DAIRY IN RUSSIA

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Russian dairy industry is analyzed in terms of industry dynamics, consumer trends, marketing, global food industry and strategic decision for the dairy industry.

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1. INTRODUCTION

This research is on the dairy industry in Russia. The purposes of this research are to analyze the dairy industry in Russia with all aspects. This research is not done for an academic purpose. It is done for the personal enthusiasm and aspiration of food industry in Russia.

The dairy industry research is one part of my all research, which consists of confectionary, dairy, savory, hot drinks, soft drinks, package foods and meats, and food retail, for food industry in Russia.

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2. EXECUTIVE SUMMARY

Market value
The Russian dairy market grew by 8.2% in 2009 to reach a value of $12,425 million.

Market value forecast
In 2014, the Russian dairy market is forecast to have a value of $17,481.3 million, an increase of 40.7% since 2009.

Market segmentation I
Cheese is the largest segment of the dairy market in Russia, accounting for 34.9% of the market's total value.

Market segmentation II
Russia accounts for 10.5% of the European dairy market value.

Market share
Wimm-Bill-Dann Foods OJSC is the leading player in the Russian dairy market, generating a 19.1% share of the market's value.

Market rivalry
The Russian dairy market is relatively fragmented, with top three players holding 44.3% of the total market value.
3. COMPETITIVE LANDSCAPE

The Key Players
- Individual consumers are the key buyer
- Food retailers are the key distributors
- Dairy farmers as the key suppliers
- The other players are the manufacturers/packagers of dairy products as players.

The Dynamics of Industry
- The Russian dairy market is relatively fragmented, with top three players holding 44.3% of the total market value.
- Suppliers commonly integrate forward, as dairy co-operatives offer farmers the opportunity to access larger markets and use capital items, such as packaging and processing plants.
- The dairy market is fairly easy to enter as a small enterprise, however in order to supply to the mass market consumer companies must be large and have some level of integration, if successful market entry is to be secured.
- A wide range of food and drink products can be used in similar ways to dairy products and therefore it becomes easy for consumers to replace dairy products with such alternatives, if dairy prices rise too high.
- Rivalry, however, is strong as there are numerous players present that are generally similar to one another despite most operating diverse dairy portfolios.
- In Russia, the main distribution channels for the dairy market are supermarkets and hypermarkets, which account for 48% of the total market value.

The Buyer Power
- Buyer power is strengthened in this market, where market players can sell only to a small number of large buyers. It is difficult to differentiate staple foods, such as milk and butter; however, cheese and yogurt products are more differentiated, with a number of niche cheese markets in operation.
- The dairy market is highly price sensitive, as buyers will tend to choose the cheaper option, especially in the milk market, subsequently enhancing buyer power.
- Manufacturers can target end-users with their branding strategies, or develop more individual, premium products, such as organic yoghurt, to counter balance the power of buyer to make purchasing decisions on price alone.
- Dairy products are an important part of most consumers' food and beverage purchasing in many countries, and food retailers are therefore strongly motivated to stock them, weakening their buying power.
- Overall, buyer power is assessed as strong.
The Supplier Power
- Key suppliers to this market are dairy farmers.
- Dairy products are by definition made of milk, and there are therefore no real alternatives to raw materials.
- Typically, a large-scale dairy processing and packaging company has many individual or cooperative farms supplying it with milk. However, even the largest players are not immune to the impact of rising milk prices.
- Hedging is often used by the larger players, due to the commodity nature of the market, with prices fluctuating on a daily basis.
- Key players buy supplies on the futures market, with an agreed price for future supplies, in order to not be caught out by unexpected price jumps.
- Suppliers are fairly limited in their ability to differentiate their raw materials, although products, such as organic milk, do attract a premium from dairy market players.
- Forward integration by suppliers is possible, but only on a small scale.
- One example of such strategy is a farmer with a small dairy herd, who begins to make high-quality cheese for distribution at a local farmers' market or via the Internet (possible because cheese is less perishable than other dairy products).
- This allows products, such as milk, which are low margin products of undifferentiated nature, to be converted into a higher margin and more differentiated products, without prohibitive capital outlay.
- Overall, supplier power is assessed as moderate.

The Threat of New Entrants
- In the Russian dairy market, small-scale entry, perhaps as an artisanal producer of premium dairy products, does not require very large amounts of capital.
- Imports to the Russian market are possible, although there have been instances of trade with certain countries (e.g. Ukraine) being temporarily stopped. However, for new entrants aiming to challenge the major players in the mass-consumer market, entry barriers are higher.
- Scale economies in production are important, especially in countries, where a consolidated food retail sector means that players are forced to compete intensely on price.
- Most dairy products are perishable, which means that reliable supply and distribution chains are vital to avoid the costs of wastage - this can be a particular barrier to entry in less developed economies.
- Leading dairy product manufacturers may have strong brands, more apparent yogurt and butter products, aimed at retaining end-user loyalty, which means that new players will have a more difficult task to distinguish their own brands.
- Overall, there is a strong likelihood of new players in the dairy market.

The Threat of Substitutes
- From the consumer's point of view, dairy products may be used directly as food or beverages, but also ingredients for other home-made foods.
- There is a wide range of food and drink that can be used in similar ways to dairy products,
so if dairy prices raise too high, it is possible for consumers to replace them with alternatives.

- This reduces the pricing freedom of retailers and market players. Some of the alternatives may have advantages for retailers, such as cheaper storage or higher margins.
- Dairy products are important parts of most peoples' diet, with the benefits of calcium highly publicized, therefore are unlikely to be completely replaced.
- Overall, the threat of substitutes is assessed as moderate.

The Rivalry

- The Russian dairy market is relatively fragmented, with top three players holding 44.3% of the total market value.
- This indicates the presence of large number of competitors, which boosts rivalry. Switching costs for buyers are not particularly high, although some retailers may allocate contracts to single suppliers of dairy products.
- The larger multinational players tend to operate in a number of fast moving consumer goods markets, therefore may not be as reliant on sales of dairy products, which decreases rivalry.
- As dairy products are usually perishable, storage costs are high. Industrial production of dairy products requires substantial, specialized assets, and the need to sell these off when leaving the market translates into high exit costs.
- Rapid market growth rates in recent years ease the intensity of rivalry, as a market player can increase its own revenue without necessarily impinging on its competitors.
- Overall, rivalry is assessed as strong.

4. MARKETING STRATEGIES

In this research, there is no custom made or generic marketing mentioned, because each organization has its own mindset and culture, which affect the strategic decision. Therefore, some tactics are mentioned which might help decision makers tailor their strategies better for Russian market.

Food Marketing

Food products often involve the general marketing approaches and techniques applied the marketing of other kinds of products and services. In food marketing, topics such as test marketing, segmentation, positioning, branding, targeting, consumer research, and market entry strategy, for example, are highly relevant. In addition, food marketing involves other kinds of challenges--such as dealing with a perishable product whose quality and availability varies as a function of current harvest conditions. The value chain--the extent to which sequential parties in the marketing channel add value to the product--is particularly important. Today, processing and new distribution options provide increasing opportunities available to food marketers to provide the consumer with convenience. Marketing, services, and processing added do, however, result in significantly higher costs. In the old days, for example, consumers might have baked their own bread from locally grown flour. Today, most households buy pre-
manufactured bread, and it is estimated that the farmer receives only some 5% of the price paid by the consumer for the wheat.

**Demographics and Food Marketing**

The study of demographics involves understanding statistical characteristics of a population. For food marketing purposes, this may help firms (1) understand the current market place (e.g., a firm interested in entering the market for sports drinks in a given country, or worldwide, might investigate the number of people between the ages of fifteen and thirty-five, who would constitute a particularly significant market) or (2) predict future trends. In the United States and Germany, for example, birth rates are relatively low, so it can be predicted that the demand for school lunch boxes will probably decline. Therefore, firms marketing such products might see if they, instead, can shift their resources toward products consumed by a growing population (e.g., bait boxes for a growing population of retired individuals who want to go fishing).

Food marketers must consider several issues affect the structure of a population. For example, in some rapidly growing countries, a large percentage of the population is concentrated among younger generations. In countries such as Korea, China, and Taiwan, this has helped stimulate economic growth, while in certain poorer countries; it puts pressures on society to accommodate an increasing number of people on a fixed amount of land. Other countries such as Japan and Germany, in contrast, experience problems with a “graying” society, where fewer non-retired people are around to support an increasing number of aging seniors. Because Germany actually hovers around negative population growth, the German government has issued large financial incentives, in the forms of subsidies, for women who have children. In the United States, population growth occurs both through births and immigration. Since the number of births is not growing, problems occur for firms that are dependent on population growth (e.g., Gerber, a manufacturer of baby food).

Social class can be used in the positioning of food products. One strategy, *upward pull* marketing, involves positioning a product for mainstream consumers, but portraying the product as being consumed by upper class consumers. For example, Haagen-Dazs takes care in the selection of clothing, jewelry, and surroundings in its advertisements to portray upscale living, as do the makers of Grey Poupon mustard. Another strategy, however, takes a diametrically opposite approach. In *at level* positioning, blue collar families are portrayed as such, emphasizing the working class lifestyle. Many members of this demographic group associate strongly with this setting and are proud of their lifestyles, making this sometimes a viable strategy. An advertisement for Almond Joy, for example, features a struggling high school student being quizzed by his teacher remarking, “Sometimes you feel like a nut, sometimes you don’t!” Nowadays, by the way, social class is often satirized in advertising, as evident in the Palanna All-Fruit commercials while the matron faints because the police officer refers to the fruit preserves as “jelly.”
Demographics in the U.S. have significantly affected demand for certain food products. With declining birth rates, there is less demand for baby foods in general, a trend that will continue. Immigration has contributed to a demand for more diverse foods. Long working hours have fueled a demand for prepared foods, a category that has experienced significant growth in supermarkets since the 1980s.

**Food Marketing and Consumption Patterns**

Certain foods—such as chicken, cheese, and soft drinks—have experienced significant growth in consumption in recent years. For some foods, total market consumption has increased, but this increase may be primarily because of choices of a subgroup. For example, while many Americans have reduced their intake of pork due to concerns about fat, overall per capita consumption of pork has increased in the U.S. This increase probably results in large part from immigration from Asia, where pork is a favored dish. Consumption of certain other products has decreased. Many consumers have replaced whole milk with leaner varieties, and substitutes have become available to reduce sugar consumption. Beef and egg consumption have been declining, but this may be reversing as high protein diets gain increasing favor. Some food categories have seen increasing consumption in large part because of heavy promotional campaigns to stimulate demand.

**International Comparisons**

Americans generally spend a significantly smaller portion of their income on food than do people in most other countries. Part of this is due to American affluence—in India and the Philippines, families are estimated to spend 51% and 56% of their incomes on food, respectively, in large part because of low average incomes. Food prices also tend to be lower in the U.S. than they are in most industrialized countries, leaving more money for other purposes. Americans, on the average, are estimated to spend 7-11% of their income on food, compared to 18% in Japan where food tends to be very expensive. This is because food prices are relatively low, compared to other products, here.

**Food Outlets**

Food, in the United States, is sold in a diversity of outlets. Supermarkets carry a broad assortment of goods and generally offer lower prices. Certain convenience products—e.g., beverages and snacks—are provided in more outlets where consumers may be willing to pay higher prices for convenience. Distinctions between retail formats are increasingly blurred—e.g., supermarkets, convenience stores, and restaurants all sell prepared foods to go. A small number of online retailers now sell food that can be delivered to consumers’ homes. This is usually not a way to reduce costs—with delivery, costs are usually higher than in supermarkets—but rather a way to provide convenience to time-pressed consumers.

Internationally, there are large variations. In developing countries, food is often sold in open markets or in small stores, typically with more locally produced and fewer branded products available. Even in many industrialized countries, supermarkets are less common than they are...
in the U.S. In Japan, for example, many people show in local neighborhood stores because it is impractical to drive to a large supermarket. In some European countries, many people do not own cars, and thus smaller local shops may be visited frequently.

Food is increasingly being consumed away from the home—in restaurants, cafeterias, or at food stands. Here, a large part of the cost is for preparation and other services such as ambiance. Consumers are often quite willing to pay these costs, however, in return for convenience and enjoyment.

**Government Food Programs**

Government food programs, in addition to helping low income households, do increase demand for food to some extent. In fact, increasing demand for farm products was a greater motivation than helping poor people for the formation of the U.S. food stamp program. The actual impact on food stamps on actual consumer demand is limited, however, due to the fungibility of money. It is estimated that one dollar in food stamps increases the demand for food by 20 cents, but when food stamps are available to cover some food costs, recipients are likely to divert much of the money they would otherwise have spent to other necessities.

**Food Marketing Issues**

The food industry faces numerous marketing decisions. Money can be invested in brand building (through advertising and other forms of promotion) to increase either quantities demanded or the price consumers are willing to pay for a product. Coca Cola, for example, spends a great deal of money both on perfecting its formula and on promoting the brand. This allows Coke to charge more for its product than can makers of regional and smaller brands.

Manufacturers may be able to leverage their existing brand names by developing new product lines. For example, Heinz started out as a brand for pickles but branched out into ketchup. Some brand extensions may involve a risk of damage to the original brand if the quality is not good enough. Coca Cola, for example, refused to apply the Coke name to a diet drink back when artificial sweeteners had a significantly less attractive taste. Coke created Tab Cola, but only when aspartame (NutraSweet) was approved for use in soft drinks did Coca Cola come out with a Diet Coke.

Manufacturers that have invested a great deal of money in brands may have developed a certain level of consumer brand loyalty—that is, a tendency for consumers to continue to buy a preferred brand even when an attractive offer is made by competitors. For loyalty to be present, it is not enough to merely observe that the consumer buys the same brand consistently. The consumer, to be brand loyal, must be able to actively resist promotional efforts by competitors. A brand loyal consumer will continue to buy the preferred brand even if a competing product is improved, offers a price promotion or premium, or receives preferred display space. Some consumers have multi-brand loyalty. Here, a consumer switches between
a few preferred brands. The consumer may either alternate for variety or may, as a rule of thumb, buy whichever one of the preferred brands are on sale. This consumer, however, would not switch to other brands on sale. Brand loyalty is, of course, a matter of degree. Some consumers will not switch for a moderate discount, but would switch for a large one or will occasionally buy another brand for convenience or variety.

The “Four Ps” of Marketing

Marketers often refer to the “Four Ps,” or the marketing portfolio, as a way to describe resources available to market a product:

- **Product.** Firms can invest in the product by using high quality ingredients or doing extensive research and development to improve it. Both McDonald’s and Burger King, for example, literally spend millions of dollars to perfect their French fries! In today’s Western markets with varying tastes and preferences, it has generally been found that products that offer a specific benefit—e.g., a very tart taste in jam—tend to fare better than “me, too” products that merely imitate a competitor’s products. Less is known about Eastern and developing countries.

- **Price.** Different strategies may be taken with respect to price. Generically, there are two ways to make a profit—sell a lot and make a small margin on each unit or make a large margin on each unit and settle for lesser volumes. Firms in most markets are better off if the market is balanced—where some firms compete on price and others on other features (such as different taste preferences for different segments). The same idea applies at the retail level where some retailers compete on price (e.g., Food-4-Less and Wal-Mart) while others (such as Vons Pavillion) compete on service while charging higher prices.

- **Distribution.** Most supermarkets are offered more products than they have space for. Thus, many manufacturers will find it difficult to get their products into retail stores.

- **Promotion** involves the different tools that firms have to get consumers to buy more of their products, possibly at higher prices. Advertising is what is thought of by default, but promotion also includes coupons, in-store price promotions, in-store demonstrations, or premiums (e.g., if you buy a package of Jimmy Dean hotdogs this week, you get a free package of Kraft mustard).

Dairy Marketing Strategies

Dairy marketing truly came into the public's consciousness with the introduction of the "Got Milk" campaign in 1993. The basic dairy product became associated with a memorable and catchy slogan that helped drive sales. There are many other strategies, though, to market all types of dairy products. These include promotion of nutritional value, appeal to the organic market, and use of social media networks and development of new dairy products.

According to American Marketing Association marketing as "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." Marketers use an
assortment of strategies to guide how, when, and where product information is presented to consumers. Their goal is to convince consumers to buy a particular brand or product.

Successful marketing strategies create a desire for a product. A marketer, therefore, needs to understand consumer likes and dislikes. In addition, marketers must know what information will convince consumers to buy their product, and whom consumers perceive as a credible source of information. Some marketing strategies use fictional characters, celebrities, or experts (such as doctors) to sell products, while other strategies use specific statements or "health claims" that state the benefits of using a particular product or eating a particular food.

Impact and Influence Marketing strategies directly impact food purchasing and eating habits. For example, in the late 1970s scientists announced a possible link between eating a high-fiber diet and a reduced risk of cancer. However, consumers did not immediately increase their consumption of high-fiber cereals. But in 1984 advertisements claiming a relationship between high-fiber diets and protection against cancer appeared, and by 1987 approximately 2 million households had begun eating high-fiber cereal. Since then, other health claims, supported by scientific studies, have influenced consumers to decrease consumption of foods high in saturated fat and to increase consumption of fruits, vegetables, skim milk, poultry, and fish. Of course, not all marketing campaigns are based on scientific studies, and not all health claims are truthful. In July 2000 a panel of experts from the U.S. Department of Agriculture supported complaints made by the Physicians Committee for Responsible Medicine that the "Got Milk" advertisements contained untruthful health claims that suggested that milk consumption improved sports performance, since these claims lacked scientific studies. Companies often use celebrity’s characters to appeal to young consumers and common consumers. Currently, about one-fourth of all television commercials are related to food, and approximately one-half of these are selling snacks and other foods low in nutritional value. Many of the commercials aimed at children and adolescents use catchy music, jingles, humor, and well-known characters to promote products. The impact of these strategies is illustrated by several researcher studies showing that when a majority of television commercials that children view are for high-sugar foods, they are more likely to choose unhealthful foods over nutritious alternatives, and vice versa.

Inappropriate Advertisements

Attempts to sell large quantities of products sometimes cause advertisers to make claims that are not entirely factual. For instance, an advertisement for a particular brand of bread claimed the bread had fewer calories per slice than its competitors. What the advertisement did not say was that the bread was sliced much thinner than other brands. Deceptive advertising has also been employed to persuade women to change their infant feeding practices. Advertisers commonly urge mothers to use infant formula to supplement breast milk.

Marketing strategies include one strategy used by advertisers is to feature a celebrity in their advertisements or on their packaging. The implicit message is that the celebrity endorses the product, uses the product, and may even depend on the product for success. Many groups have
objected to the use of marketing strategies that include free formula and coupons, and infant-
formula manufacturing companies have been forced to modify their marketing practices.

Other marketing strategies involve labeling foods as "light," meaning that one serving contains
about 50 percent less fat than the original version (or one-third fewer calories). For example, a
serving of light ice cream contains fifty percent less fat than a serving of regular ice cream. As
a result, consumers mistakenly believe that eating light food means eating healthful food.
However, they fail to realize that a serving of the light version of a food such as ice cream can
still contain more fat and sugar than is desirable.

Food labels with conflicting information often confront consumers. For example, labels
claiming "no fat" do not necessarily mean zero grams of fat. Food labeling standards raspberry,
or varieties of cheese that are not well-known define low-fat foods as those containing less than
0.5 gram of in the American market. Consider dairy products with fat per serving.
Therefore, consuming several servings may added dietary supplements, such as probiotic,
mean consuming one or two grams of fat, and people are acidophilus or bifidus cultures often
unaware of what amount of a food constitutes a "serving." In addition, foods low in fat may be
high in sugar, adding additional calories to one's daily caloric intake. Too often, consumers
mistakenly translate a claim of "no fat" into one of "no calories."

It is also important for consumers to recognize their role in evaluating health claims and
product comparisons. While advertisers are aware of the need for truth in advertising,
sometimes their desire to sell products over-shadows an accurate disclosure of product
attributes. Advertisers should bear in mind that inaccurate or vague health claims have the
potential to cause economic hardship, illness, and even death. Lastly, marketing strategies used
in developing nations should be subjected to the highest standards of truth in advertising.

So Dairy Marketing Strategies in the context of Globalization should be as:
1) Focused Approach: While the product portfolio has been growing, Indian dairy Industry
should plan for reach out to newer markets - but the strategy here is more product-specific.

2) Wider Spread: However, as far as other dairy products are concerned, Indian dairy Industry
should plan to expand across the board.

3) Create Original Marketing: Re-invent a product with a powerful marketing campaign. No
matter if you are selling milk, yogurt, butter, sour cream, or cheese, a truly original commercial
or print ad can cause consumers to think of your product in a new light. Whether you are
conceiving of the marketing yourself or hiring a top advertising agency, aim for outside-of-the-
box thinking. A catchy slogan, a memorable spokesperson or an emotionally powerful
commercial can go a long way. Use viral marketing and social media to get your product to the
masses without spending an enormous amount on advertising.
4) Focus on Nutritional Value: Use scientific-based guides and studies such as this to convince consumers to consume your dairy product. Associate your product with the study itself.

5) Appeal to the Organic Market: Consumer demand for organic milk continues to grow at an annual rate approaching 20 percent, according to the Agricultural Marketing Research Center. Many people are attracted to products that are free of chemicals and are manufactured naturally. Utilize the organic trend in your product line. Follow the government guidelines to get the organic seal to include in your product advertising and packaging.

6) Introduce New or Unknown Products: Offering consumers something they have never heard of is a sure-fire way to peak interest in a product. There were 448 total new dairy product launches in 2010, according to Dairy Foods. Consider creative yogurt flavors such as Yoplait's Apricot Mango and Dannon's Banana Cream Pie. Try new flavors of milk, such as banana or black raspberry, or varieties of cheese that are not well-known in the American market. Consider dairy products with added dietary supplements, such as probiotic, acidophilus or bifidus cultures

Challenges & Issues in Dairy Marketing in Global Context

Global marketing refers to the marketing activities that direct the flow of goods and services to the customers or users in more than one nation. Globalization is no longer an abstraction but a stark reality that virtually all firms, large and small, face. Firms that want to survive in the 21st century must confront this all encompassing force that pervades every aspect of business. In a wide range of industries from automobiles to food and clothing, firms face the pressures of global competition at home as well as in international markets. Choosing not to participate in global markets is no longer an option. All firms and industries regardless of their size, have to craft strategies in the broader context of world markets to anticipate, respond and adapt to the changing configuration of these markets. Firms initially entering international markets will be more concerned with learning about international markets, selecting an appropriate arena to compete, and determining how to leverage core competencies in international markets. Once in international markets, firms have to build their position in these markets, establishing a strong local presence by developing new products and adapting to local tastes and preferences. As the firm expands internationally, it will need to move away from country-centered strategies and improve integration and coordination across national markets, leveraging its competencies and skills to develop a leadership position.

In different markets, customer requirements may vary and the temptation to customize for each market has to be tempered by the need to keep costs down through standardization. A truly global marketing strategy would aim to apply uniformly some elements of the marketing mix across the world, while customizing others.
Key Issues In Dairy Global Marketing

Typically, marketing includes the market research, product design, promotional activity, distribution, pricing and sales promotions etc. and some of these activities are agreeable to a uniform global approach. Others involve a great degree of customization. A global marketing strategy typically evolves over a period of time or phases-wise:

1) Decision to enter the market
2) The mode of entry.
3) To expand across several markets, simultaneously or one at a time.
4) Customization of the marketing mix or development of completely new products.
5) In the final phase, global companies examine their product portfolio across countries, strive for higher levels of coordination and integration and attempt to strike the right balance between scale efficiencies and local customization
6) Entering new markets: While choosing new markets, MNCs need to consider several macro and micro factors.

5. CONSUMER ANALYSIS

Russian Consumers’ Motives for Food Choice

Consumers’ food choices involve a complex interaction between the sensory properties of the food itself, factors specific to the individual (such as a liking for particular foods), and environmental, cultural and contextual influences. Increasingly, food choices reflect people's personalities and lifestyles, highlighting the role that different motives have in determining food choices. Understanding the motives that determine food choice is important for the successful design of promotional campaigns, and is essential to the development of effective food and health policies.

Sensory motives have been found to be the most influential determinants of consumer food choice, at least in Europe. Other important motives which have been identified include price, health, and environmental issues. Environmental and ethical motives in particular are related to choice of organic food.

Their analysis identified nine factors which potentially influenced food choice. These were health, mood (positive or negative emotions), convenience (easiness to prepare and availability), sensory appeal (appearance, taste, and smell), natural content (no additives), price, weight control (low in calories and fat), familiarity and ethical concern (politically approved country of origin, environmentally friendly packaging).
Personality and psychographic factors became popular in the 1980s as bases for segmentation. Shopping orientation, attitudes, and benefit sought by consumers have also been used. The basis for segmentation of food markets have varied. Recent examples include food preferences and information use. Demographic factors have also been used as well as food related risk perceptions. Lifestyle has been used as the basis of segmentation for example through application of a battery of activities, interests and opinions (AIOs)-items. The use of AIOs has been criticised, mainly because of the lack of theoretical foundation. As a response, a new instrument was developed to assess food-related lifestyle, which provides life-style based segmentation of food consumers

there is evidence to suggest that food choice motives are related to actual food choices. The authors also report gender differences in motives for healthy eating: women assigned significantly more importance than men to weight control, health, natural content, ethical concern, price and sensory appeal. Pollard also report that health concern is not the only motive for eating healthily—personal appearance seems to be an important motive for healthy food choices. A qualitative study has demonstrated that appearance and health motives were indeed strongly related to weight control among Russian consumers

Table 1 shows some characteristics of the sample.

Table 1. Sample characteristics across the cities in the study (percentage of the sample ($N = 1081$)).

<table>
<thead>
<tr>
<th></th>
<th>Moscow (38.8%)</th>
<th>Nizhny (19.8%)</th>
<th>Novgorod</th>
<th>Taganrog (20.9%)</th>
<th>Engels (20.5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
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<tr>
<td>Male</td>
<td>49.4</td>
<td>49.5</td>
<td>50.4</td>
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<td>50.5</td>
<td>49.6</td>
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<td>Age</td>
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<td>16–18 years</td>
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<tr>
<td>19–30 years</td>
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<td>24.3</td>
<td>23.5</td>
<td>22.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moscow (38.8%)</td>
<td>Nizhny (19.8%)</td>
<td>Novgorod</td>
<td>Taganrog (20.9%)</td>
<td>Engels (20.5%)</td>
</tr>
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<td>31–40 years</td>
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<td>19.5</td>
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<tr>
<td>41–50 years</td>
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<tr>
<td>51–60 years</td>
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### Income (Russian rubles)

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<th>&lt;2000</th>
<th>2001–4000</th>
<th>4001–6000</th>
<th>6001–9000</th>
<th>9001–13,000</th>
<th>13,001–18,000</th>
<th>18,001–22,000</th>
<th>&gt;22,000</th>
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<tbody>
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<td></td>
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<td>0.9</td>
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<td>2.4</td>
<td>4.5</td>
<td>51.8</td>
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<td>10.7</td>
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<td>18.7</td>
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<td>22.1</td>
<td>8.0</td>
<td>0.9</td>
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<tr>
<td></td>
<td>9.3</td>
<td>18.7</td>
<td>22.1</td>
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<td>12.2</td>
<td>10.7</td>
<td>0.9</td>
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### Education

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<th>Novgorod</th>
<th>Taganrog (20.9%)</th>
<th>Engels (20.5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>4.8</td>
<td>7.0</td>
<td>6.6</td>
<td>5.0</td>
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</table>
The segments were profiled with univariate ANOVAs and cross tabulations (with Pearson Chi-square statistics to test significant differences). In order to profile the segments, consumption (healthy/unhealthy food consumption), perceived health status, risk and benefit from eating (un)healthy food, health attitudes, age, city, gender, children present, education, occupational status and income variables were used. The results are presented in two parts. First, some descriptive statistics for the whole sample are presented, followed by the cluster analysis and profiling of the clusters.

**Descriptive Results**

Table 3 presents the mean scores for food choice motives. For simplicity, the table shows the mean values of the factors for the sample, not the individual items. “Sensory motives” were by far the most important determinants of food choices, and “availability” was the second most important motive. This confirms the results of the qualitative interviews conducted in 2006. “Food naturalness” and “price” were also very important to the consumers, as was “mood” and “health”. “Religion” as a motive was unimportant to the respondents. Respondents were also indifferent to “political concern” as a motive for food choices. It is surprising that the weight control motive was not more important. Earlier results showed that appearance and weight were very important motives for Russian women's food choices. The results gave, however, some indications that weight control, appearance and health were closely related, and sometimes not separable for women; thinness was considered to indicate good health.

Table 3. Mean values for the food choice motives in the Russian consumer sample.
<table>
<thead>
<tr>
<th>Food choice motives</th>
<th>Mean values</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural product</td>
<td>5.6</td>
<td>0.98</td>
</tr>
<tr>
<td>Price</td>
<td>5.6</td>
<td>0.93</td>
</tr>
<tr>
<td>Mood</td>
<td>5.5</td>
<td>0.91</td>
</tr>
<tr>
<td>Health</td>
<td>5.5</td>
<td>0.73</td>
</tr>
<tr>
<td>Familiarity</td>
<td>5.2</td>
<td>1.13</td>
</tr>
<tr>
<td>Convenience</td>
<td>5.0</td>
<td>1.38</td>
</tr>
<tr>
<td>Ecological</td>
<td>4.8</td>
<td>1.18</td>
</tr>
<tr>
<td>Weight</td>
<td>4.2</td>
<td>1.30</td>
</tr>
<tr>
<td>Political</td>
<td>4.0</td>
<td>1.45</td>
</tr>
<tr>
<td>Religion</td>
<td>3.2</td>
<td>1.70</td>
</tr>
</tbody>
</table>

Scale from 1 = not at all important to 7 = very important

**Multivariate Results (Cluster Analysis)**

The optimal number of clusters obtained by two-step cluster analysis (SPSS 15.0) was three, consisting of 21.5%, 45.8% and 32.7% of the respondents in the sample, respectively. Table 4 shows the mean values of the motive items for the three clusters, and the “ranking” within the clusters in parentheses. Although all 44 items were used in the cluster analysis, the mean values of the factors are shown in the table for simplicity.

Table 4. Cluster descriptors: differences in mean values for food choice motives (ANOVA).
<table>
<thead>
<tr>
<th>Motive</th>
<th>Price sensitive consumers 21.5%</th>
<th>Natural food consumers 45.8%</th>
<th>Food for mood consumers: 32.7%</th>
<th>$F$</th>
<th>$p$-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensory</td>
<td>5.7a (1)</td>
<td>6.0b (1)</td>
<td>6.7c (1)</td>
<td>281.612</td>
<td>0.000</td>
</tr>
<tr>
<td>Availability</td>
<td>5.0a (2)</td>
<td>5.7b (2)</td>
<td>6.3c (2)</td>
<td>166.729</td>
<td>0.000</td>
</tr>
<tr>
<td>Price</td>
<td>4.8a (3)</td>
<td>5.5b (4)</td>
<td>6.1c (5)</td>
<td>195.118</td>
<td>0.000</td>
</tr>
<tr>
<td>Natural product</td>
<td>4.6a (4)</td>
<td>5.6b (3)</td>
<td>6.3c (2)</td>
<td>360.334</td>
<td>0.000</td>
</tr>
<tr>
<td>Health</td>
<td>4.6a (4)</td>
<td>5.4b (5)</td>
<td>6.1c (5)</td>
<td>594.100</td>
<td>0.000</td>
</tr>
<tr>
<td>Mood</td>
<td>4.5a (6)</td>
<td>5.4b (5)</td>
<td>6.3c (2)</td>
<td>562.189</td>
<td>0.000</td>
</tr>
<tr>
<td>Familiarity</td>
<td>4.2a (7)</td>
<td>5.1b (7)</td>
<td>6.0c (7)</td>
<td>263.994</td>
<td>0.000</td>
</tr>
<tr>
<td>Convenience</td>
<td>3.7a (8)</td>
<td>5.0b (8)</td>
<td>5.8c (8)</td>
<td>236.679</td>
<td>0.000</td>
</tr>
<tr>
<td>Ecological</td>
<td>3.4a (9)</td>
<td>4.7b (9)</td>
<td>5.8c (8)</td>
<td>585.482</td>
<td>0.000</td>
</tr>
<tr>
<td>Weight</td>
<td>2.9a (10)</td>
<td>4.2b (10)</td>
<td>5.1c (10)</td>
<td>239.359</td>
<td>0.000</td>
</tr>
<tr>
<td>Political</td>
<td>2.7a (11)</td>
<td>3.9b (11)</td>
<td>4.9c (11)</td>
<td>314.868</td>
<td>0.000</td>
</tr>
<tr>
<td>Religion</td>
<td>2.1a (12)</td>
<td>3.0b (12)</td>
<td>4.2c (12)</td>
<td>140.617</td>
<td>0.000</td>
</tr>
</tbody>
</table>

a–c indicate significantly different means. ANOVA with Duncan post hoc multiple comparison test was used.

All clusters were associated with sensory motives and availability as being the most important motivational factors. It is also obvious that cluster 3 had relatively high scores on all items, while cluster 1 had the lowest scores.
Cluster 1 was the smallest group identified in the study, including 21.5% of the sample. Respondents in cluster 1 reported the lowest scores on the motivational scales in general: in particular, religion, political acceptability, weight, ecological concern and convenience were the motives which were not important to consumers in this segment. The sensory features of the product, together with availability and price, were important. In particular, price as a motive for food choice was ranked highly. In very broad terms, cluster 1 may therefore be described as “price sensitive consumers”.

Cluster 2 represented the largest group, and included 45.8% of the sample. Participants in this cluster were fairly concerned about the naturalness of food, as well as price and health, while religion and political motives were not important. Cluster 2 was called “natural food consumers”.

Cluster 3 consisted of 37.7% of the respondents in the total sample. They were motivated by most of the categories in our study, in particular those related to sensory, availability and mood/natural product motives. The mood scale, which differentiated this cluster from the others, consists of items concerned with positive emotions resulting from food consumption (“cheers me up”, “helps me cope with stress”, etc.). None of the motives were considered unimportant by this group (that is, scores >4) although the religious and political motives were least important. Even the weight motive, which was relatively unimportant to the other two clusters, was associated with quite a high score in this group. Cluster 3 was called “food for mood consumers”.

Cluster Profiles
Consumption, health-related variables and socio-demographic variables were used to profile the different clusters. A number of significant differences in the profiling variables among the clusters were observed.

Consumption. Differences in means in food choice motives across the segments are reflected in significant differences in consumption (Table 5) of healthy ($F = 8.718, p = 0.000$) and unhealthy food ($F = 4.749, p = 0.009$). The results indicate that the respondents in all clusters had a higher consumption of unhealthy foods compared with healthy foods, although the difference was not large in food for mood group (cluster 3). It can, however, be seen in Table 5 that respondents in the natural food consumer (cluster 2) and food for mood (cluster 3) consumer groups had, on average, significantly healthier food choices than those observed in the price sensitive consumer group (cluster 1). The price sensitive and food for mood consumers had more frequent unhealthy food choices compared to the natural food consumers.
Table 5. Differences in eating patterns across the clusters: consumption of healthy and unhealthy food (times per week) (ANOVA).

<table>
<thead>
<tr>
<th></th>
<th>Price sensitive consumers</th>
<th>Natural product consumers</th>
<th>Food for mood consumers</th>
<th>Total</th>
<th>F</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthy food choices</td>
<td>1.7a</td>
<td>2.0c</td>
<td>2.0c</td>
<td>1.9</td>
<td>8.718</td>
<td>0.000</td>
</tr>
<tr>
<td>Unhealthy food choices</td>
<td>2.3a</td>
<td>2.4c</td>
<td>2.2a</td>
<td>2.4</td>
<td>4.740</td>
<td>0.009</td>
</tr>
</tbody>
</table>

a–c indicate significantly different means. ANOVA with Duncan post hoc multiple comparison test was used.

*Health-related variables.* Table 6 summarises the significant differences in importance of health-related issues across the clusters. Personal health status was perceived as being high by the price sensitive and food for mood consumers, while it was slightly lower among the natural food consumers ($F = 6.130, p = 0.002$). At the same time, the health risk associated with consuming unhealthy food was perceived to be lowest by price sensitive consumers, and was higher in the other two clusters ($F = 23.648, p = 0.000$). The health benefits of consuming healthy food were, however, considered to be highest by the food for mood consumers and lowest by the price sensitive consumers ($F = 13.186, p = 0.000$). The food for mood consumers had most positive health attitudes, while the price sensitive consumers were least positive; these respondents did not seem to care about healthy food ($F = 100.311, p = 0.000$). The interest in light products ($F = 58.229, p = 0.000$) and natural products ($F = 29.469, p = 0.000$) followed the same pattern.
Table 6. Differences among the cluster means in health-related variables (ANOVA).

<table>
<thead>
<tr>
<th></th>
<th>Price sensitive consumers</th>
<th>Natural product consumers</th>
<th>Food for mood consumers</th>
<th>Total</th>
<th>F</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived health</td>
<td>5.0c</td>
<td>4.7a</td>
<td>4.8c</td>
<td>4.8</td>
<td>6.130</td>
<td>0.002</td>
</tr>
<tr>
<td>The health risks associated with eating unhealthy foods in general</td>
<td>5.0a</td>
<td>5.5c</td>
<td>5.6c</td>
<td>5.4</td>
<td>23.648</td>
<td>0.000</td>
</tr>
<tr>
<td>The health benefits associated with eating healthy foods to me personally</td>
<td>5.4a</td>
<td>5.7b</td>
<td>5.8c</td>
<td>5.7</td>
<td>13.186</td>
<td>0.000</td>
</tr>
<tr>
<td>Health attitudes</td>
<td>3.7a</td>
<td>4.2b</td>
<td>4.6c</td>
<td>4.2</td>
<td>100.31</td>
<td>0.000</td>
</tr>
<tr>
<td>Light product interest</td>
<td>4.0a</td>
<td>4.4b</td>
<td>4.6c</td>
<td>4.4</td>
<td>58.229</td>
<td>0.000</td>
</tr>
<tr>
<td>Natural product interest</td>
<td>4.1a</td>
<td>4.5b</td>
<td>4.6c</td>
<td>4.4</td>
<td>29.469</td>
<td>0.000</td>
</tr>
</tbody>
</table>

a–c indicate significantly different means. ANOVA with Duncan post hoc multiple comparison test was used.

- Scale from 1 = very poor to 7 = very good.
- Scale from 1 = very low to 7 = very high.
- Scale from 1 = strongly disagree to 7 = strongly agree.

Demographic differences. Table 7a and Table 7b show the significant differences in demographic variables for the different clusters. The price sensitive consumer group had the lowest average age with 31 years, and differed significantly from the natural food consumers (and the food for mood group) who were older ($F = 20.222$, $p = 0.000$). The food for mood group had the highest share of respondents from Moscow and Taganrog, while the price
sensitive group included many respondents from Nizhny Novgorod. The natural food consumer group included many respondents from Engels ($\chi^2 = 57.298, p = 0.000$).

Table 7a. Differences in average age across the clusters (ANOVA).

<table>
<thead>
<tr>
<th></th>
<th>Price sensitive consumers</th>
<th>Natural product consumers</th>
<th>Food for mood consumers</th>
<th>Total</th>
<th>$F$/Pearson Chi-square</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (ANOVA)</td>
<td>31.1a</td>
<td>37.7c</td>
<td>36.8c</td>
<td>36.0</td>
<td>20.222</td>
<td>0.000</td>
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</tbody>
</table>

a–c indicate significantly different means. ANOVA with Duncan post hoc multiple comparison test was used.

Table 7b. Differences in socio-demographic variables across the clusters (Cross-tab with Pearson Chi-square).

<table>
<thead>
<tr>
<th></th>
<th>Price sensitive consumers</th>
<th>Natural product consumers</th>
<th>Food for mood consumers</th>
<th>Total</th>
<th>$F$/Pearson Chi-square</th>
<th>p-Value</th>
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<td>57.298</td>
<td>0.000</td>
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<td>Moscow</td>
<td>31.5</td>
<td>38.4</td>
<td>44.1</td>
<td>38.8</td>
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<td></td>
</tr>
<tr>
<td>Nizhny Novgorod</td>
<td>26.3</td>
<td>21.6</td>
<td>13.0</td>
<td>19.8</td>
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<tr>
<td>Taganrog</td>
<td>19.8</td>
<td>14.9</td>
<td>29.9</td>
<td>20.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engels</td>
<td>22.4</td>
<td>25.1</td>
<td>13.0</td>
<td>20.5</td>
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<td>Gender</td>
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<td>49.8</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Price sensitive consumers</td>
<td>Natural product consumers</td>
<td>Food for mood consumers</td>
<td>Total</td>
<td>$F$/Pearson Chi-square</td>
<td>$p$-Value</td>
</tr>
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<td>--------------------------</td>
<td>-------</td>
<td>------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Female</td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>38.4</td>
<td>51.9</td>
<td>55.6</td>
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<tr>
<td>Children (under 18 years) in the household</td>
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</tr>
<tr>
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<td></td>
<td>59.5</td>
<td>48.3</td>
<td>50.8</td>
<td>51.5</td>
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</tr>
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<td>40.5</td>
<td>51.7</td>
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<tr>
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<td>Middle</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>64.7</td>
<td>72.5</td>
<td>71.2</td>
<td>70.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21.2</td>
<td>24.4</td>
<td>24.6</td>
<td>24.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupational status</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refuse to answer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9.1</td>
<td>3.2</td>
<td>2.5</td>
<td>4.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working: full</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td></td>
<td>46.1</td>
<td>51.7</td>
<td>57.6</td>
<td>52.5</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Price sensitive consumers</td>
<td>Natural product consumers</td>
<td>Food for mood consumers</td>
<td>Total</td>
<td>$F$/Pearson Chi-square</td>
<td>$p$-Value</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------------------</td>
<td>---------------------------</td>
<td>-------------------------</td>
<td>-------</td>
<td>------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Working: part time</td>
<td>3.4</td>
<td>7.7</td>
<td>8.5</td>
<td>7.0</td>
<td></td>
<td></td>
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<tr>
<td>Have two jobs</td>
<td>1.7</td>
<td>1.4</td>
<td>2.0</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensioner</td>
<td>4.3</td>
<td>10.7</td>
<td>7.1</td>
<td>8.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student</td>
<td>26.3</td>
<td>13.3</td>
<td>11.9</td>
<td>15.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployed</td>
<td>2.6</td>
<td>4.2</td>
<td>1.4</td>
<td>3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner of a company or self-employed</td>
<td>1.7</td>
<td>1.4</td>
<td>0.8</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time housewife</td>
<td>4.7</td>
<td>6.3</td>
<td>8.2</td>
<td>6.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly household income before taxes: Russian roubles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35.525</td>
</tr>
<tr>
<td>&lt;2000 rub.</td>
<td>0.9</td>
<td>0.6</td>
<td>0.0</td>
<td>0.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001–4000 rub.</td>
<td>2.6</td>
<td>5.5</td>
<td>5.1</td>
<td>4.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Male respondents dominated the price sensitive group, while women were most typically found in the food for mood cluster ($\chi^2 = 17.795, p = 0.000$). The price sensitive consumers were more likely to include families with children, while the natural food consumer segment had more respondents without children ($\chi^2 = 8.030, p = 0.018$). There were also significant differences in educational level between the groups ($\chi^2 = 33.644, p = 0.000$), although the general level of education was quite high: those with a low educational level tended to be found among the price sensitive, and those with a higher educational level among the food for mood consumers. People with intermediate levels of education tended to belong to either natural food consumer or food for mood consumer group. Regarding differences in occupation ($\chi^2 = 65.582, p = 0.000$), the price sensitive consumers had a larger share of students and self-employed people in comparison with the other segments. The natural food consumer segment contained many pensioners and unemployed people, while the food for mood group included most of those who work full time, as well as housewives. There were also significant differences in income level among the clusters ($\chi^2 = 35.525, p = 0.003$). The food for mood consumers had

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Price Sensitive Consumers</th>
<th>Natural Product Consumers</th>
<th>Food for Mood Consumers</th>
<th>Total</th>
<th>F/Pearson Chi-Square</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4001–6000 rub.</td>
<td>7.8</td>
<td>5.5</td>
<td>4.2</td>
<td>5.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6001–9000 rub.</td>
<td>10.8</td>
<td>10.1</td>
<td>13.3</td>
<td>11.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9001–13,000 rub.</td>
<td>9.1</td>
<td>14.3</td>
<td>17.2</td>
<td>14.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13,000–18,000 rub.</td>
<td>12.9</td>
<td>13.7</td>
<td>16.4</td>
<td>14.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18,001–22,000 rub.</td>
<td>9.5</td>
<td>8.5</td>
<td>9.6</td>
<td>9.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;22,000 rub.</td>
<td>20.3</td>
<td>20.6</td>
<td>22.0</td>
<td>21.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Lower education: elementary school; Middle level: senior secondary school. Technikum: incomplete higher education; Higher education: basic higher education (4 years). Postgraduate: higher education (5–6 years).
mostly higher incomes, while the price sensitive group had a larger share of people with a lower income level.

The overall results of the study showed that health is not the main motive for food choice for Russian consumers. Health ranked only on 6th place preceded by sensory, availability, product naturalness, price, and mood motives, unlike results from Great Britain, where health was on second place, only preceded by sensory appeal.

The purpose of this study was, however, to identify segments of Russian consumers based on their food choice motives. Three clusters were identified. Whilst levels of motivation determining food choice differed across the clusters, the order of motivational factors was similar in all three clusters. Cluster one was less motivated and interested in food in general; it is very common in food studies to find a group which has low interest in different aspects of food. This group tended to be represented by young, male individuals with lower income who participated in this study. Young men have been shown to have lower interests in food in other studies as well.

Sensory motives were the most important determinants of food choice in all clusters, confirming previous results using British consumers. The second most important motive was the availability of food; in order for consumers to make a particular food choice, it is clear that the product should be available in supermarkets and other outlets. The availability issue may be a result of the Soviet legacy, when food shortages were quite common. Other results may reflect specific preferences found for Russian consumers. For example, the “convenience motive” was probably related to another important motive, the preference for “naturalness of food”. The Russians are extremely sceptical about additives in food, and as a consequence tend to be very negative about convenience food, which they believe contains additives enabling an increase in shelf-life of the food product.

The results suggest that being younger, male and less educated, or being a student, or in a household with children under 18 is associated with a higher perceived health status, and a reduced perception of health benefits being associated with healthy food choices, and lack of concern about the healthiness of food. This may, in part, reflect the observation that consumers’ health concern increases with increasing age. Male consumers, and consumers who are less educated, are less likely to seek out information of food related issues such as food safety. In contrast, the group of respondents who were most motivated to make healthy food choices tended to be older, female, more affluent, less likely to have children under 18 living at home, and had lower perceived health status. They were thus being motivated to make healthy food choices which also reflected concerns about health status.

The identification of the different clusters of consumers in the Russian population suggests that resources allocated to improving the public health status associated with food choices can be targeted to reflect the characteristics of those individuals most at risk. Developing healthy food
products and intervention strategies relevant to the needs of groups of individuals least motivated to make healthy food choices, can be an important element in improving public health nutrition (for example, it might be helpful to address problems of public health nutrition through the development of foods which are affordable and meet the sensory preferences of children and adolescents, or through the development of information strategies directly targeting men, which exploit role models from the same demographic sector, with similar motivational profiles).

The results suggest that an inverse relationship between perceived risk and perceived benefit associated with food choice can be identified. In other words, if a person perceives a situation as beneficial, the risks are simultaneously perceived as low; and vice versa. The results of this study confirm a similar relationship regarding healthy food choices. This is also consistent with findings from other studies: the existence of a negative correlation between individual perceptions of risk and benefit associated with a particular event or activity has been observed. Thus, it is possible that interventions aimed at increasing risk perceptions associated with unhealthy food choices may increase benefit perceptions, and vice versa. However, there is evidence to suggest that individuals are more likely to attend to information about risk compared with benefit. Therefore, health intervention measures might focus on information about the risks of making unhealthy food choices rather than the benefits of healthy food choices. Research in the area of nutrition education and nutrition interventions have focused on the promotion of “healthy” foods and discourage the use of “unhealthy” foods, and perceptions of risk and benefit associated with specific food products are in line with the traditional distinction between “healthy” and “unhealthy”. It is unlikely that adoption of such a strategy would increase risk perceptions associated with the entire food supply, as information would focus on products in specific categories which are generally assumed to be unhealthy (for example, high fat foods). This is potentially a topic for future research, which may also make a positive contribution to the development of efficacious public health nutrition policies.

For the commercial marketers in Russia, the results provide guidance for developing and promoting food products. First, taste and other sensory features were found to be the most important food choice motives in Russia. Thus, all products aimed at the Russian market should be adapted for the preferences in different regions of Russia. Availability is another important motive for the consumers. The results show that the product availability in shops located in the vicinity to the house is a very important motivational factor. Implicitly, this also suggests that marketers should pay strong attention to the choice and design of their marketing channels. This may be further emphasised regardless of the strategy (generic versus niche) that companies choose. Depending on the strategic positioning of the product, in terms of communication of values and benefits, the three clusters seem to call for quite different messages. Consumers in the price sensitive group had lower overall motivation and interest in food, and particularly healthy food, was rather low. Furthermore, this group was not motivated by convenience or weight control, thus, it would probably not be very efficient to promote healthy, lean convenience products for this group; price is an important factor. Also, consumers in the price sensitive group were the youngest in the sample, so the promotion should reflect this both in form and through channel choice. Being less motivated and less interested in food, consumers belonging to this group will probably pay more attention to peripheral cues in
promotional messages (for example the sender, music, etc.), rather than the message contents requiring elaborate information processing, in line with the elaboration likelihood model. The natural food consumer group was, as the name indicates, motivated to buy natural food, containing no additives, only natural ingredients. Price was also an important motive for this group, reflecting the low-income levels in the group. Products targeted for this group should not contain additives, and they should be relatively low priced. The group was interested in healthy food, but still consumed unhealthy food most frequently compared to the other groups. Thus, this group would be interested in healthy food products, considering also that the group had the highest average age, which makes health issues more relevant for the group. The food for mood group is different from the others in that mood was an important motive: they preferred food that makes them feel good, helps them to relax and cope with stress (see Table 2 for motive items). They were also very interested in natural products. This mood motive could be used in profiling natural and healthy products for the group. Considering that women were well represented in this group as well as the high-income levels, the promotional activities should be targeted towards women through “high income channels” (magazines, exclusive shops, etc.). This group had the highest motivational levels and overall interest in food, so informational messages about the product (for example about healthiness and naturalness), are likely to be a successful communication strategy in this group—they seem both motivated and able to process and seek information related to food products.

**Consumer Trends**

GfK RUS one of the leading market research firms in Russia, recently conducted a study that revealed seven primary consumption profiles in the Russian consumer market. Between August 2001 and August 2002, practically all of these consumption profiles underwent radical changes. The three most promising segments for foreign firms entering the market do not represent the largest consumer segments but offer the strongest potential because of their consumer behavior.

First, the advanced consumer group known as *innovators* is people who are seeking the best of the best. They are not traditional “luxury customers” in the Western sense, not only because big money suddenly became available for a few Muscovite families (around 18%, in comparison with an average of 8% for the country as a whole) but also because many new developments altered Russia’s notoriously dull retail industry. This group consists of the very young: Russians under the age of 30. These consumers generally are involved in business or in top intellectual occupations. Often single, they are highly educated, have well-developed tastes, and are well traveled and fairly sophisticated with regard to the global market’s offerings. They demand that everything be unique, exotic, and super-luxurious in their dynamic lifestyle, which is characterized by enjoying abundant leisure time, pursuing physical fitness through sports or training, dining in “hot” restaurants, traveling in style in private jets, attending “members only” clubs, arranging and attending exclusive parties, and giving impressively expensive gifts. They are not satisfied with foreign brands alone. They want more customization, limited editions of everything, and “impossible-to-get” products and services. In many ways they are ahead of the average Western consumer in purchasing objects of art, custom-made jewelry, luxury homes, exotic cars, unique yachts, and elaborate personal services. Ostentatiously consuming items that are unavailable to or unaffordable for the general public, they drive the entire Russian market in
the direction of ultimate luxury. The advertising media are working hard to promote many luxury products through the innovators, as they are much better informed, thanks to a variety of global media sources.

The second large group of Russian customers might be called **impulsive shoppers** (about 12% nationwide and 8% in Moscow). This cluster includes, along with many females, a number of single men, generally with secondary education. Some of these consumers are quite likely to shift into group one, the innovators, when their income level allows such upward mobility. They tend to make purchases impulsively without much thought or advance planning. They are proud to be capable of such behavior, and they treat shopping as a form of self-therapy, reward, and fun. This is a golden opportunity for advertisers, who can capitalize on it and lead impulsive shoppers into a new, more sustainable category of big spenders and luxury shopaholics.

Another significant cluster—**motivators**—is much smaller (11% in Russia and 15% in Moscow). They may be Muscovites but often are residents of the oblast centers and other big industrial cities. Though their incomes are far more modest, they are swayed by advertising messages and are subject to other consumer influences (collective, family, group, and subcultural). They are prone to change their consumption behavior if the influencer suggests doing so. There is a huge potential for advertisers to target this specific group and reach the desired sales goal by showing the motivators newer and more exciting products and services that are available locally.

**Discriminating** customers (12% nationwide and 8% in Moscow) are normally conservative and mature; many of them are female. Though their consumer potential is high, they see no value in advertising and instead feel annoyed by it. Discriminating customers consume quality and solid products but not necessarily innovative ones. They pay special attention to health products and the health-care industry’s services. They might react more favorably to less-aggressive messages that feature members of their age group in a traditional social setting in their lifestyle context, and might be motivated by messages featuring mature celebrities.

**Indifferent** consumers (25% countrywide and 21% in Moscow) tend to feel comfortable with their choices of product categories and brands. Their income category is average or slightly above average. Indifferent consumers are highly skeptical of the claims made by advertising but do not mind advertising as such. They are very difficult to influence through traditional means of salesmanship-based advertising. Their consumption is driven mainly by habit rather than by necessity. Advertisers must work harder to solve the rejection problem by providing more infomercials and generating excitement as a part of the shopping experience.

**Traditionalists** (16% in Russia and 20% in Moscow) are primarily retirees or people about to retire; most live in Russia’s urban centers. Their incomes are miserable, and they rely heavily on material assistance from their relatives and family members. Their consumer choices are
driven by the survival mode of their existence. The product selection is limited and based mainly on nostalgia for the good old Soviet days. They prefer drab, old-fashioned retail establishments with affordable prices and gloomier lines of inferior products. Traditionalists decline to shop at modern stores out of a wish to protest against new societal values and the booming culture of materialism. They may not be swayed by advertising at all. Attempts should be made to change their shopping behavior by offering promotions and low-cost or discount shopping opportunities.

And finally, there are the kolkhozniki (former members of collective farms): a tiny group (11% in Russia and 1% in Moscow) of mature village and small-town residents with below-average educational backgrounds. They are just scraping by and do not fit into any of the known income categories. They are true relics of the past, trying hard to make ends meet. Many grow agricultural products in their backyards or on tiny parcels of granted land at dachas (modest countryside households). They can afford almost nothing offered by modern retailers and must look for possible bargains by going from store to store. Many discount opportunities might appeal to this group through appropriately structured guilt-free messages related to appreciation of past glory and Russian-made products exclusively.

**Russian versus Foreign Brands**

As purchasing power among Russia's various consumer segments has increased, a preference for domestically produced items (Russian brands) has also increased. Some foreign manufacturers have sought to become more competitive on the market through local production of "Russian" brands, creating "national" brands, which have gained popularity among Russian consumers. Meanwhile, as incomes have grown, some consumers have started to turn back to international brands, while keeping their positive attitude towards local brands intact.

It is also worth noting that promotion and advertising of international brands has increased. Aggressive advertising, promotion policy, and slight decrease in prices are currently the three most important factors shaping consumer choice.

Competition between local brands and international brands is intense. International brands, particularly in the fast-moving consumer goods market, have benefited from a recognized reputation and the improved financial situation of Russia's consumers. Meanwhile, local brands are currently perceived as high quality, a good value-for-money, and benefit from Russians' patriotic impulse to buy "Russian-made" products.

**Retail Stores and Russian Consumers**

Household spending habits for Russia's urban populations, particularly for such consumer goods as food, cosmetics/toiletries, and household supplies, illustrate the role of the primary retail channels in Russia's grocery stores, produce markets, and supermarkets. Currently, some 37 percent of such spending takes place at small, multipurpose grocery stores, while
"wholesale" produce markets (or farmers' markets) account for 24 percent of such spending, and another 12 percent of these purchases are made at large-scale grocery stores, or supermarkets.

Retail trends suggest that large-scale stores will become increasingly popular. However, most Russians outside Moscow and other major cities still do their shopping at small grocery or convenience stores or other specialized stores because of their convenient location, as well as at consumer goods markets, because of low prices. At the same time, Russia is witnessing the rise of a new consumer channel--medium-sized discount supermarkets, such as Piatrochka, Kopeika, and Aldi in Moscow.

**Regions versus Moscow**

Given the growing number of regions beyond Moscow considered to have relatively high business development potential--including St. Petersburg, Rostov, Krasnodar, Nizhny Novgorod, Tatarstan, Bashkortostan, Samara, Yekaterinburg, Krasnoyarsk, and Irkutsk--a final but important note related to consumer behavior in Russia for any company considering market entry is that significant differences exist from region to region. It may come as a surprise, but some businesses report finding that the real differences between neighboring regions in Russia may in fact be greater than between neighboring European countries. Pakistani Companies considering entry into the Russian market in several regions should prepare not just one nationwide plan, but several business plans or a multifaceted plan to reflect the unique aspects and demands of different regions. Russia's current experience suggests that those who go to the regions first and use local resources effectively are most likely to become market leaders.

**Russian Women’s Buying Behavior**

To understand the motives in selecting consumer durables, the research were isolated issues that characterize the values of Russian women belonging to middle class. Continue, remain a priority: "children" - 86%; "family relationship" - 75%; "material wealth" - 74%. Therefore, women are actively responding to suggestions on products and services that preserve health and family, provide security. The "healthy lifestyle" mentioned only 57%. A small number of women among the values named: "Sports, hobbies, entertainment - 39%, and" career "- 22%. It should be noted that women throw the concept of "career" and "work." Gainful employment is perceived as a source of material wealth in the family, rather than as a way of succeeding in society.

"How do you usually spend your free time?" woman replied: "socializing with friends at home, away," "housework and children," "a TV and reading." Only 8% of respondents named the "shopping", 5% - "Sports" and "night club, restaurant, cafe.

During individual interviews trial participants named as significant purchases (just 450 titles), they have acquired during 2007, the goods, which were then divided into 4 main groups:
• Consumer electronics, computers, mobile phones - 38%;
• Furniture and home goods - 20%;
• Clothing, Shoes & Accessories - 19%;
• Others - 23%.

Russian women are not prone to spontaneous purchases when choosing durable goods. Only when it comes to jewelry, women predominate in their natural emotions, and they are ready to make an unplanned purchase.

The process of buying in this group is as follows: 47% of the cases decided on their own woman, a 26% - a male companion, 25% - together.

<table>
<thead>
<tr>
<th>Question, &quot;Are you planning to make this purchase?&quot;</th>
<th>Furniture, household goods</th>
<th>Clothing, footwear, accessories, cosmetics</th>
<th>Consumer electronics, computers, mobile phones</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>66%</td>
<td>72%</td>
<td>90%</td>
</tr>
<tr>
<td>NO</td>
<td>34%</td>
<td>28%</td>
<td>10%</td>
</tr>
</tbody>
</table>

It can be assumed that the lack of spontaneity in the behavior of Russian women shoppers due to the fact that their contribution to the family budget is significant. 40% of respondents make to the family budget is more than 50% of household income (18% of them are above 70% of revenue) and only 26% - 30% of family income.

Emotional rewards for shoppers is much more important than the propensity to risk when choosing a new brand. 62% of respondents stated "any bargain elevates mood, and only 10% of cases - like to try new brands." 66% of study participants reported, "for me it is important that," while only 9% agreed that "willing to pay more for a prestigious brand." All this speaks in favor of rationalism in women during shopping. For Russian women - middle-class - a priority that the subject liked her and then she is ready to buy it, paying no attention to the prestige of the brand.

<table>
<thead>
<tr>
<th>2001</th>
<th>2007</th>
<th>Options</th>
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</thead>
</table>
|      |      | Question: "What is important to you when choosing a product?"
|      |      | 25% 23% Value for money |
|      |      | 19% 11% Price       |
|      |      | 12% 15% Quality      |
|      |      | 8% 11% Trademark     |
|      |      | 7% 3% Country of origin |
|      |      | 6% 10% Good thing itself |

The parameters characterizing the marketing impact on customers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>3% 5% Vendor Recommendations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3% 4% Discount</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2% 1% Previously looked to advertising</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1% 0% Advertise in the store</td>
</tr>
</tbody>
</table>

Question, "Where did you do your purchases?"

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>30% 25% Shopping center</td>
</tr>
<tr>
<td></td>
<td></td>
<td>19% 30% Company Store</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15% 3% Clothing market</td>
</tr>
</tbody>
</table>

**Consumer Behavior in Russian Social Media**

Despite some optimistic improvements in the consumer confidence index in Q3 2009, Russian consumers have shown low readiness to increase spending in the next 12 months. According to PWC survey, the majority of respondents cite travel and entertainment as the most popular categories to cut-back in spending in the year ahead. Over a third (38%) of respondents plan to further reduce expenses on travel, and 33% of them are going to cut back on outside entertainment including cinema, theatre, concerts and restaurants. A quarter of consumers surveyed intend to lower expenditure level on consumer electronics next year.
Goods on which over half of respondents plan to keep expenses at the same level include groceries (65%), cosmetics and beauty care (59%) and books, periodicals, CD/DVD (57%). Meanwhile, 42% of consumers surveyed are ready to increase spending on home improvements, apparel and footwear (39%) and groceries (26%) in the next 12 months.

According to the survey, almost all respondents regularly spend online time on searching for information or e-mail communication. Almost three quarters of them (73%) cited that they usually access the Internet for social networking - the third most popular result followed by instant messaging. The survey also revealed high readiness of Russian consumers to purchase online, with about 80% of respondents reporting that they have made at least one purchase over the Internet. For respondents whose monthly income is above RUB 25,000, this figure reached 90%.

In the decision-making process, online shoppers tend to rely on personal recommendations from people they know or recommendations of other users. Consumers’ choice is least of all affected by online advertising (only 18% of respondents). Compared to other age groups, middle-aged consumers are more inclined to trust search results rather than personal recommendations. People with monthly income of over RUB 25,000 make decisions after speaking to friends and acquaintances, and then studying online consumer opinions.

Context ad in search results leads among consumers as the main way they prefer to get online advertising - 42% of respondents voted for it. Young respondents (aged 18 - 25) are even more loyal to e-mail marketing than context advertising (39% against 36%).

Almost 60% of consumers surveyed still prefer to examine goods in person before buying anything, and nearly as many respondents have concerns about the condition of goods delivered and difficulties associated with their return.

Benefits of making purchases online compared to traditional shopping include saving time (74%), home delivery services (65%), possibility to avoid offline shops crowds (61%) and ability to shop 24 hours a day (58%). For cities except Moscow and St Petersburg, finding something that is not available locally was recognised as one of the key benefits of online retailing.

**Consumer Behavior Volatile in Russia**

Brand owners in the FMCG sector remain cautiously optimistic about their prospects in Russia, despite the fact shopper behavior has been "inexplicably volatile" during the financial crisis. Ernst & Young, found growth rates typically moderated dramatically in the recession and trading patterns regularly appeared "inexplicably volatile".
Consumer Behavior Drives Change

According to the Global Entertainment & Media Outlook 2010-2014 from PricewaterhouseCoopers, the compound annual growth rate of the Russian E&M (entertainment and media) market is expected to reach 9.3% as a result of two-digit growth rates in such sectors as Internet advertising, TV subscription spending and consumer spending on Internet access and video games. Consumer spending (excluding Internet access) will rise at a compound annual rate of 5.9%, while the advertising market will grow by 10.2% until 2014. Therefore, by 2014 the two segments will virtually even out, reaching USD 9.9 billion and USD 9.6 billion respectively. The Russian E&M market in 2009 is assessed at USD 16.38 billion, and by 2014 it is expected to grow to USD 25.58 billion.

The Internet

In 2009 Russia became the largest market for Internet access in Central and Eastern Europe (CEE), and the seventh among EMEA countries. Consumer spending on Internet access last year stood at USD 2.9 billion and the sector is expected to grow at a compound annual rate of 15% over the next five years.

TV and Radio

The Russian market occupies the leading position among CEE countries in terms of households with TV subscriptions (12.7 million subscribers). By 2014 this number is expected to rise to 19.7 million, placing Russia third among EMEA countries, after Saudi Arabia and Germany.

Out-of-home advertising

Central and Eastern Europe will become the fastest growing region in the out-of-home advertising sector in EMEA, mostly due to the large revenues in the Russian market. The lack of economic stability in 2009 caused the market to fall by 40.5% to USD 858 million, which was the greatest decrease among all EMEA countries. Nevertheless, in 2014 the market is forecast to rise to USD 1.3 billion, with a compound annual growth rate of 9.5% (40% of total EMEA market growth).

Print newspapers and consumer magazines

The Russian newspaper market in 2009 was USD 1.6 billion, while as a result of the economic crisis the print newspaper advertising market was down 35% on previous years, to USD 280 million. By 2014 the print newspaper advertising market is forecast to reach USD 421 million. Advertisers will switch their attention to digital newspaper formats, and the compound annual growth rate for the next five years is forecast to be 23.6%, which will enable this market to reach USD 26 million by 2014.
**Consumer outlook**

- Consumer spending growth was largely driven by the growing economy, employment and wages. Given the gloomy outlook for these, consumption looks set to suffer in the short term.

- Russian households are not generally heavily in debt, suggesting that the effects of the financial crisis on them will be quite moderate, supporting recovery of spending.

- The recent devaluations of the rouble have added to inflationary pressures, as well as weakening households’ purchasing power

**Age Distribution**

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-14</td>
<td>10,666</td>
<td>10,158</td>
<td>20,824</td>
<td>14.7</td>
</tr>
<tr>
<td>15-24</td>
<td>11,665</td>
<td>11,306</td>
<td>22,971</td>
<td>16.2</td>
</tr>
<tr>
<td>25-44</td>
<td>20,440</td>
<td>21,034</td>
<td>41,474</td>
<td>29.2</td>
</tr>
<tr>
<td>45-64</td>
<td>16,696</td>
<td>20,455</td>
<td>37,151</td>
<td>26.2</td>
</tr>
<tr>
<td>65+</td>
<td>6,250</td>
<td>13,339</td>
<td>19,589</td>
<td>13.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65,717</td>
<td>76,292</td>
<td>142,009</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Geert Hofstede Cultural Dimensions of Russia

<table>
<thead>
<tr>
<th></th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
<th>LTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>93</td>
<td>39</td>
<td>36</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>40</td>
<td>91</td>
<td>62</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>UK</td>
<td>35</td>
<td>89</td>
<td>66</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Germany</td>
<td>35</td>
<td>67</td>
<td>66</td>
<td>65</td>
<td>31</td>
</tr>
<tr>
<td>Italy</td>
<td>50</td>
<td>76</td>
<td>70</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>68</td>
<td>71</td>
<td>43</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>80</td>
<td>20</td>
<td>66</td>
<td>30</td>
<td>118</td>
</tr>
<tr>
<td>Japan</td>
<td>54</td>
<td>46</td>
<td>95</td>
<td>92</td>
<td>80</td>
</tr>
<tr>
<td>Brazil</td>
<td>69</td>
<td>38</td>
<td>49</td>
<td>76</td>
<td>65</td>
</tr>
<tr>
<td>Turkey</td>
<td>66</td>
<td>37</td>
<td>45</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Arab world</td>
<td>80</td>
<td>38</td>
<td>52</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

Source: www.geert-hofstede.com

Power Distance Index (PDI)

Individualism (IDV)

Masculinity (MAS)

Uncertainty Avoidance Index (UAI)

Long-Term Orientation (LTO)
6. HEALTH AND WELLNESS TRENDS IN RUSSIA

Market Data of Health and Wellness Food

**Russian Health and Wellness Market Retail Sales US$ Millions**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Wellness–Nutritionals</td>
<td>721.04</td>
<td>888.3</td>
<td>1088.0</td>
<td>1352.3</td>
<td>1691.2</td>
<td>1,913.7</td>
</tr>
<tr>
<td>Health and Wellness–Food and Beverages</td>
<td>5,318.7</td>
<td>6,402.6</td>
<td>7,401.4</td>
<td>8,891.2</td>
<td>10,319.8</td>
<td>11,232.2</td>
</tr>
</tbody>
</table>

Source: Euromonitor International

**Russian Health and Wellness Food and Beverage Market Sales US$ Millions**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic Food and Beverages</td>
<td>18.8</td>
<td>96.1</td>
<td>144.1</td>
<td>163.5</td>
<td>179.7</td>
<td>183.6</td>
</tr>
<tr>
<td>Fortified/Functional Food and Beverages</td>
<td>482.6</td>
<td>664.5</td>
<td>836.5</td>
<td>1,095.9</td>
<td>1,281.9</td>
<td>1,424.7</td>
</tr>
<tr>
<td>Better-for-you Food and Beverages</td>
<td>1,533.7</td>
<td>1,762.3</td>
<td>1,973.6</td>
<td>2,408.8</td>
<td>2,856.7</td>
<td>3,339.1</td>
</tr>
</tbody>
</table>

Source: Euromonitor International
## Russian Health and Wellness Nutritionals Market Sales US$ Millions

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vitamins and dietary supplements</td>
<td>417.8</td>
<td>523.7</td>
<td>673.8</td>
<td>853.3</td>
<td>1046.0</td>
<td>1169.0</td>
</tr>
<tr>
<td>Herbal/traditional products</td>
<td>212.1</td>
<td>244.2</td>
<td>281.8</td>
<td>343.4</td>
<td>436.5</td>
<td>493.0</td>
</tr>
<tr>
<td>Slimming products</td>
<td>91.4</td>
<td>108.4</td>
<td>117.1</td>
<td>134.2</td>
<td>177.0</td>
<td>212.6</td>
</tr>
<tr>
<td>Sports nutrition</td>
<td>9.4</td>
<td>12.0</td>
<td>15.3</td>
<td>21.4</td>
<td>31.7</td>
<td>39.1</td>
</tr>
</tbody>
</table>

Source: Euromonitor International

## Health And Wellness Trends

According to 2008 research by Nestlé, 65% of the Russian population are concerned about their health and prefer high-quality products with additional nutritional value. The main consumers of healthy products are those in the middle-class income bracket, who are willing to purchase healthy food at higher prices for themselves and their children. Manufacturers consider the market to hold great potential for the diversification of product lines, and they are currently busy launching many new health and wellness products.

However, different sectors, categories and regions are developing at different rates. As multinationals expand their activity to less developed areas of Russia, the trend will embrace other health and wellness sectors. Naturally healthy (NH) food and beverages is the largest and accounts for more than half of total health and wellness food and beverage value sales.

The health and wellness food and beverage sector, is likely to expand over the short and long term, and products will become cheaper and more affordable to a larger segment of the population. The wealthiest consumers will seek premium and/or organic food.
# Sales of Health and Wellness Food and Beverages in Russia by Sector: % Value Growth 2002-2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>2006/07</th>
<th>2002-07 Compounded Annual Growth</th>
<th>2002/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and wellness food and beverages</td>
<td>16.2</td>
<td>20.3</td>
<td>152.2</td>
</tr>
<tr>
<td>Organic food and beverages</td>
<td>13.9</td>
<td>34.0</td>
<td>331.5</td>
</tr>
<tr>
<td>Organic packaged food</td>
<td>14.0</td>
<td>32.6</td>
<td>310.4</td>
</tr>
<tr>
<td>Organic beverages</td>
<td>11.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fortified/functional food and beverages</td>
<td>17.6</td>
<td>28.1</td>
<td>244.6</td>
</tr>
<tr>
<td>Fortified/functional packaged food</td>
<td>15.7</td>
<td>23.7</td>
<td>189.2</td>
</tr>
<tr>
<td>Fortified/functional beverages</td>
<td>20.3</td>
<td>36.2</td>
<td>368.5</td>
</tr>
<tr>
<td>Better-for-you (BFY) food and beverages</td>
<td>19.7</td>
<td>17.8</td>
<td>126.8</td>
</tr>
<tr>
<td>Better-for-you packaged food</td>
<td>20.5</td>
<td>17.9</td>
<td>128.2</td>
</tr>
<tr>
<td>Better-for-you beverages</td>
<td>14.1</td>
<td>16.7</td>
<td>116.8</td>
</tr>
<tr>
<td>Naturally healthy (NH) food and beverages</td>
<td>14.6</td>
<td>20.1</td>
<td>149.9</td>
</tr>
<tr>
<td>Naturally healthy packaged food</td>
<td>8.6</td>
<td>13.6</td>
<td>89.2</td>
</tr>
<tr>
<td>Naturally healthy beverages</td>
<td>17.1</td>
<td>23.4</td>
<td>186.2</td>
</tr>
<tr>
<td>Food intolerance products</td>
<td>8.9</td>
<td>22.6</td>
<td>177.0</td>
</tr>
<tr>
<td>Gluten-free food</td>
<td>11.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lactose-free food</td>
<td>21.0</td>
<td>18.3</td>
<td>131.4</td>
</tr>
<tr>
<td>Diabetic food</td>
<td>8.6</td>
<td>22.5</td>
<td>175.5</td>
</tr>
</tbody>
</table>

Source: Euromonitor International

## Fortified/Functional Foods

The Russian functional food market is in its growth phase, and is still small by western standards, but showing promise. With awareness of nutrition, combined with a large population with rising incomes, there is an increasing demand for healthier foods. The current market is
mainly in large cities but is quickly spreading to rural areas in all food categories.

A rapidly growing market for health-enhancing foods has emerged in response to demographics, patterns of health and disease, innovation in food and health-related research, and globalization.

Fortified/functional food has gained a wide acceptance and has become present in all food sectors in the Russian market.

The aging Russian population along with the increasing prevalence of urban, lifestyle-related diseases, has shifted the focus from nutrition issues to using diet to reach and maintain optimal health. The Russian demand for fortified/functional foods provides important export opportunities for Canadian exporters.

![New Functional products introduced in Russia in 2009](image)

Source: Euromonitor International

The dairy industry leads the functional foods movement. Probiotic dairy products, such as yogurt, have always been popular in Russia.
Players in bakery products have widened their product assortments by adding extra bran, vitamins and minerals, to stimulate sales through value-added options.

The most innovative and dynamic sectors are fruit/vegetable juice, nectars and baby food.

Diet-related issues have recently gained publicity in Russia; the most prominent public health problem in Russia is cardiovascular disease (CVD), which accounts for over 50% of deaths in the country.

Because of some historical quality issues and problems with counterfeited products, Russian consumers read product labels carefully and are ready to pay more for branded products, according to studies and surveys done by Western manufacturers. As a result, innovative packages and visual labelling have become very appealing to consumers. Buyers prefer convenient and healthy variants of the products they are accustomed to, and added nutritional value is seen as a bonus.

<table>
<thead>
<tr>
<th>Top Ingredients used in product formulation in 2009</th>
<th>Number of New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micronutrients and Related Products</td>
<td>341</td>
</tr>
<tr>
<td>Fruit and Fruit Products</td>
<td>252</td>
</tr>
<tr>
<td>Sugars and Other Carbohydrate Sweeteners</td>
<td>229</td>
</tr>
<tr>
<td>Dairy Products (Excluding Cheese)</td>
<td>210</td>
</tr>
<tr>
<td>Cereals and Cereal Products</td>
<td>208</td>
</tr>
<tr>
<td>Flavorings</td>
<td>127</td>
</tr>
<tr>
<td>Salt and Salt Substitutes</td>
<td>105</td>
</tr>
<tr>
<td>Edible Fats and Oils</td>
<td>99</td>
</tr>
<tr>
<td>Waters</td>
<td>82</td>
</tr>
<tr>
<td>Herbal Substances</td>
<td>79</td>
</tr>
</tbody>
</table>

Source: Mintel GNPD

**Better-For-You Foods**

Russians are very conscious of their body image. Consequently, it is fashionable to look slim and healthy, which boosted sales for reduced-fat products across all better-for-you food. Further, in line with the trend observed in the West, Russian consumers have become more health conscious and, for this reason, have come to prefer low-fat, low-sugar or low-carb products.
Consumer demand for better-for-you packaged food products is forecast to grow. It is the easiest way for people to switch to healthier foods, as they do not have to reject the food they like, and instead start their way to healthier eating by reducing or eliminating the consumption of unhealthy ingredients, such as fat, salt or sugar.

Reduced fat milk has traditionally been perceived by Russians as a lower quality product, but today this trend has reversed; reduced fat milk sales are reaching all time highs, as a result of increasing health awareness amongst consumers. Other fat free dairy products are seeing the same positive growth: yogurt, cottage cheese, and butter. Diversification of product lines is a strategy widely exploited by many manufacturers to capture a larger market share.

**Nutraceuticals**

The recession may have slowed spending, but the desire of the Russian consumers to look good is as strong as ever, prompting them to seek out cheaper ways to achieve beauty. The success of anti-aging products, many of which are premium-priced, is further proof that luxury beauty goods do not always suffer during hard of economic times.

Beauty foods are largely split into two groups: those incorporated into indulgence foods, such as chocolate, and those that sit under the health and wellness umbrella.

Nutraceuticals for beauty are traditionally offered in pill, tablet, liquid and food forms. Foods and drinks positioned and marketed as "beauty enhancing" are part of a newer concept, with the rise of added-value functional foods becoming the next logical step for innovation in the cosmetics and toiletries industry.

Yogurt and yogurt drinks are the most popular formats for beauty foods because, unlike chocolate, yogurt already has a healthy image among consumers.

National manufacturer Vimm-Bill-Dann offers an Immunele dairy drink which contains L.Rhamnosus and L.Casei lacto bacteria. In 2007 Vimm-Bill-Dann developed the new brand Neo Beauty, a dairy drink with lacto bacteria and aloe juice to aid in the regeneration process.

Groupe Danone offers Activia yogurts enriched with streptococcus and lactobacillus bulgaricus, and Actimel dairy drink with L.Casei Imunitass bacteria. In 2007, Danone introduced a new dairy product, Danacor, with Phitonaturalis supplement, which helps to reduce the cholesterol in the blood.

According to Euromonitor International the target audience for nutraceuticals is mainly female
urbanites of major Russian cities, aged between 25 and 50. This demographic segment of the Russian population is already accustomed to seeing yogurts marketed with additional health benefits such as improving digestive tract health.

Ost-Akva has introduced a new variety of its Napitok Dlya Korrektsii Vesa (Weight Loss Soft Drink) marketed under the Slim+ brand. The new variant is called Pink, and is said to contain Garcinia Cambogia extract and L-carnitine, which claims to reduce fat tissue in one's body.

Data from Euromonitor International shows that, in 2008, dietary supplements grew by 24% to reach US$580 million. The sector maintained its rapid growth over the period of 2005 to 2008, mostly driven by products used in the alternative treatment of different diseases (such as prebiotics/probiotics) and for health support in some social categories, including children, pregnant women, and elderly people.

Manufacturers of dietary supplements, particularly probiotic supplements, compete with the leading dairy manufacturers, who launch drinks and yogurts enriched with lacto bacteria.

Source: Euromonitor International
Russian Distribution Channels for Vitamins and Dietary Supplements - Retail Value - % breakdown

<table>
<thead>
<tr>
<th>Channel</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store-Based Retailing</td>
<td>61</td>
<td>61.3</td>
<td>63.5</td>
<td>62.6</td>
</tr>
<tr>
<td>Grocery Retailers</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Non-Grocery Retailers</td>
<td>60.7</td>
<td>61</td>
<td>63.3</td>
<td>62.4</td>
</tr>
<tr>
<td>Chemists/Pharmacies</td>
<td>58</td>
<td>59</td>
<td>61.5</td>
<td>61</td>
</tr>
<tr>
<td>Parapharmacies/ Drugstores</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Healthfood shops</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Mass Merchandisers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Non-Grocery Retailers</td>
<td>1.5</td>
<td>0.8</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Non-Store Retailing</td>
<td>39</td>
<td>38.7</td>
<td>36.5</td>
<td>37.4</td>
</tr>
<tr>
<td>Vending</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Home Shopping</td>
<td>4.1</td>
<td>4</td>
<td>3.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Internet Retailing</td>
<td>5.9</td>
<td>6.7</td>
<td>6.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Direct Selling</td>
<td>29</td>
<td>28</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Euromonitor International

**Organic Foods**

Organic foods are another beneficiary of consumer awareness of the connection between food and health. Many consumers who believe in the food as medicine concept are seeking out organic foods, as they are viewed as a health aid that may prevent illnesses.

According to the company Comcon, the organic foods market is one of the fastest growing sectors of the economy, increasing by an average of 15% to 20% a year. However organic products are an underdeveloped segment of Russian retail. Russia does not have many land plots that produce organic food. The area used for the cultivation of such products is just 57,000 hectares, according to the Russian Grain Union, which is less than 0.1 percent of all agricultural
The Organic label is facing a challenge, as neither consumers nor producers in Russia understand what, exactly, the term "organic food" implies. Just a few years ago, some producers tried to promote their products by claiming that they were organic, without providing any additional information. As a result, a new standard was introduced in Russia, which prohibits the marketing of foods as organic or "ecologically clean." To attract consumers, producers now use different labels, such as "bio" or "natural." This means that a great variety of such products, even truly organic ones, do not have a standard name.

According to the latest data available, only about 5% of Russians would prefer to buy only organic food. The share of such people in Europe is 32%, and in the United States it's 42%. At the same time, Russia's 5% may triple within the next few.

Source: Euromonitor International
7. MARKET FORECAST OF THE INDUSTRY AND KEY FINANCIAL RATIOS OF THE LEADING COMPANIES

<table>
<thead>
<tr>
<th></th>
<th>Russia</th>
<th>Germany</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually Growth</td>
<td>8.80%</td>
<td>7.10%</td>
<td>1.40%</td>
</tr>
<tr>
<td>Value in Last Year</td>
<td>$12.4 bl</td>
<td>$17.5 bl</td>
<td>$24.2 bl</td>
</tr>
<tr>
<td>Annually Average Change in Value 09-14</td>
<td>$1,020,000,000.00</td>
<td>$420,000,000.00</td>
<td>$260,000,000.00</td>
</tr>
</tbody>
</table>

Source: Datamonitor
Dairy Market Segmentation

<table>
<thead>
<tr>
<th>Product</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese</td>
<td>34.90%</td>
</tr>
<tr>
<td>Spreadable fats</td>
<td>33.80%</td>
</tr>
<tr>
<td>Milk</td>
<td>19.20%</td>
</tr>
<tr>
<td>Yogurt&amp;Fromage Frais</td>
<td>6.80%</td>
</tr>
<tr>
<td>Chiled Deserts</td>
<td>4.60%</td>
</tr>
<tr>
<td>Cream</td>
<td>0.08%</td>
</tr>
</tbody>
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Source: Datamonitor

Market Shares

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wimm-Bill-Dann Foods OJSC</td>
<td>19.10%</td>
</tr>
<tr>
<td>Valio Group</td>
<td>18.50%</td>
</tr>
<tr>
<td>Unimilk</td>
<td>6.70%</td>
</tr>
<tr>
<td>Others</td>
<td>55.70%</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Selling Point Segmentations

<table>
<thead>
<tr>
<th>Channel</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets/Hypermarkets</td>
<td>48.00%</td>
</tr>
<tr>
<td>Independent Retailers</td>
<td>32.70%</td>
</tr>
<tr>
<td>Specialist Retailers</td>
<td>14.60%</td>
</tr>
<tr>
<td>Others</td>
<td>4.80%</td>
</tr>
</tbody>
</table>

Source: Datamonitor
## Wimm-Bill-Dann Foods OJSC

<table>
<thead>
<tr>
<th>Ratios</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Margin</td>
<td>2.20%</td>
<td>5.40%</td>
<td>5.70%</td>
<td>3.60%</td>
<td>5.30%</td>
<td>4.44%</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>-</td>
<td>26.40%</td>
<td>38.40%</td>
<td>15.80%</td>
<td>-22.80%</td>
<td>11.56%</td>
</tr>
<tr>
<td>Asset Growth</td>
<td>-</td>
<td>27.70%</td>
<td>30.40%</td>
<td>2.90%</td>
<td>-5.60%</td>
<td>11.08%</td>
</tr>
<tr>
<td>Liabilities Growth</td>
<td>-</td>
<td>29.60%</td>
<td>28.30%</td>
<td>8.80%</td>
<td>-14.70%</td>
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</tr>
<tr>
<td>Debt/Asset Ratio</td>
<td>55.30%</td>
<td>56.10%</td>
<td>55.20%</td>
<td>58.40%</td>
<td>52.80%</td>
<td>55.56%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>3.30%</td>
<td>9.10%</td>
<td>10.30%</td>
<td>6.50%</td>
<td>7.60%</td>
<td>7.36%</td>
</tr>
<tr>
<td>Revenue Per Employee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$0</td>
</tr>
<tr>
<td>Profit Per Employee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$0</td>
</tr>
<tr>
<td>Revenues (million)</td>
<td>$1,395</td>
<td>$1,762</td>
<td>$2,438</td>
<td>$2,824</td>
<td>$2,181</td>
<td>$2,120</td>
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Source: Datamonitor

## Valio Group

<table>
<thead>
<tr>
<th>Ratios</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Margin</td>
<td>1.50%</td>
<td>0.80%</td>
<td>0.60%</td>
<td>-0.30%</td>
<td>1.00%</td>
<td>0.72%</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>-0.20%</td>
<td>2.70%</td>
<td>5.70%</td>
<td>7.60%</td>
<td>-3.10%</td>
<td>2.54%</td>
</tr>
<tr>
<td>Asset Growth</td>
<td>-4.00%</td>
<td>1.20%</td>
<td>7.10%</td>
<td>5.00%</td>
<td>3.30%</td>
<td>2.52%</td>
</tr>
<tr>
<td>Liabilities Growth</td>
<td>-7.70%</td>
<td>3.10%</td>
<td>12.50%</td>
<td>12.20%</td>
<td>-7.70%</td>
<td>2.48%</td>
</tr>
<tr>
<td>Debt/Asset Ratio</td>
<td>55.90%</td>
<td>57.00%</td>
<td>59.90%</td>
<td>64.00%</td>
<td>57.10%</td>
<td>58.78%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>2.80%</td>
<td>1.60%</td>
<td>1.20%</td>
<td>-0.60%</td>
<td>1.80%</td>
<td>1.36%</td>
</tr>
<tr>
<td>Revenue Per Employee</td>
<td>$530,47</td>
<td>$541,05</td>
<td>$565,255</td>
<td>$585,936</td>
<td>$563,328</td>
<td>$557,208</td>
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<tr>
<td>Profit Per Employee</td>
<td>$7,727</td>
<td>$4,339</td>
<td>$3,271</td>
<td>($1,734)</td>
<td>$5,418</td>
<td>$3,804</td>
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<tr>
<td>Revenues (million)</td>
<td>2,195.00</td>
<td>2,254.00</td>
<td>2,382.00</td>
<td>2,563.50</td>
<td>2,484.30</td>
<td>$2,376</td>
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</table>

Source: Datamonitor
### Profit Margin

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Margin</td>
<td>4.44%</td>
<td>0.72%</td>
<td>0.00%</td>
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### Revenue Growth

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>11.56%</td>
<td>2.54%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

### Asset Growth

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Growth</td>
<td>11.08%</td>
<td>2.52%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

### Liabilities Growth

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities Growth</td>
<td>10.40%</td>
<td>2.48%</td>
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### Debt/Asset Ratio

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt/Asset Ratio</td>
<td>55.56%</td>
<td>58.78%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

### Return on Assets

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>7.36%</td>
<td>1.36%</td>
<td>0.00%</td>
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### Revenue Per Employee

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Per Employee</td>
<td>$0</td>
<td>$557,20</td>
<td>$0</td>
</tr>
</tbody>
</table>

### Profit Per Employee

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Per Employee</td>
<td>$0</td>
<td>$3,804</td>
<td>$0</td>
</tr>
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</table>

### Revenues (million)

<table>
<thead>
<tr>
<th>Average(2005-2009)</th>
<th>Winn-Bill-Dann</th>
<th>Valio</th>
<th>Unimilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (million)</td>
<td>$2,120</td>
<td>$2,376</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: Datamonitor

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### 8. STRATEGY

**Demand-Driven Organizations**

Consumers nowadays live in an era of choices. Based on sharing from the companies, as well as observations in the ways they behave, these 10 features of demand-driven organizations can be established.

1 - They listen and pay attention. This is a great characteristic, since to pay attention is difficult.

2 - They do not fear being evaluated. In several organizations there is a reluctance to establish either formal or informal structures for evaluation, due to the fact that this puts pressure on people.

3 - They dedicate time to think through their work. In the normal frantic business environment, the companies are often distracted by instant communications that distract them from thinking over what has to be done to meet larger objectives. Technology eases communications between people, but the downside is that companies often find our thinking processes disrupted by such communications.
4 - They analyze and then implement macro-environmental changes. They are keen to follow developments in the political, legal, economic, socio-cultural and technological spheres. These demand-driven organizations analyze how these trends and movements affect them.

5 - They conduct simulations of possible future scenarios and the likely consequences. This way, they find themselves better prepared for all contingencies.

6 - They connect well with large stakeholders. They utilize several strategies such as maintaining open lines of communication, the establishment of consumer research departments, digital platforms and the empowerment of their front line people. These companies find it easier to establish close connections with stakeholders such as consumers, suppliers, distributors, shareholders, financial institutions and the government.

7 - They believe that they are owned by their customers. They believe that the ability to find out what the consumer wants, and then adjusting the organization to provide it, is what gives the company value in the eyes of the consumer. Believing that this is the case requires a mindset change on the part of employees.

8 - They are not averse to change. In many companies, the staff are indifferent to developments as they believe that nothing will be changed in the long run. This attitude has to be reversed with the thinking that if nothing is expected to change, then first the people must be convinced that they can change things.

9 - In the chapter "Building An Innovative Concept", there is an entrepreneurial behavior. That demand-driven companies always introduce new concepts and solutions into societies.

10 - They also have the discipline to ensure that things happen. They take notes and take actions

Factors For Strategic Planning Between 2011 And 2020

These factors consider important ideas that are likely to contribute to the shaping of the food industry over the next ten years, affect strategic planning processes and overall positioning strategies of companies, consumers and governments.

Empowerment - Within the next ten years, companies, net-works and productive chains will be more valued by consumers if they act to include the base of the pyramid (smallholders) and if they have exercise social responsibility such as ensuring acceptable working conditions. There is also the growth of fair trade networks. Inclusion will be a topic of growing importance in the
following years. Determining how to build sustainable incentives for coordination, such as through associations or cooperatives, will be a central role for governments.

Integration of the economy - A more integrated economy increases the importance of developing countries' supply chains as alternative sources of supply for developed world consumers, and due to this integration, the developing countries' marketing channels are working to sell products to emerging consumers in several countries.

Income distribution - There is a huge internal market growing in several parts of the world, and companies to determine their positioning should more closely study these emerging consumers. The impact of these new consumers on the planet's capacity to produce adequate food is a major issue.

Climate and environment (conservation) - This topic will gain even more importance in the next ten years, since climate change is a reality. Attention will be focused on the creation of low carbon networks (paying attention to carbon footprints and emissions management), adaptation of networks to climate change, renewable energy networks, environmental certification, resource usage efficiency, network reversal (material reuse and recycling) and network integration for the optimal utilization of byproducts.

Technology - As the drivers of cost reduction, consumers will value network transparency and information exchange and technology systems that will make possible not only hi-tech, but also consumer-centered "hi-touch" networks. Companies and their networks should really be driven by consumers and should therefore communicate with consumers on an individual basis.

Merging of industries - The next ten years will be special due to the merging of industries, like what has happened with mobile phones that now double up as cameras, computers, watches, and more. The world will see the growth of nutra-ceutical networks (food and pharmaceuticals), nutria-cosmetics networks (food and cosmetics), nutri-touristic networks (food and the tourism business), and nutri-car networks (food and biofuels).

Risk management - An integrated network risk management and mitigation system will be of fundamental importance in this connected world. Several risks are present from the global perspective, ranging from financial crises, plagues and diseases, sustainability and security issues, among others.

Communication - Communication will see major changes, with new media network communication, proactive network communication with stakeholders, associations of origin, communication inclusion processes, traceability and other developments. Communication with the tech-savvy consumer will be a challenge for companies.
Era of simplicity - Simplicity will be valued, in terms of the company's network management, market segmentation, new product launching, brand management, services, costumer focus, sales management, and others.

Network value engineering - At integrated company networks and promoting permanent supply chain redesign, marketing channels' role in adding value, and consumer intimacy. Permanent evaluations of contracts and building trust in relationships are crucial here.

**Guidelines For Demand-Driven Strategic Planning And Management of The Chain**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Necessary Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PHASE 1: Introduction</strong></td>
<td></td>
</tr>
</tbody>
</table>
| 1. Introduction and Understanding | - To verify if the chain has other plans made and, if so, to study them  
- To verify the planning method of the chain under study  
- To verify which teams will take part in the process  
- To study plans made for production chains in other countries (for benchmarking purposes)  
- To identify a member of the team who could promote relationships with other chains  
- In the case of chains with sophisticated planning processes, it must be verified how this model can help the existing model, and how to gradually adapt the previous chain to this one |
| 2. International Market and Consumer Analysis with Chain Approach | - To address threats and identify opportunities from the so-called uncontrollable variables (possible changes in the legal/political, economical and natural, socio-cultural and technological environment) both on the domestic and international markets  
- To understand existing barriers (tariff
and non-tariff) and check collective actions to reduce them  
- To analyze the final and intermediate (dealers) consumer's behavior and their purchase decision process  
- To analyze opportunities to include goals with regards to the environment, fair trade, sustainability and sustainable development  
- To analyze opportunities to fit labor institutional environments, both at national and international levels  
- To set up an Information System to support informed decision-making  
- To describe the main national and international competitors

| 3. Internal Situation Analysis and Benchmarking of Global Competitors | - To identify all the strong and weak points of the chain  
- To map contracts and existing forms of coordination  
- To describe the existing structures of management and its transaction characteristics  
- To make an analysis of main competitors  
- To analyze the value creation, resources and abilities of the chain  
- To analyze the critical Success factors of the chain  
- To select amongst the chains (not necessarily competitors) where the benchmark for good ideas will be |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Objectives for the Chain</td>
<td>- To define and quantify the major chain objectives in terms of production, exports, Imports, sales to achieve sustainable growth, and to develop solutions for the weak points</td>
</tr>
<tr>
<td>5. Strategies to Reach Proposed</td>
<td>- To list the major strategies and actions that will be used to reach the considered</td>
</tr>
<tr>
<td>Objectives</td>
<td>objectives in Stage 4 in terms of positioning, exports, value capture, and market segmentation</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>PHASE 2: Plans of Strategic Vectors: Production, Communication, Distribution Channels. Qualification and Coordination (Institutional Adequacy)</strong></td>
<td></td>
</tr>
</tbody>
</table>
| **6. Production, Products, R&D, and Innovations Projects** | - To analyze productive potentials and production capacities  
- To map and plan for production risks (sanitary and others)  
- To analyze products and product lines, as well as complementary product lines for future expansion  
- To develop innovation opportunities in the chain, and in the launch of new products  
- To identify opportunities to settle national and international innovation networks  
- To foster partnerships with universities and the medical sector  
- To detail all offerings and potential services  
- To make decisions related to the joint creation of brands and relevant labels for system use  
- To analyze and implement the certification process for the chain  
- To ensure product adequacy with respect to the rules and institutional environment  
- To ensure environmental sustainability  
- To make packaging-related decisions (labels, materials, design)  
- To calculate recurrent investments at this stage |
| **7. Communication Projects** | - To identify the target audience for communications (messages from the production chain) |
| To develop goals for this communication (product knowledge, product reminders, persuasion, among others) and try to define the unique positioning and message that will be generated by the chain |
| - To define the communication tools to be used; that is, define advertising or public relations strategies to boost sales, among others |
| - To make films and international media material that benchmark those already used in other production chains |
| - To review communication actions and determine the annual promotion budget involving all network agents |
| - To indicate how the effectiveness of communications will be measured so that the chain learns more about the best tools to achieve revenue on investments |

| 8. Logistics and Distribution Projects (Including Exports) |
| - To analyze the product distribution channels and to search for new ones |
| - To analyze the possibilities of value capture in the distribution channels |
| - To identify possible demands of international dealers and consumers and therefore adjust existing services |
| - To define new ways to penetrate markets (through franchising, joint ventures and other contractual forms, or through vertical integration) |
| - To determine the annual budget for distribution |
| - To verify how distribution can be coordinated with other chains |

| 9. Enabling Decisions in the Productive Chain/ Human Resources |
| - To conduct training in management for the chain participants |
| - To conduct training in the control of costs and use of technologies |
| - To conduct training in national and international contexts |
| 10. Institutional Environment Coordination and Adequacy Projects | - To develop projects to finance the chain
- To develop basic infrastructure improvement projects
- To develop projects to increase quantity of orders from the government
- To develop programs for isolated productive areas
- To push for tax reductions in the production chain
- To strengthen export activity through export promotion agencies
- To support laws that provide incentives for the use of technologies
- To develop a product and product name standardization project
- To promote more transparency in legislation referring to projects regarding products and processes
- To develop proposals for conflict solutions
- To ensure coordination in the development of |

| 11. Strategic Projects Consolidation | - All projects generated in Steps 6 to 10 will be consolidated and priorities decided upon |

| 12. Chain Plan Budget | - Budget for every project, which contains costs and total budget |
Sustainability Planning (People, Profit, Planet, Proactiveness)

Sustainability, defined as the "responsible use of exhaustible energy resources and raw materials", has become an issue that the world is increasingly aware of. This can be seen in the rising expectations of consumers who are more aware of problems associated with sustainability, and the emergence of a new generation that is both concerned about environmental issues and that has the common sense to conserve the earth. Additionally, the increasing scarcity of the planet's natural resources, risks of global warming that will result in extensive floods leading to hunger due to the loss of agricultural land, modern communications which provide us with instant information on disasters, the environmentally unfriendly actions of companies, and excess pollution, among other issues, have all contributed to this growing awareness of sustainability.

Source: The Future of Food Business
There is growing concern among companies that in order to reduce the impact of their activities on the environment, they will have to exercise corporate social responsibility in order to promote a better flow of information, promote inclusion and reduce social imbalance, and to increase the utilization of renewable resources/energy.

Sustainability has three traditional major pillars that must be considered when promoting development. These are the economic dimension (profit), the environmental dimension (planet) and the social dimension (people). A fourth pillar can be added "P": pro-activeness.

With regards to the economic (profit) side, the major factors to be considered are how companies, networks and production chains deal with a wide range of issues. These include profit margins, compensation, losses on the chain, communication issues for end consumers, improving 'credit conditions with benefits for sustainable projects, risk management, information technology, and overall strategies to reduce costs and ensure the economic sustainability of the business. Without economic sustainability, any other request is impossible, since companies cannot pay for improvements if they are not economically sustainable. This is an important first step.

With regards to the environment (planet) side, the major factors to be considered are related to the impact of the company on the environment. There must be an examination of the behavior of the company's integrated suppliers, the extent of the use of transport, the quality and quantity of packaging, waste management policies such as recycling, the use of energy emissions levels of both carbon and other pollutants, water management practices, the utilization of environmentally friendly buildings and many other factors. Consumers also have a huge part to play by changing their own habits and being more responsible in their personal consumption.

With regards to the social (people) side, major factors revolve around the working conditions for the company’s employees, suppliers and distributors. This includes general health and safety, the non-utilization of child labor, working climate, and the presence and utilization of safety equipment. Outside the company itself, the company should promote appropriate activities for the local community, create incentives for cooperation, possess smallholder-friendly initiatives such as offering technology transfers, improve local employment levels by increasing capacity, and promote benefits for consumers such as being concerned about nutrition and health risks.

Finally, a company must be proactive in promoting sustainability. This involves instituting a code of conduct and following the regulations of industry associations. As for governments, they should endeavor to promote awareness of sustainability, set aside a budget for such activities, initiate immediate steps to reduce environmental damage by constantly monitoring economic activities for pollution and malpractices, and document, review and exchange information through committees.
Thirteen Major Challenges

1. Development of renewable production inputs that replace non-renewable ones, such as the fertilizers used today. Fertilizers will become a threat to humanity, and there must be new products, which will replace them.
2. Innovation that allows the reuse of resources and the use of by-products, in order to reduce pollution.
3. Innovation that reduces costs for farmers, saving on some operations and Improving the farmers margins.
4. Development of new technologies that lead to fewer residual effects from the chemical products used in agriculture.
5. Development of more efficient and more economical machinery that saves fuel.
6. Development of genetically modified varieties in order to increase yields.
7. Innovation towards better grain to protein (animal) and sun to energy (plant) conversion.
8. Innovation in biotechnology and natural control in order to use fewer chemical products.
9. Innovation that reduces losses in input transport and application.
10. Development of genetically modified plants that are more adapted to droughts and water restrictions.
11. Development of more efficient feeding technologies for animals.
12. Innovation towards the use of more resistant plants.
13. Innovation in breeding that leads to precocity, which would shorten the growth cycles and thereby enhance production.

Pricing Strategies

One of the most difficult decisions nowadays for companies is pricing, for both products and services. An adequate, sustainable and creative pricing strategy is based on the equilibrium of financial returns desired by companies and the well-being of consumers in the tough global competitive arena.

A method that divides this creative pricing strategy (CPS) process into three major phases is mentioned in this part of research. The first phase involves understanding the initial value given by the consumer to the product or service. The second is about increasing this value, and finally, the third involves the strategic pricing moves.

Understanding The Initial Value Given By The Consumer

Before any pricing decision is taken, a company must analyze the external environment: the economic, income and demand conditions (1).

After this, the company should look to the target consumer, understand his behavior, his perception of the reasonable price (using surveys, experts, "food labs"), and carry out initial pricing experiments in different marketing channels. Analyze the total costs for the consumer in
buying the product (money needed, time expended, and knowledge acquisition, training costs and psychological costs) that may be working as "buying barriers". All the consumer's risks in buying the company's product or service should be considered (2).

The third analysis in the first phase of the CPS process is related to competitors, the competing products/solutions and their prices, and how the consumer values and compares the product attributes with that of the competitors (3). To finish this first phase, the company could establish objectives and understand its cost structure with different sales levels.

The analysis of the consumer, competitors and economic environment will facilitate the company's understanding of the value of its product or service in the initial perception of the consumer. After this first phase (understanding) of the CPS framework, comes the second, whereby a company can try to change the initial view the consumer has of its products or services.

**Increasing The Value**

The idea is to find and create a unique value position. This can be achieved by reducing the importance of substitutes of the product and comparison possibilities, blinding consumers to the company's competitors (4).

Another way is to measure and communicate the cost of the product as a proportion of the consumer's income or total expenditure (5). The company can also use lock-in strategies, selling the product as a complement to other products established among consumers (6).

It is important to try to communicate the importance of the attributes of the product or service and the problems that may arise if these attributes, for instance quality and safety, are neglected by competitors (7). The company may also consider offering a solution-driven package of products and services to conquer buyers, an approach which is sometimes called bundling (8).

Formulating ways to mitigate the consumer's buying risks found in phase 1 is also an idea (9). Some markets offer the possibility of price skimming strategies for new products or services (offering image, status and exclusivity), capturing value from innovative consumers, first-mover advantage and status-oriented market segments (10).

The last point in the second phase of CPS is to show consumers the economic benefits (like lower production costs) of buying the company's product or service using simple messages and credible commitments (11).

The points raised in the second phase of the CPS framework are strategies to increase the
perceived value of the product or service.

**Strategic Pricing Moves**

In this phase, the company should be monitoring and anticipating the competition's pricing moves (12), establishing discount policies and promotions, analyzing seasonality and other factors (13), taking an integrated product line approach and looking at their pricing interactions (14), thinking about the pricing adaptations needed when the market faces any macro-environmental (economy) changes (15) and, finally, using web-based strategies, solutions and experiences in pricing (16).

**Private Labels**

The BRIC countries will comprise 4 of the 6 largest markets. In these emerging countries, one possible explanation is that the retail market has a higher concentration ratio.

Private or retailers' labels: This is definitely one of the most important points. Their percentage share of food sales is increasing, and in some chains, mostly in Germany, they may have 60 or 70% of the market share. In Switzerland, 47% of the market has been conquered by private labels. Several other European countries have retailers occupying more than 30% of the market share. Private labels in Brazil, India, China and Russia still have less than 10% of the market share, so some several changes can be expected in the future.

Another point that is probably linked to the decline of the concentration ratio in the retail market is the trend towards neighborhood concepts centered on greater convenience and proximity. Retailers have a multi-format system in place, comprising first hypermarkets and supermarkets, then members' clubs and convenience and discount stores. But the number of neighborhood stores is increasing due to trends among consumers who buy smaller quantities at more frequent intervals.

9. **FOOD CHAIN AND NETWORKS**

**A 14-Point List For Food Chains And Networks Development**

This part of the research presents some of the important topics discussed at the conference, which is organized every 2 year at the university of Wageningen/Netherlands on Chain and Network Management. Companies, governments and academics will find this 14-point list useful in identifying areas for future development, emerging topics, and suggestions for policies and regulations. These will contribute to the creation of a more efficient and sustainable food production system in a world of scarce resources.

Chain design, governance and performance - Since chains compete in a global arena against
each other and therefore require adequate governance, appropriate contracts can lead to better performance in profit generation and distribution, cost reduction, process management and other aspects, thus adding value to the system.

Waste - An integrated food chain generates waste in most of its processes, and the end products are often wasted as well, estimates of such waste running to 40%. Thus, waste management and reduction are of fundamental importance in ensuring sustainability, which is a key demand of today's society. Integrated inventory management and collaborative logistics are among the most important developments for reducing redundancies, waste and depletion of fossil fuels.

Food risks and integrated risk management- There is a need to take an integrated approach to all the risks in food chains, such as contamination and financial risks. Food security should be improved and the costs of this improvement shared with all agents.

Sustainability of chains and certification - Land use, resources conservation, nature and biodiversity should all be taken into consideration. The value, costs and process of certification are also important issues to consider.

Environmental effects on chains and networks – The managers must consider how the ever-increasing effects of an unstable environment are affecting food chains and networks.

Legislation and regulation - Chains are transnational and deal with different governments, laws and institutional environments. Due to constant intervention from these entities, management of chains can often be difficult.

Food and health communication - Chains are now restricted in terms of marketing communications due to society's expectations that they counter over-consumption and obesity through appropriate marketing for children.

Climate change - With higher incidences of droughts, climate unpredictability has resulted in reduced food production and the loss of water and arable land. This leads to the possibility of future climate-related migration.

Information management – Information transparency and sharing has a positive effect on chains' activities by bringing about better management and performance. This also involves the design of information management systems and decision support models.

Biomass based chains - With the increased utilization of biomass and grains in the production
of energy and fuel, there is pressure due to different chains competing for resources.

Metropolitan agriculture chains - The growth of food production in metropolitan spaces and areas and its integration with modern supply chains should be examined.

Chain and network intermediaries - In the current environment of business giants and lower margins, the mapping and design process of chains does not allow for intermediaries that have no value to the system. Such intermediaries are rapidly being excluded from such processes.

Entrepreneurship and innovation - This was discussed with China Daily readers in my two earlier articles, with the intention of providing suggestions for future work.

Inclusion and social innovation - The capacity of chains to promote the inclusion of smallholders should also be examined.

**Innovation In Integrated Food Chains**

Inputs play a key role in a food chain. When properly produced and used, they help farmers to get good yields, produce high-quality products and obtain larger revenues, and enable consumers to put safer, tastier and cheaper food on the table. On the other hand, inappropriate production and use management may lead to resource overexploitation, negative margins for farmers, and more expensive or unhealthy food for families around the world. Therefore, input management is one of the biggest challenges when it comes to food security.

In the last couple of decades world agricultural production has experienced extraordinary improvements, especially regarding yields, cost management and, mostly recently, quality as well. Many of these improvements are a direct result of the ability of farmers to face greater external competition since deregulation, using modern technology and production systems. Nevertheless, there is still a lot to be done in this field, even regarding yields.

The major areas of improvement in which innovation plays an important role are as follows:

- Crop and land use decisions that ensure sustainability and resource conservation while making maximum use of the land. Some areas of the world allow three different crops per year.
- Development of new crop varieties that present better energy conversion, or are more resistant or precocious, which would reduce the growth cycle and thereby enhance production.
- Development of equipment that allows better usage of land, which helps to increase yields.
- Water usage, where technologies are developed and applied to reduce consumption.
- Development of animal welfare techniques.
- Certifications.
- Reuse of by-products.
- Governance structures, allowing sharing of equipment among neighbors, selling of services, better use of all property assets, in order to be as efficient as possible

Competition is driven by several factors, one of the most important being innovation. Creating new, effective solutions to problems is the path to profitability and sustainable advantage building for companies. Food production, with all its pressures as discussed in the previous chapters, is an area where financial resources should be applied towards more research that will lead to innovations.

10.RETAIL

**Innovation For The Food Industry and Retailers**

Consumers now demand that the industry offer healthier food, food products that enhance beauty and longevity and promote their welfare, as well as products that are more than just products (i.e. convenience, culture, joy, fun). This is illustrated by the concepts of "slow food" and "fun food". The food industry also needs to attend to environmental concerns by promoting product recycling and substitution, fit into the food miles movement, and attend to social concerns by promoting inclusion, wealth distribution and fair trade.

Feeling the pressure for environmentally friendlier, healthier and more distinctive products, the agro-food industry has invested in an extensive agenda of innovation.

Developing recyclable and biodegradable packaging materials to address the environmental concerns of buyers is a major point. Consumers don't want to see non-recyclable packaging all over the place. Another point which is being developed more strongly is innovation regarding conservation, for instance in order to increase the shelf life of products and reduce loss (which is over 30% for fruits and vegetables at present).

Flavor improvement is one of the most important parts of research in the industry. There is also a continuous search for innovation in facilitating the storage of products and innovation that leads to the reduction of transportation costs. Food transport is a concern due to losses, costs and the environment.

There is also innovation in the food industry to develop processes that require less water usage and reduce loss and wastage. One way of doing this is through promoting the use of by-products.
New organizational forms are being created by food companies together with pharmaceutical companies and cosmetic companies, in order to innovate in the areas of nutra-ceutics and nutri-cosmetics, thus merging different fields. There is also an increasing regard for business-to-business relationships and innovations in contractual arrangements that benefit the chain as a whole and consequently the consumers.

In addition, much research is dedicated to developing new technologies for industrial optimization and firms are developing new marketing channels, such as door-to-door distribution, out-lets and other forms.

This is not an exhaustive list of points. But for strategists of the food industry, these points raised definitely should be considered to be on the agenda.

The final agent in a chain: the retailer. The retailer is probably the most important participant in a food chain, since it has one of the most valuable assets in the chain: information, due to permanent contact with the final consumer. Supermarkets now a days must promote new buying experiences, such as tasting areas. They should also search continuously for new ways to offer their products, increasing the benefits for consumers.

There is a trend also for supermarkets to offer complete solutions for consumers. The supermarket is becoming a communication tool, a place of knowledge transfer, where consumers learn about the products they eat, and is becoming a place where the industry communicates with its end consumers. Supermarkets are trying to regain some of the market share they have been losing to food services, such as by having a restaurant or selling ready-to-eat food, or what has been called the home meal replacement (HMR) movement.

Supermarkets are also increasing the services provided, with innovation in terms of home delivery, express food, coffee shops and others.

11. MACRO ECONOMIC PERSPECTIVE

Nine Factors For the New Food Crisis and Ten Solutions

There are 9 major factors about why the food crisis will be back:

1. Increase in areas dedicated for growing crops for biofuels
2. The growth of world population
3. Economic development and income distribution in populated countries
4. Stronger government programs for aid and food consumption
5. Migration and urbanization creating megacities, both increasing food consumption and
changing consumption habits
6. Oil prices went up from US$35 to US$140 in five years, impacting production and transport costs
7. The dollar devaluation
8. Production shortages (Food Supply)
9. Investments funds operating in futures markets and others in agribusiness

There are 10 solutions for the food crisis

1. Sustainable horizontal expansion
2. Vertical expansion utilizing technology
3. Reduction in food taxes and other barriers
4. Investments in international logistics platforms
5. Use the best sources for biofuels production
6. Reduction of transaction costs in food chains
7. New generation fertilizers
8. Sustainable supply contracts to farmers
9. Innovations (genetics and others)
10. Consumption behavior for less energy consumption

12. VALUE CAPTURING: COST, DIFFERENTIATION, COLLECTIVE ACTION

Value capture is one of the most important strategies for companies nowadays. Value capture involves a complete understanding of the network of the analyzed company and a redesign of its activities to increase margins and so capture more value.

The first of the possible ways of capturing value is by trying to reduce the costs (1) of the company to increase margins and value. Good ideas and creativity are the focus here. The second possibility is via differentiation strategies (2), with activities that will try to increase margins via prices, since the activities increase the value assigned by consumers. Finally, the third bundle of activities relate to collective action (3) that may be performed by the company.

The Cost
The question is “how can companies carry out cost reduction to capture larger margins?” Basically there are two major components of costs where there are possibilities for improvement: internal costs and costs of inputs and services bought (supply chain costs).

Here a company should look at all the activities performed and try to see how to improve. These activities are the ones relating to production. The company should explore thoroughly its
core competence (a), or what it knows how to do. The second point is how to make better use of its resources and assets (b), analyzing what resources (assets) it has and how these assets could be more used.

Searching for scale strategies (c) is a third way. What is the production level that will bring scale economies? Examining the quality and cost of materials (d) is another possibility for value capture, by studying new materials and components, which may offer better solutions. To have labor efficiency (e) is also important, making the best possible use of human resources and managing overhead costs. Simplicity is the word here.

Continuously redesigning operations (f) towards a "cellular" control of costs is another way. Every activity, like a cell, must be seen and analyzed in terms of how it could be done better. Technology (research and development) (g) and financial architecture (h), looking at the cost of capital and searching for sources of public funding with more competitive rates, complete our list of internal factors that can help the company control costs and capture value.

The second bundle of activities involved in the cost approach of our value capture trilogy (cost, differentiation and collective action) focus on the supply chain of a company (buying processes and relationships with suppliers).

Here a company should try to reduce the bargaining power of suppliers (i), mostly working with strategies related to promoting competition within a group of reliable suppliers and having a continuous trial of substitutes/alternative inputs (even those imported). This would give the company more negotiating power, thus increasing margins. Another possibility is to know the best moments for buying (j), since a supplier has some moments over the year when its demand is lower, and a company with good capital structure can make better purchases at these moments.

Governance of contracts/reduction of transaction costs (k) is also a strategy, since to buy and to negotiate involves other costs (transaction costs) that have an impact on time and other resources of the company. Having good processes that take advantage of information systems and technology will be helpful here.

**Differentiation**

The differentiation approach has five major possibilities, each with its own tools and ideas. The first is the integrated relationship approach, the second deals with products/solutions, the third relates to services/people, the fourth to packaging and the fifth involves brand/image.

In an integrated relationship approach (1), a company should look at intimacy with clients as the first option to be considered. It should establish a so-called lock-in strategy where it creates
a complete package for clients that increase the costs of switching to a different offer or company. In such a relationship it is also important to offer performance to the buyer (value-driven) as a unique solution that tries to simplify the process and cost of decision making for the buyer.

As for products/solutions (2), in food markets the managers mostly see products with aggregated nutritional components or attributes, like adding vitamins, minerals or other supplements. Launching innovative products for existing or new and booming markets (e.g. pet food) is another point to be considered. The amount of product in a package is also a strategy, like smaller portions for smaller families or even individual portions. The ready-to-eat market, with products serving complete meals (e.g. rice with beans in the same package), and new market segments (e.g. nutra-ceutical and nutri-cosmetics) provide chances for value capture.

Another possibility is linked to innovations and products that expand the size of markets. Some companies, when targeting younger generations, offer toys together with food or even other gifts to increase value and consumption. Products that offer ethnic food and new buying experiences face growth in the market. Taking advantage of special occasions (e.g. Christmas, Valentine's Day, the Olympic Games) is another strategy. There is also the growing appeal of the home-made, fresh and locally produced and other connections to be established with consumers. Legal protections, like patents for innovation, are also a strategy for value capture.

Looking at services and people (3), the company should search for a faster, more reliable "just in time" supplier. Another option is to look at the buyer's decision-making process, offering services that may reduce the customer's "fats" in the buying process, by showing the benefits of making this purchase instead of buying from a competitor. In terms of services the company may also try to set a standard for the industry, which works as an entry barrier for competitors. Having the best and most highly trained people gives an advantage in several businesses. All channel-related strategies also have a place here, such as offering locational convenience, point-of-sale presence and new distribution formats for the food-on-the-go segments and other types of buyers.

In terms of packaging (4) there are also several possibilities and techniques, using different materials, beauty, practical, recyclable, transparent, arguments (health and welfare), shelf life, sustainability programs (packaging recycling initiatives), packaging with sounds and smells, to offer supply chain information on packaging (traceability), information on how to use it, of social causes and lifestyles (slim people - fitness).

Finally, looking at brand and image (5) there are well-known strategies for increasing value via improvements to the general brand and image of the company, such as applying the traditional integrated communication strategies to manage its brand and image in the best way possible in order to establish permanent "loyalty contracts" with buyers, receiving added value through the recognition given by consumers to the brand and image.
Collective Action

Joint or collective action is defined as a company's activities that could be performed together with another company, or even more than one company. They may be competitors, companies that do not compete but operate in the same markets, or even totally unrelated companies. The possibilities of working together are so huge that they need to be much more explored by companies in the near future due to increasing competition, compressed margins and control costs.

The collective action are divided into seven areas: supply chain (1), internal management (2), products/brands/packaging/services (3), communications (4), marketing channels and sales (5), pricing (6) and finally horizontal and vertical collective associations (7).

Starting with joint or collective action within the supply chain (1) (here considered as all the suppliers of the company), the most common activities are related to buying inputs together with other companies in order to increase their bargaining power with suppliers. Another idea is to create a common purchase structure shared with other companies to provide scale gains and reduce redundancies.

With internal management (2) affairs, the ideas include investing in projects with other companies regarding issues related to quality, traceability, information systems, human resources management (sharing training, structures and others), financing and accountancy (using collective tools, sharing accountancy) and lawyers. Here an analysis of what assets the company has, and how these assets can be better used by sharing them with others, is important.

Joint or collective action in products/brands/packaging/services (3) may also contribute to value capture. Examples include complementing the company's product portfolio with other companies' products, thus offering a more complete package; creating new products and technologies in conjunction (reducing individual investment); facilitating adoption of new technologies and defining a dominant standard; using other companies' brands to enter new markets (brand licensing); sharing services structures for clients, for example those related to the guarantee, maintenance and recall of products; and finally using the same packaging infrastructure.

Joint or collective action in marketing channels and sales (4) could also be carried out to capture value. For example, companies with interests in market segments can share channels and increase sales, or combine efforts to open international markets; salespeople from different companies can complement their product portfolio with products from another company; training on client characteristics (knowledge about client specificities) can be shared, thus dividing the cost among two or more companies; the trade of information among salespeople
(sales and potential sales in their markets) can be increased; and joint market studies can be carried out to increase knowledge of territories for definition of the number of salespeople, alignment of territories and determination of quotas.

In pricing (5), several possibilities for joint or collective action are available. One example is to offer a package of products and services with more value and convenience, for instance bundling in agricultural inputs. As a consequence, there is a significant chance that the client's price sensitivity is reduced, thus allowing the company to charge more for the package, in comparison to individual products. Companies also can share discounts (through loyalty cards, for example) and other pricing strategies.

Capturing value through collective action via communications (6) is another way. Examples include conducting joint advertising among companies in the same industry, or companies that have the same target market; joint investments for increasing the consumption of the industry's generic product to create knowledge and form a favorable public opinion of the product so that all participants benefit; sharing public relations infrastructure; sharing stands, common exhibition and demonstration areas and other promotional activities.

The last option for value capture is horizontal and vertical collective associations (7). This includes participation in associations, cooperatives, pools of producers, joint ventures, alliances and other collective forms. The benefits of participating in cooperatives are clear and having strong associations within the industry also supports activities like lobbies, market protection and tax reductions that try to protect margins.

13. SWOT ANALYSIS

SWOT Analysis of The Food Industry

Strengths
- Population in excess of 140mn with scope for a considerable long-term domestic demand story
- Enormous scope for long-term growth in food consumption
- High existing demand for premium products
- So much scope for growth in the wider regions

Weaknesses
- Very challenging regulatory environment, particularly for foreign companies
- Per capita spending in the regions outside Moscow and St. Petersburg remains quite low
- Lack of reform in the Russian agricultural sector has led to high raw-material costs and shortages for processors.
- Regional markets outside of Moscow are currently the fastest growing, but are subject to
higher levels of bureaucracy, red tape and corruption.

**Opportunities**
- Food consumption expected to grow considerably over the coming years
- The ongoing development of the mass grocery retail industry will allow producers to route products to the market more efficiently
- Dairy consumption is expected to grow considerably over the coming years, boosted by strong competition between domestic and multinational companies

**Threats**
- At times, the regulatory environment is uncertain and challenging
- Russia can be a difficult market for foreign brands to penetrate.
- Despite huge potential, regional markets require substantial upfront investment in infrastructure and facilities, and transportation infrastructure between cities and regions remains extremely poor.

**SWOT Analysis of The Leading Companies**

**Wimm-Bill-Dann Foods**

**Strengths**
- WBD has been acquired by PepsiCo, one of the world’s leading food and drink companies
- PepsiCo will benefit greatly from PepsiCo’s capital and expertise
- WBD operates a vertically integrated business model.
- In a strong position across a number of promising consumer industries

**Weaknesses**
- Strong competition in the soft drinks segment from multinationals, despite the fragmented marketplace, as well as in the baby food market.

**Opportunities**
- Russia’s dairy market remains fragmented with up to 40% of sales still accounted for by smaller competitors.
- With dairy sales accounting for 75% of the company’s turnover, further scope for growth exists across the company’s other business segments.
- WBD has long-term growth opportunities in regional markets and as a segmented product offering aimed at different income groups.
Threats
- Higher raw milk prices could negatively impact profitability.
- Regaining leadership in the tightly contested juice market will require substantial investment and management time, with the prospect of damaging regional price wars.
- Coca Cola’s acquisition of Nidan to increase competition in the consolidating juice market.

Company Overview
Wimm-Bill-Dann Foods (WBD) has been acquired by PepsiCo. PepsiCo is paying US$3.8bn for a 66% stake in WBD – a company that is one of the largest food and beverage companies in Russia and the market leader in the country’s dairy market. WBD operates around 38 manufacturing facilities in Russia, Georgia, Ukraine, Kyrgyzstan and Uzbekistan. WBD also operates distribution centres in 26 cities across the CIS.

Strategy
In September 2009, the company inaugurated a production plant in Georgia, where it already owns domestic dairy company Georgian Foods. WBD reported a 20% y-o-y increase in Q309 baby food sales volume growth, but has been negatively impacted by milk supply shortages, partly caused by government’s restrictions on imports from Belarus. Quick to pick up on consumers’ desire for private label goods, WBD went into the territory of mass grocery retail giants like X5 (a major private label player) by launching competitively priced brands through FY09 – a process likely to continue throughout FY10.

Kraft Foods
Strengths
- Kraft has established strong positions in a range of growth segments such as coffee, snacks and confectionery.
- Kraft’s Alpen Gold chocolate brand is one of the most widely consumed in Russia, accounting for one in every six chocolates purchased.
- Kraft’s offer for confectionery giant Cadbury has been accepted, affording the company greater global reach and gaining it various household name brands

Weakness
- Kraft will have to invest heavily to achieve further growth in the confectionery segment in particular, which includes a number of prominent domestic and regional players.

Opportunities
- Kraft has stable, well-developed international brands that it can further develop in the
Russian consumer market.
- Demand for coffee is expected to continue rising in Russia, which should provide significant opportunities for Kraft’s segmented coffee range.
- The company’s established production presence in the country gives it an edge over rivals importing all or many of their key products.
- The potential move of Bolshevik to Vladimir represents a major opportunity for cost savings and windfall for real-estate development in central Moscow.

Threats
- Competition within the confectionery segment in particular is strong and likely to stiffen.
- Ever-increasing advertising rates add to the incremental cost of launching new mass-market brands.
- Operating in a range of segments, Kraft may not be able to maintain clear leadership in any single market.
- Acquisition of Russian Grand coffee and tea producer by Indian Tata Tea is increasing competition for Kraft Foods.

Company Overview
Kraft Foods, one of the world’s largest food producers, aims to be one of the country’s leading players in its key market segments before the end of the decade. Kraft Foods’ factories in Russia include a factory for packing soluble coffee in Leningrad province and a confectionery factory in Pokrov, in Vladimir province. It also controls around 77% of the shares of the Bolshevik confectionery factory in Moscow, although it reportedly plans to move this factory from central Moscow to Vladimir. Kraft’s main brands on the Russian market include global and European brands Maxwell House, Jacobs, Carte Noire, Milka, Toblerone and Alpen. In late 2007, the company announced the launch of local production of premium chocolate brand Côte d’Or. Kraft has invested over US$250mn in Russia to date, in September 2009 opening a biscuit manufacturing plant in Russia.

Strategy
Russia is a key growth market for Kraft, where its strategy has focused on localising production and introducing global brands. The move to produce Côte d’Or chocolates locally underlines the continued growth potential for the premium segment of the chocolate market, which was reflected by the acquisition of local premium chocolate maker Korkunov by US company Wrigley at the beginning of 2007. At the same time, Russian producers continue to dominate the market, with an approximate 70% market share.

Unilever
Strengths
- Inmarko is the market leader in the ice cream segment with a market share of 16%.
- In 2009, Unilever laid out plans to invest US$140mn in the construction of the country’s largest ice cream manufacturing facility.
- Inmarko benefits from the financial and strategic backing of Unilever, which has significant experience of the ice cream trade.

Weakness
- Unilever will have to keep investing in Inmarko to increase its capacity further and reach a wider range of consumers across Russia.
- Competition from other companies, with Nestlé Russia also increasing its local footprint and product range.

Opportunities
- The Russian ice cream market remains fairly fragmented.
- Rising incomes across the country will increase demand for ice cream.
- Further scope for growth exists in Inmarko’s promising frozen vegetables business which was launched in 2005.
- Russia remains immensely promising long-term with strong scope for growth in consumer spending

Threats
- Ever-increasing advertising rates add to the incremental cost of launching new mass-market brands.
- Rising health-consciousness could affect demand for ice cream.
- Although ice cream remains viewed as an affordable luxury, the economic downturn has negatively affected volume sales.

Company Overview
Unilever-owned Inmarko is the country’s leading producer of ice cream, although its portfolio also includes frozen vegetables and berries under its own trademark Yest Ideva. In Q108, the company was acquired by global food and household products giant Unilever, which is likely to result in investment and market expansion. Established in 1991, Inmarko sold 51,500 tonnes of ice cream in 2007. The company has three factories, in Novosibirsk, Omsk and Tula, and over 5,000 employees. According to Business Analytica, in Q307 Inmarko had a 16.2% market share in the largest 28 cities in Russia, followed by local rival Talosto (11.7%) and Switzerland’s Nestlé (11.1%). The company reported an 18% market share in 2008.

Strategy
Unilever is aiming to grow very quickly with the construction of a new US$140mn multifunctional production complex in the Leninsky district of the Tula region underway. The company is aiming to acquire a larger share of the estimated US$1.5bn Russian ice cream
market. Ice cream is a popular commodity, although the potential of the market is likely to attract strong competition from other global players.

**Cherkizovo**

**Strengths**
- Cherkizovo is Russia’s leading meat processor.
- It is a major poultry and pork producer
- Cherkizovo’s meat processing arm performed well in the H1 period to June 2010

**Weakness**
- Will have to keep investing to maintain leading market positions

**Opportunities**
- Focus on higher value products will become increasingly important as incomes rise dynamically in Russia over the next few years
- Demand for poultry is expected to continue rising rapidly over the long run, particularly outside Moscow and St Petersburg.
- Strong performance of pork division from a low base representing expansion opportunity

**Threats**
- Demand for higher-value products remains weaker than pre 2009 period

**Company Overview**
Russia-based Cherkizovo is a vertically integrated meat production and processing leader. The firm has developed into Russia’s leading poultry producer and owns companies such as Kurinoe Tsarstvo. Together with its two main rivals, Prioskolie and Prodo, Cherkizovo holds an estimated 30% of the poultry market. In August 2008, Cherkizovo joined forces with Saratov meat retailer Myasnov’s owners to create a new Moscow chain of retailers for meat products, Myasnov-77. With Cherkizovo acting as the primary if not sole supplier, the new chain represents a bold attempt by the producer to bypass ever-tightening margins offered by large retailers. More recently, the company inaugurated a new slicing line at its Cherkizovsky meat-processing plant to double its production capacity to 16 tonnes per day

**Strategy**
On the back of the strong performance of its poultry segment, the company has announced plans to boost its poultry division in 2009, amidst expectations that poultry is to overtake pork as Russia’s most widely consumed meat in the coming few years. Cherkizovo’s poultry division performed bullishly in 2008 – sales rose by a barnstorming 70% y-o-y to hit US$505.2mn,
while production climbed 12% y-o-y to 187,000 tonnes, although the company’s total sales fell by 3% y-o-y. According to BMI’s research, the meat leader’s poultry production outperformed the domestic market, which grew by 7.86%.

14. KEY FACTORS OF GLOBAL FOOD MANUFACTURING

Fluid and Powdered Milk (including Cream) Manufacturing

Key Sensitivities
The key sensitivities affecting the performance of the Global Fluid and Powdered Milk (including Cream) Manufacturing industry include:

Average Age of Population
Generally, the consumption of alternative drinks increases and the consumption of milk decreases as a child becomes older. Therefore, a decreasing percentage of raw milk has been going into fluid milk production in developed countries over the past few years with the ageing of populations in developed countries.

Economic Indicators – Advertising – Cost of Advertising
This industry is a major user of advertising. As advertising expenditure increases, demand for the industry's products should increase. If the cost of advertising increases then industry operators may have to decrease ads to maintain profitability.

Import Taxes (Duties) – Dairy Product Mfg
The fluid milk and cream industry is heavily protected and dairy prices vary across the world. Any move towards trade liberalization, either through the WTO or through bilateral trade agreements will act to decrease dairy prices and benefit efficient producers, while leading to the exit of inefficient dairy manufacturers.

Key Attitudinal Changes – Health Consciousness
Consumer preferences with regard to the health content of dairy foods are a key determinant of downstream demand for the various products produced by the industry. Increased concern about health is leading to the purchase of dairy products such as milk for their calcium content and the purchase of more value-added products such as low-fat milk and functional milk such as milk with probiotics, which is acting to increase industry revenue.
**Per Capita Disposal Income**

Growth in per capita incomes in the world increases demand for this industry's products. In the developing world, this is mainly through volume increases, while in developed countries this is mainly through consumption of more value-added products.

**Population Growth - World**

Population growth is important driver of demand in this industry. Milk is a staple household item with declining per capita consumption in developed countries so that population growth is important for increasing demand. Population growth in developing countries is aiding growth in demand for milk where income levels enable consumption.

**World Prices – Agriculture – Livestock Products - Milk**

The domestic price of milk is of key importance to dairy manufacturers, given milk is an essential input. When the price of fluid milk rises, it increases the price of manufactured dairy products such as milk powder and cream.

**Key Success Factors**

The key success factors in the Global Fluid and Powdered Milk (including Cream) Manufacturing industry are:

- Ability to alter goods and services produced in favor of market conditions
  - ability to alter the product mix in response to changing market conditions is an important factor in providing for consumers diverse tastes.

- Guaranteed supply of key inputs
  - access to adequate milk supplies is critical for stable production levels.

- Marketing of differentiated products
  - product differentiation, such as the type of milk and packaging influences consumers' product preference.

- Ability to pass on cost increases
  - the ability to pass on increasing input costs, especially in relation to dairy costs to the downstream consumer helps reduce volatility caused by shifts in upstream industries and allows processors to maintain profit margins.

- Use of specialist equipment or facilities
  - the level of technology adopted. Technology improves production and quality.

- Economies of scale
  - the scale of the operation which influences average unit costs. Larger scale operators tend to have lower per unit costs.
Global Cheese Manufacturing

Key Sensitivities

The key sensitivities affecting the performance of the Global Cheese Manufacturing industry include:

Average Age of Population

An aging population, especially in the developed world, has resulted in declining dairy product and cheese consumption. Generally, dairy consumption is inversely proportional to the average of the population.

Import Taxes (Duties) – Dairy Product Mfg

The dairy production industry is heavily protected and dairy prices vary across the world. Any move towards trade liberalization, either through the WTO or through bilateral trade agreements will act to decrease dairy prices and benefit efficient producers, while leading to the exit of inefficient dairy manufacturers.

Key Attitudinal Changes – Health Consciousness

Consumer preferences with regard to the health content of dairy foods are a key determinant of downstream demand for the various products produced by the industry. Increased concern about health is leading to the purchase of dairy products such as functional and organic cheese products.

Per Capita Disposable Income

Growth in per capita incomes in the world increases demand for this industry’s products. In the developing world, this is mainly through volume increases, while in developed countries this is mainly through consumption of more value-added products.

Population Growth - World

Population growth is important driver of demand in this industry. Cheese is a staple household item with declining per capita consumption in developed countries so that population growth is important for increasing demand. Population growth in developing countries is aiding growth in demand where rising income levels enable consumption.

World Prices – Agriculture – Livestock Products - Milk

The price of milk is of key importance to cheese manufacturers, given raw milk is the most essential input. When the price of fluid milk rises, it increases the price of manufactured dairy products such as cheese, milk powder and cream.
Key Success Factors

The key success factors in the Global Cheese Manufacturing industry are:

• Ability to alter goods and services produced in favor of market conditions
  The ability of producers to adapt and alter the product mix in response to changing market conditions is an important factor in providing for rapidly evolving consumer tastes. This is particularly significant in the mature markets of the Western world.

• Guaranteed supply of key inputs
  Reliable and guaranteed supply to raw ingredients such as milk, whey and casein are critical to maintaining production levels. Inputs such as milk are very volatile as its price is determined by world supply and demand conditions.

• Product differentiation and innovation
  Innovation is critical in stimulating consumer demand in this mature industry, as the ability to be pro-active stand out from the clutter is one of the most important sources of competitive advantage.

• Ability to pass on cost increases
  The ability to pass on increasing input costs, especially in relation to raw milk, to the downstream consumer helps reduce volatility caused by shifts in upstream industries and allows processors to maintain profit margins.

• Product quality
  The quality of dairy products is one of the most important attributes in determining its success. The use of fresh and high quality ingredients in producing a safe and reliable product is crucial to being a profitable cheese producer.

• Economies of scale
  The scale of the operation will directly influence average unit costs of production. Large scale producers benefit from lower average costs and are able to pass them onto consumers, making it extremely important in determining the costs of an operation.
### 15. GLOBAL AND LOCAL COMPANIES

#### Local Companies

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>LOCATION</th>
<th>LOCATION TYPE</th>
<th>SALES</th>
<th>EMPLOYEE</th>
<th>SIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tander ZAO</td>
<td>Krasnodar</td>
<td>Headquarters</td>
<td>5,496.72M</td>
<td>1,450</td>
<td>51490000 Groceries and related products, nec</td>
</tr>
<tr>
<td>Wimm-Bill-Dann Foods OJSC</td>
<td>Moscow</td>
<td>Headquarters</td>
<td>2,181.06M</td>
<td>16,299</td>
<td>20260000 Fluid milk</td>
</tr>
<tr>
<td>Agrotrrg OOO</td>
<td>St. Petersburg</td>
<td>Headquarters</td>
<td>1,520.72M</td>
<td>3,791</td>
<td>54310000 Fruit and vegetable markets</td>
</tr>
<tr>
<td>Wimm-Bill-Dann OAO</td>
<td>Moscow</td>
<td>Headquarters</td>
<td>1,485.22M</td>
<td>10,879</td>
<td>20330000 Canned fruits and specialties</td>
</tr>
<tr>
<td>Kraft FUDS RUS OOO</td>
<td>Pokrov G.</td>
<td>Single Location</td>
<td>967.48M</td>
<td>1,372</td>
<td>20660000 Chocolate and cocoa products</td>
</tr>
<tr>
<td>PK OOO</td>
<td>Moscow</td>
<td>Headquarters</td>
<td>872.94M</td>
<td></td>
<td>51470000 Meats and meat products</td>
</tr>
<tr>
<td>Novokuznetski Metallurgicheskii Kombinat OAO</td>
<td>Novokuznetsk</td>
<td>Headquarters</td>
<td>870.90M</td>
<td>9,047</td>
<td>33210000 Gray and ductile iron foundries</td>
</tr>
<tr>
<td>Danone Industriya OOO</td>
<td>Moscow</td>
<td>Headquarters</td>
<td>817.12M</td>
<td>2,900</td>
<td>20260000 Fluid milk</td>
</tr>
<tr>
<td>REAL,- Gipermarket OOO</td>
<td>Moscow</td>
<td>Single Location</td>
<td>709.91M</td>
<td>2,669</td>
<td>54210000 Meat and fish markets</td>
</tr>
<tr>
<td>Kompaniya Yunimilk OAO</td>
<td>Krasnogorski R-On</td>
<td>Headquarters</td>
<td>523.85M</td>
<td>6,333</td>
<td>20260000 Fluid milk</td>
</tr>
<tr>
<td>SOYUZ YUG RUSI ZAO</td>
<td>Rostov-On-Don</td>
<td>Single Location</td>
<td>501.01M</td>
<td>1,573</td>
<td>87320000 Commercial nonphysical</td>
</tr>
<tr>
<td>Company</td>
<td>Location</td>
<td>Type</td>
<td>Sales (M)</td>
<td>Employees</td>
<td></td>
</tr>
<tr>
<td>-------------------------</td>
<td>-------------------</td>
<td>--------------------</td>
<td>-----------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>WBD Napitki OAO</td>
<td>Ramenskoe</td>
<td>Headquarters</td>
<td>450.58</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Ferrero Russia ZAO</td>
<td>Moscow</td>
<td>Single Location</td>
<td>416.27</td>
<td>279</td>
<td></td>
</tr>
<tr>
<td>Moskva-Makdonalds ZAO</td>
<td>Moscow</td>
<td>Single Location</td>
<td>402.65</td>
<td>5,084</td>
<td></td>
</tr>
<tr>
<td>Lebedyanski OAO</td>
<td>Moscow</td>
<td>Headquarters</td>
<td>381.13</td>
<td>4,978</td>
<td></td>
</tr>
<tr>
<td>Torgovy DOM RSK OOO</td>
<td>Korolev</td>
<td>Single Location</td>
<td>362.07</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>Nestle Kuban OOO</td>
<td>Timashevsk</td>
<td>Single Location</td>
<td>317.75</td>
<td>1,120</td>
<td></td>
</tr>
<tr>
<td>Sitigrand OOO</td>
<td>Moscow</td>
<td>Headquarters</td>
<td>294.98</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Valio OOO</td>
<td>St. Petersburg</td>
<td>Single Location</td>
<td>285.96</td>
<td>130</td>
<td></td>
</tr>
<tr>
<td>Kompaniya Grasp OOO</td>
<td>Vladivostok G.</td>
<td>Headquarters</td>
<td>283.42</td>
<td>1,481</td>
<td></td>
</tr>
<tr>
<td>UK OOO TMS GROUP</td>
<td>Almetevsk</td>
<td>Headquarters</td>
<td>278.01</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Servisekspo OOO</td>
<td>Moscow</td>
<td>Single Location</td>
<td>264.66</td>
<td>807</td>
<td></td>
</tr>
<tr>
<td>Inmarko OOO</td>
<td>Omsk</td>
<td>Single Location</td>
<td>233.29</td>
<td>4,789</td>
<td></td>
</tr>
</tbody>
</table>

- **WBD Napitki OAO**: Canned fruits and specialties
- **Ferrero Russia ZAO**: Groceries and related products, nec
- **Moskva-Makdonalds ZAO**: Eating places
- **Lebedyanski OAO**: Dry, condensed and evaporated dairy products
- **Torgovy DOM RSK OOO**: Groceries and related products, nec
- **Nestle Kuban OOO**: Roasted coffee
- **Sitigrand OOO**: Meats and meat products
- **Valio OOO**: Dairy products, except dried or canned
- **Kompaniya Grasp OOO**: Nondurable goods, nec
- **UK OOO TMS GROUP**: Fluid milk
- **Servisekspo OOO**: Groceries and related products, nec
- **Inmarko OOO**: Ice cream and frozen desserts
### Maestro OOO
- Moscow
- Single Location
- 224.94M
- 15
- 61590000
- Miscellaneous business credit institutions

### Prodo Tsentr OOO
- Moscow
- Single Location
- 223.14M
- 50990000
- Durable goods, nec

### Vemas PROF ZAO
- Moscow
- Single Location
- 212.73M
- 50990000
- Durable goods, nec

### Tsentr Postavok - M OOO
- Vladimir
- Single Location
- 212.17M
- 51470000
- Meats and meat products

### Nutritsiya OOO
- Istra G.
- Single Location
- 204.88M
- 51490000
- Groceries and related products, nec

### Alyans - Bunker OOO
- Vladivostok
- Single Location
- 203.53M
- 50990000
- Durable goods, nec

### Tandem OOO
- Nizhni Novgorod
- Single Location
- 197.62M
- 51410000
- Groceries, general line

Source: Hoover’s Online

### Global Companies

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>SALES</th>
<th>EMPLOYEE</th>
<th>PROFIT</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestlé S.A.</td>
<td>103,679.18M</td>
<td>278,000</td>
<td>58.86%</td>
<td>Vevey, Vaud, Switzerland</td>
</tr>
<tr>
<td>Groupe Danone</td>
<td>19,854.15M</td>
<td>100,995</td>
<td>54.95%</td>
<td>Paris, France</td>
</tr>
<tr>
<td>Dean Foods Company</td>
<td>12,122.89M</td>
<td>25,780</td>
<td>24.80%</td>
<td>Dallas, TX</td>
</tr>
<tr>
<td>Dairy Farmers of America, Inc.</td>
<td>12,000.00M</td>
<td>3,500</td>
<td></td>
<td>Kansas City, MO</td>
</tr>
<tr>
<td>Koninklijke FrieslandCampina N.V.</td>
<td>11,694.91M</td>
<td>20,034</td>
<td></td>
<td>Meppel, The Netherlands</td>
</tr>
<tr>
<td>Company Name</td>
<td>Market Cap</td>
<td>Shares</td>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>------------</td>
<td>--------</td>
<td>---------------------------------</td>
<td></td>
</tr>
<tr>
<td>FONterra Limited</td>
<td>11,545.96M</td>
<td>15,800</td>
<td>Auckland, New Zealand</td>
<td></td>
</tr>
<tr>
<td>Fonterra Co-operative Group Limited</td>
<td>11,545.96M</td>
<td>15,800</td>
<td>Auckland, New Zealand</td>
<td></td>
</tr>
<tr>
<td>Land O'Lakes, Inc.</td>
<td>11,146.00M</td>
<td>9,000</td>
<td>Arden Hills, MN</td>
<td></td>
</tr>
<tr>
<td>THE LACTOSE COMPANY OF NEW ZEALAND LIMITED</td>
<td>10,723.95M</td>
<td></td>
<td>Taranaki, New Zealand</td>
<td></td>
</tr>
<tr>
<td>Uni-President Enterprises Corp.</td>
<td>9,001.89M</td>
<td>4,735</td>
<td>Yungkang, Tainan, Taiwan</td>
<td></td>
</tr>
<tr>
<td>Arla Foods amba</td>
<td>8,722.44M</td>
<td>16,215</td>
<td>Viby, Denmark</td>
<td></td>
</tr>
<tr>
<td>Meiji Dairies Corporation</td>
<td>7,600.14M</td>
<td>7,196</td>
<td>Tokyo, Japan</td>
<td></td>
</tr>
<tr>
<td>Dean Dairy Group</td>
<td>7,061.54M</td>
<td>22,911</td>
<td>Dallas, TX</td>
<td></td>
</tr>
<tr>
<td>Morinaga Milk Industry Co., Ltd.</td>
<td>6,575.53M</td>
<td>5,653</td>
<td>Tokyo, Japan</td>
<td></td>
</tr>
<tr>
<td>Saputo Inc.</td>
<td>5,700.76M</td>
<td>9,600</td>
<td>Saint-Léonard, QC, Canada</td>
<td></td>
</tr>
<tr>
<td>Parmalat Finanziaria SpA</td>
<td>5,682.35M</td>
<td>13,788</td>
<td>Collecchio, Parma, Italy</td>
<td></td>
</tr>
<tr>
<td>Zuivelcoöperatie Campina u.a.</td>
<td>4,853.93M</td>
<td>7,099</td>
<td>Zaltbommel, The Netherlands</td>
<td></td>
</tr>
<tr>
<td>Bongrain SA</td>
<td>4,699.95M</td>
<td>16,355</td>
<td>Viroflay, France</td>
<td></td>
</tr>
<tr>
<td>Nestlé Brasil Ltda.</td>
<td>4,493.61M</td>
<td>16,500</td>
<td>Sao Paulo, Sao Paulo, Brazil</td>
<td></td>
</tr>
<tr>
<td>Grupo Industrial Lala S.A. de C.V.</td>
<td>4,221.71M</td>
<td>27,859</td>
<td>Torreón, Coahuila, Mexico</td>
<td></td>
</tr>
<tr>
<td>China Mengniu Dairy Company Limited</td>
<td>3,761.44M</td>
<td>21,100</td>
<td>Hohhot, Inner Mongolia, China</td>
<td></td>
</tr>
<tr>
<td>Tine Sa</td>
<td>3,675.21M</td>
<td>4,857</td>
<td>Oslo, Oslo, Norway</td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Revenue</td>
<td>Employees</td>
<td>Growth</td>
<td>Location</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>-------------</td>
<td>-----------</td>
<td>---------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Inner Mongolia Yili Industrial Group Company Limited</td>
<td>3,558.53M</td>
<td>18,649</td>
<td>30.72%</td>
<td>Hohhot, Inner Mongolia, China</td>
</tr>
<tr>
<td>Inner Mongolia Mengniu Dairy (Group) Co., Ltd.</td>
<td>3,505.61M</td>
<td>30,000</td>
<td></td>
<td>Huhehaote, Inner Mongolia, China</td>
</tr>
<tr>
<td>YAKULT HONSHA CO., LTD.</td>
<td>3,266.64M</td>
<td>15,405</td>
<td></td>
<td>Minato-Ku, Tokyo, Japan</td>
</tr>
<tr>
<td>Fromageries Bel S.A.</td>
<td>3,183.14M</td>
<td>12,000</td>
<td></td>
<td>Paris, France</td>
</tr>
<tr>
<td>NATIONAL FOODS AUSTRALIA PTY LTD</td>
<td>2,936.39M</td>
<td>3,500</td>
<td></td>
<td>Docklands, Victoria, Australia</td>
</tr>
<tr>
<td>NATIONAL FOODS DAIRY FOODS LIMITED</td>
<td>2,936.39M</td>
<td>3,500</td>
<td></td>
<td>Docklands, Victoria, Australia</td>
</tr>
<tr>
<td>Agropur Cooperative</td>
<td>2,875.48M</td>
<td>4,488</td>
<td></td>
<td>Longueuil, QC, Canada</td>
</tr>
<tr>
<td>Emmi AG</td>
<td>2,852.45M</td>
<td>3,701</td>
<td>33.26%</td>
<td>Lucerne, Switzerland</td>
</tr>
</tbody>
</table>

Source: Hoover’s Online

16. ASSOCIATED NAICS CODES

112310 Chicken Egg Production
311225 Fats and Oils Refining and Blending
31151 Dairy Product (except Frozen) Manufacturing
311511 Fluid Milk Manufacturing
311512 Creamery Butter Manufacturing
311513 Cheese Manufacturing
311514 Dry, Condensed, and Evaporated Dairy Product Manufacturing
311520 Ice Cream and Frozen Dessert Manufacturing
311999  All Other Miscellaneous Food Manufacturing

424430  Dairy Product (except Dried or Canned) Merchant Wholesalers

17. RELATED INDUSTRIES
   • Animal Production
   • Food Wholesale Distributors
   • Nonalcoholic Beverages

18. INDUSTRY WEBSITES
   http://www.agr.ca/
   http://www.dairyinfo.gc.ca/
   http://www.dfamilk.com/
   http://www.dairyfoods.com/
   http://www.dairyinfo.com/
   http://www.dpac-atlc.ca/
   http://www.foodsci.uoguelph.ca/dairiedu/fluid.html
   https://www.dairy.com/
   http://www.idfa.org/
   http://www.nmpf.org/
   http://www.usdec.org/home.cfm?navItemNumber=82205
   http://www.ams.usda.gov/AM Sv1.0/dairy
   http://www.fmi.org
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