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Regional Market - Nizhniy Novgorod

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Report Highlights:

This report is one in a series of regional reports discussing the trade opportunities in the major regions of the Russian Federation. The Nizhny Novgorod region, with more than 3.5 million consumers, represents a good market for American-made food and beverage products.

Although domestically made food products have now a strong presence in the local market, some U.S. products, including chicken leg quarters, beef liver, pork trimmings, canned meat and fish products, dried milk, and wine, represent the best prospects for U.S. exporters in Nizhniy Novgorod.

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General Overview

Nizhniy Novgorod is the capital of the recently formed Povolzhskiy Federal District which includes the following federal administrative units: Tatarstan, Udmurtia, MariEL, Chuvashia, Mordovia, and Samarskaya, Saratovskaya, Ulyanovskaya, and Penzenskaya Oblasts. Due to its advantageous geographic location, the city has been for centuries the major trade center in the upper Volga.

The region is specialized in the production of machinery and hi-tech military equipment. Major industries are automobile (VAZ in Samara, GAZ in Nizhniy Novgorod, and UAZ in Ulyanovsk), space rockets (Samara), submarines (Nizhniy Novgorod), and aircraft (Samara, Nizhniy Novgorod, Ulyanovsk, and Penza).

The population in the region is 3.72 million of which 1,500,000 live in Nizhniy Novgorod. Major local towns are Dzerzhinsk (300,000), Arzamas (250,000), Pavlovo (80,000), and Bor (50,000). The neighboring cities getting supplies from the rest of Russia through Nizhniy Novgorod are Penza, Ulyanovsk, Syzran, Samara, Yoshkar-Ola, Penza, and Perm.

With 3.72 million consumers, the Nizhniy Novgorod region represents a good market for food products. The majority of the residents (65 percent) has a low purchasing capacity, and only 5 percent has a high income (over USD 100 per month). Local consumers spend 70 percent of their income on food. Pricing is a prime factor for families with low and average incomes. The staples for regular consumption include bread, milk and dairy products, sugar, salt, pasta, grains, sunflower oil, meat and meat products, fish, tea, and coffee. Average per capita income is currently estimated at 1,000 rubles per month (about USD 40).

Over 150 large processing plants operate in Nizhniy Novgorod. Some of the larger regional food-processing companies include the Butter Factory, Arzamas Liquor Distillery, Nizhniy Novgorod Champagne Factory, Vermani Pasta Company, the Volga Brewery, Sormovo Confectionery Factory, Nizhniy Novgorod Meat and Sausage Company NIKO, Nizhniy Novgorod Dairy Company, and Lindovskaya Poultry. The above companies operate in Nizhniy Novgorod and cover about 30 percent of the local market. The food processing companies market their food products locally and also supply them to Nizhegorodskaya Oblast.

Western food-processing companies which have established their production facilities locally are not numerous, but they do include such multinational corporations as Coca-Cola and the Spanish company PASA (Galina Blanca soups).

Major Food Importers

‘Zarechye’ is a big holding of companies specialized in various businesses. Started in late 1996, it has become the major wholesaler of frozen meats and fish in the region over the last couple of years. The company’s overall volume of sales is estimated at 3.5-4,000 metric tons of frozen poultry per month. In June 2000, ‘Zarechie’ began purchasing U.S. poultry directly from a U.S.-based supplier on a CIF basis from St. Petersburg. The company is interested in monthly shipments of at least 2,000-3,000

metric tons of poultry from the U.S. for further distribution in the region. 'Zarechiye' has good relations with freight forwarders and customs brokers in St. Petersburg and sees no problem in clearing goods by themselves.

'Prodkholod' ('Prodoptima-7') runs two major cold stores in Nizhniy Novgorod. It was the first wholesale company to bring U.S. leg quarters to the region in 1994. Formely supplied by Menatep and then Tyson CIS, 'Prodoptima-7' became the major regional distributor of imported meat, offering it to retail and food service operators and processors. Before the crisis in 1998, the company was selling up to 5,000 metric tons of chicken leg quarters per month. Currently, the company is selling about 300-500 metric tons per month, half through its own distribution network and the rest - to its clients in the neighboring regions.

'Concrete' was founded by a former co-owner of Prodkholod and is mostly specialized in wholesale sales of fish. However, with representative offices in Moscow, Samara and Vladivostok, the company offers local operators a wide variety of other foodstuffs, including poultry, beef, pork, and butter.

Wholesale and Retail Trade Overview

Distribution channels in Nizhniy Novgorod are structured in a number of ways. 4,640 retail outlets, including 2,161 food stores, 1,229 small retail outlets, and 1,250 mini-markets, operate in the city. 70 percent of them sell food products. 'Leskovskiy', 'Sladkaya Zhizn', and 'XXI Century' are the largest supermarkets in Nizhniy Novgorod offering over 7,000 food products.

About 1,000 wholesalers operate in Nizhniy Novgorod, and only 10 percent of them are large wholesale companies. There are about 10 large local food distributors and they own and lease warehouses with product display facilities. They serve retailers from Nizhniy Novgorod and other regional cities. Some of them, like 'Alliance' and 'Sladkaya Zhizn', operate chains of stores in different areas of the city. They distribute exclusive and expensive products filling a certain market niche.

'Sladkaya Zhizn' is the major retail operator in the region, offering a variety of 2,500 food products from five warehouses and two specialized state-of-the-art cash and carry stores. The company has a 60 percent market share in the food segment, and is well known in neighboring regions. 'Sladkaya Zhizn' publishes a weekly bulletin for retailers with free distribution, featuring new products and promoting well-known products.

'Alliance' is the second major retail operator with 30 percent market share offering over 1,000 different products for retailers in Nizhniy Novgorod region. Its monthly turnover exceeds \$ 6 million. 'Alliance' is currently selling over 250 metric tons of chicken leg quarters and 30 metric tons of domestic broilers per month. The company owns two warehouses and eight cash and carry stores. By the end of 2000, 'Alliance' is planning to launch a chain of 25 discount stores and more than double its volume of sales.

In addition to regular stores and supermarkets, there are a number of open markets and mini-markets throughout the city. There are more than eight open markets in Nizhniy Novgorod owned by the municipality. Spaces are rented to retailers, the majority of which are sole proprietors. Farmers'

markets (open markets) are appealing to all groups of local consumers because prices can vary by a factor of ten between a supermarket and the farmers' market. Mini-markets form another group of retail outlets. Their typical food range includes primarily beverages, confectionery products, and cigarettes.

Following is the retail price survey on selected food products conducted in Nizhniy Novgorod September 26, 2000.

Retail Prices in Rbs/kg (1US\$=28Rbs)

PRODUCT	PRICE FOR IMPORTED (Western product unless otherwise indicated)	PRICE FOR DOMESTIC
Whole chicken (fresh and frozen)	50-52 (U.S.)	50-52
Chicken leg quarters	34-37 (U.S.)	44-45
Fresh beef	Not found	60-100
Fresh pork	Not found	50-120
Frozen beef liver	48-50 (U.S.)	60-80
Canned beef (0.325 kg)	Not found	13.5-15
Canned pork (0.325 kg)	13-15 (France)	10.5-12
Fresh apples/pears	25-30/32 (Holland)	10-12/12.5-13.5
Fresh oranges	15-20 (Spain)	Not found
Canned fruits (0.370 kg)	20-25 (Bulgaria)	Not found
Canned vegetables (1,650 kg)	36-38 (Bulgaria)	28-30
Green peas (0.360 kg)	Not found	7-7.5
Soup mixes (instant) (0.64)	14.6 (U.S.)	7.6-13
Wine: Table wine (0.7 liter)	160-300 (France, Germany, Bulgaria)	35-50
Cognac (0.5)	700-2,000 (France)	170-220
Californian wine (1 liter)	250-300 (U.S.)	
Beer	25.57 (Miller 0.3 liter)-30	11-17 (0.5 liter)

Dried milk	35-40	43-45
Pet food (0.4 kg)	31.5 (Whiskas)	21-22 (Kit-e-Kat)
Rice	9 (U.S.) - 11 (China)	9-12
Cake mixes, box (0.5 kg)	Not found	13-15

The above table shows that imported products continue to have a strong presence at the Russian market. Although pricing is a prime factor for Russian buyers, some Western/U.S. products can be competitive here.

Prospects for U.S. Exporters

Nizhniy Novgorod is becoming the capital of one of the biggest poultry-consuming regions. Imported poultry, primarily from the U.S., holds the leading market share in consumption of poultry items in the region, and is estimated at over 80 percent. Of this stake, U.S. leg quarters comprises over 90 percent being very popular with the majority of the population, low-income consumers. Local traders are interested in direct supplies of U.S. poultry and its distribution through the existing channels.

In addition, the following products represent the best prospects for U.S. exporters in Nizhniy Novgorod: beef liver, pork trimmings, canned meat and fish products, dried milk, and wine.

Nizhegorodskaya Yarmarka, a large exhibition center in Nizhniy Novgorod, is the best opportunity for U.S. firms to display their products at the local market. Nizhegorodskaya Yarmarka regularly arranges food shows held in April and November. AgroForum held for the first time this fall is expected to become the largest food show in Nizhniy Novgorod. The show participants will display various food products and packaging and processing equipment. Foreign firms are welcome to participate and display their products in Nizhniy Novgorod.

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