

TV advertising in Russian FMCG sector: The analysis of expenditure and brand strategies under Russia–Ukraine conflict

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Abstract

The paper is devoted to econometric analysis of the impact of Russia–Ukraine conflict, which started in February 2022, on TV advertising strategies of fast-moving consumer goods (FMCG) companies. With the help of quantitative methods, the study analyzes changes in TV advertising expenditures of domestic and foreign brands, using Mediascope TV Index daily data from 2021 and 2022 to test the hypothesis of whether this geopolitical shock made advertising costs dwindle or rise. Cross-country-of-origin and cross-product differences are also investigated. It is confirmed that, on average, the shock resulted in a reduction of ad expenditures of FMCG companies with a pronounced effect on domestic brands and brands from “friendly” countries. Thus, the cost-saving arguments seem to outweigh the expected benefits from promotion in the majority of the considered FMCG product markets. The increase in ad spending on isolated product groups (clothing, electronics, personal hygiene items and tobacco and alcoholic beverages) indirectly evidences that the brands faced sharp intensification of competition because of structural changes in the markets under which extra ad spending was found reasonable.

Keywords: TV advertising, fast-moving consumer goods, brands strategies, impact of crisis, Russia.

JEL classification: F51, L82, M37.

1. Introduction

In 2022, Russian markets faced transformations and obstacles. The key factors influencing these markets were the conflict in Ukraine and the forthcoming sanctions against Russia. The shift in the political landscape and the prevailing instability in the region have led to changes in numerous markets, including fast-moving consumer goods (FMCG) and advertising.

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In the FMCG market, both foreign and domestic companies have been forced to reexamine their market strategies, caused by the logistical challenges and political pressures and the structural changes in competition and market participants. Many international brands stopped doing business in Russia. The niche left by departing firms has been filled by new brands appearing in 2022, mostly in the food sectors. There were changes on the consumer side of the markets as well, with people focusing on cost effective alternatives and promotions, because of the income decline and uncertainty. All of this has influenced the companies' marketing strategies, including their advertising solutions, which can be considered as a mirror of what was happening in 2022. There is no dominant theoretical framework to address the impact of geopolitical events on advertising. Theories from marketing and consumer behavior explain multidirectional effects influencing companies' decisions on ad spending. Consumer spending attitudes undergo fundamental changes because of the crisis. Economic uncertainty significantly impacts buyer decisions (Flatters and Willmott, 2009). Consumer buying power decreases throughout recessions. The economic situation drives consumers to save money, they often postpone their buying decisions, buy only necessities, switch to cheaper brands, pay more attention to price than quality, and have a more rational view on promotion (Nistorescu and Puiu, 2009). Demand for certain goods may rise, partly to stock up, while demand for others may fall as consumers cut back in response to actual or anticipated income reductions (Peter and Olson, 2007). Brand loyalty can persist, offering a sense of security (Chou and Chen, 2003). In times of crisis, consumers search for certainty, which makes them more open to advertising messages (Albion and Farris, 1981).

During hard times companies face budgetary constraints and uncertainty as well. Because of reduced revenue and increased costs, they often decide to cut their advertising budgets to focus on essential costs instead of promotional activities (Horváth et al., 2014). However, cutting down advertising in crisis conditions results in lower brand visibility and competitive position which might weaken both profitability and future consumer trust (Gáti and Bauer, 2012). Graham and Frankenberger (2011) posit that the long-term advantages of advertising outweigh the disadvantages, in terms of market expansion and investor confidence. Companies that reduce their advertising expenditure during periods of economic downturn often experience a prolonged decline in sales performance. The positive effects of advertising reach far past emergency situations to enhance company image and customer trust. Companies that adapt their marketing strategies to the needs of consumers during the crisis are more likely to become stronger in the post-crisis period (Jha, 2023).

The specificity of the crisis, investigated in the paper, is the exit of many foreign brands from the Russian market for political rather than economic reasons. This affected the intensity of competition among remaining and newly appeared market players, thus influencing their marketing decisions. On the one hand, remaining brands strive to maintain visibility in an evolving economic context. Thus, it would be rational for them to increase marketing expenditures in order not to allow new players to acquire strong positions in the market. As discussed in industrial organization literature, following Sutton (1991), advertising is a kind of endogenous sunk cost that can be used to create barriers to entry (Schmalensee, 2005; Cabral and Ross, 2008). Aggressive advertising increases losses of new entrants in the event that they fail to enter the market, thus making entrance less attractive.

Table 1

Pros and cons of increasing promotion expenditures.

Factor	Incentives to increase advertising budget	Incentives to reduce advertising budget
Consumer behavior	Consumers become more receptive to advertising during crises, seeking certainty	The effectiveness of advertising is disputable in case of goods that are not demanded during the crisis
Costs and revenue	Long-run benefits from advertising	Cutting marketing expenditures as a cost-saving measure
Competition	Increased competition on a market requires more aggressive marketing	Proactive marketing tools are less needed on weakly competitive markets

Source: Compiled by the author.

So, the strategy might be beneficial for keeping and extending market share when the risk of entry of new competitors is high. On the other hand, some authors stress that advertising might be considered as a sign of a greater likelihood of success in markets and, thus, motivates rather than restricts entry (Kessides, 1986).

Table 1 summarizes the key forces that affect the choice of advertising strategy of a company during a crisis. Both restrictions and opportunities appear in the period of uncertainty. The choice of a marketing strategy during the time of crisis is a result of balancing of pros and cons of increasing promotion expenditures.

The objective of this study is to conduct a quantitative assessment of the changes in expenditure on TV advertising by domestic and foreign companies in the FMCG sector of the Russian economy in 2022 compared to 2021. Firstly, it would be beneficial to ascertain whether the average expenditure of FMCG brands decreased following the shock, and if so, to determine which brands, domestic or foreign, exhibited a more pronounced decline. Another area of interest is whether there has been a change in the proportion of television advertisements for domestic brands following the events of February 2022.

This study is organized as follows. Sections 2 and 3 overview the situation in the FMCG and advertising markets in 2022 respectively. Section 4 explains the methods used in the research, describes the dataset, and provides some descriptive statistics. Section 5 is devoted to the empirical analysis and the discussion of the results. Finally, Section 6 concludes.

2. Russian FMCG market in 2022

Starting from February 2022, a lot of sanctions were imposed against Russia by 48 “unfriendly”¹ countries due to the Ukrainian conflict. Among others, the FMCG market was affected. The sanctions complicated the logistics of cross-border delivery of goods, forcing both foreign and domestic enterprises to reconsider their strategies. This has led to a change in the composition of market participants and competition as a whole.

Given the trade and financial restrictions as well as political pressure, the brands from “unfriendly” countries faced the choice of whether to continue their business in Russia or to leave the sanctioned country. The key factors that

¹ Order No. 430-r dated 5 March 2022. <http://government.ru/docs/44745/>

influence such a decision are reputation risk, size of the business opportunity and non-recoverable investments (Meyer and Thein, 2014).

The publications on the Internet in 2022 show that a great number of foreign brands announced the termination of work or suspension/shrinkage of deliveries on the territory of the Russian Federation, including FMCG companies (examples are in Appendix Table A1). After all, not all of them stopped their business in Russia. Nevertheless, many companies left the market, providing their competitors an opportunity to compete for market share.

According to IBC Real Estate's March 2023 survey,² 33% of international brands have decided to leave the Russian market, while 36% of companies remain uncertain about their next steps. The proportion of undecided brands has fallen from 65% since the March 2022 status change, but large manufacturing companies remain among those whose exit is complicated by the presence of factories on the territory of the Russian Federation. Many companies continue to adopt a wait-and-see attitude and are looking for buyers for their assets. At the same time, a significant proportion of undecided brands are service companies with no owned or leased space. Also, 19% of international brands have transferred or sold their businesses to Russian top management, allowing them to retain jobs and continue operations, with foreign owners often retaining the right to buy out.

Rebranding has proved to have an effect on consumers' perception of the brand (Ing, 2012). However, the direction of the effect is not obvious. Roy and Sarkar (2015) argue that the changed brand name and logo make consumers perceive these products as new, which might result in companies' loss of consumer loyalty and market share. In contrast, the results of empirical analysis by Makasi et al. (2014) and Batara and Susilo (2022) show that rebranding supports brand reputation, while not directly affecting brand loyalty. Other scholars (Bamfo et al., 2018; Aspizain, 2016) found no statistically significant relation between corporate rebranding and customers' loyalty and satisfaction.

Overall, the appearance of empty niches due to the market exit of some companies provided an opportunity for new market entrants, including the companies in the FMCG segment. NielsenIQ³ reported the appearance of 10 460 new brands in Russia during 2022. Food brands account for most of these companies, with alcoholic beverages, dairy products, non-alcoholic beverages and confectionery products being the leaders.

Instabilities in the economic situation of a particular country have a significant influence on consumers' habits and behavior, thus affecting the demand side of the markets (Perriman et al., 2010). In the context of sanctions, individuals tend to adapt their behavior in response to evolving circumstances. During such a period, consumers often rationalize their purchases by declining imprudent acquirement (Durante and Laran, 2016). They also start to look for cheaper substitutes and pay attention to promotions. The underlined reasons are the realization of income decline and insecurity about the future.

The Russian case serves as empirical evidence of this effect. First of all, due to increased uncertainty, people started to save money. According to the study by

² https://ibcrealestate.ru/upload/iblock/05c/871727rk96cvhxvs20mujr8xvyuwfz6i/IBC-Real-Estate_Mezhdunarodnye-brendyVS-Rossiiskie-brendy.pdf

³ <https://adindex.ru/news/researches/2023/05/31/312951.phtml>

Tiburón Research,⁴ around 64% of Russians reduced their spending. Besides, right after the shock, an increase in the demand for certain categories of fast-moving goods is observed. The research by NAFI⁵ has shown that 20% of Russians turned to purchasing goods on reserve. This panic-buying may be explained by the fear of suspension of deliveries and shortages of goods (Bentall et al., 2021). However, the episodes of over-purchasing are, on average, short-lasting with a duration of 7–10 days (Taylor, 2021). Subsequently, the concept of thrift emerges as a key consideration.

In the analysis, it is important to take into account the change in the real consumption of goods and services. In addition, 2022 is associated with a high level of inflation. As a result, although the FMCG industry in Russia has claimed to experience 13.4% growth, the contribution of real consumption turned out to be negative, around 3.4%.⁶

To summarize, both the supply and the demand sides of the Russian FMCG market were affected in 2022. Shifts in the composition of market players and changes in consumers' behavior had to enforce companies to apply efforts to save or improve their market position. This should be reflected in the demand for advertising, which is indicative of the intensity of non-price competition between companies. That is why advertising campaigns of brands are the focus of the following analysis.

3. Russian advertising market in 2022

During the periods of economic turbulence, the prevalence of economic news sources rises (Quiring and Weber, 2012). Mass media have always served as a primary source of information during times of economic shocks (Wu et al., 2002), since it is the most efficient and fast method for people to keep updated with recent events. Therefore, television can serve as an alternative indicator of the economic state in the country. A notable correlation was identified between economic pessimism and increased levels of television viewing, particularly of news-related content. The media content consumed by viewers has proved to be reflective of their economic concerns (Hetsroni et al., 2014).

According to the study conducted by the AKAR,⁷ the Russian advertising market experienced a 2% decline in 2022 compared to the previous year, reaching 392 billion rubles. Table 2 summarizes the information on the changes in revenues in different segments of the advertising market, according to the study. However, the data on TV advertising, which is the second most prevalent form of advertising in Russia, after digital one, was not included in the AKAR's study.

We can find some estimates for the TV advertising revenues dynamics in analytical reports of other digital advertising agencies. OKKAM assessed the TV advertising market to fall by 15% and reach a total volume of 167.76 billion rubles in 2022 compared to 2021.⁸ Similar results are presented in the reports

⁴ <https://adindex.ru/news/researches/2022/03/30/303546.phtml>

⁵ <https://nafi.ru/analytics/kazhdyy-pyatyy-rossiyanin-zakupal-tovary-vprok/>

⁶ <https://www.retail.ru/articles/nielseniq-2022-god-zavershilsya-samym-clubokim-padeniem-prodazh-fmcg-posle-2015-goda/>

⁷ https://www.akarussia.ru/knowledge/market_size/id10311

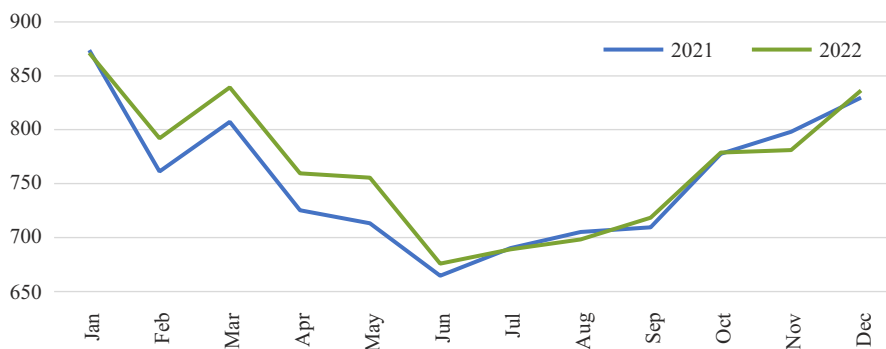
⁸ https://www.youtube.com/watch?v=7uG_L-XQ1jI

Table 2

Advertising revenues in Russia in 2022, by key segments.

Segment	2022, billion rubles	Change to 2021, %
Internet	324.9	–2
Out of home	47.6	+6
Radio	14.7	+5
Media	4.8	–41
Total	392.0	–2

Source: AKAR 2022 report.

**Fig. 1.** TV audience in Russia, 2021–2022 (million viewers).

Source: Mediascope TV Index.

by Rodnaya Rech⁹ and Group4Media, which estimated the market downturn by 14.3%; OMD OM Group¹⁰ claimed that the TV advertising market had fallen by 10–15%. Thus, all the studies confirm that the Russian TV segment of the advertising market experienced a significant decline in 2022. This reflects the fact that companies started to economize on advertising spending. There might be different explanations for that, including shortage of market participants' budget, the exit of the largest advertisers from Russia and a decrease in the intensity of competition in the markets of traditionally advertised products. Without specific analysis, we cannot distinguish among the reasons.

According to the data, the Ukrainian conflict had an impact on the behavior of Russian TV viewers as well. Fig. 1 illustrates the dynamics of the TV audience in 2021 and 2022. The data shows an increase in the viewership (total TV audience) in the first half of 2022 compared to the same period in 2021. This result coincides with the findings of McDonald and Johnson (2013) regarding the surge in interest in various media channels in stressful economic conditions. Starting from July 2022, the gap disappears. This might mean that the impact of geopolitical factors on audience behavior has diminished.

An increase in audience activity was also followed by the change in the content preferences of the TV audience.¹¹ The time spent watching socio-political programs increased twofold, from an average of 15 min to nearly 30 min. As for the average time spent on watching the news, this increase was not too big—from 15 to 24 min

⁹ https://drive.google.com/file/d/1hUBgpTTOY6MVib6_ptlsFRNgt06rBFEQ/view

¹⁰ <https://adpass.ru/obiom-reklamnogo-rynka-2022/>

¹¹ <https://www.hse.ru/en/news/research/828257400.html>

following the shock. The cost of advertising is dependent upon the target audience, and thus, changes in viewer behavior can influence advertising costs.

The mentioned trends in the Russian TV ad market reflect the general economic dynamics in the country. At the same time, the situation might differ greatly among advertising companies, depending on the specifics of the economic situation and how this affects the markets of their products.

4. Material and methods

The following empirical analysis is aimed at assessing structural changes in the Russian TV advertising market in the segment of FMCG products. The changes in the structure of the advertising market (by product group), i.e., the composition of players, and the volume of this market, i.e., the total demand for advertising, are estimated on the basis of expenditures of the advertising FMCG brands on Russian TV in 2021–2022.

4.1. Data description

The source of data in the study is the Mediascope TV Index database for 2021 and 2022. Mediascope is a technological company that has been authorized to research the viewership of Russian TV channels since 2017.¹² The organization collects the data on TV viewing for the whole country. The panel is claimed to contain the observations from a representative sample (9,142 households). The information base of the research includes observations on 31 out of 32 federal Russian TV channels, which are provided free of charge and are available in the majority of Russian regions and beyond the borders (see Table 3).

The list of brands that have commercial advertisement contracts with these channels includes 2527 companies from the FMCG industry. By the country of origin, they were manually categorized into four groups: domestic (Russian) producers, companies from “unfriendly” countries, and companies from countries that did not join sanctions against Russia. Among the last, we selected a subgroup of companies from (subjectively identified) “friendly” countries (Belarus, Kazakhstan, China, and Turkey). The brands are also manually classified by the product group in accordance with the products the company promotes.

FMCG product groups considered in the paper are characterized in Appendix Table A2. Table 4 below represents the total number of brands in the sample. The data indicates a nearly equal division between domestic and foreign brands advertising on TV in 2021–2022, with most of the latter being brands from “unfriendly” countries. The group comprising foreign brands from “neutral” countries is the smallest in number. The data set for this group contains the largest number of gaps, indicating a lack of available data. This is the case for the categories of accessories, cosmetics, household chemicals, medication, pet supplies and stationery.

Companies’ spending on TV advertising is measured by the daily total of the costs counted by GRP (gross rating points). It is the price of ad promotion, carried out by advertising blocks, for each of which the cost of one rating point and its type are fixed in the process of advertising monitoring. The cost of place-

¹² <https://mediascope.net/services/media/media-audience/tv/national-and-regional/description/>

Table 3

Federal TV channels.

	TV channels
1 st multiplex	Channel One, Russia-1, Russia-24, NTV, Match TV, Channel Five, Karusel, Russia-K, OTR*, TV Center
2 nd multiplex	RenTV, SPAS, STS, Domashniy, TV-3, Pyatnitsa, Zvezda, TNT, MIR, MuzTV
Other	2X2, Dom Kino, Mosfilm Golden Collection, Mult, Solntse, SolovyovLive, STS Love, Subbota, TNT 4, Che, U

Note: * The data is not available.

Source: Mediascope TV Index.

Table 4

Distribution of brands by product group and origin country.

Product group	Number of brands				Total
	Domestic	Foreign			
		“neutral”	“friendly”	“unfriendly”	
Accessories	83	0	12	31	126
Beverages	41	2	0	23	66
Clothing	175	12	22	95	304
Cosmetics	49	0	9	56	114
Electronics	38	7	41	42	128
Food	304	7	13	123	447
Household chemicals	28	0	2	27	57
Household goods	174	1	41	59	275
Medication	222	0	38	197	457
Personal hygiene items	53	1	19	83	156
Pet supplies	18	0	2	30	50
Shoes	35	1	7	31	74
Stationery	9	0	1	7	17
Tobacco and alcoholic beverages	48	1	5	26	80
Toys	58	5	59	54	176
Total	1335	37	271	884	2527

Source: Author's calculations based on Mediascope data.

ment for each brand is given by NAA (National Advertising Alliance) according to federal and regional price lists, without taxes, discounts/surcharges, in rubles.

4.2. Empirical hypotheses

The shock of 2022 is expected to have opposing effects on the TV advertising market in the FMCG sector. A change in the demand for advertising by a particular brand could occur for several reasons.

First, the change in the composition of market players had to result in a change in the intensity of competition, which is product-specific. Two effects are expected. On the one hand, an increase in the average companies' expenditures on ad-promotion could be due to the willingness of new (or already existing) market participants to fill the empty niches. In order to succeed in the struggle for the market share, they need build a strong, recognizable brand that enjoys customer loyalty. Advertising is one of the ways to do this, since the more people know about the brand, the more they demand the product. Both the domestic and the remaining foreign firms might have incentives to promote their products more aggressively. That should lead to increasing average TV advertising expenditures

by companies compared with the same period of the previous year. On the other hand, with foreign competitors leaving, the positions of existing firms strengthen. Therefore, the need to compete might decrease, especially when the probability of new entrance is low. This can discourage the rise of expenditures on ad-promotion.

Second, due to the decrease in consumers' purchasing power caused by inflation and uncertainty, companies might expect their revenue to decrease in the future. This might weaken their ability and willingness to keep expenditures on advertising at the previous level. Thus, as a result, firms would decide to spend less on promotion of their goods.

One more possible reason for companies to decrease the intensity of advertising is a change in FMCG market participants' budget spending structure in favor of investments aimed at expansion of production facilities and research and development. This is more expected for the markets characterized by a high share of imported goods before the conflict (i.e., pharmaceuticals). The depleted budget resulted from rising costs due to inflation and trade restrictions and this also meant economizing on less important spending.

The above-mentioned allows us to formulate the following research hypotheses:

- **Hypothesis 1:** A shift in the structure of the Russian TV advertising market for the FMCG sector towards domestic brands is expected. This would mean that import substitution on the markets of relevant goods prevails over the entry of new foreign brands;
- **Hypothesis 2:** The average expenditure on television advertising carried by a specific brand in the FMCG market is expected to decline after February 24, 2022 with a stronger negative effect met by domestic producers from “unfriendly” countries.

4.3. Research methodology

To test Hypothesis 1, the statistical method of analyzing the dynamics of the overall TV advertising expenditure by product groups is employed. Additionally, the dynamics of the number of advertised brands and the structural changes within each product group are investigated.

Econometrics methods are used to test Hypothesis 2. The two-year data on the costs of companies that were buying slots on advertising on TV in both 2021 and 2022 is used to capture the change in the behavior of already existing agents on the market. In econometric analysis, only observations that correspond to 998 brands advertising on TV both before and after the crisis are used (see Appendix Table A3). To test Hypothesis 2 regression models by categories and by brands are estimated.

Model 1 — OLS:

$$\begin{aligned} Cost_{jt} = & \alpha + \sum_k \beta_{1k} category_k + \sum_k \beta_{2k} category_k \times shock_t + \\ & + \sum_m \beta_{3m} country_i + \sum_m \beta_{4m} country_i \times shock_t + \\ & + \sum_t \beta_5 M_Y_t + \sum_t \beta_6 day_t + u_{jt}, \end{aligned} \quad (1)$$

where $Cost_{jt}$ is the daily advertising expenditures of the brand j at time t , measured in millions of rubles. Costs are measured in two ways: with and without adjusting

for the inflation rate. Monthly Consumer Price Index (CPI) published by Rosstat is used to convert nominal ad expenditures into real ones, which provides a consistent measure across time. Independent variables used in the model are: $category_k$ is a product group variable, $k = [1, 15]$ (with “accessories” being a base group); $shock_t$ is a binary variable that equals to 1 for dates after 24.02.2022; $country_i$ is a country-of-origin group variable, $i = [1, 4]$ (with “domestic” being a base group); M_Y_t is a set of binary variables of the combination of month and year of the TV advertising costs (January 2021 is taken as a base group). Among others, this variable controls for changes in TV audience reflected in Fig. 1; day_t is a set day of the week fixed effect variable (with “Sunday” being a reference category); u_{jt} — error term.

A central part of the analysis is the identification of import substitution in the TV advertising market for the FMCG sector after the shock of 2022. That is why a binary $shock_t$ variable as well as its cross effects with categorical variables $country_i$ and $category_k$ are included in the regression model. This allows us to capture the variation of the effect of the shock on brands’ advertising expenditures by product and country-of-origin. Given that the cost of TV ad-placement demonstrates seasonality (Genesove and Simhon, 2015), the variable M_Y is introduced to capture this effect. The day of the week also influences the cost of placement on TV: during working days people tend to spend less time in front of the TV screens — 2h36min a day compared to 3h41min a day during weekends.¹³ Therefore, the chance of reaching the targeted audience is higher during Saturdays and Sundays. This should be incorporated into the cost of advertising.

This specification of the model allows us to capture the category-specific, country-of-origin-specific and time-specific effects on nominal and real ad expenditures, caused by the crisis. The models with panel data analysis let us capture the individual reaction of the brand on the shock. However, using them we cannot examine it within the context of the product group or country.

Model 2 — panel data analysis:

$$Cost_{jt} = \alpha_j + \beta_2 shock_t + \beta_{3k} category_k \times shock_t + \beta_4 country_i \times shock_t + \beta_5 M_Y_t + \beta_6 day_t + u_{jt}. \quad (2)$$

In this set up, α_j represents the unobserved heterogeneity term — individual fixed effect of the brand j . $E(\alpha_j) = 0$, $Var(\alpha_j)$, $\forall j$.

5. Results

5.1. Trends in TV ad costs by a FMCG product category

In contrast to the TV advertising market as a whole, which fell by 10–15% in 2022 compared to 2021, according to different studies (as discussed in Section 3), the FMCG segment of the market seems to recover by the end of the year. According to Mediascope data, in December 2022, total ad expenditures of all FMCG brands numbered approximately 373,8 million rubles, compared to 308,0 million in

¹³ Deloitte. Media consumption in Russia 2020. <https://oohmag.ru/wp-content/uploads/2020/11/mediapotrebienie-v-rossii-2020.pdf>

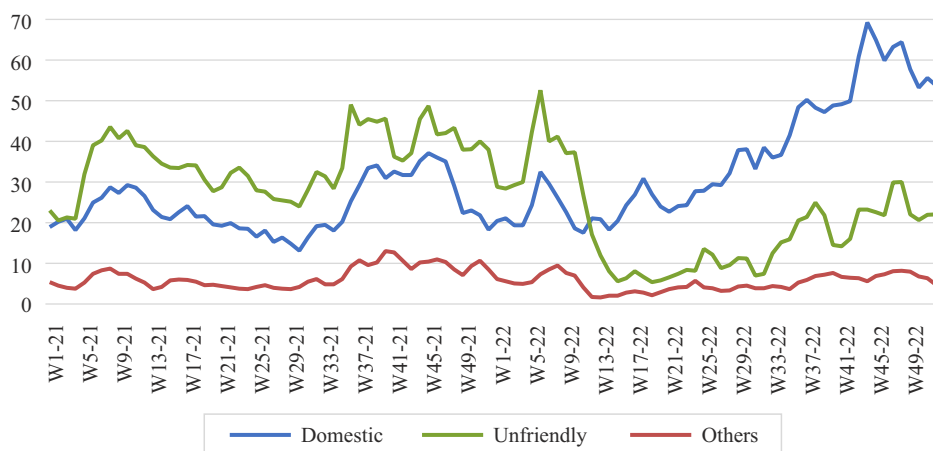


Fig. 2. Total weekly nominal TV advertising expenditures by FMCG companies in Russia, 2021–2022 (million rubles).

Note: W—week.

Source: Author's calculations based on Mediascope data.

December, 2021. The nominal ad expenditures growth rate is 1,21, which is higher than the inflation rate for this period (about 1,14 according to Rosstat).

Fig. 2 shows that, in total, expenditures by Russian FMCG companies experienced a significant increase after March–April 2022. Total spending on TV advertising by domestic brands exceeded that of foreign brands at some point between 9th and 15th week of 2022. At the same time, there is a clear downward trend in total TV advertisement expenditures of brands from “unfriendly” countries.

Appendix Fig. A1 presents the graphs on the dynamics of weekly nominal TV advertising expenditures by product group and brand origin country. The data illustrates that trends vary, depending on the product group. The categories where foreign brands remain the main contributors are household chemicals, personal hygiene items, toys and pet supplies. This is intuitively expected, since even before the change in geopolitical situation, the Russian market for these goods relied mostly on foreign brands and the domestic production of substitutable goods was not developed properly. Furthermore, the foreign sector in categories, such as personal hygiene items and toys, experienced a recovery by the end of 2022. This could be a result of the entrance of new brands from countries that did not join sanctions against Russia. The new entrants tried to consolidate their position in the market through brand recognition that comes with TV ads.

Appendix Table A3 presents the turnover of FMCG brands advertising on TV in Russia. The data shows that after the beginning of the Ukrainian conflict, the relative number of domestic brands increased for all product groups, except for household goods and pet supplies. The most pronounced increase in the share is demonstrated by the product categories of beverages, cosmetics, shoes, tobacco and alcoholic beverages. Also, the detailed analysis shows that the share of brands from “unfriendly” countries remained consistent for the majority of product categories under investigation. The exceptions are the cosmetics, electronics, medication, and toy sectors, which demonstrate a decreased share.

The results are consistent with Hypotheses 1. We observe a shift in the structure of the Russian TV advertising market for the FMCG sector towards domestic

brands. This effect prevails over the entry of new foreign brands. However, the aggregate data does not clarify if the total ad spending change because of corresponding brands' exit/entry or due to a change in ad expenditures of existing brands. The following econometric analysis helps evaluate the changes that happened at the brand level. Only brands advertising both before and after the crisis are considered to test for shifts in their marketing strategies.

5.2. Results of econometric analysis

In Tables 5 and 6 we report the results of regression model estimation. Model 1 allows us to examine the fixed effects on the product group level, which means that we assume costs on advertising on TV to be equal for all brands within a certain product group, keeping all other factors constant. The difference between specifications (A) and (B) of the Model 1 is that in the first one the effect of the shock is assumed to be the same for all product groups, while in the second it is considered as category specific. Model 2, on the other hand, takes into account the specificities of a certain brand, thus making it impossible to evaluate the particularities of the sector to which the company belongs.

Tables 5 and 6 reflect statistical significance of most of the factor variables. The signs of the estimated effects are the expected ones, and they do not change

Table 5
Results of OLS estimation of regression model.

Variable	Nominal ad expenditures is the dependent variable		
	Model 1(A)	Model 1(B)	Model 2
Constant	9.42***	9.11***	23.88***
(Base: Domestic)	(0.65)	(0.75)	(0.36)
“Friendly” country	-1.12***	-1.13***	no
	(0.40)	(0.41)	
“Neutral” country	-7.45***	-7.42***	no
	(1.12)	(1.13)	
“Unfriendly” country	8.96***	9.09***	no
	(0.24)	(0.24)	
Shock	-3.28***	-1.58	-8.01***
(Base: Domestic × Shock)	(1.04)	(1.36)	(1.08)
Friendly × Shock	-1.55**	-1.65**	-2.00***
	(0.64)	(0.70)	(0.58)
Neutral × Shock	-17.44***	-18.89***	-16.59***
	(2.22)	(2.24)	(1.89)
Unfriendly × Shock	-9.60***	-10.18***	-7.31***
	(0.44)	(0.46)	(0.39)
Fixed effects			
brand	no	no	yes
product category × shock	no	yes	yes
product category	yes	yes	no
month × year	yes	yes	yes
day of the week	yes	yes	yes
Number of observations	190 986	190 986	190 986
Prob > F	0.0000	0.0000	0.0000
R ² adj	0.1004	0.1040	
R ² : within			0.0957
F-test that all FE = 0: Prob > F			0.0000

Note: Standard deviations in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Author's calculations.

Table 6
Results of OLS estimation of regression model.

Variable	Real ad expenditures is the dependent variable		
	Model 1(A)	Model 1(B)	Model 2
Constant	10.31***	9.20***	23.40***
(Base: Domestic)	(0.57)	(0.65)	(0.31)
“Friendly” country	-1.40***	-1.08***	no
	(0.35)	(0.36)	
“Neutral” country	-7.11***	-7.13***	no
	(0.98)	(0.99)	
“Unfriendly” country	8.48***	8.62***	no
	(0.21)	(0.21)	
Shock	-3.10***	0.38	-5.40***
(Base: Domestic × Shock)	(0.91)	(1.19)	(0.93)
Friendly × Shock	-0.14	-1.16*	-1.30***
	(0.56)	(0.61)	(0.50)
Neutral × Shock	-13.41***	-14.20***	-11.97***
	(1.95)	(1.97)	(1.64)
Unfriendly × Shock	-8.69***	-9.42***	-6.62***
	(0.39)	(0.40)	(0.34)
Fixed effects			
brand	No	no	yes
product category × shock	No	yes	yes
product category	Yes	yes	no
month × year	Yes	yes	yes
day of the week	Yes	yes	yes
Number of observations	190 986	190 986	190 986
Prob > F	0.0000	0.0000	0.0000
R ² adj	0.0950	0.0978	
R ² : within			0.0773
F-test that all FE = 0: Prob > F			0.0000

Note: Standard deviations in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Author's calculations.

across different models and specifications. Moreover, the qualitative results are the same when using nominal and real ad expenditures as a dependent variable. Below, we describe the key findings.

The estimates for origin brand country fixed effect reflect that, prior to the shock, the average level of ad expenditures varied between the groups. Brands from “unfriendly” countries were characterized by the highest level of expenditures related to TV promotion of their product. Domestic brands were in the second place by the average level of ad expenditures, followed by brands from “friendly” countries, with the lowest expenditures demonstrated by brands from “neutral” countries. The differences are statistically significant in all specifications of the regression models.

The estimate for the shock variable is negative, indicating an overall decline in TV advertising expenditures by a particular brand after February 2022. The absolute value of the effect is a bit smaller after controlling for inflation but still negative and statistically significant. The largest effect of the shock is revealed for brands from “neutral” and “unfriendly” countries, while domestic brands and brands from “friendly” countries were less affected. This is captured by the sign and the value of the cross-effect of the shock variable.

Fig. 3 illustrates the general trend in average advertising expenditures per brand. It should be noted that, according to the form of the regression equation,

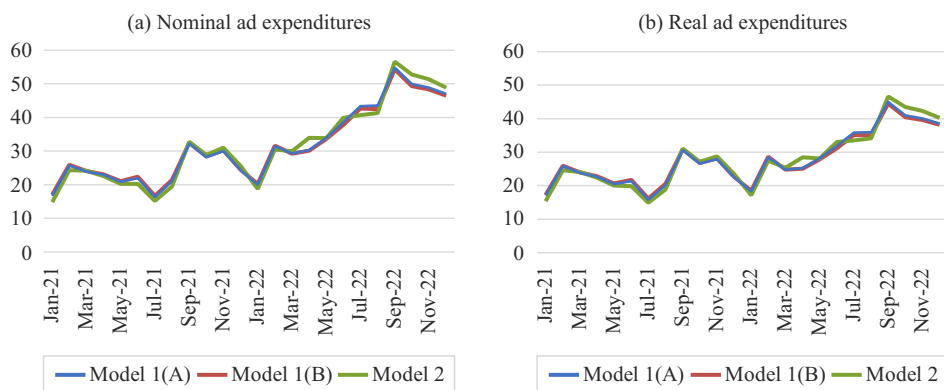


Fig. 3. Time fixed effects (margins of year \times month combination), 2021–2022.

Source: Author's calculations.

the downward shift in Feb. 2022–Dec. 2022, related to the Ukrainian conflict, is excluded from the estimated time fixed effects. The diagrams show that there is an upward trend in ad expenditures in 2022. The change in the trend slope is observed both in nominal and real terms. This lets us conclude that the effect cannot be explained by inflation solely. This may reflect the fast recovery of the market after the shock by the end of 2022.

Table 7 shows that ad spending varies among product groups. According to the data, the highest average advertising spending is carried out by companies belonging to the categories of electronics, non-alcoholic beverages and tobacco and alcoholic beverages. Companies within these sectors are, on the whole, larger in both size and revenue. Therefore, the increased expenditure on marketing initiatives can be attributed to their capacity to exploit economies of scale, which permits them to invest more heavily in advertising than smaller firms. An alternative explanation is that these are highly competitive industries. Therefore, companies in these sectors often invest heavily in advertising to stand out from competitors. They are often driven by the need to raise awareness about their product offerings and differentiate them from competitors' goods.

The estimated cross product group \times shock effects allow us to reveal the difference in reaction of TV ad expenditures on the shock by categories. The sign of the effect is negative for 11 out of 14 categories where the coefficient turns out to be statistically significant. This means that in the majority of product categories, brands decreased their spending on TV advertising after the shock. The most notable decline in TV ad spending after the shock is captured for pet supplies and toys. In contrast, a positive response of ad expenditures to the shock is revealed for clothing, electronics, personal hygiene items and tobacco and alcoholic beverages.

To explain the difference in brand's marketing strategies to the shock, the in-depth analysis of market concentration and competition is required. In this paper we are unable to do such an investigation with all product categories considered. Nevertheless, particular cases provide evidence that the forces, summarized in Table 1, affect ad strategies of the companies.

Fig. 4 shows that there is positive interrelation between the average brand's ad spending before the crisis and the scale and the direction of the change in the spending after the shock. Thus, the effect of the shock was less pronounced in

Table 7

Fixed effects and effects of the shock by product group: Model 1B predictive margins.

Product group	Product category fixed effects		Effect of the shock	
	Nominal ad expenditures	Real ad expenditures	Nominal ad expenditures	Real ad expenditures
1. Accessories	16.43*** (0.46)	14.65*** (0.40)	-6.27*** (0.61)	-3.89*** (0.54)
2. Beverages	46.67*** (0.58)	42.31*** (0.51)	-10.62*** (0.34)	-11.82*** (0.30)
3. Clothing	31.87*** (0.40)	28.49*** (0.35)	0.49 (0.54)	-0.33 (0.47)
4. Cosmetics	32.51*** (0.48)	29.43*** (0.42)	-12.61*** (0.80)	-11.42*** (0.70)
5. Electronics	47.16*** (0.49)	42.24*** (0.43)	4.43*** (0.76)	0.98 (0.67)
6. Food	36.75*** (0.20)	33.21*** (0.18)	-8.52*** (0.24)	-8.65*** (0.21)
7. Household chemicals	23.67*** (0.52)	21.33*** (0.46)	-10.19*** (1.15)	-8.34*** (1.00)
8. Household goods	18.60*** (0.35)	16.64*** (0.31)	-5.95*** (0.49)	-3.97*** (0.43)
9. Medication	31.72*** (0.17)	28.61*** (0.15)	-7.67*** (0.19)	-7.24*** (0.17)
10. Personal hygiene items	26.90*** (0.30)	23.95*** (0.26)	1.08** (0.44)	0.85** (0.38)
11. Pet supplies	21.98*** (0.71)	20.15*** (0.62)	-20.49*** (0.37)	-16.94*** (0.32)
12. Shoes	16.19*** (0.76)	14.55*** (0.66)	-8.77*** (1.37)	-6.13*** (1.20)
13. Stationery	19.00*** (1.64)	17.00*** (1.43)	-3.92*** (0.16)	-2.32*** (0.14)
14. Tobacco and alcoholic beverages	45.28*** (1.31)	40.41*** (1.15)	13.60*** (0.14)	8.88*** (0.13)
15. Toys	9.97*** (0.34)	9.10*** (0.30)	-17.52*** (0.48)	-12.59*** (0.42)

Note: Standard deviations in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Author's calculations.

the case of brands that were able and found it reasonable to have relatively high ad expenditures. This corresponds to the situation of high competition among companies with high total revenues. The rise of ad expenditures for product categories such as electronics, tobacco and alcoholic beverages might be explained by the relatively big size of the competing companies and the intensity of non-price competition.

High ad expenditures are reasonable in the case of entry to a highly competitive market, based on the perception that consumers are sensitive to advertising. This might be an explanation for increasing a brand's ad expenditures in the clothing category. According to Radaev et al. (2024), "unfriendly" countries' embargo on exporting luxury goods to Russia (including clothing) and the exit of a big number of internationally recognized brands supported the fast development of domestic clothing production. The entry of a big number of mostly domestic brands on the market and their activity in TV advertising is reflected by Table 3 as well.

As shown in McKenzie (2006), consumer demand for food and beverages is less affected by the crisis than demand for other items, so product promotion to

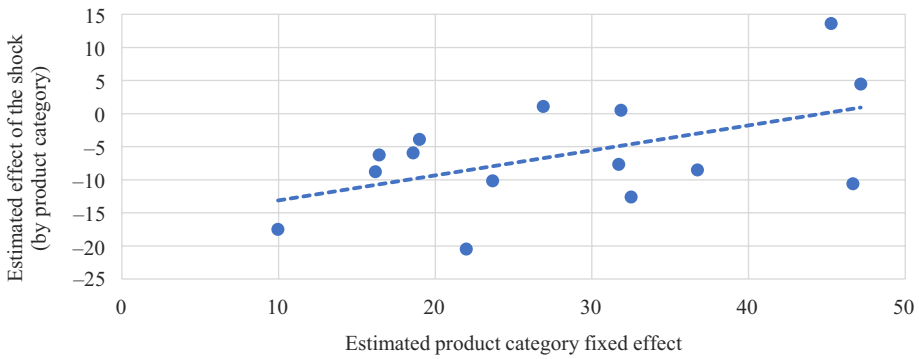


Fig. 4. Interrelation between pre-shock ad spending and shock expense effects.

Source: Author's calculations.

the market might require less effort in the case of these product categories. This might explain the fact that, under similar conditions with clothing, these brands reduced their TV ad spending. The reason is that they no longer needed to compete with well-known foreign brands that suspended their activity on the territory of the Russian Federation.

In the case of pet supplies, toys and cosmetics, it is plausible to suggest that the shift in consumer demand for these goods was one of the contributing factors. During periods of economic turbulence, the perceived necessity for these products diminishes, and consumers shift to cheaper available substitutes. In such circumstances, it may not be an optimal strategy for a brand to prioritize excessive TV ad expenditures due to decreasing receptivity of consumers to advertising.

6. Conclusion

The results of our analysis show that in contrast to the overall reduction in TV ad expenditures in Russia in 2022 compared to 2021, the FMCG segment of the market demonstrated growth that exceeded the inflation rate. This is not related, however, to the intensification of promotional activity of existing brands. Total ad spending increases due to the growth in the number of FMCG brands advertising on TV, mostly domestic ones. It seems reasonable to assume that the fall in other segments of the TV ad market is more pronounced, as in the period of crisis consumers become more rational in their spending and less sensitive to advertising of not demanded products. Besides, many companies, especially producers of sanctioned luxury goods from “unfriendly” countries, stopped doing business and advertising in Russia. Thus, the observed trend with high probability reflects redistribution of air time in favor of essential commodities.

The aggregated data, however, masks changes in marketing strategies of particular brands. According to the results of the econometric analysis, after February 2022, the average FMCG brand's TV ad expenditures decreased. This reflects that, from the companies' point of view, cost saving arguments outweighed potential benefits from advertising. According to the literature, this might take place in the markets with low current and potential competition and low probability of significant positive returns from advertising. The decrease in ad expenditures is less pronounced for domestic brands and brands from “friendly” countries. This result appeared to be

opposite to the expected one, given the incredible sanctions pressure on the Russian economy during this period. The revealed trends reflect that, at least in the FMCG sector, import substitution prevails over the entry of new foreign brands.

One of the most interesting findings is the asymmetric effect of the 2022 shock on a brand's TV ad spending in different FMCG product categories. This asymmetry reflects the difference in marketing strategies of the companies. The results suggest that the brand's TV advertising was the most negatively affected for categories such as pet supplies, toys, beverages and cosmetics. In contrast, increase in a brand's TV ad spending following the shock is revealed for clothing, electronics, personal hygiene items and tobacco and alcoholic beverages. A brief comparison of the product categories gives evidence that companies cut their ad spending more on the markets characterized by decreasing consumer demand and low opportunities to win market share using aggressive promotional strategy. In contrast, the product categories that demonstrate an increase in TV ad spending seem to be the ones characterized by intensive competition, fast entry of new brands and relatively big companies. This is consistent with predictions of theories on marketing and consumer behavior and in line with the results of empirical studies by other authors. However, more detailed analysis of each FMCG product market situation is required to draw objective conclusions on the reasons that led to the observed changes in the brand's advertising strategies.

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Appendix A

Table A1

Foreign companies that left Russia.

Product group	Brands	Decision
Clothing	LPP (Reserved, Sinsay, Mohito, Cropp, House), Inditex (Zara, Bershka, Pull & Bear, Oysho, Stradivarius, Massimo Dutti), Levi's, Reebok	Rebranding
	Yoox Net-a-Porter Group (ASOS, Burberry, Farfetch) Adidas, Nike, Puma, LVMH (Dior, Guerlain, Givenchy, Kenzo, Make Up For Ever, etc.), Decathlon, Kering (Balenciaga, Gucci, Yves Saint Laurent), H&M, Uniqlo	Interruption of deliveries Business interruption
Cosmetics	Sephora, LUSH, L'Occitane	Rebranding
	L'Oreal (Lancôme, Giorgio Armani Beauty, Biotherm, Kiehl's, Garnier, Maybelline NY, NYX Professional Makeup, Vichy, La Roche-Posay, etc.), Kao Group Estee Lauder (MAC, Clinique, Jo Malone, Tom Ford Beauty, etc.),	Interruption of deliveries Business interruption
Food and beverages	PepsiCo (Pepsi, Adrenaline Rush, etc.), Nestle, Danone, Mondelez, Ferrero	Interruption of investment and advertising activity
	Mars (Snickers, Milky Way, Twix, Pedigree, Eclipse, Orbit and others)	Limited sales
	Fazer, Paulig, Lavazza, Kraft Heinz Coca-Cola (Coca-Cola, Sprite, Pulpy, Schweppes, etc.), Dr. Oetker	Interruption of deliveries Business interruption
Electronics	Panasonic	Limited sales
	AMD, ASUS, Dell, Epson, Logitech, Ricoh, TSMC	Interruption of deliveries
	Acer, Apple, Bosch, Canon, Caterpillar, HP, Hitachi, Ericsson, IBM, LG, Nokia, Sony, Siemens	Business interruption
Accessories and toys	Hamleys, Lego	Rebranding
	Rolex, Swatch Group	Interruption of deliveries
	Cartier, Pandora, Swarovski, Tiffany & Co	Business interruption
Tobacco and alcoholic beverages	Pernod Ricard (Chivas Regal, Jameson, Ballantine's, Absolut, Olmeca, Havana Club), Bacardi Limited	Interruption of deliveries
	Carlsberg (Carlsberg, Tuborg, Zatecky Gus, Baltika), Heineken, Velkopopovický Kozel, Gambrinus, Brown-Forman (Budweiser Budvar), British American Tobacco (Kent, Vogue, Dunhill, Lucky Strike, Rothmans, etc.), Philip Morris (Marlboro, L&M, Parliament, IQOS), Imperial Brands (Davidoff, West, Drum, etc.)	Business interruption
Personal hygiene items and household chemicals	Procter & Gamble Co, Uniliver	Limited sales
	Essity, Johnson & Johnson, Reckitt, Lush, Henkel	Business interruption
Medication	Bayer, Pfizer, Sanofi	Interruption of investment activity
	AbbVie, BASF, Bristol Myers Squibb, IMCD, MSD	Business interruption and stop of clinical trials

Source: Compiled by the author.

Table A2

The structure of the database on TV advertising companies in Russia.

Product group	Description	Total number of brands advertising on TV at least once in 2021–2022
Accessories	Jewelry (necklaces, bracelets, earrings, rings), handbags, glasses, wallets, belts, watches	126
Beverages	Non-alcoholic beverages (fruit juices, soda, tonic, energy drinks), bottled water	66
Clothing	Tops (blouse, shirt, sweater, bodysuits), bottoms (trousers, shorts, skirts), dresses, suits, sportswear, lingerie	304
Cosmetics	Cosmetics for the face (lipsticks, blushes, powders, mascara, concealers, etc.), skin cosmetics (moisturizers, scrubs, sunscreens)	114
Electronics	Laptops, camcorders, mobile phones, projectors, digital cameras, monitors, etc.	128
Food	Dairy products, bakery products, chocolate and sweets, coffee	447
Household chemicals	Non-food chemicals, clothing, room and utensil care products	57
Household goods	Kitchenware, furniture, bedding, books, tools, etc.	275
Medication	Solid (tablet, capsule, gelatin capsule), liquid (syrup, elixir), inhalation (aerosol, lozenge) and topical forms	457
Personal hygiene items	Soap, shampoo, deodorant, toothpaste, toilet paper, feminine hygiene products, anti-bacterial fluids and nail clippers	156
Pet supplies	Food, toys, belts, collars, litter boxes, cages	50
Shoes	Boots, crocs, high heels, sneakers, slippers, sandals	74
Stationery	Paper, pens, pencils, markers, envelopes, notebooks, sticky notes, erasers, staplers, paperclips, and various types of adhesives like glue and tape	17
Tobacco and alcoholic beverages	Alcoholic beverages (beer, ale, champagne, wine, gin, vodka, tequila), tobacco, e-cigarettes, vape	80
Toys	Cars and radio controlled, construction toys, dolls, educational toys, games, puzzle, science	176
Total		2527

Source: Author's calculations based on Mediascope data.

Table A3
FMCG brands' entry to/exit from TV ad market in Russia in 2021–2022.

Product group	Number of brands, advertising on TV both before and after the crisis				Number of brands, advertising on TV only before the crisis				Number of brands, advertising on TV only after the crisis				Share of domestic brands, advertising on TV, %	
	domestic		others		domestic		others		domestic		others		before the crises	after the crises
	unfriendly	friendly	unfriendly	friendly	unfriendly	friendly	unfriendly	friendly	unfriendly	friendly	unfriendly	others		
Accessories	24	3	8	8	33	20	2	2	26	8	2	63.3	70.4	
Beverages	13	11	1	1	14	11	0	0	14	1	1	54.0	65.9	
Clothing	34	28	13	13	66	42	14	14	75	25	7	50.8	59.9	
Cosmetics	18	22	0	0	12	22	4	4	19	12	5	38.5	48.7	
Electronics	17	16	14	14	8	17	15	15	13	9	19	28.7	34.1	
Food	126	80	5	5	73	23	7	7	105	20	8	63.4	67.2	
Household chemicals	8	16	1	1	9	5	1	1	11	6	0	42.5	45.2	
Household goods	39	19	18	18	68	20	11	11	67	20	13	61.1	60.2	
Medication	112	98	24	24	46	70	8	8	64	29	6	44.1	52.9	
Personal hygiene items	15	45	8	8	16	28	6	6	22	10	6	26.3	34.9	
Pet supplies	4	15	0	0	10	9	1	1	4	6	1	35.9	26.7	
Shoes	10	12	3	3	8	11	2	2	17	8	3	39.1	50.9	
Stationery	4	3	0	0	2	3	0	0	3	1	1	50.0	58.3	
Tobacco and alcoholic beverages	24	13	3	3	13	12	2	2	11	1	1	55.2	66.0	
Toys	21	27	23	23	15	19	26	26	22	8	15	27.5	37.1	

Source: Author's calculations based on Mediascope data.

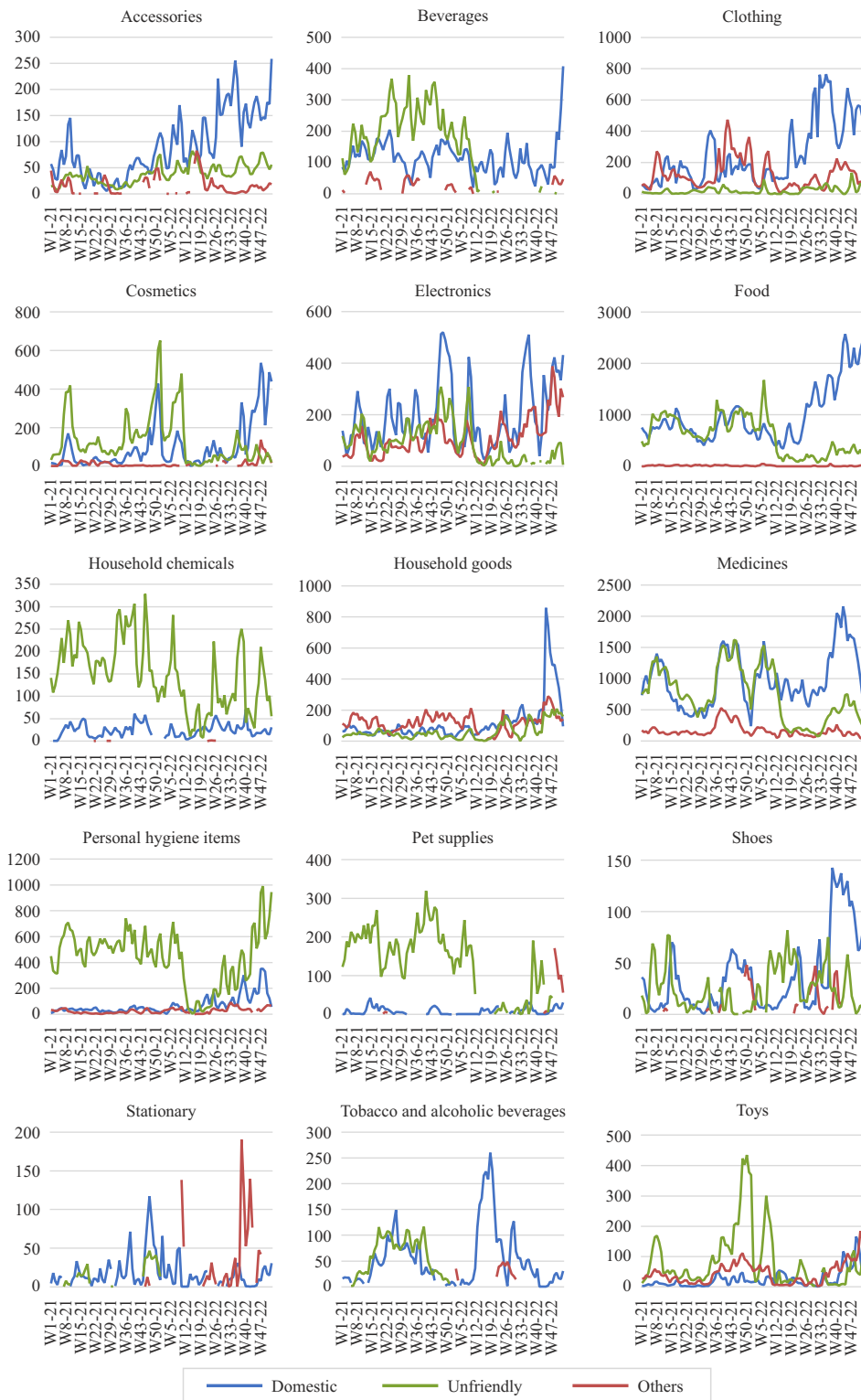


Fig. A1. Weekly nominal TV advertising expenditures in Russia by product group, 2021–2022 (gross rating points × 10,000).

Note: All graphs use cumulative costs for seven days intervals (starting from Friday to Thursday). W — week.
Source: Author’s calculations based on Mediascope data.