Building Financial Brands - the Russian way.

Perception and reality

Reading the UK press one could be excused for assuming that Russia is still perceived by many as the 'Wild East' - not helped by a more assertive energy-powered political profile on the world stage. Certainly, among the BRIC economies, Russia is still seen by many as a particularly difficult and dangerous place to do business. However, working there since 1998, we see a different reality - an increasingly fast track development of attitudes and practices led by unleashed consumer aspirations and fuelled by an economic boom. With low inflation, minimal taxes and 20% annual pay rises, most Russians are enjoying the opportunity to spend and are rapidly improving their lifestyles. What has this meant for the banking sector? 1998 saw an economy collapse. The rouble crashed and overnight the banks became hated institutions with millions of Russians losing their savings. Small wonder banks have to work hard to become acceptable organisations to do business with.

With low inflation, minimal taxes and 20% annual pay rises, most Russians are enjoying the opportunity to spend and are rapidly improving their lifestyle.

The competitive marketplace

Russia has too many banks. In the 90's, with about 3000 banks quoted, it seemed anybody could get a licence. Today there are about 1200 banks and, with strict controls for licences, acquisitions are an inevitable consequence. This has led to an increased awareness of the importance of branding and marketing to help differentiate and grab market share. Initially, much of this could be seen as cynical 'repackaging', image changing activity, either to increase value in preparation for a later takeover, or a 'patch up job' to re-badge and unite disparate cultures and operations.

Government bank brands such as Sberbank, Gasprom and Vneshtorgbank more or less belong to the government and are therefore perceived as trustworthy. They are very influential and cover the whole country with very large networks.

Like all markets after Perestroika, the retail banking sector has been a major target. Late entrants face potentially large hurdles in getting involved in an increasingly saturated market. The cost of entry is now significant in terms of getting the best people and property, achieving appropriate critical mass and the investment to build and market a brand.

Meeting new consumer expectations

While the motives may be questioned, the need to overhaul unfriendly, conservative, distrusted bank facilities and services was vital in order to meet the requirements and expectations of the 'new' consumer society. As in the retail sector, international operations moving into Russia galvanised proactive local companies to embrace change and adopt latest western practices and thinking. Russian consumers now demand and expect better products and services in all walks of life. Banks therefore recognise that they must now constantly look to improve and leverage their services, image and reputation.

Many banks are still at the re-imaging stage, accepting the need to modernise their profile, communications and brand design, but still not taking on the key next step of matching attitude and behaviours with the marketing promise. Changing employee and management style is difficult when many companies still have a tendency to command-led structures and suffer intensive staff poaching due to the lack of experienced, professional candidates. Brand values are easy to sign up to - trust, innovation, convenience are basics - but how that translates into positive action, design and a change in management ethos is not so readily embraced.

We have witnessed a change from 'west is best' to a Russian-first mentality in line with the rise in confidence of local operations and national pride.

The influence of international banks

The pressure and influence of international banks moving into Russia has raised standards. Transparency and corporate governance are recognised as important factors in brand development, but the level of real commitment is still variable. The biggest foreign bank is Raiffeisen - eighth in Russia in asset terms. The others currently are Citibank, Societé General (in the process of acquiring Rosbank), Nordea, Kommezbank and Deutsche Bank. HSBC are aiming to have 10 branches open in Russia by the end of 2007. The challenge for international banks is how their global credentials and marketing approaches can be sensitive to the local mindset.

We have witnessed a change from "west is best" to a Russian-first mentality in line with the rise in confidence (and standards) of local operations and national pride. However, international banks are perceived as stable with strong management teams and broad international credibility.

Transparency and standards

One frustrating point in working with Russian management is the sometimes faceless stakeholder whom no-one can meet. As a consultant, getting second-hand feedback and not being able to 'eyeball' the real client can be extremely irritating. However, moves to achieve more transparent shareholder involvement and an increased presence of western shareholders in major Russian banks will help issues of trust and commitment.

Following a raft of less than transparent marketing claims on interest and 'deals', Russia's Central Bank and Supervisor of the country's banking system has, this year, produced a draft for obligatory standards and procedures for bank activities. From 2008 banks will need to have independent monitoring supervisors. This is another important step to achieving better and more open marketing communications.

Branding - a 'nip and tuck'?

We are still in an era where branding is still seen as a 'nip and tuck' exercise, but what starts out as a cosmetic process can be transformed into a catalyst for real change in thinking practices and culture. Enlightened management can achieve ambitious, well rewarded and friendly staff - ultimately the key for brand differentiation in all service industries, particularly banking. Certainly our experience in Russia has confirmed the importance of

branding being understood as an integral management ethos, rather than as a 'facelift'.

In reality it is hard, and indeed rare, for a company to offer unique selling points without being fast copied by competitors. Therefore effective branding must achieve emotional as well as rational responses which, through communications, connections and experiences, become unique to the brand. Friendliness, efficiency and responsiveness are, however, givens in any service sector so we have to encourage bank clients to constantly raise their game accordingly. At the moment over 170 banks in neighbouring Ukraine - many of them with contemporary logos and updated images - are all competing for a growing retail and business market. It will be interesting to see whether this recent explosion in bank rebranding will be accompanied by a real change in corporate behaviour and service delivery.

Leapfrogging the best in the West

We have seen how an incredible rate of change has taken place which has enabled Russia to achieve in three years (in some sectors) what in the West took 30 years. Retail banking and real estate sectors are looking to leapfrog the 'best in the West' thinking. Our clients are keen to gain an international perspective and apply it in a way that works in their market. They have succeeded in achieving super brand status (according to the published listings) in their own market - notably Alfa Bank, Russian Standard Bank and Rosbank.. This year Forbes magazine rated two Russian banks, Sberbank and Uralsib Bank, among the world's best companies.

Regional development

Russia is not Moscow and the development of the regions provides major opportunities for international and local bank expansion. Buying into regional banks to leverage their local equity and knowledge is a logical move for international and Russian banks.

Particularly striking is the success of certain local regional banking operations. They demonstrate truly customer centric policies that are refreshing for a westerner, used to the increasingly diluted UK services offered by remote call centres and apologist CRM policies.

Our work with some of the regional financial operators has introduced us to an enlightened management approach (often missing from western corporate culture) fostering working methods and practices that achieve empowered, motivated staff. Within the context of a national branding programme our challenge can be leveraging local pride and identity as a positive part of a larger organisation strategy. Harnessing this energy and commitment demands a real understanding and sensitivity to the role of branding as a strategic company wide initiative for positive change.

An example of a proactive Russian brand development strategy is the Life financial group, a network of leading regional banks. Their long term strategy is: "not to be like a bank". Their aim is to be truly different. A glance at their creative and highly imaginative annual report immediately provides a lesson for some western corporate minded equivalents. They have high ambitions for their brand and people,

Our experience in Russia has confirmed the importance of branding being understood as an integral management ethos, rather than as a 'facelift'.

with real customer focused policies and empowered, motivated staff. Working with them has been both challenging and rewarding as they have a sophisticated understanding of brand strategy and appreciate the importance of effective, innovative delivery.

Marketing

A problem and feature of the Russian approach to marketing communications is the dependence on mass marketing awareness campaigns, rather than a more balanced approach that also combines strategic, focused and informed direct marketing. Despite some recent early moves to limit advertising excess in the city, Moscow is still dominated by billboard, plasma screen and neon sign excess. TV and billboard advertising suck up billions of dollars with no clear return on investment, except awareness ratings to justify the spend. There is no reason to think that Russian consumers are less immune to a constant barrage of media messages designed to encourage them to be more loyal to one bank or another. Brand loyalty will always be difficult in a financial market of me-too offers!

Retail banking and real estate sectors are looking to leapfrog the 'best in the West' thinking.

If everybody is trying to be modern, friendly and relevant for real people, finding differentiation issues and messages becomes more difficult. In a marketplace where there is a multiplicity of special deals, ultimately, convenience, accessibility and how customers experience the brand are the key criteria for customer selection.

Brand Strategy

It is a real test of any corporate brand strategy to communicate the logic of a national brand take over to a highly successful and proud local regional operation who are being asked to forsake their established name and image equity for the new parent brand. Certainly it raises the game for all concerned in communicating, launching and relaunching a brand to internal staff and external consumer and business audiences.

Not surprisingly, given the problematic history of Russian banks over the past 15 years, there is a tendency to dump the past. Banks are often keen to create a new brand or sub-brand rather than reposition an existing brand, despite years of investment. This is understandable if new and different is immediately a more attractive option to the old enterprise. However, new names and faces for an unchanged offer can be a brand disaster. The transparency of the internet quickly exposes hidden parenthood!

New trends - new ways

The international trend for developing premier class private banking has been followed by leading Russian banks and will be going into the regions. We recently developed such an offer, providing clients with their own exclusive 'club' facilities in the heart of Moscow.

The younger generation, brought up with the internet and new technologies, are more open to modern bank practices and the world of credit than their parents who valued cash in the hand, not in the Bank.

Russian banks are responding to their customers' demands for a choice of media to best support their lifestyles. Our brand communications and consultancy work which encompasses a wide variety of channels and delivery formats reflects this trend. The internet is now becoming an essential channel for Russian banks and over 50% now utilise the internet as an additional service for customers. According to research, Alfa Bank provides the highest quality of service via the internet.

In a country where mobile phones appear to dominate everybody's time and activities, mobile banking is still in the early development stage. However, given the Russian appetite for new advances and ideas, it will inevitably form part of many banks' service options as an additional channel choice.

Credit and debit card uptake

Debit cards now cover 84% of the plastic cards market and are much more widely used than credit cards. Sberbank took the first initiative in transferring salaries to debit cards rather than paying in cash. Alfa Bank is the second largest in the debit card market. Difficulties in assessing credit status hampered the initial growth of credit card services. With banks now improving and streamlining their credit rating approval systems, there is now a rapid expansion in credit card facilities - the market grew by 85% in 2006.

Russian Standard Bank, largest in terms of consumer lending, is starting to switch their emphasis from loans to credit cards and is currently the market leader. Even Sberbank is planning to start issuing credit cards. Others issuing credit cards include Citibank, Uralsib, Alfa Bank and Master Bank. It is forecast that, in the future, credit cards could overtake loans as the prime source of credit.

International influences

Russia's increasing profile as a global player brings responsibilities and pressures for the financial sector. We were advised by our client Alfa-Bank that their positioning was bringing Russia to the world and the world to Russia. But this works both ways - raising standards but also sharing international problems and influences.

Currently there is a great deal of discussion regarding the possible repercussions of the U.S. subprime problem. Confronted by an international credit squeeze, Russian banks with a relatively high reliance on international wholesale debt in their balance sheets could appear vulnerable, particularly those who do not have a diversified client funding base. Given the U.K. Northern Rock fiasco, hard won consumer trust and loyalty in some Russian banks could evaporate overnight, given memories of the 1998 fall out. As happened then, it would be the highly personalised, customer focused approach, typified by some of the leading regional operators that could win out over the potentially more faceless larger bank brands - a real test of brand equity.

Clive Woodger

Managing Director