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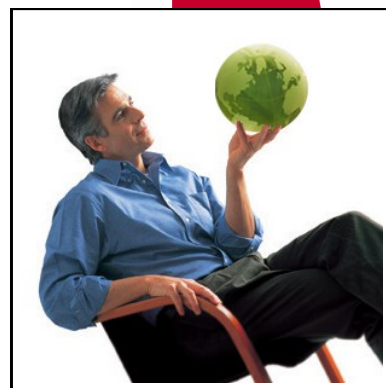
Agriculture et  
Agroalimentaire Canada

**International  
Markets  
Bureau**

**MARKET INDICATOR REPORT | MAY 2010**



## **Packaged Food Sales** In Russia





### ► EXECUTIVE SUMMARY

Russia, the world's eleventh largest economy, is a developing market that will play an important role in the future for packaged food manufacturers. The sales value of packaged food experienced a 15.2% annual growth rate during the period of 2004 to 2009. This growth, however, slowed with the global financial crisis and falling commodity prices, which were strong negative shocks to the Russian economy and packaged food market.

Russian consumers, over the past year, have been forced to temper some of their spending, as incomes have fallen significantly with the collapse of commodity prices. However, as the market recovers and commodity prices rise again, it is expected that real incomes will rise moderately, keeping inflation in check and bringing a period of steady value and volume growth in the packaged food sector.

Russia's confectionery, baked goods, and dairy markets are poised for major growth over the next five years, despite the temporary downturn in the economy. These sectors also happen to be the three largest in the Russian packaged food market.

Wimm-Bill-Dann Produkty Pitania OAO was the leading packaged food provider in Russia for 2008, holding a market share of just 4.1%. This is indicative of a competitive market, with many small players seeking out a niche in which to thrive.

### ► CONSUMER TRENDS

The processed and packaged food market is set to grow rapidly.

Rising incomes have led to a real increase in consumer spending on food of approximately 70% from 2002 to 2008. Many Russians spend around 30% of their income on their food budget. For the average Russian, food remains the most important good that they must procure.

However, trends in Russia are showing that food is now being viewed as something to enjoy, rather than something to subsist on. As their incomes rise, consumers are purchasing more than just staples and are branching out into different parts of the food market.

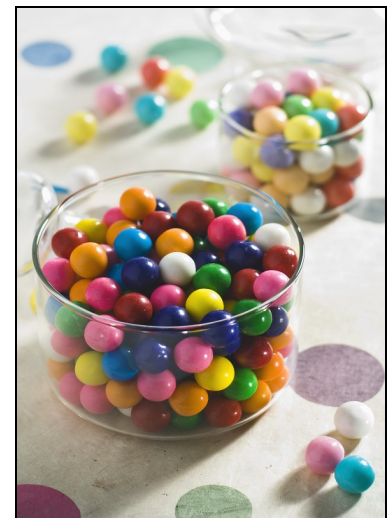
Russians are demanding ready-made, processed foods in increasingly high numbers. People are demanding convenient foods that they can cook and enjoy in a short period of time. In particular, packaged dairy products are expected to experience major growth over the next two years.

Organic and health foods are expected to experience faster growth as incomes rise in Russia and consumers demand healthier products. However, in the near term, these opportunities will likely remain limited to wealthy Russians living in major centres such as Moscow and St. Petersburg.

A long-term trend will likely develop in which health foods play a more prominent role in the eating habits of the population.

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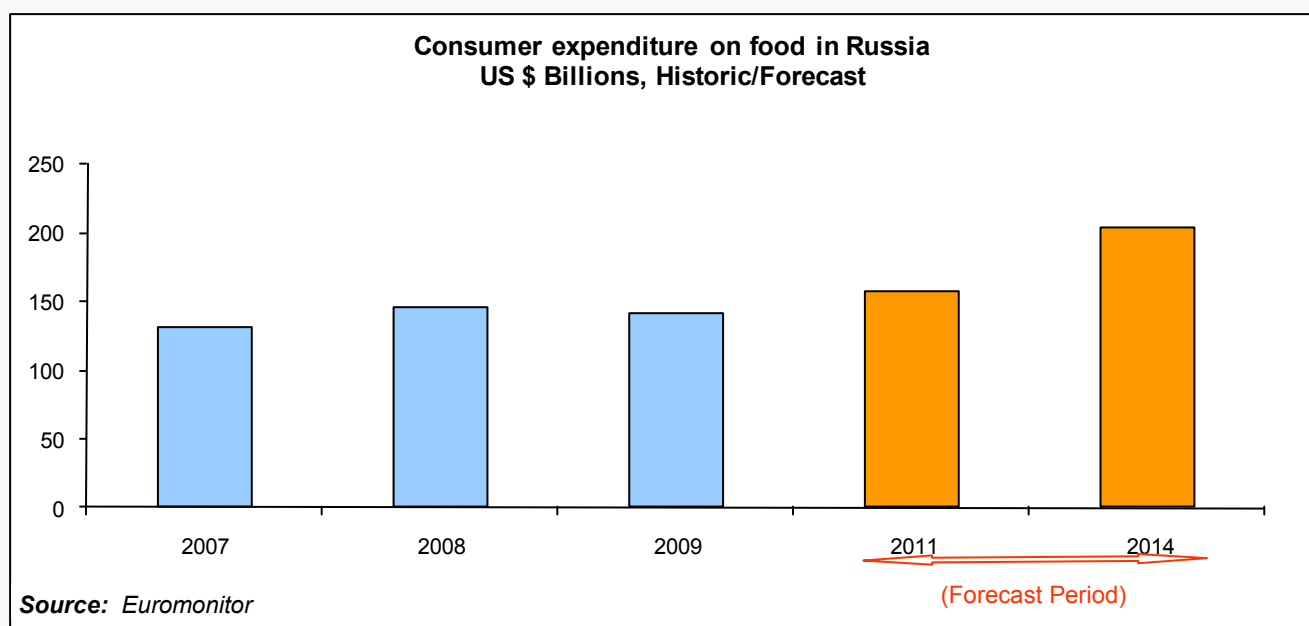
“  
***Packaged food sales in Russia will increase rapidly in the next five years.***  
”



## ► ECONOMIC TRENDS



- Russia's gross domestic product (GDP) declined by 8.7% in 2009, according to International Monetary Fund (IMF) data. The economy is expected to recover slowly over the next five years.
- At 9.5%, the unemployment rate in Russia in 2009 was at its highest level since 2000.
- Russia is a major exporter of primary goods and is vulnerable to fluctuations in the international commodity markets. Many of Russia's economic woes in 2009 can be attributed to the rapid rise and subsequent collapse of the prices of energy and metals, brought on by the global credit freeze.
- Packaged food is expected to experience strong value growth and more modest growth in volumes during the period of 2009 to 2014.
- In recent years, the government has moved to limit imports in certain sectors and has been attempting to develop its own sources of food, under the stated objective of food security. The meat and meat products sector, in particular, has been subject to a plethora of regulatory trade policies over the past five years. This can present challenges for potential exporters.
- The boom-bust nature of the Russian economy has given rise to significant periods of inflation followed by deflation. However, real income has grown over the past decade and, with it, the quality of food demanded by consumers has improved. Many consumers in Russia have substituted staple goods for luxury foods and this trend can be expected to continue with positive growth in the economy.
- In 2009, Russian consumers spent US \$142.0 billion on food, a 62.1% increase from 2004. By 2014, Russian consumers are expected to spend US \$204 billion on food, a 43.7% increase from 2009.
- Russia is the ninth-largest country in the world in terms of expenditure on food and is growing in importance. Within the next five years, it is expected to be the eighth-largest market for food in the world.



## ► PACKAGED FOOD TABLE



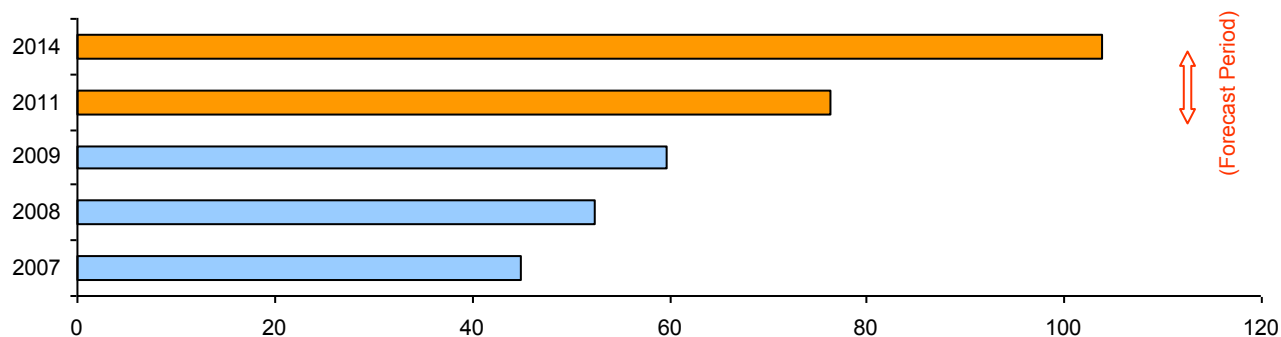
**Market Sizes - Historic/ Forecast - Retail Value RSP - US\$ billions - Fixed 2008 Exchange Rates - Value at Current Prices**

Russia	2007	2008	2009	2011	2014
Confectionery	6.5	7.6	8.7	11.1	15.0
Chocolate confectionery	4.5	5.3	6.2	8.1	11.1
Sugar confectionery	1.4	1.5	1.7	2.1	2.6
Gum	0.6	0.7	0.8	1.0	1.3
Bakery products	7.1	7.9	8.6	10.6	13.5
Baked goods	5.7	6.3	6.8	8.4	10.7
Biscuits	1.2	1.3	1.5	1.8	2.3
Breakfast cereals	0.2	0.3	0.3	0.4	0.5
Dairy products	8.9	11.0	13.1	16.4	23.0
Drinking milk products	2.1	2.6	3.2	4.0	5.4
Cheese	3.0	4.0	4.7	5.9	8.3
Yogurt and sour milk drinks	2.1	2.3	2.8	3.4	5.1
Other dairy products	1.8	2.0	2.4	3.0	4.2
Oils and fats	3.7	4.1	4.4	5.4	7.5
Olive oil	0.1	0.1	0.1	0.1	0.1
Vegetable and seed oil	1.5	1.8	1.9	2.3	3.4
Butter	1.4	1.6	1.7	2.2	3.0
Margarine	0.4	0.3	0.3	0.3	0.4
Spreadable oils and fats	0.3	0.3	0.3	0.4	0.5
Ice cream	1.3	1.5	1.7	2.3	3.1
Impulse ice cream	0.9	1.0	1.2	1.5	2.0
Take-home ice cream	0.4	0.5	0.5	0.7	1.0
Sweet and savoury snacks	2.1	2.4	2.6	3.2	4.2
Ready-meals	2.4	2.7	3.1	3.9	5.4
Soup	0.2	0.3	0.3	0.5	0.7
Pasta	0.7	0.9	0.8	1.0	1.4
Noodles	0.3	0.3	0.4	0.5	0.6
Canned/preserved food	2.8	3.2	3.7	4.8	6.8
Frozen processed food	3.9	4.6	5.2	6.6	9.0
Dried processed food	1.7	2.1	2.2	2.8	3.7
Chilled processed food	3.4	3.9	4.5	5.8	7.9
Sauces, dressings and condiments	2.1	2.4	2.8	3.9	5.4
Baby food	0.8	1.0	1.3	1.9	2.8
Spreads	0.6	0.7	0.9	1.1	1.6
Jams and preserves	0.4	0.5	0.6	0.8	1.1
Honey	0.0	0.0	0.0	0.0	0.1
Chocolate spreads	0.2	0.2	0.2	0.3	0.4

Source: Euromonitor

↔  
(Forecast Period)

**Size of Packaged Food Market in Russia - US \$ Billions - Historic/Forecast**



Source: Euromonitor



## ► KEY MARKET SEGMENTS — DATA FROM 2008-2009

### ► Bakery

Sales values increased from US \$7.9 billion to US \$8.6 billion; while volumes shrank from 7.798 million tonnes to 7.791 million tonnes.

#### Forecasts for 2009-2014

Breakfast cereal sales are expected to lead growth, with an increase in value of 71%. Baked goods sales are expected to grow by 57%. Biscuit sales are expected to grow in value by 52%.

#### Main Sectors 2008-2009:

Breakfast cereal sales increased from US \$271 million to US \$311 million.

Baked goods sales increased from US \$6.3 billion to US \$6.8 billion.

Biscuit sales increased from US \$1.3 billion to US \$1.5 billion.

#### Main Producers and their Russian Brands

Nestlé Russia OOO was the leader in the breakfast cereal market, with a 13.0% market share in 2008. Its leading brand is Nesquik.

Khleby Dom ZAO was the leader in the baked goods market, holding 2.5% of the share in 2008. Its leading brand is Darnitsky.

Bolshevik KF OAO gained a 10.6% share of the biscuit market in 2008. Its leading brand is Yubileinoe.

### ► Confectionery

This sector's sales increased from US \$7.6 billion to US \$8.9 billion. Volumes increased from 1.132 million tonnes to 1.144 million tonnes.

#### Forecasts for 2009-2014

The value of confectionery sales are forecast to increase by 73%. Chocolate confectionery is expected to increase by 79%. Gum sales are expected increase by 69% and sugar confectionery sales are expected to increase by 51%.

#### Main Sectors 2008-2009:

Chocolate confectionery sales increased from US \$5.3 billion to US \$6.2 billion.

Gum sales increased from US\$ 700 million to US\$ 784 million.

Sugar confectionery sales increased from US \$1.5 billion to US \$1.7 billion.

#### Main Producers and their Russian Brands

Rossiia KO OAO was the leader in chocolate confectionery, with a 12.4% market share in 2008. Its leading brand is Kolektsia.

Wrigley OOO was the leader in the gum market, holding a 68.9% share in 2007. Its leading brand is Orbit.

Krasny Oktyabr MKF OAO was the leader of the sugar confectionery market, with an 6.7% share in 2008. Its leading brand is Fruktovye.

### ► Dairy

This sector's sales value increased from US \$11.0 billion to US \$13.1 billion. Sales volume decreased from 6.97 thousand tonnes to 6.88 thousand tonnes.

#### Forecasts for 2009-2014

The entire dairy products sector is expected to experience a 76% increase in sales value. Yogurt sales are expected to grow fastest at 84%. Cheese products sales are expected to increase by 77% and the drinking milk category is expected to grow by 69%.

#### Main Sectors 2008-2009:

Yogurt and sour milk sales increased from US \$2.3 billion to US \$2.8 billion.

Cheese sales increased from US \$4.0 billion to US \$4.7 billion.

Drinking milk products sales increased from US \$2.3 billion to US \$3.2 billion.

#### Main Producers and their Russian Brands

No information is available for the company and brand leader in the Russian yogurt industry.

Valio St Petersburg ZAO was the leader in the cheese market, with a 10.5% share in 2008. Its leading brand is Viola.

Wimm-Bill-Dann Produkty Pitania OAO was the leader in the drinking milk market, holding a 16.7% share in 2008. Its leading brand is Vesely Molochnik.



## ► KEY MARKET SEGMENTS — DATA FROM 2008-2009

### ► Oils & fats

Sales values in this sector grew from US \$4.1 billion to US \$4.3 billion. Volumes decreased from 1.684 million tonnes to 1.590 million tonnes.

#### Forecasts for 2009-2014

This sector's retail value is forecast to increase by 72%. Sales of butter are expected to grow by 81%. Vegetable oil sales are expected to increase by 79%. Spreadable oil sales are expected to grow by 51%.

#### Main Sectors 2008-2009:

Butter sales increased from US \$1.6 billion to US \$1.7 billion.

Vegetable oil sales increased from US \$1.7 billion to US \$1.9 billion.

Spreadable oil sales increased from US \$311 million to US \$340 million.

#### Main Producers and their Russian Brands

Yug Rusi OOO is the leading company in the oils and fats sector, with a market share of 8.3% in 2007. The leading brand was Zolotaya Semechka.

### ► Sauces, dressings, and condiments

This sector's sales increased in value from US \$2.4 billion to US \$2.7 billion. Sales volume increased from 0.907 million tonnes to 0.940 million tonnes.

#### Forecasts for 2009-2014

Sales of sauces, dressings, and condiments are forecasted to increase by 95% in value. Sales in mayonnaise are expected to increase by 139%. Spice sales are expected to increase by 92%, and tomato paste by 88%.

#### Main Sectors 2008-2009:

Mayonnaise sales increased from US \$844 million to \$1.1 billion.

Spice sales increased from US \$224 million to US \$258 million.

Tomato paste sales decreased from US \$227 million to US \$225 million.

#### Main Producers and their Russian Brands

Baltimor Holding ZAO is the leading company in the sauces, dressings and condiments sector with a market share of 9.7% in 2007. The leading brand was Baltimor.

### ► Frozen processed food

Sales values in this sector increased from US \$5.2 billion to US \$4.6 billion. Volume of sales increased from 1.071 million tonnes to 1.076 million tonnes.

#### Forecasts for 2009-2014

Sales value in the sector is forecast to increase by 74%. Sales in frozen pizza are expected to increase by 97%. Ready-meal sales are expected to increase by 74% and frozen seafood sales by 61%. The red meat sector is also forecast to grow quickly but is subject to significant trade barriers.

#### Main Sectors 2008-2009:

Pizza sales increased from US \$99 million to US \$116 million.

Ready meal sales increased from US \$2.5 billion to US \$2.9 billion.

Frozen seafood sales increased from US \$474 million to US \$515 million.

#### Main Producers and their Russian Brands

Kachestvennye Produkty ZAO is the leading company in the frozen processed food sector with a market share of 8.1% in 2008. The leading brand for the corporation was Russkiy Hit.

Darya OOO (3.8%) and Talosto ZAO (3.6%) were the 2nd and 3rd strongest companies in the sector in 2008, respectively.





## ► KEY MARKET SEGMENTS — DATA FROM 2008-2009

### ► Canned foods

The retail value of the sector increased to US \$3.7 billion from US \$3.2 billion. Volumes increased to 1.305 million tonnes from 1.280 million tonnes.

#### Forecasts for 2009-2014

Sector sales are forecast to increase by 84% in value. Canned vegetable sales are expected to increase by 128%, while canned bean sales are expected to grow by 79%. Canned seafood sales are expected to grow by 67%.

#### Main Sectors 2008-2009:

Canned vegetable sales increased from US \$566 million to US \$637 million.

Canned bean sales increased from US \$532 million to US \$635 million.

Chocolate spread sales increased from US \$188 million to US \$214 million.

#### Main Producers and their Russian Brands

Vega Product OOO is the largest supplier of canned food in the Russian market and controlled 4.8% of the market in 2008. Its largest brand is Vegda Product.

Glavproduct ZAO (4.6%) and Eurovision LLC (4.5%) are the second and third-largest producers of canned food in Russia, respectively.

### ► Sweet and savoury snacks

Sales value grew from US \$2.4 billion to US \$2.6 billion. The quantity increased from 308 thousand tonnes to 313 thousand tonnes.

#### Forecasts for 2009-2014

Sector sales are forecast to increase by 63% in value. Fruit snacks will grow by 174%. Nut sales are expected to increase by 67%. Chip and crisp sales are expected to increase by 66%.

#### Main Sectors 2008-2009:

Fruit snack sales increased from US \$38.5 million to US \$46.4 million.

Nut sales increased from US \$342.5 million to US \$375.4 million.

Chip and Crisp sales increased from US \$642.1 million to US \$707.9 million.

#### Main Producers and their Russian Brands

Frito Lay Distribution OOO is the largest company in the Russian sweet and savoury snack sector with a market share of 20.9%. It's leading brand is Lay's.

Sibirsky Bereg ZAO (13.6%) and Bridgetown Foods ZAO (7.5%) are the second and third largest producers, respectively.

**Company Shares of Packaged Food (by Global Brand Owner) - Retail Value RSP - % breakdown**

Russia	2002	2003	2004	2005	2006	2007	2008
Wimm-Bill-Dann Produkty Pitania OAO	1.9	2.2	2.3	2.6	3.3	4	4.1
Nestlé SA	2.5	2.5	2.5	2.6	2.7	2.6	2.8
Obiedinenye Konditery UK OOO	1.9	2.7	2.6	2.6	2.7	2.5	2.5
Mars Inc	1	1	1	1	1	1	2.3
Unimilk Kompania OAO	0	0.7	0.9	1	1.2	1.5	1.8
Kraft Foods Inc	0.9	0.9	0.9	1	1	1.3	1.3
Valio Oy	0.7	0.7	0.7	0.7	0.8	1.1	1.2
Unilever Group	0.7	0.6	0.6	0.6	0.7	0.6	1.1
Yug Rusi APG	0.5	0.5	0.5	0.5	0.9	1	1
Danone, Groupe	0.7	0.8	0.9	0.9	0.9	0.9	0.8
Cherkizovsky APK	0.5	0.5	0.6	0.8	0.9	0.9	0.8
Sibirsky Bereg ZAO	0.5	0.7	0.9	1	0.9	0.8	0.8
Orkla Group	0	0	0	0.8	1	0.8	0.8
Talosto ZAO	0.3	0.4	0.4	0.6	0.6	0.7	0.7
Kachestvennye Produkty ZAO	0	0.1	0.3	0.4	0.6	0.7	0.7

**Source:** Euromonitor

The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

### **Packaged Food Sales In Russia**

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