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News Release

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FOR IMMEDIATE RELEASE

Nielsen: Russia is Sinking into Consumer Depression

Consumer Confidence Index is falling

Less than half Russians have confidence in their personal finances

Two in three think it is not time to buy things they want or need

Russian Food and Beverages Market is slowing down, ...

but it is as good time for new product development as any other

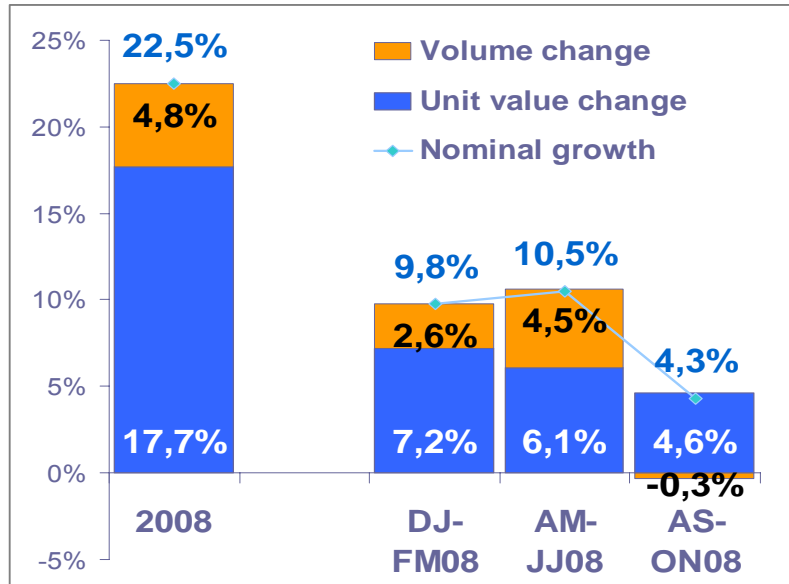
Moscow, March 11, 2009 — According to Nielsen, in 2008 the Russian Packaged Food and Beverages market showed unprecedented 22,5% value growth fueled by high food inflation. At the same time, the healthy volume growth that the market demonstrated in the first half of the year practically stopped in late 2008 and for the first time in several years the market showed a slight decline.

In the period August – November 2008, according to Nielsen, total volume sales of packaged Food and Beverages in Russia declined by 0,3% in comparison to April-July 2008, and Food Index lost almost by five (4,8) points. This affected the results of the total year on the market which grew less than by 5% (4.8) in volume (Pic. 1)

"To keep growing in 2009 at the same level as 2008 will not be easy for the Russian Food and Beverages market", said Dwight Watson, Managing Director, Nielsen Russia. "The latest Nielsen Consumer Confidence Index dropped to 82 in Russia — down six points since November 2008".

The Nielsen Consumer Confidence Index is developed based on consumers' confidence in the job market, status of their personal finances and readiness to spend. The latest Index for Russia was conducted in the period February 16-20, 2009 among regular internet users as part of the second wave of Nielsen's special research project '*Russians Through Crisis*' which gauges confidence levels and spending intentions of Russian consumers in the current economic situation.

Pic. 1. Nielsen's Food Index, Russia. Based on retail sales data in Urban Russia, packaged food and beverages categories audited by Nielsen. 2008 (Dec'07 –Nov'08) vs.2007 (Dec'06 –Nov'07).



The first slump in consumer confidence in Russia was registered in November 2008 when the Index dropped by 16 points. In February 2009 Russians became more pessimistic – with another 6 point drop in Consumer Confidence Index (Pic.2). Economic recession, growing unemployment, high inflation, devaluation of national currency and the burden of credit borrowed with ease during the “optimistic” years are taking their toll on consumers.

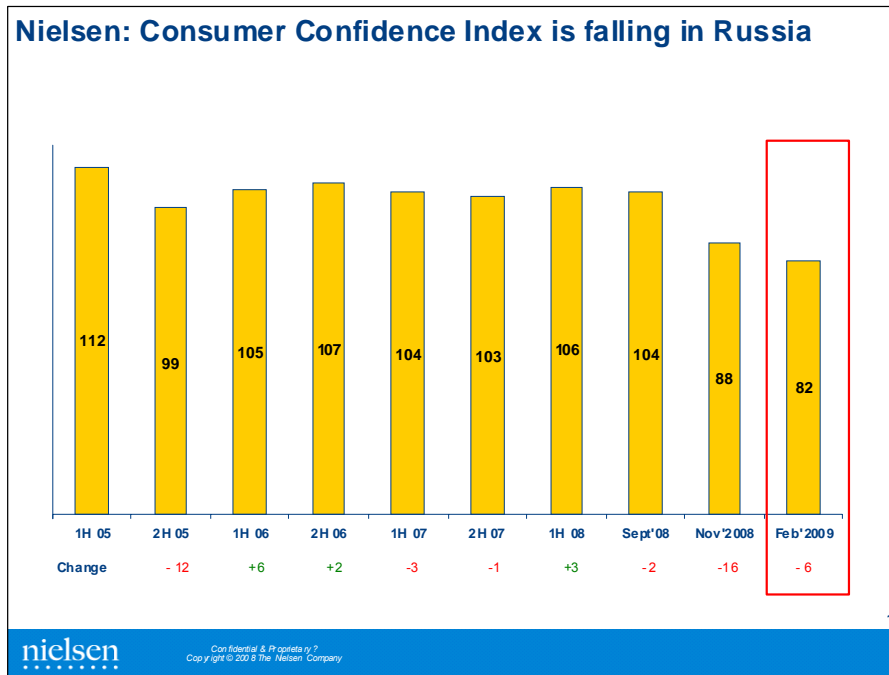
Keeping one’s job is a major consumer concern in Russia today. The data of Nielsen’s online survey conducted within the framework of ‘Russians through Crisis’ study demonstrates that the number of respondents expecting their job prospects to be *good* or *excellent* for the next 12 months more than halved – from 50% in September 2008 down to 20% in February 2009. Almost a fifth (18%) claimed their prospects in the job market were *bad*; it is 3 times more than only 6 months ago. The total number of those who are pessimistic about their jobs in Russia now has grown up to 75% (those who said their job prospects were *not so good* or *bad*).

It should be mentioned that the lowest single drop of consumer optimism with regard to job prospects was seen in November 2008. This latest decline has not been so severe.

Consumers’ perception of their personal finances changed in similar way. Less than half (47%) of Russian online consumers were confident about their finances in February – vs. 51% in November 2008.

But when it comes down to readiness to spend, it seems that Russians are now tightening their belts in earnest after the indulgence of long New Year holidays. In February 2009, 47% of respondents said that the next 12 months were *not very good* time to buy things they want or need, and 20% said it was quite *bad*. While in November 2008 41% of Russian online consumers were sure that next 12 months were a *good* or *excellent* time for shopping, in February 2009 this number dropped down to 30% – the largest decline in readiness to spend registered by Nielsen in the last few years in Russia. At the same time the number on those who think the next 12 months as *not very good* or *bad* time to spend money grew by 20% in comparison with November 2008.

Pic. 2 Nielsen's Consumer Confidence Index in Russia. 2005-2008-beginning 2009. Global Online Consumer Survey. The waves in November'08 and February'09 were conducted only in Russia, as part on 'Russians Trough Crisis' study.



Russian Food and Beverages Market 2008: Consumer Trends in Recession

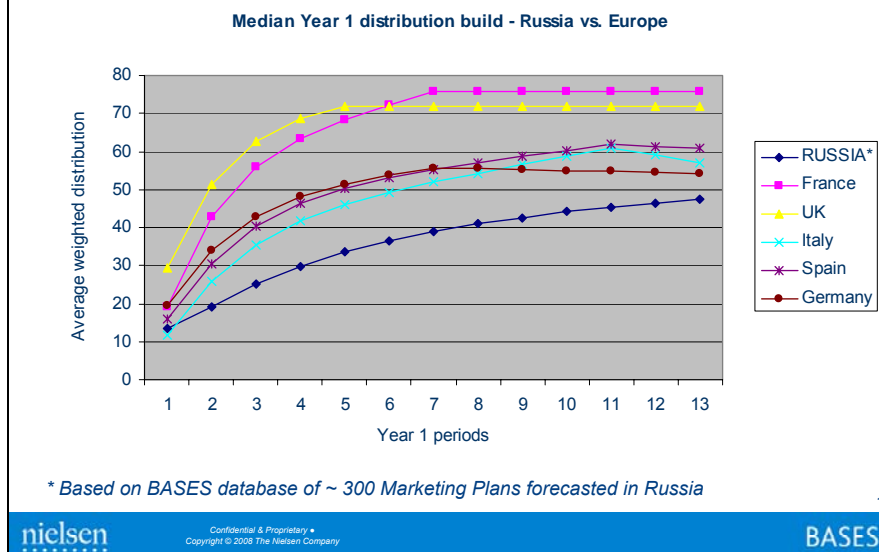
Taking into account the current economic situation and growing consumer pessimism, manufacturers might be reluctant to invest into new product development. However Nielsen BASES studies demonstrate that consumer habits are slow to change and their purchase interest regarding everyday goods and innovations in this segment remain stable over time regardless of macroeconomic conditions.

“The principles that guide new product innovation decisions during normal economic times are relevant during recession. There is an important point why manufacturers should think differently about innovation in Russia. One of the challenges for launching new products here is distribution – because of the vast territory and the fragmented grocery retail market,” said Dwight Watson. (Pic. 3)

The distribution built for the new product might be complicated further as more Russian retailers are focusing on the optimization of assortment. According to Nielsen’s research ‘Distribution Channels Struggling Through Crisis’ aimed at studying the impact of crisis on purchasing behaviour of Russian retailers, ~ 17% of respondents from the traditional trade channels claimed to reduce range. The good news is that the decrease in range is not considerable: 15% on the average. The most popular anti-crisis strategy that is employed by retailers to remain efficient in the current situation is stock reduction.

Pic 3. Average Weighted Distribution Dynamics in the first year of a new launch in Russia and Europe. Data on Russia are based on BASES database of ~ 300 Marketing Plans forecasted in Russia

One of the challenges for launching new products in Russia is... distribution



“Resist the impulse to pull back on innovations, work on your distribution, – these are the key clues as to how to work on the Russian market of Packaged Food and Beverages when times are tight”, said Dwight Watson.

When consumers’ purchasing power is declining, value becomes the key purchasing trigger for shoppers. But that does not mean that Convenience, Freshness & Variety and Health & Beauty no longer motivate consumers. Innovations which follow the change in consumers’ priorities and answer their new needs will help manufacturers and retailers to win consumer loyalty and become stronger in post recession times.

According to Nielsen’s *Russian Packaged Food & Beverages Market Study*, the value growth of eight out of ten fastest growing categories was driven by factors other than inflation.

For example, drinking yoghurt with 1% volume and 30% value growth (December 2007- November 2008 vs. the same period the year before) is stimulated by convenient single-serve packaging and healthy functional yoghurts.

The retail sales of Culinary – Soups, Bouillons, Instant Meals, Seasonings, Noodles, Soup and Meal Makers – showed steady growth (+8% in volume) reaffirming the idea that time-saving and convenient products continue to be attractive for the Russian consumers.

Value sales growth of Salted Snacks was driven by package down-sizing which was seen in the last months of 2008.

The premium sector demonstrated positive dynamics in a number of Food categories even in the post-crisis period of 2008 – in Chocolate, Coffee and some others. But with a further decline in purchasing power, the down-trading trend will become more apparent and will result in noticeable “polarization” of the market: while the premium price sector will remain stable, the middle sector will be losing share due to faster growth of economy sector.



Interestingly, while retail sales of traditional dairy products in Urban Russia declined during the first three quarters of the year and total sales lost 7% in volume in 2008 (e.g. milk – by 7%, kefir – by 9%, curd – by 6%) in Q4'2008 the situation in the sector began to change, and in October-November 2008 the volume sales of milk started to grow.

“It is too early to say that consumers are switching to basic products, but this might become a steady trend if the affect of recession on consumer income becomes more perceptible.” – commented Dwight Watson.

About the Studies:

Nielsen’s Russian Packaged Food & Beverages Market Study is based on retail audit data collected in the period December 2007 — November 2008, across the key categories¹ of six product areas of packaged food and beverages market including Alcohol & Non-Alcohol Beverages, Confectionary, Snacks, Fresh Dairy, and Culinary Products.

‘Russians through Crisis’

The Wave 2 of ‘Russians through Crisis’ study is based on the data of Online Consumer Survey that is aimed at analyzing consumer confidence, and purchasing behaviour in the current economic situation among 500 respondents, the main purchasers of grocery products and other FMCG categories for the household across Russia (the cities covered: Moscow, Saint-Petersburg, Yekaterinburg, Novosibirsk, Rostov-on-Don, Nizhniy Novgorod, Samara). Consumer Confidence Index for Russia is part of this project. Consumer Confidence Index is developed based on consumers’ confidence in the job market, status of their personal finances and readiness to spend.

‘Distribution Channels: Struggling through Crisis’:

Nielsen’s survey ‘Distribution Channels: Struggling through Crisis’ provides a snapshot of the Traditional Trade (TT) behaviour in current market environment. The survey was conducted by means of HHT-terminals in three waves which polled in total 3.431 owners/representatives from traditional trade, individual Minimarkets/Supermarkets and HoReCa in 20 Russian cities in the period December 24, 2008- January 27 2009.

About The Nielsen Company

The Nielsen Company is a global information and media company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and business publications (Billboard, The Hollywood Reporter, Adweek). The privately held company is active in more than 100 countries, with headquarters in New York, USA. For more information, please visit www.nielsen.com.

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¹ Audited by Nielsen in Urban Russia (settlements with the more than 10.000 population)