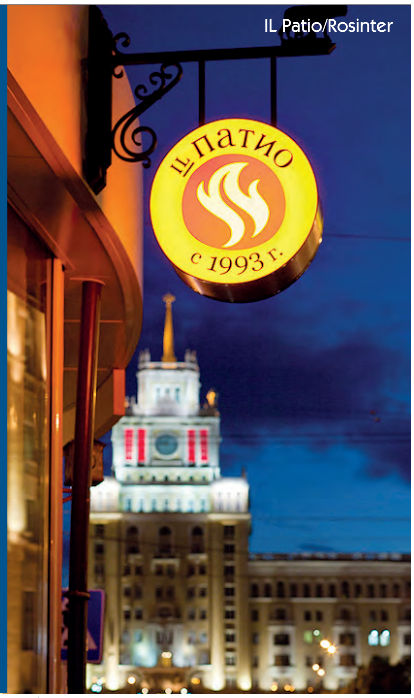
Pesto Café/Ginza Project



IL Patio/Rosinter

Russia: The March of QSR

After a few years of slow-down, the Russian market is now demonstrating promising growth. Within the last 12 months, the top 25 foodservice operators have shown growth per unit of 20%, a result comparable to the most successful years in the mid-2000s. The major growth comes from QSR. The number of operations belonging to the top 15 brands went up by 8% in Moscow and by 28% in St. Petersburg; moreover, the latter beats the capital when it comes to the number of central locations still available for rent.

Top 5 Growth* Stars

R	(R)**	Group	absolute
1	(2)	Subway	179
2	(7)	Planet of Hospitality	100
3	(1)	Marcon	86
4	(4)	Shokoladnica	73
5	(16)	Nevedomsky	51

R	(R)**	Group	relative
1	(20)	Cinnabon	94.4%
2	(16)	Nevedomsky	81.0%
3	(2)	Subway	78.2%
4	(7)	Planet of Hospitality	55.2%
5	(22)	Malachite	39.1%

*Number of unit dynamics July 2012 vs. July 2011 within Top-25, **R in Top-25

Source: Food Service Russia/www.cafe-future.ru

According to official figures, foodservice turnover in Russia amounted to RUB903 bn (=€22.03 bn) in 2011, showing a 15.6% growth in nominal prices as against 2010. Real prices, however, give us only 6.2% growth.

QSR has turned into the main newsmaker and powerhouse of the industry, overtaking the casual-dining sector that used to be very strong before the recession of 2008-2009. The international brands, among them Subway, Burger King, Cinnabon, Baskin-Robbins and Starbucks continue to expand throughout the country.

The two bargains of the year come from the two main competitors in the QSR sector. After 22 years of successful corporate growth in Russia (323 units), McDonald's has signed its first franchising agreement. The fortunate beneficiary is Rosinter Restaurants, the country's leading casual-dining operator (more than 400 restaurants in Russia, CIS and Eastern Europe). They are now licensed to develop the brand at the major transport hubs. In recent years, Rosinter have established themselves as travel-location specialists, operating a number of concepts (including tailor-made ones like Mama Russia) at Russian airports. They are also preparing extensive developments at the railway stations. If this first experience of franchising proves positive, McDonald's might consider taking on partners for other kinds of location, too, e.g. petrol stations or the Siberian regions. Still, corporate development remains the top priority for further McDonald's expansion.

St. Petersburg: Top 15 Foodservice Brands Mid 2012

– Number of Units (Company owned & franchising)[1] –

R	('11)	Brand	Concept	St. Petersburg	Vs. '11	Moscow	Russia	Group	Origin	R-Start
1	(1)	Eurasia	Sushi	125	5.9%	2	143	Eurasia	St. Petersburg	2001
2	(2)	Teremok	Crepes	103	12.0%	99	202	Teremok	Moscow	1998
3	(3)	Coffee House	Coffee	57	0.0%	121	219	Coffee House	Moscow	1999
4	(4)	Chainaya Lozhka	Crepes	54	8.0%	0	66	Chainaya Lozhka	St. Petersburg	2001
5	(–)	Emelya Blini	Crepes	51	–	0	51	Emelya	St. Petersburg	2011
6	(5)	McDonald's	Burger	49	16.7%	95	323	McDonald's	USA	1990
7	(–)	Subway	Sandwich	41	215.0%	152	408	Subway	USA	1994
8	(7)	KFC	Chicken	33	22.2%	86	182	Yum! Brands	USA	1993
9	(12)	Coffeeshop Comp.	Coffee	30	42.9%	10	52	CsC/Coffee Set	Austria	2008
10	(8)	Wasabi	Sushi	29	11.5%	1	34	Wasabi	St. Petersburg	2003
10	(10)	Kroshka-Kartoshka	Potato	29	20.8%	224	292	Kroshka-Kartoshka	Moscow	1998
12	(6)	Shokoladnica	Coffee	27	-10.0%	199	325	Shokoladnica	Moscow	2001
13	(11)	Dve Palochki	Sushi	24	9.0%	13	37	Dve Palochki	St. Petersburg	2003
14	(–)	Killfish Discount Bar	Bar	22	175.0%	0	23	Killfish Discount Bar	St. Petersburg	2009
15	(–)	Carl's Jr.	Burger	20	81.8%	0	25	Carl's Jr.	USA	2006
		Total		**694**	**28.3%**	**1,002**	**2,382**			

1) State: July 2012

Source: Food Service Russia/www.cafe-future.ru

The history of Burger King in Russia is much shorter, but the growth rate is impressive: 55 restaurants within two and a half years (mid 2011: 29 units). The franchise for Burger King was obtained at the beginning of 2010 by a local entrepreneur, Alexander Kolobov, co-owner of Russia's largest coffee-bar chain Shokoladnica. The franchising structure was changed this spring, when VTB Capital, the investment wing of Russia's second largest lender, VTB, paid around $50 m for a 47% stake in a joint venture with the US Burger King Corporation. The joint enterprise becomes Burger King's master franchising mechanism for the Russian market for the next 20 years. Whilst Kolobov's company has only a minority interest in the new group, the acquisition of such a powerful partner has enabled Burger King's rapid growth and

Russia: Top 25 Restaurant Operators Mid 2012

– Number of Units (Company owned & franchising)[1] –

R	Group	Russia	Vs. '11	Moscow	Brands	Categories	Origin	R-Start	www.
1	Marcon	**561**	**18.1%**	386	Stardog!s, Bageteria	Street + QSR	Russia	1993	stardogs.ru
2	Subway	**408**	**78.2%**	152	Subway	QSR	USA	1994	subway.ru
3	Rosinter Restaurants	**401**	**7.5%**	194	IL Patio, Planet Sushi, etc.	Casual	Russia	1993	rosinter.ru
4	Shokoladnica	**349**	**26.4%**	215	Shokoladnica, Vabi Sabi, etc.	QSR + Casual	Russia	2001	shoko.ru
5	McDonald's	**323**	**16.2%**	95	McDonald's, McCafé	QSR	USA	1990	mcdonalds.ru
6	Kroshka-Kartoshka	**292**	**4.3%**	224	Kroshka-Kartoshka	Street + QSR	Russia	1998	kartoshka.com
7	Planet of Hospitality	**281**	**55.2%**	142	Sbarro, Vostochniy Bazar, Elki-Palki, etc.	QSR + Casual	R/USA	1998	sbarro.ru
8	BRPI	**258**	**19.4%**	53	Baskin-Robbins	QSR	USA	1992	baskinrobbins.ru
9	Coffee House	**233**	**4.0%**	135	Coffee House, Asia Café, Vinegret Cafe	QSR + Casual	Russia	1999	coffehouse.ru
10	Teremok	**202**	**5.8%**	99	Teremok	Street + QSR	Russia	1998	teremok.ru
11	Yum! Brands	**182**	**11.0%**	86	KFC	QSR	USA	1993	kfc.ru
12	Eurasia	**143**	**16.3%**	2	Eurasia	Casual	Russia	2001	evrasia.spb.ru
12	Grand Food	**143**	**5.9%**	7	Tashir Pizza, Kebab Toon, etc.	QSR + Casual	Russia	2001	tashir.ru
14	Podorozhnik	**140**	**2.2%**	0	Podorozhnik	QSR	Russia	1995	podorognik.ru
15	Univerfood	**126**	**18.9%**	3	Juice Master, Shnelki, etc.	QSR + Casual	Russia	2003	univerfood.ru
16	Emelya/Dmitry Nevedomsky	**114**	**81.0%**	0	Emelya, Emelya Blini, La Cucaracha, etc.	QSR	Russia	2009	emelya-café.ru
17	Vesta Center International	**100**	**11.1%**	80	Yakitoria, Ginno Taki, Menza, etc.	Casual	Russia	1995	vci.ru
18	Ginza Project	**84**	**-10.6%**	50	MariVanna, Ginza, Oki Doki, Pesto café, etc.	Fine + Casual	Russia	2000	ginzaproject.com
19	GK Arkadiy Novikov	**76**	**11.8%**	74	Vogue Café, GQ Bar, etc.	Fine + Casual	Russia	1992	novikovgroup.ru
20	Cinnabon	**70**	**94.4%**	9	Cinnabon	QSR	USA	2009	cinnabonrussia.com
21	Chainaya Lozhka	**66**	**3.1%**	0	Chainaya Lozhka	QSR	Russia	2001	teaspoon.ru
22	Malachite	**64**	**39.1%**	31	Paul Bakery, Sunday, Doner Kebab, etc.	QSR	Russia	1994	malachite.ru
23	Alshaya Group	**61**	**22.0%**	61	Starbucks, Pinkberry	QSR	USA	2007	starbuckscoffee.ru
24	Tanuki-Ersh	**60**	**25.0%**	48	Tanuki, Ersh	Casual	Russia	2001	tanuki.ru
24	Amrest	**60**	**15.4%**	15	KFC, Pizza Hut	QSR	Poland	2007	amrest.pl
	Total	**4,797**	**20.0%**	**2,161**					

1) State: July 2012

Source: Food Service Russia/www.cafe-future.ru

Moscow: Top 15 Foodservice Brands Mid 2012

– Number of Units (Company owned & franchising)[1] –

R	('11)	Brand	Concept	Moscow	Vs. '11	St. Petersburg	Russia	Group	Origin	R-Start
1	(1)	Stardog!s	Hot dog	**384**	**3.5%**	0	559	Marcon	Russia	1993
2	(2)	Kroshka-Kartoshka	Potato	**224**	**6.7%**	29	292	Kroshka-Kartoshka	Russia	1998
3	(3)	Shokoladnica	Coffee	**199**	**12.4%**	27	325	Shokoladnica	Russia	2001
4	(4)	Subway	Sandwich	**152**	**27.8%**	41	408	Subway	USA	1994
5	(5)	Coffee House	Coffee	**121**	**11.0%**	57	219	Coffee House	Russia	1999
6	(6)	Teremok	Crepes	**99**	**0.0%**	103	202	Teremok	Russia	1998
7	(7)	McDonald's	Burger	**95**	**2.1%**	49	323	McDonald's	USA	1990
8	(9)	KFC	Chicken	**86**	**7.5%**	33	182	Yum! Brands	USA	1993
9	(8)	IL Patio	Italian	**78**	**-3.7%**	4	131	Rosinter Restaurants	Russia	1993
10	(10)	Planet Sushi	Asian	**67**	**-4.3%**	3	117	Rosinter Restaurants	Russia	1999
11	(11)	Sbarro	Pizza	**61**	**-4.7%**	12	127	Planet of Hospitality	USA	1997
12	(13)	Yakitoria	Asian	**56**	**9.8%**	4	89	Vesta Center International	Japan	1999
12	(14)	Starbucks	Coffee	**56**	**12.0%**	0	56	Starbucks/Alshaya Group	USA	2007
14	(12)	Baskin Robbins	Ice-cream	**53**	**0.0%**	12	258	BRPI	USA	1992
15	–	Burger King	Burger	**44**	**200.0%**	10	55	Burger Rus	USA	2010
		Total		**1,775**	**7.6%**	**384**	**3,343**			

1) State: July 2012

Source: Food Service Russia/www.cafe-future.ru


Cinnabon


Stardog!s

proves that the Russian quick-service sector now looks attractive for serious investors.

International QSR brands continue their expansion throughout the country. Starbucks (56 units) are celebrating five years in Russia by entering St. Petersburg this autumn. The brand has a strong financial background thanks to its licensee, the Alshaya Group, the leading Middle East retailer. Subway, Baskin-Robbins and Cinnabon (the US chain that focuses on cinnamon rolls) have another growth model. The brands attract a large number of small franchisees – winning further franchising offers because of the small initial investment required. The model has proved so effective that growth-champion, Cinnabon, has doubled its presence in Russia within the last year.
It was, however, Planet of Hospitality, Sbarro's master franchisee in Russia and Eastern Europe, that got the biggest bargain in the casual-dining sector. At the beginning of 2012, the group bought two casual-dining chains, Elki-Palki and Malenkaya Yaponia, from Alfa Capital Partners who, in turn, had purchased them from the Novikov Group in 2009. This acquisition has enabled the group to grow by 100 units a year. The impressive growth of Dmitry Nevedomsky's business in St. Petersburg can also be attributed to an acquisition. The entrepreneur has bought Rubli street-food chain (48 units) and transformed them into outlets for the Emelya Blini concept, which sells pancakes with a variety of fillings, thus repeating the successful street-food model formerly implemented by Teremok.
The acquisition of Elki-Palki, which is said to have been bought for a very attractive price, raises the issue of a probable makeover for the concept in the near future. The casual-dining chain, serving traditional Russian food, was launched in 1996 and was very popular ten years ago, but now looks a bit dated. In fact, it's a problem facing many of the large casual chains, who were the winners in the 2000s, but have, in recent years, been feeling the draught of declining sales. It is becoming more and more difficult for them to compete with the emerging younger chains and independent casual-dining concepts – not to mention the more up-market casual concepts – which offer fresh, contemporary design and interesting menus.

The strategy is exemplified by Ginza Project, the fastest growing operator in the fullservice sector. During the past year, the group sold its share in the casual Yaposha chain (founded in 2003), but then opened more than 15 individual casual and fine-dining concepts in Moscow and St. Petersburg, launched two new casual chains Oki Doki and Pesto Café and bought franchises for Jamie's Italian and the famous French bakery brand, Paul. Whilst the new concepts are winning their customers' affections, the older-style casual chains now require investment in upgrading and renovation so as not to lose their positions in tomorrow's market. This is something the market leaders understand very well. The new CEO at Rosinter, Kevin Todd, has recently announced the group's new strategy, involving a makeover for the core brands IL Patio and Planet Sushi. Both concepts will get a new menu and infrastructure upgrade in the short term, as well as medium-term repositioning.
The last, but far from least, interesting trend is a growing expansion of Russian restaurant groups into Western countries. For example, RPCom (23 casual restaurants in Russia) now operates three Goodman steak houses in London and one in Zurich. Recently, the group's co-owner, Mikhail Zelman, launched his new 'Burger and Lobster' concept in London. And in November 2011, Moscow fine-dining guru, Arkady Novikov, opened an up-market fine-dining Novikov in London. Another fine-dining expert, Andrey Dellos, has opened the Café Pouchkine confectionery in Paris and Brasserie Pushkin in New York. The Big Apple will be the next destination for Taras Bulba, too, a Moscow casual chain serving Ukranian cuisine. Ginza Project has added the fourth MariVanna, this time in London, to the three restaurants in Moscow, St. Petersburg and New York. Food-service concepts, it seems, are turning into an important Russian export!

Julia Matveeva

Russia: Market Trends 2012

- Further growth of the QSR sector coming from both international brands and local players
- St. Petersburg market is the fastest growing, Moscow feels the lack of good vacant locations
- Franchising and sub-franchising remain the main growth source for most brands
- Big casual-dining chains, leaders in the 2000s, feel the need for revitalization and upgrading
- Burgers and noodles are top-sellers and a key source of inspiration for concept development
- Farm produce emerges as an upcoming trend often featuring in restaurant promotions
- Operators exploring new business niches, e.g. foodservice at railway stations, in parks, at petrol stations, vending machines, etc.
- Russian restaurant entrepreneurs exploring the world