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Report

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Report Highlights:

Food imports account for 31 percent of all food products used by catering establishments in Lithuania. The level of consumption is low, and there is no tradition of restaurant-going in Lithuania. Local food manufacturers are the biggest suppliers for the Lithuanian HRI sector. This report provides an overview of the situation concerning Lithuania's food service sector.

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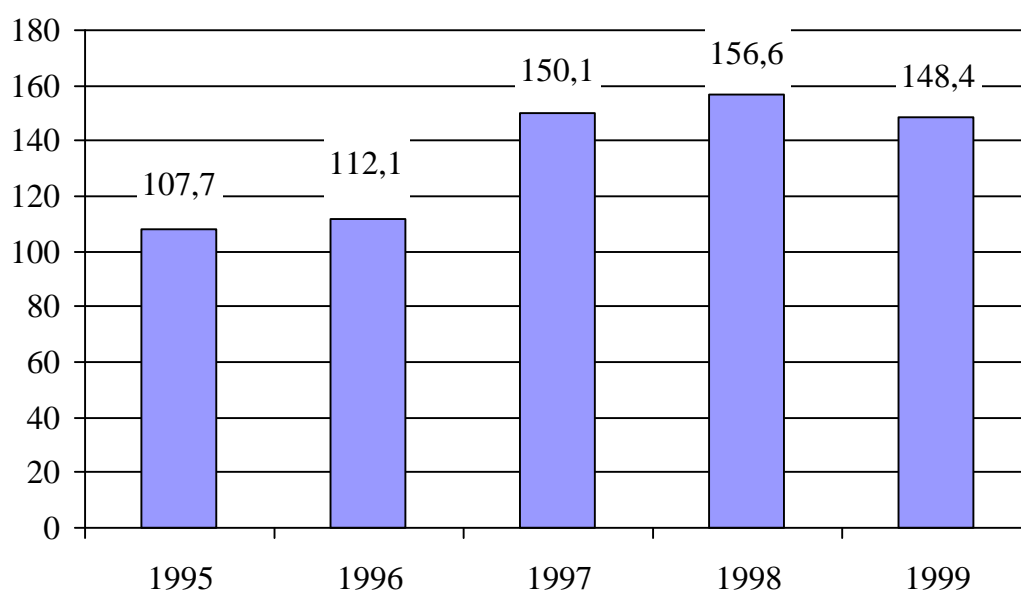
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AN OVERVIEW OF THE LITHUANIAN HRI SECTOR

From 1995 to 1999, the Lithuanian catering market grew 1.4 times and amounted to 148.4 million US dollars (the official exchange rate is 4 LTL=1 US dollar).

The sales of food products and beverages at restaurants and other catering establishments rose from 107.7 million US dollars in 1995 to 156.6 million US dollars in 1998. In 1999, the sales of catering establishments totaled 148.8 million US dollars, a reduction of 5.3 percent as compared with 1998 and an increase of 38 percent as compared with 1995.

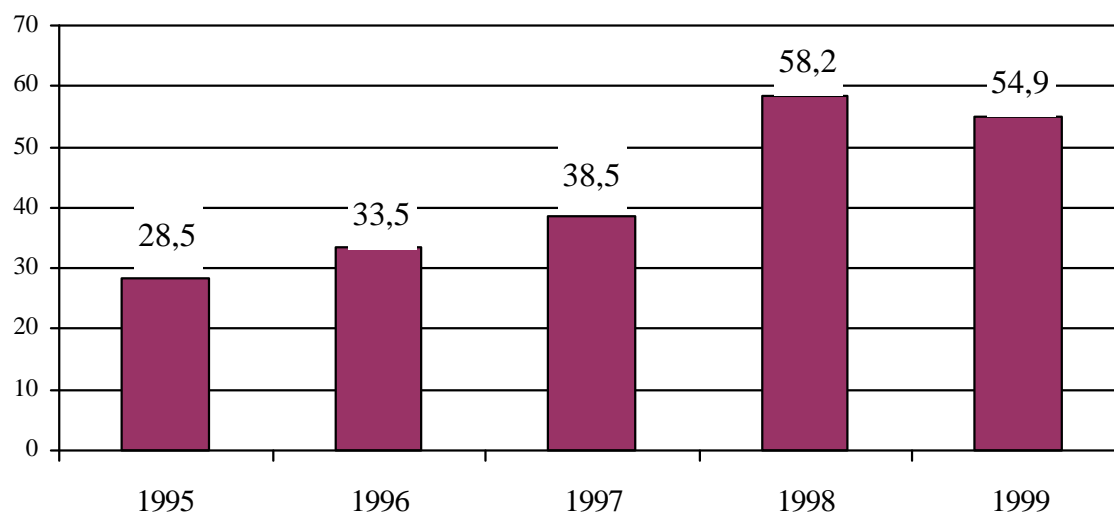
Figure 1. Food and beverage sales at catering establishments in Lithuania from 1995 to 1999 (million US dollars)



Compiled based on the data of the Lithuanian Department of Statistics

In 1999, alcoholic beverages accounted for 37 percent of total food and beverages sales at catering establishments. The volume of sales of alcoholic beverages rose much faster than that of other food products. In 1999, catering establishments received 93.5 million US dollars in total food sales, an increase of 18 percent as compared with 1995. Alcoholic beverages contributed 54.9 million US dollars, up by 93 percent from 1995.

Figure 2. Sales of alcoholic beverages at catering establishments from 1995 to 1999 (million US dollars)



Compiled based on the data of the Lithuanian Department of Statistics

Local food products accounted for about 69 percent of total turnover reported by catering establishments, while imports comprised 31 percent. In 1999, the sales of local food products and beverages amounted to 102 million US dollars, while imports brought 46 million US dollars.

In 1999, disposable monthly household income per household member was estimated to be 107 US dollars. Average monthly consumption expenditures per household member spent in hotels, cafes, restaurants and canteens comprised about 8 percent of total expenditures on food and beverages. They rose by 31 percent over the past four years (from 3.35 US dollars in 1996 to 4.4 US dollars in 1999).

The number of restaurants, bars and other catering establishments rose steadily over the past years. Their number increased from 4,359 in 1995 to 5,013 in 1999, up by 15 percent.

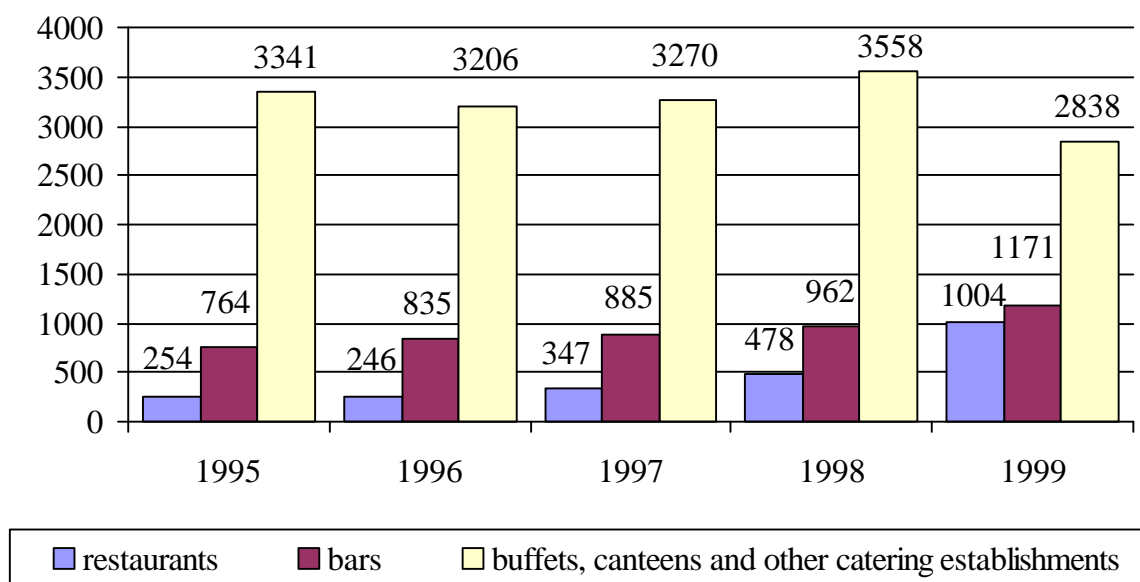
Over the past five years, restaurants showed the most rapid growth. From 1995 until 1999, the number of restaurants almost quadrupled and reached 1,004. Most newly established restaurants are small. The average number of seats per restaurant fell by one fifth from 1995 to 1999.

Bars have been developing rather dynamically as well. The number of bars increased by 53 percent from 1995 and totaled 1,171 in 1999. The number of bars have increased by five to seven percent year by year. The average number of seats per bar has grown as well.

Of all types of catering establishments, recession has affected only buffets and canteens. Over the past five years, the number of establishments of this type fell by almost 20 percent.

In 1999, there were 200 hotels and guest houses in Lithuania, or 18 times more than in 1998.

Figure 3. Changes in the number of catering establishments from 1995 to 1999



Compiled based on the data of the Lithuanian Department of Statistics

The main advantages and disadvantages of supplying exports for Lithuanian restaurants, bars, canteens and other catering establishments follow.

Strengths	Weaknesses
<p>Food imports account for 31 percent of all food products used by catering establishments in Lithuania.</p> <p>Personal expenditures on restaurants, cafes and other catering establishments are on the rise in Lithuania.</p> <p>In the Lithuanian HRI are popular imported sauces of different types and their mixtures.</p> <p>Lithuanian catering establishments are concerned with bringing in new food products and spices.</p>	<p>The level of consumption is low, and there is no tradition of restaurant-going in Lithuania.</p> <p>Visitors tend to buy cheaper Lithuanian alcohol, especially Lithuanian beer.</p> <p>The Lithuanian catering industry uses local beef, pork and chicken.</p> <p>Promotion of American commodities is rather limited.</p> <p>The rate of restaurant attendance is the highest in Lithuania's two or three largest cities.</p>

A STRATEGY FOR MARKET ENTRY

Food sales at catering establishments account for 8 percent of total retail food sales.

The degree of concentration in the Lithuanian HRI sector is low. Only a few chains of restaurants and bars own 6 to 8 catering establishments. This suggests that, if the aim is to export food products directly to catering establishments, it should be born in mind that the volume of exports will be small.

Catering establishments obtain the bulk of supplies from food wholesalers who serve both retail stores and HRI businesses. It should be noted that catering establishments have a right to obtain alcoholic beverages only from wholesalers. According to the Lithuanian law, retailers are not allowed to re-sell alcoholic beverages.

The activities of specialized food wholesalers that serve restaurants, bars and other catering establishments are very limited. Some restaurants are aiming to function as wholesale suppliers to other Lithuanian restaurants.

Establishing direct contacts with representatives of the Lithuanian HRI sector by foreign exports is inexpedient. There are several ways for foreign products to penetrate the Lithuanian catering market:

1. by co-operating with wholesalers and representatives already operating in Lithuania and distributing food products both to retail outlets and catering establishments;
2. by creating a specialized distribution structure catering for restaurants;
3. by establishing a fast food chain.

Dissemination of information, presentations, and sampling play an important role in introducing new beverages, foods, spices and sauces on the Lithuanian catering market.

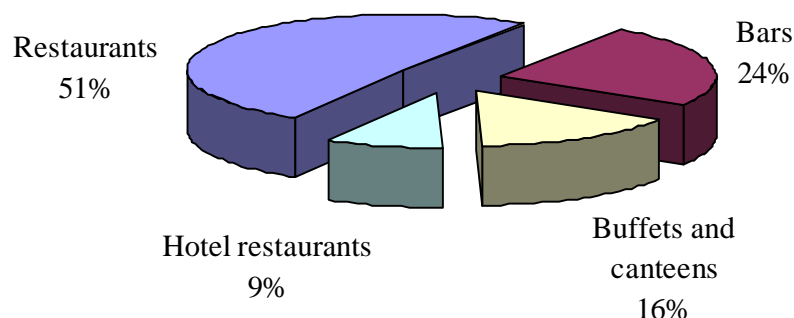
TYPE OF CATERING ESTABLISHMENTS

In 1999, restaurants were in the top position in terms of sales of food products and beverages. Their sales accounted for 60 percent of total food sales in the HRI sector.

RESTAURANTS

In 1999, annual sales of restaurants (hotel restaurants excluded) amounted to 75.7 million US dollars and constituted 51 percent of total sales of catering establishments.

Figure 4. The sales of catering establishments by type of business in 1999 (percent)



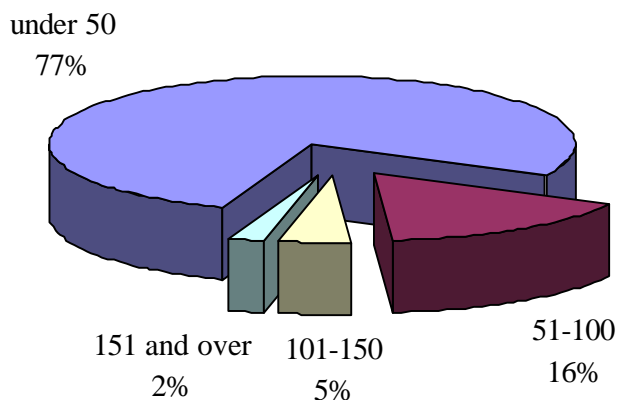
Compiled based on the data of the Economic Consulting and Research firm.

The number of restaurants increased rapidly from 1995 until 1999. The development of the restaurant sector is characterized by:

1. the establishment of small restaurants with a small number of seats;
2. the establishment of restaurants offering different national, especially oriental, cuisines;
3. the development of fast food restaurants.

The period from 1995 to 1999 saw an increase in the number of small restaurants under 50 seats. The proportion of such restaurants in the total number of restaurants rose from 59 percent in 1995 to 77 percent in 1999.

Figure 5. Restaurants by number of seats in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

Restaurant owners complain of a shortage of fresh fish (except carp) in Lithuania. The most popular dishes among restaurant visitors are *chicken and Lithuanian potato dishes*. Fish dishes and sea foods (*oysters, shrimps, etc.*) are getting increasingly popular. Lithuanian bars and restaurants offer very few non-alcoholic cocktails.

As interviews show, catering establishments obtain meat for the most part from farmers. The *Alytaus Mesa* closed joint-stock company and the *Mesa* joint-stock company are in the top position on this market. Some restaurants breed cattle themselves. Boar, venison and other types of game are obtained from hunting clubs.

Lithuanian restaurants buy imports from wholesalers (*Sanitex, Mineraliniai Vandens, Bennet Distributors* and others). Some Lithuanian products are obtained from intermediaries, although many (meat, dairy, poultry, etc. products) are bought directly from Lithuanian manufacturers.

HOTEL RESTAURANTS

The number of hotels rose by 28 percent from 1997 until the beginning of 2000. There were 213 hotels and guest houses in 2000, an increase from 166 in 1997.

In 1999, Lithuanian hotels had 5,300 rooms (up by 2.7 percent as compared with 1998) and 9,757 beds (a reduction of 0.6 percent as compared with 1998). In 1999, Lithuanian hotels accommodated 375,800 guests, down by 12 percent as compared with 1998. Foreigners accounted for 65 percent of all guests at Lithuanian hotels.

In 1999, hotels received about 41 million US dollars in income, or 1.75 million more than in 1998.

The sales of foods and beverages at hotel restaurants amounted to 13.4 million US dollars, or 9 percent of total sales of foods and beverages at catering establishment.

In 1999, *Rotonda, Shakespeare, V&G, Flamingas, Kaunas, Daniela, Saulys* and other new hotels opened in Lithuania. Some of the operating hotels, such as *Radisson SAS Astorija* and *Narutis*, are expanding their activities.

Table 1. The largest hotels in Lithuania

Name	Total sales and services (million US dollars)	Location	Food supply	Cuisine
Radisson SAS Astorijos	3.5	Vilnius	Imports, distributors, direct	Miscellaneous (Italian, Japanese, etc.)
Le Meridien Villon Vilnius	2.5	Vilnius	Distributors , direct	French
Centrum	2.2	Vilnius	Distributors , direct	European
Klaipėdos viesbutis	2.1	Klaipėda	Imports, distributors, direct	European
Lietuva	1.7	Vilnius	Distributors , direct	Miscellaneous
Naujasis Vilnius	1.6	Vilnius	Distributors , direct	European

It should be noted that annual hotel occupancy rate ranges on average between 30 and 50 percent in Lithuania. This is one reason why international hotel chains have refrained from entering Lithuania.

According to expert estimates, the quality and prices of services have increased over the past few years alongside the expansion of the hotel and restaurant market in Lithuania. Although hotel occupancy and restaurant attendance are expected to increase in the future, it should be noted that consumer habits remain rather conservative in Lithuania. People still prefer eating at home.

Hotels in Lithuania are increasingly concerned with modernization of restaurant equipment and the broadening of their cuisines. Yet, because of small client flows, hotels located outside city center do not find it profitable to offer a very broad range of foods. Most hotels serve European cuisine. Equally popular are oriental cuisines. Some hotel restaurants, e.g. the *Lietuva* hotel, serve special meals ordered beforehand by tourist groups: Japanese tourists are offered Japanese cuisine, tourists from Israel are served Jewish dishes, etc.

Following overseas examples, Lithuanian hotel restaurants have begun to offer the so-called *House wine*, which in most cases is obtained from wholesalers (*Bennet Distributors*, *Darija* or *Mineraliniai Vandenys*). It should be noted that old wine (produced before 1980) is a rarity at Lithuanian hotel restaurants.

The most popular dishes served at Lithuanian hotels are *salads*, *Kiev cutlet*, *beefsteak*, *steaks*, *chicken*, and others. Some hotel restaurants offer *oysters*, *snails*, *salmon*, *herring* and *exotic dishes made of the said products*. Food imports are brought into the country from Germany, France, Denmark and Austria. Lithuanian hotels obtain imported food products from wholesalers. Domestic products (meat, dairy, confectionery, etc.) for the most part are bought directly from manufacturers or retailers.

For the past three years, the Lithuanian Hotels Association has been recognizing their best business partners: furniture-makers, food and beverages suppliers as well as tourist agencies. In 1999, the title of the best food and beverages supplier went to *Mineraliniai Vandenys*.

FAST FOOD RESTAURANTS

The level of competition on the Lithuanian fast food market is low. Take-away food is estimated to account for only about 20 percent of total turnover of restaurants of this type.

Table 2. Fast food restaurants

Name	Location	Number of restaurants	Food supply	Cuisine
McDonalds	Lithuania	6	Direct, distributors	American
Mr. Chicken	Kaunas	1	Direct, distributors	American
American Chicken in Vilnius	Vilnius	1	Direct, distributors	American
Savarma	Vilnius	1	Direct, distributors	Libyan
Kuba	Vilnius	2	Direct, distributor	Traditional

			s	
Uzsuk	Vilnius	1	Direct, distributor s	Traditional

Despite high import duties, McDonalds in Lithuania uses meat that is imported from neighboring countries. For example, chicken by-products are brought from Germany. Lithuanian companies are not able to supply McDonalds restaurants since not a single Lithuanian meat producer meets McDonalds' requirements. The McDonalds restaurant chain is planning to obtain beef carcass quarters from the Lithuanian *Vilke* and *Skinija* companies in the future.

All fast food restaurants operating in Lithuania purchase processed food products (meat, poultry, etc.) for the most part directly from manufacturers. Imports (spices, sauces, etc.) are brought through middlemen from Denmark, the United States of America, and Mexico.

PIZZERIAS

Pizzerias are quite popular among Lithuanian consumers, especially youth. Pizzerias operating in Lithuania may be divided into two groups:

1. pizzerias that are positioned as expensive restaurants;
2. pizzerias that are positioned as fast food restaurants.

The chain of pizzerias has been expanding in Lithuania's large cities of late. At the beginning of 2000, there were already six *Cili* and four *Pizza Jazz* pizzerias in Lithuania.

Food imports account for about 70 percent of food products used by Lithuanian pizzerias. For example, Pizza Jazz imports flour from Sweden because Lithuanian mills are not able to ensure an appropriate quality of flour on a regular basis. Tomato paste comes from Spain, Italy, and Portugal. Local manufacturers supply meat and meat products. Imported vegetables are used during the winter season, while domestic production dominates in the summer time.

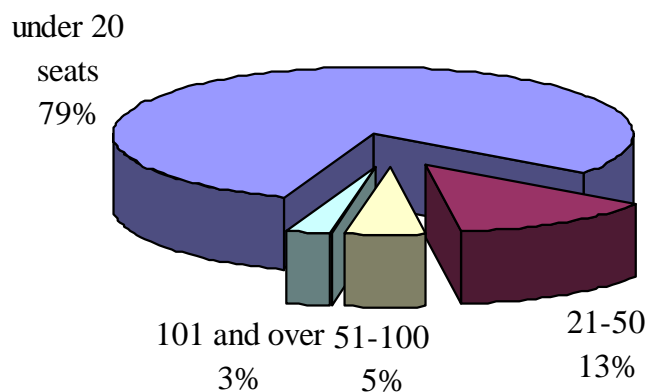
Lithuanian pizzerias are supplied with imported commodities by wholesalers (VP Market, Sanitex, Trojina).

OTHER CATERING ESTABLISHMENTS

The sales of other catering establishments (bars, buffets and canteens) account for 40 percent of total catering sales.

In 1999, bars under 50 seats were dominant. However, their share dropped from 93 percent in 1995 to 90 percent in 1999.

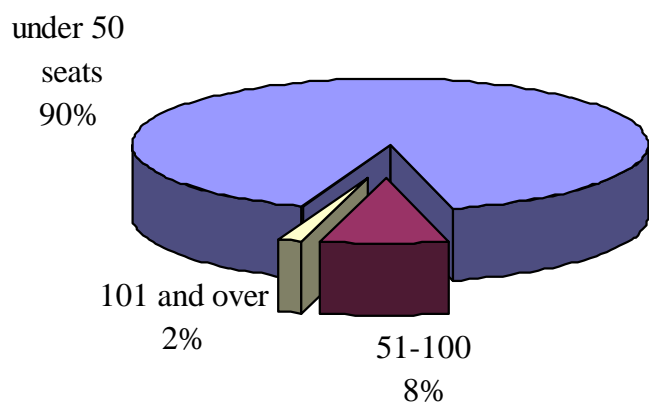
Figure 6. Bars by number of seats in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

From 1995 and 1999, most buffets and canteens in operation had under 20 seats. The share of larger buffets and canteens decreased during this period.

Figure 7. Buffets and canteens by number of seats in 1999 (percent)



Compiled
based
on the
data of

the Lithuanian Department of Statistics

Bars, buffets and canteens offer dishes for the most part made from Lithuanian food products. The most popular dishes are those made from chicken, beef, pork, and fish. Vegetables are widely used as well. Small catering establishments buy them at the marketplace, from farmers or from nearby stores. Large catering businesses purchase them from large manufacturers such as meat and dairy factories.

The bulk of imported spices, spice mixtures and sauces reach catering establishments through intermediaries (wholesalers). Local products (sauces, mayonnaise, etc.) are used as well given that they are cheaper than imports but of comparable quality. Among Lithuanian commodities, there is increased demand for alcoholic beverages. This may be attributed to somewhat lower prices of Lithuanian products as compared with imports.

PROSPECTS OF SECTOR DEVELOPMENT

The number of catering establishments was on the rise from 1995 until 1999. This upward trend is expected to persist as Lithuania is integrating into the global and tourist travel market. It is anticipated that tourist flows will increase in the future, accelerating the growth of hotel chains. At present, the trend is towards building small hotels with 14 to 30 rooms. It should be noted that tourists in Lithuania spend about 34 percent of their expenditures on accommodation and about 27 percent in bars and restaurants.

The hotel and restaurant market is gradually expanding. Pizzerias and restaurants specializing in Lithuanian cuisine have increased in popularity, as have restaurants specializing in overseas cuisines. Fast food establishments have been equally successful.

In 1999, at least 40 bars and restaurants started to computerize. The owners' interest in informational technologies has not subsided in 2000, as they make it possible to enhance control of personnel work, to improve accounting procedures, and to reduce labor costs.

COMPETITION

Local food manufacturers are the biggest suppliers for the Lithuanian HRI sector. The traditional commodities used by catering establishments, such as pork, beef, veal, and dairy, come for the most part from local industries. The bulk of imports come from Germany (17 percent), Poland (9 percent), Latvia (8 percent), and Hungary (8 percent). Imports from the United States of America account for 2-3 percent of total food sales of catering establishments.

The position of U.S. suppliers on the Lithuanian market may be considered to be weak for two reasons. First, U.S. suppliers have not been too keen to penetrate Lithuania's small market. Second, the fall of the value of euro against the US dollar has created price advantages for many European suppliers given that the litas is pegged to the US dollar.

FOOD PRODUCTS IN DEMAND

A. FOOD PRODUCTS IN DEMAND

Traditionally, alcoholic beverages play an important role in the catering business. Wines, sparkling wines, brandy, whiskey and vodka are brought into the country in large quantities. Some 200,000 to 220,000 deciliters of alcoholic beverages of different types (except beer) are sold by catering establishments every year. Wines comprise 86 percent of the total volume of alcohol imports. Sparkling wines account for 10 percent, and spirits constitute 4 percent.

Only American whiskies occupy a more distinct position among alcoholic beverages sold at catering establishments. They account for 11 percent of the total amount of whisky sold in the HRI sector.

The annual sales of imported alcoholic beverages of different types (except beer) sold at catering establishments range between 11 to 12 million US dollars at purchase prices.

At present, small quantities of American sauces and spices are used in the Lithuanian HRI industry. Annual imports of sauces and spices used by Lithuanian catering establishments amounts 2-3 million US dollars.

B. PRODUCTS IN DEMAND THAT ARE SUPPLIED IN SMALL QUANTITIES

The following U.S. commodities could occupy a much bigger share of the Lithuanian catering market:

1. Wine. At present, American wines account for 0.2–0.3 percent of total wine sales reported by in the catering industry.
2. Fruit and vegetables. Imports of fruit and vegetables for the Lithuanian catering sector are estimated at 13 to 15 million US dollars.

3. Fish and other sea products. The imported fish market in the Lithuanian catering industry is estimated at 7 to 8 million US dollars.

4. Turkey and mutton. Local suppliers are not able to meet the demand for these products. It should be noted, however, that this market is still unsteady and very small. Presently, it is estimated at 0.1-0.3 million US dollars.

ATTACHMENT

Figure 8. The channels of food supply for the Lithuanian catering industry

