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Russian Federation

Food Service - Hotel Restaurant Institutional

HRI Sector Growing at Double Digit Rate Each Year

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Report Highlights:

HRI sales in Russia grew 12 percent in 2012 in current value terms and are forecast to grow 13 percent in 2013. Fast food outlets and coffee houses are the most popular and fastest growing segment in Russia's restaurant sector. Franchising and sub franchising are growing in popularity in Russia’s restaurant sector. Since imports make up the vast majority of HRI products (more than 65 percent), opportunities for U.S.-origin food products are significant. Russia’s hotel industry is facing a massive room shortage. Further expansion is planned in all of Russia's major cities. Luxury hotels represent the best opportunity for selling U.S. food and beverages to hotels.

Post:
Moscow ATO

Executive Summary:

HRI sales have experienced double digit growth since 2009 and grew by a respectable 12.2 percent in 2012, on par with pre-crisis sales growth of 10 to 12 percent (2005 to 2008). Returning consumer confidence has brought customers back to HRI dining establishments. Most notably the HRI sector's growth was in the fast food segment. The U.S.-dominated Russian fast-food market grew 18 percent in 2012 and is set to expand 7-10 percent annually for the next three years. Franchising and sub franchising has become a very popular tool for multinational and local players in Russia. Since imports make up the vast majority of HRI products (more than 65 percent), opportunities for U.S.-origin food products are significant.

Russian consumer markets offer many opportunities for U.S. exporters as domestic competitiveness is still low. There are significant opportunities for U.S. companies to benefit from this growth, as many importers, distributors, and managers in the HRI sector have expressed an interest in buying more marbled meat, cheesecakes, sauces, wine, spirits, cheese, seafood, tree nuts, high-quality ingredients, and numerous other products. The majority of HRI customers are price sensitive but they are, nonetheless, interested in reliable suppliers of quality products and new and innovative products.

To succeed, American exporters must be prepared to do extensive marketing and to educate potential buyers on how to use their products. American products also face substantial competition from Western Europe, Asia, and South America. Logistics may be a challenge, especially as to the Russian regions. While the main markets for American products are still in Moscow and St. Petersburg, the HRI sector is rapidly developing in other large cities. These include Nizhniy Novgorod, Yekaterinburg, Kazan, Novosibirsk, Samara, Ufa, and tourist cities on the Black Sea such as Sochi, the site of the 2014 Olympic Games. Operating outside major regions, however, adds an additional layer of logistical complication for American exporters. To overcome these difficulties, they will need to collaborate with strong importers or distributors.

SECTION I: MARKET SUMMARY

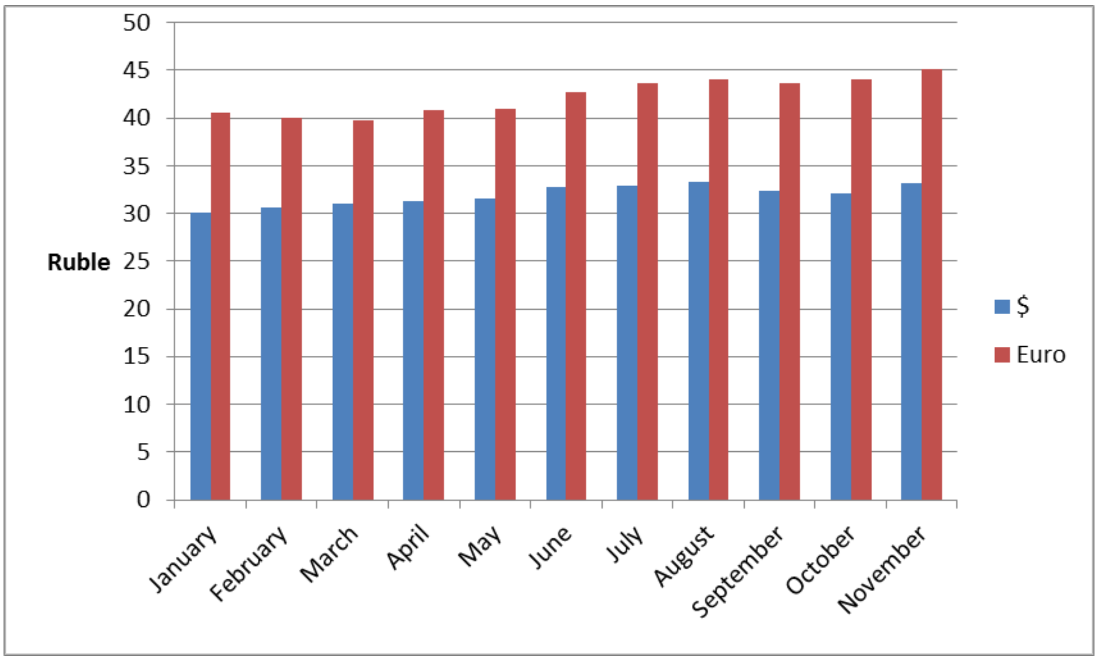
According to the World Bank, Russia in 2012 ranked 8th in global GDP (purchasing power parity) at $2.02 trillion. GDP growth was 3.4 percent in 2012, trailing China & India, but ahead of Brazil among the BRIC countries. Unemployment was at record lows 5.7 percent in 2012 and projected to remain stable in 2013 and 2014. According to the Federal State Statistics Bureau (Rosstat), inflation in 2012 was 6.6 percent. In addition, individuals' real incomes in 2012, increased by 13 percent compared to the previous year. Positive GDP growth, due to high oil prices, which are the main drivers of the Russian economy, and a record low unemployment rate helped boost Russians' real incomes which has led to growing consumer purchasing power in Russia.

Table 1: Russia: Social and Economic Key Figures

	2008	2009	2010	2011	2012	2013 forecast
Population, in millions	142	141.9	141.9	142.96	143.06	143.35
Unemployment, % of labor force	6.4	8.4	7.5	6.1	5.7	5.3
Average monthly salary per person, RUR	17,290	18,638	20,952	23,369	27340	29640
Real GDP growth, % change y-o-y	5.6	-7.9	4.0	4.3	3.4	1.5
Inflation, %	13.3	8.8	8.8	6.1	6.6	6.9
Exchange rate (per $1)	24.85	31.76	30.36	29.35	31.07	31.9

Source: Federal State Statistics Bureau (Rosstat)

Graph 1. Russia's Central Bank's Exchange rate of 1 USD to Ruble and $1 Euro to Ruble, Jan-Nov 2013



Russia is the ninth most populous country in the world, with more than 143 million people. However, the Russian population has been declining in numbers since 1995. European Russia, geographically west of the Urals, hosts over 75 percent of the total population, although it accounts for only 25 percent of the country's territory. According to Rosstat, 74 percent of all Russians lived in urban areas in 2012 and slighter more than 10 percent of the total population lived in Moscow (11.97 million people) and St. Petersburg (5.03 million people). Beyond the two largest Russian cities there are thirteen cities (Novosibirsk, Nizhniy Novgorod, Yekaterinburg, Samara, Omsk, Kazan, Ufa, Chelyabinsk, Rostov-on-Don,Volgograd, Perm, Krasnoyarsk, Voronezh) with a population of more than one million people.

Consumer markets are flourishing in Moscow and St. Petersburg as the incomes of their residents grow. As a result, these two cities controlled 14 percent of foodservice market in 2012.
In 2012 the average exchange rate was 31 Rubles for 1 U.S. Dollar. In November of 2013, the exchange rate reached 33.1 Rubles for 1 U.S. Dollar. The Russian Ruble has weakened against the Dollar and Euro making imported food more expensive.

HRI Sub-Sectors

Restaurants

HRI sales grew by a respectable 12 percent in 2012 in current value terms and are forecast to grow 13 percent in 2013. Returning consumer confidence brought back Russians' pre-crisis eating-out habits which is now in full force. Fast food outlets and coffee houses are the most popular and fastest growing sectors in Russia.

Table 2. Russia: Food Service Industry Sales in Russia

	2008	2009	2010	2011	2012
RUR, billion	722.7	711.2	781.4	903.3	1013.6
Growth Year on Year, %		-1.6	9.8	15.6	12.2
US Dollars, billion	29.09	22.42	25.63	30.77	32.62
Average exchange rate	24.84	31.72	30.48	29.35	31.07

Source: Federal State Statistics Bureau (Rosstat)

After some consolidation in the industry during the crisis years (2008-2010), in 2011-2013 more and more local as well as international chains are active in the Russian foodservice market and are planning further regional expansion. Currently the largest cities in Russia, Moscow and St. Petersburg, account for 41 percent and 15 percent respectively in terms of chain outlets on the overall consumer foodservice market. High operational costs in Moscow and St. Petersburg, and the fact that the foodservice market in both cities is highly saturated, are forcing the big players to consider regional expansion in order to sustain their overall market share. The foodservice market in the regions of Russia is still relatively underdeveloped and has strong potential for further growth.
Moscow and St. Petersburg remain the leaders in HRI concentration and growth as well as the industry trend-setters. According to the Moscow Department of Trade and Services, Moscow city catering turnover have grown 1.8 times since 2006 and was valued at 145.4 billion Rubles in 2012 (or 14 percent of the turnover of Russian foodservice). Franchising and sub franchising has become a very popular tool for multinational and local players in Russia. Franchising offers an easier way for investors to enter the Russian market with a lower level of investment, since the materials required for the setting up of outlets and apparatus are often included as part of the franchise agreement, cutting expenses and bringing about profits more quickly.

Major Restaurant Operators in Russia

The number of cafes, restaurants, and other food outlets in Russia currently stands at about 88,000 and almost 90 percent of the outlets are independent (non-chain) cafes and restaurants. In 2012 the number of foodservice chain outlets increased 8 percent with the total increase during 2007-2012 at 63 percent. According to FoodService magazine, there are currently more than 370 restaurant chains operating in Russia, each of which manages between 3 - 560 outlets. According to Euromonitor, the total number of restaurant chains in Russia is roughly 10,500 outlets. McDonald's, Subway, Rosinter Restaurant Holding, Arkadiy Novikov Restaurants, Ginza project, Markon, and Shokoladnitsa are the largest restaurant chains in different foodservice segments in Russia.

The Russian restaurant market can be broken down into the following segments:

- Fine-Dining/Full-Service Restaurants: higher priced/exclusive outlets;
- Casual-Dining Restaurants: affordable, family dining outlets;
- Quick and Casual Restaurants, which include coffee shops
- Fast-food/Quick Service Restaurant (QSR), which is divided into two separate segments: Stationary fast-food and street/mobile fast food (kiosks, stalls, etc.)

Three main segments of the market stand out clearly. The highest-priced segment, "fine-dining" in Western terminology, has an average check of more than $70 per person. Patrons receive refined cuisine, unique design, good service, and the availability of private dining space. The medium-priced or casual segment has an average check of $20 to $70 per person, and it includes chains such as Il Patio, Yolki-Palki, and Planet Sushi. The lowest-priced segment, fast-food, mainly consists of chains such as McDonald's, Subway, KFC, and Kroshka-Kartoshka.

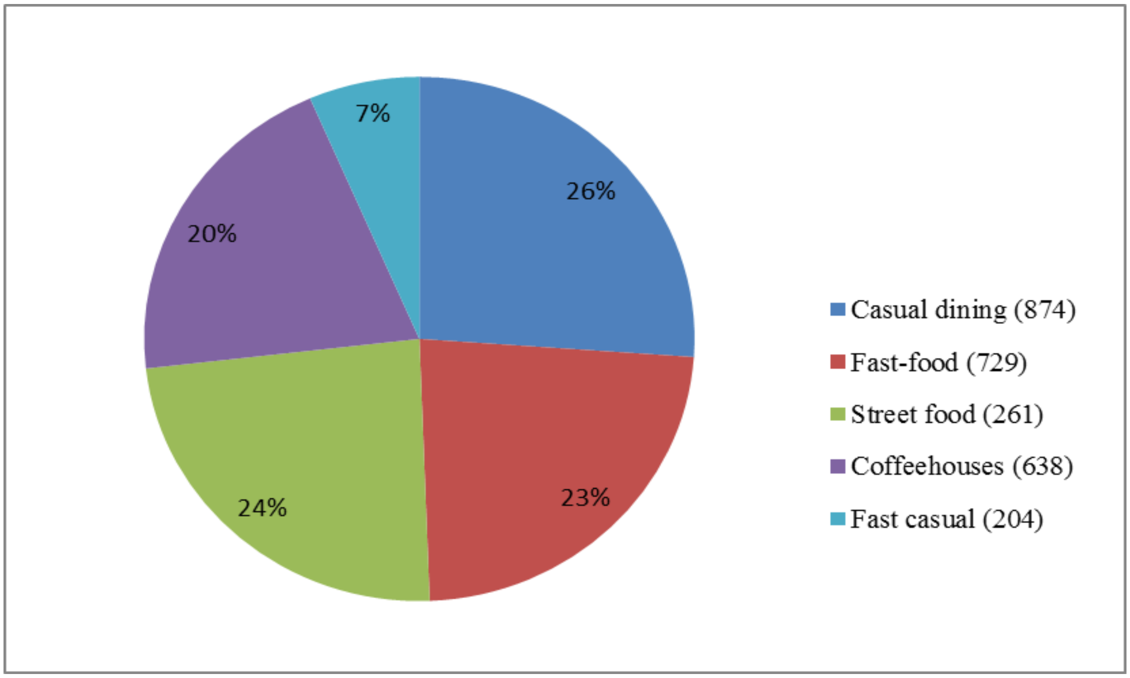
The fastest growing channel is fast food rising 15 percent in current value terms. Consumers still considered dining in full-service restaurants as a less essential activity due to the fact that these outlets usually have higher average prices compared with fast food establishments or cafés/bars, and they remained budget-conscious when dining in such outlets.

Table 3. Russia: Consumer Foodservice by Independent versus Chain Outlets, 2012

Outlets	Independent	Chained	Total	% of Total
Fast-food	16,722	5,320	22,042	25
Street stalls/kiosks	11,170	1,603	12,773	14.5
Cafés/bars	9,171	1,214	10,385	11.8
Full-service restaurants	5,859	1,325	7,184	8.1
Pizza consumer foodservice	3,026	878	3,904	4.4
Self-service cafeterias	31,094	80	31,174	35.4
100% home delivery/takeaway	534	168	702	0.8
Total	77,576	10,588	88,164	100

Source: Official statistics, trade associations, trade press, company research, trade interviews, and Euromonitor

Graph 2. Russia: Moscow Chained Restaurants by Segment, as of May 2013



Source: RBC research, May 2013

Table 4. Russia: Leading Foodservice Chains

Holding company	# Outlets in Russia	% change 2012	# outlets in Moscow	Brands	Type
Markon	685	22.1	472	Stardog!s, Bageteria	Street + QSR
Rosinter	319	-2.7	187	Il Patio, Planet Sushi, other	Casual
Kroshka-Kartoshka	320	9.6	231	Kroshka-Kartoshka	Street + QSR
McDonald's	378	17	175	McDonald's, McCafe	QSR
Coffee House	209	2.5	131	Coffee House, Asia, Vinegret	QSR +casual
Shokoladnitsa	361	8.7	249	Shokoladnitsa, Vabi Sabi	QSR +casual
Teremok	215	6.4	106	Teremok	Street +QSR
Yum!Brands	230	26.4	97	KFC	QSR
Novikov Group	90	18.4	89	Different concept restaurants	Fine +casual
BRPI	274	13.7	84	Baskin Robins	QSR
Subway	522	42.6	216	Subway	QSR
Eurasia	148	12.1	0	Eurasia	Casual
Ginza Project	94	16	65	Yaposha-30 in Moscow and different concept	Fine + casual

				restaurants	
Cinnabon	108	54.3	13	Cinnabon	QSR +casual
Chaynaya Lozhka	71	7.6	0	Chaynaya Lozhka	QSR
Burger King Rus	113	105.4	72	Burger King	QSR
Starbucks	64	20.1	61	Starbucks	QSR
RP-Com	22		22	Goodman, Kolbasoff, other	Casual

Source: FoodService magazine, trade press

Major Players in Russia's HRI Sector

Rosinter Restaurants Holding (Rosinter) is a major player in the Russian restaurant market. The company gained its leadership role by its early deployment of chain restaurants in the casual-dining segment of the market where Rosinter held 9 percent of the market in 2012, or 383 outlets in 42 cities in Russia, the CIS, Central Europe, and the Baltic states. Rosinter's consolidated net revenue increased by 2.2 percent in 2012 and stood at 10.57 billion Rubles.

The company offers Italian, Japanese, American, and Russian cuisine under its proprietary brands (Il Patio, Planet Sushi, American Bar & Grill, and Mama Rasha) and its licensed brands (T.G.I. Friday's, Costa Coffee, and McDonald's). Rosinter has three main development objectives. The first is to accelerate the expansion of its coverage in Russia, the CIS, and Europe. The second is to increase its presence in transportation facilities, trade centers, and Moscow residential areas. The third is to develop new formats of its brands for high-traffic locations.

Table 5. Russia: Rosinter Restaurant Brands, as of October 2013

Brand name	Type	Year Established in Russia	# Outlets Corporate	# Outlets Franchised
Planet Sushi	Casual (Asian)	1999	74	61
Il Patio	Casual (Italian)	1993 (rebranding in) 2005	84	69
T.G.I. Friday's	Casual (American)	1997	33	-
American Bar & Grill	Casual (American)		9	-
Costa Coffee	Coffee house	2008	28	-
Other			25	
Total			253	130

Source: Rosinter data

In April 2012, McDonald's Corp. gave the Rosinter Restaurants Holding the first franchise to open the U.S. brand's fast-food restaurants in Russia. (McDonald's has been operating in Russia since 1990. See below.) Rosinter received rights under an agreement through April 2023 to operate McDonald's restaurants in Moscow's three international airports and St. Petersburg's Pulkovo airport. Rosinter also has opened 46 restaurants and coffee shops in Moscow, St. Petersburg and regional railroad stations and airports. In December 2013, first McDonald's was opened in St.Petersburg's at the new terminal of Pulkovo Airport.

Table 6. Rosinter Consolidated Revenues in 2007-2012

Year	2007	2008	2009	2010	2011	2012
RUR, billion	6.73	8.36	8.34	9.17	10.34	10.57
Growth Year on Year, %		24.2	-0.3	9.9	12.8	2.2
US Dollars, million	264	336.55	262.93	300.85	352.30	340.10
Average annual exchange rate	25.49	24.84	31.72	30.48	29.35	31.07

Source: Rosinter data

Baskin Robbins, the world's largest chain of ice cream specialty shops, also entered Russia in 1990. In 1996, the company opened a major ice cream plant in Moscow -- the biggest in Europe -- able to churn out 16,500 metric tons annually. The company sells more than 125 flavors of premium ice cream. In 2010, the company expanded its assortment range and increased the number of prepackaged ice-cream products offered at its outlets. Turnover at the Baskin Robbins cafe chain in Russia climbed 12 percent year-on-year in 2011 to 739.8 million rubles. Baskin Robbins Production International opened 55 new ice cream salons in Russia in 2013 most of which are franchises. The company is represented in 115 Russian cities and currently has 300 ice cream salons and kiosks (of which 110 stores are located in Moscow). The largest Baskin Robbins ice cream cafe in Europe opened in Moscow's Novy Arbat in July 2011.

Arkadiy Novikov Restaurant Group (Novikov Group) includes nearly 90 restaurant-retail-entertainment projects of various formats and price ranges. The company has launched and managed restaurants since 1992 and has continued to place second in full-service restaurants. The Novikov Group is slightly less chain-oriented. It operates more than 50 different Moscow high-end concept restaurants, along with a five casual-dining restaurant chains such as, Sushi Vesla, Prime Star, and Kish-Mish. It also operates the premium grocery chain Globus Gourmet, the Russian branch of the French gourmet chain Hediard, the greenhouse complex OOO Agronom, and the Premium Class catering business. Novikov has also branched out internationally and has a restaurant in London named Novikov Restaurant and Bar.

RP-Com (Restaurant Professional Company) is one of the top 20 foodservice operators in Moscow. RP-Com currently owns the following restaurants in Moscow: twelve Goodman steakhouses (also with branches in London, Zurich and Kiev), four Filimonova & Yankel fish-houses, six Kolbasoff beer-restaurants. During its nine years of foodservice experience, the company has gained success in the niche of steak house restaurants. This type of restaurant is less developed in Russia, and currently only a few independent operators specialize in grill menus. The Goodman chain became the largest chain of North American style full-service restaurants in Moscow as well as in the whole of Russia. RP-Com belongs to the Food Service Capital Group of companies which also includes "Comfis" prepared food factory, "Legion" food provider, Saint Petersburg prepared rations factory and food service company providing passenger meals for Sapsan high-speed trains.

Ginza Project is one of the largest consumer foodservice businesses in Russia. The company operates various restaurants and entertainment venues with different formats and price segments, although there is a bias towards various fine dining options. The restaurant holding Ginza Project began developing a nationwide network of Yaposha cafés in 2003. Since 2008, Ginza Project has continued to invest heavily in its expansion. Currently there are 50 Yaposha outlets in total. Besides regional development of the Yaposha chain, the group opened its themed restaurants in Moscow, St. Petersburg, Rostov-on-Don, and New York. As of December 2013, the company operates 94 outlets, including 65 restaurants in Moscow.

Fine-Dining/Full-Service Restaurants

Haute cuisine appeared in Russia in the mid 1990's, and there is no shortage of high-end restaurants with extravagantly expensive checks at meal's end in Moscow and St. Petersburg. Fine-dining restaurants are associated with names such as Arkadiy Novikov, Andrey Delos, and Ginza Project, but most experts agree that the top-category restaurant sector is saturated. Restaurateurs are moving toward casual restaurants where tables turn over more quickly and profit margins are higher. Nevertheless, there is still an opportunity for U.S. products in the fine dining segment because consumers are loyal to high-quality imported products such as marbled beef, seafood, high-end wines, and spirits.

Casual-Dining Restaurants

The leading position in this segment belongs to the chain operators, including those specializing in Russian, North American, Italian, and Asian cuisines. The poor development of independent operators across most full-service restaurant formats means it is heavily concentrated with chains, especially in Moscow and St. Petersburg. Independent restaurants face strengthening competition from cafés, bars, and fast-food outlets, which provide good quality food at lower prices. Russian consumers prefer a diverse menu at affordable prices. The average price for a meal at one of these restaurants ranges from $20 to $70 per person.

Although meat dishes are a staple of almost every Russian restaurant, North American–style steakhouses are not yet widespread, accounting for only 3 to 4 percent of the Moscow market. Experts attribute this to the fact that opening a steakhouse cost 15 to 20 percent more than opening the average restaurant, due to the need for special grilling equipment and a downtown location to attract a profitable number of customers. Rent is significantly higher in the city center than in the suburbs. Another added expense is the marketing and education necessary to promote steakhouse culture. Currently, the main American-cuisine restaurants in Moscow are the American Bar & Grill chains (operated by Rosinter), Chicago Prime, twelve Goodman steakhouses (operated by RP-Com), Louisiana Steakhouse, and six Torro Grill restaurants. These restaurants use virtually all imported meat as local suppliers are not able to provide consistent quality.

Several years ago Chili's Bar & Grill entered the Russian market. This American restaurant chain is owned by the restaurant holding company Brinker, which opened the first Chili's in Moscow in early 2011. The network in Russia will be developed by a local franchise partner company called Trio Group. According to the franchise agreement, which was signed in August 2009, the Trio Group shall open 25 restaurants in Russia by 2017. Chili's Bar & Grill is the main rival of the American chain T.G.I. Friday's, which operates in the Russian restaurant market through the holding Rosinter. Currently there are two Chili's Bar & Grill restaurants in Moscow.

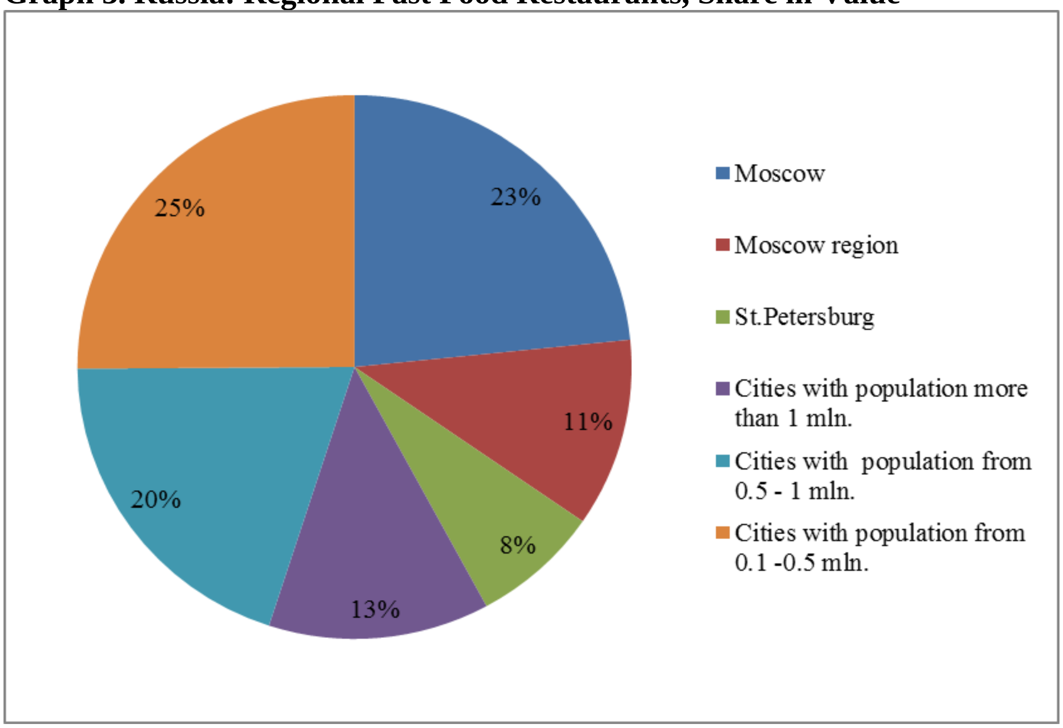
The enormous popularity of Japanese cuisine made Asian full-service restaurant chains the most ubiquitous category of casual restaurants. Japanese restaurants, with sushi and fish menus, are heavily represented among fish and seafood-concept restaurants in Russia. As Russian consumers become increasingly health conscious, sushi's image as a healthy food is an essential component of this growth. U.S. rice and seafood is used in many Asian restaurants.

Very few casual chain restaurants have a centralized system of purchasing. Most decisions regarding products and purchasing are made at the restaurant/group level. On the one hand, there are many more opportunities for sales, since each restaurant is a separate account. On the other hand, individual sales are smaller and do not allow for the development of exclusive distribution rights and consistent volumes. According to industry experts, casual eateries use imported meat, seafood, desserts, seasonings, and a variety of ingredients. While quality is of some concern, prices dominate purchasing decisions. American products will need to be cost-competitive to attract business in this segment.

Fast Food Restaurants

According to RBC research the number of foodservice chain outlets in Russia increased 18 percent (476 outlets) in 2012. 70 percent of the residents in major cities have visiting fast-food outlets "several times a month" with average checks of 150-300 Rubles ($5-$10) on a regular basis. It is expected that the fast food segment will continue to experience vibrant growth (8-10 percent annually) in current value terms. Russia's fast food market still isn't saturated in spite of the development that has taken place for the past decade. It's a very attractive segment not only for existing large players, but also for domestic restaurant operators and multinational companies alike reaping the benefits. Experts predict that the fast-food and street-food market will not reach saturation until 2014. Franchising is one of key expansion methods for foodservice chains in Russia.

Graph 3. Russia: Regional Fast Food Restaurants, Share in Value



Source: RBC research, May 2013

International franchises include Burger King, Pizza Hut, Baskin-Robbins, Dunkin' Donuts, KFC and Subway, with the franchise system are most prevalent in Moscow and St. Petersburg. Most international fast-food operators, including American chains such as McDonald's, Burger King, Starbucks, Cinnabon, Papa John's, Dunkin' Donuts, Chili's and Wendy's/Arby's Group, launched their business in Russia from Moscow. Around 90% of franchising activity takes place in the Russian capital. Only two foodservice players launched their restaurants in St. Petersburg: Subway and Carl's Jr.

Pancakes, burgers, chicken, pizza, and baked potatoes are the most popular types of fast-food in Russia. The food-court format is gaining popularity among fast-food operators. The most dynamic chains -- including Subway, Burger King, KFC, Kroshka-Kartoshka, Sbarro, and Baskin-Robbins -- have opened numerous outlets in shopping malls and hypermarkets.Fast food in Russia costs on average 30 percent more than in Europe and the United States. The average check at a Russian fast-food outlet is $8.92 according to research by a Wendy's Russian franchisee Food Service Capital group. It is significantly higher than the United States average check of $6.50. A large pizza at Papa John's in the company's home base of Louisville, KY., for example, costs $14, compared with $21.62 for the same pizza in Moscow.

Stand-alone kiosks are popular in Russia, but there is some consolidation in the industry. The number of independent stands is decreasing, but sales and the number of chained outlets are increasing. Domestic chains dominate the street fast-food market. Chains such as Stardog!s (hot dogs), Krosha-Kartoshka (potato stand), and Teremok (Russian crepes) are located throughout the major cities and are expanding regionally as well.

Table 7. Growth of Fast Food Restaurant Chains in Russia, 12 Leaders

Chain name	Country of origin	Year established in Russia	# Outlets as of July2013	# Outlets in Moscow	% change for 12 months
Stardog!s	Russia	1993	685	472	22.1
Subway	USA	1994	582	216	42.6
McDonald's	USA (Canada)	1990	378	175	17
Kroshka-Kartoshka	Russia	1998	320	231	9.6
Baskin Robbins	USA	1992	274	84	14
KFC	USA	1993	230	97	26.4
Teremok	Russia	1998	215	106	6.4
Podorozhnik	Russia	1995	148	0	5.7
Sbarro	USA	1998	144	69	13.4
Burger King	USA	2010	113	72	105.4
Cinnabon	USA	2009	108	13	54.3
Chaynaya Lozhka	Russia (St.Petersburg)	2001	71	0	7.6

Source: Foodservice magazine, July 2013

Table 8. Other USA Fast Food Restaurant Chains in Russia

Chain name	Country of origin	Year established in Russia	# outlets 2013	# Outlets in Moscow
Dunkin Donuts	USA	1996/2010	26	26
Carl's Junior	USA	2007	28	0
Papa John's	USA	2004	49	34
Chili's Grill & Bar	USA	2011	2	2
Wendy's	USA	2011	8	8
Moe's Southwest Grill	USA	2012	3	2
Krispy Kreme	USA	2013	1	1

Source: Trade press, companies' web-sites

McDonald's, the largest chain of fast-food restaurants in the world, entered Russia in 1990 and opened its first restaurant in the center of Moscow. As of October 2013, McDonald's had more than 380 restaurants, including McCafes, operating throughout Russia and serving more than 1 million customers daily. There are 175 McDonald's restaurants in Moscow. The company operates in 112 Russian cities. On McDonalds's 20th anniversary in Russia (January 2010), the company reported serving 2 billion Russian customers. Up until April 2012, McDonald's had been expanding in Russia through self-operated stores only. McDonald's gave Rosinter Restaurant Holding the subsidiary right to develop the chain in railway stations and airports in Moscow and St. Petersburg. McDonald's operates in 120 countries and Russia is one of the ten top countries by sales volume. McDonald's growth rate in Russia is between 20 to 30 percent annually. The fast-food giant opens about 40 new restaurants in Russia every year. The company spends between $1.5 million to $2 million to set up each new restaurant in Russia.

McDonald's also plans to expand its McCafe chain, its premium class coffeehouse format. The first McCafe opened in Russia in 2002 and now there are more than 57 - most of which are in Moscow and in St. Petersburg. McCafe also operates in Yaroslavl, Nizhniy Novgorod, Yekaterinburg, Volgograd, Kazan, and Ufa. The corporation also owns the McComplex, the Moscow-based food processing and distribution center, which supplies the fast food giant in Russia and the CIS. It has invested $45 million in the McComplex. McDonald's currently supplies 80% of its needs from 130 local companies. Since February 2010, when Inalca JBS opened a new meat production and distribution facility near Moscow, JBS' partner Marr Russia supplies frozen hamburgers to McDonald's restaurants. As the Official Restaurant of the 2014 Olympic Games, McDonald's is building two 24-hour restaurants in the Athlete's Village and Main Media Center for athletes, officials, coaches and media, which will feature a McCafe menu. McDonald's will also have five permanent restaurants in Sochi and the surrounding region that residents and visitors will be able to enjoy during and after the Games.

In 2011, Subway managed to outrun McDonald's in terms of outlets, not only in Russia but worldwide, making it the number one chain in terms of outlets in the world. Subway, the world's largest sandwich chain, is one of the most rapidly developing fast food chains in Russia 174 Subway's outlets were opened from July 2012 to July 2013. As of July 2013, Subway had 582 outlets in all Russian regions, including the Far Eastern Federal District. The national Subway franchise for Russia is co-owned by three Californians. In St. Petersburg, the popularity of the Subway brand is underscored by the fact that from May to July 2010, one local Subway restaurant had the highest sales turnover out of 31,000 Subway restaurants worldwide. Subway has an ambitious plan of expansion in Russia, intending to reach 1,000 stores by 2015.

For the past two years, Russia has had the highest KFC store sales growth out of its 20 business units around the world. Sales of Yum! Restaurant International Russia grew 46 percent in 2012. Company opened approximately 40 new restaurants last year. After buying the Rostik's-KFC business (Russia's leading chicken chain) in 2010, the U.S. chain KFC in Russia announced the rebranding of stores from Rostik's- KFC to KFC in September 2011. As of July 2013, there are 230 KFC restaurants in Russia of which 189 are franchises. The typical KFC customer is 16 to 39 years of age, not afraid to try new things, and wants to see society progress while enjoying a Western dining experience. The average check at local KFCs amounts to 200 rubles (about $6.25), which is about the same as in the United States. Yum! Restaurant International Russia and CIS is planning invest $50 million to open 20 new establishments annually.

Burger King, one of the largest fast food corporations in the world, has established a presence in Russia by opening its first restaurant in Moscow on January 2010. Burger King is using its traditional franchising scheme to expand the chain in Russia. In order to launch operations in Russia, Burger King has established a daughter company Burger Rus, managed by Alexander Kolobov. Mr. Kolobov is famour for having successfully established a well-known coffee shop chain in Russia called Shokoladnitsa. Under the terms of its franchise agreement, Shokoladnitsa is required to give 5 percent of its turnover to Burger King, while Burger King is obliged to pay for the opening of each restaurant. In June 2012, Burger King and the fast food giant's Russian franchisee Burger Rus established a joint venture with VTB Capital, the investment arm of Russia's second biggest lender, to develop and expand the restaurant's chain and brand presence in the country. Thanks to that partnership, Burger King opened 58 new restaurants in Russia from July 2012 to July 2013, expanding its chain to 105 and opening the outlets all over Russia. Burger King also opened in the Russian city of Novosibirsk – Russia's third most populous city) where there currently is no McDonald's. Burger King outlets in Russia get a significant share of their food from domestic suppliers. The company has about 30-40 suppliers in Russia, of which more than half are local producers. The hamburger patties, for example, are being supplied by Russian company Inalko. Franchises are required to buy product only from Burger King-certified suppliers.

Dunkin' Donuts, the U.S. doughnut eatery chain that left Russia after a three-year stint in 1999, returned to Moscow in 2010 with big plans for rapid expansion. The Russian company Donuts Project received exclusive franchising rights for development of the chain in Russia and the Ukraine. According to the company's plans, the brand will be situated in both street and business centers. Dunkin' Donuts opened its first outlet in May 2010 and currently has twenty six restaurants in Moscow. Dunkin' Donuts plans to open no less than 50 establishments in Moscow. *Dunkin' Donuts* chain offers more substantial food choices, such as salads and sandwiches, alongside the doughnuts.

Wendy's/Arby's Group, one of the world's leading fast food operators entered the Russian market in 2011 and will open 180 restaurants over the next 10 years. The company signed a franchising agreement with Russia's Food Service Capital group, owned by Mikhail Zelman. Food Service Capital currently has eight outlets in Moscow with average bill of 275 Russian Rubles ($8.60). Regional expansion through sub franchising will start in 2014.

By opening 34 restaurants in Moscow, in addition to the fifteen in other cities, Papa John's franchise has become the third-largest takeout pizza company in the city. It costs about $400,000 to set up a store in Moscow, which can turn an operating profit in three months. So far, Moscow -- a city of 11.8 million – has only about 300 pizza restaurants.

U.S. major bakery brand chain Cinnabon opened its first outlet in 2009. Two years later, Cinnabon Russia was recognized as the fastest developing chain among all Cinnabon chains all over the world. As of July 2013, Cinnabon had 108 outlets.

In September 2012 Moe's Southwest Grill opened its first Russian franchise located in the center of Moscow. The franchise group Glaventer Investments Ltd. will develop 50 units in Russia in the next 10 years. As of December 2013 there are two outlets in Moscow and one in Rostov-on-Don.

The first Russian Krispy Kreme doughnut cafe, a franchise managed by restaurateur Arkadiy Novikov, opened in September 2013 on Nikolskaya Street, a walking distance from Red Square. Novikov Group, which has an empire of more than 50 high end restaurants in Moscow, London and Dubai, have invested $10 million in this franchise, which also includes a doughnut factory in Moscow, built to cater to future outlets that do not have their own production line. Five more shops are scheduled to be opened in Moscow in the next few months. Krispy Kreme will compete against its American rival Dunkin' Donuts, which first arrived in Russia in 1996, left in 1999 and came back to the local market in 2010.

Fast-food restaurants tend to use a higher percentage of local ingredients (around 50 percent) as compared to other restaurants. This decision is driven by high turnover and the need for a consistent supply-chain more than by direct preference. Several fast-food chains have created internal supply-chains based in Russia. For example, McDonald’s created McComplex to produce nearly 56,000 hamburger patties daily, but McComplex cannot produce enough to meet its needs. The company therefore buys additional hamburger from meat suppliers. Since the beginning of 2010 Marr Russia supplies frozen hamburgers to McDonald's, KFC, Burger King, and Carl’s Jr. outlets. The produce and egg products used by fast food chains are usually sourced locally, but import opportunities do exist. Many chains use imported sauces and ingredients. Poultry is the leading imported meat in this category. Most of the larger international chains have an internal distribution network, while some independent and smaller chains rely on traditional or specialty distributors.

Coffeehouses

The popularity of coffeehouses among urban consumers in the largest Russian cities is great and growing. Before the crisis, the coffeehouse business in Russia showed impressive average annual growth of 136 percent in value terms. According to InFOLIO Research Group, the value of the coffee shop market reached 6.73 billion rubles in 2012 (14 percent increase in comparison to 2011). According to InFOLIO Research Group, currently there are about 5,200 coffeehouses in Russia. Roughly 1,350 coffee outlets are managed by more than 80 chain operators. Most coffeehouses are concentrated in Moscow – about 670, and in St. Petersburg - about 470 coffeehouses. The leading coffee-shop chain Shokoladnitsa has already opened outlets not only in Moscow (where there are around 250 establishments under the brand) and St. Petersburg, but also in Yekaterinburg, Volgograd, Kazan, Kemerovo, Novosibirsk, Sochi, Rostov-on-Don, Ufa, Tyumen and Chita, as well as abroad: in Yerevan, in Almaty and in three cities of Ukraine. Moreover, at the moment it focuses on regional expansion to the far eastern region of Russia.

Two coffee-shop chains leaders, Shokoladnitsa and Coffee House, together own about 750 outlets and have value shares of 7 percent and 5 percent respectively. Shokoladnitsa is closer to an Italian type of café with a cozy interior, while Coffee House is a more American-style coffee shop, with the décor being airy and uncomplicated. As a result, the clientele differs: Coffee House is preferred by consumers under 30, while Shokoladnitsa is favored by a more mature audience. Most of the Coffee House and Shokoladnitsa outlets are located in the food courts of new shopping malls and business centers.

Local chains such as Traveler's Coffee in Novosibirsk, Kofeynya No. 7 in Yekaterinburg, and Pit' cafes in Rostov-on-Don have strengthened their competitive positions in local markets. Currently the Traveler's Coffee brand name is used in 67 coffee shops by franchises in different Russian cities including Moscow and St. Petersburg.

In 2007, two leading multinational coffee shop chains appeared on the Russian market, adopting different development strategies. The world leader, Starbucks Coffee Company, opened its first outlet in Moscow in September 2007. In December 2012, Starbucks finally opened its first coffeehouse in St. Petersburg and currently operates 64 coffee shops in Russia, 61 of which are in the capital. In October 2013 Starbucks opened a store in Rostov-on-Don. Whitbread and Rosinter Restaurants Holding signed a joint-venture agreement and announced their intention to launch the Costa Coffee chain in Russia. Costa Coffee outlets are not only concentrated in Moscow and St. Petersburg but also in other Russian regions. Austrian chain Coffeeshop Company has operated in Russia since 2008 and currently is number three by coffee sales after Shokoladnitsa and Coffee House. The appearance of these leading multinational coffee chains on the Russian market has changed the position of the coffee shop segment.

Table 9. Russia: Leading Coffee-Shop Chains, July 2013

Chain Name	Locations	First Year of Operation	# of Outlets
Shokoladnitsa	Moscow, St. Petersburg, regions	2001	361
Coffee - House	Moscow, St. Petersburg, regions	1999	209
Starbucks	Moscow, St. Petersburg, region	2007	64
Traveler's Coffee	Novosibirsk, Moscow, St. Petersburg, Siberian regions	1997	67
McCafe	Moscow, St. Petersburg, regions	2002	59
Coffeeshop Company	St. Petersburg, Moscow	2008	73
Costa Coffee	Moscow, St. Petersburg, regions	2007	28

Source: Restaurateur Magazine, trade press

The typical Russian coffee shop format differs from Western standards because Russian consumers prefer a larger assortment of drinks and food items. According to industry sources, coffee accounts for only 40 percent of those for Coffee House and 15 percent for Shokoladnitsa. Coffee shops in Russia constantly increase their non-coffee selections to include alcoholic drinks, dairy cocktails, salads, hot dishes, desserts, and tea. The average bill at one of these coffee shops is between $15 and $25, and drinks average only 30 to 40 percent of the total check. Russian coffee shops that sell a variety of desserts and confectionery products have created a new market for U.S. exporters of desserts, nuts and dried fruit.

Hotels

According to Rosstat, Russia had 9,316 functioning hotels able to accommodate guests in 585,734 rooms at the end of 2012. Almost 7 percent of all hotel rooms are in Moscow (40,058), 16 percent (91,681) are in Russia's popular Black Sea resort area Sochi, and 4.5 percent (25,370) are in St. Petersburg.

Table 10. Russia: Hotel Industry Sales in Russia, 2008-2012

	2008	2009	2010	2011	2012
RUR, billions	221.5	202.1	216.9	244	278.7
Growth Year on Year, %		-8.7	7.3	12.5	14.2
US Dollars, billions	8.91	6.37	7.14	8.31	8.79
Average exchange rates by years	24.84	31.72	30.36	29.35	31.07

Source: Rosstat

Table 11. Russia: Number of hotels in Russia, 2008-2012

	2008	**2009**	**2010**	**2011**	**2012**
Hotels	6774	7,410	7,866	8,406	9,316

Source: Rosstat

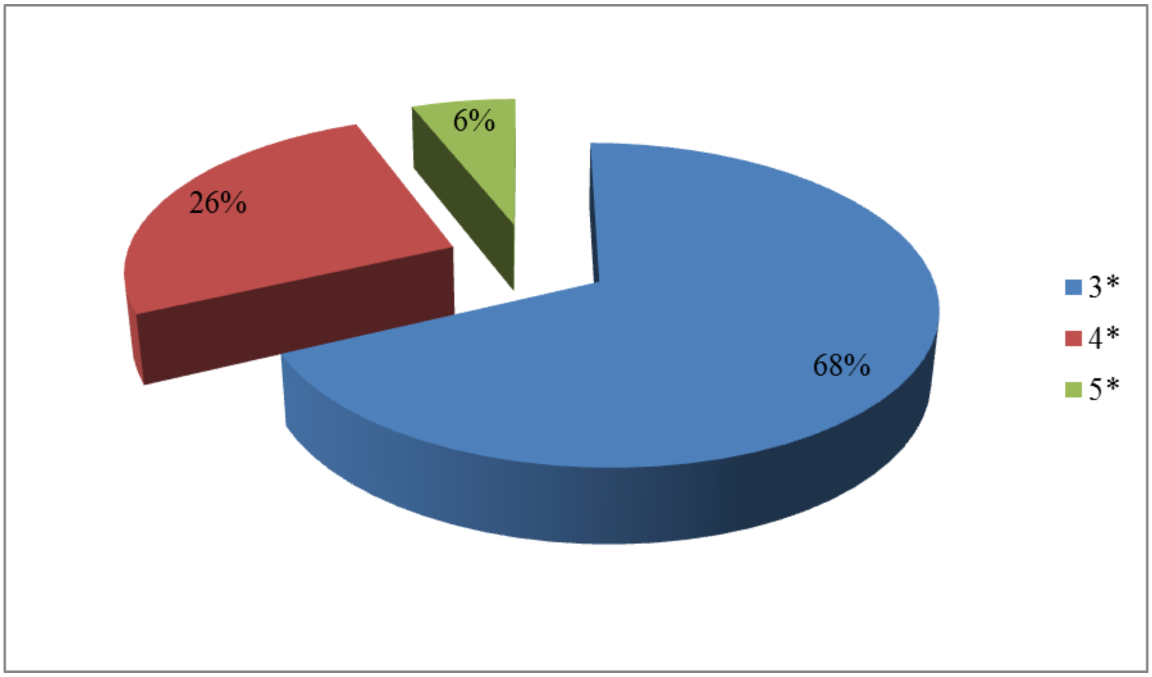
Table 12. Russia: Hotel Industry Sales in Russia, 2008-12 by Regions, in Billion Rubles

	2008	2009	2010	2011	2012	Market share in %
Russia	221.5	202.1	216.9	244	278.7	100
Moscow	41.7	32.6	37.9	43.9	49.4	17.7
Saint-Petersburg	16.4	14.4	16.1	17.7	20.1	7.2
Krasnodar Kray (Sochi)	29.5	29.2	31	32.9	36.3	13

Source: Rosstat, BusinesStat

Russia's hotel industry is facing a massive room shortage. GVA Sawyer estimates that there are currently only 40,000 Western business-style hotel rooms available in the entire country. In fact, most existing three, four and five-star hotels in Moscow and St. Petersburg were built during the last decade. As a result, Moscow currently has 20,800 Western business-style hotel rooms, and St. Petersburg has only 15,530.

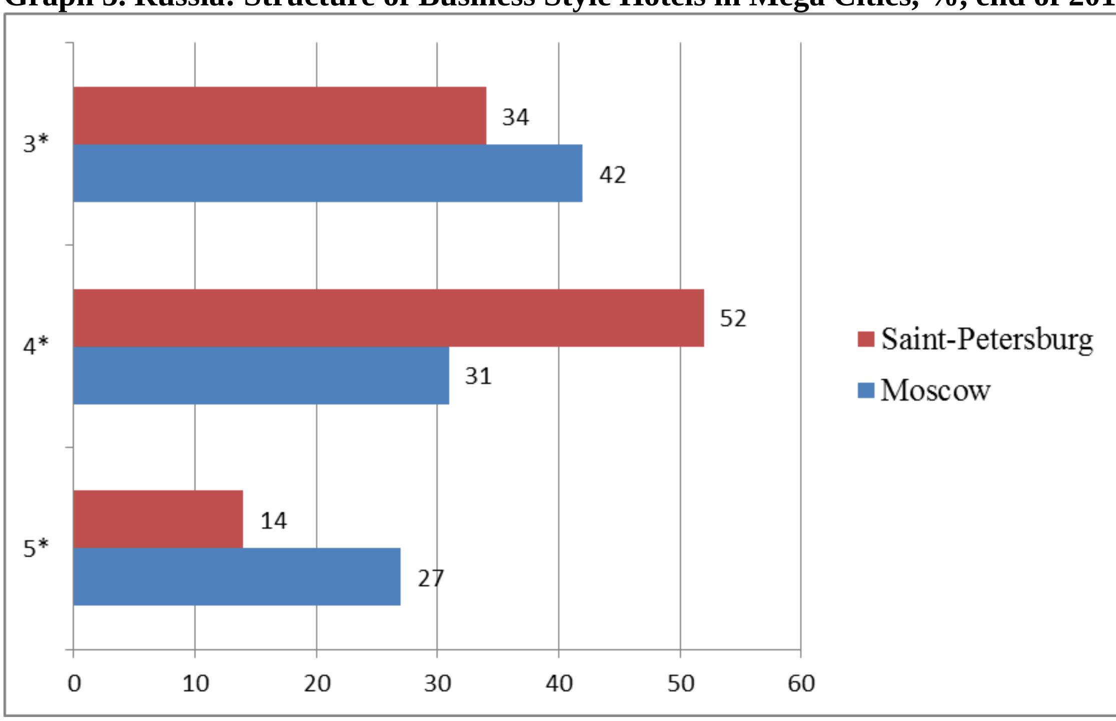
Graph 4. Russia: Rating of Business Style Hotels, Cities with Population over 1 Million



Source: GVA Sawyer, 2013

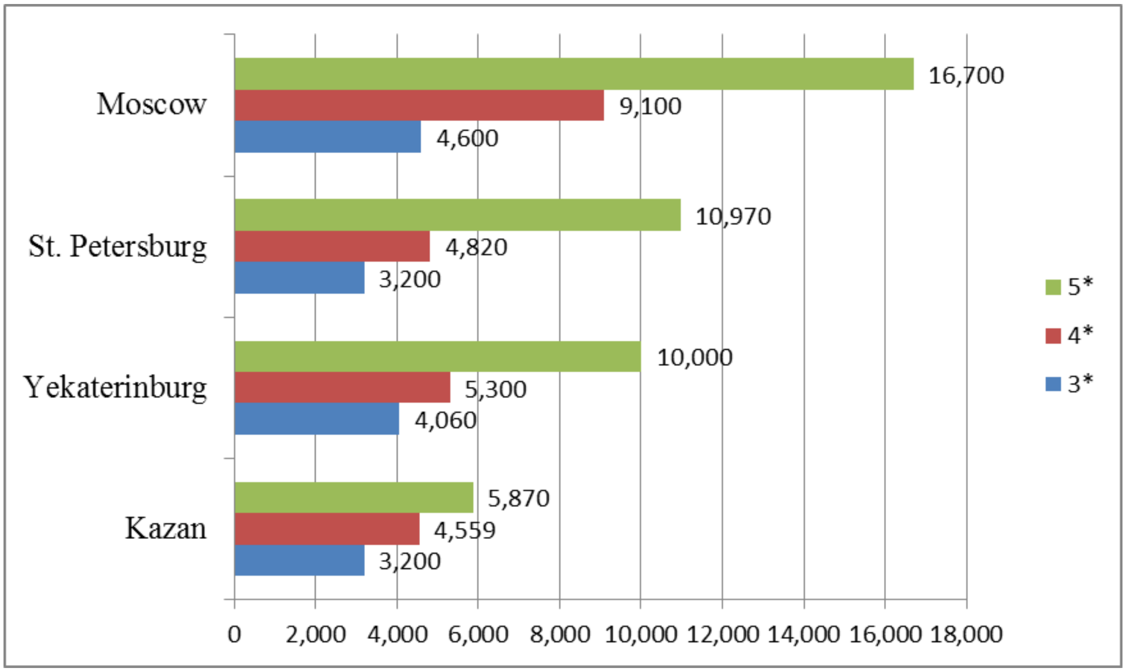
Moscow is one of the largest cities in Europe and remains the country's main city for hotel development. According to Rosstat, about 220 hotels were operating in Moscow with approximately 100,000 rooms as of December 2012. Of this volume, 30 percent are 5 and 4 star hotels.

Graph 5. Russia: Structure of Business Style Hotels in Mega Cities, %, end of 2012



Source: GVA Sawyer, Industry Data

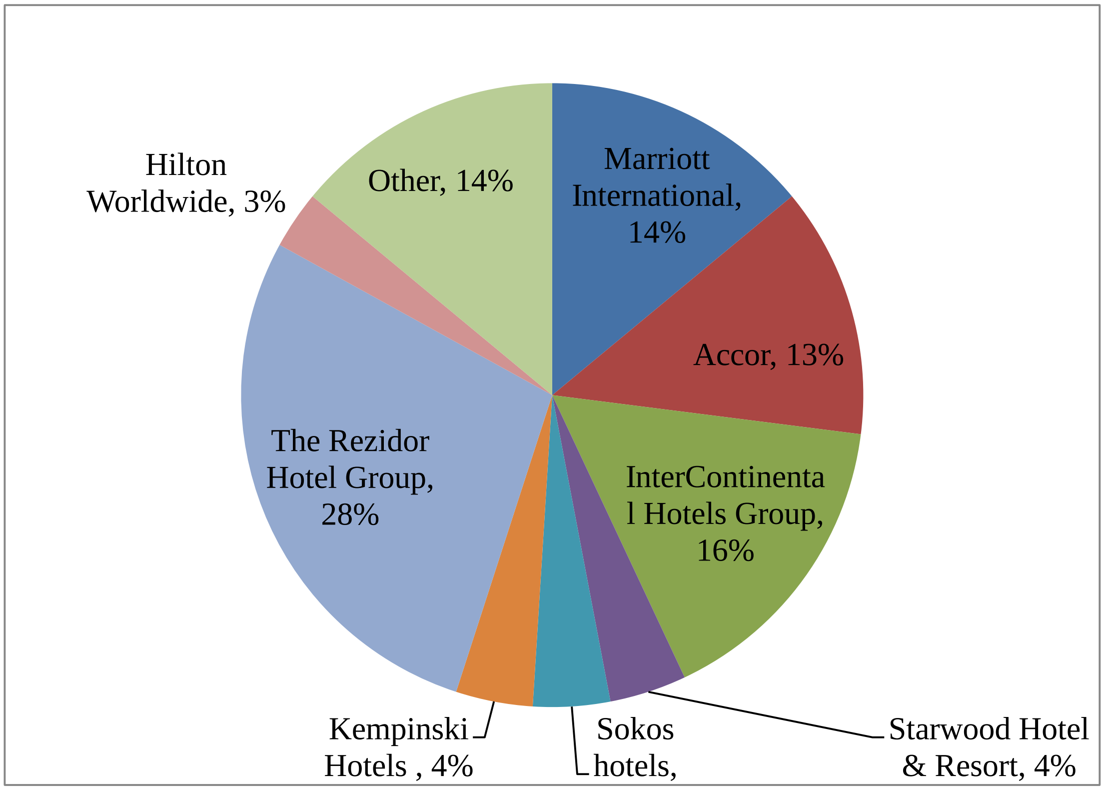
Graph 6. Russia: Average Hotel Cost Per Night in Rubles, 2013



Source: GVA Sawyer

Since 1991 Russia has seen the emergence of more international hotel brands and there remains further opportunity for investment in the hotel sector across all categories. Moscow and St. Petersburg alone account for around 25 percent of the country's hotel capacity. While the high-end sector is close to saturation, there is a strong demand for mid-level hotel rooms. The highest level of unfulfilled demand is for quality three star and economy hotels. The budget brands of Western hotel chains are not represented in Russia.

Graph 7. Russia: Current Hotel Supply under International Brands, 2013



Source: Ernst & Young (CIS) B.V.

Table 13. Russia: Hotels Managed by International Corporations

Hotel Operator	Hotel Brands	Locations	Year established in Russia
Fairmont-Raffles Hotels International	SwissHotel	Moscow	2005
Marriott International	Marriott Courtyard Ritz Carlton Renaissance	Moscow Samara St. Petersburg Irkutsk Kazan	1991
Hyatt Hotels Corporation	Ararat Park Hyatt Hyatt Regency	Moscow Yekaterinburg	2002
InterContinental Hotels Group	Crown Plaza InterContinental Holiday Inn	Moscow Samara Chelyabinsk St. Petersburg	1998
Starwood Hotel & Resort	Sheraton	Moscow	1997
Best Western International	Art-Hotel 4*	Moscow St. Petersburg	2005
Kempinski Hotels	Kempinski	Moscow St. Petersburg Gelendzhik	1992
Accor Group	Novotel Mercure	Moscow St. Petersburg Yekaterinburg	1992

	Ibis	Sochi Nizhniy Novgorod Kaliningrad Kazan Samara Omsk Yaroslavl	
The Rezidor Hotel Group	Radisson Park Inn	Moscow Sochi St. Petersburg Kaliningrad Rostov on Don Astrakhan Yekaterinburg Izhevsk Kazan Murmansk Velikiy Novgorod	1991
Small Luxury Hotels of the World	Savoy	Moscow	2003
Hilton Worldwide	Hilton Hilton Garden Inn Double Tree by Hilton	Moscow Krasnodar Perm Novosibirsk	1997

Source: Industry Data

The regions outside of Moscow and St. Petersburg represent a small fraction of the travel industry, but some areas such as Sochi, Rostov-on-Don and Vladivostok are growing quickly. Yekaterinburg, Novosibrisk, Nizhny Novgorod, Krasnoyarsk, Kaliningrad, and Kazan are other regions where travel and tourism are growing, particularly for business travel. International operators, such as InterContinental Hotels Group, Kempinski Hotels, Marriott International, and Accor have built 23 new hotels in cities with populations over one million in the last five years. Major hotel chains are opening facilities in the regions. The Rezidor Hotel Group (including Radisson brands) is currently targeting some 35 key cities in Russia with a population of 500,000 and above to further develop its portfolio of hotels and brands, and the Hilton Worldwide is planning to open 28 new hotels in the next three years.

From 2012-13, 390 new hotels have been built across Russia with the vast majority in Moscow, St. Petersburg, Sochi, and several in major regional capitals. Hotel projects usually have a four to five-year development cycle, so international hotel operators are building hotels before upcoming events in the Russian regional centers. The following events are planned for the near future: the Sochi Winter Olympic Games in 2014 and the 2018 FIFA World Cup. Matches are to be held in 11 cities, including Moscow, St. Petersburg, Kaliningrad, Kazan, Yaroslavl, Nizhny Novgorod, Samara, Saransk, Rostov-on-Don, Volgograd, and Sochi. According to the requirements of FIFA World Cup, an increase of the hotel room capacity is needed in selected cities in order to host the World Cup.

The XXII Sochi Winter Olympic Games are planned for February 7-23, 2014, and the XI Winter Para Olympic Games are planned on March 7-16, 2014. 2014 Sochi Winter Olympic Games are spurring hotel development in the region. In December 2012, the Russian Government set a maximum cost per room per night for the Olympic Games time period and events preceded them. The maximum cost per night in 5* hotels will be 13,896 Rubles, in 4* hotels will be 13,048 Rubles, in 3* - 9,003 Rubles, in 2*, 1* or mini-hotel - 5,741 Rubles.

There are usually two restaurants in four-star hotels and three restaurants in five-star hotels. According to industry sources, tourists often eat breakfast and dinner in their hotel, but they eat lunch in the city. In an attempt to attract more of the tourist industry, hotels are offering special catering services for different events. On average, room rentals account for 70 percent of hotel income, services account for 10 percent, and food and beverages account for 20 percent. Luxury hotels represent the best opportunity for selling American products to hotels. Other sub-categories usually have very limited foodservice offerings. Hotel restaurants operate like other restaurants and purchase items through distributors. American meat, fish, wine, spirits, and fruit are some of the better prospects for this segment.

Institutions

Institution/catering is a challenging segment for U.S. exporters. Before the 1990's, catering was a miniscule segment of the Russian hospitality market. Now, catering is a quickly evolving industry with Moscow claiming 62 percent of the market and St. Petersburg at 22 percent. There are an estimated 500 catering companies operating in Russia, including 30 big players. Each year, 15 new companies enter and 20 companies exit this intensely competitive industry. Russia's leading caterers are Sodexho, Mega Foods, Parad Catering, Brizol, and Master Foods which have total market share of about 50 percent of catering services.

Urban dwellers have less time to prepare their own meals, so they often dine out or have lunch delivered to the office. Lunch deliveries are a strong component of the catering business. The estimated value of the lunch catering business in Moscow was $140 million in 2013. There is room for development however, as it is estimated that only 15 percent of Moscow's office employees eat lunch prepared by qualified chefs/cooks. Office cafeterias form another changing segment. Until recently, most cafeterias operated in the Soviet fashion, offering few choices and low quality. As incomes grow, however, the office cafeteria is transforming. Corporate catering firms manage stationary foodservice facilities, placing them in office buildings, business parks, shopping centers, administrative complexes, and industrial facilities. Their goal is to give people high quality meals in these institutions on a daily basis. The average bill in office cafeterias is $7 to $9. Newer cafeterias are beginning to use higher quality ingredients. They still prefer to buy whole, non-processed items, and they are very price sensitive. Like many restaurants, they monitor prices weekly and do not hesitate to change suppliers or menus if they encounter a better price.

Catering for private events and parties, especially those in the premium segment is another attractive and profitable area of foodservice. Restaurateurs and five-star hotels are rushing to enter this lucrative market, including Gurme Catering, Baltschug Kempinski, and Swissotel Krasnye Holmy. Hotels are attractive caterers because they are flexible enough to deliver a five-star experience in any venue, and they have an extensive wine knowledge. The average bill for mid-level off-premise catering is $50 per person, but prices can be significantly higher in the premium class. Caterers use many categories to tailor their products to the client, and they usually work with the same distributors as restaurants. Like restaurants, caterers use a variety of distributors and suppliers depending on their needs. Mid-level and high-end caterers import a variety of food, presenting an attractive opportunity for U.S. products. There is a particular demand for specialty items such as seafood, meat, wine, and nuts.

While there is not yet a national school lunch program in Russia, there is interest in creating one. The Russian government is studying the U.S. government program and will no doubt incorporate some of its elements to improve the school lunch program in Russia. Packaged food for institutions may have some potential in Russia, but the cost and logistics of importing U.S. products may deter potential customers. Nevertheless, potential demand exists for rice, peas, beans, and lentils. Soup bases, spices, and institutional food packs could also appeal to some companies. Universities, hospitals, and the military could be other potential customers for catering companies, but tenders are often not competitively bid for catering contracts with government institutions.

In 2008, Russian Railways created the joint venture Yedinaya Set Pitaniya with RP-Com, one of the top 20 foodservice operators in Moscow. This enterprise manufactures ready meals for passengers of the Russian high-speed railways, which currently operates on three lines: Moscow-St. Petersburg, Moscow-Nizhny Novgorod and St. Petersburg-Helsinki. By the end of 2010, the company produced 20,000 meal trays per day from its first catering facility near St. Petersburg. Other catering facilities have built in Yekaterinburg, Novosibirsk, Sochi, and Rostov-on-Don. According to RF Government plan, 8 Russian cities hosting 2018 World Cup matches should be linked by an integrated high-speed rail network.

Operators at the major airports in Moscow and St. Petersburg usually function more as part of a restaurant chain than as an institutional operator. According to airport statistics, 30 to 40 percent of passengers eat in airports. Leading Russian foodservice operator Rosinter has opened and operated restaurants in Russian airports since 2003. Its experience earned Rosinter the responsibility of being the primary foodservice operator in St. Petersburg’s Pulkovo airport in 2007. In addition to operating the airport’s restaurants, Rosinter also feeds the airport staff. Rosinter built a kitchen facility in the Pulkovo airport.

The volume of passenger traffic in Russia exceeded 74 million in 2012. The volume of passenger traffic through Moscow’s two main airports, Domodedovo and Sheremetyevo, exceeded 54 million passengers in 2012. Airlines contract with professional catering companies for in-flight meals for passengers. JSC Domodedovo Air Service is the largest Russian company serving up to 60,000 in-flight meals and rations per day in Domodedovo airport. AeroMar has provided in-flight catering services to the passengers of Sheremetyevo airport since 1990.

Joint-stock company "Rossiya Airlines" is the leading air carrier in North-West Russia. Rossiya Airlines is located in St. Petersburg and operates up to 40% flights from Pulkovo airport for more than 70 destinations. Since 1993, the airline has its own catering division. Daily, Rossiya Catering produces up to 20,000 portions of in-flight meals for all domestic and international airlines flying out from Pulkovo airport. Considering the increasing demand for high-quality airline food, airline foodservice could become an attractive niche market for U.S. food and beverage exporters.

SECTION II: ROAD MAP FOR MARKET ENTRY

Domestic and imported food products for Russian foodservice establishments come through importers, distributors, and wholesalers. Large suppliers are typically also importers. For smaller restaurants and hotels, most foodservice purchases are made through a wholesaler or importer/distributor. Large chains may choose to purchase directly through customized growing agreements or through a central buying office. Most hotels and restaurants choose to purchase the majority of products through foodservice importers/distributors in the HRI sector, both large and small. Specialty and seasonal products are purchased through smaller distributors or directly from local producers.

Table 14. Russia: Advantages and Challenges for U.S. Exporters

Advantages	***Challenges***
Paying in Dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the Dollar relative to the Euro.	Ruble/$ exchange rate has led to an increase in the price of U.S. products, mitigating some of the positive effects of the advantage over the Euro.
Russia's 142 million people make it one of the largest consumer markets in Europe.	Official government opposition to growth in food imports.
Rising disposable incomes in the long term will allow Russians to spend more on food and beverages.	Economic vulnerability, dependence on oil and mineral extraction for most wealth.
The Russian government has committed to spending billions on infrastructure over the next 10 years, particularly railroads and highways, which should translate to better logistics.	Competition with food products imported from EU and other countries may rise.
U.S. products have a reputation for consistency and high quality.	Logistics can be difficult. There are often long shipping times from the U.S., the major Russian port in St. Petersburg operates slowly and there can be complex customs regulations.
The HRI sector has a lot of room for growth. Restaurant chains are expanding out of Moscow and St. Petersburg to other cities with populations over one million.	Consumer confidence has not fully recovered from the economic crisis thus discretionary spending among the middle class still has room to grow. Customers are very price sensitive.
Russian joined the WTO in August 2012 and its trade and investment policy is converging with international standards.	

Entry Into Russian Market -- Strategy

Entering Russia's market can be incredibly rewarding, but it requires hard work and careful planning by U.S. exporters. Different types of products require different marketing strategies. Many meat, seafood, wine, and spirits companies are selling U.S. products to the HRI sector and their businesses are flourishing. Several general recommendations may be helpful for developing a successful entry policy:

Work with a Russian Importer: Direct importation is difficult without a large customer base, so it is best to find an importer. To work with Russian Customs, it is essential to have a physical presence in Russia. U.S. exporters can approach the Russian HRI food and beverages market through a general importer, with whom good relations are essential. Selecting the right trading partner is one of the most important decisions for exporters when developing their businesses in Russia. A local Russian partner who is familiar with market conditions and the regulatory environment can help exporters navigate the Russian HRI market, resolve issues, and increase the likelihood of success. The importer should be able to handle customs clearance, veterinary and phytosanitary inspection requirements, any necessary guarantees, and all licensing procedures.

Logistics must be carefully considered and monitored, so close contact with the importer is also necessary in order to avoid logistical problems and shipping delays. Consider the longer shipping time for U.S. products compared to products from Europe. It is essential, for example, that all required documents be filled out as quickly and efficiently as possible. Most products will enter Russia through St. Petersburg, but if a U.S. exporter wishes to operate in the Russian Far East, Vladivostok is another option. Consistency and necessary quantities of production in the supply chain are frequently cited as primary concerns for the HRI segment.

Exporters representing U.S. companies may contact the Moscow ATO for assistance in locating importers. Performing due diligence is nevertheless important, and exporters are expected to verify the banking and supplier references of potential importers. Local and U.S.-based organizations in Russia can also provide helpful information to exporters. Credit reporting, however, is a relatively new practice in Russia, and credit-reporting agencies may not have complete information on potential Russian business partners. It is common for U.S. exporters to require 100% pre-payment for the first shipment.

Work with a Russian Distributor: U.S. exporters will need a distributor in order to sell their products. Large suppliers are typically also importers, and most HRI outlets rarely import products directly, preferring to procure supplies through local distributors. International chains with internal distribution networks within the country are the exception. The larger distributors are suited for commodity and large-volume sales. Smaller distributors work well for specialty, high-end, or new products that require marketing and product education. The most promising categories of products fall into this segment.

Provide Product Education: Marketing and product education are essential. Many of the HRI industry personnel are interested in new products, but they want to be shown how to use them and how the products can be made to work for them. Without some level of promotion, broader market penetration may be difficult. HRI sector players often mention “master classes” (chef trainings) and product demonstrations as useful for stimulating demand for new products. It is also important to determine the target audience and include both the distributor and the chefs in promotions. Technical support for U.S. producers in the form of printed material and/or seminars is critical to the effort to educate, dispel negative stereotypes, and ultimately build loyalty for U.S. products.

Attend Promotional Events: One of the main challenges for exporters entering the Russian market is product promotion. Participation in trade shows, technical demonstrations, and trade missions to the United States are all marketing strategies that work well in the Russian market. A cost-effective way exporters can promote their products is to participate in World Food Moscow, the second largest and most professionally-run food and beverage trade show in Russia, held annually in September. Virtually all large food and beverage producers and importers participate in this show and USDA typically assists in organizing a U.S. pavilion. The ATO also recommends few interesting culinary-show opportunities in this area: PIR (Catering and Entertainment) Russia held each September/October in Moscow, ExpoHoReCa in St. Petersburg in early March, and the Vladivostok Culinary Festival, held each September. If exporters are targeting specific regions within Russia, the Moscow ATO recommends participating in regional exhibitions.

Participation in industry associations (US Meat Export Federation, California Wine Institute, etc., please refer to the list at the end of this report) that have a presence in Russia is also very beneficial.

Food Suppliers for the HRI Sector

Very few HRI businesses operate on exclusive contracts with vendors. Most chain and independent restaurants change suppliers frequently, particularly if there is a price difference. Most businesses use a separate supplier for each product category (i.e. produce, meat, or desserts) and very often work simultaneously with three to four suppliers of their principal ingredients to ensure steady supply.

Whole foods are preferred and account for 70 percent of sales, principally because labor costs are low. Smaller restaurants without adequate space are usually the customers for semi-prepared items. Even fast-food chains tend to buy whole products and prepare them at the restaurant level. Exceptions to this include meat patties and French fries.

Few restaurants use fresh produce markets as suppliers. In contrast to U.S.-style produce markets, Russian markets have inconsistent supplies and offer goods of questionable quality. Markets also tend to have higher prices than other supply options.

There are a large number of importers and distributors in the HRI sector, both large and small. A few work across a wide variety of products, but many specialize in a particular category. The distribution market is fragmented, and there are a variety of arrangements between suppliers and customers. As noted above, imports make up the vast majority of HRI products (more than 65 percent), with domestic suppliers filling the gaps.

Table 15. Russia: Major Suppliers of Food Products for HRI sector

Company	Principal Products	Country of origin	Customers	Locations
East-West	Marbled Beef	USA, Australia	Restaurants	Moscow
	Veal	USA, Australia	Hotels	St. Petersburg
	Beef	Russia, Brazil		Krasnodar
	Pork	USA, Russia, Brazil, Denmark		Novosibirsk
	Lamb	New Zealand		Yekaterinburg
	Fish and Seafood	Norway, Spain, Thailand		
	Poultry	France, Russia, USA, Brazil		
	Groceries	Poland, Germany, Russia, Netherlands		
Global Foods	Marbled Beef	USA, Australia	Restaurants	Moscow
	Veal	New Zealand, Australia	Hotels	St. Petersburg
	Beef	Russia, Brazil		Krasnodar
	Pork	Russia, Brazil, Europe		Yekaterinburg
	Lamb	New Zealand, Australia		Vladimir

	Poultry	Russia, USA		
	Fish and Seafood	Norway, Spain, Russia		
	Groceries	USA, Europe, Russia		
Australian Trade House	Marbled Beef	Australia	Restaurants	Moscow
	Veal	Australia	Supermarkets	
	Beef	Australia	Hotels	
	Lamb	New Zealand, Australia		
	Fish and Seafood	Thailand, Vietnam, Russia		
	Butter	Australia		
Marr Russia	Marbled Beef	USA, Australia	Restaurants	Moscow
	Beef	Brazil	Supermarkets	St. Petersburg
	Veal	Australia	Hotels	Rostov-on-Don
	Lamb	New Zealand		
	Pork	Hungary, USA, Russia		
	Poultry	Brazil, Russia		
	Fish and Seafood	Spain, Indonesia, Denmark		
	Groceries	Italy, Russia		
Meridian	Marbled Beef	USA	Restaurants Supermarkets	Moscow St. Petersburg
	Veal	USA, Australia		
	Groceries	USA, Europe		
Miratorg	Marbled Beef	USA, own	Restaurants Supermarkets	Moscow St. Petersburg Regions
	Veal	USA, Australia, own		
	Pork	Europe, Russia, own		
Snow World	Veal	USA, Australia	Restaurants	Moscow
	Veal	USA, Australia	Hotels	
	Beef	New Zealand, Australia		
	Pork	Russia, Brazil		
	Lamb	New Zealand, Australia		
	Poultry	Hungary, France, Brazil		
	Fish and Seafood	Norway, Denmark, Russia, Asia		
	Groceries	Europe, Russia		

Source: Industry data

Metro Cash & Carry is one of Russia's leading membership wholesale outlet chains. It has worked in Russia under the principles of small wholesaling since 2001. The company currently has 73 stores in 50 Russian cities and towns, including ten in Moscow and three in St. Petersburg. Foodservice operators across Russia have bought food, beverages, and other restaurant equipment from Metro Cash & Carry outlets. A reported Russian Metro Cash & Carry sale increased by 20 percent in 2012 and accounted

Euro 4.12 billion.

Major suppliers of food products for the HRI sector have their offices in Moscow and St. Petersburg, Russia's primary restaurant markets. These offices handle foodservice-product imports and supply other Russian regions. Despite the tremendous distance between European Russia and the Russian Far East (RFE), 87 percent of the RFE's foodservice supply comes from Moscow and St. Petersburg. Several food products can reach Russia's Pacific Coast through the St. Petersburg port and still be price competitive. High volumes enable large foodservice importers to gain better prices from global exporters.

The RFE and Siberia are highly dependent on imported foodservice products. RFE and Siberian suppliers bring products to their regions from all over the world, using consolidated containers that have been imported and cleared in St. Petersburg or Moscow. The majority of foodservice products are still shipped through Moscow, but meat, fish, seafood, cheesecake, and frozen bakery products are directly shipped from the United States to Vladivostok.

SECTION III. COMPETITION

Russia imported approximately $38 billion of agricultural products in 2012, up from $27.6 billion in 2009 and roughly on par with pre-crisis imports. According to Global Trade Atlas/Federal Customs Service, in January-October of 2013, Russia imported $31.1 billion of agricultural products (up 2.2 percent compare to Jan-Oct of 2012). Year-on-year Russian agricultural imports can be seen in the following table:

Table 16. Russia: Growth in Agricultural Imports

	2008	2009	2010	2011	2012
Agricultural Imports, billion dollars[1]	33.3	27.6	32.9	38.9	38.1
Growth Year-on-Year, %		-17.2	19.2	18.2	-2.25
5-Year Average Annual Growth Rate, %					3.59

[1] Total agricultural imports (includes HS codes 01 to 24).
Source: Global Trade Atlas/Federal Customs Service

Table 17. Russia: Imports of Selected Foods from the World, in million USD

Product	2010	2011	2012	% Change 2012/2011
Fresh & Chilled Beef	98.13	199.98	218.55	9.28
Frozen Beef	2,072.24	2,217.05	2,583.31	16.52
Pork	1,923.03	2,108.70	2,406.65	14.13
Poultry	862.81	572.07	706.81	23.55
Lamb	42.12	45.73	51.31	12.20
Fish and Seafood	2,150.44	2,564.31	2,554.27	-0.39
Dairy Products	1,993.76	2,117.93	2,037.16	-3.81
Fresh vegetables	2,210.22	3,062.84	2,433.57	-20.55
Edible fruit and nuts	5,267.63	6,093.42	6,197.18	1.70
Spirits	933.70	1,142.10	1,399.60	22.55
Wine	797.72	953.52	1,052.06	10.33

Source: Federal Customs Service

Russia is among the top export destinations for U.S. agricultural products. Based on official Russian statistics, the U.S. share of total agricultural imports exceeded $2 billion in 2012 (5.39 percent of total market share). According to the Russian Federal Customs Service, in January-October of 2013 U.S. share of Russia's agricultural imports was $1.2 billion (down 22.7 percent compare to Jan-Oct of 2012) because of the ban on U.S. meat since February 2012. Poultry have dominated U.S. agricultural exports to Russia followed by tree nuts, fish and seafood, spirits and wine. U.S. poultry exports to Russia in 2012 accounted for roughly $310 million, up 10.2 percent compared to 2011. U.S. poultry exports to Russia in the first 10 months of 2013 were valued at $268.2 million.

As noted earlier, imported products account for a large percentage of ingredients used in the Russia's HRI sector. Russia's largest suppliers (by sales) of all commodities to foodservice are Brazil, the United States, China, Turkey, the European Union, and CIS countries. No single country dominates the market but the largest share of products comes from Europe. Europe's historical presences in Russia and aggressive and well-funded promotional campaigns have allowed European brands to dominate even the RFE market. Since European companies can ship their products over land, they do not face the same port problems that U.S. imports confront. Consequently, they can provide perishables much more quickly. Major meat competitors include Brazil (poultry) and Australia (beef). Scandinavia, Asian countries, and occasionally South American countries are major seafood competitors. Turkey and China are main suppliers of fruits and vegetables to the European and Eastern parts of Russia accordingly.

Italy, France, and Spain are the major wine suppliers to Russia. Californian wines appeared in Russia eight years ago and sales are expanding but remain less than 2% of the total. The United Kingdom, France, and the United States supply popular spirits such as Bourbon, Tennessee and Scotch whiskey, cognac, and brandy.

Table 18. Russia: Import Competition for Selected Products, 2013

Product	Country of Origin
Beef	Brazil, Paraguay, Uruguay, Australia
Veal	Lithuania, Brazil, Germany, Denmark, USA
Pork	Brazil, Denmark Germany, Canada
Poultry	USA, Brazil, Ukraine, France
Lamb	Australia, New Zealand
Fish and Seafood	Norway, China, Iceland, Canada
Dairy Products	Ukraine, Germany, Finland
Cheese	Germany, Ukraine, Lithuania, Netherlands
Vegetables	Turkey, China Netherlands, Poland
Fruits & Nuts	Ecuador, Turkey, Spain, Poland
Bread and Bakery	Europe
Ice-cream	Germany
Confectionary	Europe
Wine	Italy, France, Spain
Beer	Ukraine, Czech Republic, Germany
Spirits	United Kingdom France, Armenia, USA

Source: Federal Customs Service

While the HRI sector uses mostly imported products, some ingredients are purchased domestically. These include root vegetables, such as carrots and beets, and other basic vegetables like cabbage and potato.

SECTION IV. BEST PRODUCT PROSPECTS

Interest in new product categories is growing. Many European specialty products are becoming more and more expensive and American products are consequently more price competitive and attractive to Russian importers. Importers are trying to find U.S. products analogous to European products. Table 19 shows Russian imports of selected U.S. food products.

Table 19. Russia: Russian Imports of Selected Food from the U.S., in Million USD

Product	Calendar Years (Jan-Dec)			January-October		
	2010	2011	2012	2012	2013	% change
Poultry	310.6	248.8	309.7	268.2	265.4	-1.0
Beef	147.3	249.5	398.6	276.2	0.9	-99.7
Pork	204.3	217.0	267.8	236.1	17.6	-92.6
Tree Nuts	61.8	90.5	124.0	93.8	142.2	51.5
Fish and Seafood	62.1	60.4	47.4	37.7	69.8	85.0
Fresh Fruit	44.3	28.1	21.8	12.3	20.7	68.2

Source: U.S. Census Bureau Trade Data

The United States is one of the world's leaders in developing the hospitality industry. U.S. producers can offer a wide range of products developed, manufactured, and packaged for the HRI sector. Several product categories are particularly attractive for export to Russia. Fresh and frozen seafood, frozen and chilled high-quality beef, pork, cheese, fruit and tree nuts are in demand. Sauces, seasonings, and semi-prepared items have potential, but they require market education. Several industry experts discussed the need for low-fat goods, reduced-calorie dairy items, and bakery-preparation products. Wines and spirits also have high potential, but there is a lack of awareness about American wines.

Table 20. Russia: Imports of Alcohol Beverages from the United States, in Million USD

Product	Calendar Years (Jan-Dec)			January-October		
	2010	2011	2012	2012	2013	% change
Spirits	24.58	53.99	69.16	46.56	63.78	36.97
Puerto Rican (U.S.) Rum	23.24	35.23	34.93	25.55	27.27	6.72
Wine	7.38	9.69	12.34	9.57	12.06	26.05
Beer	0	0	0	0	0	0

Source: Federal Customs Service

Many distributors and importers work throughout Russia. For details on specific product segments, please contact the Agricultural Trade Office for a Buyers List.

SECTION V. POST CONTACT AND FURTHER INFORMATION

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USDA Stakeholders

The Agricultural Trade office works with a large number of U.S. industry organizations, several of which are resident in Russia. These cooperators share the view that Russia is a promising market for food products.

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http://www.discovercaliforniawines.com/

The American Chamber of Commerce is another good source for information on doing business in Russia. The Chamber has offices in Moscow and St. Petersburg.

American Chamber of Commerce in Russia
Address: 127006, Moscow, Russia, Dolgorukovskaya street, Building 7, 14th floor
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American Chamber of Commerce in St. Petersburg
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http://amcham.ru/spb/

The U.S Commercial Service has offices in Moscow and St. Petersburg For questions regarding agricultural machinery, food processing, HRI equipment, and packaging equipment or materials, refrigeration equipment, and other industrial products, please contact:

U.S. Commercial Service
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Fax: 7 (495) 728-5585
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E-mail: moscow.office.box@mail.doc.gov
http://www.buyusa.gov/russia/en/

The U.S. Commercial Service office at the U.S. Embassy in Moscow assists American exporters by identifying potential partners through the Gold Key Matching Service. The program features:

- appointments (typically four per day) with prescreened Russian firms;
- background and contact information on each potential partner, such as: the size of the company;

number of years in business;
- product or service lines; and capability to provide after-sales service;
- customized market briefing with U.S. Commercial Service staff; and,
- available market research on the relevant industry sector.

The World Bank also maintain mission in Russia.

Other Relevant Reports

Attaché reports on the Russian food and agricultural market are available on the FAS website. The search engine can be found at:

http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx

RS1215 Market Opportunities for Key U.S. Products in Russia

RSATO1211 Customs Union Technical Regulations on Food Products Labeling

RSATO1205 Russian Duma Revises Wine Definitions and Other Alcohol Rules

RSATO1304 Exporter Guide / Annual

RSATO1312 Russian Retail Market

RSATO1313 2014 Winter Olympics Create New Opportunities for U.S. Ag Exporters

RSATO1318 Dairy and Products Annual Report

RSATO1319 Fresh Deciduous Fruit Annual Report

RS1357 Livestock and Products Annual Report

RS1310 Poultry and Products Semi-Annual Report

RS1337 Fish and Seafood Production and Trade Update Report