

Ukrainians go global in search of vodka rewards

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Think of classic vodka-producing countries and Russia and Poland spring readily to mind. But surely not Ukraine. Euromonitor International looks at production growth in a country that is already home to two of the world's top 10 biggest vodka producers. Already enjoying an enviable market share in Russia, these companies are increasingly targeting potentially lucrative Western countries.

Home and away: targeting global growth

Ukraine is a huge spirits market, with volume sales of nearly 365 million litres in 2005, according to Euromonitor International's latest research. More accurately, it is a huge vodka market, where white spirits account for more than 90% of spirits' consumption; and this is likely to grow by more than 20% over 2005-2010.

Considering these statistics, one might wonder why Ukrainian distillers would bother trying to increase exports at all. The situation is not as simple as it might appear, however as vodka's share of sales is set to decline slowly in the coming years, in favour of cognac and brandy among others. In addition, Western vodka manufacturers are likely to increasingly target such a large and 'Westernising' market in coming years.

Unlike neighbouring Russia, the vodka environment in Ukraine is relatively concentrated, with the largest players, Soyuz-Victan and Nemiroff, controlling roughly one-third of its volume sales. This situation has been accentuated by Soyuz-Victan's acquisition of Knyazhiy Grad earlier 2006, adding the 1.3-million case per year Myernaya brand to the company's strong portfolio, of SV (6.5 million cases) and Medoff (3.3 million cases).

It is no wonder, then, that Nemiroff and Soyuz-Victan began targeting Russia some years ago, where the lack of large brands provides an opportunity for growth, especially in the super-premium segment in which they are both strong.

Both have been helped by the tax breaks available to Ukrainian exporters for historical and political reasons, although these could be a casualty of any worsening of the relationship between the two countries. Russian import duties are rising too, but Soyuz-Victan has found a way around this, by acquiring production facilities at Ruza in Russia, a new facility with a capacity of six million cases per annum. The company is also planning to buy or build a similarly sized facility in Central Russia, to better serve the Urals and Siberia.

These steps have helped Soyuz-Victan capture a 3% plus volume share of the legitimate Russian market, while Nemiroff has also cemented a strong position, with Russia accounting for the lion's share of its 5.5 million case export figure.

Both companies have benefited from targeting the super-premium segment, but will face stiff competition from increasingly dynamic Russian operators in the future. They could also face tougher barriers to trade but, as one Russian vodka producer ruefully pointed out: "Even if the Russian Government takes drastic action against Ukrainian producers, Russian consumers are still quite loyal to Ukrainian vodka." In other words, they have already built a very strong niche for themselves.

Further a field: east meets west

Soyuz-Victan undoubtedly has ambition; when asked what the main challenges are for the company in its international markets this year, head of export marketing Yaroslav Bondarenko said, "Out of the top five world vodka markets, we have an aspiration to be number one in all of them, Russia, Ukraine, the US, UK and Poland."

This is going to take time, not least because beyond the Eastern bloc, most consumers know little if anything about Ukrainian vodka. That said, the forecasts provide some grounds for optimism.

While the Russian market is in long-term volume decline, the growth trend for premium and super-premium vodka is still good in the country. As we have seen, the Ukraine is likely to grow, although as Bondarenko admits there is fierce competition in the burgeoning on-trade environment.

Poland's vodka volume sales could grow by almost 8% over 2005-2010, clearing 29 million cases, and with strong prospects for international brands. By comparison, the US is set to dwarf other countries, growing by nearly 50% by volume, while the UK is set for a near 30% increase, according to Euromonitor International.

Nemiroff in particular, is aiming to cover all possible bases with a product portfolio comprising 25 types of spirit, including

classic and special vodkas, bitter and sweet liqueurs, and RTDs, although not all of these are an export focus beyond Russia.

The company has had a UK importer since 2005, with its distinctive honey pepper vodka leading the charge in on-trade establishments, and also looking at top end multiple retailers. Crucially, the company is aiming to spread its influence beyond London to cities such as Glasgow and Liverpool.

For Soyuz-Victan, SV is the major export focus, since Medoff's honey-influenced palate is regarded as being more suited to eastern tastes. The company is set to open its own offices in the US and UK, but acknowledges that faster growth is likely to be achieved in the former Soviet states for obvious cultural and social reasons.

Market making

The company has also taken Western marketing lessons to heart, spending an "eight-figure sum" in US dollar terms globally. This includes large amounts of television advertising and sponsorship of cultural and sporting events, particularly ice hockey. Here, the company is an official partner of the International Ice Hockey Federation, and also sponsors the Ukrainian, Russian and, since May 2006 the American international teams.

Meanwhile, Nemiroff has ploughed large amounts into boxing sponsorship and advertising, as well as being heavily involved in Kiev's hosting of the Eurovision Song Contest in 2005.

Marketing spend is key for these brands in the West, as with little consumer recognition they prepare to compete with some of the most heavily backed brands on the planet, such as Smirnoff, Absolut, Stolichnaya.

The brands have the ring of Eastern European authenticity about them, but cannot compete on this level with the heritage of neighbouring Russia. However, the major companies are arguably more dynamic and Western in their outlook, and are clearly willing to invest heavily in the key markets for the future. This they will have to do if their highly ambitious goals are to be reached.

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