

Quarter of Moscow's Restaurants Expected to Close Amid Economic Crisis

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Industry experts identified four major reasons for the decline in Moscow's restaurant business: Russians are being more frugal amid the economic downturn.

At least a quarter of the restaurants in Moscow are expected to close by the year's end, industry insiders say, as the country's constricting economy squeezes out less profitable businesses.

About 8 percent of Moscow's eateries have closed since December, and the total number of closures is forecast to climb to 30 percent by next month, the Izvestia newspaper reported earlier this month, citing Igor Bukharov, president of the Russian Federation of Restaurateurs and Hoteliers. There were about 11,000 food establishments in Moscow as of last autumn, the newspaper reported.

Irina Avrutskaya, a restaurant consultant who has headed marketing and strategy for Papa John's and TGI Fridays in Russia, told The Moscow Times that the closure of one in every four

restaurants by the year's end is a realistic estimate, taking into account those establishments that have already closed in recent months. Two other industry insiders agreed, and several other media outlets including Vedomosti and RBC have reported the same estimate.

Restaurants that have already closed include several in the Malenkaya Yaponia sushi chain, Antrekot in the upscale Metropol Hotel, and the Russian Orthodox-themed Voskreseniye. Many of those that have closed were already experiencing problems before the rapid economic downturn, experts said, adding that they nonetheless expect the local restaurant scene to turn into a "Hunger Games"-style battle for survival before the year is over.

Industry experts identified four major reasons for the decline in Moscow's restaurant business: Russians are being more frugal amid the economic downturn; the ban on importing many European foods has caused a deficit of popular ingredients; the ruble's rapid devaluation has drastically increased the cost of paying rent for premises pegged to a hard currency and buying foreign supplies; and new paid-parking zones in the downtown and a ban on public smoking are making the public less interested in going out to eat.

Picking Off the Weakest

"There's a battle for guests," said Alexander Kan, who co-runs the trendy bars Prozhektor and Time Out Bar. He said that among the first dining establishments to close have been those that focused on a very wealthy clientele and were "too expensive for bad quality and service." He declined, however, to give concrete examples.

"Restaurants with lackluster concepts and boring food, no creativity, will suffer," said Kan. He agreed that next month will likely see a wave of closures as the economic downturn really starts to be felt.

"In Moscow it used to be popular to invest money and open one's own restaurant just for fun or prestige, without calculating the real proceeds and without any idea about the restaurant business," said Valentino Bontempi, an Italian chef who has worked in Moscow for about a decade. "I think that such restaurants risk disappearing first of all.

"People will go out less and be more attracted to price and quality," said Bontempi, who has run an eponymous upmarket restaurant in the trendy Red October district for about five years, and who opened a relatively inexpensive pizza place called Pinzeria next to the downtown Kropotkinskaya metro station in December.

Ingredient Deficit

"For the moment the main difficulty is price turbulence, for products, wine, etc," said Bontempi.

In response to Western sanctions imposed on Russia over the country's role in the Ukraine crisis, Russia announced in August that it would disallow imports of many food items, including fruits, vegetables, dairy products and meat, from the European Union and United States.

Bontempi said he reduced his menu down to two pages at his upmarket restaurant

in September, "immediately after the sanctions." He said he also had to resort to increasing prices by 15 percent to keep up with rising prices from his food suppliers.

Avrutskaya said the food import ban was not the biggest obstacle local restaurants are facing.

"There is an ingredient deficit," she said, "and prices of nearly all food products have risen by 25-40 percent, but technically, with smart menu engineering, the food cost problem is solvable. I know a lot of businesses that have managed to review their menus and keep the food cost at nearly the same level as last year.

"The primary reason for closing restaurants in high-street locations has not been the actual loss of traffic. The major problems have been either management failure or the rent contract," pegged to a hard currency, which together have resulted in losing profits, she said.

Survival of the Fittest

The crisis will create a certain selection of restaurants, said Bontempi.

Moscow's restaurant scene is experiencing a "change of generation," with a switch from uninventive chains and ritzy establishments to cozy community restaurants that have a good price-to-quality ratio, Avrutskaya told The Moscow Times.

Community restaurants — eateries with an individual style that are popular with people who live nearby — have been becoming more popular in recent years throughout the world, and this current economic situation is only highlighting their success, said Avrutskaya, who is releasing a book on restaurant marketing strategy in April.

Avrutskaya's advice for restaurants in this city is to open restaurants with individual appeal. "Be a chain, but pretend you're not." People are either "going downmarket," or seeking out new and interesting places where prices are reasonable and they can always get a new experience, she said.

Bontempi says the most important aspect of the restaurant business is the right concept. "If the concept is chosen well, even in hard times you will survive," he told The Moscow Times.

Kan said he hopes that the mid-range prices and atmosphere of his downtown bars will help them survive the economic slump.

Silver Lining

While these are difficult times for existing restaurants, Avrutskaya said that some Western franchisors are considering entering the market now to take advantage of relatively low real estate prices. "After all, in a few years, if the situation changes, they can have a very advantageous position on the market," she told news site The Village.

While she declined to name such franchises when contacted by The Moscow Times, saying the talks were confidential, she affirmed that many restaurants will bounce back from the crisis in the coming years.

Others are taking an entrepreneurial approach to the trend of restaurant closures.

Afisha reported last month that two restaurant critics — Olga Ovcharova of Time Out magazine and Katya Kalina of Business FM — have opened up an online market on Facebook to sell used furniture from struggling restaurants and bars.

But it doesn't look like the venture, called F-cking Chairs, is offering bargain-basement prices so far. A toy horse from the posh bar Oldich Dress & Drink sold for 11,000 rubles (\$160). Couches that had been used for about three years at the Brown Fox and Lazy Dog, which closed around New Year's, sold for 7,500 rubles.

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