Procter & Gamble: Always Russia

In May 1998, Annick Desmecht, brand manager for the Feminine Protection Category, Procter & Gamble Russia, was discussing future strategy with the company's senior management team in Moscow. The flagship brand Always had grown rapidly since its Russian launch in October 1995, and the latest audit figures showed it achieving market leadership in early 1998. The meeting included Stassi Anastassov, general manager for a number of categories including feminine protection ("FemPro"), and Laurent Philippe, vice president and general manager in charge of the Russian subsidiary of Procter & Gamble (P&G).

Three particular issues animated the discussion. The first was to the price level of the Always brand, and specifically whether it should continue to be priced at the same price level as Western Europe, and whether there existed an opportunity in Russia for a mid-priced brand. Anastassov reflected that

> . . . in many other emerging markets, P&G management decided to compete against lower-priced local brands, using the lower end of our portfolio positioned at prices below those in developed countries. In Russia, however, we decided to introduce our best technology at premium prices, in line with those prevailing in developed markets, and as a result we have built a premium business.

The meeting debated whether this position might inhibit continued rapid growth beyond the more affluent customer groups. The second issue for discussion was the sustainability of the different marketing strategies being followed in Russia and neighboring Eastern European countries, and whether it was important for the Russian team to consider this in formulating its own plans. A particular focus of attention was the more developed Polish market, where aggressive low-price competition had resulted in price points well below those prevailing in Russia. The third issue was the question of whether to extend the FemPro portfolio by launching Alldays, a companion brand of pantiliners, and/or Tampax, the tampon brand added to P&G's stable of brands through the acquisition of Tambrands in 1997.

Philippe reflected on the particular challenges posed by the emerging market context. According to him, four principles had driven P&G's success in Russia:

> The first is to be first. We were, and are, ahead of our competition in terms of commitment to the Russian market, especially outside the major urban centers. Second, we not only entered early, but we entered on a big scale, rather than through a pay-as-you-go approach. Third, we compete with our best products and

Professor David Arnold prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Confidential data have been disguised.

technology. Fourth, we have built systems and processes, rather than waiting for them to develop; we have invested extensively in distribution, and in learning partnerships with global suppliers such as agencies.

He emphasized, however, that "we didn't have this all worked out before we started—it continues to be a learning process." He also agreed with Anastassov's opinion that "some of the advantages we currently enjoy might not be sustainable in the long term. Although we enjoy a distribution advantage at present, for instance, Russia will eventually develop a distribution system which ensures that consumer demand is served equally well everywhere."

Desmecht, a Harvard Business School graduate, had previously worked in P&G's national operations in Brussels, and had joined the Russian organization in 1997.

The market situation in Russia is completely different from the one I knew before in Belgium. Russia is fast growth but high uncertainty. As a result, the job is very different too, with many decisions having far greater impact on business development. So far, everything has gone better than I dared hope. However, it's quite a challenge to keep that momentum going.

Russia—Market Background

For the first time since it emerged from the collapse of the Soviet Union in 1989, Russia enjoyed real economic growth in 1997, with GDP increasing by 0.4%, industrial production by 1.9%, inflation down to 11% by the end of the year, the redenominated ruble enjoying a period of relative stability, and a booming Moscow stock market (see **Table A**). This recovery followed several years of decline during which Russia had been regarded as a laggard among the emerging markets of Central and Eastern Europe.

Table A Selected Russian Economic Data

	1997	1996	1995	1994	1993
GDP ($bn)	462	440	357	278	184
GDP at PPP[1]	624	609	626	637	711
Real GDP Growth (%)	0.4	-5.0	-4.0	-12.6	-8.7
Average Consumer Price Inflation (%)	15	48	200	300	850
Population (millions)	147.7	147.9	148.0	148.2	148.6

Source: Adapted from World Bank and Economist Intelligence Unit data.

1 PPP = Purchasing Power Parity, an adjustment to reflect real purchasing power, given costs of living and other economic conditions in the market.

In early 1998, however, most economic analysts were adopting a cautious tone about the robustness of the recovery. Concerns were voiced about the prospects for continuing market liberalization, given the slow pace of reform to date and the apparent weakness of President Yeltsin relative to the Communist-controlled parliament, with a presidential election due in 2000. Economic pressure was building on the government, which carried high levels of debt and oversaw a notoriously inefficient tax collection system. This was exacerbated by the knock-on effects of the Asian financial crisis, particularly falling prices for oil and gas, on which Russia relied for much of its export earnings, and increasing pressure on the ruble, which was being defended by interest rates which reached 42% in February 1998. Most analysts predicted economic growth of around 1% for 1998.

Many Russian consumers were enjoying their first increase in income for some years. Real wages rose on average by 5% in 1997, and real household incomes by 2.5%. This resulted in a 5.2% increase in retail sales. Nevertheless, Russia remained a relatively poor country, with an average monthly disposable income of $220 per household. Moreover, the income was unevenly distributed, both between social classes, and between Moscow and the regions. In some rural areas of the country, the failure of the government to pay accrued wages had resulted in the development of extensive bartering. A 1997 report by the U.S. Treasury cautioned readers about the reliability of official economic statistics, however, and claimed that living standards were approximately 50% higher than indicated by government data. It estimated that some 44% of the population were "getting by," with 30% enjoyed a "good standard of living".

Russian Consumers

"It is wrong to think of Russian consumers as less sophisticated, even though they live in a less-developed market," commented Desmecht. Particularly distinctive characteristics of the typical Russian consumer profile were the spending patterns adopted, and the prevailing attitudes towards Western brands.

> They are prepared to spend a higher than usual proportion of their low disposable income on consumer packaged goods. There is not an efficient consumer credit or savings system, and most people live rent-free in the apartments they were given when the Communist system collapsed—as a result, they often spend much of what they have, and adopt consumption patterns similar to lower middle-class segments in other countries.

The attitude of the Russian consumer towards the variety of new brands on offer in the 1990s was often described as intelligent and skeptical. High educational standards had been one of the major achievements of the Soviet era, and an inquiring attitude towards market change was reinforced by a skepticism born of years of existing in an inefficient and producer-oriented economy. In Soviet times, for example, advertising was often used to help dispose of surpluses of low quality or faulty products. Desmecht commented:

> Most Russians have a very rational, matter-of-fact, almost scientific approach towards products. Emotional attributes will not be enough to convince them of a brand's value. They will remember product claims made in advertising, and will actually test whether they are true once they get the products home. We know, for example, that an amazingly high proportion of women here recall the "dri-weave top sheet" which our products feature, and tell us that they have examined the pads to check that it looks like the product demonstration in the ad.

Most urban Russians, who constituted 70% of the total population, lived in the same apartments they had occupied in the Soviet era, ownership of which had been transferred to them in the early 1990s. These buildings were often crowded, with extended families sharing small single apartments, and in a poor state of repair. Mailboxes, generally located in the entrance lobby, were subject to vandalism, making mail an unreliable and insecure way to communicate with consumers. Consumer research indicated that consumers were willing to try new brands, but reported extensive switching except in categories in which significant differences in product quality were believed to exist. In certain categories, notably food, many consumers expressed a preference for local produce, and a skepticism about the quality of imported and/or processed goods. As many workers received pay at irregular intervals, purchase decisions varied from one shopping trip to the next, and many consumers reported a willingness to trade down, or go without a particular brand, when they had less cash to spend. They also reported a willingness to shop around to find their preferred brands, if they were not available in their first-visited store. While opinions varied regarding the relative standard of living under the old and new systems, there was consensus that consumers had become accustomed to greater uncertainty, even insecurity, in the difficult years of transition in the early and mid-1990s. In summary, Desmecht noted that

> . . . Russian consumers are often torn between their underlying preferences and the reality of their economic situation. On the one hand, they are willing to try new products, will be loyal to those with a perceived quality difference, and are willing to shop around to find them. On the other hand, they live with high levels of uncertainty, they only get paid at irregular intervals, and they are often forced to trade down from their favored brands.

Procter & Gamble

Procter & Gamble (P&G), one of the world's leading consumer products companies, was headquartered in Cincinnati, Ohio, the city in which it had been founded in 1837. In 1997, the company achieved revenues of $37 billion, from sales of its approximately 300 brands in over 140 countries worldwide. P&G's strong corporate culture was built around a number of principles long established in the company: products with functional superiority, demonstrable in blind consumer tests and backed up by an extensive investment in R&D; a deep understanding of consumer needs and wants achieved by extensive market research and product testing; marketing and branding expertise nurtured by the brand management system it had pioneered in the 1930s; and a talented and competitive workforce which valued integrity in all business dealings.

P&G's marketing organization was structured as a matrix of category and geographical responsibilities. The five product divisions were Laundry and Cleaning, Paper, Food and Beverages, Beauty Care, and Health Care. Feminine protection products fell within the Paper division, along with other major brands including Pampers diapers, and the division accounted for almost $11bn of 1997 worldwide sales. Russia was part of a Central and Eastern Europe (CEE) unit within P&G's Europe, Middle East and Africa (EMEA) regional organization. EMEA achieved 1997 sales of $11.8bn, within which CEE was the fastest growing territory, with a unit volume increase of 25%, following a 42% increase the previous year. Within each division there could be categories of two or three brands headed by a general manager, although in emerging markets, such as Russia, the general manager level was often responsible for multiple divisions. Desmecht thus reported through Anastassov to Laurent Philipppe, the vice president and general manager who headed up the Russian company, and also to a vice president in charge of the Paper Division throughout EMEA, based in Frankfurt.

Procter and Gamble Russia

P&G entered Eastern Europe in 1990, and, like many multinationals, initially concentrated its activities on Poland, Hungary and the then Czechoslovakia, the three countries setting the fastest pace in market liberalization. Research indicated that consumers in these markets wanted top-quality Western products as fast as was possible within the constraints of their relatively low income levels. P&G thus adopted a strategy of introducing its premier brands from Western Europe, with certain adaptations to address the unique conditions of these markets; pack sizes were often reduced, for example, to be able to offer more affordable price points. In contrast to the incremental market entries which had characterized much of P&G's earlier internationalization, Eastern European markets were entered with wide portfolio of brands from different divisions, a response to the competitive urgency created by the simultaneous entry of several multinational consumer products companies. Product was initially imported from factories in locations including Western Europe, and Turkey, but P&G gradually began investing in plants in the new region. In general, local regulations forced an incremental investment pattern, minority positions gradually being increased to majority and full ownership positions over a number of years. In addition, several years of P&G management would be required to bring the quality and productivity levels at these plants up to the standard to which the company operated elsewhere.

P&G first entered Russia in late 1991 via a joint venture with the University of St Petersburg. P&G's portfolio in its first two years included Tide detergent, shampoos such as Wash 'n' Go and Head & Shoulders, toiletries including Old Spice and Oil of Olay, and a number of smaller brands. By the time Stassi Anastassov was appointed general manager in Russia, in 1995, the marketing team in Moscow had grown to 11 people. However, growth was slower than in other Eastern European countries, notably Poland and Hungary. This was partly due to the more depressed state of the Russian economy during this period, but was also attributed to the less developed state of the distribution infrastructure. By this time, P&G was running its own wholly-owned company in Russia, had made its first investment in Russian production, in the form of a joint venture in the country's largest detergent plant in Novomoskovsk, 200 kilometers south of Moscow, and also began building its distribution operations. Having previously worked in the company's French and Scandinavian operations, Anastassov was at the time Marketing Director Flagship Brands in P&G's European Technical Center in Frankfurt. He commented:

> My brief was to accelerate growth through leverage of the investments we were making in our marketing and production operations, and through winning consumer share of mind. At this time, we were attempting to build mid-priced brands, such as Myth detergent, a local brand purchased by P&G along with the Russian production facility, and Pampers Uni, a simplified variant of Pampers available in small packs. This was the same approach which was proving successful in Poland, the biggest CEE market. As we studied consumer research, though, we started noticing indicators that market conditions were a little different. For example, we started to understand that consumers were very quality-driven. Having decided to trade up from a local product to a foreign brand, they would choose to pay even a significant premium for the top quality brand, rather than settle for a mid-priced brand, which they described as "just a pale copy of the real thing." This encouraged us to evolve our thinking, and bring over our best technologies and products from the West. We also started to design top-end marketing strategies to reflect the sophistication of the Russian consumers' purchase patterns.

By late 1995, Anastassov was overseeing a number of launches, including Always, which altered the profile of the Russian portfolio. Brands introduced included Pampers, Fairy washing-up liquid, Safeguard and Pantene toiletries range, Comet cleaners and Ace bleach. While these brand launches were part of P&G's wider market penetration efforts, made possible by the improved infrastructure in areas such as distribution and organization, they also reflected a qualitative change in the strategy driving the portfolio, according to Anastassov:

> There were a number of categories in which the distinctive situation in Russia offered unique windows of opportunity for first mover advantage. Brands that were small or even not available in many developed markets could achieve leadership here because the category was wide open. Similarly, we could consider launching two major brands, such as Ariel and Tide, alongside each other, because the opportunity was there—this was something that would not happen in other markets. So we learned not only to play to P&G's historical global advantage, but

also to apply strategies which had proved successful for our main competitors in other markets, in order to pre-empt them in their own product categories in Russia.

Distribution

Distribution constituted the toughest challenge facing Western companies operating in Russia. The former government-controlled distribution system had collapsed, leaving an anarchic vacuum rather than the underdeveloped infrastructure typical of many emerging markets. Since Russia was also the world's largest country by area, many multinationals decided either to delay market entry, or to restrict activities to Moscow and St. Petersburg. P&G, intent upon achieving national distribution coverage at the earliest opportunity, decided to adopt the same bold strategy it had followed successfully in Poland, known within the company as the "McVan model." P&G identified a number of promising distributors, and invested in the development of their business in return for a commitment to distribute only P&G products. P&G provided each distributor with vans, information technology, working capital, and, above all, extensive training in how to run a wholesale distributorship, including areas such as inventory management, credit policy, and accounting. In return for becoming an exclusive P&G distributor, each business was also granted territorial exclusivity.

Kevin Edwards, who had managed the introduction of the McVan model in Poland, was transferred to Moscow, and by 1998 had built a multifunctional team of 200 people supporting the development of the Russian distribution system. In less than two years, P&G's distribution coverage expanded from two cities (Moscow and St Petersburg) to over 100, by which time some 70% of the country's total population was covered. Thirty-two regional distributors had been established, and the establishment of 68 further subsidiary sub-distributors had extended their reach. A total of approximately 1,000 vans covered an area of up to 250 kilometers from these 100 bases and reached some 85,000 stores.

P&G distributors covered a range of retail categories, from larger department stores through to the many small neighborhood stores on which many Russians relied. They were weaker in pharmacies, which were often served by specialist distributors handling medical products, which were regulated differently and were exempt from import duties. In addition to these direct customers, P&G also went to market via wholesalers, a channel which was thriving because of its importance to open-market vendors—with the collapse of many established distribution organizations in the early 1990s, open street markets, in which small-scale entrepreneurial vendors sold from stalls or even simply tables, grew quickly to account for as much as 50% of sales in some cities. Edwards commented on the difference between the two distribution channels:

> Our own distribution system gives us a great competitive advantage in breadth and depth of coverage, and also allows us to proactively manage the financial risk with our distributors. Although direct van sales would of course be hugely expensive in most countries, here in Russia its greater efficiency is worth several percentage points of markup in the channel on a marginal basis. But as the rest of the distribution system develops, this advantage will of course be eroded, and so we are already working on making these operations even more efficient, and on transferring best practice from other P&G country organizations. By contrast, the wholesale business is more like distribution in other countries—our sales people aim for the greatest share of their shelf space, and the best assortment, and try to sell them on our leadership position in the category.

Always

Always was the world's leading brand of feminine protection disposable pads, a market worth some $7bn at retail in 1997, of which P&G captured approximately 25%. This market had been growing steadily at 5%-10% in the previous decade, as improving disposable pad technology offered greater performance and convenience. The proportion of the total catamenial market (all feminine protection products) accounted for by disposable pads, and particularly the use of pads versus tampons, varied significantly by country: for example, tampons were preferred by 40% of women in the United Kingdom, but only 4% in Italy. Having previously been less active in the tampon category, in 1997 P&G acquired Tambrands, owners of the world's leading tampon brand, Tampax. The market had also been expanded by the introduction of pantiliners, lighter pads for everyday use between menstrual periods, the usage of which had reached 30% in the most developed markets, which included the United States, United Kingdom, France, Italy, and Spain. P&G's Alldays brand of pantiliners was positioned as a sister brand to Always.

The Always product range consisted of three variants of two product technology lines, as shown in **Table B**. The Ultra technology, based upon a patented form of absorbent granule inside the pad, offered equal or greater levels of performance in a significantly smaller and lighter pad. Within both the regular and Ultra lines, two levels of upgrade were offered. "Plus" products had wings added to the side of the pad, keeping the pad in place better and providing protection against side soiling. Advertising copy focused on the "extra protection" offered by the Plus line. In addition, 'Super Plus' products were longer, thus offering greater absorbency suitable for overnight use, for example. All products boasted a "dri-weave top sheet," the pores of which prevented liquid from leaking out after being absorbed into the pad.

Table B Always Product Range (price index)

			Product Features
	Basic	**+wings**	**+wings + extra length**
Regular	Classic (100)	Plus (130)	Super Plus (160)
Ultra	Normal (130)	Plus (160)	Super Plus (190)

Alone in Central and Eastern Europe, Russia had decided to follow the Always global pricing model. This was based upon a 30% premium for every level of upgrade; i.e., either from regular to Ultra technology, or from the basic pad to a "Plus" or "Super Plus" version. As shown by the indexed figures in **Table B**, therefore, the Ultra Super Plus top of the range product would be priced at a 90% premium to the Always Classic. These items would generally be line-priced; i.e., by adjusting the pack count, each item would carry approximately the same shelf price ticket.

Always Russia

Always had been launched in Russia in October 1995 with three stock-keeping units (SKUs): Classic and Plus in the regular pad, and Ultra Plus. Always was positioned as a premium brand, rather than as a mid-market offering. The product, mostly imported from Germany and Poland, was identical to that offered in Western Europe, and was positioned as the best performing product available. In support of this, a price was set which, in real terms, was at least as high as prevailed in Western Europe. The brand was also heavily supported by advertising and promotional spend.

The market-leading brand of disposable pad in Russia in 1995, and until 1997 was Libresse, which belonged to the Swedish paper company Mölnlycke. Libresse had entered Russia in late 1994, pre-empting the first-mover advantage being sought by P&G as it considered its launch of Always. The other major Western brands in the Russian market were Carefree (Johnson & Johnson), Kotex (Kimberly Clark), and Helen Harper. The key local competitors were Veronika, a low-end Russian brand, and Bella, a low-priced Polish brand which had 50% share in its domestic market, and had entered Russia in 1994. Bella was regarded as offering serious competition for value-conscious consumers in view of its strength in Poland, where 60% of the market was captured by products regarded by P&G as low-price.

These introductions contributed to significant growth in the size of the Russian pad market. In 1997, 78% of women aged 18 to 49 reported regular pad usage, compared with 53% in 1996. While this was partly due to adoption of disposable products, it was also at the expense of the older-established tampon business. Tampons had been launched in Russia in 1988, before the collapse of the Soviet Union and before the introduction of any major pad brands. Production sites included factories in the Ukraine and elsewhere in Eastern Europe, and a number of product quality problems contributed to substantial negative publicity for tampons. In addition to health concerns and reports of discomfort, by 1998 research revealed that consumers also appeared to associate tampons with the less developed market situation of communist times. Tampons were used regularly by 20% of women in 1997, down from 37% in 1996, with a majority of women reporting occasional uses for special purposes, such as when swimming. Lower consumption levels also characterized the Russian market, however: Russians used on average 30% fewer products per period compared with consumers in comparable markets such as Poland or France. Desmecht attributed this longer pad wearing time to lower disposable income levels in Russia, along with a frugality resulting from years of living in an economy characterized by scarcity of goods. Russian consumers also reported a desire for long-lasting "night" pads.

The positioning of Always as the best performing product available, backed up by continuous advertising support and P&G's evolving distribution system, resulted in fast growth. The other three SKUs in the Always range were added in March 1997. By late 1997, the Always brand achieved market leadership (see **Table C**).

Table C Market Shares (Index vs. previous year)

	Jan-June 1997	July-Dec 1997	Nov-Dec 1997	Total 1997
Total Always	10.7	15.5 (297)	16.9 (264)	13.1
Regular	*6.1*	*8.4 (219)*	*9.2 (205)*	*7.3*
Ultra	*4.6*	*7.1 (513)*	*7.7 (402)*	*5.8*
Libresse	14.3	12.7 (104)	13.0 (102)	13.5
Carefree	4.9	5.2	5.3	4.9
Kotex	2.2	2.6	2.7	2.4
Bella	3.0	4.5	5.3	4.5
Veronika	10.3	7.6	4.9	9.0

The P&G team had to treat these audit figures with some circumspection, for two reasons. First, they covered only the largest 14 cities in Russia, home to only 18% of the population, and therefore probably understated P&G's share, given its strength in the regions. Second, they excluded sales through open markets, a channel in which the market leader and one or two price brands were usually strong. It was known that Always was well represented in open markets, and Bella was thought to command a market share of up to double the audit figures because of its strength in open markets.

Particularly encouraging to Desmecht was the trend towards the top end of the Always range. In the second half of 1997, Always Plus (the regular pad with wings) grew to 5.2% unit share, ahead of 2.9% for Always Classic, and Always Ultra grew to 7.1%, five times its share a year earlier. The other fastest growing brand, apart from Always, was Bella. Its 5.3% unit share in November-December 1997 represented 88% growth over its position a year earlier.

Price

Always had been priced from launch in accordance with the global price model; i.e., a 30% premium for each upgrade. The base price, for Always Classic, was the equivalent of $1.50 per pack, and the average user would pay approximately $2.00 per month. Items were line-priced, with pack counts varying to keep ticket prices within a maximum range of 25%. **Table D** shows a competitive price index for several leading brands.

Table D Competitive Shelf Price Index, per pad, Always = 100

	Classic/Thick	Thick + Wings	Ultra + Wings
Always	100	100	100
Libresse	95	110	95
Carefree	134	122	114
Kotex	158	127	107
Bella	48	68	114
Veronika	31	N/A	N/A

This price was higher than prevailed in most neighboring markets. A pack of Always Ultra Plus was indexed against Russia at 75 in Estonia, 87 in Hungary, 78 in Poland, 95 in Slovakia, 119 in Turkey, and 114 in Yugoslavia.

Despite the high price, Always fared well in research into consumer value perception, with 78% describing the brand as "good value for money," the top of the scale used. This was a higher score than was achieved by any other brand included in the survey; Libresse scored 57%, Carefree 58%, Bella 50% and Veronika 41%.

Distribution

Always had achieved market leadership in late 1997 principally on the basis of its regional distribution strength, which resulted in market shares of up to 50% in distant cities, such as Murmansk, not yet well served by major competitors. In Moscow and St Petersburg, where Always share was approximately 13.5%, it still ranked second to Libresse, mainly because of the relative strength of these brands in the pharmacy channel, which accounted for over 50% of pad sales in these cities compared with 35% nationally. On average, Russian stores carried two to threeAlways SKUs, one of which was usually Always Classic.

In addition to the need to strengthen presence in pharmacies, the other major distribution issue facing Desmecht was the role of open street markets, which accounted for 50% of sales in many cities. "Control of distribution is much more difficult in open markets, partly because we serve them mostly through wholesalers rather than through our direct coverage, and partly because of their temporary and relatively unregulated character." Product presentation, quality maintenance (such as compliance with product expiry dates) and price maintenance were among the difficulties. One major threat in early 1998 was the emergence of new intermediaries who bought P&G products in lower-priced Eastern European markets and diverted them to Russia. Desmecht started to receive reports from the field sales force that some large wholesalers has stopped ordering from P&G Russia and were instead distributing Polish Always product.

Advertising

With extensive worldwide experience of the power of TV in building its brands, P&G had been one of the very first Western companies to advertise on Russian TV, and remained by far the largest advertiser through 1997. TV penetration was almost universal in Russia, at 96% of households in 1998, with 93% having color, and 37% having 2 or more sets. VCR penetration had increased to 33% from 27% the previous year, and cable and satellite penetration, 12% and 1% respectively, were also increasing. In many cases, a television set was the first appliance bought by a household: telephone penetration, for example, stood at only 49% of households in 1997. Total TV advertising expenditure was estimated at $500m for 1997, of which P&G's spend was estimated to be approximately 10%. Original estimates for 1998 of $900 million were being revised down towards the previous year's level, because of the economic uncertainty in early 1998.

The FemPro category in Russia was notable for a high level of advertising activity (see **Table E**), with all major brands almost doubling their activity in 1997, and further increases in activity likely in 1998 with the launch of a tampon by Libresse. Given the typical reach achieved in Russia, Desmecht estimated that consumers were likely to have seen over 100 advertisements for each of the three leading brands in 1997, and remarked that "these frequency levels are almost certainly overkill, but on the other hand we are in a growing market and so have to maintain acceptable share of voice performance." She believed that it was critical to react to this advertising level by increasing the number of different executions aired in Russia to avoid wear-out; in 1997 there were seven different films aired for the Always brand. These films contained a mix of imported and locally produced content: although Always was managed as a global brand within P&G, some adaptations were made to respond to research evidence that Russian consumers responded to different tones and settings from those in many other markets.

Table E Advertising Activity

	GRPs 1997	GRP Index (1996=100)	Share of Voice (%)
Always	9,415	190	30
Libresse	9,743	203	31
Carefree	7,189	171	23
Total Pads	31,752	178	100
Total FemPro	49,424	N/A	

GRP = Gross Rating Point. One GRP = one exposure of the advertisement to one percent of the target population.

Maria Bjork, P&G's media manager in Moscow, described the Russian advertising market:

> On the positive side, the market is relatively cheap and uncluttered. Although prices are rising, advertising remains very good value in global terms, and the limited number of major advertisers means that continuity achievement is better

> than almost anywhere else in the world[1]. There are a number of difficulties, which come with the territory, however, the greatest of which is measurement. For the moment we have to rely on diaries rather than people meters, which is likely to overstate the viewership ratings of major stations and prime-time programs[2]. Previous experience in other countries shows that ratings for the major stations drop by about a third on the introduction of meters. Also, given the size of the country, we sometimes have no way of knowing if the advertising we bought was actually aired in the more distant regions.

P&G developed Always advertising with the advertising agency DMB&B on a global basis, and for the first two years in Russia the brand was supported by a proven format known as "Real Women Testimonials." These advertisements featured women (not actresses) talking direct to camera about the benefits of Always, interspersed with demonstrations of the product's superior performance relative to competitive pads. Having been on air for several years in many countries, this copy strategy was familiar and, in some cases, boring to consumers, and in 1995-96, the agency was working on a new copy, which came to be known as the "Evolved Format." This focused more on the lifestyle benefits of the brand, such as the ability to continue normal activities during the monthly period, and showed women in varied settings such as home or shops.

In P&G's proprietary pre-airing research, Real Women Testimonials had achieved only modest ratings. This confirmed earlier qualitative research in which consumers expressed rejection, sometimes strong, of the Always copy. Desmecht was therefore eager to develop a series of new advertising executions. She commented:

> FemPro is a difficult category in which to manage advertising, and it has proved even more challenging in Russia. In general, consumers have a very critical attitude towards pad advertising, because of the social taboo about discussing such intimate products in public. This means that ads often produce low pre-airing scores, and yet achieve high recall ratings and appear to do their job in terms of influencing brand choice. On top of this, the social taboos about advertising FemPro are stronger here than almost anywhere—Russians retain a strict attitude toward public discussion of a range of sexual, personal and intimate issues. Consumers frequently moan about how they find pad advertising objectionable, especially in the evening when the whole family is watching TV together.

Work began in early 1998 on a new Russian execution of the Always campaign. This featured testimonials from actresses, with only brief flashes of lifestyle benefits, and extensive product demonstrations. In one execution, an Always and a competitive pad were soaked in blue test liquid and then sealed inside envelopes, from which only the rival pad leaked. Both envelopes were then cut in half to give across-section of the pads, showing how the Ultra technology granules absorbed the liquid.

With this execution, Russia remained the only European market to retain testimonial, in contrast to the Evolved Format used elsewhere. Desmecht recalled that "it was obviously something of an organizational mountain to climb to go it alone. The agency also had to be persuaded to boost their local operation to support this localization of advertising." In mid 1998, this localized approach

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[1] Continuity is achieved when advertising achieves a minimum level of ratings during every measurement period, usually a month, rather than in intermittent bursts.

[2] Diary measurement of viewing was recorded manually by viewers themselves in books issued by audience research companies. "People meters" were electronic devices attached to the TV set which recorded when the TV set was on, and the channel to which it was tuned.

received support from a 23-country research study in which Always achieved higher ratings in Russia than in any other country on a number of brand equity measurements.

Sampling

The extensive advertising support for Always was backed up by a sampling program, the challenges of which exemplified many of the challenges of marketing consumer brands in Russia. Sampling by mail was not feasible, since the samples might be diverted by the mailman or stolen from mailboxes. Direct-to-door sampling (also known as "knock-and-wait door-to-door") was not feasible because many women would not open the door to strangers because of security concerns. Given the low-income levels and the heritage of product scarcity, poorly controlled sampling in stores or in the street would result in a stampede of demand and extensive repeat sampling (consumers taking multiple samples). In addition to these problems, there were no established sampling agencies able to design and manage these programs. As in other areas of its activity, therefore, P&G undertook the development of its own sampling system, taking on new partners with whom it developed programs, and designing proprietary techniques for unduplicated sampling frames. The Always brand team led this effort with the objective of designing a sampling program to reach working women with the 18 to 49 age group. Special sample packs were produced on a new local proprietary sample production line, to allay consumer fears that free product samples were likely to be from surpluses of defective goods. Beginning in 1997 with sampling programs in 5 cities, P&G achieved 50% coverage of its target, and was intending to extend the program to some 30 cities in 1998.

May 1998—Future FemPro Strategy

As background to the discussion on the future growth objectives, Desmecht presented data to the meeting on recent developments in sales volumes. The Russian business had operated under supply constraints during most of 1997, caused by the unexpected speed of growth of the Russian business, and also by the distance of P&G's Russian warehouse from the source of production. In the fourth quarter of 1997, some 50% of volume had been shipped on allocation (i.e., supply was constrained), and this resulted in a decrease in shipments during that quarter (see **Table F**). The problem was particularly felt on the Ultra SKUs, which had been constrained throughout 1997.

Table F Always Russia Shipments [a] (index vs. one year previous)

	Total 1997	Jan-June 97[b]	July-Dec 97[b]	Nov-Dec 97[b]
Always	380	308	452	407
	(282)	*(354)*	*(246)*	*(194)*
Thick	214	180	249	222
	(220)	*(283)*	*(195)*	*(178)*
Ultra	166	128	203	185
	(420)	*(542)*	*(371)*	*(217)*

[a]In units of an internal P&G measurement of bulk shipments.

[b]Annualized figures.

By the beginning of 1998, however, the supply constraints had been overcome, and there was the prospect of associated increases in volume sales. In fact, this improvement in the supply situation brought another unanticipated problem in the shape of parallel imports. Actual shipments in March-April 1998 showed disappointing decreases; shipments of the regular pads were 40% lower than the same period a year earlier, and those of Ultra were at the same level as at the time of supply constraints. At the same time, audit data was showing an increase in unit share of the market in Russia. Surveys of product available on open markets confirmed the availability of diverted product from several countries of the region.

This raised the broader question of the desirability and sustainability of the different strategies adopted by brand management for Always in Russia and neighboring countries. Always was one of P&G's major global brands, and all marketing decisions were taken within the framework of a brand position and identity which was internationally consistent. In CEE, however, P&G's business had evolved with considerable local autonomy, given the different market conditions, in terms of product usage, competitive structure, and economic conditions (as illustrated in **Table G).**

Table G Selected data on Eastern European FemPro markets

	Russia	**Hungary**	**Poland**	**Ukraine**	**Baltic states**
Product usage (%)					
Total pads	68	51	78	72	68
Pantiliners	14	22	12	14	21
Total tampons	18	27	10	14	21
Women aged 18-55 (mm)	52.5	3.1	13.0	15.5	3.3
Average monthly disposable income per household (US $)	250	400	360	135	280

Source: Adapted from World Bank and Economist Intelligence Unit data.
Note: "Baltic states" shows aggregate data for Estonia, Latvia, and Lithuania.

The discussion widened to consider the future structure of the FemPro portfolio in Russia and the region. Desmecht remarked that

> . . . We have a number of factors to consider. Our decisions on product portfolio, price levels, and positioning will all determine our success in developing further the Russian market. We also have new options since the Tampax acquisition. We have to anticipate greater concern in the company over international co-ordination, as Russia starts to punch its weight in the region. The key question is whether we can build the business across the region with one strategy, and, if so, which of the strategies currently being followed should be the model for the region?