

Russian standard vodka strategies for global markets

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Introduction

Roustam Tariko, founder of the Roust Holdings planned to establish a brand that will set up new standards of world class quality for new breed of global Russian brands. Tariko focused on setting up the standards by a product which is distinctive because of its Russian Heritage so that Russians can take pride in it, and to fulfill this requirement vodka was the obvious option as it is developed in Russia and strongly associated with the country. Tariko launched the vodka and by 2002, Russian Standard was outselling all other brands achieving the top position in the vodka market. This success of the Russian brand was attributed because of its consistent product quality, packaging, and merchandising and of course because of its strong depiction of Russian heritage. Encouraged by its success, Tariko's management launched the Russian Standard in the European countries aiming to make it the best vodka globally. Russian Standard vodka was making business in around 10 European countries, the company wishes to enlarge the business by further crossing the boundaries by entering into the US Market. Vodka is very famous in the US; it has a huge market, largest around the globe and there are many best selling companies which offer premium quality vodka. Launching Russian Standard vodka in US would mean high competition with the already existing brands that are quite popular among customers. The Russian Standards also expanded the list as Tariko decided to launch a new type of bank which will serve foreign trade companies, small business and individual customers. The challenge faced by the Russian Brands team was to make the two diverse businesses compatible with each other while maintaining the standards of the Russian Brand. The report presents a brief

overview of the brand equity concept of the Russian Standards and the reasons behind its success story, discusses the horizontal brand diffusion in terms, and also debates over the possibility of launching Russian Standard in US and whether it needs to change its strategies to attract the customers.

Brand equity is considered to be a crucial source for profitability. A firm with strong brand equity can have a significant edge in the market as compared to its competitor. It can be able to charge higher prices with its brand image backing it up. The firm can also enjoy a larger market share, a possibility of further product extensions and even draw more investment into the existing business. This is the reason why in the present world, branding or brand image has become a very important strategic issue for businesses.

Businesses such as Pepsi, Coca Cola, Ralph Lauren, Nestle etc have very strong brand equities, because of which they are able to enjoy huge market shares as well as the ability to price their products higher than what they would have if they did not have their respective brand names.

Brand equity is the value of a company which is only because of its name. As observed by Dr. Ramachandran (2010) brand equity is the outcome which is attributed to the product's brand name as compared to the same product without a brand name.

Due to the benefits strong brand equity can provide, every corporate entity works their utmost to excel others in the retail sector. However the question arises that what makes a brand's equity stronger than it is? According to Keller's (2003) brand equity pyramid, there are mainly four steps and six building blocks which establish a consumer based brand equity for a firm,

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namely; Salience (identity), Performance and Imagery (meaning), Judgments and Feelings (Response) and finally Resonance (relationship) (Appendix 1). These are the steps at which the consumer asks respective questions related to the firm, and each step leads onto the next until the consumer places complete confidence in the firm, and thus the firm is able to acquire strong brand equity.

This model by Keller (2003) can be used to explain how the Russian Standard brand was able to establish strong brand equity and how this brand equity helped the company to gain commendable success in Russia.

Brand Salience

The very first step in the pyramid is that of Salience, or identity. This is the step where the consumers ask the firm or product, “ who are you”. This means that when a firm is introduced in the market, the firm establishes distinct identity. It establishes its association to a particular product class, i. e. consumers consider the firm/product according to this distinct identity. Brand salience can be defined as to “ how often and easily the brand is evoked under various situations and circumstances?” (Keller, 2001)

The beginning of the Russian Standard brand was with a mindset that its products were to be established in such a way which would be able to gain long lasting consumer association. The objective was to establish an exclusive product, which focused on Russian traditions. The brand identity established by Tariko was such that the Russian Standard brand was identified as the standard for Russians. The aim was to reach for the emotional aspect of consumers while they can relate themselves to the

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brand and claim pride in owning it. As the case study points out that the Russian Standard Vodka is identified as a traditional Russian souvenir, like “matryoshka” wooden dolls, Red Army captain watches, and lacquer boxes from Palekh (Grigorian, 2000). The intricate details taken into account in establishing the brand salience for the Russian Standard Vodka can be largely attributed to the brand equity that it enjoys today.

Keeping the brand equity in order to build and protect the equity a brand positioned as a premium brand has to keep up with the expectancy by the consumers. For a premium brand the customer expectancy is not only from the quality of the product but it starts from the manufacturing to the pricing to packaging to delivering as well as to promotion (NetMBA). In all these levels a premium level of quality is expected. Russian standard has been careful in keeping quality at the utmost level while carrying out the four P's. The product was produced with quality ingredients. The packaging was outlining quality in every aspect including meticulous details like design, labels, bottle caps and cases. The pricing was done to put the product in the premium to super premium category and the distribution was carefully laid out to acquire shelf spaces in fancy restaurants and night clubs and even in the highly perceived supermarkets.

Brand Meaning

Moving onto the next step of the Keller's pyramid, “Performance and Imagery” are what gives a brand its meaning in the minds of the consumers. The performance block includes all the principal characteristics of the brand, i. e. how well is the brand able to conform to the consumers' psychological

and functional requirements. This portion of the pyramid basically includes the basic features of the product, pricing, design, durability etc. Whereas, the brand imagery portion of the pyramid includes all the characteristics that are connected to the product, i. e. the product's user profile, the values and history that the product reflect along with the distributional structure of the product(Keller, 2003).

The Russian Standard brand was known for its quality, packaging and strong distribution channels. It was designed to be the first domestic brand to create a rich mosaic of imagery. It focused not only on quality but also on the price, packaging, merchandizing and communication. The Russian brand emphasized on depicting the Russian heritage to connect to the Russian customer and also achieve and ensure product quality that will attract the customers and make them loyal to the brand. The Russian major scientific institute which specialized on food research, in 1990s, along with Mendeleev formulated a formula for vodka, this was patented to be exclusively Russian, it was considered a symbol of quality. The quality based on Mendeleev's recommendations of the vodka was of utmost importance to Traiko, which was then communicated to the people through extensive advertisement promotion, the designed bottle of vodka showed Mendeleev's signature so that the customer will felt secure about the quality of the product. By establishing this strong connection of vodka with the Russian heritage, Traiko developed a certain sense of meaning and understanding among his customers that they were attracted emotionally and physiologically towards the Russian Brand vodka, and this sense of owning and connecting to the product not only attracted as many locals but also ensured their loyalty

towards the product. Other than this, the Russian Brand also priced the product in a very appropriate way; the price was in support of its image as an exclusive brand. The vodka was priced more than other local brands, while still it was less expensive than the imported brands. This helped the Russian Standard Vodka to be recognized as an elite brand, in league with the imported brands; whilst at the same time it helped in gaining profits for the firm as well (Appendix 3) (Anselmsson, 2007). It mainly targeted the connoisseurs and strivers who preferred high quality products and prestigious brands.

Moreover, the packaging of the Russian Standard Vodka was unique and fashionable. The exclusivity of the product and its other brand values was reflected by its packing. Attention was paid to every little detail of packaging of the vodka bottle; from bottle case to its cap and more importantly the shape of the bottle all were designed to emphasize on Tariko's objective of depiction of the Russian heritage and also ensure class and quality to the customer's requirement and satisfaction. The packaging was designed by one of the top most design house, so that it would reflect the brand's quality. The act of focusing on the packaging of a product was in itself something new for a business in Russia. Quality used to be the sole source of focus for a product, leaving the focus from pricing, packaging or the distribution channel, whereas, in modern marketing techniques, product, price, place, packaging and promotion make up the marketing mix for any product. Therefore, packaging was another one of the major reasons for the Russian Standard vodka to acquire its brand meaning in the eyes of the consumers.

Furthermore, the nostalgic touch to the packaging which reflected the value of the brand increased the brand meaning. The shape of the bottle resembled that of the traditional Russian orthodox churches, and there was a historical signature on the packaging as well.. This helped the consumers in establishing distinct brand imagery for the Russian Standard brand and relate to it.

On the other hand, the strong distribution channel of the Russian Standard Brand also helped to setup its brand imagery. The Tariko's import business before the Russian Standard brand helped the new vodka to acquire advantaged shelf space as opposed to what it would have had in case Tariko had no prior reputation. Therefore, the beginning for the Russian Standard Vodka's placement in the market was privileged with supermarket promotions, access to prominent restaurants, clubs and bars.

Brand Response

The judgment and feelings of the consumers are the next building block. . This is basically the feelings and perceptions of the consumers about the brand (Keller, 2008). The brand judgment includes the brand quality, credibility, and differentiation. The quality includes the value or satisfaction the brand provides the consumers. The Russian Standard Vodka was trusted by the consumers for its quality. The advertised quality was supported by the actual quality of the product. The appropriate marketing mix helped the consumers to relate to the product. The idea of the campaign was to show a transformation from the previous Russian standards and the new ones. It was meant to create a modernized image in the minds of the consumers.

However, this was not perceived as desired by many consumers. Most of the people thought of it as disrespectful to degrade Russian traditions no matter which era they belonged to and the message could not transfer to most people as well. So the campaign failed to communicate the intended premium image. It was designed for the international market but the response from the Russian market stopped it from being used abroad. It was not portraying the “ embracing the past and inspiring progress” mantra the company was following.

The feeling that was called upon by the advertisement within the consumers was such that they preferred using the Russian Standard Vodka as opposed to the imported brands. The brand acquired more appeal through its unique packaging and quality. The on-premise promotion on the other hand worked better for the company. It was promoted as a prestigious brand in restaurants and night clubs. The off-premise promotion was also carefully planned to portray its elegance by acquiring quality displays and shelves in the supermarkets.

Brand Resonance

The consumers in the modern times demand much more than just the functional benefits from a product. They demand “ intangible benefits such as image, status, personality, lifestyle, success and other factors that they can strongly relate to” (Aziz and Yasin, 2010). The Russian Standard brand was one of the very first brands in Russia which used all these aspects into account when introducing its products in the market. Prior to this, quality and the product was the only consideration for the businesses. They believed

in the 'supply making its own demand' style of selling as opposed to the making a product in accordance to the demand of the people. However, the Russian Standard brand changed the traditional style of marketing and therefore was able to hugely benefit from rapid success in Russia. The Russian Standard brand used all the five P's of the marketing mix to powerfully introduce itself in the market. From there onwards, it maintained its quality and built a solid name for itself by being consistent and innovative in promotion. The Russian Standard brand was able to establish a reputation which appealed to the consumer's nationalistic sense. The idea was to create a strong consumer-brand relationship. Brand resonance can only be healthy if the consumers feel that they are in synchronization with the brand's identity and values. Because of its patriotic look the brand was able to delve into the Russian market well. It was in complete harmony with the traditions of the Russian people.

Therefore, from the analysis above, it can be said that the rapid success of the Russian Standard brand was not only because of the strong product quality they offered but also due to its right choice of marketing mix and most importantly its uphold with the Russian Identity. As the Roust Organization has already developed strong merchandizing and communication skills and relationships with the both kind of trades that is on-trade and off-trade, it was easy for the Russian Standards to be introduced to the consumers, but it was the Russian Standards strong conviction towards the brand equity that they become increasingly popular with the people and establish a certain kind of bond with them. It can be rightfully said that the success story of Russian Brand vodka emphasizes on

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all the aspects of the brand equity i. e. to establish brand salience and keep themselves intact with brand meaning to strengthen the bond with the customers keep counter check on the brand response and improve in case of any negativity and maintain the high standards, and last but not the least to provide brand resonance to the customers so they can feel pride in using the Russian Brand vodka. Thus it enjoyed rapid success and managed to maintain its position at the top, with these brand equity concepts followed it is today thought as to be one of the traditional Russian Souvenirs.

Diversification

Horizontal brand extension is one of the diversification strategies for the businesses. As can be seen in the Ansoff's matrix in appendix 2, when a firm increases its business into new products and markets, it is said to be diversifying its business. The benefits from diversification include, profitability, growth, reaping economies of scale if the diversification is within the same product range, avoiding dependence on a single product etc. Capitalizing on the equity of existing brands can produce many benefits for the company (Strach and Everret, 2006) even enhance the perception for the core brand (Aaker, 1991).

There are two types of diversification strategies; concentric diversification or conglomerate diversification. Concentric diversification is the one where the product class remains the same. This strategy is to add related products or markets from that of the current line of business. On the other hand, conglomerate diversification is where the firm diversifies into areas that are unrelated to the current product range.

Synergy

Synergy is the ability of two or more instruments to work together to create something more than what they would have created separately. In a firm's case, a synergy would be the extra benefit acquired by two different organizations working together, as opposed to what they would have acquired if they worked separately (Ellwood, 2002). In the Russian Standard brand's case, the banking industry and the vodka industry are two unrelated industries. However, the Russian Standard brand's aim to establish both these businesses under a single brand name could have been to benefit from synergies. This is possible if the bank and the vodka business together can give a stronger brand equity or profitability as opposed to their working as separate businesses under two different brand names (Aaker, 1991).

Conglomerate Diversification: Benefits and Problems

The possible motivations for conglomerate diversification include profitability, reducing firm specific risk, and limited growth in the current business along with other benefits of diversification in general. As observed by Martin and Sayrak (2001), the diversified organization may benefit from a larger tax liability than the initial business. Moreover, there may be other benefits from diversification such as risk from suppliers can be reduced, overhead costs can be distributed amongst a larger business (economies of scales), and the debt capacity may increase as well (Lewellen, 1971 as cited in Martin and Sayrak, 2001). Furthermore, the additional business can become a source of internal financing for the combined brand, which can considerably reduce the firm's financing costs. This can be done by the management of the combined organization, by redistributing resources

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within the organization, where a larger amount of funds can be placed in the areas where there is potential of a higher gain than some other department (Stein, 1997 as cited in Martin and Sayrak, 2001).

On the other hand, conglomerate diversification may create a number of problems for the existing firm. There are chances of administrative problems arising with an increase in the scale of operations (VanAuken, 2011). There can be managerial issues, i. e. an intensification of the principle-agent problem in an organization. Along with this, there can be an inadequate level of experience for the existing firm in the new industry. There may be requirements of the new industry that the current management is completely unaware of. New marketing mix, technical equipment, personnel and a lot more will be required for the new business which the current management may not be able to obtain.

Support for and against Conglomerate Diversification

In conglomerate diversification there are cases where the diversification has been extremely successful as well as cases where diversification was a source of loss in shareholder's value in the initial business (Martin and Sayrak, 2001). Maksimovic and Philips (2002) in their research found out that conglomerate diversification reduces shareholder value, whereas in Martin and Sayrak's (2001) work they have given a wide range of supporting as well as opposing arguments, without a significant conclusion as to whether conglomerate diversification is beneficial for the initial firm or it actually dilutes its initial shareholder value. However, it has to be noted that most of

this literature is on merging or acquiring conglomerate businesses and not establishing a new business like the Russian Standard brand did.

In case of the Russian Standard brand, (Grigorian, 2000) the bank was met with immediate success. Therefore, the success of the bank could be attributed to the existing brand name of the Russian Standard Vodka, but even if it was not because of that then there was definitely no dilution of the brand because of the conglomerate diversification.

However, it may be difficult to measure in the Russian Standard brand's case whether the success of the bank was because of the credibility of the brand or the right marketing mix for the bank itself. It can be the case that the bank may still have had the same success without the Russian Standard brand's name associated to it, because the strategies to establish the bank were appropriate and the marketing mix was correct for the respective environment. This may be very much possible considering the fact that most of the people did not associate the Vodka and the Bank even with the same brand name; " few customers made a clear link between the two businesses" (Grigorian, 2000).

Another aspect in this situation could also be the fact that the owner of the company, Roustam Tariko, had established much credibility for himself as well by being successful very early. His sense of strategic business thinking made him successful in creating a brand image of Russian Standard. The aim to meet international quality standards and improve the image of his country reflected well in his branding strategies. The Russian standard vodka and bank, though both were quite different in terms of relativity but as both were

being run by Roust their relativity was somehow subsided by the credibility of the parent company (Ellwood, 2002). Both the brands were leveraging on the Russian Standard's image. So the brand could very well diversify instead of considering to be diluted.

Therefore, it can be said that even when the banking and vodka businesses are not compatible and few modern businesses actually go for conglomerate diversification, the Russian Standard brand was able to handle the two businesses well. As "reputation" (Ali, 2008) is one of the main factors that can affect the results of brand extension, the Russian Standard brand had a strong brand equity because of its vodka business which could very well afford to withstand any brand extension.

Market Extension

Another diversification strategy is to extend one's existing business into new markets. As can be seen in the Ansoff matrix (appendix 2), the "market extension" (Jewell, 2000) is when the existing product is introduced in some new market. This is another extension strategy that the Russian Standard brand was taking into consideration, i. e. extending its vodka into the US market. The benefits of market extension include profitability, an opportunity to reap economies of scale as the basic product will remain the same and growth of business and operations (VanAuken, 2011). Whereas, the market extension process may cause difficulties for the existing firm, because the new market may be completely different from what the firm has been working in initially. An in depth analysis of the potential market, information of the competitors and consumers, legal regulations, economic and social

environment, all are required before the extension may be made. An entirely new marketing mix is required for the same product for it to be introduced in a new market. If the product is launched in the new market with the same marketing mix, then the probability of its success may be reduced considerably. This is because, consumers in each market have distinct requirements and the social, economic and legal situation is also different from the existing market. Moreover, the potential market may already be saturated with competition, as is the case with the US market for Vodka (Sahani, 2008). The US market already has a number of well positioned, distinct local and foreign brands. Each of the brands available in the market is distinct in its own way, i. e. each has a specific segment of the market that it is very well catering to. Therefore, it can be said that introducing the Russian Standard Vodka in the US market is a difficult task, however with the quality product that it has, it may as well be successful to grasp a section of the market. In order to do this, a new marketing mix will be required for the Russian Standard Vodka to be successful in the US.

The Russian Standard Vodka in the US market

The Russian Standard Vodka was hugely successful in Russia not just because of its quality, but also its appeal to the nationalist sense in Russia along with its privileged distributional channels. These are the attributes of the Russian Standard Vodka that may not be present when the vodka is introduced in the US market. The US market which is today's largest consumer of vodka, is already very saturated in terms of premium vodka brands. The consumers will not be attracted to the brand merely because of its ' Russian' origin, nor will the brand be able to acquire advantaged

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distribution channels (Sahani, 2008). Also considering the fact that the relationship between the two countries have always been on a verge of disagreements (Graham, 2008), this can act as creating a certain biasness for the origin of the brand. Based on the market analysis the super premium to premium segment already includes a lot of imported brands. For Russian Standard to create its space the super premium segment will have a benefit in terms of no competition from local brands, since the super premium segment only includes the imported variety. So if Russian Standard vodka changes its market strategy they can be noticeable in the US market. Change in the strategy will have to be emphasized in new and creative ideas of marketing and advertising, for this purpose it is very essential for the Russian Standard management to carefully study the US market, understand what the customers need and want, and what does the other vodka brands offer them, whether is there any loopholes or any gap between the customer requirement and brands offers and if Russian Standard vodka can overcome that gap. The American market is completely different from the Russian market, therefore Russian standard faces a great challenge in first capturing the attention of the American and consumers and then providing them with a better vodka than its competitors. The Russian Standard vodka can be launched in US market, but for a successful launching a lot of literature review and planning is required. From the discussion above it can be said easily that the Russian Standard will have to adapt to the US market to make their space. Many aspects of the Russian Standard vodka advertising and management campaign will plays vital role, among which pricing is the most crucial of all. The price should be appropriate enough to capture the

attention of the Americans and maintain class as well. The quality of the Russian Brand vodka will ensure brand loyalty from the customers, but the real challenge is faced in actually making space in already so brand crowded market of the vodka in the US.

The Russian Standard Vodka marketing mix for the US market will have to have a significant media campaign as well. This is because, all other competing brands in US have noteworthy amounts of money spent on advertisement, and are using user profiling (associating celebrities to add value to the brand) to their advantage. This is one place, where the Russian Standard Vodka will have to focus to establish a brand image that will appeal to the respective consumers. With the current scenario going pretty well for Russian Standard at home a global impact will add to the equity of the brand. As far as the image and global inconsistency is concerned in order to venture into a foreign market the characteristics must be understood. Since the US is a big market and the people are very accustomed to freedom and rationality Russian Standard will have to adapt to the culture in order to create the brand image (Deresky, 2006). This might impact global consistency of the brand but in order for it to be associated exclusively to Russia the Russian Standard brand has to be put up as a brand for the elite. One the brand recognition will be spontaneous and second it will enjoy cost effective global positioning (Sahani, 2008). As the current situation of the brand is leading in the Russian Market the intervention in the US market will not be a wrong decision.

Another aspect in consideration with the adaptation to the US market involves the brand name Russian standard itself (Deresky, 2006). This can have a positive as well as a negative impact while branding in US. The word Russian associates the Russian traditions with the brand. This can impact in the unique positioning in imported vodkas market. The name will give the product a Russian trait and the market does consist of people inspired more by brands with foreign attribute associated to them. However, the market also consists of people who can be biased in terms of foreign associations. Since Russia has been on major disagreement terms with US in history, some sort of biasness or stereotyping might result in the undermining of the brand (Graham, 2008).

Launching Russian Standard Brand vodka in the United State would be challenging but not entirely an impossible job. With change in strategies and with new concepts of brand equity that will be according to the US markets, the Russian Standard Brand may be able to make their space in the strong world of vodka in the United States.

Conclusion

Therefore keeping these aspects in mind the venture into the US market can be risky at some points since it is the largest vodka market in the world. On the other hand it can also provide Russian Standard the global position it is looking for. It will add to the equity at home and in other markets it plans to venture into. The loyalty will increase and so will the company reap economies of scale by pricing it in the super premium market.

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