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Issues to consider before starting your market research project in Eastern Europe and/or Russia

by Richard Lucas

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Introduction

Many international companies are facing the challenge of researching the fast changing markets of Central and Eastern Europe, and trying to interpret the results of their market research projects in this region compared with those from other parts of the world. This paper is written as an introductory guide and is based on the author's 15 years of business experience in Central Europe and Russia* and the hundreds of market research projects that PMR has conducted in Central Europe and Russia for companies and governments from around the globe.

As always, business is business and so the same key issues matter in Eastern Europe as everywhere else: clients, costs, competition, people, processes, products, strategy, technology and the regulatory environment. It is particularly important to think about the wider context in Eastern Europe, as the pace of change in this region is so rapid that a badly designed survey that does not take account of the macro context can research yesterday's issues or miss key issues entirely.

* Before taking control of PMR, Richard Lucas founded or invested in several market leading companies in Eastern Europe including Argos Translations www.argostranslations.com, one of the largest translation and software localization companies in Europe, SKK www.skk.com.pl, the leading automatic identification systems integrator in Poland, and ISL www.isl.pl, the market leader in automated storage and retrieval systems. Each of these companies demonstrates a track record in achieving market leadership based on knowledge of Eastern Europe and western business behaviour.

What are the objectives of the project?

What is the wider business context or other issues that provoke our internal or external clients to demand the study? Examples of the wider business issues often faced by our clients in Central Europe and Russia are:

Competitor response

Your global competitors are doing things in Central Europe that are provoking concern at a strategic level (investing in greenfield sites, making acquisitions, doing joint ventures, reporting much higher than expected sales growth, taking market share, implementing sourcing or purchasing projects, opening sales offices, and/or adopting unusual branding or pricing strategies).

New competitors from Central Europe with aggressive pricing strategies are entering your traditional global markets, especially the old European Union countries. Our clients want to know what their local home markets are like, and whether there are opportunities to sell into these markets.

Understanding the markets

Have we been experiencing steadily rising sales in Central Europe and need to get a view of just how much potential the market has as some critical threshold is reached and we realise we are now selling more in Poland, Hungary, Czech and Russia than in Greece, Portugal and the Benelux despite the fact that we spend 10 times as much on sales and marketing in the more familiar markets?

Or have sales stabilised or started to fall after years of growth and we need to know why and what possible courses of action could address the issue?

Are there gaps in our product range which mean we are missing major market opportunities ?

Are there gaps in our country coverage?

Sometimes companies have excellent sales in some of the countries of Central Europe and very weak or no sales in others and understanding the reasons is a key input into deciding what to do. The most often cited reasons (lack of a good distributor and/or strong local competition) may not be a sufficient answer if competitors are making many million of euros in sales. Understanding the market well is a pre-condition to making the right decisions for a country specific strategy, each country is different and has its own history, culture and language. For example Slovenia (almost at Western levels of cost and salary), Romania and Poland are at very different stages in their development, while Moscow, the capital of Russia, has a larger population and GDP than the whole of the Czech Republic. Does an unexpected €10m a year market in Russia mean we are missing something in Central Europe, or could the sales in Russia be 5 times higher if we knew more about how the market was developing? How much more would we be able to do if we regarded these fast growing markets as strategic and gave them dedicated product development and support?

Are we reacting to failure ?

Sometimes the reason for a study is a perceived or real disaster, or a major problem. For example failing to win major market share after a serious investment in sales and marketing in the region when we know that our competitors are succeeding, or having some major customers recently defect to the competition.

Are we considering **launching products** specially targeted at the Central European marketplace and we need to understand the preferences and needs of the local consumers better than we do at present?

Are we considering an acquisition or series of acquisitions and we need to know more about what appeals to consumers about the products our targets are making as part of a commercial due diligence? Or do we want not only to shift production from high cost Asia, USA, Scandinavia or Western Europe but for our new high-tech low-cost factories in Eastern Europe to address local markets if they exist?

Whatever the objectives of the study, it makes sense to review them before starting. Not just “what do we want to know” but “why do we want to know it”. An external partner like PMR can not just do the research the client can but can also give advice about what the results mean and what to do about them, and this can create real business advantage. Market research is most valuable when it supports implementation of strategy.

Once the objectives have been defined, it is important to review what is already known.

What do we already know?

It is very unlikely that international companies know nothing about Eastern Europe and assembling the basic facts before talking to external research companies can save a lot of time and money. Often a lack of information is associated with sales through distributors who do not necessarily see any reason to or have no incentive to share data about final clients with their suppliers. Indeed distributor pessimism about the prospects for sales and pricing is a well-known tactic designed to transfer profits from the manufacturer to the sales channel and one of the reasons for independent market research is to verify this information independently for such vested interests. Talking to and having a good relationship with distributors almost always makes sense as part of a market research study but is never sufficient for a complete picture.

Often there are members of staff within larger companies who have some ethnic roots in Eastern Europe or Russia and who may have important insights too and may be potentially valuable members of a project team.

Increasingly corporate purchasing departments may have insights and contacts in the region as well, given surging Central European exports, and it is worth asking them if they are active at all and have any contacts. Needless to say, suppliers in the region are often willing to be helpful, particularly if you are a major customer to them.

Each company should review its external network. Most people know a few companies that are doing something in Central Europe and a structured conversation with different people about the issues you have may yield some important insights or further people to talk to.

Central European and Russia specific factors

The communist history of Central and Eastern Europe and its consequences have many profound impacts on the way that research projects can be conducted and should be carefully analysed. Many Central Europeans and Russians like to pass this off as a long distant memory and although in some ways this is true, there are still important issues that this history should encourage us to address.

Desk research

High quality desk research is an important part of most market research studies. This is not just to ensure that the existing knowledge of the topic is properly understood but also to identify potential data sources and get insights and perspectives from external sources. There are two key issues to underline:

- the data in many internationally accepted databases in Central Europe and Russia is much less detailed than in the West. Using the standard western databases like Dialog, Thomson or Lexis Nexis will not take you as far as you would expect.
- English language desk research is not enough. Many databases are not available in English and relying on English alone will not be sufficient.

Desk research can be done well at a reasonable cost by those who know the local languages and have experience and knowledge of doing projects, and know the data sources available in them. Low quality desk research is worse than useless. If desk research is being recommended ensure that the work is done by experienced professionals who know what they are doing.

Getting interviews with senior executives

This varies country by country. In Russia doing telephone interviews can be extremely difficult as there is no culture of giving away information to people you do not know. Face-to-face interviews can be very productive but obviously the costs in a country as large as Russia can be huge.

On the other hand at PMR some of our researchers who have knowledge of both Western and Eastern Europe say that in some cases it is much easier to get executives to answer our questions than it is in the UK or the US. As always it is dangerous to generalise and skills and personality of the interviewers are important.

Official statistics should not be trusted and are often of poor quality, late and unreliable

All good market researchers like to understand the collection methods that lie behind the tables of data that are presented by national statistical offices. A temptation in long-established market economies with stable histories is to think, "if anything was wrong with them, someone else would have complained". And usually such an approach does not lead to disaster. It should not be relied on in this region. The official statistical office data should

not be 100% trusted. As there is often no published alternative data source we always recommend discussing ways to verify what the official data means.

The situation today is that there is sometimes (but not always) a startling lack of professionalism in the state statistical services and importantly, the ministries and other bodies that send the official statistical body data don't always take their responsibilities seriously. The upshot: Don't assume the national statistical offices are as reliable as you would like them to be.

For longer term research the challenges are even bigger. During the communist period statistics were a political issue. People and institutions were incentivized to exaggerate their production and the results were widely and correctly regarded as propaganda. The value and importance of quality statistics in a market economy was only dimly understood. The data collected had nothing to do with markets because market prices were not part of the Central Planning, and as those who know the history of the end of communism, the collapse in sales of many products after the end of communism demonstrated that the demand for the products produced was a function of shortage rather than competitiveness.

Data collected during the communist era does not lend itself to analysis for those unfamiliar with the workings of a centrally planned economy. Experience and understanding of the local realities is important. Measurement and interpretation of longer term trends is harder than usual. Additionally European Union statistical standards which have overall done an excellent job in terms of standardising and helping with international standards have introduced a discontinuity between the data of the past and the dates when EU statistical standards were adopted. What is the meaning of car ownership per head over the last 25 years? What are the consequences for consumer preferences now of the fact that many adults over the age of 40 experienced serious shortages in consumer goods, while their children have no idea what their parents are talking about.

Catching up and leap frogging

Moving from the disequilibrium caused by communist era shortages to a normal market situation where supply and demand are in balance has already happened in most markets, but the after effects are still important. The consequences were rapid market growth at first but not to the same size as the short term trend first suggested, due to lower income per capita that in more developed markets. Many larger companies were unduly optimistic after a few years of experience, then retrenched, but now find their markets are growing again; each case has to be looked at individually.

Technological "leap frogging" took place because there is often no case to adopt old western technologies. Some important markets never developed at all. This is particularly true in business-to-business technologies, where the installed base of "old ways of doing things" is much smaller than in the advanced economies. For example Eastern Europe has much higher level of same day bank transfers than in western Europe and will never be a market for traditional paper cheques or all the associated software and machines. There is no market for supporting "legacy software" systems.

The informal economy

Traditions of rule breaking and lack of respect for law were strong in the communist past, although with rampant black marketeering, originated from widespread shortages and

the lack of legitimacy in the legal process. Some of these traditions, such as under reporting economic activity, remain a problem. Research methodologies need to be robust against the impact of unreported income.

Interview laziness/corruption

A lack of ethical integrity among interviewers is a problem that many market researchers have to deal with. It would be a mistake to make the assumption that managing interviewers is more difficult in Central Europe or Russia than in the most advanced economies. However, those commissioning research should know that interviewers have been known to make up interview responses and should be sure to work with trusted parties who are aware of the issue and know how to deal with it.

Cost pressures and random samples

The competitive pressure on research companies in this region means that companies have a tendency to say that they can do everything at very low prices: when the budgets are under great pressure shortcuts are often taken. Random sampling is not always a high priority for clients and if it is not insisted on you can be almost sure that the sample will not be random. The consequences of basing important business conclusions on lower quality non-random samples can be very serious. Be sure that if companies make very low bids you know where they are saving money. Best value for money is not the same as the cheapest.

Relevant experience

It is very important to be sure that the market research company you are working with is experienced in doing the types of projects you wish to carry out, and also understands the type of business you represent.

Conclusions

If you are doing market research in Eastern Europe you should:

- be aware of the differences between the different countries in the region and have local language research capability in your team.
- work with companies that are experienced in the sectors and areas of your business.
- ensure good communication with market research vendors; local standards are not always as high as they should be due to poor traditions of customer services. Those who value good communication with their research company should pay close attention to this issue in the vendor selection process.
- take the time to find out and explain the wider business context for the project.
- provided these guidelines plus plenty of common sense are applied, there is no reason why work at a level and quality achieved in other parts of the world cannot be obtained in Central Europe.

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