

A map of Russia is shown in the background, outlined in orange. The map covers the entire width and most of the height of the slide, with the text overlaid on it.

Making Money in the **Russian Pig and Poultry** **Sector**

POTENTIAL, OBSTACLES AND PRACTICE

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Why the Russian pig sector?

1. **Consumption** of meat (beef, pork and poultry) is less than in Soviet times;
2. Low **consumption** of pork (17 kg / capita in 2007 compared to 20 kg / capita in 1992);
3. Consumptive spending is rising by 10% annually, while food retail sales will grow by **14%** annually until 2011;
4. Domestic **production** of pork will grow by almost 16% over the period 2008-2017;
5. Local production of **high-quality processed pork products** will grow rapidly to meet rising domestic demand;
6. **Investments:** EUR 818 million planned in over 50 projects in 2008-2011 (according to the Institute of Agricultural Marketing).



Why the Russian poultry sector?

1. Poultry **consumption** has been traditionally low in Russia, but has doubled since 1998;
2. Poultry is to **increase** its share in total meat consumption (beef, pork and poultry) from 37% in 2005 to 42% in 2010;
3. The domestic **production** of raw poultry meat is to increase by 23% over the period 2008-2017;
4. The share of **processed poultry products** in the total production of poultry meat (unprocessed and processed) is rising;
5. **Investments**: EUR 954 million in 2006-2007 and increasing (according to the Institute of Agricultural Marketing).

What are the risks on the Russian market?

Political:

1. Medvedev's presidency can lead to some unrest as much depends of Putin's personal power. But: **bread over democracy**.

Regulative and administrative:

1. Changing and ambiguous **legislation** and **regulations**;
2. Difficult but not impossible to enforce **contractual and ownership rights**;
3. Bureaucracy.

Economic and financial:

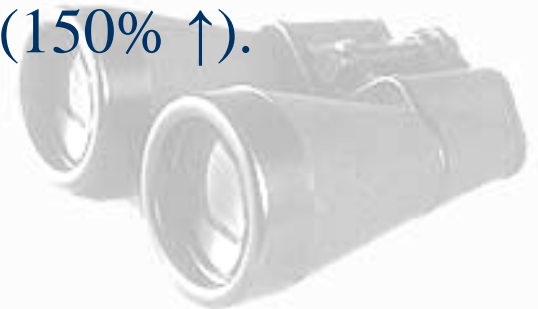
1. Underdeveloped banking system. Financing is expensive and scarce;
2. Underdeveloped SME and absence of strong bourgeoisie / middle class;
3. High and increasing **costs** (+10% per year). Moscow is now the most expensive city in the world;
4. Underdeveloped **infrastructure** (gas, electricity, water and heat).

HR:

1. Difficult to find good **staff**. Check backgrounds, networks and loyalties.

Will Russia remain stable?

1. Continuing **high prices** for oil and gas:
 - Account for 15-20% of GDP;
2. Low level of consumer **credits** and mortgage lending (The Russian owns his house, car, dacha);
3. Consumptive **spending** can be easily (temporarily) reduced by the Russian consumer;
4. Consumption over **democracy**;
5. Foreign **investments** reached \$90 billion in 2007 (150% ↑).



General characteristics of the Russian P&P sector

The **drivers** of the growth of the P&P sector:

1. Domestic production is **lagging** behind consumption;
2. Import substitution: Government policy through import quotas and tariffs;
3. More **capital** available in the market for investments:
 - Availability of credits through the governmental support programs (e.g. National Pork Investment Program, National Priority Project for Agriculture);
 - Emergence of agro-holdings that are able to take on long-term risk in the agribusiness.



General characteristics of the Russian P&P sector

The problems in the P&P sector:

1. Rising feed prices are reducing the **profitability** of the production of raw pork and poultry meat;
2. Lack of **management** skills;
3. Poor **logistics**;
4. Underdeveloped **distribution** channels;
5. **Contractual** issues such as not being able to agree on long-term delivery contracts of feed.



Clients in the Russian P&P sector

Clients in the pig sector:

1. Agricultural organizations and private farms each account for around **half** of the total production of raw meat;
2. Pig breeding is **concentrated** in the greater Moscow area, Volga, Southern and Siberian Federal Districts;
3. The production of **processed meat products** is concentrated in the greater Moscow area;
4. Around **60%** of the planned investment projects in the pig sector are located in the greater Moscow area;
5. **Large agro-holdings** (Planeta Management, Agros, Cherkizovo, and Komos) are investing in the pig sector;
6. **Consolidation:** Many smaller pig farms are going bankrupt or are incorporated in larger entities.



Clients in the Russian P&P sector

Clients in the poultry sector:

1. Around 80% of raw poultry meat was produced in **large scale poultry broilers** in 2006, while small farmers and household producers accounted for the remaining 20%;
2. Poultry breeding and processing is **concentrated** in the greater Moscow area and the Volga Federal District;
3. **Agro-holdings** such as the Agro-Holding Group, Agros, Cherkizovo, Zolotoi Petushok Invest and Zarya OGO are acquiring poultry broilers and investing in their modernization;
4. **Consolidation:** Agro-holdings are purchasing poultry broilers. Cherkizovo acquired Chicken Kingdom to create the largest player on the Russian poultry market.



Opportunities in the Russian P&P sector

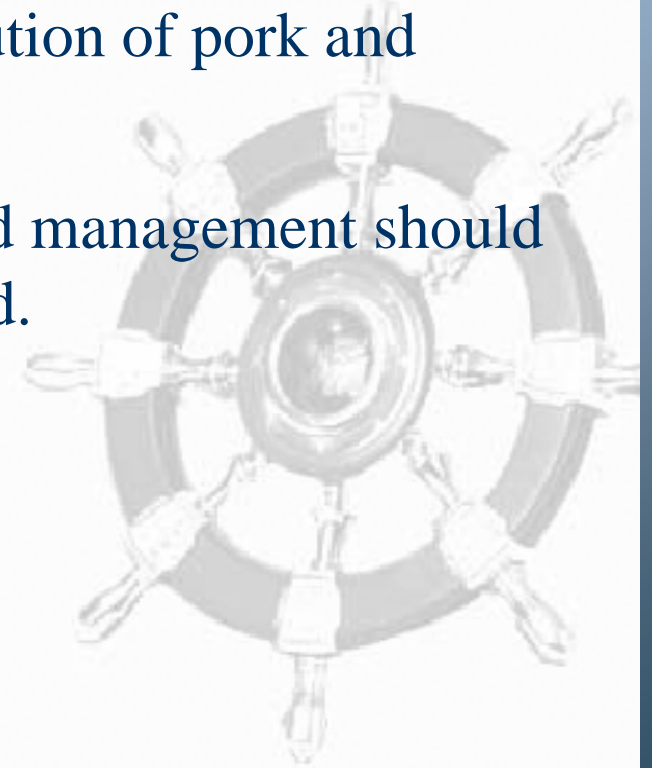
Needs:

1. High-quality **premises** for the pig and poultry sector;
2. Supply of **pedigree livestock** to pig farms;
3. Supply of **incubated eggs** as a shortage of these eggs occurred in 2007;
4. Equipment for **slaughtering** of pigs and poultry;
5. Equipment for the **processing, packaging, storing and distribution** of pork and poultry products;
6. **Know how** in the field of veterinary care, animal feed, breeding and management.

Opportunities in the Russian P&P sector

Full-cycle:

1. Focus should be on providing **turn-key solutions** from the start to the end of the production cycle. This includes breeding of pork and poultry and the processing, storing and distribution of pork and poultry products;
2. Also, **advice** in the field of veterinary, feed and management should be included in the package of services provided.



How to approach the Russian P&P sector

1. Russian customers are no longer interested in companies that **solely** supply hardware or livestock;
2. Rather, they require partners that can provide a **turn-key solution** that allows them to overcome the problems that are present in the entire value chain of the Russian pig and poultry sector;
3. Therefore, it is crucial that one becomes a **long-term knowledge partner** instead of a pure hardware or livestock supplier;
4. Inviting your client to the **Netherlands** to show how you can solve the problems of your client is often the best and cheapest way!
5. A clear understanding of the **market** is required to understand the problems. These problems are your **opportunities**.

How to approach the Russian P&P sector

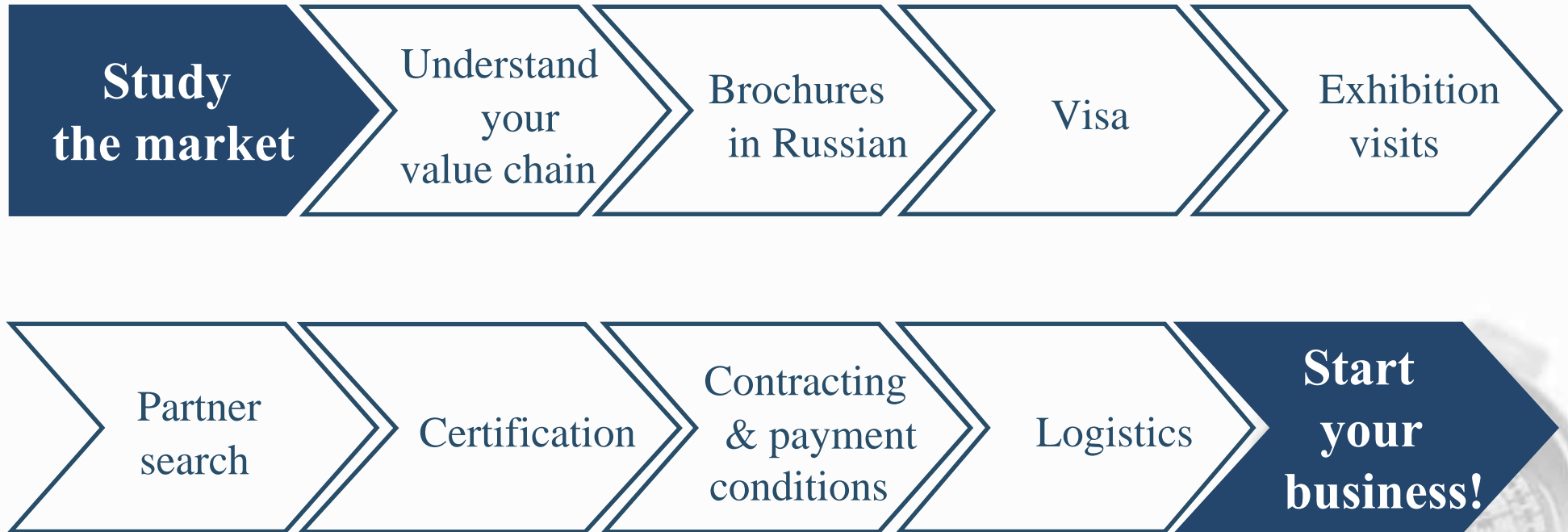
1. Know your
specific market

2. Know the players
in your value chain

3. Understand
the problems
of your customer

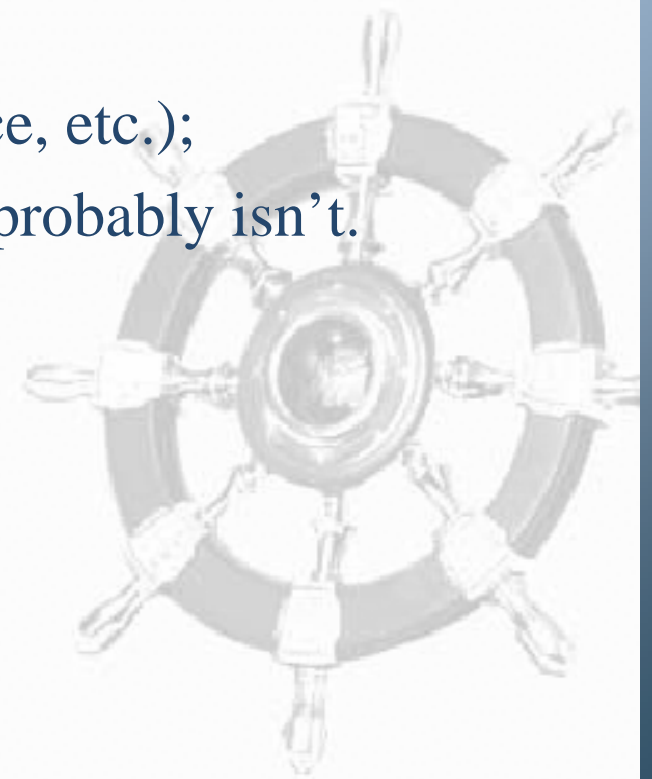
4. Offer a full-cycle
solution

Steps to take



How to search for a partner

1. Choose your partner carefully:
 1. Good **management**;
 2. Strategy and growth **prospects**;
 3. Decent company **infrastructure**;
 4. Sufficient **transparency** (tax, legal, finance, etc.);
 5. Common **sense**; if it doesn't seem right it probably isn't.
2. When in doubt: use advisor;
3. When still in doubt: Don't continue!!!



How to deal with logistics

1. Customs;
2. Certification and documents;
3. DDP deliveries without local representation;
4. Need to compete with **grey imports**;
5. Take into account the **weak logistics infrastructure**.

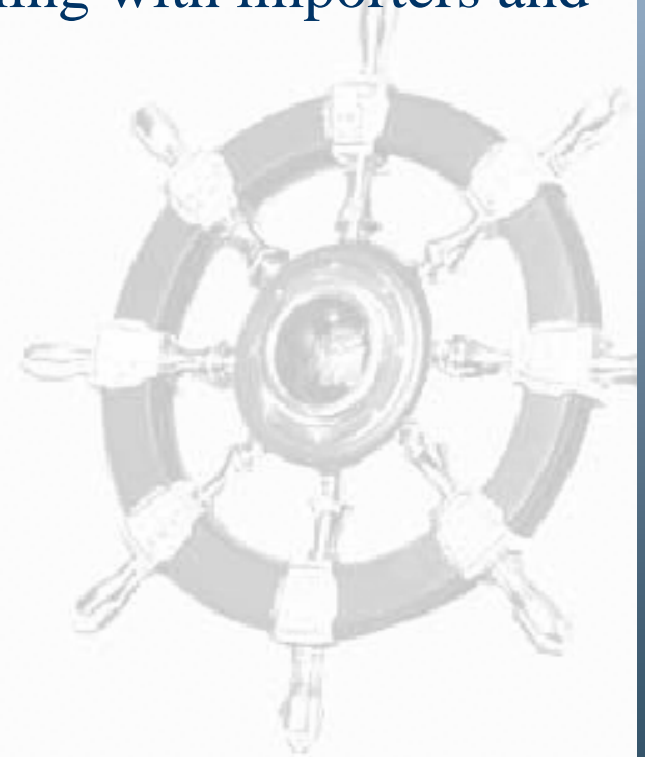
Therefore important;

1. Good and trustworthy **agent/partner/consultant**;
2. Good **transport company** experienced in working with Russia;
3. Solid preparation and **uniformity of documents**.



Contracting and payment conditions

1. Draw up a clear **bi-lingual contract**;
2. **Conservative** payment conditions;
3. **Do not** immediately give **exclusivity** when dealing with importers and distributors.



What is the secret of success of foreign companies in Russia?

1. They are there and they are **committed**;
2. They **like** it 😊;
3. They **understand** Russia and its potential;
4. They are ready to be **flexible**;
5. They are **entrepreneurial**.



Do's

1. **Enjoy Russia!**
2. Do your homework and **know** your market;
3. Gain some knowledge of the Russian **language** and **culture**;
4. Stay in **control** (of finances and management);
5. Create **win-win** situation;
6. Use experienced local (general, tax and legal) **advisors**;
7. Limit your **exposure** and risks;
8. Dedicate and commit sufficient **financial & human resources**;
9. Be **flexible** and **patient** (e.g. bureaucracy, market development);
10. Think well about the **location** of your office, warehouse, and production;
11. Understand the Russian **perspective!**



Understand the Russian perspective

1. Be aware of cultural **differences** and language barriers;
2. Building of **trust** and personal relationships is key;
3. Informal communication **networks** are most important;
4. Relatively **short-term** vision;
5. Vertical **authority**;
6. During first contacts the Russian partner may **promise** more than can be delivered (without bad intent!);
7. Russian businessmen can be imposing. **Weakness** is not shown;
8. The **external appearance** is very important;
9. Russian businessmen think, speak and act **fast!**



Don't

1. **Underestimate** the market or your Russian business partner;
2. Think Russia is **Europe**;
3. Think Russia is **cheap**;
4. Think it is easy to find the right **staff**;
5. Let yourself in with **corruption** (payments on the basis of contracts or through third parties);
6. Give immediate **exclusivity** to distributors;
7. Forget to register your **trademark**;
8. Forget your **visa** and do not forget to have your passport on you;
9. Think **transfer** of goods and money is easy.



Conclusions and advice

1. The Russian pig and poultry sector is growing strongly, but the growth peak has already passed. **So be quick;**
2. The problems of the Russian pig and poultry sector are your opportunities. Thus, a solid understanding of the market is required to identify your clients, their problems and your opportunities;
3. Come with a **turn-key** solution to the problems of your (potential) Russian client;
4. Come with **quality** and **added value;**
5. Be ready to make a long-term **investment;**
6. **Prepare well** and think through all the steps;
7. **Understand** Russia;
8. Have **fun** and make money!



Since 1999 Lighthouse assists Western companies in doing business in Russia. Throughout the years, Lighthouse has successfully assisted hundreds of companies from a wide range of sectors with their business development in Russia. Whether you need to start or increase your sales, set up production or do an acquisition, Lighthouse has the experience, the network and the team to help you reach your goals faster, cheaper and with less business risks. We are always happy to exchange thoughts with you about your business in Russia.

For further information you can contact us by using the coordinates below.

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