

€19 Billion Russian Bakery Market Shows Eastern Promise

Western-style products have been gaining popularity within the vast but highly traditional Russian bakery market.

The Russian bakery and cereals market was worth Rub652.5 billion (US\$25.5 billion) in 2008 and has grown at a CAGR of 4.5% since 2001, according to Datamonitor. The market is expected to maintain the same pace of expansion in the future with the growth rate ranging between 3% and 5%.

The strengthening of the ruble, stable growth in personal incomes and changing consumer preferences are expected to help expand the bakery market in Russia as consumers show a willingness to pay extra for premium products.

Recent figures from investment bank Lehman Brothers reveal that the average earnings of Russians have increased from about \$160 a month in 2002 to \$540 at present.

Highest Consumption Rate

Russians have the highest per capita consumption rate of bread in Europe with an average of approximately 100 kilograms per person each year. Although traditional Russian black breads still dominate the market, the demand for western-style bakery products such as pastries, croissants, baguettes and ciabatta has risen as disposable incomes have increased.



Although the shift towards western-style bakery goods started in Moscow, the country's leader in terms of consumer tastes, they are also now gaining in popularity in other major Russian cities.

Western-style bakery products offer higher profit margins compared to the 3% available from dark breads.

Until recently, market demand was still mainly for unpackaged bakery goods but the trend is now towards pre-packaged products as supermarket chains realise the benefits of this change. Specialty cakes, breads and snacks are popular as gifts in Russia, where bread and salt are traditionally served to welcome important guests and to symbolise friendship and trust.

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Leading Players

The Russian bakery market comprises about 1000 bread factories, each producing between 30 to 50 tons a day, along with 10,000 small and medium-sized businesses.

The leading Russian baker in 2006 was Baltiyskiy Khleb, followed by JSC Proletarets Bakery and Khlebniiy Dom in third place. Having invested about Eur130 million in developing its business in Russia during the past ten years, Fazer Group has since emerged as one of the country's leading bakeries. The Finnish bakery giant also has plans to establish a greenfield bakery in St Petersburg at a cost of over Eur100 million (see Panel).

With the exception of Fazer, the Russian bakery market has remained the preserve of Russian companies but this is likely to change as foreign bakers seek to make inroads. Indeed, further penetration of the Russian bakery market by multinational bakery groups is expected as local companies become acquisition targets.

Fazer Group's Russian Expansion

Having invested over Eur130 million in its operations in Russia during the past ten years Fazer Group has emerged as one of the country's leading bakers. Fazer first entered the Russian bakery market in 1997 following the acquisition of a majority stake in the Hlebnyi Dom bakery in St Petersburg. The Finnish bakery group currently controls about 30% of the market in St Petersburg and the surrounding area.

In 2005, Fazer purchased the Zvezdny bakery in Moscow, one of the biggest producers of frozen pizza and dough in Russia, and more recently acquired a majority stake in Volzhskiy pekar, the leading producer of fresh bread and coffee bread in the Tver region.

Fazer is now planning to build a new bakery in St Petersburg, involving total investment of over Eur100 mil-



lion, to support its growth strategy in Russia. "The new bakery will enable us to introduce new types of products and increase our deliveries to other areas in Russia. The bakery will produce value added fresh and frozen bread and coffee bread," says Harri-Pekka Kaukonen, who is responsible for Fazer's operations in Russia.

During the past three years, Fazer's bakery operations in Russia have grown at an average rate of about 40% annually. Fazer's Russian turnover in 2007 was Eur170 million (14% of total group revenues) and the division employs 3,700 people.

Indeed, Fazer Russia is one of three divisions operated by the Finnish bakery group. The others are Fazer Amica, a leading contract catering company in the Nordic and the Baltic countries, and Fazer Bakeries, which produces bakery products in Finland, Sweden, Estonia, Latvia and Lithuania.



■ BAKERY

Ibonhart and the Russian Bread Market

By Michael Shcherbinin, Russian Agent for Ibonhart

The importance of bread for Russians can scarcely be over stated. For many centuries bread has been of sacred significance to them.

In the years of famine bread was the only food for the poor people. And even in modern history during the recent crises in Russia (the depression of the early 90's and the crisis of 1998) the consumption of bread dramatically increased. Taking this into consideration, at the time of the Soviet Union bread was considered as a social product of great importance and its price was strictly regulated.

For example 20-25 years ago when the average salary in Russia was 150 roubles a month, a 400 grams loaf of bread cost 18-25 copecks (0.18-0.25 roubles). At the same time the polythene bag cost 10-15 copecks, equivalent to up to 80% of the price of the loaf. Such imbalances were possible due to the non-market economy where the prices for all products were set by central government.

It is quite understandable, given such a price ratio (price of packaging material was equal to almost 80% of the product price), that almost all the bread loaves were sent to the shops unpacked. If no one had bought this bread it would have become stale and would have been sent back to the bakeries for recycling.

When an open market society emerged the price of the bag for packaging was 5% of the bread loaf price.

Under Russian hygienic standards bagged bread loaves can be kept on the shop shelf for up to 72 hours, so increasing the possi-



The LB90 Top Belt slicer.

bility of the bread selling. Furthermore, the potential for the packed bread being contaminated is almost reduced to zero.

Packaging Programme

In 1995 the Moscow government started a packaging program for the Moscow bakeries. A special committee was established for this purpose, consisting of bakery and market specialists.

The committee analysed the situation with regard to bread packaging on the European market and came to the conclusion that the most advanced kind of packaging was plastic bag with the tied neck.

Unlike other methods, such as flow-wrapping and shrinking, this type of package/bag is not thrown away immediately after opening, but serves as a disposable (single-use) bread bin. It can be opened and closed many times. This method of packaging also allows for the packing of sliced bread loaves.

European Experience

Between 1995 and 1996 members of the committee visited some European bakery plants to get to know the equipment installed and used

there. As a result they chose the equipment supplied by Ibonhart, based in Norwich, England.

The Ibonhart equipment attracted their attention due to its service and maintenance simplicity as well as because of the reliability and durability of its design.

While visiting the Allied Bakeries plant in London, members of the committee saw the Ibonhart equipment, which has been working there since 1980. When Edward Zaitsev, chief technical specialist of the committee, saw the machines working smoothly in spite of bread crumbs, he exclaimed: "These machines are for us!"

Market Debut

Thus in 1996 the first three Ibonhart machines appeared in Russia. One of them was installed at the 'Khlebozavod No6' bakery, the other two were linked with the cooler at the 'Cherkizovo' bakery.

Although machines from other European and American companies were later bought, further experience showed that the Ibonhart equipment combined both high quality and acceptable price.

In 1998 the 'Kolomenskoye' bakery bought its first Ibonhart IB360 machine to pack only unsliced bread and five years later in 2003 this machine was linked with the Ibonhart reciprocating slicer LB90.

It was the first Ibonhart slicer in Russia and for the Ibonhart specialists it was their first encounter with Russian bread slicing. The machine was provided with top oiling and a frame stroke of 65 mm.

The installation of the first slicer showed that this machine was able to slice only free-baked and panned white bread but not



The IB360 ST6b is one of an order of ten bagging and slicing machines supplied by Ibonhart to four Moscow bakeries in 2007.

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rye and rye and wheat mixed bread (rye flour up to 50%). Russian bread is quite dense and sticky and its slicing directly depends on proper blade oiling

By that time German producers of similar equipment were already familiar with rye bread slicing because the German bread is very similar to that in Russia. The German baggers were equipped with hand (drum) slicers, where all the blades move in the same direction, making it much easier to provide the blade oiling option.

In 2005 the problem of the rye bread slicing arose again. However, Ibonhart was ready to solve it - the stroke of frames was increased up to 90mm and bottom blade oiling was implemented. With these options all the blades were totally oiled during slicing along their full length and the slicer could slice the rye and wheat bread loaves (rye flour up to 60%).

Major Contract

In 2007, Ibonhart won a tender for ten bagging and slicing machines to be installed at four Moscow bakeries. All the machines had a full set of options such as a half loaf bagging unit that can pack both sliced and unsliced loaf halves.

During the installation all the machines

were adapted for the packaging and slicing of different sorts of bread. All the machines were equipped with the built-in inverters to change the cutting frames speed. Operators can now choose the best frame speed to slice rye bread. This avoids the appearance of the unattractive gluten traces on the surface of rye loaves.

During the tests speeds of more than 60 loaves a minute were achieved for slicing bread with a high content of rye flour (80% of rye, so-called 'Borodinskiy' bread).

Ibonhart can now produce all-purpose slicing and bagging machines. In other words the Ibonhart machines can slice and pack bread loaves of any composition and of any shape including the free-baked loaves of various configurations.

Ibonhart has proved the durability and reliability of its equipment as all the Ibonhart machines installed in Russia since 1996 are still working.

Local Specialists

Because of the frontier and customs barriers between Europe and Russia, it is almost impossible to support and maintain English equipment directly from Great Britain. Due to these difficulties many reputable European companies have failed to achieve

repeat sales in Russia. However, Ibonhart co-operates with a group of highly skilled Russian specialists that can provide all the necessary service and support to the bakeries. The local agents also recommend to Ibonhart's designers how to meet the changing needs of customers in the best way.

Indeed, the success of the foreign companies in Russia is based on two key factors:

1. Constant improvement of the machines' designs, to accommodate the specific peculiarities of the local bread and to meet the needs of customers.
2. Presence of a reliable Russian agent not only for selling but also for proper servicing and maintenance of the sold equipment. □

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ibonhart

IB360

Whether **Bread or Buns**, in **Polybags or Paper Bags**, as an **integrated system** or **stand alone**, the **IB360 Bagger** is the answer to your packaging needs

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