Consulting

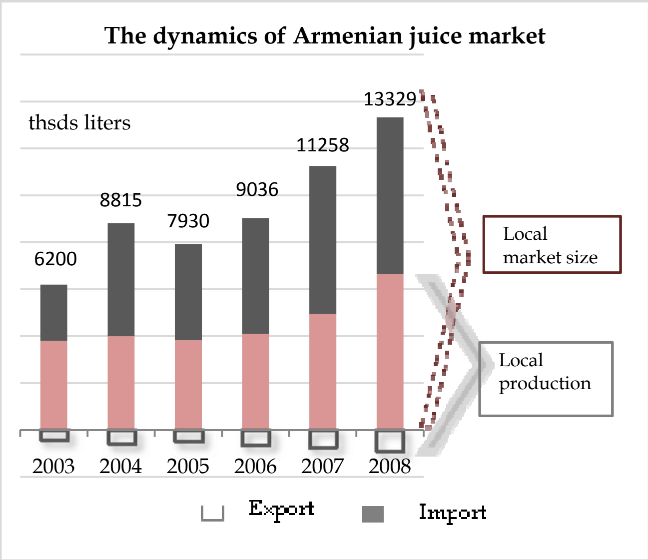
Industry Insights

Juice Market

January 2009

The juice market has been continuously forging ahead, in line with the local food processing sector, with about 20% annual growth on average. Yet the industry is still far from being mature and indicates on considerable long-term growth opportunities.

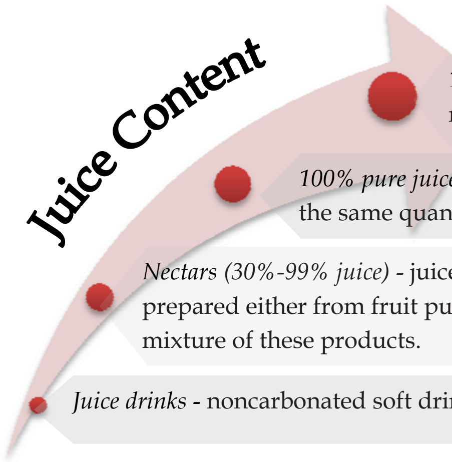
MARKET OVERVIEW: Throughout 2002-2008 the juice market in Armenia has been characterized by a period of steady growth, increasing by an average annual growth rate of around 20%. The volume of the local juice market in 2008 amounted to around 15 mln liters, representing an estimated value of 28 mln USD. The market volume is estimated based on about 20% allowance for shadow output, whereas the Chart represents official statistical information.



At present, the local juice market is shaped by several well-established domestic producers, such as Euroterm CJSC, SIS Natural, Zovq, Tamara Fruit and Yerevan Brewery Factory, and considerable share of imports, accounting for about 55% of the domestic juice market in volume terms. The major sources of imports are Ukraine and Bulgaria, with their well-known producers "Sandora", "Vitmark" and "Florina", which together account for up to about 65% of total imports of juices to Armenia.

One of the major sales channels in the market are the emerging supermarket chains, which are gradually gaining more weight in Yerevan, with a short-term outlook of spreading over the whole country. This trend facilitated the spread of private label in the sector. Currently, only Star Supermarket chain has introduced private label juice products, which, in a relatively short period of time, captured about 7% of the total juice market in the country.

MARKET SEGMENTATION: Dependent upon the dimensions of quality, packaging and price levels, the juice market segmentation ranges from premium segments of *100% not from concentrate juices* to the lower-end segments of *noncarbonated juice drinks. 100% fruit juice from concentrate* and *nectars*, which generally capture the most significant portion of the market, are the mid-positioned segments in this range. The *nectars* are predominantly popular in Armenia. Consisting of a mixture of juices and water, and thus being less costly to produce, the *nectars* have more competitive pricing, and experience growth rates surpassing that of *100% juices*. Another major cause of the significant popularity of nectars in the domestic market is that the majority of Armenian consumers poorly differentiate between *100% juices* and *nectars*. The significant consumer preference to *nectars* is often driven by their more diverse range of flavors and the product appearance confusion: the *nectars* generally have the same product appearance as the *100% natural juices*, making the product differences hard to notice.



100% pure juice NFC - prepared by extraction of juice from fresh fruit, not concentrated, does not contain any artificial additives.

100% pure juice FC - derived from fruit concentrates, which are diluted with exactly the same quantity of water, formerly extracted for the production of concentrates.

Nectars (30%-99% juice) - juice products obtained by adding water and sugar to fruit/vegetable juice prepared either from fruit pulp, from powdered fruit juice, from concentrated juice or from a mixture of these products.

Juice drinks - noncarbonated soft drinks with low content of natural fruit concentrate of about 29%.

The major packaging alternatives of juice products are glass bottles, carton and plastic packaging, with the carton packaging capturing the most significant portion of the market. Although threatened by a tendency of substitution by other packaging types, glass containers retain a stable share in the market due to their numerous advantages, such as the prestigious image, the opportunity of creating exclusive design, ability to maintain a product's freshness for a long period of time impermeability, as well as concordance to the contemporary ecological issues. Plastic packaging (PET bottles) has rushed into the industry of juice products and is especially embedded in the segments of low-end single-serve and large bottled soft drinks segments.

Trends and Opportunities: Rising health awareness, the growing demand for convenience products and the increasing purchasing power of population are the main triggers of juice consumption globally. The juice consumption has a strong positive correlation with the GDP levels, the gradual growth of which results in juice consumption increase. Thus, given that Armenia's GDP per capita level is estimated to reach the average current level of CEE countries by 2015 (according to the Program on Sustainable Growth developed by the Government of RA in 2008), it is feasible to assume that by that time Armenia's juice consumption per capita levels will approach that of CEE countries. The benchmarked level is about 10 liters annually, whereas the current consumption level in Armenia is only 4.5 liters. The current low level of per capita juice consumption in Armenia indicates on huge growth potential of the market, which will presumably ascend to the level of the mature countries, along with the overall economic development of the country.

Business Challenges and Risks: The major constraints to the further growth of the domestic juice manufacturers, both in the local and the global markets - are the volatility of the local fruit/vegetable supplies, as well as the lack of established supply trends, which further stipulate the local producers to give preference to the raw materials procured from abroad. This imposes additional transportation costs, considerably limiting the price competitiveness of the local producers. Another challenge faced by the local producers is the scantiness of advertising budgets and still immature distribution networks compared to that of the well-established international competitors.

The global economic crisis has imposed a further challenge for the local producers, which can be confronted only by the means of increased competitiveness. The market is expected to reshuffle in favor of the local producers and restructure, with mid-to-lower-end segments gaining more weight in relation to premium segments. The local producers might benefit from the severe financial difficulties experienced by Ukrainian juice producers, who are the dominant market players in the country at present. Thus, despite the expected slowdown, the crisis can even force the local industry to become more competitive in the long run.

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