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Amid Unprecedented Disruption, P&G Prepares for Life in Russia After Coronavirus

The consumer goods giant has been one of the few winners from the crisis, so far.

By Jake Cordell

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Procter and Gamble employs 2,500 staff in Russia. **Maxim Stulov / Vedomosti / TASS**

April 2020 will likely go down as the worst month for the Russian economy since the fall of the Soviet Union. Between 30 and 50% of the country's output has been switched off, economists believe, and huge swaths of what remains open, such as Russia's huge oil industry, have been forced to cut back.

Consumer goods giant Procter and Gamble is one of the few exceptions. In a sweet spot as one of Russia's "critical enterprises" — a designation which allows it to carry on operating despite the state-manded shutdown — and as the producer of quarantine essentials such as

Fairy and Tide, it has seen a jump in orders as the outbreak of the coronavirus pandemic sparked panic buying. Globally, the firm posted some of its best ever financial results for the first three months of the year.

The company's boss in Russia, Sotirios Marinidis, however, dismissed the importance of a few weeks' increase in sales in an interview with The Moscow Times. Instead, he stressed that the crisis is likely to lead to longer-term shifts in consumption and shopping habits.

"These are small consumption increases, it's not an enormous increase that will lift up the market ... or that can really change the overall forecast on market growth in the country," the 54-year old Vice President & General Manager for Eastern Europe said, speaking via videoconference from his home in Moscow.

"We have seen this behaviour in multiple crisis situations. Different crises have different routes, but it is common consumer behaviour to increase your pantry stock and then start consuming it. It's not something that's here to stay, it's a shift of a month or two," Marinidis said.

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Despite the historic and unprecedented effects of the pandemic, which has put half the world's population on lockdown and paralyzed governments and businesses, Marinidis talks about the situation calmly and with perspective — downplaying the sales boost while advising caution before adopting the gloomiest forecasts for job losses and hits to wages.

He is mindful, however, that any economic hardship will come as Russian households are still feeling the pinch from the last economic downturn.

"At the moment we have qualitative studies, where people claim that they are afraid about incomes or jobs. You need to look at purchase behaviour, and at the moment it's too early. If you look at where the consumer confidence index was in 2015-16, only last year it got close, by 5 points, versus pre-crisis. So it took a long time — six to seven years — to increase consumer confidence," he said.

Asked what this all means for Procter and Gamble's longer-term sales prospects, he said it would be wrong to assume an income squeeze automatically means a boost for lower-priced goods.

"If I look at the segments within brands that have grown in 2014-15, over the last year or even now, surprisingly these are the premium parts of brands."

He hopes this trend could help maintain sales through a potentially prolonged downturn. But if a crash in disposable income materializes in line with early warnings, analysts see more room for price wars and consumption shifts to cheaper goods.

More than half of Russian consumer goods are bought at a discount or on promotion, a share that rises to 90% in some categories, and retailers have already adapted their shelves — both physical and digital — to appeal to price-savvy shoppers.

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Russia's largest retail group X5 is pushing ahead with a "hard discounter" concept, its CEO Igor Shekhterman said this week. It plans to roll out more own-label, lower-cost products to compete with the dominant brands marketed by the consumer giants. The share of these own-brand goods on its supermarket shelves is already accelerating rapidly — up threefold to 17% over the last two years, analysts at VTB capital estimate.

A cheap ruble — which fell from 61 against the U.S. dollar to a trough of 80 during the economic panic in mid-March — is another hurdle for Procter and Gamble as it starts to think about life after the coronavirus. Around 60% of its products sold in Russia are locally produced, and Marinidis says that while there have been minimal disruptions to imports from a logistical standpoint, exchange rate movements could yet take a toll.

"Of course it is a challenge. Over the last five to eight years we had quite a lot of volatility in the exchange rate. When the ruble goes from 65 against the dollar to 75 or 78, that's significant," Marinidis said. "We're looking into anything we can to reduce costs," he added, saying price rises would be a last resort.

Other developments Procter and Gamble foresees include a sustained boost for both e-commerce and "neighborhood stores" — smaller shops close to where people live rather than out-of-town hypermarkets. Marinidis also expects consumers to become more focused on health and wellbeing products, and issues around sustainability, which he says P&G brands are well positioned for.

Market developments and potential sales boosts are just one aspect of what Marinidis dubs "a new, better normal" which could emerge after the crisis. "I don't think in the foreseeable future it will go back to pre-crisis mode," he said.

He is already calling colleagues in China to discuss post-coronavirus preparations, with the most pressing issue how to bring employees in Russia — two were hospitalized with Covid-19 — back to the office.

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In Russia, P&G has 1,000 office-based employees who are now working from home, and another 1,500 in two factories near Moscow and St. Petersburg — both of those are operating 24/7 and were adapted to meet stricter health and safety guidelines in mid-March, weeks before the coronavirus outbreak really took hold in Russia.

"As an international company, P&G often has measures that are sometimes more strict that what you find on the official side," Marinidis said, highlighting how the group sent employees home, introduced travel bans and adapted factories well ahead of official requirements.

Marinidis says he will be "very careful, and probably on the conservative side" when it comes to opening offices back up again. He also anticipates spending less time there.

"I'm old school, I almost never worked from home. I didn't know how Microsoft Teams

worked, now I'm almost an expert. Now I'm saying to myself that one or two days a week working from home might not be a bad idea. It will free up some office space and I will make a bit of a contribution to my environmental footprint."

He added: "I'm confident that there will be elements that we'll take from this crisis as positives."

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