

# CONSUMER BEHAVIOR IN THE REPUBLIC OF GEORGIA REGARDING FMCG PRODUCTS: THE ROLE OF RUSSIA IN AFFECTING CONSUMER BEHAVIOR AFTER REACHING DCFTA WITH EU COUNTRIES

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## ABSTRACT

Until 2008, Russia was one of the major importers of Free Market Consumers Goods (FMCG) products from Georgia as well as a major exporter of FMCG products to Georgia. After conducting a large-scale aggression against Georgia in August, 2008; occupation of two territories in Georgia, ethnic cleansing of people in those territories; and giving recognition of independence to these two territories; Georgia terminated diplomatic relations with Russian Federation on September 2, 2008. After Russo-Georgian war in 2008 the amount of imported food products from Russia decreased. The aim of the research is to study Georgian consumer behavior; identify the factors which influence consumer behavior as a result of the Russo-Georgian War and The European Union Association Agreement; and to analyze the impact of the occupation of the Georgian territories had on trade relations with Russia.

**Keywords:** Russian-Georgian conflict, Import, FMCG products, Consumer behavior, Deep and Comprehensive Free Trade Area (DCFTA).

DOI: <http://dx.doi.org/10.15549/jeecar.v2i1.90>

## INTRODUCTION

### The History of Russian Georgian Conflicts

The Russian - Georgian relations have a very long and complicated history. The first diplomatic relations between Georgia and Russia were established in fifteenth century when Aleksandre I, the king of Kakheti in Georgia, asked for help from Ivan III, the king of Moscow, in fighting against Muslims. Ivan III refused to help and Georgian - Russian relations were terminated for a long time. Diplomatic relations were restored in the 1550s by Levan, the king of Kakheti. Again Georgia asked Russia for help to fight against the Muslims and Georgia was denied help from Russia. Through this period of time, diplomatic relations were not stabile and they changed according to changes of the

rulers of the kingdoms (Jones, S. F.,1988). In 1722, King Vakhtang collected 40,000 warriors and went to Ganja, where, according to the plan he would join with the Russian army to fight Persia. Peter I did not keep his promise and left the Georgian army without help. There was no battle. But, this betrayal left Georgia alone to fight an infuriated Persia. In 1723, under the order of the Persian Shah, an army of North Caucasian warriors conquered and set fire to Tbilisi (Blank, S.,1999).

In 1985, there were serious changes in Russian authority. Mikheil Gorbachov came into power (Kvinitadze, G., 1985). On March 31, 1991, a referendum was held in Georgia. Based on the results of the referendum, the Supreme Council passed a Declaration of Independence (Jones, S. F. 1997). The transformation in Georgia was a

peaceful process even though there was possible Russian aggression (Bullok, A., 2006)

**The Russian - Georgian War** is also known as the war of South Ossetia of 2008. D. D. Satter (Personal communication, January 28, 2011). It was an armed conflict between Georgia and the Russian Federation. Russia launched air strikes in many regions of Georgia. Russian and Ossetian troops fought against Georgian forces for three days (Lonatamishvili, J., October, 2014).

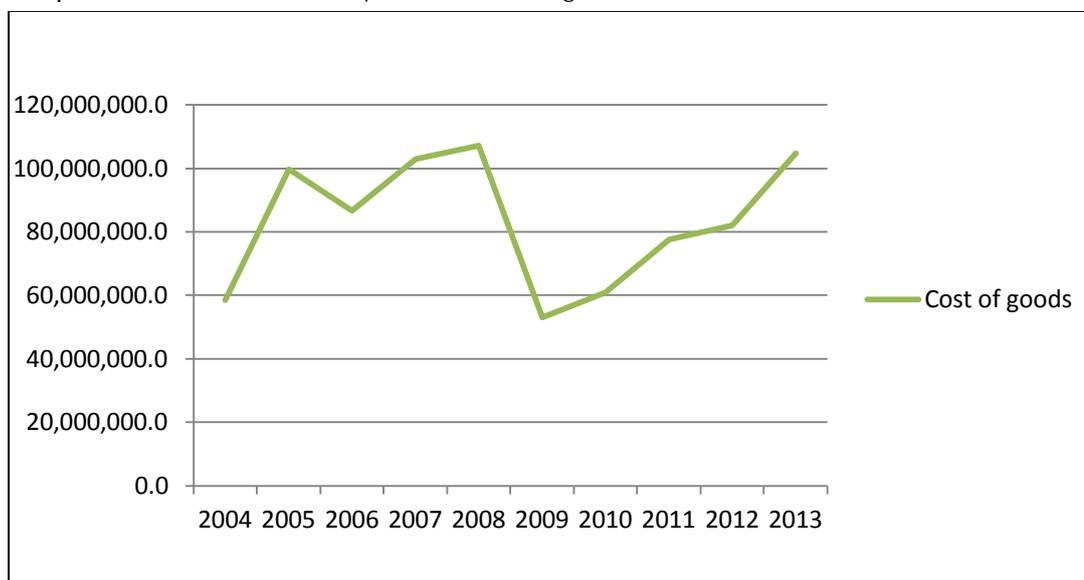
Both sides reached a ceasefire agreement on August 12, 2008, with the support of the Chairman of the European Union. On August

26, 2008, Russia recognized the sovereignty of South Ossetia and Abkhazia (Jojua, D. (2014). Russia completed troop withdrawals from other parts of Georgia on October 8, 2008. However, garrisons of Russian armed forces still stayed in the territories of Abkhazia and South Ossetia.

### The Essence of the Problem

After Russo-Georgian war in 2008, the amount of imported food products from Russia decreased. The cost of imported goods increased by 49% in Georgia (Graph 1).

**Graph 1.** Cost of Goods Imported to Georgia between 2004 and 2013



In 2014, Georgia, Moldova, and the Ukraine signed the European Union Association Agreement. The component, Deep Comprehensive Free Trade Area (DCFTA) was included in the agreement.

By joining this association, these countries have access to 500 million new consumers. This will bring an unprecedented quality of goods, choice of goods, and services.

In the research part of the article we have checked two assumptions, which have been formed in the process of work:

*H1:* Georgian consumers have a negative attitude towards Russian goods.

Based on the research, Russian imported foods have increased in Georgia. The price of the goods from Russia is much lower than the price of goods from other countries. Even though there is a negative attitude towards Russia, the cost of goods remains a major factor in consumer

behavior.

*H2:* By joining the DCFTA, Georgia will have more competitive markets at lower prices.

According to the second assumption, Deep and Comprehensive Free Trade space will create competitive conditions in the Georgian market. European entrepreneurs (producers) will supply goods to Georgian markets. There will be a wide choice of products at reasonable prices. The ongoing processes will gradually change customer behavior, who will gradually start purchasing European goods. It is essential to study what kind of impact the European Union Association Agreement will have on the behavior of Georgian consumers.

*H3:* Will the number of consumers of Russian goods decrease in Georgia?

### Aim of the Research

The aim of the research is to study

consumer behavior, identify the factors which influence it against the background of Russo - Georgian War and European Union Association Agreement and to anticipate when and what kind of impact occupation of Georgian territories will have on trade relations with Russia.

The research is interesting for entrepreneurs involved in trade relations with Europe and Russia, companies and experts engaged in export –import, who will study the current issues in depth.

**RESEARCH METHODOLOGY**

The research was done in three stages using combined methodologies.

The first stage of the research was collecting secondary data from the Revenue Service of Georgia and the National Statistics Centre. The acquired data reflects the dynamics of fast moving consumer goods (FMCG) imported to Georgia from Russia and other producers during the last 10 years.

The second stage of the research was collecting qualitative data, deep research of consumer opinion through interviews with focus groups, **study and analysis of Consumers’** attitude towards Russian and Georgian products.

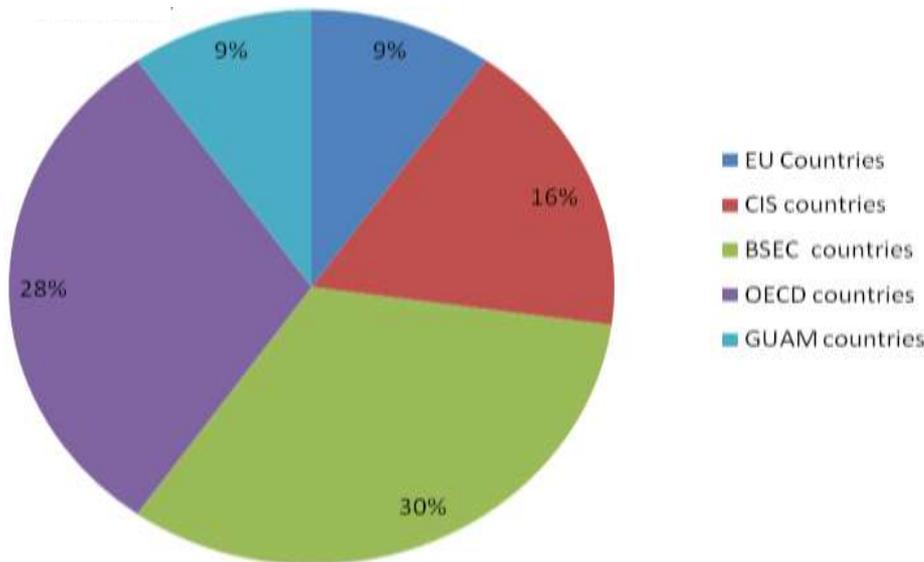
The third stage of the research was getting thorough information from experts through interviews. Experts talked about ongoing processes in Georgia and anticipated the changes the country might undergo after signing European Union Association Agreement.

**Results of the Surveys**

*First Stage:*

At the first stage statistical data was acquired and processed from the Revenue Service and the National Statistics Centre. The results clearly demonstrate the role of Russian products in the Georgian market. From 2004 to the present, the countries of CIS (Commonwealth of Independent States) and Russia are the major importers of goods in Georgia.

**Graph 2:** Imports of Goods to Georgia According to the Groups of Countries



Source: LEPL Revenue Service of the Ministry of Finance of Georgia ;  
LEPL Service Agency of the Ministry of Internal Affairs of Georgia;  
**LTD “ Georgian State Electric System”**  
**LTD “Georgian Gas Transportation Company “**

Note: 1995-2003 - 15 member countries of the European Union  
2004-2006 – 25 member countries of the European Union  
2007-2012 - 27 member countries of the European Union  
Since 2013- 28 member countries of the European Union  
1995 – 26 member countries of OECD

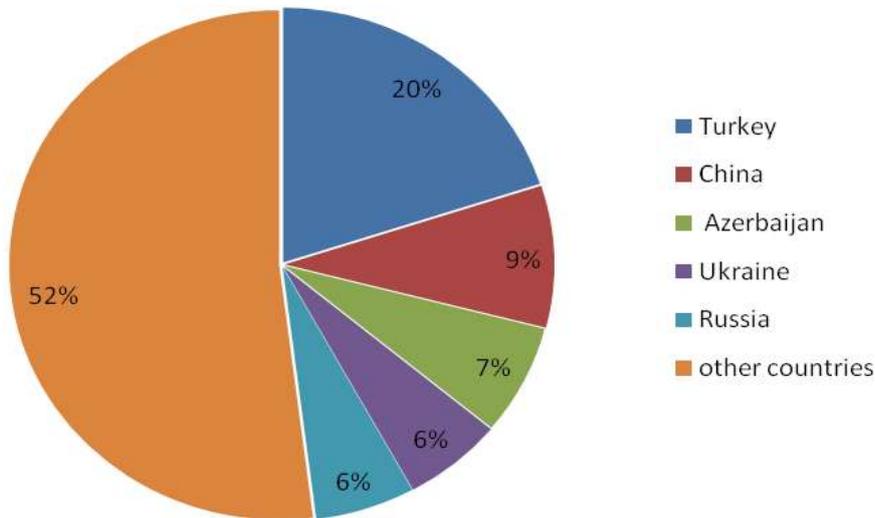
1996-1999 – 29 member countries of OECD

2000-2009 - 30 member countries of OECD

2010- 34 member countries of OECD

According to the latest data, Russia remains as one of the major importers in Georgia.

**Graph 3.** Share of Major Import Countries in Total Imports January – July 2014.



The major part of the imported goods is food products. According to the latest data, the amount of imported goods from the European Union to Georgia is 4% more than the amount of imported goods from CIS. However, in consumers' opinion the choice of Russian products is wider than the choice of European products. The second stage of the research was planned to find out what the consumers' attitude was towards Russian FMCG and what the main reason for their purchases.

#### *The Second Stage of the Research:*

Four interviews with focus groups were conducted. Ten interviewees took part in each group, 40 people were interviewed in all. Interviewees were not selected randomly, but they were adults who did most of the shopping in the family.

Several trends characterizing customers were identified as a result of the research:

- The majority of the interviewees say that buying Russian products is a habit, which they have had since their childhood. Many of them remember the soviet period when Russian goods were considered to be the best quality.

*Personal communication: "I can't remember the period when there was no food of Russian production in my house. I am used to it and that's why I still keep buying it" –*

*54 year old man.*

- In depth interview revealed that some consumers perceive all goods produced in post Soviet countries are Russian and the Russian label is associated with low prices and reasonable quality.

*Personal Communication: "I seldom read who the producer is, if the label is in Russian I know that it's Russian, with normal quality but reasonable price" - 37 year old woman.*

- A Russian product is considered to be cheap in comparison with its competitors by the vast majority of interviewees and it is the main motivator for the consumers.
- The interviewees say that in case of better choice they would not purchase Russian products. This kind of attitude is a result of aggressive policy of Russia towards Georgia, which leads to consumers' negative disposition.

According to the first assumption, popularity of Russian goods in Georgia is explained by little competition. Throughout the years there was no alternative to Russian products which would be acceptable for Georgian consumers according to price and series of product. European product was unaffordable for the population with average and low income, so negative attitude towards the producer was not reflected in consumer's behavior.

*Personal communication: "It's hard to believe*

*that Russia sends high quality products to Georgia. I just buy as the price is reasonable” – 42 year old woman.*

*Personal communication: “A country which has conquered us so many times won’t take care of our health, undoubtedly it’d better to buy products produced in other countries.” – 45 year old man.*

- The interviewees positively evaluate European products and consider them as high quality products.

*Citation: “German products are of the best quality in our supermarket, taste is also different” – 34 year old man.*

- Vast majority of the interviewees say that little choice and high price is the reason why they can’t manage to purchase European products. Those interviewed admit that they prefer European products than Russian products and what’s more important, they would choose European ones in case of equal competition.

*Citation: “I would buy European products without hesitation, if it were more affordable. Prices of Russian products are more reasonable at the moment”- 47 year old woman.*

These focus groups state that buying European products is preferred if the price is comparable to Russian prices. It is expected that as more European imported products enter the Georgian market the price will go down and Georgians will buy the EU products because of low prices and high quality. Therefore, *H2* is accepted.

### *The Third Stage of the Research:*

Among those interviewed were experts of economics, who have deep and profound knowledge about trade relations of Georgia, and analysts, who study consumer behavior and influential factors.

A large number of experts say that products imported from the post Soviet countries to Georgia compete not only with Western products but also with local producers. The main reasons are the wide choice of products and the reasonable prices. Georgian consumers are very sensitive to price and the situation of 2009, decreased imports, was not the consumers’ choice; but part of the policy carried out by the state. Price is the most important priority to Georgians. There is also a very positive correlation with the European

quality of goods. The experts concur that the only hindering factor in choosing EU products is high price. Deep and Comprehensive Free Trade Area enables liberalization of both food and service trade should help to reduce import prices. In addition, DCFTA involves many other aspects related to trade: food safety, standardization, protecting intellectual property etc. All these factors will ensure an equal, competitive environment. As a result, the socio-cultural factor will have a great impact on the Georgian consumer. The experts expect a positive and intensive change in consumer behavior.

Personal Communication: “Many researches done by us demonstrate that Georgian consumers have high expectations about European products entering Georgian market more intensively. Consumers expect good quality, reliable products and reasonable prices. Consciousness of the consumers is quite high so it will be quite difficult for the producers to compete with the countries of the EU without perfecting the quality” Economic Expert.

As a result, the research shows the acceptance of EU products by the Georgian market and therefore, *H3* is accepted.

## CONCLUSION

Based on the data acquired through the research, following conclusions can be drawn:

- Consumers will purchase Russian FMCG as it is characterized by low price and wide choice.
- Russia’s aggressive policy towards Georgia, occupation of Georgian territories, have a negative impact on consumers but it does not change their behavior. The major factor for consumers is low price. The demand is met by Russian producers to some extent. 90% of the population is medium and low-income buyers, and this is the major purchasing power in the country.
- However, in the long term perspective, it is interesting that consumers are well acquainted with the brands of Russian producers and they purchase them not according to their will but because of little choice due to economic factors. These factors should be taken into consideration as Georgia signs European Union Association Agreement and enters Deep

and Comprehensive Free Trade Area. European Producers will gradually enter into the Georgian Market and the price of products and service will become reasonable for consumers. Positive disposition towards Western producers will lead to growth of demand for European products and decrease of the demand for Russian products. This is a bilaterally positive effect for the consumers as well as for the economy of Georgia. The consumer gets high quality products for a reasonable price. As a result, money spent by the consumer does not cause cognitive dissonance and he has a desire to buy the products he prefers.

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