Depreciation of the Russian rouble in 2014-2015 and its influence on Finnish companies in Saint Petersburg and the Leningrad region

Research in cooperation with Finnish-Russian Chamber of Commerce (FRCC)

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| **Degree programme** |
| International Business |

Thesis title	**Number of pages and appendix pages**
Depreciation of the Russian rouble in 2014-2015 and its influence on Finnish companies in Saint Petersburg and the Leningrad region	75 + 4

The present Bachelor's thesis examines the impact of the devaluation of the Russian rouble in 2014 and 2015 on Finnish companies operating in the food and beverages and chemical industries. The objective of the thesis is to identify the indirect impact of the weakened rouble on the financial performance of Finnish companies in Saint Petersburg and the Leningrad region. The thesis focuses on exploring the short-term and long-term reasons of rouble devaluation, changes in the behaviour and purchasing power of Russian consumers, the reallocation of market shares among foreign and Russian companies in the target industries and the effectiveness of central bank policy to stabilize the rouble.

The thesis includes theoretical and empirical sections. The theoretical section defines the role of the national currency in international trade, the formation of floating exchange rates, the role of central banks in the stability of national currencies and the determinants of consumers' purchasing decisions. Data on Finnish-Russian trade volumes is also presented. The empirical part reviews research and data collection methods, presents research findings and provides a discussion on the results. Four research methods, both quantitative and qualitative, were used for the thesis: (1) face-to-face thematic interviews with representatives of selected Finnish companies. Three companies in the food and beverages sectors, Atria, Paulig and Valio, and one company in the chemical industry were included. (2) A thematic interview was carried out with a professor of economics from one of the leading research universities in Saint Petersburg, Higher School of Economics. The interviewee was asked to comment on the Russian current geo-political environment, the real reasons for rouble depreciation, the structural problems of the Russian economy and the effectiveness of the central bank's actions to stabilise the rouble. (3) An online questionnaire among the citizens of Saint Petersburg and the Leningrad region was completed. 109 respondents answered the survey. The respondents represent various age categories and different income-level groups (4) A secondary data analysis of the official publications of the Bank of Russia and of relevant research papers on Russian economy was carried out.

The results show that although consumers' disposable income decreased in 2014 and 2015, there is an overall preference towards foreign products over Russian analogues. Increased prices for foreign products have forced consumers to purchase smaller volumes of the same products rather than to switch to local substitutes. Rouble depreciation within the timeframe of the research has not facilitated the growth of local companies due to the scarcity of the factors of production. Foreign companies have supplied the majority of raw material from abroad. As for the reasons for the rouble depreciation, the structural problems of Russian economy, low labour productivity, dependence on natural resources export and extensive governmental control were among the core causes of the 2014-2015 crisis. From 1998 to 2008, economic growth was driven by the fulfilment of economic capacities and, when economy needed modernization after 2008 as capacities were fulfilled, the growth was rather led by the profit from oil and natural gas export. The Bank of Russia has undertaken different policies to stabilize the rouble, which included repo auctions and currency interventions. However, these policies have diminished investors' trust in the Bank of Russia and promoted capital outflow from the country.

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I dedicate this work to my parents, who made it possible for me to explore this world of endless opportunities.

Anna Komarova, November 2015

1 Introduction

16th of December 2014 in Russia was named "Black Tuesday", paraphrasing a common collocation "Black Friday". On this day, the rouble lost over 30% of its value in less than 24 hours and fell from 74.7 roubles per euro on December 15 to a record 100 roubles per euro on December 16 (Dozhd 2014, Ria News 2014). Russian people in panic started to spend money with the fear of rapidly rising prices for foreign goods. One could only slightly envision the situation by imagining that if he would visit a shop of electronic goods in one of the biggest shopping centres in Saint Petersburg after the 16th of December, he would see bare cables on the wall where previously hanged TV sets. In the following shopping centre, the same person would note plenty of empty rooms, where well-known clothing shops Esprit, River Island and New Look had been located (Dombrova 2014). There was no doubt: companies started to leave Russian. A condition of uncertainty in-stilled fear in the hearts of companies and inhabitants.

The following research aims to examine the core reasons of the sharp devaluation of rou-ble and analyse how this devaluation has affected consumer behaviour in Saint Peters-burg and the Leningrad region. The paper focuses on exploring the impact of changes in consumer behaviour on Finnish companies in the food and beverages and chemical in-dustries. The present chapter will introduce the grounds for conducting the research and the benefits of the research for the field, future postgraduate studies and commissioned company Finnish-Russian Chamber of Commerce. The chapter will illustrate the research structure by presenting the research question and investigative questions, primary data collection methods and secondary data sources.

1.1 Background

In October 2014, following the Russian intervention in the politics of Ukraine, Russian food embargo, European Union's sanctions against Russian and the falling oil price, rouble started to fall dramatically. As it can be seen from figure 1, in December 2014 rouble de-valuated to approximately 84.6 roubles (RUB) per euro (EUR) (official exchange rate), which is the highest exchange rate in the history of the currency and is almost twice higher than the exchange rate in January 2014, when one euro equalled 45 roubles. In spring 2015, the rouble stabilized at an official rate of 56 roubles per euro and remained relatively stable until July 2015. (Central Bank of Russia 2015a.) However, in the middle of summer 2015, the world's economy was threatened by the sharply decreased indexes of Chinese stock markets and by the consequent second wave of oil price decrease. Rouble

experienced a second fall and was down to 70.75 roubles per euro (official rate) in August 2015 (Tass 2015).
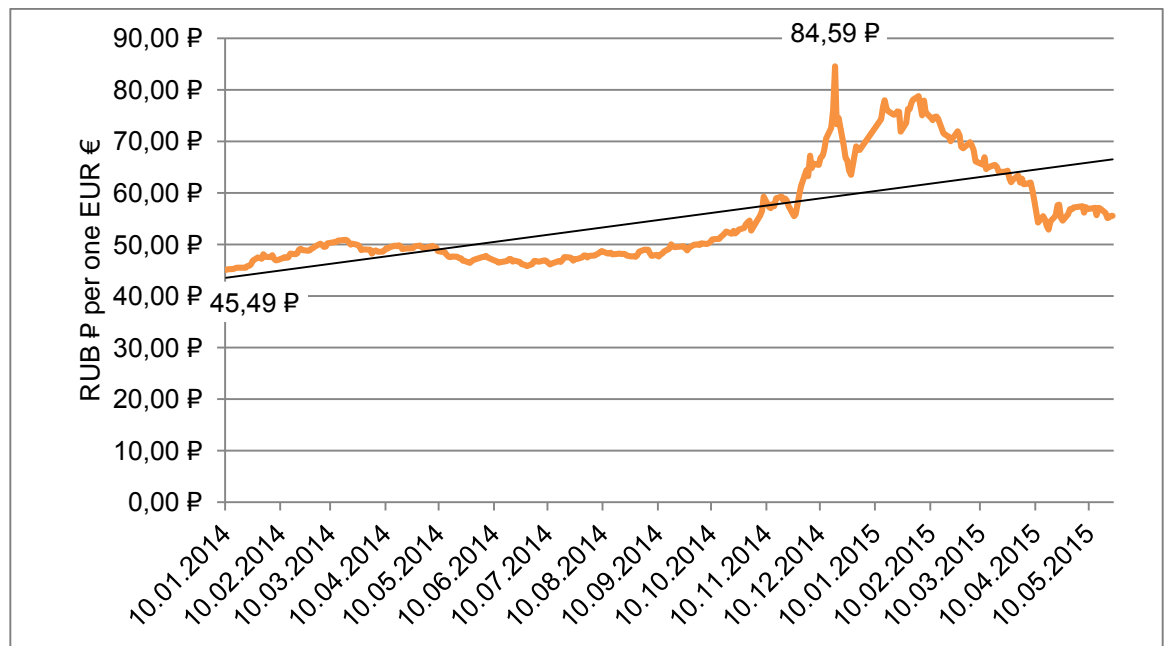
Figure 1: Dynamic of euro in exchange to rouble from 01.01.2014 to 23.05.2015 (Central Bank of Russia 2015a)

The present currency fall is the biggest since the rouble devaluation that followed the Russian default of 1998, when the rouble depreciated from 6.3 RUB per 1 United States' dollar (USD) to 20.8 RUB per 1 USD in less than a month (figure 2). However, the default of 1998 was a result of the constant budget deficit after the collapse of the USSR, extensive governmental debt and inability to finance this debt, whereas the 2014 crisis has came unexpectedly following a stable annual growth of gross national product (GDP) of over 4% in 2011 and 2012. (Ria News 2011, Trading Economics 2015.)
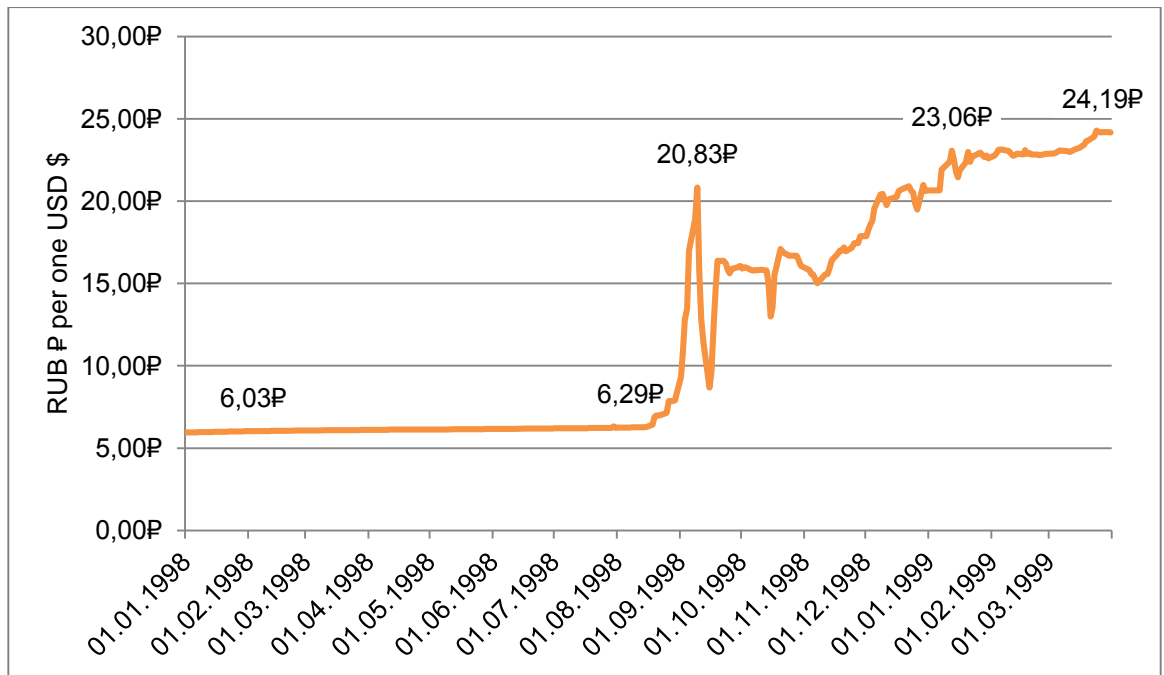
Figure 2: Dynamic of dollar in exchange to rouble from 01.01.1998 to 31.03.1999 (Central Bank of Russia 2015b)

1.2 Thesis topic

The chosen thesis topic creates a broad field for the research. To approach the key issue of the thesis and to make the thesis topic more specific, the following research question was formed and five investigative questions were shaped in order to answer the research question in full.

Research Question: What effects did the rouble depreciation of 2014-2015 have on the Finnish companies in the food and beverages and pharmaceutical industries in Saint Petersburg and the Leningrad region?

Investigative Questions (IQs):
IQ1-What are the short-term and long-term reasons for the rouble depreciation?
IQ2-How did the rouble depreciation affect the purchasing power of Russian consumers?
IQ3-How did the price increase for foreign products affect the local Russian companies?
IQ4-How effective were the actions undertaken by the Central Bank of Russia in order to stabilize the rouble?
IQ5-How did the Finnish companies in selected industries react to the rouble depreciation?

4

For each of the investigative questions, review of the relevant literature and the empirical research were conducted (table 1). The purpose of the literature overview (the first stage of the research process) was to create a solid understanding of the key aspects of investigative questions and to establish a theoretical base for the empirical study. Key findings of theoretical study are presented in 'conclusion' subchapter of chapter two and were used to form the interview and survey questions for two primary data collection methods used in the thesis (thematic interview and online questionnaire). Empirical study was based on data from both primary and secondary data collection methods. The sources of primary data included the interviews with the four major Finnish companies and with the field specialist, professor of economics, and an online questionnaire that targeted population in Saint Petersburg and the Leningrad region. An overview of the research methods used and of the outcomes for each investigative question is presented in the overlay matrix below.

Table 1: Overlay Matrix

Investigative Question (IQ)	Theoretical Framework	Research Methods	Results
IQ1-What are the short-term and long-term reasons for rouble depreciation?	(1) The development of money as a key instruments of international trade (Baranzini & Scarzzieri 1986; McLeary, Radia & Thomas 2014; De Grauwe 1989) (2) The history of the exchange rates formation (starting from the Gold Standard) and the formation of the modern floating exchange rates (Fisher 1989) (3) Monetary policy and the formation of exchange rates (Shapiro & Sarin 2009) (4) 'Efficient Market Hypothesis' (Cooper 2008)	(1) Interview with the field expert Pavel Usanov, docent at National Research University Higher School of Economics in Saint Petersburg (2) Analysis of relevant research works (McKinsey Global Institute- 'Lean Russia: Sustaining economic growth through improved productivity', Deloitte's 'Economic Outlook Q2' 2015, PWC- 'Shale oil: the next energy revolution') (3) Review of the media publications from reliable news sources (Ria News, RBC, the Economist, and other)	Two types of reasons for the rouble devaluation were identified: short-term and long-term. Short-term reasons include fall of oil price, sanctions against Russia, lack of trust in the currency among the Russian citizens and the fall of the indexes of Chinese stock markets in 2015. Long-term reasons comprise of the structural problems of the Russian economy (low economic efficiency, extensive governmental control, dependency on export of natural resources, poor organization of labour)
IQ2-How did the rouble depreciation affect the purchasing power of Russian consumers?	(1) 'Rational Choice Theory' as an explanation of consumers' purchasing decision (O'Shaughnessy 2013)	(1) Online survey: 109 people of different age, gender and income level have participated in the survey, which comprised of 2 background questions and 6 self-assessment questions	The rouble depreciation has overall decreased purchasing power of Russian consumers, which has consequently affected the buying behaviour of consumers in different ways (a switch to national analogues, de-

		(2) Thematic interview with the four Finnish companies that operate in Russia in the food and beverages and chemical sectors	crease in the volume of purchases, rejection of products' purchase)
IQ3-How did the price increase for foreign products affect local Russian companies?	'Rational Choice Theory' and 'Cognitive Learning Theory' *(see IQ2 Theoretical Framework for description)*	Online survey and thematic interviews with selected Finnish companies *(see IQ2 Research Methods for description)*	No major correlation between rising prices for foreign products and growth in market shares of local companies was identified. The survey indicated a tendency among Russian consumers to eliminate or to decrease in volume certain foreign products in the monthly 'to-buy' list rather that to purchase national analogues. It was also concluded that Russian economy has the scarcity of the factors of production and selected foreign companies were supplying raw materials from abroad. Consequently, local companies were unable to increase market shares due to the scarcity of resources available
IQ4-How effective were the actions undertaken by the Central Bank of Russia in order to stabilize the rouble?	(1) Equilibrium of supply and demand as a mean of the formation of floating exchange rates (2) Methods of Central Bank's interventions in the foreign exchange market (Shapiro & Sarin 2009)	(1) Analysis of official publications of the Central Bank of Russia (2) Review of articles from reliable media sources (Ria News, RBC, and other) (3) Interview with Pavel Usanov, docent at National Research University Higher School of Economics in Saint Petersburg	Three major Central Bank's actions throughout the years 2014 and 2015 were identified. These were manipulations with the key rate, repo auctions and currency interventions. The actions were defined as been effective in the short-term, but have decreased the trust among investors and inhabitants in the bank in the long term
IQ5- How did the Finnish companies in selected industries reacted to the rouble depreciation?	(1) Finnish export volumes to Russia (Russian Embassy in Finland 2015) (2) Composition of export from Finland to Russia (FRCC 2015b)	Thematic interviews with the selected Finnish companies *(see IQ2 Research Methods for description)*	Some common actions of the selected Finnish companies included amendment of the current product portfolio, negotiations with suppliers to keep the prices low, reconsideration of the strategy and development of multiple strategies for different rouble values

1.3 Thesis structure

The research question of the current thesis aims to identify the *'influence'* of the rouble de-volution of 2014 and 2015 on Finnish companies in Saint Petersburg and the region. To avoid the vague interpretation of the term *'influence'*, it was decided to outline four core scopes of the research, which are also reflected in the investigative questions 1-4. Firstly, it is crucial to define the real reasons for the rouble devaluation as, depending on the reasons, the future prospective on the Russian economy can change for foreign companies. If the devaluation was driven by geo-political and macroeconomic events (e.g. European sanctions against Russia), than the rouble can be expected to restore when the effect from the events will be diminished. At the same time, if the roots of the devaluation are in the structural problems of the Russian economy and the devaluation itself acts as a 'symptom' of the microeconomic problems, than the time it will take for the Russian economy to recover and for the rouble to stabilize will increase substantially.

Secondly, the research aims to identify the indirect impact of the rouble devaluation on the Finnish companies. The direct impact is clear: transactions and business operations are implemented in roubles and, when the exchange rate changes, the assets of a company and the value of transactions are denominated in exchange to the foreign currency (translation and transaction differences). At the same time, currency devaluation can have a much stronger effect on the wellbeing of the foreign companies. Depreciated currency can promote a decrease in consumers' confidence and purchasing power (e.g. due to the decrease in disposable income or growing unemployment). The decrease of a currency value can also create an unpleasant environment for foreign companies to operate in the market, which can give a chance for local companies to increase their market shares. The present research aims to analyze these two sources of the indirect impact on the financial wellbeing of the Finnish companies.

Thirdly, in modern economies the core national controlling party, which can facilitate the stability of a currency, is the central bank. Therefore, trust in the central bank's goal to achieve the currency stability is one of the key decisive factors that can promote the inflow of investments into the country and can create a stable economic environment for foreign companies that already operate in the country. Consequently, another research aspect of the following thesis is to evaluate the policy of the Bank of Russia in 2014 and 2015 and to analyse the positive and negative results of the use of certain monetary instruments.

Lastly, the actions that were already undertaken or are planned to be implemented by the Finnish companies to minimize the negative impact from the rouble devaluation will be reviewed in order to understand how do the companies minimize the risks of future financial losses from a depreciated currency and what other actions can be still initiated.

The thesis will start with the literature review section in chapter 2, where the reflection on the theoretical study will be presented. The focus of the theoretical study will be made on the formation of exchange rates, on the role of the national currencies in international trade and on the role of the central bank in the stability of the national currency. The theoretical part will continue with identifying the determinants of consumers' purchasing decision based on accumulated knowledge about a certain product and on the awareness of the substitutes. The theoretical part will also provide key data on the trade between Russia and Finland, including export volumes and export composition. The core outcomes of the literature review will be provided in the end of chapter 2.

The research will continue with the empirical part in chapter 3. The empirical part of the thesis will start with the reflection on research methods used to obtain primary data, including companies and personalities interviewed, timeframe of the interviews, method of online survey and the review of the population composition in Saint Petersburg. The chapter will proceed with the detailed presentation on the outcomes of the primary data collected throughout the research process. The chapter will also discuss the results of some of the relevant recent studies on the Russian economy.

Finally, chapter 4 will provide discussion on the research results by investigative questions and the conclusion for the following thesis will be drawn in terms of answering the research question. Lastly, chapter 5 will discuss the grounds for reliability of the data sources used, will provide the information on the learning outcomes of the research project, will include the feedback from the Finnish-Russian Chamber of Commerce on research and will give the propositions for further research works.

1.4   Demarcation

A depreciation of one national currency can affect international trade, political entities and local economies from numerous prospective, which makes the topic of the following thesis extensively broad. To make the research focused and bounded, certain demarcations are applied to the thesis topic. The present chapter will discuss the demarcation used in the thesis and will provide a visual graph of demarcation.

To begin with, as it was already revealed in the introduction, the geographical demarcation is applied to the research. Although the depreciation of rouble has affected many international companies, which operate in the Russian market, it was decided to assess the effect of the rouble depreciation on the Finnish companies only. Moreover, as operations of the Finnish companies spread throughout the western part of Russia (Finnish products can easily be found in Moscow, Saint Petersburg, Vyborg and other cities), it was chosen to limit the target area to Saint Petersburg and the Leningrad region and to conduct the survey only among the citizens of the target area. Secondly, Finnish companies use different types of transactions to conduct trade in the Russian market, including import-export activities, foreign direct investments (FDI) and other types of market entry modes. The following work primary focuses on export from Finland to Russia, excluding other methods of interaction between the countries (figure 3).
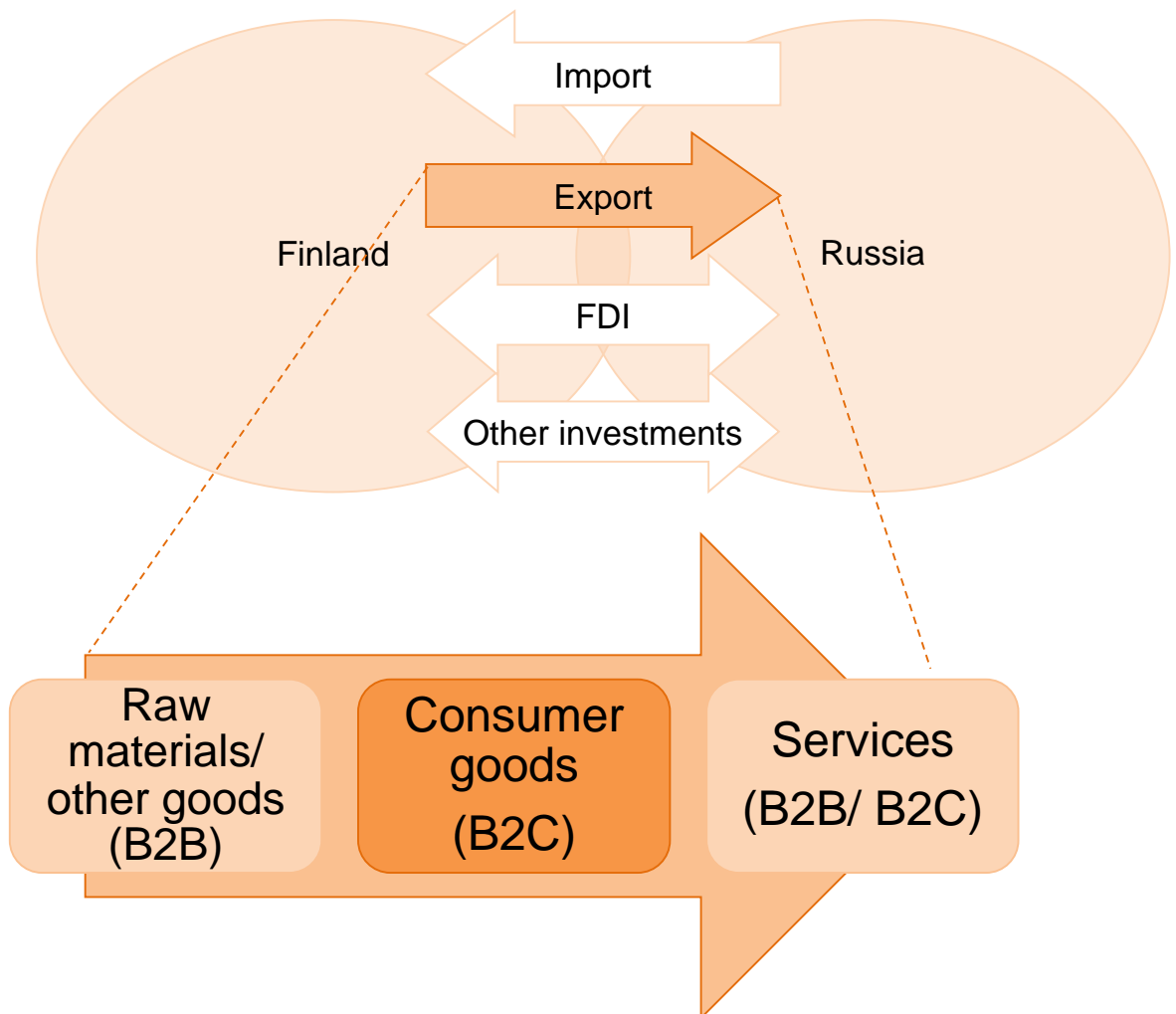

Figure 3: Demarcation by transactions (from the prospective of Finland)

Finally, it was chosen to concentrate on the Finnish companies that are involved in export of consumer goods, bypassing the exports of services and raw materials. Simultaneously,

only companies in the consumer goods' segment, which are directly dependent on the exchange rate (e.g. supply raw materials from abroad), are chosen to be studied for the thesis. One research method of the thesis is the interviews with the Finnish companies with an initial target being set on food, chemicals and clothing industries. However, while a number of invitations to participate in the interview were sent to the companies in the clothing segment, the firms have replied that they were not significantly affected by the rouble devaluation as for spring 2015. Therefore, a one more way of demarcation was naturally developed and the focus was subsequently put on the food and beverages and chemical industries.

1.5 International aspect

The following research is aimed to identify the correlation between the devaluation of the national currency (Russian rouble) and its influence on the foreign companies, operating in the Russian market. In the thesis, currency is seen as a major instrument of international trade, which, subsequently, is seen as a way of mutual economic development of trading partners. In the present case, impact of the rouble devaluation on the Finnish companies has a direct influence on the economy of Finland. An open economy, which Finland is, is highly dependent on international trade. Fourteen percent of overall Finnish exports went to Russia prior 2014, which makes the country very sensitive to the stability of the Russian currency. (Bloomberg 2014.)

1.6 Anticipated benefits

The present thesis is written as one of the required components in order to acquire a Bachelor of Business Administration degree in International Business with a specialization in Finance for Global Business from Haaga-Helia University of Applied Sciences. The topic chosen for the present thesis is among the frequently discussed topics in global media sources (e.g. The Guardian, the Wall Street Journal, Bloomberg View) in 2014 and 2015 (Google 2015). The rouble stays volatile throughout 2014 and 2015 and the situation takes on new momentum on the daily basis. Finland as a country, which is largely dependent on the trade with Russia, is at risk of major financial losses in the years to follow the currency crisis (Bloomberg 2014). The novelty of the topic and the lack of the research publications create a need for the research and consequent benefits for the research-participating bodies, which are outlined below.

Benefits for the Finnish-Russian Chamber of Commerce (FRCC):

1. The research will be a source of a thorough consolidated analysis of the roots of the rouble devaluation for FRCC's clients, for whom the rouble stability is among the major concerns on the agenda (Tiri 2015)

2. The research will support the current research works of the FRCC (e.g. 'Barometer of Finnish-Russian Trade, Spring 2015' implemented for FRCC by Taloustutkimus Oy in 2015) and will provide novel information on the condition of households' wellbeing in Saint Petersburg and the Leningrad region

3. The following research will provide FRCC and its client with an analysis of unique information from key media publications of trustworthy Russian sources (e.g. RBC, Ria News, Dozhd) as well as it will disclose an opinion of the expert in the Russian economy

5. A consolidated summary of the research results will be provided for the further use of FRCC's clients

6. FRCC's clients had a chance to participate in the research presentation, to hear about the research process and the research outcomes, and to ask any further questions regarding the Russian economy. The presentation was successfully conducted on the 11th of November 2015; please the article about the presentation for further information (SVKK 2015).

Benefit for the field:

The thesis will explore the newly appeared events in the world's 10th largest economy and will investigate the effects of the rouble depreciation on the position of Finnish companies in Russia (World Bank 2014.); the research will serve as a new reliable information source for numerous foreign companies in the Russian market.

Support for postgraduate studies:

The following work is expected to provide me with essential research, analytical and project management skills to undertake further postgraduate studies. The research will also expand my knowledge in the field of economics and international finance. The topic is inside the subject area of the two fields of my personal interests, macroeconomics and international finance, with the second one being my planned subject for postgraduate studies.

1.7 Key concepts

A variety of field-specific concepts is used in the paper. To avoid misinterpretation of the terms, one should perceive the key concepts of this thesis as presented below.

Consumer buying behaviour should be understood as behaviour of the final users (individual or household) of products or services, where these products or services are used for personal consumption (Kotler, Armstrong, Wong & Saunders 2008, 238).

Currency depreciation (devaluation) should be interpreted as an increase of the foreign exchange rate between a depreciated currency and other currencies, with the value of other currencies remain relatively unchanged (Copeland 1989, 4).

Exchange rate stands for the rate of expressing the value of one currency through the value of another currency (Frieden 2015, 4).

Money definition takes its roots from the Classical Economic theory, where money was identified as a '*common objective measurement of the value of commodities'*. In other words, in the Classical Economic theory, the exchange of money for a certain commodity identified the *pre-existing value* of this exact commodity. (Baranzini & Scazzieri 1986, 106; Fisher 1989, 5.) However, the modern trade has dramatically evolved from the classical 'exchange of real production', and so did the concept of money. In 1922, Fisher defined money as '*a commodity, which value is determined like that of other commodities, temporarily by demand and supply, permanently and on average by cost of production'* (Fisher 1989, 488).

Russian economic crisis of 2014-2015 is a situation of an unsustainable Russian economy in 2014 and 2015 due to the extreme fall of prices for energy sources (on which Russian economy is dependent) and the introduction of sanctions against Russia as a consequence of the Russian intervention in the politics of Ukraine in 2014 (RBC 2015a).

1.8   Risks and risk management

As for any research, a thorough determination of potential risks and development of alternative strategies are the essential components of the successful research completion. Due to the broad subject topic of the research and various sources of information collection, three major risks were subsequently identified:

Risk 1: A shortage (less than 50) of questionnaire respondents (for successful answering of investigative questions 2 and 3)

How to avoid: remind the potential respondents of the questionnaire more than once within the time the questionnaire is active; keep the questionnaire published for a long enough time to allow the respondents to answer the form at the time of their convenience

Plan B: personalized thematic email-based or face-to-face interviews

Risk 2: Interviewees will not be available for the interviews during the time of data collection process (March 2015-October 2015)

How to avoid: conduct the interviews in the time other than the time of vacations (June-August 2015), be flexible on the method of the interview (face-to-face/ Skype/ telephone)

Plan B: conduct an email-based interview

Risk 3: A significant change of the situation as a whole in summer-autumn 2015 (e.g. rouble starts to fall/rise dramatically)

Plan B: amend the thesis topic and demarcate it to the study of the rouble influence on the Finnish companies in the end of 2014- beginning of 2015.

1.9   Commissioned company introduction

Finnish-Russian Chamber of Commerce (FRCC), Suomalais-Venäläinen kauppakamari (SVKK) in Finnish, is a Finnish non-for-profit organization founded in 1946. FRCC provides services to the Finnish companies that aim to enter or are already in the Russian market. FRCC's services are focused on developing the competitiveness of its clients in the Russian market. Finnish-Russian Chamber of Commerce is a customer-oriented organization and offers services to the companies of different sizes, from small and medium size enterprises to large companies in various industries. FRCC's range of services includes consultancy on business operations and trading, improvement of efficiency of business processes and promotion of export to Russia. The organization also holds thematic seminars and meetings for its clients. Finnish-Russian Chamber of Commerce strives to promote stable economic relationships between Finland and Russia and oftentimes conducts relevant researches on the Russian market (FRCC 2015a.) Finnish-Russian Chamber of Commerce was willing to support the present research as the rouble devaluation was among the top concerns for its clients in the first half of 2015 and the present work could provide the clients with profound information on the roots of the rouble devaluation and on the indirect effects of the devaluation on the foreign companies in Russia.

2   Currency as an instrument of international trade

The following chapter will explain the development of money as of a key instrument of trade and will reveal the three main roles of money. Further on, the focus will be made on money as on a core tool of international trade and on the evolution of international monetary systems from the Gold Standard to the modern floating exchange rates system. In particular, the reasons of the collapse of two initial international monetary systems, Gold Standard and Bretton Woods, will be explained and the incentives for introducing the modern floating exchange rates system will be revealed. Consequently, the means of the exchange rates formation in the floating rates system will be discussed and the role of the central bank in the stability of the national currency will be introduced. Chapter 2.5 will review the determinants of consumers' purchasing decision based on accumulated knowledge about the product. Lastly, the Finnish-Russian trade relations will be reviewed with the focus on the key trading goods and services, major traders, and the volumes of trade. Figure 4 presents a visual plan of the literature overview. As a summary of the theoretical study, the core research outcomes, which will be used in order to conduct the successful empirical study, will be discussed.

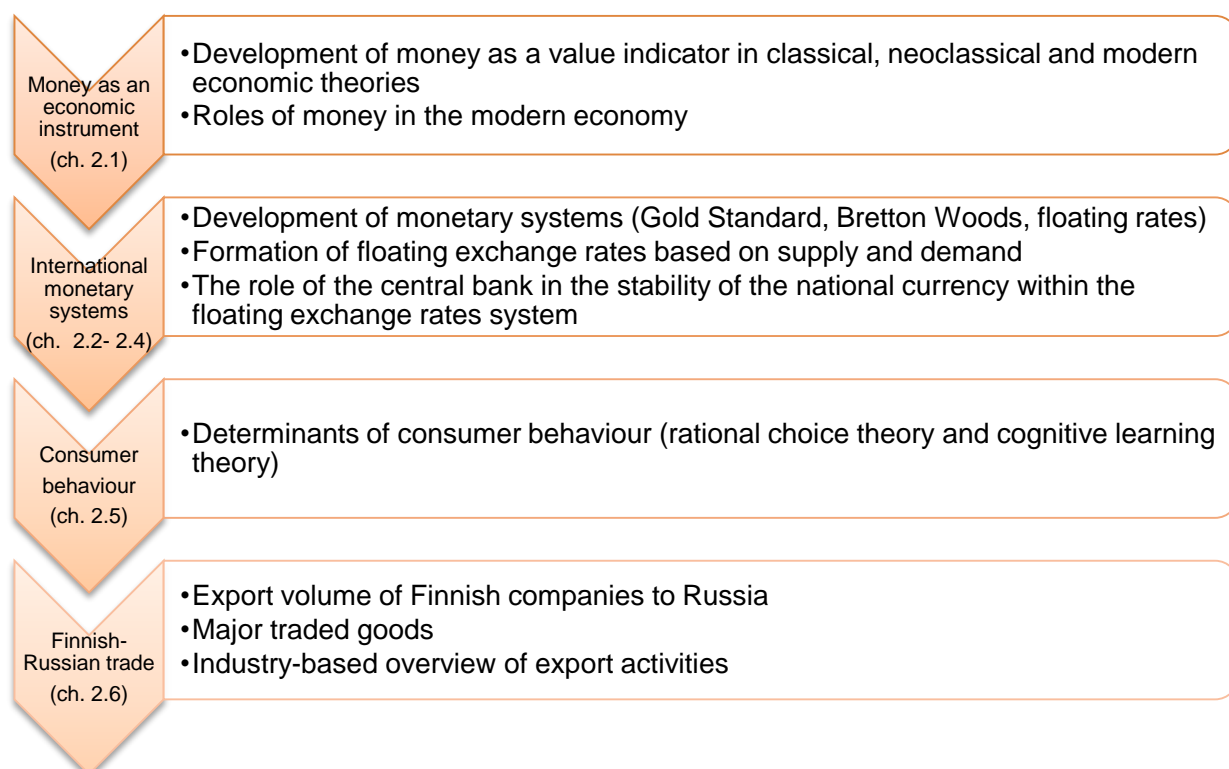| Money as an economic instrument (ch. 2.1)	•Development of money as a value indicator in classical, neoclassical and modern economic theories •Roles of money in the modern economy
International monetary systems (ch. 2.2- 2.4)	•Development of monetary systems (Gold Standard, Bretton Woods, floating rates) •Formation of floating exchange rates based on supply and demand •The role of the central bank in the stability of the national currency within the floating exchange rates system
Consumer behaviour (ch. 2.5)	•Determinants of consumer behaviour (rational choice theory and cognitive learning theory)
Finnish-Russian trade (ch. 2.6)	•Export volume of Finnish companies to Russia •Major traded goods •Industry-based overview of export activities

Figure 4: Literature overview plan

2.1 The role of money in the modern economy

A need for a common value indicator has appeared with the development of trade. Initially, in the barter economy, the goods, which were extra to the holder's requirements, could have been exchanged for the other goods, which were extra to a different holder. In the following type of trade, one must note, that in order to conduct a fair exchange, goods must have been of a similar value. However, not only it was hard to find a desired good of a similar value that an initial holder possessed, but also it was challenging to find these goods at the exact time an initial holder was willing to exchange them. Consequently, a need for a common value indicator, which could have been exchanged for goods without having products of a similar value or at an exact time, has developed. (Baranzini & Scarzzieri 1986, 103-107.)

In the classical economic theory, the value for one good has simply indicated the pre-existed value of this good. Therefore, no profit margin existed on the products sold. In a case when the price for the product was put higher that the value of this product, the exchange was seen as unequal and the profit was seen as unfair. A similar rule can be found in the neo-classical economic theory. The difference between the classical and neo-classical economic theories was that in the first one, only an exchange of 'real products' for money was possible. The second theory recognised not only physical products, but also the production service, which was used to create the products, and therefore had its own value and could have also been 'exchanged' for money. (Baranzini & Scarzzieri 1986, 103-112.) In the modern economic theory, trade has become more complicated and the abilities of money have increased. In the modern economic theory, it became possible to purchase goods, which do not yet exist (positive purchase) and to purchase goods without having the needed sum of money (negative purchase). (Baranzini & Scarzzieri 1986, 113.) Michael McLeay, Amar Radia and Rylond Thomas (2014, 1-4), identify three main roles of money in the modern economy: a storage of value, a medium of exchange and a store of liquidity (figure 5).

As a storage of value, money should keep its value for a relatively predictable period of time without losing its value, therefore creating a trust among its users. In a case when this feature is absent, users are likely to switch to a different, more stable storage of value. (McLeay & al. 2014, 1-4.) The following role raises the question: 'how is the value of the national money (currency) identified?' The following question will we examined in chapter 2.3. Another crucial function of money is being a medium of exchange or having an ability to be exchanged for products or services. Paul De Grauwe (1989, 1-2) highlights the fact

that the role of money as a 'medium of exchange' (according to De Grauwe, 'mean of pay-ment') is vital for international trade, without which trade would go back to the barter ex-change. Baranzini and Scarzzieri (1986, 113) argue that without money being used by a big enough number of people, the demand for holding money by users will be minimum. The last role of money disclosed is being a 'store of liquidity' that means that money can be easily exchanged for goods or services at any time as money is widely accepted in the market it is used in. (McLeay & al. 2014, 1-4.)

A storage of value	• Keeping the value for a reasonable time period • => confidence of users
A medium of exchange	• Can be exchanged for a different commodity • Is hold by users
A store of liquidity	• Can be easily exchanged for goods and services • Is an acceptable comodity to be exchanged for goods and services
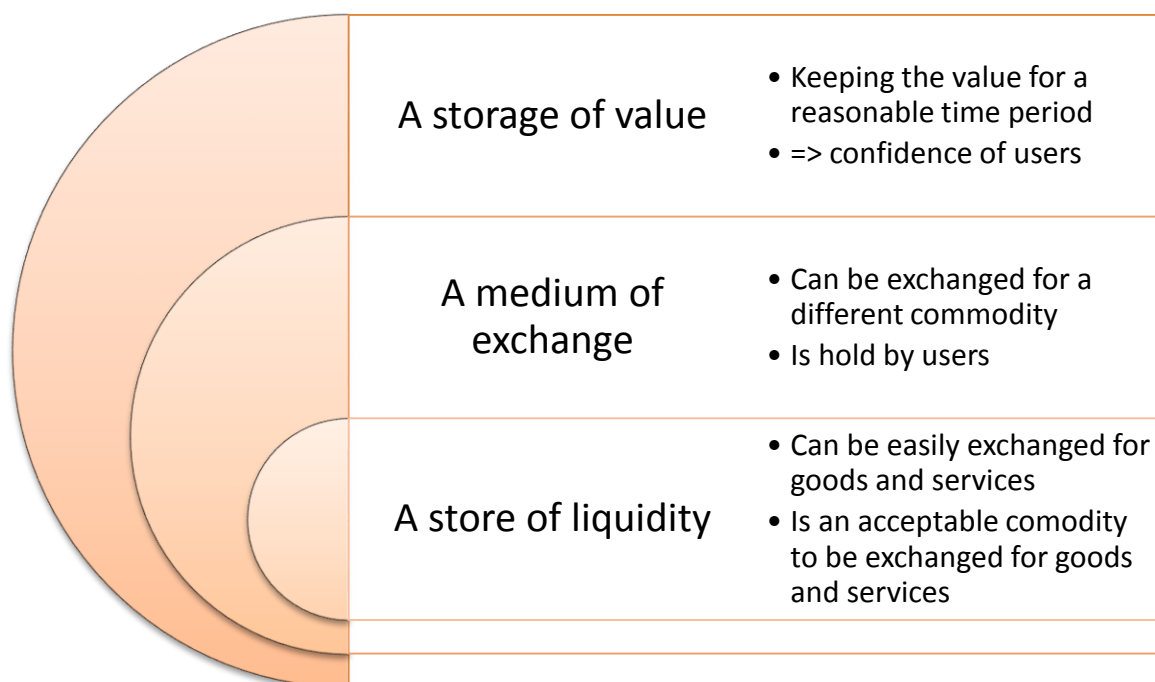
Figure 5: The roles of money in the modern economy (McLeay & al. 2014, 1-4)

2.2 History of international monetary systems: from Gold Standard to Bretton Woods

The development of international monetary systems has started in the second half of the 19th century, which is known as the period of international Gold Standard. The period has started with the agreement between the governments of participating countries to guaran-tee that its national currency can be freely converted into gold at a fixed rate. If one cur-rency is freely convertible into gold and the same is correct for another currency, one can build a logical chain that the two currencies are free convertible into one another. (De Grauwe, 1989, 6-13.) De Grauwe (1989, 12-14) argues that the following logical chain can be expanded as if every currency is freely convertible into one another than each currency can be an effective instrument for international trade and, thus, promote the trade.

Although the Gold Standard monetary system seams efficient, the First World War has changed the conditions of the national economies, which lead to a collapse of the gold standard monetary system in 1914. As it can be seen from figure 6, the war has created extensive expenses, which forced the governments to fulfil the national budget by issuing more money. It can then be logically assumed that printing of national money lead to inflation. As the national currencies continued to lose their values, currency users lost their trust in the stability of the currency and went to the banks in order to exchange the currency for stable gold. Remember, that by accepting the gold standard, the governments have agreed that the national currency (or, in this case, the government's obligation) is freely convertible into gold. The next step in this chain was the decreased national gold reserves. As in a vicious circle, decreasing gold reserves promoted the budget deficit, which forced the governments to again issue the currency to fulfil the budget. (De Grauwe 1989, 6-13.)
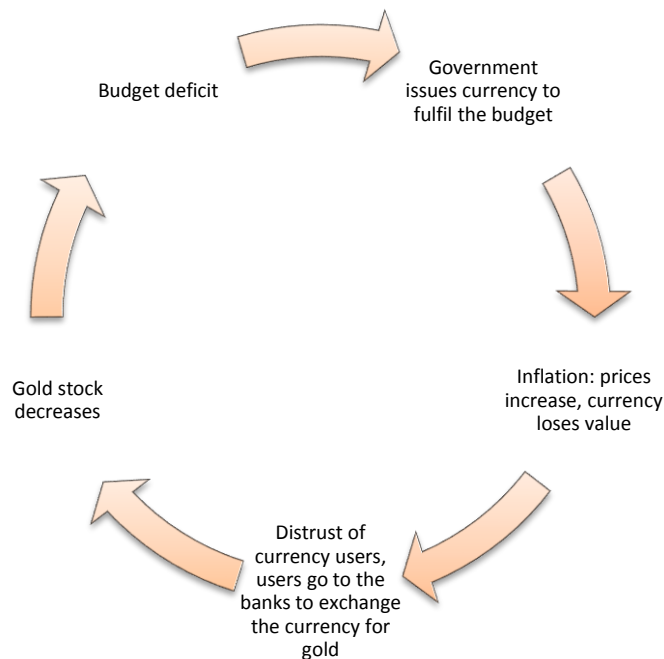
Figure 6: Collapse of the Gold Standard monetary system (De Grauwe 1989, 6-13)

The period between the First World War and the Second World War is often described as the period of financial instability and of the decrease of international trade. After the gold standard system had collapsed, citizens were unable to freely exchange the currency. Some countries made unsuccessful attempts to make their currency freely convertible into another currency. For example, Great Britain attempted to make pound sterling convertible into the United States' dollar. However, the following attempt failed due to the lack of the stability of pound sterling. (De Grauwe 1989, 18-20.)

In 1958, after years of consideration, the Bretton Woods monetary system was adopted. In the following system, called a two-tiered convertible system, currencies of participating countries were freely convertible into the United States' dollar (meaning, the US dollar served as a liability) at a fixed rate and the US dollar was freely convertible into gold. To be exact, the dollar was convertible into gold at a price of 35 dollars per gold ounce. The following price was guaranteed by the monetary authorities of the US. One may now probably wonder, why the US dollar? The answer is that after the Second World War, 70% of global gold was in the US reserves. Furthermore, it was considered more efficient for gold to be stored in a single reserve. (De Grauwe 1989, 14-17.)

Apart from the two-tiered system, there were other major differences between the Gold Standard system and the Bretton Woods. In the first system, the government guaranteed to its citizens the convertibility of the national currency into gold at a fixed rate, but did not control the volume of conversion (consequently, of the gold reserve), which led to its collapse. In the Bretton Woods system, citizens were not able to freely exchange dollars into gold from the gold reserve. They were only able to exchange dollars into gold in the private gold markets, which did not guarantee a fixed price. Furthermore, in the Bretton Woods system, the governments controlled that the national reserve of the US dollars was within the frame of a 'norm'. If the amount of dollars was higher or lower than the limit, the governments sold or purchased the dollars. (Cooper 2008, 64-66; De Grauwe 1989, 14-17.)

However, regardless of the control, there were unforeseeable issues in the Bretton Woods system, which lead to its collapse in 1970. The following issue is known as the Triffin Dilemma (1960 in De Grauwe, 1898, 22). According to Triffin (figure 7), the free convertibility of the currencies will promote international trade and the growth of the national economies. Consequently, national central banks will be in need for more dollars to sustain bigger trade volumes. According to the Bretton Woods agreement, the US committed to freely exchange the currencies into the US dollars. However, there was a limited amount of dollars, and the United States had to print more money to fulfil the needs of other countries. At the same time, the amount of gold could not rise at the same phase. Amount of gold could only be increased if new natural gold sources were found or if technologies of gold mining were improved. Therefore, the gold-dollar rate should have fallen or the US should have stopped supplying dollars and go against its commitment. In the end of 1960, the first option of Triffin's theory has confirmed: the gold-dollar ration started to fall dramatically. (Cooper 2008, 67-69; De Grauwe 1989, 14-17.)
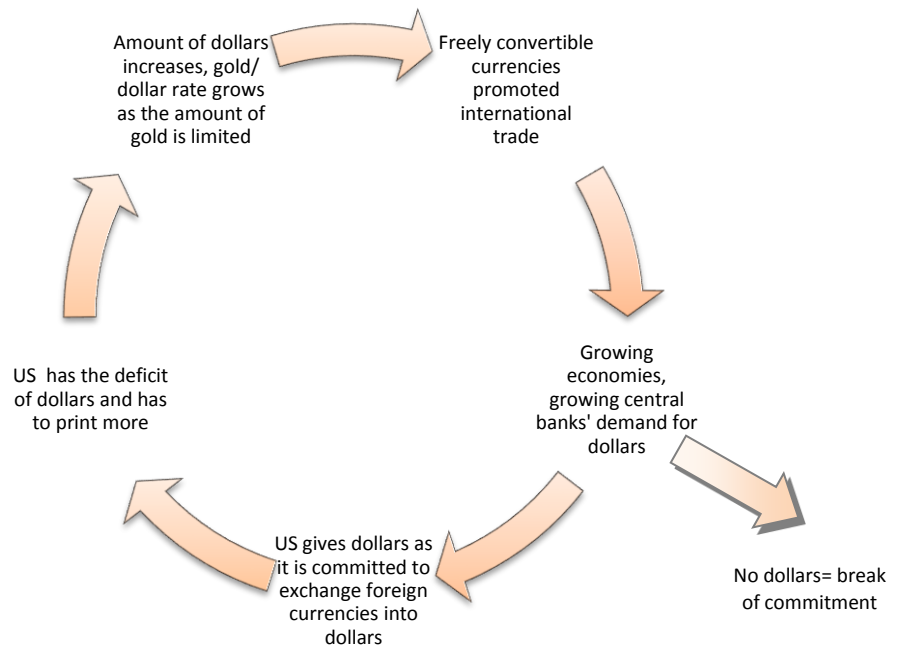
Figure 7: Triffin Dilemma (1960 in De Grauwe 1898, 22)

In 1971, the US closed the gold windows, which was a start of the new era in monetary systems, the era of freely floating currencies (figure 8). On the one hand, the current system of floating currencies without fixed rates promotes the strengthening of the national currencies and demotes the repetition of the national economic trends on international level. On the other hand, the exchange rate becomes floating, causing some extent of uncertainty in trade on the international level, which creates the need for the instruments to predict the exchange rates and the currency values (e.g. Purchasing Power Parity, forward premium). (Cooper 2008, 67-69; De Grauwe 1898, 55-61.)

1. Gold Standard (<1914): metallic money is transferred into paper money (bank's liabilities); commitment, free convertribility, fixed rate

1914-1958, WWI, WWII, the currencies are not freely convertible, decrease of international trade, period of instability

2. Bretton Woods (1958-1971): two-tiered convertibility, currencies are convertible into dollars (US' liability), dollars into gold; free convertibility to dollars, control over dollar reserves

3. Floating currencies (1971>): no fixed-price convertibility, no control, no commitment, the strengthening of the national currencies

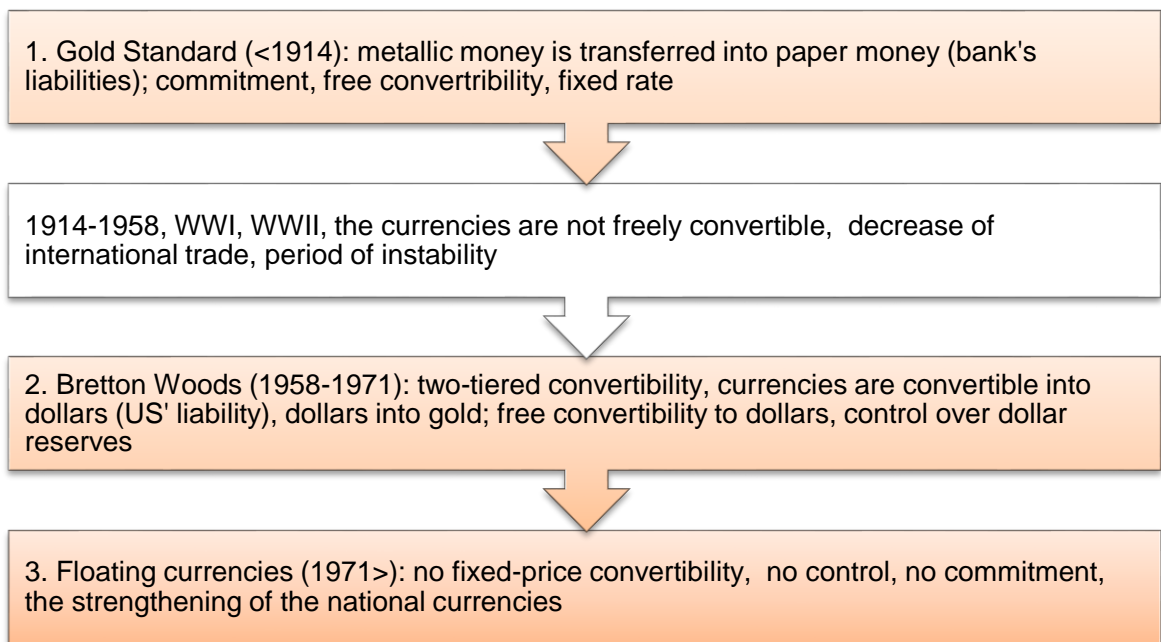Figure 8: Evolution of international monetary systems (De Grauwe 1989, 1-57)

2.3 Floating exchange rates

No major currency nowadays is linked to a commodity of any kind. As it has been noted in the previous chapter, the era of fixed exchange rates has finished with the collapse of the Bretton Woods system and since 1971, the system of floating currencies prevails. If the exchange rate is not fixed, the value of the currency can be determined by demand for and supply of this currency as well as it can be affected by the central bank's interventions, focused on influencing the value of the currency. (Shapiro & Sarin 2009, 32.) The present chapter will primary focus on the formation of demand for a currency, whereas the next chapter will disclose the ultimate power of the central bank to influence the supply of a currency.

The market value of a currency is achieved at the equilibrium of supply and demand for this currency. One of the major factors that can influence the demand for a currency is the economic stability and the economic growth of the country. According to the Efficient Market Theory, any change in a perfect equilibrium has its roots in the changed market expectations regarding the current economic conditions of the country and the future state of the economy. At the same time, currency users change their expectations towards the future economic events based on new information obtained about the economy. (Cooper 2008, 9-11.) For example, a stable, gradually growing economy attracts foreign investors who want to establish themselves in this country. Consequently, not only the demand for the national currency grows as foreign investors are likely to conduct monetary transactions in the national currency, but also the demand for the assets within the country grows, which

once again promotes the demand for the national currency. (Shapiro & Sarin 2009, 31-47.) We can view the relation between the demand for the national assets and the demand for the national currency on the example of *'establishing a subsidiary'* market entry strategy. Establishing a subsidiary can be conducted by either establishing a completely new business entity or by purchasing an existing entity. If a foreign company, for instance, chooses to enter the new market with the purchase of an existing enterprise, it needs the national currency to (1) pay for the purchased assets, (2) pay fees for all the necessary bureaucratic operations and (3) pay salary in the national currency to a specialist in the local market. (Hill & Jones 1998, 264-266.) This simple example shows that the stable economic development of a country is more than likely to increase the demand for the national currency and, subsequently, to increase the value of the currency.

At the same time, geopolitical and economic environments can both encourage and discourage demand for the currency. The downturn of the economic growth and political risks can largely diminish demand for the national currency. To avoid substantial financial losses, investors are likely to deploy the investment capital from the 'risky' country, decrease business activities in this country and minimize holdings of the national currency. The final point, in fact, leads to the increase of the national currency supply (as investors are selling it) and, consequently, to the move of the supply-demand equilibrium and the new exchange rate. (Shapiro & Sarin 2009, 31-47.)

Exchange rate of the freely floating currency is always at the equilibrium of the supply of and demand for this currency, which in its turn is based on the currency users' expectations concerning the future development of the economy. Therefore, it can be assumed that the current exchange rate and the value for the national currency always reflect the correct value of the currency *in the current time* and *in the present market conditions*. (Cooper 2008, 9-11.)

2.4   Central bank's objective in the stability of the national currency

Nowadays every modern economy has a central bank, which has a unique power of using a variety of financial instruments in order to affect the economic growth, inflation rate, interest rate, housing prices and a variety of the other microeconomic determinants of an economy (Cooper 2008, 21). According to the International Monetary Fund (2009, 6), to goal of the central bank is to "*mitigate systematic risk"* and to stabilize the economy. The central bank's policy is thus oftentimes driven by the purposes of the price stability or of maintaining the stable currency value. That is, targeting low inflation rate to ensure the steady purchasing power of a currency in the long term (see 'a storage of value' as a key

role of national money, chapter 2.1). (Shapiro & Sarin 2009, 41-42.) Simultaneously, although the price stability is a primary objective of the central bank, the bank should always take into account current economic state and avoid targeting the long-term price stability as it can lead to a financial misbalance and unwanted sharp policy changes in the future (Bank for International Settlements 2009, 18-25).

The price stability or the stability of the currency is the key objective of the central bank's monetary policy and is achieved through the usage of a variety of monetary instruments. Bank of Russia, for example, mainly influences the economy through the interest rate and "its main parameter" the Bank of Russia *key rate*, which has its goal in affecting the money supply through influencing loan distribution and issuance of securities (note: the term 'key rate' is used in chapter 3.2.4 instead of the term 'interest rate') (Central Bank of Russia 2015d). The price stability as the key objective of the monetary policy can either be prescribed legally or implied by the actions of the central bank. In Russia, for example, the objective of the Bank of Russia to achieve the currency stability is prescribed in the Constitution of Russian Federation. Bank of Russia, thus, has a unique power to conduct foreign exchange intervention policies and to affect the foreign currency reserves of the country. (Bank for International Settlements 2009, 22.) It has to be noted here that the goal of the central bank to achieve a stable exchange rate is more vital for the central banks of emerging countries than for those of developed ones. Emerging countries are generally more dependent on the income from exports of goods and services and on the investments inflow in the country. (Cecchetti, Schoenholtz & Fackler 2011.)

Another target of the central bank's policy is achieving the target currency value. If a central bank considers that the market-driven nominal exchange rate does not represent the real value of the national currency, it has the power to use a variety of financial instruments to affect the exchange rate. One of the instruments that the central bank uses is the issuance of national money. Nowadays a central bank generally has the monopoly on the issuance of money. If the central bank decides that the nominal exchange rate is far greater that the real rate, it can issue money to decrease the nominal value to the real value. However, over issuing of money is dangerous for the stability of the currency as it can both cause inflation and create false expectations in the market. In particular, while issuing money central bank creates an expectation that the money will continue to be issued and the nominal value will decrease in the nearest future. Subsequently, present demand for the national currency can fall below the real value of the currency, decreasing both nominal and forward (future value) rates. (Shapiro & Sarin 2009, 41-42.)

In the modern economy the central bank has a crucial role in achieving the stable economic growth. The primary objective of the central bank is to reach the price stability or, in other words, to achieve low stable inflation. The central bank uses a variety of financial instruments to achieve this objective, with the two major ones being the issuance of money and the amendment of the exchange rate. The central bank's policy, however, may be imposed to risks. For example, targeting the long-term price stability can lead to the omission of the short-term economic swings and create a need for the sharp changes in the future. What is more, the issuance of money may create false expectation for the users of currency and promote unwanted activity in the market.

2.5   Determinants of consumer behaviour

A variety of factors can determine consumers' behavior and the choice of product. These factors can include social status, income, background, education, marital status and other factors. However, regardless of the products, consumers try to be rational when it comes to selection. Rationality implies the goal of a consumer to choose the best product or service to satisfy his or her needs. The theory that consumers think rationally when choosing a product is called the Rational Choice Theory (RCT). This theory suggests that consumers possess perfect information about a product and full information on all substitute products. Therefore, consumers choose a product among the alternatives based on the information they possess. However, it is very unlikely that any person bears full information about a product. Thus, we can assume that there is a subjective belief among the consumers that they have enough information about a product to make a decision. Consequently, a choice of any product is subjective and is based on the personal judgments. Consumers subjectively assess the probability by which a certain product will most effectively satisfy their needs. (O'Shaughnessy 2013, 268-291.)

People acquire subjectively full information about a product through accumulated knowledge, which is based on acquiring information about a product through the analysis of internal memory (e.g. advertisements, word-of-mouth) and external memory (e.g. information about the package). Consequently, accumulated knowledge, which is described in Cognitive Learning Theory, is based on building a memory on a certain product and storing the analyzed information for a certain period. (Solomon, Bamossy, Askegaard, Hogg 2013, 260-273.) We can review the perception of Russian consumers of the Finnish products as an example of the developed accumulated knowledge towards these products. Finnish products were one of the first ones to penetrate the Russian market during the time of the Soviet Union. In particular, Viola cheese by Valio was well known to the Russian consumers from in the second half of the XX century. In fact, during the USSR time,

foreign products were a status symbol and owning foreign products was considered pres-tigious. High quality of Finnish products, a desire of the Russian citizens to try foreign products (cognitive learning) and multiple advertisement campaigns have promoted the development of a positive perception of the Finnish products among the Russian consum-ers and have developed accumulated knowledge on the Finnish products, which currently is likely to influence the buying behavior of the Russian consumers. (MediaLeaks 2015.)

2.6   Finnish-Russian trade relations

Trade between Finland and Russia started to develop in 1992, when the bilateral Agree-ment on Trade and Economic Cooperation between the countries was signed. Since the following agreement, Russia has become one of Finland's key trade partners (second af-ter Germany), and the third biggest export market. In 2014, the overall volume of trade be-tween the countries was 13.956 billion USD, which was 14.7 % lower than in 2013. The volume of Finnish exports to Russia in 2014 equalled 8.3 % of the overall Finnish exports. In January-February 2015, following the depreciation of rouble, sanctions against Russia and Russian food embargo, the volume of the Finnish export to Russia has fallen by 50% from 658.7 million USD to 338.6 million USD compared to the same months of 2014 (fig-ure 9). (Russian Embassy in Finland 2015.) In particular, the biggest depreciation was seen in the export of food products from Finland to Russia (25% decrease), oil and oil products (35% decrease), metals and metal products (16% decrease) and chemical prod-ucts (10% decrease) (Tuli 2014 in FRCC 2015b, 3-5).
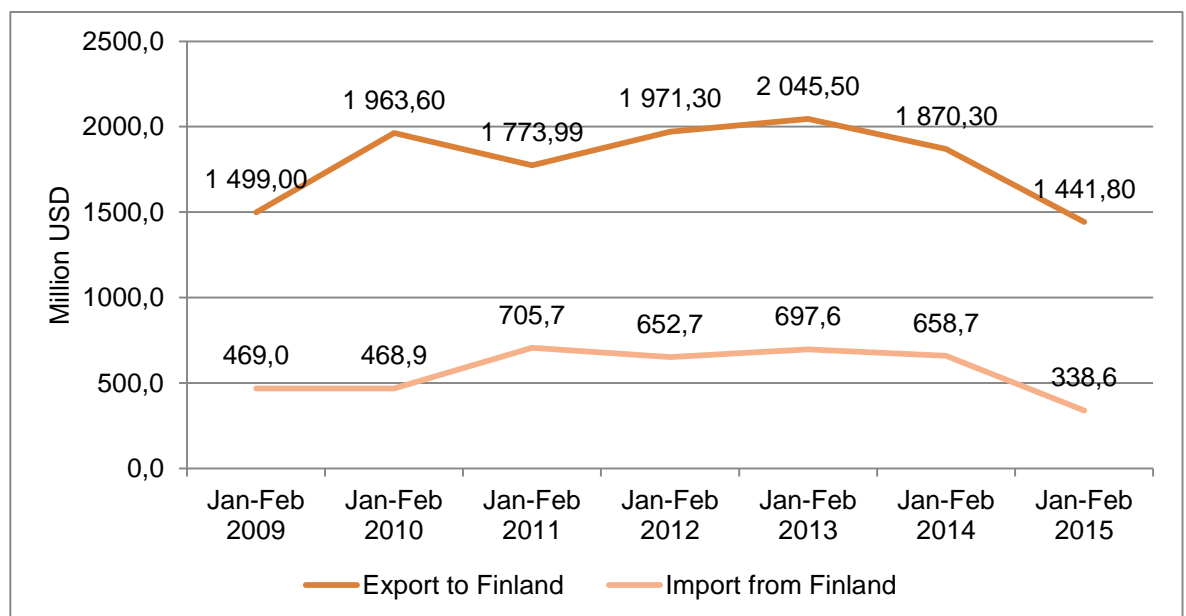

Figure 9: Data on the trade between Finland and Russia (Federal Custom Service 2015)

There are both small and medium-sized enterprises (SMEs) and large Finnish companies operating in Russia. Bank of Finland (2008, 4-8) has reported that in 2006 there were a total of 4020 Finnish companies exporting goods and services to Russia, 3390 SMEs and 630 large enterprises. Although the amount of large enterprises was substantially smaller in the export composition, they accounted for 76% of the volume of export (4.7 out of 6.2 billion euros). SMEs accounted for only 1.1 billion euros or 17.7% and their volume of trade has declined by 10% between 2002 and 2006, whereas the export volume of large enterprises has almost doubled. Bank of Finland (2008, 4-8) has reported that the remaining 6.3% of enterprises have not reported their volumes of trade, which explains the gap in the percentage.

2.7   Conclusion

To summarise the following chapter, the key learning outcomes of the literature review should be presented. Stable and freely exchangeable currency is a vital instrument of international trade. In the modern economy, no major currency is linked to a commodity as it used to be during the times of Gold Standard and the floating exchange rate system currently prevails. In the floating exchange rate system, currency value is determined by supply and demand for this currency, which is largely dependent on the economic and the geo-political stability in the country. The stable economy can promote the inflow of the foreign direct investments into the country and the rise of import-export activities, which can increase the demand for this currency. At the same time, an unstable economy and the lack of growth can demote the investing activities in the country and decrease the demand for the currency. Central banks play a key role in the stability of the national currency and should use certain monetary instruments to create a trust among the citizens and investors in its goal of the stable currency and the stable economic growth.

Consumer's choice of a product is subjective and is based on the accumulated knowledge about the product and the substitutes. Consumers generally believe that they have enough information about the product and the analogues that exist in the market to make a rational choice. Consumers obtain this information from a variety of marketing tools companies use and from the word-of-mouth. Solid accumulated knowledge about a certain product category can, thus, significantly affect consumers' buying behaviour.

Finally, Finland actively conducts trade with Russia and a number of Finnish companies operate directly in the Russian market. In fact, Russia has been one of Finland's major trading partner for over a decade. The majority of Finnish exports to Russia by volume is implemented by large enterprises, and the volume of exports was rising since early 2000.

However, the Russian food embargo of 2014, the devaluation of the Russian rouble and the decreased confidence of Russian consumers have decreased the export volumes by over a half in 2014 compared to the previous year. In particular, exports have mostly decreased in the food and beverages, chemical and commodities industries.

3 Research methods and findings

To approach the research problem of the thesis ('What effects did the rouble depreciation of 2014-2015 have on the Finnish companies in the food and beverages and pharmaceutical industries in Saint Petersburg and the Leningrad region?'), it was chosen to use both qualitative and quantitative research methods (figure 10). A specific research method was chosen for each of the investigative questions, with some methods used to answer more than one investigative question.
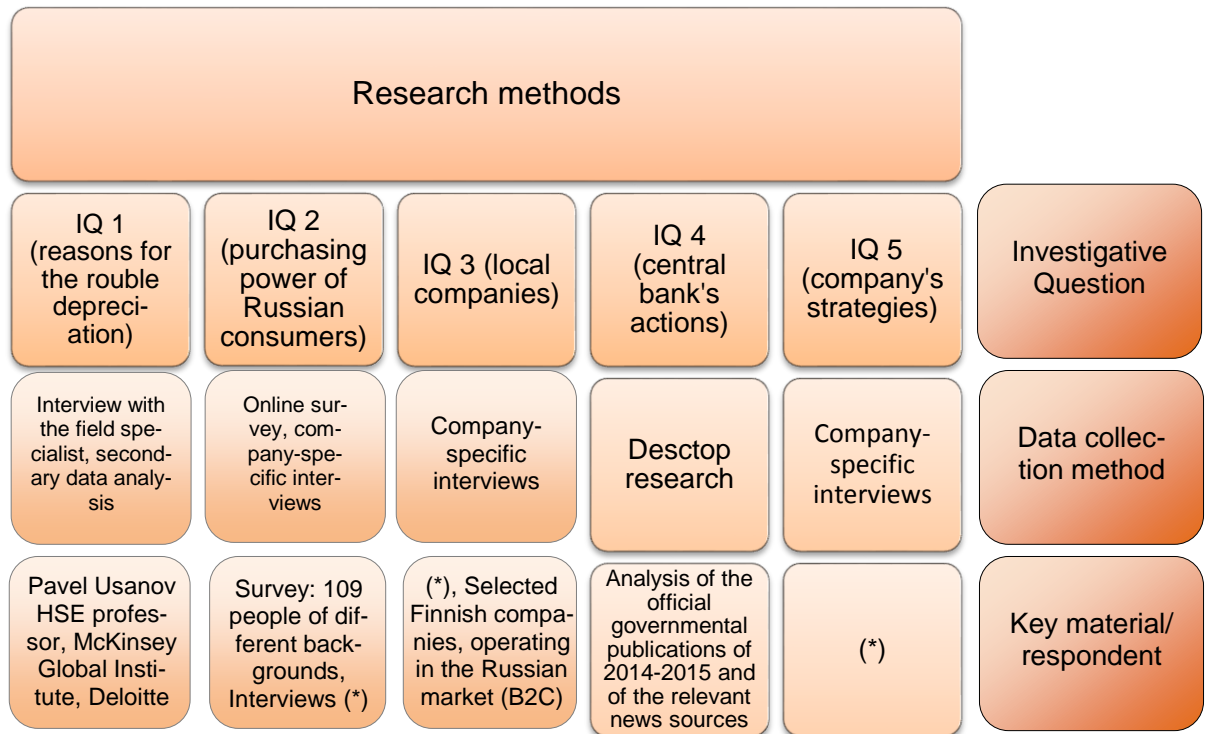
Research methods					
IQ 1 (reasons for the rouble depreciation)	IQ 2 (purchasing power of Russian consumers)	IQ 3 (local companies)	IQ 4 (central bank's actions)	IQ 5 (company's strategies)	Investigative Question
Interview with the field specialist, secondary data analysis	Online survey, company-specific interviews	Company-specific interviews	Desctop research	Company-specific interviews	Data collection method
Pavel Usanov HSE professor, McKinsey Global Institute, Deloitte	Survey: 109 people of different backgrounds, Interviews (*)	(*), Selected Finnish companies, operating in the Russian market (B2C)	Analysis of the official governmental publications of 2014-2015 and of the relevant news sources	(*)	Key material/ respondent

Figure 10: Research methods

3.1 Research methods

Investigative question one of the thesis examines the real reasons for rouble depreciation. The question aims to analyse the recent events of 2014 and 2015 and the structural problems of the Russian economy, if such exist. The research under the investigative question one will be based on the expert opinion (primary data collection, interview), the official publications of the Central Bank of Russia (secondary data) and on high-quality research papers published by recognised institution Deloitte and McKinsey Global Institute (secondary data).

Key resources include:

(1) Interview with Pavel Usanov, docent of National Research University Higher School of Economics, Candidate of Sciences; the interview was conducted via Skype, the interview questions can be found in appendix 1

(2) Deloitte, publication 'Global Economic Outlook 2nd Quarter 2015', part 'Russia'; Deloitte presents precise analysis of the Russian economic downturn in 2014 and 2015, provides reasoning for the downturn and lists the real number for the GDP growth and the growth of the disposable income

(3) McKinsey Global Institute, research paper 'Lean Russia: Sustaining economic growth through improved productivity', provides the profound analysis of the Russian economic development after the collapse of the USSR, of the period of the fulfilment of the economic capacities in 2008 and suggests the reforms to promote the economic growth

The field expert, Pavel Usanov, is the Candidate of Economic Sciences and a docent at one of the leading universities in Russia, Higher School of Economics (Top Universities 2015). The interview questions, which, as it has been noted, can be found in appendix 1, were carefully formed based on the analysis of the recent media publications on the Russia economy (chapter 1) and of the theoretical study on the floating exchange rate formation, on the role of the central bank in the exchange rate stability and on the consumers' purchasing behaviour (chapter 2). The formation of the interview questions based on the theoretical study and investigative questions is outlined in table 2. The goal of the interview was to gain profound understanding of the roots of the rouble depreciation and on the current state of the Russia economy. Although the interview was mainly used to approach the investigative question 1, some information concerning consumers' purchasing power in the context of the economic downturn was also received during the interview. Publications of McKinsey and Deloitte were chosen for the study as these papers provide precise and profound economic data with an in-depth analysis. Finally, official publication on the website of the Bank of Russia were used to find the relevant numerical indicators.

Table 2. Formation of the interview questions for Pavel Usanov

Category (based on IQs) & theoretical based	Question №
Roots of the rouble devaluation (based on the theoretical study component: formation of the floating exchange rates)	1. In your opinion, what are the main reasons for rouble depreciation?
	2. Do you connect the lower boundary of rouble exchange rate achieved in December 2014 to the need of Russian companies to make

	payments in the foreign currencies at the end of the financial year and, consequently, increase in demand for the foreign currency? What are your comments?
	9. How do you see the dynamic of the rouble exchange rate to the EUR and the USD after the embargo is removed?
Actions undertaking by the Central Bank of Russia in order to stabilize the rouble (based on the theoretical study component: the objective of the central bank in the stability of the national currency)	3. What strategic aspects of the Central Bank of Russia and the government as a whole do you consider being the most effective against the rouble depreciation?
Local companies (interview questions were developed to support the findings from media publications presented in chapter 1)	4. How would you comment the position of the foreign companies, who have left the Russian market? Do you consider this decision to be connected solely to the financial difficulties in these companies?
	5. How, in your opinion, will the outflow of the foreign capital from Russia affect the economic growth of the country?
	8. Do you consider the closing/ freezing of the activities of the foreign companies in Russia and the change in the consumer behaviour to have a positive effect on the development on the national businesses?
Changes in purchasing behaviour of Russian consumers (based on the theoretical study components: 'Cognitive Learning Theory' and accumulated knowledge	6. How, from your point of view, did the purchasing power of consumers change with the increase in prices for the foreign consumer goods? What is the reason for this change?
	7. Do you consider that the political opposition between Russia and opponent countries have changed the preferences of Russian consumer from foreign to local products? Does the situation differ among the social layers?

Two research methods were used for the **investigative questions two**: a survey and face-to-face interviews. Google Forms was chosen as a platform for the survey. One hundred and nine respondents from Saint Petersburg and the Leningrad region have replied to the form. The primary goal of the survey was to analyze the changes in purchasing power of Russian consumers after the rouble depreciation in two product categories, food products and chemicals. 109 people has responded to the form, with 75 people being between the age of 16 and 30, 25 people between 31 and 45, 6 persons between 46 and 55, and 3 between 56 and 70 years old (figure 11).
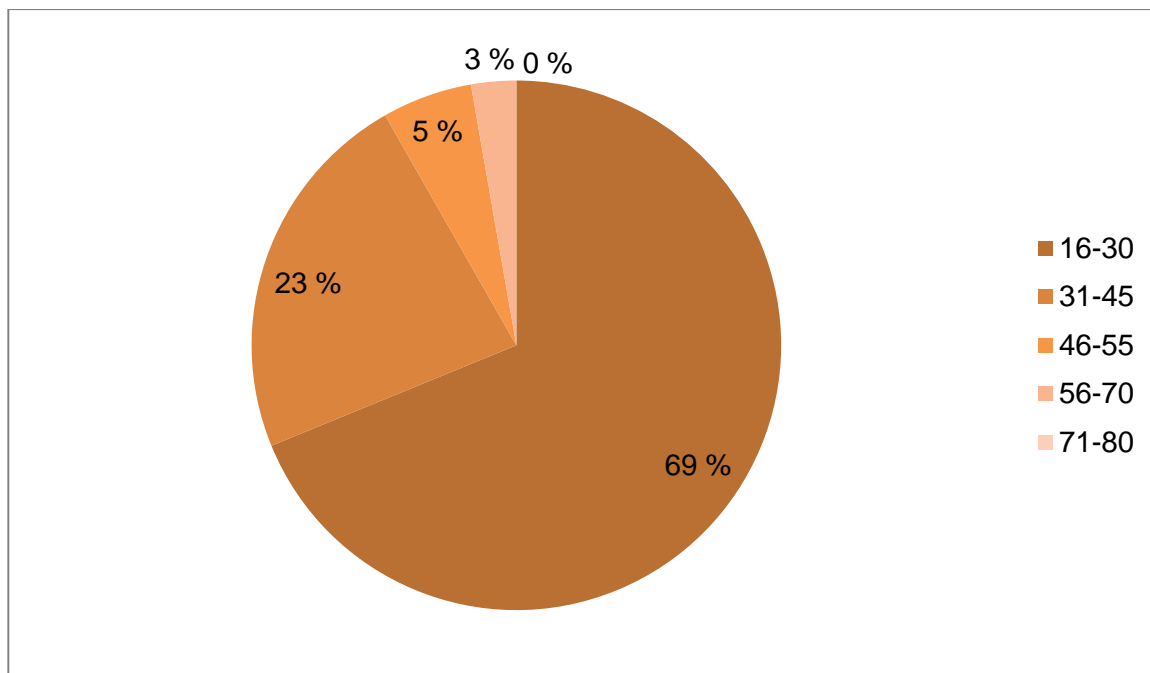
Figure 11: Age of survey respondents (n=109)

The composition of the respondents differs from the composition of the population of Saint Petersburg. According to the latest results of the population census in 2010 published by Petrostat (2012), the young people prevail in the population of Saint Petersburg, with 16-30 years old accounted for almost 30%. Simultaneously, middle-aged group 31-45 accounted for 22%, 46-55 age group for 15.5%, 56-70 for 16.7% and 71-80 for 8% (table 3). However, there were no respondents between 71 and 80 years old in the survey and there were fewer respondents aged 56-70 as these groups are pensioners, who were not found in companies and academic institutions where the questionnaire was distributed. Similarly, young people generally are more technology-friendly and were more willing to respond to the survey, which explains the difference of the survey composition to the composition of Saint Petersburg's population.

Table 3. Composition of population in Saint Petersburg by age. Source: Petrostat 2012

Indicator	Rate	Percentage	Adjusted
Population of Saint Petersburg, total	4 879 600	100% (84.9%)	84.9% = 100%
16-30 years old	1 106 900	22.7%	26.7%
31-45 years old	1 078 000	22%	25.9%
46-55 years old	758 200	15.5%	18.3%
56-70 years old	813 500	16.7%	19.7%
71-80 years old	387 600	8%	9.4%

Financial wellbeing of the respondents varied from unemployed people to those making more than 100 000 roubles in a month (approximately 1650 Euros, which is high enough taking into account the cost of living in the North-West region of Russia). As it can be seen from figure 12, 36% of the respondents are unemployed and 7% have an income level below 15 000 RUB (250 EUR, exchange rate 1 EUR=60 RUB). The data is explained by prevailing of the adolescents who are still students in the survey composition. 21% of the respondents have an income between 15 000 and 29 999 roubles, 11% between 30 000 and 49 999 roubles, 7% between 50 000 and 69 999 roubles and 7% between 70 000 and 99 999 roubles. Only 6% of the respondents have an income of over 100 000 RUB (1650 EUR). An average salary in Saint Petersburg among the people in all occupation fields and age groups was 42 656 roubles in May 2015, therefore all the salary above this level can be considered as higher than average salary (Saint Petersburg's Legal portal 2015).
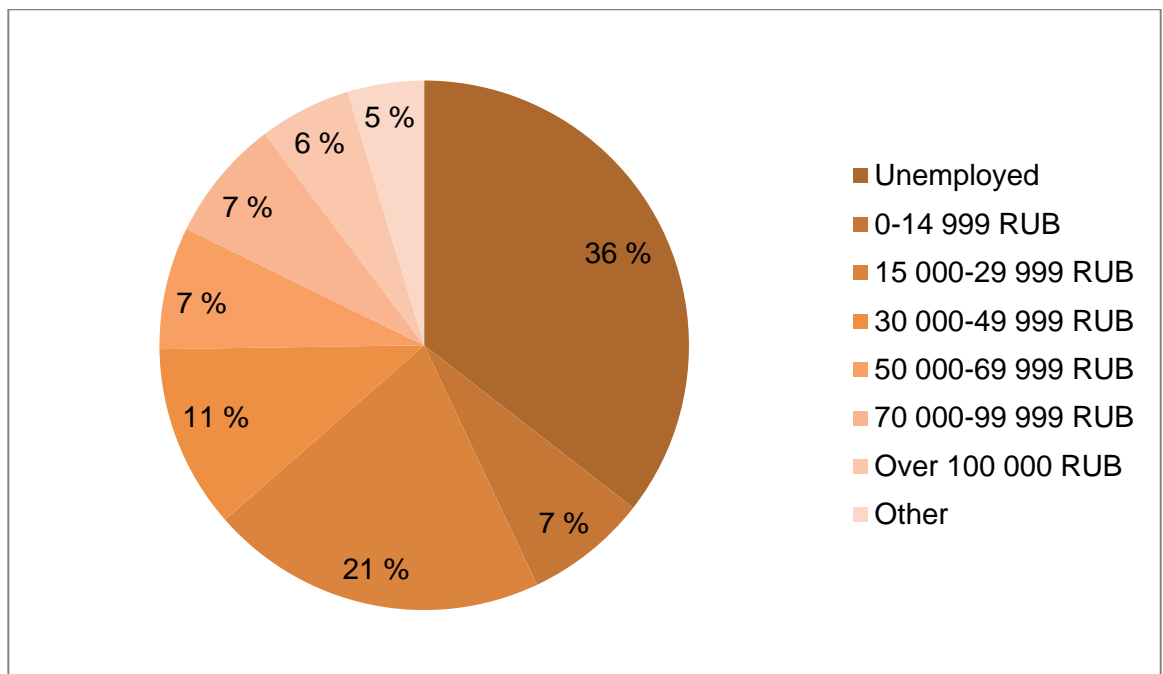

Figure 12: Income level of survey respondents (n=109)

The third research method, which was used to answer **investigative questions 2, 3 and 5**, was the interviews with the representative of the selected Finnish companies. The selection of the companies was based on (1) the size of the company, (2) the company's membership in the Finnish-Russian Chamber of Commerce, (3) years operating in Saint Petersburg and the region and (4) the company's industry. The first criterion was based on the theoretical study on the Finnish-Russian export volume statistics. As it has been revealed in chapter 2.6 'Finnish-Russian trade relations', large enterprises were responsible for 76% of the Finnish exports to Russia in 2006 and this ratio was staidly growing in early 2000. Therefore, the focus on the interviews was made on the large enterprises and

SMEs were eliminated from the selection. Secondly, only companies, which are members of the commissioned company Finnish-Russian Chamber of Commerce, were reviewed as potential interviewees as FRCC is a trustworthy research party for its member and it was able to provide contacts of suitable personalities responsible for the Russian market to be interviewed. Companies were selected among FRCC members on the Russian version of FRCC's website (membership => list of members). In the list of members, companies are divided by the industries. As the goal of the following research was to demarcate the companies to Business-to-Consumers industry, three industries were selected: food products and beverages, clothing and textile and chemicals. The invitation to participate in the research was distributed among over 20 companies and 4 companies in chemicals and the food and beverages industries have expressed the willingness to participate in the interview as they had a strong direct or indirect impact from the rouble depreciation. Companies in the clothes and textile industry have replied that they were not significantly affected by the rouble depreciation (invitations were sent in spring 2015).

Selected companies were Finnish companies with a profound experience operating in the Russian market. *Note: before the interviews were conducted, company representatives signed a confidential agreement permitting/ not permitting to disclose the company name.* Three out of four companies have permitted to disclose their names in the thesis: Valio, Paulig and Atria (figure 13). The fourth company will be referred as 'company X' or 'company in the chemical industry' further in the paper.
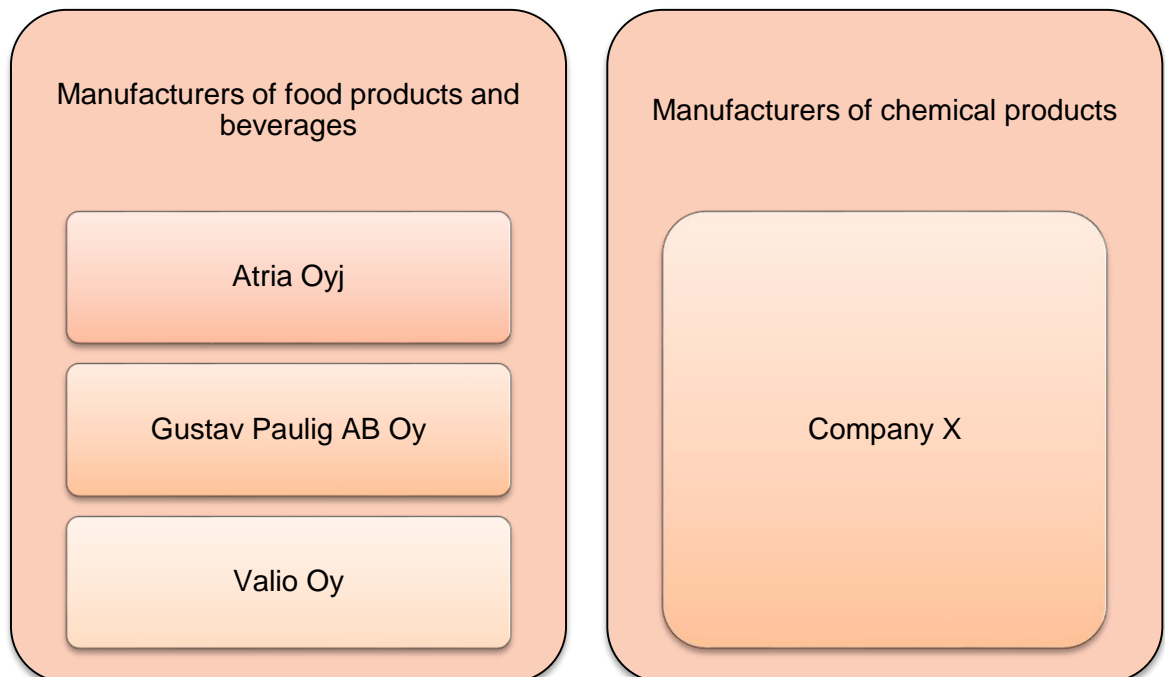

Figure 13: Selected companies by the industries

Prior to the discussion of the interview questions formation process, the companies which agreed to disclose their names in the thesis will be briefly introduced. First company in the alphabetical order is Atria Group, which is a Finnish food products producer. Atria is a publicly listed company that operates across Nordic countries, the Baltic region and Russia. The firm's portfolio includes a variety of brands. In Russia, Atria is represented by Pit Product (Пит Продукт), which it purchased in 2005, CampoMos and Sibylla. Atria operates in two major Russian cities, Moscow and Saint Petersburg. In Saint Petersburg Atria is one of the market leaders in meat and meat products. Atria's product portfolio also includes frozen products such as pizza. (Atria Plc 2015.) The second company in the list, a Finnish company Paulig, is a supplier of the roasted coffee in the Baltic countries and Russia. Paulig was one of the first companies to enter the former USSR markets after the Soviet Union had collapsed. In the last decade of the twentieth century, Paulig has established its sales offices in Saint Petersburg and in Moscow. In 2011, Paulig has opened an own coffee roastery in Russia focused on the Russian and on the Commonwealth of Independent States' (CIS) markets. Paulig's product range varies by the price and by the type and includes roasted coffee, coffee drinks and chocolate dinks. Paulig also offers service solutions. (Paulig 2015.) The last company in the list, Valio, is a Finnish dairy producer and the market leader in Finland. It has over 4000 employees worldwide and it operates in the Baltic countries, Sweden, Russia, China and the United States. Valio is present in the Russian market since early 1990s. Since that time, Russia has become one of Valio's biggest markets and it accounted for 13% of Valio's annual turnover in 2014. Valio's product portfolio prior to the food embargo in Russia included dairy products such as cheese, butter, milk, yoghurts and other products. Valio is a pioneer in the Russian non-lactose dairy products' market. Valio produces some of its products in Russia on the factory in the Moscow's region. (Valio 2015.)

Within the selected companies, persons in the managerial positions in the Russian departments were invited to participate in the interview. These were Mr. Lönnström from Valio, Mr. Ivashko from Paulig and Mr. Lindholm from Atria. All the respondents have a long experience operating in the Russian market, a profound understanding of the company's strategy during the events of 2014-2015 and a solid knowledge in the recent market trends within their industry (table 4). The respondents have received the interview questions and confidential agreement in advance and were asked to choose the method and/or place and time of the interview. Interviewees could have chosen face-to-face interview, Skype interview, telephone interview or email-based interview. Face-to-face interview locations included both Helsinki and Saint Petersburg. Two respondents have chosen face-

to-face interviews in Helsinki and in Saint Petersburg, one respondent has chosen tele-phone interview and one- email-based interview.

Table 4: Interview respondents from the selected companies

Industry	Company	Respondent	Position	Method	Time	Place
Manufacturers of food prod-ucts and bev-erages	Valio Oy	Raul Lö-nnström	Managing Di-rector, Valio Russia	Face-to-face inter-view	01.06. 2015 at 10.00	Meijeritie 6, Hel-sinki, Fin-land
Manufacturers of food prod-ucts and bev-erages	Gustav Paulig AB Oy	Roman Ivashko	General Direc-tor of Paulig in Russia and CIS	Tele-phone in-terview	19.06. 2015 at 11.30	n/a
Manufacturers of food prod-ucts and bev-erages	Atria Oyj	Jarmo Lindholm	General Direc-tor and Execu-tive Vice Presi-dent of Atria Russia, OOO Pit Product	Face-to-face inter-view	17.06. 2015 at 12.30	Obu-khovskoy Oborony pr. 70, St. Peters-burg, Rus-sia
Manufacturers of chemical products	Company X	n/a	General Direc-tor	Email-based in-terview	n/a	n/a

Interview questions were formed based on the theoretical study (consumer behaviour the-ories, Finnish-Russian export statistics) and were aimed to help answer investigative questions 2, 3 and 5 of the following thesis. Each investigative question was approached by two or more interview questions as it is shown in table 5. Sample interview questions can be found in appendix 2. However, the interview questions varied depending on the in-dustry.

Table 5. Example of connections between interview questions and investigative questions

Investigative Question	Interview questions	Purpose of the question
IQ2-How did the rouble de-preciation affect the pur-chasing power of Russian consumers?	In which product segment in your industry can the decrease in con-sumers' purchasing power be seen?	To explore if more consum-ers have switched to a cheaper product category in the industry
	How has the attitude of Russian consumers changed towards for-eign products after the political op-position between Russian and the 'west' has intensified in 2014? Have more Russian people started to prefer national products to the foreign ones in your industry?	To decide on whether non-monetary incentives affect consumer purchasing deci-sion; to understand if the basis for market shares re-allocation between foreign and Russian companies ex-ists

IQ3-How did the price increase for foreign products affect local Russian companies?	How many Russian people, in your opinion, are aware that *your company* is owned by a foreign company? How does it influence consumer behaviour?	To identify if the country of the product's origin influences consumers purchasing decision
	How have the events of 2014 affected the reallocation of market shares in your industry in the North-West region of Russia? Was it a chance for local Russian companies to strengthen their positions?	To understand if changes in consumer behaviour have promoted the development of the local companies and which companies have benefited the most
IQ5-How did the Finnish companies in selected industries react to the rouble depreciation?	What was the reaction of *your company* when the rouble has dropped dramatically towards euro in December 2014? Has *your company* expected this turn of events?	To find out if there was a prepared plan created by companies in advance for the rouble devaluation
	What were the immediate actions of the company, when the rouble started to fall rapidly?	To understand what immediate actions were undertaking by the company after the rouble depreciation; to investigate what amendments were made in the strategy of companies

Investigative question 4 'How effective were the actions undertaken by the Central Bank of Russia in order to stabilize the rouble?' was approached by the thematic desktop research implemented in order to analyse the current actions of the Central Bank of Russia to stabilize the rouble. Only official central bank publications or high quality media sources (e.g. RBC) were selected as the sources of secondary data. The goal of this research was to investigate the methods of the interventions used by the Central Bank of Russia in 2014 and 2015. The desktop research was based on the research outcomes of the literature review, provided in the chapter 'Central bank's objective in the stability of the national currency'.

3.2 Research findings

A variety of the research methods used enabled to acquire profound data to answer the investigative questions. In the following chapter, reflection on the research findings will be provided for investigative questions 1,2,3,4 and 5 with a preliminary discussion of the data. Further on, chapter 3 will provide a profound analysis of the research outcomes and an in-depth discussion on data.

3.2.1 Ukraine, oil price, sanctions: are those the real reasons of the weakened rouble?

"Today's market prices, no matter what they are, correctly reflect assets' true values, based on both current economic conditions and the best estimate on how those conditions will evolve in the future" (Cooper 2008, 9).

The Russian rouble started to notably weaken in autumn 2014 and reached its lowest boundary in December 2014. The public relate the devaluation of rouble to the fall of oil price, the sanctions against Russia and the overall opposition between Russia and the West. Following a deeper investigation of this question it became clear that the surface reasons without a doubt worsened the situation, but were not the main roots of the devaluation. The structural problems of the Russian economy after the collapse of the USSR, extensive dependence on commodities export and low labour productivity have decreased the growth of the Russian economy from 7% in 2000 to approximately 2% in 2014 before the events in the second half of 2014 (Kudrin 2015a, Usanov 2015, Deloitte 2015, 24-29). The following chapter will discuss short-term and long-term reasons of the rouble devaluation and will rank seven core reasons of the devaluation on the developed chart.

A number of events in 2014 and 2015 have influenced the value of the Russian rouble, which are seen as the **short-term reasons** for the devaluation. A first notable event, which followed Russian intervention in the Ukrainian politics in the first quarter of 2014, was the sanctions, which the European countries have introduced against Russia in 2014 (Usanov 2015). In July 2014, European Union Newsroom (2015) has published an announcement of European Council that: *" EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by: five major state-owned Russian banks […], three major Russian energy companies and three major Russian defence companies".* The sanctions have limited the liquidity of securities of these institutions and their access to the capital, which diminished the ability of these entities to pay their debt in the foreign currency and pushed them to purchase high volumes of the foreign currency in the national currency market. In fact, the lower boundary of rouble exchange rate in December 2014 coincides with the end of the financial year for globally operating Russian companies. The end of the financial year indicates, in many cases, a need for these companies to make payments in the foreign currency which, when having no access to the foreign accounts, raises a mass demand for the foreign currency nation-wide. As of 2014, the total foreign debt of the Russian companies accounted for $550 billion in 2014, with $109 billion due in 2015. What is more, a wave effect of the raising exchange rate has 'covered' the Russian citizens, who have

then promoted the demand for the foreign currency. Consequently, Russian reserve of foreign currencies and gold has been reduced by $130 billion in 2014 (Deloitte 2015, 24-29). Pavel Usanov (2015) also notes the effect of the sanctions on the volume of trade between Russia and the world, which has decreased, consequently, reduced the demand for Russian rouble. What is more, unstable Russian economy has largely demoted investments in Russia. In the 'Economic Outlook' for the second quarter of 2015, Deloitte (2015, 24) notes an outflow of the foreign capital from Russia of $151.5 billion, which is notably higher than the outflow of $133.6 billion during the financial crisis of 2008.

Another major event of 2014 and 2015 was a sudden drop of oil price to its lowest price in the recent decade. Rouble is oftentimes called an 'oil currency' since the export of oil has the biggest portion in Russian total exports. As calculated for 2012, export of crude oil and oil products accounted for 51.3% of Russian total exports (Russian Federation Federal State Statistics Service 2013). Simultaneously, Deloitte has reported that exports of oil and gas complied for 68% of Russian exports in 2013 and over 50% of the budget collection came from the taxes on oil and natural gas export (Deloitte 2015, 24).

In 2014-2015, oil price (Brent) has fallen from over a hundred dollars per barrel to less than 50 dollars per barrel (a 50% decrease in price, figure 14). The following decrease is said to be connected to the recent shale oil revolution in the United States and shale oil mining in the European countries. The United States has increased mining of shale oil to decrease its dependence on oil import. (The Economist 2014.) Shale oil production has started to grow dramatically in the country and achieved a 26% annual growth rate in 2013. With the following growth rate, shale oil could have comprised 12% of today's total oil supply by 2035. (PWC 2013, 1-9.) As a half of the world's oil reserves is in hands of the OPEC countries, the shale oil revolution and the fast growth of shale oil production could have resulted in OPEC to lose its market share and consequently, to lose a part of its major budget's income source. Trying to prevent this turn of events, OPEC countries have decided to increase the oil production to an extent that the price of oil will be below the breakeven price for shale oil producers. In other words, OPEC countries wanted to lead the shale oil producers to bankruptcy and to reduce the risk of losing its market share. In fact, it was November 2014, just before the rouble has fallen to its lowest value, when Saudi Arabia has declined the US' proposal to cut its oil production in order to prevent the gradually declining oil price to fall further. (Forbes 2015.)
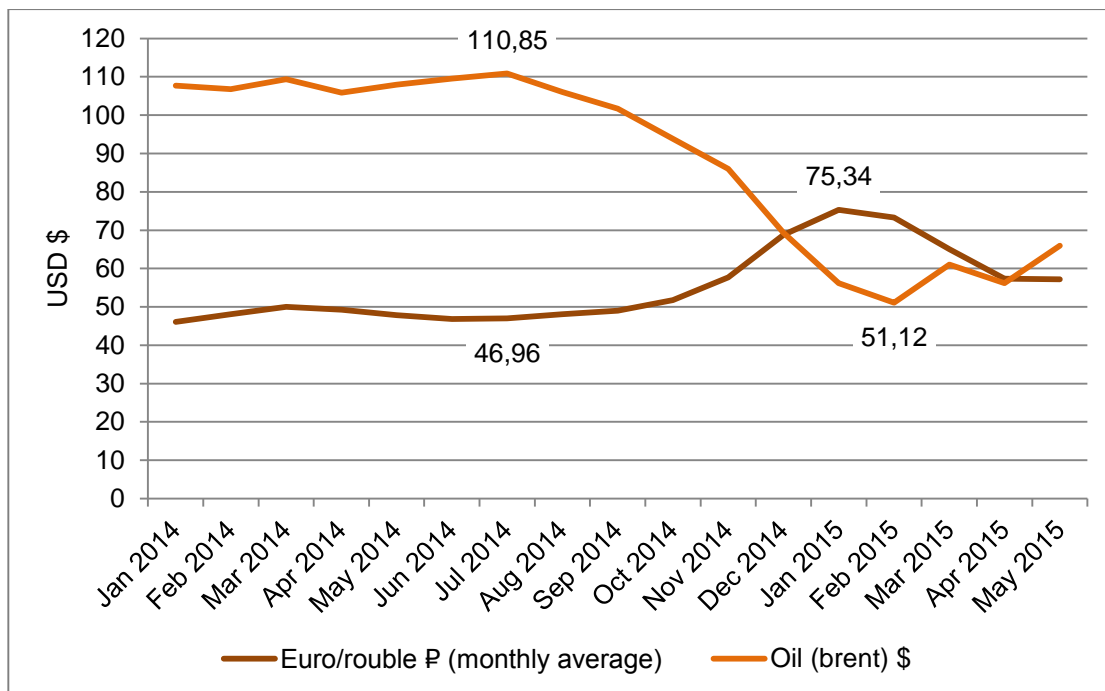
Figure 14: Correlation of euro/rouble exchange rate to oil price (Central Bank of Russia 2015c; Yandex News 2015)

In July 2015, the situation on the Shanghai Stock Exchange is assumed to cause the second wave of the oil price decrease. Chinese government has banned the trade of the governmental bonds on the Shanghai Stock Exchange, which has caused its index to decrease by 30% in comparison to the middle of June. (MKRU 2015.) According to Merrill Lynch (2015 in Russia Beyond the Headlines 2015), Shanghai Stock Exchange has lost a total of $2 trillion within the first two weeks of July. The 'Chinese bubble' and the overall slowing growth rate of the Chinese economy have notably affected the oil price. Brent's oil price tendency changed from fluctuating around $65 per barrel to the downwards slope in summer 2015. The oil dropped down to $48 per barrel in August 2015. (Russia beyond the Headlines 2015.)

Lastly, the Russian crisis in 2014 and 2015 has significantly weakened consumers' confidence. When the rouble has just started to weaken in autumn 2014, many Russian consumers have started to exchange roubles for euros and dollars as for the more stable currencies with a fear that rouble will continue to fall (Usanov 2015). The following by the rouble depreciation high annual inflation of over 11% in 2014 and over 10% in 2015 in Russia has affected the real wages among the Russian population (Inflation Rate in Russian Federation 2015). The wages were down 6.2% in December 2014 and 1% more in January 2015 (Deloitte 2015, 25-26).

As it has been noted earlier, lowering oil price, the sanctions against Russia and the decreased consumers confidence have to be seen as the stimulus, but not the rout of the weakening Russian currency as there were a number of **long-term reasons**. As we can recall from the literature review in chapter 2, the value of any freely fluctuating currency is formed by the supply of and the demand for this currency. Prior to 2014, the stability of rouble was controlled by the Central Bank of Russia through the upper- and lower- boundaries of the currency corridor via the dual-currency basket (using dollar and euro). However, the central bank has reduced the currency corridor in 2014. As it has been officially announced by the Central Bank of Russia, *"from 10 November 2014, the Bank of Russia abolished the exchange rate policy mechanism through cancelling the permissible range of the dual-currency basket ruble …"* (Central Bank of Russia 2014b). In 2014, when the floating exchange rate system was forced into application, the nominal value of rouble was likely to decease to its real market value. The structural problems in the Russian economy, low economic efficiency and low labour productivity have significantly lowered the growth of the Russian economy after 2012 and affected the value of rouble.

After the collapse of the USSR in 1991, the Russian economy was in a state of a protracted economic crisis, which has eventually led to the default in August 1998. From 1990 to 1998, the employment of the economic capacity was down to 45% of the capacity load. In 1998, GDP was down by 40% compared to the 1990 level. In 1998, following the privatization, Russian economy has achieved the growth of 7% per annum. The rapid growth of the GDP was mostly driven by loading of the economic capacity up to 80% in early 2000, 13% employment rate growth, and the decrease of the population. (McKinsey Global Institute 2009, 12-39.) In 2008, the capacity of the Russian economy was fulfilled to its maximum and the economy required structural reforms to promote the continuous growth of GDP. However, Russia has chosen a way of increasing commodities export to promote the growth, which has led to misbalance between the growth of salaries and the lack of labour productivity growth in 2008. In fact, the labour productivity in 2015 was three times lower than in the United States and Europe and 1.7 times lower than in other BRICS countries. (Communist Party of the Russian Federation 2015.)

In 2009, McKinsey Global Institute has released a study 'Lean Russia: Sustaining economic growth through improved productivity' to identify the range of actions to be undertook in order to improve the productivity of the Russian economy. In the research, five key industries of Russian economy were studied (retail, steel, retail banking, construction and electric power) to identify key issues that predisposed the lagging of the productivity of Russian economy compared to the developed countries. Within the timeframe of McKin-

sey's research, the productivity enhancement was seen as a possibility for Russia to continue its rapid economic growth after the economic capacity was maximised. However, as it has been noted, Russia has undertaken a way of the economic development through the expansion of export of its natural resources rather than through the efficient use of factors of production.

McKinsey (2009, 12-39) has identified a range of the structural problems in the Russian economy, which caused the low productivity. The labour is organised inefficiently in the economy, the business processes are highly complicated and bureaucratized and the labour force largely lacks managerial skills. The last issue raises questions on the effectiveness of the Russian education system. In educational institutions, the level of practical tasks is critically low. The education boils down to the theoretical study of obsolete literature, sometimes completely lacking group project and real company cases. (McKinsey International Institute 2009, 12-39.) Similarly, Russian ex minister of finance Alexei Kudrin (2015b) in the interview for the RBC channel on the forecast for the Russian economy after 2015 notes that the current cut downs in the budget of Russia come from the cut downs in infrastructure and education, which are the key components of the economic growth.

Another reason for the low economic productivity is the use of obsolete technologies in production (McKinsey Global Institute 2009, 12-39). Andrey Tychinin from the Communist Party of the Russian Federation (2015) gives some numbers for the low technological equipment of production. For every 10 000-factory workers, there are 347 robots in South Korea, 343 in Japan and less than 20 in Russia. Simultaneously, Russia spends 500% more energy per one GDP unit than the developed countries, which shows the obsolescence of its technological equipment. Finally, the structural features of the Russian economy, including an intense governmental control, access to cheap factors of production and low competition in major industries demotes the potential improvement of the economic productivity of the country (McKinsey Global Institute 2009, 12-39). Alexey Kudrin assumes that the GDP in Russia will fall down 2-4% in next two years, with the economic growth to slow down to 1.5% (compared to 7% in 2000-s). Kudrin claims that without structural reforms, Russian position will weaken in the international trade and no high economic growth can be expected. (Kudrin 2015a.) Plans of economic reforms were published in 2006's '2020 Strategy', but the plans were not implemented in reality to a notable extend. In 2012, Russia has introduced the second version 'Strategy 2020', which focused on the increase of labour productivity, a goal of 5% annual economic growth, GDP increase and an increase other measures of socio-economic development (e.g. reallocation

of the growth driver from export to the internal market growth, competitive business environment, attracting environment for foreign investments, and other) (2020strategy 2012). However, the real results of the strategy still cannot be seen.

Additionally to the structural problems, President of Russia Vladimir Putin, after his election in 2012, has put in power the 'May Decrees' economic development program, which included order № 597, developing the social policy, and order №600, providing Russian citizens with affordable housing, which were beyond the capacity of the Russian budget. For example, the orders focused on the increasing salaries of educated workers in the medical service and pharmaceutical sectors to 200% of the current wages by 2018, on the developing the employment places for disabled people to 14.2 thousand places by 2015, on the providing the developers with the land for construction at the minimum price and on supplying certain social layers with economy-class housing. (Kremlin 2012, The Russian Government 2012.) Pavel Usanov (2015) notes that this new social support was then simply impossible to fit in the budget. The following payments of the social benefits have worsen the stability of the country after 2012 and promoted the structural misbalance of the Russian economy (Usanov 2015). At the same time, The Economist (2014) notes that the social benefits payments in Russia were highly dependent on the income from oil export, which, when the oil price has fallen, has significantly hit the Russian economy.

Overall, as soon as the oil price started to fall, the structural problems of the Russian economy have come on surface resulting in the economic downturn in the country. In 2015, Russian GDP was down by 3.8 compared to 2014, from 43.7 to 42.0 trillion roubles. Disposable income was 1% down in 2014 and 6.3% down in 2015. Unemployment rate has grown by 0.9% in 2015 in comparison with 2014, from 5.6 to 6.5%. The mentioned problems in the Russian economy, which include low modernization of production, extensive governmental control, lack of investment in infrastructure and education, lack of development of financial institutes, when an 'oil pillow' has disappeared, have negatively impacted the Russian economic growth. Risks in the geo-political environment have demoted investments from the country and decreased the role of Russia in international trade. Together these events have influenced the real value of the Russian rouble and could explain its rapid drop in 2014 and 2015. To summarize the following chapter, graph 15 illustrates the short-term and long-term reasons of the rouble depreciation.
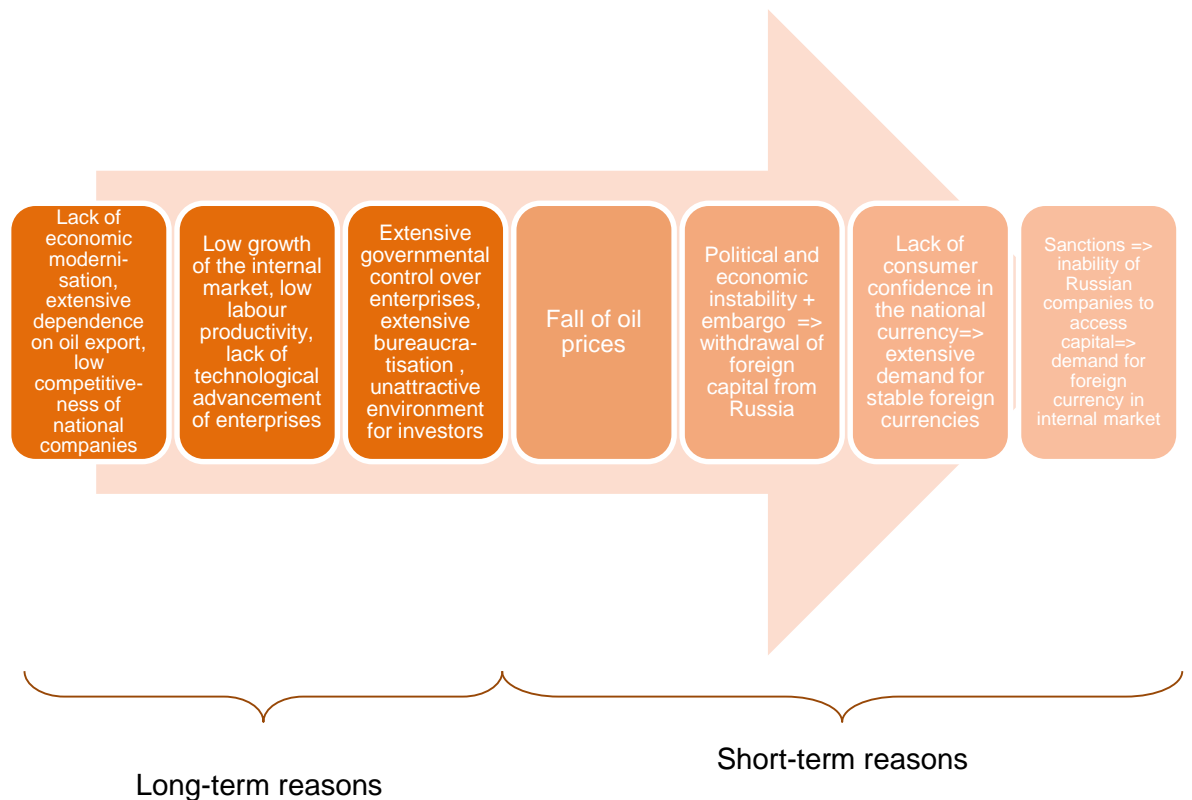
| Lack of economic modernisation, extensive dependence on oil export, low competitiveness of national companies | Low growth of the internal market, low labour productivity, lack of technological advancement of enterprises | Extensive governmental control over enterprises, extensive bureaucratisation, unattractive environment for investors | Fall of oil prices | Political and economic instability + embargo => withdrawal of foreign capital from Russia | Lack of consumer confidence in the national currency=> extensive demand for stable foreign currencies | Sanctions => inability of Russian companies to access capital=> demand for foreign currency in internal market |

Long-term reasons

Short-term reasons

Figure 15: Long-term and short-term reasons of the rouble depreciation

3.2.2 Changes in behaviour of Russian consumers

The purpose of one of the research methods, a questionnaire, was to understand the key 'directions' of the monthly spending of Russian consumers, core methods of choosing the products and the change of people's buying behaviour within the years 2014 and 2015. In one of the survey questions, respondents were asked to select 3 to 5 product categories, which represent their core spending within one month. As it can be seen from figure 16, the survey has indicated that food products, clothing and footwear and pharmaceutical products (including vitamins and food supplements) are among the top categories of consumers' monthly spending. It can be seen from the graph that not all the respondents (107/109) have indicated food as a monthly priority. However, it is assumed that some of the respondent are dependents and do not need to purchase food products on their own. Raul Lönnström from Valio (2015) in the interviews has indicated that Russian consumers tend to spent almost 50% of their monthly income on food, while in Finland this rate is as low as 12%. Simultaneously, IMS Health (2015, 3) reports that Russian consumers spend 4.1% of their disposable income on pharmaceutical products and the rate remained constant within the last two years. Contrary, electronics and press, according to respondents, are not seeing as necessities and are not the priority of the income allocation. Although similar is true for the products for children, it should not be considering in this case as an

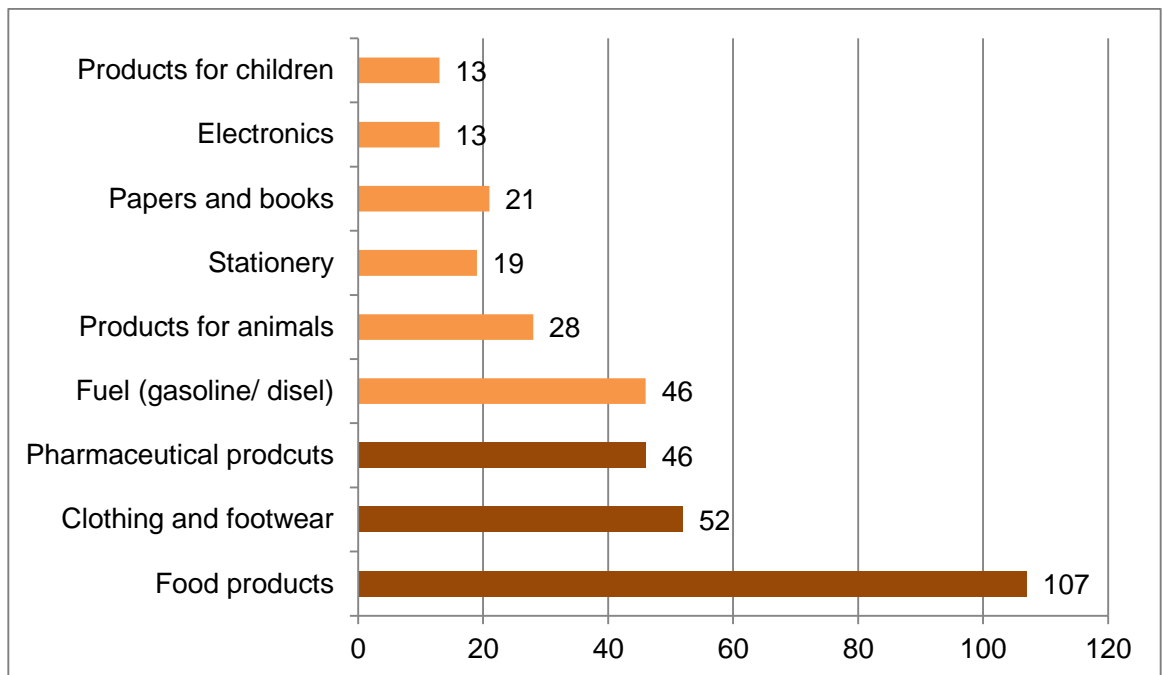unimportant monthly spending as it largely depends on the presence/ absence of children in the family.

Figure 16: Key monthly spending of Russian consumers (n=109)

Food products were indicated as a number one priority in the monthly income allocation. Consumers, therefore, have two options of which food products to purchase, national or foreign. Another survey question was aimed to identify in which categories of food products consumers tend to purchase foreign ones. Consumers were again able to choose more than one product category. Among the respondents, only 18 persons answered that they prefer Russian products. Other respondents gave priority to the foreign products. It can be seen from the graph that respondents are especially sensitive to the country of origin when buying dairy products, alcohol and confectionery (chart 17). Seventeen people, simultaneously, answered that they prefer foreign country of origin when buying meet products and soft drinks. Jarmo Lindholm (2015) from Atria has claimed that the majority of Russian consumers do not know that Atria's Russian brand Pit Product is owned by the foreign company. When Atria purchased Pit Product, Mr. Lindholm reported, it was chosen to leave the brand as consumers had already perceived the brand as a local one and emphasizing the foreign brand ownership might have confused consumers. A difference between the foreign brand and the foreign country of origin brings a new topic to the discussion. Oftentimes consumers purchase foreign brands for its quality, without thinking that the product is produced locally. Raul Lönnström (2015) from Valio claimed that consumers value the Finnish brand, which Valio is, and perceive its products as trustworthy

and high-quality ones. At the same time, some of Valio products are produced on its fac-
tory near Moscow. However, it can be assumed that those products are still perceived as
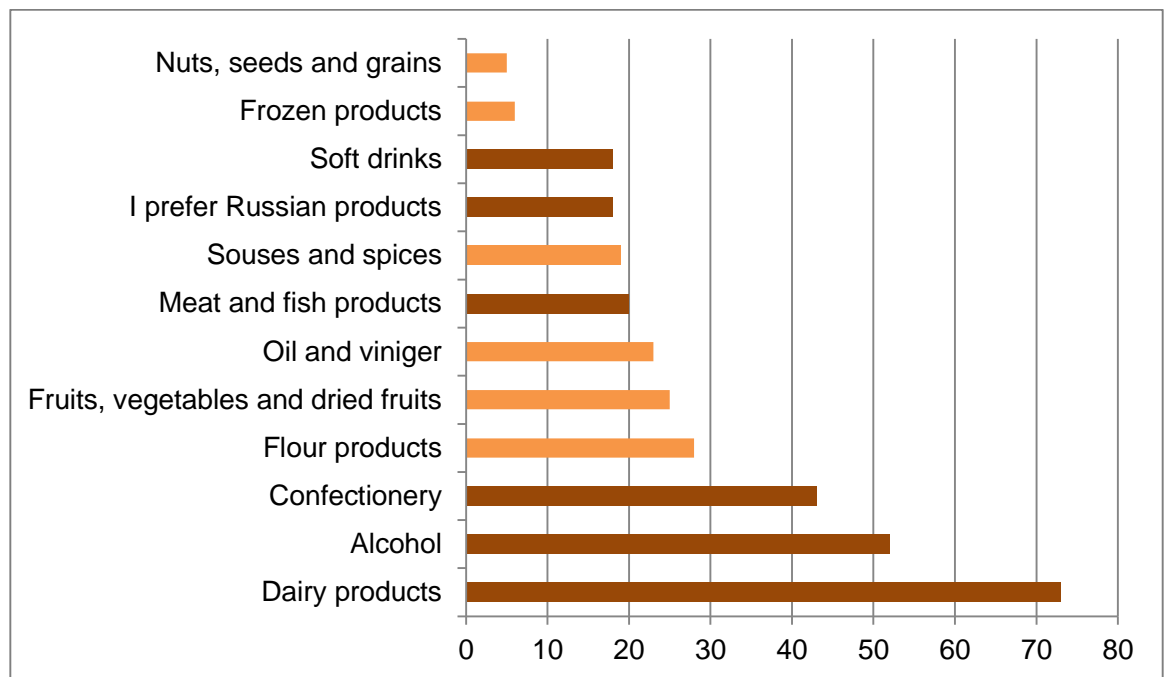the foreign ones by consumers.

Figure 17: Categories of food products, where consumers prefer foreign products (n=109)

There was a second question for consumers to respond concerning their chose of food
products. Respondents were asked to choose 3 to 5 key criteria, which influence their
chose of food products. The priorities of chose were the ingredients (78 respondents),
cheap price (27 respondents) and package (23 respondents) (figure 18). Twelve people
have indicated that they prefer Russian products. With the decrease of disposable in-
come, consumers started to purchase cheaper products. Jarmo Lindholm (2015) has dis-
cussed the fact that Atria had to introduce a cheaper product line within Pit Product to
meet decreasing purchasing power of its target consumers. Simultaneously, Roman
Ivashko (2015) from Paulig has told that Paulig can expect consumers to switch to its
cheaper product categories in the current situation. At the same time, Raul Lönnström
(2015) suggested that consumers' current preference of foreign products could simply be
explained by a permanent absence of product analogues. An interesting tendency in Rus-
sia, which can be noted among people with the high-income level, is to buy more expen-
sive products due to a belief that those products have higher quality. Only two respond-
ents, at the same time, have indicated the preference of non-gluten/ non-lactose products,
which shows a possible nescience of Russian consumers about the influence of these nu-
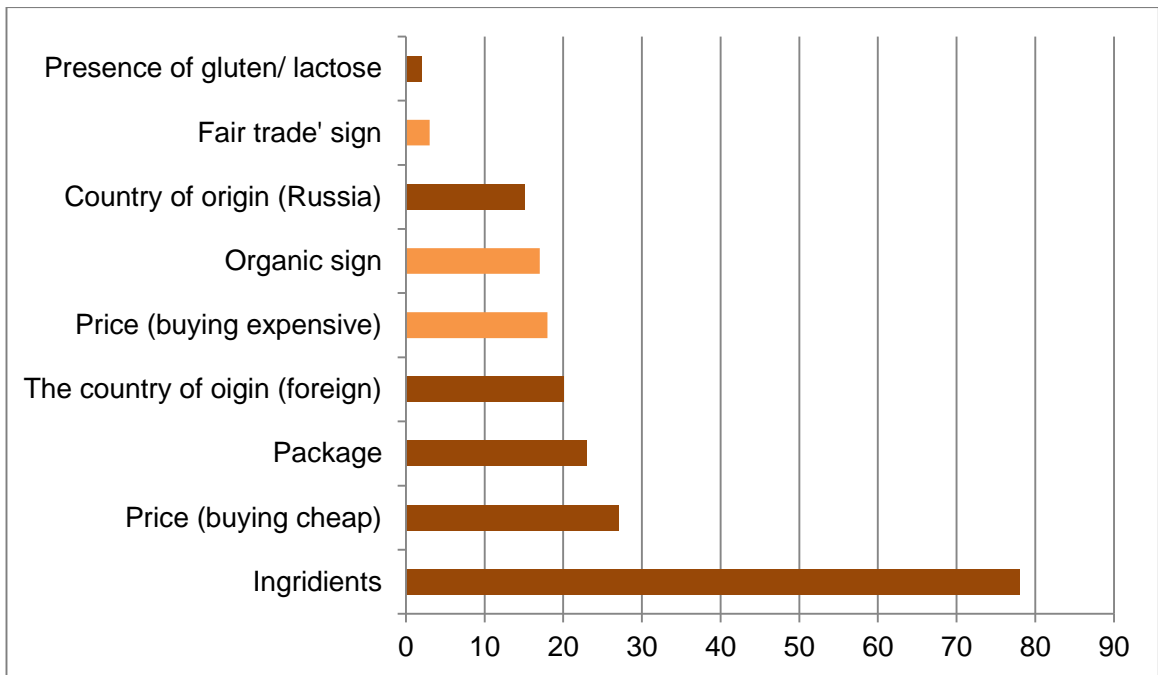trients on their body.

Figure 18: Criteria of consumers chose in food products (n=109)

Pharmaceutical products (unsubscribed medication) were identified as the third monthly 'necessity' among the respondents. Out of 109 respondents, 27 have indicated that they do not usually buy chemical products (figure 19). Other respondents had to choose 3 to 5 criteria by which they choose a medical product. The key criterion for consumers was the ingredients of the medical products (47 respondents). The third criterion of chose was the foreign country of origin (27 respondents). There is a big contrast in preference between foreign and Russian products as only 5 people have stated that they prefer Russian products. The questionnaire and interviews have shown that there is a common believe among Russian consumers that foreign medical products have a better quality. An interviewee from the chemical industry said that it is true that the majority of consumers prefer European products as they see the foreign country of origin as a sign of better quality. Furthermore, the interviewee has claimed that the recent events have not affected the consumers' attitude towards foreign products, as the country of origin is the key criterion of a purchase decision. The second criterion, product feedback, indicates that consumers now are more aware of the medical products and read the product feedback before the purchase. The following point, however, goes beyond the topic of the current thesis.
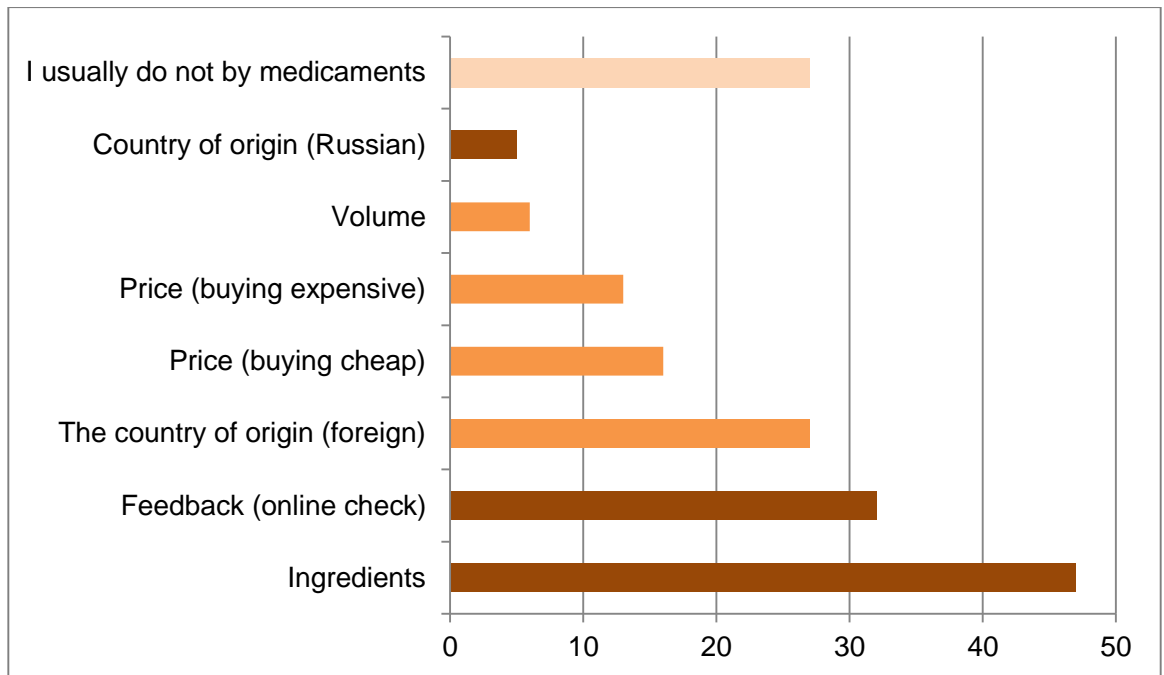
Figure 19: Criteria of consumers chose in medical products (n=109)

Finally, in the questionnaire, consumers were asked to assess the change of their buying behaviour since 2014 in the food and beverages and pharmaceuticals product categories. It was assumed that two main reasons could have affected consumers' buying behaviour:

1. Decrease in salary level
2. Negative propaganda of media sources against foreign companies.

Although the majority (41) of the respondents have answered that their buying behaviour has not changed regardless of the price increase for the products (figure 20), 33 people have indicated that they have continued to buy the same products but in less volume. Twenty-one people have replied that they have started to buy Russian analogues. The statistics of the answers show that Russian people continue to prefer the foreign products to the local ones. As it has been mentioned earlier, in the interview session, Raul Lönnström (2015) from Valio assumed that the reason why Russian people may prefer the local products is simply the absence of the foreign analogues on the shelves. At the same time, Mr. Lindholm from Atria expressed an opinion that negative media propaganda in Russia against the West did not have a strong effect on the behaviour of Russian consumers. Overall, the questionnaire and the interviews have indicated that Russian people still consider the foreign products to have higher quality than the Russian analogues. Jarmo Lindholm (2015) has also reported that one of Atria'a research has made it clear that Finnish products are associated with high quality.

Coming back to the survey, 23 people have noted their change in preference towards cheaper products. Interestingly, seven people have claimed that there are now buying products from other countries, Latin America or Asia. Only eight people were not willing to change they preference to the Russian products and, therefore, refused to buy certain products at all. Similar opinion is reflected in the interviews. Although some people now are trying local products, there is no big change in consumer's preferences (Lindholm 2015). A surprising trend, showed by 10 respondents, is an increase in the frequency of travels abroad for the shopping purposes. Despite the high exchange rates, consumers still prefer foreign products and are willing to spend time travelling in order to purchase them. At the same time, it is unclear if consumers are buying products abroad as they are driven by high quality and the variety of products or because they still do consider that even with the current exchange rate, it is still cheaper to buy products abroad. Roman Ivashko (2015), for example, has noted that the pricing structure in Russia and in Finland is very different as the price is largely affected by the external factors. Thus, price for coffee in Finland has always been 1.5-2 times lower that in Russia, Mr. Ivashko noticed. Similarly, Mr. Lönnström (2015) from Valio claimed that the markets and the prices are very different. In Russia, for example, there is a scarcity of milk in the market, which, together with the 17% duties imposed for import, results in a higher price for Valio products in Russia than in Finland.
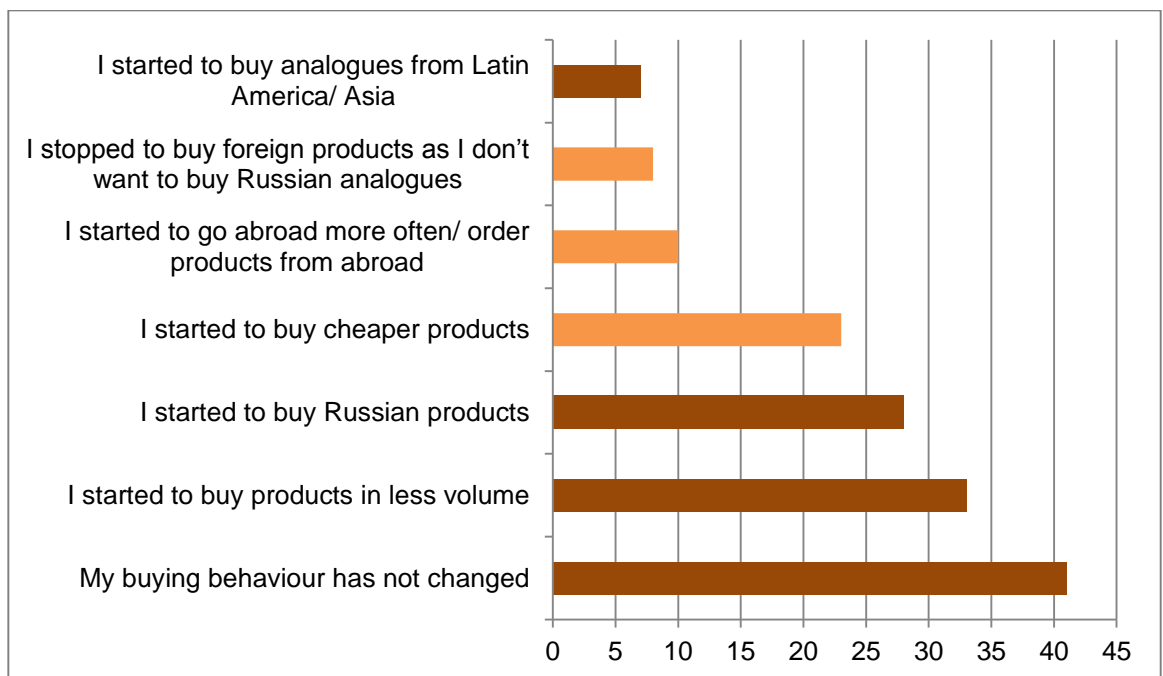

Figure 20: Change in consumers' behaviour since 2014 (n=109)

In conclusion to the following chapter, it is important to highlight the key findings for the investigative question 2. Food, clothing and pharmaceutical products are among consumers' top monthly priorities. Simultaneously, when choosing food products, consumers prefer foreign ones in categories like dairy products, alcohol and confectionary. When choosing food products, consumers pay attention to the ingredients, price and the country of origin. When looking at the pharmaceutical products, consumers chose criteria include ingredients, country of origin and feedback on the product, which consumers read in advance. Foreign country of origin is listed among the top chose criteria in both food and pharmaceutical segments. By contrast, in food products category respondents indicated cheap price as the second chose criterion, whereas in medicaments cheap price was only on the forth place and expensive price, which created an assumption of a higher quality, was on the fifth place. Generally, the majority of the respondents has replied that its buying behaviour has not changed in 2014 and 2015. The second biggest group of the respondents has indicated that it starter to by less volume of the same products. Interestingly, the third biggest group stated that they started to buy Russian products. Around 25% of the respondents reported that they are now buying cheaper products.

3.2.3 Local companies

One of the interviews purposes was to identify the strength of the direct national competition in selected categories of consumer products and the change in market shares among local and foreign companies. The following chapter will discuss the responds of the interviewees regarding market shares reallocation in their industry and will connect the interview outcomes to the questionnaire.

According to the respondents, around 50% of market in **food products** is in hand of Russian companies (Ivashko 2015, Lindholm 2015 & Lönnström 2015). However, the change in market shares since 2015 varies from the type of food product. Interview respondents have identified that Russia is not able to fully satisfy the need of its market, which has provided the foreign companies with the major opportunities before the embargo. Raul Lönnström (2015) noted that prior to the embargo Valio has supplied 90% of its raw materials (e.g. milk) from Finland and Estonia, as there were simply not enough resources in Russia. Similarly, Roman Ivashko (2015) has indicated that Paulig supplies 100% of raw material from abroad. Jarmo Lindholm (2015) reported that Atria used to import 90% of raw materials. Although the sanctions, food embargo and weak rouble have largely affected the position of Finnish companies in Russia, respondents have highlighted the fact that even though the situation has promoted the development of the local companies, they do not possess the volume and know-hot to fully satisfy the market demand.

Interestingly, Roman Ivashko (2015) has reported that Paulig has even increased its market share in 2015 as coffee segment, according to Mr. Ivashko, is a specific segment, which is usually not influenced by external events. By contrast, Mr. Lönnström (2015) has reported that Valio did lose some of its market share, but the firm plans to return it in 2 to 3 years. As soon as the food embargo will be removed, noted Mr. Lönnström, Valio will start to import products, which are especially demanded in the market. Furthermore, the firm tries to increase the local production. Throughout the period of the embargo, Valio continues to maintain personalized relationships with the consumers through social networks. Therefore, Mr. Lönnström (2015) said that some of its consumers have even contacted the company through the social channels to find out when will Valio products be back on shelves. This trend indicates consumers' preference and loyalty to the foreign products in the dairy products segment. Similar can be seen in questionnaire: foreign country of origin is the third priority of consumers when purchasing food products and dairy products was the top segment in which consumer prefer foreign products.

Jarmo Lindholm (2015) from Atria claimed that there is no dramatic change in consumers' choice between foreign and local products. Even though the falling Russian rouble has decreased the disposable income of Russian consumers, there is still no big price difference between local and foreign products in the target industries (coffee, dairy and meat). Respondents (Lindholm 2015, Lönnström 2015) have agreed that their companies had to increase the prices, but so did the competitors. Therefore, decrease of the disposable income cannot have a strong impact on consumers buying behaviour when it comes to the prices for the products, especially in the middle class social layer, which is targeted by the foreign companies (Lönnström 2015).

Second industry of the thesis focus was the chemical industry and, in particular, **pharmaceutical industry**. Russian pharmaceutical market continues to growth staidly with an expected growth of 12% in 2015. However, according to IMS Health (2015, 4-5), decreased Russian rouble and the internal problems in the Russian economy did have yet have an obvious effect on pharmaceutical industry. As the prices for a half of the drugs in the market (essential drugs) are controlled by the governments and cannot be changed, the decreased value of rouble has directly affected foreign pharmaceutical companies in the market by making some products unprofitable for the companies to import. (Shulyak 2015, 7-11, Company X.) At the same time, the rouble devaluation and the economic downturn have also largely influences household's disposable income, which decreased 6.3% in 2015 only. Consequently, the demand for the expensive drugs has decreased. (IMS Health 2015, 4-5.) Similarly, interviewee from the pharmaceutical industry has reported

that Russian consumers now tend to buy less expensive drugs especially if they are not life-saving ones. Russian consumers now started to switch to the cheaper analogues. Generally, as reported by the interviewee (2015), the price for Russian products is much cheaper than for the European analogues, especially in the segment of generic drugs. At the same time, in the segment of innovative drugs, foreign companies largely prevail and some of these drugs might not have a Russian analogue. Therefore, the interviewee assumes that the decreased rouble value and the problems on the microeconomic level have become a chance for Russian drug producers in the segment of cheap drugs to increase their market share.

What is more, apart from the decreased disposable income of households in 2014 and 2015, Russian government has introduced a programme of supporting the local producers. In December 2014, Russian government agreed to allocate 16 billion roubles for *drugs reimbursement programme.* In March 2015, government has accepted the programme *to support the local producers for loan disbursement*. The government has also approved the import substitution plan and plans to introduce a number of other measures to support local drugs manufacturers. (IMS Health 2015, 6-9.) IMS Health assumes that by 2020, 90% of drugs in Essential Drugs List will be produced locally. However, innovative drugs are unlikely to be affected by governmental measures.

Interestingly, although more consumers are now switching to the cheaper products, they still have a highly positive perception of the European products. According to the interview from the industry (2015), foreign country of origin is an important criterion in consumers' purchasing decision. A positive perception of the foreign pharmaceutical products is reflected in the questionnaire. Over 25% of the respondents indicated that they see a country of origin as an important purchasing of chemical products criterion. At the same time, over 15% have reported that they pay attention to the products in a cheaper price category.

To summarize the following chapter, is should be said that there is no clear connection between a decreased Russian rouble and increasing market shares of local companies. It is true that consumers' disposable income is decreasing, but consumers still have a very positive perception of foreign products, which generally have a higher price. In the food and beverages industry, local companies are simply unable to fulfil the market demand and to grow their market shares as the factors of production are scarce in Russia. Although the rouble depreciation and increased prices forced consumers to buy cheaper products, there is no clear trend that consumers massively started to prefer Russian products. In the pharmaceutical industry, even though consumers highly value the foreign

country of origin, decreased monthly income forced them to purchase cheaper products and to decrease purchases of expensive innovative drugs. Although not many consumers now buy Russian products, the tendency can change due to mutual effect of the decreased consumers' income and the governmental support of local producers.

3.2.4 Attempts of the Central Bank of Russia to stabilize the rouble

Bank of Russia has undertaken a range of actions to redound the rouble stabilization and to limit the activities of the speculators on the foreign exchange market. The Bank's strategy has successfully strengthened the rouble in the first half of 2015 (Central Bank of Russian 2015a). However, the sharp fall of the Chinese's stock exchange, the decreased indices of American stock exchanges and the decreasing price for Brent oil, have conduced the second wave of the rouble drop (The Guardian 2015, RBC 2015c). The following chapter will review the key measures undertaking by the Central Bank of Russia since 2014 to stabilize the rouble, starting with the discussion of the currency corridor removal after which the rouble has dropped.

As it has been noted in chapter 3.2.1, in November 2014 the Bank of Russia has abounded the currency corridor leaving the rouble value being set by the market (Central Bank of Russia 2014b). Throughout 2014 and 2015, the Bank of Russia has used a number of monetary policy instruments in attempts to stabilize the rouble. In 2014, the Central Bank of Russia has increased the key rate six times to a maximum of 17% on December 16, 2014 from 10.5% on December, 12, following the 'Black Tuesday'. The key rate on January 1, 2014 was 5.5%. (RBC 2014.) The Central Bank (2014) has explained a sharp raise of the key rate with *"… the need to limit recently significantly increased devaluation and inflation risks."* There can be seen a direct relation between the key rate and the rouble value throughout 2014 and 2015. When the key rate was high, the rouble has generally lost its value and the key rate was decreased in the first half of 2015 the rouble was relatively stable (Central Bank of Russian 2015a, RBC 2015b).

Another instrument the Central Bank of Russia has used to facilitate the rouble stabilization was the currency interventions. In 2014, the central bank sold $76.13 billion and 5.41 euro billion, net. The amount of dollars sold was 3.1 times larger than in 2013 and 2.6 times bigger for euro. In June 2014, the bank had to repurchase $2.794 billion in order to fulfil its currency reserve. The biggest volumes of the currency were traded in October 2014, preceding the rouble's sharp devaluation. (Ria News 2015.) Simultaneously, on the 29th October 2014, the Central Bank of Russian has started to held currency repurchase

agreements' (repo) auctions for 28 and, then, for 7 days (RT 2014). All the securities, except for equities, were taken from the bank's Lombard list. The purpose of the auctions was to provide Russian financial institutions and the companies with the foreign currencies when the access to their foreign capital was closed due to the European sanctions imposed (see chapter 3.2.1). The Bank of Russia plans to provide the institutions with a total of 50 billion dollars by the end of 2016. (The Wall Street Journal 2014.) It should be reminded here that in autumn 2014, when the Russian institutions were limited in access to their foreign capital, the only solution to make due payments in foreign currency was to purchase currency on the foreign stock exchanges, which could have negatively affected the rouble. The purpose of the repo was to prevent this turn of events and to provide the institutions with the foreign currency to pay their debts.

To summarize the following chapter, the main monetary instruments the Bank of Russia used in 2014 and 2015 in its attempts to stabilize the rouble were amendments of the key rate, currency interventions and repo auctions. The purpose of the currency interventions was to decrease the demand for the foreign currency and, consequently, its value, which should have increased the value of rouble. Repo auctions were aimed to prevent extensive demand for the foreign currencies on the local stock exchange and to provide the companies and financial institutions with the resources to implement the due payments in the foreign currencies. This measures have effectively stabilized the rouble in the first half 2015, until it has decreased again following a number of global events.

3.2.5   Company's reaction on the rouble depreciation

A sharp fall of rouble came as an uncertainty to the Finnish companies and intensified an impact on the financial stability of these companies. Three out of four companies interviewed have not expected the rouble to fall dramatically in a short period of time, even though some companies use forward exchange rates (figure 21). This chapter will discuss immediate actions undertaken by the interviewed companies and amendments in the annual strategy, which were implemented by the companies.

Have Finnish companies expected a rouble to devaluate dramatically?
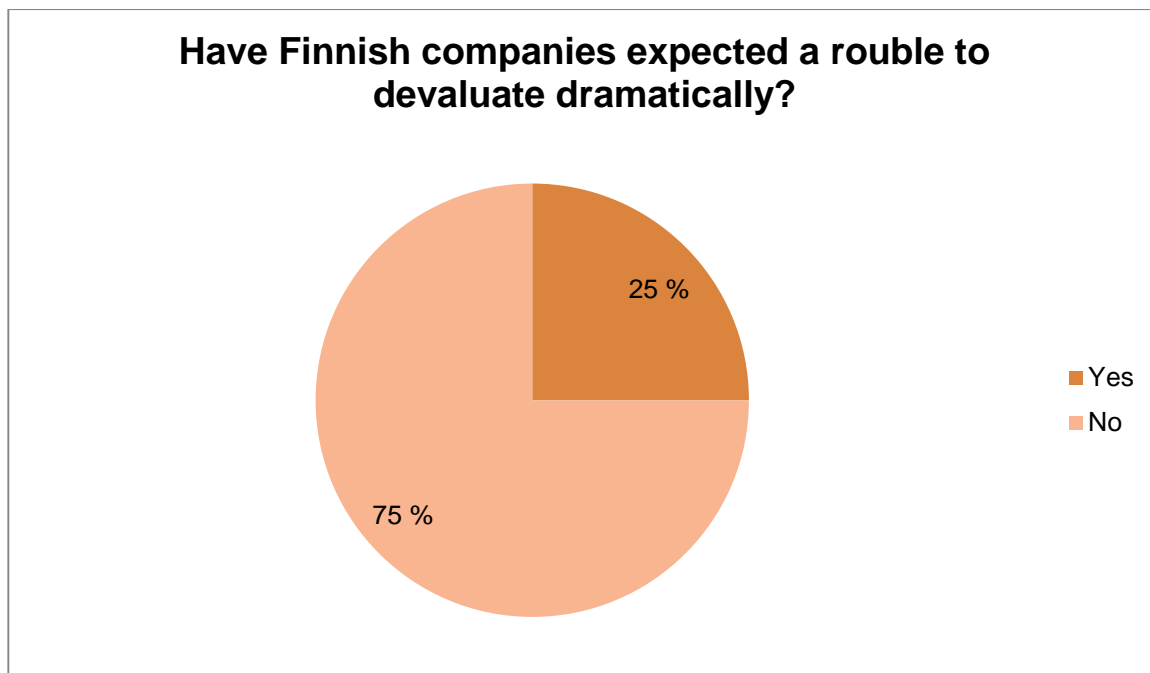
25 %

75 %

Yes
No

Chart 21. An illustration of the respondents' answers (Ivashko 2015, Lingholm 2015, Lönnström 2015, Company X 2015)

The interviewed companies have supplied from 50% and up to 100% of raw material from abroad, which made the companies sensitive to the exchange rate (Ivashko 2015, Lindholm 2015, Lönnström 2015, Company X 2015). In the segment of coffee and in the chemical industry, for example, companies supply 100% of the raw materials from abroad (Ivashko 2015, Company X 2015). Simultaneously, in the segment of dairy products, 90% or raw materials were supplied from abroad prior to embargo, which has changed to 100% being supplied from within Russia after the embargo was put in power (Lönnström 2015). A similar trend repeats in the meat market. Atria claims to purchase from 50 to 70% of raw materials from abroad in either euro or dollars. For example, Atria or its suppliers import spices, which are used in the meat production, but are completely absent in the market. Jarmo Lindholm has reported that overall the raw materials in meat segment have increased in price by nearly 50% compared to the previous year. Prices of packaging and supplements (e.g. spices) were the ones mostly affected by the weakened rouble. However, when it comes to meat, which is the core material in the production of meat products, the rouble devaluation was not the main cause of the increased price. (Lindholm 2015.) Earlier in 2014, Russia had prohibited import of pork from Europe due to the African swine fever, which had forced a rapid increase of pork price in the market long before the rouble started to drop (Russian RT 2014).

In the interview, the respondents were asked about the immediate actions and changes in the strategy, which were undertaken straight after the fall of rouble. Below, the list of companies' actions is provided, rated from the most immediate actions and to the long-term strategy.

Following the rouble devaluation in the second half of 2014, the interviewed companies:

1. **Conducted an emergency meeting** to evaluate the emerged risks for the company and to assess the profitability of each product in the product portfolio
2. **Amended the business plan for 2015, created a plan with multiple development of events**. Atria, for instance, tried out to vary the scenarios of the rouble development, from more pessimistic to more optimistic ones (Lindholm 2015).
3. **Negotiated with the suppliers to keep the 'rouble' price**
4. **Increased prices for products in Russia**. The interviewed companies in the food industry reported an increase in the price for their products. A price increase was mainly focused on addressing the rising prices for the input materials. Atria has increased the prices by 20 to 30% (Lindholm 2015). Valio has also reported an increase in prices (Lindholm 2015). Have the higher prices discouraged consumers from purchases? Raul Lönnström (2015) notes that the price increase was not a demotivative factor for consumers as both foreign and local competitors have followed the same policy with local companies having a chance to increase their profit margin. The following point is discussed in details in chapter 3.2.2.
5. **Amended the product portfolio**. An interviewee reported that in the pharmaceutical industry the prices for drugs are fixed by the government. Therefore, decreased rouble value made some products unprofitable for the company and these products were reduced from the portfolio. Similar changes were made by some companies in the food industry. Atria, for instance, has introduced a new economy line to meet the decreased purchasing power of their target middle-class consumers (Lindholm 2015). By contrast, Mr. Ivashko (2015) from Paulig reported that Paulig has already had different product lines by the prices and consumers could simply switch to the cheaper products.
6. **Plan to reduce costs**. Paulig has enforced a strategy of costs reduction (Ivashko 2015).
7. **Plan to localize the supply raw materials**. Jarmo Lindholm (2015) said that in the meat segment, Atria tries to supply as many raw materials from the local suppliers as possible. However, the problem is that not all the materials are produced in Russia. For example, as it has been already noted, all the spices are supplied from abroad as they simply do not grown in Russia. Similarly, there is not enough beef to be supplied

from Russia. For example, the cost of 1 kg of beef in Russia is 3.3 EUR, whereas in Finland it only is 1.5 EUR. (Lindholm 2015.) Raul Lönnström has noted that Valio started to supply 100% of its materials from Russia and made several contracts with local producers. By contrast, in some industries, like coffee, it is impossible to localize the supply of raw materials as coffee does not grow in Russia (Ivashko 2015).

8. **Plan to localization of production**. An interviewer from the pharmaceutical industry has reported that the firm tries to localize local production not only due the higher production prices in Europe, but also to comply with the governmental strategy aimed to support the local producers.

Companies have undertaking a variety of actions to approach the decreasing purchasing power of consumers. Interestingly, the majority of actions were repeatedly mentioned by the interviewers. Some of the immediate actions include amendment of the annual strategy, negotiations with suppliers to keep the lower prices and the price increase. Three out of four interviewed companies plan to localize the supply of raw materials and the production in the future, which positively meet the strategy of the Russian government to support local producers. It will presumable help the companies to be financially-efficient in the long term and reduce the economic and political risks which frequently occur due to constant contradictions between Russia and the West.

4 Discussion on research findings

Successful implementation of the research for the following thesis has provided a substantial amount of the relevant information to answer the thesis' research question. Information from each research method has to, however, be analysed together with information from other research methods and from theoretical study to in order to obtain a big picture view on the results. The following chapter will discuss and answer each investigative question in details as well as will provide the grounds for the validity and reliability of data.

4.1 Reliability and validity of data

The data collected in the research process is fully reliable, trustworthy and valid. All the information sources, data collection methods and interviews' place and time are therefore provided. All of the interviews were recorded (apart from the email-based interviews) to enable the accurate interpretation of facts and numbers in the thesis. The names and positions of all the respondents are given, apart from the case, where the name was chosen to remain confidential. Thesis advisor was, however, aware of the respondent and the company, which did not wish to disclose its name in the paper.

As for the survey, the results were analysed through Google Form's tool 'summary of responses' and are fair and reliable. The respondents were approached through broad personal network in the target area, including previous working place in Saint Petersburg, former University connections, and working places of other network members. The examples of some institutions include National Research University Higher School of Economics, Saint Petersburg State University, furniture retail company 'Dom Divanov' (questionnaire was distributed among all employees), charity fund 'Natasha' (questionnaire was distributed among all employees), Bank Saint Petersburg and others. The respondents were not specifically selected by gender, age or employment status to achieve the correct social stratification. The choice of the respondents was impartial and random to those willing to answer (over 300 invitations to participate in the questionnaire were distributed), which eliminates the fact of the predetermined results.

In cases when the secondary data were used, text is thoroughly equipped with in-text references of the data sources and all the links are provided in the 'references' chapter. Only trustworthy sources were chosen for study (e.g. Central Bank of Russia, McKinsey International Institute, Deloitte). Similarly, reliable news sources were chosen to review the relevant publications (e.g. RBC, Ria News). The overall choice of the sources creates a solid

platform for the valid and trustworthy results, which can be used for further researches, academic and business matters.

4.2 Structural problems of the Russian economy

Investigation on the real problems of the rouble devaluation helped to conclude that the real reason for the depreciation lies within the structural problems of the Russian economy. These include the lack of modernisation, low labour productivity, dependence on commodities exports, low competitiveness of business and extensive governmental control. When the drop of oil price made Russia to lose its core source of income, the inner problems of Russian economy have come to the surface. The following problems over the years have made a gap between the growth of real wages (lead by the economic growth driven by commodities export) and the actual growth of labour productivity. As a result, following the Russian conflict with the West and fall of oil price, Russia has become an unattractive place for investors, who started to withdraw their capital from the country. The situation was intensified by the European sanctions against Russia, which disabled Russian companies and financial institution to have an access to their foreign capital. Institutions were unable to make the payments in the foreign currency and the demand for the currency has increased in the local exchange market, which forced the Bank of Russia to introduce repo auctions. The situation has put the Russian population in panic; demand for the foreign currency in the market has increased significantly in the second half of 2014. As a consequence of the above-mentioned issues, when the Bank of Russia has abounded the currency corridor, the market price of rouble has decreased dramatically.

The devaluation of Russian rouble, the problems on the micro economical level, the outflow of investments, the lack of income to the budget from oil exports and external conflicts have lead to a sharp decrease in real wages of Russian consumers, which can negatively affect the foreign investors and the case companies. As the interviewed foreign companies, Atria, Paulig, Valio and the company in chemical industry, target consumers from the middle class, the companies are likely to face decreasing purchasing power of its target consumer segment. At the same time, consumers still prefer foreign products in the food and chemical industries to local ones. Consequently, companies will have to find a way to meet consumers demand with the new purchasing power, which can be implemented, for example as it was implemented by Atria, via introducing a cheaper category of products (Lindholm 2015).

4.3 Change in behaviour of Russian consumers and its effect on case companies

The survey results indicate that there were fewer changes in consumer behaviour than it was assumed in the beginning of the research process. The majority of consumers in Saint Petersburg and the Leningrad region still see the foreign country of production (of food, beverages and chemical) as a sign of high quality and trust. The country of production is one of the top product choice criterion for consumers in both food products and chemicals. The survey has shown that consumers are even willing to pay higher price for the foreign products even though cheaper Russian analogues exist, and are in fact more likely to purchase less volume of the foreign products than to switch to the more affordable Russian substitutes. Interestingly, a number of respondents stated that they have started to go abroad more often for shopping purposes.

Interviews in combination with the questionnaire create an assumption that the only reason consumers have switched to the local products is simply a temporary absence of the much-more-preferred foreign goods. Therefore, it can be assumed that as soon as the food embargo will be removed and the income of the population will stabilize, consumers will return to their preferred products and it will not take long for the foreign companies to return their lost market shares. The only question is, how long will it take Russia to recover?

4.4 Has the rouble devaluation facilitated the strengthening of local companies?

Geo-political and economic events in Russia in the viewed years have, as noted by the interviewees and the media, decreased market shares of the foreign companies in the food and beverages industry, but left the balance in the chemical industry remain relatively unchanged within the timeframe of the following research. However, the loss of market shares by the foreign companies in the food and beverages sectors was mainly driven by Russian food embargo (e.g. for Valio), whereas companies, which are beyond the power of the sanctions, have not experienced a problem of market shares decrease (e.g. Paulig). At the same time, decreased disposable income of Russian consumers and the fact that a significant amount for transactions of the case companies are implemented in the foreign currency creates an assumption that the rouble devaluation will continue to have a negative indirect impact on the foreign companies in the nearest years.

If we take a closer look on the food and beverages industry, it can be seen that the factors of production are limited in Russia, which does not allow the local companies to grow their market shares. Therefore, an advantage of the foreign companies was an ability to supply raw materials (e.g. milk) from abroad to fulfil the lack of the factors of production in the

country. By limiting this ability of the foreign companies and not making structural economic reforms to promote competitiveness and development of local companies, it is, therefore, assumed that the rouble devaluation and other events of 2014 and 2015 did not promote a notable strengthening of the local companies in the industry. Only one type of business may be on a rise now, as noted by Jarmo Lindholm (2015), which is vertically integrated local companies. These companies are now able to grow their income and invest more in expanding their factors of production. At the same time, to expand the business substantially and to overcome consumers' unwillingness to purchase local products will take time.

As for the pharmaceutical industry, a notable change in market shares in the industry of generics drugs can be expected in the future. Firstly, the interview and the official publication by IMS Health (2015, 11) made it clear that consumers have now started to buy cheaper products in generics drugs segment. Prices for Russian generics are significantly lower than European ones, which creates a hypothesis that at some point in the nearest future consumers will start to buy more local products. Simultaneously, the governmental support of the local producers will enable the growth of the local companies and the growth of production. At the same time, the survey and the interview have shown that Russian consumers highly value the quality of foreign products, which will make it complicated for the local companies to pursue consumers in quality of their products.

4.5   Actions of the Central Bank of Russia and the rouble stability

Bank of Russia has undertaken numerous attempts to stabilise the rouble in 2014 and 2015. These included repo auctions to provide the Russian companies and financial institutions with the foreign currencies, currency interventions and numerous amendments of the key rate. Although some of these policies might be seen as effective (rouble has stabilized in the first half of 2015), constant interventions have overall decreased the trust among the population and investors in the central bank's goal of the rouble stability as well as it has significantly decreased foreign reserves of the Bank of Russia. Decrease in trust can be seen as one of the reasons that facilitated the outflow of foreign investors from Russia and that promoted an 'unstable' behaviour of Russian consumers. For example, in beginning of 2015, consumers' demand was tremendous for durable products. People started to purchase cars and furniture as they were afraid that the rouble will depreciate. The demand was followed by the saving policies of consumers, in spring 2015 people have stopped money spending and started saving with a fear that the rouble will continue to fall. (CMASF 2015, 2.) As for the investors, Russia currently does not have a status of a

'safe' direction of investments ('negative' outlook by Standard & Poor's 2015) and it is unlikely that its status will recover in the nearest years.

4.6   Finnish companies: analysis of actions

The interviewed companies have undertaken a number of the immediate actions and long-term strategies to minimize the negative impact of the rouble fall. These include, amendment of the annual strategy and creation of multiple scenarios, from worst to best, negotiation with suppliers to keep the prices according to the exchange rate prior to the drop, price increase, plans to localize production and supply raw material from local producers, and other strategies. Overall, foreign companies, by implementing a correct strategy, have a chance to minimize the negative impact from the rouble devaluation and from other events of 2014 and 2015. Local companies, by contrast to foreign ones, are not able to meet the market demand with current production levels and lack of technological advancement and know-how prevent the companies from rapid production increase. What it more, local companies are not able, in general, to put long-term goals. For example, when the foreign companies had to increase the prices for their products, local companies have increased their prices as well to benefit from higher profit margin in the long-term. By contrast, the usage of low price as a mode of competitive advantage would be more beneficial for local companies in the long-term. Talking of consumers' behaviour, it is clear, as it has been repeated multiple times in this chapter, that consumers prefer foreign products to local ones. Therefore, by implementing the right strategy (e.g. by localizing production and supply of raw materials) foreign companies will be able to keep their market shares and, in the long term, will not be affected significantly by the rouble depreciation if no other unexpected sanction/ tariffs/ central bank's actions will take place.

4.7   Summary of discussion

Even though the multiple research methods and a variety of secondary data sources were used for the thesis, it is challenging to distinguish the effect on foreign companies from the rouble depreciation as it coincides with other events, including the Russian food embargo and the European sanctions against Russia, which have also affected foreign companies. At the same time, it is clear that, as the case companies supply a big amount of raw material from abroad, that the weakened rouble has directly affected the case companies. Coming to the indirect impact, decreased disposable income of consumers, according to questionnaire, has forced consumer to decrease their spending on foreign products. For example, to decrease the volume of purchase or to purchase cheaper products. An inability of the middle class consumers to maintain their prior-crisis buying behaviour was worsen by price increase on foreign products. At the same time, a positive issue is that

consumers still do prefer to buy foreign products and are not massively switching to local substitutes.

Analysis of the Russian economy does not make it possible to assume that disposable income of Russian consumers will increase in the nearest years. The Russian economic growth prior to the crisis was driven by commodities export rather than by the increase of internal demand. Income from oil export has created a misbalance between the growth of wages prior to crisis and the absence of labour productivity growth. Russian companies do not possess technological equipment and know-how to compete with foreign companies on the global arena, and the current governmental policy does not allow the improvement of competitiveness in private sector. Investments in education and infrastructure are decreasing. At the same time, bureaucratization of business processes, corruption and inability of financial institutions to provide enough funding for small and medium-size enterprises slows the development of small and medium-size enterprises and, consequently, the development of new work places (Proved 2015). Unemployment continues to increase in the country. The current governmental policy creates an assumption that it will take time for Russia to overcome the crisis and that, without economic reforms and restructuring, Russia will be unable to drive its economic growth by the growth of the internal market.

5   Conclusion

The following research has lasted from the creation of the topic in October 2014 and the start of the research process in March 2015 to the final presentation of research outcomes for the Finnish-Russian Chamber of Commerce and thesis publication in November 2015. A big amount of work has been done during the research as the topic was extremely 'volatile' and the situation took on a new momentum on a daily basis. It was, therefore, crucial to filter an enormous amount of information on Russian economy in media. The research methods had oftentimes proven that media publications do not reflect the actual mood of Russian consumers. To acquire primary data, over 300 invitations to participate in questionnaire were distributed and almost 110 people have participated in the survey. Simultaneously, around 20 companies were invited for the interview and four large enterprises have expressed the willingness to participate in the research. Finnish-Russian Chamber of Commerce has been very supportive throughout the research processes and largely helped to attract Finnish companies to participate in the research. Regular meeting with the FRCC and discussion on the research progress and on the current development of events in Russia enabled to analyse the situation from different prospective.

Research and analytical skills, solid understanding of the research planning techniques and knowledge of the interview qualitative research method were some of the crucial skills, which helped to successfully complete the following research. This chapter will reveal the final discussion of the research question, will present the learning outcomes of research process, feedback on the research from the Finnish-Russian Chamber of Commerce and will suggest directions for further investigation.

5.1   Impact of the rouble depreciation on Finnish companies in Russia

The purpose of this research was to analyse the indirect impact of the rouble depreciation of Finnish companies in Saint Petersburg and the Leningrad region, based on the evaluation of consumer behaviour' change, of the effects of the central bank's strategy and of the influence of the devaluation on the local Russian companies. The study also looked into the economic context of the devaluation and analysed the hidden reason of the depreciation. Finally, the study analysed how the current strategies of the Finnish companies can minimize the risk of rouble volatility in the future.

The study has indicated that although the rouble depreciation has decreased the disposable income of Russian consumers, it has not decreased consumers' preferences of foreign products to Russian analogues. Russian consumers have a very positive perception of foreign products in food and pharmaceutical sectors. Decrease of disposable income has forced the consumers to decrease the purchase volume of foreign products or to switch to the cheaper product lines rather that to switch to the Russian analogues. The rouble depreciation has slightly decreased market shares of the Finnish companies in the food industry, but has not facilitated a dramatic increase of market shares of local companies. Factors of productions are scarce in Russia and local companies are unable to facilitate the fast growth. Prior to the embargo, foreign companies have benefited from importing raw materials to fill the gap between supply and demand in the market. As for the pharmaceutical industry, local companies in generics segment are expected to grow their market shares in the nearest future due to the governmental support and inability of foreign companies to make profit on some generics with the current exchange rate. At the same time, foreign companies are still expected to dominate in the innovative drugs segment.

Throughout the last year, the Bank of Russia has used different methods to stabilize the currency. Although the methods were effective in the first half of 2015, they have decreased Russian foreign reserves dramatically and made loans too expensive for Russian citizens, which diminished a possibility of an internal market growth. Consequently, the bank's actions have reduced trust among foreign investors and, together with the unstable geopolitical environment, promoted a massive investment outflow from the country. Analysis of the roots of the rouble depreciation helped to conclude that the growth of the Russian economy prior 2014 was driven by the income from oil exports, reducing the necessity to modernize the economy and to increase productivity, which are crucial for the country. At the same time, the recent drop of oil price has reduced the possibility to finance the budget through the exports. It is possible that the situation will promote economic reforms and increase the possibility of a future internal market growth in Russia.

Summarizing the research findings, it can be concluded that the Russian economy is not expected to stabilize and retain growth in the short-term. The future rouble volatility remains possible. Based on the study, two future scenarios for Finnish companies were outlined. First, if the oil price will remain low, the country will have no other choice than to promote the growth of the internal market. At the same time, the local companies are unable to grow fast enough to satisfy the market need. Therefore, the only way Russia can facilitate the internal market growth is by promoting the foreign investments, which can

create new opportunities for Finnish companies that already operate in the Russian market. The reduced trust of the foreign companies in the central bank's goal in the stability of rouble creates a chance for Finnish companies to benefit from the new opportunities at the most. The second scenario stands that the oil price will increase to its prior-depreciation value and the Russian budget will have its income source back, which will again provide opportunities for foreign companies. Why this turn of event is possible is because the current critically low price, which has followed the production increase by the OPEC countries, will at some point start to be not beneficial for these countries and it will be in their interest to decrease the production to promote the market price increase. Overall, the big population of Russia and the gap between supply and demand in a number of industries will continue to create opportunities for the foreign companies and especially for the neighbouring trade partners like Finland. To maximize its profitability in the market, Finnish companies can undertake strategic decision to minimize the risks of economic instability. For example reducing dependent on foreign resources and foreign suppliers will help Finnish companies to reduce future risks and will positively meet the goal of the Russian government to focus on internal growth. Foreign companies have a benefit in the market as they have a strong base of loyal customers and are able to manage their business processes efficiently and to achieve high productivity. With the right strategy, Finnish companies can adapt to the changes in the Russian economy, restore their growth rate and make the best use of the future opportunities.

5.2   Feedback of FRCC on research

Ms. Mirja Tiri, CEO of the Finnish-Russian Chamber of Commerce has supported the research process from its earliest stages. Ms. Tiri has wrote the following comment on the research:

"The rouble's volatility is THE major factor which has affected trade between Finland and Russia. It affects most of all exports from Finland as well as tourism from Russia. It also affects Finnish daughter companies' business in Russia, especially if goods and raw materials are imported from abroad but also even if these are sourced locally because the rouble exchange rate has decreased the final company result in euros. In order to know how to adapt to this situation, it is very important and interesting for companies to know how Russian customers react to the rouble depreciation. Even if many of the reactions are predictable, there are still some surprises for the reader in this study. The Finnish-Russian Chamber of Commerce is very pleased to have been able to participate in this study and to bring the results to the general knowledge."

5.3   Reflection of learning

This research, which took over eight months in total to complete, has helped me to developed some crucial skills and competences that will enable me to proceed to my postgraduate studies and will benefit my professional development. The first learning outcome I would like to highlight is the planning techniques. In the beginning of the research process, it was frightening how big the topic is and it was unclear where to start. What was helpful was the creation of a Gantt chart (planning the timeframe for research components) prior the start of the research, the development of the Table of Content and of the Overlay Matrix. Development of the overlay matrix helped me to understand what theories I should cover and how I should structure my theoretical study that it would create a solid base for investigative questions. Secondly, the creation of the preliminary table of content has helped to build a skeleton of the thesis and to understand all the parts that should be covered in the research process. Finally, the Gantt chart (not shown in the paper) has helped me to structure my weekly work and reduced the amount of stress during the research process. Usually without a time-bounded plan, it is easy to get lost in the amount of work which has to be done. On the other hand, Gantt chart creates an accurate plan on which week will a certain theoretical part or certain practical work be covered.

The second learning outcome is beneficial for any young person in the beginning of the career start. It is the understanding that in any job search it is not about what a company can give you, but it is about what you can give to a company. I have first developed my thesis topic as early as in October 2014, over a year prior to the publication of this thesis. It was during the work on one report to cover the topic of uncertainty versus risk in business when I have first decided to review the Russian crisis as an uncertainty and conduct a research on the topic. Consequently, when I have contacted Finnish-Russian Chamber of Commerce, I had a clear plan of research in mind; I have written down potential benefits for the FRCC and have formulized how the FRCC can help me in this research. Clear topic and an 'action plan', formulization of clear benefits for the company and explaining the need for the corroboration/ job are among the core components of success for anyone at the face of a career start.

Finally, the research has significantly improved my primary data collection skills. It was my first experience of collecting data through the questionnaire, as it was crucial to structure the questions in a way that it will give enough data to answer the investigative questions. The keys for success in the questionnaire are (1) understanding what type of data need to be acquired, (2) thorough theoretical study/ analysis of media publication to see if some

data is already available and (3) making sure that the sample of respondents can fairly reflect stratification of the target research group. For example, when I have received my responds for the questionnaire, I have realized that over 50% of respondents were below 30 years old, which did not reflect the official population composition in Saint Petersburg and Leningrad region, published by Petrostat in 2012. Throughout the research I found it difficult to reach the respondents from the older age category as they were simply not found at any institution where the questionnaire was distributed. Therefore, I have learned a lesson that it is vital to use different ways of to reach the respondents: companies of different sizes, academic instructions, non-profit organisations, and so on.

As for the interview, it is important to be flexible and let the interviewee decide on the interview method, time and place. It is also crucial to provide the interviewees with an option for their name and company to remain confidential in the research paper. For this purpose, I have used a created Interview Agreement, where the interviewees were able to tick what information they allow to disclose in the paper. Both parties must sign the agreement. Furthermore, when proposing the potential interviewees to participate in the research, it is crucial to highlight their benefit from the interview (e.g. receiving the research results) and provide the research questions in advance.

5.4   Proposition for further research

Numerous topics can be studied within the Russian crisis of 2014-2015. Some of these topics include effectiveness of the food embargo, reasoning of Russian intervention in Ukrainian policy or precise analysis of the roots of the oil price decrease. However, there was a couple of research topics that has especially raised my interest but had to be avoided as they were beyond the research framework of the following thesis.

One of these intriguing topics is the recent diminishing of the currency corridor by the Central Bank of Russia. **Was it a correct decision to make rouble a freely floating currency or would Russia benefited more from the fixed exchange rate?** On the one hand, abolishing of currency corridor showed that the nominal value of rouble has been much higher than its real value. It indeed may have caused investors' misinterpretation of the real opportunities of the Russian economy and might have over valuated Russian private enterprises and financial entities. On the other hand, a fixed exchange rate may help to diminish the risk of currency instability for potential investors, which Russia needs. Investments are often seen as the only way to promote the technological and economic development of Russia. The inflow of money, know-how and skilled human capital can promote the increase of the competitiveness of the Russian companies and can be a real driver for economic growth.

Another option for further research would be to review an alternative scenario for the development of Russian economy after its economic capacities were fulfilled in 2008. **What would happen if the government of Russia did not choose an easy way of economy development- export of natural resources?** During the years of my study, it has come to my attention that some countries like Iran are trying to diminish its dependence on export of natural resources, invest in science and technologies and create a pleasant environment for foreign investors, which positively benefit their economic growth. **Are there examples of the countries that have decreased export of natural resources and found a different driver of economic growth?** The following and the above-mentioned questions should be taken as the proposition for potential research fields.

Any researcher that wishes to investigate one of the following topic should feel free to contact me directly via LinkedIn (Anna Komarova), where I will be able to further discuss these questions.

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Appendices

Appendix 1. Interview information, interview with Pavel Usanov

Interview for the thesis "The depreciation of Russian rouble and its influence on Finnish-Russian trade relations after 2015"

Translation from Russian

About the interview:

Interviewer: Anna Komarova, bachelor student of Haaga-Helia University of Applied Sciences

Interviewee: Pavel Usanov, docent, National Research University Higher School of Economics in Saint Petersburg

Interview method: Face-to-face interview via Skype

Interview time: 18.05.2015 at 17.00 (Moscow Time)

Interview questions:

1. In your opinion, what are the main reasons for rouble depreciation?
2. Do you connect the lower boundary of rouble exchange rate achieved in December 2014 to the need of Russian companies to make payments in the foreign currencies at the end of the financial year and, consequently, increase in demand for the foreign currency? What are your comments?
3. What strategic aspects of the Central Bank of Russia and the government as a whole do you consider being the most effective against the rouble depreciation?
4. How would you comment the position of the foreign companies, who have left the Russian market? Do you consider this decision to be connected solely to the financial difficulties in these companies?
5. How, in your opinion, will the outflow of the foreign capital from Russia affect the economic growth of the country?
6. How, from your point of view, did the purchasing power of consumers change with the increase in prices for the foreign consumer goods? What is the reason for this change?
7. Do you consider that the political opposition between Russia and opponent countries have changed the preferences of Russian consumer from foreign to local products? Does the situation differ among the social layers?
8. Do you consider the closing/ freezing of the activities of the foreign companies in Russia and the change in the consumer behaviour to have a positive effect on the development on the national businesses?
9. How do you see the dynamic of the rouble exchange rate to the EUR and the USD after the embargo is removed?

Appendix 2. Interview information, sample company interview

1. What was the reaction of the company when the rouble has dropped dramatically towards euro in December 2014? Has the company expected this turn of events?

2. What were the immediate actions of the company, when the rouble started to fall rapidly?

3. Before the Russian food embargo was put in power, was the ratio of prices for your products in Russia to your products in Finland approximately equal to rouble-euro exchange rate? If different, what were the reasons?

4. How dependent is your company on the foreign raw materials? What part of the raw materials is supplied from Russia?

5. How many Russian people, in your opinion, are aware that your company is owned by a foreign company? How does it influence consumer behaviour?

6. How has the attitude of Russian consumers changed towards foreign products after the political opposition between Russian and the 'west' has intensified in 2014? Have more Russian people started to prefer national products to the foreign ones in your industry?

7. In which product segment in your industry can the decrease in consumers' purchasing power be seen?

8. How does your company plan to approach a decreased purchasing power of Russian consumers? How will your product mix change in comparison to the beginning of 2014?

9. How strong the direct national competition in your industry was before the embargo was put in power? What was the tendency during the last five years?

10. How have the events of 2014 affected the reallocation of market shares in your industry in the North-West region of Russia? Was it a chance for local Russian companies to strengthen their positions?

11. Has your market share decreased after the events of 2014? What actions will be undertaken to return it?

Appendix 3. Questionnaire structure

Your age

O 16-30

O 31-45

O 46-55

O 56-70

O 71-80

Monthly income (in roubles)

O I do not work

O 0-14 999

O 15 000-29 999

O 30 000-49 999

O 50 000-69 999

O 70 000-99 999

O Over 100 000

O I am not willing to answer this question

Please state 3-5 most important product categories for you during the month

O Food and beverages

O Pharmaceutical products

O Clothing and footwear

O Fuel (gasoline/ diesel)

O Stationery

O Press and books

O Products for children

O Products for animals

O Electronics

O Other consumer goods

In what categories of food products you gave a priority to foreign ones before 2014? (you can choose more than one answer)

O Dairy products

O Meet and fish products

O Pastry and other flour products

O Alcohol products

O Souses and spices

O Fruits, vegetables and dried fruits

O Nut, seeds and grains

O Soft drinks

O Ready-to-eat products

O I prefer products, produced in Russia

What are your key criteria when purchasing food products? (you can choose more than one answer)

O Price (I buy cheaper ones)

O Price (I buy more expensive one as I believe that the quality is better)

O The country of origin (I prefer foreign products)

O The country of origin (I prefer Russian products)

O Package

O Ingredients (I buy products with less chemicals)

O Sign of organic products

O 'Fair trade' sign

O Presence of gluten, lactose

What are your key criteria when purchasing non-prescribed pharmaceutical products? (you can choose more than one answer)

O Price (I buy cheaper ones)

O Price (I buy more expensive one as I believe that the quality is better)

O The country of origin (I prefer foreign products)

O The country of origin (I prefer Russian products)

O Volume (I buy products, which have bigger volume)

O Product feedback (I read feedback online in advance)

O Ingredients

O Usually I do not buy pharmaceutical product

How have your products preferences change since 2014? ("products" include food products and drugs)

O I started to buy cheaper products

O I started to buy Russian products

O I started to buy the same products, but in less volume

O I stopped to buy some products and I do not want to buy Russian analogues

O I started to go abroad more often/ order products from abroad

O I started to by analogues from different countries (e.g. from Latin America)

O My preferences have not changed