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Can a Putin-Backed Russian Fast-Food Chain Beat McDonald's?

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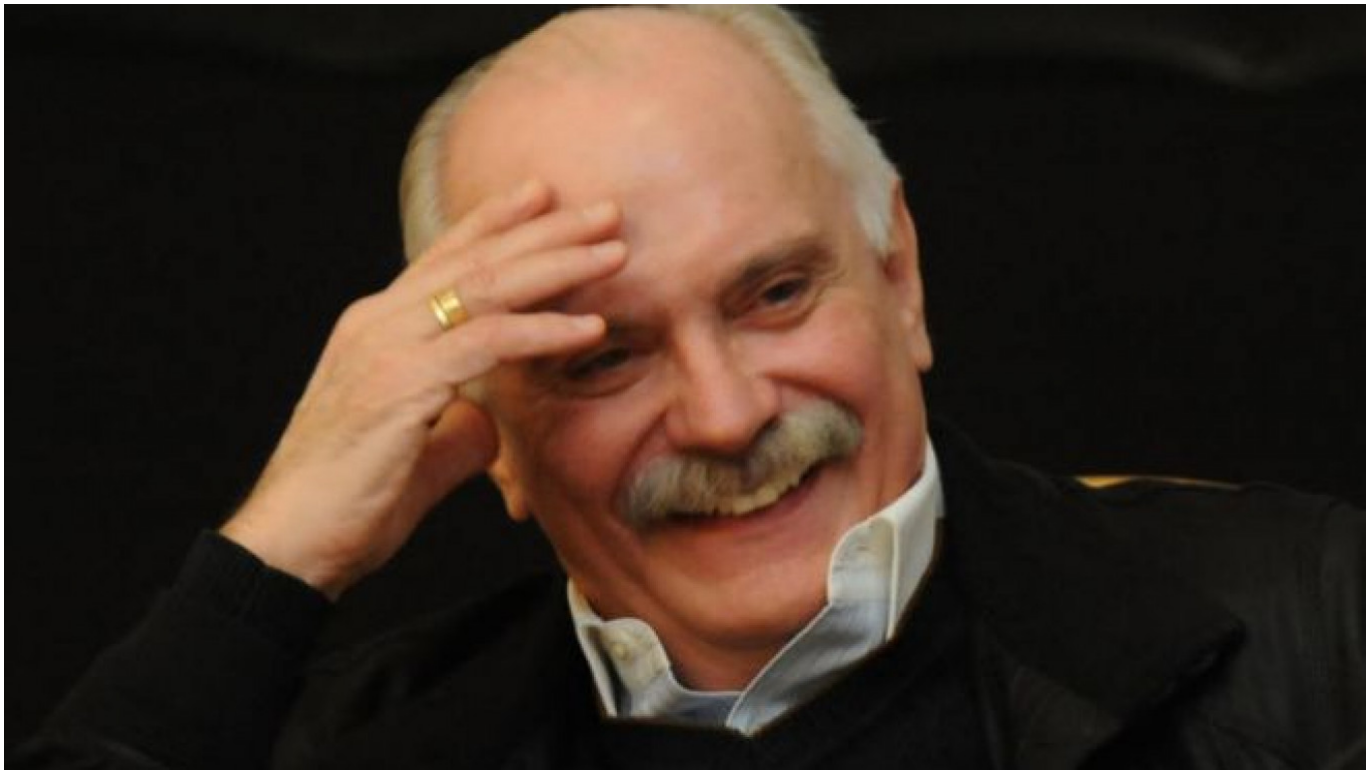

Nikita Mikhalkov is known as a close ally to Putin, even demonstrating his loyalty with an obsequiously flattering documentary film that was broadcast on national television in celebration of the president's 55th birthday seven years ago.

Amid the wave of patriotism sparked by Russia's conflict with the West over the Ukraine crisis, two Oscar-winning Russian film directors have set out on a Kremlin-backed quest to create a new chain of fast-food restaurants to rival the reigning U.S. brands.

Andrei Konchalovsky and Nikita Mikhalkov, who are also brothers, will receive $14 million to set up a national fast food chain called Yedim Doma! ("We're Eating at Home!"), the RBC news agency reported, citing an unidentified government source.

The Kommersant newspaper reported earlier this year that the directors had claimed in a letter to President Vladimir Putin that the project would "rival American fast-food chains."

But could the two Russian directors succeed in trouncing a well-known American chain such as McDonald's? Experts contacted by The Moscow Times doubt it.

"There can't be any rivalry with McDonald's," said Mikhail Goncharov, the founder of Teremok, a popular Russian chain specializing in traditional pancakes. "It's just a marketing ploy."

Banks Wary

The domestic fast-food chain will operate under the existing brand "Yedim Doma" which belongs to Konchalovsky's wife Yulia Vysotskaya, a cooking show host who also sells frozen vegetables and berries under the brand.

The project will consist of 41 cafes and 91 stores in the Moscow and Kaluga regions with all food to be made from regional products, Kommersant reported, citing a copy of the letter to Putin.

According to Konchalovsky, Yedim Doma will not be just another fast-food chain, where profit is more important than the quality of the food.

"We are trying to provide people with healthier, cleaner, 'honest,' as we say, food, which takes into account the regional preferences of the population," Konchalovsky told The Moscow Times.

The idea for the project is closely tied to the government's drive to replace imports with domestic products, which was spurred by Russia's one-year ban imposed last August on a range of imported foods from countries that had sanctioned Moscow over its role in the Ukraine crisis.

The government refused to provide direct investment for the project, but decided to fund it under a scheme that helps small and mid-sized businesses get bank loans, RBC reported, citing a source in the government. Under this program, banks provide 70 percent of the funding necessary for a project while the businessmen behind it take care of the other 30 percent.

It's not yet known which bank will provide funding. Major state banks, include Russia's leading lender Sberbank and second-largest banking group VTB, have said they would be honored to participate but also expressed concerns about the project's chances at success, the Vedomosti newspaper reported.

They have good reason for concern. "Providing loans for restaurants is one of the riskiest investments for banks," Goncharov said.

This is truer now more than ever. A quarter of Moscow restaurants could close their doors this year, analysts told The Moscow Times, as a burgeoning recession hits consumer spending and a weaker ruble raises the burden of dollar-denominated rents.

American Symbol

The Yedim Doma project may be particularly risky, as it is more a timely manipulation

of Russia's current political and economic situation than it is a viable business idea, experts interviewed by The Moscow Times said.

Burgeoning anti-American sentiment, which rose to a fever pitch last year following Russia's annexation of Crimea and imposition of Western sanctions, has played into the directors' hands.

"Some people that used to see McDonald's just as a fast food restaurant now pay attention to the fact that it's an American restaurant and don't go there," said Vadim Prasov, vice president of the Federation of Restaurateurs and Hoteliers.

Last year McDonald's, which has a 25-year history in Russia, survived the temporary closure of 12 of its restaurants in the country, including its oldest Russian location on Pushkin Square in Moscow.

While officials cited sanitary violations as the reason for the closures, commentators both in Russia and abroad held that McDonald's had fallen victim to strained relations between Russia and the United States.

In spite of these recent difficulties, the company clearly sees potential in the Russian market, having recently opened its 500th restaurant in the country.

McDonald's press office refused to comment on whether the U.S. fast-food giant sees Yedim Doma as a threat, saying they comment only on the activity of their own company.

The directors, too, seem to be stepping back from their earlier fighting words.

Konchalovsky told The Moscow Times they were not planning to rival any particular fast-food chains, but said that he and his brother understand that competition in the market is inevitable.

Kremlin Ties

Yedim Doma is not Russia's first attempt to rival U.S. fast-food chains with a domestic analog, nor even the first such project to receive financial backing from the state.

In 1995, former Moscow Mayor Yury Luzhkov, who has already expressed a desire to become a supplier for Yedim Doma, launched Russia's first national fast-food chain. Called Russkoye Bistro, the chain sold Russian specialties like pirozhki and blini — or pies and pancakes in English — at affordable prices.

The homegrown fast-food chain gained some popularity but finally failed in 2005 due to ineffective management, RBC reported.

"The restaurant business, especially when it comes to projects on a national scale, is tough," Prasov said. "The directors [Konchalovsky and Mikhalkov] have no background in it, so the question is if they can involve the right people in their project."

So far the directors' powerful political connections have already helped them enlist the help of President Vladimir Putin himself. Mikhalkov is known as a close ally to Putin, even

demonstrating his loyalty with an obsequiously flattering documentary film that was broadcast on national television in celebration of the president's 55th birthday seven years ago.

"There was an opportunity to mention the project at the opening of the monument to Sergei Mikhalkov [both Konchalovsky and Nikita Mikhalkov's father], and the president responded enthusiastically," Konchalovsky told The Moscow Times. The brothers' famed father is known as the author of the Soviet and Russian anthems as well as a string of popular children's books.

And Putin is not the brothers' only supporter in the government. The Agriculture Ministry, which had earlier refused to provide financial support to the project, suddenly changed its attitude with the arrival of new head Alexander Tkachev, who replaced former Agriculture Minister Nikolai Fyodorov late last month.

"We have so many Western companies, which have won the market, the consumers, and I don't think that's very good," Tkachev told Russian television channel Rossia-24 in a recent interview.

"Are we worse at it? This is why we must develop our own, national product. We have a right to it," Tkachev said.

Authorities in the Moscow and Kaluga regions have also announced their willingness to support the project, the Interfax news agency reported.

But the fact that two famous, wealthy film directors with no background to speak of in the restaurant business were able to so easily gain state support has ruffled feathers in the industry.

"Would a successful restaurateur without Kremlin ties get state backing in order to open some new spots around the country? I highly doubt it," Prasov said.

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