



## AZPROMO PROJECT PLAN

### PROJECT: Confectionary production

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## 1) *Background and Sector review*

### Food Processing in Azerbaijan

The food processing industry is a fast growing and very important industry due to generating demand for agricultural sector and import substitution. The industry forms 1.3% of GDP, but is a significant, 41%, of manufacturing production, and 22.8% of manufacturing labour force.

In Azerbaijan, the food processing industry consists of four main segments, meat processing, production of dairy products, production of beverages, processing and canning of fruits and vegetables. In 2014 total production of foodstuffs including beverages was over 3.7 million tonnes.

According to the Food and Agriculture Organisation, Azerbaijan has a comparative advantage in production of fruit (oranges, apples and pomegranates) and vegetables (tomatoes and cabbages), as well as oilseeds (sunflower) and nuts. Several small businesses are engaged in processing of dairy products and a few medium and large companies undertake packaging and mass sales. There are twelve large meat processing plants in Azerbaijan, mostly in private hands. Forty-three plants are active in the canning industry, and most of them are private companies.

Food products are high on the government's agenda to encourage domestic production to meet increasing demand in neighbouring, regional markets. To improve access to these markets, technical production and processing standards are improving. Azerbaijan is a member of the International Organisation of Standardization (ISO). Azerbaijan has continued preparation for accession to the WTO and the Codex Alimentarius, which includes an approximation to EU rules. It has developed food standards on milk and canned meat and is under-going advanced work on amendments of the food safety and hygiene laws.

### Confectionary in Azerbaijan

In 2014-2015, the consumption of chocolate confectionery grew in urban areas. Children aged 10-15 years were the main consumers of chocolate confectionery except for standard boxed assortments. The latter was popular among 20-25 year olds. Elderly people are more price-conscious and prefer cheaper bagged selflines.

Part of this demand is met by local production. In 2014, the volume of production of chocolate products in Azerbaijan was 4,000 tonnes. Domestic production is led by the domestic brands, Ulduz, Shirin and Nur Co. Nur Co has a market share of 13%. Nur Co is the official distribution company for Mondelez International's brands Alpen Gold and Milka. Both brands are traditionally strong and well-respected in Azerbaijan and enjoy significant consumer loyalty.

The excess demand is mainly met by imports. In 2014, US\$30 Million of confectionary was imported, whilst only 173,000 was exported.

However, the recent devaluation of the Manat has made these imported chocolate increasingly expensive for the key customer segments of children under 15 and the elderly. In contrast, locally produced confectionary has become price competitive, leading to an increase in its demand.

This development, combined with the forecast for world prices for cacao beans and butter to reduce, gives domestic producers, the incentive to invest to improve their production facilities and launch more sophisticated products at a competitive price.

## 2) Project Objective

To increase production of confectionary in the Ganja Gannada production facility, in Ganja, to meet increasing domestic demand.

## 3) Project Description

To upgrade the existing facility to meet modern production and packaging standards, and increase production capacity.

## 5) Marketing Strategy

Market Size: According to the State Statistics Committee the consumption of chocolate products in Azerbaijan amounted to 24.6 thousand tons in 2014. Per capita consumption of chocolate products was 2.6 kg per year. In Russia, for example, in 2013 the figure was 4.36 kg.

Key Customers: Children aged 10-15 years were the main consumers of chocolate confectionery except for standard boxed assortments. The latter was popular among 20-25 year olds. Elderly people are more price-conscious and prefer cheaper self bagged confectionery.

Key Competitors: Domestic producers of Ulduz, Shirin and Nur Co.

## 6) Production, Manufacturing Operations Overview

The production facilities should be in full compliance with the standards and regulations stipulated by the certifications of the BRC Global Food Safety Standards, the ISO 22000 Food Safety Management Systems Standards and the ISO 9001 Quality Management Systems Standards as well as the ISO 14001 Environmental Safety and the OHSAS 18001 Occupational Health and Safety Management Standards

## 7) Project Management and Organization Structure

The Project will be managed by the Ganja Gannada JSC company, in Ganja, Azerbaijan.

## 8) Project implementation schedule

The project will take up to 1 year to be realized, from initial creation of project team, and implementation. Return on Investment will be 3 years.

Project Implementation	Year 0,25	Year 0.5	Year 0.75	Year 1
Project Team				
Production plant review and assessment				
Site operations construction				
Asset Procurement				



Asset Implementation				
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*9)Balance sheet*

To upgrade the existing production facilities will require capital expenditure of US\$ 5 Million.

Estimated Project Balance Sheet			
	Year 1	Year 2	Year 3
<b>Assets US\$ Million</b>			
Building review	1	1	1
Equipment	3	3	3
Testing	1	1	1
<b>Liabilities</b>	5	3	0
<b>Owners Equity</b>	0	2	5