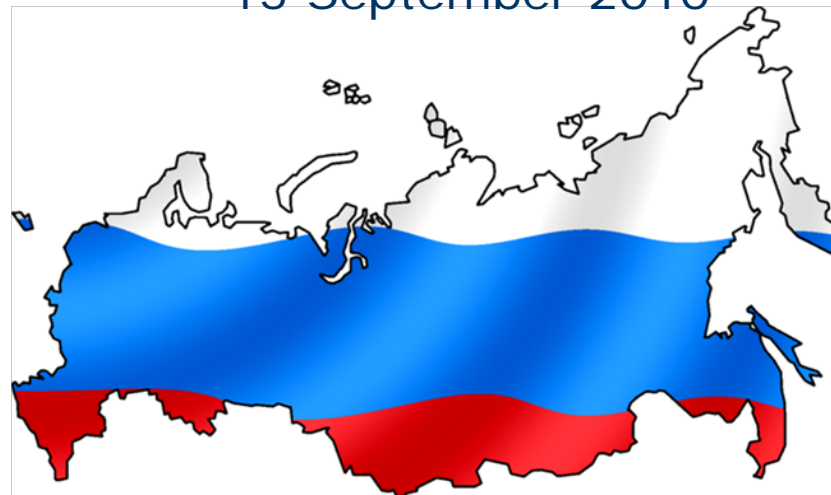




stichting vgs

Study trip to Russia & World Food Exhibition

15 September 2010



*By: Jeroen Ketting,
Managing Director of
Lighthouse Russia BV*

World Food 2010

Product sectors:

- Fruit &Vegetables
- Meat &Poultry
- Dairy
- Fish & Seafood
- Oils & Fat &Sauces
- Grocery
- Confectionery
- Tea & Coffee
- Drinks



World Food
14-17
September
2010

Exhibition:

- 1100 companies from 55 countries
- 36000m² of exhibition space
- 50 national groups and associations

Program 16/09/2010



Mikoyan meat processing plant

- 212 years as the largest meat processing plant in Russia
- 800 unique meat products
- Daily production of 400 tons of quality products
- 20% of the Moscow market
- Official supplier of the Kremlin, schools, hospital, army

www.mikoyan.ru



Miratorg Distribution Center

- Leading distributor of meat and semi-finished meat products
- 12 000 customers: largest retail chains, meat processing companies, HoReCa
- Distribution network in all regions of Russia
- Distribution of 300 000 MT of meat products per year

www.miratorg.ru



Meat retail (optional)

- Metro Cash & Carry retail store or/and
- Open market

- 1 • **ECONOMY**
- 2 • **MARKET**
- 3 • **FOOD MARKET; MEAT MARKET**
- 4 • **RETAIL CHAINS**
- 5 • **RISKS**
- 6 • **MARKET ENTRY**
- 7 • **DO'S AND DON'T'S**
- 8 • **EXECUTION**
- 9 • **RUSSIA IN-DEPTH**

1. Economy

Market

Risks

1. Russia fortunes are directly connected with oil and gas prices
2. Russia's desire to catch up with the Western world
3. The energy and power of Russia's entrepreneurship
4. Russia's size
5. Russia's hidden resources
6. Russia's resilience



Economy

2. Market

Risks

1. Russia is the nearest BRIC country and has the highest GDP per capita
2. Russia's consumption level has still a lot of catching up to do with the Western
3. Russians are "big" spenders
4. Growing "middle" class
5. Policy aimed at self sufficiency (localization, modernization, efficiency)
6. Regions are developing at a fast pace (esp. food market) → Ural Federal District, Volga Federal District, Krasnodar region
7. Russians like quality European products



Economy

3. Food
Market

Risks

1. Population of 142 million with growing consumption → Food consumption grew slowly in 2009/2010 (avg 6%) but is expected to rise from **\$249 bn** in 2010 to **\$434 bn** in 2014 > average annual growth of **12%**!
2. Russian retail market stays one of the most attractive markets globally (in 2009 more than 500 billion USD and expected CAGR of 20% in period 2010-2013 surpassing 800 billion USD).
3. Local production is insufficient to meet local demand → **continued demand** for imports
4. Opportunities in the **regions**: 11 other cities with a population of > 1 million
5. Around **70%** of food retail is still unorganized/independent (open markets, pavilions, kiosks, grocery stores)



Economy

3. Meat
market

Risks

1. **Large potential** of the meat market: meat consumption in Russia (**53kg year/capita**) is lower than in Europe (87 kg) and USA (120 kg) and lower than the health norms (80kg).
2. Meat market: **\$31 bn or 9.3 mln tons of meat**
3. Structure of the meat market: **39% poultry; 32% pork; 29% beef.** Poultry is the fastest growing segment (9%), beef demonstrated negative growth (-3%) in 2009.
4. **Reduction of the import of meat by 30%** compared to 2008 due to new high import tariffs (40% for pig) and import quotas, but import still high at a level of 38% of the meat market.
5. **Significant opportunities on the market for Russian producers:** stimulation of local production through high import duties, small import quotas and benefits for investment loans in order to reach government target of **90% of local meat production** in the total supply on the Russian meat market in 2014.



1. Creation of **full-cycle vertically integrated holdings on the meat market**: food storage, slaughter house, primary processing, meat processing, distribution, wholesale and retail.
Meat market leaders are **full-cycle holdings**: Cherkizovo (3,5%); Ostankino (3,2%); Prodo (3,1%); Mikoyan (2%).
2. **Non synchronized development of meat production and meat processing**: government support measures for meat production are not backed up by support of meat processing.
3. **Shortage of raw products on the meat processing market**: import dependant sector; low quality of livestock; poor development of the logistics and as a result **substitution of meat by alternative products**.
4. Reduction of the share of meat delicacies and cold cuts and **increase of the share of frozen semi-products** after the crisis.
5. Growth of distribution through **retail chains**.



1. Organized retail market: about **\$29 bn** forecasted in 2010
2. Rebound of the retail sector: **20%** annual growth rates forecasted after a 17% decline in 2009
3. Rapid expansion of modern format retail chains: the share of organized retail to reach **70%** in the next 10 years.
4. **Expansion** of Russian local and multinational retailers **into the regions with large customer bases**, i.e. Siberia and CIS.
5. **Consolidation of the retail sector**: small and/or regional retailers bought out by large national chains.
6. Development constraints: **poor infrastructure** (lack of warehouses, inter city highways); **administrative barriers in the regions** (large number of permits and licenses); **new "Retail law"** (chains with market share over 25% in any city district cannot open new stores).

Economy

4. Retail chains

Risks

1. **150** national and regional retail chains.
2. Market leaders: (**X5, Magnit, Metro, Auchan**) occupy more than **70%** of the market.
3. **Multi format approach** of retail chains aimed at different income groups.
4. Discounters benefited from weakened purchasing power. Largest growth levels demonstrated by **discounters and hypermarkets**.
5. Substitution of **foreign importers by local suppliers**, who can deliver in tight schedules.
6. Improvement of the quality of **private label products**. X5 plans to increase the share of private labels to 30% of the product range.
7. Leading retail chains expanding into **Internet retailing** in order to boost sales and cut costs (X5, 7th Continent).
8. New sector of additional services: **consultancy services for independent retailers** on positioning, logistics modernization, equipment.

Market

5. Risks

Market
entry

1. Mono structure of the Russian economy
2. Problems in remote areas (Far East, Kaliningrad, Northern territories)
3. One factory towns
4. Poverty gap
5. NPLs
6. Double dip (Russia consistently shows boom and bust pattern)
7. Oil price
8. Ruble exchange rate
9. Upcoming Parliamentary and Presidential elections



Risks **6. Market entry** **Do's and Don'ts**



Market
entry

7. Do's

Execution

1. Understand
2. Enjoy
3. Commit (time, money, people, presence)
4. Prepare
5. Gain some knowledge of the Russian language and culture;
6. Be entrepreneurial, flexible and patient
7. Stay in control and keep the initiative;
8. Clarify your transaction costs



Market
entry

7. Don'ts

Execution

1. Be afraid of Russia
2. Underestimate the market or your Russian business partner
3. Stick to your own perspective
4. Think Russia is Europe
5. Think that Russia is cheap
6. Let yourself in with corruption
7. Give immediate exclusivity to distributors and don't put certificate on your partner's name
8. Forget to register your trademark
9. Forget your visa and passport
10. Think transfer of goods and money is easy.



Do's and
Don'ts

8. Execution

Russia
in-depth

RUSSIA REQUIRES:

1. Twice the time to manage
2. Continuous attention
3. A personal hands-on approach
4. More investment of time, money and effort
5. A medium- to long-term strategy
6. Special care in logistics and customs
7. Attention to the language barrier
8. Doing business in Russia is like driving a car



Execution

9. Russia in-depth

Conclusions

1. Trust and personal relationships are crucial
2. Informal networks
3. The Micro Cosmos
4. Testing the rules
5. A different sense of responsibility
6. Pride and Power, Extremes, Emotions
7. Surprising
8. Practical
9. Short term (positively fatalistic) vision
10. Separating business and personal
11. Single-focus thinking



Execution

9. Russia in-depth

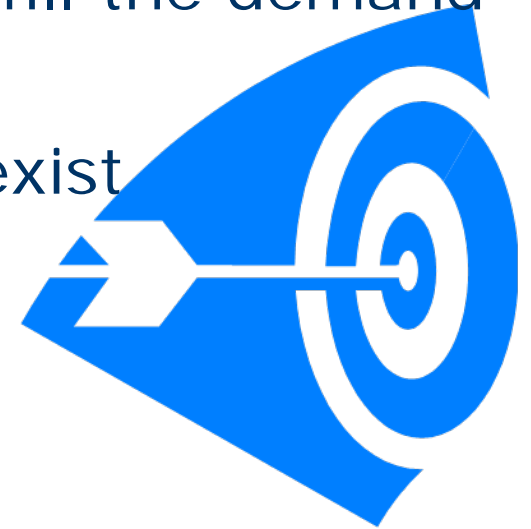
Conclusions

1. Vertical authority
2. Intent is more important than written agreement
3. Russian businessmen can be imposing. Weakness is not shown and one always negotiates from a position of power;
4. The external appearance is very important
5. Russian businessmen think, speak and act fast!
6. Quantity vs. Quality / Capacity vs. Efficiency / Purpose vs. Comfort



Conclusions

1. The economy will continue to grow
2. Consumer spending will continue to grow and demand for confectionary will grow
3. Expansion of organized retail
4. Foreign suppliers will be needed to fulfill the demand
 - BUT
5. Traditional problems will continue to exist so prudence and good preparation is advisable



Conclusions

Russia deserves to be taken
seriously



Contact

Contact LIGHTHOUSE

	Director	Jeroen Ketting	jeroen@thelighthousegroup.ru
	Client Relations and Information	Birgit von Oehsen	birgit@thelighthousegroup.ru
	Finance & administration	Elena Kabko	elena@thelighthousegroup.ru
Tel.:	+7 (495) 980 09 77		
Fax:	+7 (495) 502 92 86		
Website:	www.thelighthousegroup.ru		
Address:	Mytnaya Ulitsa 3, office 41, Moscow, Russia, 119049		