

Promising future for fresh coffee in Russia

Contributed by Euromonitor International

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Promising future for fresh coffee in Russia, by Euromonitor International Instant coffee dominates the Russian coffee market, but new research from Euromonitor International suggests that growing consumer awareness and a burgeoning coffee culture could lead to strong future growth in fresh coffee.

Instant coffee has gained popularity in the Russian market primarily due to its convenience. Euromonitor International's new report "Hot Drinks in Russia" shows that instant coffee accounts for an impressive 90% share of the market in value terms. In 2004, sales of instant coffee reached almost US\$2 billion, with the market growing by some 13% on the previous year.

In contrast to instant coffee, the habit of drinking ground or fresh coffee beans in Russia is still in its infancy; however, value growth showed signs of promise at 10% in 2004. This growth has been strongly supported by the current boom in consumer foodservice in Russia, and especially by the dynamism of the chained coffee shop sector. By 2004, sales from coffee shops had grown to account for 8% of foodservice distribution, three percent higher than the previous year, according to Euromonitor International's research.

Russia: Retail Sales of Hot Drinks by Type This boom in coffee shops has exposed Russians to the coffee-drinking culture, which is expected to stimulate retail sales for fresh coffee, as consumers look to recreate the coffee shop experience at home. Seeing this trend, producers of instant coffee are holding back plans to establish new manufacturing facilities in Russia. Initially, a few manufacturers built production lines in Russia in order to reduce the import costs associated with instant coffee. However, the burgeoning fresh coffee trend has encouraged many to revise their plans to establish their own local production facilities.

Obstacles to growth? Despite growing consumer awareness, there remain potential obstacles to growth for fresh coffee. One concern is that the majority of Russian consumers still consider instant coffee to be a prestigious product, which means that many consumers see no need to switch to fresh coffee. Instead, increased consumer purchasing power in Russia means that consumers are showing more interest in value-added or premium instant coffee brands and instant coffee manufacturers are responding by offering premium brand extensions. Further, the penetration rate of filter coffee machines in Russian households is still extremely low, which deters consumers from buying fresh coffee for the home. However, the increasing western influence on the Russian market and rising levels of disposable income means that consumers are becoming more and more aware of fresh coffee and are likely to be able to afford filter coffee machines in the future. Thus it is likely that these hindrances to growth can be overcome and that consumers' new interest in premium brands and increased disposable income could even benefit the fresh coffee industry.

Outlook Euromonitor International forecasts great potential for fresh coffee in Russia in the next five years. Currently, per capita retail volume sales stand at a modest 100 grams in Russia, whereas in the UK per capita volume sales are 200 grams and in France, 2900 grams. Euromonitor International's research forecasts that the fresh coffee industry will grow by an impressive 36% in volume terms and 41% in value terms between 2004 and 2009. Key drivers of this growth are expected to be the positive impact of the continued expansion of the coffee shop industry and increasing consumer awareness of fresh coffee. As the foodservice industry in the largest cities is already established, foodservice entrepreneurs are now looking for opportunities in the provinces, which could translate into growth on an even larger scale.

"Hot drinks in Russia" is a new report from Euromonitor International. This report provides the latest retail sales data (1999-2004) on the coffee, tea and other hot drinks markets, allowing you to identify the sectors driving growth. It identifies the leading companies, the leading brands and offers strategic analysis of key factors influencing the market - be they legislative, distribution or pricing issues. Forecasts to 2009 illustrate how the market is set to change. Please visit Euromonitor International for more information