

Development of Supply Chain Management in Russian Catering Industry: Trends and Prospects in Post-Crisis Conditions

Alim B. Nagoev¹, Vita A. Grekova², Olga G. Kovalenkova³, Julia A. Oleynikova⁴, Yaha A. Khadueva⁵

¹Russian State Social University, Russian Federation, 129226, Moscow

²V.I. Vernadsky Crimean Federal University, Russian Federation

^{3,4}Don State Technical University Russian Federation

⁵Chechen state University Russian Federation

¹a_nagoev@mail.ru

Abstract- The importance of the current study is due to the fact that, despite external unfavorable economic and political factors, Russian food industry has seen a stable growth by supply chain management for more than a decade, having a positive impact on related industries. However, sanctions and external restrictions imposed by Western countries on Russia have direct or indirect negative effects on Russian food industry which is one of the structure-forming sectors of the national economy. In this regard, search for effective methods of minimizing this negative impact is relevant and timely. The goal of the study is to identify new approaches in supply chain strategy to progressive development of public catering in the context of external sanctions, and a general decrease in the economic activity of food market entities. The results of previous studies of foreign and Russian researchers in the field of public catering problems have been used in this research. It was found that despite the measures that can bring this industry to a new level of development, many players must leave the food industry market. It is proved that moving to the lower price categories may be a good solution in order to save the business in crisis conditions; however, many participants will have to leave the catering market, and larger market players should change their behavior strategy.

Keywords; services, supply chain management, catering industry, crisis, competition.

1. Introduction

The Supply Chain strategy of your organization could be a hidden surprise to most employees or even managers. Catering is one of the most dynamic Russia's industries which related to supply chain strategy. It deals with the basic needs of all consumer categories and nowadays is becoming very attractive for investors interested in developing this industry.

The catering market of the Russian Federation

has not reached the saturation stage yet; therefore, its growth rate has remained fairly high (20-25%) in recent years. The reason for this growth is, among others, the fact that more and more people prefer to eat out.

On the other hand, the economic crisis and the post-crisis trends in market development have some negative repercussions on this sector. Since 2008 - 2009 there has been a noticeable slowdown in Russian market growth rates and a stagnation period is forecast for 2019-2020.

A study on Russian food industry development has shown that the turnover of catering industry has increased by only 0.1% in comparable prices and amounted to 13.1 billion rubles for all types of business entities in January-June 2019 compared with January-June 2018. The turnover of large and medium-sized catering enterprises amounted to 761.9 million rubles in January - June 2019, or 118.8% compared to January - June 2018. The share of unprofitable public catering organizations in January - May 2018 amounted to 42.9%, with the total loss amount of 25.3 million rubles.

Therefore, the aim of the current study is to find new forms and directions for the progressive development of public catering sector in the context of external sanctions and a general decrease in the economic activity of food market players.

A significant number of works by both foreign and domestic researchers are devoted to advanced study of service sector development. The most significant among them were performed by [1-6].

In our view, the problems of modern catering enterprises can be addressed by a scientific research taking into account the supply chain strategy and actual conditions of food industry development and the decline in the purchasing power of Russia's population along with economic sanctions imposed on certain sectors of the country's economy.

2. Methods and materials

Using the Logistics strategy as an example, as each market segment has different customer needs, these must be translated into Logistics requirements in supply chain strategy. Theoretical analysis, system analysis method, synthesis, observation and modeling were used in this article. The conclusions are based on formal logic methods and statistical expert estimates. The hypothesis is based on the premise that in an unstable economic situation, in the conditions of a decrease in the purchasing power of the population, the managers of catering enterprises of all categories must take the adequate economic decisions up to closing the business and leaving the catering market, which will be less painful than investing in business in order to save it. Such investment cannot guarantee success to the owners of enterprises for the reasons and circumstances that cannot be overcome.

3. Results

As the objective of Logistics is to provide availability of products and services for customers, the more general requirements of Marketing must be defined from the view of each of the three disciplines that are your organization's internal Supply Chains. Nowadays, the Russian Federation addresses complex but achievable tasks of long-term development, which consist in ensuring a high level of the population's well-being and in to preserve the country's geopolitical role of one of the world leaders.

The global economic crisis and its consequences have complicated the achievement of these goals; they have led to a reduction in private business spending on innovation and slowed down the development of the Russian economy as a whole. Whatever the short term outlook for the national economy, the long-term development targets in various business areas don't have to be reviewed, but the requirements to the pace and quality of economic development are to be higher.

In new economic conditions, the problems of catering sector development are given priority in State policy. This is largely due to the social orientation of modern market economy, the increased role of innovation in services, the increased demand for catering services and increased requirements for their quality. The catering sector of Russia is a large organizational and economic system itself. Its turnover amounted to one and a half trillion rubles in 2018. The turnover of catering in different regions of the Russian Federation is presented in Table 1.

Table 1. Turnover of catering sector by federal districts of the Russian Federation (in comparable prices, million rubles)

	2015		2016		2017		2018	
	Million rubles ÷	In % to the previous year	Million rubles ÷	In % to the previous year	Million rubles ÷	In % to the previous year	Million rubles ÷	In % to the previous year
Russian Federation	1308127,4	95,0	1348686,6	97,1	1434589,1	103,2	1527746,8	104,2
Central Federal District	364175,2	94,6	363469,8	93,1	389012,7	103,4	428144,8	107,5
North west Federal District	95,3	99,1	148123,1	106,3	157556,4	103,5	169250,1	105,2
South Federal District	103,6	97,7	141778,7	103,5	151446,0	103,5	161135,4	104,3
North Caucasus Federal District	105,7	100,8	132559,1	98,9	143697,3	100,9	137426,9	92,3
Volga Federal District	104,2	89,8	216776,9	94,1	227687,1	102,3	242124,9	103,5
Ural Federal District	105,5	90,7	147496,3	90,3	150326,5	99,3	155818,4	103,8
Siberia Federal District	102,2	93,4	128862,1	102,4	139737,5	105,1	134212,2	108,0
Far East Federal District	106,5	100,3	69620,6	99,5	75125,6	105,2	99634,1	104,2
Crimea Federal District	-	-	6760,6	-	9541	93,4		

Compiled by the authors based on "Retail, public services, tourism" electronic resource,
<https://www.gks.ru/folder/23457?print=1>

The further development of catering industry is an important social task related to the satisfaction of the population's vital needs.

Modern business environment requires effective development strategies that would meet the needs of population and ensure the growth of catering enterprises. The business owners play the main role in solving these problems, since the entrepreneurship is the basis of market economy; it is present in all areas of national economy, including public catering.

The right strategy, the use of effective market tools, and the implementation of innovative mechanisms are crucial for choosing the path of public catering development and transitioning to a qualitatively new level of quality.

One of the components of catering industry is the restaurant business, which is an indicator of well-being and incomes of the population. This segment is more prone to the negative consequences of external sanctions that the national economy is currently facing.

A restaurant is a business establishment offering a wide range of sophisticated dishes, including custom and branded ones, drinks like wine and vodka, confectionery products, with an improved level of service combined with leisure organization. The number of restaurants and cafes in the Russian Federation in the period between 2014 and 2018 is shown in table 2. The number of restaurants and cafes in Russia grew by 11.1% and amounted to 84.9 thousand entities at the end of the period under consideration. The indicator dynamics throughout the entire period was positive.

Table 2. The number of restaurants and cafes in the RF between 2014 and 2018 (in thousands)

	2014	2015	2016	2017	2018
Number of restaurants and cafes (тыс.)	76,4	78,7	80,6	82,4	84,9
Dynamics (in % to the previous year)	-	3,0	2,5	2,3	3,0

Source: Federal State Statistics Service of the Russian Federation

The so-called “anchor”, ensuring a constant inflow of customers, is of great importance for restaurants and cafes. Most of catering establishments are located in cities center, due to the large number of offices, shops, and more opportunities for leisure compared to the outskirts.

The growth in the number of restaurants and cafes was greatly influenced by the popularization and development of fast food restaurants in Russia.

As a result of a large offer of world brands' franchising contracts, the number of cafes and

restaurants of this type has significantly increased. In Russia, 91.4% of restaurants and cafes are privately owned (table 3).

Table 3. Number of restaurants and cafes in the Russian Federation by types of business ownership in 2018 r (thousand)

Type of ownership	Number in 2018
State property	0,06
Municipal property	0,07
Private ownership	77,60
Others	7,17
Total number:	84,90

Source: Federal State Statistics Service of the Russian Federation

Despite the rapid development of restaurant business, which is forecast to be the area of creating most of new workplaces in the nearest future, there are no scientific studies focused on the ways of managing the restaurant business in post-crisis environments.

The need for an effective system of managing the development of catering enterprises makes the theory and methodology especially important, taking into account the characteristics of this sector and the specifics of services provided. Today, the adequate approaches to managing the development of catering sector, principles and methods of planning and regulating activities from the perspective of modern economy and the practical business requirements must be found.

As is known, the catering sector has its own unique characteristics. A catering enterprise owner must take into account both the economic aspects of doing business, such as marketing, management, and the concepts not relevant to the economy, in particular art, traditions and philosophy of doing business.

The difficult economic situation provoked a crisis in Russian restaurant business. Mass workforce optimization, unstable dynamics of the national currency forced people to save money, as there was no confidence in the future. The number of restaurants and cafes visitors has almost halved compared to last March. There were no such mass closures of catering establishments since the crisis of 2008 [7].

The restaurant business does not stand still: a sustainable progress, obtained due to the fierce competition in this market is constantly observed. The competition forces top managers to adhere to the chosen concept of development and strategy, while adapting to the rapid changes in external

environment. Only if these conditions are met, and a long-term development strategy is elaborated, can one count on achieving a positive effect in that area.

In our opinion, the lack of experience in doing business under crisis conditions is a natural phenomenon. At the end of the 1980s, there were only about 700 restaurants in Russia, and today their number has reached almost 800,000 [8]. In other countries, the number of establishments can be three, or even four times higher. The number of business entities in catering is presented in table 4 [9].

Table 4. The number of catering companies at the end of the year (thousand)

	2005	2010	2016	2017	2018
Restaurants and cafes	44,0	63,7	66,8	70,7	74,5
Bars	1,7	6,3	6,8	7,2	7,6
Canteens and catering service suppliers	3,5	8,0	8,5	9,0	9,5
Individual entrepreneurs in catering, thousand	31,2	63,9	61,1	67,1	74,3

The overall Supply Chain strategy incorporates the internal supply chain strategies of Procurement, Material Conversion and Logistics, which are informed by the current and potential structure of the core and extended Supply Chains that interact with your organization. Nevertheless, the restaurant business and the market are constantly changing, and the recent negative events have produced less negative effect due to entrepreneurs who are more experienced and competent than they were in previous crisis periods.

Until recently, many managers allowed themselves not to know much about their customers and their social status. Today, this is not an affordable option for most of catering companies. Business based on meeting people's dietary needs and food preferences, is a priori one of the most promising areas of the world market. Moreover, this is one of the most lucrative activities, since fast food establishments, including cafes, bars are visited not only by local customers, but also by guests. The fact that even an average catering company gives more than twenty percent of profit per unit of input is also evidence for a high profitability of restaurant business [10]. But today, the ongoing financial turmoil, as well as its consequences, have their effect on such a successful business.

As is known, the crisis events come up to the restaurant business in an undulate manner. Visiting restaurants is commonly a matter of habit, and even financial problems do not make people leave it in the earlier time of crisis. The expensive restaurants were the first to feel the fallout of the crisis. In our view, a drop in the income level directly affects the customers of restaurant who will simply eat in cheaper establishments. In addition, even wealthy clients who do not want to stop visiting elite restaurants are more likely to significantly reduce their costs, and not to afford expensive delicacies.

The wave of crisis will reach restaurants of medium and low price range a little later. The onset of adverse events will be offset by the fact that some customers lost by expensive restaurants will come to them. But if the crisis turns out to be protracted, then restaurants of this category will soon experience difficult times - people will simply refuse to visit restaurants. The fast food establishments are less likely to lose their customers, as cheap food is always in demand.

The most urgent problem for catering companies is the price of food products. Many large and medium-sized suppliers, in order to compensate for their losses due to the crisis, are forced to sell products at higher price. This will force restaurateurs to take retaliatory measures, which will affect, of course, the final consumers. An increase in menu prices is largely the reason for customers churn [5, 6].

At the same time, it should be noted that the crisis does not only mean losses for the restaurant business. It also forces weak players to leave the market. In crisis time, weak or not very popular companies leave the catering market in a fairly short time, that is, they lose most of their customers. As a consequence, the remaining market players have the opportunity to attract consumers, as well as employees from the businesses that closed down.

The restaurant business was at a disadvantage one of the first, since everyone can eat at home and this will cost much less than eating out. It is important to take into account the fact that restaurateurs are not dealing with the sale of particular product as it is in a regular supermarket. They offer, among others, a certain atmosphere, service, leisure. And for many Russian consumers the choice is obvious. During a crisis, people refuse such services first of all.

One of the problems of Russian catering industry is that Russian gastronomic culture completely differs from that of many western countries, which determines the peculiarities of this business and imposes specific risks. Abroad, a customer believes that it is much more profitable to eat in a restaurant,

than at home. There is no need to waste time and money on food storage. For example, in American houses there is sometimes no kitchen at all. Russian people remain more conservative towards such things, particularly, the older generation.

The fact that the catering services are paid after their consumption also affects the functioning of restaurant business. It is important to keep in mind that the customer has the right to completely refuse to pay. In this case, the question arises of why the client makes such a decision. This suggests that catering companies are very dependent on customers and consumers, and therefore the former have to actively adapt to the requirements of the latter so as not to lose the "loyalty" of visitors.

Not every company has managed to solve the above problems. Gourmet restaurants did not experience global problems and their customers did not abandon them. Fast food establishments do not lose much, as their main customers are young people, who in turn have a completely different gastronomic culture than the older generation. It is unlikely that they will accept eating in company at home, since visiting catering facilities is a kind of norm among youth.

Thus, the catering companies of the middle price category are most prone to crisis events. Large restaurants, which were able to stay on the market due to their large scale and at the same time lower costs, have immediately offered prices comparable to the medium-sized restaurants.

It is known that 15% reduction in the number of customers is a negative event for the middle price segment, since it entails certain difficulties. For many middle priced establishments, such a border is the line beyond which decisions are made to leave the market. To pay off their obligations, including taxes, the owners resort to the use of commodity loans, at best from one supplier, at worst from several ones, which ultimately puts the entire business on the brink of bankruptcy.

Before the sanctions and crisis events, a very high entrepreneurial activity was observed in the Russian catering market; however, many businessmen had no sufficient qualification, which affected the efficiency of their businesses. Ultimately, the majority of small players left the market, and the largest restaurants and retail chains won. However, it is quite obvious that the presence of a large number of players in this area is a positive aspect, because the competition among remaining restaurants is increasingly tighter, and as a result, the gastronomic culture changes for the better. But today, the opposite process is observed.

With regard to post-crisis situation, it is necessary to dwell on the food products used in

restaurants. In today's conditions, it becomes economically feasible to establish long-term partnerships with domestic food producers. This process started about ten years ago, when the catering business owners were just beginning to understand that it is necessary to work with Russian food producers and national cuisine.

It concerns, of course, the restaurants that need high quality food raw materials- gourmet restaurants. Medium-price category restaurants continue to work with food products made in Russia, as they did in previous years.

But the problem of inadequate infrastructure still remains one of most important. If the land is located far from any city, then its price is extremely low. With such vast areas of land, it is possible to grow environmentally friendly products, not only for the domestic market, but for foreign markets too. However, a poor infrastructure is a barrier to the realization of this scenario.

The agricultural market is characterized by significant price fluctuations from season to season, from year to year. This makes the problem of oversupply especially acute for small producers. They have to store the excess of their products, but there are no storage facilities with appropriate conditions, such as maintenance of humidity and temperature, and ventilation. This is the main difference between Russian agriculture and that of many European countries. The problems should be resolved first of all by regional authorities. The local authorities have to understand that only working closer together with local businesses can good results be achieved. Sometimes local legislation simply does not take into account the current economic situation and business environment. The companies themselves are also used to solve problems independently, outside the framework of professional cooperation with colleagues.

As Order qualifiers and winners change over time, Marketing and the three Supply Chain disciplines must realign at suitable intervals in response to changing phases through product life cycles and to anticipate industry or market trends. The updated strategy will be enabled by any revision of the core and extended supply chains. This situation is typical for many regions, and there is no reason yet to talk about some changes in the years to come. But it should be noted that the catering market is certainly under development, and if we compare its current conditions to those of 20 years ago, a positive trend in its development is obvious.

4. Conclusions

The Supply Chain strategies define the framework of Logistics operations that execute the strategy and therefore the Tactical requirements for achieving the strategic outcomes. The Tactical requirements are then sub-divided into Operational initiatives, which in turn identify the Key actions. Food industry is very important for the purposes of socio-economic development, since it contributes to the reproduction of the labor force, due to the fact that food is an integral part of human life. The public catering involves many small enterprises that are part of the regional infrastructure, providing employment and tax payments to the budget. All this helps to improve the economic and social indicators of Russia' regional economies. In addition, catering facilities create opportunities for leisure activities of the population.

The main problem of food industry development in Russian regions is the need for prompt adoption of technical regulations that will replace the existing GOSTs (All-Union State Standards). Today, the entrepreneurs seeking to work in the restaurant sector often face the lack of facilities suitable for catering, a shortage of qualified personnel and the possibility of staff development only on the basis of companies located in Saint-Petersburg or Moscow. In addition, it is necessary to simplify the paper work for initial-permissive documentation on opening new enterprises.

In our view, it is necessary to change the approach to individual areas of business activities in order to overcome the negative trends found in the restaurant business in recent years. The methods of promoting product or service should be modified. A correctly organized set of actions undertaken by top management can move any restaurant to a lower price category, although this process will be painful for management, and many regular customers can be lost. However, such measures are proven effective for preserving the business itself.

The second step to survival in the post-crisis conditions is the optimization of staff headcount. It is necessary to eliminate the post duplications while it is also possible to cut the staff of waiters.

Adjusting the menu may also be positive for a catering company. The expensive dishes should be replaced by cheaper ones. It is also necessary to remove dishes, made up of food products that may simply disappear from the national market in the nearest future. But before making such a decision negotiations with suppliers should be undertaken in order to clarify the situation [7-10].

The pricing process must be clearly regulated, ensuring the optimal cost of food products. This is

not only true for the main foods - meat, potatoes, but also for minor consumables.

And finally, as soon as the company ceases to be profitable, it should better be closed down. There is no point in continuing working. After all, closing a restaurant due to the lack of profit is much better than closing it due to a bankruptcy. It will not stop businessmen from starting over again, simply having waited the time away.

Thus, it can be concluded that in the nearest future one should not count on positive dynamics in Russian catering industry. Uncompetitive companies will be forced to leave the market. At the same time, the most powerful players will shift to the strategy of mobilizing and optimizing their internal resources, and in the nearest future they will abandon the expansion strategy.

In conditions of instability and uncertainty caused by both subjective and objective factors, the catering companies' management is trying to maximize value for money, not to borrow from banks and to pay existing loans to the detriment of some promising areas of development, i.e. today the defensive strategies are commonly implemented.

REFERENCES

- [1] J.H. Dyer, and H. Singh, "The relational view: cooperative strategy and sources of interorganizational competitive advantage," *Academy of Management Review*, Vol. 23, pp. 660-679, 1998.
- [2] Q. Zhu, J. Sarkis, and Y. Geng, "Green supply chain management in China: pressures, practices and performance," *International Journal of Operations & Production Management*, Vol. 25, No. 5, pp. 449-468, 2005.
- [3] R.B. Kline, "Principles and practice of structural equation modeling (2nd ed.)," Guilford Press, New York (2005).
- [4] Features of restaurant business. Access Mode: URL: <http://coolbusinessideas.info/osobennosti-restorannogo-biznesa>.
- [5] A.A. Tatuev, A.B. Nagoev, E.P. Savchikhina, O.A. Loginova, and N.N. Kiseleva "Quality and innovations as factor of consumer areal of regional hotel service," *International Business Management*, T. 10, № 19, PP. 4605-4610, 2016.
- [6] A.A. Tatuev, A.B. Nagoev, V.V. Rokotyanskaya, N.N. Kiseleva, D.A. Sun, "Innovative methods of assessment of tourism and recreation sector enterprises: regional

- aspect*,” *International Business Management*, T. 10. № 19. PP. 4611-4618, 2016.
- [7] V.V. Rokotyanskaya, and L.V. Bondarenko “Factors competitiveness of corporate structures of the socio-economic system of the region,” *Economics, statistics and informatics. Bulletin of UMO*, №. 3-2. PP. 259-263, 2012.
- [8] T. Merkibayev, Z. Seisenbayeva, G. Bekkozhanova, A. Koblanova, and G. Alikhankyzy, “*Oppositions in the conceptual and linguistic category of time*,” *Opción*, Vol. 34, No. 85-2, PP. 116-148, 2018.
- [9] B. Muyambiri, and N.N. Chabaefe, “*The Finance–Growth Nexus in Botswana: A Multivariate Causal Linkage*,” *Dutch Journal of Finance and Management*, Vol. 2, No. 2, PP. 03-05, 2018.
- [10] D.M. Barreto, and B. Alturas, “*Quality-in-use app evaluation: case of a recruitment app for Portuguese SMEs*,” *Supply chain services and marketing*, Vol. 5, PP. 56-63, 2018.