastest growing IT companies. Cnews.ru 09.12.2016

<sup>16</sup> RBC. 05.08.2020. “The Ministry of Economic Development supported the testing of driverless vehicles without a driver for insurance”



## NEW IPSOS STUDY

### FUTURE OUTLOOK

#### LIFE AFTER COVID-19.

#### HOW TO PREPARE FOR A NEW REALITY

Ipsos has an extensive knowledge base that allows us to learn from past experiences and benchmarks of other markets. We suggest getting the most out of the data that is already available and focus on activating them to develop your future brand strategy.

- **We analyze** how crises influence different product categories, what are the key threats and recovery drivers.
- **We determine** what new needs, habits and rituals are gaining popularity.
- **We develop** scenarios for overcoming the crisis with a focus on your categories and brands.

Our goal is to help our clients understand what the new reality will be.

Our approach consists of two parts:

1. **Meta-analysis** of past and current crises, as well as the experience of other markets in overcoming the COVID-19 crisis to assess its impact on consumers, businesses and brands
2. **Foresight session** – together with your team, we will develop scenarios for adapting to a new reality: strategies for interacting with consumers, activations aimed at supporting your categories and brands

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**Covid-19 had a strong influence on the global economy, people's behaviour and priorities, and became an impetus to the formation of new habits. Our study answers the question: what will be the new reality and how to prepare for it today.**

Please contact us for details: <https://www.ipsos.com/ru-ru/vzglyad-v-budushee>