USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 8/15/2005

**GAIN Report Number:** RS5060

# Russian Federation

# HRI Food Service Sector

# St. Petersburg HRI Sector Grows Rapidly

# 2005

**Approved by:**
Mark Petry
American Embassy, Moscow

**Prepared by:**
Mark Petry, Ksenia Evdokimova, and Maria Baranova

**Report Highlights:**
With almost five million people, St. Petersburg is the most populous northern city in the world. The "Venice of the North" and its three million tourists support over 4,000 restaurants and dozens of world-class hotels. U.S. exporters not looking outside Moscow are missing the boat; St. Petersburg is also a rapidly growing market where in-roads can have impact throughout Russia.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

**Table of Contents**

**Executive Summary**: Three million tourists can't be wrong: St. Petersburg, Russia is the place to be. St. Petersburg is an exciting city, which has to offer more than simply the Hermitage Museum and ballet at the Marinskiy Theater. Officially proclaimed the "Cultural Capital of Russia," St. Petersburg is a place where food and dining are taking their rightful place among the city's attractions. Local hotel, restaurant, and institutional (HRI) food service outlets serve a rapidly growing local demand for high-quality foods and a restaurant boom. U.S. exporters have been slow to exploit the growing and increasingly sophisticated St. Petersburg HRI sector, but here is why they should:

1. Tourism Growing > 10 percent Yearly!
2. Growing Local Incomes and Demand
3. St. Petersburg is the Gateway to Russia: Port and Transportation Hub Creates Synergies for Reaching Moscow and Other Russian Cities
4. Location/Transportation: Easy Access Through European Supply Chains
5. Imported food estimated to account for 90 percent of total HRI use!

**Overview of St. Petersburg, Leningrad Oblast, and Northwest Russia**

| | |
|---|---|
| **Location** | Northwest Russia |
| **Population** | Leningrad Region: 6.3 million<br>City of St. Petersburg: 4.6 |
| **Yearly Visitors/tourists** | 4 million |
| **Major Events** | White Nights Festival (June/July) |
| **Number of Hotels/B&B/Apartments** | > 525 |
| **Number of 5-Star Hotels** | >15 |
| **Number of Restaurants and Cafes** | >4,000 |

Northwest Russia is one of the seven Federal Districts that comprise the territory of the Russian Federation. Northwest Russia (abbreviated NWR) encompasses the northern and western regions of European Russia. Northwest Russia includes western regions – the city of St. Petersburg, the Leningrad (surrounding St. Petersburg), Pskov, Novgorod, and several less populous northern regions.

Northwest Russia is considered to be Russia's "window to the West", as it borders several countries, almost all of which (excluding Norway) are EU members: Estonia (Leningrad and Pskov regions), Finland (Leningrad and Murmansk regions, and Karelia Republic), Norway (Murmansk Region), Latvia (Pskov Region), Belarus (Pskov Region). Northwest Russia has access to several seas and international sea routes, including the Baltic Sea. Through the Transsiberian railway, St. Petersburg is connected with the Russian ports in the Far East (most importantly Nakhodka and Vladivostok).

The population of Northwest Russia region is approximately 12.8 million. All regions are roughly equal in terms of population (0.7 – 1.5 million), except Leningrad Oblast. St. Petersburg has a population of 4.62 million people and the surrounding Leningrad Region hosts 1.67 million people. Together, St. Petersburg and the Leningrad Region form Russia's second largest (after Moscow) urban area.

The number of foreign guests visiting the city is growing approximately ten percent annually and exceeded three million in 2003. Local tourism officials and business analysts believe that even faster growth is limited only by the undeveloped tourism infrastructure, especially the inadequate number of quality, moderately priced, hotel rooms. Occupancy at both high-end and economy hotels is booming. The fastest growing real estate sub-sector is the small hotel (approximately 20 rooms) category. Investors, having no access to extensive international financing, focus their efforts on this sector and have been quite successful. In

2003, twenty new small hotels were opened and currently the total number of such properties in St. Petersburg is between 60-70, with approximately 1,400 rooms. Analysts believe that the small hotel market has great potential and expect continued growth in 2004-2005. While the high-end sector is close to saturation, there is a considerable demand for mid-level hotel rooms. According to industry analysts, the current demand for quality hotel space is 30,000 beds in addition to the 30,000 existing beds. (Source: U.S. Department of Commerce)

**Market Segment Profile**

**Restaurants/Cafes**

There are approximately 4,000 restaurants, cafes, and bars serving food in St. Petersburg. Currently, the city has a wealth of different types of restaurants concentrated in a compact area in the center of the city that caters to local residents and tourists. Due to a solid flow of tourists, wealthy local residents, and a strong business crowd, the restaurant sector in the center has and will be a solid core of establishments demanding a wide array of food products and ingredients.

However, the real growth in this sector is in the suburbs. Key drivers of this trend are rising disposable income and the growth in retailing. As a result, people can simply afford to eat out in restaurants more often. Urban and suburban areas recently devoid of places to eat, other than cafes and sidewalk stands, now increasingly have quick service, casual dining, and formal restaurants. The growing middle class is often eating out twice or three times rather than once per month. Due to the relatively high population densities of Russian cities, this increase in dining out is creating big changes in the options available in individual neighborhoods. Outdoor cafes and coffee houses have also sprung up due to the popularity of coffee, demand for affordable small meals, and growing disposable income of young people.

Eating out and take out food is now often connected to increasing frequent trips to new retail formats (supermarkets, hypermarkets, and malls) and after-work convenience foods. Cafes and fast food establishments have capitalized on increased consumer income and desire for convenience foods.

Amazingly, experts estimate that 90 percent of all food prepared in restaurants and cafes is imported. This relates directly to St. Petersburg's northern location. First, agriculture is not very developed in the region due to climactic conditions. Moreover, the port makes transportation easier and cheaper for imported products than for those shipped from other parts of Russia.

**Restaurants**

As in any large city, Peterburgers and their guests have a wide variety of restaurants to choose from. Foreign cuisine has been popular for many years and there are choices to suit any taste. Approximately 700 (25 percent) of St. Petersburg's food establishments are considered casual to fine dining. Accordingly, customers expect table service, a fully stocked bar, and an average bill of $10-15 or greater for an evening meal.

Chefs and restaurateurs in St. Petersburg have the same general interests as in other cities: new products and exciting dishes, cost management, marketing and promotion, and information. Moreover, St. Petersburg restaurants and chefs have strong connections to Europe. Many of the top chefs in the city are European and most of the top Russian chefs have long experience in Europe or with European cuisine. Naturally, European food and ingredients have made enormous in-roads into St. Petersburg kitchens. However, American cuisine and food products have an advantage as new and exciting alternatives to old favorites.

What particular concerns are important to Russian restaurants? Key concerns are food or ingredient price and availability. Price is an obvious concern for most restaurants because of the large number of individual, independent owners. They typically purchase on a small scale and generally have a demanding, but price sensitive clientele. Showing restaurants how to maximize the value of a product or use less expensive substitutes is often helpful. As there are few restaurants with significant buying power, they often work hard to find the supplier with the best price. Lastly, developing new menu items depends on the constant availability of U.S. products.

Established restaurants also work through one or more food service distributors, both wide-spectrum and specialized distribution companies. While many restaurants like having a large choice of products from one company, many continue to work with the specialized suppliers because of their client orientation and convenient delivery services. Some restaurants also purchase ingredients through cash and carry retailers. Though this is more common for small restaurants and cafes, low prices on bulk items attract a variety of HRI consumers.

This segment is full of opportunities for U.S. exporters because of the wide variety of imported foods used and the wide range of qualities (from premium to economy) demanded from different customers. It is very easy to find a niche for any product. The best prospects are for bakery ingredients, meat, seafood, and wine.

**Cafes/Fast Food**

As in the rest of the world, Russia has fallen in love with cafes and coffee houses. In recent years, this has been the most dynamic sector in terms of number of new establishments. For example, Chainaya Loshka (The Teaspoon) is the largest St. Petersburg chain of café/coffee houses with 17 outlets. This franchise offers coffee, tea, salads, deserts, and some warm dishes. On virtually every corner in the city center, these cafes have spread quickly to all parts of the city and are fighting to position themselves to cater to suburban mass transit commuters as well.

Western and Russian fast food outlets also compete for the title of fastest growing food segment. McDonald's, KFC, Subway, Pizza Hut, and others are beginning expansion phases focusing on fixed locations (with and without drive-up service) often near new food retail outlets. There are also Russian chains, such as Teremok (filled blini/crepes) and Moscow-based Rostiks (chicken).

Though coming under pressure from the above competitors and local government efforts to improve the food safety conditions, small-scale café/bar and sidewalk stands offering various food choices are still common. These small places offer alcoholic and non-alcoholic drinks, snacks, and various convenience foods (hot dogs, salads, etc).

These different formats are serviced by either wholesale/distributor systems or in-house supply systems. The typical ways for small food establishments to purchase food is from specialized wholesalers and distributors or through cash & carry retail stores (described in distribution channel section). Only a few of the restaurant chains source ingredients through in-house product and distribution networks or from Moscow-based distribution sources.

This food service category is very appealing to U.S. exporters and marketers because of its reliance on imported foods, easy access through distributors, fast growth, and large customer base. These companies are interested in joint marketing activities and also in food technology solutions that enhance the product or reduce cost. This category is especially appealing for U.S. exporters of food ingredients, bakery products and ingredients, nuts, dried fruit, and fresh fruit.

**Hotels**

There are about 500 hotels and other forms of accommodation of various size and quality in and around St. Petersburg accounting for greater than 30,000 rooms. Russia, including St. Petersburg, has long been know to have a wealth of top- and low-priced hotels but a lack of mid-range options. Since the 300-year anniversary of St. Petersburg in 2003, there has been rapid growth in small hotels in both the mid- and upper-middle price ranges.

The next few sections will generalize the traits of three broad categories of accommodation with a concentration on their growth and potential for the HRI food service sector.

**Exclusive**: There are more than ten 5-star and multiple 4-star hotels in St. Petersburg. These hotels meet international standards for providing guests with the best, including dining, the world has to offer. Mostly run by multinational companies, these hotels maintain the highest standards and generally maintain one or multiple high quality restaurants on their premises. The restaurants cater to St. Petersburg's, limited, but active upper class diners and to tourists.

Generally, these restaurants have chefs and purchasing managers that put a premium on high quality ingredients and work exclusively with a limited set of suppliers of ingredients or, in some cases, import food directly. These restaurants feature new foods and promote individual food items on the menu and currently work with many competitor countries to promote their products. However, the competition is fierce due to the relatively low number of restaurants. European competitors in areas such as wine are already very well established and active. Alternatively, American products have appeal because they are less well known and generate interest from chefs trying to keep menus new and interesting for jaded customers.

**Selected 5 Star Hotels in St. Petersburg**

| Name | Restaurants - Capacity |
|---|---|
| Grand Hotel Europe - 400 rooms | 7 restaurants and cafes |
| Astoria – 200 rooms | 4 restaurants and cafes |
| Corinthia Nevskiy Palace – 300 rooms | 5 restaurants and cafes |
| Radisson SAS Royal Hotel – 160 rooms | 2 restaurants |
| Grand Hotel Emerald – 90 rooms | 3 restaurants and cafes |
| Renaissance St. Petersburg Baltic – 100+ rooms | 2 restaurants and cafes |
| Kempinski Hotel Moika 22 – 190 rooms | 3 restaurants and cafes |
| Elivseev Palace Hotel –29 rooms | 4 restaurants and cafes |

**Mid-Range**: There are many hotels in the mid-range and the majority of hotel rooms are from this category, but the proportion is less than in a similar European or American city with a significant tourist trade. There are two trends in this range: renovated older hotels and new smaller hotels.

The older hotels are giant Soviet-era hotels that are riding the high occupancy wave and have reached European mid-range hotel standards to various degrees. These hotels generally have between 700 and 1,500 rooms, plus several restaurants and space for large conferences and meetings. These mid-range establishments generally cater to Russian or foreign business travelers or tourists who cannot afford the much more expensive exclusive hotels, but want to enjoy a fairly modern hotel with many amenities. Standard rooms are approximately $150-200 per night during peak season and less than $150 during the remainder of the year.

A second emerging category of mid-range hotels is mini-hotels and apartment-style accommodation. These smaller hotels are springing up as a release valve for the extremely high occupancy rates during the short summer peak season and for those, often foreigners, who want an alternative to the Soviet-style hotels or want apartment-style accommodation. However, most of these smaller sources of accommodation do not have meal or restaurant facilities.

Generally, this category is less likely to serve as venues for successful marketing events or significant consumption of U.S. products because of the price-sensitivity of the hotel purchasing and high proportion of limited, fixed meal options for guests.

**Budget**: Most accommodation in this category is in the category of private apartments/rooms rented by the owner, hostels, and summer university dormitories. People generally rely on personal purchases of food or cafes and restaurants. This category is also not promising as a venue for promoting U.S. food products.

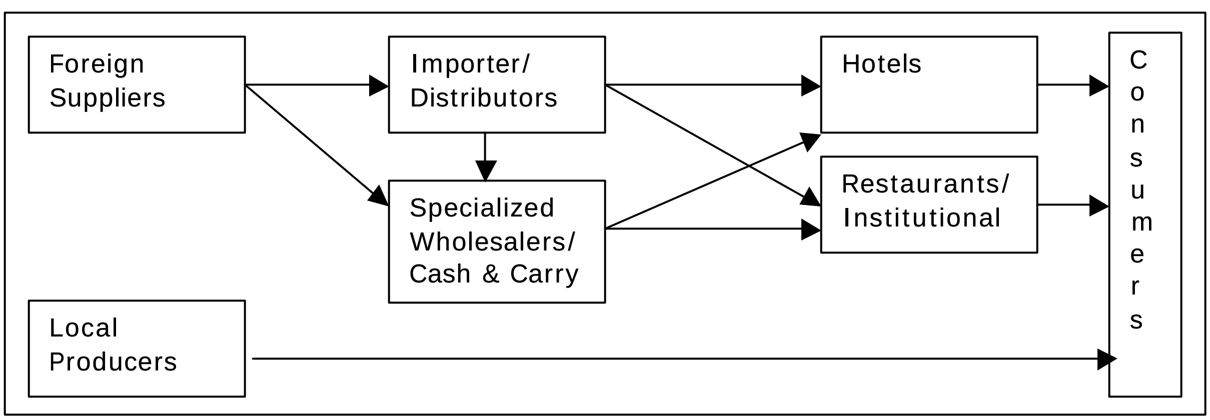
### Institutional Food Service

Institutional outlets are an important source of food for a wide variety of the Russian population. Key institutional food service centers are government offices, hospitals, military establishments, schools, and office buildings. In Russia, all of these institutions traditionally have cafeterias or canteens in which people can get meals, primarily lunch. Meals served at public institutions are designed to be affordable, traditional food for a nominal price. Generally, prices are below 150 rubles (about $5) depending on the level of subsidization.

Institutional food service also offers few opportunities for most U.S. exporters. Extremely tight budgets and formal or informal requirements to buy Russian products narrow the types of U.S. goods that might be used in this segment. The best sectors are those in which U.S. food products would be in bulk sizes (ingredients or meat) and extremely cost competitive.

### Market Structure

**Figure 1. Distribution Channel for St. Petersburg HRI Sector**



As noted above, experts believe that up to 90 percent of St. Petersburg HRI supplies are imported products. The near absence of Russian competition in supplying the St. Petersburg HRI sector is the most striking feature of Figure 1. With the exception of institutional and budget-segment food service, the Russian producer is almost entirely absent from the equation. This illustrates the enormous opportunities available, yet the importance of an effective import agent that can manage the import process and get the product to the right consumers.

The import agent is the first link in the typical distribution chain for goods imported for the St. Petersburg HRI sector. The import agent is responsible for receiving and clearing the goods through customs. Generally, import agents deal with one category of goods (fruit, meat, ingredients, etc.) and many also act as a wholesaler/distributor. A few large importer/wholesaler/distributors dominate each broad category of goods and sell to smaller distributors or directly to HRI outlets. However, due to fragmentation of the market, there is a proliferation of small or specialized distributors that also work directly with customers.

There is stiff competition among the dominant firms in each segment, as well as among the many smaller distributors. Moreover, there are a wide variety of opinions about further consolidation of the distribution channel. Some larger HRI purchasers have a policy of demanding an entire spectrum of goods from one distributor, while others continue to use many to fulfill their needs. For example, one large café chain recently decided to use a single distributor that could supply everything from bakery ingredients to fresh meat. Alternatively, most large customers still use between 5-10 different suppliers to fulfill their needs in the various segments. Similarly, small restaurants often use a number of suppliers and switch frequently in search of the lowest price.

The other key distributor of food to the HRI sector is the growing cash and carry retail sector. Currently, the largest chains in the St. Petersburg area are Metro and Lenta. Though both of these chains focus on small HRI businesses using cash and carry format, a substantial part of their sales are to family shoppers.

This HRI distribution chain is not unique to St. Petersburg or Russia. However, the key for U.S. exporters is to know when and where qualified Russian partners are vital to developing sales. In Russia, the two key links in this chain are customs clearance and distribution. Efficient and rapid customs and veterinary/phytosanitary clearance can be very difficult and time consuming. Getting imported goods into Russia is the first step and where a good Russian partner can be invaluable. Finding a distributor that can effectively supply, market, and manage customer relationships is the second focal point.

Other standard considerations for new U.S. exporters developing sales in the St. Petersburg HRI sector are choosing a distributor and identifying a strategy. For example, does the product fit into the broad range of brands and options offered by the large distributors or does it need the brand management and attention offered by smaller company? Entry and marketing strategy are other typical issues that U.S. exporters must consider when entering this market for the first time.

**Road Map For Market Entry**

**Advantages and Challenges for U.S. Exporters in the St. Petersburg HRI Sector**

| Advantage | Challenge |
|---|---|
| U.S. dollar currently very competitive against euro dominated goods. | Russian purchasing agents and importers conduct many transactions in euros and quickly adjust to currency fluctuations. |

| | |
|---|---|
| Transportation links to St. Petersburg offer direct sea and air shipments or transshipment through European ports and distributors. | Most major European competitors are geographically very close and offer either land or sea delivery. Fresh products can be delivered quickly from European competitors. |
| U.S. products and regional cuisine are seen as exotic. | European foods and cuisine have wide market penetration and consumers are familiar with these products. |
| St. Petersburg HRI sector places premium on high-quality and fresh products. | Existing competition among European suppliers is fierce. |
| Rising incomes | Rising domestic and foreign competition |
| HRI penetration lower than Moscow equals greater opportunities to grow | Newer companies may be less experienced; HRI distribution and infrastructure offer fewer choices |
| Many high-end market segments | European competitors established in many niches |
| Western-oriented consumers | Consumers less familiar with U.S. brands and products |
| Highly urban population – geographically concentrated demand | Supply chain still limited in certain areas. |
| Familiarity with Western brands | American brands or variants unfamiliar |
| Positive perception of cuisines from other countries | American cuisine not well known or misunderstood |
| Local producers unable to supply most high value products | Strong competition from other importers |

**Key Entry Strategies for U.S. Exporters**

| Strategy | Reasons |
|---|---|
| Find experienced and trustworthy importer | Negotiating Russia's customs and veterinary/phytosanitary regimes takes experience. A good importer is worth it. |
| The right distributor – Big or Small??? | Big distributors better suit commodity exporters or companies expecting to service the entire HRI/retail sector. Small distributors are more suited to high-end and branded products that need marketing attention and brand management. |
| Target Customers - High-end/Limited Market or Mass Market? | Target the same audience in Russia as in other markets. The entire spectrum of categories and niches are still open to new suppliers. |
| Cash and Carry Retailers | Combining sales through the cash and carry retailers is good for hitting a broad spectrum of HRI customers and also individual consumers. |
| St. Petersburg: Gateway approach to Russia | St. Petersburg is the entry point (port) for the majority of imports destined for Russia's HRI sector. Due to this convenient distribution connection, St. Petersburg makes it an ideal place to test the Russian market. St. Petersburg |

| | |
|---|---|
| | distributors work closely with those in Moscow and also are established in other Russian regions. |

**Best Prospects**

| Product | Product |
|---|---|
| Tree Nuts | Wine and Spirits |
| Dried Fruit | Beer |
| Fresh Fruit (Apples, Pears, Grapes, Grapefruit) | Fresh and Frozen Meat (Pork, Beef, Lamb) |
| Bakery Products | Processed Meat (various convenience and quick service items) |
| Ingredients | U.S. regional foods |
| Fish and Seafood | Spices |
| Bakery Ingredients | Sauces |

**Regulations for Importing Food**

Russia is trying to bring its food safety and import regulations into conformity with the new general Law on Technical Regulation, but progress is slow due to ongoing government restructuring. Draft regulations presented for public consideration so far are only reorganizations of previous laws. Thus, the bulk of Russia's food safety regulations revert back to SanPiN-01 issued in 2002. Some regulations have been simplified, but some segments of Russia's system do not yet conform to international standards.

To find out the most recent information on Russia's food import regulations, please consult USDA/FAS GAIN Reports RS4040, RS4065, RS5009, RS5020, RS5025, and other reports.

**Appendix: Key St. Petersburg HRI Import/Distributors and Wholesalers By Product Category**

Meat

| Name | Key Products |
|---|---|
| Global Foods | Large Assortment |
| Grand | Large Assortment |
| East-West | Large Assortment |
| Mirasco | Large Assortment |
| Ost-West | Large Assortment |

Fish

| Name | Key Products |
|---|---|
| Global Foods | Large Assortment |
| Cyros | Large Assortment |
| East-West | Salmon and frozen seafood |
| Emborg | Large Assortment |
| DiMarco Trade | Frozen Seafood |

Fruits and Vegetables

| Name | Key Products |
|---|---|
| Global Foods | Frozen F&V |
| Sunway | All Fruits |
| JFC | All Fruit |
| Fruit Group | All Fruits |
| Baltgroup | All Fruits |
| Fruit Brothers | All Fruits |

Ingredients and Bakery

| Name | Key Products |
|---|---|
| Global Foods | Large Assortment (Spices, Sauces, etc.) |
| Grand Foods | Sauces |
| Cyros | Sauces, Spices |
| DiMarco Trade | Large Assortment |
| Dally Group | Confectionary and Bakery Ingredients |
| Friko | Bakery Ingredients |
| Baltic Group | Ingredients |

Wine and Spirits

| Name |
|---|
| White Hall |
| Marine Express |
| Svarog |
| Eastern Wines & Spirits (EWS) |
| Luding |
| Simple |
| DP Trade |
| MBG Impex |
| RusImport |