

Good prospects for Russia's baking market

IN RUSSIA, POSITIVE ECONOMIC DATA, A RISING WAGE LEVEL AND A GOVERNMENT THAT IS EAGER TO IMPRESS THROUGH ITS PERFORMANCE AT HOME AND ABROAD AND IS ACCORDINGLY PROMOTING INDUSTRY AND CONSUMPTION, ENCOUNTER A BAKING INDUSTRY SEARCHING FOR INNOVATIONS



++ figure 1



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Impressions of Modern Bakery Moscow 2013

According to a survey by the Russian Chamber of Foreign Trade and the Committee on Eastern European Economic Relations in the spring of this year, German companies in Russia gave a very positive assessment of the development of the business climate in the host country and of their own future prospects. Russia's economy grew by 1.8 % in the first five months of 2013 and Rosstat, Russia's National Statistical Office, forecasts growth of as much as 2.4 % in the GDP for the full year 2013. As a comparison, the German Federal Statistical Office expects an increase for the German Federal Republic of at best 0.5 % in 2013.

The food and drink sector grew by 5.1 % in 2012 and added further growth of 1.7 % in the first four months of this year. According to a forecast by Rosstat, the growth of investments in plant in Russia is expected to be 4.6 % higher in 2013 than in the previous year. At EUR 122.7bn, plant and machinery represented by far the biggest item in the Russian Federation's balance of imports in 2012. Through a considerable addition to the Reserve Fund in 2012, the Russian government also largely immunized its country against a spillover of the Euro crisis. The country's gold and currency reserves are valued at more than EUR 400bn. Average wages in Russia were more than double in 2012 compared to 2006, and pensions almost tripled.

All of this on its own represents good opportunities for growth in private consumption in Russia, and thus in the demand for foodstuffs, which have more to offer than the ability to satisfy hunger. But that's not all. The 2014 Winter Olympics in Sotschi will be the most important major sporting event

that Russia has organized in the past 30 years, and the prestige expectations, which are linked to the satisfaction of the foreign athletes and visitors, are correspondingly high. The elections to the State Duma of the Russian Federation in 2016 are also imminent, and will decide the distribution of power and influence in the country. Structural and investment promotion programs have often been launched in the run-up to such elections in the past. The baking sector in Russia has always ranked among those branches of industry to which special attention was paid in such situations.

The sector is still in turmoil a quarter of a century after Perestroika and Glasnost. Those former state-owned enterprises that still remain in the market are today in private ownership, but they are a long way from being all comprehensively modernized. Among other things, this was contributed to by the fact that the distribution channels for baked goods changed only very hesitantly. A widespread presence of modern trading formats developed only gradually. This development is in no sense being driven forward just by international trading groups, but to a very large extent by Russian investors. For example multibillionaire Sergej Galizki, starting from a few small kiosks under the name Magnit (Magnet) in Krasnodar in south-west Russia, has built up a countrywide retail chain with almost 7,500 branches, including both minimarkets and nearly 150 hypermarkets. The business, which is listed on the stock exchange, is considered to be Russia's fourth largest employer. Galizki plans to expand his empire by a further 10,000 new retail outlets by 2017. And Galizki is not the only example in the expanding Russian food retail.

Although today 11.8 % of the Russian population still lives below the poverty line in statistical terms, their numbers are steadily decreasing and there is a growing middle class that can and wants to afford more, including for food and drink. The initiative is being seized not only by those industrial companies that have understood the step from the demand market to the supply market, but also increasingly by medium-sized businesses who create their own brand with regional branch networks. This often involves a combination of a bakery, confectionery, fast food, food retail, café and bistro depending on the location, surroundings, purchasing power and public with different emphases. Many of these medium-sized companies operate their own production facilities. In this respect their biggest problem is personnel. Not just the fact that employee turnover in the retail and service industries in Russia is enormously high, but at the same time it is almost impossible to find employees who bring with them training in modern bakery engineering and technology. The demand for automation is correspondingly high, even in these medium-sized production units.

This was also increasingly apparent at the “Modern Bakery Moscow”, the Russian baking industry’s most important trade fair. In April 2013, in spite of the inconvenient date before a public holiday, a total of more than 14,000 specialist visitors came to Modern Bakery Moscow. That is an increase of 28.5 %

compared to 2012. With 243 exhibitors, a rise of nearly 10 % was also achieved. The growth in visitor numbers is on the one hand an expression of the increasing numbers of companies in Russia, although even including medium-sized companies the total number of bakery businesses in the country is probably somewhat fewer than 5,000. On the other hand the stream of visitors shows that, in contrast to the past, businesses in Russia define themselves increasingly through their market success and no longer through the gigantic capacities that were regarded as the measure of all things in the Soviet era.

In addition to baking (58 %) and confectionery (49 %), the main interest of the specialist visitors to Modern Bakery Moscow 2012 was in the areas of machines (43 %), raw materials (31 %), chocolate (15 %), ice cream (9 %), refrigeration technology (8 %), the framework program (5 %) and coffee and tea (4 % each). According to the trade fair company OWP (Ost-West-Partner GmbH, Nuremberg, Germany), most of the visitors used Modern Bakery Moscow to make new contacts (54 %), to obtain information about novelties and innovations (45 %), to foster their business relationships (28 %), to conclude commercial contracts (26 %) or to obtain new business ideas, suppliers and information (24 % each). Incidentally, the next Modern Bakery Moscow will take place from 23rd to 26th April 2014. +++

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