GREEN
DEVELOPMENT

REPORT # MI-ПГ02-2019 from 28.02.2019 G.

RUSSIAN CHEESE MARKET SPECIFICS RESEARCH

CUSTOMER:
"Rassvet" JSC

CONTRACTOR:
"Green Development" LLC

Moscow - 2019

GREEN DEVELOPMENT

TABLE OF CONTENTS

GREEN DEVELOPMENT

SECTION 1. RUSSIAN CHEESE MARKET GENERAL OVERVIEW AND TARGET PROJECT REGION (CFD)

1.1. BALANCE OF CHEESE MARKET IN RUSSIA IN 2016 - 2018 (MANUFACTURE, IMPORT, EXPORT, AVERAGE CONSUMPTION). FORECAST OF PRODUCTION DYNAMICS UP TO 2022

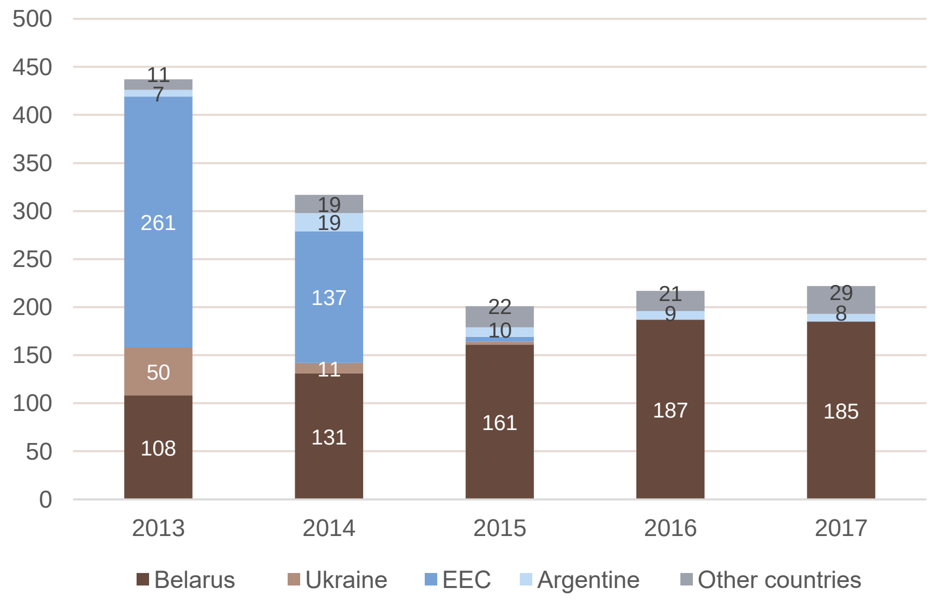
In the last 5 years, the Russian market of cheeses and cheese products is determined by the following trends:

1. Due to the food embargo and the devaluation of the ruble, the volume of imports decreased significantly.
2. Exports of Russian products is at a minimum level and does not have a significant impact on the market.
3. There was a significant import substitution, production growth was 53%.
4. The volume of cheese and cheese products consumption in quantitative terms and in dollar terms did not change, while the consumption increased significantly in ruble terms.
5. In the production structure, the share of cheese products has significantly increased - up to 29%.

CHEESE IMPORT

Since 2013, the quantities of cheese imports have significantly decreased. As a result of the food embargo, deliveries from the EU countries and Ukraine were practically ceased. Happened in 2014-2016 significant devaluation of the ruble did not allow an increase the quantities of product import to Russia from the main cheese-producing countries. Under these conditions, a significant growth, supported by the devaluation of the national currency, was demonstrated by deliveries of products from Belarus, currently occupying 83% of the total imports. Since 2016, the growth in deliveries from Belarus in natural terms has stopped amid growing volumes of Russian production, a reduction in the share of Belarussian suppliers may indicate the beginning of their crowding out by Russian producers. The dynamics of cheese imports is presented in Fig. 1.

Figure 1. Dynamics of cheese imports in the Russian Federation, thousand tons



Source: FCS

At the moment, in general, we can distinguish three groups of imported cheeses presented on the Russian market:

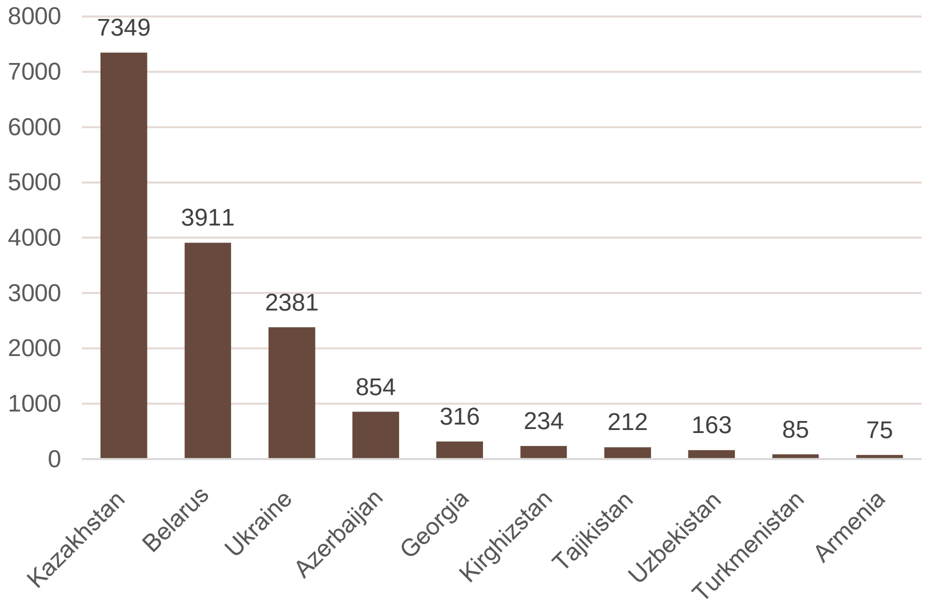
- cheap Belarussian cheeses;
- mid-range cheeses from Latin America;

- premium cheeses from Switzerland.

CHEESE EXPORT

The export of cheese from Russia is 25 thousand tons (4% of the productional volume) and shows zero dynamics. Almost the entire volume of exports is supplied to the countries of the former USSR, with a significant share for Kazakhstan.

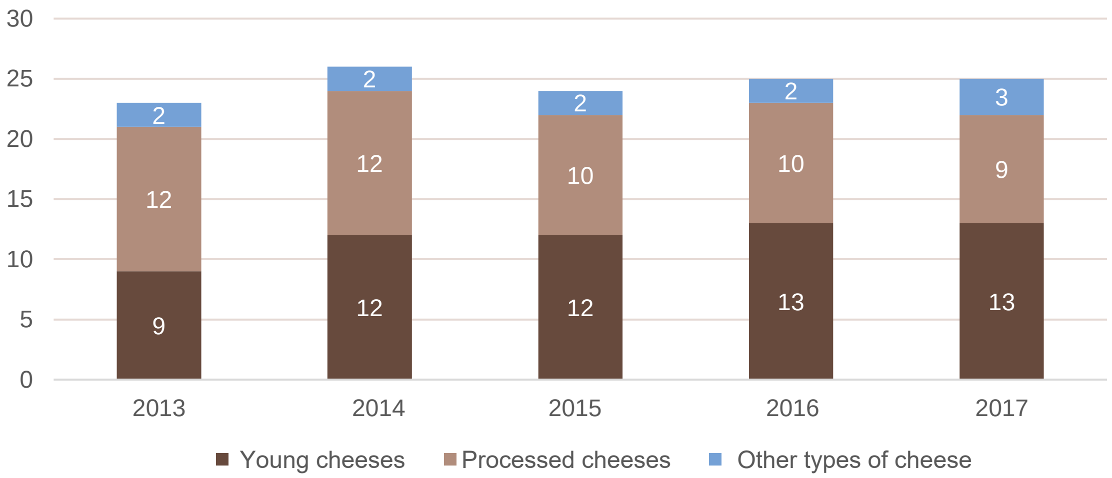
Figure 2. Main countries-importers of Russian cheeses, thousand tons



Source: FCS

Russia mainly exports young and processed cheeses. The dynamics of Russian cheese exports by product types is presented in Figure 3.

Figure 3. Dynamics of Russian cheese exports, thousand tons



Source: FCS

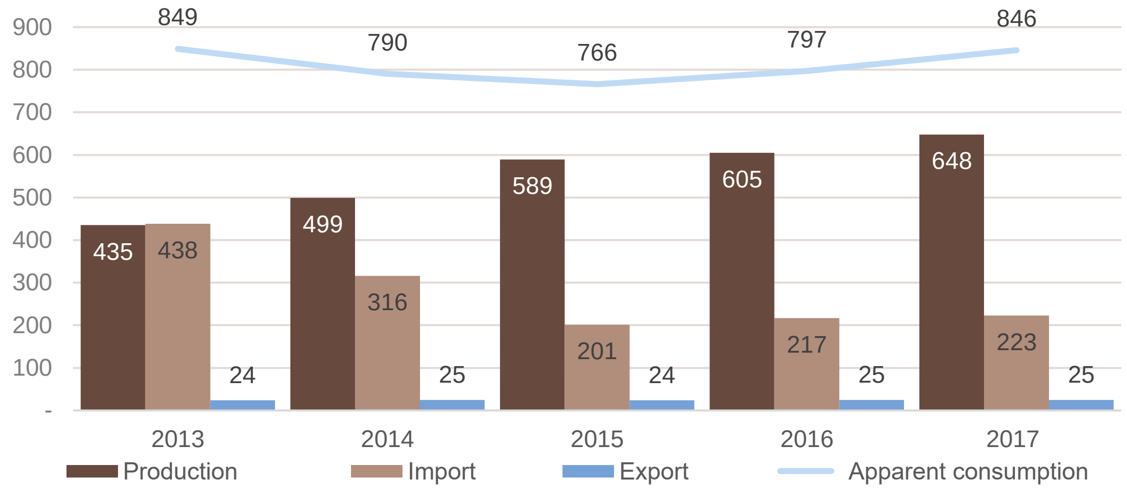
The export potential of traditional markets is negligible, due to the lack of growth in the consumption of cheese on them, as well as the increasing competition from Belarussian producers who are being squeezed out of the Russian market.

CONSUMPTION OF CHEESE IN RUSSIA

The volume of consumption of cheeses and cheese products in the period under review showed almost zero dynamics: apparent consumption increased from 2013 to 2017 by 2% in real terms, while in dollar terms it decreased by 0.4%.

However, due to the devaluation of the ruble, during this period, consumption increased by 82%. Taking into account that consumption in physical terms remains at the same level, it can be assumed that in this economic situation the market is at the stage of saturation and further growth in domestic consumption is limited by the dynamics of growth in household incomes (Figures 4-6).

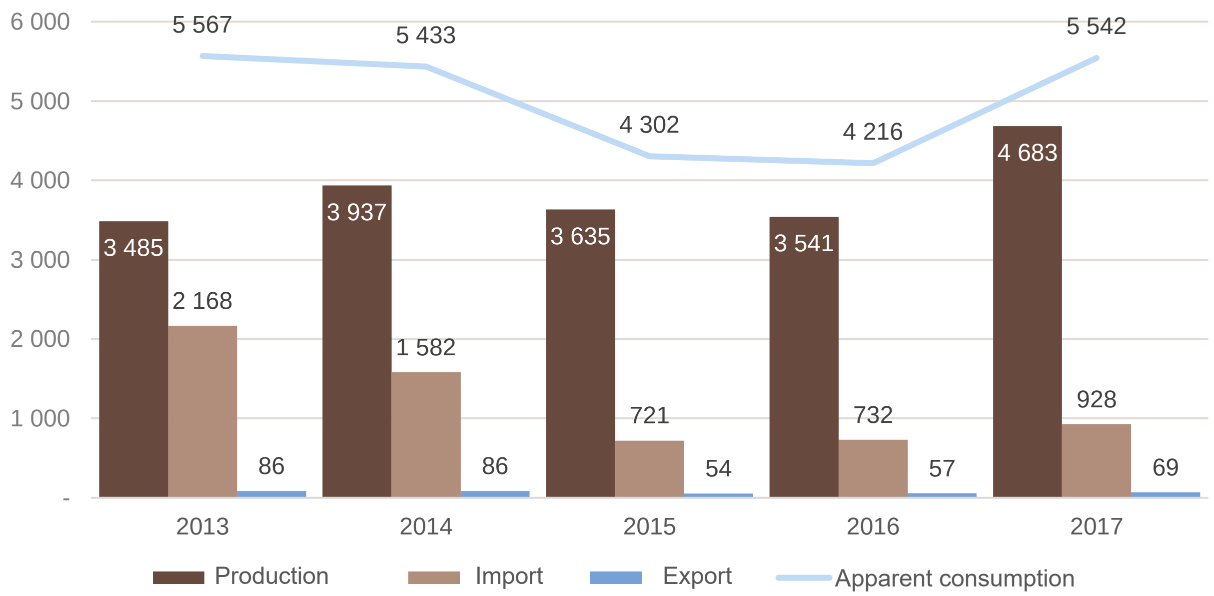
Figure 4. Cheese and cheese products consumption dynamics in real terms,



Source: Rosstat, FCS, analysis of Green Development LLC

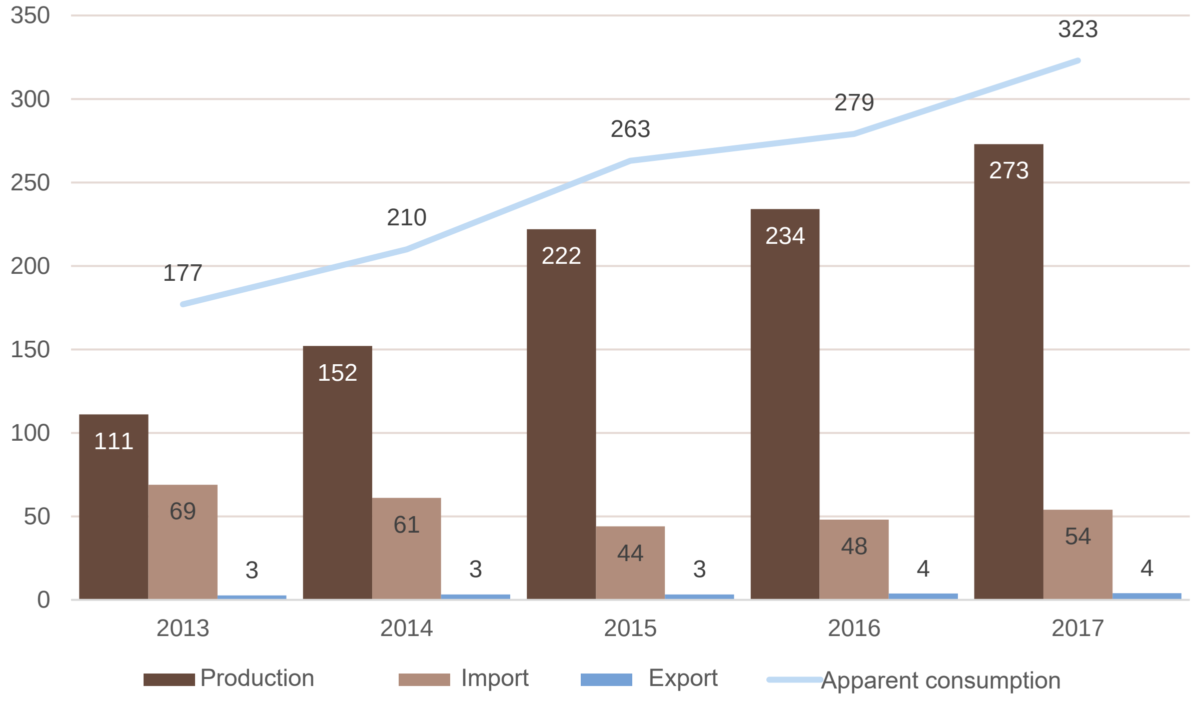
The following is the dynamics of the consumption of cheese and cheese products in dollar equivalent.

Figure 5. Cheese and cheese products consumption dynamics in dollar equivalent



Source: Rosstat, FCS, analysis of Green Development LLC

Figure 6. Cheese and cheese products consumption dynamics in ruble equivalent



Source: Rosstat, FCS, analysis of Green Development LLC

The consumption of cheese and cheese products per capita, according to the National Union of Milk Producers, is 5-5.5 kg per year, while the share of cheese products in the consumption structure doubled, reaching 29%. According to experts, the consumption of cheese in Russia is at least 2.5 times less than the average in Europe, and our country is five times behind France and Germany in the quantities of consumption.

Experts point out a halt in demand growth for cheese products and a slight increase in demand for natural products in 2018. And while the industry community is still cautious about this fact, preferring not to talk about the turning point of the trend, the majority notes that there is an unmet demand for high-quality cheeses of the European level.

CHEESE PRODUCTION IN RUSSIA

The dynamics of the production of cheese and cheese products since 2013 was determined by the following factors:

1. The introduction of an embargo on the supply of products from the EU countries.
2. Ruble devaluation.
3. Reduction of real disposable income of the population.

Russian manufacturers have actively filled in the free market niche resulting from the embargo. Before the introduction of the embargo, deliveries of cheese from the EU in 2013 amounted to 261 thousand of tons (1,274 million US Dollars). The devaluation of the currencies of Russia and Belarus did not allow suppliers from other countries to compete with the Belarussian and Russian ones effectively.

Figure 7. Cheese and cheese products production dynamics in real terms

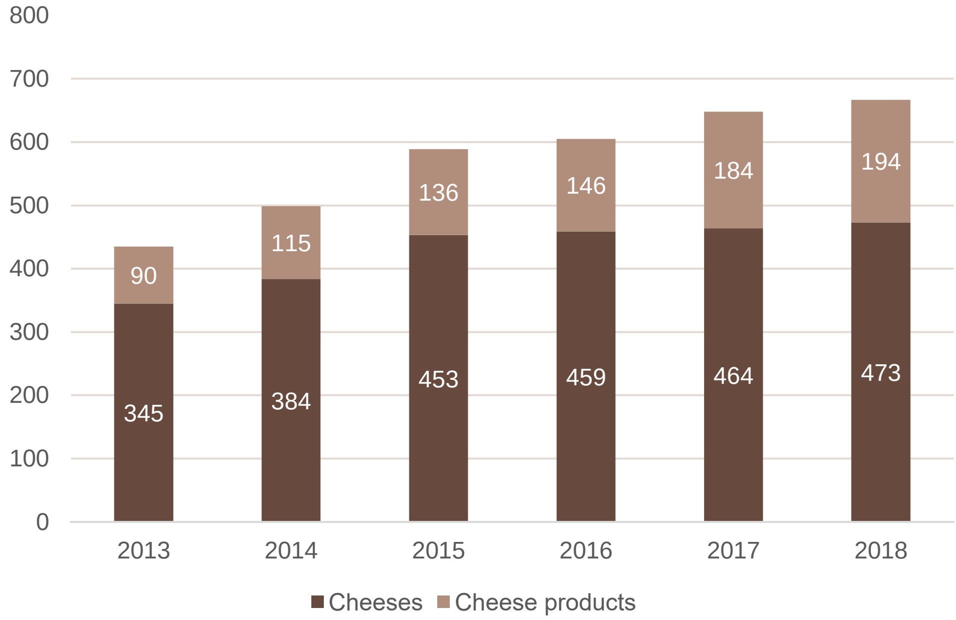
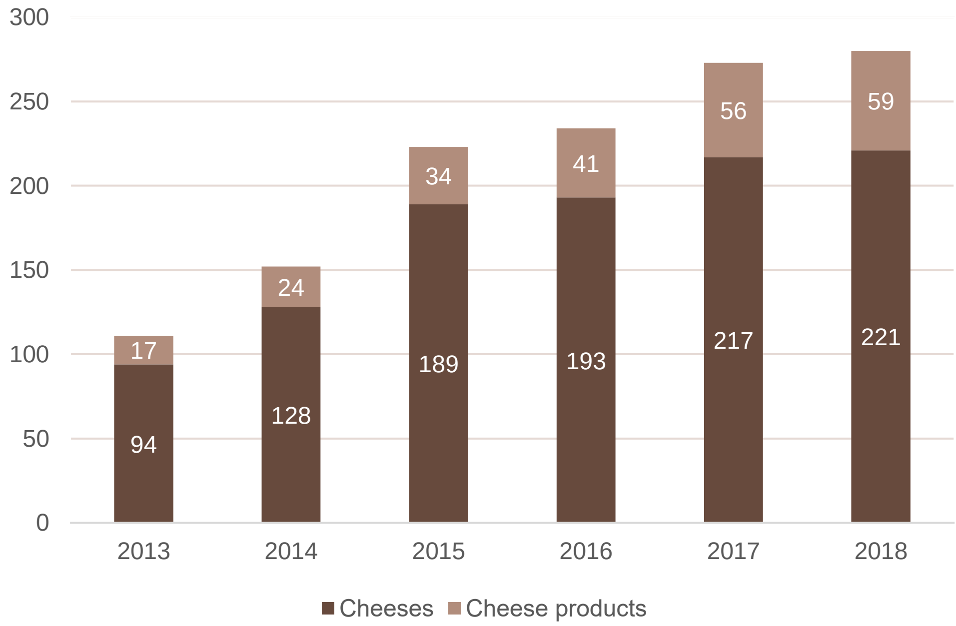


Figure 8. Cheese and cheese products production dynamics in ruble equivalent



From 2013 to 2018, the growth in domestic production of cheese and cheese products was 53%, reaching 667 thousand tons in 2018, including an increase in the production of cheese by 37% (473 thousand tons) and an increase in the production of cheese products - 115% (194 thousand tons). At the same time, the share of processed and young cheeses production has increased.

These trends are due to the following factors:

- drop in real incomes of the population over the past 5 years in a row;
- devaluation of the ruble led to a serious rise in the cost of many consumer goods, which further reduces the ability of the population to consume more expensive food products;
- a rise in raw material prices by 20% over 3 years and other costs led to a rise in producers' cheese prices by 50%;

- Retail prices increase is constrained by strengthening competition with cheaper products from Belarus and restrictions in the purchasing power of the population.

Against the background of these factors, cheese manufacturers, instead of gradually increasing prices, chose a way to reduce the cost of production and increase the quantities of cheese products production.

Key trends in the production of cheese and cheese products in this retrospective:

- production of hard and semi-hard cheeses increased in 2014-2015 by 30%, but subsequently stagnated due to the switching of capacities to the production of cheese products, the share of which increased to 29%;
- In general, the production of cheese and cheese products in the period 2014-2017 was rapidly growing against the background of import substitution from EU countries;
- in 2016-2018 the dynamics of cheese production growth began to slow down due to the saturation of the market and increased competition with comparable in quality but cheaper cheeses from Belarus;
- The production of young cheeses is growing steadily at 8% per year, which is connected both with their greater affordability and the development of consumer culture and the trend towards a healthy lifestyle;
- The production of processed cheeses until 2013 was rapidly decreasing due to the growth of incomes of the population, saturation of the market and switching consumers to more expensive types of cheese, but in 2014-2017 the reverse growth of the category started (by 5% per year) as the most affordable one.

The total capacity for the production of cheese and cheese products in Russia, according to expert estimates, is 780-800 thousand tons, but the capacity utilization differs significantly: from 80 - 100% of market leaders to 40-50% of small regional players.

Taking into account the plans of the leading players to increase capacity and increase competition with products from Belarus, it can be predicted that in the next 2-3 years the Russian market of cheeses in the segment of low-cost cheeses (in particular, soft and semi-hard) will reach the stage of formal overproduction and additional production quantities can be sent to promising export markets.

1.2. LEADING CHEESE PRODUCERS IN RUSSIA

GENERAL DATA ON THE RUSSIAN CHEESE PRODUCERS

After the introduction of the food embargo on the Russian market, there have been significant changes:

- in the period 2014-2016 the withdrawal of strong foreign players from the market and the availability of free capacity at Russian manufacturers allowed them to increase production quantities and quickly take market share;
- the active growth of supplies from Belarus in the period 2015-2018;
- during 2016-2018 the situation has stabilized both in relation to domestic producers and key European players who managed to adapt and partially localize the powers;
- In addition, in recent years, the high dynamics of production growth has attracted new players to the industry - Russian and international dairy companies, producers of raw materials, agricultural holdings from related sectors of the agro-industrial complex, etc.

At present, the balance of power in the Russian cheese market is as follows:

1. Large European companies that held leading positions in the cheese market before the embargo was introduced, today have localized production and are recovering their market positions lost in 2014:
    - Valio (Finland) - increased the capacity for the production of processed cheese at its own plant in Ershovo (Moscow region) from 6 to 15 thousand tons and launched a new line for cutting hard cheeses, and also actively expands the contractual capacity for production under its own brands

- Velikoluksky Milk Combine (hard cheeses), Allgoy (pre-packing and packing of hard cheeses);

- Arla Foods has established a joint venture with Molvest company on the basis of Kalacheevsky cheese factory with a capacity of about 8 thousand tons for the manufacturing of products under the Arla Natura brand;
- Hochland acquired the Belinsky cheese-making plant and expanded the capacity for cheese curds at its plant in the Belgorod region from 8 to 20 thousand tons per year;
- Lactalis Group evolutionarily strengthens its position in the market.

2. New large international players entered the Russian market:
   - DMK Group (the largest cheese maker in Germany) acquired Bobrovsky Cheese Factory and its associated cheese distributors, and then invested more
   - 500 million rubles in increasing of milk processing from 200 to 600 tons per day and increase of cheese production by 1.5 times - up to 30 tons per day.
   - Savencia fromage & dairy (producer of cheese No. 2 in France and No. 4 in the world) acquired a controlling interest in Belebeevsky Dairy Plant, launching production of soft cheeses with a planned production quantities of up to18 thousand tons per year at its facilities and arranged imported cheese packaging procedure.
3. The largest domestic market players continue to increase production capacity:
   - Since 2015, Foodland has expanded the capacity of its cheese factories from 13 to 20 thousand tons;
   - Wimm-Bill-Dann increased capacity at Rubtsovsk Cheese Factory from 18 to 24 thousand tons;
   - Neva Milk launched the production of Feta cheese with a capacity of 5 thousand tons at the Northern Milk plant;
   - The remaining major domestic players have also increased their capacity by 10-30%.

By 2018, the cheese market in Russia has become quite consolidated, especially in the segments of processed and young cheeses, in which the share of the five largest producers reached 70-75%. The segment of hard and semi-hard cheeses is less consolidated, the share of the fifteen largest producers is 50%.

FORECAST OF PRODUCTION DYNAMICS UP TO 2022

Based on the announced plans to expand capacity and build new cheese factories, in the next 2-3 years we can expect an increase in the production of cheese and cheese products in Russia by 15-30% to 750-850 thousand tons. Additional volume, taking into account the state of the domestic Russian market that is close to saturation, can go to foreign markets and become one of the drivers of the dairy products export growth.

To date, the following major projects for the construction of new and increasing existing cheese production capacities are at different stages of implementation:

- GK "Ekoniva" began construction of a plant with a processing capacity of up to 1,000 tons of milk per day in the Novosibirsk region. By 2019-2020, it is planned to reach production capacity of up to 35 thousand tons of cheese per year. In addition, the company announced the possibility of building a cheese factory in the Voronezh region.
- The Agroholding named after Tkachev at the end of 2018 launched a plant for the production of soft and semi-hard cheeses in the Krasnodar region with a capacity of up to 50 thousand tons per year;
- The Neva Milk Group of Companies in 2019 plans to launch the first stage of a plant in the Vologda region with a production capacity of 12 thousand tons of cheese per year with access to full capacity by 2021-2022;
- GK "Komos Group" - plans to increase the capacity of "Kezsky Cheese Factory" from 9 to 20 thousand tons per year;
- Molvest Group of Companies together with Arla Foods launched the production of cream cheese with a capacity of up to 9 thousand tons per year in the Voronezh Region;

- Hochland plans to double the production of curd cheeses to 38 thousand tons by 2020, and also start the production of feta cheese;
- Savencia fromage & dairy is implementing a project to modernize the production capacity of Belebeevsky Dairy Plant, which will allow to increase the production of hard cheeses from 8 to 16 thousand tons by 2020, as well as launch the production of elite French soft cheeses with a capacity of 15 thousand tons;
- "Karat" MZPS (Moscow Processed Cheese Plant) plans to build a semi-hard cheese plant with a processing capacity of up to 600 tons of milk per day;
- Zalesskoe Milk is investing 2.2 billion rubles in the construction of a cheese production plant in the Kaliningrad region; capacity of the plant will be up to 8 thousand tons of semi-hard cheeses per year, the start of production is scheduled for the end of 2019 - the beginning of 2020.

Within the framework of public-private partnerships, the creation of large cheese clusters and the attraction of industry-specific investors are declared by a number of regions. So, the Tambov region is planning to create a cluster with total production up to 35 thousand tons with the participation of Bondar Cheese Factory, the Moscow region is actively developing a cluster project in the Dmitrovsky district with a total capacity of 100 thousand tons per year.

1.3. SPECIFICITY OF CHEESE MARKET IN THE RUSSIAN FEDERATION

1. The specificity of consumer behavior.
2. Specificity of cheese sales channels.
3. Specific regulation of the cheese market.

THE SPECIFICITY OF CONSUMER BEHAVIOR

As mentioned above, the consumption of cheese in Russia is much less than in Central Europe. One of the reasons for the absence of a formed cheese market in Russia is that the consumer remains quite conservative and cautious in the choice of quality and safe product. The domestic consumer is not ready to pay more for the expensive types of cheese, not having full information about the quality of the product, and what manufacturer he can trust.

There are no popular brands of cheese on the market that would have a high level of recognition and trust from customers.

An important role in the low consumption of cheese in Russia was played by the negative information background present in the federal print and television media.

Example 1 Excerpt from the article on the official website of "Roskachestvo" about the study of "Russian" brand cheese	*"Another common falsification for cheese is a reduction in the percentage of fat. A similar violation Roskachestvo already revealed in the study of the quality of mayonnaise and butter. Thus, the mass fraction of fat in the dry matter for "Russian" cheese is set by GOST at 50%. If on the packaging it is indicated that the mass fraction of fat in the dry matter is 50%, and during the study it turns out that it is less - this is a clear violation of the production technology, possibly cost-effective for the manufacturer. And if the package shows a smaller amount of fat, this is no longer a classic "Russian" cheese, but another product. "*[1]
Example 2. Excerpt from the publication on the site of "Roskontrol" about counterfeit cheeses in stores	*Examination showed: 60% of proven cheeses are counterfeit. Moreover, if earlier, examining cheese and other dairy products, the experts mainly identified a partial replacement of milk fat, but now not a single gram of milk samples has been detected. They are completely 100% composed of vegetable fat.*[2]

[1] https://roskachestvo.gov.ru/news/roskachestvo-issleduet-rossiyskiy-syr-/?sphrase_id=543903

[2] https://roscontrol.com/journal/tests/est-li-v-rossii-nedorogoy-i-kachestvenniy-sir/

In addition, all the basic information about the quality and safety of products is currently presented, mainly, in specialized publications, the audience of which are professionals of this market.

Based on the above, we can confidently conclude that Russian cheese producers need to invest more in the marketing promotion of their products.

The absence of well-known brand leaders on the cheese market makes it easier for new producers to enter it.

SPECIFICS OF SALES CHANNELS

Speaking about the specifics of cheese channels in Russia, it is necessary to note three key points:

1. In the cheese segment, as in the dairy market as a whole, distributors still play an important role in the supply chain.
2. Specialized dairy and farm stores are a good tool for selling cheeses, especially at the stage of entering the market of a new producer, but since the frequency of purchases in them is lower than in regular retail, they should not be regarded as a priority sales channel.
3. Trading networks, being the main sales channel of cheeses, largely determine the range and price positioning of products from most manufacturers.

The main factors to consider when working with various sales channels are listed below.

The information in this section has been prepared taking into account the opinions of employees of distribution companies and retail chains; therefore, it is advisable to consider it not as “market dogmas”, but as an expert assessment of professional market participants.

Sales channel	Work specifics
Distributors	• The main competitive activity in this sales channel is observed in the segment of semi-hard cheeses worth 350-400 rubles per 1 kg. • Non-specialized distributors (that is, not having sales outlets for selling expensive cheeses in their customer base) are practically not ready to work with cheeses that cost more than 700 rubles without marketing support from the manufacturer. • For many distributors, working with cheese is an income “from turnover” rather than “from margin”. That is why, in the assortment of distributors, cheap Belarusian cheeses which are in steady demand, are widely represented. • Belarussian manufacturers often provide distributors with commercial conditions better than Russian ones (including they are ready to manufacture products under the trademarks of distributors). This is due to the support of Belarus dairy products export at the state level. • The key criteria for choosing a cheese supplier by distribution companies are as follows: – quality product; – granting a deferment of payment (at least 2 weeks), in the case of a distributor working with networks - a deferment should go beyond the deferment of the network; – acceptance by the manufacturer of returns of unsold products;

	– timely review of prices, taking into account price changes in the market. • Distributors with a stable and extensive customer base, quite often buy cheese in Euroblocks themselves and pack it under their own trademarks (in particular, PIR).
Retail chains	• In the segment of low-cost semi-hard cheeses (such as "Russian", "Dutch", "Gouda", etc.), large federal chains are very actively developing product sales under their own trademarks (STM). In such networks as Pyaterochka, Dixy, products under the STM are among the leaders of the categories. • The requirement of regional networks to provide them with the lowest prices for cheeses sometimes leads to the fact that manufacturers produce two types of cheeses under the same brand: one (more qualitative) - for all clients, except networks, and the other (less quality, but very cheap) - only for a specific network / networks. • Despite the fact that the main payments of suppliers (retro bonuses) to retail chains are defined in the “Law on Trade”, some regional networks still practice the practice of collecting “input” bonuses and additional marketing payments. In addition, such payments are official in nature and are executed in separate agreements for the provision of additional services. • Retail chains, being the most stable and solvent sales channel, can also delay payments for delivered products. The usual delay in payment is about two weeks from the date specified in the main supply agreement.

SPECIFIC REGULATION OF THE CHEESE MARKET IN RUSSIA

The objectives of this research do not include an analysis of the regulatory framework of the cheese market in Russia, but it is important to note some recent legislative initiatives that may have a significant impact on it.

Permission to use unpasteurized milk in cheese production

At the moment, the Ministry of Agriculture is "working on the issue" of introducing GOST for milk to produce cheese and lifting the ban on the production of cheese from raw milk. The issue is being discussed "with industry unions, representatives of the scientific community and regulatory bodies." The reason for this was the appeal of manufacturers of the Russian Federation claiming that the development of the cheese market in Russia is hampered by an outdated regulatory framework. In particular, the ban on the production of cheese from unpasteurized, that is, not heat treated at temperatures above 40ºC, milk. Popular European hard cheeses - Gruyere, Conte, Parmigiano Reggiano, Grana Padano, and others - are made only from raw milk and thus have "their own unique taste, texture and unique flavor." Therefore, the conditions in which Russian producers work "make it impossible to completely replace imported products with domestic ones." The lifting of the ban must be accompanied by "strict quality control, strict requirements for milking conditions, milk collection and storage, animal health and workers employed in the manufacture of cheeses and cheese production itself ".[3]

[3] https://milknews.ru/index/minselhoz-tekhnologiya-syr.html

Realization of natural dairy products and products with substitutes for animal fat in different sections

On July 1, 2019, in accordance with the Decree of the Government of the Russian Federation, new rules for the sale of dairy products were established. According to these rules, retailers must place natural dairy products separately from other products, as well as accompany them with the signature “no milk fat replacer” .[4]

On the one hand, this solution will allow manufacturers producing high-quality and natural products to increase their representation in retail (especially in retail chains), but on the other, it will affect the price of dairy products, since retailers will transfer the cost of restructuring the sales scheme of this product category to the mark-on.

Inclusion of dairy products in the "Mercury" system

According to the position voiced by representatives of the Ministry of Agriculture of the Russian Federation, the department plans to include finished dairy products in the Mercury system from April 2019.

From July 1, 2018, manufacturers in the Russian Federation must issue veterinary certificates for animal products in electronic form in the Mercury system. The requirement affects producers of meat, meat products, milk, and other goods. Ready-made dairy products were also proposed to be included in the list of products, which are accompanied by veterinary certificates, but in the end they were excluded from the list.[5] Currently, the Ministry of Agriculture proposes to reconsider the decision.

The inclusion of finished dairy products in the "Mercury" system will increase the transparency of all stages of its production (which is especially important when entering the international markets), but for small producers it will be a certain difficulty, since it will require special skills to work with this system.

Experts also note that the inclusion of dairy products in the Mercury system can be a factor in the disruption of supply to network retail due to the difficulty in obtaining electronic certificates.[6]

1.4. ASSESSMENT OF THE CHEESE SALES QUANTITIES IN THE CENTRAL FEDERAL DISTRICT IN 2018

According to experts' estimate, sales of cheese and cheese products in the Central Federal District covers more than 40% of the entire Russian market. This is due to the following specifics of the region:

1. The greatest concentration of effective demand.
2. The greatest availability of modern retail space.
3. The presence of a developed logistics infrastructure.

In fact, the CFD is the most attractive region for cheese producers in terms of distribution development.

According to experts in the field of sales of dairy products to the advantages of work in the Central Federal District should also include:

1. A large number of distributors of dairy products. At the same time, distributors rarely occupy a monopoly or pronounced leading position in a particular region or sales channel. In other words, the manufacturer can choose between different distributors acting in the same sales directions.
2. Customers are more willing to consider working with a new assortment, because due to the high internal competition, “tweaking” on unique positions is a significant competitive advantage.
3. Due to the higher than other regions of the Russian Federation solvent demand in the Central Federal district, customers pay more attention to the quality of products. Thus, an important role in the development of successful sales of cheese in the Central Federal District will be played by both modern equipment of the production complex and the production of high-quality products.

[4] https://www.agroinvestor.ru/markets/news/31138-molochnye-produkty-budut-prodavat-otdelno/

[5] https://milknews.ru/index/merkurij-gotovaya-molochnaya-produkciya.html

[6] https://agrovesti.net/news/indst/ritejlery-predrekayut-pereboi-s-postavkami-moloka.html

Also, according to experts, one of the difficulties in working in the CFD is the factor of supplying unaccounted import products to it (in particular, from Belarus), which can occasionally lead to sudden price changes.

1.5. EVALUATION OF THE CFA MARKET SHARE IN THE GENERAL VOLUME OF THE RF CHEESE MARKET

The quantities of cheese and cheese products production in the Russian Federation from 2016 to 2018 increased by 11% and amounted to 671.9 thousand tons. At the same time, the growth rate decreased by 2 times (from 7.3% to 3.7%).

The quantities of cheese and cheese products production in the Central Federal District from 2016 to 2018 showed a similar dynamics: the increase has risen by 10%, the average annual growth rate decreased from 7.2 to 2.8%.

According to Soyuzmoloko estimate, the production quantities in 2018 amounted to 274.5 thousand tons, the Central Federal District took a share of about 41% in Russian production.

The TOP-5 in terms of the production of cheese and cheese products among the regions of the Central Federal District in 2018 include:

- Voronezh region – 63 thousand tons;
- Moscow region – 60.8 thousand tons;
- Bryansk region – 39,3 thousand tons;
- Belgorod region – 35,3 thousand tons;
- Ryazan region – 16.3 thousand tons.

The leaders in production growth from 2016 to 2018 are:

- Belgorod region - an increase of 11.7 thousand tons (50%);
- Moscow region - an increase of 10.8 thousand tons (21%);
- Bryansk region- an increase of 3.8 thousand tons (11%).

1.6. THE ESTIMATE OF THE AVERAGE DISTRIBUTION SALES OF CHEESE BY DISTRIBUTION CHANNELS

Before proceeding to an assessment of the cheese sales distribution by sales channels, it is necessary to describe these channels:

1. Trading network

A trade organization that sells goods through several stores united by a single name, implementing a single commercial policy, the delivery of products to outlets of which is carried out under a single contract.

2. Non-network retail

All types of separate non-network retail outlets that sell food and consumer goods both in the "self-service" format and in the "over the counter" format. Non-nework retail includes pavilions, kiosks and containers, convenience stores, etc.

3. Markets

Separate non-chain retail outlets located in both stationary and temporary markets (for example, weekend fairs). In most cases, they sell products directly to customers, but they can also sell small wholesale.

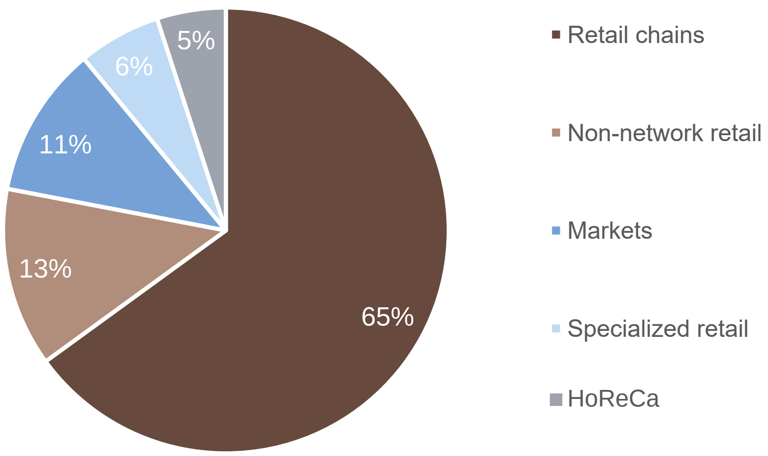
4. Specialized retail

Separate non-chain retail outlets specializing in the sale of one key product category and related products (for example, beer, sausages, dairy products, etc.).

5. HoReCa

An organization that purchases products for further processing / processing and sale through the organized food channels that belong to it, or is the exclusive supplier of these channels.

Figure 9. Cheese distribution by sales channels



Source: analysis of "Green Development"LLC

As follows from the analysis of the dairy products sales structure, the main channel for sales of cheese in the country are retail chains - their share is about 65%, followed by non-network retail in a large margin.

It should be noted that not only large dairies, but also farms try to get a way into the retail chains. This is due to the following factors:

1. Among all the sales channels the networks are the most stable in terms of the quantities of purchases of manufactured products.
2. Trading networks allow to ensure the launch and promotion of products on the market quickly and efficiently.
3. Trading networks have the highest solvency.

The biggest risk in working with retail chains for small and medium-sized dairy producers is adjusting the range and commercial policy to the requirements of one or another retailer.

In fact, the manufacturer may lose the uniqueness of its product range in an effort to fulfill the requirements of network customers.

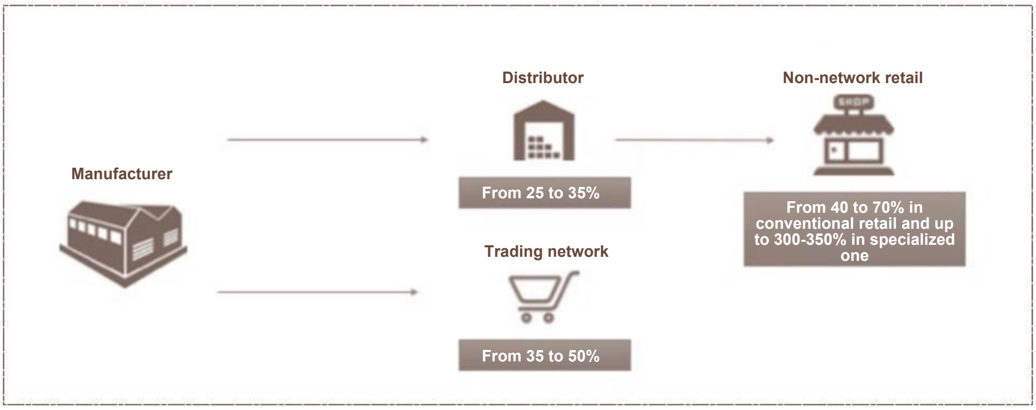
GREEN DEVELOPMENT

SECTION 2. CHEESE SUPPLY CHAIN ANALYSIS

2.1. ASSESSMENT OF CHEESE PRICING IN VARIOUS CHANNELS OF SALES

Formation of cheese pricing in various sales channels is as follows:

Figure 1. Scheme of forming margins on cheeses in various sales channels



As for the frequency of prices revision, manufacturers primarily change prices in the periods when the price of milk changes. In this case, the adjustment is made on the percentage change in the cost.

EXAMPLE:

The manufacturer delivers the cheese to the network at a base price of 350 rubles / kg. Due to milk and transport services price increase, its cost increased by 3%. The network is usually ready to consider price adjustment in an amount not higher than the precentage of cost increase. In case the network agrees, the price of cheese will be 360.5 rubles / kg. Thus, the basic yield remains the same, the price correction only compensates for the increase in producer's costs.

In practice, customers' prices are revised no more than once a month, despite the fact that it is usually possible to significantly change prices in distribution networks for producers not more than once or twice a year.

In the lower and middle price segments of cheese, the competition is so great, and the customers' income is so insignificant that a discount of 10-15% on the part of the supplier can be almost a 100% guarantee that customers will switch specifically to its products.

When planning the price positioning of products, it is necessary to take into account the fact that, against the background of falling incomes of the population, price promotions arranged jointly by manufacturers and retailers play a special role. The share of "promotional" products in the mass market segment can account for up to 60-70% of the total sales of the category. Accordingly, the manufacturer needs to calculate in advance which types of products he plans to use in promotions.

Usually, promotions in retail chains have the following parameters:

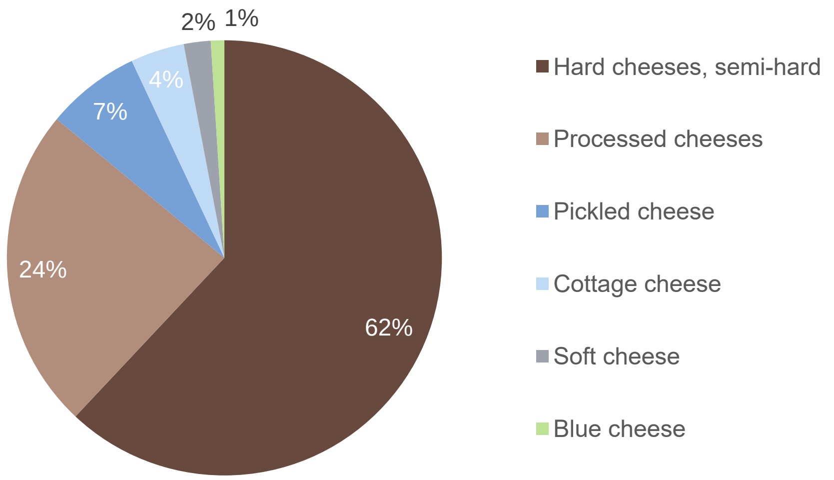
Campaign period	**1 to 2 weeks**
Discount rate provided by the manufacturer on the promotional range	**From 15 to 20% of the current delivery price**
Additional provider payments to the network address	**Up to several hundred thousand rubles for the production of promotional materials (catalogs, price tags, etc.)**

2.2. CHEESE SALES QUANTITIES ASSESSMENT IN VARIOUS PRICE SEGMENTS ON THE BASIS OF THE ANALYSIS OF THE NETWORK CHANNEL OF SALES

This section describes the structure of the implementation of various types of cheeses based on the analysis of the network sales channel.

For the analysis of price groups, average "shelf" prices of cheese per 1 kg were used in the CFD network sales channel.

Figure 10. The share of cheese sales by type in real terms

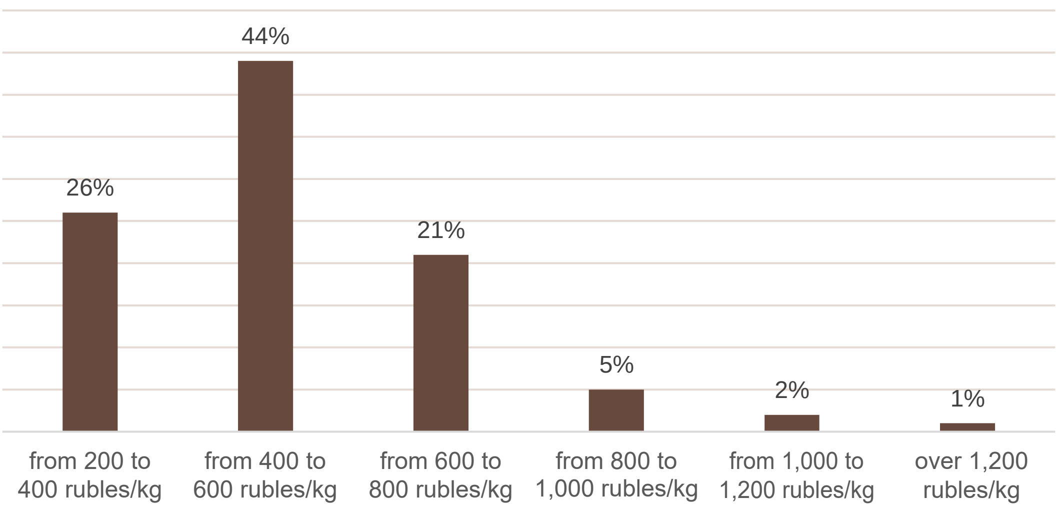


As can be seen from the figure, the category "hard and semi-hard" cheese occupies the largest share in the sales structure of cheese. It is important to note that from the point of view of category management, most networks do not use the division into "hard" and "semi-hard" cheeses , most often they are combined into one category.

According to experts, the category "hard and semi-hard cheeses" in real terms is divided as follows:

- semi-hard cheeses – 63%;
- hard cheeses – 37%.

Figure 11. Distribution of hard and semi-hard cheese sales by price segments



As can be seen from the chart, the main sales quantities in the category "hard and semi-hard cheeses" fall on the price segment of 400-600 rubles.

Accordingly, the new cheese producer needs to be prepared for the fact that its products will be compared by the network with the main sales group.

Figure 12. Distribution of cottage cheese sales by price segments

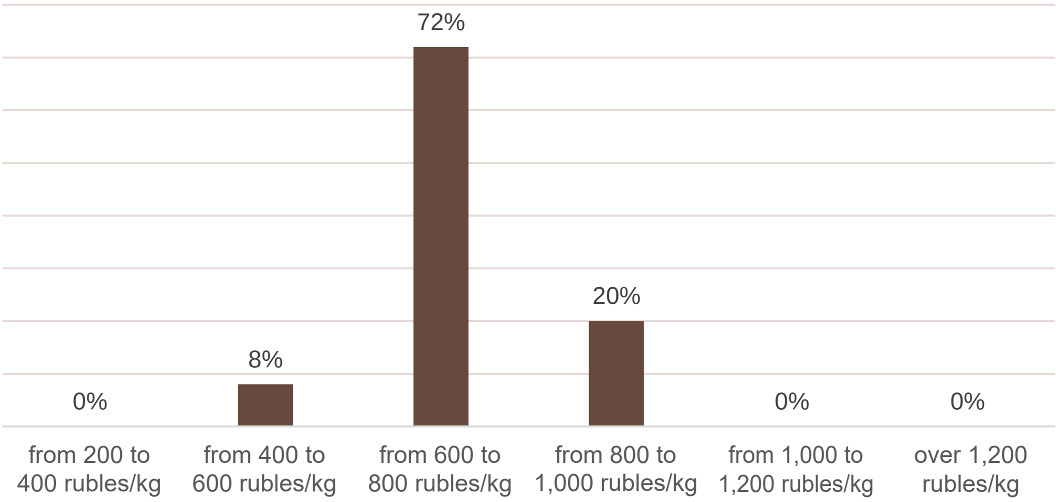


Figure 13. Distribution of blue cheese sales by price segments

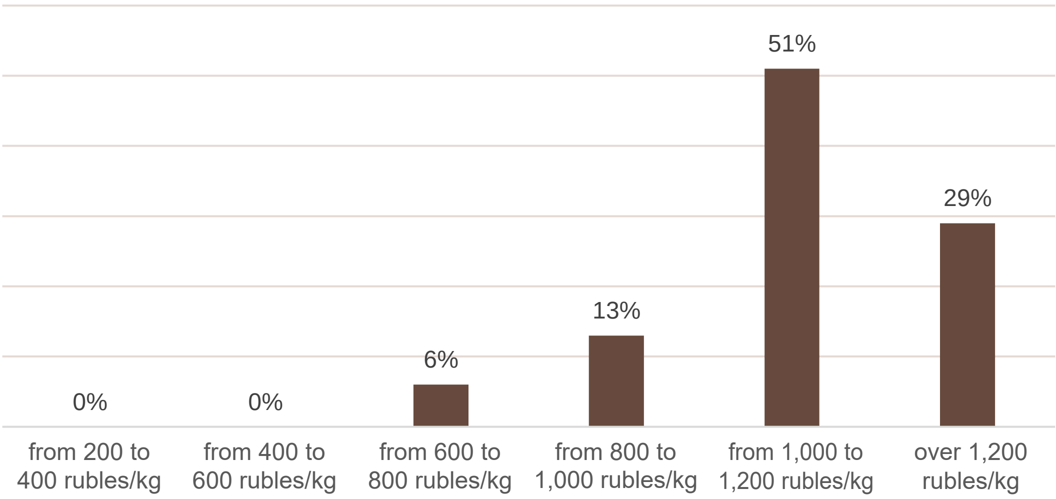


Figure 14. Distribution of pickled cheese sales by price segments

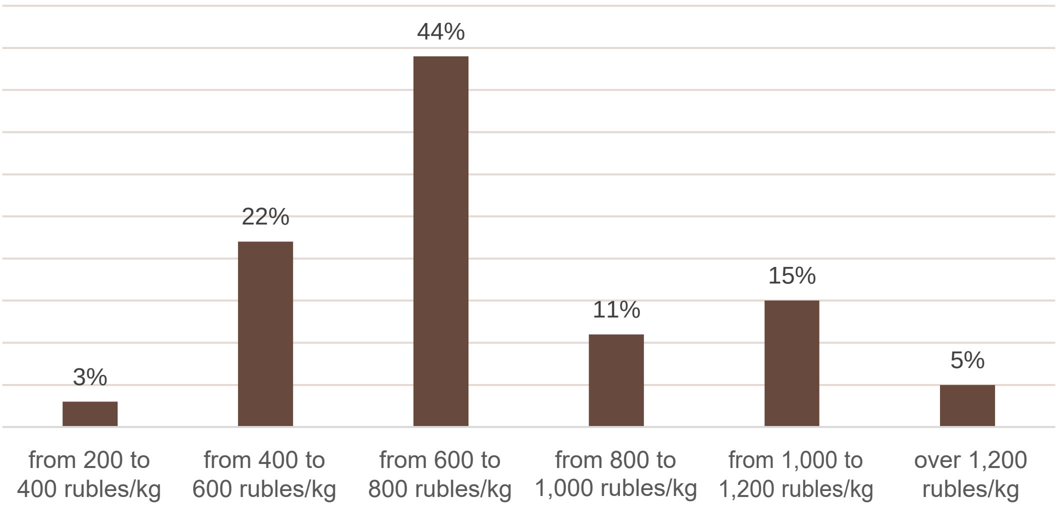


Figure 15. Distribution of processed cheese sales by price segments

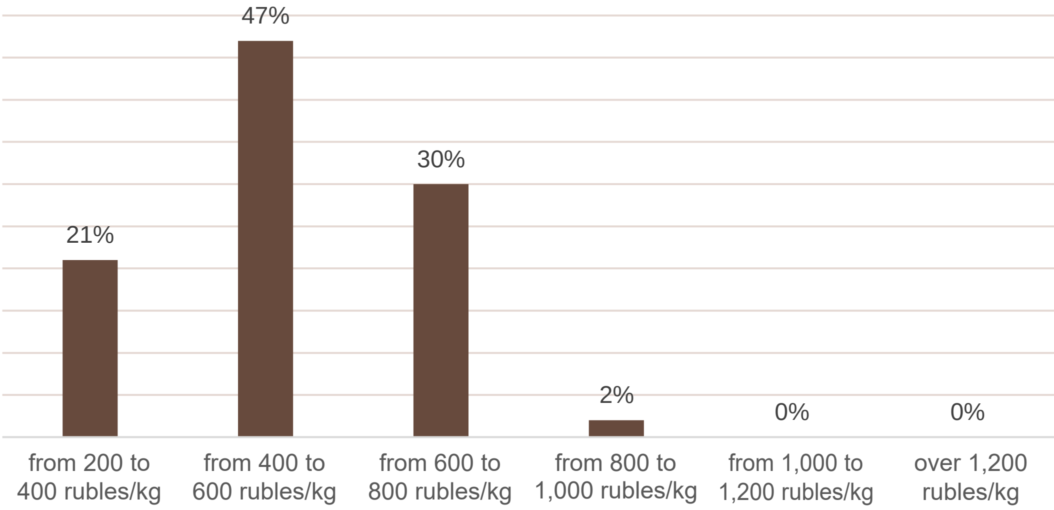
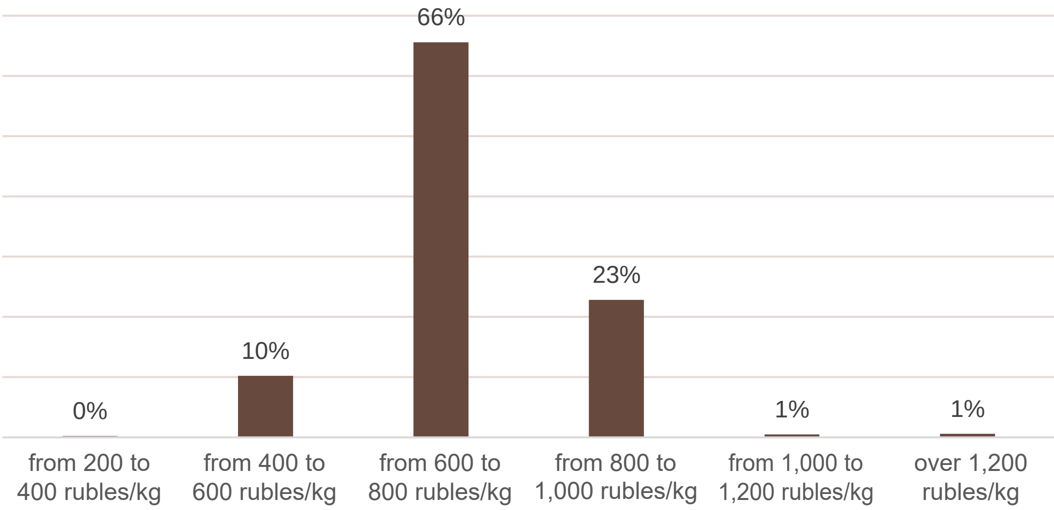


Figure 16. Distribution of soft cheese sales by price segments



2.3. DISCLOSURE OF LEADING GOODS IN VARIOUS PRICE SEGMENTS ON THE BASIS OF ANALYSIS OF THE NETWORK CHANNEL OF SALES

Table 1 Bestsellers in the category of semi-hard and hard cheeses

Item	Manufacturer / brand	Indicative price of delivery to the network, RUB/kg (including VAT)	Goods location
Hard cheese 50% 1 kg	LAMBERT	510	shelf
Cheese Tilziter 1 kg	LEBENDORF	430	counter
Hard cheese 50% 1 kg	LAMBERT	600	counter
CLASSIC semi-hard cheese 45% 200 g	LEBENDORF	530	shelf
EDAM cheese 1 kg	LEBENDORF	410	counter

Table 2 Bestsellers in the category of cottage cheeses

Item	Manufacturer / brand	Indicative price of delivery to the network, RUB/kg (including VAT)	Goods location
Herbal cottage cheese 60% 140 g	HOCHLAND	530	shelf
Curd cream cheese 60% 140 g	HOCHLAND	530	shelf
Herbal curd cheese 70% 140 g	VIOLETTE	480	shelf
Curd cream cheese 60% 220 g	HOCHLAND	490	shelf
Curd cream cheese 60% 150 g	ALMETTE	640	shelf

Table 3 Bestsellers in the category of blue cheeses

Item	Manufacturer / brand	Indicative price of delivery to the network, RUB/kg (including VAT)	Goods location
Camembert cheese with white mold 45% 125 g	VIOLETTE	1,370	shelf
BRIE cheese 60% 1 kg	PRESIDENT	1,570	counter
Cheese with blue mold 50% 100 g	DORBLU	1,800	shelf
Cheese with blue mold 50% 100 g	GRANDBLU	1,500	shelf
Blue cheese with noble mould 50% 1 kg	SINEGORYE	800	counter

Table 4 Bestsellers in the category of pickled cheeses

Item	Manufacturer / brand	Indicative price of delivery to the network, RUB/kg (including VAT)	Goods location
Pickled product ORIGIN 55% 200 g	SIRTAKI	360	shelf
Cheese SERBIAN Brynza 45% 250 g	Mlekara Sabac	510	shelf
Cheese product FETAKSA 60% 400 g	HOCHLAND	460	shelf
Brynza cheese 30-50% 1 kg	Tender	400	counter
MOZZARELLA mini, 45% 285 g	GALBANI	500	shelf

Table 5 Bestsellers in the category of processed cheeses

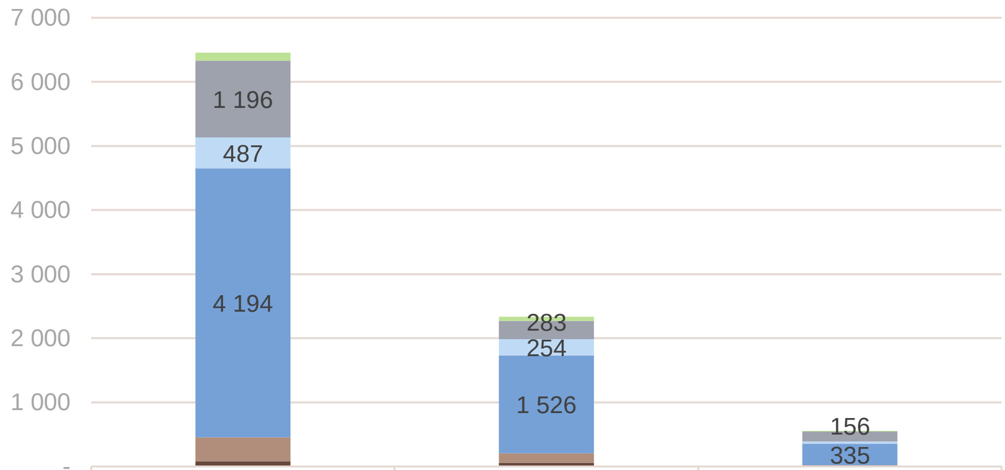
Item	Manufacturer / brand	Indicative price of delivery to the network, RUB/kg (including VAT)	Goods location
Cream cheese 45% 400 g	PRESIDENT	370	shelf
DRUZHBA cheese 45% 90 g	CARAT	310	shelf
VIOLA cream cheese 60% 400 g	VALIO	450	shelf
Cheese with ham 45% 400 g	PRESIDENT	370	shelf
Cream cheese 55% 400 g	HOCHLAND	390	shelf

Table 6 Bestsellers in the category of soft cheeses

Item	Manufacturer / brand	Indicative price of delivery to the network, RUB/kg (including VAT)	Goods location
Adygei cheese 40% 300 g	Giaginsky dairy plant	580	shelf
Adygei cheese 40% 1 kg	Giaginsky dairy plant	510	counter
Adygei cheese 45% 300 g	Giaginsky dairy plant	630	shelf
MASCARPONE cheese 80% 250 g	TRATTORIA di Maestro TURATTI	580	shelf
Adygei cheese 45% 1 kg	Giaginsky dairy plant	430	counter

2.4. ASSESSMENT OF AVERAGE MONTHLY SALES OF CHEESE IN RETAIL OUTLETS OF VARIOUS FORMAT IN THE NETWORK SALES CHANNEL

Figure 17. Average monthly sales of cheese by type in terms of format of outlets, kg



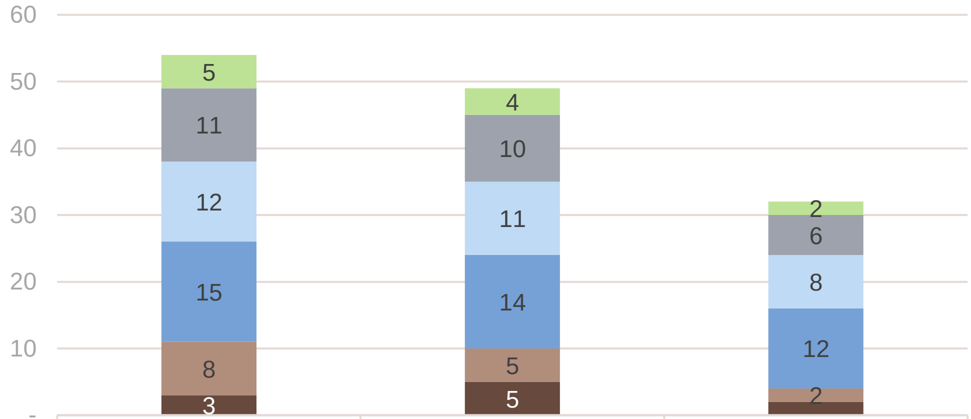
	Hypermarket	Supermarket	Discounter
Soft cheese	123	67	8
Processed cheeses	1 196	283	156
Pickled cheese	487	254	34
Hard cheeses, semi-hard	4 194	1 526	335
Cottage cheese	374	151	19
Blue cheese	81	57	1

As can be seen from the chart, the largest sales of cheese falls for the hypermarket outlets. According to experts, such sales are caused not only by the general nature of more capacious purchases in hypermarkets, but also by the fact that this format of stores has the highest number of impulse purchases. Thus, for the new cheese producer, the "hypermarket" format is of the greatest interest from the point of view of the primary sales dynamics formation .

Obviously, these figures are averaged indicative, since the actual sales volume of each particular store depends on its location, the specifics of the main audience of customers, etc. However, these values are quite correctly to be used for the formation of target plans and sales forecasts.

2.5. ASSESSMENT OF CHEESE SUPPLIERS INDICATIVE NUMBER IN NETWORK OUTLETS OF VARIOUS FORMAT

Figure 18. The number of suppliers by type of cheese per outlet in the format of outlets



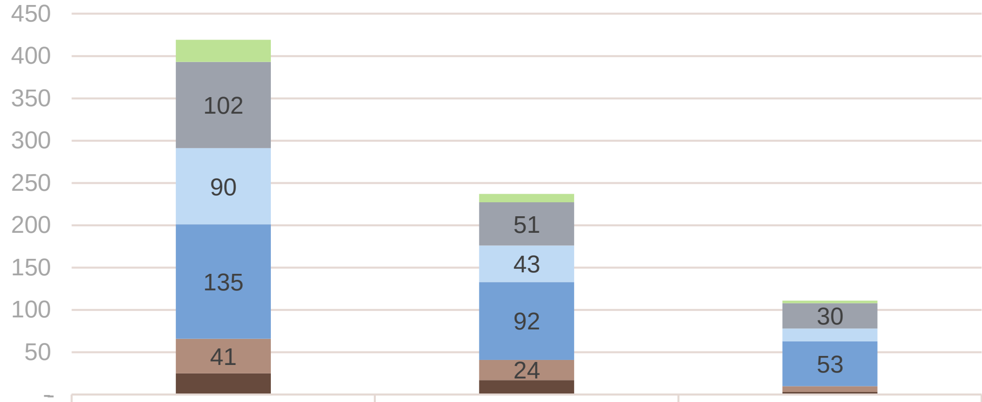
	Hypermarket	Supermarket	Discounter
Soft cheese	5	4	2
Processed cheeses	11	10	6
Pickled cheese	12	11	8
Hard cheeses, semi-hard	15	14	12
Cottage cheese	8	5	2
Blue cheese	3	5	2

Estimating the number of suppliers, it is necessary to clarify that the analysis covers the total number of supplier companies with which the supply contracts were concluded. In fact, the network can order products only from a smaller number of suppliers (based on their needs). In addition, the same company can be a supplier in different categories of cheese.

However, the analysis of the total number of suppliers is the most significant, since it shows the level of concentration in the product category. In the case of cheeses, the concentration of suppliers can be characterized as “medium”, that is, there is no shortage of suppliers, but at the same time there is no oversaturation with them. The “entry” of a new supplier into the network retail at this level of concentration is possible with an adequate level of product quality and service

GREEN DEVELOPMENT

Figure 19. Average number of SKUs per outlet in the format of outlets



	Hypermarket	Supermarket	Discounter
Soft cheese	26	10	3
Processed cheeses	102	51	30
Pickled cheese	90	43	15
Hard cheeses, semi-hard	135	92	53
Cottage cheese	41	24	7
Blue cheese	25	17	3

Evaluating the number of SKUs(Stock Keeping Unit) in various types of retail chains, it should be noted that the analysis includes the total number of SKUs in the assortment matrix (similarly with the analysis of the number of suppliers). I.e. the total number of SKUs shows how much of them can be included in the assortment matrix. Obviously, the actual number of SKUs presented on the shelf is smaller.

As can be seen from the chart, the largest number of SKUs in the general assortment matrix are presented in the categories “hard and semi-hard cheeses” and “processed cheeses”. This indicates the demand for these categories among customers and the desire of networks to provide them (customers) with a wide choice. Accordingly, we can say that with such a wide assortment matrix, a new manufacturer can “enter” it with an assortment of about 3-5 SKU. This number of new products does not exceed 10% of the total number of SKUs in the assortment matrix and will not lead to an increase in the risk of customers leaving the network, if suddenly the new products are no better than the existing range.

2.6. ASSESSMENT OF CHEESE SUPPLIES INDICATIVE PRICES IN NETWORK OUTLETS OF VARIOUS FORMAT

For the purposes of this study, we've analyzed the indicative prices of supply to the network sales channel in accordance with the range of cheese indicated by the Customer: Russian, Gouda, Emmental and Gruyere. The results of the analysis are presented in tables 7-10.

Table 7 Indicative purchase prices for "Russian" cheese

Outlet format	Purchase prices for Russian cheese, RUB / kg inclusive of VAT		
	min	max	avg
Hypermarket	259	880	352
Supermarket	190	800	308
Discount (including STM (Private labels))	229	784	255
Discounter (excluding STM)	247	784	368

Table 8 Indicative purchase prices for Gouda cheese

Outlet format	Purchase prices for Gouda cheese, RUB / kg inclusive of VAT		
	min	max	avg
Hypermarket	248	1,150	335
Supermarket	272	1,213	465
Discount (including STM (Private labels))	288	500	299
Discounter (excluding STM)	304	500	315

Table 9 Indicative purchase prices for Emmental cheese

Outlet format	Purchase prices for Emmental cheese, RUB / kg inclusive of VAT		
	min	max	avg
Hypermarket	675	1,831	1,115
Supermarket	551	2,229	954
Discounter	1,350	1,515	1,352

Table 10 Indicative purchase prices for Gruyere cheese

Outlet format	Purchase prices for Emmental cheese, RUB / kg inclusive of VAT		
	min	max	avg
Hypermarket	1,456	3,223	1,605
Supermarket	1,247	2,702	1,640
Discounter	1,600	3,636	1,749

Conclusions from the analysis of indicative supply prices

Although the purchase prices for these types of cheeses are in a wide range, it is necessary to pay attention to the fact that the weighted average prices are shifted to the minimum range limits, which indicates a higher proportion of low prices.

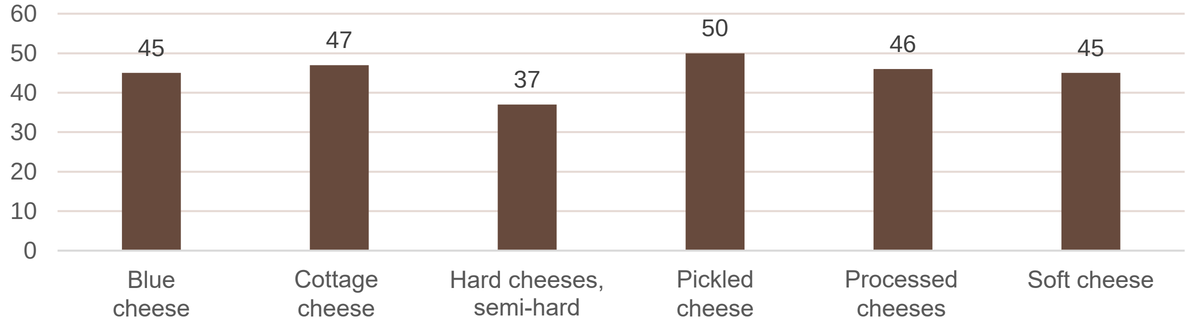
In addition, it is necessary to pay attention to the distribution of semi-hard and hard cheeses by price ranges (figure 11), according to which 91% of sales are in the price range up to 800 rubles / kg with VAT.

Given the average trade margin for this group of cheeses (plots 20.21), it can be concluded that the purchase price for almost 90% of semi-hard and hard cheeses sold is in the range of up to 570-650 rubles, VAT included.

It is also possible to note the significant impact of STM on the minimum and weighted average prices in "Russian" and "Gouda" cheeses (tables 7.8). The significant difference in weighted average prices indicates a large volume of sales of STM cheeses, which are cheaper.

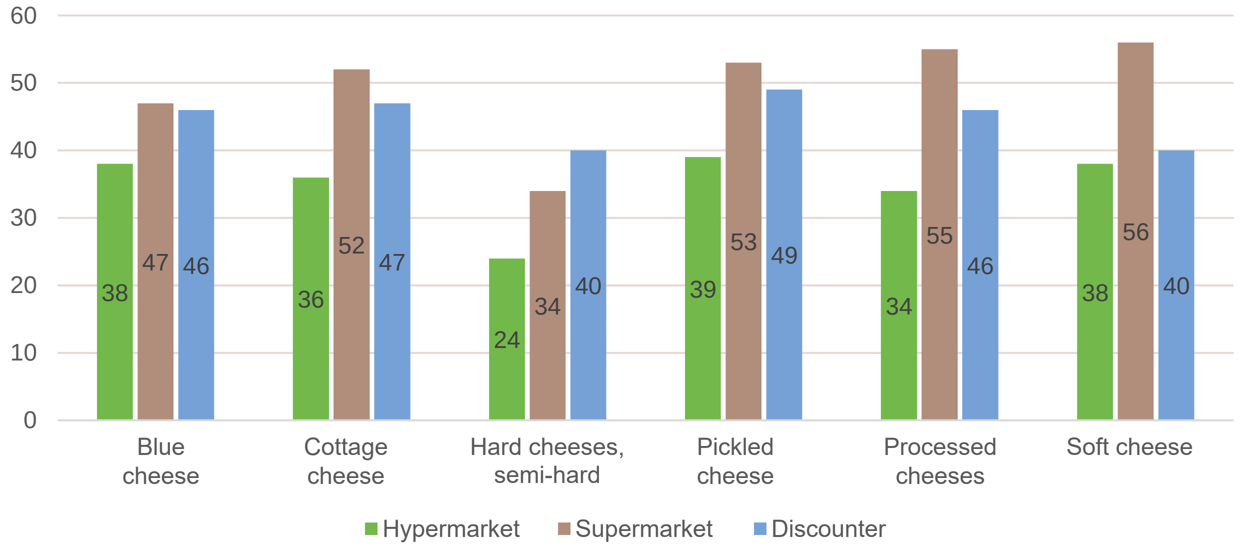
2.7. ANALYSIS OF THE EXTENT AMOUNT IN THE NETWORK OUTLETS OF VARIOUS FORMAT

Figure 20. Analysis of the average trading margin for the types of cheese on the networks of all formats,%



As it can be seen from the chart, the average level of markups for different types of cheeses is almost identical, with the exception of the category "hard and semi-hard cheeses". A lower mark-up level indicates the priority of this category in commercial networks (lower mark-up is most often set for traffic leaders categories and goods). Accordingly, this product category is more sensitive to price promotions, which means even popular types of cheese can lose in sales when price actions are conducted by competitors.

Figure 21. Analysis of the trade margin in the format of retail outlets, %



As it can be seen from the chart, the highest level of mark-up on cheeses is installed in the networks of the "supermarket" type. This is due to the fact that supermarkets are usually not positioned as low-price stores (discounters) or bulk stores (hypermarkets). Positioning of these stores

- offering quality and diverse products for a small one-time purchase.

A relatively wide range (compared to discounters) against a background of lower turnover (compared to hypermarkets) is an objective reason for a higher markup in this trade format.

For a new cheese manufacturer, the format of supermarkets, on the one hand, is suitable from the point of view of a certain ease of entering it, but on the other hand, a high shelf price for products may adversely affect start sales (their dynamics may be inferior to the dynamics of sales in hypermarkets).

2.8. ESTIMATION OF OPTIMAL LOGISTIC SHOULDER OF CHEESE DISTRIBUTION SYSTEM FROM THE PLACE OF PRODUCTION

Cheese (especially hard and semi-hard) tolerates transportation quite well, subject to the temperature conditions in all parts of the supply chain. So, transportation to a distance of more than 1,000 km from the place of production is considered to be normal. At the same time, the main limiting factor is not so much the distance as transportation costs, which are of great importance when selling cheeses in the economy and mass-market segments.

The optimal logistical leverage is up to 600 km. from the place of production. This is due to the following factors:

1. Relatively low logistics costs per 1 kg of products.
2. The possibility of a concentrated presence in sales channels, that is, the representation of products in retail outlets of different formats within one or two regions. The higher the level of product representation in retail, the greater the impact it has on the market, which means that it is more difficult to replace it with the products of competitors.
3. The ability to quickly fulfill customer orders. Taking into account the fact that the majority of outlets cannot create large cheese stocks, for them the possibility of promptly fulfilling orders becomes extremely important. Due to this factor, a local manufacturer has a significant advantage than

manufacturers from other regions. This factor is especially significant when working with network clients.

4. Opportunity to work with the most capacious regions on the consumption of cheese (in relation to the location of the project - Smolensk region, Gagarinsky district, Potapovsky rural settlement). Considering the planned location of the production complex of the project, its logistical leverage just allows to serve the most capacious market of the Moscow agglomeration.

Figure 2. Production location and target sales regions

- production location area (Smolensk region, Gagarin district, Potapov Rural settlement)

Deliveries of products are planned to be made in the largest regions of the Russian Federation: Moscow and Moscow region, St. Petersburg and Leningrad region. The population in these regions is about 30 million people.

Approximate calculations of distance, travel time and fuel consumption * from the production site to the place of delivery are as follows:

To Moscow:

- distance: 195 km; travel time 3 hours
- fuel: 18 l/100 km * 195 km = 35 l.

To St. Petersburg:

- distance: 725 km; travel time 11 hours
- fuel: 18 l/100 km * 725 km = 131 l.

Travel time is calculated without rush-hour traffic; when calculating the fuel consumption was taken load-carrying transport of medium carrying capacity (5 tons).

Considering the calculations of distance, travel time and fuel costs, we can conclude that the following choice of priority regions: The Central Federal District (Moscow and the Moscow Region, as well as St. Petersburg) is optimal from a logistic point of view.

SECTION 3. ANALYSIS OF SPECIFICS OF CHEESE REALIZATION

3.1. BASIC REQUIREMENTS TO THE CHEESE SUPPLIER IN THE NETWORK SALES CHANNEL

Requirements for the cheese supplier from the network sales channel can be divided into three main blocks:

1. Availability of certified and proven production complex.
2. The ability to produce products in accordance with the format of different networks.
3. The ability to consistently and fully perform network orders (compliance with the required level of service).

Requirements for the production complex

Most of the leading federal retail chains (X5, Auchan, Metro) impose rather stringent requirements on suppliers and conduct their own inspection of their production sites to ensure the quality and safety of the supplied products.

Such inspections are carried out with the involvement of specialized companies that have the appropriate accreditation. In particular, such companies include:

- "Intertek Rus" JSC;
- "SGS Vostok limited" JSC;
- "Jansen and fry" LLC;
- "Control Union Certificates" LLC ;
- "Bureau Veritas certification Rus" JSC.

External inspections include the following main steps:

- verification of compliance with requirements for production processes in terms of compliance with approved technological instructions, implemented ISO standards of 9000, 14000, 18000, 22000, HACCP, GMP standards, as well as safety, fire safety and industrial hygiene instructions;
- verification of compliance with the requirements for staff personal hygiene;
- verification of the maintenance and availability of relevant technical documentation: logs on the maintenance of technological equipment, schedules of routine maintenance, etc .;
- verification of registration of control data, availability of documentation confirming the verification of laboratory equipment;
- assessment of workplace organization conditions;
- warehouse performance monitoring: compliance with the required temperature regime, the correctness of the warehouse documentation, the procedure for the formation of consignments;
- analysis of assessment conditions and staff training.

One of the key requirements for dairy industry enterprises from network customers is the availability of the implemented HACCP International Quality Management System

According to the enterprise audit results, the auditors rate the relevant business processes and types of infrastructure:

№	Process name	A	B	C	D	CR	Percentage of completion
		-	-	-	-	-	-
1	Food Quality and Safety System	0	0	0	0	0	0
2	Compliance with occupational hygiene requirements	0	0	0	0	0	0
3	General infrastructure assessment	0	0	0	0	0	0
4	Terms of maintenance	0	0	0	0	0	0
5	Sanitary treatment, pest control, waste management	0	0	0	0	0	0
6	Warehouse and transport infrastructure	0	0	0	0	0	0
7	Evaluation of the quality management systems implementation (HACCP, ISO)	0	0	0	0	0	0
8	Production process general assessment	0	0	0	0	0	0
9	Quality of work with defective / spoiled / unrealized products.	0	0	0	0	0	0

The assessments made to business processes and infrastructure usually have a letter encoding, which means the fullness of compliance with the requirements:

A	Full compliance with the requirements
B	Almost full compliance with the requirements
C	Only a small part of the requirements are met
D	The requirement is not met
Cr	Critical level of inconsistency

In general, the company receives a comprehensive assessment, which is necessarily taken into account by the network purchaser when considering whether to start working with a supplier.

A	The company meets the requirements of quality standards. Re-audit is required only in case of a claim.	From 88 to 100%
B	Minor deviations of quality standards requirements were identified. The optimal frequency of scheduled inspections is 1 time per 2 years.	from 73% to 87.9%
C	Identified the risk of potential problems with the quality and safety of products. The optimal frequency of scheduled inspections is annually.	from 50.01% to 72.9%
D	A high degree of risk has been revealed. There are critical inconsistencies in product quality and safety. The company is not allowed to supply products. Re-inspection is possible not earlier than in 3-4 months.	less than 50.0%

In this case, it is not only the characteristic of the enterprise at the time of the audit that matters, but also the readiness of its management and line personnel to implement the recommended corrective measures.

Product output in accordance with the requirements of specific networks

In the face of growing competition between retailers, suppliers of dairy products find themselves in a situation where, due to their products, networks tend to “reconstruct” their positioning. In other words, large retail chains are trying to order from manufacturers a unique assortment that would be different from the assortment that is supplied to other networks.

Thus, the broader the range of products available to the assortment and the types of packages used are available to the manufacturer, the more networks it can operate in a non-intersecting assortment.

When coordinating with the supplier of a specific range, retailers take into account the following criteria of the supplier’s production site.

1. The possibility of production, taking into account the network procurement schedule: The supplier's production cycle should be harmonized with the schedule of deliveries to stores and / or distribution centers (RC) of the network.
2. The ability to produce unique products for this network. For example, cheeses in packages with a non-standard weight, with an additional promotional label, with a unique recipe, etc.

Also, the trading network may ask to supply products under a unique brand, which would be presented only from it. Quite often, such requests are formed by networks of a premium format, for example, the ABC of Taste.

In this case, it is not about manufacturing products under Private Label (STM), when the network has certain obligations to the supplier, for example, undertakes to buy out a certain volume of products every month, revise the delivery prices in the event of a change in cost, etc. Such a request concerns the delivery of products under a brand-name supplier, but sold only in this network. In this case, the supplier delivers products under the usual network contract, but with the obligation of exclusive distribution. On the one hand, such a contract leaves all the risks on the supplier, but on the other, it allows to establish higher price positioning, since there are no alternative sales channels that could have a price effect on the trademark.

Requests for the fulfillment of such orders (deliveries of an individual trademark) are placed by the network both from manufacturers and distributors. However, in the case of distribution companies, it is often referred to imported products (for example, supplied from Belarus).

It should be noted that the networks of economy class and average price positioning do not tend to develop unique brands to the detriment of the representation of large manufacturers with well-recognized brands (first of all, these are brands like "Prostokvashino", "House in the Village"). Production of such brands is in itself an excellent traffic leader; if it is not in the store, the buyer can simply leave it..

In the segment of cheeses, there are not so well-known brands that could be independent traffic leaders

Requirements for the implementation of the required level of service

One of the key performance criteria by which the network determines the reliability of the supplier, is the level of service.

This indicator determines the quality of the supplier's orders. It is calculated as the ratio of the amount of goods brought in accordance with the order to the total amount of the order made for a certain period of time (most often - a month) and expressed as a percentage.

For most networks, the minimum acceptable level of service from the supplier is not lower than 95%

In most cases, the level of service is calculated in the networks automatically by a specialized program, so it can be extremely difficult to challenge it to the supplier. It is best of all, in case of disagreement with the terms of service level evaluation by the network, to inform the network logistics service of any fact of delivery delays (for any reason), in order to have arguments to defend its position in the future.

Suppliers should take into account that the level of service affects not only long-term relationships, but also affects the overall financial performance of working with networks. Thus, the usual penalty for violation of the terms of delivery (out-of-date arrival of transport or refusal to accept products due to the supplier's fault) amounts to 35% of the value of the “claim” production batch.

In the case of deliveries to the network of products through a distributor or a logistics company, the penalty for late or incomplete order fulfillment is taken by the service company. If the refusal of acceptance arises due to the quality of the products, the fine is also paid by the service company, but is reimbursed by the manufacturer.

It is important to note that retail chains very closely monitor the level of service of their suppliers and fine them for almost any violation of the terms of delivery. This is due to the fact that networks seek to compensate for the expense of fines imposed on suppliers, lost revenues from retro-bonuses and marketing payments, the limits of which are determined by the "Trade Law".

In general, the level of competence in logistics is as important for a manufacturer of dairy products as the quality of its products. In the event of irregularities in the cold supply chain or customer complaints about the timeliness and completeness of order fulfillment, even a manufacturer with high-quality and recognizable products runs the risk of reducing sales volumes.

To minimize the risks associated with compliance with the level of service in retail chains, new enterprises of the dairy industry should start deliveries to this sales channel through specialized distribution companies that have both the necessary infrastructure and competencies in terms of the specifics of order fulfillment of a network.

3.2. BASIC REQUIREMENTS FOR CHEESE ON THE SIDE OF THE NETWORK SALES CHANNEL

There are no specific strictly regulated requirements (similar to, for example, requirements for fresh vegetables and fruits) from the network sales channels, but there are certain industry practices for selling different types of cheese, which should be noted:

- The residual shelf life of products must be at least 80% of the total period at the time of delivery to the store or Distribution Center.
- Products must withstand the entire shelf life indicated on the package without losing its quality and consumer properties.
- A typical range of cheese packaging weights that are most in demand among retailers:
  - small heads (ball) - weight 400-500 g .;
  - cylinder - weight 7-8 kg .;
  - cutting in industrial packaging - 125-200 g .;
  - grated cheese (packaging with MGA and anti-caking additive) - 140-160 g (in the HoReCa channel, grated cheese is more in demand in packaging weighing 1 kg);
  - Flow-pack type individual cheese packaging - 150–300 g.

In connection with the fall in incomes of the population, there is a steady trend towards a decrease in the average weight of consumer packaging.

It should be noted that the unreasonable return of dairy products (cheeses, in particular) from networks back to suppliers has no legal basis. However, there is a practice on the market when the network can ask the supplier to make a return or exchange of products. This can happen in the following cases:

- products "did not expire" shelf life under the conditions of storage (ie, lost its quality and consumer properties during the stated shelf life);
- The sales dynamics of a product range or several items is so low that it becomes obvious that products cannot be sold before the expiration date.

3.3. RECOMMENDATIONS ON THE KEY SUCCESS FACTORS OF THE NEW CHEESE PRODUCER

The content of this section is prepared taking into account the recommendations of representatives of manufacturing and distribution companies, therefore, it is advisable to consider the information as an expert assessment by professional market participants of success factors for a new player in the market.

It is advisable to group the main success factors in areas of detail and business processes of the company.

Business activity destination / business process	Business activity destination / business process
Production complex	• Availability of its own dairy farm in order to ensure uninterrupted production of high-quality (raw) milk is optimal. • The presence in the production of the HACCP implemented quality management system (for projected enterprises - compliance of the plan with the HACCP requirements). • The ability to produce a range of products for individual customer requests.
Finished products	• Product quality should be at or above the range that is already presented by potential customers. • Product packaging should be at the level or above the level used by the main comparable competitors in this category, it means that the farmer does not need to install expensive line of automatic slicing of cheese used by manufacturers of Danone type, but in comparison with

	the products of other farmers, types of packages used should be not worse than those already presented on the market. • Availability to produce one type of cheese in different types of packaging (Euro bar, flow-pack, thermoforming, etc.) is a strong competitive advantage. • According to market participants, there are good prospects for producers of cheese with mold: in this segment there is an embargo on the importation of products from the main supplier countries, and in Russia large-scale projects for its production have not yet been launched. Of the advantages of blue cheese production should be noted: – the demand for such cheeses from customers; – relatively short ripening period - about 30 days. The main disadvantage of such production is the impossibility of combining it with a factory for the production of hard and semi-hard cheeses, since the transfer of mold to other cheeses leads to their deterioration.
Marketing activity	• At the time of entry into the market of a new manufacturer, he should already have prepared the following promotion tools: – registered trademark (name and logo); – production output in the appropriate packaging design; – website; – pages in the main social networks; – Digital catalogue; – printed catalogue; – corporate style of documents (plus the standard for the price list and quotation design). • At the time of entering the market, the company should develop and unify the following types of information for customers: – list of manufactured range; – on what customers and consumers the range is focused; – competitive advantages of products; – notes regarding price positioning (why products cost as much as they cost); – what is the difference of the service level of the manufacturer from the level of service of competitors. • For each sales channel, it is necessary to form a target assortment, which must be present in it. This is necessary in order to quickly achieve recognition of products from customers. For example, if the Gruyere will be sold only in the ABC of Taste, but will not be represented in the "Perekrestok", then in fact only one network will “be responsible” for this variety promotion. It is optimal, when key assortment positions are constantly represented at different customers.

<table>
<tr>
<td>Sales system</td>
<td>

- If the price positioning of the project's products is higher than the market average, it is better to adhere to the following sales action strategy:
  - The first deliveries start to small loyal customers in order to get the first positive sales dynamics, as well as correct possible product and service level deficiencies based on feedback from customers (in the case of large customers, such "test" sales are fraught with the fact that it's not possible to correct mistakes quickly, and the customer will refuse to cooperate).
  - Having accumulated sales statistics for small customers, you can begin negotiations with larger customers (for example, with federal networks about local deliveries). Such statistics will confirm the supplier's proposals regarding the potential sales volumes and price positioning of products.
  - When start working with large customers, it is necessary to take into account that the first sales will be provided by the customers, often called "innovators": they often take new items, but rarely become loyal to them. Therefore, after the first three or four months of sales, most likely, it will decrease from the initial level. At this point, the client may ask for lower prices in order to increase the volume of sales (most often such a request is formulated by networks). Here, it is important for the manufacturer to try not to lower the prices (it is better to agree to a short promotional action), since, having reduced the base price, it can be returned to the initial level, even if the sales quantities are restored, only in a year or longer. This long process of price recovery is due to market pricing practices (see About it in the corresponding section).
- When starting work with distributors, the following conditions for cooperation should be taken into account:
  - The provision of deferred payment (usually - up to 2 weeks, if the distributor works with networks, then the delay should exceed the network delayed payment terms to the distributor). If the delay is not granted, the distributor may request a discount of 10-15%.
  - Compensation of distributor costs for working with retail chains (retro bonuses, fines arising from claims to the manufacturer's products, marketing payments).
  - The possibility of receiving product returns.
- The work with distributors can be built both in the format of direct sale of the manufactured products (ie, the distributor sells the purchased products at its discretion), and in the format of using the distributor as a logistic operator. In this case, the second method is more promising, since the manufacturer himself manages all sales processes (most importantly, the pricing process), and the distributor will perform logistic service contracts.
- At the stage of launching a new project for the production of cheese, it is important that the sales team had the necessary experience in this market. This is necessary to ensure that the manufacturer immediately began to develop good long-term relationships with customers.

</td>
</tr>
</table>

	Often there are situations when, at the project launch stage, the sellers are business owners, which is not always good for the development of sales. The fact is that business owners are trying to “inspire” their customers with their products, while buyers are interested not in product ideas, but in the advantages of working with them. In this way, sales staff who speak the same language with purchasers can significantly speed up the process of bringing products to the market.

3.4. ASSESSMENT OF THE MAIN RISKS FOR A NEW CHEESE PRODUCER

When launching a new cheese production project, a number of key risks need to be taken into account:

- Large start-up investment and long payback period. Under the most favorable conditions for launching a project (with uninterrupted supply of high-quality milk, well-established connections with sales channels and stability of demand for the manufactured assortment), cheese production projects enter the self-repayment stage in a year and a half after launch;
- High level of competition, especially in low and medium price segments of cheese.
- Lack of supply of quality (raw) milk and possible disruptions in its supply.
- The influence of seasonal factors on product quality. The quality of cheese directly depends on milk, the biochemical composition of which is constantly changing, since animals eat various herbs in different seasons. To minimize this risk, it is necessary to carefully select suppliers that closely monitor the stability of diets. The best option is to create a cheese producer’s own dairy farm.
- Sales plans failure. There is a need for active work in finding new distribution channels, establishing feedback with the end user, finding out his preferences and wishes, competent interaction of the trading team with customers.
- In the premium segment of cheese, a significant risk is the dependence on imported starter cultures.
- The main sales channel is retail, which is difficult to reach for a new, unknown manufacturer. Plus, the risk of becoming dependent on networks in terms of assortment and price positioning, which may lead to the loss of the uniqueness of the project proposal.
- The risk of substitution on the shelf of the retailer for "no-name" products from an unknown manufacturer, results in possible loss of sales quantities.
- Improper planning of production and sales, the formation of product residues, not having a potential customer. In the best case – the potential of the customer base of the manufacturer should be at least 30% higher than the quantities of planned shipments.
- The decline in the standard of living of the population, affecting the quantities of cheese consumption, which is not an essential commodity.

APPENDIX P1. TYPICAL TYPES OF CHEESE PACKAGES

The following practice of using various types of cheese packaging has developed on the cheese market:

Type of packaging	Example:	Possible sales channels	For which cheeses can be used
Cylinder ø280 h=120 / weight - 7-8 kg Shrink bag / plastic coating		All available	Hard, semi-hard
Euroblock 500*300*100 / weight - 15-16 kg Shrink bag / plastic coating		All available	Hard, semi-hard
Cylinder ø386 h=110 / weight - 12 kg Shrink bag / plastic coating		All available	Hard, semi-hard
Euroblock 500*300*100 / weight - 15 kg Shrink bag / plastic coating		All available	Hard, semi-hard
Cylinder ø110 h=40 / weight - 0.35 kg Modified Thermoforming		All but HoReCa	Soft
Flow-pack ø43*3/0.042*3/ weight - 0.25 kg Three-seam flow-pack		All but HoReCa	Soft, semi-hard, hard (for different types of cheese - different film density)

Type of packaging	Example:	Possible sales channels	For which cheeses can be used
Cheese bar 70*100*270 / weight - 0.3 - 2 kg Heat shrink bag with subsequent vacuum and heat shrink 1		All available With a weight of more than 300-400 grams - optimal for HoReCa	Soft
Cylinder ø85 h=65 / weight - 0.4 kg heat shrink bag with subsequent vacuum and heat shrink		All available	Soft
Thermoformed tray ø20*3/0.17 Thermoforming on a "Darfresh" substrate tray dimensions 250*95*10 / weight - 0.140-0,3 kg		All but HoReCa	Soft
Plastic cup Weight from 0.2 to 0.4 kg		All but HoReCa	Soft (ricotta type)

Type of packaging	Example:	Possible sales channels	For which cheeses can be used
flow-pack bag weight - 0.15-0.3 kg			Soft, semi-hard, hard (for different types of cheese - different film density)
Modified atmosphere flow-pack (MGA) Grated cheese Weight - from 0.4 to 1 kg		Main channel - HoReCa. It can also be reselled via specialized retail (such as Metro, Setgros)	Semi-hard, hard types