

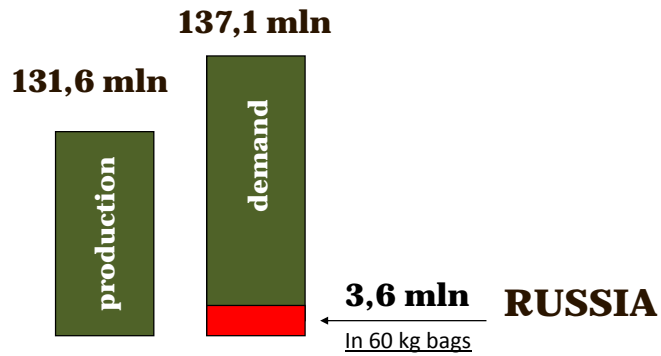
Key trends in emerging consuming markets in Eastern Europe. Focus on Russia



Ramaz Chanturiya, Association "Rusteacoffee"

Eurasian Economic Commission	Parliament (State Duma)	Government	International organizations
	<ul style="list-style-type: none"> • Ministry of Agriculture • Ministry of Economic Development • Federal Custom Service • Federal Antimonopoly Service • Ministry of Public Health • Federal Agency for Technical Regulation and Metrology • Technical Committee 451 		<ul style="list-style-type: none"> • ICO • CFC • 4C • SCAE • SCAA
"RUSTEACOFFEE" Association			
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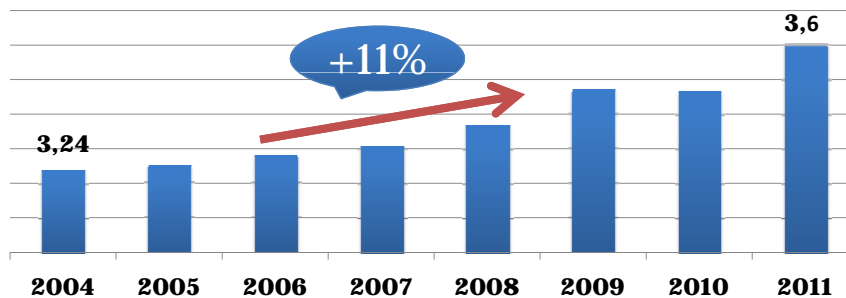
RUSSIA'S PLACE IN THE GLOBAL COFFEE MARKET



- Russian coffee market volume in the world balance does not exceed 5%
- Russia consumes 2.4 million bags of Robusta and 1.2 million bags of Arabica (estimated number)
- Per capita consumption level does not exceed 0,8 kg/year (finished product)

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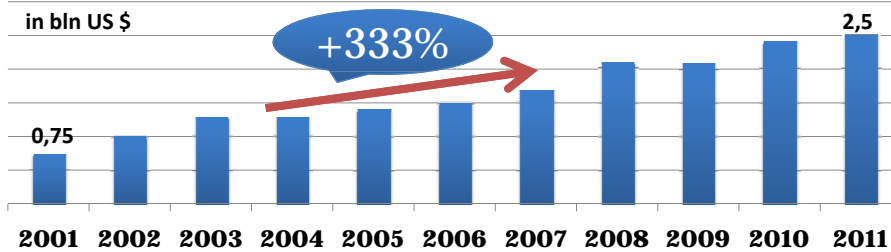
COFFEE CONSUMPTION GROWTH IN RUSSIA



- Consumption of coffee in Russia has increased over the last 8 years by 11%.
- The growth of the coffee market in volume terms will continue, but in the next few years, the annual increase will not exceed 2%

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COFFEE MARKET VALUE



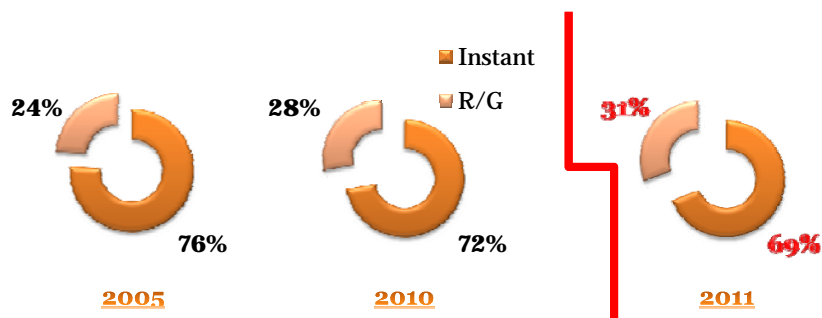
- Growth of the market value is significantly higher than the increase in volume terms

Reasons for such growth are:

- Increase of green coffee market value
- The growth of living standards in the last 10 years. This led to a redistribution of demand within segments of the coffee market

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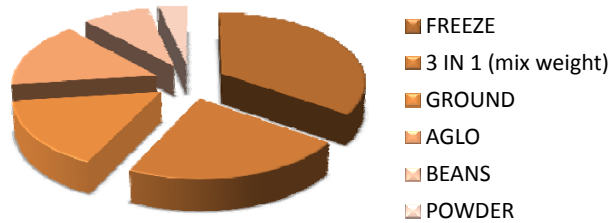
CONSUMPTION STRUCTURE



- The most popular type of coffee in Russia is still instant coffee
- Recent years, consumption of instant coffee is stable, and the consumption of R&G is growing
- Growth of R&G segment leads to aggravation inter-segment competition (instant vs. roast). This often leads to a negative impact on the whole coffee category and prevents the development of a coffee culture

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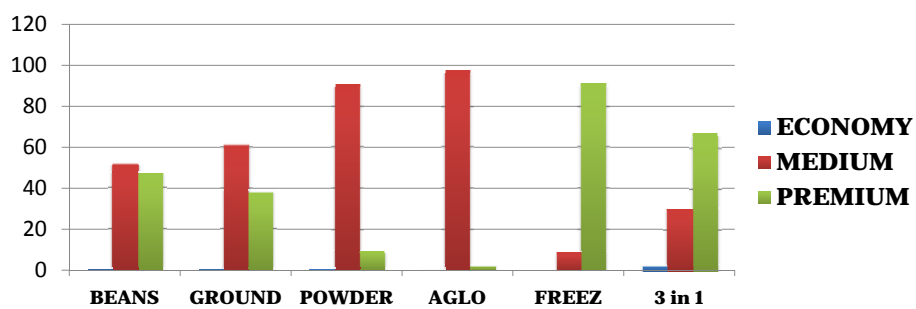
STRUCTURE OF THE COFFEE PRODUKT



- **Almost 35% of the coffee market falls on the freeze-dried coffee**
- **The second most important segment - 3 in 1**
- **Powder coffee actually forced out of the market. It is mainly used for coffee drinks (3 in 1/2 in 1)**

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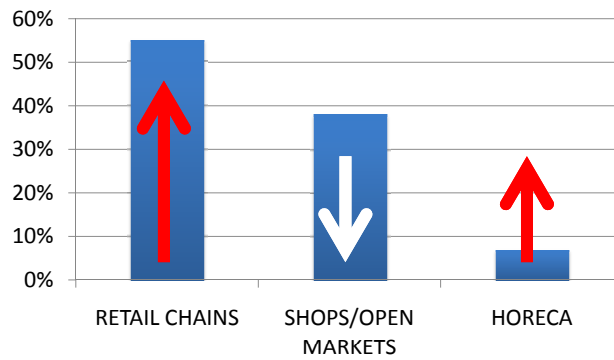
SALES STRUCTURE BY PRICE SEGMENT



- **Coffee products for economy segment in Russia is virtually nonexistent**
- **Only one company dominates in agglomerated segment – Nestle**
- **Market participants earn profits in the premium segments - currently there takes place a serious competition**

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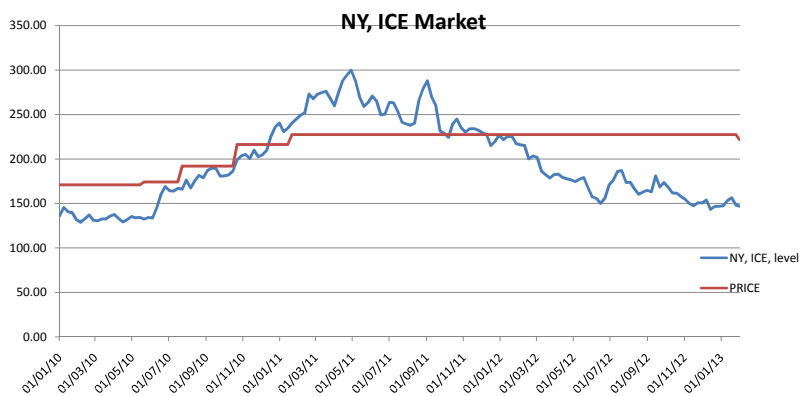
MARKET STRUCTURE BY DISTRIBUTION CHANNELS



- **Growth of HoReCa segment leads to increased sales of roasted coffee beans**
- **Development of retail chains significantly affects the quality of coffee, consumed in Russia**

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PRICE OF COFFEE



- **Retailers during the negotiations with suppliers oriented by the price of coffee on commodity exchange. They force down the price when falling stock prices and are not willing to accept higher prices for finished product when the price in the stock exchange is growing**
- **In 2011 many suppliers in Russia were forced to operate at a loss**

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IMPORT OF GREEN AND R&G COFFEE BY COUNTRY

VIETNAM	30,4%
BRASIL	23%
INDONESIA	11,3%
ITALY	4,7%
UGANDA	3,9%
INDIA	3,1%
HONDURAS	2,9%
PERU	2,3%

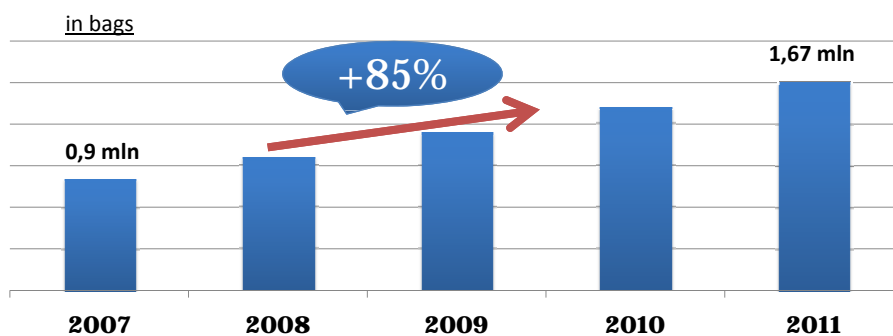
IMPORT OF INSTANT COFFEE BY COUNTRY

INDIA	31,3%
BRASIL	20,3%
GERMANY	10,9%
ECUADOR	10,5%
SWITZERLAND	4,5%
USA	4,4%
COLOMBIA	3,4%
KOREA	2,3%

- **Import structure shows that Russia buys quite a lot Robusta from Vietnam and instant coffee from India**

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IMPORT OF GREEN COFFEE



- **Growth in the number of coffee processing factories in Russia has led to an increase in the supply of green coffee**

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RUSSIAN COFFEE INDUSTRY PROVIDES:

R&G coffee production by 80%

Instant coffee packing by 75%

Instant coffee full cycle manufacturing by 55%



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BALANCE BETWEEN COFFEE AND TEA



- **Russia is still a tea drinking country. In recent years, the growth of coffee market has not lead to a reduction of tea consumption**
- **The main question that now faces the coffee community of Russia - in which direction the market will develop in the near future**

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WORLD DEMAND-SUPPLY FOR 10 YEARS

	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2021 2022
Production	125,8	110,1	120,1	110,1	132,4	117,9	137,1	125,3	142,5	131,6	?
Consumption	113,7	117,3	120,4	122,9	126,0	128,7	129,6	132,1	134,3	137,1	172,2

(mln bags)

- **Balance between world supply and demand will seriously affect on the development of the Russian market**

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FUNDAMENTALS OF COFFEE BUSINESS IN RUSSIA

- **Coffee continues to be “ultra cool” product.**
- **The average age of a coffee consumer today is substantially lower than ever before.**
- **The Life-style of Out of Home consumption in big cities is moving into smaller towns.**
- **It is considered trendy to be a Coffee Roaster or Barista. Hence there is a fast growing number of small enterprises directly related to coffee.**

Now again we ask a Question – will the Russian Consumer be able to continue paying price for a cup of coffee?

To answer this question we have to answer another question – How sustainable is income growth in Russia, a Country still dependent on oil and gas exports?

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PROSPECTS OF THE COFFEE MARKET IN RUSSIA

- **The growth of coffee consumption will continue in accordance to the rise of living standards of Russian consumers. However, we doubt there will be any significant increase of consumption**
- **The share of Freeze-dried products will dominate the soluble coffee segment but the segment itself will be declining in absolute terms.**
- **R&G Consumption will continue to grow in both In-Home and Out-of-Home segments including Offices**
- **Out-of-Home Consumption will be supported by growth in Russian regions**
- **In-Home consumption will be supported by significant development of single portions production and alternative brewing methods**
- **Both may create a basis for the start of professional development of Specialty segment in Russia by providing proper information to final Consumers**
- **Coffee will continue to be accessible to a limited part of the population. The coffee market will not grow sharply but will be continuingly developing inside the segments and it will lead to growing demand in higher quality raw material.**

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Russia, Moscow

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