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The market of processed tomatoes in Russia

RUSSIA 2017

GruppoBPC International

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1. OVERVIEW OF THE RUSSIAN MARKET OF CANNED FRUITS AND VEGETABLES

Major peculiarity of Russian market of canned/preserved fruit and vegetables is that significant part of it is constituted by **home - made products**. However, currently the market of industrially canned/preserved fruit and vegetables is growing and seems to have bright prospects on future performance.

Basing on statistics of domestic production and average retail prices “CredInform” estimated the value of Russian market of canned/preserved vegetables at 138.7 billion rubles (~2 bln. E) in 2014; including import, it accounts for 165.5 billion rubles (~2.4 bln.E), although import contributes with a relatively small share (16.2%).

Annual earnings of the largest local manufacturers of canned/preserved vegetables demonstrate **two-digit growth rate** according to the most recent financial reports and this dynamics is related to increasing demand for domestic products.

One of the major growth factors of Russian canned/preserved vegetables was the ban of competitors from Moldova and Ukraine. In July 2014 Rospotrebnadzor banned the import of canned food to Russia from Moldova and Ukraine because of the discrepancy between the label and the contents of cans. The ban fell just at the time of harvesting and processing of seasonal vegetables, so most Russian producers managed to increase their production. After the ban many foreign manufacturers started placing their orders at Russian plants: for example, the Ukrainian brands Veres and Nezhin have done so. Since there are no more than **10 high-performance plants** in Russia, now their capacity is in demand both by brand holders and retail chains.

Suppliers

Key suppliers of canned/preserved vegetables to Russia are **China, Spain, Poland, Netherlands, India, Hungary, Vietnam, Byelorussia** and **Germany**; cumulative share of these countries in import value constitutes 83.2%.

Some years ago the import of canned/preserved vegetables to Russia was dominated by peas and sweet corn – 41.2% of import volume aggregately. Next important category was cucumbers/cornichons with 29.3%. Other kinds of canned/preserved vegetables provided 24.5% of import volume.

Practically every product category of the market has its own **leader of import supplies**. In canned/preserved tomatoes most important supplier is Italy with 52% of import volume. In imported pickled cucumbers/cornichons the leaders are Taiwan and India with 42% and 32% of supplies in volume respectively. China and Hungary are most important suppliers of sweet corn and green peas – 25% and 24% in volume respectively.

Among the most active European players there are Bonduelle Group (France), Lorado International GmbH (Germany), General Mills, Inc. (USA, TM Green Giant), Globus Konzervipari Rt. (Hungary). However, some of them have their own production facilities in Russia, for example, the Bonduelle Group.

“Bonduelle” Group opened its office in Russia in 1994 and started to supply canned and frozen vegetables to retail and restaurants. For 20 years “Bonduelle” has been clear leader of Russian market of canned/preserved vegetables. According to retail monitoring, the company controls about 13% of the segment of canned vegetables in value and its all-country weighted distribution grew to reach 93%; these facts mean that “Bonduelle” products are offered practically by every retail outlet in Russia.

No distinct trend is revealed in dynamics of manufacturer prices for canned/preserved vegetables, however as a rule in summer prices go down and in winter they go up. So, distinct seasonality and relatively long product turnover period are major challenges of the review industry. In the context of consumption seasonality maximum sales are reached in winter with peak in January

In October 2015 an average manufacturer price per can of canned/preserved vegetables was of **17.8 rubles (~0.25E)**.

Retail prices for canned/preserved vegetables are significantly higher in comparison to manufacturer prices: in October 2015 a conditional can (1 kg) was offered in retail for **140.9 rubles (~2E)**; in January–October 2015 the average retail price saw 27.5% year-to-year increase. On its way from manufacturer to retail shelf the average price for the review category increases almost by 8 times (17.8 rubles against 140.9 rubles).

2. THE MARKET OF PROCESSED TOMATOES IN ITALY

Italy is one of the **largest tomato producers of fresh tomatoes**. According to the Syngemta figures, in Italy 7,800 hectares are devoted to the production of tomatoes, of which the largest part (accounting for 5,700 hectares) has grown in the South. There are different types of tomatoes grown in Italy: Truss tomatoes, that make the largest category at almost 52%, Cuore di bue at 10%, Marmande 3.5%, Beefsteak tomatoes 3% and other minor varieties.

The Italian processed tomato industry is worth **approximately 3.2 billion euros**. Italy is the leading exporter of tomato products in terms of value, followed by China with less than half of the value and the US, and it is the second in terms of volume. Italian tomato sauce export has been increasing since 2000. The main export markets are the **European Union**, accounting for around 60%, followed by **the US**, **Japan** and **Australia**.. In fact almost 60% of the tomato sauces produced in Italy is destined to foreign countries. The export routes for processed tomato products have always followed the migratory flows of Italians, together with the diffusion of Italian catering abroad and the export of other products, such as pasta and pizza, which are perfectly combined with tomato.

3. THE MARKET OF PROCESSED TOMATOES IN RUSSIA

From 2012 to 2016 the volume **of sales of tomato products in Russia grew by 8.9%**: from 548,4 to 597,2 thousand tons. Reduction compared to the previous years was observed only in 2015. Sales in 2015 have fallen on the background of general reduction in demand from consumers of different sectors. This reduction in retail sales generated a sharp increase in retail prices (+ 31,0% compared to 2014), due to the reduction of imports, the devaluation of the ruble and high inflation in the country. Aggregate growth in production volumes in 2015 amounted to 3%. Despite the fall in real income in 2015 tomato products continue to be in high demand. In fact, in the period 2017-2021 sales of tomato products will show growth **at 3.3-4.5% per year** and reach 722,6 thousand tons at the end of the period, which exceeds the level of 2016 by 21%

Ketchup and tomato sauces

In Russia ketchup is used daily for almost any second meals and for all festive menu. Ketchup is the second sauce in Russia for popularity after mayonnaise. Consumption of ketchup is 13% of the market size of sauces, seasonings and spices. In 2014 per capita consumption of ketchup amounted to roughly 1 kg per year. In addition, at the moment there is a stable positive growth of the market of ketchup in Russia. Therefore, t**he consumer is not willing to give up to this product** even with less purchasing power. According to the representative of GK "NEFIS", the industry has not experienced difficulties in connection with the prohibition of the import of tomatoes for the embargo. The main players on the market of ketchup in Russia are "Essen production AG", "Unilever Rus", and also H. J. Heinz Company.

In 2012-2016, the share of ketchup and tomato sauces in total sales of tomato products average was **40.8%**. The proportion of tomato pastes and purees in the same period of time had an average of 26.5%.

Main producers of ketchup and tomato sauces in Russia: among the leaders of the market of ketchup in 2016, it is possible to allocate the enterprises belonging to transnational corporations:

- UNILEVER (bought the business for the production of sauces from the Russian company "Baltimore")
- HEINZ (OOO "PETROPRODUKT - OTRADNOE" in the city of Moscow), OAO "NEFIS-BIOPRODUCT" (belongs GK "NEFIS"),
- "EFKO", Buzdyaksky canning plant (branch of JSC "food industry"),
- "RUSSKOE POLE" (lytkarinsky food factory),
- JSC "ESSEN PRODAKSHN AG" (the plant in Yelabuga)
- OOO "Russian products" from the Kirov region

The largest production volume among all Federal districts comes from the **Volga Federal district**: in the first quarter of 2016 represented 34% of the total. In second place with a share of 27% is the **Central Federal district**, the third place - the **North-Western Federal district** with a share of 20%. Together, these Federal districts account for 81% of the Russian production volume in the first quarter of 2016, while in the last quarter of 2015 on the same districts, combined, had the 85%.

Tomato Paste

In 2011-2015, the production of tomato paste and puree **increased by 63.4% from 32,0 to 52.3 thousand tons**. Currently in the country, tomato paste (raw material) is practically not produced. Domestic producers prefer to import tomato paste concentrate in barrels for further processing and packaging in smaller containers. In the stores such products come under Russian trademarks.

From 2011 to 2015, the volume of imports of tomato paste and sauce in Russia decreased by 6.2%: over 155,5 to 145,9 thousand tons. The main reason for the decrease in the index in 2013 was the decline in import supply from China. In 2015 import tomato pastes and purees to Russia decreased markedly from a number of countries. So, in 2015 the

Russian market decided to stop the supply of tomato paste and puree from Ukraine (in 2014 they amounted to about 10 thousand tons), while the supply from Portugal decreased by 8.8 thousand tons, Iran – 5.5 thousand tons. Reduction of supply from other countries was not so significant. The largest supplier of tomato paste and puree into the Russian market is China, whose share in supplies in 2015 accounted for 68.6%.

According to the forecast of BusinesStat, the rate of growth of production of tomato paste and puree into the country in 2016-2020 will fluctuate from 25.1 percent in 2016, to 10.2% in 2020. In 2020 the production will be about 115 thousand tons, which will exceed the result of 2015 almost 2.2 times. Thanks to the development of domestic production in 2016-2020 imports of tomato paste and sauce in Russia will decline by 6.7% a year. In 2020 they will amount to 91.9 per thousand tons, which is less than the value 2015 37,0%

4. SALES CHANNELS

In 2011-2015 the largest share of sales of the ketchup and tomato sauces in Russia were in the **retail trade**. However, in the analyzed period there was a steady increase in the share of **HoReCa** in total sales structure. In 2009, the share of HoReCa sector was 12.3%, but in 2015, its share has increased to 14.5%.

The volume of Russian market of ketchup and tomato sauces by 2018 will reach **245 thousand tons**. Most rapidly sales will increase in the HoReCa sector (about 6% per year). In 2018, the share of HoReCa in total sales of tomato ketchup and tomato sauces on the Russian market is expected to be over 16%.

The main volume of tomato paste and puree is sold in Russia for the needs of **wholesale food enterprises**. Consumption of tomato paste in the household as a whole **is stable**. The paste traditionally is used mainly as a component for soups and sauces

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5. EXHIBITIONS

World Food Moscow
Moscow, September 11th-14th 2017
http://www.world-food.ru/en-GB/

Inter Food Ural
Ekaterinburg, October 23rd – 25th 2018
http://www.interfood-ural.ru/home/default.aspx

Dairy & Food Industry
Moscow, February 27th – March 2nd 2018
http://www.md-expo.ru/en-GB

Ingredients Russia
Moscow, February 27th – March 2nd 2018
http://www.ingred.ru/en-GB

6. OPPORTUNITIES

There is secure market penetration opportunity for a quality international supplier willing to expand its sales into the Russian Federation market, thanks to the positive consumer trends and outlook of the local economy. However, the market entry should take into account the following important strategic highlights:

- since Russian market is price-sensitive, it is recommended to approach it with competitive price offer.
- same brands of canned/ preserved vegetables are presented in retail with different price level. Therefore, It's recommended to consider not only premium food chains, but also medium and, perhaps, economy ones.

GruppoBPC International is the ideal partner for the development of your company and your products in the Russian market, knowing the market and operating directly through our local team. Thanks to an organizational structure, a working methodology and proven effectiveness, we are able to create business opportunities with all of the above sales channels, in order to start successful business relationships.

We offer you:

EXPORT - full support to successfully enter a new market, identifying and developing winning strategies to sell your products in the targeted market and to prepare your company for subsequent business expansion..

EXHIBITION - complete assistance in visiting the main fairs of the industry, organizing one-on-one meetings to know the main players of the market.

Do not hesitate to contact us for further information

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