**Marketing Research Project for a Russian Company**

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**Краткое содержание.**

В данной работе анализируется проблема российской компании, производящей макаронные изделия. Компании было необходимо принять решение о целесообразности автоматизации упаковочного процесса. После последнего финансового кризиса рынок макаронных изделий значительно изменился, и компании было необходимо собрать информацию о его состоянии после кризиса. Для сбора релевантной информации было проведено маркетинговое исследование. Работа включает отчёт об этом исследовании, анализ его результатов, а также другую релевантную информацию, которая была необходима для подготовки исследования, включая описание истории рынка макаронных изделий, анализ предполагаемых последствий финансового кризиса и сегментацию рынка. Информация, собранная при помощи исследования, показала, что автоматизация упаковочного процесса целесообразна только в том случае, если компания выберет определённые сегменты рынка как целевые и помогла понять новую среду, сформировавшуюся после кризиса. Исследование продемонстрировало, что автоматизация упаковочного процесса является скорее средством маркетинга, нежели средством повышения производительности труда. Это было новым для компании.

# Summary.

In this paper a problem of a Russian pastas manufacturing company is analyzed. The company had to make decision weather it is reasonable to automate the process of packaging. After the last financial crisis, the market of pastas undergone very substantial changes, and the company needed to collect information about its state after the crisis. To collect the relevant information, a marketing research was prepared and performed. The paper includes a report on this research, analysis of the results of the research, and relevant information that was necessary to prepare the research, namely the description of history of the market of pastas, analysis of proposed influence of the financial crisis and segmentation of the market. The information acquired with the help of the research made it clear that automating of the packaging process is reasonable only if the company chooses certain market segments as target ones and helped to understand the new environment that has formed after the financial crisis. The research demonstrated that automating of packaging is mainly a mean of marketing, not a mean of increasing labor productivity, it was new for the company.

# Theory.

## Identifying market segments(3).

Markets consist of buyers. Since buyers differ in many ways, markets can also be segmented in a number of ways.

Market segmentation represents an effort to increase a company’s targeting precision

 Market segmentation can be carried out at four levels:

1. Segments
2. Niches
3. Local areas
4. Individuals

For the market of pastas the reasonable level of segmentation is the first one.

A market segment consists of a large identifiable group within a market.

When segmenting at this level a company tries to isolate some broad segments that make up a market. The consumers belonging to a segment are assumed to be similar in their wants and needs, though they are not identical.

Many different variables can be used for segmenting:

* Purchasing power or income (though they correlate, they are not the same);
* Wants;
* Geographical location;
* Buying attitudes;
* Habits and so on

Market segmenting can be made using one or more variables.

In our case we will use consumer’s income per head as a variable for market segmentation.

We will use income per head because the price is the most decisive factor in making purchase decision and because the demand for pastas is elastic[[1]](#footnote-1).

We will not use any other variables to make our segmenting be:

* Measurable: The size, purchasing power, and characteristics of the segments can be measured.
* Substantial: The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program.
* Differentiable: The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs.

## Marketing research(3).

Marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company.

The marketing research process usually includes several steps:

1. Define the problem and research objectives.
2. Develop the research plan.
3. Collect the information.
4. Analyze the information.
5. Present the findings.

Data sources. All data sources can be divided into two large groups: primary data and secondary data.

Primary data are gathered for a specific purpose or a specific research project.The primary data are collected by the researcher and had not been collected before or is outdated, inaccurate, incomplete, or unreliable.

Primary data can be collected in four ways:

1. Observation.
2. Focus groups.
3. Survey.
4. Experiments.

Secondary data are data that were collected for another purpose and already exists somewhere.

The sources of secondary data are:

1. Internal sources.
2. Government publications.
3. Periodicals and books.
4. Commercial data.

There are following contact methods:

1. Mail questionnaire.
2. Telephone interviewing.
3. Personal interviewing
	1. Arranged interviews.
	2. Intercept interview.

In our case we will have to collect primary data because secondary data on the subject is incomplete and outdated.

We will use the survey research because it will be able to give us more reliable, precise data apropos the questions that are of interest for us. They will be discussed below.

We will use personal intercept interviewing as a contact method.

# Introduction.

After last financial crisis in Russia the business environment had changed dramatically. Companies have to adopt to new conditions. Manufacturing companies have a chance to push their foreign competitors out of the Russian market because ruble have devolved.

In this paper I will describe how I helped a pasta manufacturing company to make an investment decision apropos reasonability of investing in a new packaging line using a marketing research.

The following tasks were to do to accomplish this goal:

1. Analyze the problem of the company.
To do this it was necessary to do the following in advance:
	1. Study the history of the company.
	2. Study the reasons of its choice of industry.
	3. Study the present position in the market of pastas.
	4. Understand and formulate the problem of the company.
2. Carry out a marketing research to give the necessary information to the management of the company.
I had to make the following steps to do it:
	1. Formulate the problem the research is to solve and the research objectives.
	2. Develop the research plan.
	3. Collect data.
	4. Analyze data.
	5. Make conclusions apropos the state of the market and reasonability of investing.

# The corporation.

## The history of the company.

The LBS Corporation started operations in September 1992. It was started-up by three young men who had enough risk-taking propensity to make a decision to start-up in the Russia of 1992. One of them had a formal economic education, though a kind of a Soviet one but nevertheless economic, another one was a kind of a lawyer, and the third one was just a friend with no formal education useful in business administration (he had a higher education though). Their cooperation had began before they started-up the firm- they earned the capital necessary to start-up together. The idea belonged to the third man who had some connections in Germany. Some people he new there had a used car shop. So the information about prices of used cars in Germany was available for them. They borrowed some money and invested some of their own savings to drive several used cars from Germany. During their later trips they hired several people (in Russia) to help them drive cars. After they had made several trips to Germany they possessed about five - seven thousand dollars which they invested in the LBS Corporation which was started-up. They continued to import cars for a while but soon they decided to quit the used cars importing business after an unlucky trip during which an accident has happened and one of them was seriously injured and one car was completely destroyed. The matter is that the cars were often in a poor technical condition and problems with Mafia constantly appeared, so this business was really risky and in addition they saw another opportunity of making money with the help of the newly established firm. I should mention that in that time the environment they had to deal with was really unstable and they had no definite intentions, no business plan when they decided to start up, that is interesting. When I asked one of the founders how could it be and what were they thinking about, he replied that they were thinking in a way that “there will be a day, there will be food”. I think, hardly someone except Russians can refer in that way to that sort of questions. But everything happened exactly like that. First they founded their firm and then they began to look for an opportunity and found it.

In that time the depression effect had been in force and the demand for river tours in Russia dramatically decreased. As a result of it, the Volga river fleet was doing almost nothing. As a consequence of that, it was easy and inexpensive to freight a ship, if you needed one. So they did. They organized river tours for foreigners for whom Russia was extremely interesting after the Iron Curtain had just been lifted. They were in this business for one season only and then quit. It became unprofitable for some reason.

Here I have to step aside a little from the point and mention the following: it is very often difficult to get information in Russia, especially from a businessman about his business. They are used to keep silent and they are sometimes extremely jealous about the figures. Though they know you cannot harm their business and the information will not go further, they will feel uncomfortable if their confidential information is shared with someone. Sometimes you have to be glad they give you some information about their business and when once began to get into details during speaking with one of the three men he went ballistic and told in an unpleasant manner that he would not let him been questioned. So I had some lack of information about the past of the LBS Corporation, but the situation with information about its present is much better for me since I was and I am connected with that company and I have a job there, but I will return to this a little bit later when we are finished with the history of the LBS Corporation.

After they quit the river tour business they saw their next opportunity in the computer industry business. A friend of one of them was a programmer and an informal leader of a collective of programmers and technicians. It was the dawn of Russian computer market in that time. The LBS Corporation hired that collective and began to manufacture (to be more exact- to assemble) and to resell computers and develop software.

The LBS Corporation was more oriented towards corporate users. In 1993-1995 not many Russians could afford a personal computer. The buyers were mostly corporations. After the Soviet system the market environment required new methods of business administration and for many corporations it became clear that what they really need is computerization. Also a deficit of software solutions was taking place at that time. Of course, there was imported software but there was a demand for individual solutions in the market. And of course the networking business was growing.

The LBS Corporation operated in all of the three segments and offered complex solutions consisted of computers, software and networking.

This business was bringing significant income. But as the computer market developed, the competition became stronger. Some of the hired programmers separated and started their own business. On the other hand, the LBS Corporation did not want to go to the basic level computers segment which became growing faster and faster. This required investment and they did not think they should go into that segment because they though that in a year “everyone in Russia will be assembling computers”.

As the market was growing, there became more software developing companies offering their products in Russia. The LBS Corporation had do face many strong competitors among which there were not only newly established Russian companies but also some of the Western software developers which decided to start operations in Russia. Despite of this, the LBS Corporation still operates in this market but it failed to capture a significant market share. It still has many of the clients which were acquired in 1993-1995. The LBS Corporation does not want to make expensive marketing efforts to increase its market share. In my opinion, if the LBS Corporation had decided to manufacture and market computers for personal use when it had that opportunity, it would have succeed much more than it had, though it would have faced significant difficulties connected with the last financial crisis in Russia.

But the LBS Corporation decided to invest the biggest part of its profit in bonds. It was extremely profitable until 1997 to have your money invested in the government bonds. Later the market of shares began to grow, and the LBS Corporation reinvested in shares. But then, approximately in may, 1998 the economic situation in the country began to dramatically and rapidly deteriorate. For the LBS Corporation it meant a partial loss of the money invested in bonds and shares.

But the management of the LBS Corporation did not want to hold all eggs in one basket. In 1995 they decided to go into the food industry.

## The choice of the industry .

The basic motives which made the LBS Corporation chose this industry were the following:

1. The food industry in Russia and especially in big cities was growing fast. After the Perestroika it survived a significant decline which was actually a crisis caused by old methods of business administration, antiqueness of technology, poor quality of products and packaging and availability of imported foods. Then the process reversed: more and more of consumers realized that the imported foods they used to buy were of poor quality though packaging was good-looking. In addition to this Russian manufacturers began to use more progressive methods of business administration and more modern technology of manufacturing and packaging. This made the consumer’s preferences to change in favor of the Russian manufacturers and Russian foods.
2. Market size.
3. The fact that most of foods are necessities. As a consequence of this, people will not reduce their consumption of foods or will reduce it less than consumption of other products.
4. Absence or low competition with Russian manufacturers due to small quantity of them, the tendency of pushing the foreign manufacturers out of the market, and as a consequence- an opportunity to capture a significant market share and relatively low entering barriers.
5. The demand for many foods is not seasonal, neither the prices are.
6. Short operation and production cycle.

After the industry had been chosen it was necessary to choose the concrete product to be manufactured. The management of the LBS Corporation decided that the most acceptable product according to the resources possessed was pastas.

The basic advantages of this decision were:

1. Easy to start:
	1. The technology of pasta production is not sophisticated
	2. The equipment is relatively inexpensive and available
	3. Short list of ingredients required
	4. On the first stage automated packaging process is though desirable but not necessary. This significantly decreases the capital necessary to start-up because in the food industry the cost of a packaging line very often is similar to or even exceeds the cost of the production line.
2. Market size:
	1. Pastas are necessities. Because of this people with low disposable income are among the potential buyers. This is extremely important in Russian environment.
	2. The technology makes it possible to vary the quality of the product by using wheat of different quality and different technology of packaging. Using the wheat of lower quality allows to decrease costs and, as a consequence, the price of the product. This allows to cover more segments of the market of pastas if we make an income segmentation of it. This is important because income of people of different stratas in Russia differs dramatically.
	3. Market stability. The biggest indirect competitor of pastas is potato. Of course, the price of potato does vary during the year, but:
		1. The period when the price of potato is significantly below average is short,
		2. The seasonal variation of the price of potato does not usually exceed 40%.
		3. Since potato and pasta have a lot of different features, the decision to purchase this or that is greatly influenced by consumer’s preferences. As a result of it we should not expect the cross-price elasticity to be high. We certainly can estimate it to be less than one.
		As a result of what was said, we can estimate the market of pastas to be stable and to be a subject for seasonal changes in a low degree.
3. Long life-cycle of the product.
4. As a result of all this, high economic efficiency.

## Entering the market of pastas and the present position of the company.

In 1995 the LBS Corporation started manufacture of pastas. Since the biggest part of its capital was in the financial market, the LBS Corporation considered the foods manufacture business to be the secondary source of income, to be on the safe side. There were alternatives, such as potato chips, ketchup and others. But the fact that it was possible to buy inexpensive equipment of low capacity and use the manual process of packaging to see how it goes than to tie up much money at once was of the highest importance.

The LBS Corporation bought the necessary equipment and started pastas manufacture.

Thus, at this moment the LBS Corporation manufactures about 50 tons of pastas a month. It is a small manufacturer and we cannot talk about the market share it has in the market. The management would like, however, to increase production.

The nomenclature of pastas being manufactured by the LBS Corporation are:

* Vermicelli
* Macaroni of different shape:
	+ Horns
	+ Shells
	+ Spirals

The LBS Corporation plans to deepen the nomenclature by starting manufacture of spaghetti.

## The problem of the company.

The LBS Corporation uses the manual process of packaging. The management of the LBS Corporation must decide weather it should use the automated process of packaging instead of the manual one. It also wants to know how the last crisis in Russia affected the market of pastas and what is its present state. It needs it because it knows the crisis had a strong effect on the market and the secondary data available is now out of date. It is not sure though, what particular information it needs to make the decision. It feels it is unable to predict customer’s reaction and other consequences of such a change in technology. It also has several different options of performance of this decision. These options are different in costs and quality of packaging.

Since I have already worked for the LBS Corporation and I am the only person here who has some formal education in marketing, I was offered to do this job.

Since 1995 the LBS Corporation used the manual process of packaging only, it used match-the-market or expenses plus pricing and didn’t ever think about the questions like these. The idea of having the process of packaging automated had not been discussed seriously, in the sense that it was thought to be mainly the way to increase the labor productivity, but it really was more connected with marketing. When I told them about this they looked a little surprised. Saying it another way, the decision to automate the process of packaging meant use of marketing for the LBS Corporation.

Since the secondary data was difficult to find and absolutely useless after the financial crisis, I had to make a marketing survey to collect the preliminary data to solve the problems of the company.

The first task I had to accomplish was, so to say, to formulate my task more precisely.

# The marketing research.

## The problem.

The research is to help to solve the problem of the company discussed above. We can formulate the problem of the research more precisely:

1. Due to inexpensive labor in Russia, the automated packaging process will increase the cost of product.
2. Since it is a mean of marketing, we should identify where it is reasonable to use it. It will require efforts of the economists and accountants of the corporation. I have to collect the necessary marketing information to make them able to answer the question: . “will offering an automatically packed product create enough incremental preference and profit to justify its cost against the other possible investments that could be made?”. This information must also be helpful for the further analysis and design of necessary marketing mixes.
3. The necessary information is information about the situation in the market, about people’s attitude towards automatically and manually packed pastas.

To do this I need to:

* 1. Formulate the research objectives sharply.
	2. Analyze the history of the market of pastas of Saint Petersburg and its present state.
	3. Segment the market of pastas and develop profiles of resulting segments.
	4. Evaluate the attractiveness of each segment.
	5. Evaluate preferences of the buyers and their attitude towards such factors as price, quality of the core product, quality of packaging, etc.
	6. Having known the preferences and attitude towards packaging, quality and price, identify conditions upon which an automatically packed product will not fail.
	7. Identify the necessary positioning concept for automatically packed pastas that will be offered to different segments.

## Research objectives.

I had formulated the following specific research objectives:

1. Evaluate attractiveness of each segment.
	1. What kind of people would be the most likely to purchase pastas in high quality packaging?
	2. Which segment do the most heavy users belong to?
2. Define the preferred form of pastas (corns, shells, etc.).
3. Define the most important factors which influence the consumer’s subjective probability[[2]](#footnote-2) concerning the quality of the product.
	1. Does the consumer usually estimate the quality by appearance of the product?
	2. Is there a stereotype that a quality product can be packed only in a high quality package?
	3. Is there a stereotype that imported pastas are better than the domestic ones? How strong is it?
4. Define the importance of quality packaging for the buyer.
	1. Does the quality of packaging correlate with the quality of the product in consumer’s mind?
	2. What must be the quality of the product which is automatically packed?
	3. How much will a buyer desire to pay for packaging?
	4. What are the main factors which make packaging important (estimated quality of the product, precise weight, other)?
5. Define the desired characteristics of the package.
	1. Which size of the package will be the most popular? Shall we offer packages of different size?
	2. What should be the packaging be made of and what shape should it have(plastic or polyethylene packet, cardboard box)?
6. Define the loyalty status of the consumers.
7. Define the “patriot” status of the consumers.
	1. Do they feel unsatisfied that most of the high quality pastas are imported?
	2. Does the fact that Russia substitutes natural gas and oil for “colonial” goods?

As can be seen from the goals and objectives, the research combines the features of both exploratory and casual research.

## Research plan.

Since the company:

1. has lack of information about the market in general;
2. needs some specific information ;
3. does not want to spend money on purchasing the available secondary or primary data;
4. thinks that the secondary data available can be outdated due to the last crisis; primary data must be collected.

The most reasonable research approach in this situation is a survey research. It will allow to gather more information in less time, and some information needed can be acquired only directly from the purchaser’s answer. As a consequence, a questionnaire should be used as a research instrument.

I have two basic sources of information:

1. The buyers of pastas.
2. The salesmen who sell pastas .

Of course it is much easier to talk to salesmen than to the buyers, since the seller knows his market and he can give you a complete idea about what the situation in the market is like. But for this ease we have to pay:

* This information can be not so accurate because the salesman though can give you information about how much of this or that good had been sold, probably will have difficulties with determining such things as percentage of buyers of different age, sex, etc. Here a problem of selective remembering may arise.
* There are questions which can be answered only by the buyer himself and about which the salesman can have no idea at all. It regards to, for example, such things as the expected reaction for a price change, attitude towards packaging and the “reasonable” price of it in the consumer’s eyes.

As may be seen, this source of information could not satisfy our needs, but I decided not to neglect it for that reason but leave for the purposes of control. It is reasonable to expect that the results from the both sources must correlate.

The consumer survey was made by me and two other employees of the LBS Corporation between the 5th and the 10th of November at outdoors markets of Primorsky district of Saint-Peteersbug. About seventy customers were asked. The results of the survey are shown and discussed below in the appropriate section.

## The history of the market of pastas of Saint Petersburg and its present state.

### Historical approach.

Before and during the Perestroika the market of pastas of Saint Petersburg was offering only the products of the Soviet manufacturers. There were no imported pastas at all. Due to the system, the market of pastas of the city was actually offering something. In the province it did not. There was a deficit of everything. Since there was no competition between the manufacturers, the quality of pastas was extremely poor. The technology of pastas manufacture itself was of interest: it was a so-called “double technology”. A double technology is one that can be used both for manufacture of civil and military products. In the USSR the equipment used for pastas manufacture could be used for manufacture of *ammunition*. I think it did not affect the quality of pastas positively.

In addition to this, high quality pastas can be made only of high quality durum wheat flour. And of course, there was a deficit of this kind of wheat in the USSR.

The consequence of all these plus bad management was the poor quality of the pastas manufactured in the USSR.

When later the market was open for foreign manufacturers of pastas the native ones were pushed out of the market since they were non-competitive.

For several years the market of pastas was saturated with imported products. Only in the last few years the situation began to improve for native manufacturers. This was because the difference in prices between them and the foreign manufacturers they could achieve became more significant and the quality of Russian pastas improved. The industry began to develop.

### The present situation.

In this section some information that had been available for us before the research was made is given.

We can say that the Russian manufacturers use and have used price methods of competition mainly. The reasons why they have to do it are the following:

* Often the product is of low quality;
* The product is manually packed in most of the cases;
* The reason which in my opinion is of the highest importance: Russian people have a stereotype which was, as we say, absorbed with the mother’s milk: made in the USSR means made badly. That is why Russians have negative attitude towards products manufactured in Russia or Post-Soviet area. It makes people think that anything imported is better. And that is why English on the packaging is a mean of marketing in Russia. We have to break this stereotype if we want to succeed.

### Products in the market.

We can divide all pastas available into three major categories:

1. Low quality pastas. They are cheap, manufactured in Russia or Byelorussia, made of flour which is not actually for pastas manufacture. [[3]](#footnote-3) Their poor quality can be easily identified by their appearance. They are not smooth and their color is a kind of whitish, not the ultimate specific yellow-gray color of good pasta. Their packaging is always manual.
2. Middle quality pastas. This category will include domestic pastas made of good durum wheat flour but packed manually. As a consequence, the only possible method of competition is low price. The low price influences the position of these pastas, though they are more expensive than the ones from the previous category, approximately by 20-25%[[4]](#footnote-4).
3. High quality pastas. This category includes pastas made of high quality durum wheat flour and packed automatically. Most of the high quality pastas are imported. The strongest position in the market belongs to Italian and Finnish pastas. Domestic offerings of these pastas are rare. The best known domestic manufacturer of high quality pastas in the city is “Panna”, the former “First pasta factory”.

During the last crisis after August, the 17th, the foreign manufacturers of pastas had to face problems in Russia. If before the crisis Russian pastas were approximately 20-30 % cheaper than imported ones, after the crisis when the economic situation became relatively stable again (in October-November), the imported pastas were two times more expensive than the Russian ones. This relates to all or almost all imported pastas since they cost approximately the same nevertheless they are made in different countries- from Italy to Iran. In addition to this, the price level in Russia increased dramatically during only a few weeks. Many imported goods became 2-3 times more expensive than they were. This means a decrease of real income. Since attitude towards Russian pastas comparatively with the imported ones is negative, we can assume that Russian pastas are inferior goods. This means that even if only the people’s income had decrease *without any* change in price, the consumption of the imported pastas would have reduce in favor of the Russian ones.

Having applied some microeconomics issues to our analysis we found an interesting detail: we have not only one process which can improve the conditions of Russian manufacturers but two. They are a change in price and a change in income. According to the economist of the LBS Corporation the average increase in prices of foods was about 50%. This means the effect of the second process should have been significant. What this led to was called “pastas boom”. According to the information gained with the help of some channels of the LBS Corporation, some big Moscow and Petersburg manufacturers increased their production by three times in September and October comparatively with August. This means the foreign manufacturers which dominated our market became non-competitive and where pushed out of the market. We had to think how should we use this. One of the ideas, as was said before, was to start package automatically, design the appropriate marketing mix for our product, and use this opportunity to gain the brand recognition. We had to break the stereotype and make people think our product is a high quality one though it is made in Russia. We should use this time when foreign competitors are destroyed to capture some market share in which the people would have positive attitude towards our product.

We can also estimate that the overall capacity of the market of pastas will decrease since the most dangerous for us substitute of pastas, potato, have not became significantly more expensive.

Trying to estimate the market capacity of our product, we meet some difficulties:

* There are a lot of small manufacturers and the market is saturated with their products, and they do not declare their true level of production to reduce or completely avoid taxation.
* Pastas are sold in the outdoors markets without cash registers, some pastas are imported through Byelorussia to avoid Russian customs.

That means we cannot trace the quantity of pastas manufactured in the city using top-down approach. The only powerful mean of estimating the capacity of the market we still have at our disposal is the bottom-up approach. We can figure out how much pastas an average person consumes and it will give us an idea about the capacity of the market.

## Market segmentation.

My next step was to segment the market.

In my opinion, the most important variable of segmenting of the pastas market is consumer’s family income per head. Later we can apply a kind of sub-segmentation to some of the segments to divide them into smaller ones using another variables.

The segments we can name are the following:

1. “Low class”[[5]](#footnote-5). Poor people. Their income per head is below 500 roubles. Since they have to make a living somehow, they will want to save on anything. They will most probably buy low quality pastas. The following social groups belong to this segment:
	* Pensioners,
	* Jobless people,
	* Families with more than 3 children,
	* Public employees (doctors, teachers).
	* People who are not paid for their job
	Though their income is low, this segment is important because of its size.
2. “Lower middle class”. This category will denote people with income per head from 500 roubles to 900 roubles per month. They are able to satisfy their needs for food, though they will try to save on it because their disposable income is still low.
We can name the following groups of people who match this definition:
	* working pensioners;
	* retired officers;
	* public employees[[6]](#footnote-6);
	* workers and employees of different professions, usually not complex ones ;
3. “Higher middle class”. People with an income of 900 to 1500 roubles per head per month will be included in this segment. These people have a significant disposable income for Russia. This means sometimes they will prefer the quality to the price, but the price still is of the highest importance.
To this segment belong:
	* white collars, office workers;
	* representatives of complex professions;
	* representatives of militia, army, tax police, etc.
4. “High class”. We will encounter in this category everyone whose income per head is higher than 1500 rubles per month. These people have a big disposable income for Russia. At least they can afford buy the pastas they like. This means we can expect the price elasticity of this segment to be the lowest one. The representatives of this segment will be influenced by such factors as brand name recognition, quality of packaging, etc. in the highest degree.
In this segment we can include:
	* small entrepreneurs;
	* people who have a good job, have a good income, but are not entrepreneurs. This category will include a lot of different professions from drivers to butchers.
	* New Russians.
	We should underline, though this segment is relatively small (according to the sources of the LBS Corporation, 20-30% in Saint Petersburg), it is huge in its absolute figures. In addition, its representatives have the highest disposable income and are concerned about prestige and self-respect much more than the representatives of the other segments. That is why we can be sure a-priori that this segment will require an elaborated marketing mix of its own.

We should not deepen our segmentation using other variables because it will complicate our model of the market and the subsegments which will result from this will hardly differ significantly. The deeper segmentation will not be relevant to our problem.

## The questionnaire.

Before and during asking the questions try to notice the following:

1. The customer has bought pastas:
	* Automatically manually packed
	* Sort: Corns Shells Spirals Spaghetti Vermicelli
	* Quality: high midle low
	* Domestic Imported
	* Trade mark: (for automatically packed)
	 Nordic Big other\_\_\_\_\_\_\_ unknown
	* Weight: 300g 500g 1000g
	* Price: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	* Quantity: 1 2 3 more
2. The customer is making or has already made another purchases
 YES NO
3. The customer’s sex: M F
4. The customer’s age: 10-18, 18-25, 25-35, 35-45, 45-55, 55-65, 65-
5. The customer’s dress is:
 poor average rich

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The questions to be asked (skip the question if the answer is obvious, just mark the right answer):

1. Have you bought pastas manually or automatically packed?
Manually Automatically
2. (skip the questions 2 and 3 if the pasta bought is manually packed) What is the trademark of the pasta you have just bought?
3. You prefer to purchase pasta
	* of this trademark
	* of this and some others trademarks (if yes, what are they)
	* the trademark does not mean
4. What is the sort of the pasta you have bought?
 Corns Shells Spirals Spaghetti Vermicelli
5. What is the size of the package?
 300g 500g 1000g
6. What is the optimal size of the package?
300g 500g 1000g other \_\_\_\_\_\_\_\_\_\_\_\_
7. What is the price of the package? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
8. What is the form of the pastas you have bought?
Shells corns spirals vermicelli
other\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
9. Why have you chosen exactly this pasta?
Price Quality Familiar trademark Other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
10. How often do you buy pastas?
\_\_\_\_ times a week once a \_\_\_\_\_weeks once a \_\_\_\_\_ months
11. How many people will eat the pasta you have bough? \_\_\_\_\_\_\_
12. Did you use to buy more or less pastas before crisis? MORE LESS
13. You have planned to buy pastas in advance? YES NO
14. You have made your decision about which particular pasta ( brandname, sort) you will buy in advance? YES NO
15. Imported[[7]](#footnote-7) pastas are better than the domestic ones. Yes No
16. How much would you pay to have a 500g package of imported pastas instead of Russian? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
17. Automatically packed pastas are better than manually packed ones:
always
often, but sometimes manually packed pastas are not worth
manually packed pastas are as good as automatically packed
18. How much should a 500g package of good-looking automatically packed pasta of an unknown domestic brand cost to make you switch to it? \_\_\_\_\_\_\_\_\_\_\_\_\_
19. What is the biggest disadvantage of manually packed pastas?
Poor quality Unknown manufacturer No guarantee on weight
Other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
20. When you buy imported goods do you have a feeling that it is bad that we have to substitute natural gas for foods, cloths, etc.
Usually Sometimes Seldom Never
21. What are you?
22. Have the reforms performed in Russia been in your favor?
23. Do you prefer to buy clothes and footwear in the shop or in the market?
24. What are the members of your family?
25. What is your personal income?
26. What is the income per head in your family?
27. How old are you?

## The results.

1. We revealed a negative correlation between income per head and consumption of pastas. The biggest part[[8]](#footnote-8) of buyers were representatives of the lower class or the lower middles (31% and 33% respectively). 27% were higher middles, and 16% belonged to the high class. Since only pasta buyers were asked, the average consumption of pasta is lower than our research show, but nevertheless we can get an idea of structure of consumption of pastas. According to our calculations, the consumption of pastas per head is:
	* Lower class- 0.6 kg/month
	* Lower middles – 0.55 kg/month
	* Higher middles – 0.32 kg/month
	* High class - 0.13 kg/month
2. Only 12% of the respondents claimed they consume more than 1.3 kg of pastas a month per head. We can treat the lower class and the lower middles as the heavy half and the higher middles and the high class as the light half.
3. 36 % of respondents claimed they prefer corns to other pastas, 22%like spirals, 26% like shells, 7% prefer vermicelli, and 2% usually buy spaghetti.
4. 46% of buyers claimed the price to be the most important factor which influenced their purchase decision, for 37% of consumers the quality is the priority. 5% think they should buy only automatically packed pastas, and 3% claimed some specific features as taste (we should assume that good taste is a part of quality and that is why this group is small). There were also 4% of loyals who are driven by a familiar brand name while making their decision.
5. Usually people plan to purchase pastas in advance (87%). In spite of this, the decision about the particular sort and brand name (if there is any) is usually impulse (63%).
6. The crisis dramatically affected the market of pastas. We talked to the salesmen of pastas to shed light on this question. All of the salesmen we talked to said that before the crisis people preferred imported pastas to domestic ones. Now domestic pastas of low quality (37%) and middle quality (45%) are bought (according to our survey, not to salesmen). We expected changes to happen, but we did not expect them to be so huge, though LBS Corporation’s manufacture of pastas very notably increased since before August, 17th.
7. The most desirable size of package is 1kg (57%), then goes a 500g package (38%).
8. People almost do not purchase domestic automatically packed pastas. Their price is almost equal to the price of imported pastas.
9. 72% of respondents said that they would prefer automatically packed pasta to manually packed one. 35% would do it because they are afraid of being given light weight, 19% do not like unawareness about the manufacturer, and 11% think the quality is poor.
In spite of this, people are not willing to pay much for packaging, though 82% of them agree that they would prefer automatically packed pasta to manually packed one. Only 9% were willing to pay more than 1 ruble for a 500g package, 24 % would pay from 0.6 to 1 ruble for a 500g package, 28% would pay about 0.5 ruble, and 10% would pay nothing at all (some even said they would prefer manually packed pastas because they can use the packaging).
10. People would not like to buy pastas in cardboard or other non-glassy packaging. Actually all of the respondents said they need to look at the product to estimate its quality.
11. Though people agree that imported pastas tend to be better than the domestic ones, most of them (67%) would not like to pay more than 25% more for imported pastas.
12. People do not worry a lot about the brand name. There are no hard-core loyals. There are a few split loyals (11%). They are among the people who still prefer imported pastas. The most popular brands are: Nordic (27% of imported pastas purchased were of this brand), Big (21 %). Non of the respondents was a loyal of any domestic trademarks.
13. Actually all people said that it is bad that Russia substitutes natural resources for industrial goods, but only 4% said they often think about it when they make their purchase decision, 7% said they sometimes do, 5% seldom think of this.
14. Since it was difficult for the respondents to answer weather they used to consume more or less pastas before the crisis (more than 50% could not answer at all or hesitated), we used the salesmen as our reserve source of information. According to them, the overall consumption of pastas decreased by approximately 15%, and consumption of imported pastas has just slummed- by more than 50%.

# Conclusions.

Putting two and two together, we can state the following.

## General findings.

1. The price is the most important factor influencing the consumer’s purchase decision. It will probably keep its position or even be able to strengthen it if we take the constantly deteriorating economic situation in the country into account.
2. The lower middles and the lower class are the most attractive segments from the point of value. The lowers will more likely need low and middle quality pastas. Taking into account the role of price in purchase decision, we should assume that this segment will hardly react the traditional marketing measures. The other segments high class will probably require more elaborated marketing mixes, since quality plays the most important role there. Quality is estimated subjectively, and we can affect subjective probability using the means of marketing.
The lower middles and higher middles will probably prefer middle quality pastas. the biggest difference between them is in the price they are ready to pay for quality. A company can acquire competitive advantages using automated process of packaging. The main difficulty it is likely to face here – the increase in price must be low enough. It also should be careful and remember about positioning: even if it is able to automatically pack at a low cost and provide the necessary low price, its products than will be positioned as middle quality ones due to the low price. It may harm its reputation and its marketing in the higher middles and high class segments.
 The high class segment is relatively small and less attractive because its representatives are less likely to buy pastas in general and when they buy, they are more likely to buy imported pastas.
Actually we can join the higher and the lower middles in one market segment since there are no differences in their preferences which are of principle. Both of them will require pastas positioned as middle ones. Though quality is the most important factor for the representatives of those segments, the price is also of the great importance, and the main difference between the representatives of these segments is the price they are ready to pay for quality (or for the quality packaging).
3. The crisis seriously affected the market of pastas. The domestic manufacturers now have a lucky chance to grab the market share that earlier belonged to foreign manufacturers. They can gain brand recognition and loyalty.
4. The main task, in my opinion, for a pasta manufacturing company in Russia now is gaining brand recognition and good attitude of consumers (of course, if it thinks of its long-term perspectives). People have to give up consumption of imported pastas. This gives a great opportunity to get people used to consume domestic pastas. Since quality of many domestic pastas is actually as high as of the imported ones, the stereotype which has formed in the time of the USSR and which has been providing a negative attitude towards domestic goods will slack.

## Recommendations apropos automation of the process of packaging.

Since the final decision about reasonability of the automation requires complicated accounts, such as breakeven analysis for instance, my recommendations which result from the survey are preliminary, they are an object for application by the economists and managers of the Corporation. A lot of exogenous and endogenous variables will affect this decision, and only a part of the exogenous ones may be revealed by a marketing research.

We should think that the automation of the process of packaging may be reasonable if:

* 1. The company can provide low increase in costs resulting from the automation. In this case the corresponding increase in price will be also low. This will make orientation towards the heavy half (lowers and lower middles, and partly even the higher middles) possible. We can estimate that it will not be possible to provide high quality of packaging in this case.
	The company will position its product somewhere between automatically packed (or high quality) and manually packed (or middle quality) pastas. This may cause a positive reaction of up to 72 % of buyers depending on the price increase.
	2. The other alternative is to use packaging of higher quality at higher costs. The limit here is about a one ruble rice increase per 500g package. It is also possible to make 1000g packages, this will decrease cost of packaging. The most important thing resulting from the research we should remember about is: class pricing will hardly do. We have not made a special research, but we have the reasons to think that most of domestic manufacturers of automatically packed pastas position their products too high and face significant problems. . Providing a high quality packaging and a comparatively low price (if it is possible) will position the product as an inexpensive and quality one. This should cause a positive reaction of about 20%, we may estimate (of course, this figure will depend upon marketing efforts made). This decision will mean orientation towards the higher middles and the higher class.
	Though this option will probably be less attractive than the first one, it is more attractive in prospect, since it will increase competitiveness of the company, improve its reputation and help gain loyalty.
	3. The best alternative, in my opinion, is to combine the features of the first two. It is possible if the company can vary costs of packaging. This actually will mean full covering of the market.

We see, that alternative decisions depend on the costs of packaging, so the market coverage does. We have a strict limit here- we cannot afford using packaging which will cause a price increase more than 1 ruble per 500g package. This means we will have to think of production first, and only after that continue thinking about marketing (do not mix it with actually manufacturing first and than thinking about marketing). It is a specific feature of our country- everything is made vice versa.

The decision of the management of the Corporation based on this research and on the economists’ opinion was to seek means to decrease costs of packaging and make the third option possible to be performed. One of the possible decisions is sharing a packaging line with another foods (not pastas) manufacturing company. When the company has several alternative possible solutions of this problem, elaborated marketing mixes will be developed for the segments that will be selected as the target ones.

# References.

1. Eaton B.C., Eaton D.F., *Microeconomics, 2nd edition*.
2. Hisrich R.D., Peters M.P., *Entrepreneurship. Starting, Developing, and Managing a New Enterprise*. 3rd edition. Irwin.
3. Kotler P, *Marketing Management, 9th edition*, Prentice Hall International.
1. According to corporate information. [↑](#footnote-ref-1)
2. Subjective probability- a term from microeconomics which denotes the probability which is subjectively estimated by a person while making a choice decision. [↑](#footnote-ref-2)
3. High quality pasta can be made only of appropriate high quality flour. This flour must be made of limited variety of sorts of wheat. These sorts are called durum. If pasta is made of a usual flour which is generally used for baking, its quality leaves a lot to be desired. Of course, durum wheat is more expensive than usual. Pastas made of usual flour are of poor quality but cheap. [↑](#footnote-ref-3)
4. Digital data without reference is based upon corporate information. [↑](#footnote-ref-4)
5. Though I use the categories denoting social stratas in sociology, their usage here hardly corresponds with their original meaning. I have to change it according to conditions of Russia. The *Lower Class* will denote people whose income is not enough to provide them with necessary quantity of food and other essentials, or is lower than the subsistence level. The *Middle Class* will consist of people whose income is higher than the subsistence level. They have a disposable income as a consequence. [↑](#footnote-ref-5)
6. Since income per head in a family depends on the quantity of those members and on the income of everyone of those members, it is not surprising that the same social group will be found in different segments. [↑](#footnote-ref-6)
7. Of course, this may sound awkwardly, but I think we can use this category in Russian conditions due to specific traditions, stereotypes and differences in technology. [↑](#footnote-ref-7)
8. Since people were not always willing or able to answer some questions, the total of the percentages of respondents answered in different manner this or that question is often below 100%. [↑](#footnote-ref-8)