



ASEPTIC FILLING SYSTEM ACCELERATES DEVELOPMENT FURTHER

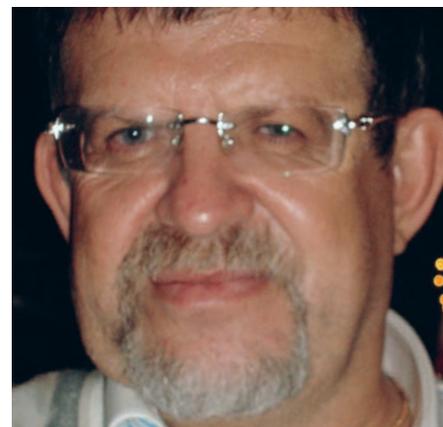
Ecolean's continued successes on the Russian market

The Russian dairy market is huge, which is not surprising, given the size of the country. There are a total of around 1500 dairies, but approximately half of all milk is still sold “traditionally” at the side of the road. In other words, the potential for packaging is huge, and there are large suppliers located throughout the country. A large number of dairies also use the Swedish Ecolean package, which has been available on the market for just over 10 years, and is today seen as a natural feature on the dairy shelves in Russian stores. There is certainly a lot of interesting potential in the future for Ecolean’s packaging system on the Russian market, which became apparent when the AB Nord Emballage magazine visited two dairies in Voronezh and Kazan. The launch of the aseptic filling system is accelerating development even further.

TEXT AND IMAGES **BO WALLTEG**

The snow was falling in heavy flakes as we made our way to the restaurant in central Moscow. There was a clear sense that we were experiencing the city exactly as it is portrayed in films. Together with Peter S Nilsson and Anna Annerås from Ecolean in Sweden, plus the company’s

Russian MD Sergey Sirotn, we went on our way to meet Arkadiy Nikolaevich Ponamorev, MD and owner of the Voronezhskiy Molochniy Kombinat dairy whose main factory in Voronezh, about 300 miles south of Moscow. The dairy was one of Ecolean’s first customers in Russia. That evening, he was in the capital city with his wife,



Arkadiy Nikolaevich Ponamorev is both MD and owner of the Voronezhskiy Molochniy dairy Combine.

and wanted to meet us over a traditional Russian evening meal. It was in 2000 that Voronezhskiy Molochniy Kombinat took the decision to invest in Ecolean’s system. It felt natural to ask what it was that made them take that leap.

“I don’t really have a good answer for that, to be honest. It was probably mainly a gut feeling.



Sergey Sirotin is happy to be the MD for Ecolean in Russia. Posing in front of a store shelf in Voronezh.



Yuriy Soshin, Technical Manager at the Voronezhskiy Molochniy Kombinat, illustrates that an advantage for Ecolean is that Russia is already familiar with flexible packaging.

I considered it to be a high risk, as Ecolean was unknown to us, and therefore in a fairly early stage in its development. But I was quickly shown that it had been a good idea to go with that gut feeling. It was a really good decision that we made.”

There are two things in particular that Arkadiy Nikolaevich Ponamarev appreciates about Ecolean.

“It is innovative packaging that isn’t particularly technically advanced, but it works well and is very interesting from a marketing perspective. Plus it’s a company that isn’t just based on business, but also relationships, which is an important factor here in Russia.

“We’re quite happy to stand up and say that we like Ecolean’s solutions.”

THE FIRST CUSTOMER

A good start for the reporting trip, continuing on the following day to Voronezh, an industrial city which was completely destroyed during the Second World War and rebuilt in haste, something which still characterises the city today. In many parts, the large city is in urgent need of modernisation. However, this is where the dairy group’s head offices are located. The Voronezhskiy Molochniy Kombinat is one of the top three Russian dairy groups; and has branches in thirty of the country’s regions. Around two thousand people are

employed in the group, seven hundred of them at the main factory. The company was one of the first to use Ecolean’s machinery, around ten years ago, and the first to use the new aseptic machinery that was showcased at Anuga FoodTech. The machinery was purchased “on the spot” at the trade fair. Voronezhskiy currently has eight lines from Ecolean for pasteurised products plus the EL3 aseptic filling machine, which has just started packing milk into one litre packages.

RELIABLE SOLUTIONS

Yuriy Soshin is Technical Manager at the dairy:

“This is a new machine, and we’ve tested it for about a year. As is often the case with new solutions, when the machine arrives on site, you find lots of small problems that have to be resolved before everything works as it should, but we’re there now,” he says.

“Generally speaking, we feel that the machines are very simple, reliable and easy to maintain. In addition, it’s easy to teach people how to use them.”

Yuriy Soshin states that the development of Ecolean’s system has been very good in the last ten years and that they now have Ecolean’s base system, responsible for around forty per cent of all packaging used. And it would stay that way,

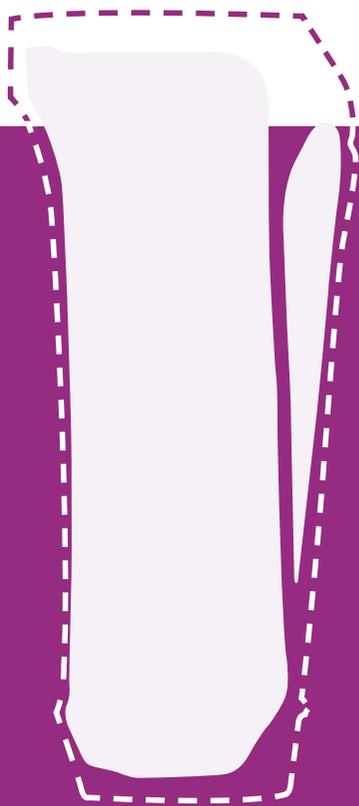
even if consumers were to suddenly turn their backs on this packaging. But why would they do that? The Voronezhskiy Molochniy Kombinat sees it as their base system, and when Ecolean once asked customers in the stores what they thought of the packaging, they looked confused and thought it was an odd question; it was after all, a question about a package that was already in widespread use.

“An advantage for Ecolean is that Russia is a country where we are used to bag packaging. Ecolean has refined the flexible packaging technique and the consumers appreciate it. In addition, milk in flexible packages is often slightly cheaper than milk packaged in other ways, and has a better sales margin.”

THE ENVIRONMENT, THEN...?

The combination of material in Ecolean’s packaging is interesting, as a large amount of it is chalk, a material in natural abundance in the earth. Each piece of packaging therefore uses less plastic, which is a positive step for the environment. This reasoning perhaps works well in other countries, but is not particularly viable in Russia, claims Yuriy Soshin.

“No, for the moment, the environment is not an argument used regularly in Russia. People are ➔



Packing filled Ecolean packaging at the Voronezh dairy.



The EL1 filling line at Unimilk's Edelweis dairy in Kazan.

➔ simply not interested, they don't care; and therefore this is not a selling point, either for us or for our business, when talking about this packaging. It's the other aspects which count here."

FOCUSED

"Ecolean has been a presence on the Russian market since 1998, and in the beginning we were over-ambitious; if I may say so." At least, this is according to Peter S Nilsson who is Ecolean's Sales & Marketing Director and the person who started the company's operations in Russia.

"We aren't saying that we considered ourselves to be god's gift to mankind, but we did think that we could achieve everything, and that nothing was impossible. Since then, we have certainly calmed down, and nowadays we are unbelievably focused on what we do.

"When we started out in Russia, it was a free market with incredible opportunities. When we went out to the dairies, they would often point at an empty space and say "here's where a machine should be", which made it easier to sell an entirely new solution. Here in western Europe, you've either got to dismantle equipment or build an extension if you want to have anything new."

In 2002, it really began to take off for Ecolean in Russia. That was the year they launched the first fully automatic filling machines. The first customer was the Lactis dairy in Novgorod, then came Voronezhskiy Molochniy Kombinat.

"We came to the market with something new, and could highlight the proportionately low costs. At the same time, our approach to the customer was to be fairly humble, so we listened and avoided all upselling. We turned down many customers and told them honestly when we were not the best solution for them."

NO DISTANCE TO WORRY ABOUT

Ecolean entered the Chinese market early on in its development, and now has a large market presence there, with production facilities in Tianjin, just outside Beijing. These two markets account for around eighty per cent of total sales. Each year, around two hundred and fifty trucks and containers leave the factory in Helsingborg en route to Moscow. This might seem a long way, but it's all relative, as Peter S Nilsson points out.

"You have to realise that it takes two hours to fly to Moscow from Sweden, and takes nine hours from Moscow to Vladivostok. For Russian customers, therefore, it's no distance at all.

"There are dairies which distribute the packaged dairy products around two and a half thousand miles by lorry, which in itself creates the need for certain packaging, but at the same time everything is in proportion. The distance from Helsingborg to Moscow doesn't scare Russian customers. Neither have we had any problems in delivering packaging to our customers on time.

"We do still have the production capacity in Helsingborg, but if development continues like this, our progress will of course shoot through the roof eventually and then we can look at alternative production facilities. We've got long-term plans for that sort of thing, but for now, we're managing just fine."

FIFTY PER CENT INCREASE, MINIMUM

Ecolean has its headquarters and storage facilities in Dubna, north of Moscow. There are thirty-four employees, and exactly half of them are service technicians who service the over one hundred filling machines on the Russian market.

"We are in a very exciting and expanding market," says Sergey Sirotin. Given that around

fifty per cent of all milk sold in Russia is still un-packaged, there is distinct potential.

Roadside sales are still common out in the various regions of Russia, not in the large cities such as Moscow and St Petersburg; and the very concept of selling is a phenomenon in itself. It's all about dirty money for a clean drink, and there are lengthy queues. What is astonishing is that the un-packaged milk is no cheaper than packaged milk. The fact is that it is mainly the older generations who think it tastes better. As a new generation takes its place, all the signs point to increased sales of packaged milk. It is interesting to note that there is a difference between the regions in terms of a preference for pasteurised or aseptic milk – in certain regions, the aseptic technique has not gained any ground.

"However, the aseptic market is still growing strongly, and is particularly important for us. The fact we're now up and running with our aseptic filling system also means that new markets are opening up to us, in areas other than dairy – such as soft drinks, fruit juice and other drinks."

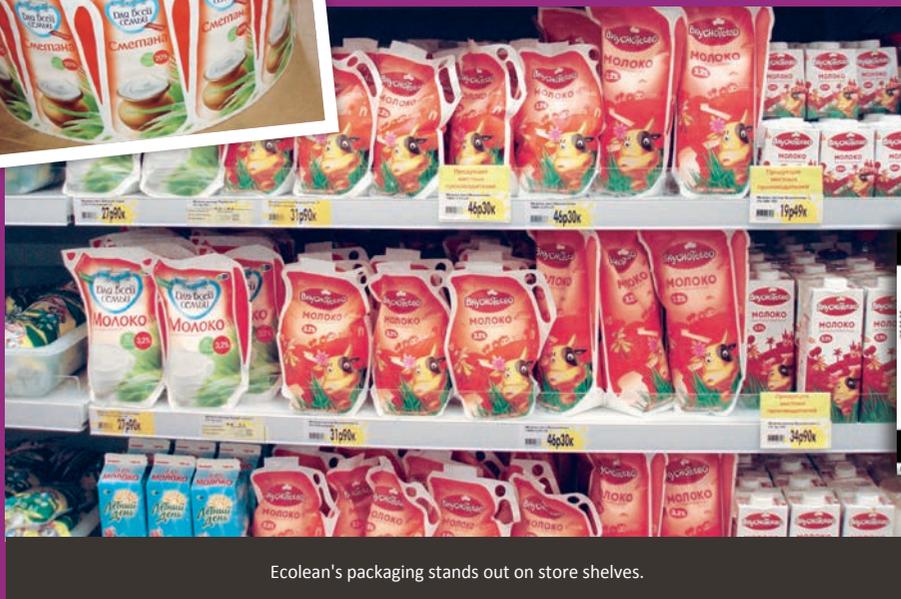
The EL3 machine fills the packaging in volumes of one litre, seven hundred and fifty and five hundred millilitres.

ASEPTIC IS COST-EFFECTIVE

"We have around one and a half thousand dairies in Russia, many small ones that are gradually disappearing. Quite simply, there are too many."

The three largest dairies are Unimilk, Voronezhskiy and Wimm-Bill-Dann. Since 2010, Pepsico has owned a majority of the shares in the company. Unimilk, one of Ecolean's largest customers, is owned by Danone. Wimm-Bill-Dann's sales account for over half of all sales of aseptic milk in Russia.

"The stores appreciate products with a long shelf life, not least because they are often transported for up to two days before they reach the



Ecolean's packaging stands out on store shelves.



Konstantin Urenkov is a service technician and gives a brief presentation of the EL3 filling line – click the image (digital version only).

store. With short shelf lives, the window for sale is significantly limited.

“Our aseptic solution is very cheap compared to liquid carton packaging. It is about thirty to forty per cent lower, whilst with the pasteurised range, we are at approximately the same level as our competitors.

“At the same time, you realise there’s a certain conservatism in the Russian dairy industry, just as there is in many other countries, and many places already have their system with liquid carton packaging established, and it’s not as easy to break those markets as it was ten years ago.”

In spite of this, Sergey Sirotin is positive about the future.

“We’ll be benefitting from a good expansion, with an increase of over fifty per cent per year. In a short amount of time, we have installed many machines; for example, Unimilk has purchased thirty-five filling machines in only eighteen months.”

EVERYONE HAS EVERYTHING

One characteristic of the Russian dairies is that they have everything. They produce milk, yoghurt, kefir, butter, ‘baked’ milk and smetana amongst others. There is no point in specialising in only one product. In other words, there is the risk of ‘cannibalisation’, but if you don’t have every sector covered, it will be someone else who takes that market and that is something we would always try to avoid. It also means that each dairy needs many filling machines.

“Access to raw materials is a constant issue for Russian dairies,” says Sergey Sirotin. In addition, the quality varies. In winter, there is often a shortage of milk, and it can then cost the equivalent of forty to fifty euro cents per litre. In the summer, the price can be as low as eight euro cents. Production planning is therefore an important part in a dairy’s daily work.

The majority of milk is sold in one litre packages. Products such as yoghurt and kefir are sold in packages of five hundred and fifty or five hundred grams.

“Last summer, we launched a two hundred and fifty millilitre packaging for pasteurised products, with great success. We will shortly be launching small aseptic packages in Russia, in two hundred, and two hundred and fifty millilitres, for packaging milk to schools.”

We aren’t saying that we considered ourselves to be god’s gift to mankind, but we did think that we could achieve everything, and that nothing was impossible

The small aseptic packaging was previously launched in China, where it is now on the shelves in supermarkets.

Sergey Sirotin points out that both the stores and the consumers like Ecolean’s packaging.

“A clear signal that the consumers approve is that our growth expanded by eleven per cent in the Voronezh region last year. The region has around twenty different store chains.

“We really stand out on the shelves; we’ve noticed that the liquid carton packages all tend to look similar. The stores like the fact that our packaging sells. We differentiate ourselves, and that is important.”

In Kazan, two hours’ flight south-east of Moscow, the Unimilk Edelweis-M dairy has just taken

delivery of an aseptic machine from Ecolean. When AB Nord Emballage visited the dairy, the fine-tuning was almost complete. Konstantin Urenkov, service technician for Ecolean, gave a brief description of the various stations at the machine. If you are reading the digital version of this newspaper, you can see and hear him speak, by clicking on the image.

HUGE POTENTIAL, BELIEVES THE MD

In other words, there is every reason for Ecolean to consider the future to be bright. Compared with 2009, company turnover in 2010 grew by fifty-five per cent.

“Russia and China are doing really well, and they are the markets that drive development,” says Peter L Nilsson, MD at Ecolean. “March last year was the strongest ever month.

“The Iranian market has great potential, if I had to name a possible new market. They have an interesting dairy industry and they are very open to, and interested in, innovation.

“Our first Iranian customers have recently got their products onto store shelves, with a good response from customers.”

Western Europe, as a considerably more mature dairy market, is not so easy to crack; but if you already have a foothold, then any development is good.

“The customers we have in western Europe, primarily in Germany and Denmark, are doing well, and we have new leads in the pipeline. The focus in the next few years will be on the ‘emerging markets’. A good example of this is the Iranian market.” X