Generic Promotion of Cocoa and Chocolate

in the Russian Federation

FEASIBILITY STUDY

CONTENTS

Introduction

1. During the first quarter of 2001, the consulting agency "Megadesign 2000" implemented the first stage of the project, initiated by the International Cocoa Organization, the Association of Enterprises of the Confectionery Industries of the Russian Federation (ASCOND) and the Scientific Research Institute of the Confectionery Industries.

2. The objective of the project's initial stage was to determine the current situation in the spheres of manufacturing, consumption and distribution of cocoa and chocolate products in the Russian Federation. It also sought to identify the opportunities to expand and promote consumption of cocoa and chocolate products in the Russian market in the future as well as the feasibility of launching a large-scale promotional campaign for chocolate and cocoa products in Russia. To reach the objective, the principal stages of research were established and the methodology was approved.

3. Principal substages of research:

   A. Desk research included an investigation of the peculiarities of the cocoa products market in Russia, as well as statistics and data flows from the media, State Customs Committee, Committee on Statistics, consulting services from the industrial institution's specialists, independent experts in the industry, and experts of retailers and traders.

   B. Extensive interviews with senior managers and technologists of the 100 leading confectionery enterprises which manufacture cocoa-containing products, on the prospects for the market.

Methodology: opinions and assessment of market experts were collected through face-to-face or telephone interviews.

Objectives of interviews: The objectives were to obtain an accurate picture of the state of the chocolate products market in Russia and its prospects for expansion. It was also sought to obtain a spectrum of opinions on the need for conducting a large-scale advertising campaign with the purpose of promoting chocolate as a product.

   C. Mass survey of the urban and rural population of the European part of Russia on the popularity of chocolate products. Respondents were interviewed in seven regions of the European part of the Russian Federation (Northern Caucasus, Volga, Central Chernozem, Volgo-vyatsky, Central, Northern and North-Western regions). The selection comprised 1500 respondents and was represented in proportion to the shares of urban rural population in the regions.

Methodology: Quantitative method of marketing research, allowing answers to be found through questions, dealing with consumers' perception of cocoa and chocolate consumption.

The objective of the interviews: The objectives were to reveal the image of chocolate and cocoa-containing products among the population, to determine the principal strong and weak points of positioning chocolate products in the Russian Federation from the consumers' point of view, to indicate the main changes in the level of consumption of chocolate products in the future.

D. Conduct of four group discussions among the population of Moscow. The group discussions involved 35 participants (12 men and 23 women) with age limits of 18 to 60 years old, divided into two groups, the criteria being the age and the average income per family member.

Methodology: Focus group (group discussion) is a qualitative type of marketing research, allowing a wide spectrum of opinions and directives to be obtained through concentrated triangular interaction.

Discussions one and two involved Moscow residents with incomes of up to 4500 roubles (150 US dollars) per family member, consuming chocolate products not less than once per week.

Discussions three and four involved Moscow residents with incomes of over 4500 roubles (150 US dollars) per family member, consuming chocolate products not less than once per week.

The objective of the group discussions: The objective was to obtain assessments, emotional directives, concepts of chocolate products, reasons for consumption of chocolate products.

E. During the last 5th substage of the project's initial stage, the consulting agency "Megadesign 2000" conducted a tender for advertising agencies to bid for the handling of a promotion programme for chocolate products in Russia.

The objective of the substage: The objective was to choose a campaign to promote confectionery goods (chocolate and cocoa-containing products) among the population in a comprehensive way; to significantly increase the consumption of integrated products by the country's population within the next one to five years (from the current 2-3 kg per year to an average level of consumption in the USSR of 8 kg per year). The target audience of the company is the end consumer of the products.

Methodology: The following advertising agencies presented programmes for consideration:

- Rose

- ? ?di?? rts
- BBDO
- Debbi
- D'Arcy

The specialists of the consulting agency “Megadesign 2000” choose the campaign presentations by “Media Arts” and “Rose”.

4. The consulting agency “Megadesign 2000” acknowledges the close co-operation of ASCOND and the Scientific Research Institute of the Confectionery Industries in relation to the development and preparation of the preliminary research materials.

The agency would like to thank the staff of ASCOND, the Research Institute, other companies and organizations and individuals who have contributed to the compilation of material and preparation of this study.

CHAPTER I Overview of the Confectionery Market in Russia

5. They love the "sweet" life in Russia, and chocolate is a specific indicator of the population's welfare. Women and children are treated to chocolate. It is a universal present on holidays and it serves as a snack. The market of chocolate products in Russia is the third largest among European counterparts, only conceding to Great Britain and Germany. In 2001, each Russian resident consumed an average of 3,6 kg of chocolate products. This number was almost 2,5 times lower than in European countries – Belgium, Germany and France. For information, in 1999, the average consumption of chocolate per capita in Russian Federation amounted to 2,3 kg, whereas in 2000, it was 2,7 kg.

A. The main participants in the Russian market of chocolate products

6. In the early nineties, large Western corporations took advantage of the confusion faced by the Russian industry and penetrated the market. This gave rise to such major companies as "Nestlé", "Stollwerk", "Mars" and "Cadbury", who incorporated traditional Russian preferences for bitter taste and domestic brands within their ranges, complementing them with their own products (milk chocolate bars with exotic fillings and shaped chocolate).

7. The impressive budgets of their advertising campaigns placed these Western companies in an advantageous position right from the start. It meant that domestic manufacturers could only survive through integration. The largest among them opted for establishing concerns, a case in point being the integration of OAO "Babayevskoye", OAO "Voronezh Confectionery Factory", OAO "Yuzhuralconditer", ZAO "Sormovskaya Confectionery Factory", OAO "Blagoveschenskaya Confectionery Factory Zeya", and "Chocolate Factory "Novosibirskaya" under the aegis of "Confectionery Concern "Babayevsky". The confectionery association "SladKo" united the following companies in 2001: "Volzhanka", "Zarya", and "Konfi". In April 2002 two factories merged together; "Rot Front" and "Krasny Oktyabr".

8. According to market experts, the problem faced by many domestic companies was their diametrically different qualities of chocolate products. Despite statements promising to improve the quality of chocolate products, few companies can boast a guaranteed stability of their production at this time. The market of chocolate products in Russia has gradually mirrored the existing concepts of European and Asian counterparts, where five or six large companies satisfy three quarters of demand, and the remaining one quarter becomes the share of medium- and small-scale contenders.

9. By the middle of 2001 the top ten companies in the Russian market of chocolate products, consuming the biggest volumes of cocoa raw materials were:

Table 1

Market leaders 2001

?	Company	2001[1]	2000	1999	1998	1997	1996
		Market share					
1	Rossiya (Samara) (owned by "Nestlé")	28%	31%	29%	25%	17%	0%
2	Krasny Oktyabr (Moscow)	9%	7%	11%	11%	10%	14%
3	Confectionery Concern Babayevsky (Moscow)	8%	10%	9%	10%	3%	9%
4	Mars (Stupino, Moscow region)	8%	5%	6%	12%	14%	10%
5	Rot-Front (Moscow)	6%	7%	6%	3%	3%	5%
6	Konfi (Ekaterinburg)	5%	4%	4%	3%	7%	1%
7	Volzhanka (Ulyanovsk)	4%	3%	4%	4%	2%	5%
8	Stollwerk Rus (Pokrov, Vladimir region)	3%	1%	2%	2%	1%	0%
9	Cadbury (Chudovo, Novgorod region.)	3%	2%	3%	4%	4%	0%
10	Factory named after N.K.Krupskaya (Saint-Petersburg)	3%	1%	1%	5%	11%	4%

10. It is evident that over the course of the last five years, some domestic manufacturers have yielded their positions to companies owned by foreign investors.

B. Trends in the cocoa raw materials market in the Russian Federation

11. Raw materials are the basis for starting production of any product in the confectionery industry. Cocoa beans were first imported to Russia about 150 years ago, when the German entrepreneur named Ferdinand Theodor Karl Einem developed his own confectionery company there. In 1930, the laboratory at the Scientific Research Institute of the Confectionery Industries was created to process about 1 tonne of cocoa per year.

12. The situation concerning the import of cocoa beans and cocoa products in the former USSR may be subdivided into two principle stages.

13. The first stage (from the 1960s to 1978) was characteristic of rapid growth and development of the Soviet confectionery industry. Over the period, the confectionery factory "Rossiya" in Samara was completely re-equipped, while many Moscow-located factories purchased new equipment and increased their processing capacities. In addition, manufacturers benefited from the vigorous scientific analysis undertaken by factory laboratories and the Scientific Research Institute of the Confectionery Industries.

14. The second stage, starting in the late seventies closely reflected the political and economic situations in the country; it was notable for crisis, a downturn in the volumes of imported raw materials (almost by 50%) and under-use of processing capacities. This period was characteristic of a search for new opportunities for production with minimum use of cocoa. The Scientific Research Institute of the Confectionery Industries had been developing recipes for a rational use of basic raw materials, particularly sweet bars and fat couverture on the basis of cheap, low-quality vegetable fat and cocoa powder. This was a forced measure, since the volumes of cocoa purchased had reduced drastically, while the necessity to employ the entire production capacities remained. The industry started using new ingredients, such as apple powder, soy flour, and so on. The substitutes of cocoa butter, which soon emerged on the Russian confectionery market, helped to resolve the problem of the raw materials deficit in the industry.

15. The market for raw materials only underwent liberalization in the early nineties, when manufacturers were able to choose suppliers independently, making their own decision on the quality and price of the product to be made. Initially, this posed a certain problem, since bartering for finished products was the common practice of payment. Subsequently, the relationship between manufacturers and suppliers took a more constructive character. The very fact of such a market emerging in Russia was quite inspiring, for, during the long Soviet period, raw materials used to be distributed by GOSPLAN (State Planning Committee) solely by means of the administrative-command management.

16. Stabilization with regard to the purchase of cocoa beans only began in 1999. Up to that time, disintegration of the USSR, multiple crises, all-but-criminal privatization, and revision of ownership had crippled the confectionery industry. Now it is possible to look with confidence at the emerging cocoa raw materials market which is forming and developing in Russia.

17. At present, cocoa beans of mass types are imported from Côte d'Ivoire (86%), Ghana (9%), Nigeria (4%), and Latin America (1%). Noble beans – unique in the aspects of taste and aroma – have been imported from Ceylon and the Java islands. All the bean types are marked according to their country of origin. Some types of cocoa beans are bought by companies for the production of "premium" chocolate in quantity, sufficient for several years of production. A number of companies blend consumer types of beans. Many traders import cocoa powder (in particular, such organizations, as "Soyuzsnab" and "Inforumkakao"), and, if semi-finished products are bought in Holland, Spain or Denmark, they mark them as their own products. At present, the majority of manufacturers import and use chocolate mixtures with chocolate filling and chocolate allsorts sweets.

18. According to the majority of Russian consumers, the best foreign manufacturers of cocoa powder include "Savanna" (USA), "Katz International" and "Gerkens" (Netherlands); from the range of domestic processing companies the following were named: confectionery factory "Rossiya", concern "Babayevsky", and the confectionery factory "named after Krupskaya". Among foreign high-quality manufacturers of couverture, the market technologists listed the French and German manufacturers – "Barry Callebaut" and "Sucrest GmbH" respectively; from the domestic companies, "Inforumkakao", confectionery factory "Rossiya", and confectionery factory "Krasny Oktyabr" were mentioned.

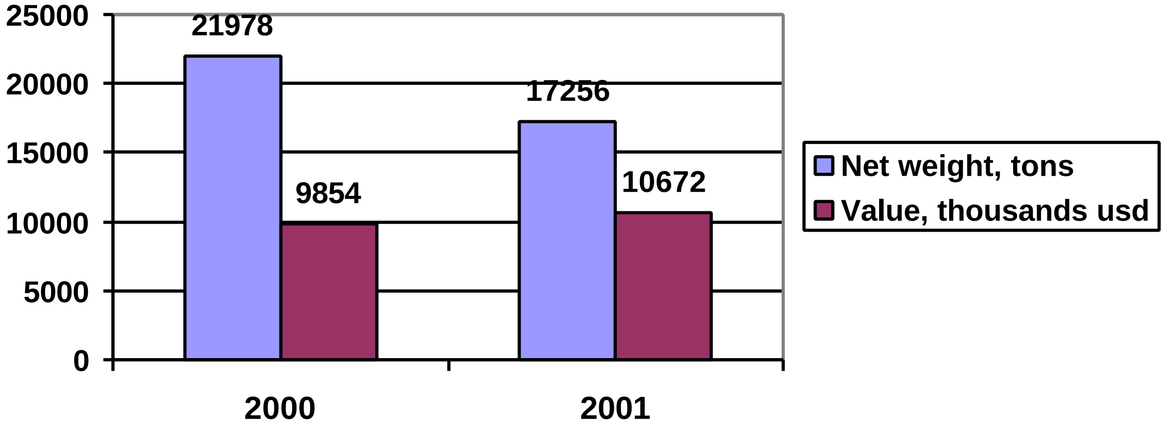
19. Delivery of cocoa raw materials to Russia in 2001 was mainly accomplished through the Baltic countries of the former Soviet Union (92%) and the seaports of the Saint-

Petersburg and Leningrad region (6%). The dynamics of change in volume and value of cocoa ingredients, imported to the Russian Federation over the period of 2000 – 2001 for the confectionery industry, are demonstrated in the tables below[1].

Table 2

Import of cocoa powder to the Russian Federation over the period of 2000-2001						
	2000		2001		Growth rates of net weight	Growth rates of value
Period	Net weight (tons)	Value, thousands of USD	Net weight (tons)	Value, thousands of USD		
Quarter I	4459	2 075	3135	1 356	-30%	-35%
Quarter II	4604	2 090	4421	2 645	-4%	+26%
Quarter III	4509	1 846	5523	3 447	+22%	+86%
Quarter IV	8403	3 842	4175	3 221	-51%	-17%
TOTAL	**21977**	**9 853**	**17256**	**10671**	**-21%**	**+8%**

Chart I
Import of cocoa powder



20. As shown above, the purchase of cocoa powder abroad in 2001 declined by 21%; on the other hand, the value of products increased almost by 10%. The reason for the change of

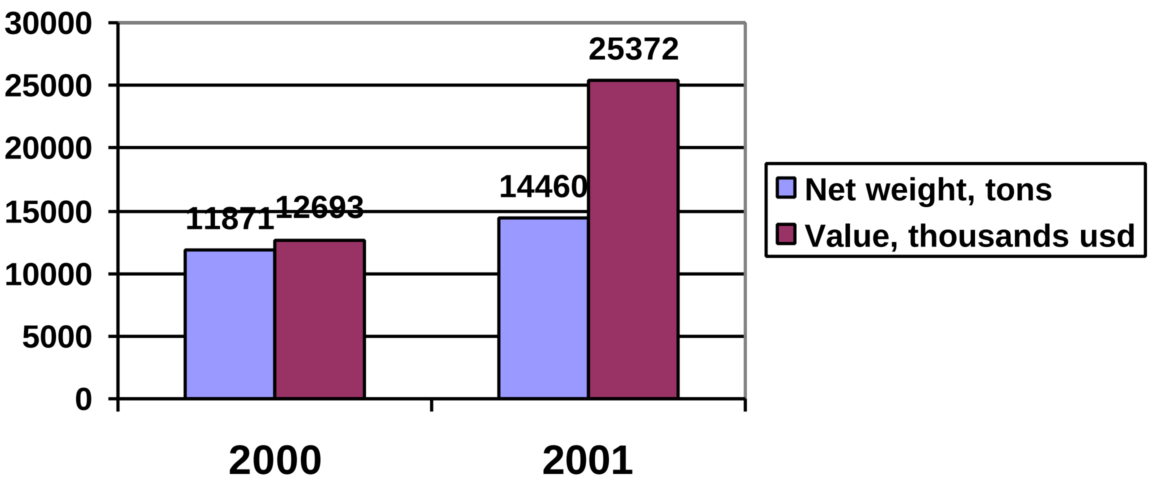
[1] The data is presented by the State Customs Services of Russia

price was an increase in the prices of raw materials; the same reason caused a decrease in the volumes of purchase.

Table 3

Import of cocoa butter to the Russian Federation over the period of 2000-2001						
	2000		2001		Growth rates of net weight	Growth rates of value
Period	**Net weight (tons)**	**Value, thousands of USD**	**Net weight (tons)**	**Value, thousands of USD**		
Quarter I	3154	2 845	2650	2 696	-16%	-5%
Quarter II	2421	2 549	2769	3 068	+14%	+20%
Quarter III	2508	2 861	3105	6 575	+24%	+130%
Quarter IV	3789	4 437	5936	13 033	+57%	+126%
TOTAL	**11871**	**12 693**	**14460**	**25 372**	**+22%**	**+200%**

Chart 2
Import of cocoa butter

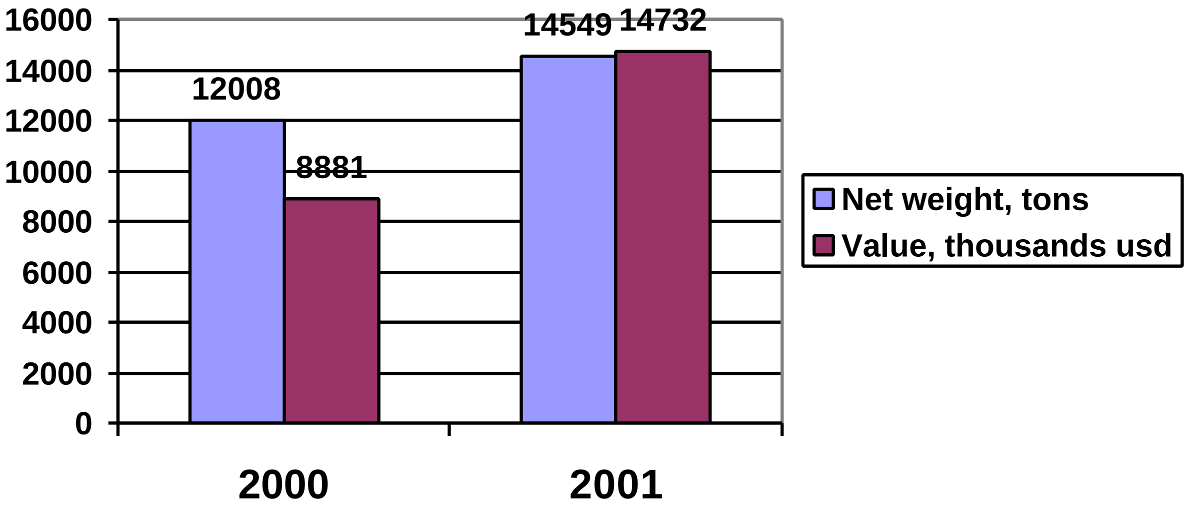


21. The volume of cocoa butter imports rose by 22% in 2001 as compared to 2000, while the value of imports doubled reflecting a sizeable increase in the world prices, particularly by the end of the year.

Table 4

Import of cocoa liquor to the Russian Federation over the period of 2000-2001						
	2000		2001		Growth rates of net weight	Growth rates of value
Period	**Net weight (tons)**	**Value, thousands of USD**	**Net weight (tons)**	**Value, thousands of USD**		
Quarter I	2936	2 026	3015	1 841	+3%	-9%
Quarter II	2679	1 730	2220	2 148	-17%	+24%
Quarter III	3540	3 092	3838	3 739	+8%	+21%
Quarter IV	2854	2 033	5476	7 005	+92%	+245%
TOTAL	**12008**	**8 881**	**14549**	**14 732**	**+21%**	**+66%**

Chart 3
Import of cocoa liquor

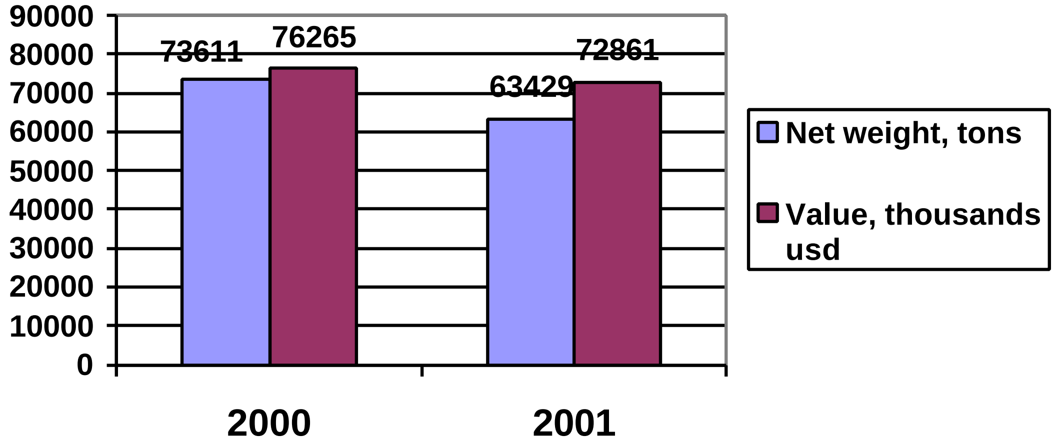


22. As shown above, imports of cocoa liquor to Russia increase in 2001 by 21% in volume and by 66% in value terms as compared to the previous calendar year.

Table 5

Import of cocoa beans to the Russian Federation over the period of 2000-2001						
	2000		2001		Growth rates of net weight	Growth rates of value
Period	**Net weight (tons)**	**Value, thousands of USD**	**Net weight (tons)**	**Value, thousands of USD**		
Quarter I	13495	15513	12595	12200	-7%	-22%
Quarter II	12952	13857	12077	12338	-7%	-11%
Quarter III	15013	14980	14596	17462	-3%	+16%
Quarter IV	32151	31912	24159	30664	-15%	-4%
TOTAL	**73611**	**76264**	**63429**	**72861**	**-14%**	**- 4%**

Chart 4
Import of cocoa beans

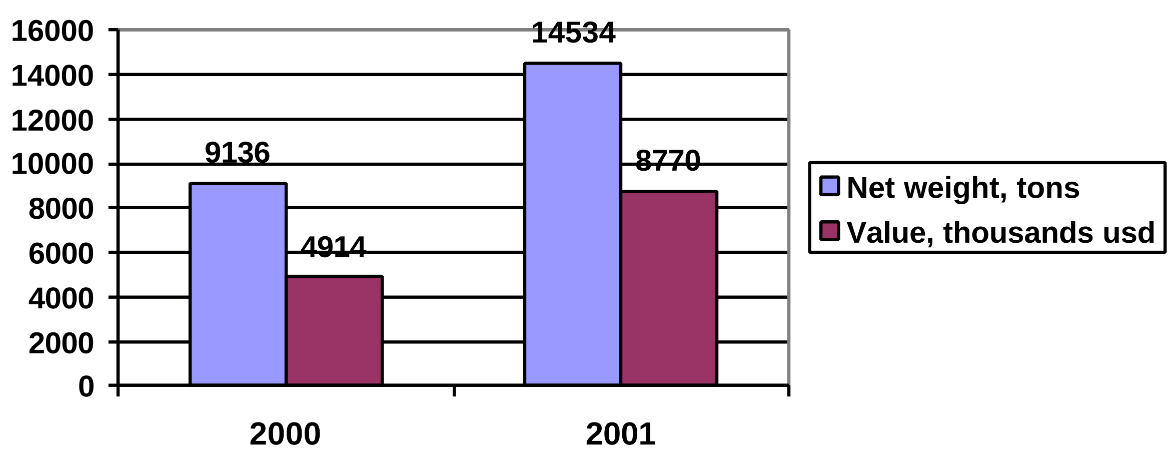


23. The volumes of cocoa beans imported to Russia in 2001 decreased by 14% as did the price (down 4%). In contrast to all other cocoa ingredients, the bottom-line cost of cocoa beans went down; one may assume that major volumes of this raw material purchased were of low quality.

Table 6

Import of chocolate couverture to the Russian Federation over the period of 2000-2001						
	2000		2001		Growth rates of net weight	Growth rates of value
Period	Net weight (tons)	Value, thousands of USD	Net weight (tons)	Value, thousands of USD		
Quarter I	1947	1 087	1600	872	-18%	-20%
Quarter II	2689	1 478	4990	2 506	+86%	+70%
Quarter III	2699	1 218	4002	2 077	+48%	+71%
Quarter IV	1801	1 132	3942	3 315	+119%	+193%
TOTAL	**9136**	**4 914**	**14534**	**8 770**	**+59%**	**+78%**

Chart 5
Import of chocolate couverture



24. In 2001, Russia's imports of chocolate couverture increase by almost 60% in volume and by 80% in value as compared to 2000. Such a significant increase in imports was attributable to the growing popularity of this ingredient in confectionery and chocolate production.

C. Industrial standards of confectionery industry in Russian Federation

25. The majority of documents related to standards for the use of cocoa raw materials have remained unchanged since the Soviet era, although the industrial standard has been revised. The main point of the GOST (government standards) – No. 6534 standard is the

prohibition of the use of any other fats in the composition of chocolate except cocoa butter. In some Western countries, production of chocolate is treated in a more liberal fashion; in those countries, such as Denmark and Great Britain, the substitution of cocoa butter and introduction of 5% cocoa butter substitutes per finished products is permitted. In Russia on the other hand, such substitution is prohibited, although a great number of small-scale companies manufacture products in accordance with established TU (Technical Conditions), approved by Sanitary and Epidemiological Inspection. According to the Technical Conditions, a manufacturer is permitted to use cocoa butter substitutes, and it is a common practice that such manufacturers mark their products as chocolate.

26. Presently, there is a tendency towards simplification in the development of GOSTs. Each company will be responsible for the quality of its products on an independent basis, as specified in Europe. At present, obligatory certification is being cancelled and voluntary certification is being introduced by the Ministry of Economic Development and Trade. The rearrangement plans include the substitution of Russian standards within seven years and the subsequent introduction of technical regulations on specific products to be adopted as a result of collaboration between manufacturers, the State Sanitary and Epidemiological Inspection, Ministry of Economic Development and Trade, certification bodies, and other organizations. Since the programme is designed for the long term, there are fears that it will undergo drastic change or even complete revision. In the meantime, manufacturers work in accordance with old standards documents.

27. As far as cocoa beans are concverned, the following parameters are controlled according to GOST:

- Organoleptics of cocoa beans
- Taste of cocoa beans
- Aroma of cocoa beans
- Outward appearance of cocoa beans

28. GOST on chocolate are almost free of drawbacks, but GOST on half-finished chocolate products reveal certain discrepancies. Thus, the majority of large manufacturers believe the industrial standard on ingredients is too transparent, whereas small manufacturers cannot exist without it, since many of them cannot afford to produce cocoa ingredients as they lack the necessary equipment. Despite the disastrous consequences of the crisis of 1998, which had undermined the position of small companies on the market, the industrial standard on chocolate icing, eagerly awaited by them, was not adopted until 2000. In 2003, the Scientific Research Institute of the Confectionery Industries plans to revise most of the industrial standards for half-finished products.

29. Entry into the World Trade Organization (WTO) will inevitably lead to a revision of most standards documents established for the industry, in the trend towards liberalization. It is likely that manufacturers will regard this as a positive change, but, in Russia, standards on products have always been strict. The character of Western standards documents promotes the output of high-quality products, whereas in Russia, there is a high probability that manufacturers will be mainly concerned about their short-term gains and less interested in future prospects.

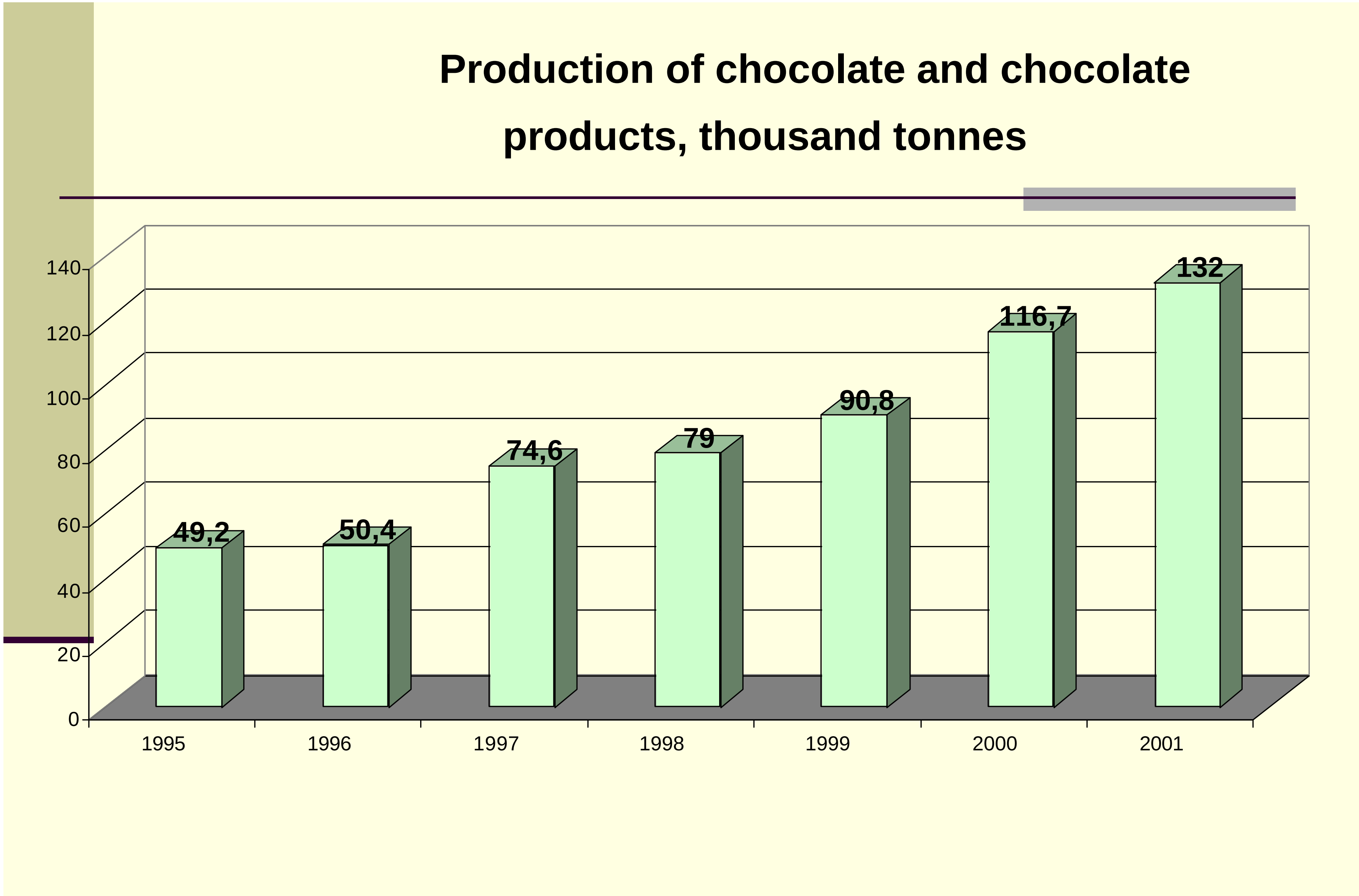
D. Production, import and export of confectionery products in Russia

30. The table below presents the dynamics of change in the production volume of confectionery goods in Russia over the course of the last six years.

Table 7

Production of confectionery industry per year (thousand tonnes)

Name of confectionery product	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Sugary	*1372,2*	*1262,7*	*1369,9*	*1403,5*	*1508,5*	*1627,7*	*1790*
Caramel	*241*	*4*	*206,4*	*217,3*	*190,4*	*231,6*	*184,9*
- including iced caramel	*2,2*	*2,7*	*56,2*	*3,8*	*5,9*	*10,7*	*N/D*
Drops (dragee)	*30,3*	*22,3*	*22,9*	*15,8*	*19,3*	*14,7*	*N/D*
Soft sweets with chocolate icing	*213,4*	*230,6*	*269,5*	*220,8*	*207,9*	*254,9*	*280*
Chocolate allsorts sweets	*-*	*12,7*	*11,8*	*10,1*	*9,7*	*12,2*	*N/D*
Soft sweets without chocolate icing	*48*	*39,6*	*39,6*	*41,4*	*38,1*	*34,4*	*N/D*
Chocolate and chocolate products	*49,2*	*50,4*	*74,6*	*79*	*90,8*	*116,7*	*132*
Including cocoa powder	*-*	*4,5*	*4,4*	*4*	*3,8*	*3,6*	*N/D*
Toffee	*22,7*	*16,3*	*15,6*	*12,3*	*15,5*	*16,4*	*N/D*
Halvah	*19,8*	*22,3*	*22,5*	*24,1*	*25,1*	*29,2*	*N/D*
Jelly and pastille products	*45,5*	*49*	*49,6*	*44,6*	*45,4*	*43,4*	*N/D*
Sweet bars on solid fat	*-*	*0,1*	*0,1*	*1,5*	*2,4*	*1,3*	*N/D*
Oriental confectionery and other sugary	*20,2*	*18,7*	*18,1*	*47,5*	*23,8*	*27,4*	*N/D*
Floury	*681,1*	*604*	*639*	*720*	*805*	*897,8*	*N/D*
Pastry	*289,6*	*258*	*264,8*	*276,6*	*333,1*	*374,3*	*N/D*
- including specific	*-*	*21,2*	*24,2*	*33,4*	*35,9*	*41,6*	*N/D*
Biscuits and crackers	*64,1*	*55,7*	*54,2*	*59,9*	*75,2*	*72,5*	*N/D*
Waffle and cakes	*65,5*	*53,9*	*58,7*	*95,7*	*72,6*	*91,6*	*N/D*
Fruit cakes, babas and Swiss rolls	*15,4*	*14*	*17,2*	*33,9*	*31,4*	*54,2*	*N/D*
Wafers	*44,8*	*51,4*	*63,5*	*62,6*	*84,4*	*113,1*	*N/D*
Honey-cakes and gingerbread	*191,2*	*160,4*	*169,3*	*178,5*	*197,1*	*178,6*	*N/D*
Oriental confectionery and other floury	*10,5*	*9,9*	*10,5*	*11,3*	*10,9*	*13,1*	*N/D*
Chewing gum	*-*	*1,9*	*3,6*	*5,2*	*5,5*	*5,5*	*N/D*



Production of chocolate and chocolate products, thousand tonnes
140
120
100
80
60
40
20
0
49,2
50,4
74,6
79
90,8
116,7
132
1995
1996
1997
1998
1999
2000
2001

31. The increase in the production volume of chocolate and chocolate products in 2001 represented 13% compared with 2000, whereas in 2000 the production volume grew by almost one third in comparison with 1999; compared with 1995, production has grown by almost 300%.

32. Altogether, in 2001, 91.7 thousand tonnes of confectionery goods were exported (including 38.2 thousand tonnes of chocolate and chocolate products). The export of chocolate products grew by 49% compared with 2000. As to the import of chocolate products, that also grew by 11% in 2001 as compared to the previous year.

E. Demand for cocoa-containing products of the confectionery industry

33 The main products in popular demand are natural chocolate and products with chocolate couverture. In recent years, there has been a tendency to increase the output of products with chocolate couverture. Demand for chocolate products in the country peaks during the New Year holidays and traditional men's and women's celebrations (23 February and 8 March); a tangible decrease in demand is characteristic between the April to October period. In the summertime, people prefer so-called parallel demand products, such as soft drinks, ice cream and beer, to chocolate products.

34. Fierce competition on the market means that most big companies offer new product lines to their customers, actively promoted through a variety of advertising, including the most expensive in Russia: central TV channels. Large companies in the domestic market offer a wide range of goods. (Thus, confectionery factory "Krasny Oktyabr" offers more than 200 items). This poses a certain complexity, for it is difficult to position all these brands on the market.

F. Import of equipment for confectionery companies

35. Among the most important parameters of a competitive market are the imports of special equipment for cocoa-based confectionery production by the leaders of the Russian market of chocolate products. Imports of equipment for processing of cocoa raw materials into Russia over the last five years amounted to 120 million USD. During the first six months of 2001, equipment delivery increased four times compared to the same period of 2000.

Table 8
Import of equipment for processing of cocoa raw materials into Russia

	1996	1997	1998	1999	2000	6 months 2001
Million USD	26	13	50	18	14	13.5

Table 9

Import of equipment per company for the period of 1995-2001[2]

	Company	Million USD
1	Stollwerk Rus (Pokrov, Vladimir region)	25
2	Mars (Stupino, Moscow region)	24
3	Rossiya (Samara)	20
4	Krasny Oktyabr (Moscow)	20
5	Rot-Front (Moscow)	14
6	Cadbury (Chudovo, Novgorod region)	6
7	Factory named after Krupskaya (Saint-Petersburg)	6
8	Volzhanka (Ulyanovsk)	4
9	Confectionery concern Babayevsky (Moscow)	2
10	Konfi (Ekaterinburg)	2

G. The confectionery industry in Russia as viewed by the National Foundation for the Protection of Consumer Rights

36. From the point of view of the National Foundation for the Protection of Consumer Rights, the Russian confectionery market is among the top five food processing industries, overflowing with counterfeit products. At present, the regional markets of the industry produce between 70% to 90% of goods, violating the traditional technologies established in standards documents. Products are sometimes manufactured using methods of production that have nothing in common with scientific approaches. A general description of the confectionery market in Russia should encompass its criminal connections, high level of adulteration and manufacturing of low-quality and even harmful products.

37. In consideration of the basic raw material in the industry, a multitude of violations immediately become apparent. For instance, water for production must be prepared in accordance with the established procedure; using unrefined water straight from the pipeline is an utter violation of the existing requirements of GOST, other organizations of the Government Sanitary System and other bodies of control. Despite this, there is no supervision by specialists of the preparation of water at the majority of companies.

38. Fats, used in the confectionery industry, substitute natural oils and butters (in particular, butter is substituted by milk fat surrogates or fat blends of dubious quality, offered by numerous manufacturers in South-East Asia). The composition of couverture and cream

[2] Data on production of confectionery goods in Russia presented by Goskomstat (period of 2001 is presented by half year I).

fillings often include butter substitutes and waste products of butter production, even if the products are made through the use of homo- and hydrogenation methods.

39. The use of cocoa butter affects the outward appearance of products as well. Thus, after eight or nine days from the moment of production, chocolate shows a characteristic white coating, the result of reaction between oxygen and the cocoa butter substitute. The interaction between the different components used in the production of confectionery and chocolate goods can sometimes be dangerous: for instance, palm-oil and lactic acid, after 72 hours from the moment of contact, produce a group of toxins, and such products, naturally, cannot be allowed for consumption. Thus, lowering the cost price through substitution of natural raw materials will inevitably affect the quality of a product.

40. The enrichment of confectionery and chocolate products with various vitamins, macro- and micro-nutrients and proteins is welcomed. Special attention is paid to vitamins B1, B2, B6, B12, E, and PP, but the manufacturer should be careful about the level of vitamins and should never exceed the maximum concentration limits. It should be mentioned that 14 soy protein isolates and 16 soy protein concentrated products, present on the Russian market, are genetically modified, and their influence on the human organism has not yet been determined. There is no special state legislation concerning the confectionery industry.

41. As to the planning of a campaign to promote chocolate products in Russia, the National Foundation for Protection of Consumer Rights holds the position that, if the campaign is meant to benefit consumers, and it will involve both industrial and state organizations, then, it will be supported unconditionally; in the opposite case, that is, if the campaign will only cater to the corporate interests of certain structures, connected with European organizations, the initiative will meet tough opposition in the media and in legal respects.

H. Prospects for the confectionery market in Russia

42. According to leading experts in the market, the main problems for the industry consist in limited financing from the State, low enthusiasm for the achievements of the scientific and technological revolution, and high export-import duties, including duties on technological equipment. In regard to the prospects for the development of the chocolate market in Russia, it is vital to raise the culture of consumer demand. The financing of domestic companies by foreign investors has become a recent trend, and hopefully this extra investment will not lead to a deterioration in the quality of the product.

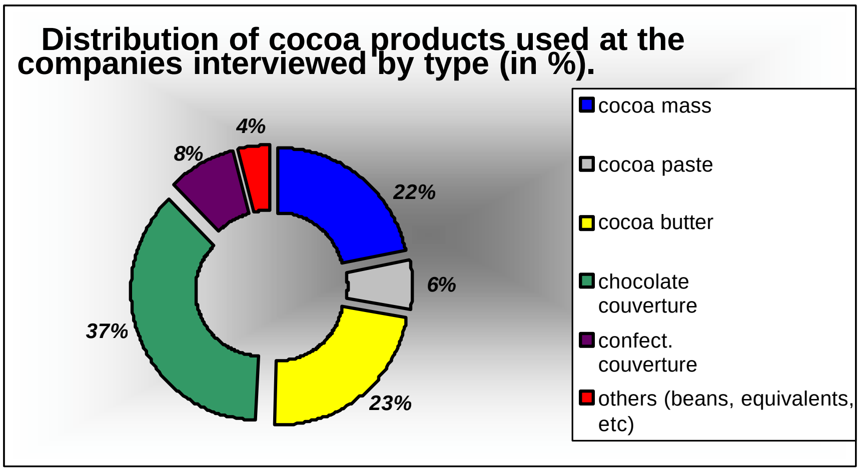
43. Presumably, the range of products will increase substantially at many companies, and new brands will co-exist with popular traditional brands. Development of the “premium” class chocolate *niche* is a prospect for Russia as long as foreign investors have an interest in that country. However, it will not be long before domestic companies are targeted mainly on the domestic market. A change in outlook on the part of the Russian consumer is likely within three to four years. The culture of consumption of chocolate products is also expected to undergo a dramatic evolution, and indeed, all the participants in the market will contribute to this evolution.

CHAPTER II The results of interviews with senior managers of the largest confectionery companies in Russia

44. In the first quarter of 2002, "Megadesign 2000" completed interviews with 100 senior managers and technologists of confectionery companies. The objective of the interviews was to obtain a range of opinions on the need to launch a large-scale campaign to promote chocolate products in Russia and to determine the current and prospective situations in the market. The first set of questions concerned the use of raw materials in the production process and was addressed to technologists; the second set of questions was used for the senior managers of confectionery companies and related to general market issues as well as to matters of significance for the individual companies.

45. The first question of the questionnaire sought to clarify which cocoa products are used in the production process at confectionery companies; the answers are presented in the chart below.

Chart 6



46. In addition, the technologists were asked to list which cocoa ingredients are produced at their company, which of them are purchased in Russia and which cocoa ingredients are imported.

Table 10

Cocoa raw material	Imported raw material	Purchased in the RF	Produced autonomously	Found difficult to answer / Not used
Cocoa powder	33	53	18	?
Milled cocoa	7	17	18	58
Chocolate couverture	15	37	31	17
Cocoa butter	9	17	15	59
Cocoa liquor (paste)	?	5	7	88
Confectionery couverture	?	?	9	91

47. The object of the third question was to assess the quality of raw materials used (cocoa products) imported into Russia; the experts gave their assessments on the countries of origin, using a 5-grade system, where 1 means poor quality and 5 means excellent quality.

Table 11

Country of origin of cocoa products	Quality grade
Cocoa butter	
Netherlands	4,5
Germany	4,25
Brazil	3,88
Malaysia	3,33
Cocoa powder	
Germany	4,59
Netherlands	4,55
Spain	4,42
Indonesia	3,93
USA	3,88
Malaysia	3,47
Chocolate couverture	
Spain	5
Germany	4,61
Netherlands	4,5
Ukraine	4
Belarus	4
Malaysia	3,7

48. The aim of the fourth question was to point out the main advantages and disadvantages of imported and domestic raw materials used in the production process. The respondents were invited to assess cocoa powder, chocolate icing and one more optional cocoa ingredient.

The experts used the 5-grade system in their assessment of the quality of the cocoa products made in the Russian Federation:

Cocoa butter – 4,17;

Cocoa powder – 4,31;

Chocolate couverture– 4,46;

Cocoa powder – 4,11.

Table 12

Cocoa powder	Couverture	Other
Advantages of domestic raw materials		
Ratio price/quality, good flavour, aroma, saturated colour	Aromatic, good plasticity	Cocoa butter smells good
Disadvantages of domestic raw materials		
Very powdery, low fat, non-homogenous consistency, poor organoleptic quality, poor microbiology, pale colour.	Melting and solidification, temperatures sometimes fail to conform to the norm, during glazing it sometimes lacks viscosity, gloss, spreads badly, sometimes appears liquid.	Cocoa butter is unnatural, dilute (in some consignments), has poor viscosity, poor organoleptic quality.
Advantages of imported raw materials		
Affordable price. Imported raw materials are distinguished for their microbiological quality, conform to powder requirements, colour, and flavour GOST standards, well packaged, and of consistent high quality	Flavour is satisfactory, consistency, aroma and quality conform to technology standards.	Stable properties of milled cocoa.
Disadvantages of imported raw materials		
Sometimes clotted, sometimes have no aroma, colour is unsatisfactory, the most unstable in quality is the product made in Malaysia. The cost is substantial. It is difficult to assess the quality, for consignments may vary: surrogates, substitutes, admixtures. Accompanying forms indicate a fat content of 14%, when actually it is 4,5%.	Not always stable quality, sometimes the surface is lusterless, liquid, insufficiently viscous, sticks.	Organoleptics of cocoa butter may be poor, poor decomposition of milled cocoa, cocoa beans are often underfermented.

49. The experts answered the question: “How would you describe the role of traders, offering cocoa ingredients in the Russian Federation for confectionery industry needs?” as follows:

- 25% of respondents maintained that manufacturers do not use such services;
- 32% of respondents noted that traders actively assist manufacturers and offer raw materials of excellent quality

The best companies among suppliers of ingredients for the confectionery industry were:

Table 13

Company	Number of votes	Share (%)
Inforumkakao	21	31%
Soyuzsnab	14	21%
Roskon	7	10%
Chocoglaze	3	4%
Others	23	34%
Total	**68**	**100%**

50. Question 6 required the respondents to indicate the main volumes for the monthly use of cocoa ingredients in the production process.

In total, the companies interviewed used about 9 thousand tonnes of cocoa ingredients in the following proportion:

Cocoa powder – 2232 tonnes (25% of the entire volume);

Cocoa liquor – 2037 tonnes (23%);

Cocoa paste – 101 tonnes (1%);

Cocoa butter – 921 tonnes (10%);

Chocolate couverture – 3002 tonnes (34%);

Confectionery couverture – 16 tonnes (0%);

Separately, 615 tonnes of cocoa beans were used in the production process (7%).

51. The aim of the last question for the technologists was to determine the prospects for consumption of cocoa products by the company up to 2005.

70% of respondents (the overwhelming majority) presumed that, as a whole, the volumes of consumption of cocoa ingredients at their companies would increase;

2% of respondents believed that the volumes would increase drastically;

23% - would not change;

4% - on the whole would decrease;

1% - would fall drastically.

52. Question 8 introduced the set of questions aimed at senior managers, and was phrased as follows: “Specify the destination of your products, by regions and countries.”

Altogether, 187 answers were submitted, from which:

93 respondents specified regional consumption;

56 respondents specified delivery to neighboring regions;

28 respondents indicated that deliveries would be made to the CIS countries, in particular Belarus, Azerbaijan, Kazakhstan, Ukraine, Georgia, and the Baltic countries;

10 respondents mentioned export to Israel, the USA, Greece, China, and Mongolia.

53. Question 9 aimed to determine the level of competition the companies faced for their products in the regional market with their counterparts from large Russian competitors; the answers were given as follows:

74%, or three quarters of the managers stated that competition was actually very tough, pointing to the same level of competition in other fields where Russian companies held strong positions traditionally. In almost one third of the answers, respondents saw no particular complications.

54. In regard to question 10, the authors of the questionnaire asked the senior managers what concerned regional consumers initially when buying a cocoa-based product; in assessing the responses, a 5-grade system was used, where 1 signifies the least important and 5, the most important. The results were somewhat surprising:

From the senior managers' point of view, the quality of a cocoa-based product was the least important factor for a consumer – this category attracted only 1.96 points;

- Price was slightly more important – 2.02;
- The next most important factor was whether the product was a well-known brand (2.77);
- A more important factor, relevant to the consumer, was the use of bright packaging (3.07);
- Advertising was considered the most important factor in the buying decision (4.46).

55. Question 11 asked respondents to describe the processes characteristic for the regional confectionery markets to which they belonged; the answers varied as follows:

Almost 50% of respondents confronted tough competition in the confectionery market; some of them regarded it as the result of the dominant role that foreign companies played in the Russian market. Others, on the contrary, believed that the competition stemmed mainly from strong Russian products. This was the general opinion in the region of Moscow; in the provinces, opinions on the development of the market were formulated as follows: "Chaotic events gradually turn into stable and normal ones". In addition, the following definitions of the regional state of the market were given:

- Corruption in the market;
- Globalization of the market and a struggle for existence by small companies;
- Clandestine confectionery companies beat down market prices;
- Demand exceeds supply.

56. The next question was to determine what assistance was being rendered, or could be rendered, by ASCOND, the Scientific Research Institute of the Confectionery Industries, the Ministry of Health Care, regional ministries and departments, and the social funds in the development of consumption of chocolate and cocoa products.

Judging by the answers provided by small-scale companies, they received no specific assistance or support from the above-mentioned organizations, despite their conditions of survival being the most difficult; on the other hand, large companies tended to solve their internal problems independently and managed without external assistance. Some respondents confessed that they were unsure as to the exact functions of the mentioned industrial organizations, and their answers at times revealed some misconceptions.

57. In addition, the respondents gave the following suggestions and recommendations for the first three of the above-mentioned organizations:

For ASCOND:

- Overall assistance was expected (21 responses)

- The interest of domestic companies should be lobbied more actively in the Government (7 responses)
- Development of technical conditions was needed for new groups of confectionery products (4 responses)
- A project on the promotion of chocolate products should be launched and implemented (2 responses)
- The flow of poor-quality products from the provinces and the Ukraine should be stopped (2 responses)
- It was time to organize the distribution of products as regulated in the USSR (2 responses)
- Recommendations were given for control over raw materials, used by confectionery manufacturers (1 response)
- Development and communication of a market strategy (1 response)
- Domestic fats have a short shelf life – assistance was required (1 response)
- Limitations on import or assistance on cocoa beans import. Credits, investments, and programmes are necessary (1 response)
- Introduction of new technology (1 response)
- Proper arrangements for documentation (1 response)
- More active consulting assistance (1 response)
- Publication of informational and analytical articles (1 response)

For the Scientific Research Institute of the Confectionery Industries (NIIKP):

- Assistance was expected (16 responses)
- Development of GOST (government standards) and documentation on standards (11 responses)
- Development and testing of new recipes; new functional ingredients (8 responses)
- NIIKP rendered information support (3 responses)
- NIIKP actively assisted in the development of children's nutrition (1 response)
- Cooperated in the production of chocolate bars (1 response)
- Affordable extension courses were desirable (1 response)
- Coverage of NIIKP's activities in the press and advertising support (1 response)
- NIIKP did help, and provided equipment (1 response)
- Promotion of confectionery goods as healthy products (1 response)
- Certification for production of diabetic products (1 response)
- Recommendations on control over raw materials, used by confectionery manufacturers (1 response)
- To serve as a medium between confectionery companies (1 response)
- To conduct seminars, develop OST standards (on use of substitutes) (1 response)
- Creation of new sorts and use of new kinds of domestic raw materials (1 response)

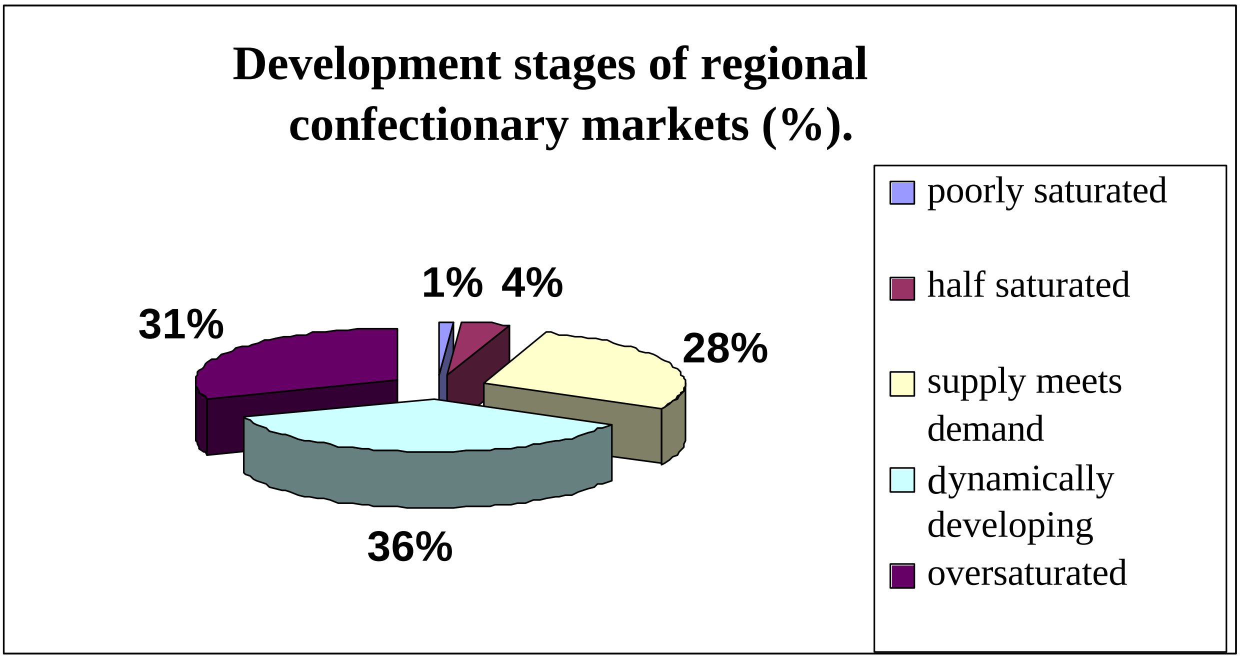
For the Ministry of Health Care:

- The Ministry provides assistance (15 responses)
- It is necessary to control the quality of confectionery goods (5 responses)
- It is necessary to develop the sector for health-improving products (3 responses)
- Precise and plain documentation is required; to limit the import of low-quality cocoa products (5 responses)
- Development of new advertising channels for confectionery products (1 response)

- Exercise the legislative function (1 response)
- To control wholesale markets (1 response)
- To assess the quality of domestic and imported goods, to emphasize natural ingredients, to control the use of genetically-modified products (1 response)
- To promote chocolate as a healthy product and emphasize the absence of negative effects on the human organism (2 responses)
- To provide explanatory assistance on the culture of consumption (1 response)
- To thoroughly control conformity to sanitary standards (1 response)
- To facilitate the registration of dietary products (1 response)
- To raise the level of research on shelf life (1 response)
- Functional nutrition must hold the first position now and have prospects for further development (1 response)

58. Question 13 aimed to determine what stage the regional confectionery market had reached. The answers are presented on the diagram below:

Chart 7



As shown, almost 40% of answers fell within the share of dynamically developing regional markets, and 30% of experts described the market in their region as over-saturated.

The companies interviewed planned to increase output within three years (more than half of the answers); however, 18 negative answers were given. As to the cocoa ingredients, 18 of the replies indicated that a growth of output was planned, whereas 13 responses denied such plans.

59. In order to find out whether the companies interviewed had initiated special activities for the promotion of chocolate brands, a question was asked regarding their participation in fairs, festivals, and other events.

The resulting 137 answers were as follows:

65 companies took part in fairs;

36 companies took part in festivals;

30 companies actively participated in exhibitions;

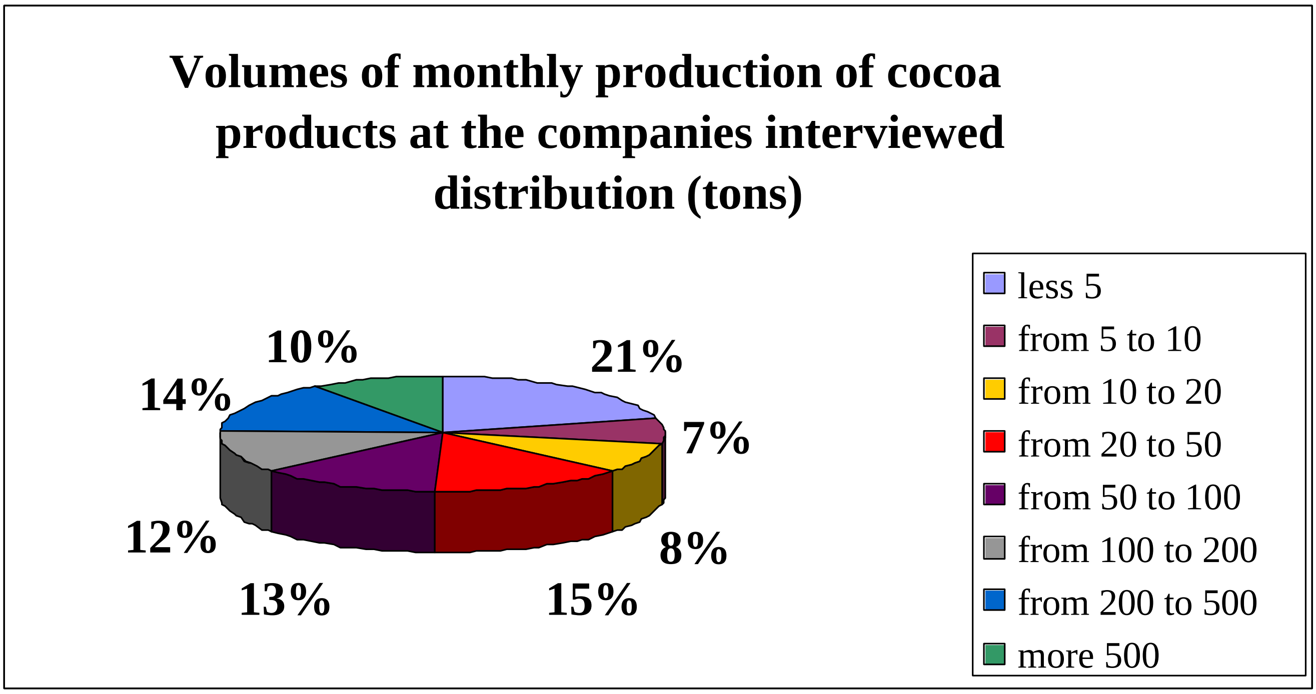
Four companies took part in competitions;

One enterprise took part in a competition and a TV feature.

As is clear from the above, almost half of the respondents took part in fairs as the most popular festive activities.

60. Question 16 sought to determine the monthly volumes of production of cocoa-based goods at the companies interviewed. The results are presented in the diagram below:

Chart 8



For almost one quarter of the companies interviewed, the monthly volume of output ranged from 200 to over 500 tons.

61. In addition to advertising, the representatives of confectionery companies suggested the following steps to promote cocoa-based confectionery products more actively; altogether, 98 responses were obtained, 42 of which asserted that advertising campaigns would be sufficient, while other opinions are presented below:

- To conduct PR initiatives, to carry out educational activities (8 responses)
- The Ministry of Health Care should explain to consumers how wholesome cocoa products are (8 responses)
- To improve the automatic processes of production (2 responses)
- To eliminate corruption (1 response)

- To introduce a stocks policy (1 response)
- To prohibit low-quality products, in particular those made in Ukraine (1 response)
- To raise the culture of consumption of cocoa-based products (1 response)
- To conduct marketing research (1 response)
- To further develop the market (1 response)
- To overcome competitor relationships and to increase cooperation (1 response)
- To wholly support domestic manufacturers (1 response)
- To promote diet cocoa-based products (1 response)
- To arrange the broad presentation of new kinds of products (1 response)
- To develop a popular nutrition concept, featuring confectionery products (1 response)
- To emphasize the nutritive value of cocoa-containing products (1 response)
- To attract diet specialists for active promotion (1 response)
- To create a cartoon film on confectionery products (1 response)
- To give a true assessment of the value of confectionery goods (1 response)
- To increase explanatory activities on TV (1 response)

According to the senior managers of confectionery companies, within three to four years, all kind of cocoa-based products will be developed actively; priority will be given to new kinds of sweets, confectionery and chocolate goods, special dietary products, and, of course, natural chocolate.

62. In response to the question: "Do you know of any advertising companies that advertise and promote chocolate products in the media?", 95 out of 100 respondents failed to name a single such company; only five answers mentioned D'arcy, Media-Arts, Adventa, Video International, BBDO and McCann Erickson**.** The results appeared to signify that the senior managers of confectionery companies lacked knowledge of the advertising market.

63. Question 20 suggested that senior managers of confectionery companies should name the most significant hindrances, apart from low income of the population, that impeded the increase of the volume of consumption of cocoa-based products. Altogether, 94 responses were obtained:

- Information on wholesome properties of such products is insufficient (15 responses)
- Predilection of the population to diets and the presence of "parallel demand" products on the market (8 responses)
- The considerable amount of low-quality products, made by dubious companies (co-operatives, cafés, canteens) (6 responses)
- Tough competition on the market (5 responses)
- Insufficient demand (4 responses)
- The high price of products (4 responses)
- Wide range of confectionery goods (4 responses)
- Old equipment of confectionery companies (2 responses)
- Seasonally-dependent sales (2 responses)

64. Question 21 aimed to determine the need for a large-scale campaign for the promotion of chocolate products to be conducted in the regions of Russia.

Altogether, 94 responses were obtained, 6 respondents could not give a definite answer.

Table 14

	In your region		In Russia as a whole	
	Quantitative answers	Share	Quantitative answers	Share
Yes	45	48%	43	46%
Maybe	28	30%	24	26%
Difficult to say	10	11%	17	18%
Maybe not	8	9%	6	6%
No	3	3%	3	3%
	94	100%	93	100%

Thus, about 80% of the managers interviewed believed that a large-scale campaign for the promotion of chocolate products was desirable in their respective regions, giving the following arguments in favour:

- The marketing department of each company must contribute
- Corruption is the only hindrance to overcome in the project
- Advertising is sufficient

72% of the experts interviewed believed that such a campaign should be carried out for the whole territory of Russia, giving commentaries of the following nature:

- It is necessary to raise the culture of consumption
- Considering the wholesome properties of chocolate, the project is necessary
- The latter is especially attributed to domestic products, free of artificial ingredients
- ASCOND and the Ministry of Health Care should support the campaign

65. Question 22 aimed to determine whether the company being interviewed was willing to take part in the campaign for the promotion of consumption of chocolate products in Russia and its region.

The answers of respondents are presented in the table below (6 respondents could not give definite answers):

Table 15

	In your region		In Russia as a whole	
	Quantitative answers	Share	Quantitative answers	Share
Yes	41	44%	29	31%
Maybe	32	34%	34	36%
Difficult to say	14	15%	20	21%
Maybe not	6	6%	8	9%
No	1	1%	3	3%
	94	100%	94	100%

The above answers suggest that about 80% of respondents supported the idea of carrying out the campaign in their region; here are several additions to the answers:

- The success of such a campaign will depend on its cost;
- It is necessary to promote domestic products;
- It is necessary to reinforce activities against the delivery of low-quality products from Ukraine;
- The success of such a campaign will depend on who supervises it.

67% of respondents presume that it is advisable to conduct the campaign across Russia as a whole, although they observe that the decision should be made by the masterminds of the campaign.

66. The senior managers interviewed envisaged the prospects for the development of their companies as follows:

- 73% of them believed that the production volumes of chocolate products would increase, mainly owing to the installation of new production lines, expansion of the range of products, and decrease of pressure from imported products;

- 14% of experts were assured that the current situation would not change;

- 8% of respondents believed that the output of their companies would rise rapidly because of an increase in demand;

- 5% of senior managers found no reasons for optimistic forecasts and believed that their companies were likely to reduce production in the future because of internal problems.

67. As to the last question on forecasts in respect of the change in volumes of consumption of cocoa-based confectionery products until 2005, the following information was obtained:

According to 73% or almost three quarters of opinions, the senior managers interviewed regarded the nature of change positive, and believed that the volumes of consumption of cocoa-based confectionery products would increase on the whole. Respondents commented on their views as follows:

- An increase in output is only possible if the state policy changes; the sector is too fragmented, and consolidation of manufacturers is necessary;

- It is necessary that quality should continuously improve for the average consumer;

- Industry growth depends on demand for products;

- Growth will take place in the elite goods sector.

One fifth of respondents maintained that no particular changes in consumption of cocoa products would occur until 2005, because of the so called “seasonal factor”, one of the impeding forces which dominates the market – except for the traditional surge during the holiday season, consumption was quite stable throughout the year.

6% viewed the prospects for the sector in a rather pessimistic tone, believing that consumption of cocoa-containing products would mainly decrease. These experts emphasized that the range of chocolate products was quite broad and that, theoretically, chocolate might grow out of fashion.

1% of respondents was sure that the volumes of consumption of chocolate products would increase drastically, without providing reasons for this conviction.

Conclusions

68. In three quarters of the confectionery companies interviewed, basic cocoa raw materials were made in the Russian Federation from imported cocoa beans, while in one quarter of the cases, such raw materials were imported.

69. Raw cocoa products made in the Netherlands, Germany and Spain were highly regarded by the technologists interviewed, whereas domestic cocoa ingredients obtained 4 points on the 5-grade system of assessment. Domestic and imported raw materials had similar negative aspects: for cocoa powder – coloration, microbiology, and dispersibility; for chocolate couverture – liquidity and viscosity. Neither Russian nor foreign cocoa ingredient suppliers could give a 100% guarantee on the quality of cocoa products offered.

70. Despite a number of claims on Russian traders, their activities within the Russian Federation were recognized by technologists of domestic companies as providing substantial assistance in production, since only a few confectionery companies could order the necessary quantity of ingredients directly. “Inforumkakao” and “Soyuzsnab” were spoken of as the best suppliers of raw cocoa materials.

71. Over 70% of respondents believed that the volumes of consumption of cocoa products by the companies interviewed would increase and that there was, probably, a considerable reserve for satisfaction of demand for finished products.

72. 50% of the manufacturers interviewed directed their products to regional consumption, one third of products being delivered to neighboring regions, and the rest being exported to CIS countries and the countries of Asia, Europe and America.

73. Three quarters of respondents admitted that confectionery companies confronted tough competition; mostly in those sectors where Russian companies held traditionally strong positions. Particularly unequal conditions arose in confrontation with clandestine companies, manufacturing products of dubious quality and seeking to put pressure on their large and legal competitors through dumping policies. The only chance to win in the face of such unequal competition was to produce goods of high quality.

74. According to the senior managers interviewed, consumers paid least attention to the quality and price of a product when buying, they first of all considered the advertising of the product. Researchers of “Megadesign 2000” saw this as doubtful. As established in practice, low-quality and unpalatable products disappeared from the Russian market in a short time.

75. The processes taking place in the confectionery market were described in the following way: tough competition, with particular pressure felt from foreign companies that entered Russia soon after the economic crisis of 1998 with extensive advertising support, which put them into an advantageous position as compared to domestic manufacturers. However, the managers interviewed saw the current period as a normal part of general economic development.

76. With regard to possible assistance from senior institutions in the industry, the respondents unanimously replied that the market should be protected from low-quality products and corruption; that the existing standards documentation should be rearranged properly; that new GOST standards on products should be introduced, and that the interests of the industry needed more active lobbying with the Government. Particular criticism was expressed concerning impediments to the programme on the production of dietary confectionery goods, supervised by the Ministry of Health Care. Regarding companies unconnected with ASCOND and the Scientific Research Institute of the Confectionery Industries, their representatives could not think of any possible assistance they would expect from the above-mentioned organizations.

77. The short-term plans of companies, as judged by more than half of the respondents, foresaw an increase in the production of cocoa-containing products; in some regions, experts believed that demand was not yet completely satisfied.

78. Almost half of the respondents maintained that their companies participated in various events to promote their products (for the most part, fairs, festivals and exhibitions). Trials of new products had gained considerable popularity. All the promotional events in question were rather basic, so it was considered necessary to develop campaigns of a more sophisticated nature other than fairs and festivals.

79. The active promotion of confectionery products should be accompanied by production of high-quality goods and mass educational activities should be organized for the population, alongside the development of a popular conception of nutrition, featuring confectionery goods.

80. Insufficient advertising and a considerable amount of low-quality products on the market impeded an increase in the consumption of cocoa-containing products.

81. Over 70% of respondents supported the idea to conduct a large-scale campaign to promote chocolate products in Russia. It was necessary to increase the consumer culture and it was seen as advisable for such a campaign to be supported by ASCOND and the Ministry of Health Care. Almost 70% of companies were willing to participate in the campaign to promote domestically manufactured products.

82. 73% (or three quarters) of respondents believed that the volumes of production of chocolate products would increase through the installation of new production lines at the companies, expanding of the existing range of products and releasing pressure from foreign manufacturers. In a majority of cases experts indicated that production expansion would take place in “premium” sectors of chocolate and sweets. Concerning forecasts on consumption of cocoa-containing products up to 2005, more than 70% of responses expressed optimistic opinions. Respondents believed that output would increase, if Government policies would change. Since the market was fragmented, consolidation of manufacturers was necessary, coupled with education of the average consumer.

CHAPTER III

Summary of consumer surveys of the population of the European part of the Russian Federation

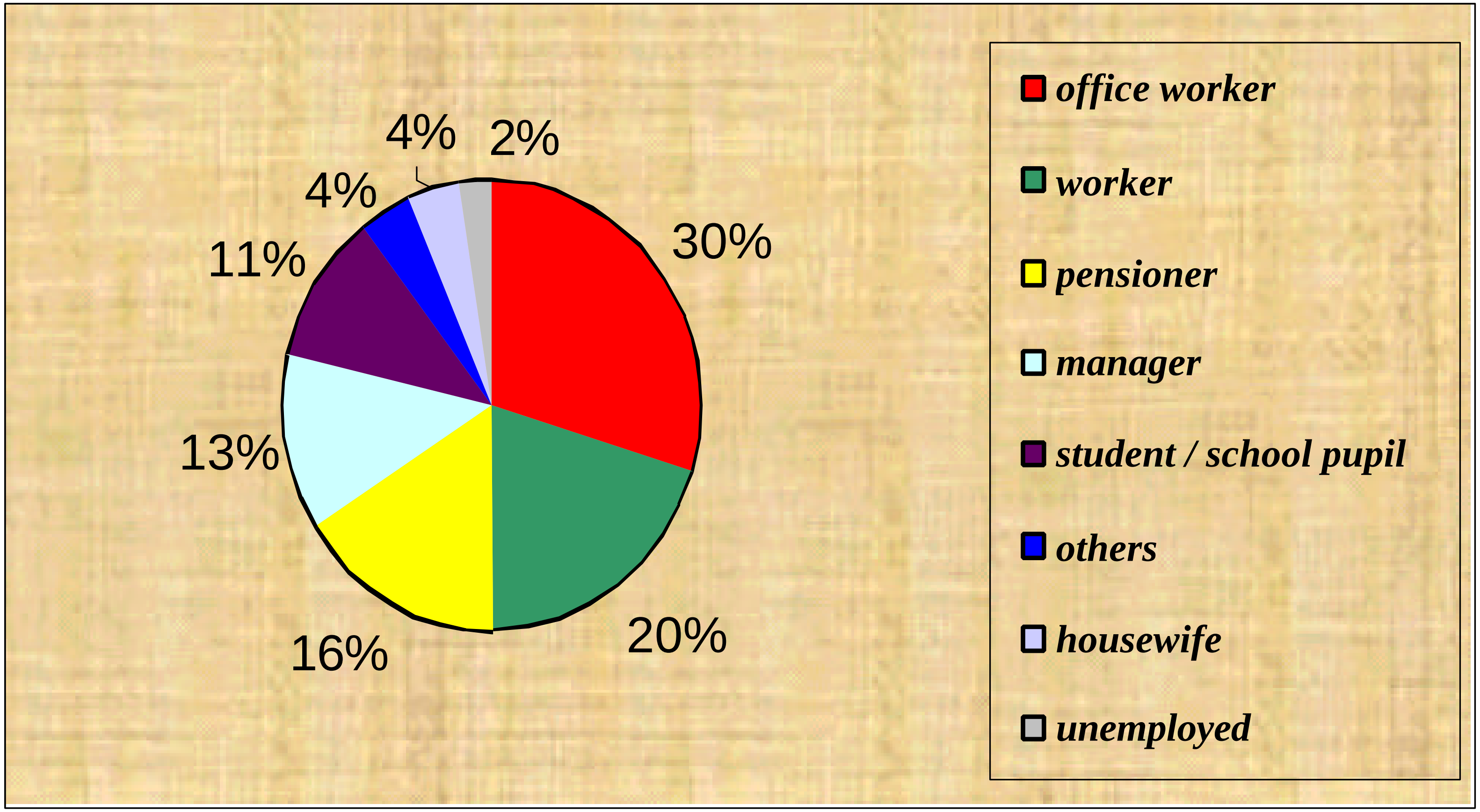
Distribution of respondents by aggregate family income

- 10% of respondents interviewed had an income up to 1,5 thousand roubles per month (50 US dollars); these are mainly single pensioners and families, employed in professions of low qualification.
- One third of respondents lived a little better and had incomes of 1,5 to 3 thousand roubles per month (50-100 USD). The same number of respondents had a monthly income of 3 to 5 thousand roubles (100-170 USD).
- Almost every fourth respondent had an aggregate family income within the range of 5 to 10 thousand roubles per month 170-330 USD).
- Only 11% of the people interviewed could boast a rather high monthly income – from 10 to 15 thousand roubles (330-500USD) and over 15 thousand roubles (500USD).

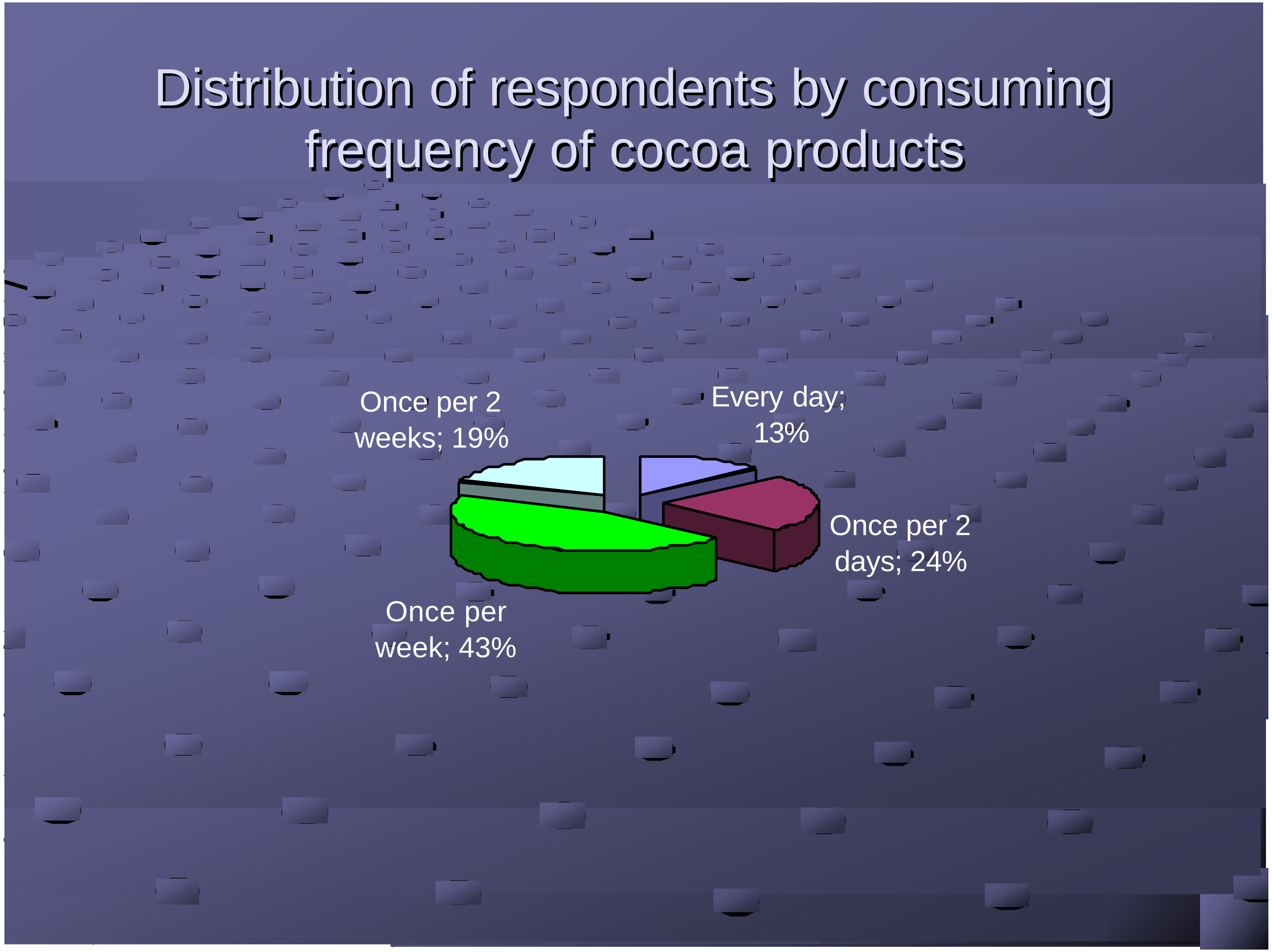
Distribution of respondents by aggregate family income

Aggregate family income (rubles per month)	Urban	Rural	Total
N/A	1%	0%	0%
Less 1500	8%	15%	10%
From 1500 to 3000	24%	35%	27%
From 3001 to 5000	28%	25%	27%
From 5001 to 10000	27%	19%	25%
From 10001 to 15000	8%	3%	7%
More 15000	4%	2%	4%
TOTAL	100%	100%	100%

Distribution of respondents into social groups



One third of respondents were employed as office workers, one fifth were workers, 16% were pensioners, "entrepreneurs" were defined as “others”, 13% of respondents were employed in state institutions, 11 respondents attended high or higher schools, and the interviews also involved housewives and temporarily unemployed citizens

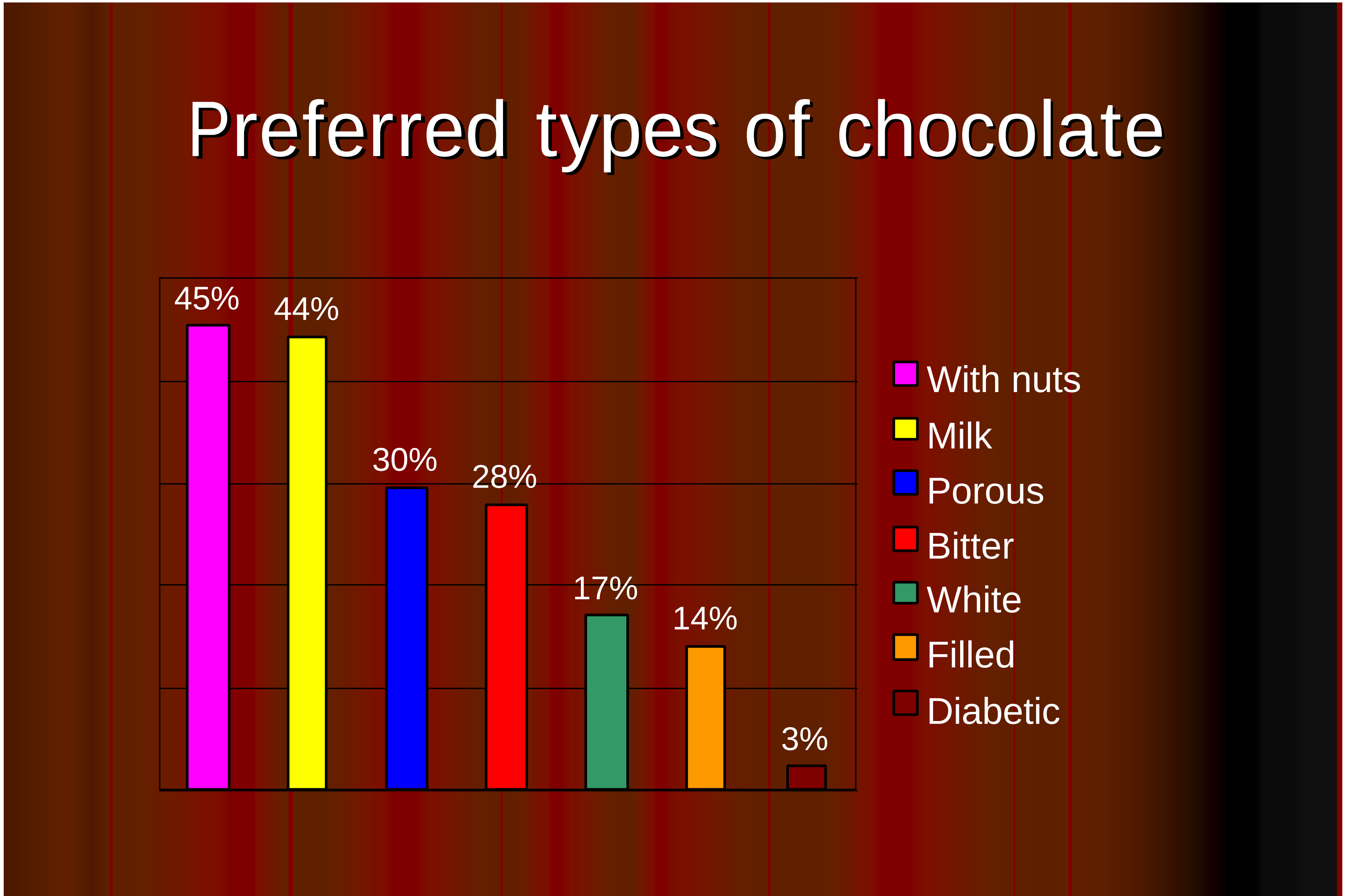


As shown on the diagram above, all respondents can be divided into moderate consumers of chocolate products and those with a sweet tooth; the moderate majority comprises 62%; every fourth respondent consumes chocolate products every other day, and 13% of the most loyal chocolate respondents consume chocolate products every day.

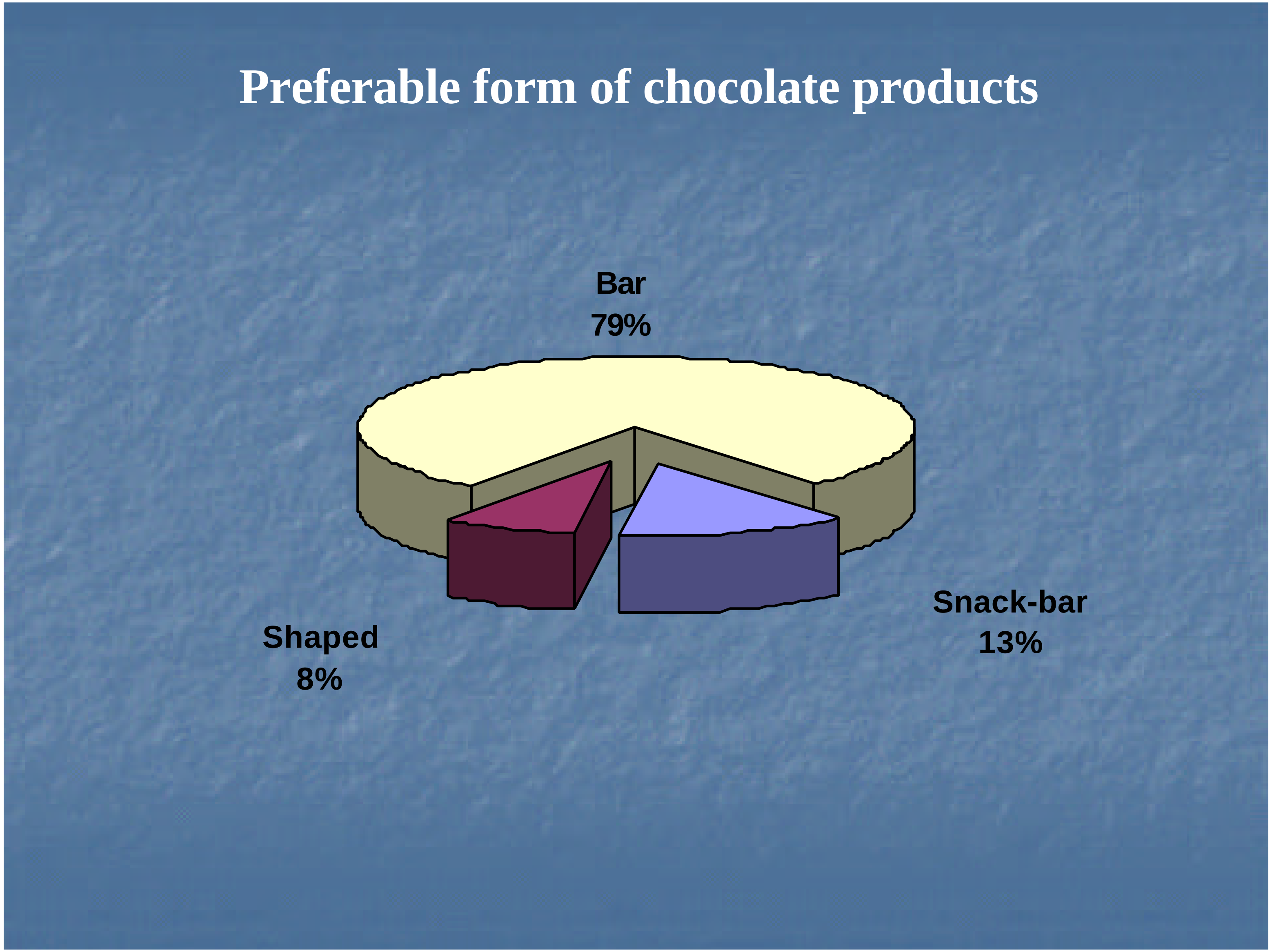
Preferable types of cocoa products

Sweets	Chocolates (mix)	55%
	Products with / without glazing (dragee, zephyr, marmalade, iris, caramel etc.)	36%
	Ice -Glazed products	19%
Mealy and confectionary products	Cakes	46%
	Cookies	31%
	Waffles	28%
	Gingerbread ('pryaniki')	28%
	Roulettes	24%
	Small cakes	20%
Paste	Cocoa-nut	17%
	Cocoa	18%
Cocoa -drinks	Instant cocoa powder	17%
	Ready cocoa-drinks (like'Cola-cao ')	15%
Other Products With cocoa	Ice -dipped pot-cheese	28%
	Evaporated milk with cocoa	23%
	Ice -cream with cocoa	17%
	Cocoa-butter	17%
	Yogurt with cocoa	11%
	Milk desserts	10%
	Pot-cheese with cocoa	9%
	Cocoa milk cocktails	9%
	Ready morning meal with cocoa	4%

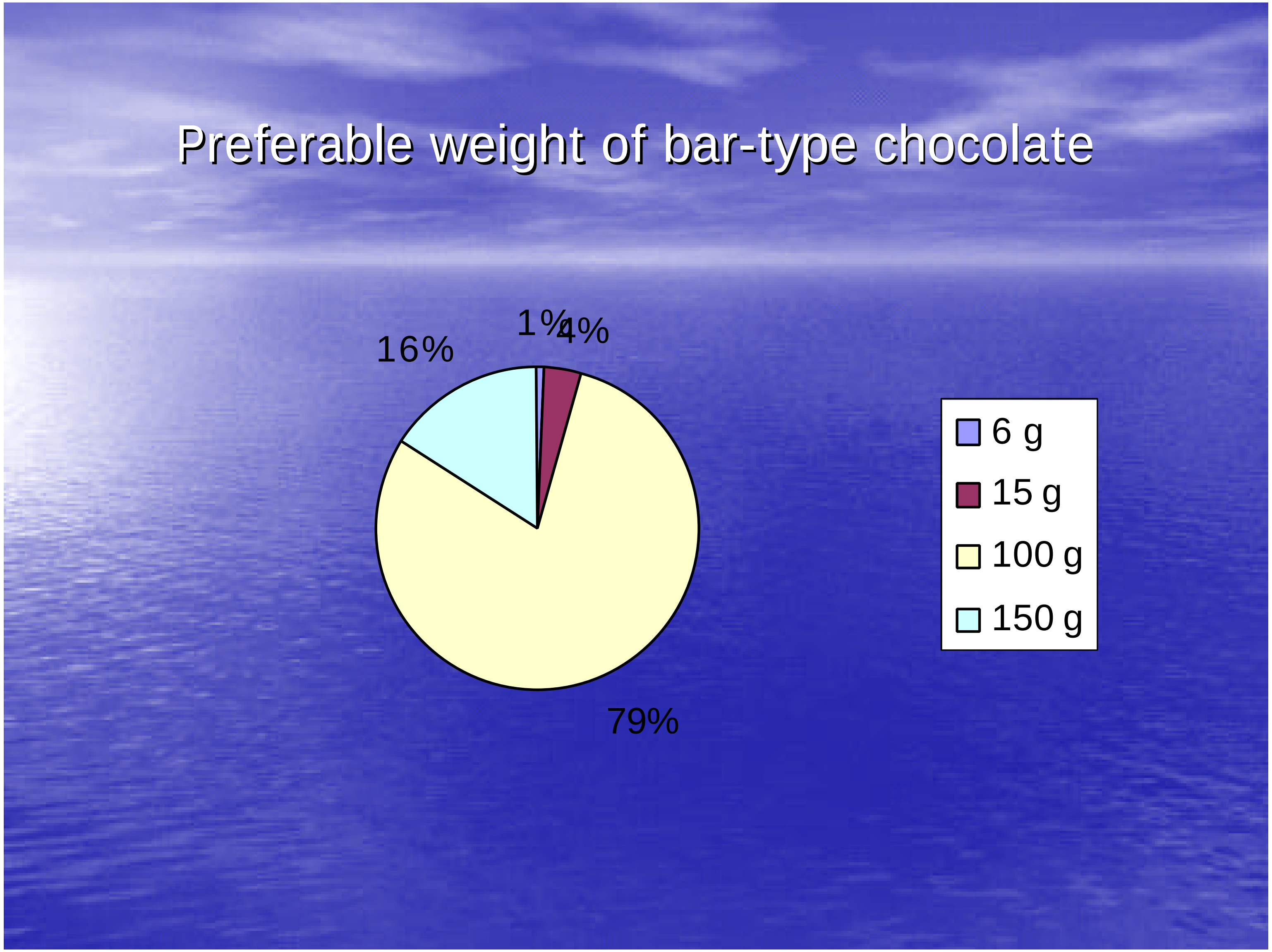
Above all, the people interviewed prefer traditional chocolate products and chocolate allsorts sweets,which were chosen in more than half of all answers; cakes and pies are very popular, they were mentioned in half of the answers as well; glazed products represented 40% of the answers, indicating the people's love for them; almost all of the remaining cocoa-containing products were chosen by every fourth, or at least every fifth respondent, including Swiss rolls, chocolate paste, an exception in this range being chocolate curds, chocolate milk shakes and ready breakfast meals (mainly because of the relative novelty of such products in the Russian market).



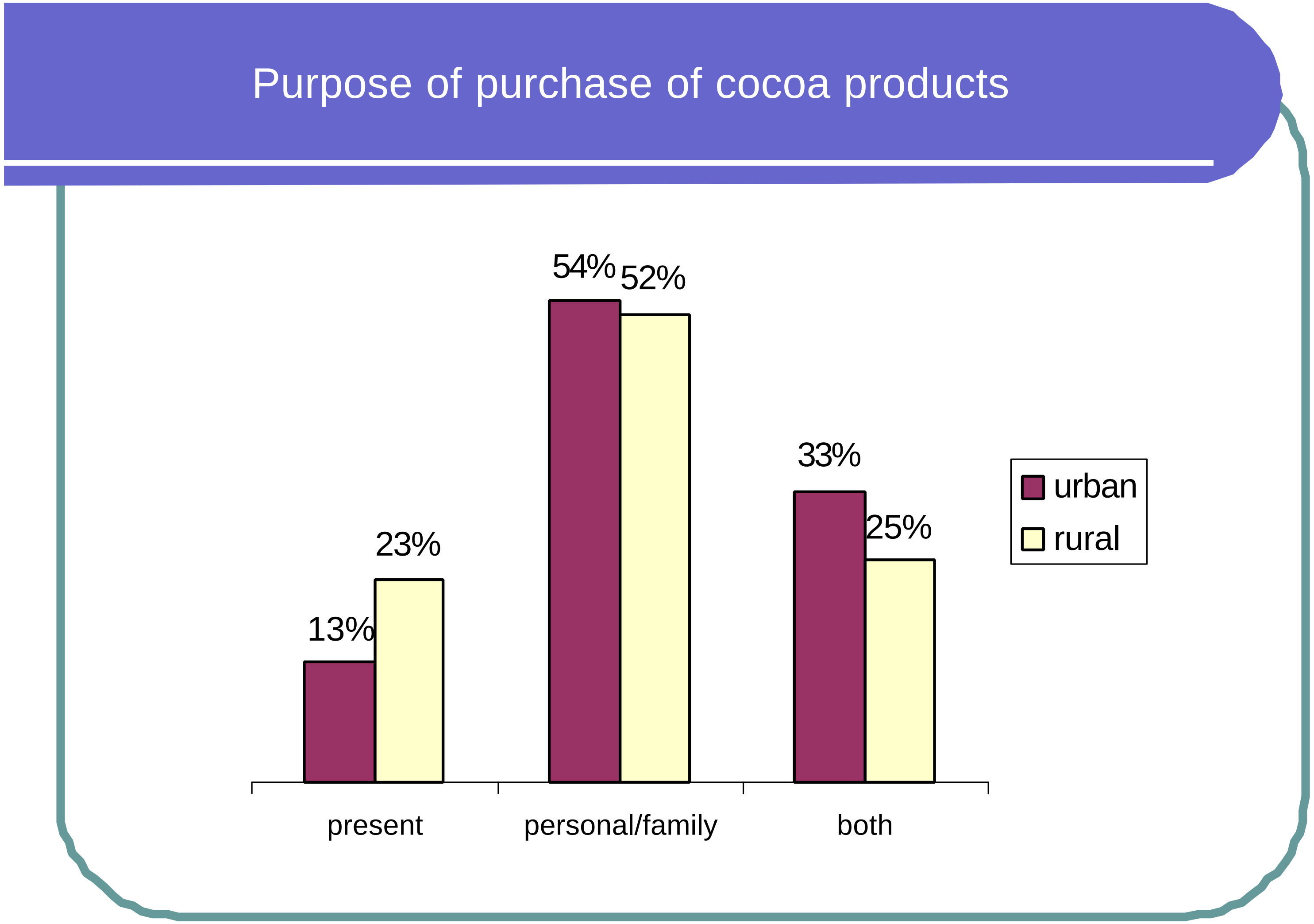
The preferred types of chocolate, voted for by every second respondent are chocolate with nuts and milk chocolate, one third of the respondents cite aerated and bitter chocolate. Few consumers like white chocolate and filled chocolate. The volume of diet chocolate production will increase, for this type was chosen by young and old respondents; there is a certain deficit in supply of such products on the market.



The favorite type of chocolate product is a bar chocolate; it is mentioned by respondents in almost 80% of responses. Snack bars are consumed mainly by young people, being the preferred form of product for 13% of the respondents only. As to shaped chocolate, it is particularly liked by representatives of the 33 to 55 year age group, which is probably explained by the fact that the product is bought for their children and grandchildren.



It is striking that, irrespective of income, social status and age, almost 80% of the respondents, resident in the European part of the Russian Federation, prefer 100 gram bars of chocolate.

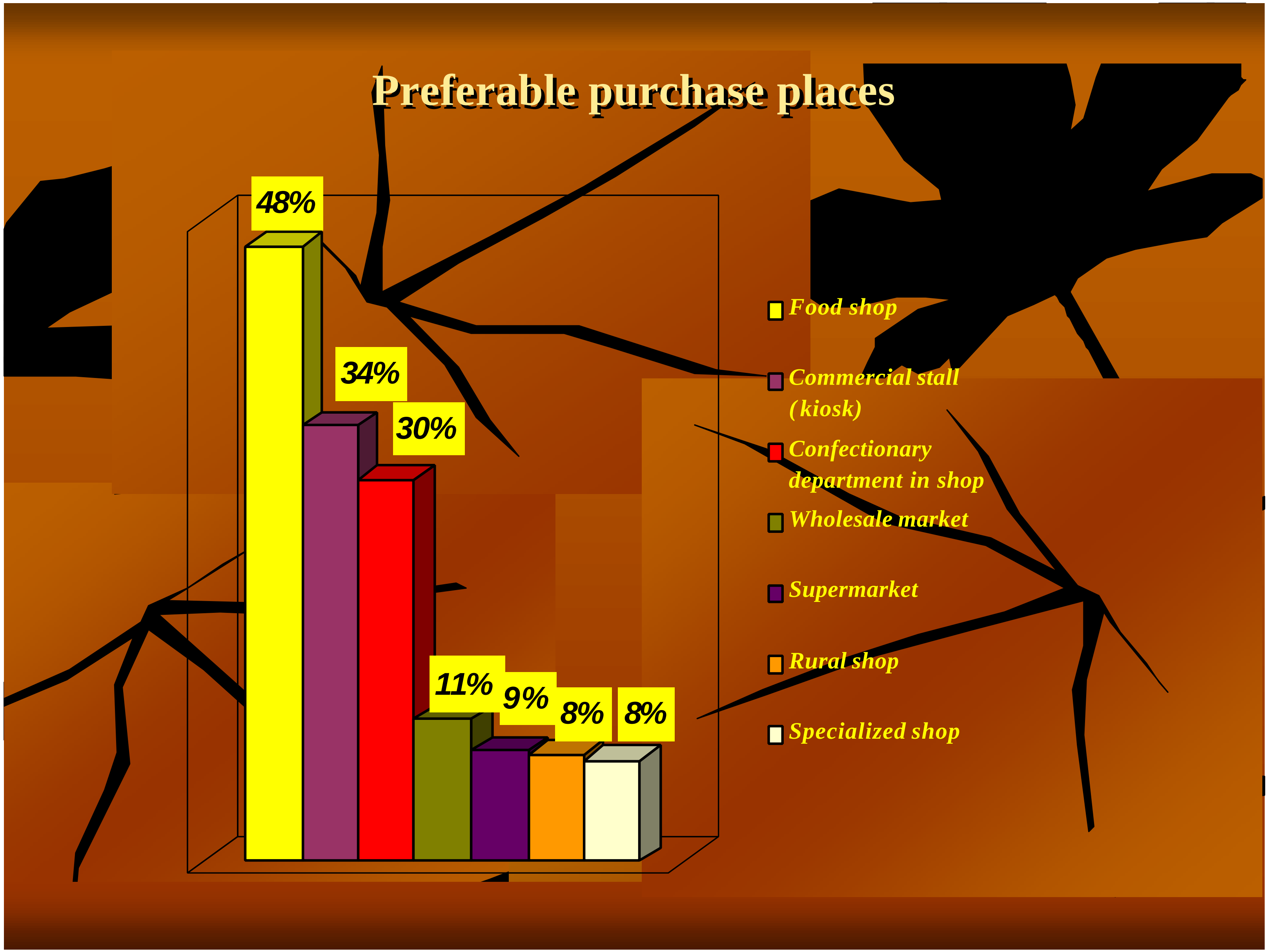


Almost every second rural or urban resident buys chocolate products for personal and family consumption. As regards rural residents, every fourth of them buys chocolate products as a present.

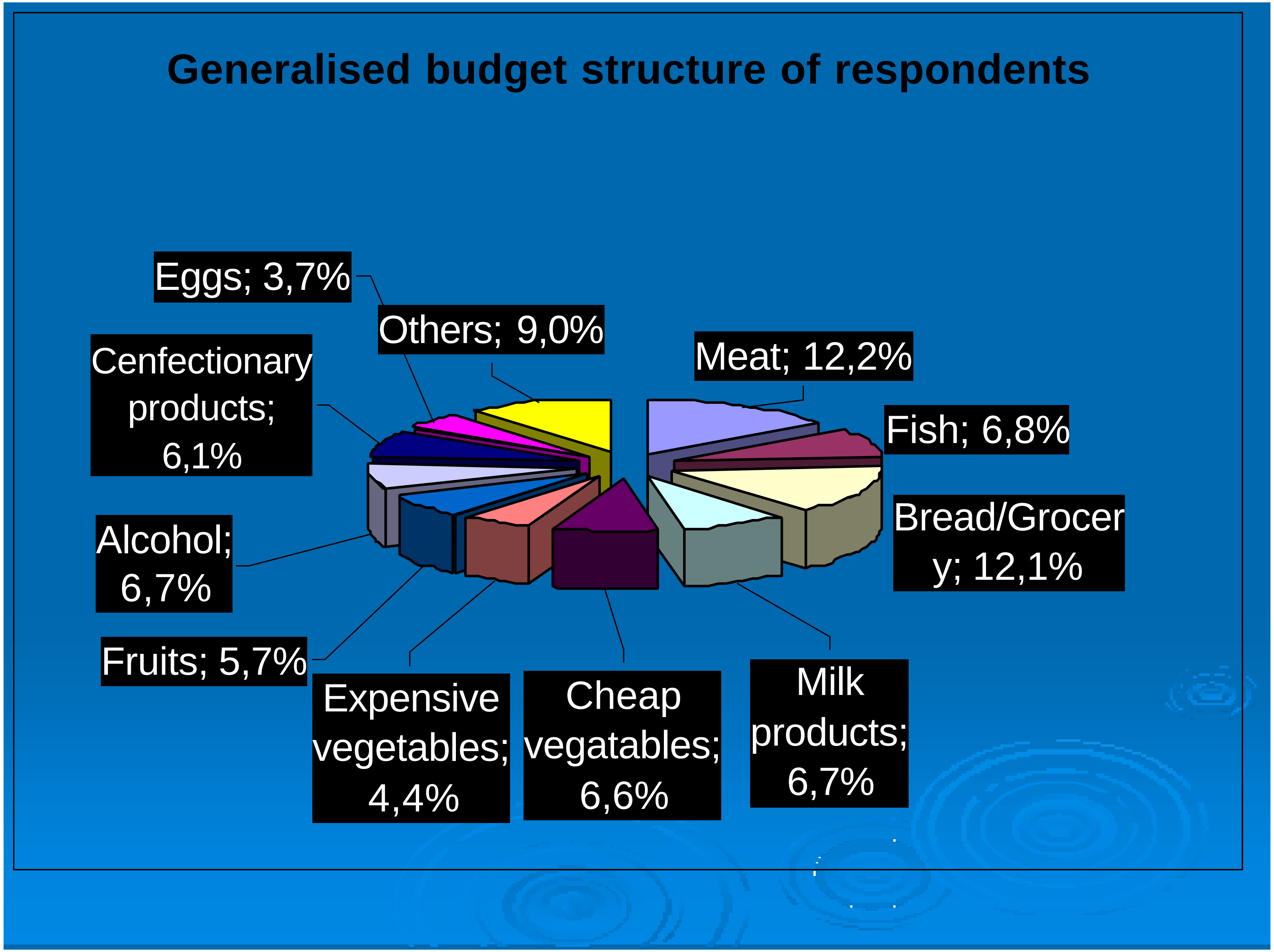
Rate list of manufacturers, named by respondents

Region / Manufacturer	Volgo - Vyatsky	Povolzhje	North	North -West	North - Caucuses	Centralno - Chernozyomniy	Central	TOTAL
Nestlé/Russia	20,57%	39,45%	22,48%	14,06%	28,06%	22,18%	9,38%	22,22 %
Babaevsky	18,44%	10,86%	8,72%	8,98%	19,73%	21,34%	19,92%	16,35 %
Krasny Oktyabr	6,38%	3,06%	6,42%	8,20%	14,12%	15,90%	24,66%	13,43 %
Rot -Front	10,99%	9,63%	13,30%	2,34%	12,93%	15,90%	15,17%	12,15 %
Stollwerk	13,83%	5,05%	8,26%	1,95%	3,06%	5,02%	8,96%	6,59%
Sladko	1,42%	12,23%	1,38%	3,52%	3,74%	9,21%	3,79%	5,52%
Imeni Krupskoi	0,00%	0,00%	16,97%	38,67%	0,00%	0,42%	0,53%	4,46%
Korkunov	0,35%	0,61%	0,92%	0,78%	4,93%	0,00%	3,90%	2,35%
Cadbury	2,13%	1,22%	2,29%	7,81%	1,19%	2,51%	1,58%	2,10%
Mars	2,84%	2,14%	0,00%	0,00%	1,53%	0,84%	2,42%	1,76%
Bolshevik	0,35%	0,92%	2,75%	0,39%	0,85%	0,42%	2,11%	1,26%
Sormovskaya	13,48%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	1,19%

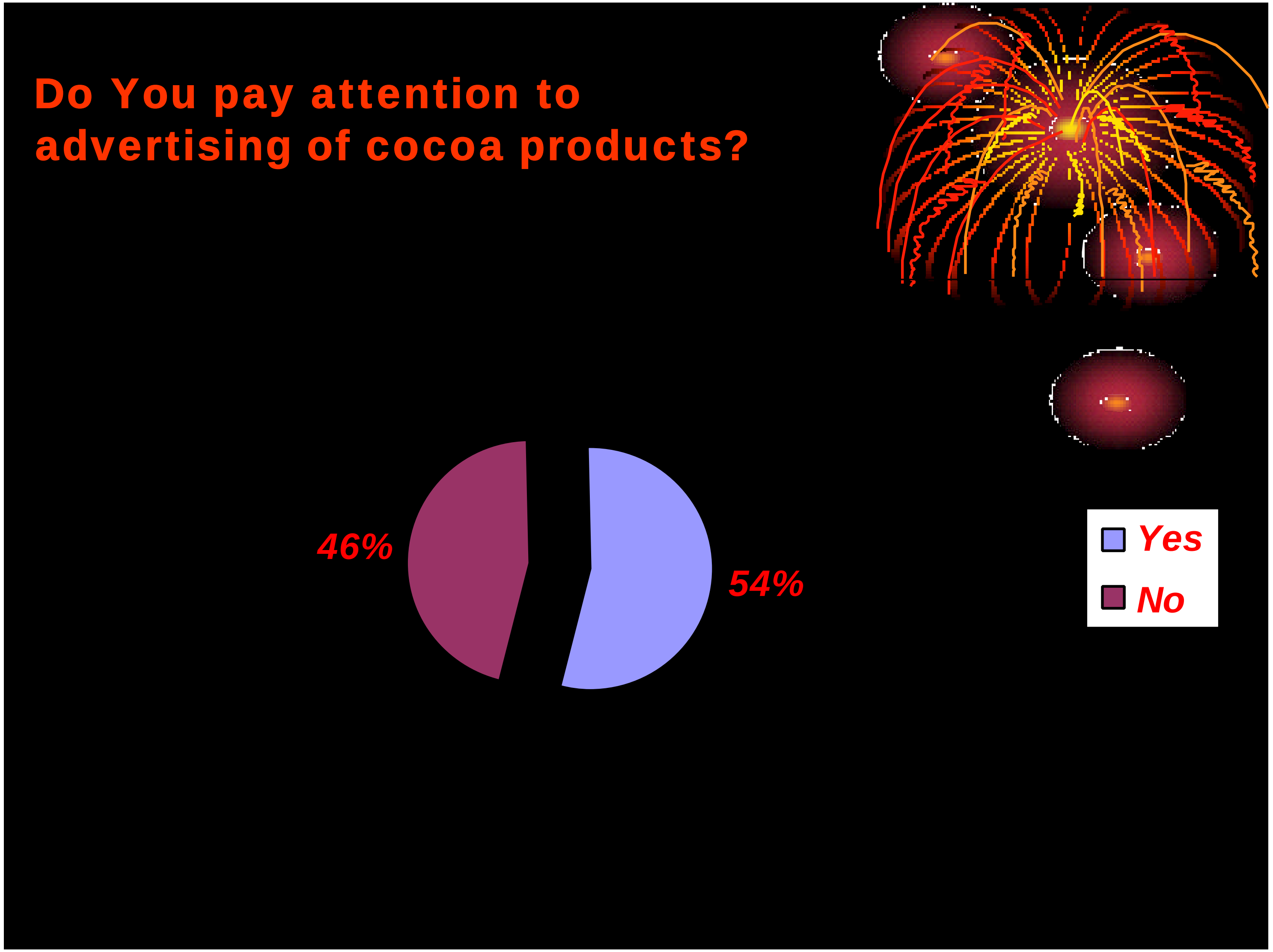
- Nestlé is the most popular manufacturer of chocolate products in Russia; it holds strong positions in every region, except for the Central and North East regions. Products, manufactured by Babayevsky came in second while the third place is occupied by "Krasny Oktyabr". As far as regional manufacturers are concerned, in the North East region, "named after Krupskaya" ("imeni Krupskoi") prevails; in the Volga region, "Rossiya" ("Nestlé) and "SladKo" companies dominate; for the most part, regional manufacturers score modestly. The merger of "Krasny Oktyabr" and "Rot-Front" in April 2002 is likely to result in a newly formed alliance, which will soon take the lead in the chocolate market.
- It is of interest that companies with foreign capital (Mars, Cadbury), actively supported by advertising on central TV channels, take the lowest position in the preference rating.



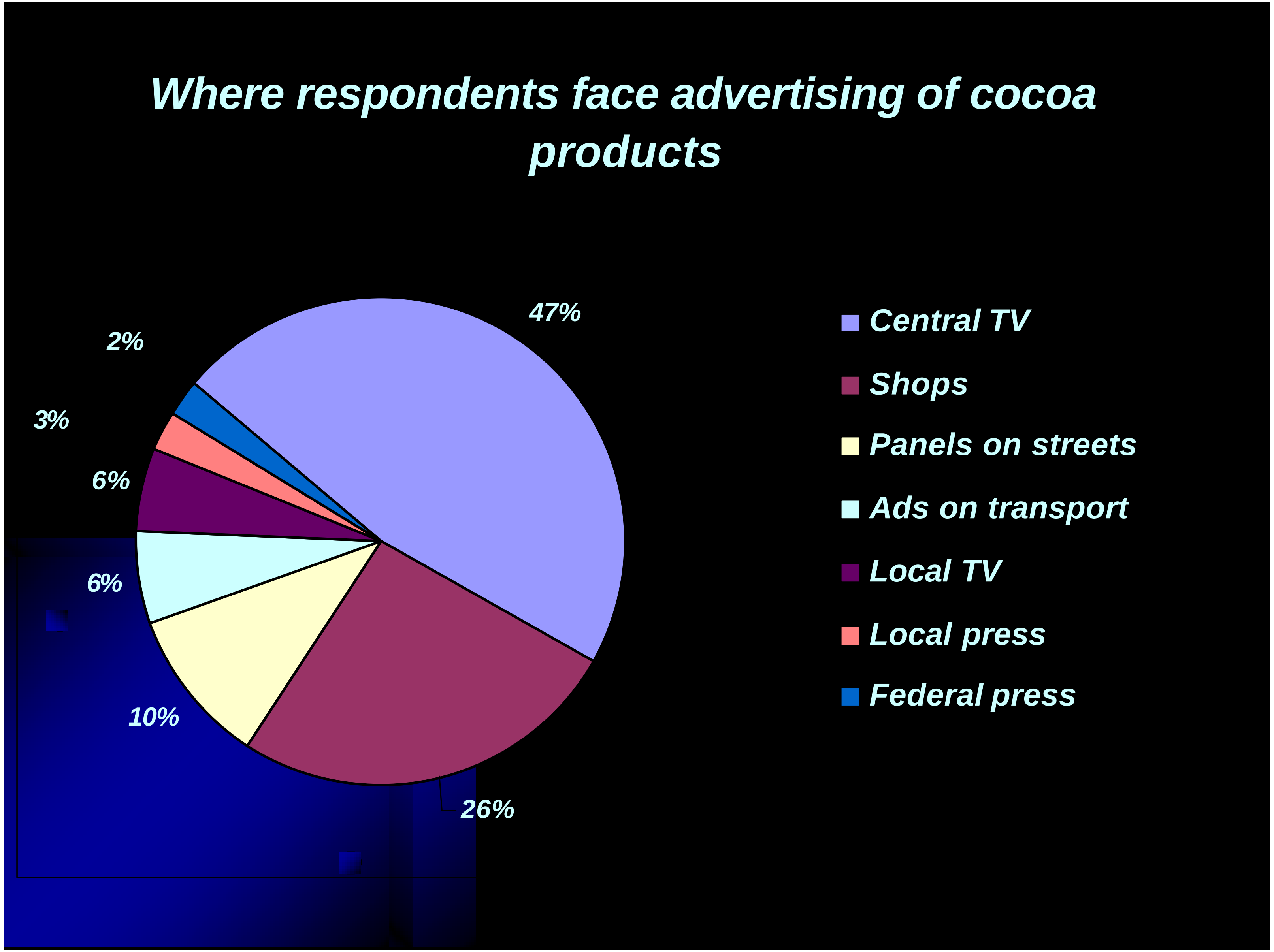
Every second resident of the European part of the Russian Federation, involved in the research, buys chocolate products in food shops; the second popular place is the commercial stall (kiosk), where people with low income mainly purchase goods; traditional confectionery departments in shops, where confectionery products can be bought both by weight and by piece, are the third popular place of sales. It is inspiring that only one tenth of respondents buy chocolate products on the wholesale market, where there is a high concentration of products of dubious quality. People with high personal income prefer supermarkets, while specialized shops serve both wealthy and medium-sized income customers; the former attend specialized shops to guarantee the quality of chocolate products, while the latter are attracted by its affordable prices.



Almost 40% of the budget of respondents resident in the European part of the Russian Federation, is used for cheaper foodstuffs (bread, milk products, cheap vegetables, eggs), which testifies to the rather low income of the population. “Other” products include fast food, cereals, soups, ready main courses, which are, as a rule, of low quality but affordable. The share of relatively expensive products remains limited. The Russian residents interviewed even consume less fruit than spirits. Since most chocolate products are considered expensive foodstuffs, respondents only allot 6% of their budget for this category. Should consumer income increase, the percentage will, naturally, go up as well.



Every second of the respondents interviewed pays attention to advertising, while the rest of those surveyed pay minimal attention to it. Perhaps, manufacturers should emphasize their brands and new production technologies; give their company history, for in the provinces, viewers are unfamiliar with promotional activities. It is necessary to target the audience (for example, to present a young family with a newborn child with a precious gift and to cover it in the local press or on the local TV channel; to organize free sales, attracting large number of customers, and so on). A promotional event is a festival, which is arranged not for the public solely, but for the company as well, since some people need to be made aware of the products.

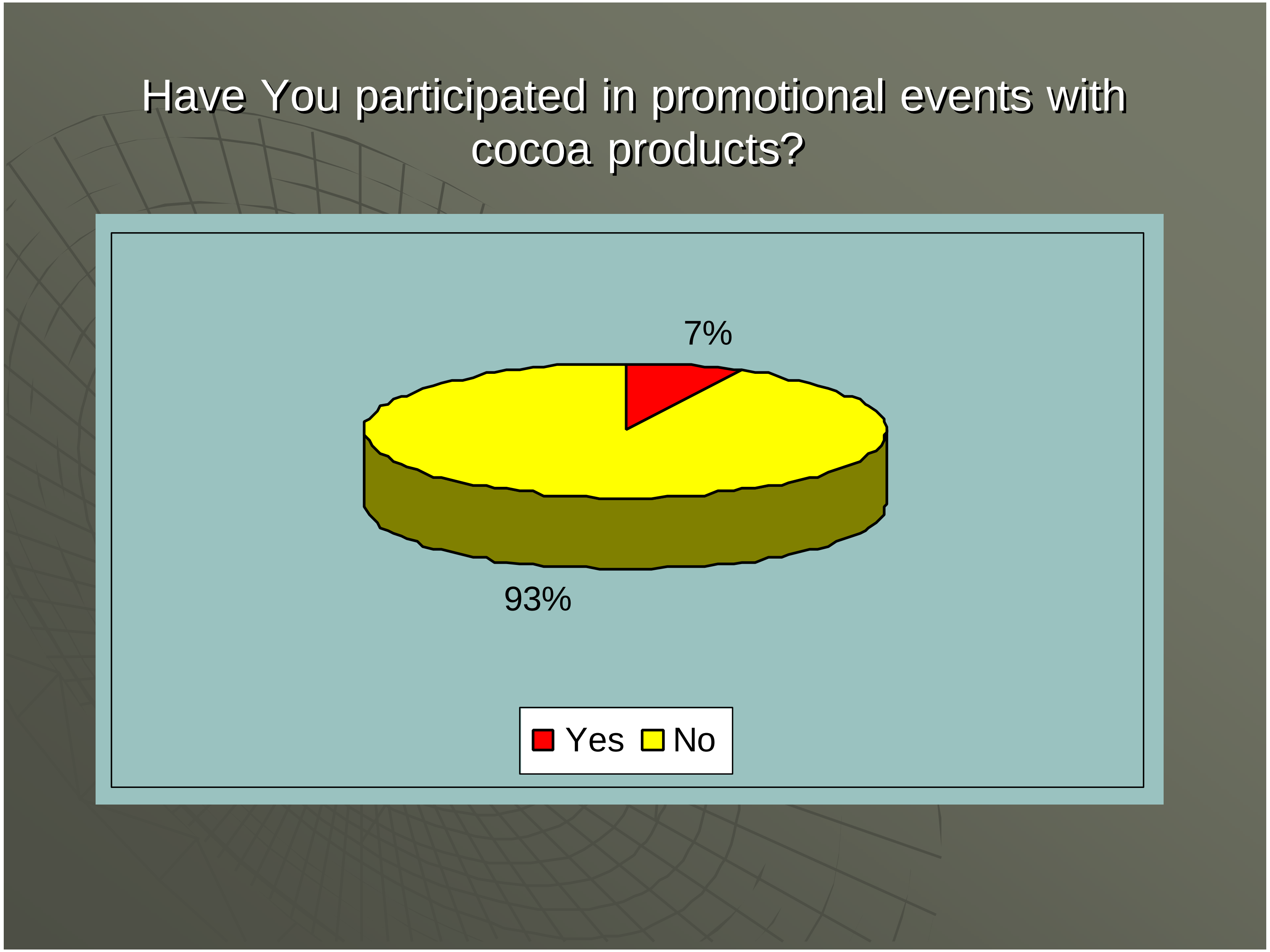


Almost every second respondent watches advertising of chocolate products on Central TV, one third of respondents recalls having seen it at sales points. The specialists of the “Market Advice” agency believe that manufacturers fail to take advantage of such channels as the local media and the federal press, for the coverage area of the mentioned channels are significant.

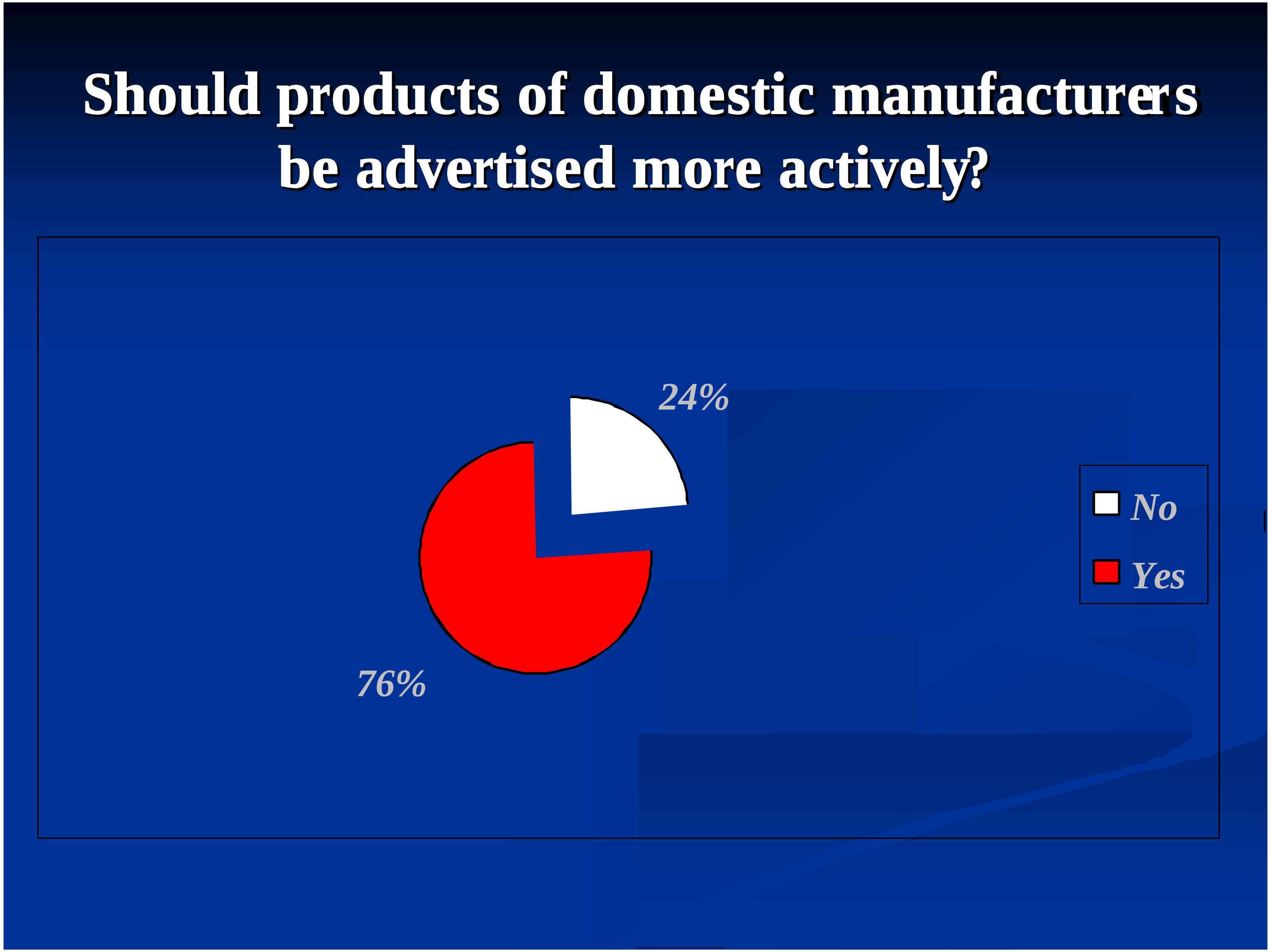
Do local manufacturers actively advertize their products?

Region	Active	Inactive
Volgo-Vyatsky	6%	94%
Povolzhje	43%	57%
North	9%	91%
North-West	5%	95%
North-Caucasus	11%	89%
Centralno-Chernozyomny	26%	74%
Central	34%	66%
TOTAL	**24%**	**76%**

According to the opinion expressed by almost 80% of the rural and urban residents of the European part of the Russian Federation interviewed, local manufacturers fail to advertize their chocolate products actively, the most passive of them concentrated in the North West and Volgo-Vyatsky regions. It is worth mentioning that the North West region confectionery factory “named after Krupskaya” holds leading positions, while in Volgo-Vyatsky region there are no large manufacturers at all. The most active advertizing of chocolate products takes place in the Volga region (large manufacturer confectionery factory “Rossiya” – Nestlé) and in the Central region (“Krasny Oktyabr”, “Babayevsky”, “Rot-Front”).



Paradoxically, 93% of the people interviewed have never participated in promotional events of chocolate products; apparently, the population does not perceive trials and fairs as promotional events. Such events are considered as widespread activities where one can simply buy chocolate products, but this is not seen as a promotional event.



Three quarters of the rural and urban residents of the European part of Russia interviewed presume that domestic chocolate products should be advertised more actively, and only one quarter of respondents believes that the existing amount of advertising is sufficient.

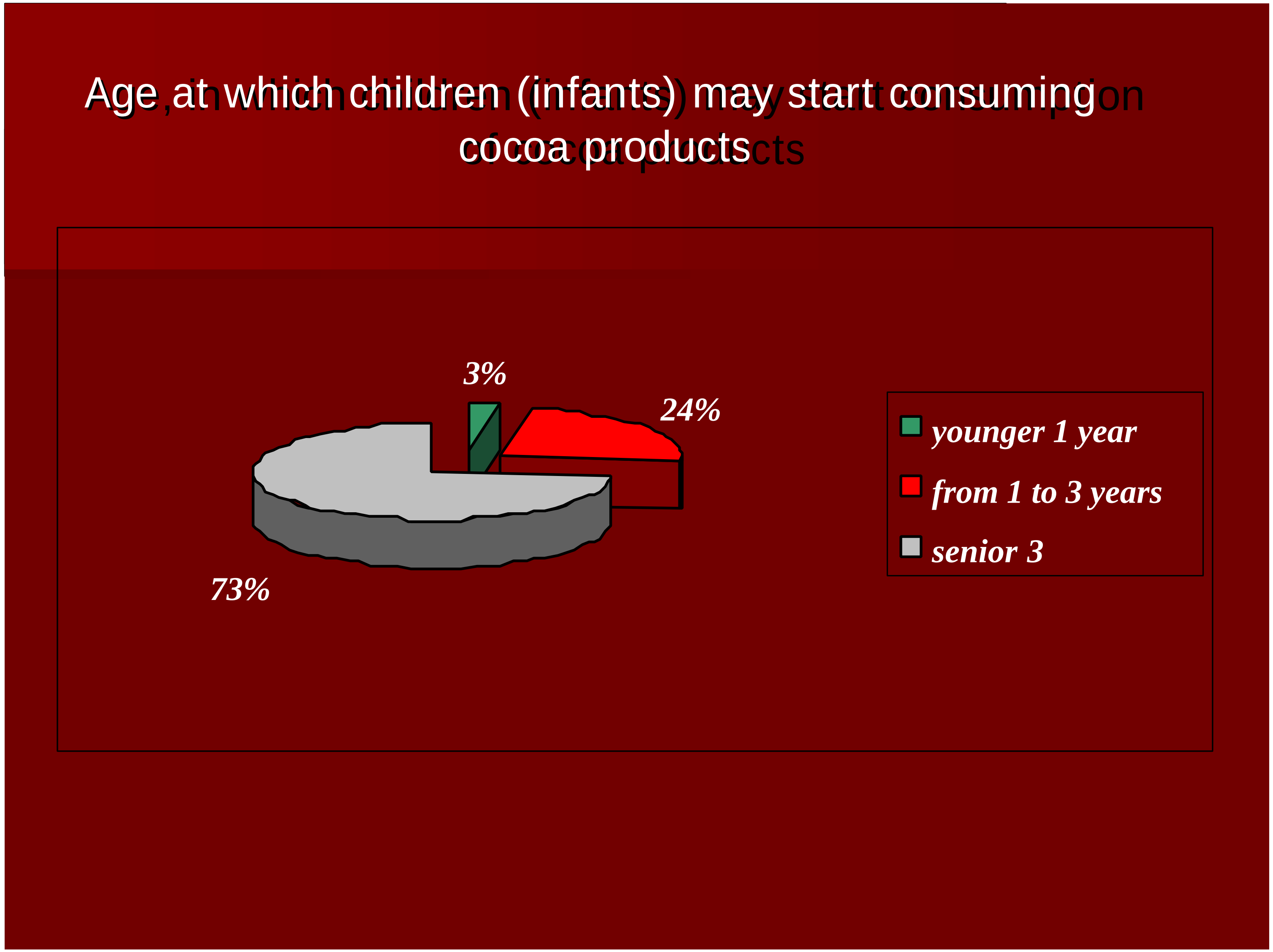
Amount from consolidated family budget, monthly spent on confectionary products, rubles			
	urban	rural	Total
less 100	31%	39%	33%
from 101 to 300	50%	46%	49%
from 301 to 500	14%	12%	14%
from 501 to 700	3%	2%	2%
from 701 to 1000	1%	1%	1%
more 1000	1%	1%	1%

Considering the existing low level of income of 82% of the population, the latter can spend on the purchase of chocolate products a monthly sum of between 100 and 300 roubles, irrespectively of rural or urban residence, which amounts to about 80 USD per year. Over 10% of respondents have a high family income and are capable of spending up to 500 rubles per month, which amounts to about 200 USD per year.

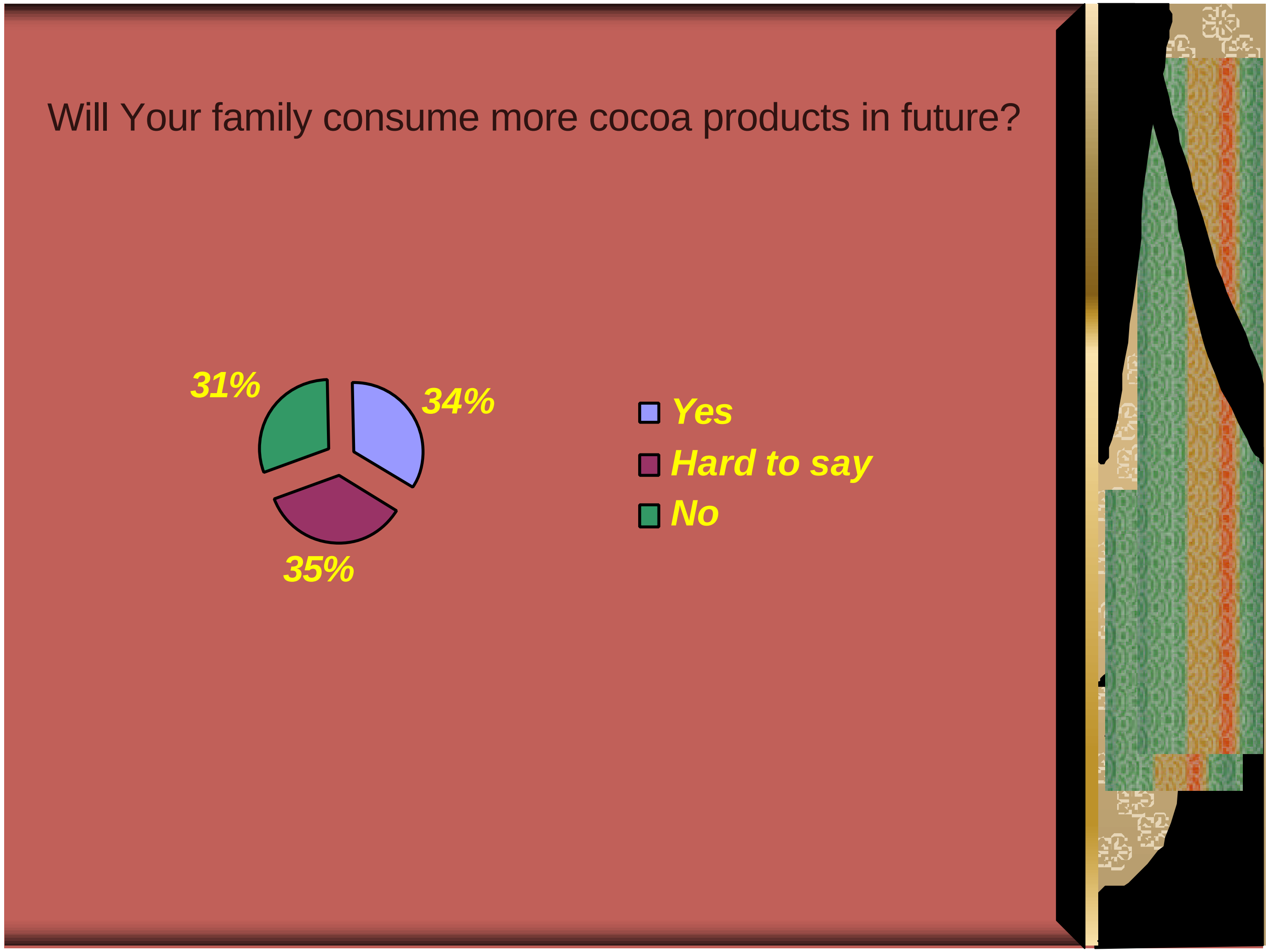
Negative and positive qualities of cocoa products

Consolidated monthly family Income, rubles	Allergy	Nourishing	Medically prohibited	Expensive product	Nourishing	Tasty	Stimulating	Present
less 1500	17%	20%	25%	37%	34%	66%	17%	37%
from 1500 to 3000	26%	28%	31%	35%	42%	72%	26%	40%
from 3000 to 5000	29%	31%	18%	18%	41%	68%	30%	39%
from 5000 to 10000	33%	35%	19%	15%	38%	75%	21%	35%
from 10000 to 15000	34%	36%	17%	8%	45%	63%	29%	36%
????? 15000 ???	24%	38%	22%	11%	47%	65%	25%	33%
TOTAL	**28%**	**31%**	**23%**	**22%**	**40%**	**70%**	**25%**	**38%**

- Chocolate has two diametrically opposite sides: restrictive and conducive aspects in respect of consumption. For the most part, respondents name conducive qualities; thus, almost every respondent describes the product as tasty and nutritious; 40% of them describe it as a nice present, while every fourth respondent calls chocolate stimulating.
- Negative qualities include the high-calorie nature of the product (one third of answers), allergic effects, particularly children's reactions (one third of answers), every fourth response makes reference to medical restrictions, connected with health problems, and every fifth answer maintains that chocolate products are rather expensive.
- The balance of responses favours an increase in consumption and indicates that, on balance, the image of chocolate products is positive.



Over 70% of respondents support the idea of starting consumption of chocolate products from the age of 3 years old, reasoning that over the preceding period, the human organism develops and adapts to new food; almost every fourth respondent believes that chocolate products may first be tried at the age of between one and three years' old.



☹ A unique finding of the market research is the fact that, at present, respondents are divided into three almost equal parts, the first of which believes they will not increase consumption of chocolate products because they had reached their consumption limit and/or excessive consumption is unhealthy.

☺ The second group of respondents believes that consumption of chocolate products in the future will increase mainly due to the emergence of novel kinds of confectionery, because the product is tasty and healthy; moreover, growing children are likely to increase the consumption as well.

😐 The third group expresses doubts concerning changes in consumption in any direction on the grounds of uncertainty of change in the family income (if the latter increases, the purchase of chocolate products will rise, but if the income goes down, it is unlikely to change) and possible changes in the number of family members; some respondents presume that the current consumption of such products is sufficient.

CHAPTER IV Group Discussions (Focus Groups)

83. Between 1 to 8 April 2002, four group discussions (focus groups) were conducted with the population of Moscow on “The cocoa and chocolate products market in Russia”.

84. The first and second set of discussions involved Moscow residents with an income of up to 4,500 roubles (150USD) per family member, who consumed chocolate products at least once per week. The third and fourth set of discussions involved Moscow residents with an income of over 4,500 roubles per family member, who consumed chocolate products at least once per week.

85. In total, the group discussions involved 35 participants (12 men and 23 women) with age limits of 18 to 60 years old, divided into two groups; the criteria being age and the average income per family member. The procedure for the group discussions was agreed upon with ICCO, ASCOND, and the Research Institute .

A. Attitude towards chocolate products

86. Consumers had formed a positive perception of chocolate products. Chocolate products were associated in their minds with pleasant experiences, such as holidays, visits to friends, receiving friends at home and good meetings. Chocolate was perceived as a gift as well as a treat. It had associations with vacations and summertime, fond childhood memories, something that consumers would gladly offer to their children. Chocolate products were universally consumed, and it was difficult to describe an average consumer: an average consumer could be a man, a woman, a child, a young or old person, of differing personal income. Those who did not consume chocolate products were either patients with certain medical conditions or people, usually women, on a strict diet.

B. Basic purposes of buying chocolate products

87. Chocolate products helped consumers to improve their emotional state, relieve stress and enhance mental activity. Chocolate products were intimately associated with happy relationships with children, loved ones, relatives, friends and colleagues. It was a traditional present and a universal treat. In addition, chocolate products were perceived as “snacks” (or food to be consumed on the move).

C. Influence of income on the consumption of chocolate products

88. Consumers' income did not immediately affect the quantity of the products they consumed (except in the case of consumers with an extremely low income). Consumers with different levels of income bought different types and qualities of chocolate products.

89. Irrespective of their income, consumers bought chocolate products in corporate shops from a confectionery chain as well as street stalls. Chocolate products sold by corporate shops or corporate shop departments were considered by consumers to be fresher, of guaranteed quality and less expensive. However, there were not many corporate shops and they were sometimes inconveniently situated. Consumers did not trust the quality of chocolate products sold in street stalls, believing them to be more expensive. However, street stalls had the advantage of being both plentiful and convenient. Consumers on high levels of income also bought chocolate products in supermarkets, while consumers on low income levels preferred wholesalers.

D. Attitude towards domestic and imported chocolate products

90. Consumers definitely preferred domestic chocolate products to imported ones. Domestic chocolate products were considered more natural, of superior quality, tastier, healthier and less expensive.

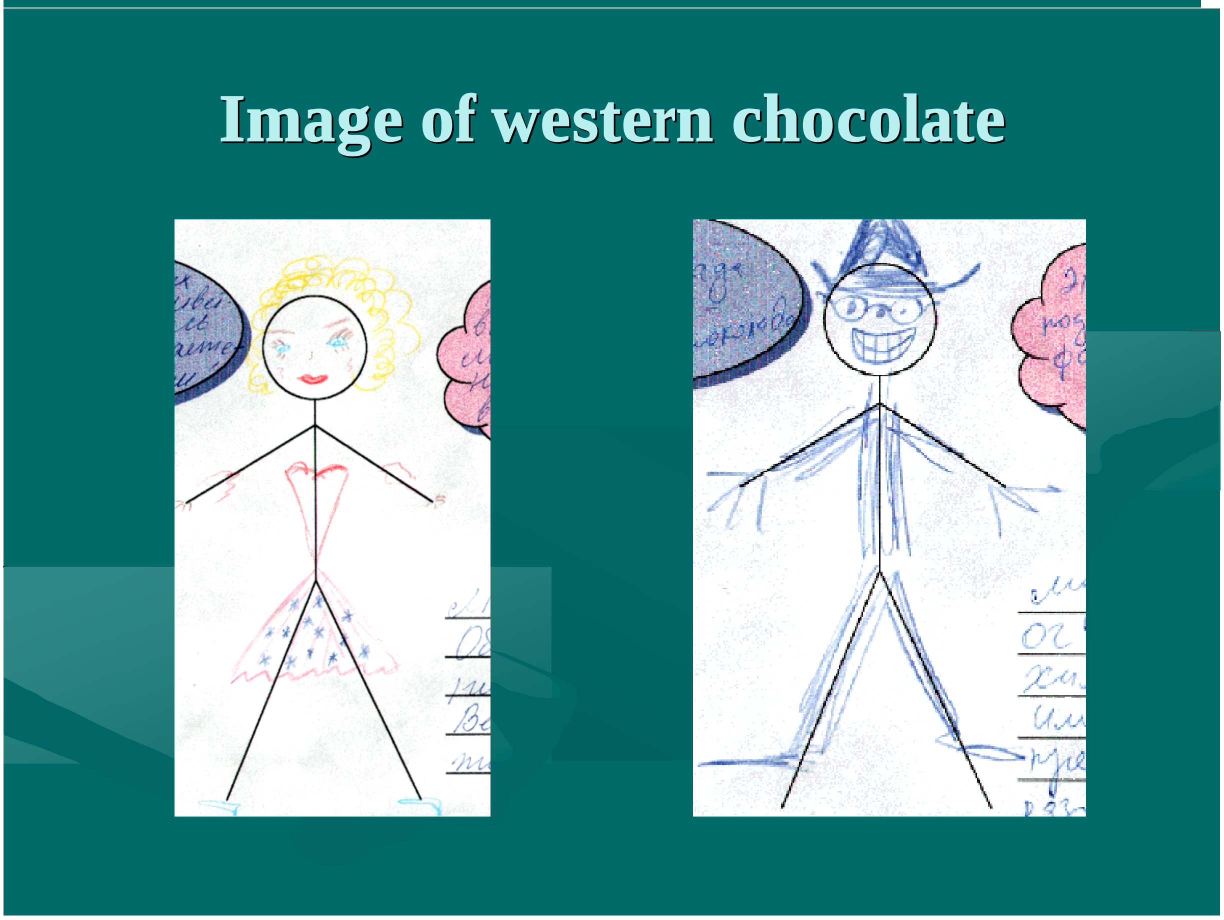
91. Regarding the typical Russian chocolate products, the following positive characteristics were perceived: a genuine concern for the customer, sympathy for national traditions and patriotism. However, some negative characteristics were also perceived, such as poverty and diffidence. Western chocolate products were associated with vitality, welfare and self-confidence; however these qualities were counterbalanced by negative images such as the drive for profit, artificiality and aggression.

92. The applied projective method suggested that respondents should portray what kind of people domestic and foreign chocolate products should be aimed at; what they would think and say about themselves and each other. The images of “domestic chocolate” for the most part turned out to be positive. Respondents used the bright colours in the classic “chocolate range”; mainly brown, orange and yellow. The main images associated with chocolate were women and girls and families with children. The women in these images were seen as outgoing, hospitable hostesses, always willing to give guests a treat. Another popular image was that of an ingenuous, but cheerful, friendly and sociable young man, or a lively child, fond of chocolate. Each image was a smiling, happy one. Negative images (of which there were few) were of middle or old aged, poor people, usually office workers. Virtually every image of domestic chocolate had the message “I am the best, the highest quality and the most tasty”, although this may not always have been the truth.

93. For Western chocolate, the dominant images were of “stylish teenagers” and “capitalist businessman”. There were fewer associations with females, and such images showed them rather differently; as artistic, fine and rich. There were more negative images, such as with lazy students and workers, cheats, and materialistic people. There were few smiling faces and more perceived contradiction in their words and thoughts than in the images of domestic chocolate consumers. he attitudes associated with Western and domestic chocolate were quite different. A domestic chocolate consumer would conceal his diffidence from those around him, whereas his Western chocolate counterpart would retain his self-conceit and contempt for others. With the latter, patently aggressive images occurred as well. A negative attitude was displayed in the choice of colour range, where cooler colours such as blue, violet and green predominated, denoting the perception of foreign chocolate as artificial and unnatural.

94. The following positive characteristics predominated in the image of domestic chocolate products: in particular, a genuine care for the consumer, sympathy with national traditions and patriotism. But negative characteristics were seen as well, such as poverty and diffidence. Western chocolate products had associations of vitality, well-being and self-confidence, counterbalanced by greed, artificiality and aggression.

Examples of images



95. However, consumers were often at a loss when identifying whether specific brands were domestic or imported ones. Domestic confectionery, developed abroad, was usually less favoured than that of their Russian and Western counterparts. If, in the course of group research, a respondent discovered that the company he/she had assumed was a domestic one actually turned out to be a foreign company, he/she would express disappointment and annoyance. At the same time, respondents gave negative descriptions of the chocolate of prominent Western brands, manufactured in Russia or in CIS countries, as they considered it to lack the quality of imported chocolate.

E. Attitude towards commercials

96. On the whole, consumers reacted positively to chocolate advertisements. They were not irritated by television chocolate commercials which they considered appropriate and preferable to press advertisements. Most of them could easily remember TV commercials.

97. On the other hand, a number of respondents stated that they were tired of media commercials, viewing them with scepticism. Although interested in the subject, the respondents preferred TV features and publications without advertisements. Some respondents indicated that they had increased their consumption of chocolate after being reassured through media commercials that chocolate was not as harmful as they had thought.

98. The respondents reacted negatively to big prize lotteries, such as foreign holidays or motor cars. However, they reacted positively to such promotional activities as product trials, points of sale lotteries and customer loyalty incentives.

F. Attitude towards the content of chocolate products

99. Some respondents maintained that they were concerned about the content of chocolate products. These were mainly women, with concerns for their own health and that of their families. Others only checked the content of chocolate products when buying unfamiliar products or products for children. Special attention was given to the presence or absence of chemical compounds, preservatives, vegetable proteins and fats and genetically-modified ingredients. The presence of cocoa butter substitutes in a product tended to discourage them from making the purchase. Consumers believed that these added ingredients affected the flavour of the product. However, if they were sure that the product was palatable, they would buy it for themselves, although they would not offer it to children. Approximately one third of respondents maintained that they were not interested in the content of chocolate products, as they mistrusted the list of contents supplied by the manufacturer, assuming that the manufacturer would only list what would attract the customer, regardless of the truth.

100. Consumers were also concerned about the calorie content of chocolate products, with women generally preferring low calorie products, while men, in contrast, preferred high calorie products.

G. Medical aspects of consumption of chocolate products

101. Consumers were aware of the existence of medical restrictions in regard to the consumption of chocolate, in particular pancreatic diabetes, allergies, digestive system diseases and increased blood pressure. They also mentioned the harmful influence of chocolate on the figure. The majority of respondents had heard of diabetic chocolate, but few of them had seen or ever tasted it. Virtually everyone expressed a desire to taste it and were prepared to buy it if they liked it (especially those concerned about their figure). However, they assumed that diabetic chocolate was unlikely to taste good. The consumption of chocolate was seen as a medical restorative. Consumers presumed that chocolate was good for disabled and sick people.

CHAPTER V Proposals for a promotional campaign for cocoa and chocolate in the Russian Federation

102. From 10 March to 10 April 2002, "Megadesign 2000", invited advertising agencies to tender for the running of a promotion campaign for chocolate products in Russia. This was carried out on behalf of ICCO, "ASCOND" and the Scientific Research Institute.

103. The following top Russian market advertising agencies presented programmes for consideration:

- Rose
- ? ?di?? rts
- BBDO
- Debbi
- D'Arcy

104. The advertising agencies had to prepare a promotional campaign, based on the following goals:

- the promotion of confectionery products (cocoa and chocolate) among the population;
- a significant increase in the consumption of finished products in the next one to five years.

The target audience are the people of the Russian Federation.

The proposed campaign should cover the population of the whole territory of the Russian Federation and should contain two timing options: one year and from two to five years.

The approved proposals were selected according to the following criteria:

- experience in undertaking advertising campaigns for confectionery industry products;
- consideration of the specifics of the cocoa and chocolate market;
- formulation of a detailed step-by-step plan of campaign (for both timing options);
- formulation of a budget for the campaign (for both timing options).

105. Two proposals from the advertising agencies ROSE (USA) and Media Arts (Great Britain/Russia) were selected as they most closely matched the criteria. Both agencies have over 10 years experience in advertising, particularly in regard to brand positioning of leading producers of cocoa and chocolate.

A. Proposal from the "Rose" agency

The advertising message would focus on:

- the pleasure and food value of cocoa and chocolate products;
- a consolidation of the positive image of cocoa and chocolate, i.e. its positive aspects in regard to health and nutrition (contents of minerals and vitamins), stress reduction, emotional wellbeing, etc.

The advertising message would be reported to consumers using the following integrated marketing tools: ads, PR, promotion, with attention placed mainly on TV advertising as it covers most consumers.

CHAPTER VI Conclusions

110. The feasibility study undertaken by “Megadesign 2000” revealed that there was a sound basis for further development of the project and launching of a full-scale generic promotion campaign of cocoa and chocolate consumption in the Russian Federation.

111. In-depth interviews with top managers of 100 confectionery enterprises, using cocoa products, revealed that more than 70% of top managers supported the idea of launching a full-scale generic cocoa and chocolate promotion campaign in the Russian Federation and expressed willingness to take a reasonable participation in such a campaign. It was underlined that it would be very important to educate Russian consumers and, in particular, to increase their awareness of cocoa as a natural product with positive health and nutritional values. It is obvious that a generic promotion campaign could explain these aspects with greater authority and detail than normal brand promotion.

112. A survey of the urban and rural population in 7 major consuming regions of the European part of Russia covered 1,500 respondents in total, representing all sectors of the Russian population. The survey provided information on a number of issues, including, in particular, the image of chocolate and cocoa-containing products among the population, the popularity of various types of chocolate products, frequency of consumption, purpose and place of buying of chocolate products, the influence of advertizing activities, positive and negative factors influencing purchase and consumption, etc. In general, cocoa and chocolate products have a positive image among Russian consumers. Regarding prospects of increased consumption in future:

- 34% of respondents said that they and their family intended to eat more chocolate products;
- 35% of respondents indicated that they were undecided at this stage and that the level of future consumption would depend on a number of factors (disposable income, family composition, etc.); while
- 31% of respondents said that they were not planning to consume more chocolate products as their consumption had either reached saturation point or a further increase was unlikely due to health considerations.

80% of the general population interviewed supported the idea of a full-scale generic campaign to promote cocoa and chocolate consumption in the Russian Federation.

113. Four active group discussions (focus groups) with consumers representing various groups of the population by age and average income per family member were held in Moscow. These discussions also revealed that consumers’ perception of chocolate products was positive and was associated with such pleasant experiences as holidays, paying a visit as guests, receiving your friends and relatives, enjoyable meetings, etc. Chocolate products are considered by Russian consumers to be able to improve emotions, relieve stress, and enhance mental activity. Overall, consumers have a positive attitude to advertisements of chocolate products. However, a number of participants in the discussions indicated that they were tired of commercial advertisements and did not trust them and would prefer non-advertizing publications and TV programmes. Discussions also showed that there existed misconceptions and lack of information regarding health aspects of cocoa and chocolate. Many Russian consumers believed that cocoa and chocolate could cause allergies, diabetes, diseases of the digestive system, high blood pressure and could contribute to fattening.

114. The discussions revealed that the consumption pattern and preferences of consumers depended on the age of the respondents. In general, the younger respondents who participated in group discussions and focus groups (up to 35 years of age) accepted novelties and unfamiliar products more readily. Among the older respondent age group (35 years of age and over) there was much loyalty to certain traditional domestic brands. Various advertising initiatives attracted interest among all the age groups. However, older people (35 to 50 years of age) tended to be sceptical about such activities as lotteries and quizzes.

115. At this stage the approached market advertising agencies operating in Russia have not shown much interest in offering their services to the project for the development of a large-scale campaign to promote chocolate products. This is explained by fact that the tender was not financed and many potential participants considered it inexpedient to work on and to present detailed proposals, considering the highly competitive nature of the advertising market. It is worth mentioning, however, that most of the advertising agencies in the Russian Federation have conducted advertising campaigns on specific brands and have thereby accumulated both negative and positive experiences of target-oriented product promotion. Nevertheless, two draft conceptual programmes were presented for consideration.

116. Summarizing findings of the feasibility study on the Russian market of confectionery and chocolate products in general, it can be concluded that:

- the market of confectionery and, in particular, chocolate products has recently been developing well. This trend is supported by statistical data on local production and imports and by views expressed by top managers of confectionery enterprises during interviews;
- the market is characterized by tough competition between the major players, international and domestic manufacturers and inside these groups;
- there is also a tendency towards market integration between the large domestic manufacturers which makes survival conditions for medium- and small-scale companies even more difficult;
- a serious problem for the market is the sizeable share of counterfeit low-quality products, particularly in the remote regions of the country.

Advertisement:

- TV:
  promotional trailers
- Press advertising:
  ads in magazines and on covers

- Interactive marketing (Internet)
  Web services
  "Virus" marketing

PR

Focussed on:

- consumers;
- public health specialists (i.e. nutritionists etc);
  - special events including conferences, symposiums, etc;
  - development of educational materials: video and publications, news bulletins;
- Development and promotion of the advantages of a product, the positive aspects of cocoa and chocolate.

The consolidated budget (average): up to December 2003: 3,550,000 USD, beyond that date, about 2,150,000 USD yearly.

B. Proposal from the "Media Arts" agency

The main purposes of the advertising campaign would be to neutralize the negative 'harmful' image of cocoa and chocolate, increase consumption and emphasize the good taste of chocolate and its associations with joy, happiness and satisfaction.

These goals would be achieved through an integrated marketing strategy involving advertising, PR, and the Internet.

Particular attention would be paid to "product placement" with recreational programmes being shown on TV and radio to promote cocoa products (i.e. intellectual games with questions on the cocoa and chocolate subject). *Herewith, maximum envelopment is achieved (excluding 75% loss in case of block ads).*

An unostentatious way to convey the message would take the form of intellectual/recreational games in popular TV-shows.

The use of "event marketing", in particular, the implementation of an "International Cocoa Festival". In addition, this would generate money through the use of sponsors.

The consolidated budget is 750,000-850,000 USD per year.

C. Comparisons and recommendations

106. The main advantage of the “Rose” proposal is its massive influence on the target audience – the actual and potential consumers of cocoa and chocolate products.

107. The “Rose” agency is much smaller than the “Media Arts” agency, but it is flexible and dynamic. The “Rose” agency has already prepared a detailed plan for an advertising campaign. On the other hand, the traditional advertizing methods proposed (widely used in other campaigns) could be considered as a negative aspect of the proposal, as the customary use of such methods can reduce their effectiveness. In addition, the active use of mass-media advertising will significantly increase the budget.

108. The “Media Arts” agency suggests novel market positioning methods, targeted on the domestic market and foreign experience. Moreover, the use of such methods is based on experience and analyses of information about cocoa and chocolate products, gained by their own services. This Agency's proposal has a lower budget.

109. However, the use of non-standard methods may lead to some difficulties because of insufficient experience in the Russian market. Also, there may be difficulties in co-operating with such a large Company as “Media Art”.

COMPARATIVE PRESENTATION OF CHOSEN PROJECTS FOR IMPLEMENTATION OF ADVERTIZING CAMPAIGN

Leading advertising agencies, chosen for the final stage of the tender

our clients

American soy bean association
Binatone
Dionis Club
Japan Tobacco
DuPont
Golden Telecom
Erevan cognac plant
Glaxo SmithKlein
Triniti Motors
Troyka-Dialogue
Samsung

The agency **Media Arts** has been operating in the advertising market for more than 10 years

Largest clients

The advertising campaigns include integrated marketing projects, such as the promotion of chocolate products through various channels. The advertising campaign may include the following activities:

The principal objectives of the advertising campaign

STRATEGY

COMMUNICATIVE MESSAGE

- **Stress on**
  - Satisfaction
  - Food value of the product

which are provided by cocoa products

- **Will strengthen positive image -- Health and nutrition aspects**
  - Minerals and vitamins
  - Stress reduction
  - Emotional satisfaction
  - etc.

ROSE

MEDIAARTS GROUP

Communication target:

Customer realizes why he is satisfied consuming chocolate

Neutralize negative stereotype of "harm" of chocolate

Increase consuming culture

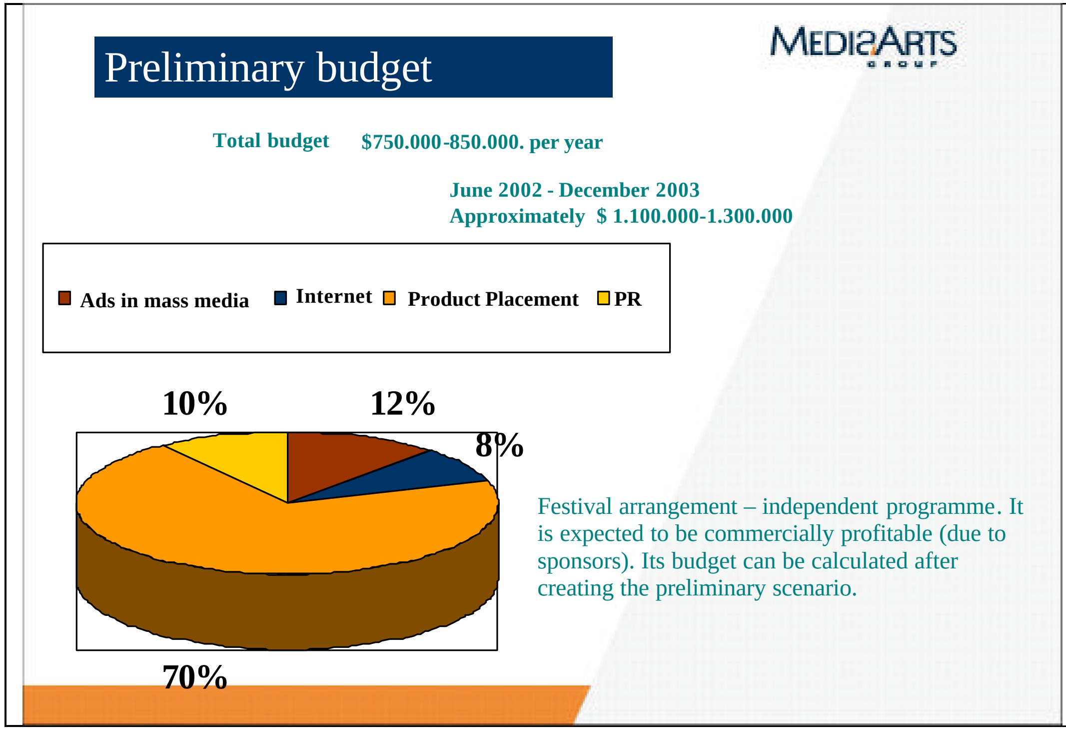
Planned time limits of the advertising campaign

PLAN, May 2002 – December 2003

MEDIAARTS GROUP

Stage	Work description	Timing
1	Presentation of promotion campaign strategy, timing approval	15.05.02
2	Signing contract	May 2002
3	Development of creative strategy	May-June 2002
4	Development of detailed plans of each stage of campaign	May-June 2002 ?.
5	Realization of the campaign	September 2002 November 2003
6	Summarizing results	December 2003

Planned budget and its distribution between different marketing activities



Budget statement

MEDIA ARTS GROUP

Motivation of budget distribution

Analyses of last advertisement campaign of a particular category of products (aluminum beer cans) showed low return (correlation of investments and level of consumption of beer in aluminum cans). Better effect can be achieved using other marketing tools, that can significantly reduce costs (several times).

We do not deny the value of advertising at all. It plays support role. Traditional advertising in the mass media is effective only in making a brand more well-known.
Our goal is the promotion of a product's category and forming loyalty.
We offer 'product placement' as the main advertising tool. Thus maximum TV auditory envelopment is achieved (but without losses – 75% of auditory do not watch ads units).
Unostentatious form of information delivery – intellectual contests, favorite TV-shows.
And PR and promotional actions will consolidate loyalty and will increase consumption.

Advantages and disadvantages of the offered projects of advertising campaign on promotion of chocolate products

Advertising agency «ROSE»

«- -» • **The project is effective through the use of traditional methods, extensively used in other advertising campaigns, which may decrease the efficiency because of adaptation** • Active advertising in the media increases the cost of the advertising campaign	

MEDIAARTS

«- -»

MEDIAARTS GROUP

- Implementation of the campaign may cause difficulties given that Media Arts is a large advertising concern

- Non-standard methods of positioning have seen little application in Russia yet

CHAPTER VII Recommendations for a Promotional Campaign

117. As was mentioned in the preceding chapters of the study, it is widely recognized within the industry that a full-scale promotion campaign for cocoa and chocolate products would be beneficial for the sector as a whole. However, to make such a campaign successful, it is necessary to unite all manufacturers operating in the Russian market - international and large and small specialized Russian producers. It should be mentioned in this respect that ASCOND considers all companies manufacturing their products in Russia as domestic producers irrespective of their background. At a special conference which had been held in Moscow in the middle of April 2002 to discuss preliminary findings of the feasibility study, the representative of the Ministry of Agriculture of the Russian Federation also emphasized that the Government considered, for example, both “Krasny Oktyabr” and “Mars” to be national Russian manufacturers.

118. It is obvious that the project in general could not be successfully completed without the active support of ASCOND - the Association of Enterprises of the Confectionery Industries of the Russian Federation and the Scientific Research Institute of the Confectionery Industries. These institutions are highly respected in the industry and could play an important unifying and coordinating role in the implementation of the project activities during a full-scale promotion campaign. Participation of the relevant Government institutions – the Ministry of Agriculture and the Ministry of Economic Development and Trade of the Russian Federation – which pledged their support to the project would be also beneficial.

119. The results of the feasibility study carried out by “Megadesign 2000” revealed that there were three more or less equal target groups of the population on which a full-scale promotion campaign for cocoa and chocolate consumption could be focused. The respondents from the first group (31%) believed that they will not consume more cocoa and chocolate products as their consumption had reached the maximum level and/or that further increase was unlikely, due to health and nutrition considerations. The respondents from the second group (34%) stated that they loved chocolate products, finding them tasty and healthy, and that their consumption of chocolate in future would increase, in particular through the arrival of new chocolate products on the market. The respondents from the third group (35%) were unsure of the future change in their patterns of consumption stating that this would depend on such factors as disposable income and family composition.

120. Consequently, in preparing a promotion campaign it would be necessary to adjust its messages in order to take into consideration specific concerns of all the three target groups. In particular, to increase consumption in the first target group it could be possible, for example, to stress the arrival of new low-calorie cocoa and chocolate products (such products have recently appeared in just a few big cities and are practically unknown elsewhere). For the second target group, it could be important to highlight the useful properties of chocolate and cocoa and to actively advertise novelty products.

121. The main problem of the third target group is the low income of respondents. It is obvious, therefore, that any future increase in their consumption level will depend on income growth. So, the promotion campaign for this group of the population could be focused on affordably priced chocolate and cocoa-containing products, such as chocolate-covered cookies, gingerbreads, wafers, caramels, chocolate bars and others.

The recommendations of “Megadesign 2000” are presented graphically in Charts 9 and 10.

Chart 9
Target auditorium structure

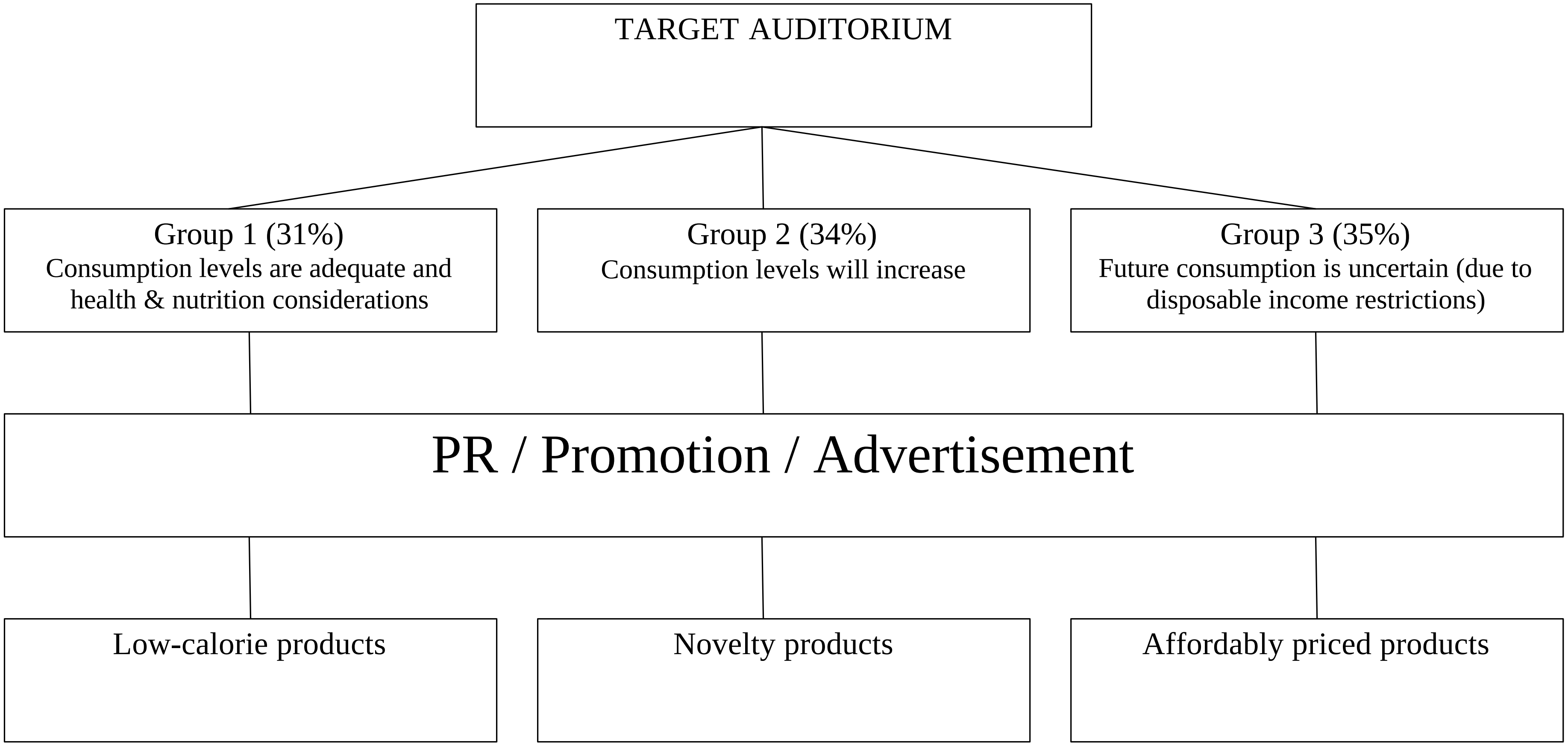
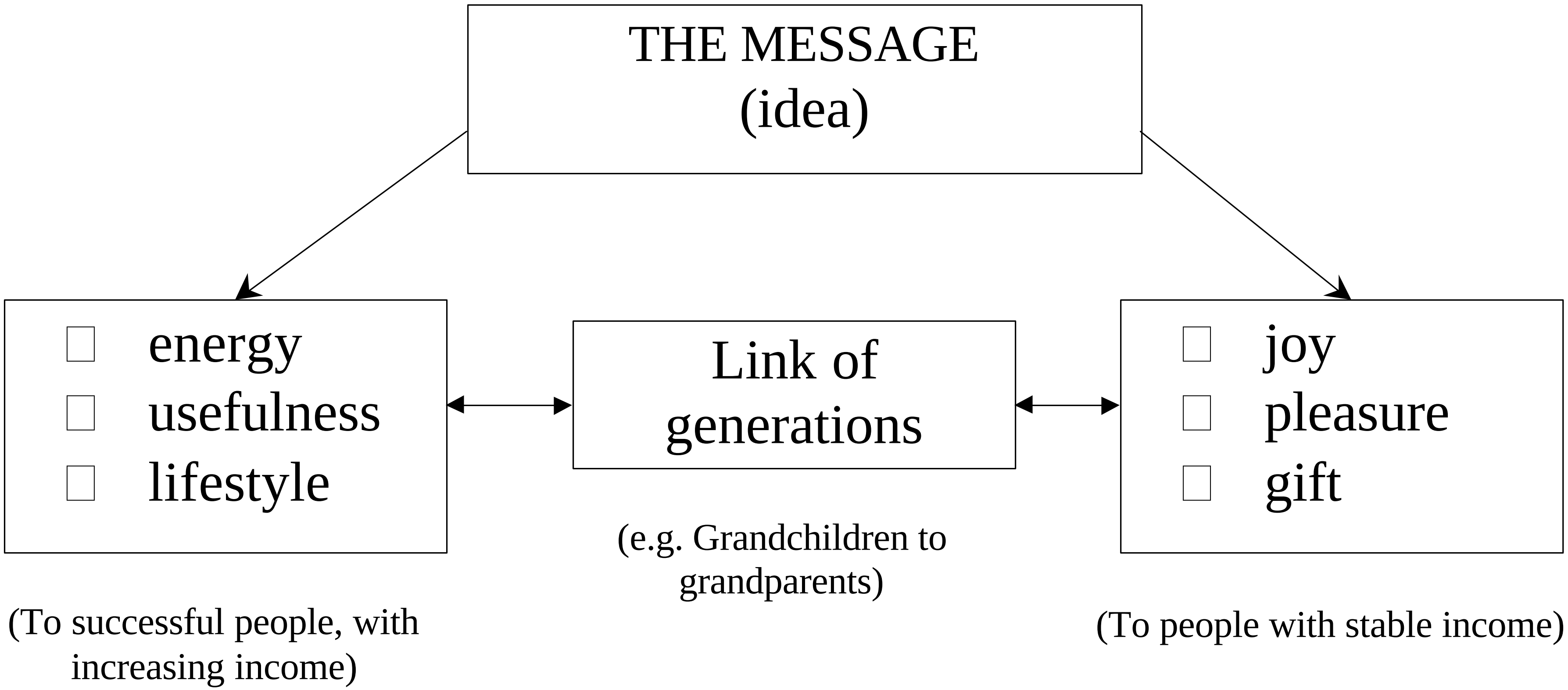


Chart 10
Promotional campaign message



122. When developing a promotional strategy in Russia, it is important to take into account the following specific features of the country's population:

- Most Russians do not have an active lifestyle and they are somewhat sceptical about people who are health conscious. This arises from difficult life situations of many people in Russia, family and personal problems and the unstable economical and political situation in the country. So, when someone has an active lifestyle, it gives an impression that this person has got no problems and worries, other than to take care of himself.

- According to research on the attitude of the Russian people to health issues, the majority of Russians do not pay enough attention to their health. An active and healthy lifestyle involves certain spending (for many people it could be a significant portion of their family or personal budgets) and moral efforts. People often disregard medical advice to start treatment, particularly the male part of the population. A lot of people believe that the length of their life is determined by their fate at birth and will not depend on medical treatment and lifestyle.

- A significant proportion of people, particularly the older generation, have a negative attitude to commercials as a whole as it is widely believed that commercials are used to promote low-quality products, resulting in a higher price for consumers.

- Participating in the promotion activities could be prestigious for many companies if they see that this campaign is being supported by the leading and well-respected institutions in the confectionery industry, i.e. the Ministry of Agriculture, ASCOND and the Research Institute of the Confectionery industries. This consideration could influence managers of confectionery companies to take an active part in such a campaign. Participation in the campaign of local or regional "neighbours-competitors" would also be a stimulating factor for many producers to join the project activities.

- The PR actions should be focused on the active participation of the population. In particular, the activities should be widely advertised, with the emphasis on family, neighbours and friends as the main source to pass on the information. The activities themselves should be lively, impressive and memorable. Most people do not consider the activities currently undertaken by manufacturers of chocolate products as real advertising and promotional actions.

123. "Megadesign 2000" would like to make the following recommendations on marketing activities within the generic promotion campaign of cocoa and chocolate consumption in Russia:

- To organize days, weeks or months of "Chocolate festivities" in the remote regions and in regional centres. These should be carried out as entertainment, for example, with the use of hot air balloons, organization of concerts, etc.

- To arrange charitable activities in retirement homes, kindergardens and schools, hospitals and other social institutions.

- To clearly formulate the idea, message and contents of promotion actions and to actively pass on this information to the population (up till now many activities of a similar character lack clear purposes). Unfortunately, from the early 1990's, the majority of people have a stereotype that promotion activities, often with expensive prizes, are no more than well managed, scripted shows with its winner known in advance. It is important to disprove this stereotype and to show that promotion activities under the generic promotion campaign are open, fair and honest actions.

- Public transport, used by the majority of the Russian population, could be widely used in a promotion campaign to carry out advertisements. Up till now, public transport in Russia is not used actively enough as “advertising carrier”.

- To place on a regular basis articles in popular national and regional printed *mass-media* on the history and development of chocolate production in Russia and materials about chocolate factories, both well-known central and local. Irrespective of their income and other circumstances, a very large part of the population in the Russian Federation reads a lot. It is important that such publications be considered in a context of propagation of love to the motherland and other generally accepted values.

- Active promotion of cocoa and chocolate products should be accompanied by educational programmes for the general public, in particular, the younger generation and the development of a clear concept of healthy nutrition, including confectionery products as part of normal everyday diet.

124. Provided that sufficient financing is available, the prospects for a successful implementation of a full-scale promotion campaign of cocoa and chocolate consumption in Russia look rather favourable, particularly as the population seems to be ready for such an action. The most important task would be to unite all manufacturers operating in Russia, small and big, international and domestic, under the idea of increasing the size of the market as a whole which, in turn, would contribute to higher production volumes of each market participant.

125. It should be noted that a particular feature of the traditional Russian manufacturers’ approach is that the majority of them would support the idea of a generic promotion campaign as they see clearly its benefits. However, as far as the budget for the promotion campaign is concerned, many of those who have agreed to participate may try to avoid contributing financially to the project. Initially, the campaign could be financially supported by international manufacturers while the domestic producers are likely to be more reserved. Consequently, it is highly advisable to have external financial support, particularly at the start of a full-scale campaign. This will undoubtedly encourage the participation of domestic manufacturers in the project.