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Product Brief

Confectionery: Russian consumers are looking for greater variety

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Report Highlights:

Annual confectionery sales in Russia exceeded \$3.5 billion in 2005 and can be considered one of the biggest markets in the world. Russian experts evaluate market growth to be between 6 and 15 percent annually. Russia's economy has grown more than 6 percent annually for the last five years. According to GTI's World Trade Atlas, sugar confectionery imports in 2005 were \$101 million; the import value for chocolate reached \$263 million. Leading exporters to Russia are Ukraine, Germany, Poland and Italy. Price does not affect the purchasing decision, as was the case after the financial crisis when consumers preferred cheaper sugar confectionery to chocolate confectionery. Russian consumers are looking for greater variety and quality. Western holidays are growing in popularity. Halloween, Santa, and Valentines Day advertisements and candy novelties show up more and more each year. Interested exporters should contact ATO Moscow to inquire about World Food 2006 in September and show Russia their products.

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Exporters can join ATO Russia's World Food Moscow's U.S. pavilion for grocery products held in Sept 2006. Join by writing atomoscow@usda.gov	7

Market size

The size of confectionery market sales in Russia exceeded \$3.5 billion in 2005 and can be considered one of the biggest in the world. Russian experts evaluate market growth between 6 and 15 percent annually. While this growth can slow down in terms of volume, the value of market size will keep growing due to consumer preferences towards better quality and better-packed confectionery products.

Table 1. Market size, \$US mln

	1998	1999	2000	2001	2002	2003	2004	2005
Chocolate confectionery	3,060	2,636	2,741	2,934	3,076	3,353	3,641	3,896
Tablets	880	745	713	762	805	876	953	1,026
Countlines	427	341	362	388	412	432	452	470
Bagged selflines/softlines	1,002	922	1,015	1,075	1,128	1,197	1,291	1,363
Boxed assortments	648	544	557	605	618	724	813	897
Standard boxed assortments	648	544	557	605	618	724	813	897
Twist wrapped miniatures	-	-	-	-	-	-	-	-
Seasonal chocolate	57	50	57	62	68	75	81	86
Chocolate with toys	47	35	38	41	45	49	52	54

Source: Euromonitor

Import

According to the World Trade Atlas, import value for sugar confectionery in 2005 was \$101 million. Commodity group HS1704 shows four years of consistent growth. Imports grew 28 percent in 2004 compared to the statistics of 2003 and 21 percent in 2005 compared to 2004. Which brings Russia to 12th place among sugar confectionery importers after the USA and EU. In import value Russia imports close to the same value as Japan, Australia and Spain.

Table 2. Russia Import Statistics, sugar confectionery

Commodity: 1704, Sugar Confectionery (Including White Chocolate), Not Containing Cocoa							
Year To Date: January - December							
Partner Country	\$US mln			% Share			% Change
	2003	2004	2005	2003	2004	2005	2005/2004
World	71.1	90.7	110.3	100.0	100.0	100.0	21.5
Ukraine	13.9	21.5	30.1	19.5	23.7	27.2	39.4
Poland	3.8	11.6	14.3	5.4	12.8	12.9	22.8
Germany	2.9	3.7	9.1	4.2	4.1	8.3	145.6
Czech Republic	3.8	5.2	7.6	5.3	5.8	6.9	45.3
Belgium	14.7	11.3	7.1	20.8	12.4	6.5	-36.6
Netherlands	6.5	6.2	6.7	9.1	6.9	6.1	8.1
Colombia	1.2	2.7	6.6	1.7	3.0	6.0	142.6
Turkey	1.7	2.4	4.3	2.4	2.6	3.9	77.2
United Kingdom	2.9	3.9	4.2	4.2	4.3	3.8	6.8
Spain	1.7	2.7	2.7	2.4	2.9	2.5	3.2

Italy	2.4	2.0	2.5	3.4	2.3	2.3	22.2
Brazil	0.8	1.1	2.2	1.2	1.2	2.0	106.7
India	1.3	2.5	2.0	1.9	2.8	1.8	-18.8
China	0.6	1.6	1.3	0.8	1.7	1.1	-20.4
Hungary	0.8	1.1	1.2	1.2	1.2	1.1	12.6
Finland	3.8	2.5	0.8	5.3	2.8	0.8	-67.0
Ecuador	0.0	0.4	0.8	0.0	0.4	0.7	91.5
Ireland	0.5	1.3	0.7	0.7	1.4	0.6	-49.3
Argentina	0.5	0.6	0.7	0.6	0.6	0.6	15.5
Switzerland	0.5	0.5	0.5	0.7	0.6	0.5	-4.8
Indonesia	1.4	1.1	0.5	2.0	1.2	0.5	-55.4
Lithuania	0.1	0.3	0.5	0.1	0.3	0.5	70.3
Lebanon	0.4	0.5	0.4	0.6	0.6	0.4	-17.2
United States	0.3	1.0	0.4	0.5	1.1	0.4	-57.8
European Union	1.2	0.0	0.4	1.7	0.0	0.4	8

Source: World Trade Atlas

According to the World Trade Atlas, import value for chocolate in 2005 reached \$263 million, which is 15 percent above the 2004 record. Since 2000, the average annual growth in HS1806 commodity group equals 25 percent.

Table 3. Russia Import Statistics, chocolate

Commodity: 1806, Chocolate And Other Food Preparations Containing Cocoa							
Year To Date: January - December							
Partner Country	\$US mln			% Share			% Change
	2003	2004	2005	2003	2004	2005	2005/2004
World	184.2	228.8	262.5	100.0	100.0	100.0	14.7
Ukraine	101.5	120.0	140.4	55.1	52.5	53.5	17.0
Germany	17.2	29.3	40.5	9.3	12.8	15.4	38.1
Poland	20.8	25.4	24.1	11.3	11.1	9.2	-5.2
Italy	8.7	7.8	9.4	4.7	3.4	3.6	20.7
Netherlands	5.3	4.3	7.4	2.9	1.9	2.8	73.0
France	1.1	3.6	5.7	0.6	1.6	2.2	57.8
Belgium	2.9	4.2	5.1	1.6	1.8	2.0	22.0
Finland	3.3	4.2	4.2	1.8	1.8	1.6	0.6
Switzerland	2.6	3.8	4.2	1.4	1.7	1.6	10.9
Turkey	4.4	3.9	3.9	2.4	1.7	1.5	-1.1
Latvia	1.6	2.6	3.4	0.8	1.1	1.3	31.7
Lithuania	1.5	1.7	3.1	0.8	0.8	1.2	76.6
Spain	1.7	0.8	1.6	0.9	0.4	0.6	97.7

Austria	1.6	1.7	1.4	0.8	0.7	0.5	-17.7
United States	2.7	8.3	1.1	1.5	3.6	0.4	-86.4
Czech Republic	0.4	0.3	1.1	0.2	0.1	0.4	227.6
United Arab Emirates	0.0	0.7	0.8	0.0	0.3	0.3	5.3
Sweden	0.8	0.6	0.7	0.4	0.3	0.3	3.5
Singapore	0.0	0.0	0.6	0.0	0.0	0.2	0.0
United Kingdom	0.7	0.6	0.6	0.4	0.3	0.2	-10.8
Hungary	0.6	0.5	0.5	0.3	0.2	0.2	8.2
Estonia	0.0	0.4	0.5	0.0	0.2	0.2	34.2
Argentina	0.0	0.0	0.4	0.0	0.0	0.2	5134.9
Brazil	0.1	0.1	0.3	0.1	0.1	0.1	168.8
Denmark	0.3	0.3	0.3	0.2	0.1	0.1	-9.2

Source: World Trade Atlas

Customs clearance

Duties at customs clearance consist of the import duty, VAT and cost for customs clearance services.

Table 4. Customs duties

HS code	Import duty	VAT
1704101100	20 %, but not less than 1.2 Euro/kg	18%
1704101900	20 %, but not less than 1.2 Euro/kg	18%
1704109100	20 %, but not less than 1.2 Euro/kg	18%
1704109900	20 %, but not less than 1.2 Euro/kg	18%
1704901000	20 %, but not less than 0.25 Euro/kg	18%
1704903000	20 %, but not less than 0.25 Euro/kg	18%
1704905100	20 %, but not less than 0.25 Euro/kg	18%
1704905500	10%	18%
1704906100	20 %, but not less than 0.25 Euro/kg	18%
1806101500	5%	18%
1806102000	0.23 Euro/kg	18%
1806103000	0.23 Euro/kg	18%
1806109000	0.23 Euro/kg	18%
1806201000	5%	18%
1806203000	5%	18%
1806205000	5%	18%
1806207000	5%	18%
1806208000	5%	18%
1806209500	0.23 Euro/kg	18%

Source: www.tks.ru

Consumer preferences

Price does not affect the purchasing decision any more, as was the case after the 1998 financial crisis, when consumers preferred cheaper sugar confectionery to chocolate confectionery. Confectioners have responded to the increasing demand for higher-quality and more expensive products and are continuously launching new premium-priced products. Local consumers are almost spoiled by the regular flow of novelties and have started to develop more sophisticated tastes. (Euromonitor)

Research by ACNielsen, shows that chocolate boxes that cost under \$10 per kilo are gradually substituted with ones costing over \$15 per kilo. Inexpensive candies acquired 84.8 percent market share in 2003, while in 2005 their share dropped to 76.8 percent. Consumers have started to show their particular interest in product quality, ingredients, country of origin, trade mark and package design that can emphasize the social status of the customer. This happens due to consistent growth of incomes of the Russian citizens.

Boutiques have become very popular distribution channels for premium chocolate products. The trend began at the end of 2003 and is expected to continue in 2005. The clearest increase in premium- and high-priced chocolate products was in the major cities of Russia, with Moscow in first place. (Euromonitor)

Such factories as Babaevsky, Krasniy October and Rot Front have started to manufacture hand made candies. According to the research performed by PRADO Marketing in 2004, most consumers prefer dark chocolate. Forty-six percent of Muscovites mentioned dark chocolate as their favorite type. Milk chocolate was only slightly less popular, taking 44 percent of the votes. The remaining favorite, at 10 percent, was white chocolate.

The most popular chocolate ingredients are filberts, dried fruit mix, almonds, peanut, or raisins.

The portrait of the main consumer of chocolate in the Moscow region is male or female, aged 14-25, with secondary or higher education, and family monthly income above \$1,000. This is about 4 million consumers just in Moscow and the Moscow region.

Gift chocolate is extremely popular. Many Western, even American, candy holidays have appeared. In October, Halloween signs hang everywhere, and while there is no trick or treating, candies with a Fall theme of ghosts, goblins, and ghouls are growing in popularity. Red heart boxes at Valentines Day are also a novelty. "D'yen Svyatova Valentinova" or St. Valentine's day precedes the Woman's Day holiday by just a few weeks and offers some interesting marketing opportunities. At New Years, lots of chocolate is offered for gifts, and the Santa figure is making inroads against Grandfather Frost.

Marketing

Chocolate is aggressively advertised in Russia through various channels: mass media, in-store promotions and etc. Consumers are careful about purchasing unknown trademarks. Analysts consider that a unified chocolate promotion is needed to increase the consumption of chocolate itself.

Russian confectionery manufacturers are active abroad in sales and are participants at European trade shows. ISM – Internationale Süsswarenmesse 2006 Russian participants included Cheroke, Ruzskaya Confectionery Factory, A. Korkunov/ Odintsovo Confectionery Plant, Akkond, Aktiengesellschaft Süßwarenfabrik "Slavyanka", CF Menshevnik, Landrin Confectionery Factory, Vishnevogorsk Confectionery Factory Golitsin, VK Ltd.

Competition

Local manufacturers have maintained strong positions and increased their presence in the traditional product areas. Local manufacturers dominate boxed assortments and local confectioners almost solely account for seasonal chocolates sales. Local confectioners mainly represent bagged selflines/softlines, however a majority of selflines/softlines is still sold in a loose format.

According to BusinessAnalitika, market share of leading confectionery operators are: Nestle – 22 percent, Krasniy October - 6,6 percent, Babaevsky - 5,2 percent, RotFront - 5,2 percent, Kraft Foods - 9,5 percent, Mars - 9,5 percent, Sladco - 5,3 percent, others 36,7 percent.

Pricing

Prices differ from shop to shop. Here are sample prices from one average Moscow supermarket.

Table 6. Prices on chocolate, Moscow supermarket.

Product type	Weight, grams	Price, \$
Chocolate candies with nuts, box	150	5.7
White chocolate candies with almonds, box	150	5.9
Caramel candies in chocolate, box	350	9.7
Chocolate candies, box (Russian)	130	4.0
Chocolate candies with cognac (Russian)	200	2.7
Milk chocolate candies	200	2.9
Chocolate candies, box	200	3.8
Cashew in chocolate	300	4.2
Candies with pistachios	150	4.3
Chocolate bars	100	Above 1

Useful links

Links to the web-pages of leading Russian companies of the confectionery sector. Most of these are Russian language sites, but the still images of the assortments might be of interest.

Krupskaya factory assortment: <http://www.krupskaya.com/catalog/>

Sladko assortment: <http://www.sladco.ru/products/catalogs/chocolate/chocolate2/>

Korkunov factory assortment: <http://www.korkunov.ru/mode.1148-l.ru>

Confael assortment: <http://www.confael.ru/1101094475>

KraftFoods assortment:

<http://www.kraftfoods.ru/kraft/page?siteid=kraftprd&locale=ruru1&PageRef=483&Mid=483>

Krasniy Oktyabr assortment: <http://www.redoct.msk.ru/eng/buyer/catalog.shtml>

Babaevsky assortment: <http://www.babaev.ru/product/chok.html>

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World Food, Moscow

September 26-29, 2006

www.world-food.ru/eng

This USDA-endorsed event offers an excellent opportunity to introduce U.S. food products in Russia. In 2005, this 4-day show drew 1,100 exhibitors from 51 countries and attracted more than 50,000 importers, wholesalers, retailers, and processors from all parts of Russia and from many neighboring countries. The show includes a confectionery pavilion, bakery and grocery pavilions, among many others.