



Чай России. Ваш чай!

Tea of Russia. Your tea!

Nikitin

A major producer of Russian teas,
a member of Alpha Group

Backgrounder

and

Profile

Moscow 1997



Nikitin

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Background

SINCE 1991 RUSSIA HAS BEEN PAINFULLY MOVING FROM A CENTRALLY PLANNED economy to a free market, striving to be reintegrated into the world community. The intervening years have seen deep economic, political, psychological, and social transformations of the country, with virtually every aspect of life affected by those dramatic developments. What other nations have achieved through centuries Russia has had to grasp in a matter of years, sometimes months. And so everything in the country is extremely dynamic and fluid. This also concerns insurance and especially reinsurance markets.

Before 1917 Russia was **one of the world's fastest developing economies**, its growth rate in 1914 being **higher than that of the United States**. Europe's largest fair at Nizny Novgorod commanded most of European prices. Russian industrialists and merchants were a match to their foreign counterparts. The natural development was disrupted in 1917, when Russia became one of the first totalitarian societies with a closed centrally planned economy.

The Soviet central planning system, with its emphasis on heavy industries and collectivized agriculture, favored cumbersome huge production combines and centralized distribution mechanisms. There were virtually no horizontal relationships among enterprises.

Everything centered around the so-called Plan, a production target that was valued above all other considerations. Planning targets were delivered from the center and production results analyzed at the year-end.

This practice resulted in a **very low worker motivation**, little prospect of job loss, **low productivity** and competitiveness. Both sale prices and costs of production were never an issue for the enterprise manager to justify, and marketing and advertising did not exist at the enterprise level.

Transition to a market economy

Gorbachov's reforms returned Russia back to a market economy, but failed to educate the population in the elements of market and business. After the disintegration of the USSR **Russia has been one of the most resolute countries of the former USSR in moving to a market economy**. But the Soviet Union was run with objectives and assumptions so qualitatively different from those prevalent in a market system, that the transition has been an extremely difficult task. And it still is.

To begin with, the Government initiated a large privatization program, removed the infamous "iron curtain," and reduced its intervention (both subsidies and protection) since 1991.

Privatization

The privatization process proceeded so quickly that in 1996 **the private sector made up about 50%** of both GDP and employment, and the **public sector share of GDP in 1996 was only 30%**, a lower percentage than in most developed countries.

Removal of "iron curtain"

Although in Russia it was nothing as spectacular as the pulling down of the Berlin Wall, the opening of the

Russian borders makes itself felt in virtually every aspect of life. One sees many foreign-made goods in Russian stores, Russian businessmen are free to travel and visit places the world over, Russian students win scholarships at foreign colleges, majoring basically in economics, business, marketing, and law. This is all extremely **beneficial psychologically and educationally for young Russian managers**, who are extremely receptive to advanced business practices.

Reduced state intervention

Virtually overnight most factories, which used to be just production units, found themselves in a situation where jobs are not guaranteed by the state, raw materials are no more delivered at fixed prices, industrial activities are severed from social services.

To become real market-oriented production companies they have now to understand that to compete in the new environment they have to develop managerial, marketing and advertising skill, that output quality (not just quantity to meet the “plan” target) comes to the fore, that a new motivation scheme is needed. To survive they have to adapt to the situation.

Human resources

The main problem of this incipient market culture is the **shortage of managers, marketeers and other operators**, who make a market economy tick. The Soviet system had millions of party and industrial bureaucrats, who used to be extremely good at “passing on the buck.” Good decision-makers and analysts were in short supply. On the other hand, the intellectual and **educational potential of the population is extremely high**.

When private enterprise became legally possible in this country, most would-be entrepreneurs had to begin from scratch, by trial and error. This accounts for the high mortality rate among young Russian companies including insurance companies earlier on and for the fact that the most successful are young Russian businessmen who have been educated in the elements of business in the West.

Foreign investment legislation

A concise overview of Russian foreign investment legislation is given in the Addendum. Work is under way to bring it more in line with international norms.

Tea in Russia



Tea was brought to Russia in 1638, a quarter of a century before it appeared in the British Isles. By the turn of the 18th century tea became extremely popular in this country to the extent that the Samovar, a Russian invention, became a symbol of Russia.

The tea came for the most part from China, a country that remained a major source of the beverage for a long time. In the mid-19th century tea began to be cultivated in Russia, at first in Georgia, in 1915 tea plantations occupied 1000 hectares. Then tea was also grown in Azerbaidjan and elsewhere. There was a Russian Tea Research Institute.

Merchant's Wife at Tea, 1918, by Boris Kustodiev

Tea drinking habits in Russia

Tea in Russia is drunk differently from, say, Britain. Russians dilute brewed tea with hot water and add lemon sometimes. Milk is only added to tea for children and breast-feeding mothers.

This dictates Russian preferences in teas and accounts for the fact that not all Western tea brands now available in the Russian market took the fancy of Russian consumers.

Brand loyalties

Russians used to be fairly brand loyal. But now that the Russian tea industry is not in the best shape, to put it mildly, and the Russian market is flooded with a host of unknown brands (some of them faked) the Russian consumer found himself at a bit of a loss.

With the coming of Perestroika Russian consumers found the shops filled with unheard-of brands and began experimenting. Now the “toy shop” phase is as good as over. Most Russian consumers, especially in the country, have not been impressed with the imported tea brands (and not only tea brands for that matter). Various sources note a distinctive nostalgia for “good old” Russian food, a sort of “buy Russian” movement. The restructured Russian tea manufacturers, such as Nikitin, are set to take advantage of this.

It is only a matter of time for Russian tea industry to begin producing new brands that suit the tastes of this peculiar market. There are several players already in this promising market.

Russian tea industry

Traditionally, Russia used to rely on tea brands blended and packed in Russia. Teas were sourced at first from China, and then from India and Ceylon. Russian-grown teas accounted for a small percentage of the stock.

The Soviet period

The USSR imported up to 200,000 tons of raw teas a year. The teas were blended and packed at several tea-packing factories in the USSR. The system was strictly centralized, with all imports and packed teas distributed by the Ministry of Food Industry.

After Perestroika the factories found themselves pretty much on their own, with no centralized supplies of raw materials, no independent infrastructure, no purchasing experience, no working capital, no market-oriented management and experience.

The imports have dropped to 100,000 tons a year, 60% of the amount being packed teas. Most of the tea is low-quality stuff from India, Sri Lanka, Georgia, and Turkey.

By 1994 it became clear that for Russian tea industry to survive it would have to be restructured retaining what good there was in the centralized system.

Legal aspects

The Russian government has recently passed a decree to increase import duties on teas packed abroad. This makes packing in Russia more attractive.

Nikitin

Profile

THE ESTABLISHMENT OF NIKITIN WAS AN OBVIOUS ANSWER TO THE SITUATION.

It was founded in 1995 by Alpha Eco, a major trading company, a member of the Alpha Group. The Group includes Alpha Bank, the investment foundation Alpha Capital, a real estate company Alpha Estate and others.

The Group considers tea business in Russia one of the most promising areas. Alpha Eco purchased the control interests in 3 of Russia's four largest tea factories, the major one being the Moscow Tea Packing Factory. One goal of the Group is to establish the largest tea business in Russia.

History

Nikitin can trace down its history to the late 19th century, when the Russian Society for Tea Trade Gubkin-Kuznetsov and Co founded a tea-packing factory called the Moscow Branch of the Society Karavan. Its yield was 1,600,000 pounds a year. It quickly became one of the major manufacturers of Russian-style blends.

In the 1920s Karavan was renamed Lenin Moscow Tea-Packing Factory, which became the flagship of the Soviet tea industry. It has been the home of the most popular Russian brands, i.e., the best-selling "Indian Tea" with an elephant, tea No. 36, etc.

The factory has had the best experts. Especially noteworthy is the unique team of tea-testers, the best in the country. Some of them are now with Nikitin.

Name of the company

Nikitin is the name of Afanasy Nikitin, a Russian Marco Polo. He traveled extensively in the Levant, India, and Ceylon. This personage is well-known and respected in Russia.

Personnel

The three factories employ about 1000 people. The management section has around 70 office workers. The problem with the personnel, as with any Russian company that wants to be dynamic and market-oriented, is grounding the people in the elements of modern management, marketing, branding, selling, and other market disciplines — a no easy task! We do it.

Structure

Nikitin includes three tea-packing factories: in Moscow, in Ryazan, and in Irkutsk. The infrastructure consists of office buildings, warehouses, and a fleet of vehicles.

Sources of raw teas

Raw teas are sourced from the following countries and companies:

India: G.V. Gokal & Co, A. Tosh & Sons, Al-Gauathri, Tata Tea, Almas Exports.

China: Hunan Tea, Hubei Tea, Anhoi Tea, Vodpromstroiprogress.

Indonesia: Prima Comexindo, Padakersa.

Shri Lanka: Timpex, George Steuart (Teas & Marketing) Pvt Ltd.

Argentina: Surte.

Georgia: Martin Bauer, Gruzinski Chai.

Sales

Distribution of packed teas in the former USSR was centralized. And so in a market economy the sales structure of the factories has had to be established from scratch. The new team is now working on adapting the structure to new conditions. There are signs of improvement already but still much will have to be done.

Nikitin has a unified sales system for all the three factories that basically consists of three sections looking respectively after Moscow, Russia, CIS & overseas.

Moscow

The Moscow section sells in Moscow to a wide variety of clients:

Wholesalers. There are 25 wholesalers, 6 of which are large distributors with a developed distribution network in the country. Three wholesalers sell directly to retailers in Moscow and other cities, and to the so-called wholesale bazaars in Moscow and the region.

Retailers. The section is also responsible for direct sales to Moscow retailers, at the moment there are about 1400 of them, 500 shops being permanent clients.

Bazaars. There are 70 clients in 35 wholesale bazaars.

Russia

The regional section sells to a developed network that basically covers the whole of Russia (see the table below). 35% of the members of the network sell to retailers.

CIS and overseas

It is a new section. It sells to the CIS and also to Germany, Lithuania, Bielorussia, Ukraine, and Kazakhstan.

Brands

One of the urgent tasks facing the Nikitin team was branding. The Moscow factory had several well-established brands quite popular in the market, and they were retained. But the market needed novel brands to counter the attack of imported teas. Therefore, the team began to work on a portfolio of new products.

New brands

We have developed a number of new brands that do not compete with the veteran best-sellers. The portfolio includes three groups of new brands:

Nikitin group. It includes fashionable teas with fruit and other flavors, and also top-quality “Indian velvet tea.”

Kupechesky (merchant) group. The name of the group (teas for merchants) is an allusion to old Russian merchants, well-known consumers of tea. These high-grade tea blends include Indian, Ceylon and China versions. Nikitin tea-testers have developed them in keeping with traditional Russian tastes in teas.

The fancy member of the group is a jasmine flavored China blend. The raw teas are processed in a special manner. It is planned to sell the brand with a minimum mark-up to generate the market for it, because Nikitin experts believe that the brand holds much promise for Russia.

Elite group. The best and most-expensive teas targeted at the most prestigious market.

Tea bags

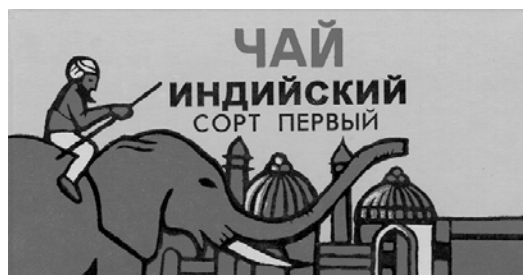
We are also looking at tea bags as a promising form of packing. In Russia they are coming in, mostly for office use.

Trademarks

The Moscow factory had a trademark that is still known and respected by many Russians, especially the older ones:



The factory produced the immensely successful brand popularly known as “the elephant”:



For the new brands we use logos:



and



Brand awareness

With the change of name of the company to Nikitin, brand awareness became an issue of major importance. The brand awareness program will include a wide variety of exercises that will call for investments and expertise.

Packing

The same pertains to packing. The old brands still have the same packing. For the new brands we are developing new packing.

Marketing

A comprehensive marketing program has been developed for 1997-98. Its major goal is to continue the restructuring of Nikitin and make it into a powerful operator in the Russian & CIS tea markets with popular brand names, well established distribution network, Western-style management, aggressive marketing and advertising.

Marketing levels

We identify the following levels of business relations

Nikitin → distributor → retailer → consumer (housewife).

Each link of this chain requires its own philosophy, approach, and handling. We plan to establish bit by bit real WIN-WIN situations for each link. Normally, big manufacturers' marketing and advertising efforts concentrate on the **consumer** level (TV advertising, outdoor, POS, etc.). The big guys make a mistake of never talking to the retailer, they act as Big Brothers, which is too bad psychologically and businesswise.

In Russia the retailers are left at the mercy of the distributors, and these latter lack experience and knowledge of how to handle retailers.

Consumers

We plan several campaigns (see below) targeted at the buyer.

Retailers

We will provide ample support with point-of-sale (posters, display units, etc.), brochures, product guides for sales assistants, etc.

Distributors

We are currently working on a wholesaler package. We want to make it most flexible and attractive to our partners. It is going to include a flexible price schedule linked to volumes.

It will include all sorts of support: sales and product guides, corporate advertising, assistance in the producing of packages for retailers.

Major accounts

By these we mean the forces, schools, penitentiaries, oil & gas compounds in the North and Siberia, and so forth.

Pricing

When developing brands we have various income brackets in mind. And so now we have quite aggressive prices in each income group.

Market research

We began to pay more attention to market surveys. So we have recently conducted two researches whose results were used extensively in our segmentation and branding exercise. For statistics we rely on a variety of sources: Comcon, NGI program, State Statistics Committee, All-Russian Opinion Polling Center, and our own statistics.

Marketing tools

Our marketing tool kit includes telemarketing, exhibitions, tea-testing sessions, seminars, promotions, questionnaires, and advertising.

Advertising

Until fairly recently Nikitin's advertising was inadequate in terms of both quality and amount. This resulted in our losing some of our long-term partners who require umbrella advertising for the buyers. Therefore, we have developed an advertising program targeted at consumers and retailers.

Point-of-sale

Retailers will receive free posters, stickers, brochures, etc., as POS elements depending on their volumes.

Outdoor

Some outdoor effort is being planned in Moscow and major Russian cities.

Web-site

With Internet culture coming in, we plan to produce a Nikitin Web-site both as a vehicle of advertising and a means of communications with major partners. For the effort to be efficient we also plan some training and consultations programs.

Public relations

There are many magazines now in Russia concerned with consumer goods, stores, tea & coffee, wholesaling and retailing. We plan to run articles in them. Perhaps, at a later date we might consider some sponsorships.

IT system

To become an efficient company we plan to have a modern IT system, with industrial audit, accounting, office and other functions.



is on the move.

**It has all the makings of developing
into a dynamic leader of the Russian tea market.**

**It would welcome any cooperation
with interested companies.**