

«FoodService» is an analytical business-to-business publication about the restaurant and catering industry meant for owners and managers of restaurants, bars, canteens and coffee bars. Among our topics are market trends and successful projects, quantitative and qualitative research as well as interviews with famous foodservice entrepreneurs and key opinion leaders in the hospitality industry. We cover new restaurant brands and chains in Russia, Europe, the US and Asia.

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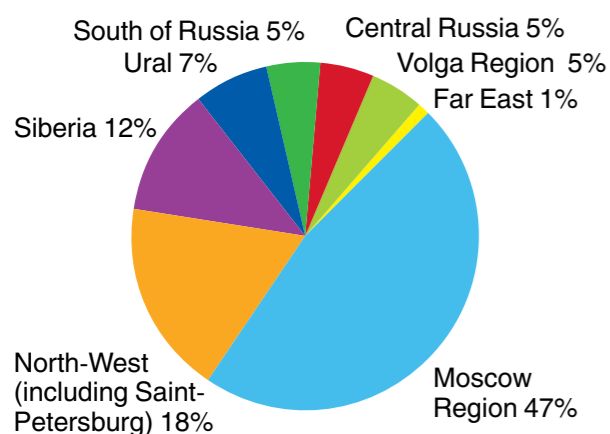
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Another area of FoodService's activities is the online publication www.cafe-future.ru. Updated every day, the website offers fresh and exclusive articles on the food-service industry.

Mission: to help CEO's, managing directors, chefs and purchasing managers in managing their restaurants and creating new concepts.

Specialization: casual dining chains, QSR, coffee bars, canteens, bars, fine dining restaurants, catering companies, equipment and food suppliers.

Audience: restaurant owners, CEO's, managing directors, procurement managers, chefs, managers of supplier companies.

Structure: The magazine is divided into five sections (see pages 3 and 4) meant for different kinds of target audiences.

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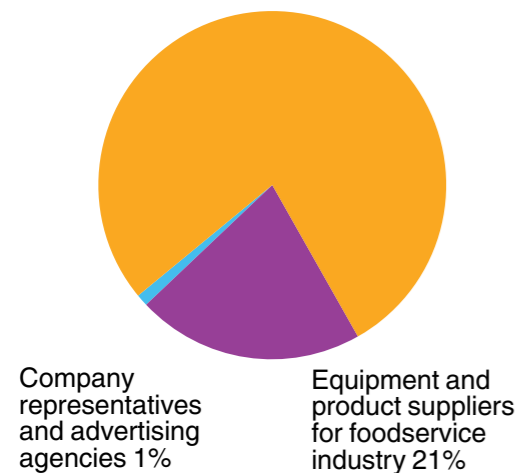
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Structure of the audience

Restaurants, coffee bars and other foodservice operators 78%



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Content Structure

FoodService is divided into five sections targeted at certain types of audience. For readers' convenience, each section is marked with its own color: purple for news, blue for market analytics and business strategy, green for restaurant operations, orange for suppliers and product market, red for menu items and gastronomic trends.



In the news (purple) section one can find information on the latest hospitality industry events, new restaurants and chains, CEO and chef appointments and new books on cooking and gastronomy.



The analytical (blue) section contains research, market segment reviews, surveys and interviews with known restaurant entrepreneurs. The surveys are conducted in partnership with NPD Group, Synovate, Watcom Group, MCG, GDI (Switzerland) and Boston University (USA).

RESEARCH: Quantitative and qualitative research of the foodservice market meant to answer the following questions:
How is the consumer changing?
What does one expect from a restaurant today? What kind of food do people prefer?
What is the dynamics of the industry?
Who are its leaders?

Article title: Market U-turning, Issue No. 3/2017
By Maria Vanifatova

According to The NPD Group, price, including discounts and promos, had been an important determinant for 23 % of the Russians over 2016 driving their choice of a restaurant. The price-oriented customer numbers has so grown by 2%. At the same time, foodservice companies and brands responded to the weakened demand by offering more promos. Apparently, fast food segment is a top performer with such offerings. Overall, more than 28% of the total number of the out of home market orders in major cities were due to discounts, promos or special offers, in contrast to Europe, where promo-driven orders accounted for 14% of the out of home consumption market.

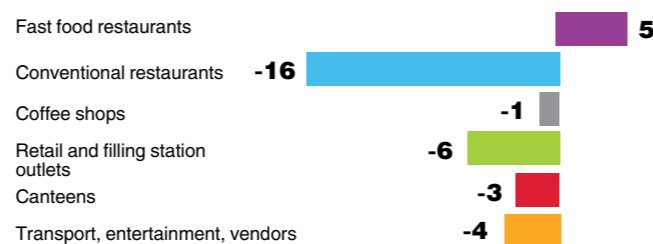


HIGHLIGHTS: we are aiming to analyze business opportunities of different foodservice market segments and niches

Article title: Zippy Segment, Issue No. 6/2016
By Natalia Kosareva

Over the past 5 years, coffee shop segment has been booming like anything. It has not even been outshined by the pervasive fast foods. A cup of coffee in the hand has become daily paraphernalia for city people. Today, small takeaway coffee shops and outlets stand to gain, as people who used to frequent traditional coffee shops. A reason why they opt to do so is a lower average bill that ranges RUB120-250.

Foodservice consumption y-o-y dynamics by channel after 9 months in 2016 (%)



Source: The NPD Group, 2017



OPINION: stories written by entrepreneurs sharing their practical experience

Article title: Making Money in the Outback, Issue No. 9/2016
By Konstantin Kuleshov

'Why did we decide to choose a place far away from the big cities? The reason is that when we travelled across the US and Europe, we happened to eat at places that were located on the very outskirts of cities, towns and routes. And those were places with real ambience and fair. And they could boast both outgoing and good-hearted staff and delicious food. So we decided to create a place like this in a quiet nook of Medoveevka in the mountains eastward from Sochi. My business partner Dmitry Sergeev owned land in this mountain village, and we built our pub there. We were not positive then that we were going to have a crowd of people coming here. We took the plunge and it worked'.



RULES OF THE GAME: items covering introduction of interesting restaurant know-how and technologies

Article title: A Movable Feast, Issue No. 7/2016
By Natalya Kosareva

Foodservice is the second greatest spending item for hotels following the payroll. With the economic downturn and sanctions, F&B operating costs have spiraled for hotels just as they have done for the rest of the foodservice market. Thus, making the F&B operations effective has got to burner, including putting into place fast rotation of food products and full utilization of the assets.

Articles in the procurement (orange) section are meant for managing directors and purchasing managers.

MARKET: food market reviews and items on different kinds of restaurant and bar equipment

Article title: The Machines Behind Demand, Issue No. 9/2017

By Alexandra Skorokhodova

Today fast food sector is the one setting trends for the restaurant market. A driver boosting the demand for the thermal processing equipment is that foodservice professionals have become more speed-oriented and that they so use partially cooked foods and ingredients. The ones most sought after by restaurant businesses are combi steamers and convection ovens that are really versatile and take up the least possible space.

In the operational (green) section we present stories on marketing technologies, some smart business practices and cases, successful and failed projects in the HoReCa field.



In the gastronomic (red) section targeted at chefs and managing directors we analyze the most effective menu blocks and latest cooking trends.

Article title: Chicken Versus Fowl, Issue No. 2/2016
By Natalya Kosareva

Amid sanctions, soaring prices and pertaining high level of competition, Moscow restaurateurs have to invent new winning concepts offering unhackneyed food and original menus at affordable prices. And the core ingredient here is poultry including moderately priced chicken meat that is becoming the key ingredient not for the fast food only but also for the gourmet cuisine.

GOING FRUGAL

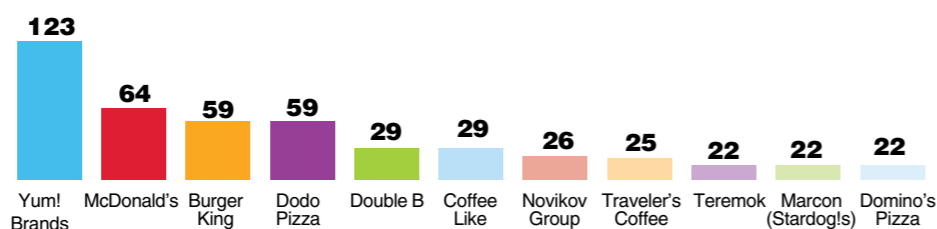
According to official statistics, the Russian away-from-home-consumption market had shrunk by 5.5% to RUB 1,300bn after 2015. The trend continued in the current year, with the further downslide by 3.7% registered after the first nine months of 2016. As the demand weakens and the average bill becomes more moderate, restaurant operators seek to divest from unprofitable assets. After fifteen years following the Russian crisis of 1998 that had seen the restaurant chains expanding aggressively, we are to brace up for years of consolidation and searching for new business model to fit the harsher economy.



From mid-2015 to mid-2016, 40 major Russian restaurant groups had had as little as 2.9% new foodservice outlets and projects (2015: 5%; 2014: 14.3%; and 2013: 15.1%). As of July 2016, the top 40 foodservice brands ran the total of 7,281 corporate and franchise outlets. Each of the top brands runs more than 45 business companies, and 23 foodservice operators have more than 100 outlets.

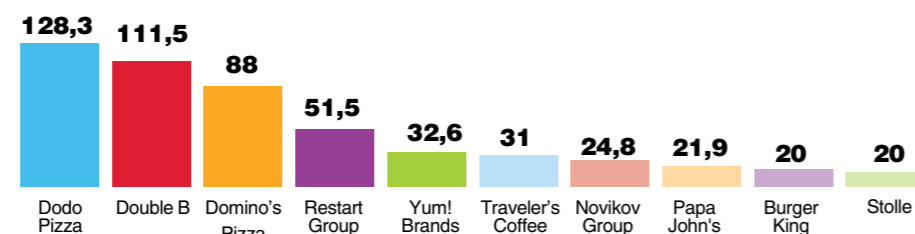
More than 40% of projects and outlets run by the TOP40 are concentrated in Moscow that remains the No. 1 Russia's city in terms of the restaurant chains' presence. It is illustrative that over the period in question 17 out of the TOP40 brands had reduced their presence in the market. Those include the old-timers like Kroshka Kartoshka (-11.3%), Rosinter Restaurants (-9.2%), Shokoladnitsa (-11.6%), Subway (-0.3%), Eurasia (-4.6%), Chaynaya Lozhka (-8.7%), Kruzhka (-17.9%), and Food Retail Group (-16.4%). G.M.R. Planet of Hospitality's assets were slashed by almost 50% after its franchise contract with the US Sbarro

2015-2016 growth leaders (absolute growth, number of outlets*)



* Number of new outlets opened over the year from July 2015 to July 2016 (TOP 40)
Source: FoodService magazine, July 2016

2015-2016 growth leaders (relative growth, %*)



* Number of new outlets opened over the year from July 2015 to July 2016 (TOP 40)
Source: FoodService magazine, July 2016

was cancelled after the company's having operated as Sbarro franchisee in Russia and the Eastern Europe for almost 20 years. The company CEO Merab Elashvili shared that the loss of contract was due to the sanctions and downbeat demand triggered by weaker ruble, which was worsened by higher rates and cash shortages. All this had resulted in the Planet of Hospitality's revenue dropped from RUB7 to RUB5.5bn. By the time the contract was revoked, the company had 88 Sbarro outlets under management with 34 of them run by sub-franchisees that now have to work directly with Sbarro.

Apart from a few mishaps, the fast food segment is generally upbeat, with the 3 international supermajors marching victoriously throughout the immense Russia. The industry's current top dog has been Yum! Brands (123 new KFC and Pizza Hut outlets y-o-y from mid-2015), followed by McDonald's (64 new restaurants) and Burger King (59 new outlets).

The past year's top favorites were coffee and pizza. So it is no wonder that four brands joined the top of the restaurant groups that ended the year as growth leaders. Those 4 included 2 pizza delivery chains (Dodo Pizza and Domino's) and 2 coffee shop chains (Coffee Like and Double B). The 2 new coffee shop segment top performers distinctly represent the two leading market trends. The one is that the takeaway coffee offers are sweepingly popular, and that triggers a wide variety of mini formats to be launched with the most liked beverage takeaways available anywhere: from street retail outlets or entrance areas at business centers to parks and pedestrian underpasses. In contrast with conventional coffee shops, mini formats require much less investments and offer a simple and restricted choice. If the location is good, the investors get their money back soon. The Coffee Like coffee takeaway chain's dizzying growth with its presence in 79 Russia's cities and towns (the chain was launched just 4 years ago by Ayes Shabutdinov, a young entrepreneur from Izhevsk in Udmurtia) proves that not only consumers are greatly interested in concepts like this. Young aspiring startups are eager to be the chain's franchisees at a low cost. The second trend illustrated by the success of the craft coffee chain Double B created by Anna Tsfasman is that coffee shop

Russian market leaders for 2016*

R	(15)	Total outlets in Russia	Russia	Growth vs 2015	Moscow and Moscow Region	Brand
1	(1)	Marcon	850	2,8	400	Stardogls
2	(2)	Subway	636	-2,3	145	Subway
3	(4)	McDonald's	572	12,6	234	McDonald's, McCafé
4	(3)	Shokoladnitsa	527	-11,6	360	Shokoladnitsa, Coffee House, etc.
5	(5)	Yum! Brands	500	32,6	220	KFC, Pizza Hut
6	(7)	Burger King	354	20	185	Burger King
7	(11)	Teremok	289	7,5	148	Teremok
8	(7)	Rosinter Restaurants	268	-9,2	173	Il Patio, Planeta Sushi, etc.
9	(9)	Kroshka-Kartoshka	252	-11,3	195	Kroshka-Kartoshka
10	(-)	Coffee Like	215	15,6	15	Coffee Like
11	(13)	Vkusnolubov	164	5,8	0	Vkusnolubov
12	(15)	Podorozhnik	158	9,7	0	Podorozhnik
13	(10)	Planet of Hospitality	153	-45,4	69	Sbarro, Vostochniy Bazar, Elki-Palki, etc.
14	(14)	Megagroup	137	-6,2	15	Cinnabon, Auntie Anne's, Hesburger
15	(22)	Novikov Group	131	24,8	130	Novikov, Prime Star, etc.
16	(21)	Amrest	120	13,2	21	KFC, Pizza Hut
17	(16)	Vesta Center International	114	-4,2	90	Yakitoria, GinnoTaki, Menza, etc.
18	(17)	Univerfood	112	-4,3	0	Juice Master, Blinoff, etc.
19	(23)	Alshaya Group	109	6,9	81	Starbucks, Shake Shack
20	(18)	Ginza Project	108	-3,6	61	MariVanna, DzhonDzholi, etc.
21	(28)	Traveler's Coffee	106	31	3	Traveler's Coffee
22	(-)	Dodo Pizza	105	128,3	2	Dodo Pizza
23	(20)	Eurasia	104	-4,6	0	Eurasia
24	(25)	Alendvic	92	7	0	Pelmeshki da Vareniki, etc.
25	(19)	Grand Food	91	-17,3	21	Tashir Pizza, Kebab Toon, etc.
26-27	(24)	Coffeeshop Company	90	0	23	Coffeeshop Company
26-27	(29)	Stolle	90	20	19	Stolle
28	(33)	Papa John's	78	21,9	47	Papa John's
29	(30)	Tanuki-Ersh	76	8,6	66	Tanuki, Ersh, KitaiChi
30	(27)	Harat's	75	-8,5	1	Harat's, Kioto, etc.
31	(34)	Sibirskie Bliny	66	11,9	0	Sibirskie Bliny
32-33	(31)	Chainaya Lozhka	63	-8,7	0	Chainaya Lozhka
32-33	(25)	Killfish Discount Bar	63	-26,7	10	Killfish Discount Bar
34	(35)	Ris	58	0	0	Ris
35	(38)	Foodmaster	57	5,6	0	Vilka-Lozhka, Pechki-Lavochki, etc.
36	(-)	Double B	56	111,5	45	Double B
37	(32)	Malakhite	53	-20,9	7	Paul Bakery, Doner Kebab, etc.
38	(-)	Restart Group	50	51,5	47	Chaihona # 1, ObedBufet, Plovberry, etc.
39	(-)	Domino's Pizza	47	88	47	Domino's Pizza
40	(37)	Food Retail Group	46	-16,4	9	Dve Palochki, Marchelli's, etc.
40	(36)	Kruzhka	46	-17,9	39	Kruzhka
Total			7281	2,90	2928	

* Corporate and franchisee outlets Source: FoodService magazine, July 2016

guests want to have craft coffee drinks that are vigorously offered by the gourmet ('wave 3') coffee shops. The gour-

met coffee chain had opened 50 outlets across Russia. So the figures speak for themselves.

Fuel Station Foodservice: An Upcoming Quick Service Niche



- While Russian consumers' purchasing power has weakened, fuel station foodservice is among the few out of home market segment sporting confident growth, which is not only due to stronger demand for low-price quick-served food, but also because the domestic travel is booming. When driving around Russia, big city people who usually go to coffee shops and restaurants as part of their lifestyle want to safely and enjoyably grab a snack or dine casually on the highway.

- An attractive and savvy F&B offering is not only a complementary way for fuel stations to make their money, but also a fuel sales booster,

as drivers tend to choose the stations giving them eating options.

- FoodService Special Project highlights successful ways of how fuel station operators in Russia and Europe serve food to travelers and find out of home market solutions. The project strives to help the fuel facility operators who contemplate offering away from home food services to choose the foodservice option that is best for them. It also seeks to showcase to restaurant keepers the potential of the fuel station places. We also want to illustrate the new opportunities that food producers and suppliers have in this segment.



Article title: Food for Travelers, Issue No. 5/2006
By Alexandra Skorokhodova

People driving to fuel stations now tend to order food and beverages to eat as they drive or when they stop along their route when they travel far. The top favorites ordered at fuel stations are baked products, pastry, sandwiches and coffee. The statistics say that 61% of visitors order coffee.

THE TERRITORY OF COFFEE

Coffee and coffee drinks are an absolute winner among all foods and beverages served at fuel station eating outlets. According to the NPD Group, 61% of fuel facility transactions include such item as a coffee or a coffee drink. Illustratively, every eighth or ninth visitor at a city Shell facility orders coffee. Coffee accounts for 90% of the beverage sales across the Neftmagistral fuel station chain. At Neftmagistral outlets, 8 types of coffee drinks are offered, with 3 of them (caffè americano, cappuccino and latte) are available in 0.3 and 0.4l portions. Capuccino and latte that are the two best-selling coffee types together generate 70% of all coffee sales.

Fuel station outlet visitors are served coffee in two ways. The first one is that they can use self-service coffee stations. This is the case with the Eka, with 8 of its 89 stations having inbuilt Subway restaurants and 52 of them hosting coffee units. The second one, and some other fuel station chains, specifically the Trassa, do so, is to sell coffee over the counter. The Trassa restaurants have espresso machines leased to them gratuitously by whole-bean coffee suppliers.

Operators who opt to use professional equipment, and coffee beans and other initial products from various suppliers prefer to buy their coffee beans from Russian roasters. For example, the Drive Cafe uses an original 80% Arabica blend.

PASTRY AND DESSERTS

A LED-lit pastry display that is part of the fuel station's shopping and customer service area attracts crowds of people, and the aroma of freshly baked bread make people feel happy and comfortable, so they want to buy things.

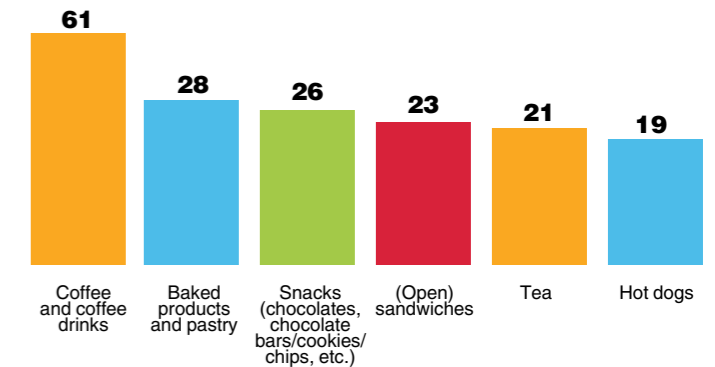
All pastry items sold at the fuel station outlets is baked from frozen semi-finished products. By using deep-frozen semi-prepared pastry products, the operators cut costs and make money, since they can quite easily, quickly and losslessly (and losses do occur in industrial baking, when pastry shrinks, or dough gets overproofed) and offer guests a choice as rich as they can find in a bakery, or in a pastry or coffee shop, but at an affordable price. Furthermore, this kind of process makes it possible to always be ready to offer their usual range of products and be sure that their baked and pastry products' are quality products.

Desserts (shortcakes, cupcakes, tarts, cookies or muffins) are not as popular with the guests as pastry is. And they are mainly ordered as food to have with tea or coffee.

SANDWICHES

A good old sandwich is the best convenient takeaway choice for people to eat on the go or when they drive. The winning takeaway option is plastic-packed triangle sandwiches with

Top choice items at fuel station outlets, % of transactions



Source: The NPD Group, 2016.

various fillings, foods and sauces. Today, fuel stations also offer restaurant menu staples like burgers and wheat French bread sandwiches.

To optimize costs, operators prefer to offer ready-to-eat food. A compelling example is the Drive Cafe with its 40-item menu, with 7 out of the 40 items being sandwiches with an assortment of foods, including ham, turkey, and chicken and egg. They even serve a vegetarian variety with mozzarella and cherry tomatoes.

Frozen sandwiches arrive to outlets where they are defrosted and sold with 2 or less days.

HOT DOGS

Fuel station operators tend to sell products of well-known brands like Stardog's and Sybilla. Some fuel station chains host foodservice franchisee branded counters or display their brands on menu boards and advertising towers. Also, fuel station chains can buy all ingredients (sausage, sauces and buns or breads) from a fast food company in a centralized way, and the fast food company leases its toasters and grill ovens gratuitously to the fuel station operator. The AZS Plus fuel station chain decided on the second option. At the AZS-Plus outlets, guests can buy the Stardog's hot dogs of 16 to 20 varieties using 8 sausage types depending on the location. The absolute winner here is a wrapped bacon sausage Danish hot dog.

READY-TO-EAT OPTIONS

Ready-to-eat dish menu with items like salads, chicken appetizers and French fries are mainly offered at the fuel stations that have a dedicated casual dining areas or restaurants. Usually, ready-to-eat dishes are an alternative to most popular sandwich varieties and pastry items. Fuel station operators are so far leery of acting aggressively in this direction. Equipping an outlet for making ready-to-eat foods like appetizers will require extensive investments, and the investors are unlikely to get their money back due to a relatively weak demand.