

RUSSIAN ADVERTISING MARKET: RELEVANT INDICATORS AND FACTORS OF CURRENT DEVELOPMENT

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This research aims to actualize the system of advertising market indicators in today's Russia. The author shows that traditional indicators of this sphere's development during relatively stable economic periods are dramatically changed in crisis conditions. Moreover, the tendencies of globalization, integration and concentration in advertising are highly specific due to the revolutionary, development of this sphere in Russia. Another serious factor pointed out in the research is the large-scale restructuring of the communications, replacing the classical mass media by media-digital formats.

Keywords: Advertising, Media, Communications, Promotion, Crisis

Media advertising market as an object of evaluation

Exploring marketing communications today is a complex task due to their heterogeneous structures. It is, of course, expedient to evaluate expenditure on both marketing and advertising communications. The constituents of this market, apart from advertising, are PR activity, direct service communications with clients, various communications efforts at the locations of sales, etc. In the modern situation, advertisers' budgets can be quickly redistributed between different market segments, between media and non-media communications, or be spent on new marketing instruments (Stolyarova, 2016, 68). General indicators of development level do not seem applicable to such heterogeneous communications. The object of our study is, therefore, only a part of marketing communications - the media advertising market, which includes direct promotion by classical and new media. This ample market, directly connected with solvent demand, has measurable economic indicators that allow explorers to evaluate the prospects of its development (Wurff et al., 2008).

On the one hand, advertising industry active development is a consequence of economic growth. On the other hand, advertising expenditure growth is an indicator of a population's wellbeing, as well as a country's economic prosperity. A developed advertising market is, essentially, a consequence of advertisers' high evaluation of the consumer, advertiser's confidence that the population will be ready to return the promotion budgets by purchasing the promoted brands.



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A system of indicators that is applied to evaluate the level of advertising market development based on comparison of advertising markets development and total size of gross domestic product (GDP) or per capita advertising expenditures (Vollmer & Precourt, 2008).

The first macroeconomic indicator (ratio of the advertising market's value form to GDP) is considered as high if it rises to the level of 0.8-1.2%, and very high if it exceeds 1.5% (Nazarov & Veselov, 2015).

There are also natural indicators of the advertising market's development. For the television market, for instance, it is the total amount of commercial air time; for printed advertisement - the total amount of ads pages in newspapers, etc. The ratio between the value and natural indicators demonstrates the level of advertising market development.

Static and dynamic indicators are usually applied together. High growth rates of the media market indicate previous lagging in development, and characterize emerging countries with young advertising markets. The Russian advertising market is difficult to explore. According to its large-scale dynamics, the advertising market of Russia used to be traditionally included in the category of developing markets with high growth rates. Later, as the growth rates showed a tendency for slowing down, the explorers started classifying this market as a moderately developed. However, the point of transition is hard to locate because of the unstable economic situation. The Russian media market is functioning in the conditions of a permanent crisis. Over the last twenty years, at least three serious crises have been registered (the crises of 1998-2000, 2008-2009, and 2014 (Veselov, 2009, 72)). Due to the market's rapid "shrinking" in the crisis times, as well as the post-crisis restoration periods, evaluating the sphere's dynamics becomes quite challenging, which is further complicated by the global restructuring that accompanies the transition from classical to digital communications (Tellis & Tellis, 2009).

Limitations of the classic indicators application

The difficulties of exploration described above allowed us to formulate a hypothesis for research. For countries with relatively low living standards and with a limited amount of consumers whose choices are influenced by the lowest price factor and by active advertising campaigns offering brands with a high intangible cost (e.g., Russia), the standard advertising market development indicators require serious reconsideration as they do not allow for accurate assessment of the situation. In the first place it concerns the comparative indicator of the ratio of the advertising market volume to the volume of gross domestic product (GDP). This indicator is otherwise referred to as the indicator of specific advertising costs. It is evident that GDP growth is accompanied by advertising market growth. It is hard to expect booming development from any branch or segment in the country with an insignificant GDP volume or low dynamics. But the correlation between the advertising market dynamics and the economy development is, in this case, indirect. Even equal per capita GDP volumes for different countries do not always indicate that separate segments of these countries' economies, especially their advertising markets, are on the same development level. Such conclusions are all the more unlikely if comparative indicators are applied. For evaluating countries with relatively high overall economic levels and well-established advertising markets characterized by stable, jump-and-fall-free evolution that accrues several percentage points a year, this indicator is universally suitable. But why then it is barely representing Russia?

This is explained by the fact that the structure of Russian GDP is not so much constituted by manufacturing goods and services for wide layers of the population, but rather by the products of mining industries (e.g., oil extradition), as well as by the product of the defense industry, which practically no need advertising support and has no ties with the media-advertising market (Veselov, 2011, 32).

In Russia, it is more expedient to study advertising market growth not so much by the GDP dynamics, but rather by the dynamic of the part of the consumers' market that really needs advertising backup, which is the solvent demand volume of the media advertising market. For countries with a moderately developed advertising market and relatively high rate of growth (not only Russia, but also Brazil, Turkey and some Latin American and Eastern European countries), the more important indicator is the consumer market volume dynamics, as they represent the audience whose demands the media market serves (Nazarov & Kovalev, 2008, 207-208).

However, not all segments of the consumer market are interested in the services of the media advertising market. A pertinent example of the opposite may be public utilities, local goods and services whose coverage doesn't require media communications, city transport services, goods, advertising, which is restricted by the law (e.g. the tobacco and liqueur sectors), etc. Goods and services interested in the media-market are those with a clear identification and non-price competition, which require marketing promotional tools (see Table 1). In developed countries, such goods are in a much greater abundance than in Russia. Washing out non-branded goods is a global trend that is now taking place in Russia as well. It is only expected to grow in the future, and we are just now registering the initial stage of this process (Veselov S.V. 2011, 33).

Table 1 - World's Largest Advertisers: by category

(Source: Advertising Age, 5.12.2016)

Category	Number of companies	2015 total worldwide advertising spending	Share of top 100's spending
Automotive	16	\$47.0 billion	19.5%
Personal care and household products	12	\$45.7 billion	19.0%
Entertainment and media	9	\$23.3 billion	9.7%
Retail	14	\$21.0 billion	8.7%
Food and beverage	9	\$18.5 billion	7.7%
Telecommunications	8	\$15.9 billion	6.6%
Financial services	7	\$13.5 billion	5.6%
Beer, wine and liquor	5	\$12.2 billion	5.1%
Apparel	4	\$11.3 billion	4.7%
Technology	6	\$10.9 billion	4.5%
Pharmaceuticals	6	\$10.6 billion	4.4%
Restaurants	2	\$5.5 billion	2.3%
Travel	2	\$5.1 billion	2.1%
World's Largest Advertisers: Top 100	100	\$240.5 billion	100.0%

Modern approaches to the study of market demand for advertising products

How can advertisers' solvent demand be predicted in the conditions of the Russian media market?

As a subject of the media advertising market, an advertiser is interested to effectively promote his goods, so he must determine what media will be most suitable with the task, based on ratings and media planning data. In other words, if the market develops predictably, an "average" advertiser should be able to mold his advertising budget (Veselov, 2011, 39) proceeding from the volume of required contacts multiplied by the expected price of the contacts.

Knowing the approximate amount of advertisers, we can calculate budgets that they allocated for advertising (Doyle, 2013).

Index of advertising activity is an additional indicator that is understood as a share of advertising budgets in total sales of goods and services (how much money spent on advertising is "hidden" in the profit from goods and services selling). The main causes of such a great dispersion of the indicator of advertising activity for various categories of goods in different periods of time are the specificity of each category of goods and services, the conjuncture (economic, political, legislative, etc.) of the market, and the advertising strategy of the subjects of the market.

In the 2000s, the Russian consumer market represented an interesting business platform: the competition was weak while the market growth potential was huge (Evstafiev & Pasjutina, 2017). Cutting off advertising expenses, the major multinational entered to Russia markets just buying the largest and most successful Russian companies (such as "Lebedyanski", "Vimm-Bill-Dann", "Kalina" etc.). That's why the dynamics of advertising expenditure in that period were not ably ahead of the sales dynamics. Soon, however, the market was divided between the major advertisers, and the advertising budget growth rates considerably shrank while the ratio of the advertising budget volumes to the sales volumes started continually dropping.

3 leaders (Procter & Gamble, Unilever, L'Oreal) spend around 12-18% of their annual turnover for advertising goals; other companies from Global Top-10 have advertising expenditure about 3-8% of the annual turnover. For the major automobile manufacturers these expenditures is less - about 1-2%, due to the high per-unit price of the promoted goods (Ionova, 2016, 283).

According to Video International Analytical Center (VIAC)'s the top 20 advertisers on the British and German TV generate 27-28% of all TV advertising budgets; in Italy and South Korea - 32-34%; in Poland, Turkey and the Baltic States - 40-45%; in Ukraine, Bulgaria, Greece and Romania it fluctuates between 50% and 66% (Veselov, S.V., 2011, 44).

According to Advertising Age, the Top-100 companies spent \$240.5 billion on advertising in 2015. In Russia in 2015, 30 major advertisers accounted for almost 35% (99.77 bln.RUB; in 2016¹). We have to note that between top-30 advertisers in Russia there are only seven Russia-originated ones (Figure 1).

¹ Russian Rubble – RUB – is official currency of the Russian Federation, 1 USD = 62 RUB, in 2016

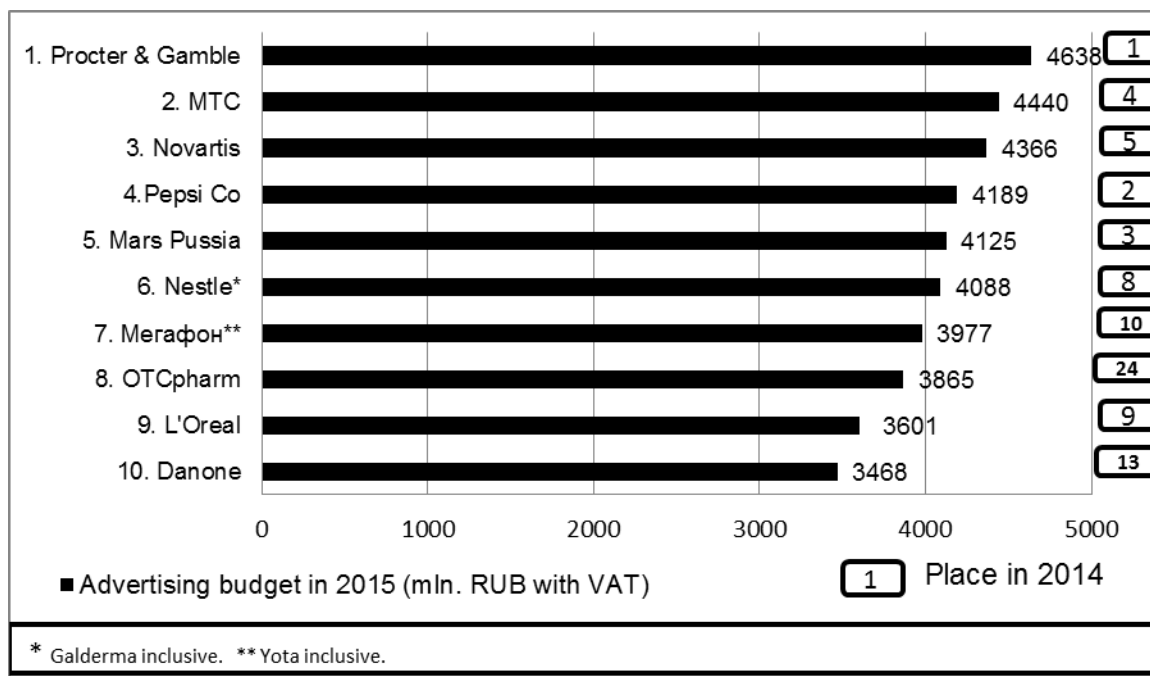


Figure 1 - Major Russian Advertisers in 2015

(Source: ADINDEX)

Apart from the indicators described above, another key indicator for national advertising market development evaluating is the volume of per capita advertising expenditure. For the countries with moderate and high levels of advertising market development, this indicator varies between \$50-70 to \$600-700 per capita annually. For emerging economies it is about few dollars per year (Figure 2). This indicator can be successfully applied for evaluating developed advertising markets, while for countries like Russia it doesn't reflect the real situation in target audience segments. On the background of a low income level and its uneven socio-demographic and geographic distribution, this indicator levels the highly solvent population layers with the low-income groups that tend to shun actively promoted brands.

Digital transformations of media-advertising markets

National media-markets also differ by the structure of distributed advertising budgets. Qualitative changes in the structure of the so-called "advertising pie" characterize efforts applied by media companies towards development of various communicative channels (Buzin, 2009, 123).

Shares of media advertising budgets, accounted for by different media, vary from country to country, and are determined by economic as well as extra-economic technological and political factors. National mentality is an important factor in media distribution, as it determines the national perception type (verbal or visual), which allows us to speak of "reading" and "watching" nations. For example, in Switzerland and Germany the share of the press is higher than in Italy or Brazil. In Russia, the share of TV is traditionally high (around

a half of media advertising costs) (Figure 3). Internet communications spending are fast growing but still less than TV share (Kolomiets & Poluekhova, 2010).

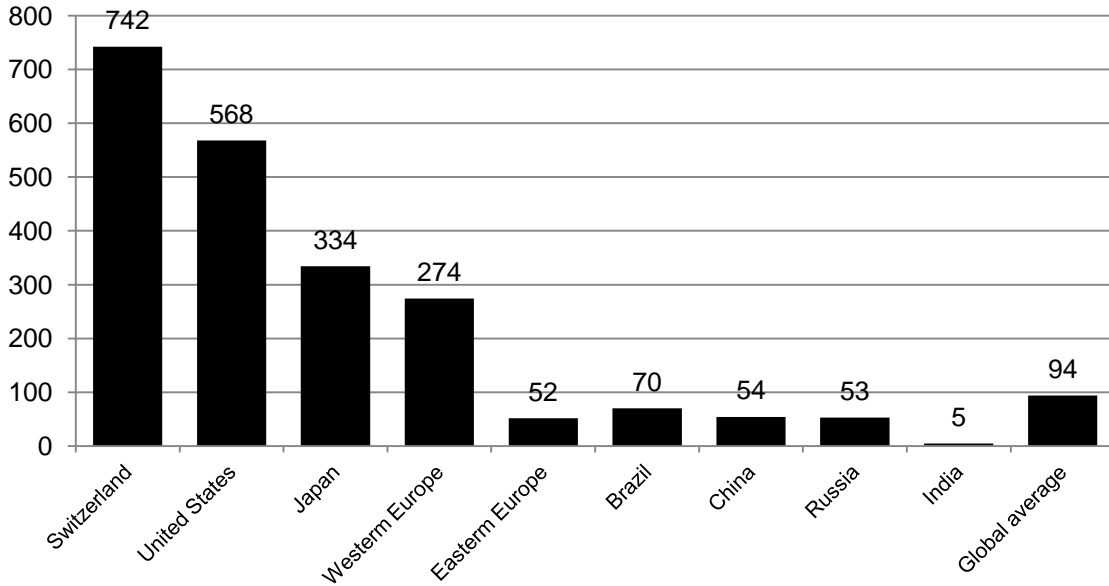


Figure 2 - Per capita advertising expenditure in selected countries, 2015 (in U.S. dollars)
(Source: ZenithOptimedia)

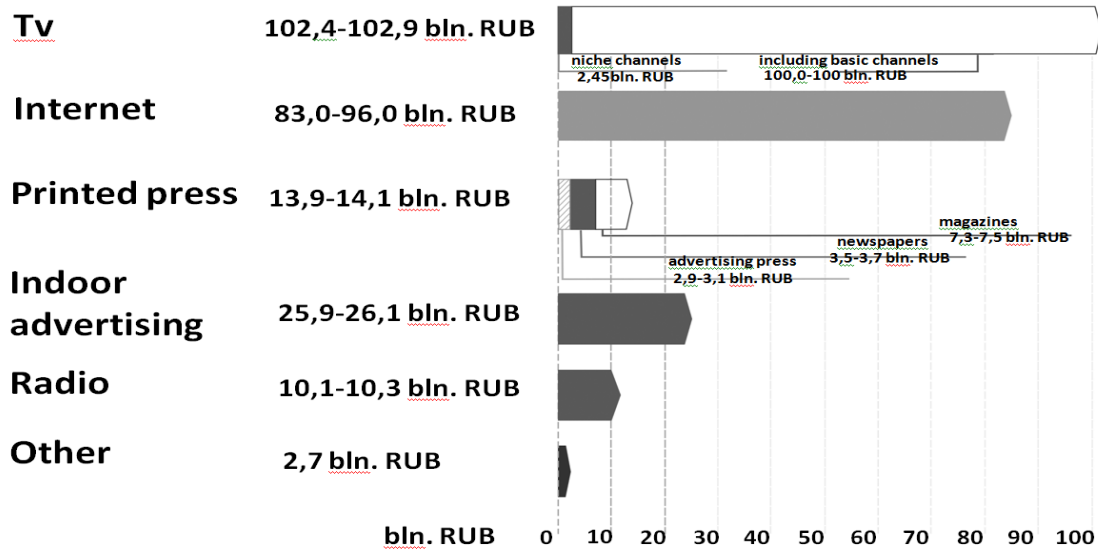


Figure 3- The volume of marketing communications in 2016 (January-September), Russia
(Source: Russian Association of Communication Agencies)

An influence of technological factors on the global advertising market is great. The development of digital technologies has served as a basis for emergence of new instruments of interaction characterized by inevitable engagement of multimedia and convergences of different platforms with the aim of forming and maximally effectively distributing of the content (Petrova, 2014, 129-130). Various types of presenting information - from textual to video formats - are delivering in integrated form instead of separated distribution channels. In order to survive, the modern mass-media (main advertisement carriers), have to improve the instruments that allow to form only interesting content highly relevant to the users' personal requirements (Trubnikova, 2016, 78). If this content is personalized and interactive, the loyalty to the received information will be higher. The audiences' selectivity towards consumed information prompts ousting of advertising campaigns rigidly aimed at sales volumes increasing. Those get replaced with communications campaigns characterized by a weighty social component.

Issues of communications processes optimizing during the crises are especially relevant to the modern entrepreneur in the conditions of limited communications resources and reduced advertising budgets. Consolidating separated segments into a single medium with an integrated approach would help to establish a new system of advertising markets evaluating, with indicators more adapted to the modern realities.

Conclusions

The indicators of specific advertising expenditures characterize the advertising activity; however, it is not applicable for all types of markets. Considering the interrelation between the advertising market and GDP dynamics we can find that this indicator universally suits assessment of the countries with a relatively high level of overall economic development and with advertising markets characterized by stable, jumps-and-falls-free development rate and annual growth.

Russia, on the other hand, is a country with a high economy and advertising market growth rate against a relatively low level of overall economic development. Moreover Russian GDP structure is characterized by small share of manufacturing goods and producing services (comparing with the shares of mining industries, oil extracting, which are barely interested in advertising activity. So Russia GDP growth is not signifying proportional to the growth of the national advertising market.

The advertising market development doesn't much depend on GDP dynamics, but primarily on the dynamics of the part of the consumers' market that requires an advertising support. The media advertising market demand is essentially the reflection of the advertiser's wish to buy attention of prosperous consumer (that can buy branded goods). The factual volume of the advertising market is not only affected by the predictable economic factors but also by various unexpectedly emerging factors connected with political, legislative and other processes, and the scale of their impact is highly challenging to assess.

The second considered indicator (per capita advertising expenditures) does not always accurately reflect the situation on the emerging markets. In the situation of low income and uneven socio-demographic and geographical distribution, this indicator equalizes the highly solvent layers of the population that are the object of advertisers' active interest. So the per capita advertising expenditure indicator can be successfully applied to developed advertising

markets, with a wide, economic-crisis-resistant middle class. For emerging and crisis-afflicted markets the application of this index is limited.

Adaptation of traditional indicators to the specificity of evaluating technological development in the era of digital media is a manifold task that obviously requires further research.

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