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Report Highlights:

Prior to the COVID-19 outbreak, the Israeli Hotel Restaurant Institutional (HRI) sector was generally stable. The economy's growth over the past decade led to an increase in spending on dining out. Sales at hotels and resorts grew. The restaurant sector evolved and shifted from full service restaurants towards fast food outlets as restaurateurs sought to minimize their risk in the face of financial strains due to high fixed costs. In addition, the rapid construction of shopping centers encouraged growth in food service in retail centers. Institutional sales were strong and steady as a few large firms vied for control of a limited market. The impact of the COVID-19 on the Israel HRI sector has been nothing short of devastating. Due to restriction measures to curb the spread of COVID-19, the Israel restaurant and café sector estimates that during the first half of calendar year 2020, about 2,000 businesses have closed. Under the current scenario, the sector expects a total of 4,500 establishments will permanent.

Market Fact Sheet: Israel

Executive Summary

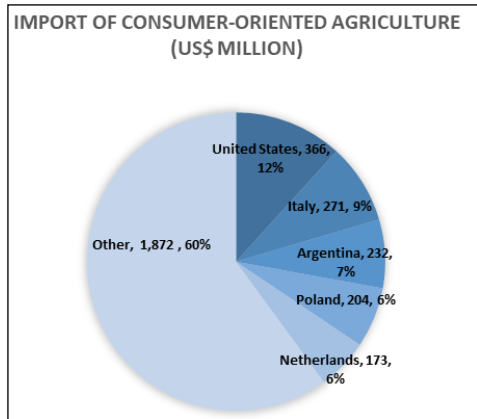
Israel is a technologically advanced, market-oriented economy. However, the COVID-19 pandemic has shaken the Israeli economy and it is unclear how fast it will recover. Israel's Central Bank¹ projected a decrease in real GDP of between 4.5-7 percent in 2020 after gains of 3.3 percent in 2019. In 2019, Israel's annual GDP reached an estimated \$394.7 billion.

Consumers are sophisticated and enjoy cosmopolitan food tastes. Currently, over 16 percent of household expenditures are dedicated to food products. Producers, food processors, wholesalers, retailers, food service operators, and food importers are all part of a well-developed agribusiness sector, contributing to a domestic scenario that is competitive and dynamic. In 2019, imports of agricultural products² reached \$6.8 billion.

Israel's limited land and water resources preclude a high level of agricultural self-sufficiency; this affects local production costs and consumer prices. The country posts sizeable trade deficits in food and agricultural products, importing large volumes of feed grains and sizable volumes of consumer oriented products.

Imports of Consumer-Oriented Products

In 2019, Israel's import of consumer-oriented agriculture³ stood at \$3.12 billion. Approximately 12 percent of imports were sourced from the United States.



Food Service- Hotel Restaurant Institutional

In 2019, the Israeli Hotel, Restaurant, and Institutional (HRI) food service sector included approximately 429 hotels, with a total of around 55,000 rooms, 14,000 consumer foodservice outlets, and the institutional sector. Based on the Israeli Central Bureau of Statistics, the total revenue of the hotel sector in 2019 was \$3.56 billion, a sixteen percent increase from the previous year. Isrotel's, one of Israel's top hotel chains, 2019 financial report attributed 27 percent of the hotel's income to food and beverages. Reportedly, the Israeli hotel sector's food sales reached an estimated \$0.96 billion in 2019.⁴ According to the Israeli Restaurant and Café Association in 2018, restaurant and café sector sales reached a total of \$5.7 billion⁵. While the annual sales of catering services provided at the work place⁶ stands at around \$0.84 billion.

Quick Facts CY 2019

Imports of Consumer-Oriented Agriculture² (\$million) \$3,118

Top Food Service Trends:

- Demand for healthier dishes
- Demand for plant-based dishes
- Demand for high quality, higher end food products
- Shift from full-service restaurants towards fast food outlets

Food Industry Data (\$ billion) 2019

| | |
|--|--------|
| Food and Agricultural Products ² Exports | \$2.2 |
| Food and Agricultural Products ² Imports | \$6.8 |
| Food and Agricultural Products ² Imports from the USA | \$0.52 |
| Hotel Food and Beverages | \$0.96 |
| Consumer Foodservice Sales | \$5.7 |
| Institutional Catering at the work place | \$0.84 |

Top Consumer Foodservice Chains

McDonald, Reshet Cafe Cafe Ltd., Greg Coffee Shops Ltd. and Aroma Israel (Shefa Franchisers Ltd)

Top Institutional Catering Companies

Schultz, Sodexo, ISS Catering Services Ltd (Sold to Sodexo in 2019), and Idit Food Logistics

Top Hotel Chains

Fattal Hotels, Isrotel Hotel Management, and Dan Hotels

GDP/Population 2019 (CBS estimate)

Population (*millions*): 9.2 (as of July 2020)

GDP (*billions USD*): \$394.7

GDP per capita (*USD*): \$43,600

Strengths/Weaknesses/Opportunities/Challenges

| Strengths | Weaknesses |
|--|---|
| <p>U.S. products are perceived as better products;</p> <p>The Israeli consumer appreciates U.S. products and they are in demand;</p> <p>Many U.S. suppliers are kosher certified.</p> | <p>Cost of shipping from the U.S. is high;</p> <p>Israel's standards tend to follow EU standards and not U.S. standards;</p> <p>U.S. exporters lack knowledge of the Israeli market and are unaware of new opportunities.</p> |
| Opportunities | Challenges |
| <p>Free trade agreement between the U.S. and Israel;</p> <p>The Israeli Ministry of Economy is determined to open the market for more imports in order to lower the cost of living;</p> <p>Israel has the potential to be a bridge to the Palestinian Authority with its rapidly growing population.</p> | <p>Low-cost competition from Eastern Europe, Turkey, former Soviet Union, South America, and Asia;</p> <p>Israel is a small market.</p> |

Data and Information Sources:

Israeli Central Bureau of Statistics (CBS), Storenext, Euromonitor, Bank of Israel, FAS Tel Aviv office research, UN Comtrade Database, Company Financial Reports, CofaceBdi, Israeli Restaurant and Café Association

¹ Based on August projections ² Harmonized Tariff Schedule Chapters 1-24 ³ Consumer Oriented Agriculture - BICO-HS6 ⁴ Previous HRI reports calculated the value based on the Israel Hotel Association estimate that 40 percent of total revenues are a result of food and beverage sales. ⁵2019 figures were not available. ⁶The sales figures of the entire institutional sector food service were not available.

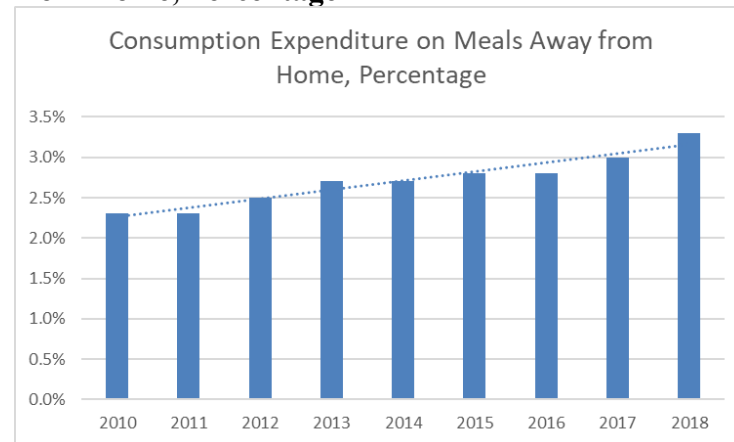
SECTION I. MARKET SUMMARY

Prior to the COVID-19 outbreak, the Israeli Hotel Restaurant Institutional (HRI) sector was generally stable. The economy's growth over the past decade led to an increase in spending on outsidineding. Sales in hotels and resorts grew. The restaurant sector evolved and shifted from full service restaurants towards fast food outlets as restaurateurs sought to minimize their risk in the face of financial strains due to high fixed costs. In addition, the rapid construction of shopping centers encouraged growth in food service in retail centers.

Institutional sales were strong and steady as a few large firms vied for the control of a limited market.

The economy's growth over the past decade significantly affected Israeli consumers' disposable income, which led to an increase in spending on dining out. According to Israel's Central Bureau of Statistics latest figures, in 2018, families spent on average three percent of their consumption expenditures on meals away from home (i.e., at restaurants, fast food, coffee shops, etc.) compared to two and a half percent in 2012.

Figure 1: Israel, Consumption Expenditure on Meals Away from Home, Percentage



Source: Israel Central Bureau of Statistics, FAS office research.

Key Demand Drivers, Prior to COVID-19

- Economic growth drives sales
- Growth in tourism creates opportunities for hotels and restaurants
- Full service restaurants face high fixed costs and rising minimum wages, creating opportunities for unique, new outlets and vendors
- Social networking (i.e., Facebook, Groupon) and the expansion of internet sales. Purchasing groups, with daily discount offers, continue to boost full-service restaurant sales
- Healthier eating is gaining even greater traction among the HRI sector
- Mergers and acquisitions in the HRI sector are leading to expanded product offerings

COVID-19 hit the food service sector hard as the pandemic kept people in their homes, and restrictions on international travel negatively impacted hotel restaurant revenue. The COVID-19 crisis and the lockdown policy caused a steep rise in unemployment and negative economic growth in the economy. To date, it is unclear how long it will take the economy to recover.

Table 1: Advantages and Challenge for U.S. Exporters to Israel

| Advantages | Challenges |
|--|--|
| U.S.-Israel Free Trade Agreement trade preferences | Israel is a small market |
| Strong consumer interest in new food products | Potential for tense regional security situation to negatively impact consumer behavior |
| The majority of the HRI sector buys only kosher food products and many U.S. food products are already kosher certified | Low-cost competition from Eastern Europe, the former Soviet Union, Turkey, and Asia is fierce |
| The standard of living in Israel is expanding rapidly, increasing the demand for away-from-home dining | For most markets, a U.S. kosher certification is sufficient though some supermarkets and institutional customers demand also a local Israeli certification |
| The Israeli consumer appreciates U.S. products and they are in demand | Post COVID-19 economic environment; adjustments to the overall economy, tourism, and changes in consumer habits |

SECTION II: A ROAD MAP FOR MARKET ENTRY

Entry Strategy

U.S. exporters should review [FAS Tel Aviv policy and market reports](#) and private sector analyses. After identifying a market opportunity, FAS Tel Aviv recommends that the U.S. exporter contact an importer or agent with experience in the sector. Post advices exporters to research options for distribution and sales channels thoroughly. Visits by U.S. exporters to meet with Israeli importers and investors strengthen confidence with local partners. The Israeli agent or importer will be responsible for facilitating custom clearance procedures and advising the exporter on product specific regulations, such as labeling, packaging, import duties, and sanitary and phytosanitary regulations. Additionally, the local partner will have knowledge of tariff rates and will be able to apply for quotas for the relevant products if necessary.

Most Israeli food distributors acquire imported products through an importer or an agent. Specialized importers and agents are often also distributors who have warehouse and transportation operations. However, some large HRI chains have their own purchasing or importing division to handle food imports directly. Suppliers from the United States should initially contact the purchasing or importing divisions of these large hotel and restaurants chains. FAS Tel Aviv can assist on identifying the correct point of contact.

Increasingly local players are opting for the franchise model to expand firm presence, profits, and bargaining power. Franchising is widely used in the Israeli consumer food service by both foreign and local players. The majority of franchisees of major international brands are corporate entities that often run other name brand outlets as well. Franchisees of Israeli brands tend to be smaller individual franchise holders. Foreign consumer food service operators normally enter the Israeli market through franchise agreements. Major global brand owners such as Domino's Pizza Inc., McDonald's Corp., and Burger King Holdings Inc., operate in Israel through local franchisees.

Israel does not have specific regulations applicable exclusively to foreign companies. Nevertheless, there are important cultural and religious factors which foreign firms must consider, including kosher and Sabbath regulations. Sources indicate that Starbucks and Dunkin' Donuts have met with limited success in Israel due to differences in consumer tastes and pricing issues. Local ambiance is extremely important. The tailoring of an establishment's management and product variety is necessary in order to blend in with the local environment and consumer preferences.

Additional Means of Entry:

- Direct marketing (phone and video calls, emails, and meetings)
- Direct marketing through the mail with brochures and corporate press kits
- Israeli food companies often attend the main European food shows (i.e., ANUGA, SIAL)
- [ISRAfood](#) is Israel's biggest food and HRI show. This takes place in Tel-Aviv each year at the end of November or early December
- Social networking and the use of internet marketing are gaining greater acceptance by local importers and HRI buyers
- Franchising and manufacturing under licensing agreements

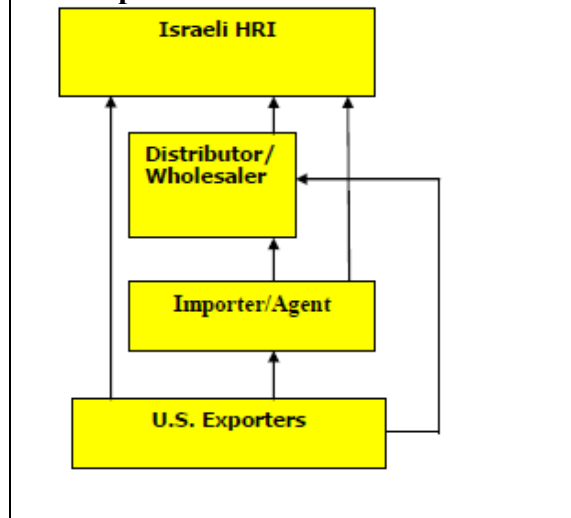
Market Structure

Large hotel chains have central purchasing offices. These offices would normally purchase from Israeli importers or local wholesalers. Exporters interested in gaining market share with large chains should consider approaching hotel purchasing offices with their Israeli partner. Smaller hotel chains and independent hotels purchase directly from the local market or from local wholesalers. In these cases, exporters will have to place additional marketing resources in clearly defining the supply chain whereby the customer can access the imported U.S.-origin goods.

Similarly, large restaurant chains may also have centralized purchasing offices. As with the hotels, U.S. exporters and their Israeli partners should approach these offices in order to market imported U.S. goods. Smaller restaurants, bars and cafes will likely purchase goods directly from wholesalers or on the local market. Smaller restaurants account for more than 70 percent of total food service outlets. Most restaurants purchase beverages through distributors.

The Israeli Defense Forces, police, and prison service have their own purchasing sections. All three issue public tenders to purchase food products. Israeli law, however, gives priority to Israeli firms in tender awards. Exporters interested in participating in public tenders should seek further information from the tendering agency.

Figure 2: Israel, Distribution Channel for Imported Food Products

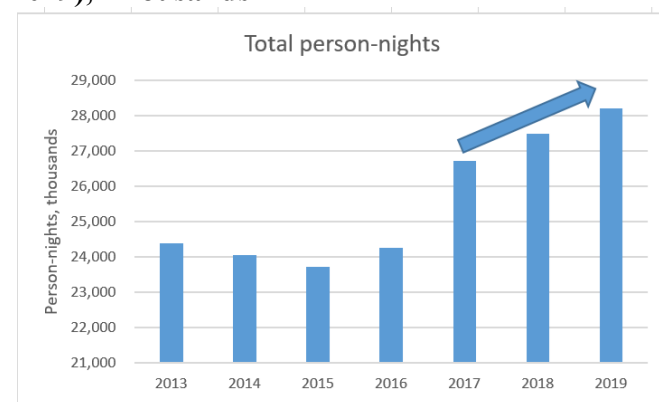


Sub-Sector Profiles

Hotels and Resorts

In 2019, the Israeli hotel sector comprised of 429 hotels, with around 55,000 rooms. The estimated total revenue of the sector was \$3.56 billion¹, a sixteen percent increase from the previous year. The Israeli Central Bureau of Statistics reports that 4.1 million tourists visited Israel in 2018 while in 2019 there were 4.5 million, a ten percent increase. The United States, France and Russia were the top three sources of tourists to Israel, together representing around 36 percent of total arrivals. Average hotel rates in Israel are above \$200 per night, making it an expensive destination in comparison to other Mediterranean countries.

Figure 3: Israel, Total Person-nights (2013-2019), Thousands



Source: Israel Central Bureau of Statistics, FAS office

¹ Note: \$1 USD: NIS 3.56 exchange rate has been applied for 2019
\$1 USD: NIS 3.51 exchange rate has been applied for the first half of 2020

Of all Israeli destinations, Eilat registered the most occupancy in 2019; representing 27 percent of all hotel stays nationwide. Jerusalem and Tel Aviv, making up 20 and 15 percent respectively of hotel stays. FAS Tel Aviv found that the hotels in Eilat cater more to domestic tourists than international ones.

Isrotel’s, one of Israel’s top hotel chain, 2019 financial reports attributed 27 percent of the hotel’s income to food and beverages. Reportedly, the Israeli hotel sector’s food sales reached an estimated \$0.96 billion in 2019.²

Up till the COVID-19 crisis, tourism recovered from a slowdown, and was showing growth. COVID-19 paralyzed the sector, as the Israeli government closed its gates to incoming tourism. The hotel sector’s revenue in the first half of 2020 stood at a mere \$0.65 billion, compared to \$1.66 billion in the first half of 2019, a 61 percent decline.

Figure 4: Israel, Tourists January-August (2019-2020), thousands

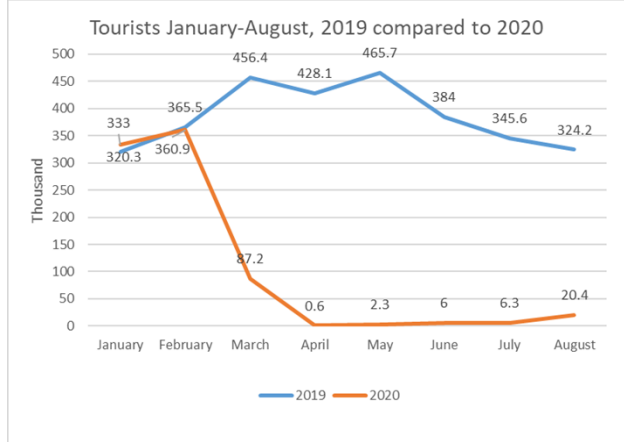
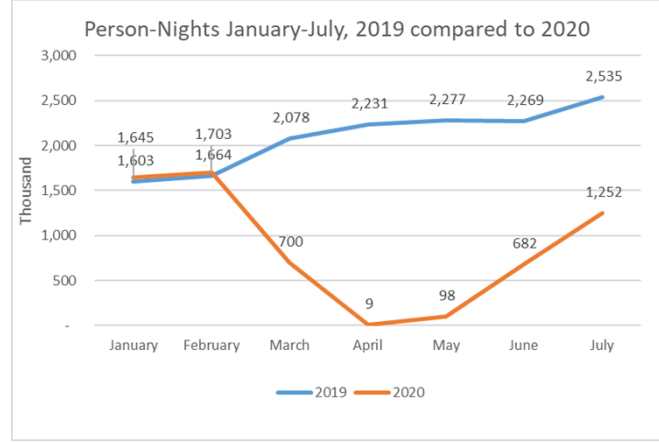


Figure 5: Israel, Total person-nights January-July (2019-2020), thousands



Source: Israel Central Bureau of Statistics, FAS office research.

² Note: Previous reports calculated the revenues from food and beverage sales based on the Israel Hotel Association’s estimation that 40 percent of total revenues are a result of food and beverage sales.

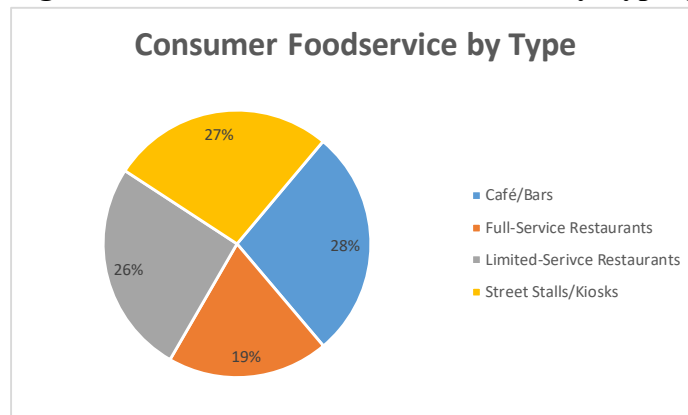
Restaurants

In 2019, there are approximately 14,000 consumer foodservice businesses; this includes restaurants, cafés, bars, and street vendors in Israel. According to the Israeli Restaurant and Café Association in 2018, sales stood at around \$5.7 billion.

Tel Aviv is the hub of restaurant and culinary trends in Israel. Israeli restaurants face high fixed costs with tight margins. This is especially true of high-end, standalone restaurants with high locale rent costs. Many consider the restaurant business risky, with high expenses such as rent, labor wages and food costs.

Furthermore, many operators are struggling to remain profitable in the long term, with 80 percent of the restaurants opened in Israel closing within their first five years of business according to the Israeli Restaurant Association. While the association attributed the decrease in revenue to the tense security situation, restaurants continue to struggle today even though the security situation improved.

Figure 6: Israel, Consumer Foodservice by Type (2019)



Source: Euromonitor, FAS office research.

Thus, many players are expected to enter and exit the market in the upcoming years and the sector is opening more small locales offering high quality street food. In 2019, there was a one percent decline in the number of full-service restaurants. During the same period, there was marginal growth in the number of outlets with low-fixed costs, such as delivery services and street stalls. The trend is expected to continue as restaurateurs continue to struggle with high input costs.

Independently owned operations dominate the Israeli consumer service sector accounting for approximately 80 percent. Local and international chains, however, are growing in number and popularity. Between 2012 and 2019, chain restaurants grew from 14 percent to 20 percent of outlets.

Restaurants increasingly relying on third-party delivery services to expand its customer base and boost sales growth. The top online meal delivery platforms in Israel are 10bis, Cibus and Wolt.

Due to COVID-19, the Israel restaurant and cafe sector estimates that during the first half of 2020, about 2,000 businesses have closed. Under the current scenario, the sector expects a total of 4,500 establishments will permanently close by the end of the year. The Israel restaurant and cafe sector association estimates that there will be a 15-20 percent decline in businesses in the sector.

The largest consumer foodservice chains in terms of sales are: McDonald's, Reshet Cafe Cafe Ltd., Greg Coffee Shops Ltd., and Aroma Israel (Shefa Franchisers Ltd).

Current Restaurant Trends:

- Consumers are seeking a low-cost alternative, value for money
- Shift away from traditional restaurants toward delivery and vendor-style outlets
- Slow growth in traditional standalone restaurants, high growth in delivery and street stalls
- Growth in chain restaurants as compared to independently owned operation

- Incorporating healthier menu options
- Offering more plant-based protein, vegetarian, and vegan options
- Restaurants increasingly relying on third party delivery services

Institutional

Institutional catering services are used by public institutions, government agencies, high-tech industry, the Israel Defense Forces, and the insurance and financial sectors among others. The industry is characterized by fierce competition, which is reflected by low pricing and tight margins. Nevertheless, the industry is relatively stable, and consists mainly of medium and large companies that have been operating in this sector for many years. In recent years, some schools started to supply hot meals to the students through catering companies.

The catering industry in the workplace employs approximately 15,000 workers and provides catering services to half a million workers a day. The annual sales of catering services provided at the work place is around \$0.84 billion. Though due to COVID-19, thousands of professionals are now teleworking and are no longer using the catering services provided to them at their place of work. As a result, there was a 25 percent decrease in the catering services activity.

The largest institutional catering companies in terms of sales are: Schultz, Sodexo, ISS Catering Services Ltd (Sold to Sodexo in 2019), and Idit Food Logistics.

Company Profiles & Top Food Service Companies

Israel's top hotel chains, restaurants and institutional catering companies have been ranked by two separate entities, BDi Code and DUN'S 100. See [BDi Code's Hotel Ranking](#) , [BDi Code's Restaurants and Catering Ranking](#) and [DUN'S 100 Catering Ranking](#).

SECTION III: COMPETITION

Local and European Union suppliers remain U.S. exporters' main competitors. The U.S. industry's main advantage is supply reliability, product quality, and the recognition of its high food safety standards. On the other hand, high shipping costs, adoption of EU standards, import duties, and import licensing requirements remain major market barriers for U.S.-origin products. Exporters need to be competitive in their pricing or present products of excellent quality.

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

Israel is a net food importer. It is a good market for U.S. food exports, such as dried fruits, nuts, fresh apples and pears, cheese, and other food products. Demand for healthy or natural foods is increasing, such as organic food. Niche products that target a specific health issue like diabetes or celiac disease (gluten-free food) are experiencing growth in demand, as well as vegetarian and vegan products. An additional growing food category is high quality, higher end food products.

Table 2: United States Products Presence

| In the market and have good sales potential | Not present in significant quantities, but which have good sales potential | Not present because they face significant barriers |
|---|--|--|
| <ul style="list-style-type: none"> Nuts Processed fruit Dairy products Alcohol Grape juice Pears and apples Sauces | <ul style="list-style-type: none"> Chilled kosher beef Frozen cherries and berries Premium dessert products such as premium chocolate bars, cookies, ice cream, and cheese Frozen kosher appetizers Vegan and vegetarian products Organic food Gluten free products | <ul style="list-style-type: none"> Non-kosher meats are not permitted for importation Kosher barriers on Crustaceans and Mollusks. They are not kosher and most supermarkets will not sell them as well as the major hotels and restaurants Banana, fresh cherries and citrus are not allowed for importation due to phytosanitary restrictions |

Table 3: Top Consumer-Oriented Products Imported from the World

| | HS Code | Product | Total Imports (\$ millions) 2016 | Total Imports (\$ millions) 2017 | Total Imports (\$ millions) 2018 | Total Imports (\$ millions) 2019 |
|----|---------|------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 1 | 020230 | Frozen Beef (Boneless) | \$476 | \$441 | \$388 | \$443 |
| 2 | 210690 | Food Preps, Nesoi | \$205 | \$233 | \$232 | \$253 |
| 3 | 020130 | Fresh Beef (Boneless) | \$52 | \$90 | \$120 | \$152 |
| 4 | 180690 | Chocolate, Nesoi | \$89 | \$99 | \$108 | \$113 |
| 5 | 230910 | Dog Or Cat Food | \$67 | \$76 | \$92 | \$97 |
| 6 | 090121 | Coffee, Roasted | \$56 | \$66 | \$74 | \$76 |
| 7 | 190590 | Other Bakers Wares | \$40 | \$48 | \$59 | \$69 |
| 8 | 210111 | Coffee Extracts | \$50 | \$58 | \$59 | \$66 |
| 9 | 220300 | Beer | \$48 | \$57 | \$62 | \$62 |
| 10 | 170490 | Sugar Confectionery | \$50 | \$58 | \$59 | \$62 |

Table 4: Top Consumer-Oriented Products Imported from the United States

| HS Code | Product | Total Imports (\$ millions) 2016 | Total Imports (\$ millions) 2017 | Total Imports (\$ millions) 2018 | Total Imports (\$ millions) 2019 |
|---------|--------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 210690 | Food Preps, Nesoi | \$36 | \$35 | \$39 | \$39 |
| 080251 | Pistachios, In Shell | \$21 | \$36 | \$25 | \$38 |
| 080232 | Walnuts, No Shell | \$28 | \$34 | \$34 | \$32 |
| 080212 | Almonds, No Shell | \$24 | \$21 | \$20 | \$32 |
| 080290 | Nuts Edible, Nesoi | \$17 | \$29 | \$26 | \$28 |
| 190590 | Other Bakers Wares | \$6 | \$7 | \$10 | \$18 |
| 080810 | Apples, Fresh | \$8 | \$11 | \$18 | \$14 |
| 20130 | Bovine Boneless Frozen/Chilled | \$0.23 | \$3.8 | \$3.9 | \$12 |
| 200290 | Tomatoes Nesoi, Prepared | \$6 | \$5 | \$10 | \$11 |

Note:

1. Data Source: United Nations Commodity Trade Statistics, United Nations Statistics Division

2. Nesoi- Not Elsewhere Specified or Indicated

SECTION VI: KEY CONTACTS AND FURTHER INFORMATION

Links to government sources

Israel Tax Authority - [Customs Tariff Book](#)

Israel Central Bureau of Statistics (CBS) - [Exports and Imports](#)

The Standard Institution of Israel (SII) – [SII Shop](#)

Ministry of Economy and Industry- [Foreign Trade Administration](#) (FTA)

[Ministry of Agriculture](#)

Ministry of Health- [Food Control Administration](#): Telephone: +972-3-6270100

For questions or comments regarding this report, or assistance exporting to Israel, please contact the Foreign Agricultural Service in Tel Aviv. Importer listings are available from the Foreign Agricultural Service for use by U.S. exporters of U.S. food and beverage products.

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Attachments:

No Attachments