

Candy Maker Ferrero Expects Russia to Become No. 1 Market

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Drum beaters at the fifth anniversary of Ferrero's Vladimir region plant.

VLADIMIR — While the economic crisis has soured the European business climate, Russia's sweet tooth could be the perfect cure.

The Italian confectioner Ferrero Group is placing high hopes on Russian chocoholics and expects the country to become its top market within a few years, company representatives said at the fifth anniversary of Ferrero's plant in the Vladimir region on Monday. The event also highlighted the success of the Italian privately held firm's corporate social responsibility program in Russia, which is targeted at supporting adoptions.

Russia is currently Ferrero's fourth largest market in terms of turnover, following Germany, Italy and France. The brand came here in 1995, as compared to its more than half a century presence in Europe, but is already growing here much faster than in the other markets.

"Today we are number four, but the difference between us and the top three is getting smaller and smaller," said Igor Nemchenko, Ferrero's general director in Russia and the CIS.

Nemchenko added that it would take two to three years for Russia to overtake France for Ferrero and estimated that by 2021 Russian production levels would get close to those of Germany, maybe even surpassing them.

"No matter what, in the end, Russia will take its place as the number one market for the group," Nemchenko said.

Giuseppe D'Angelo, general manager of Ferrero British-America and CIS, said that Russia's rise to the top might take a longer time, but agreed that the country is "one of the best success stories of Ferrero expansion beyond its core European markets" and would be central to their goal to become a more global company.

"With the factory in Russia, Ferrero has got roots. ... We are here to stay," D'Angelo said. "We are even stepping up our capital investment to fuel our growth. We are here to create new jobs for the Russian economy, for the Russian people and contribute to the future development of this very important market for us."

The company's desire to contribute is also visible in its willingness to help with the region's adoption network after Governor Nikolai Vinogradov approached the company for assistance a year ago.

Ferrero is one of the two foreign companies, along with Ernst & Young, that sponsors the Video Passport project, a country-wide initiative to film profile videos of children that are available for adoption.

Each video costs about 100,000 rubles to make. In the Vladimir region, 28 out of the 50 children that were filmed wound up being adopted, and an additional 17 children are in the stages of completing documentation. The video passport is done in Russian, and so far the children adopted all went to local families.

Ferrero also sponsors videos for children in the Tula and Astrakhan regions.

"A lot of attention in the world is given to adoptions in Russia, and Video Passport is precisely the type of technology that shows what real things are done so that children find families," said Timur Kizyakov, head of the project.

Russian companies are also slowly getting on board, though the project leaders have had to reject some sponsorship offers because these companies have tried to exploit the project's image for their own benefit.

As business grows, Ferrero executives expect to be able to continue giving to the community. Russia is already the company's largest market for Raffaello and Kinder Surprise chocolates. Both are produced at the Vladimir plant, along with Nutella.

The plant launched its first production line in 2009 with a new line added each year. The latest line, producing Kinder Surprise, started working nine months ago. Ferrero Group is now looking where to add more production capacity and plans to eventually produce Ferrero

Rocher chocolates in Russia as well.

Production quantities at the Vladimir plant have grown at double digit rates and now reach 33,000 tons per year, plant director Stefan Lembke said. Twelve hours of producing Raffaello are enough to form a line all the way around the Moscow Ring Road while Red Square could be covered with Kinder Surprise eggs after an eight-day production cycle.

Total investments into the factory over five years reached 250 million euros (\$322 million), making it the largest investment project in Vladimir region. Ivan Chernykh, first deputy governor of the Vladimir region, estimated that Ferrero's tax payments alone added 3 billion rubles (\$95 million) to the local economy.

There are more than 130 foreign companies now working in the region, which is considered to be one of the most investment friendly in Russia.

"We know how difficult it is, particularly for a startup to be successful in a new country. We found from the very beginning a very friendly environment here," D'Angelo said.

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