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**SUMMARY**

Finnish food producers' trade with Russia has gone through profound changes since the collapse of the Soviet Union. Simultaneously, the distribution systems of foodstuffs have changed remarkably. Food trade in Russia after the collapse of the Soviet Union – as well as many other things – can be divided into two parts separated by the financial crisis of 1998. Previous research on this topic focuses on the period before the 1998 crisis. However, the development after the crisis has been fast and dramatic and thus a comprehensive overview of the topic is needed. This study sheds some light into these changes and analyses the current situation in distribution systems of foodstuffs in Russia. In addition, the study discusses the possibilities of Finnish food producers to get more of their products to the shelves of Russian food retail stores.

Before the 1998 financial crisis, level of imports of foreign foodstuffs was high in Russia due to strong rouble and lack of good quality local products. However, the crisis made the Russian food imports collapse as the dramatic devaluation of the rouble resulted in soaring import prices. The exports of Finnish foodstuffs to Russia have been recovering in recent years, but no product category has reached its pre-crisis export level. In some product categories (e.g. margarines and other edible fats and meat products) the growth has been only marginal. It is very possible that the pre-crisis level will never be reached due to tough competition, high customs tariffs and high costs of Finnish food production. However, it has to be taken into account that increasing local production of Finnish producers in Russia shows as slower growth in export statistics. Indeed, it seems that starting local production will become increasingly important in the future for Finnish food producers operating in Russia. This is further encouraged by the fact that Russian consumers favour domestic food products. Russian consumers are very price conscious and demand quality in food products.

The majority of foodstuff retail is still conducted via unorganised forms of trade (e.g. kiosks and marketplaces) but the modern retail chains, both Russian and foreign, are developing at a fast pace in Russia. They are also expected to dominate the retail trade in foodstuffs over the unorganised forms of trade in the future. This changes also the distribution systems. The retail chains are trying to shorten the distribution chain, similarly to what has been seen in the Western countries. This, along with the strengthening of retail chains, is likely to shrink the role of the wholesalers as the chains increasingly want to work directly with the producers. Many large retail chains are acquiring or have already acquired a distribution centre or centres in order to boost efficiency and control the product flow. The strengthening of the retail chains also gives them power in negotiations, to which the producers and distributors have to adjust. For

example, store entry fees and retail chains' own private label products pose challenges to the food producers.

In the food production sector the competition is fierce, as large Russian and foreign producers want to ensure their piece of the huge market. The largest international producers (e.g. Mars) are utilizing their size: they invest in big marketing campaigns and are willing to pay high entry fees to retail chains in order to secure a place on the store shelves and to build a strong brand in Russia. This complicates the situation from the viewpoint of small producers.

Smallness was one reason why many Finnish producers (e.g. meat producers) had to cut down their operations in Russia due to the 1998 crisis. Smaller producers had fewer resources to tolerate losses during the period of the crisis. Smallness is reflected also in trade negotiations with retail chains and distributors. It makes it harder to cope with the store entry fees and to differentiate from the mass of products propped up by expensive advertising. Finally, it makes it harder for Finnish producers to start or expand local production since it is more difficult for a small producer to get financing and to tolerate the increased risks. Compensating for the smallness might become the crucial factor determining the future success of Finnish food producers in the Russian market. However, those products and producers that have a strong and well-known brand (e.g. Valio) and/or novelty product (e.g. FinnCrisp of Vaasan) or a new kind of distribution solution have a good chance of thriving in the market.

Currently, the most popular type of distribution system among the interviewed Finnish food producers is based on a network of local distributors. The producer can try to strengthen or weaken the mutual competition between its distributors depending on whether it wants to e.g. secure a uniform price level of its products or enhance the efficiency of its distributors. In addition, there is a strong consensus on the importance of starting local production in order to be a serious actor in Russia in the future. Given the relative smallness of Finnish food producers, realistic strategies for increasing their market share in Russia would be to focus geographically or segment-wise, introduce new products and cooperate with other Finnish producers. Factors that hinder the starting of local production include the lack of local infrastructure, lack of qualified staff and low risk tolerance of the Finnish firms. Major barriers for gaining market share in Russia include the actions of the authorities, fierce competition, fragmented market and Finnish producers' heavy production costs.

The research was conducted by the Center for Markets in Transition (CEMAT) of the Helsinki School of Economics ([www.hkkk.fi/cemat](http://www.hkkk.fi/cemat)) in cooperation with the Lappeenranta University of Technology.

For further information contact:

LTY/NORDI, Professor Juha Vääänen, tel. +358-5-621 2694,

HSE/CEMAT, Research Fellow Simo Leppänen, tel. +358-13-455 080,

HSE/CEMAT, Research Assistant Hannu Kaipio, tel. +358-9-4313 8872.