

# Influence of Foreign Direct Investment on Supply Chain Management in Russia

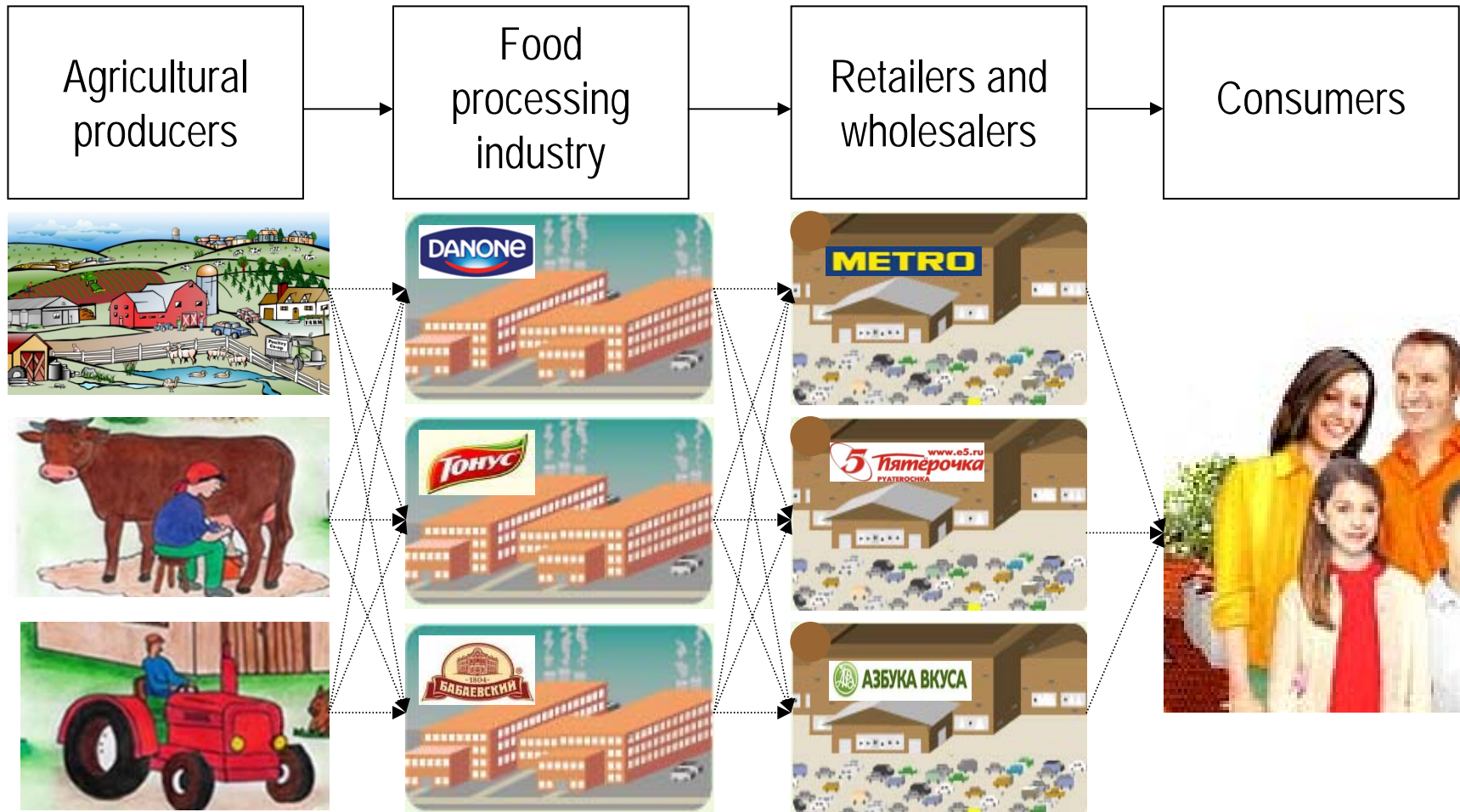
Vera Belaya  
Dr. Jon H. Hanf

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- Russia represents the largest and fastest growing retail market opportunity among the CEE economies.
- Rapid growth of the Russian food industry has stirred up active investments into the food sector.
- Foreign retailers and branded food processors introduce their business models in their work with local suppliers.
- Foreign investors in agrifood business are exporting their business strategies and concepts after entering the country.

- to analyze the influence of Foreign Direct Investment (FDI) on Supply Chain Management (SCM) in Russian agrifood sector
  - How does FDI influence SCM at different stages of the food chain in Russia (agricultural production, food processing and retail trade)?

## Food Supply Chain in Russia



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## Sources of agricultural production in Russia

Indicator	Agricultural enterprises	Individual households	Private (peasant) farmers
Number of farms	24000	16000000	255400
Share of land	79.89%	5.7%	12.88%
Average farm size, ha	5920.8	0.44	81
Share in production	43.4%	49.6%	7.0%

# Russian Agri-food Sector: Agricultural Production

## Structure of agricultural production in Russia in 2007, %

Agricultural product	Agricultural enterprises	Individual households	Private (peasant) farmers
Grain	78.5	1.3	20.2
Sugar beets	87.5	1.2	11.3
Sunflower seeds	70.1	1.0	28.9
Potatoes	7.4	89.2	3.4
Vegetables	14.0	78.9	7.1
Livestock and poultry	51.6	45.5	2.9
Milk	44.0	52.0	4.0
Eggs	75.1	24.1	0.8

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- Large vertically integrated holdings (Cherkizovsky, Wimm-Bill-Dann, etc.)
- International manufacturers (Danone, Campina, Mars, etc.)
- Russian holding companies with foreign capital (Baltika, KamposMos, etc.)
- Regional food processing companies
- Small regional producers/entrepreneurs

## The top 10 food processors in Russia in 2005

№	Processor	Product types	Russian vs. foreign ownership	Sales, million \$
1	Wimm-Bill-Dann	Dairy, Juice	Russia	1189.3
2	Baltika Brewery	Beer	Denmark, Scotland	994.0
3	Sun Brewery	Beer	India	859.1
4	Razgulyai-Ukrros Holding	Sugar, Grain	Russia	700.0
5	United Confectionery	Confectionery, snacks	Russia	571.9
6	Mars	Chocolate, snacks	USA	570.8
7	Cherkizovsky	Meat	Russia	524.6
8	Group Tsaritsino	Meat	Russia	444.0
9	Coca Cola	Soft Drinks	USA	434.1
10	Sunny Food	Mayonnaise, etc.	Russia	383.3

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## Retail trade formats in Russia

- Open markets
- Discounters
- Supermarkets
- Hypermarkets
- Convenience stores
- Cash & Carry
- Kiosks, street trade, small shops
- Shopping centers and malls

## Retailers

- International retailers (Metro, Auchan, etc.)
- National retailers (X5 Retail Group, Kopeyka, etc.)
- Local and regional retailers (Asbuka Vkusa, etc.)

## The top 10 food retailers in Russia in 2007

№	Name of retailer	Year established	Country of origin	Format	Space (1000 sq. m.)	Turnover, million \$
1	X5 Retail Group	2006	Russia	Multi-format	609,1	5284
2	Metro	2000	Germany	Cash & Carry	487	4801
3	Magnit	1994	Russia	Discounter	n.d.	3676
4	Auchan	2002	France	Hypermarket	n.d.	3400
5	Lenta	1993	Russia	Discounter	307	1559
6	Kopeyka	1998	Russia	Discounter	410,3	1490
7	Dixy	1992	Russia	Multi-format	150,9	1431
8	Sedmoi Continent	1994	Russia	Multi-format	370	1400
9	O'Kei	2002	Russia	Multi-format	145	1200
10	Viktorija	1993	Russia	Multi-format	177	1200

- *Positive impact of FDI* mentioned in the literature:
  - economic growth, reduction of poverty
  - technology transfer, innovation, enterprise restructuring
  - capital, productive facilities, employment
  - new job skills and management expertise
  
- *3 stages of FDI dynamics in Russia:*
  - communist period (1987-1997)
  - transition period (1998-2002)
  - globalization period (2003 till present time)

- Requirement standards for suppliers become more and more rigid in terms of quality and price.
- Agricultural producers have to comply with the new standards in order to stay in the supply chain.
- Agricultural producers start to reach equal (chain) quality and process management standards.
- Interactions of farmers with foreign processors and retailers change their old business approaches.

- Foreign retailers bring their established supplier relationships with them to Russia.
- Foreign food processors are establishing plants in Russia to produce international brands and retailers' own brands.
- Foreign retailers and processors impose all elements of the 'Western' supply and quality chain management in Russia.
- This indicates that Russian retailers and processors copy the management approaches of their foreign rivals.

- Growth of consumer spending and food consumption in Russia has fueled investments into food sector.
- FDI influence supply chain management at all stages of the chain (agricultural production, food processing and retail trade).
- Foreign retailers and processors introduce their management concepts while working with local processors and producers.
- Russian food processors and retailers start to copy the management approaches of foreign companies.

**Thank you for your attention!**

Theodor-Lieser-Str. 2 | 06120 Halle | e-mail: [belaya@iamo.de](mailto:belaya@iamo.de) / [hanf@iamo.de](mailto:hanf@iamo.de) | phone +49 345 2928-243/246 | [www.iamo.de](http://www.iamo.de)

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