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## Russian Federation

### Market Development Reports

### The Russian Marketplace, October/December 2003 Volume 2, Issue 1

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**Report Highlights:**

The purpose of this newsletter is to report on developments and trends in the food processing, retail and food service sectors in Russia, identify key trade events and other marketing opportunities, and help expand U.S. exports of agricultural, food, and beverage products.

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Includes PSD Changes: No  
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## A) Market Spotlight – Coffee Mania

As recently as a few years ago, Russia's coffee shop market was underdeveloped, with only a handful of outlets in Moscow. Today, this has become one of the most dynamic segments of the HRI sector, accounting for an estimated seven percent of all food service outlets and growing by as much as 30 percent in 2002. While this growth partly reflects continued overall expansion in the HRI sector, a general shift in consumer preference from tea to coffee is also a factor.

Currently, there are more than 120 coffee shops operating in Moscow. About 60 of these outlets are part of several relatively new chains. Among the leading chains: *Shokoladnitsa*, *Coffeemia*, *Coffee Bluz*, *Gourmet Style*, *Amado*, *Coffee-coffee*, and *Coffee House*. Moscow-based *Coffee House* ranks first overall with 28 shops throughout Russia (20 in Moscow). In Moscow, *Shokoladnitsa* ranks second with ten outlets. St. Petersburg-based *Ideal Cup*, with 11 coffee shops, is the largest coffee shop chain in Northwest Russia. *Ideal Cup*, which is planning continued expansion outside of St. Petersburg, opened its first coffee shop in Moscow at the new *Mega Mall* food court in October.

*Montana Coffee*, the leading processor of high quality/specialty coffee in Russia, plans to set up its own coffee shop chain to "fortify its position as a leader in the specialty coffee market in Russia." The company will open 30 coffee shops in Moscow within the next four years and plans to franchise the concept to reliable companies in the regions. At present, the company's major customers are bars, restaurants, clubs, hotels, supermarkets, offices and distributors throughout Russia.

While coffee shops have become increasingly popular over the past several years, the concept of going out just for coffee has not fully caught on. In fact, only an estimated seven percent of Russian consumers "regularly" visit coffee shops at least once a month. However, industry insiders say that this figure simply confirms the market potential for coffee shops in Russia.

Reflecting the strong growth for coffee consumption in Russia, coffee imports for the January-July period this year increased to \$23.8 million, up by more than 30 percent compared to the same period in 2002. While Vietnam, Indonesia, and India continue to be the top suppliers for Russia, imports have increased sharply from Italy, Brazil, and Cote D'Ivoire this year, which likely reflects the growing demand for higher quality coffee.

However, instant coffee still represents the bulk of coffee sales in Russia, accounting for 80 percent of the total coffee market. In line with the overall growth in coffee consumption, imports of instant coffee grew by more than 23 percent during the first seven months of the year to \$137 million. Germany, Italy and France remain the leading suppliers, but imports from the United States surged to nearly \$8 million during the January-July period in 2003.

In addition to the growing export opportunity for U.S. suppliers of high quality and specialty coffees, the rapid expansion of coffee shops has also created a new market for U.S. nuts and dried fruit. Apart from the wide range of coffees that are offered, local coffee shops are also selling a variety of desserts and confectionery products. With their own bakeries, some of the chains represent a growth market for U.S. exporters of dried fruit and nuts as these ingredients are widely

used in the baked goods and confectionery products served in the coffee shops and, in some cases, sold through supermarkets and bakery outlets.

## B) Market Tidbits

**Coffee Buzz** – Swiss food giant *Nestle* will build a \$120 million factory in the Krasnodar region to produce *Nescafe* coffee. The move reflects the company's bullish outlook for local coffee consumption, which increased by an estimated 12-14 percent last year with similar growth expected in 2003. *Nestle* officials note that the ratio of coffee-to-tea drinkers was one-to-five in 1999 but is expected to improve to one-to-two by 2005. Currently, per capita coffee consumption in Russia works out to about 160 cups per year compared to the nearly 1,000 cups Scandinavian consumers drink on average each year.

**Something for the Kids, Too** – Already the leader in infant nutrition in Russia, *Nestle* has agreed to purchase the *Vologda Baby Food* factory for a reported \$5-6 million. The factory reported sales of about \$9 million in 2002. *Nestle* owns controlling interests in nine food production facilities and is the leading seller of coffee, chocolate, baby food, and ice cream. In 2002, *Nestle's* investments in Russia totaled \$250 million while total sales reached \$700 million (excluding mineral water, pet foods, and breakfast cereals), growing by 22 percent over the 2001 level.

**Russian Retailer Reaches for New Markets** – *Perekryostok*, one of the largest supermarket chains in Russia, announced plans to open 10 new stores in St. Petersburg over the next three years. The chain's first outlet in St. Petersburg, a 3,000 square-meter supermarket, opened in 2002. *Perekryostok* also announced that it would open more stores in Moscow, bringing its total number of outlets to 50. The Moscow-based chain had estimated sales of \$333 million in 2002, but plans to increase its sales volume to \$900 million by 2006.

**Pyatyorochka Ponders Regional Push** – *Pyatyorochka*, the largest retail chain in Russia, plans to open discount stores on a franchise basis in all Russian cities with populations of more than one million residents, including Voronezh, Chelyabinsk, Ulyanovsk, Perm, Kazan and Ufa. Currently, *Pyatyorochka* has more than 150 stores, including 23 franchise outlets. The company will open ten new trading centers and 46 stores by the end of 2003. In 2002, the company's sales volume was nearly \$500 million.

**German Grocer Continues to Grow** – Earlier this year, Germany's *Metro* opened its fourth *Cash-and-Carry* outlet in Moscow and its second outlet in St. Petersburg. Firmly established in these two cities just 18 months after entering the Russian market, *Metro* will open its first outlet in the Volga-on-Don region (Nizhny Novgorod) by the end of 2003. *Metro* recorded total sales of \$335 million in 2002 and expects sales to double in 2003.

CEO Hans-Joachim Koerber announced that over the next five years *Metro* would invest one billion Euros and expand to 20 stores in Russia, including several hypermarkets under the *Real* banner. The first *Real* store, built in partnership with the local Moscow Development Corporation, is scheduled to open next year. Plans call for four or five stores valued at 40-50 million Euros each to be built in Moscow by 2005.

**Shop Till You Drop** – *Gulliver Operator Company* plans to open a new 62,000 square meter trade complex in St. Petersburg early next year. The complex will include a variety of shops, a business center, cinema, bowling alley, and parking for 1,300 vehicles. The retail center will also house the first *Ramstore* hypermarket in St Petersburg.

**Sbarro Spreads in Moscow** – American fast-food operator, *Sbarro*, recently opened three new pizza restaurants in Moscow. With a total of 29 outlets in Moscow, *Sbarro* plans to open 20 more restaurants by the end of 2003, expanding to 100 outlets throughout Russia by 2005. *Sbarro's* sales volume is expected to double to \$25 million this year.

**Nord Freezes the Competition** – Yekaterinburg-based ice cream manufacturer *Nord*, the largest producer in the Urals region, hopes to increase production by 35 percent in 2004 (up to 4,600 tons of ice cream per year). The company also plans to expand to other regions next year, including Moscow, Petersburg, Novgorod, Rostov, Ulyanovsk, Samara, and Toliatti.

**Premium Producer Sweetens the Pot** - *Odintsovskaya* confectionery plans to increase its sales volume to \$44 million this year, compared to \$36 million in 2002 (up 23 percent). Thanks to an aggressive marketing campaign, the confectioner's products, which are distributed under the *Korkunov* brand, account for 17 percent of the overall chocolate market and more than 70 percent of the premium chocolate segment. Following the product's successful expansion in Russia, the company decided to introduce *Korkunov* chocolates to consumers in Western Europe and the United States earlier this year.

**Darya Concentrates on Convenience Foods** – St. Petersburg-based *Darya*, one of the largest convenience food producers in Russia, recently launched a new production line for semi-finished frozen products (meat dumplings, crepes). Daily production capacity for the new line is 35-40 tons. Currently, *Darya* is producing about 100 tons of semi-finished products each day. The company saw its sales volume reach \$48 million in 2002, an increase of 45 percent.

**Heat-and-Serve Food Products Are Hot** – Local convenience food processor, *The Ravioli Concern*, announced that it has put into operation a new line for the production of heat-and-serve foods. With total output of one ton per hour, the line will turn out six types of product - chicken wings, chicken fillets, chicken cutlets, chicken Kiev cutlets, chicken cutlets with mushroom, and pastries with ham and cheese. Eventually, the product line will increase to about 160 items.

**French Canner Seals a Deal** – French vegetable processor *Bonduelle* has begun construction of a new \$30 million canning facility in southern Russia (Krasnodar region). When fully operational, the factory will process up to 60,000 metric tons of canned vegetables (sweetcorn and peas) annually. Currently, *Bonduelle* exports these products to Russia, accounting for a 25 percent market share. The sector offers further growth potential as per capita consumption of canned and frozen vegetables in Russia is less than two kilograms (kg), compared to 7 kg in Germany and 17 kg in France.

**Regional Brewer Looks to Become #2** - Central Russian brewery, *Krasny Vostok*, saw sales surge 68 percent last year to \$770 million. Total production in 2002 was estimated at 55 million decaliters. However, with the opening of a new brewing facility in Novosibirsk in 2003, capacity will rise to 150 million decaliters, making *Krasny Vostok* the second largest brewer in Russia.

**Russian Ad Market Adds Up** - According to the *Russian Association of Advertising Agencies*, the local advertising market expanded sharply to \$2.68 billion in 2002, an increase of more than 50 percent above the 2001 level. Television advertising, the largest and fastest growing segment, surged by 76 percent to \$900 million. The Association attributed the rapid growth in the advertising market to the continued expansion of the local economy and the entry of new large advertisers. However, a spokesperson for a local research company noted that much of the growth in television advertising was the result of higher advertising fees. For 2003, the Association is predicting continued strong growth to at least \$3.6 billion. The following table shows projected growth for all segments of the advertising market in Russia.

**Russia: Advertising Expenditures, 2001 - 2003**

	2001 (\$million)	2002 (\$million)	2003 proj. (\$million)	2003/2002 (% change)
<b>Television</b>	510	900	1,300	44
<b>Radio</b>	70	90	110	22
<b>Newspapers</b>	310	380	450	18
<b>Magazines</b>	160	220	340	55
<b>Billboards</b>	275	400	520	30
<b>Direct Marketing</b>	110	170	220	29
<b>Other</b>	340	520	675	30
<b>Total</b>	1,775	2,680	3,615	35

Source: *Russian Association of Advertising Agencies*

**Brewer Plans Internet Bars** - Turkish brewer, *Efes*, is planning a network of 20 Internet bars in Moscow. While Internet cafes are not new to Russia, this would be the first such effort by a major Russian brewery to create its own chain of bars or restaurants. The *Rosinter* restaurant chain operates three bars-restaurants called *Sibirskaya Corona*, which is a premium beer belonging to the *Sun Interbrew* brewing company. Leading Russian brewer, *Baltika*, has joint projects with some entertainment complexes and bars. Using a somewhat different approach, *Tinkoff's*, a relatively new German brew pub concept with outlets in Moscow and St. Petersburg, has moved aggressively into retail beer sales.

**Fresh Breath and a Sweet Tooth** - The local market for breath mints and other functional hard candies is growing by more than ten percent annually. *Mars* is the market leader with *Rondo* (20 percent market share) and *Tunes* (14 percent). *Perfetti/VanMelle* takes second place with *Mentos* (15 percent). *Cadbury's Stimorol Kiss Cool* and *Dirol Drops* account for one percent and four percent of the total sales, respectively, while *Wrigley* takes one percent with *Orbit*. In 2002, this market was valued at \$116 million. The dynamic growth of this segment and its high margin could represent a good opportunity for U.S. exporters.

**Frozen Food Business Heats Up** - Frozen food distributor, *INKO*, plans to increase its turnover by 40 percent this year with the construction of a new 130,000 square meter refrigerated warehouse. In addition to its own frozen food distribution, the company will provide logistical services for several large food companies, including *McDonald's*, *Nestle*, and *Unilever*.

**Mixing Apples and Oranges** – St. Petersburg-based *JFC*, Russia's largest fruit and vegetable importer, announced that it has acquired a controlling share of fellow St. Petersburg importer, *Konfey*. Founded in 1994, *JFC* currently accounts for 25 percent of total produce imports into Russia. The acquisition will increase *JFC*'s overall share of the Russian fruit market by five to seven percent. The move is also expected to help *JFC* expand to the other regions in Russia, primarily to Western and Eastern Siberia.

### **C) Upcoming Trade Events and Other Market Promotion Opportunities**

#### **Ingredients Russia (November 25-28, 2003 – Moscow)**

This show focuses on the fast-expanding food processing sector in Russia, with an emphasis on food additives, dairy ingredients, spices, emulsifiers, stabilizers, dehydrated fruits and vegetables, starches, enzymes, cereal products, flavorings, yeast, sugars and preservatives. The show organizer, ITE Group PLC, expects 250 exhibitors and more than 11,000 visitors. For more information on Ingredients Russia, contact the U.S. Agricultural Trade Office in Moscow.

#### **Prodexpo (February 9-13, 2004 – Moscow)**

The largest food and beverage exhibition in Russia, Prodexpo 2003 attracted 1,900 exhibitors and more than 70,000 visitors from all parts of Russia and from many neighboring countries. The *American Café* at Prodexpo 2004 will give U.S. exporters of food and beverage products a low-cost option for test marketing their products in Russia. For a nominal fee (\$500), we will:

- ship and customs clear your product samples and promotional materials
- provide a display area for your products in a high-traffic area of the show
- promote/sample your product to potential importers/distributors/retailers/processors
- send you a full report covering buyer reaction and contact information for follow-up

Please note that the American Café is similar to a catalog or sample show. You do not need to travel to the show to participate, so your total expense is a fraction of what it would cost to purchase booth.

Of course, no one can promote your product like you can, so we will also have a small number of booths available for individual exhibitors. Unfortunately, Prodexpo is an extremely popular show, and booth space is limited. If you would like to see this fast-growing market first-hand and exhibit at Prodexpo, please contact the U.S. Agricultural Trade Office in Moscow for further information.

#### **Northwest Food Forum (April 2004 - St. Petersburg)**

The Northwest Food Forum/Interfood Trade Show is held annually in St. Petersburg and is the largest food show in Northwest Russia. In 2003, the number of exhibitors participating in the show increased 25 percent and visitor attendance was up by 30 percent over the previous year. ATO staff recorded contacts with more than 150 Russian importers and producers, primarily from the Northwest region of the Russian Federation. These buyers showed strong interest in a wide range of U.S. food and agricultural products, including animal protein meal, popcorn, beef, pork, soybeans, dried fruits and nuts, and other food ingredients. Please contact the ATO Marketing Assistant in St. Petersburg or the U.S. Agricultural Trade Office in Moscow for additional information on the Northwest Food Forum.

**World Food Moscow (September 21-24, 2004 - Moscow)**

The recently concluded World Food Moscow 2003 drew 900 exhibitors and attracted more than 70,000 visitors from all parts of Russia and from many neighboring countries. U.S. exhibitors promoted a wide range of products, including wine, premium cocoa mix, dried fruit, nuts, apples, pears, turkey, pork and beef. All companies reported positive results and several indicated that they would sign up for the show again in 2004. For more information on World Food Moscow, please contact the U.S. Agricultural Trade Office.

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