

# Brand Equity Aberrations: Heritage Brand Perception Effects in Russian Markets

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## EXECUTIVE SUMMARY

Many scholars agree that vast and diverse Russian consumer markets are under-researched, and further conceptual and empirical studies are needed to better understand cultural issues and their effect on consumer behavior. This paper contributes to the exploration of cross-cultural communications and brand marketing in contemporary Russia.

This study represents a conceptual framework, continuing and enhancing prior research conducted by many scholars. Diverse environments and the fluid nature of Russian consumer psychology call for further brand marketing research to better understand and more accurately predict consumer behaviors, particularly those leading them from initial intent to actual purchase.

The paper analyzes links between tangible and intangible brand equity components to illustrate and explain the evolution of consumer psychology as the economy transitioned from Soviet central planning to the unique Russian model of capitalism. It is shown that in this transitional economy, consumers demonstrate a strong propensity to buy “heritage” Western brands, i.e., brands familiar to Russians during Soviet times, rather than “new” brands, which appeared on the market after the collapse of the Soviet Union. The concept of INverse BRAnd NOSTalgia (INBRANOST) is introduced to interpret certain antecedents of consumer behavior. INBRANOST is attributed primarily to consumers who spent their adolescent and adult years in the scarcity-driven Soviet society; were deprived Western brand experience; and now seek “retribution” through ownership of “heritage” brand name products.

The paper links consumer purchase intent to gender, age and culture-related matters. Capitalizing on existing theoretical and empirical research of Russian consumer ethnocentrism referenced in the paper, this study focuses on brand equity aberrations. “Heritage” brands enjoy popularity among wealthy and influential consumer groups and sell in Russia at premium prices. At the same time “new” brands gain market share at a slower pace and a greater advertising and promotional cost than those predicted by Western marketing models. Such brand equity aberrations are the subject of an in-depth analysis in the paper.

**Keywords:** Cross-Cultural Research, Russia, Brand Perception, Nostalgia, Transitional Economy, Consumer Behavior, Positioning Strategy, Heritage Preference Formation, Brand Choice.

## **Brand Equity Aberrations: Heritage Brand Perception Effects in Russian Markets**

Russia is one of the countries where perception of many brands is strongly influenced by consumer cultural heritage. This view is consistently supported by studies of Soviet consumers conducted in the 1960s and '70s (Greer 1973; Barksdale, Kelly and MacFarlane 1978) as well as consumer research in contemporary Russia.

Rapid political and economic transition in modern Russia led to greater social inequality (Supphellen and Gronhaug 2003) and created a contradictory cultural environment. Highly uneven distribution of household income further increased societal stratification along multiple dimensions. This process exacerbated historical variations of consumer ethnocentrism and contributed to the formation of consumer subcultures based on wealth, regional affiliation, feeling of national identity, etc. (Thelen, Ford and Honeycutt 2003; Thelen and Honeycutt 2004; Anttonen, Tuunanen and Alon 2005). Published research also found that consumer ethnocentrism is affected by nostalgic feelings for the past: “firms need to be aware of and capitalize on nostalgia in Russia” (Thelen, Ford and Honeycutt 2003; 2006b). We will discuss this finding and examine its application in greater detail later in this paper.

Russian consumers are known to inconsistently and unpredictably respond to Western-style marketing campaigns (Wells 1994; Wells and Van Auken 2006), and this is not surprising. Cross-cultural miscommunications and heritage issues create incongruity between the brand perception intended by Western marketers and the one that is perceived by Russian consumers (Andrews, Durvasula, Netemeyer 1994), and cause poor correlation of brand product sales with investments in respective public relations and advertising campaigns in “enigmatic” Russia.

To better understand consumer attitude and purchase intent toward foreign-brand products, researchers take a logical path from general to more specific characterization of the consumer behavior: ethnocentric proclivity; product class level inclination; and then brand preferences. Consumer ethnocentrism, which describes cultural effects and patterns of consumer behavior with respect to two very broad categories: domestic vs. foreign-made products, is commonly measured using Consumer Ethnocentric Tendencies Scale or CETSCALE (Shimp and Sharma 1987). CETSCALE methodology was successfully used by researchers studying consumers in Russia. Some of the comprehensive studies of Russian consumers established certain behavioral patterns and identified three consumer subcultures - Technocratic, Industrial and Traditional Russia (Thelen, Ford and Honeycutt 2003; 2006a; 2006b). These subcultures appear to have both unique and common characteristics. One of the important well-pronounced across-subculture commonalities is overall consumer propensity to buy domestic consumables and foreign-made durables.

Using this general observation as a starting point, this paper analyzes the consumer perception of various brands present in the Russian market. Briley and Aaker (2006) showed that brand perception determines consumer attitude toward particular brands, which strongly depend on culture-based judgments and personal knowledge. Researchers strive to measure the level of correlation between brand advertising and public relations, on one hand, and consumer brand purchase intent and subsequent brand experience, on the other. Wells and colleagues researched cross-cultural issues in advertising focused on various aspects of the Russian consumer response to Western-style advertising (Wells and Van Auken 2006; Wells, Van Auken and Ritchie 2007).

Contemporary Russian consumers who lived through the Soviet era had limited personal knowledge about Western brands and even more limited brand product availability. Soviet experience developed distorted - mostly inflated - perceptions about Western brands in the minds of consumers (Aksenov 1984; Wells 1994). These heritage perceptions continue to affect the consumer product purchase intent now – in post-Soviet Russia (Ennew et al. 1993; Andrews, Durvasula and Netemeyer 1994; Hsieh 2004).

Marketing managers are keenly interested in better understanding the peculiarities of consumer behavior in order to more effectively sell their products in Russian markets. When consumers follow through this intent and make

an actual purchase of a brand name product, this incrementally increases respective brand equity (BE). This paper extends consideration of Russian markets to include effects of brand perception on the product purchase intent, using analysis of historic, demographic and socio-economic factors affecting consumer preferences. Discussion also focuses on the evolution of BE since the Soviet era and aberrations of brand experience.

In the absence of reliable market data in contemporary Russia, it is difficult to develop quantitative models and measure brand equity of particular brands. Therefore, it shall be helpful to develop and explore qualitative concepts before attempting to build statistical models. This research discusses the relationship between brand equity aberrations and consumer purchasing decisions, using research based on the cultural, demographic and economical trends. This shall enable future development of quantitative market forecasts based on customer relationship management (CRM) models and integrated marketing communications (advertising, sales promotion, public relations).

The following analysis is focused on the heritage roots of brand perception evolution in the minds of Russian consumers.<sup>1</sup> It is suggested that scarce supply of and limited access to brand name products in the closed Soviet economy, and lack of direct brand experience among consumers caused inevitable distortions of brand perception and subsequent BE aberrations.

We further suggest that some of these distortions and aberrations stem from a peculiar nostalgic sentiment, which can be explained by the new concept of inverse brand nostalgia or INBRANOST (INverse BRAnd NOSTalgia). This concept is substantially different from that used in the published research of nostalgic factors in consumer ethnocentrism (Thelen, Ford and Honeycutt 2006b) and helps to better explain consumer purchase intent regarding “heritage brands” (Soviet era) vs. “new brands” (introduced after the collapse of the Soviet Union in December 1991).

## **UNCERTAINTIES OF BRAND EQUITY MEASUREMENT IN RUSSIAN TRANSITIONAL ECONOMY**

While considering the characteristics of consumer markets in Russia, it is important to keep in mind that Russia’s economy still remains in a transitional period and slowly evolving macroeconomic factors only partially explain the change of consumer behavior. Russian markets are also affected by a dynamic expansion of product and service offerings: new brand-name products appear on a daily basis. In addition, as borders become more transparent, and Russian citizens travel to other countries, consumers become more knowledgeable and their brand experience expands. These processes translate into significant changes of BE in Russia.

Companies need to measure BE in order to properly position, manage and adjust their respective brands. Many scholars determine BE via an underlying customer equity (CE) (Kotler 1997, p.444-445; Leone et al. 2006, p.129-131), which is, in general, difficult to quantify. Kumar and colleagues developed an approach where CE can be computed as a sum of individual customer lifetime values (CLV) (Venkatesan and Kumar 2003; Kumar, Lemon and Parasuraman 2006). For the purposes of the following discussion we will apply this approach to BE measurements.

To measure CLVs with reasonable accuracy, companies use complex qualitative and quantitative CRM tools. When extensive data are available, CRM methods help to compute and predict individual CLVs and resulting CE via analysis of comprehensive databases characterizing consumer purchasing patterns, responsiveness to price changes, incentive programs, etc.

In countries with advanced economies CRM is based on large and ever expanding databases reflecting historical customer behavior. Such databases contain statistically reliable information and allow marketers to forecast

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<sup>1</sup> The following discussion does not focus on or endorse any particular brand; subsequent mentioning of brand names is used only to illustrate the underlying logic.

individual and aggregate CLVs. Additional data from credit card transactions, on-line ratings, etc. help to fine-tune these forecasts and improve their accuracy (Thomas, Reinartz and Kumar 2004).

Unfortunately, in transitional economies, like Russia, only partial data are available and many sources are unreliable due to the skewed methods of data reporting, collection and interpretation. Many Russian workers still receive a significant portion of their income in cash; so many purchases are based on cash transactions, which further blur reporting. This is not to mention the difference between Western and Russian reporting methods.

Ramaseshan et al. (2006) analyzed challenges to the global CRM, including “differences in the competitive environments, technological infrastructure, political systems and regulatory variations.” This study also emphasized that CRM literature is mostly based on the Western approach to consumer values and anticipated behavior, which they showed is not applicable to Asian cultures. Similar uncertainty in data collection is attributed to the Russian business environment (Anttonen, Tuunanen and Alon 2005), which makes CRM methods ineffective.

In spite of the recent research efforts, information about consumer behavior in Russia is incomplete, inconsistent and sometimes deliberately distorted. These uncertainties make brand management a challenging and expensive task. As Mendelsohn (1996) put it: “Russia is not a destination for the faint hearted or under-resourced.”

These factors make it difficult for companies already doing business in Russia to measure their BE and profitably manage their respective brands. Companies considering penetration of Russian markets have a more cumbersome task of forecasting future BE even before they enter the market. In the absence of uniform and comprehensive data sources allowing direct use of the CRM mechanism and logic, indirect methods could help to assess and forecast BE elements.

To better understand the “heritage effect” in consumer psychology, the socio-economic environment in Russia during the Soviet and post-Soviet periods and its effects on the BE of the products and services available to the average consumer should be considered.

To better understand Russian consumers it is important to keep in mind that an independent Russian Federation was proclaimed barely 15 years ago. Thus the majority of the population bears a significant, although invisible, burden of heritage views and behavioral patterns. According to the CIA World Factbook (2006) an average population age in Russia is 38.4 years. This means that an average consumer lived most of his or her life - 23 years - in the Soviet society and this experience likely influences his/her brand perceptions and purchasing habits.

## **SOVIET CLOSED SOCIETY: SCARCITY-DISTORTED BRAND EQUITY**

### **Formation of Scarcity-Driven Consumer Psychology**

For more than 70 years the country named USSR occupied nearly one sixth of the earth. Its economy was run by an inefficient bureaucratic machine governed from Moscow. This so called “central planning process” was one of the cornerstone principles of the socialist system (Greer 1973; Ennew et al. 1993). According to Marxist theorists, this process had to provide the most rational and fair distribution of goods and services among the people.

In the socialist society all people were proclaimed equal. However, some people were “more equal” than others – and an Orwellian Animal Farm (Orwell 1993) quite fairly depicted such social order. These “more equals” had unparalleled access to the products, services or benefits denied to the general population. They were high-rank apparatchiks, employees of the police, KGB and multiple power structures at federal, republican or local levels.

These consumers belonging to the party elite had access to so-called “restricted distributorships” – stores and warehouses where high-end goods were available at cost. They had the ability to use the services of select

hospitals, resorts and clubs. In addition, they enjoyed the highest privilege in the Soviet era - permission to travel abroad – an opportunity, practically unavailable to common citizens presumed to be ideologically unstable.

Product distribution systems were based on ideology, rather than economy, and were built by the socialist system in its early years of existence (Dyker 1992, p.24-28) and used without change until the collapse of the Soviet Union in 1991. Access to goods and services was controlled by the central and local powers using all legal, semi-legal and totally illegal means, which were justified by the communist doctrine of the day. Using ideological smokescreens, the Communist party for years cultivated a feeling of exclusivity among its members, developing an elaborate system of privileges tied to the member position in the party hierarchy.

Well known and frequently cited examples came from literature depicting rules established in Soviet society since the 1920s. Il'f and Petrov (1928, p.353) casually mentioned a plaque posted outside of the bar “Beer served ONLY to union members!” This served as a visible sign of a privilege given to loyal supporters of socialism in contrast to the rest of the population. It is worth mentioning that at that time union members accounted for at best 20% of the general population. That was a skillful application of the principle ‘Divide and conquer.’

On one hand, this special treatment kept party members and union supporters together as they became addicted to the enviable sources of luxurious goods and services. On the other hand, hidden flows of scarcely supplied products commonly called “deficit” created a widespread black market where these goods were sold or bartered for other goods or services (Skursky 1983 p.157).

Under such circumstances, time became the least valuable commodity, which could be used in barter transactions. People were forced to wait in lines for hours to purchase practically everything: products, services, but particularly food (Dyker 1992, p.103-124; Giffin, Babin, and Modianos 2000). To buy furniture, a refrigerator or a washing machine they had to wait for months, sometimes years (Greer 1973, p.52), checking in from time to time to ensure that their names were not “accidentally” deleted from the waiting list.

Yet not all consumers stood in long lines to purchase scarce products. Some people with connections belonged to the ad hoc Soviet elite and had a privileged access to plenty of supplies. In the Soviet centrally-planned economy all tangible products were government owned manufacturing plants, trains or trucks used for transportation, storage facilities and warehouses, and stores. Therefore, government employees controlled the distribution chain and could choose whether to put products on the counter for sale or hide them in a warehouse to create an artificial scarcity (Greer 1973, p.131-133). Many products went directly from warehouses through different channels to the black market and were sold there at grossly inflated prices (Skursky 1983 p.157). Foreign-made brand name products were particularly subjected to such distorted distribution because of their greater perceived value.

### **Brand Equity Distortion Caused by Limited Brand Experience**

An average Soviet consumer was aware of the existence of relatively few foreign brands but, due to overall shortages and acute scarcity of imported products, stood very little chance to buy brand name products (Danelia, 2006). Hence, the CE for individual brands was negligible. Product distribution through back channels and the black market made it impossible to directly measure aggregate BE, using means and tools common in developed countries. Still, a closer look at BE structure and its components may be helpful for future analysis.

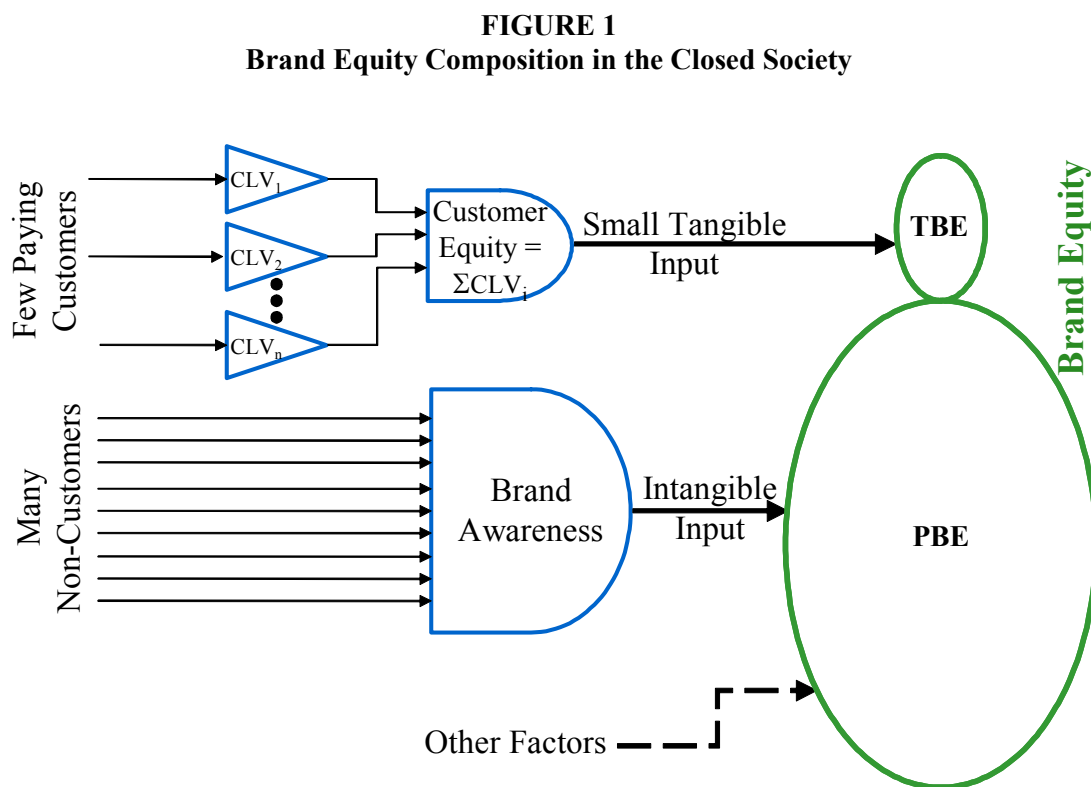
Many brands in Soviet Union held not only utilitarian, but also perceived value – prestige, demonstration of power, association with social group, etc. It would be therefore logical to represent BE as an aggregate of Tangible BE (TBE) and Perceived BE (PBE) components (including intangible inputs and other factors). For the purpose of this analysis we could further assume that both customers and non-customers of this brand contribute to different elements of the overall BE.

Non-customers had only limited or indirect knowledge of foreign brands, thus their brand perception was inevitably skewed. Definition of brand knowledge as “not the facts about the brand - it is all the thoughts,

feelings, perceptions, images, experiences ... that become linked to the brand in the minds of customers” (Leone et al. 2006, p.126) could be only partially applied to the majority of Soviet consumers who never owned brand name products (Aksenov 1984).

Before we analyze TBE and PBE components it is worth mentioning a distinct difference between these metrics and those used by Hsieh’s (2004) analysis of measured and unmeasured BE parts. The key difference is a subject of assessment. Hsieh’s research strived to assess the measured and unmeasured portions of actual consumer brand experience. However, as we established, most Russian consumers could only dream about possession of brand name products, thus PBE component reflects the imagined reaction to the brand among would-be consumers.

Figure 1 describes the relations of BE components in the closed Soviet society. It provides a qualitative representation of the elements reflecting direct experience and perception associated with some unspecified foreign brand.



In a perfect world, tangible inputs can be measured in units sold or revenue received, so the TBE is determined by the CE and can be expressed as a sum of individual CLVs. However, in a closed Soviet society with a sizeable population – about 250 million people - most transactions could not be tracked: brand-name products came from various sources, were sold at vastly different prices and all transactions were cash-based. In addition, the difference between official and actual exchange rates of major currencies made any objective assessment of TBE even more difficult.

PBE was based on intangible inputs pertaining to brand awareness, reputation and desirability. Most consumers were able to obtain only limited or anecdotal information about the brands, mostly from Western books or movies. Thus many people associated Western brands with wealth and happiness they read about in books or saw in movie theaters. Such romantic associations became deeply embedded into consumer minds, making then-

known brands even more desirable and placing them on top of their respective mental “brand ladders.”

An imbalance between the huge hidden demand and extremely scarce supply of then-popular brands resulted in the TBE/PBE ratio resembling that of the visible tip to a whole iceberg. Other non-economical factors (prestige, country of origin, etc.) further boosted the TBE/PBE ratio for well known brands and reduced it for less known ones, thus increasing BE aberrations.

### **Brand Perception Biases**

Advertising, as a meaningful source of information in developed countries, was virtually non-existent in the Soviet Union. The Communist party considered advertising as a “social waste” (Greer 1973 p.92). Some primitive advertisements, which were still allowed, carried information about particular products, rather than brands (Wells 1994), and in many cases announced sales of stale products. Marxist orthodox theorists claimed that marketing doesn’t add value to the product and therefore is unproductive (Skursky 1983 p.27).

Widespread supply scarcity, speculation and uneven distribution skewed consumption patterns and put most goods out of reach for most people. This left word of mouth as the only source of information beyond dated books and movies. The relatively few Russian consumers who possessed brand-name products often bragged about qualities of their possessions as superior to those of domestic products. This inflated perceived value of the brands, made “un-possessors” envy and elevated the social status of product owners (Danelia, 2006 p.76-77). Such verbal endorsement increased desirability of the brand name products among would-be consumers and boosted PBE.

Hidden demand of the products associated with better known foreign brands could be hardly measured using methods common to advanced economies. As Thelen and Honeycutt (2004, p.6), mentioned: “Unfortunately, it is difficult to locate unbiased studies of Soviet Russian values and attitudes and to compare them with values and attitudes of Russians today. Even when Soviet journal literature exists, its objectivity is questionable.”

The common desire to own brand-name products was further exacerbated by universal scarcity of supply. This skew in consumer psychology was expressed in a popular Russian saying ‘Scarce means good.’

P1. In a closed economy overall shortage of supply causes brand equity aberrations, disproportionately magnifying image and appeal of the few popular brands at the expense of less known others.

Back in the 1970s and ‘80s people boasted about electronics made by Sony, sportswear from Adidas, perfume from Chanel or Levi’s jeans because this elevated a perceived societal rank of the owner. Foreign cars made by Ford or Audi, when infrequently seen on the streets, attracted small crowds discussing their technical characteristics and potential price tags (Aksenov 1984).

Among Soviet consumers certain countries of origin were considered brands by themselves; among them were America, Japan and several European countries, notably, Germany, France and Italy. As such they enjoyed an aura of exclusivity in consumer minds and, as a high tide, further increased PBE of brands associated with these countries.

In fact, every product coming from countries with developed economies was already highly positioned in consumer minds. Ries and Trout (1986, p.137-142) analyzed the concept of positioning and showed that countries can be positioned as brands, which can be ranked or “laddered” in consumer minds. Due to limited brand knowledge and even more limited availability, brands from developed economies rose to the very top of respective product categories in the minds of many Soviet consumers.

Brands from less developed countries, especially socialist ones - Poland, Romania, China, - fell lower on this brand ladder and were treated by Soviet consumers with little deference. The very bottom of the ladder was comprised of nameless and indistinct domestic brands of suspicious reputation and questionable quality (Greer

1973). In most cases these “brands” were nothing more than a manufacturer name – “Plant October” - or even number - Factory #10.

Such skewed brand perception corresponds to recent Hsieh’s (2004) findings. Hsieh analyzed the national BE across many cultures and came to the conclusion that “consumers in less developed countries tend to rate products that originate in developed countries higher than do consumers from developed countries.” This situation bolstered an effect of “forbidden fruit”: consumer eagerness to own scarcely supplied products substantially magnified brand perceptions, particularly when select brands were associated with select countries.

A story of the first McDonald’s restaurant opened in Moscow in 1990 serves as a self-evident example of this psychological distortion. People came to the door of this fast food restaurant and stood in line for 3 to 5 hours to get inside and buy a meal in spite of its high cost – at that time roughly equivalent to the weekly earnings of a mid-career engineer. Muscovites and tourists brought along their families, many came to celebrate their birthdays and anniversaries there.

It is conceivable that, although the McDonald’s brand was only vaguely familiar to the majority of Russian consumers, it was associated with the powerful American brand (high PBE). This association created a brand aberration effect, which ensured high sales volume and propelled McDonald’s brand name into the Russian household lexicon.

If this assumption of the magnifying effect of the country of origin is true, the author hypothesizes that consumer behavior would likely demonstrate similar patterns if the fast food restaurant belonged to any American brand - Burger King, KFC, etc. This argument is supported by the fact that none of the above brands had been ever before represented in Russia, so consumers had no prior brand experience and would know no difference in menu, taste of food or level of service. Study cited by Sarkisov (2002) offers additional supporting evidence, suggesting that, due to the perception of high quality, U.S. franchisors are more popular in Russia than other foreign brands.

P2a. In a closed economy limited direct brand experience leads consumers to perceive countries with developed economies as collective brands.

P2b. In a closed economy the country of origin contributes to BE aberration, magnifying or shrinking the brand perception, respectively.

## **RUSSIAN TRANSITIONAL ECONOMY: TRANSFORMATION OF BRAND EQUITY**

### **Rapid Passage from Socialism to Capitalism and Transformation of Consumer Psychology**

A long history of the centrally-planned economy and associated scarcity in supply of most products and services shaped the consumer psychology in a peculiar way and left people completely unprepared for an explosive shift from stagnant socialism to wild capitalism in a matter of months. It is understandable that many people were looking with disbelief and suspicion at the sudden plentitude of available goods and services. It deeply contrasted with the Soviet world of shortage they left behind (Ennew et al. 1993). However, this abundance was hardly available to everybody due to the new societal stratification: “The presumed homogeneity in Russian society was dispelled by greater segmentation of population and creating conflicts between those who have and those who have not” (Wells 1997, p.111).

Fast transition from scarcity to abundance in supply of goods and services took place during the time when the majority of population saw their incomes plunging and lifetime savings disappearing. “In the communist era, expectations were low and reality was harsh. In the post-communist era, expectations are high and reality has worsened for the average consumer” (Supphellen and Grønhaug 2003, p.9).



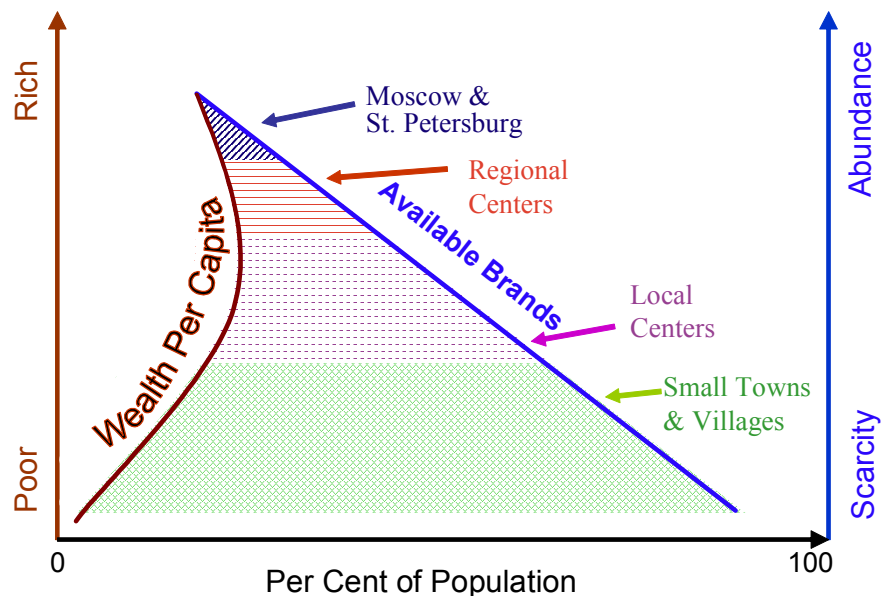
Since the economic crash of 1998 disposable income has enjoyed significant growth, although its distribution vastly varies among demographic groups and geographic locations - Technocratic Russia, Industrial Russia, and Traditional Russia as defined in research conducted and published by Thelen, Ford and Honeycutt (2003; 2006a; 2006b) and Thelen and Honeycutt (2004).

There is an extremely high concentration of wealth in Moscow and St. Petersburg (primarily Technocratic Russia) and corresponding abundance of brand product outlets, dealerships and boutiques. Some regional centers, like Rostov-on-Don, Vladivostok, Krasnoyarsk (primarily Industrial Russia), also enjoy a reasonable availability of products from the leading brands. Consumers living in small towns and villages (Traditional Russia) are in the worst situation: they have the lowest disposable income and poorest choice of locally available brand-name products (Giffin, Babin, and Modianos 2000).

PricewaterhouseCoopers (2007) reported that foreign car sales in Russia in 2006 reached a level \$32 billion - on par with Great Britain. During this period 25% of all new foreign cars were sold to consumers in Moscow and Moscow region (Lenta.Ru 2007a).

Figure 2 serves as a comparative illustration of steep inequality of wealth distribution and availability of brand name products depending on the geography.

**FIGURE 2**  
**Consumer Wealth and Availability of Brand-Name Products in Russia**



Due to the rapid growth of supply many consumers transitioned from dull choicelessness to the “tyranny of choice” (Desmeules 2002). Such a sudden shift modified consumer behavior at a much greater rate than would result from brand management activities and advertising campaigns in countries with developed economies (Wells and Van Auken 2006). This process deserves a more thorough exploration.

As many consumers had no prior experience associated with new brand names, product categories and models, to navigate in this new sea of choices they had to rely on the bits and pieces of information they brought from their “previous lives.” That is why a handful of brand names already familiar to consumers since the Soviet era became

their first choice when making purchasing decisions. Some consumers are so lost in the sea of choice that out of despair they continue to cling to Soviet brands – very few, but dear (Chazan 2001).

A phenomenon of clinging to Soviet brands could be partially explained by nostalgia as a factor influencing consumer purchase intent. Holbrook (1993), who analyzed primarily consumer behavior in developed economies, determined nostalgia as “longing for the past, yearning for the yesterday, fondness for possessions and activities associated with the days of yore.” A large proportion of Russian consumers, who lived through the socialism era, had the opposite experience: they actually did not possess brand name products due to scarce supply; and their activities were limited due to political reasons (Greer 1973, p.2-6).

Thelen, Ford and Honeycutt (2003; 2006b) researched Russian consumer ethnocentrism and analyzed nostalgia as one of its drivers. They concluded that nostalgic sentiment for the past is an important factor in consumer ethnocentrism and purchase intent at the product class level. In particular, their research established that Russian consumers will likely buy domestic consumables and foreign-made durable goods.

This research was used as an important milestone in development of the concept of INBRANOST. However, to examine consumer preferences at a brand level it appeared to be necessary to analyze the effects of multiple economic, demographic and cultural factors, which were only partially considered by other researchers. This in turn provides a better understanding of consumer purchase intent regarding “heritage” brands vs. “new” brands. This is particularly true for consumers who were born and spent a substantial part of their lives in the Soviet society.

The value system of these consumers was shaped in that now-defunct society; therefore they long for products bearing famous brand names they only heard about but never possessed. They expect their new lives to provide a remedy for their past unsatisfied feelings. Such “compensational drive” can be explained by INBRANOST. This inverse meaning of nostalgia differs from Holbrook’s definition: it is rather bitter than sweet, and stimulates people to alleviate their negative experiences from childhood or adolescence via possession of renowned brands.

INBRANOST helps to reasonably explain brand aberrations of a dual nature:

*Brand Image Magnification* - Products bearing heritage brand names well known to Soviet consumers are selling in post-Soviet Russia in significant quantities and at premium prices in spite of little to moderate advertising and promotion efforts. Among these brands are: Marlboro, Mercedes, Coca-Cola, Philips, Ford, Sony, Nikon, Chanel, and other old “iconic brands” in Holt (2004, p.4) definition. Nostalgic reminiscences in this case serve as floatation devices raising brands to the top layer of consumer preferences.

*Brand Image Abatement* - Initial sales of products coming from new brands are shallow, which is normally expected and in line with the marketing theory developed for Western markets. However, gaining a market share for new brands requires substantially higher investments in advertising and promotions than those predictable by the same Western marketing theory. This disproportionate investment can be caused by INBRANOST (at least, in part) as it reduces the appeal of the brands not associated with consumer past experience.

P3. Prior experience under closed-economy conditions magnifies BE aberrations affecting brand perception and purchasing pattern of transitional economy consumers.

Both effects – magnification and abatement – cause a significant departure from the results reasonably predicted by Western marketing theory. In many market segments Russian consumers spent much of their money on the previously “forbidden fruits” while barely turning their heads to new brands in spite of active advertising and promotion efforts. This gap is further exacerbated by cultural issues in advertising of new brands. As Wells (1994, p.92) observed: “Western firms attempt to address the consumers' needs on the basis of their own experiences within developed free-market economies” and “neglect Russian cultural influences.”

### **Behavioral Effects Based on Consumers’ Age and Gender**

Distribution of accumulated wealth and disposable income in Russia is characterized by a high degree of

heterogeneity among various age cohorts (Aslund 2007). Substantial variation of discreetly disposable income creates distinct market segments with vastly different needs and propensity to buy, therefore, brand managers have to consider consumer age as one of the levers in their marketing campaigns.

Gender also plays an important role in Russian society when it comes to the purchase of high-ticket items. Irina Khakamada, former Minister of Small Business Development and Deputy Chairman of Duma - Russian House of Representatives - describes in her book (2006) environment and purchasing habits of the upper and upper-middle class of the Russian society. The book analyzes stratification of the Russian society and a huge gender gap in its economic and political elite. This correlates with published research (Thelen, Ford and Honeycutt 2006a) of Russian consumer ethnocentrism establishing age as a strong predictor of a tendency to buy imported durable goods. To build brand strong personalities in Russia marketing campaigns need to take socio-economic factors into account (Supphellen and Grønhaug 2003) and may need to more clearly address target consumer gender and age than is common in the Western cultures.

According to The All-Russian Census of Population 2002 (Perepis 2002) published by Goskomstat (Russian State Committee for Statistics) age distribution in Russia is highly nonuniform with three clearly dominating age cohorts: young – 20 to 30 year old; mature - 35 to 55 year old; and aging – 70+ year old people. There is also a significant population decline between the ages of 55 to 70.

What is particularly striking in Russian demographics is a steep decline of the male population after 55 an age cohort of 60 to 64 years comprises only 1.5% of the overall population (The Human Mortality Database [www.mortality.org](http://www.mortality.org)). Females, on the contrary, expect to live on average 74 years – substantially longer than males (CIA World Factbook 2006). Short male life expectancy – only 60 years - means that, sadly, most men in Russia will die while still working or barely reaching retirement age.

In Russian society, where men dominated for centuries, this statistic contributes to the explanation of high level of consumption and low saving rates among men and their propensity to get the best perceived products their money can buy NOW.

P4. Low male life expectancy in Russia magnifies BE aberrations and modifies purchasing patterns of male consumers, making them aggressive buyers of iconic brand name products.

The wealthiest sector of contemporary Russian society is comprised of people belonging to the mature cohort (35 to 55 years old). These people grew up in the Soviet era and now they own or run most of the Russian private companies, manage government institutions and hold a large share of the high-paying jobs. As potent consumers of goods and services this demographic group attracts the most attention in retail business. Since the consumer markets expanded and imported products became widely available, representatives of this group have become the foremost active and discreet buyers.

Consumers from this cohort grew up in the Soviet era, so their tastes are most likely affected by INBRANOST. Hence, their propensity to buy the brands familiar since their childhood combined with their purchasing power “tip the brand scales” and contribute to BE aberrations.

These people were also hit the hardest in 1998, when much of their capital, savings and other ruble-denominated possessions were wiped out overnight. Many Russian consumers then learned a lesson: the only way to reasonably protect one’s wealth from an unstable economy is an investment in hard-currency and material possessions (Mikheyev and Ivanenko 2002).

Most publications (Aslund 2007; Khakamada 2006) describe Russian consumers with high net worth as predominantly males, which corresponds to the definition of a traditionally masculine society given by Nakata and Sivakumar (2001). However, purchasing decisions are distributed between genders in a unique way depending on household income.

Among the rich elite with declared or ascribed multi-million net worth, men typically hold the purse strings and make the purchasing decisions. In the middle and upper-middle class, families frequently have two earners, and decision making is more or less evenly distributed between the genders (Khakamada 2006). In low-middle and lower class families, females more frequently manage moderate budgets and make most purchasing decisions.

The complex relationship of household income and the distribution of decision making power between genders complicate measurement of ethnocentrism across different consumer groups. If one spouse participates in the empirical study and expresses his/her feelings, but the other spouse makes most purchasing decisions, it may skew research results.

The same problem shall be taken into account in market research targeting consumer perception of a particular brand, which makes measurement of BE an ever challenging task. Under the circumstances, it is important to identify the decision maker in a household because his/her brand perception will affect both purchase intent and funds availability.

### **Role of Brands in Consumer Quest for Prestige and Power**

The consumer's quest for prestige in order to establish, confirm or support their public image drives consumers toward "conspicuous consumption" (Vigneron and Johnson 1999, p.6).

*Prestige* - The concept of prestige is highly subjective and substantially changes from one culture to another. The only generalization which could be made about it, is that consumers in most societies pursue external attributes of prestige. Russian mass media are notorious in helping to create labels associated with their definition of prestige (Khakamada 2007).

Many marketers have skillfully used this channel for years to successfully manage their respective brands. An aura of elitism is an important element of premium brand management in many cultures. Vigneron and Johnson (1999 p.7) researched prestige-seeking consumer behavior in different countries and came to the conclusion that "people's consumption of prestige brands may in reality translate their frustrated desire to belong to a certain elite or aristocracy."

Prestigious brands in Russia always served to conspicuously demonstrate the owner's wealth (Khakamada 2006). Owning durable brand name products helps to most effectively stage such demonstration - after all consumables are harder to display in public view. This corresponds to the empirical finding of Thelen, Ford and Honeycutt (2006) who established that at a product class level Russian consumers prefer to buy imported durables and domestic consumables.

Zhavoronkov (2004) discussed various reasons behind purchases of luxury products by Russian consumers and pointed out that prestige is one of the strongest motivators, making some consumers obsessed with the possession of prestigious brand name products as illustrated by Figure 3.

**FIGURE 3**  
**Consumer Obsessed with Prestigious Brands<sup>2</sup>**



In particular, such trends exist in car purchasing. In 2006 the Mercedes and Lexus brands were among major gainers in the premium category – 92% and 87% growth over 2005 volume, respectively. In the high-end category, Ford also enjoyed a 92% growth, which made it an absolute leader among all foreign cars in 2006 (Lenta.Ru 2007b).

As domestic car brands became a sign of lower social status, consumers flocked to the foreign car dealerships. As a result, in 2006, for the first time in history, sales of foreign cars exceeded sales of domestic ones. According to PricewaterhouseCoopers (2007) this tendency shall continue for the foreseeable future.

Similar trends characterize the photo camera market. Dudareva (2005) presented statistics gathered by the German-based GfK Groupe. They demonstrated that Russian photographers, who previously used primarily film cameras, plunged headfirst into the digital camera market and a large percentage of them now buy high-end professional and semi-professional models.

According to Misechko (2006), spectacular growth is registered in high-resolution digital SLR camera market segments with 6 to 8 megapixel cameras enjoying 1000% sales increase between 2005 and 2006. Ownership of cameras from prestigious brands, like Nikon, Canon and Leica, emphasizes sophistication, wealth and perceived status of the possessors.

Back in Soviet times high-end brand name products were unavailable at any price. Nowadays INBRANOST pushes many consumers towards buying these “heritage” brand products they had longed for with little consideration of the price tag. After all, dream satisfaction is priceless (Khakamada 2006).

Therefore, as the market for premium and high-end products continues to expand, the price of “heritage” brands

<sup>2</sup> Illustration by Mayya Cherepova. All logos are registered trademarks of the respective companies.

seems to be an almost irrelevant factor. For example, car dealerships offer little or no discounting on prestigious brands like Mercedes or BMW and sometimes sell cars well above list price. The same is true about sales of professional or semi-pro digital cameras from prestigious brands. This confirms that in contemporary Russia “brand credibility decreases price sensitivity” as established by Erdem, Swait and Louviere (2002, p.1).

P5. Quest for prestige among consumers magnifies BE aberrations: heritage prestigious brands command greater product sales at higher prices in contrast to normal supply-demand relations.

At the same time, Russian consumers are targeted by many “new” foreign brands. Among them are European, American and Asian car brands such as Peugeot, Fiat, Chevrolet, KIA and Daewoo; digital camera brands Fuji and Samsung and others. These brands make inroads and slowly increase sales to mainstream consumers. However, they bear less prestige, and many consumers view their products as commodities.

*Power* - Prestige goes hand-in-hand with power. Consumers who wear, drive or drink products bearing powerful brand names establish and emphasize their important societal status projecting power in direct and indirect ways.

Nakata and Sivakumar (2001) introduced and discussed in detail the concept of power distance in the society. They found that in societies with high levels of power distance “customers of higher importance are given more attention, better products and greater servicing” due to a tendency among the society members to differentiate (p.260). Such a tendency pushes consumers to buy premium or high-end products to feel and look important.

Russia is a country with high power distance where people are treated vastly differently depending on their perceived rank and position in society. This stimulates many consumers to look for ways to project power through their appearance, i.e., using “powerful” brands.

Power distance has always played an important role in Russian society. Since the formation of Russian principdom in medieval times, its people have always lived under rule of some principal. Initially, a ruler was called great prince, then czar, later general secretary, and nowadays president. Strong rulers developed strict hierarchical structures, which significantly affected culture in general, and consumer behavior in particular.

Peter the Great is credited with the establishment of an elaborate 14-layer ranking system common for both military and civil government officers, which lasted for nearly 200 years. Each rank was manifested by a special uniform and was associated with certain authority and privileges. This concise system made pecking order easy to comprehend and enforce.

Banning this ranking system after the socialist revolution caused havoc and a power vacuum. Later on the communist party and Soviet bureaucracy gradually developed a new system based on informal but still explicit hierarchy. Upon formation of the Russian Federation this system was modernized, but not substantially changed. Application of “democratic” principles did not change the essence of power distance in contemporary Russian culture, and motivation to demonstrate formal and informal authority became even greater.

Such a cultural setting stratifies the society into unofficial but clearly recognizable layers. It also virtually dictates “have’s and have not’s” behavior among the society’s members. Among power attributes are affiliations with influential groups and conspicuous display of status symbols. Such symbols confirming the “rank” of the owner in perceived pecking order include brands and models of a car, watch, cell phone, clothing and other elements of public display.

This leads to a highly superficial judgment of social status upon “reading the exterior signs” as described by Zhavoronkov (2004). For example, smoking Russian-brand cigarettes has become almost a taboo since the early 1990s (Chazan 2001) because it conveyed a lower social status of the smoker. In another example, a respected Russian businessman noted that he did not wear a watch, since he feels that spending \$5,000 to \$10,000 on a

Rolex watch is unreasonable. At the same time, wearing a less prestigious brand on his wrist will be almost certainly “misread” by his business partners and diminish his status in negotiations.

P6. High level of power distance in the Russian society magnifies BE aberrations, forcing consumers to buy products associated with renowned brands as means to affirm their authority and social status.

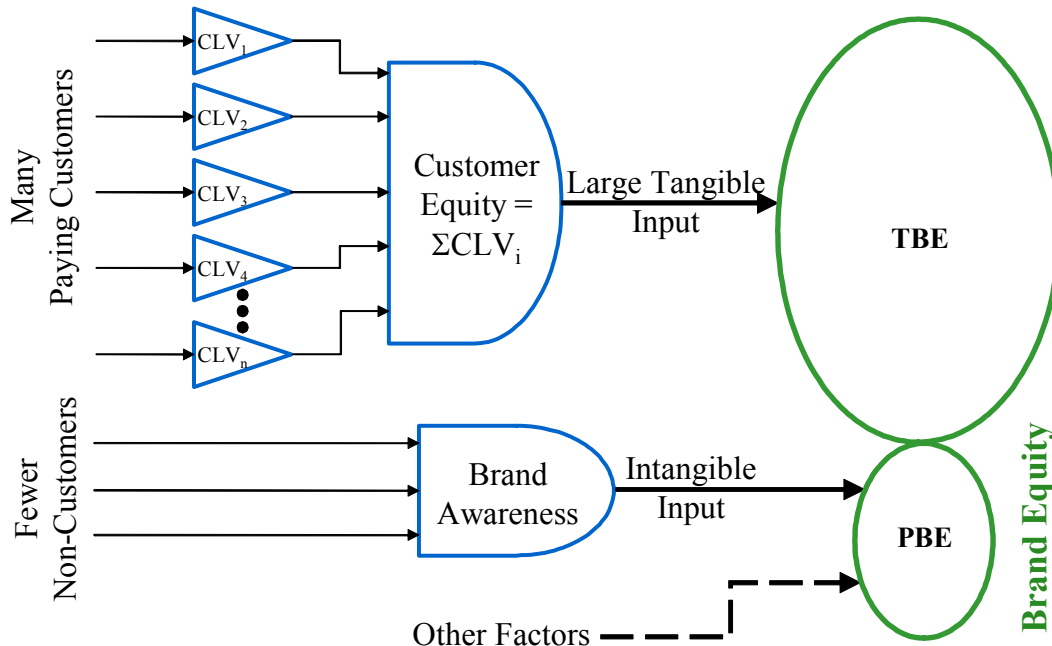
## FUTURE RUSSIA: STEPS TO GROW TANGIBLE BRAND EQUITY

### Evolution of Customer Lifetime Value in Russian Society

The dynamics of the Russian economy have significantly changed consumer behavior over the relatively short history of independent Russia. This process is acutely felt in branding, thus the composition of BE has also changed both qualitatively and quantitatively in comparison with this as described earlier and illustrated on Figure 1. Consumers enhance their first-hand experience as their disposable income grows and more brand-name products become available (Zhavoronkov 2004). Brands enjoy increasing sales; each repeat customer increases an individual CLV thus augmenting CE.

This significant shift in consumer behavior leads to a substantial change in the relationship between the TBE and PBE elements in the model introduced earlier. Figure 4 illustrates an increase in registered CLVs, which boosts CE and substantially improves the tangible (and quantifiable) portion of BE in comparison with the situation depicted on Figure 1.

**FIGURE 4**  
**Brand Equity Composition in the Transitional Economy**



This transformation of BE is particularly pronounced for brands previously well known to consumers belonging

to the mature age cohort who are driven (at least partially) by their INBRANOST-related feelings. These consumers have the highest per capita income and accumulated wealth in the Russian society.

Younger consumers (20 to 30 year old cohort) are less ethnocentric and more pragmatic (Supphellen and Grønhaug 2003). When it comes to brand names they experience no nostalgic feelings because every brand is “new” to them. They also have substantially lower disposable income and very little, if any, accumulated wealth. At the same time, these consumers became more sophisticated buyers than the older generation. They approach major purchases with an in-depth analysis and spend time and energy to obtain product information critical to their needs prior to making a decision.

This analytical approach makes many younger consumers more promotion-prone and less brand-loyal than mature consumers. In addition, due to disposable income limitations, they put form, function and price on top of their list of priorities and only then choose among the brands available in the searched category. It is conceivable that a primary driving force behind steep sales growth of the lower-end brands are younger consumers because their decision making is free of heritage effects like INBRANOST.

#### Anticipated Change in Consumer Sentiment and Gradual Decline of INBRANOST

One may expect that gradual transformation of the BE structure and strengthening of the tangible CE elements will make BE more predictable. Reduction of cash-based transactions still widespread in Russian retail business and the corresponding increase in purchase transactions paid for with credit and debit cards shall make it easier to track the individual CLVs. This progress together with an increased transparency of business reporting shall enable and improve precision of the standard CRM quantitative methods.

Based on the conceptual approach set forth and discussed in this paper, sales of the products targeting mature consumers (35 to 55 year old cohort) will be substantially influenced by INBRANOST for the coming 10 to 15 years. Then this trend will gradually subside as the Russian economy progresses through a transitional period and many mature consumers retire. The younger generation of consumers (20 to 30 year old cohort) will gradually become dominant buyers of goods and services. However, until then, long-term marketers need to take INBRANOST effects into account and appropriately adjust their marketing strategies.

## DISCUSSION AND CONCLUSIONS

The goal of this paper is to set up a framework defining the consumer perception of foreign brands marketed in Russia and the aberrations of brand equity in Russian consumer markets. It is suggested that familiarity with a particular brand during the Soviet era influences consumer purchase intent regarding brand name products imported to Russia from other countries. Among the most important findings discussed in the paper is an inverse relation between brand perception and brand experience in the minds of consumers with substantial Soviet heritage. The paper introduces and discusses the concept of INverse BRAnd NOSTAlgia or INBRANOST, which influences consumer purchase intent in modern Russia. According to this concept, consumers demonstrate a greater propensity to buy “heritage” brands (familiar to them in their “previous lives”) rather than “new” brands (launched in post-Soviet times).

Researchers point out that in many cases Russian consumers demonstrate behavioral patterns substantially dissimilar to these predicted by Western marketing theory. The effect of INBRANOST helps explain the roots of this contradictory behavior demonstrated by the most influential mature cohort (35 to 55 year old) Russian consumers with substantial Soviet heritage. Their “inverse nostalgia” appears to be one of the driving factors behind purchase intent when brand name products are concerned. These consumers tend to discriminate between “heritage” brands known to them since the Soviet era and “new” brands introduced only in modern times.

Based on the INBRANOST approach it is reasonable to expect that at the brand level consumer nostalgia plays an opposite role to this at the more general ethnocentric and product-class levels. While some Russian consumers



hold “the belief that the past was better” (Thelen, Ford and Honeycutt 2006b), they nonetheless try to compensate themselves for years of past deprivation. This “heritage effect” motivates consumers to give preferential treatment to the brands they knew but were unable to possess in their past history at the expense of “new” (post-Soviet) brands.

“Heritage” brands in modern Russia experience substantial sales growth, and their growth rate can hardly be explained by their respective investment in advertising and promotion. In fact, many “heritage” brands spend very little money on advertising. At the same time many “new” brands struggle, and their heavy marketing investments produce a disproportionately low return. Some large companies representing “new” brands even withdraw from the Russian market after failing to attract enough customers (Jargon 2007).

Disproportionate treatment of “heritage” and “new” brands is one of the likely reasons causing BE aberrations observed on the Russian market. This skew in consumer behavior also has a predictive power because consumers belonging to the mature cohort between 35 and 55 will continue to dominate Russian markets for at least 10 to 15 years.

The presented qualitative analysis of various economic, demographic and cultural determinants affecting the highly uneven brand perception among Russian consumers allows us to identify a number of factors magnifying BE aberrations. Among them are: scarcity of supply; country of origin; prior brand experience; low male life expectancy; quest for prestige; and high level of power distance. Further quantitative research shall enable greater use of the database models utilized in contemporary CRM to help marketers to more precisely forecast sales of brand name products and corresponding BE in Russia.

We maintain that the following strategies utilizing the INBRANOST factor stand a greater chance of success when targeting Russian consumers belonging to middle-age and mature cohorts and possessing substantial purchasing power:

- ❖ directly or indirectly associate products with “heritage” brands
- ❖ play “prestige card”
- ❖ create an appearance of scarcity
- ❖ allude to masculinity when advertising premium products
- ❖ avoid explicit sales, discounts or price adjustments when selling premium products
- ❖ emphasize country-of-origin for brand name products coming from developed economies
- ❖ advertise in a very few prestigious publications, arrange professional third-party reviews
- ❖ use high-end sales channels and charge premium prices for any personalized services and product modifications.

These and similar strategies effectively appeal to the minds of Russian consumers, leading them from initial intent to actual purchase.

## **LIMITATIONS AND FURTHER RESEARCH**

The propositions discussed in this paper are composed at the conceptual level; further marketing research is needed to corroborate these constructs and measure their relative power among Russian consumer groups of different age, gender and income living in various regions.

The concept of INBRANOST helps explain certain aberrations in consumer brand perceptions; however, there could be other theoretical models adequately explaining consumer behavior. Although findings presented in this paper correlate with different published studies and statistical evidence, more in-depth quantitative research is required to quantify and prioritize the respective influence of consumer behavior determinants in different market

segments and among diverse product groups. Such research shall validate this conceptual framework and subsequently confirm, reject or modify the aforementioned propositions.

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