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Chocolate Confectionery in Russia

PROSPECTS

Rise in Imports and Recovering Economy Drive Growth

Russia's economy started on the path to recovery at the end of review period, with this benefiting sales of chocolate confectionery in 2019. Following the introduction of EU and US sanctions, there was a drop in the supply of imported brands in 2015 and 2016, which prompted a rise in domestic production. With many imported brands however since returning to Russia, the supply of chocolate confectionery is benefiting not only from this but also from the increase in local production. While domestic brands typically cater to the mass market, imported brands also cater to demand for premium chocolate confectionery.

Retail volume growth was however slower in 2019 compared to the previous year, which was partly due to an increase in VAT and the resulting price rises. Over the forecast period, consumers are expected to focus on quality over quantity, which should benefit value sales but could act as a drag on volume sales.

Consumers Turn to Tablets for an Indulgent Treat as Import Range Broadens

Tablets was the second-largest category in chocolate confectionery in current value terms in 2019 and by the end of the forecast period, it is projected to become the largest category, overtaking chocolate pouches and bags. The category has a significant presence of imported brands, with multinational Mondelez holding a strong lead in the category, while other players such as Mars and Nestlé also hold significant shares. These players benefited from securing import routes for their brands into Russia, with this also helping tablets to return to double-digit growth in 2019, with the category also benefiting from the growing number of consumers looking for an indulgent treat.

Chocolate Gifting Provides Boost to Boxed Assortments and Seasonal Chocolate

While being smaller categories, seasonal chocolate and boxed assortments both saw strong growth in current value terms in 2019. These products are often given as gifts or are consumed for special occasions. As a result, they have benefited from Russia's improving economy with consumers showing a greater willingness to spend out on gifting. Seasonal chocolate saw particularly strong growth in 2019, albeit from a relatively low base. This category is benefiting from new product development with local and international brands focused on pushing seasonal sales with attractive packaging.

COMPETITIVE LANDSCAPE

Leading Player United Confectioners Continues to Innovate

United Confectioners OOO remained the leading domestic manufacturer and overall leader in chocolate confectionery in 2019. The company continued to benefit from a wide portfolio of new and innovative products in very different categories, with some proving very successful. One of the more successful examples is chocolate coated marshmallows which the company launched under the popular Vdokhnovenye brand in 2018. This new product line is likely to become an important competitor to Udarnitsa KF OAO's Sharmel brand in "other" chocolate confectionery. Another interesting innovation to appear from the company in 2018/2019 was its Mega Drive mini-countlines, with these products being similar to Mars' leading Snickers brand of countlines with a peanut, nougat and caramel centre coated in chocolate. This could be a significant move, with international player Mars dominating sales of countlines in Russia and the domestic leader, thus challenging Mars' stronghold.

Mondelez Invests in New Flavor Varieties Such as Oreo to Build Interest

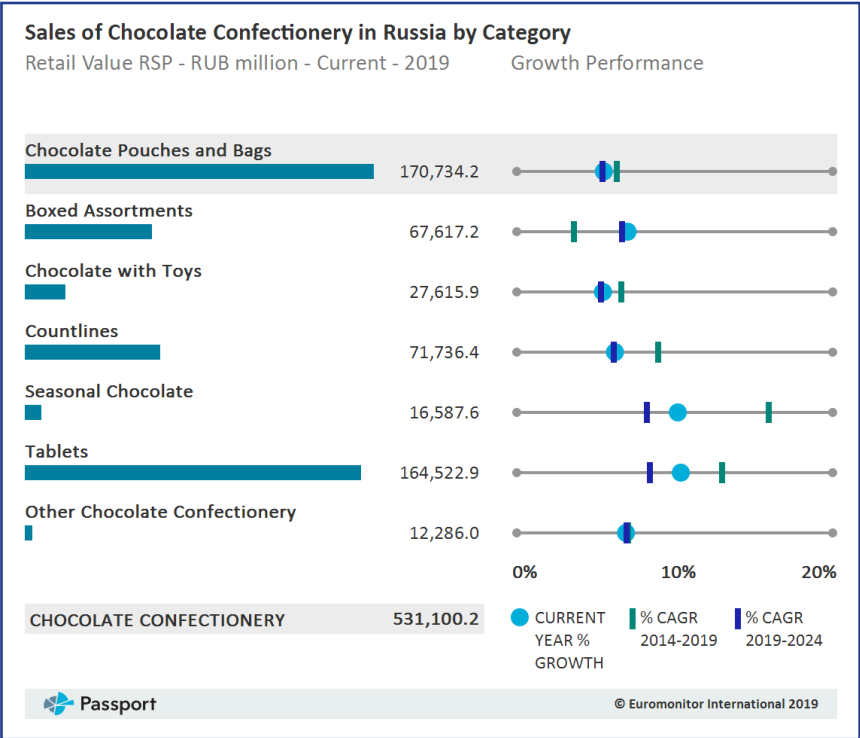
Mondelez Rus OOO remained the clear leader in chocolate tablets, with it continuing to strengthen its position in the category in 2019 with it offering a range of new products and flavors under popular



Milka brand. For example, the company introduced Apricot and Hazelnut flavor under its Milka Dark Milk range, with sales of dark chocolate rising due to its perceived health benefits. Other new flavors included Strawberry Cheesecake as well as an innovative new product featuring whole Oreo biscuits. Nevertheless, the most popular brand of chocolate tablets in Russia is Mondelez's Alpen Gold. Like Milka, the brand regularly introduces new ranges to attract consumers. For example, Mondelez launched two Alpen Gold Max Fun varieties at the end of the review period with each of them including, besides chocolate, several additional delicious ingredients. Similar to Milka, it also successfully launched a line of tablets featuring Oreo cookies under the Alpen Gold brand.

Kit Kat Adds Senses and Ruby Lines to its Arsenal as it Looks to Fight for Share

New product launches are widespread and continuous in Russia with players keen to build their share in one of the largest chocolate confectionery markets in the world. Nestlé is no different with it offering a range of brands, of which its Kit Kat brand of countlines is the most significant. As part of a global strategy, the company started introducing new flavor varieties to the brand over the review period to create a new and more interesting image for Kit Kat. In 2018 the company launched its Kit Kat Senses line which features Deluxe Coconut, Caramel Cappuccino, and Double Chocolate flavors. In the same year, it also launched its Kit Kat Ruby product, which comes in a distinctive pink colored chocolate, being made from ruby cocoa beans. Many new products disappear from shelves soon after launch due to the competitive nature of the market, but further innovations will likely be required if Nestlé is to increase its share in chocolate confectionery over the forecast period. ■



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